

Hungary: Headline CPI sinks below target

For the first time since January 2019, headline inflation dropped below target mainly on non-core items. Core inflation accelerated, but it's roughly in line with the central bank's forecast



Source: Shutterstock

2.8%

Headline inflation (YoY)

Consensus 2.9% / Previous 3.1%

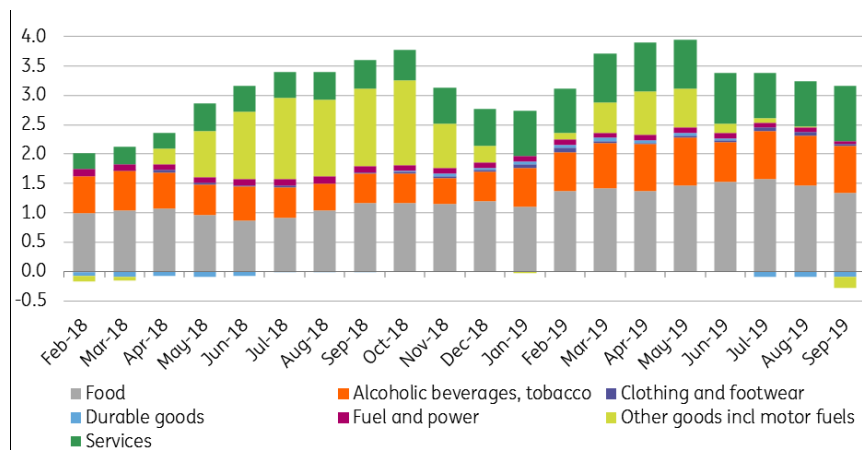
Lower than expected

Headline inflation came in at 2.8% year-on-year in September, dropping 0.3 percentage points compared to the previous month. This also means that inflation has been on the decline for four months. We found three major drivers behind the retreat of inflation and all of them are non-core items:

- Food prices remained unchanged on a monthly basis, but because of the high base last year (mainly related to fruit and vegetables), it shows deceleration in the year-on-year comparison. The 5.1% YoY inflation rate is the lowest since January;

- Fuel prices dropped by 0.9% month-on-month and 4.6% YoY in September. The price drop in the early part of the month, combined with a high base, dragged down inflation by 0.3ppt;
- Among energy-related goods, price increases in butane and propane gas and in firewood slowed significantly, translating into the lowest year-on-year household energy inflation since August 2017.

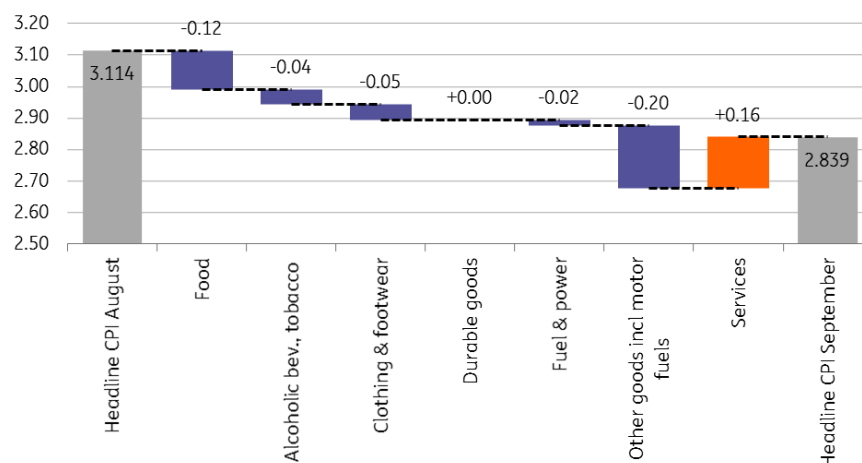
The composition of headline inflation (ppt)



Source: HCSO, ING

The most interesting element of the September data release is that the weaker forint did not show up in prices of durable items. However, inflation in services accelerated significantly to 3.4% YoY, a pace not seen since the end of 2013. This move is mainly related to an acceleration in prices of recreational services abroad (probably due to the weaker forint), in telephone services and internet, in rents and household services.

Main drivers of the change in headline CPI (%)

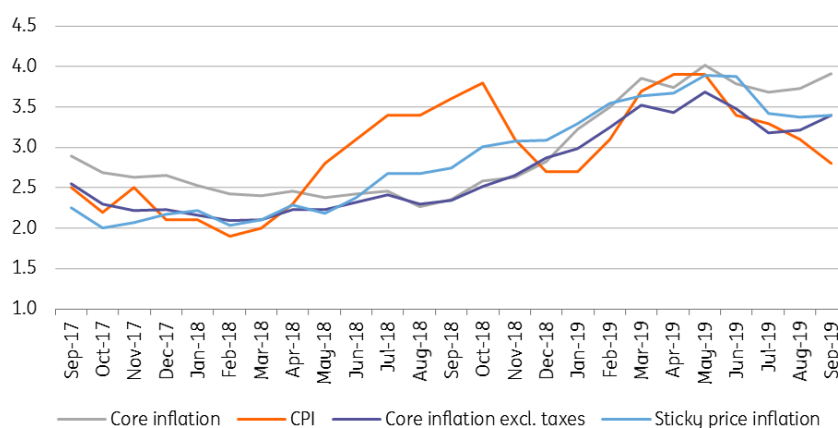


Source: HCSO, ING

Against this backdrop, it is not surprising that core inflation accelerated by 0.2ppt to 3.9% YoY in September, while core inflation excluding indirect taxes increased to 3.4% YoY. However, as these underlying indicators are roughly in line with the National Bank of Hungary's latest forecast, we

hardly see this as a game changer.

Headline and core inflation measures (% YoY)



Source: HCSO, NBH, ING

Hungarian headline inflation will bottom out in the next month as the base effect won't support the decline after October. In the meantime, core inflation is expected to increase marginally, even inching above the 4% level, but the tax effect remains around 0.5ppt, so the most important indicator for the NBH won't be even close to the ceiling of the tolerance band. Against this backdrop, we don't see a move by the NBH any time soon.

Author

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

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