

Hungarian retail sector picks up while industry suffers from shortages

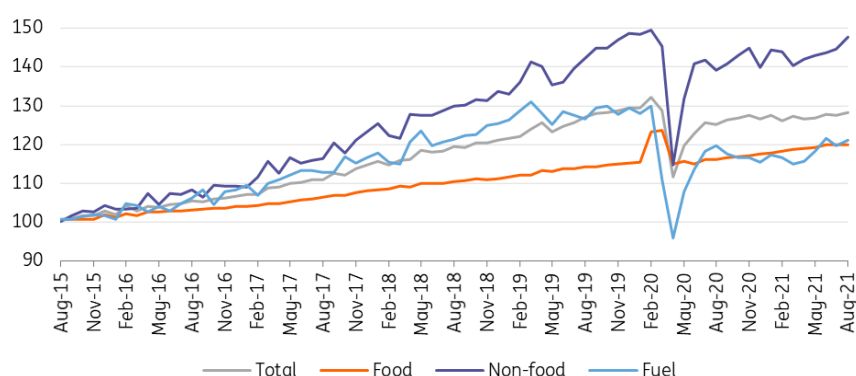
August has been a mixed bag so far based on the incoming activity data. Retail sales rose at a stronger-than-expected pace, while industry is facing more challenges, dampening production



Retail sales

Retail sales recovered somewhat in August, rising 0.5% month-on-month, according to the seasonally- and calendar-adjusted data. Given last year's low base, this monthly growth significantly accelerated the year-on-year performance. After a 3% YoY rise in July, retail sales turnover in volume increased by 4.1% on a yearly basis. Today's data also means that the fluctuating performance of retail sales has continued. However, to be a bit optimistic, we can say that we finally see some trend-like growth since spring 2021. On the other hand, this growth trend is way below what we experienced before the Covid crisis.

Retail sales volume in details (2015 = 100%)

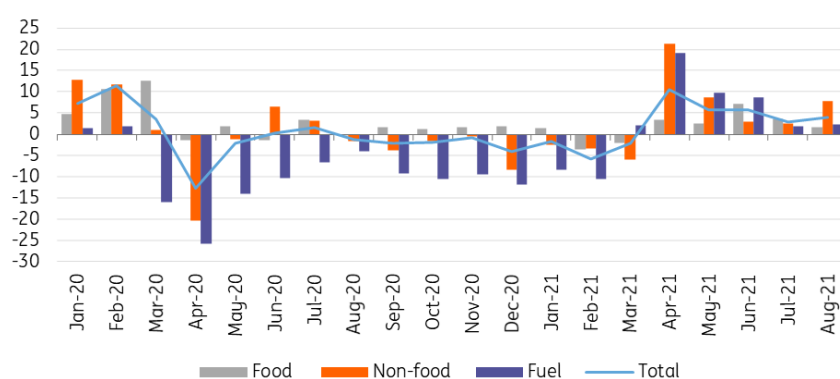


Source: HCSO, ING

The favourable performance in August was mainly due to non-food retail sales, as the volume of turnover grew by more than 2% on a monthly basis, a fairly strong pace. Within this segment, demand for manufactured goods and clothing jumped significantly. Retail sales in pharmaceuticals also rose probably due to the start of the fourth wave of Covid.

August in Hungary is typically about holidays and given that more people than usual chose a nearby destination for their vacation, fuel sales also increased significantly. On a monthly basis, fuel retailers registered a 1.2% increase, thus on an annual basis this is roughly a 2% improvement. As for food retailers, we don't see any significant change compared to the trends observed earlier. The increase in turnover was 0.1% MoM, while the annual growth almost reached 2%.

Breakdown of retail sales (% YoY, wda)



