Hungary: Inflation starts its steep climb

Headline inflation jumped again in March, and fuel and tobacco triggered the acceleration. But there is more to come

Source: Shutterstock

3.7%

Headline CPI (YoY)

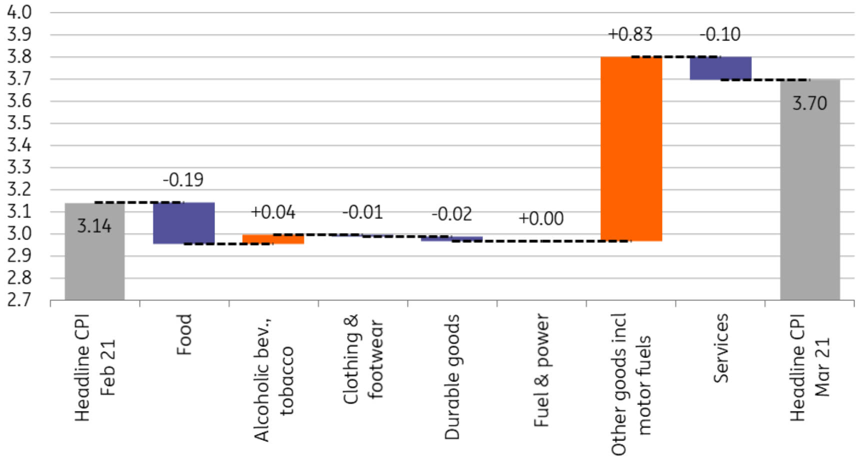
ING forecast 3.7% / Previous 3.1%

As expected

Hungarian inflation has started to move steeply upwards in recent months, as expected.

In March 2021, Hungarian headline inflation accelerated by 0.6 percentage points to 3.7% year-on-year. This is partly the result of a strong monthly price change (0.7% month-on-month), partly a result of a low base. The main drivers of inflation have remained the same, which is still not great news for people who smoke and petrolheads.

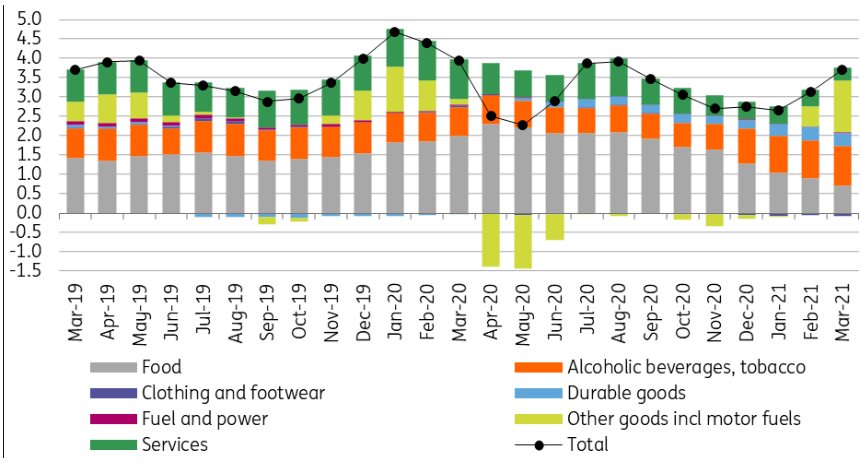
Main drivers of headline CPI change (%)



Source: HCSO, ING

- Fuel prices rose by 6.6% on a monthly basis due to the steep climb in global oil prices. This means fuel was 17.7% more expensive in March than a year ago, explaining roughly 1.1ppt from the headline CPI. However, this impact will be significantly higher in the coming months due to the low base.
- Excise duty changes and increasing input prices are making smoking even more expensive. Tobacco prices rose again by 2.1% on a monthly basis, resulting in a 17.5% year-on-year inflation. This adds more-or-less 1ppt to the headline inflation. So more than half of the inflation is coming from tobacco and fuel.
- Durables prices dropped on a monthly basis for the first time since August 2020. However, the 3.6% YoY inflation remains elevated compared to the price changes of the past years. Looking forward, the upside surprises in producer prices across the globe poses an upside risk in price pressure in this product group.
- Inflation in food eased somewhat yearly, resulting from both the unprocessed food (mainly fruits and vegetables) and processed food (processed meat and dairy products). Inflation in services also retreated on the back of a one-off drop in the price of mobile and internet services.

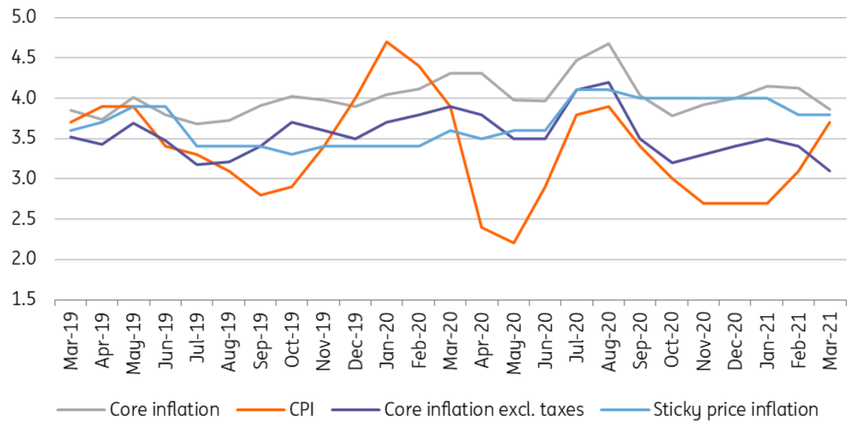
The composition of headline inflation (ppt)



Source: HCSO, ING

The 0.6ppt move in inflation was triggered mainly by non-core elements, while core factors showed some easing. Against this backdrop, core inflation decelerated by 0.2ppt to 3.9% YoY. The tax effect became stronger, being at 0.8ppt, so the core inflation which excludes indirect taxes came in at 3.1% YoY in March, according to the central bank.

Headline and core inflation measures (% YoY)



Source: HCSO, NBH, ING

What's next?

The March inflation reading hasn't changed our inflation outlook for this year.

We still expect a move close to (or even above) 5% YoY in the coming months as low oil prices from last year impact the base. The latest announcement that the reopening in Hungary will be gradual means that the reopening shock will also be prolonged. Most arts, entertainments, recreation and accommodation sectors are likely to open in May-June, which means that part of the reopening inflation shock will overlap the lowest base from last year. Supply-side constraints in services and probably skyrocketing demand could remain with us longer than a few months, providing the risk of second-round effects and elevated underlying inflation.

Until then, we see the central bank maintain their wait-and-see stance, looking through the spike in headline inflation until data doesn't prove that there is a clear threat to elevated longer-term inflation pressure.

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