Hungary: Inflation finally softens

After six months of acceleration, the main inflation indicators have finally retreated somewhat but remained above target. This development supports the recent stance of the National Bank of Hungary

Source: Shutterstock

3.4%

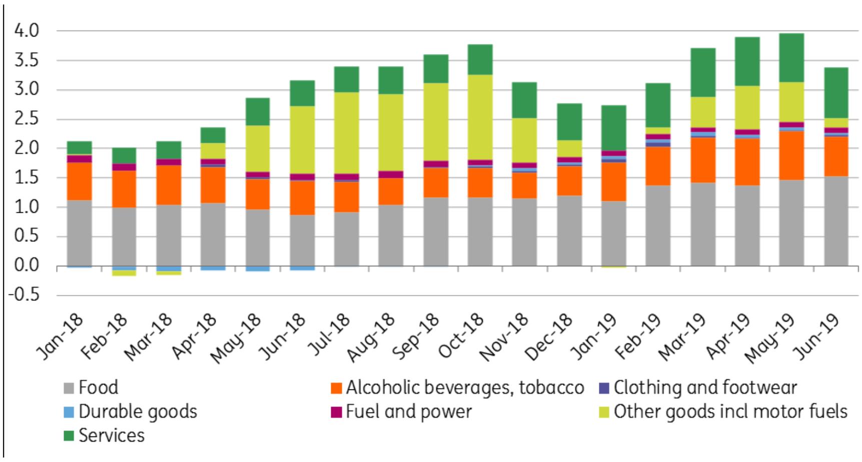
Lower than expected

Headline CPI (YoY)

Consensus 3.7% / Previous 3.9%

Both the market and the central bank expected headline inflation to cool down. And finally, after six months of acceleration, headline CPI dropped by 0.6 percentage points to 3.4% year on year in June. The below-consensus deceleration came in on three main elements out of which none are real surprises.

The composition of headline inflation (ppt)

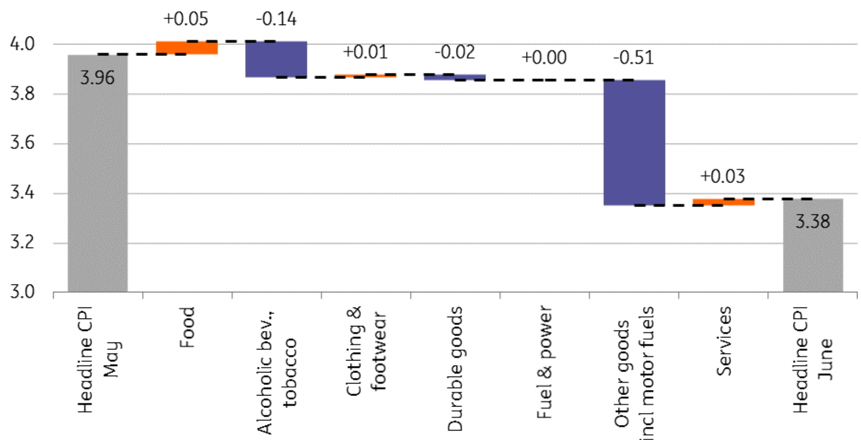


Source: HCSO, ING

Fuel prices decreased by almost 4% on a monthly basis and last year's base was also high, so the year-on-year drop of 1.3% was in line with expectations. Just fuel prices shaved 0.5ppt off the May inflation reading, so basically, this one main element is really behind the significant deceleration.

Other than this, both durables and tobacco prices helped drag down the headline data. But these moves were roughly counterbalanced by the accelerating inflation registered in food and services. The latter is now sitting at 3.1% YoY - the highest yearly price increase in services since end-2013.

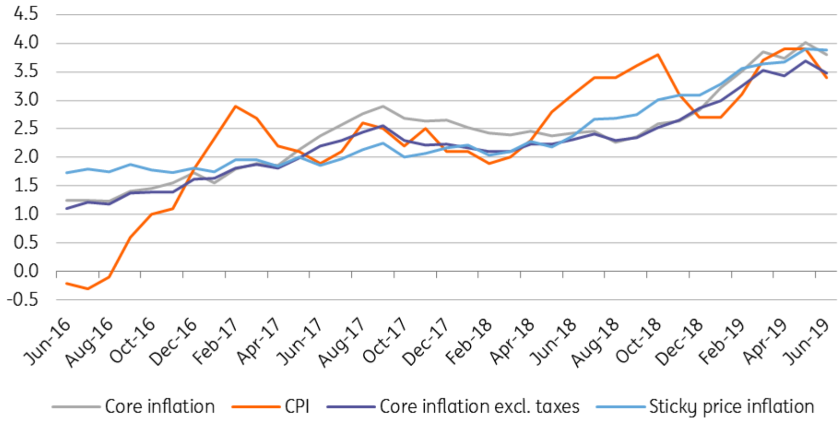
Main drivers of the change in headline CPI (%)



Source: HCSO, ING

When it comes to core inflation, it also headed south by 0.2ppt to 3.8% YoY in June. The main factor behind the drop was alcoholic beverages and tobacco products, which are included in the core CPI basket in Hungary. Other than these, the price decrease in durables also helped core inflation to drag down somewhat. The main indicator of monetary policy, which is core CPI excluding indirect taxes, also retreated by 0.2ppt to 3.5% YoY.

Headline and core inflation measures (% YoY)



Source: HCSO, NBH, ING

Overall, as all of the important indicators show some easing of price pressure, the central bank's credibility might increase somewhat. The recent releases are in line with the central bank's expectations and support its view that the second half of the year will bring us some deceleration in inflation. We agree on that view, as we see the headline inflation at 3.3% YoY on average in 2019 as a whole.

So what does it mean for monetary policy? Decelerating domestic inflation, weakening external economic activity (especially in Germany) coupled with dovish messages from Fed and ECB are supporting a no policy change scenario. Moreover, all of these together are increasing the (still slim) chances that the next move by the NBH will be rather a dovish one.

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