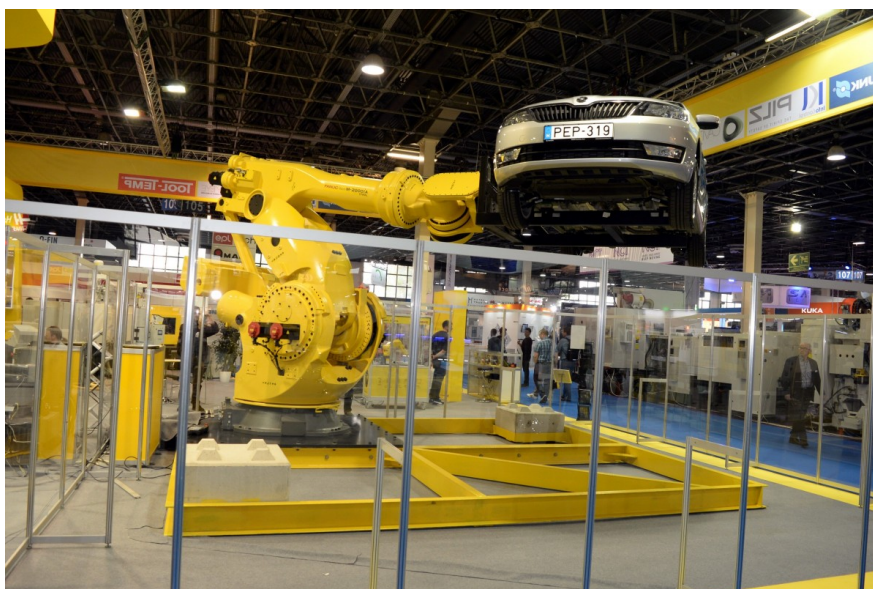


Industry and retail sales move in opposite directions in Hungary

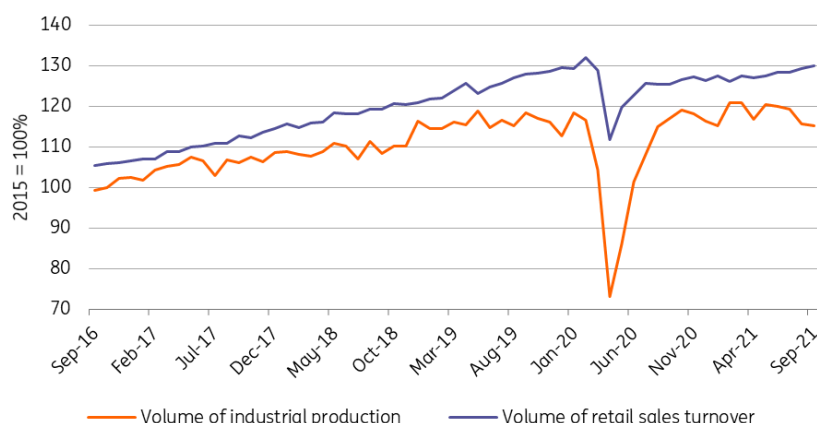
The bad news first: industry has been unable to shake off the negative impact of shortages. However, retail sales have provided a silver lining with a better-than-expected performance in September



An industrial robot machine in action at an exhibition in Hungary

The latest set of data on industry and retail sales present a mixed picture, as the two sectors are trending in opposite directions. Retail sales showed a significant upside surprise in September, meaning we are now looking at a series of good numbers. Industry, on the other hand, was a huge disappointment, showing a trajectory of declining output.

Fixed based volume indices of Hungarian industry and retail sales

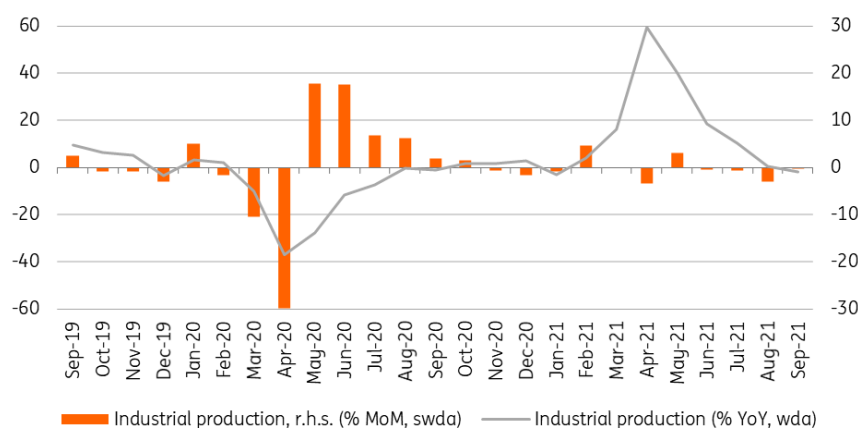


Source: HCSO, ING

Industry

Industry has fallen far short of expectations. We expected a rebound after an extremely weak performance in August, burdened by longer-than-usual summer shutdowns, but Hungarian manufacturing has disappointed. This is mostly due to the fact that despite the already low level of output in August, September brought another decline: a 0.3% month-on-month decrease in volumes. In parallel, the yearly-based performance also showed a drop, of 1.7%, based on working-day adjusted data.

