

Hungary: Retail sales take a hit in December

Despite a strong November, retail sales retreated in December, suggesting a drop in fourth quarter GDP



-4.0%

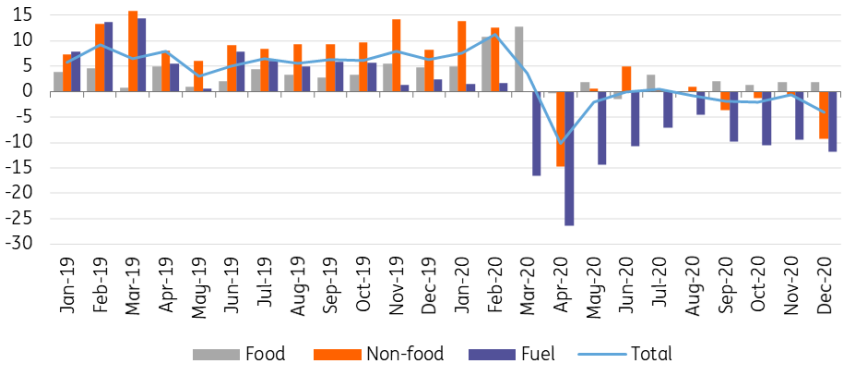
Retail sales (YoY)

ING forecast -0.5% / Previous -0.7%

Worse than expected

A month ago, we were quite upbeat about the retail sector's performance and we hoped that the momentum would keep going into the holiday season. We are disappointed. It seems that economic activity and household behaviour was not as resilient to the second wave as we had hoped. In December, the volume of retail sales decreased by 0.2% month-on-month. The year-on-year performance shows a more marked decline: 4.0% (working day adjusted). This is the worst reading since the April nadir, although the second dip is much softer than the first (-10.2% YoY).

Breakdown of retail sales (% YoY, wda)

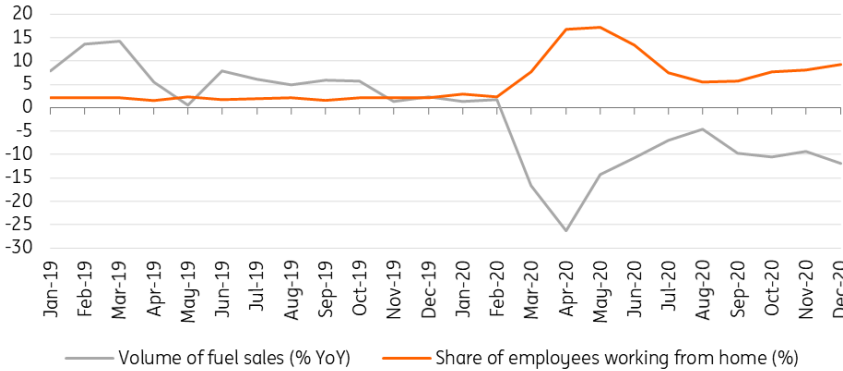


Source: HCSO, ING

What went wrong?

Fuel sales decreased by almost 12% year-on-year, which is the biggest drop since the low experienced during the first wave of Covid-19. This change was fuelled by two things. Firstly, the government maintained the strict containment measures during the holiday season, aside from Christmas Eve. This affected travelling. From a labour market point of view, the number of employees working from home (regularly or occasionally) increased to almost 414,000 (or 9.2% of the employed), the highest in the second half of the year.

Telework's impact on fuel sales

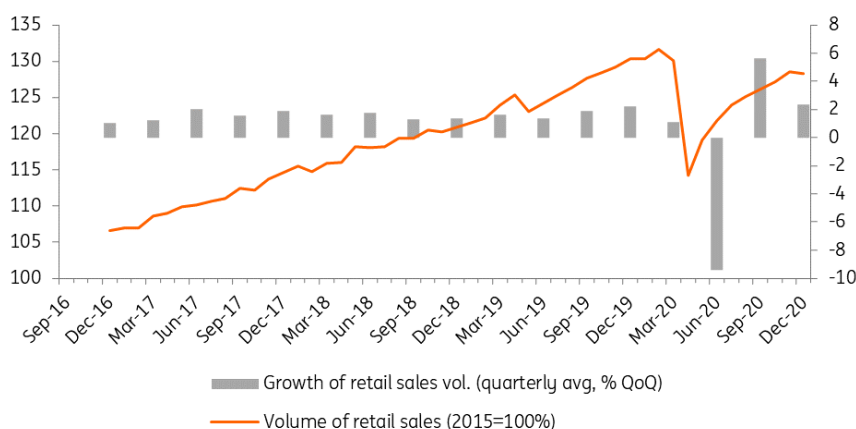


Source: HCSO, ING

The usually strong non-food retail sector was also disappointing over the holiday season. The 9.3% YoY drop was the worst since April 2020. And the weaker performance was widespread. Even the volume of mail order and internet retailing retreated: the 24% YoY increase is the second weakest performance in the past three years. All other types of shops generated less turnover than a year ago.

As Hungary is still suffering from weak tourism, the lack of non-residential consumption is a barrier to further improvement in food retailing. Still, the growth of sales volumes in food shops was stable, rising 1.9% YoY in December, providing the only silver lining.

Volume and quarterly performance of retail sales



Source: HCSO, ING

While October and December data were weak, a strong November helped to improve the average. Indeed, retail sales were able to post an increase on a quarterly basis in the fourth quarter of 2020. Still, this performance lags expectations and Hungary is still at risk of posting a drop in GDP growth on a quarterly basis in 4Q20. Industry and construction might have helped in December, but for now we still expect a 1.5% QoQ drop in GDP for the last quarter of the year.

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