

## Hungarian retail sales gradually improve

Black Friday and lower fuel prices brought an upturn in November's retail sales data. Going forward, as real wages rise, we expect a gradual improvement in consumption



Shoppers on Vaci Utca, the main shopping street in Budapest, Hungary

Source: Shutterstock

# -5.4%

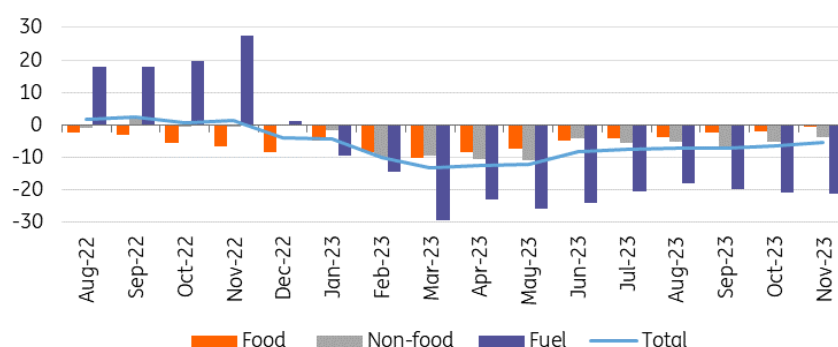
Volume of retail sales (YoY, wda)

ING estimate: -6.4% / Previous: -6.5%

Better than expected

After a rather gloomy October report, the November data provided a positive surprise for Hungarian retail sales. On a monthly basis and adjusted for seasonal and working day effects, the volume of retail sales rose by 0.8%, the highest increase in nine months. This has contributed to an improvement in the year-on-year (YoY) index, although retail sales are still down by 5.4% compared with the same period last year.

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



Source: HCSO, ING

Looking at the details, there were no major changes in the structure of retail sales. The volume of food sales was flat on a monthly basis in November, therefore the year-on-year index has improved significantly from last year's low base, reaching -0.6% YoY. This already suggests that there are encouraging signs in this segment as food prices fall.

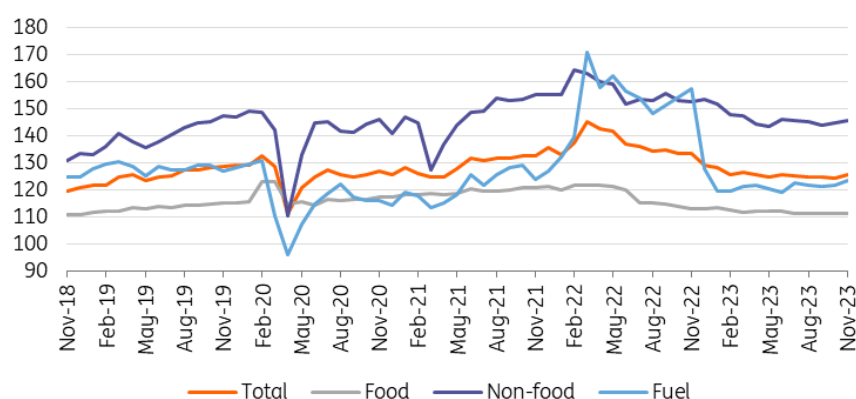
Last year, we saw remarkable disinflation in food prices from 44% YoY in January 2023 to 7.1% YoY in November, which has contributed to a slow and gradual improvement in food retailing. However, despite the strong disinflation, we believe that an explosion in food consumption is unlikely. In our view, the travel of direction is clearly upward, but the pace of increase will be gradual, rather than sudden.

On the other hand, and somewhat surprisingly, there was a real upturn in sales in non-food stores, as the monthly growth was 0.6%, bringing the year-on-year index up significantly to -3.9%. However, we think that this significant recovery may be temporary as the pre-Christmas "Black Friday" promotions gave a significant boost to sales.

This can be seen from the fact that sales in furniture and electrical goods stores, which have seriously suffered so far, jumped in November by 4.5% month-on-month (MoM). There was also an equally strong rise in sales of textiles, clothing, and footwear (up by 9.2% MoM). However, one swallow does not make a summer, as total non-food sales are still below the record levels of 2021, meaning that while the direction of change is positive, non-food retailing is still short of its historic peaks.

Finally, there was also a positive change in fuel sales. After a modest increase in October, fuel sales continued to grow strongly in November. However, despite the monthly rise of 1.5% – the highest increase in five months – the year-on-year index was still -21.4%. The reason for the sharp YoY drop is the fuel price cap, as it was not lifted until December 2022, meaning that last November's base of fuel consumption was kept artificially high.

## Retail sales volume in detail (2015 = 100%)



Source: HCSO, ING

Overall, we see some positive signs in some retail segments, but it is perhaps too early to talk about a trend-like and dynamic recovery. Nevertheless, changes towards the end of 2022 (e.g. the end of the fuel price freeze) will bring the base much lower, so that from December 2023 the annualised retail indices will show a much more positive picture. This is why we believe it is important to look at the performance of the segment from a more historical perspective, as this gives a more accurate picture of the true state of the retail sector.

On the positive side, however, real wages will continue to rise in the coming months, which could slowly support a recovery in consumption. Although we believe that households will initially focus on deleveraging and rebuilding their reserves, consumption could also start to grow. However, for this change to be significant and lasting, consumer confidence must first be restored, which is a more protracted process. As a result, the impact of rising purchasing power on the real economy is likely to be reflected in retail sales data only slowly and gradually over the course of 2024.

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