Sectoral divergence continues in Hungary

Hungary's industrial sector continues to struggle, but retail sales continue to improve. So the start to the year hasn't been particularly bad, but it's not been great either. And we expect this sectoral divergence to continue

A Suzuki car factory in the north of Hungary

The Hungarian Central Statistical Office (HCSO) has released January's industrial and retail trade figures. The country's industrial sector remains subdued as the downward trend continues. At the same time, the path of retail sales is diverging as it shows some structural improvement, supported by a rise in consumer confidence, positive real wage growth and coupon payments on retail bonds.

-4.1%

Industrial production (YoY, wda)

ING estimate: -5.4% / Previous: -7.6%

Industry continued to weaken in the first month of the new year, again underperforming market consensus, but doing better than ING's forecast. On an annual basis, production was 4.1% lower than a year earlier, adjusted for working days. Moreover, it cannot even be said that the sector's performance is sub-par due to the base effect.

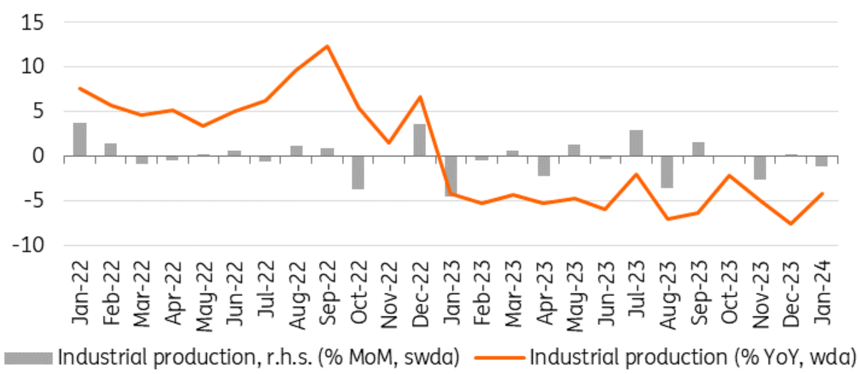
Hungarian industry continued to contract on a monthly basis, with output falling by 1.1% in January compared with the previous month. Against this backdrop, the downturn that began in the autumn of 2022 continued. Of course, it's not worth drawing far-reaching conclusions from one figure, but there's no doubt that the sector has not had a strong start to the year. What's more, industry's total output has now fallen so low that it is now at the production levels seen in late 2020 and early 2021.

Volume of industrial production

Source: HCSO, ING

Detailed data is still to come, but the preliminary release from the HCSO still paints a poor picture. Most sub-sectors contributed to the fall in output, with the only one of the three exceptions being the manufacture of coke and refined petroleum products, which may suggest that the other two sectors that managed to grow are likely to have a negligible weight in the domestic industrial structure. In contrast, the most influential electrical equipment (battery production) and motor vehicle industries may have continued to decline.

Performance of Hungarian industry

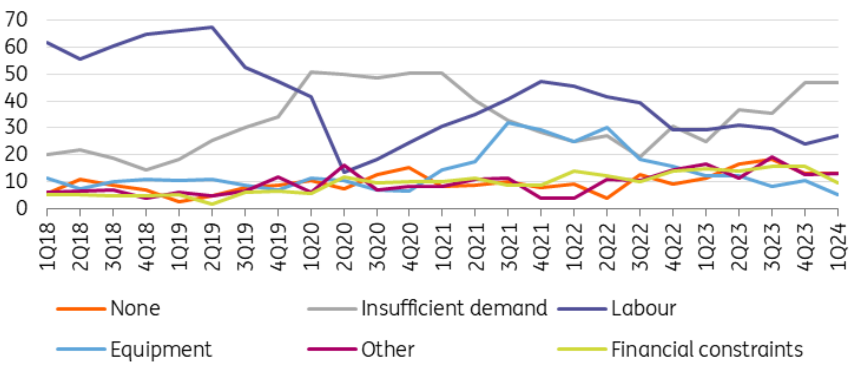


Source: HCSO

The effects of the weak global industrial performance are increasingly being felt in Hungary, resulting in the performance of export-oriented sectors gradually declining. Global inventory restocking is looking complete, demand is falling, and order books are shrinking. Meanwhile, industrial sectors producing for the domestic market are failing to pick up at a really fast pace in the face of a recovery in consumption and investment dynamics, which are already improving but remain weak overall.

In addition, the expected effect of many companies being locked into energy contracts at high prices that limit production does not seem to have materialised. Many contracts have already been signed at much better market prices than a year or two ago. But it seems that this cost reduction has not helped either. Indeed, the latest Eurostat survey suggests that the biggest obstacle for domestic industrial companies at the moment is a lack of demand. One in two companies complains about this, while a quarter cite labour shortages as a problem. Financing and the supply of equipment are now the least important problems for them.

Factors limiting the production in Hungarian industry (% of respondents)



Source: Eurostat

The outlook for industry for the year as a whole is increasingly gloomy, with a rather weak end to the year and subdued start to the new year. The weakness in exports is unlikely to be reversed until the second half of the year, by which time inventories may have been worked down, and demand may have improved somewhat. And the slow pick-up in domestic production in the first half of the year will not be enough to sustain an overall good performance, with better industrial output expected in the second half of the year. All in all, it is likely that industrial performance will still be negative for the year as a whole, thus holding back GDP growth in 2024.

