

Hungarian retail sales suffer from record inflation

After the fuel price cap was lifted in early December, fuel consumption dropped by 18.4% month-on-month. However, record-high inflation dragged down overall consumption similarly



-3.9%

Volume of retail sales (YoY, wda)

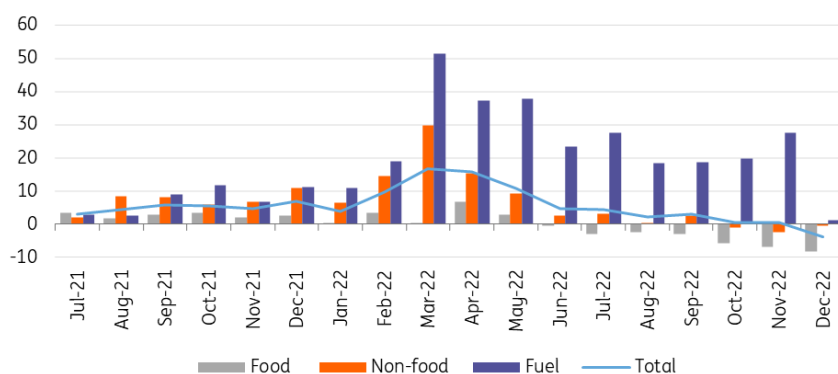
ING forecast -4.4% / Consensus 0.2% / Previous 0.6%

Worse than expected

The extremely poor performance of December's retail sales data caught most economists off-guard as the volume of retail sales contracted by 3.9% year-on-year. The last time we saw such a large YoY decline was in February 2021 when the entire country was under a full-scale lockdown. What's more, this decline was the result of a 1.0% monthly fall in the volume of retail sales. In our opinion, such a weak fourth quarter performance in retail sales will take its toll on last year's fourth quarter GDP data as well.

Diving deeper into the details we can see structural issues, even if we factor out the fuel retailing component, which was largely expected to decline. On a yearly basis, food retailing declined by 8.3%, but even on a monthly basis, it only grew by 0.1% during the holiday season, which means that the largest component in retail sales virtually stagnated. Overall, this reflects the new reality that consumers had to adapt to higher food prices as food inflation in December accelerated to 44.8% YoY.

Breakdown of retail sales (% YoY, wda)

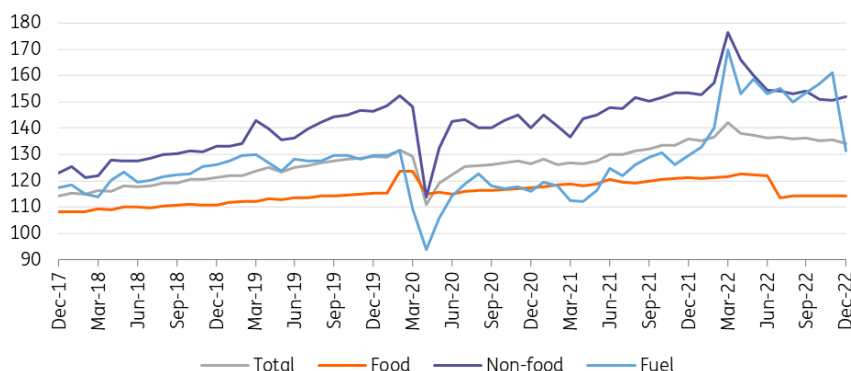


Source: HCSO, ING

Non-food retailing posted a 0.4% drop on a yearly basis, despite a 1% month-on-month increase, with sub-sectors displaying heterogenous monthly dynamics. In this regard, the biggest surprise came from the second-hand goods shops, where the monthly turnover increased by 31.1% in volume. In our view, this is another by-product of the extremely high inflationary pressure as consumers are shifting to buying second-hand goods with record haste. This realisation comes amid the Christmas shopping spree, which by previous standards should have boosted the volume of sales in clothing, manufactured and home furnishing goods but in fact, these items all showed declining demand.

With stagnating food retailing and declining non-food turnover, the last component further dragged down the headline number. Fuel retailing posted an 18.4% MoM decline. At first glance, the 1.3% growth on a yearly basis can be misleading concerning the current state of fuel retailing, thus we believe that the enormous monthly decline better reflects the current picture - which is very bleak. The Hungarian government lifted the fuel price cap in early December which resulted in a drastic drop in the volume of fuel retailing as drivers adapted to market fuel prices.

Retail sales volume in detail (2015 = 100%)



Source: HCSO, ING

With December’s negative retail sales reading, we do not expect any positive surprise regarding last year’s fourth-quarter GDP data, which will be released next week. In our view, the quarter-on-quarter contraction in the last quarter will officially mean that the Hungarian economy has been in a technical recession since the second half of last year.

Going forward, we see further deterioration in retail sales data at least until March, as real wage growth continues to drop. With food prices remaining at highly elevated levels, we expect further stagnation in the food retailing sub-component, while consumers will continue to adjust to market fuel prices. In this regard, we expect further additional drops in fuel retailing on an annual-based comparison, while sub-components in non-food retailing should continue to deliver mixed signals as consumers are continuously optimising and shifting preferences to keep up with record inflation.

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 <http://www.ing.com>.