

## Hungarian retail sales give reason for optimism

After months of stagnation, the volume of retail sales rose in August for the first time since March 2024. The upside surprise is cause for cautious optimism, but hardly a trend reversal when looking at the bigger picture



# 4.1%

Volume of retail sales (YoY, wda)

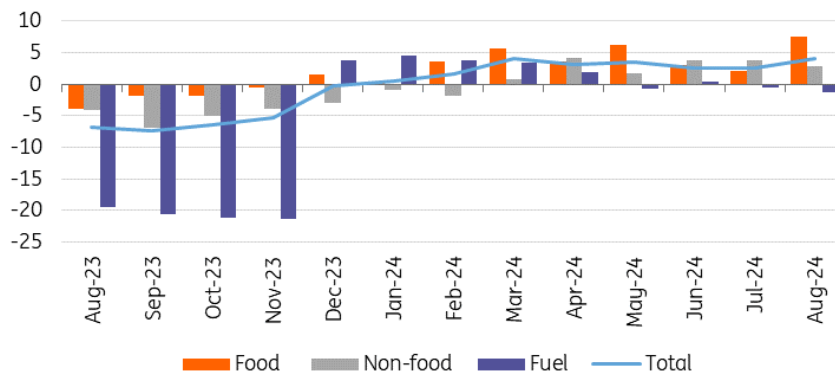
ING estimate: 2.1% / Previous: 2.5%

After three long months of stagnation and negative surprises, retail sales finally showed some life in August. The data surprised to the upside, not only against our more pessimistic expectations but also against the market consensus. Retail sales rose 4.1% year-on-year in calendar-adjusted terms, thanks to a combination of a low base and a strong 0.8% month-on-month increase in sales volumes (seasonally and calendar-adjusted data).

Thanks to the surprisingly strong August, the total volume of retail sales is finally back above the

monthly average of 2021. On the one hand, this is the first time since March 2024 (a temporary spike), which is good. On the other hand, we are still talking about 2021, so there is still a long way to go. We really don't want to be the party-killer here, so to be fair, with the latest uptick we can say that there has been an upward trend in retail sales volumes since the autumn of 2023.

### Breakdown of retail sales (% YoY, wda)

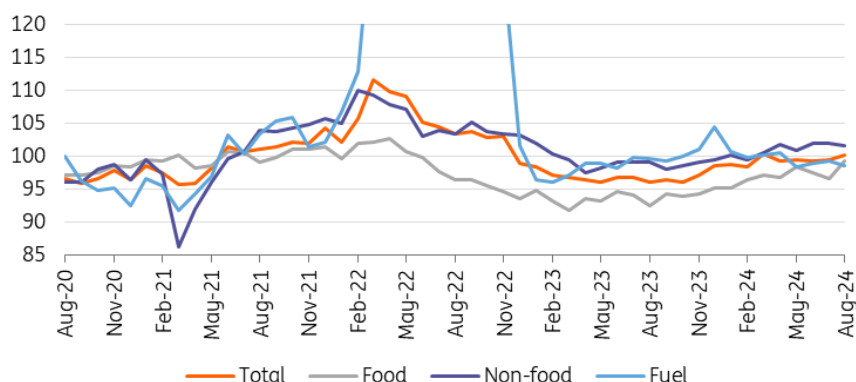


Source: HCSO, ING

If we break down the performances of the major subsectors, the biggest contributor to the high growth rate came from specialized and non-specialized food retailing. This segment produced a 2.7% growth rate on a monthly basis. This kind of performance is exceptionally rare. In fact, we need to go back to the post-Covid reopening months to find something similar. So, it is either some technical issue (e.g. with seasonal adjustment) or a perfect combination of small things. We may be seeing the impact of the Olympics in food retailing, which was already flagged by chains in July (although the data did not confirm this a month ago). In addition, the rebound in tourism may have contributed to the rise in retail sales. Tourist arrivals (including both domestic and foreign) at accommodation establishments rose by 11.3% YoY in August. This compares with an annual growth rate of only 4.1% in July. Last but not least, the continued growth in household purchasing power may have played a role.

Looking at the other sub-sectors, the 0.3% monthly decline in non-food retail sales is considered a normal phenomenon, although August data are usually a little weaker. We saw a significant increase in furniture and electrical goods stores as well as computer equipment stores. Perhaps the Olympics played a role here, which we were expecting to show up in July data rather than August. Speaking of downside surprises, we can point to fuel sales. Although prices fell by almost 1% MoM in August, fuel retail sales dropped by 0.7% MoM.

## Retail sales volume in detail (2021 = 100%)



Source: HCSO, ING

In all, the August data is cause for cautious optimism, especially after the weak industrial data. This offers a glimmer of hope that perhaps the third quarter GDP release won't be so bad after all. Especially if we consider the trend that households tend to spend more money on experiences than on things, the recent upturn in retail sales could also be an indicator of a strong performance by the services sector. However, we need to be careful not to count our chickens before they have hatched (even if food retailing has picked up a lot). We have seen this story before: March 2024 brought a similar surprise, and we thought it might be the signal we'd been waiting for. What happened then? Not much positive until now.

However, continued high real wage growth and a generally strong labour market could provide grounds for optimism. As a result of the general rise in the Hungarian price level, there has been an increase in foreign purchases (both via the internet and in shops), which limits the development of domestic retail sales. In addition, we see that real wage growth tends to be reflected in an increase in services, which also reduces households' ability to spend on goods. But it clearly boosts consumption as well.

Recently, the improvement in consumer confidence has continued, albeit on a flatter trajectory. The main question now is whether this will be enough to boost retail sales on a sustained basis, or whether August was just another one-off bounce. If the improvement in retail sales can be sustained, we can be more confident about consumption growth and its positive impact on GDP for the rest of the year. For now, however, it is difficult to have high conviction on the basis of one exceptional month.

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