Reopening related inflation arrives in Hungary too

It didn't show up in statistics in May, but inflation has finally arrived in June. Reopening related price pressures in Hungary are pushing headline and core inflation even higher

The Széchenyi Chain Bridge in Budapest (Pixabay)

Source: Pixabay

5.3%

Headline inflation (YoY)

ING forecast 5.3% / Previous 5.1%

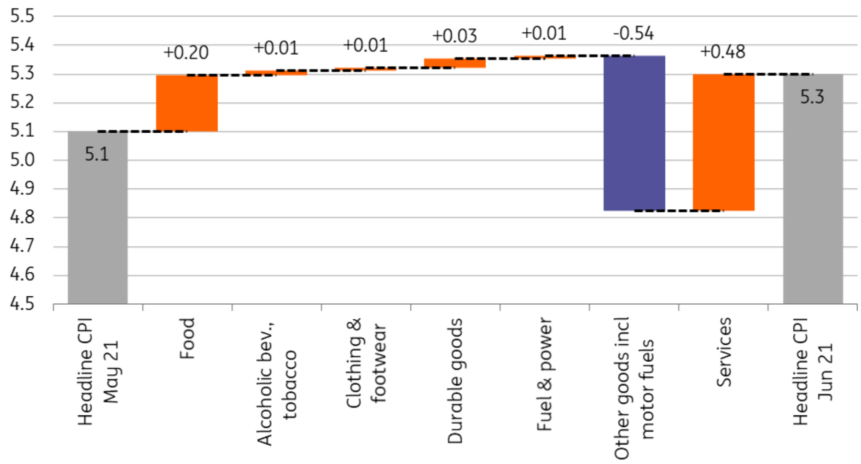
Reopening inflation is here

When the inflation reading in May caused a downward surprise it was quite clear that the statistical data was missing something.

That something has just popped up in the June inflation reading. After Hungary started its gradual reopening, we reached an almost fully reopened stance by June. Based on anecdotal evidence, we expected food and services inflation to jump already in May, but after a one-month lag, here it is.

With that, the headline reading moved to 5.3%, reaching a new record for this year, and being the highest figure since end-2012. If we check the details, it is quite clear that underlying factors are the key behind the acceleration which is reflected in the 0.6% MoM inflation.

Main drivers of the change in headline CPI (%)

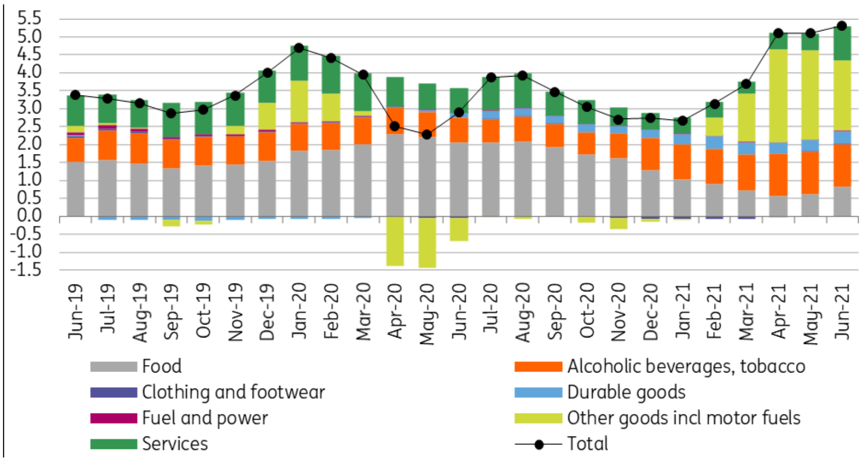


Source: HCSO, ING

The details

- Inflation in food came in at 3.2% YoY, which shows acceleration compared to the previous month, but still can be seen as a moderate rate of change. The reason is raw and seasonal foods (fruits, veggies, dairy products), which showed a significant deceleration in inflation. On the other hand, it was counterbalanced by the price changes in eating out, which is related to the reopening.
- Speaking of which, reopening also influenced services prices heavily. On a monthly basis, the 2% inflation in services is the highest since January 2012, when an increase of VAT to 27% pushed prices higher. On a yearly basis, this price change translated into a 3.8% inflation. Cultural, educational and entertainment services, recreational and transport services all became much more expensive.
- Durable goods inflation also showed an acceleration to 3.7% YoY. This is mainly on durable household goods which are mostly affected by the global value chain issues. Transportation and supply issues along with significant cost increases pushed manufacturers to change output prices, passing the costs to consumers.
- When it comes to groups which helped reducing price pressure, the only main category which pops up is fuel. A 0.3% MoM drop in fuel prices combined with the increasing base of last year helped shaving off roughly 0.5ppt from the headline reading in June 2021.

The composition of headline inflation (ppt)



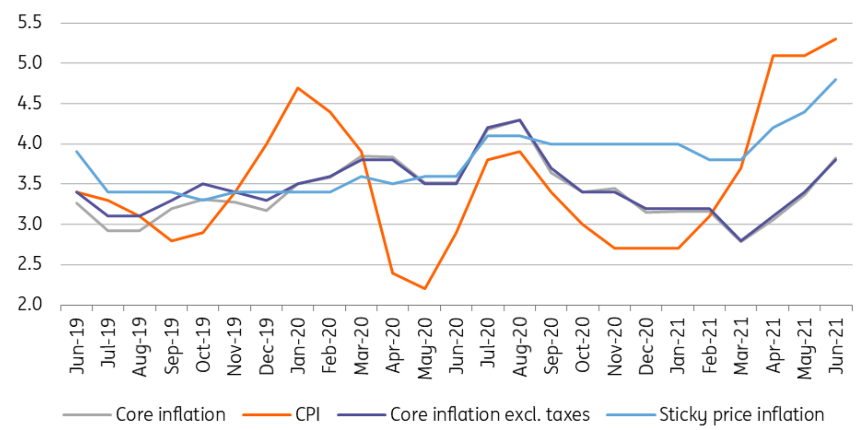
Source: HCSO, ING

A 199-month record

Taking into consideration all the above-mentioned price changes, it is hardly surprising that the core inflation accelerated by 0.5ppt to 3.8% YoY. This shows us that the underlying price pressure is quite strong. This strong core inflation has nothing to do with indirect tax changes as the core inflation excluding indirect tax sits also at 3.8% YoY.

What could be worrying for the National Bank of Hungary is that the so-called sticky price inflation moved to 4.8% YoY, the highest since November 2004, so it's a 199-month record.

Headline and core inflation measures (% YoY)



Source: HCSO, NBH, ING

Data-driven central bank must be on high alert

With further increasing underlying inflation, the NBH's hawkish stance is more justified than ever. Based on the latest Inflation Report the central bank forecasted a 4.9% headline inflation with a +/–0.2ppt uncertainty band in June. As the actual data came in even higher than the upper level of the uncertainty band, we see the central bank to feel the urgency to do more with its rate hikes. The recent HUF weakness will also add an extra layer to that.

The latest communication from Barnabás Virág (Vice Governor of the NBH) highlighted that not the fact of the rate hike itself, but the extent of the move is the real question for the next meeting. In our view, today's data means a heightened chance for a 30bp effective rate hike in the base rate and in the 1-week deposit rate as well (in contrast with the 15bp effective hike in June) accompanied by a hawkish forward guidance at the meeting on 27 July.

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