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Hungarian retailing in the crisis period

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Abstract

The crisis affects on all over the world, businesses and consumers too. The changes on market participants are often negatively affected in most industries. In the Hungarian market there is also a major transformation.
In this paper we would like to present the most important data of Hungarian crisis and the Hungarian retail changes that occurred because of the new market conditions. This paper highlights the effects on various forms of Hungarian retailing such as shopping centers or hypermarkets.

JEL classification numbers: JEL: M20.
Keywords: Crisis, Retailing, Business, Hungary

1 Introduction

The global crisis has occurred in Hungary since 2008, mainly in the second half of the year the macro data could also be detected in the negative changes. Unfortunately for businesses it became a long and difficult period. They used to adapt new crisis management strategies because of the changed market environment.

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The public has been largely affected by closing factories and the high level of indebtedness as well. That is why they went out quickly to change in consumer behavior, which was first seen in the retail sector.

2 Methodology and Objectives

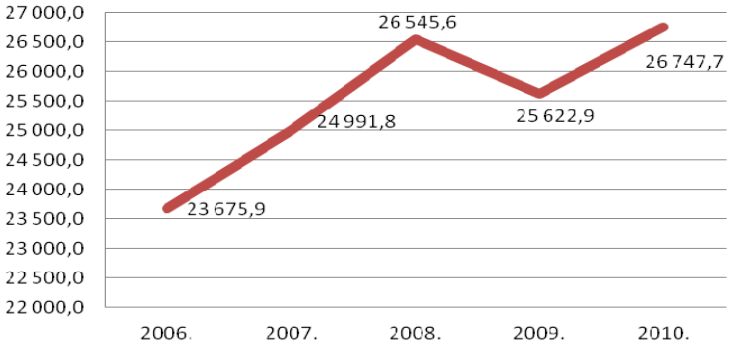
The research focuses on an overview of Hungarian crisis' macro data and retailing statistics. We also worked on the data published by the Hungarian Central Statistical Office (KSH) and other relevant sources.

Our goal is to present the most important characteristics of crisis in Hungarian economy and mostly the effects on the retailing. We try to explain the changes to discover features of the Hungarian retail crisis. We concentrate on types of shops, retail areas, winners and losers in retailing and other facts.

3 Macro overview of the crisis in Hungary

In 2008 the effects of global crisis happened in the case of Hungary, especially in the second half of the macro data could also be detected in the negative changes. Unfortunately for businesses large trial period was that, because of the changed market environment had to be some kind of crisis management strategies to adapt to the effects and consequences of change management.

The economic effects of the crisis in some areas, such as demand, supply, production, turnover, foreign and domestic trade, inflation and unemployment in 2008 are supported by the data.



Note: mrd. Forints

Figure 1: The GDP of Hungary [3]

The investment in the national economy has been largely dropped. The decline from 2009 to 2010 has increased as well (about 13% of investment declined compared to 2008). Unfortunately, this is also a consequence of the crisis.

About the gross domestic product it is obvious that the crisis has been most affected by the recession period (it was a 7% decrease in 2009), followed by a very slight (1.3%) recovery, which rather stagnant. Unfortunately, it is characterized by 2011 years are also included. [3]

The number of employed in the production of GDP also declined. Characterized by a reduction in headcount in all areas, but it was the most relevant in the construction and manufacturing industry (between 2008 and 2010 the decline was a 8 % decline in the manufacturing sector and 11% in construction). [3].

3.1 The growth performance

Hungary's GDP grew annually by about three percent over the period of 1995-2008 (see Table 1). The GDP of the old EU member states grew annually by 2.2 percent on average during the same period. This difference in growth rates is not large enough to close the income gap between Hungary and the old EU members in the foreseeable future. To shed more light on why GDP growth in Hungary was relatively low, we first present the evolution of Hungary's income gap defined as GDP per capita relative to the old EU member states, and the evolution of its labor productivity gap similarly defined as GDP per hour worked relative to the old EU member states. Secondly, we provide a decomposition of the income gap and use classical growth accounting to understand the factors behind Hungary's growth performance.

Table 1: Growth performance of Hungary (%) [4]

Growth rates in %	AVERAGE 1995-20001	AVERAGE 2002-2008	2009	2010
GDP	2.9	3.1	-6.8	1.3
Private consumption expenditure	1.7	3.2	-6.2	-2.2
General government consumption expenditure	-0.3	1.7	-0.6	-2.1
Gross fixed capital formation	5.0	3.5	-11.0	-9.7
Exports of goods and services	14.4	10.9	-10.2	14.3
Imports of goods and services	12.7	10.1	-14.8	12.8
Inflation, CPI, in %	16.2	5.4	4.0	4.7

Unemployment rate, in %	8.0	6.8	10.0	11.2
Government finances, in GDP %				
General government net lending	-5.5	-6.9	-4.5	-4.3
General government gross debt	63.6	62.7	78.4	80.2
Current account, in % of GDP	-5.5	-7.5	-0.2	1.1
Foreign direct investment, in % of GDP	6.3	4.6	1.6	1.2

OECD data for 1995-2001 and Eurostat for all other periods.

