

## Hungarian retail sales look tragic

Despite a solid labour market and strong wage growth, Hungarian retail sales remain on a downward slope. Consumption probably retreated during the first quarter being a drag on GDP



# -5.9%

Retail sales (YoY, working-day adjusted)

ING forecast -3% / Previous -1.9%

Worse than expected

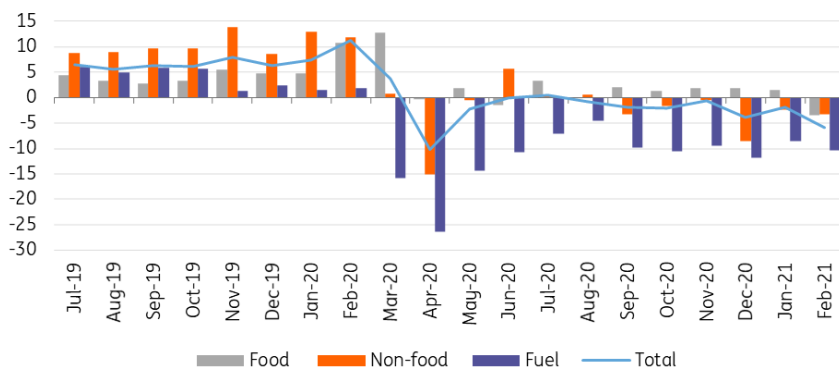
Retail sales look bad. Period. Yes, we all knew the third Covid-19 wave would impact the economy, but the stricter lockdown was imposed only in March, so there was a tiny ray of hope that retail sales might pick up. Not anymore.

In contrast, retail sales turnover dropped by 1.2% on a monthly basis and thanks to last February's buying frenzy before the first lockdown in 2020; the base was quite high. This translated into a 5.9% YoY volume drop in retail sales (working-day adjusted). So, part of the weak performance is just technical, but the monthly drop is hard to understand amidst such sound labour market data (only 4.5% unemployment rate) and close to double-digit wage growth (9.5% YoY).

Consumer confidence dropped in February, so the news that a new round of strict lockdown is looming translated into an even stronger precautionary saving among households. In the short run, this is bad news but could translate to even stronger pent-up demand when the long-awaited reopening happens.

In such an environment, all of the main subsectors in retail showed a significant retreat on a yearly basis. Fuel sales have remained the main drag on the retail sector as a whole. The turnover volume decreased by 10.4% year-on-year, as working from home continues and fewer people commute via cars. The non-food retail sector showed a 3.3% YoY drop. Part of it comes from the elevated base as households tried to refill their medicine cabinet before the outbreak in February 2020. Besides shops selling manufactured goods, every other sector showed a yearly based retreat in sales.

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

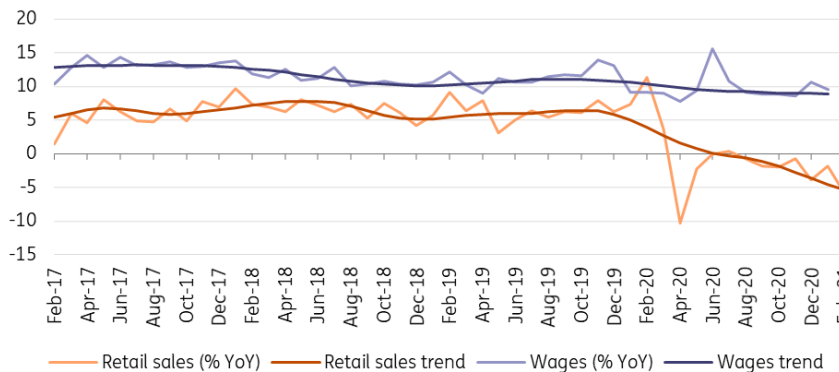


Source: HCSO, ING

In the past months, food retail was the silver lining, but by February, even that disappeared.

On a yearly basis, retail sales turnover decreased by 3.5% in such shops. Of course, you can partly blame the stockpiling panic which provides a high base, but nonetheless, this is a weak performance.

### Trend of wages and retail sales growth



Source: HCSO, ING

Last month we said that January data wasn't tragic. But after looking at the February data, we've changed our minds and retail sale performance is indeed tragic. There is a clear decoupling between wage growth and retail sales, which doesn't bode well for the coming months.

We must wait for the reopening to see the real face of household consumption. Until then, we think it will remain a drag on GDP growth, which makes the first-quarter GDP drop on a quarterly basis almost a sure thing.

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