

## Hungary: Core CPI might comfort the central bank

Headline inflation accelerated significantly mainly due to technical factors caused by last year's fuel price movements. On the other hand, core CPI excluding taxes retreated somewhat - a comforting development for the central bank



Source: Shutterstock

# 3.4%

## Headline inflation (YoY)

Consensus 3.4% / Previous 2.9%

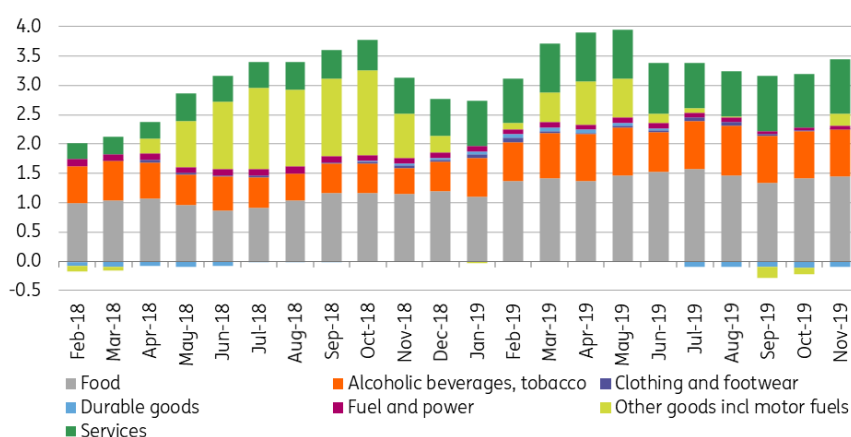
As expected

Headline CPI showed a 3.4% year-on-year average price increase in November, 0.5 percentage points higher, than a month ago. Despite the significant acceleration, we can't really say it caught economists off guard.

The acceleration in the price increase was mostly caused by a technical factor related to fuel price developments. Last November, fuel prices dropped almost 5% on a monthly basis, while this time it retreated only 0.7%. This difference explains the vast majority (roughly 82.5%) of the jump in the headline reading. Other than that, some minor changes contributed to the price increase.

- Food prices rose by 0.4% month-on-month, mostly driven by seasonal fruits and vegetables, while swine flu also pushed pork and related processed food prices higher;
- Durable goods prices also increased by 0.4% on a monthly basis, the highest rate since July 2018. We see this as an effect of the weakening forint;
- Price in services dropped by 0.2% month-on-month, but as last year's drop was stronger, it also pushed inflation marginally higher;
- A minor ease in price pressure in alcoholic beverages and tobacco and in clothing and footwear was also visible.

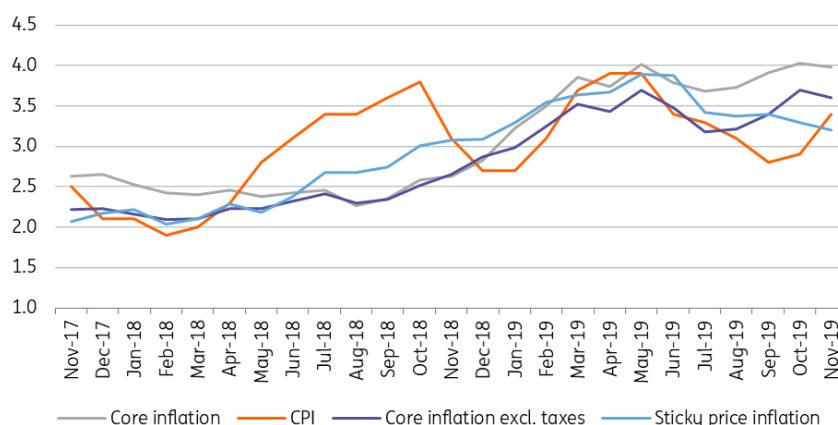
### The composition of headline inflation (ppt)



Source: HCSO, ING

All in all, despite the easing inflation in some areas, technical factors (e.g. last year's volatile price movements) covered this up, showing a remarkable acceleration. If we clean up this volatility, we get a different storyline: Core inflation, which excludes the most volatile elements (unprocessed food & energy) came in flat at 4.0% YoY. Moreover, core inflation excluding indirect taxes retreated by 0.1ppt from the last month, posting a 3.6% year-on-year figure.

## Headline and core inflation measures (% YoY)



Source: HCSO, NBH, ING

All things considered, the rise in consumer prices did not cause a surprise for the markets or the central bank, as it was in line with its expectations.

As technical factors and one-off supply-side shocks will fade in the short-run, and core inflation ex-tax has already retreated, it can comfort the central bank before its rate-setting meeting next week. So we hardly see any change in the monetary policy setup anytime soon, but we might hear a more balanced risk assessment regarding the inflation outlook, as the domestic economy is still firing on all cylinders.

### 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 <http://www.ing.com>.