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%

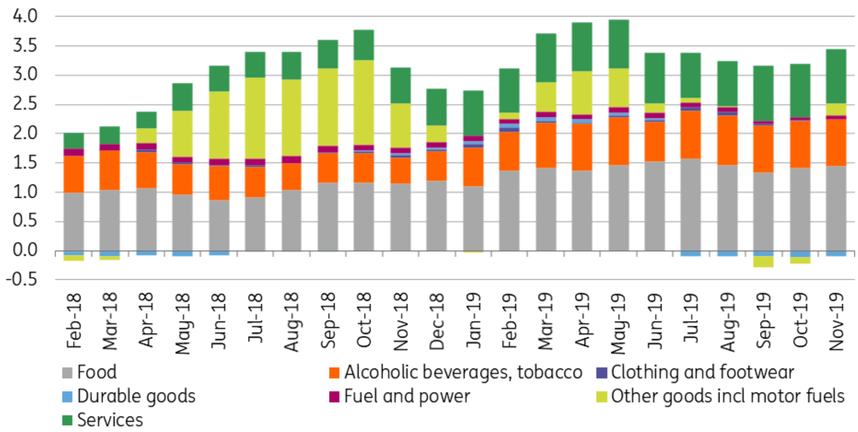
As expected

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.

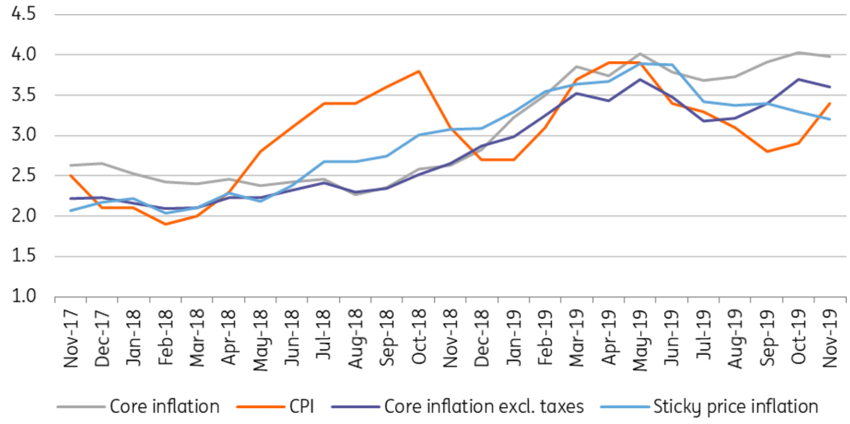
The composition of headline inflation (ppt)



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.

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