Bumpy road ahead for Hungarian retail sales

Retail sales in Hungary improved in January on a monthly basis, but they are still lagging their pre-pandemic levels. Looking forward, even though things can improve in theory, in reality, that is unlikely to happen. Against this backdrop, we're braced for a weak first quarter when it comes to retail sales and consumption

Source: Shutterstock

-1.8%

Retail sales (YoY, wda)

ING forecast -3.5% / Previous -4.0%

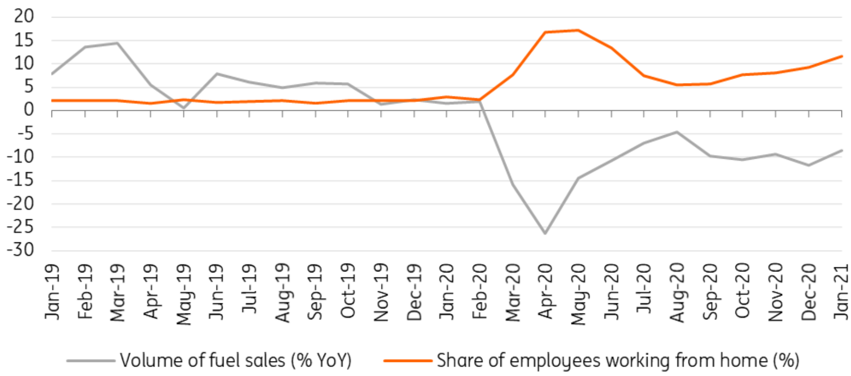
Better than expected

Retail sales closed 2020 on a negative causing disappointment. But we've reset our expectations, as the second wave of the pandemic is causing more and more wreckage to the economy. But, now as we see the first bits of actual 2021 data, we're unsure about the retail sector's performance start to the year.

After such a weak December, the 0.5% month-on-month increase was better than anticipated, but still, we can't say that the sector jump-started. Compared to the same period of the previous year, retail sales turnover is down by 2.6%, although adjusting for the calendar effect, it is only a 1.8% drop.

Fuel sales have remained the main drag on the retail sector as a whole. The volume of turnover decreased by 8.5% year-on-year. This shows a minor improvement compared to the previous month, but this could be due to seasonality. On the other hand, the number of people working from home is increasing steadily during the second wave, and the number has now reached 11.6% in January 2021 - the highest since June 2020.

Home working impact on fuel sale



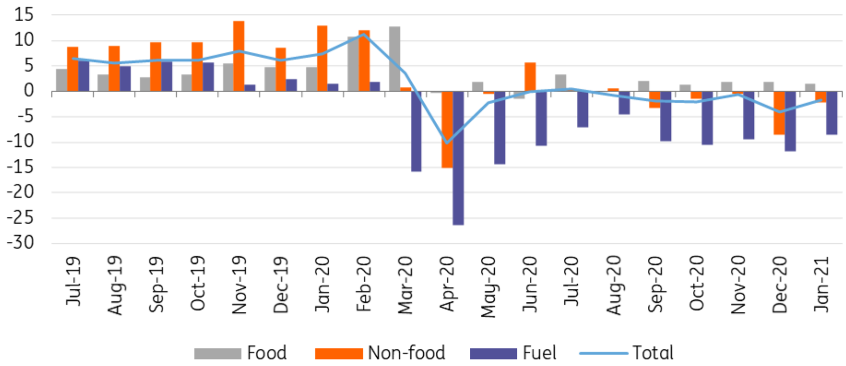
Source: HCSO, ING

The non-food retail sector remains weak, although it also showed some improvement.

The 2.2% YoY drop was supported mainly by non-specialised shops dealing in manufactured goods. However, the volume of sales fell by double-digit in furniture and electrical goods stores, books, computer equipment and other specialized stores, textiles, clothing and footwear shops. It seems that households are still focusing on savings rather than buying major goods. Even if they are buying, it is happening via the internet. The volume of mail order and internet retailing jumped by 36% YoY, reaching an almost 10% share within retail sales.

The only silver lining is food which has grown at a stable rate. In January, it was 1.5% YoY, which is still weak compared to the multi-annual average, but not that bad, taking into consideration that Hungary is still missing the massive inflow of tourists.

Breakdown of retail sales (% YoY, wda)



Source: HCSO, ING

January data cannot be called tragic, and this negative performance, in theory, can still neutralise in the coming months. However, in reality, there are mainly negative developments in consumption in the first quarter.

Unemployment is rising, the pace of wage growth is expected to slow down significantly, and the third wave seems to have arrived in Hungary. The latter could easily mean a full lockdown soon, meaning that only essential shops (grocery stores, pharmacies, banks and post offices) will remain open.

Against this backdrop, we're braced for a weak first quarter when it comes to retail sales and consumption, especially as all of this will just increase the propensity to save.

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