

8 July 2020

Snap

Hungary: Fuel prices push inflation higher

Headline inflation accelerated significantly in June, but for those following developments in fuel prices, this comes as no surprise. We see further increases in the coming months



The biggest market in Budapest

2.9%

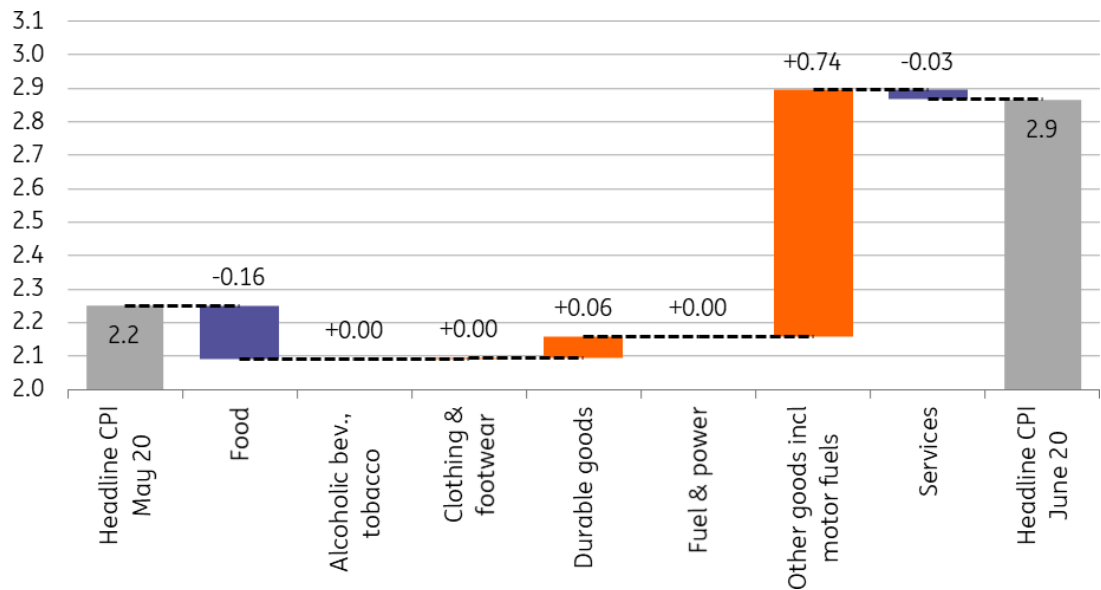
As expected

Headline inflation (YoY)

Consensus 2.9% / Previous 2.2%

The headline inflation rate accelerated significantly in June, showing a 2.9% year-on-year average price increase after a 2.2% reading in May. At a first sight, it looks like a shock, but the market was well aware of this move coming. None of the factors pushing inflation higher came as a surprise.

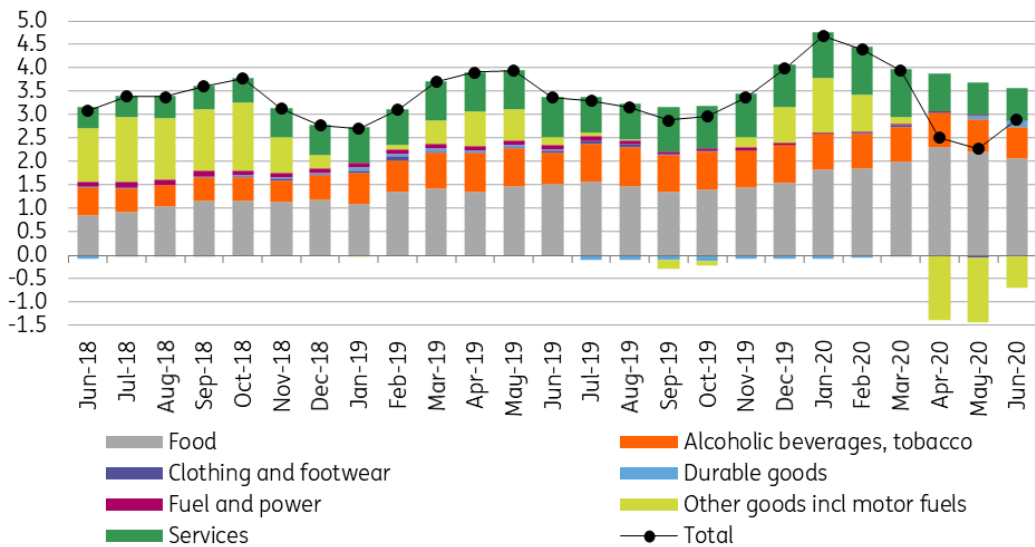
Main drivers of the headline CPI change (%)



