

Hungary: Preference for experiences over things holds back retail sales

Retail sales volume practically stagnated on a monthly basis in May, despite the easing of containment measures. It seems people are favouring experiences over things on a bigger scale than we thought



5.8%

Retail sales (YoY)

ING forecast 6.2% / Previous 10.6%

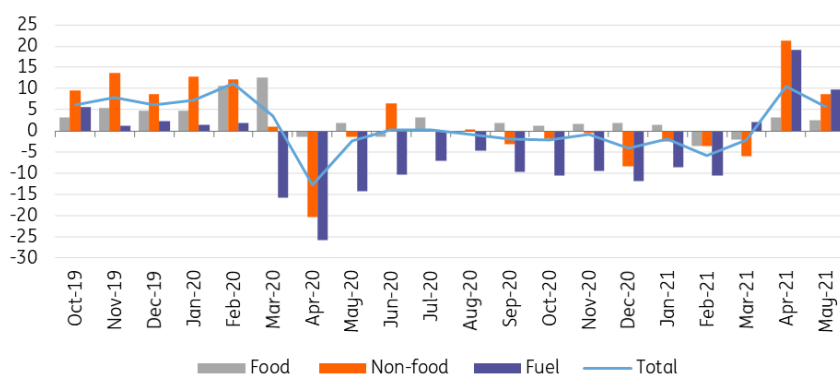
Worse than expected

As yearly-based economic data tells us more about the past than the present nowadays, it's worth taking the elevated year-on-year readings with a pinch of salt. This is also true for the May retail sales data, which showed a 5.8% increase over a year. At face value, such growth would be quite nice. However, this is not only below the market consensus but also shows almost no growth on a monthly basis.

According to our calculations based on seasonally and calendar adjusted data, retail sales

increased by 0.1% month-on-month in May. Therefore, the almost 6% year-on-year retail growth is a consequence of the low base last May. The weak monthly performance came despite the fact that Hungary was in the second phase of reopening with pandemic-related restrictions having eased significantly. At the same time, it is worth noting that the reopening may have mainly benefited the service sector, and retail data does not take this segment into account. Therefore, the barely double-digit year-on-year retail growth is a consequence of the low base last year.

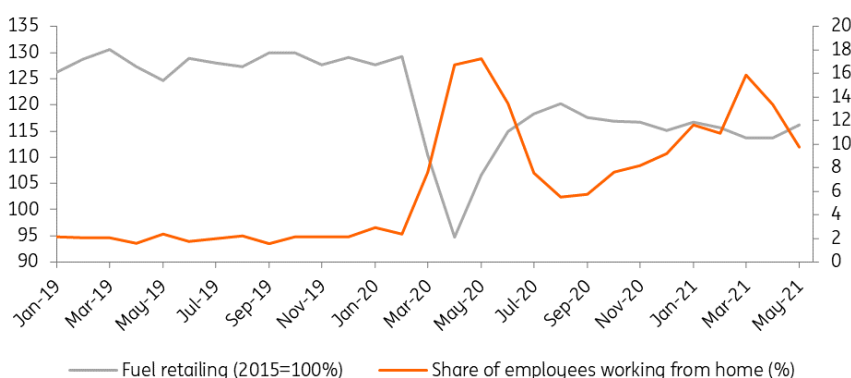
Breakdown of retail sales (% YoY, wda)



Source: HCSO, ING

Looking at the subsectors, the only segment showing a real improvement was fuel sales. On a monthly basis, this shows 2.3% growth, translating into a 9.7% YoY reading. As containment measures were eased, home office working hours started to decrease, which helped to increase fuel consumption. However, as more and more companies are deciding to stick with a hybrid scheme (sharing working hours between working from home and regular hours) we see some reduction in fuel sales in the months ahead.

Telework's impact on fuel sales

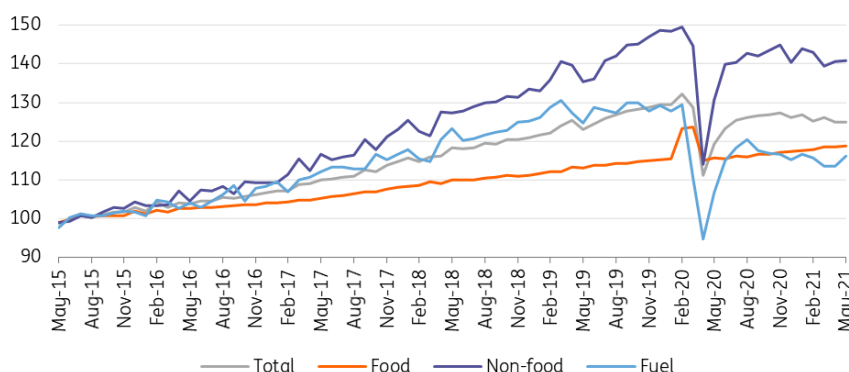


Source: HCSO, ING

When it comes to food retailing, we saw some stability with a 2.6% YoY increase, which is more or less in line with expectations. Non-food caused the real downward surprise in May. The 8.7% YoY reading means only a 0.2% monthly based improvement. Despite an easing of containment measures, this did not translate into a buying frenzy. In our view, this could be due to the

significant inflation in durables, which reduces the incentive to buy. Also, with less opportunity to work from home, people are scaling back their DIY activities, which hits related stores.

Retail sales volume in the subsectors (2015=100%)



Source: HCSO, ING

Since the last quarter of 2020, retail has been on a downward slope and is lagging the pre-crisis trend trajectory. This is becoming increasingly difficult to interpret in light of favourable labour market and consumer confidence data. But our optimism prevails, and we see a rebound in June. This will be driven by the EURO 2020, which brought tourists to Hungary after a long drought, possibly boosting retail and service activities. At the same time, we need to keep in mind that retail sales data will tell us less than it normally would about the real performance of the economy and the stance of household consumption, as it is likely to be concentrated in the service sector in the coming months as people favour experiences over things.

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