

Hungarian core inflation ex-tax drops to six-month low

For the second straight month, inflation decelerated. As underlying inflation heads south and inflation expectations are well anchored too, it re-establishes some credibility for the central bank. All of this is making us think that the next move will most likely be a dovish one



The Széchenyi Chain Bridge in Budapest (Pixabay)

Source: Pixabay

3.3%

Headline CPI (YoY)

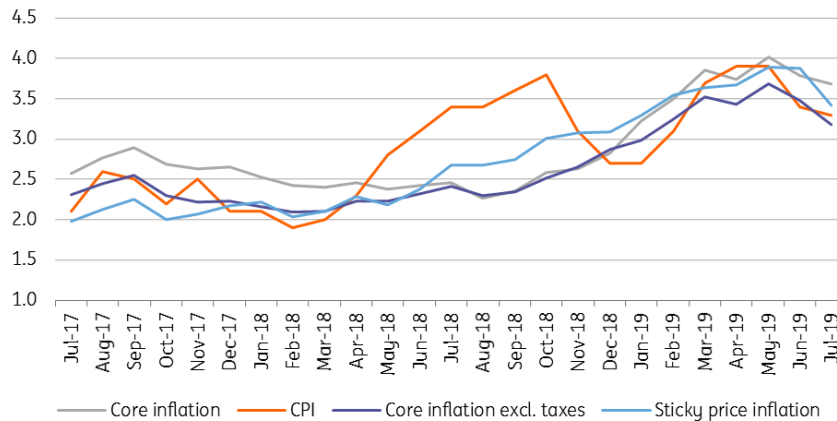
Consensus 3.4% / Previous 3.4%

Lower than expected

Headline inflation decelerated again in July for the second consecutive month. The 3.3% year on year reading is below market consensus and supports the central bank view that inflation will fall in the second half of 2019 without a substantial move in monetary policy. But it's not just headline inflation that dropped, core inflation is also heading south, while the most important indicator - core CPI ex-tax dropped 0.3 percentage points to 3.2% YoY - a six-month low.

Sticky price inflation dropped even more: after a 0.4ppt decrease, it now stands at 3.4% year-on-year. According to a statement by the central bank in July on underlying inflation data, households' inflation expectations remain at moderate levels in the month, consistent with the 3% inflation target. Against this backdrop, the recent data release will help to re-establish some credibility for the Hungarian central bank.

Headline and core inflation measures (% YoY)

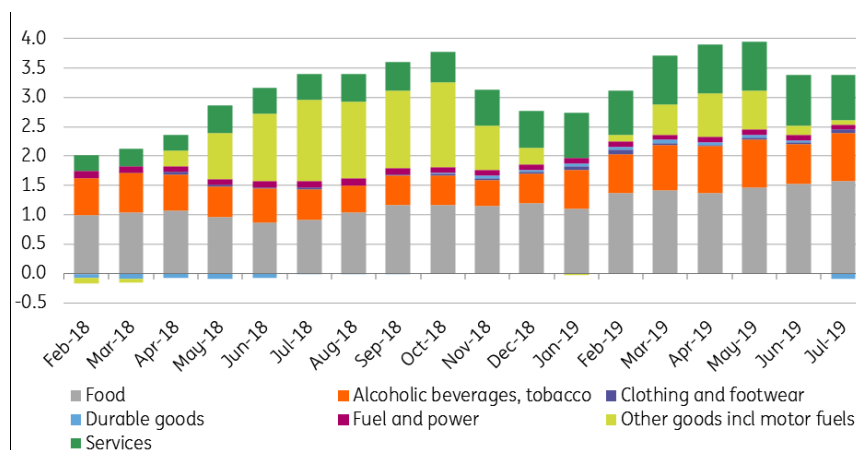


Source: HCSO, NBH, ING

The deceleration in inflation came in on three main elements:

- Fuel prices dropped marginally on a monthly basis while showing a significant decrease on a yearly basis due to a high base last year;
- We saw a stronger-than-anticipated decrease in the price of new cars on the back of the New Car Purchase Subsidy Program for large families, introduced on 1 July 2019. It seems that car dealers are ready to fight for clients, adding extra subsidies on their own;
- Price of recreational services abroad dropped on a yearly basis because the price increase in July 2019 was 'only' 11% MoM compared to a 19% MoM increase a year ago. Last year's huge increase was fuelled by EUR/HUF reaching a new record at 330.8.

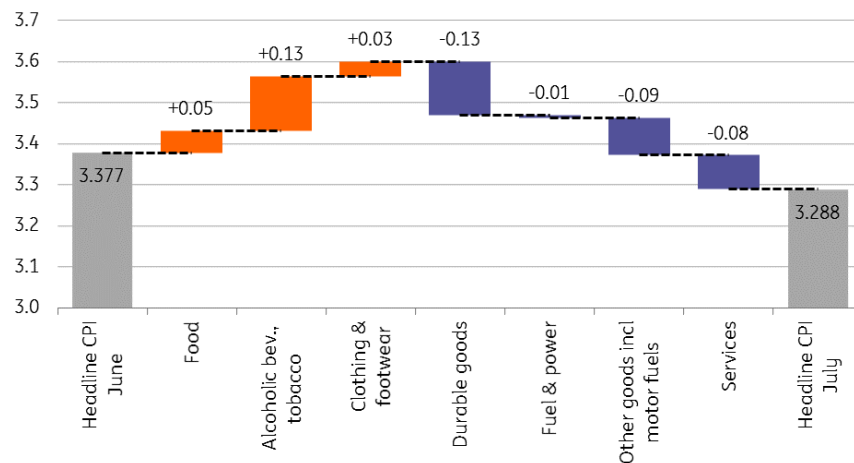
The composition of headline inflation (ppt)



Source: HCSO, ING

The above-mentioned factors were partially counterbalanced by strong inflation in food and tobacco products. For the latter, more than 12% YoY increase is due to an excise duty change, so it hardly comes as a surprise, that core CPI excluding indirect taxes dropped.

Main drivers of the change in headline CPI (%)



Source: HCSO, ING

How does it affect monetary policy?

Domestic inflation is now heading south and it looks like the slowdown in economic activity has finally arrived (GDP data is due on next week). It definitely warrants a wait-and-see approach, but the chances for tightening are fading. Central banks around the globe are easing or preparing to do so on the back of the gloomier external outlook.

We are getting more convinced by the day that all of these together are increasing the probability that the next move by the central bank will most likely be a dovish one.

Author

Peter Virovacz

Senior Economist, Hungary

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>.