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)

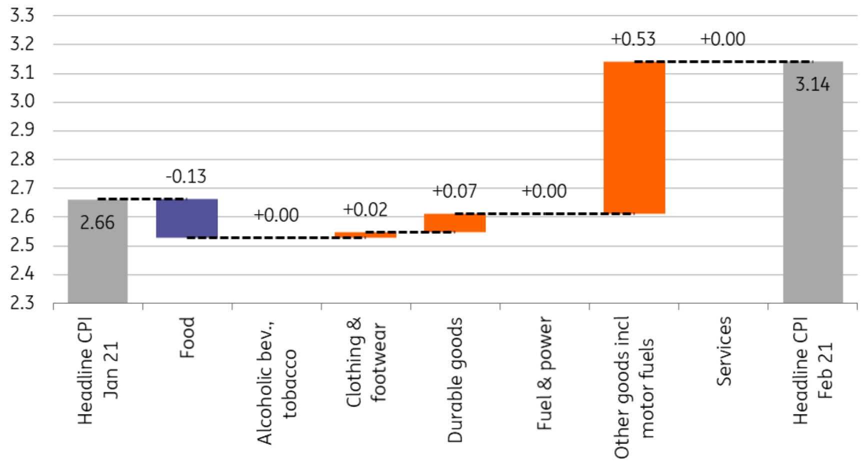
ING forecast 3.0% / Previous 2.7%

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 (%)

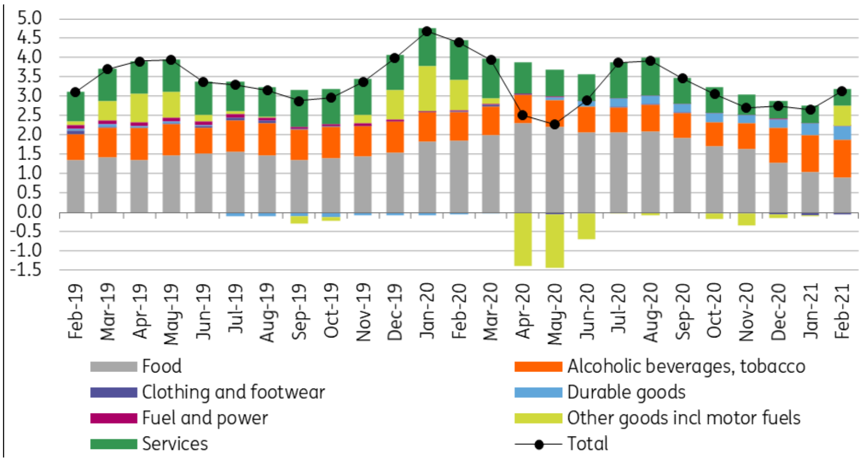


Source: HCSO, ING

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)

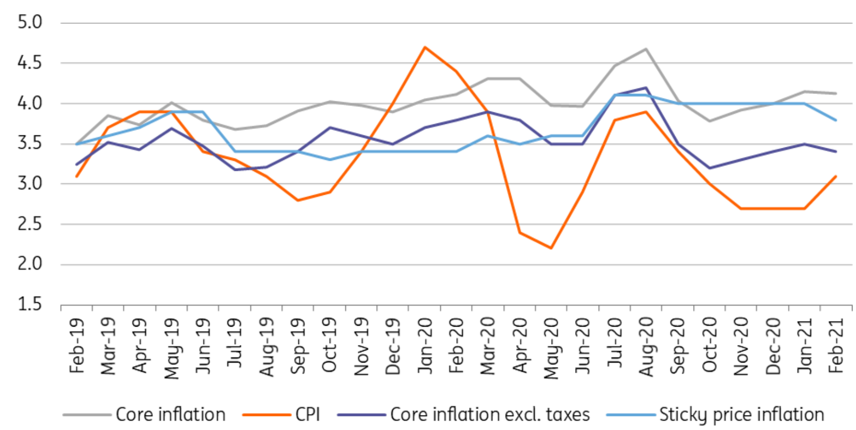


Source: HCSO, ING

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.

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