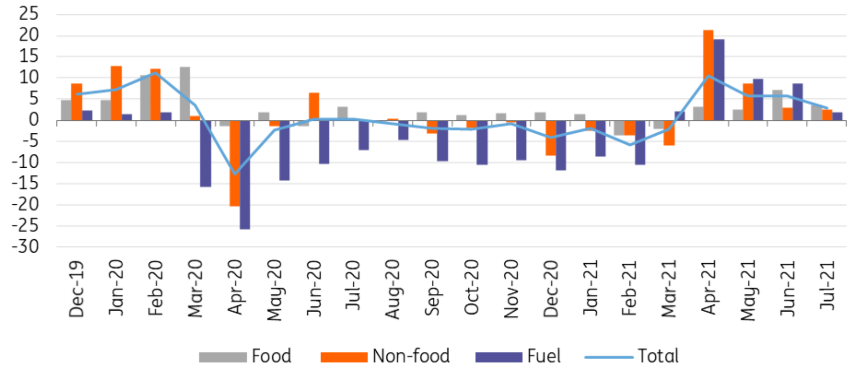
Hungary's retail sector struggles to return to pre-crisis trend

Although the retail sector's year-on-year growth looks good, the trend still shows stagnation as fuel and non-food sales struggle to show constant growth

At first sight, the 2.5% year-on-year July growth in Hungarian retail sales looks good and it seems as though we have nothing to worry about. However, checking the monthly growth rates, the story is pretty different. There are a lot of ups and downs and the July outcome was another disappointment. The volume of retail sales decreased by 0.2% month-on-month based on seasonally- and calendar-adjusted data.

In terms of the yearly-based growth rate, the slowdown from previous months was more or less expected. Base effects are playing a heavy role here, and also the holiday season has kicked in, which means households are favouring services rather than spending money on goods. The monthly based drop is a bit harder to explain, however.

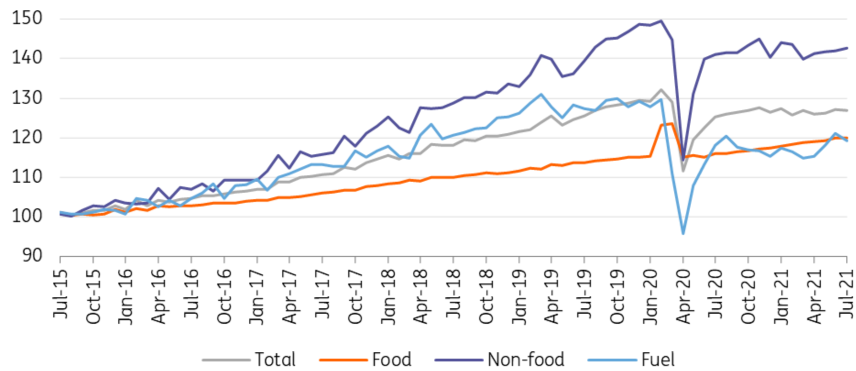
Breakdown of retail sales (% YoY, wda)



Source: HCSO, ING

If we look at the year-to-date performance of the retail sector, the level of retail turnover volume - with some fluctuations, of course - has been pretty much stagnant since the end of 2020. Thus, despite reopening, retail sales are still unable to return to the growth trend that preceded the Covid crisis. During the period of 2015-2019, the average month-on-month growth in retail sales was 0.5%. Since January 2020, this stands at -0.03% and even if we check just this year's monthly performances, the average is sitting at 0.03%. Against this backdrop, the Hungarian retail sector is still finding it hard to return to the pre-crisis growth trend.

Volume of retail sales, 2015 = 100%



Source: HCSO, ING

Why is this so? It's worth examining the performance of each main subsector. The turnover in food stores increased significantly in July based on the year-on-year reading and the growth trend is the same as before the crisis. In contrast, turnover at non-food stores and fuel retailers has been stagnant. Despite the start of the holiday season, fuel sales on an annual basis increased by only 2% in July, and even declined compared to June. The situation is similar for non-food stores, where volume increased by 2.6% YoY and 0.6% MoM in July, which can hardly be described as dynamic compared to the pre-crisis average growth rates.

For the time being, households seem to be spending their savings primarily on services rather than on clothes, furniture, or electronics. And companies continue to accept hybrid work (i.e., mixing home office with classic office work), which is resulting in a slower recovery of fuel turnover. Rising fuel prices are also likely playing a significant role in the muted performance of fuel sales.

> As for the economic big picture, today's data is the first to tell us something about the performance of 3Q21. While it doesn't say much about services, we can be confident that this modest growth indicates that households still prefer experiences over things. In light of this, the July retail sales data does not affect our expectation for GDP growth to be as high as 7.7% in 2021 as a whole.

Author

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Disclaimer