Performance of Hungarian industry

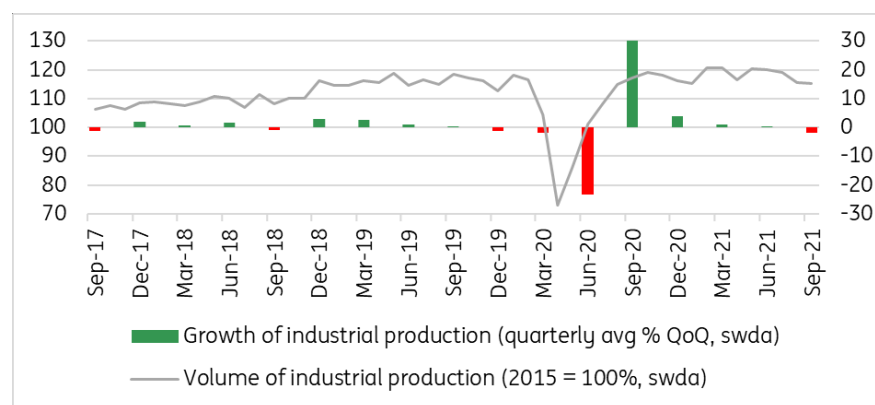


Source: HCSO, ING

The press release from the Statistical Office revealed that growth was measured in most manufacturing sub-sectors, while output was on the decline in car and electronics manufacturing. A strong performance in sectors with a smaller weight in total industrial production is not too helpful if the two biggest ones are performing poorly. The obvious reason behind the drop in output in the car and electronics sectors is the global shortage of semiconductors and other spare parts, accompanied by delays in shipping problems.

Based on the fixed base volume index of industrial production, the overall performance in the third quarter is bad. Compared to the previous quarter, the volume of production decreased by almost 2%. On an annual basis – due to the low base – third quarter output is still nearly 3% higher. The combination of transportation problems, spare parts sourcing difficulties and labour shortages has already been an effective constraint on production in the third quarter of 2021.

Production level and quarterly performance of industry



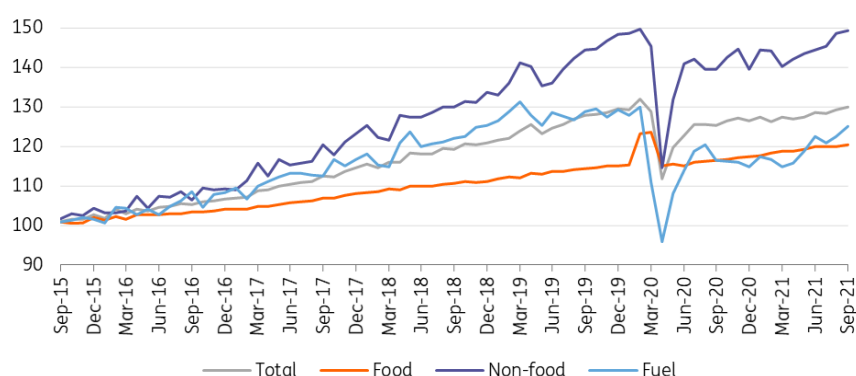
Source: HCSO, ING

Looking ahead, these problems will remain with us going into 2022, thus the fourth quarter also carries serious downside risks to economic activity, mainly due to net export developments. After all, the lack of export activity is accompanied by strong import demand driven by consumption and investment, which thus curbs GDP growth. However, there is a silver lining, provided by retail sales.

Retail sales

In contrast with industry, retail sales surprised to the upside during the third quarter. The volume of turnover was up by 5.8% year-on-year in September, while the consensus was for a more moderate expansion. Another positive development is that the expansion was not only due to the low base, as the sector also showed substantial month-on-month growth of 0.6%. Today's data also means that retail is starting to put together a series of good numbers, trending up since spring 2021. Moreover, in recent months the trend growth has been steeper, approaching pre-Covid dynamics.

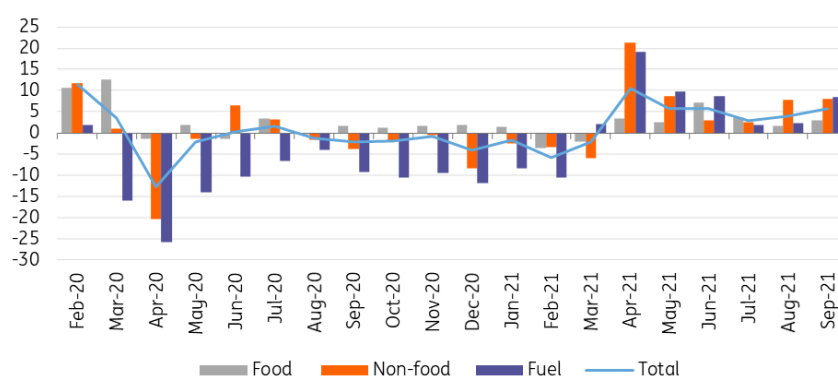
Retail sales volume in details (2015 = 100%)



Source: HCSO, ING

The favourable performance in September is mainly due to the significant (2.1% MoM) increase in fuel retailing. With the end of the summer holidays and the start of in-person schooling, road traffic also increased significantly. In addition, non-food retail sales performed well again after a strong August, posting growth of around 8% on a yearly basis. Demand for clothing products expanded significantly, but presumably due to rising inflation, the turnover of second-hand shops also showed double-digit growth. As for food retailing, we do not see any significant changes compared to the trends observed earlier. On an annual basis, growth was 3%.

Breakdown of retail sales (% YoY, wda)



Source: HCSO, ING

The good performance in the last two months is certainly encouraging in terms of third quarter GDP growth. We calculate that retail sales rose by 1.2% quarter-on-quarter. Given that the summer months tend to be much stronger in services than in retail, we can expect a significant contribution to economic activity via consumption. This positive surprise is mostly a counterbalance to the negative developments in industry. So looking at today's retail and industry data, we maintain our expectation that the Hungarian economy will continue to grow in 3Q21. We forecast a 1% QoQ increase with some upside risks mainly stemming from investment activity. When it comes to 2021 as a whole, we forecast 7.7% YoY GDP growth.

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.