3.2 Inflation

Inflation can cause a lot of confusion in the economy. The individual operators of different ways, with different degree affected. The inflation process has a negative impact on the macro economy to confuse the market. Because of the variety of products and services will not change to the same extent, therefore, the price ratio is constantly changing.

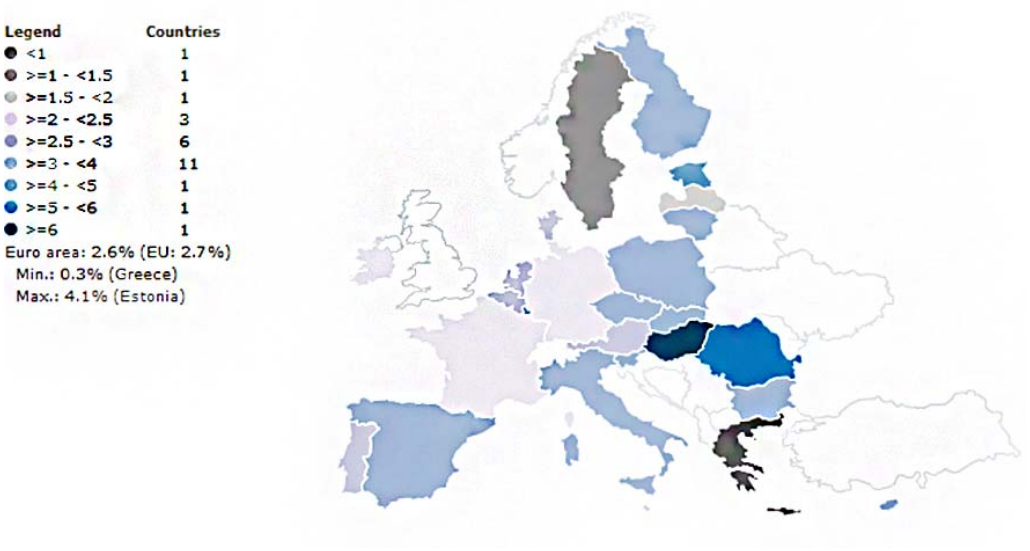
Table 2: Inflation in Hungary (%) [5]

		2011	2012	2013
Core inflation		2.7	5.2	4.9
Items outside core inflation	Unprocessed food	4.3	6.1	4.9
	Vehicle fuel and energy market	13.8	12.3	2.8
	Regulated prices	4.0	5.1	6.4
	All	6.4	7.1	5.2
Consumer Price Index		3.9	5.8	5.0

The core inflation may be around 3 percent in 2013. Core inflation should fall again. All of these factors due to inflation this year and in 2013 is significantly above the 3 per cent, and may occur only in 2014, at the end of the forecast can be in line with the inflation target.

‘Harmonized Indices of Consumer Prices (HICPs) are designed for international comparisons of consumer price inflation. HICPs are used for the assessment of the inflation convergence criterion as required under Article 121 of the Treaty of Amsterdam and by the ECB for assessing price stability for monetary policy purposes. The ECB defines price stability on the basis of the annual rate of change of the Euro area HICP.’ [4]

Table 3: HICP in Europe (%) [4]



Observed 2 above figures the inflation is much higher in Hungary than in other European countries. Unfortunately, this phenomenon is a serious problem for the Hungarian economy.

3.3 Unemployment rate

The vast majority of economists agree that market economy systems, the natural rate of unemployment can be considered certain. Many people are choosing voluntarily to change a job - these people become unemployed for a few weeks or months, but this short livelihood status is not jeopardized.