Source: HCSO, ING

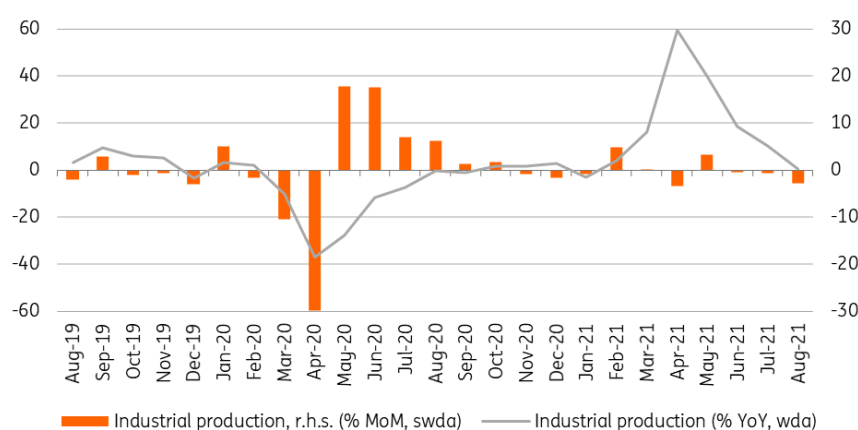
The good performance in August is certainly encouraging, given that the summer months tend to bring a pickup in services initially, while the retail sector tends to perform somewhat below the trend. Therefore we can continue to assume that consumption will be a driver of GDP growth during the third quarter of 2021. Looking at today's retail data, we maintain our expectation that the economy will continue to grow dynamically in 3Q21. We forecast 1.5% quarter-on-quarter economic activity and we still see 2021 GDP growth at 7.7% year-on-year.

Industry

However, the latest problems regarding industrial performance are clouding the picture. Unfortunately, Hungarian industry is no exception when it comes to supply chain disruptions affecting materials and spare parts deliveries. Shortages led to a longer-than-usual summer shutdown, especially in car manufacturing. In addition, the energy crisis is likely to have an increasing impact, as exponentially rising commodity prices have already threatened production in several sectors. All this is clearly visible in the August performance for industry.

On a monthly basis, production volumes declined by 2.7% taking into account the seasonal and calendar factors. Such a drop was much worse than what the market expected. In an annual comparison, the favourable statistical effect caused by the low base has already disappeared. Compared to August 2020, the industrial performance was only 0.6% higher (adjusted for working-day effect) this August.

Performance of Hungarian industry

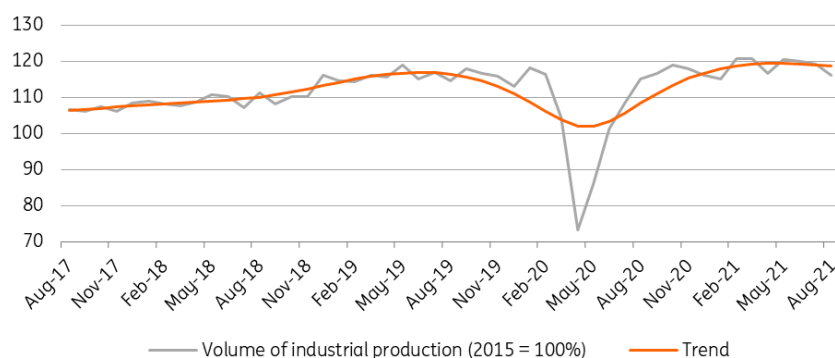


Source: HCSO, ING

The press release from the Statistical Office highlighted that production in the most important manufacturing sector - the automotive industry - dropped significantly due to factory shutdowns on semiconductor shortages. Unsurprisingly, this supply chain problem has also negatively affected the electronics industry, the second most important manufacturing sector in Hungary, causing a drop in production volumes. On the other hand, sectors with less importance in total industry output were able to hold on and partially counterbalance the negative outcomes in car and electronics manufacturing.

Observing the fixed base volume index of industrial production, it is crystal clear that after the extremely dynamic recovery following the reopening in 2020, industrial output has hit a wall recently. The toxic combination of transportation problems, supply chain disruptions and labour shortages have already been an effective barrier to increase capacity utilisation and production levels.

Volume of industrial production



Source: HCSO, ING

Looking ahead, there are no quick fixes to solve these issues. The battle for on-time transport is becoming fiercer as is the race to order enough materials and intermediate goods. The semiconductor shortage in Europe can be remedied to some extent by new Austrian production capacity, but it will take months rather than days before we see this positive impact. In addition, the skyrocketing price of gas and oil as well as other industrial raw materials is raising cost pressures on manufacturers especially at lower-than-usual production levels. Labour is also becoming more expensive and the reduction of the potential labour reserve is making the hiring process lengthier and more problematic.

Persistent cost-side pressures continue to feed into consumer prices

In all, domestic industry is facing a rather difficult autumn and winter, so it's not hard to imagine that Hungarian export activity will take a hit. This provides a clear downside risk to our GDP forecast, which is well counterbalanced by the possible green shoots in services and construction. Meanwhile, the persistent cost-side pressures reflected in producer prices continue to feed into consumer prices.

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