

Price pressures increase further in Hungary

After a surprise in August, the market adjusted its inflation expectations higher, so the 5.5% year-on-year rate in September was in line with estimates. However, the central bank's forecast seems to be outdated already, and stronger tightening may be needed



5.5%

Headline inflation (YoY)

ING forecast 5.5% / Previous 4.9%

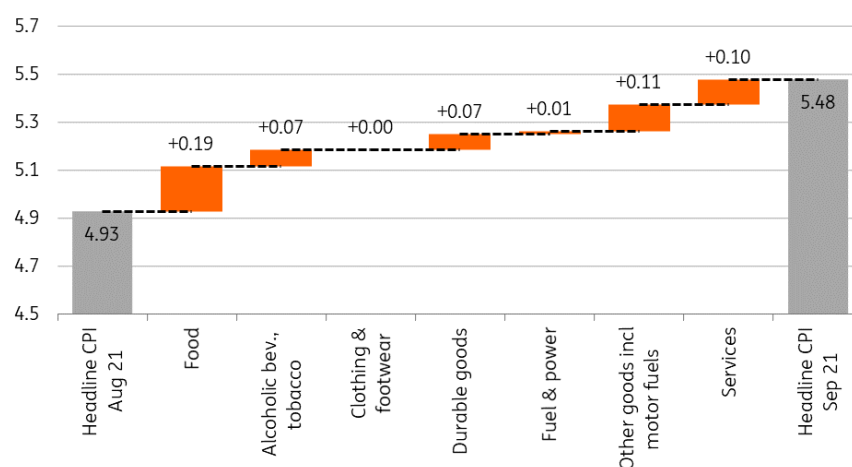
As expected

Inflation strengthens in every aspect

Inflation picked up in August and the acceleration continued in September. This didn't come as a surprise, however, as the market had adjusted inflation expectations upwards following the surprising August data. So the 5.5% YoY headline inflation was in line with the market projection and matched ING's forecast. The base effect is significant as the month-on-month inflation rate

was a moderate 0.2%. The 0.6ppt increase in headline inflation compared to August was broad-based, as all of the major groups showed stagnation or acceleration.

Main drivers of the change in headline CPI (%)

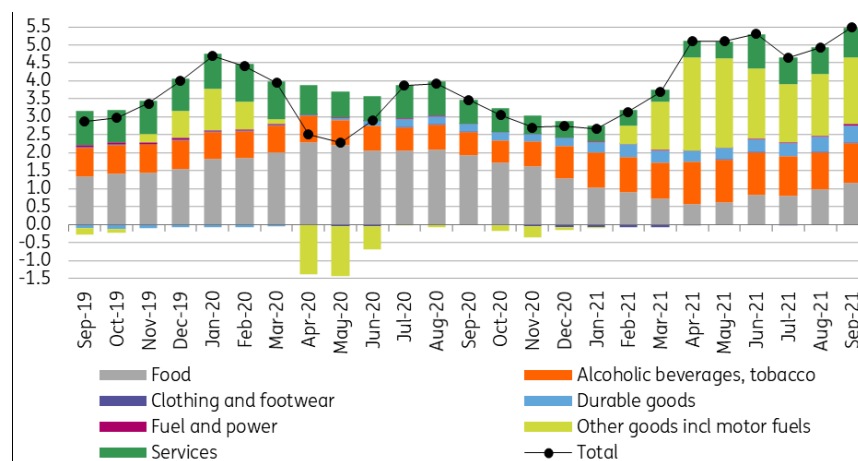


Source: HCSO, ING

The details

- Inflation in food came in at 4.4% YoY in September, a significant acceleration compared to August. This move was fuelled by seasonal factors such as the increase in the price of vegetables. On the other hand, agricultural commodity price increases are also spilling over into oils and fats (18.6% YoY).
- Prices of durable consumer goods increased further. On a monthly basis the 0.9% rise translated into a 5.1% YoY reading. The last time durables inflation was above 5% was back in 2009. The rise in industrial producer prices and transport costs, as well as the fact that the forint is struggling to strengthen despite the cycle of interest rate hikes, are having an upward impact on imported inflation.
- When it comes to fuel, the base effect didn't help to alleviate the inflation pressure. Although monthly inflation was only 0.4%, the yearly price change remained elevated at 21.6%. September has traditionally seen some easing in clothing inflation but this year was different, with inflation remaining at 0.5% YoY.
- Inflation in services also picked up, which again goes against seasonal patterns. The 3.2% YoY inflation was fuelled by the repair and maintenance of dwellings (13.5% YoY and the repair and maintenance of vehicles (8.3% YoY). One of the sectors most hit by Covid also saw prices increasing at an elevated level to make up for losses in the past 18 months: cultural, educational and entertainment services prices rose by 3.9% over the year.

The composition of headline inflation (ppt)

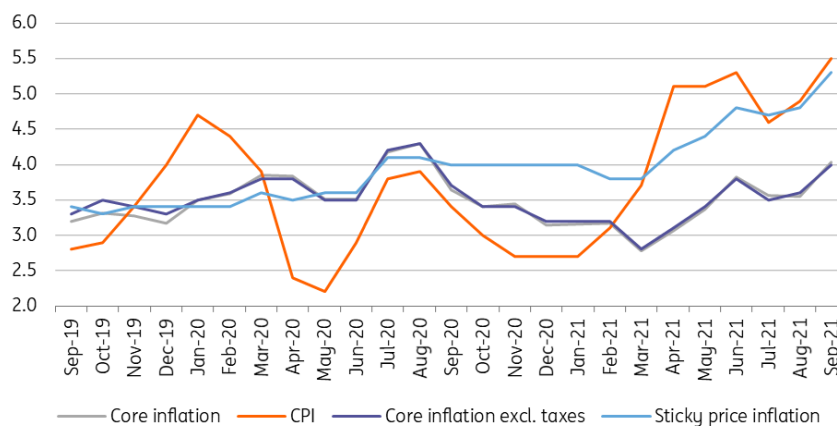


Source: HCSO, ING

Underlying price pressures increases

In all, we have broad-based inflation pressure, which is coming both from core and non-core elements. So it hardly comes as a surprise that core inflation rose by 0.4ppt to 4.0% YoY in September. Underlying price pressures have increased further, which is also reflected in the National Bank of Hungary's underlying indicators. Core inflation, excluding indirect tax, sits at 4.0% YoY, while the so-called 'sticky' price inflation moved up to 5.3% YoY, moving close to the all-time high reached in 2004.

Headline and core inflation measures (% YoY)



Source: HCSO, NBH, ING

The chance for stronger rate hikes increases

The September inflation reading was in line with the market consensus, but it is higher than the NBH's forecast published in September (5.5% vs 5.2-5.3%). As a result, we see an increased risk that inflation over 2021-2022 will be higher than outlined in the September Inflation Report. This would also mean further delays in reaching the inflation target without changing the central bank's underlying rate hike path. According to the latest official communication, the rate hike cycle will continue in the next couple of months with 15bp steps. However, today's data may force

the NBH to change tempo again, this time increasing it. A stronger rate hike might be needed to anchor inflation expectations and to avoid second-round effects. Such a decision could also help the forint, which is still unable to deviate significantly from the 360 level versus the euro.

ING's inflation outlook unchanged

As for ING's inflation forecast, as the incoming data was in line with our expectations, our forecast remains unchanged at 4.7% YoY in 2021 and we see next year's inflation at 3.7% YoY on average.

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 www.ing.com.