

Hungary: The revival of the retail sector

After a year of decelerating growth in retail sales, the sector seems to be reviving in 2019. Is it a new trend or just a blip?



Shoppers in Budapest

8.4%

Retail sales (YoY)

Consensus (5.4%) / Previous (5.4%)

Better than expected

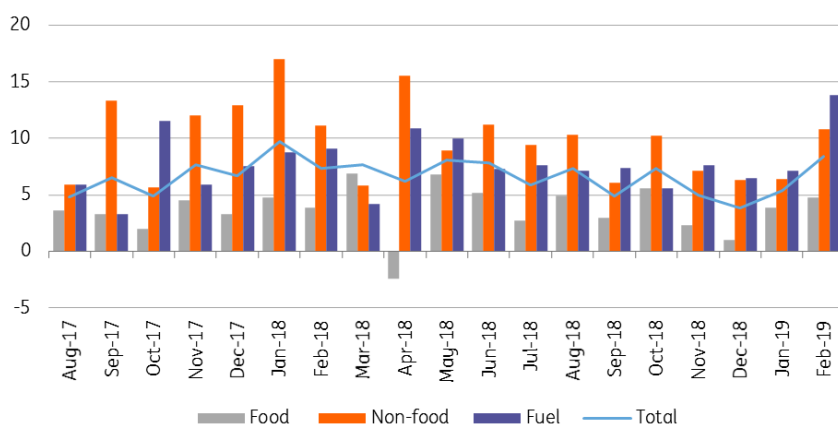
Hungary's ebruary retail sales data significantly overperformed expectations as it reached an 8.4% YoY growth rate, the highest since Jan 2018. The strong figure is really surprising as the sales volume growth showed a decelerating trend last year without giving any clues a turnaround was coming. Instead, it seems the sector regained some positive momentum in the beginning of the year. The main driver of the increase could be the still double-digit (and higher-than-expected) wage growth, and maybe strengthening inflation is urging households to spend as the their savings in cash sum up to a record high of 11.4% of GDP.

The contribution of all types of shops increased in February. The turnover in food shops grew by 4.8% YoY, while the non-food shops' growth rate reached 10.8% YoY, both jumping to multi-month

high. The sales volume of fuel shops posted a five-year high year-on-year growth of 13.8%, responsible for the majority of the surprisingly strong retail performance. This strong reading has a lot to do with a drop in fuel prices in February, so we see this effect as rather a temporary one.

Breakdown of retail sales (% YoY)

Working-day adjusted



Source: HCSO

Against this backdrop, we expect the retail sales to increase by 4-5% on average in 2019, as the sector’s flying start is rather tied to favourable fuel prices in the first couple of months of this year. As fuel prices increased a lot in March and are expected to increase further in April, we see some slowdown going forward. The biggest question mark remains how households will react to strengthening inflation, which poses an upside risk to our forecast as buyers could start to frontload spending due to the elevated inflation expectations. It would pose a double-barrelled risk as the higher demand would translate into higher inflation again, moreover it can speed up the deterioration of the current account balance.

Author

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.