

Hungary: A short-term inflation turnaround

Headline inflation in Hungary is up for the first time since April. Higher pork prices, in part due to swine flu, combined with excise duty changes kicking in with full force. Core inflation also jumped, and it looks like the lows are behind us for the rest of the year



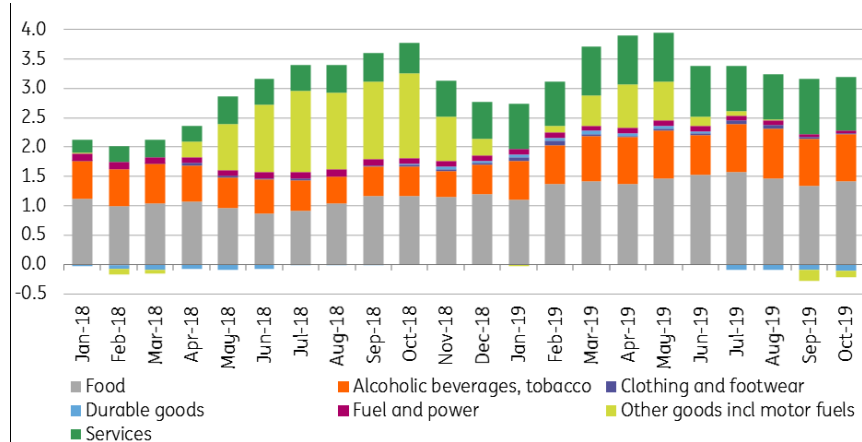
The biggest market in Budapest

Hungarian headline inflation came in at 2.9% year-on-year in October, posting a 0.1ppt higher reading than a month ago. It's stopped the downward trend which began in the spring. The upside surprise was mainly driven by food and energy but, this time, core items were also behind the moves:

- Food prices soared 0.8% on a monthly basis, driven by pork prices and the related processed food products. Due to the latter, this impacted core inflation too. Fruit and sugar prices also jumped, while milk and dairy products also moved the needle for both core and headline inflation;
- Tobacco products continued to become more expensive due to excise duty changes, posting a 1.8% monthly price increase, also affecting core inflation;
- Among energy-related goods, coal, briquettes and firewood showed a stronger-than-expected price increase pushing the energy price increase to 0.2% MoM, the highest in the

past twelve months;

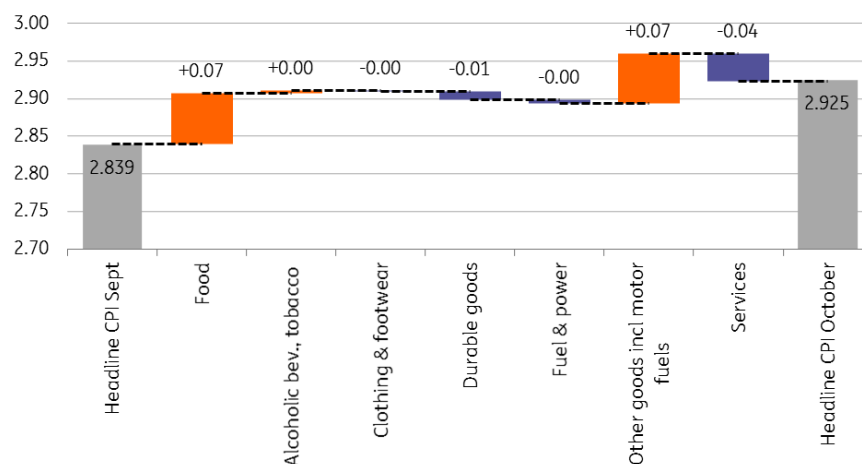
The composition of headline inflation (ppt)



Source: HCSO, ING

The year-on-year drop in fuel and durable goods prices was not enough to counterbalance the upside surprises in food, energy and tobacco products. Elsewhere, inflation in services remained broadly unchanged, despite the strong base effect from last year. So it also added to the surprise in core inflation, which accelerated by 0.1ppt to 4% YoY in October, while core inflation excluding indirect taxes jumped to 3.7% YoY, as the previous round of excise duty hikes dropped out from the base.

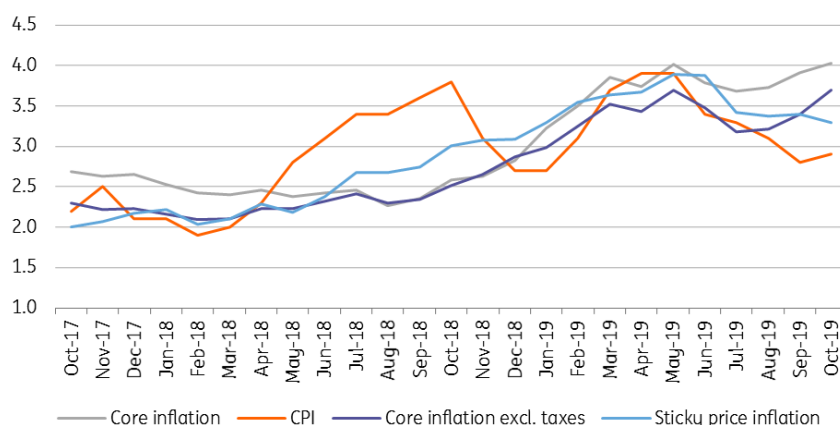
Main drivers of the change in headline CPI (%)



Source: HCSO, ING

Despite the surprise compared to consensus, the recent headline reading is in line with the central bank's forecast. Core inflation came in a touch higher than the NBH might have expected, but we hardly see this as a trigger to change monetary policy.

Headline and core inflation measures (% YoY)



Source: HCSO, NBH, ING

As inflation was already accelerating in October, it means the nadir was in the previous month. As favourable base effects fade in the remainder of the year, both headline and underlying inflation measures continue to accelerate. Against this backdrop core (and core ex-tax) CPI might rise to above 4% by the year-end before it starts lowering again by the end of the first quarter next year.

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