

Hungarian retail sales continue to underperform

After a bleak May report, Hungarian consumers didn't turn the corner in June either, as retail sales stagnated once again. It seems that this sector is still unable to grow in a trend-like manner, which doesn't bode well for growth prospects



The Hungarian capital, Budapest

2.6%

Hungarian retail sales volumes (YoY, wda)

ING estimate: 3.6% / Previous: 3.6%

Worse than expected

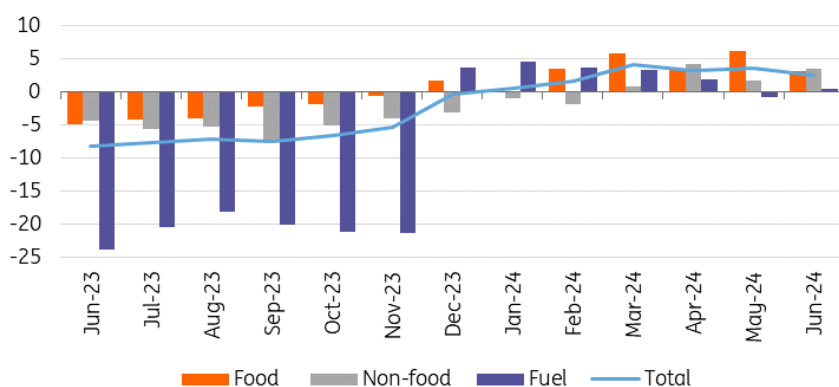
In light of the second-quarter GDP data, the retail sector's underperformance in June was not unexpected. However, the sector continued to fall short of analysts' expectations. Retail sales in Hungary declined by 0.1% month-on-month (MoM) in June, which paints a bleak picture overall, especially in light of the relatively weak 0.1% MoM increase in volumes seen in May.

This monthly decline resulted in a sharp slowdown in the year-on-year index, which reached 2.6%. However, last year's high base also had an impact on the figures. Altogether, we can conclude that retail sales have stagnated for the previous two months, which doesn't bode well for general growth prospects.

Over the past three months, total sales volumes have remained at a level 1% below those of 2021. In light of the recent stagnation, it is no longer accurate to suggest that retail sales demonstrate any continuous expansion trend. Instead, the pattern is more gradual, with a stronger performance in one month, increasing overall sales volumes, followed by several months of stagnation. This also illustrates a trend that is characteristic of the Hungarian economy as a whole: underlying economic processes are weak, and only one-off outperformance can temporarily create a positive picture.

Breakdown of retail sales

% YoY, working day adjusted



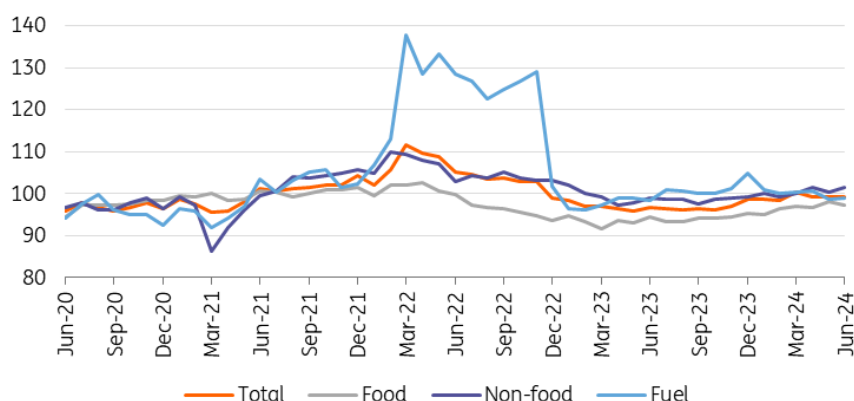
Source: HCSO, ING

At the component level, after the rebound seen in May, food retailing declined by 0.9% MoM in June, which is surprising at first sight, given that retail chains had been optimistic about their sales performance in the lead-up to UEFA Euro 2024. However, it appears that this was not translated into an increase in consumption but rather into a reallocation of financial resources.

In contrast, non-food stores recorded a 1% increase in sales volumes during the month of June. Notably, there was a significant increase in mail order and internet business sales, which grew by 5.4% MoM, reversing the negative trend observed in the previous two months. As a result, this particular component rebounded well above the 2021 average, which can be attributed to the impact of the football and the Olympics. Lastly, fuel sales increased by 0.5% on a monthly basis in June due to the price drop seen at the beginning of the month.

Retail sales volume in detail

2021 = 100%



Source: HCSO, ING

Overall, the retail sales statistics for the second quarter point to a rather weak consumption performance. The much weaker-than-expected GDP figure was likely largely due to weak consumption. However, the performance of the services sector remains a big question. We do not necessarily expect a significant recovery here either, although the hospitality sector could provide some stimulus in the summer months due to important sporting events.

In addition, continued high real wage growth and a generally strong labour market should provide grounds for optimism. However, households' elevated cautionary motives and stagnant consumer confidence still seem to be having a greater impact on consumer decisions. The most certain positive turnaround in this respect may come in early 2025 when the Debt Management Agency will pay significant coupon payments to holders of retail government bonds. Until then, the main goal of economic policy could be to strengthen consumer confidence.

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