

Hungary: Weak December signals further weakness in retail

The retail sector closed 2018 with its worst performance in a year, which could be a warning sign for 2019



Source: Shutterstock

4.1%

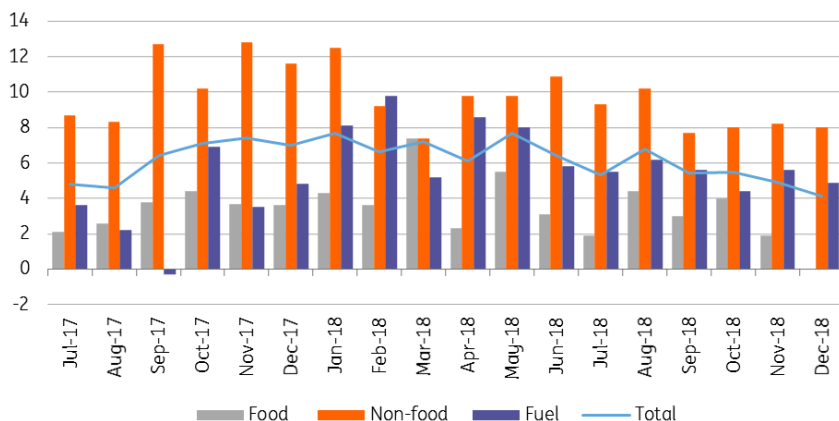
Retail sales (YoY)

Consensus (5.1%) / Previous (5.2%)

Worse than expected

We envisaged a rebound in retail sales in December after weakness in November, but working days adjusted retail sales increased by just 4.1% year-on-year, a clear disappointment. Still, this was a decent growth rate and helped sales to climb 6% in 2018 as a whole. Last year's performance in the retail sector was a touch better than the previous year's, but the second half of 2018 was significantly weaker and the trend like deceleration translated into the worst growth rate for the year in December. The winter holiday season in 2017 was undoubtedly stronger, so the high base did not help either.

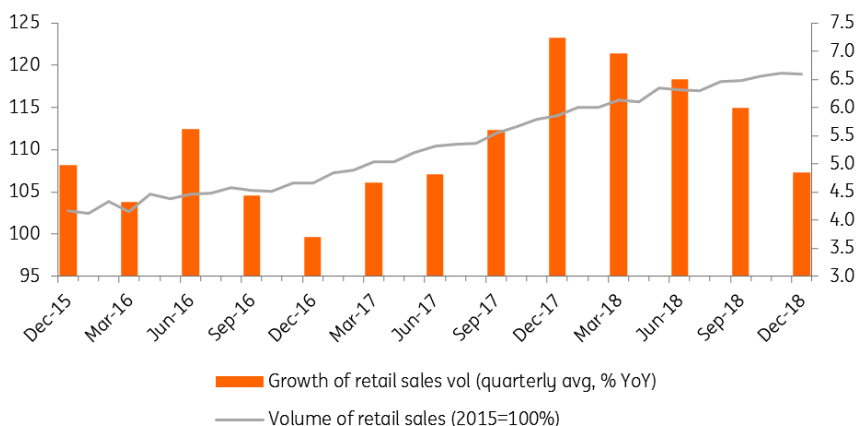
Breakdown of retail sales (% YoY, wda)



Source: HCSO

Turnover in food shops, which stagnated on a yearly basis, was the main factor behind the weaker-than-expected performance overall. However, non-food retailers and fuel shops also closed 2018 with one of the weakest year-on-year growth rates of the year, while still showing decent results. Weakness is present all across the sector.

Retail sales volume



Source: HCSO, ING

Regarding 2019, the loss of economic momentum in the retail sector is quite obvious. Continued wage growth should continue to support the sector, but we think it unlikely that the strong performance continues in 2019.

Services rather than retail might be the beneficiary of continued wage growth

If the sector maintains its 4Q growth rate, we see a 4% increase, on average, in the retail sector this year. The 4Q18 weakness will definitely show up in the GDP data, suggesting a deceleration in consumption growth, which will carry over into 2019. However, as the real disposable income of households continues to rise, we see a shift from consuming goods to buying more services, holding back the retail sector's potential in the future.

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 www.ing.com.