Hungarian retail sales give no reason to cheer

Retail sales in Hungary have once again surprised to the downside. The sector has now been stuck in stagnation since April 2024. While we have seen some positive developments recently, they have not met expectations

West End City Center shopping centre in Budapest, Hungary

2.5%

Volume of retail sales (YoY, wda)

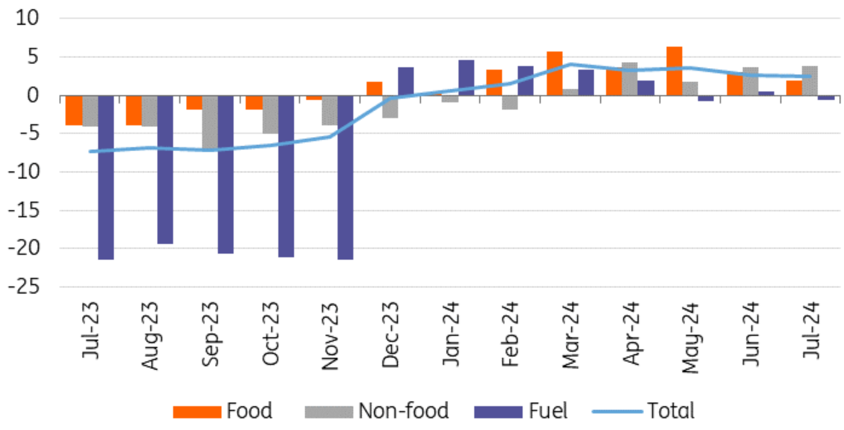
ING estimate: 2.6% / Previous: 2.6%

Worse than expected

A weak June was followed by a similarly disappointing July, according to the latest retail sales data from the Hungarian Central Statistical Office (HCSO). The data came as a big negative surprise compared to the market consensus, but also slightly below our expectations, the most pessimistic forecast in the market. This means that after a decline of 0.2% in June, July brought a seasonally and calendar-adjusted 0.0% month-on-month figure. In other words, based on this data, sales volumes across all sectors have been essentially flat since April. Due to last year's low base, the year-on-year index did not change significantly from one month to the next. In July, therefore, the volume of retail trade was 2.5% higher than a year earlier (adjusted for calendar effects).

Over the past four months, the volume of retail sales has remained essentially around 1% below its average monthly level in 2021. Given the stagnation of recent months, we can no longer say that retail sales are expanding. In fact, the year-on-year indices have already started to show signs of a slowdown. All this means that our earlier view that economic fundamentals are weak and that only a one-off outperformance can temporarily paint a positive picture remains valid. And in recent months we have not even been able to count on this one-off effect in the retail sector. While retail sales tend to pick up significantly around major sporting events, we have seen no such boost this summer, despite a packed sporting calendar.

Breakdown of retail sales (% YoY, wda)



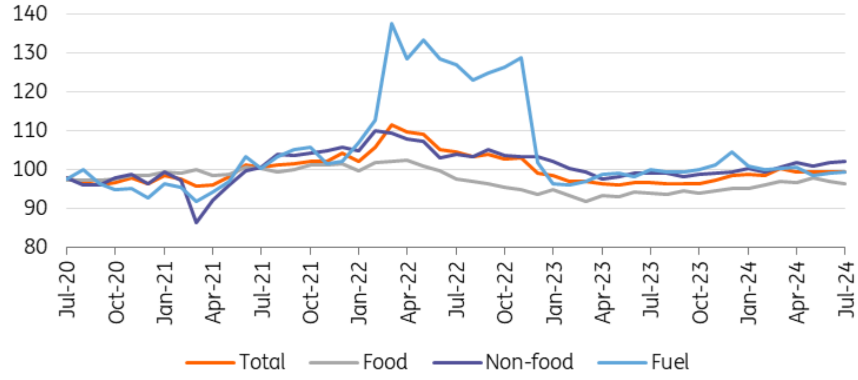
Source: HCSO

Looking at the details, it is clear that, surprisingly, food retailing was again the main drag on the retail performance in July. On a monthly basis, HCSO recorded a decline of 0.7%, which is surprising given that chain stores have been quite positive about their sales performance due to UEFA EURO 2024. While in June this negative surprise was offset by non-food sales, the same cannot be said for July.

The volume of non-food sales increased by 0.1% compared to the previous month. Within this, mail order and online sales fell particularly sharply (although this is not so surprising after the surge in the previous month). Sales in clothing stores also fell significantly. On the other hand, sales in non-specialised stores selling manufactured goods rose on a monthly basis, but the overall performance was still weak. Finally, fuel sales rose by 0.4% MoM in July, thanks to the sharp fall in prices at the end of the month. This ultimately saved the overall retail performance from stagnation.

All in all, a rather weak consumption performance is emerging at the beginning of the third quarter. Overall retail sales are still around 1% below the level of three years ago, which is clearly not a good start to the new quarter.

Retail sales volume in detail (2021 = 100%)



Source: HCSO

Continued high real wage growth and a generally strong labour market could provide grounds for optimism. However, the latter could easily be misleading given the importance of labour hoarding. Thus, despite the improvement in consumer confidence from its low point (October 2022), it still seems too low for household consumption to provide a meaningful boost to the economy. The uncertain economic environment, the need to rebuild reserves and household deleveraging (especially in personal loans) are the main concerns for consumers. The most certain positive turnaround in this regard may come in early 2025 when the Government Debt Management Agency will again make significant coupon payments to retail bond holders. Until then, the economy will continue to heal, but full recovery is still a promise of the future, not the present.

Author

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("**ING**") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the

Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.