Hungary: Inflation in freefall

There've only been three months since 1995 when Hungarian inflation showed a bigger monthly drop than in April 2020. Fuel prices collapsed, but food and durables' prices reflect the supply constraints

Shoppers in a supermarket near Budapest

2.4%

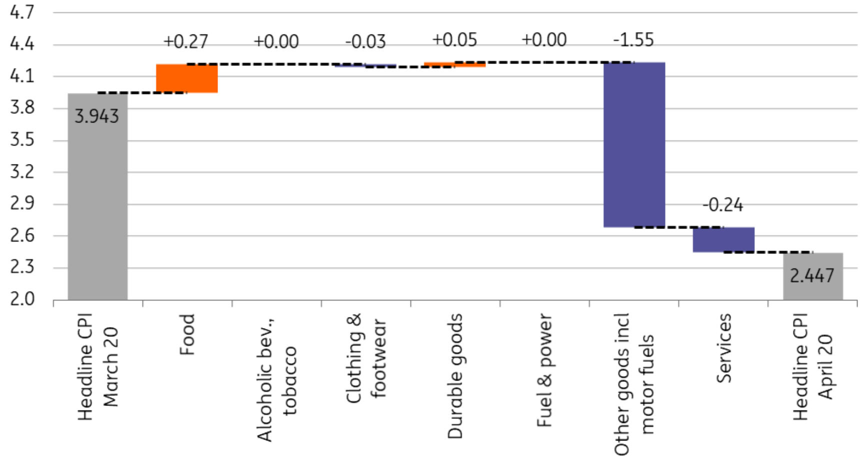
Headline inflation (YoY)

Consensus 2.7% / Previous 3.9%

Lower than expected

The April headline inflation came in at 2.4% year-on-year, showing a very rare 1.5ppt deceleration compared to March 2020. There've been only three months since 1995 when the monthly change in inflation was higher than this. And that also includes the years when the local inflation figure was 20-30% YoY. So, this monthly swing is like a unicorn. Still, we can't say this comes as a huge surprise after we saw oil (and fuel) prices collapsing:

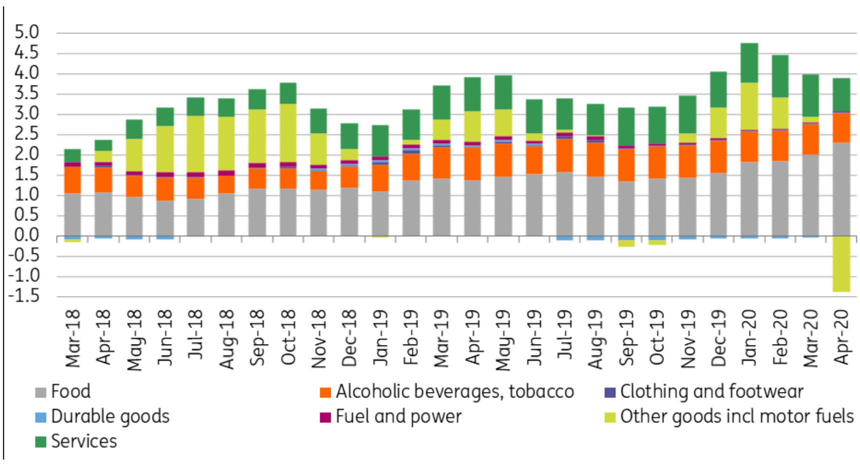
Main drivers of the headline CPI change (%)



Source: HCSO, ING

- Fuel prices retreated by 16.4% MoM, translating into a never seen 22.7% YoY drop on a yearly basis. Deflation in fuel shaved off 1.5ppt from the headline reading;
- The run for non-perishable food continued in April so it hardly comes as a surprise that food inflation came in at 8.7% year-on-year, the highest since 2011. Lack of supply combined with record-high EUR/HUF translated into elevated prices for imported food products (including fruit and vegetables);
- Weak forint and supply-side constraints played a role in durable goods prices (mainly white goods and jewellery). The 0.4% MoM price change matched the highest readings in the last 10 years;
- Monthly price change in services came in at -0.2%, translating into a 3% YoY reading. However, this data contains higher uncertainty than usual as lockdowns/closures made data gathering almost impossible. As the government decided to make public parking free, it also shaved off 0.2ppt from the headline reading.

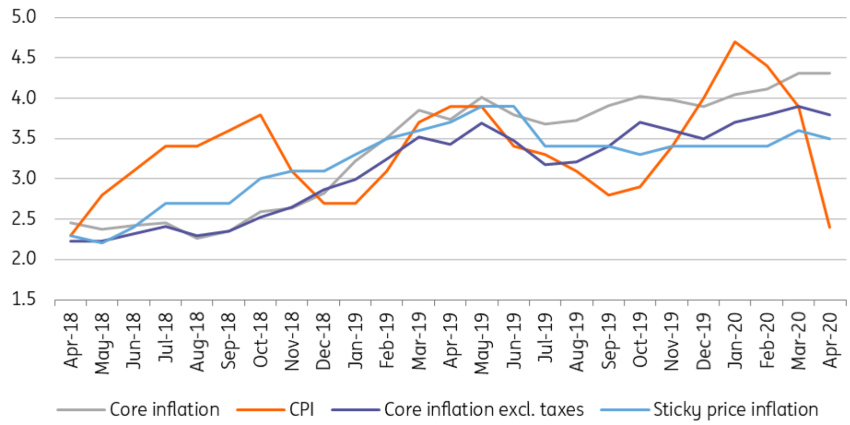
The composition of headline inflation (ppt)



Source: HCSO, ING

As the main factor behind the sharp deceleration in the headline reading were non-core items, the core reading remained unchanged at 4.3% YoY. If we adjust this reading for tax changes, core inflation excluding indirect taxes show a 0.1ppt acceleration to 3.8% year-on-year. So, in line with our short-term expectations, the underlying inflationary pressure did not ease much. In the mid-term, however, we see core inflation and sticky price inflation easing gradually.

Headline and core inflation measures (% YoY)



Source: HCSO, NBH

When it comes to outlook of the headline reading, the main indicator will drop further on oil prices and demand constraints in the coming months. In 2020 as a whole, we see inflation at 2.6% YoY. The nadir could come in early 2021 at around 1% and the highest point should be around 3% in the year-end with a yearly average of 2.3% YoY.

Author

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Disclaimer