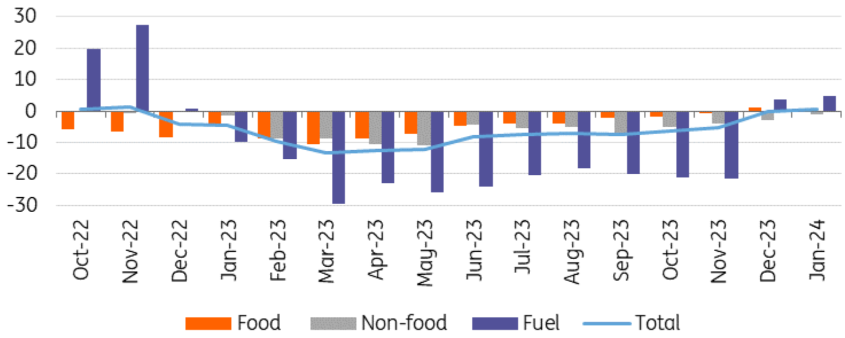
0.6%

Volume of retail sales (YoY, wda)

ING estimate: 0.3% / Previous: -0.2%

In contrast to the industrial sector, the retail sector did not disappoint, although the indicators are not very encouraging. On a monthly basis, sales volumes, adjusted for seasonal and working day effects, were flat considering all sectors. However, as even the stagnation was better than the performance seen at the start of last year, the annualised index improved and the sector posted a 0.6% increase on the same period last year. This ended a 13-month streak of negative year-on-year performance, with the last positive index coming in November 2022.

Breakdown of retail sales (% YoY, wda)



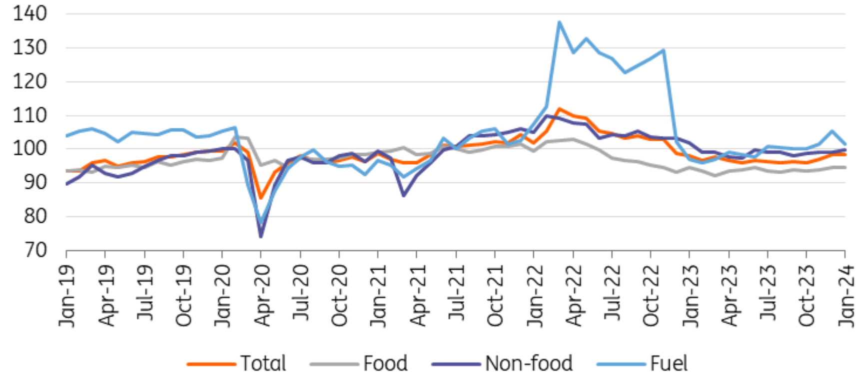
Source: HCSO

Looking at the details, there are no major surprises in the structure of retail trade. The volume of sales in food stores was flat on a monthly basis in January and the sector showed a minimal improvement on an annual basis. However, sales volume at the start of 2024 are still at levels seen at the end of 2018, meaning there is still room for improvement in the food retail sector. It can be said, therefore, that there are encouraging signs in this segment, in line with the more favourable trend in food inflation, but there is hardly any evidence of an explosion in food consumption.

In contrast, however, what is showing a substantial upturn is the turnover of non-food shops. On a monthly basis, growth in this area was 0.6%, which also led to a significant improvement in the year-on-year index, although it still shows a narrow decline of 1%. In terms of month-on-month changes, mail order and internet retailing showed a substantial improvement at the beginning of the year, perhaps indicating the positive effects of the expansion in purchasing power, pointing to the fact that people are still making conscious and cost-efficient purchases. Sales in cosmetics shops were also surprisingly strong again and the 10% increase in books shops is astonishing. Shops selling furniture and technical goods also enjoyed a monthly increase of more than 2%. It could well be that the stronger demand for more expensive products could be the result of the coupon payments on retail government bonds. It is likely that some households have spent the money they received, making up for purchases that were postponed earlier.

Last but not least, the expected negative change has arrived in fuel retailing. After a surge in December, fuel pump sales fell in January by 3.6% on a monthly basis, in line with the impact on prices of the excise tax increase.

Retail sales volume in detail (2021=100%)



Source: HCSO

Overall, therefore, we see some positive signs in some retail segments, but it is perhaps too early to talk about a dynamic recovery. Nevertheless, changes towards the end of 2022 (e.g. the end of the fuel price cap) brings the base much lower, so that from December 2023 the annualised retail sales indices are going to show a much more positive picture. This is why we believe it is important to look at the segment's performance in a more historical context, as this gives a more accurate picture of the true state of retail sector. In this respect, overall retail sales are still at levels seen in late 2020 and early 2021, so the overall picture is still rather weak.

Real wages will continue to rise in the coming months, which could slowly but surely support a recovery in consumption. For this change to be meaningful and lasting, consumer confidence will first have to fully recover, which is a longer process, although we are already seeing encouraging signs in this respect. In addition, February and March will see significant payouts in terms of retail government bond yields. All in all, some 2% of GDP could end up in household accounts as coupon payments, some of which, if spent by the consumers, could already make a significant contribution to the recovery in retail sales (and services), even in the short term.

Author

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com