

Hungarian inflation jumps on fuel prices too

Hungarian headline inflation jumped in February, as was widely expected given the oil price moves and the weakening forint. But tougher months are indeed ahead of us



Source: Shutterstock

3.1%

Headline CPI (YoY)

ING forecast 3.0% / Previous 2.7%

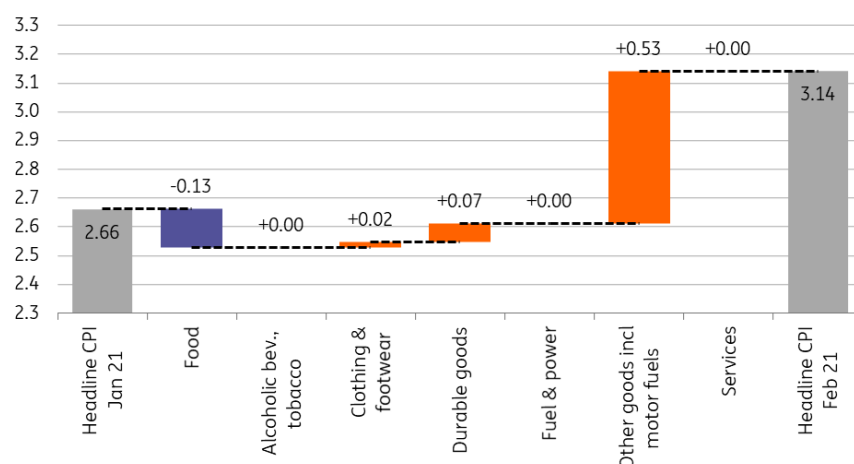
Higher than expected

After three months of stability at 2.7% year-on-year, Hungarian headline inflation jumped in February 2021.

As a result of the 0.7% average price increase over the month, the yearly inflation reading moved to 3.1% YoY. The change looks favourable due to rounding effects, but if we're precise, we should say that inflation moved 0.48 percentage points higher - broadly in line with market consensus

and there are no surprises in the structure of the change.

Main drivers of headline CPI change (%)

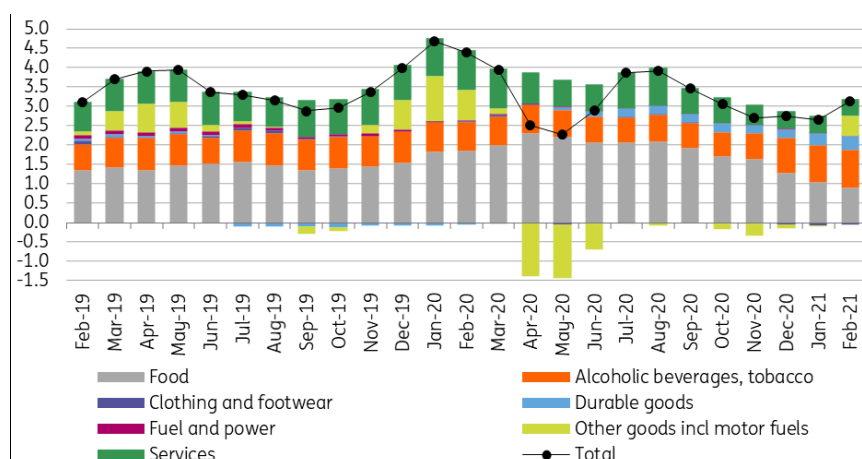


Source: HCSO, ING

What the breakdown shows

- Fuel prices rose by 3.8% monthly as a result of galloping oil prices. This means that fuel was 4.7% more expensive in February than a year ago, posting a twelve-month record-high inflation. However, this record will be re-written in the coming months due to the low base.
- Durables prices have elevated further after a 0.4% MoM move. This translates into a 3.8% yearly based inflation reading. The last time when we saw such high inflation in this product group was in January 2010. The main reasons behind the move are the weaker forint and supply chain issues.
- Inflation in tobacco and alcoholic beverages remained flat in February, which means a 9.9% YoY figure. With the recent easing in food inflation to 3.4% YoY (mainly due to processed food), this moves tobacco and alcoholic beverages to the first place in contributors to general inflation.
- Last but not least, clothing prices only moved 0.2% lower on the month, translating into a less negative year-on-year reading. Against this backdrop, this is the third element that positively impacted the change of inflation.

The composition of headline inflation (ppt)

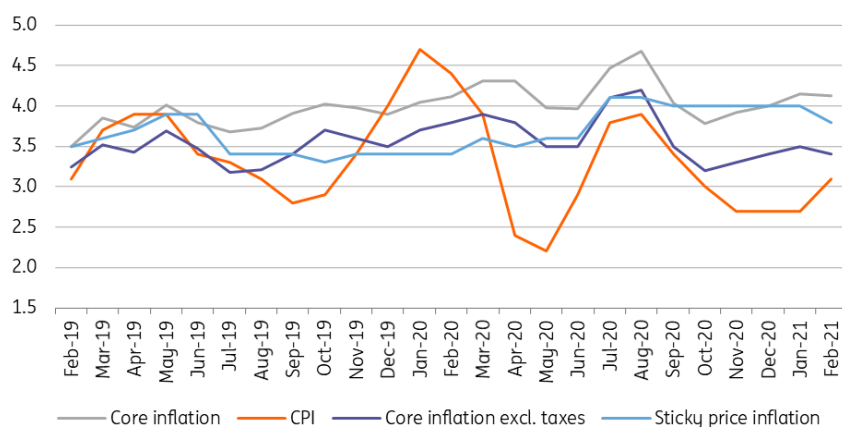


Source: HCSO, ING

In all, the almost 0.5ppt move in inflation was mainly due to the fuel prices with additional price pressures coming from durables and clothing. The processed food inflation eased somewhat with services remaining flat at 1.7% YoY. This means that the non-core element pushed inflation higher, while core elements together showed some easing.

This is clearly visible in the core inflation reading, which moved down by 0.1ppt to 4.1% YoY. The tax effect is still sitting at 0.7ppt, so the core inflation which excludes indirect taxes came in at 3.4% YoY in February.

Headline and core inflation measures (% YoY)



Source: HCSO, NBH, ING

What's next?

Inflation in February 2021 hasn't changed our inflation outlook for the year. The biggest uncertainty remains the economic impact of the third wave of the pandemic and the timing of the re-opening of the economy. With the newly introduced lockdown measures, there might be an additional negative impact on the supply side of services and a stronger demand as the re-opening takes place. This could mean an even wider supply-demand

mismatch, with a lower supply meaning less competition in services.

In our view, this could translate into even more higher “re-opening inflation”.

CPI may jump to 4-4.5% YoY

Regardless of this impact, inflation is expected to pick up in the coming months due to the low base and elevated oil prices. According to our current forecast, headline CPI may temporarily jump to the 4-4.5% YoY range in April-May.

We expect the central bank to look through this spike with EUR/HUF being the main trigger for a move.

Author

Peter Virovacz

Senior 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>.