

## Hungarian inflation jumps to 4% in December

Headline inflation rose remarkably, as expected, mainly on the back of energy prices. But what's more important is that core inflation slowed somewhat, so we see the central bank remaining calm



Source: Shutterstock

# 4.0%

## Headline inflation (YoY)

Consensus 4.0% / Previous 3.4%

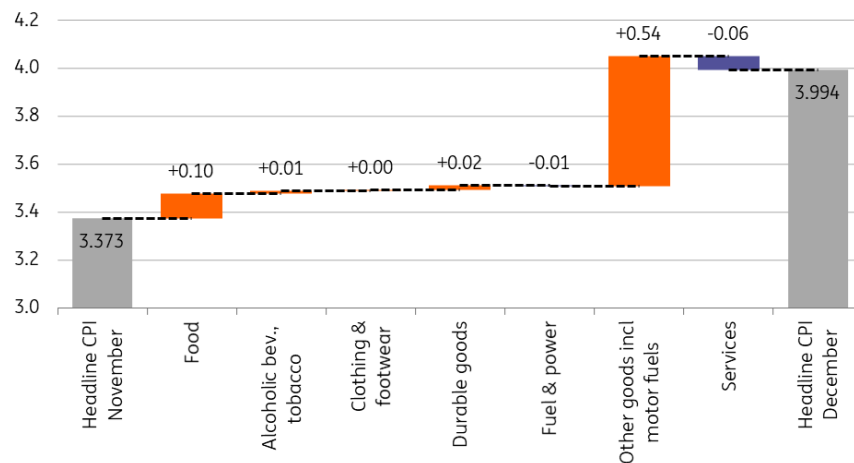
As expected

December headline inflation came in at 4.0% year-on-year, showing a 0.6 percentage point acceleration compared to the November reading. It seems like a big deal, but the move was in line with the market expectations and matched the latest forecast by the central bank.

As in November, the recent acceleration in the price increase was mostly caused by a technical factor related to energy, mainly fuel price developments. While December fuel prices increased by

only 0.3% on a monthly basis, a year ago there was a 6.9% fall month-on-month. Against this backdrop, it hardly comes as a surprise, that the fuel price increase explains more than 0.5ppt of the 0.6ppt acceleration.

### Main drivers of the change in headline CPI (%)

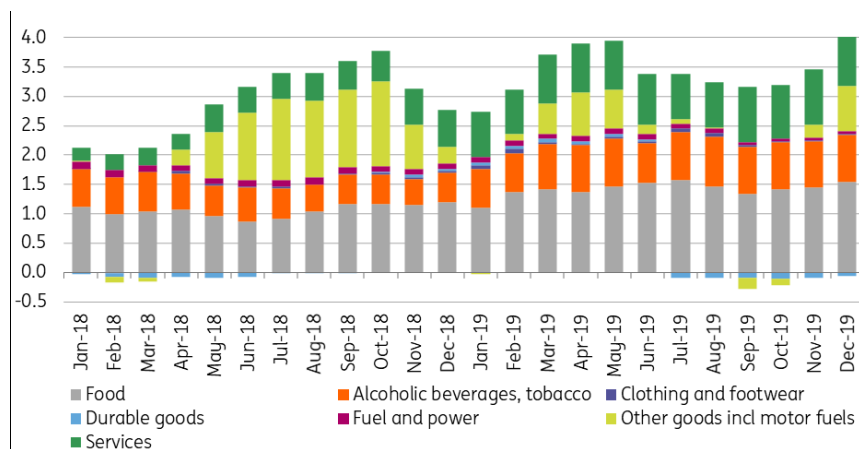


Source: HCSO, ING

Other than fuel, only minor contributors were measured by the Central Statistical Office when it comes to the acceleration:

- Food inflation accelerated to 0.7% month-on-month, mostly driven by pork and related processed food prices;
- Tobacco products showed a 1.2% monthly price increase ahead of the January excise duty hike;
- Durable goods prices increased by only 0.1% on a monthly basis, translating into an almost 1% YoY drop;
- Price change in services came in at 0.1% MoM, but as last year’s increase was higher, it helped to shave off some hundredths from the headline reading.

### The composition of headline inflation (ppt)

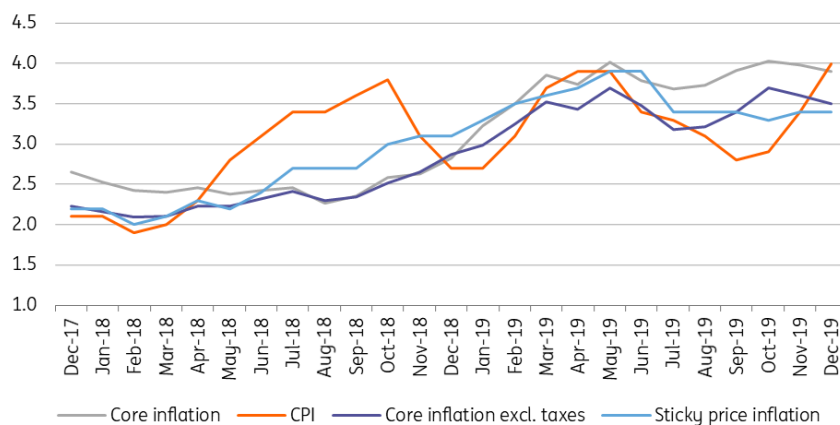


Source: HCSO, ING

The last two points show, that the underlying inflationary processes are slowing somewhat, so moving in the direction of the expectations of the central bank.

Core inflation (which excludes unprocessed food, energy & administered prices) came in at 3.9% YoY in December, posting a 0.1ppt drop compared to the November reading. Moreover, if we adjust this reading for tax changes, core inflation excluding indirect taxes show also a 0.1ppt retreat to 3.5% year-on-year.

## Headline and core inflation measures (% YoY)



Source: HCSO, NBH, ING

As the rise in consumer prices didn't surprise the market or the central bank and was driven by one-off technical factors and supply-side shocks, we expect the central bank to look past the recent pick-up in the headline reading. In our view, we expect CPI to move above 4% but core inflation to continue its incremental slowdown.

Amidst high volatility, we see headline CPI at 3.5% YoY in 2020 after the 3.4% average in 2019. Our core inflation forecast in 2020 stands at 3.8% YoY - almost flat compared to last year.

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