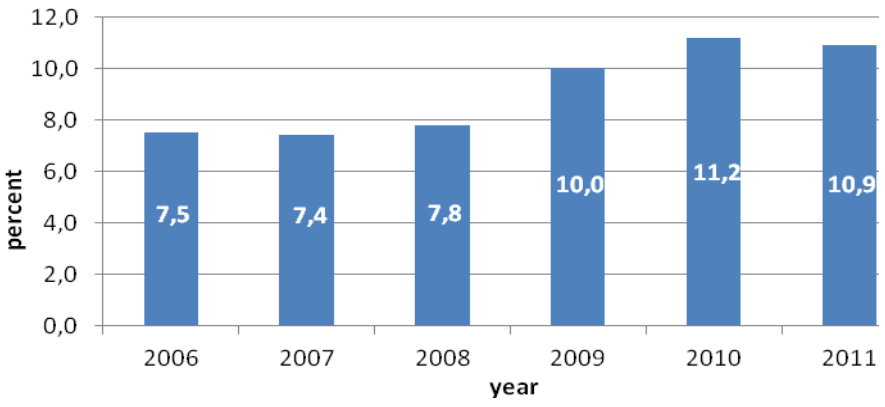


Figure 2: Unemployment rate in Hungary 2006-2011 (%) [4]

In general it can be said that unemployment is a sector of the national economy as a whole varies inversely with economic growth: GDP growth reduces the recession (decline) and increase the number of unemployed.

In Hungary, the unemployment rate has always been a major problem due to the economy. The unemployment rate in recent years steadily increased.

The Figure 2 is intended to show the magnitude of unemployment in Hungary between 2006 and 2011. It can be seen that before the crisis, was approximately 7.5%, and the crisis in the first year (in Hungary), this number has increased to 7.8%. Over the next 3 years and have a 10% unemployment rate is exceeded. [4]

4 Consequences of the crisis for retailing

Because these macro processes the retail sales growth was -4 % from 2009 to 2010 and about 0 % from 2011 to 2012 [8]. The KSH data are similar but not exactly shown the data tables.

Table 4: The Hungarian volume indices of retail sale (%) [3]

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
108,6	107,8	105,4	105,1	104,7	97,9	98,4	94,7	97,9	100,2

NOTE: growth rate from year on year

Table 5: Retail sale growth and consumer spending (%) [8]

	2008	2009	2010	2011
Year on year retail sales growth	-5.1%	-2.4%	-0.1%	0.2%
Year on year consumer spending	-7.8%	-2.1%	-1.4%	0.3%

NOTE: *Calculated inflation deflator figure

The volume indices present that the consumers have stopped their consumptions. It could be caused by the inflation, the unemployment rate (11.2 % in 2010), the taxes, public and external debt too.

The buying power is now 4.884 €/year in Hungary but the European average is 12.802 €/year presented by the GFK. The European average is four times higher than ours.

4.1 Number and area of shops

The *number of stores* has been decreasing too. It was about 166 000 retail stores in Hungary 6 years ago and nowadays it is about 153 000 by KSH.

In the *FMCG sector* there is a similar amount of stores despite the crisis. Between 2008 and 2012 the amount of mixed food stores and supermarkets and specialist tobacconists has been decreased. It is caused by the stricter tobacco rules and the coming and growing international FMCG retail chains which force on independents closing their businesses.

Table 6: The number of retail stores and businesses as its main occupation [3]

MAIN ACTIVITY OF RETAILER	2005	2006	2007	2008	2010	2011
Retailing, Repairing motor vehicles	123 181	122 020	119 592	116 828	113 222	113 447
Retailing with Petrol	101 556	99 722	97 227	94 490	90 918	92 033
Wholesaler	12 564	13 005	13 183	13 086	13 519	12 650
Motor Vehicle Retailing and Repairing	9 061	9 293	9 182	9 252	8 785	8 764
Agriculture, Forestry, Fishing	2 148	2 112	2 087	1 940	1 940	1 953
Industry	12 062	11 817	11 422	10 930	10 423	10 624
Building Industry	4 207	4 240	4 183	4 298	3 865	3 848
Shipping and Warehousing	4 776	4 748	4 723	4 478	3 742	3 876
Accommodation and Food Service	4 715	4 598	4 420	4 056	3 788	3 887
Information and Communication	1 407	1 467	1 536	1 440	1 563	1 551
Finance and Insurance	884	978	1 050	1 111	1 078	1 037
Real Estate	2 420	2 589	2 586	2 818	2 770	2 933
Scientific and Technical Activities	2 483	2 497	2 533	3 108	2 974	3 110
Administrative and Support Service	2 526	2 547	2 547	1 757	1 946	2 027
Public Administration and Defense	72	70	73	75	74	72
Education	379	386	405	428	404	420
Human health and Social Work	333	379	375	379	380	406
Arts, Entertainment, Recreation	922	932	786	864	849	890
Other services	4 223	4 266	4 155	3 638	2 891	2 981
Household activity	–	–	–	3	1	2
Others	–	–	–	–	1	1
Sum	**166 738**	**165 646**	**162 473**	**158 151**	**151 911**	**153 065**

The role of *independent FMCG retailers* has been decreasing because of the retail chains since about 2000. The most important advantages of chains are about the procurement logistics with larger purchasing quantities and management solutions. The independents are usually too small to be able to press or force in the supply chains, so they lose the quantity-discounts and other advantages.

