

Hungary: retail sales slump as recession fears take hold

High inflation and recession fears have changed households' attitudes toward shopping. The latest retail sales data suggest the carefree times have ended, with the economy taking another step toward a technical recession



Hungarian households are cutting back on spending amid the rising cost of living

4.5%

Retail sales (YoY)

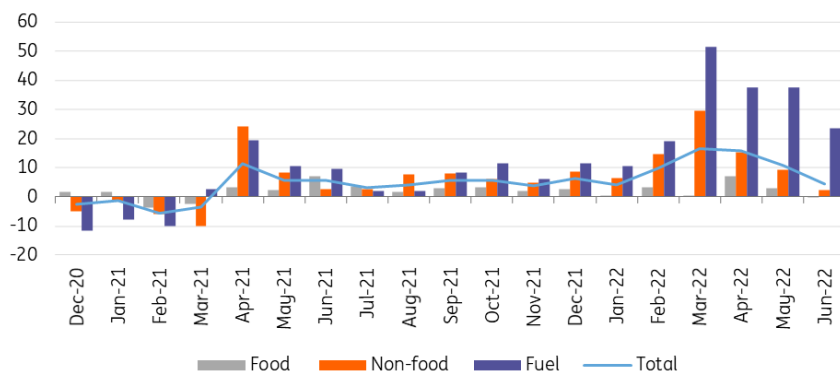
ING forecast 10.0% / Previous 10.9%

Worse than expected

In May, we noted that we might have just seen the first signs of an adjustment to galloping inflation. Well, the latest retail sales data for June has strengthened our belief. After some extreme growth in retail sales fuelled by one-off transfers by the government earlier in 2022, things have changed. The yearly based expansion of retail sales slowed from double-digit to single-digit, coming in at 4.5% year-on-year in June.

At face value, this doesn't look too bad, but the 0.5% month-on-month contraction (seasonally and working-day adjusted) is noteworthy given this is the third month in a row that retail sales volume has fallen. The May retail sales data was also revised downward.

Breakdown of retail sales (% YoY, wda)

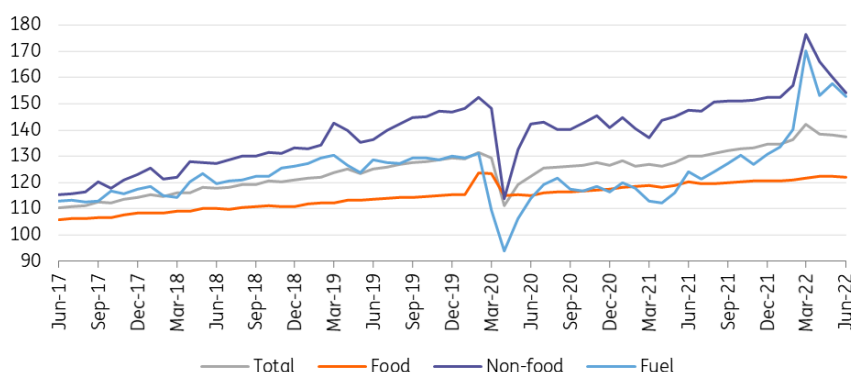


Source: HCSO, ING

Our anxiety about the retail sales figure is due to food retailing. The volume of turnover in food shops showed another 0.25% month-on-month decrease, the second in a row. This retreating food consumption could easily be the start of a trend, which we used to see in times of recession. It's a bit premature to say this is the case now, but it is something to keep in mind.

Non-food retailing is another area where buyers' caution is visible. The 2.5% year-on-year growth is the slowest dynamic since the pandemic lockdowns when shops were closed, causing a 3.6% month-on-month drop in the subsector's turnover in June. This repeats the slump we saw in May. Households have reacted to the rising cost of living in a meaningful way and the consumption of things has started to slow. The reduction in major spending is also illustrated by the fact that in June there was a 3-4% yearly based decline in areas like furniture, industrial goods, and electronic equipment.

Retail sales volume in detail (2015 = 100%)



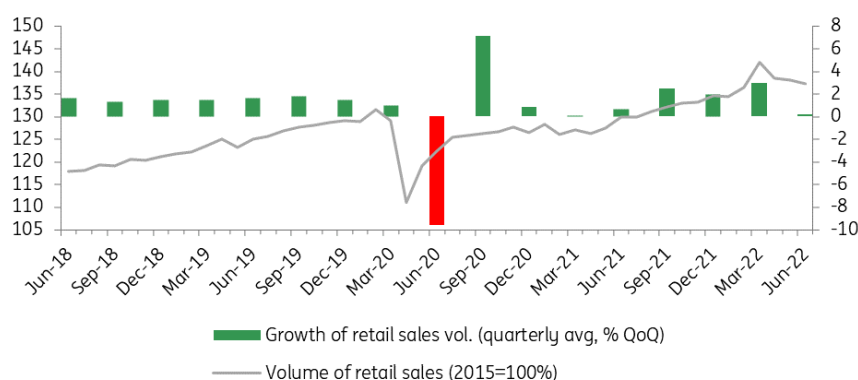
Source: HCSO, ING

Stricter regulations around the fuel price cap also came into effect in June. On a monthly basis, the

turnover of fuel retailers fell by 3.2%. Although in a year-on-year comparison the sales volume was still up by roughly 24%, showing that price caps are keeping the demand for fuel quite elevated.

In all, the June retail sales data itself suggests that the economy started its soft landing during the last month of the second quarter. Households started to adjust their spending to account for higher inflation, and the impact of fiscal tightening in the coming months may further strengthen the retreat. During the second quarter, the volume of retail sales showed stagnation on a quarterly basis. This suggests a slowdown in GDP growth as well after a strong first quarter fuelled by consumption.

Retail sales volume and quarterly performance



Source: HCSO, ING

Without data on the performance of industry and construction in June, the picture is not complete enough to make any judgements, but we do see an increased probability of stagnation in economic activity during the second quarter. That being said, services consumption could be boosted during the summer months thanks to the tourism boom. While people might turn away from buying "things", many aren't yet ready to give up spending on experiences. Retail sales data don't contain information about the latter.

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