

Snap | 11 December 2018

Hungary: Headline CPI drops big time on fuel

Headline inflation nosedived to 3.1%, on the back of the falling fuel prices in November. Core inflation is edging higher



3.1%

Headline CPI YoY

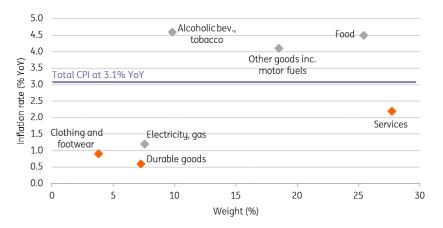
Consensus (3.3%) / Previous (3.8%)

Lower than expected

Headline inflation came in at 3.1% year on year in November, dropping 0.7 percentage points compared to the almost six-year high seen last month.

The details show there is no surprising driver behind the nosedive except the expected drop in price change in fuel. On a monthly basis, fuel became cheaper by 4.7%, while the annual rate of inflation slowed down from 16.2% to 7.2% in November. The latter means the drop in fuel prices dragged down the headline reading by 0.68ppt, so practically it means that the deceleration happened only because of the change in oil and fuel prices.

CPI by main groups in November



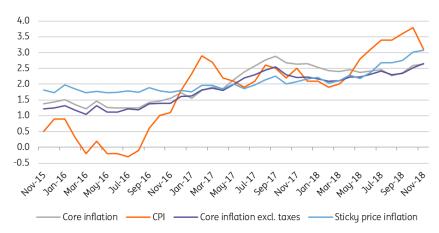
Source: HCSO

Orange signs point to an acceleration while grey signs signify a slowdown in inflation compared to the previous month. Orange in grey border means the level is unchanged.

Other than that, food inflation slowed down by only 0.1ppt, remaining well above the average CPI. Tobacco prices are up by 6.2% on the year, showing a deceleration from October, and having a downward effect on the core inflation reading. Core inflation – at first glance – remained flat at 2.6% YoY, but it shows a 0.046ppt acceleration, so the upward trend has been on since August 2018. However, we see some signs of underlying inflationary pressure building up.

Inflation in services accelerated to 2.2% YoY in November - a pace not seen since early 2015. Prices went up in consumer durable goods by 0.6% on the year, the highest reading in this product category since mid-2016. The central bank of Hungary calculated core CPI excluding indirect taxes are up to 2.7% YoY, while the sticky price inflation has been at and above the target for two months.

Headline and core inflation measures (% YoY)



Source: HCSO, NBH, ING

Undoubtedly, the data is likely to be interpreted by the National Bank of Hungary as a clear justification that they need to maintain loose monetary policy and there is nothing to fear from a price pressure point of view.

However, we believe that the build-up of inflationary pressure is increasing behind the scenes and it will push the central bank to change its monetary stance in 2019. According to our forecast, average annual inflation is expected to be around 3% in 2018 and at 3.4% in 2019.

Author

Peter VirovaczSenior 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.