The GFK forecasted about the concentrating retailing in Hungary. It presents that in 2015 the rate of retail chains will be 64 % and in 2020 it will be about 70 % and the rate of independent retailing would be only 7 % in FMCG.

In the case of *other products'* stores their numbers are decreasing (-6,7 % from 2008 to 2011 by KSH), most bookshops, newsstands and perfumeries. There are some stores which are growing such as toy stores, sporting goods stores, telecommunications products stores, human pharmaceutical products shops and second hand shops.

In the *vehicle retail sector* all the forms of shops' number are decreasing, totally it is about 5 % falling in the crisis period.

Table 7: Retail stores by 10.000 inhabitants in 2008 [3]

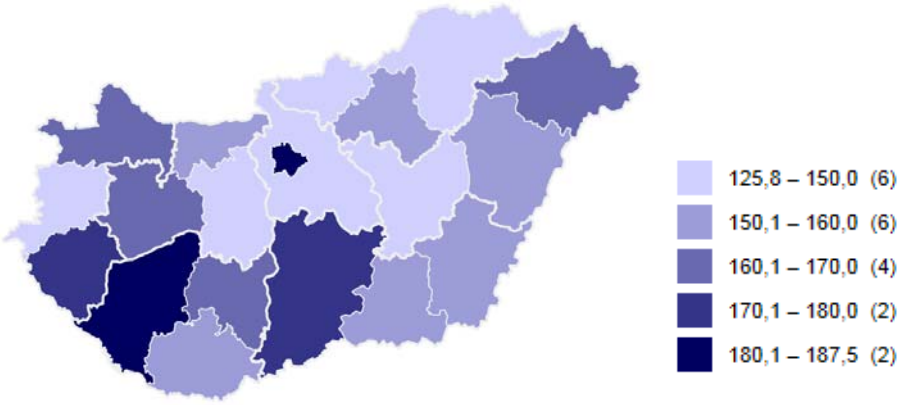


Table 8: The number of shops by population categories [3]

	2003	2004	2005	2006	2007	2008	2010	2011
… – 1 999	8	7	7	7	7	7	6	6
2 000 – 4 999	37	37	37	36	35	34	30	30
5 000 – 9 999	110	108	109	106	106	106	93	95
10 000 – 49 999	363	367	373	369	358	357	337	338
50 000 – 99 999	1 287	1 279	1 279	1 269	1 240	1 235	1 363	1 347
100 000 – …	6 038	6 153	6 233	6 270	6 229	6 037	6 319	6 391

NOTE: number of shops by the inhabitants; there are no published data about 2009

The smaller settlements are supplied by fewer shops and stores by the effects of the crisis but the big cities have more and more facilities. Most of the retail chains focus on the big cities and Budapest (not on the smaller ones) probably due to the higher effective demand. In the smaller towns there is not enough effective demand to keep the shops opening.

In the consumer behavior the price became one of the most important figures choosing the suitable shop and product, this is another crisis-effect.

Table 9: The top average areas of retail stores 2011 [3]

	STORE	AVERAGE AREA
1	Automotive specialists	490
2	Petrol stations	311
3	Paint, iron, building materials and home improvement specialty shops	284
4	Furniture, household equipment and lighting specialist	238
5	Mixed industrial goods and supermarkets	184
6	Mixed food shops	162

NOTE: area – m^2

In contrast, *the floor areas of retail stores* are enlarging because the hypermarkets and shopping centers due to the increasing role. In crisis times there are no really important changes in it, minimal growing, only the area of mixed food stores and supermarkets grows great. The average area of all shops is about 121 m^2 (in 2008 it was about 113 and 104 in 2005 by KSH database). So the Hungarian retailing concentrates more and more on stores with larger floor areas.

4.3 Hypermarkets and shopping centers

In this chapter we present the crisis effects on larger retail stores such as hypermarkets and shopping centers.

Table 10: Main Numbers of Hungarian Hypermarkets in 2011 [6]

MAIN FIGURES OF HYPERMARKETS
165 hypermarkets
Countryside: 146 units
Budapest: 19 units
996 053 m^2 retail area in hypermarkets
Countryside: 845 554 m^2
Budapest: 150 499 m^2
2 599 leased units in hypermarkets
Countryside: 2 359 units
Budapest: 240 units
248 306 m^2 GLA/leased units in hypermarkets
Countryside: 226 240 m^2/GLA
Budapest: 22 066 m^2/GLA
52 651 employees in hypermarkets
(Retail area + shops)

The number of *hypermarkets* has quadrupled from 2001. There were 44 in 2001 and now it is about 166. The crisis does not affect a lot on covering of hypermarkets. The hypermarkets are over represented in Budapest and Pest County with 50 facilities.

