

## Hungarian inflation on the rise again

Headline inflation picked up again in August, exceeding expectations mainly due to non-core factors. With this, we have probably seen the last below-5% reading for a while



Shoppers in Budapest

# 4.9%

Headline inflation (YoY)

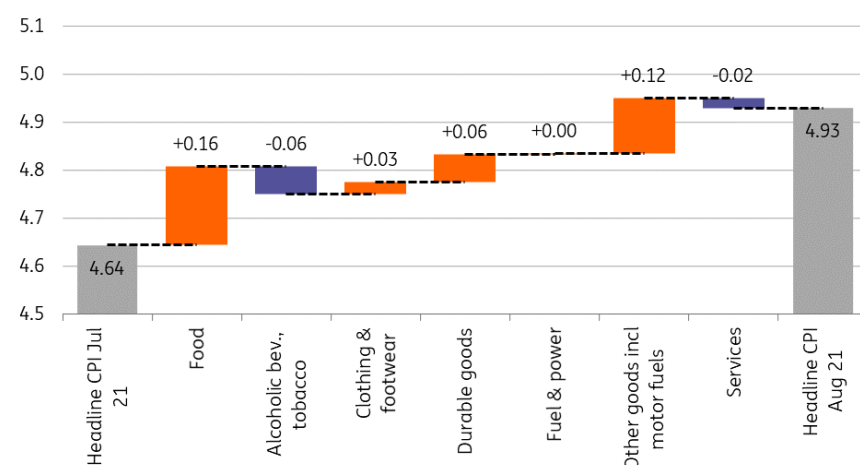
ING forecast 4.5% / Previous 4.6%

Higher than expected

### Inflation moves close to 5% again

After a remarkable slowdown in July, we half-heartedly expected some further retreat in inflation in August. In contrast, inflation picked up at a quite strong pace, causing a clear upside surprise in the market. The 4.9% year-on-year inflation means a 0.3ppt strengthening from the previous month. However, base effects have a lot to do with this pick-up in the yearly reading, as the monthly-based price change was at 0.2% MoM. This is the lowest month-on-month price change in 2021 so far. But for the future, it is far more interesting to check which elements are responsible for the upside surprise.

## Main drivers of the change in headline CPI (%)

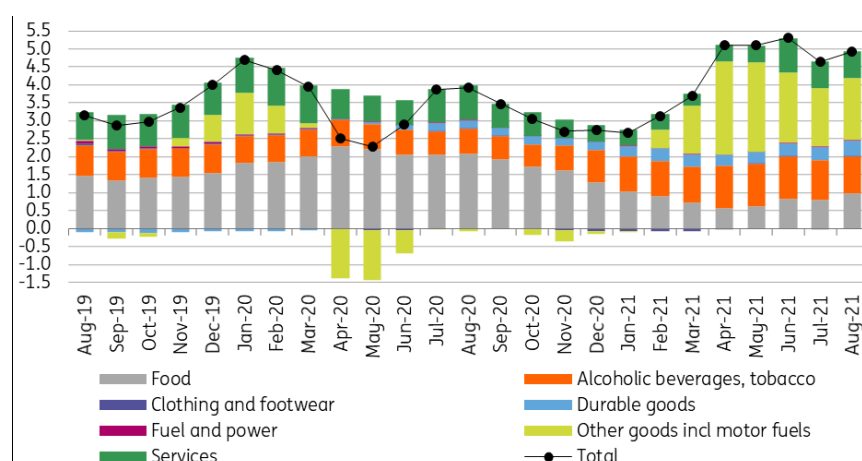


Source: HCSO, ING

## The details

- First and foremost, inflation in food came in at 3.7% YoY in August, a remarkable acceleration compared to July. Such a move clearly goes against the seasonal patterns. We identify two reasons behind this: 1) A quicker and stronger spillover from the agricultural producer price increase (14% YoY in 1H21) impacting both raw and processed foods, especially cereals, fats and oils, and 2) the Covid-related price boom of eating out has continued. With a more than 1% MoM increase yet again, eating out is now roughly 8% more expensive than a year ago.
- Another surprise is the 0.5% rise in prices of durable consumer goods on a monthly basis, translating into a 4.4% YoY reading. The last time durables inflation was above 4% was back in 2009. It appears that the rise in industrial producer prices (10.3% YoY in Jan-Jul) and transport costs has swiftly impacted consumer prices. The remarkable strengthening of the forint during August, showing a 4% strengthening wasn't able to dampen imported inflation.
- When it comes to fuel, base effects were in play as the yearly base price change rose to 21.7%. The same is true for clothing when it comes to the contribution to the change in inflation. Even though August is the start of the summer sale period, clothing prices didn't show the usual strong seasonal drop.
- Counterbalancing the above-mentioned effects, we had services, alcohol and tobacco products. When it comes to the latter, the roughly unchanged price level from July to August, combined with a high base from last year, helped to reduce the headline reading. In services, monthly inflation remained relatively muted at 0.4%, resulting in a minor decrease in the year-on-year reading to 2.8%.

