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)

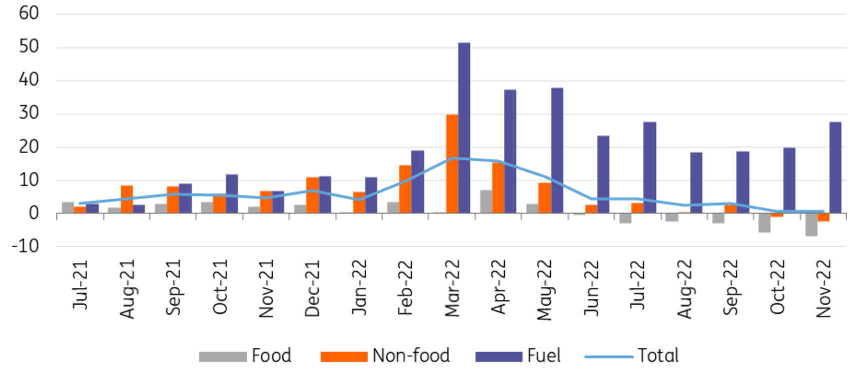
Consensus 1.8% / Previous 0.6%

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-on-month 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, retrospectively. So it's evident that consumers have been adapting to the new reality of galloping food prices.

Breakdown of retail sales (% YoY, wda)

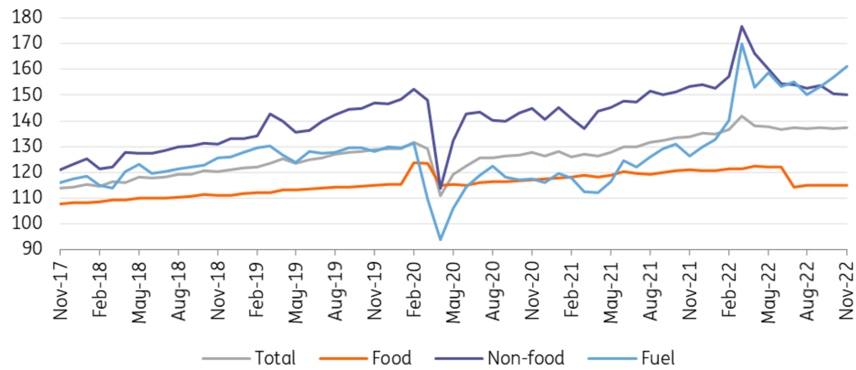


Source: HCSO, ING

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

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.

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