Hungarian retail sales struggle

September's retail sales figures are rather difficult to read. On the one hand, part of the poor performance can be attributed to the floods. On the other hand, even without this one-off event, the big picture remains bleak

Shoppers in Budapest, Hungary

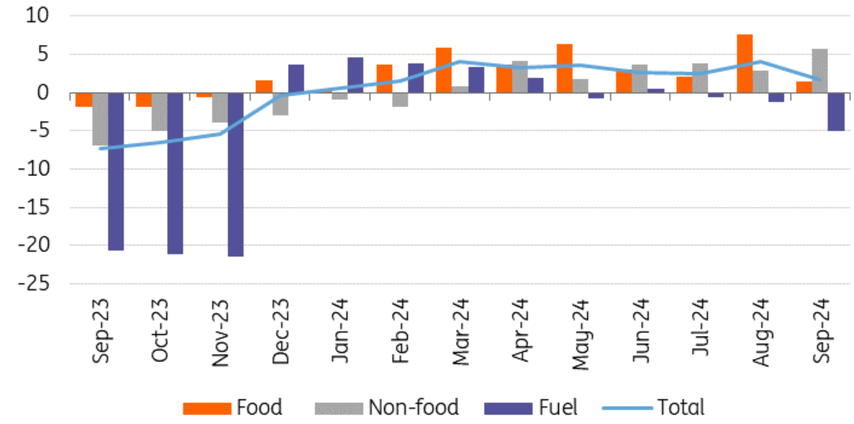
1.7% Volume of retail sales (YoY, wda)

ING estimate: 3.4% / Previous: 3.7%

The third quarter GDP data indicates that the major negative surprise is likely to stem from weak consumption. Accordingly, we see a very poor retail sales performance in September. According to the latest retail trade statistics from the Hungarian Central Statistical Office (HCSO), volumes fell by 1.4% month-on-month. The incoming data was a big negative surprise compared to the market consensus, while it was also well below ING Bank's expectations, the most pessimistic forecast among domestic analysts. The weak one-month performance also led to a significant change in the year-on-year index. In September, the volume of retail sales was only 1.7% higher than a year earlier (on a calendar-adjusted basis).

Compared with the monthly average for 2021, the current performance of the retail sector continues to show a negative index, which means that the sector's performance is below the level of that period. In essence, we have seen a sustained stagnation in the sector since the beginning of the year. All of this means that our earlier assertion that the underlying economic fundamentals are weak remains valid. So even though we know that the flood situation may have had a one-off negative impact on retail sales in September (as the HCSO suggested in its commentary), this does not improve the overall picture.

Breakdown of retail sales (% YoY, wda)



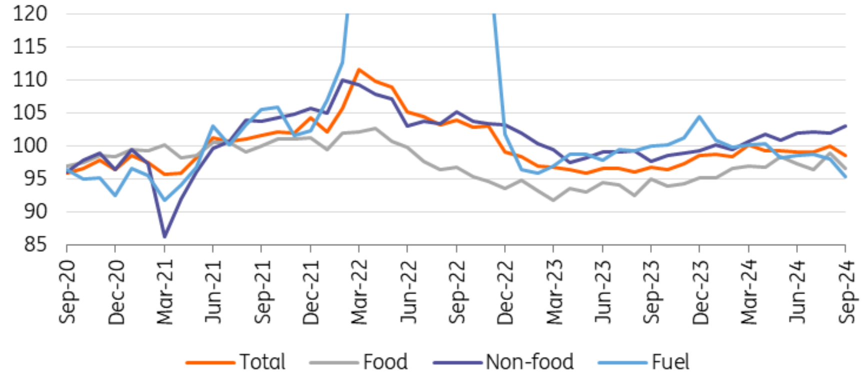
Source: HCSO, ING

Looking at the details, food was again the main drag on retail performance in September. On a month-on-month basis, the Statistical Office recorded an unusually large fall of 2.4%, while non-food stores posted a 1.1% MoM increase. Within this, mail order and internet sales performed particularly well.

In terms of in-store sales, clothing and industrial goods retailing performed well. It is therefore possible that the floods had a stimulating effect on sales in these specific areas rather than a negative one, as both sub-segments were unusually dynamic, and demand in these segments may have increased as a result of the flood prevention and flood control measures.

Last but not least, fuel sales fell by 2.7% on a monthly basis in September, despite the fact that we saw a significant fall in prices in September. It is possible that the flood situation may have had a negative impact by reducing road transport options.

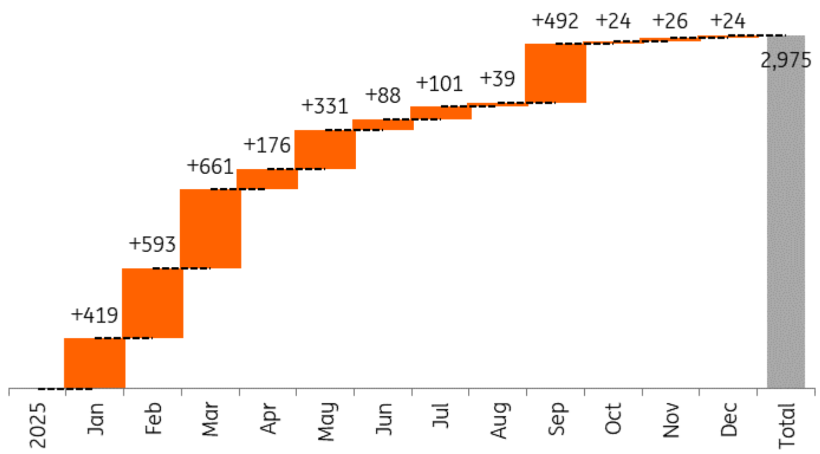
Retail sales volume in detail (2021 = 100%)



Source: HCSO, ING

So, it is important to note that the exceptional flood situation makes it difficult to clearly assess the retail sector's performance in September. What is certain is that the retail sector's overall sales volume is still below its average performance seen in 2021, stuck at around 1.0-1.5% below the volume level of three years ago. While next month may bring some correction, it is unlikely that the sector will break out of this stagnation before the end of the year.

Timing of retail bond related payments in 2025 (principal and interest, HUF bn)



Source: GDMA, ING

However, the continued high real wage growth and the large retail government bond-related payments expected at the beginning of next year should provide grounds for optimism. Indeed, according to our calculations, the principal payments on retail government bonds maturing next year and the actual interest payments on the entire retail government bond portfolio will amount to around HUF 3,000bn in 2025. Moreover, most of this amount (around 56%) will be paid to households in the first quarter of the year.

The biggest question, however, is how much of this money will be spent, how much will be reinvested and whether these investments will remain in Hungary (and in forint) or be accompanied by a large capital outflow. This may depend mainly on the economic environment, business and consumer confidence and (FX) market stability in the coming months. For the time being, the overall picture in these areas does not necessarily bode well for a burst of consumption.

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