## The composition of headline inflation (ppt)

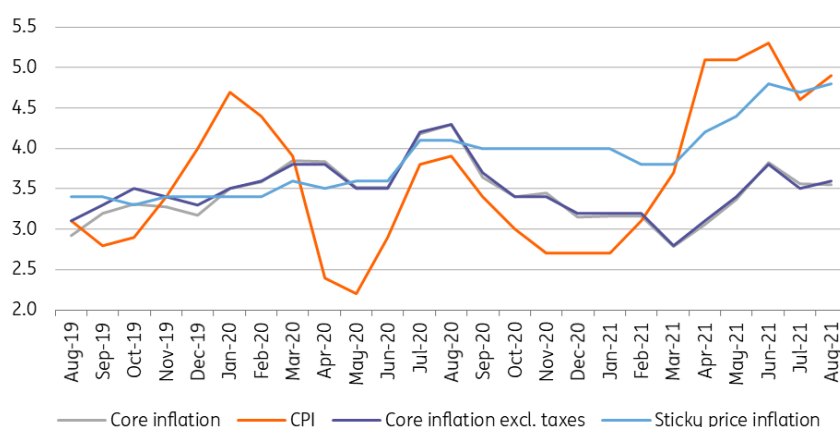


Source: HCSO, ING

## Underlying price pressures remain elevated

In all, we have a quite mixed picture among core and non-core elements when it comes to inflationary impacts. The moves in core groups offset each other, which resulted in a 3.6% YoY unchanged core inflation reading. So underlying price pressure remained strong, which is also represented by the National Bank of Hungary's underlying indicators. Core inflation excluding indirect tax sits at 3.6% YoY, while the so-called sticky price inflation moved up a bit to 4.8% YoY.

## Headline and core inflation measures (% YoY)

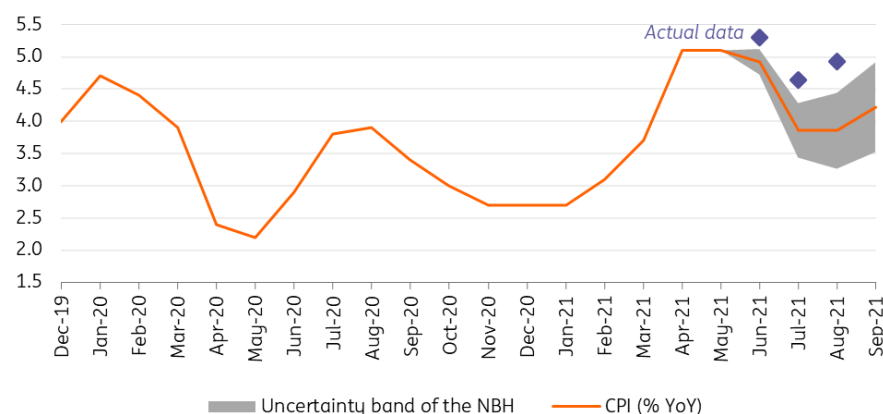


Source: HCSO, NBH, ING

## Rate hikes to be continued

The August inflation reading exceeds not just the market consensus, but is significantly higher than the top of the NBH's forecast band published in June (4.9% vs 4.4%). As a result, we see no room for a change in the monetary policy setup in September. We can expect the NBH to continue its rate hikes and the mild tapering. The only change we can imagine is that the central bank moves to a more conservative approach when it comes to the size of the hikes. This could mean a 25bp rate hike in September, followed by same-sized steps for at least two more months.

## The central bank's near-term inflation forecast



Source: HCSO, NBH, ING

## 2021 inflation outlook shifts up

Regarding our inflation forecast, we need to shift it upwards, as the August data was above our expectations. We expect the headline reading to be above 5% for the remainder of the year, translating into a 4.6% CPI in 2021 on average, with the balance of risk pointing to an even higher actual outcome.

### Author

**Peter Virovacz**

Senior Economist, Hungary

[peter.virovacz@ing.com](mailto: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](http://www.ing.com).