

Snap | 6 January 2023

# Mediocre Hungarian retail sales continue to drag on growth

Despite the positive headline reading for November retail sales, the overall consumption picture is bleak



Vehicles line up to be fueled at a gas station in Budapest, Hungary

0.6%

Volume of retail sales (YoY)

Consensus 1.8% / Previous 0.6%

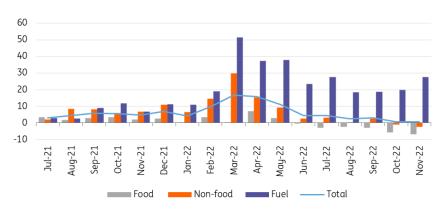
Worse than expected

November retail sales data were a bad surprise for those who were hoping for the usual year-end shopping frenzy. The mediocre 0.6% year-on-year growth in the volume of retail sales in November is a result of a 0.15% month-on-month performance, which is pretty poor.

When it comes to the details, we can't see any major surprises, at least not in the month-onmonth developments. On a monthly basis, food retailing practically stagnated. And this is despite the fact the pensioners (who have the highest level of propensity to consume) got a significant lump sum payment as the government by law needed to match pension growth with inflation,

Snap | 6 January 2023 1 retrospectively. So it's evident that consumers have been adapting to the new reality of galloping food prices.

## Breakdown of retail sales (% YoY, wda)

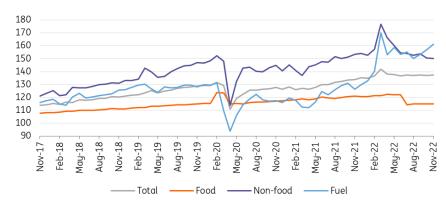


Source: HCSO, ING

Regarding non-food retailers, we see a similar story as households reduced demand for non-essential goods. Sales volume in non-food stores shrank by 0.4% on a monthly basis causing a 2.3% year-on-year drop. And this performance comes in a month earmarked by the month-long Black Friday sales period. While sales events aren't as frequent and strong as they used to be, the dropping purchasing power of households is impacting non-food retailers. The two segments where we saw some positive developments were clothing (due to seasonal factors) and second-hand goods shops as consumers hunt for bargains.

With weak performance in food and non-food retailing, this leaves us with only one sector which saw growth: fuel retailing. Drivers were queuing in long lines to fill up gas tanks as rumours started to swirl in November that the government might be ready to scrap the fuel price cap. As a result, the month-on-month fuel sales growth came in at 2.9%, in volume. The government phased out the fuel price cap in mid-December, so fuel retailing should post a strong December as well. However, this doesn't change the underlying picture, which is that without fuel retailing, consumption is falling.

### Retail sales volume in detail (2015 = 100%)



Source: HCSO, ING

Snap | 6 January 2023 2

As real wage growth will drop further into negative territory during the next few months (with further rising inflation), we see retail sales continuing to fall. As soon as car users begin to adapt to the market prices, fuel consumption will fall significantly, while extreme food price inflation and the move away from non-essential purchases will be a major drag on growth in retail sales.

Against this backdrop, we expect a significant slump in consumption during the fourth quarter of 2022. This will be a major drag on GDP growth and after the third quarter's negative quarter-on-quarter reading, we see a repetition of a downturn in the last quarter of 2022. This means Hungary falling into a technical recession in the fourth quarter. A subpar performance at the year-end will create a negative carry-over effect and the possible continuation of this poor performance during the first quarter will translate into a stagnation-like economic performance in 2023 as a whole.

#### **Author**

**Peter Virovacz**Senior Economist, Hungary
<a href="mailto:peter.virovacz@ing.com">peter.virovacz@ing.com</a>

#### 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.

Snap | 6 January 2023 3