9 June 2020
Snap

Hungarian inflation moderates further

After an historical collapse a month ago, Hungarian headline inflation decreased again in May. As lockdown measures ease, we think inflation will increase again in the short run

Source: Shutterstock

2.2%

Headline inflation (YoY)

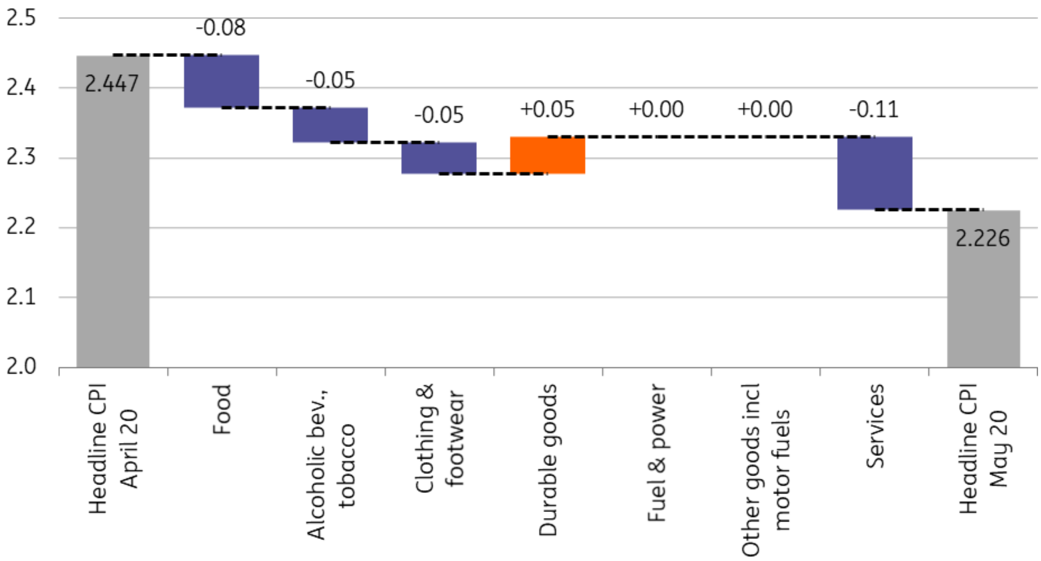
Consensus 2.3% / Previous 2.4%

Lower than expected

Hungarian headline inflation decreased again, nonetheless, this drop isn't quite as bad as the historical collapse we saw in April.

May 2020 CPI sits at 2.2% year-on-year - 0.2ppt lower than a month ago. Despite this reading roughly matching market expectations, it still contains some interesting storylines.

Main drivers of the headline CPI change (%)



Source: HCSO, ING

Interesting story lines

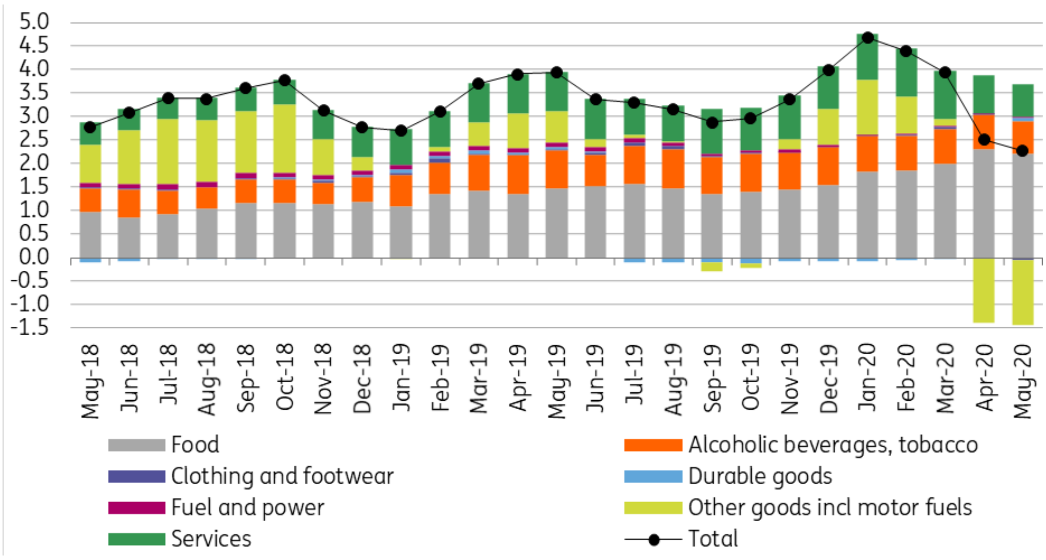
- Food prices went up by 0.7% month on month, translating into an 8.4% YoY increase on a yearly basis. Both readings show some easing compared to the last month but still remain elevated. Last time when food inflation was above 8% in two consecutive months was in back in spring 2011. Seasonable food and non-perishables are behind the recent price increase so both core and non-core items contributed to inflation here.

