

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

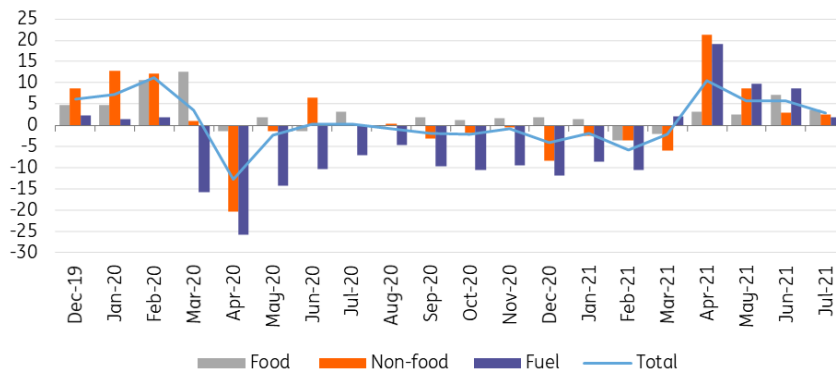
Although the retail sector's year-on-year growth looks good, the trend still shows stagnation as fuel and non-food sales struggle to show constant growth



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.

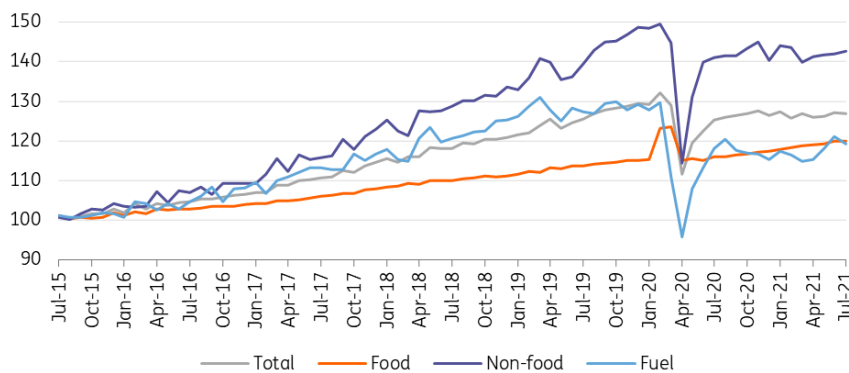
## Breakdown of retail sales (% YoY, wda)



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](mailto: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>.