Hungarian inflation accelerates in almost every category

Headline inflation surprised on the upside in July, but a strong acceleration was on the cards anyway. Service providers' reaction after the lockdown has been to raise prices. For 2020, we see headline inflation around 3.3%

People on the Széchenyi Chain Bridge, Budapest

3.8%

Headline inflation (YoY)

Consensus 3.1% / Previous 2.9%

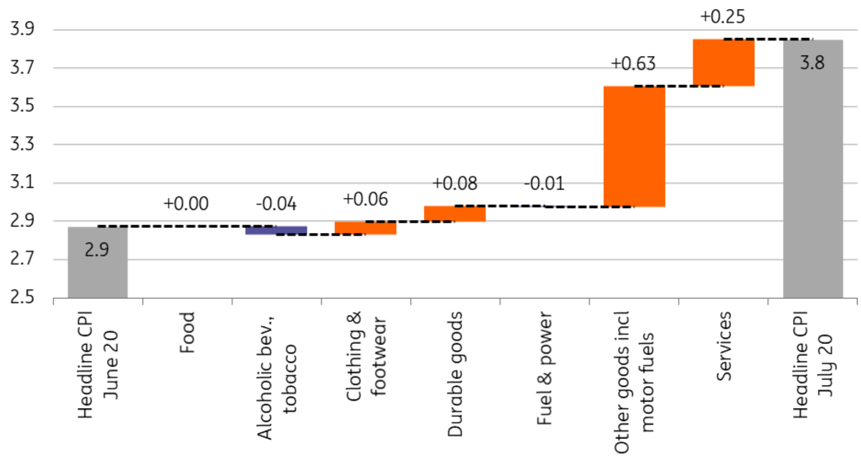
Higher than expected

Hungary's headline inflation in July accelerated by almost 1 percentage point, showing a 3.8% year-on-year average price increase.

Inflation almost doubled since the 2.2% nadir in May 2020. Based on market expectations, a strong acceleration was on the cards.

But this was stronger than anyone's expectation.

Main drivers of the headline CPI change (%)

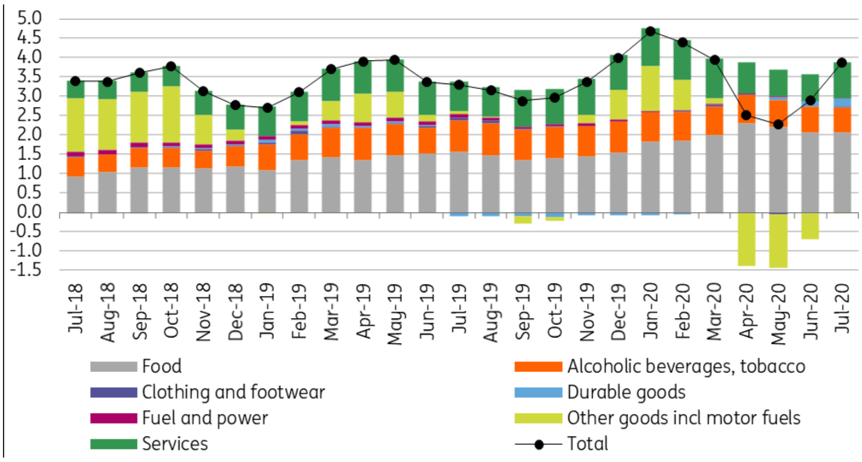


Source: HCSO, ING

The breakdown

- Fuel prices rose by 8.1% MoM, in line with the global oil price move. With this monthly increase, we almost reached the price levels of last summer. Fuel is only 4.2% cheaper than a year ago. When it comes to the impact on the acceleration in headline CPI, fuel price change explains more than 0.6ppt;
- The other product group which pushed inflation higher in July was durables, causing a major upside surprise. The 0.3% MoM inflation was the fifth positive price change in a row. When it comes to the year-on-year reading, the 2.7% inflation is the highest since March 2010. The main drivers were jewellery (+24.5% due to more expensive raw materials) and new passenger cars (+12.1% due to supply constraints);
- Another inflationary surprise came from services. The 3.4% YoY inflation reflects the decision-making process and/or the statistical uncertainty. On the former, in almost every service category (household, personal care and health, transport, cultural, entertainment and recreational services) providers raised the prices significantly. On the other hand, in the past months, the statistical office was unable to gather prices normally and used assumptions in prices;
- Regarding other factors, clothing also supported accelerating inflation, bucking the usual seasonality. Inflation in food didn't show acceleration, albeit it remains strong at 7.8% YoY. The main driver was unprocessed food: meat, fish, fruits. The latter product group showed a 45% YoY price increase.

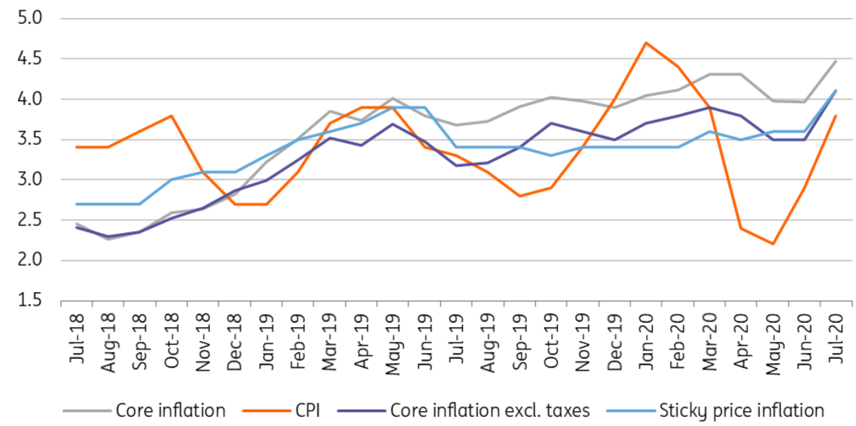
The composition of headline inflation (ppt)



Source: HCSO, ING

As both core and non-core factor contributed to the strong acceleration in the headline CPI reading, it hardly comes as a surprise that core inflation came in much stronger at 4.5% YoY. The impact of tax changes is 0.4ppt due to the next round of excise duty hike in tobacco products. Tax adjusted core inflation was 4.1% YoY in July 2020.

Headline and core inflation measures (% YoY)



Source: HCSO, NBH

In the next couple of months, the main question will be how service providers set their prices.

Other than that, seasonal and one-off factors should ease, lowering the inflation reading. In the fourth quarter, base effects will kick in, dragging down inflation substantially.

All in all, we see headline inflation around 3.3% in 2020 on average, while it could ease to 2.8% in 2021.

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