

Hungarian retail sector continues to struggle

The volume of retail sales decreased on a monthly and annual basis in July. We could see an improvement in August's figures thanks to the World Athletics Championships hosted in Budapest, but the overall trend is persistently gloomy



While retail sales in July disappointed, we could see some improvement in August due to the World Athletics Championships in Budapest

-7.6%

Volume of retail sales (YoY, wda)

ING estimate: -7.8% / Previous: -8.3%

Worse than expected

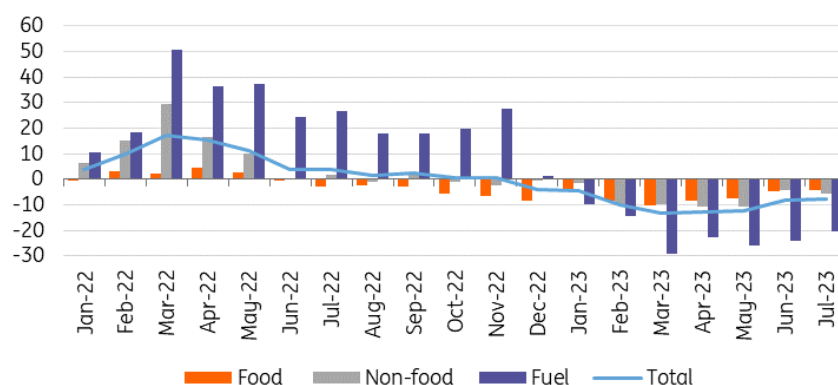
After exceeding expectations in June, retail sales in July were rather weak – although broadly in line with forecasts. While the year-on-year index revealed a slight improvement from the previous month, retail sales contracted once again on a monthly basis, declining by 0.2%. As a result, the volume of retail sales was 7.6% lower in July 2023 compared to a year ago.

Looking at the details, it is surprising to see that sales volume in food stores fell – by 0.9% on a

monthly basis compared to June. Although the data is seasonally adjusted, it's hard to argue that the decline was caused by the summer lull. A more plausible explanation could be the persistence of high food prices: average food prices in Hungary were still 64% higher in July 2023 compared to December 2020. From our perspective, such a shift in price level provides a reasonable enough justification for the decrease in consumption. It is noteworthy, however, that the removal of food price caps in August did not result in any panic-buying in July.

The 0.5% month-on-month drop in non-food shop sales volume was mostly expected. Households are trying to spend less on non-essential products due to their declining purchasing power. It is also rare to see a decline in sales across all physical non-food retail sectors on a monthly basis. The lone exception was pharmaceutical, medical goods and cosmetics shops, with a stagnation between June and July. When we look at the year-on-year figures, we can see a drop of more than 10% in the sales of manufactured goods, furniture, and electrical items. These categories are often the first to be sacrificed when people try to save money.

Breakdown of retail sales (% YoY, wda)

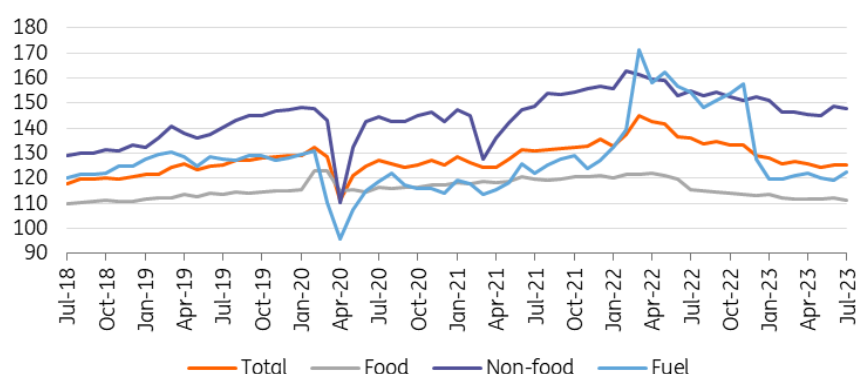


Source: HCSO, ING

In July, fuel sales increased by almost 3% compared to June, which is surprising given the recent steep increase in fuel prices. It is possible that people have been trying to save money during the holiday season by driving to a holiday hotspot rather than flying. This could explain the rise in fuel consumption during the tourism season. However, the latest domestic tourism figures tell a different story: the number of nights spent in accommodation by domestic guests decreased by 8.4% in July on a yearly basis, pointing to a rather weak season.

Overall, we can conclude that the retail sector is facing significant challenges, with a lack of sustained positive momentum evident in almost all aspects. In July, adjusted retail sales (excluding fuel) were 4.7% lower than the previous year, representing a decline that is considerably more pronounced than the 4.1% drop recorded in June.

Retail sales volume in detail (2015 = 100%)



Source: HCSO, ING

Looking ahead, we anticipate a rise in retail sales in August, potentially triggered by the World Athletics Championships which was hosted in Budapest and is likely to have led to a boost in consumption. However, this one-off event won't be supported by underlying positive factors in the long run.

Despite our expectations for a return to real wage growth from September, a rapid and reliable recovery in consumption is unlikely. Households are likely to prioritise reducing their debts and rebuilding their reserves before starting to consume at a higher scale. We are unlikely to observe the impact of increasing purchasing power in retail sales figures until 2024. Against this backdrop, we expect an approximate 8% decline in retail sales volume this year as a whole.

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