Source: HCSO, ING

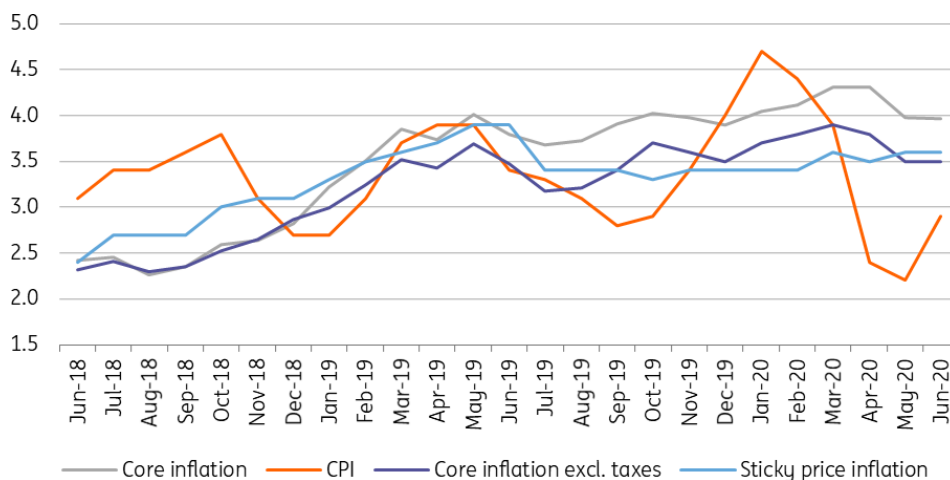
- Fuel prices rose by 9.3% month-on-month, in line with the global oil price move. This monthly increase erases some of the year-on-year price advantage but still, fuel is 11.6% cheaper than a year ago. When it comes to the impact on the acceleration in headline CPI, the fuel price change explains 0.7 percentage points (so basically 100%);
- The other product group which pushed inflation higher in June was durables. The 0.3% MoM inflation rate was the fourth positive price change in a row. As for the year-on-year reading, inflation was up 1.6%, the highest since early-2016. The main drivers were jewellery (+26%) and new passenger cars (+8.5%). We see this move partially driven by supply constraints and partially by a weaker forint (+7.7% YoY in June);
- Food prices retreated by 0.6% MoM mainly due to price drops in seasonal vegetables, potatoes, sweets and meat. The majority of those products saw a run when lockdowns started and as things are getting back to normal, demand and supply has become more balanced again;
- Finally, inflation in services came in at 0.4% MoM and 2.5% YoY. The latter is the lowest reading since end-2018. Entertainment and transport services showed the most significant yearly-based disinflation in June.

The composition of headline inflation (ppt)



As it was mainly a non-core factor that contributed to the strong acceleration in headline CPI, it hardly comes as a surprise that core inflation came in flat at 4% YoY. The impact of tax changes remained 0.5ppt, meaning an unchanged 3.5% YoY tax-adjusted core inflation rate in June 2020.

Headline and core inflation measures (% YoY)



We see a further increase in headline inflation in the summer months. This is because of base effects and energy price increases (fuel, electricity) complemented by a new round of excise duty hikes in tobacco products. The government also ended free of charge public parking from July, as it withdraws the state of emergency. All in all, we see headline inflation at 3.2% in 2020 on average, possibly easing to 2.8% in 2021.

Peter Virovacz

Senior Economist, Hungary

+36 1 235 8757

peter.virovacz@ing.com

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