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)

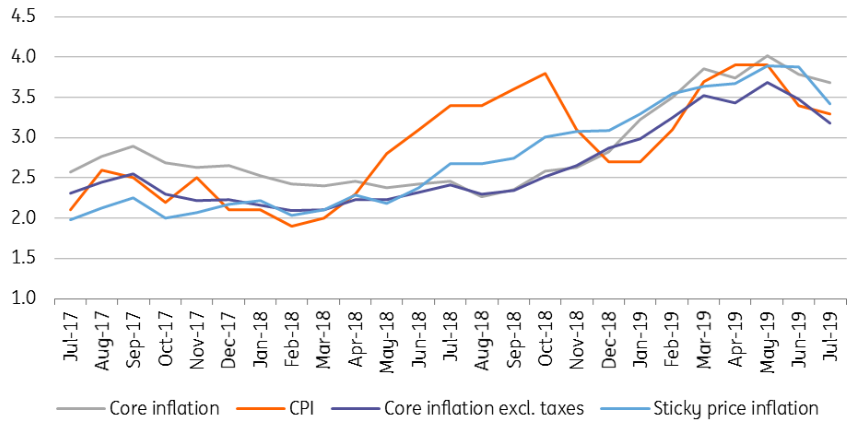
Consensus 3.4% / Previous 3.4%

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)

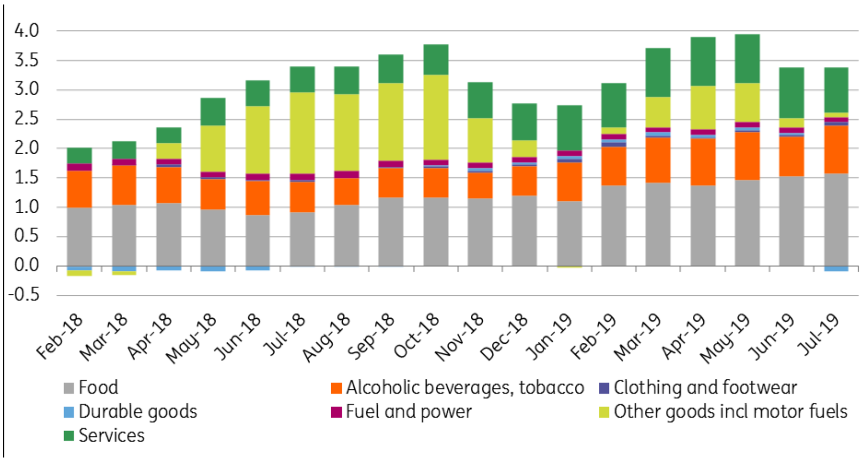


Source: HCSO, NBH, ING

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.

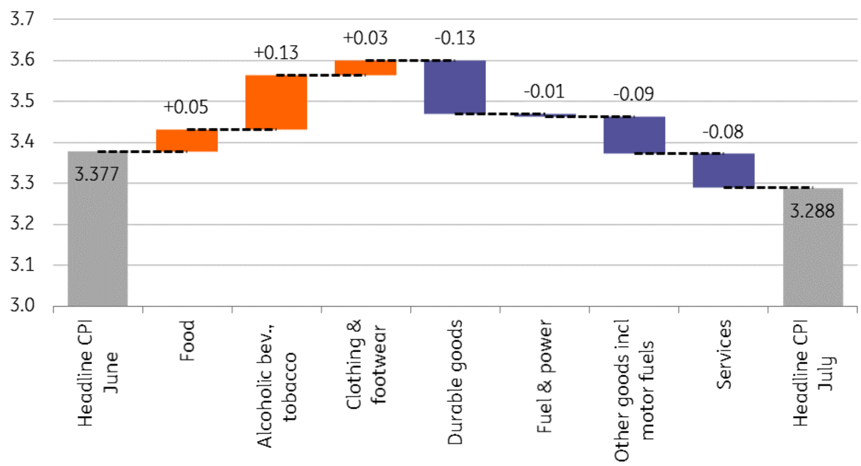
The composition of headline inflation (ppt)



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.

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