In the KSH practice the hypermarket is a self-service retail facility offering a wide range of food and non-food products at least 3,000 square meters of floor area and having parking places. Cash & Carry is not included into hypermarket stores (e.g. METRO).

Table 11: Retail stores in hypermarkets [3]

SPECIALIST IN	2008	2011
FMCG	278	536
Mixed industrial goods and supermarkets	34	45
Textile, clothing and shoe	510	627
Furniture, techniques	126	165
Books, newsstand, stationery	895	1 174
Perfumery, medical	93	118
Second hand	17	54
Sum of retail stores	**1 953**	**2 719**

In these facilities there are usually textiles, clothes, shoe, food or book retail specialists and restaurants or cafe. Their numbers are increasing (from 2719 to 3204 between 2008 and 2011). The other specialists are not relevant.

Table 12: Hypermarkets in Hungary 2011 [6]

	Number of hypermarkets	Retail area of hypermarkets
Tesco Global Áruházak Zrt.	115	614 066
Auchan Magyarország Kft.	12	166 557
Spar Magyarország Kft.	31	133 412
Cora Magyar Hipermarket Kft.	7	82 018

The hypermarket retail chains in Hungary are the TESCO, Auchan and Spar. The CORA has been acquired by Auchan in 2012. The Tesco is the most important hypermarket chain in Hungary with more than 100 facilities. There are no relevant changes because of the crisis but these hypermarkets are forced to rethink their prices, their product-range and manage their activities focusing on consumer spending changes.

The *shopping centers* comprise the specialized shopping centers. In the practice of several countries the area of shopping centers posted with 10 thousand square meters lower limit. With regard to the national peculiarities and that otherwise meets the definition of at least five thousand square meter shopping centers, units.

Table 13: Shopping center types by floor space (countryside) 2011 [6]

Countryside	Unit	GLA (m^2)	Average GLA/shopping center (m^2)	Total number of shops	Average number of shops	Average m^2 of shops
Large	2	85000	42500	161	81	528
Medium	11	314211	28565	811	74	387
Small	68	695698	10231	2071	30	226
Total	**81**	**1094907**	**13517**	**2043**	**38**	**360**

Categories of ICSC	
Very large	Above 80000 m^2
Large	40000-79999 m^2
Medium	20000-39999 m^2
Small	Till 19999 m^2

Totally there are 118 units of shopping centers (37 in Budapest). Most of the shopping centers included in the smallest ones. The shopping center industry employs more than 50 000 people. The shopping centers are growing in Hungary. In 2011 there were 6980 retail stores in hypermarkets, half of them are textile, clothes and shoe stores. The relevant other retail stores are bookshops, newsstands and stationeries.

In 2012 there are only smaller investments like family centers in Szekszárd, Tata, Oroszlány or Salgótarján. These investments are smaller than the earlier ones because of the crisis effects and uncertain funding opportunities.

The vacancy has increased because of the crisis in Hungary but it could be lower because the international retailers are expected to expand further. Below the numbers there are some disadvantageous processes focused on hypermarkets and shopping centers. Since 2012 the building of retail units has been regulated by the current law. This law is called *'plaza-stop'*, because retail units cannot be established or more dimensions cannot be expanded if the floor area is greater than 300 m^2. Investors may request a waiver, but it slows down the pace of investment. This law regulates the opportunity of sustainable retailing, the investment's effects on the city and its country and environment or other market conditions.

All the shopping centers and hypermarkets used to rethink their strategy in the Hungarian market because of the changes of consumer spending and decreasing market conditions. All the retailers rethought their product portfolio (less expensive products have been added to the product line while trying to keep quality) because buying power has been decreasing and reduced their costs and stocks and stopped most of their new investments.

3 Conclusion

The Hungarian macro data demonstrate the actually of topic. The crisis time is a challenge for all retailers but there are some winners and more losers. Because of the Hungarian consumer spending all the retailers have worst market conditions. The independent retailers are in disadvantage than the retail chains. This difference in opportunities is more and more year to year. The retailers with bigger floor spaces can force with the reduced consumer spending which shown mostly in the countryside. The investments have been stopped because of the crisis and plaza-stop too.

We think that this paper is a little review of the Hungarian retailing sector in crisis time, the further research on the subject is well-founded.

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