

Hungary: Retail sales comes back to reality

The March data fits more into the recent trend, while the previous one seems to be a positive outlier. After all, the first quarter's performance improved on a quarterly basis



Source: Shutterstock

5.9%

Retail sales (YoY)

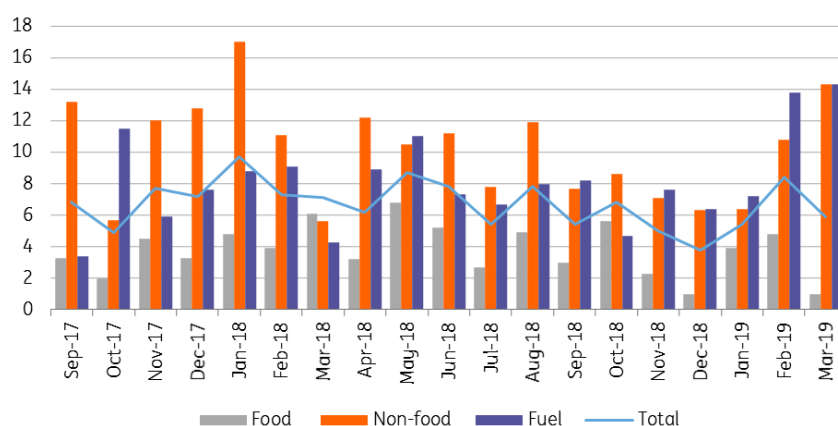
Consensus (6.5%) / Previous (8.4%)

Lower than expected

The March retail sales data showed a 5.9% calendar adjusted year-on-year (YoY) growth, causing some disappointment after the 8.4% YoY peak in February. However the growth was much more modest than previously expected, it is still treated as relatively high regarding the prevalent slightly increasing trend since January 2019. The first quarter of the year overall didn't show any slowdown on a quarterly basis, rather it slightly accelerated. Retail sales are still driven by double-digit wage growth and strong consumer confidence. Also, strengthening inflation coupled with a

high cash-to- deposit ratio could urge household spending.

Breakdown of retail sales (% YoY, wda)



Source: HCSO

The lower-than-expected March growth was mostly caused by the weak performance of food shops, which increased turnover only by 1% YoY. On the contrary, non-food shops and fuel shops reached a 14.3% yearly growth, which counts as multi-year records. These two types of shops have pushed the retail sector in the first quarter. As fuel prices are on the rise, the extra high fuel sales can fade in the next couple of months.

Retail sales volume



Source: HCSO, ING

Looking forward, we see retail sales rebounding in April due to the Easter effect. When it comes to the longer term, we forecast retail sales turnover to increase by 5-6% in 2019 on average, coming back to the trend of soft deceleration that started at the end of 2017. The main reason for this is that households tend to spend relatively less on products and more on services as their income and wealth level increase. Also, higher fuel prices can cause a decrease in sales volume. On the other hand, strengthening inflation expectations pose an upside risk both on inflation and retail sales growth.

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