

Hungary: Retail sector's performance hit by second Covid wave

The retail sector has been unable to match the unreasonably high market expectations for three months in a row. The return of telework and uncertainty tied to the pandemic are taking a toll



The biggest market in Budapest

-1.9%

Retail sales (YoY)

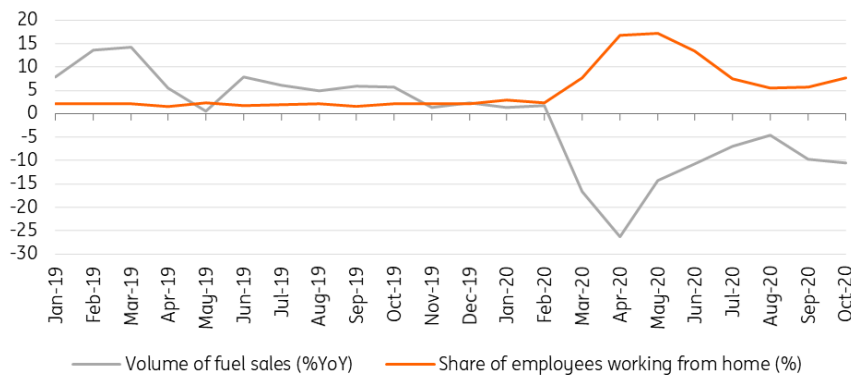
ING forecast -1.4% / Previous -2.0%

Worse than expected

Here we go again. The recovery in retail sales weakened in October. This is the third month in a row when the data released by the Statistical Office was significantly weaker than expected. In October, the volume of retail sales increased by 1.2% month-on-month, translating into a 1.9% year-on-year decrease (calendar adjusted). It shows only a 0.1 percentage point improvement compared to last month. Moreover, it's not just below expectations but came in lower than the most pessimistic forecast on the market, which came from ourselves.

If we dig into the details, it is quite clear that the worsening pandemic situation is behind the bad performance. As the number of cases, deaths and hospitalisations increased, more employers decided to reintroduce telework and home office work. The share of employees working from home (regularly or occasionally) increased by almost 2ppt month-on-month to 7.6% in October. Against this backdrop, fuel consumption decreased by 10.5% year-on-year, the biggest drop since the summer.

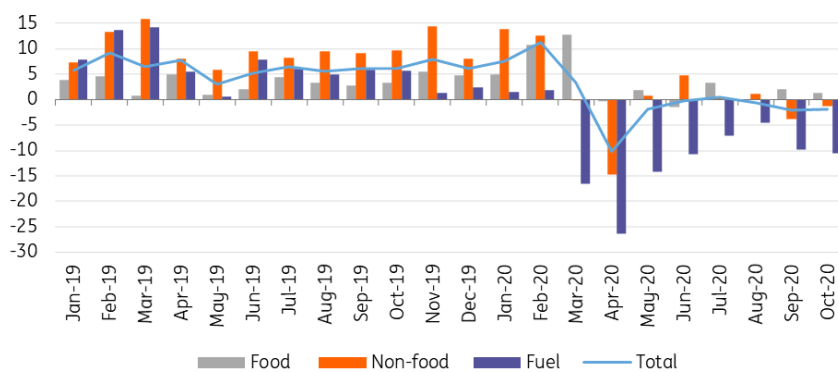
The impact of WFH on fuel sales



Source: HCSO, ING

Autumn used to be the main season for tourism in Budapest and in countryside vineyards. The second wave has practically killed the season, translating into a significant drop in non-residential consumption. This can be seen in the growth of sales volume in food shops, which decelerated to 1.2% YoY. The sales volume of non-food shops dropped by 1.2% YoY, showing some improvement compared to the previous month, but still weak. The worsening labour market situation is depleting real disposable income of households, while worsening consumer confidence decreases the propensity to consume and elevates precautionary savings.

Breakdown of retail sales (% YoY, wda)



Source: HCSO, ING

Considering that the stricter containment measures were only introduced from November, the weak October data for the retail sector could actually end up being the bright spot for the whole fourth quarter. This does not bode well for GDP growth. Today's data has strengthened our view

that we will see a W-shaped recovery, with economic activity shrinking on a quarterly basis in the last part of 2020. Although the forthcoming industrial data could brighten the picture somewhat, we still expect a 2.5% drop QoQ in GDP.

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