- The Covid-19 related curfew and lockdown measures affected the price changes of several product groups. Clothing and footwear prices decreased 1.1% MoM as some retailers tried to cut prices to have some turnover at least. Durables in the meantime become 0.8% more expensive on a monthly basis as supply constraints (and in the case of white goods the heavy demand) and the spill-over of the previous episode of HUF weakness pushed import prices higher.

- The lockdown also affected the services sector. As the Statistical Office faced a hard time to gather prices due to the closure of service providers, in many cases it filled in data with zeros (e.g. package holidays, movie, theatre). Against this backdrop, the average price increase in services came in at 0.1% MoM;

- Of course, we can't talk about inflation without mentioning fuel prices. Due to the recent pick-up in oil prices, fuel became more expensive by 3.9% MoM, causing an upside surprise. However, on a yearly basis, prices are still down by 22%, proving to be a major drag on headline inflation.

The composition of headline inflation (ppt)

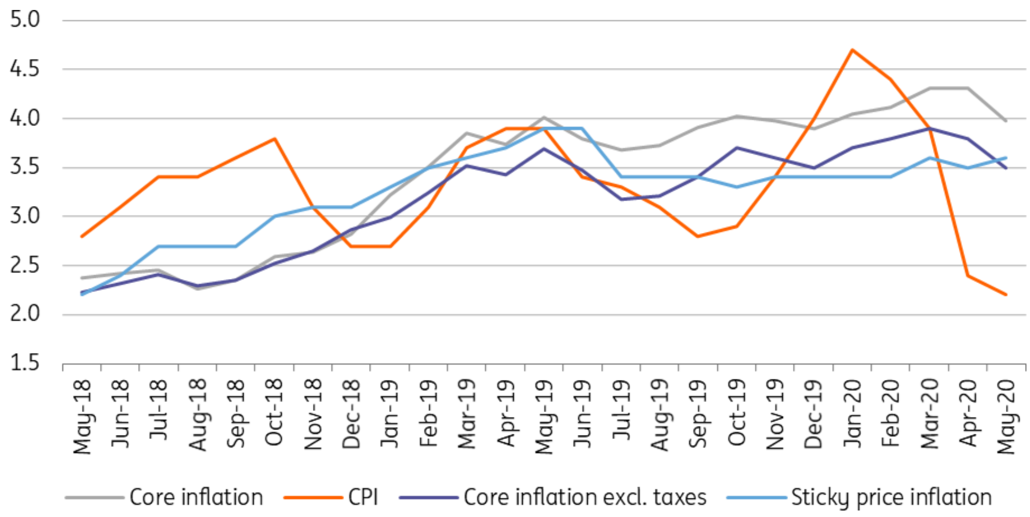


Source: HCSO, ING

As we see both non-core and core factors contributing to the mild retreat in the headline CPI reading, it hardly comes as a surprise that core inflation also decelerated.

It came in at 4% YoY, a 0.3ppt drop compared to April. If we adjust this reading for the 0.5ppt inflation caused by tax changes, we see that core inflation excluding indirect taxes sits (after a 0.3ppt deceleration) at 3.5% YoY in May 2020.

Headline and core inflation measures (% YoY)



Source: HCSO, NBH

As the base effect will be less favourable and the oil price increase will spill-over into the pricing decision of fuel retailers, we see the headline reading to increase in the coming months.

By autumn, we expect CPI crawling back somewhat below the 3% inflation target again, before it starts dropping in 4Q20 on the back of the high base effect.

On average, we see inflation at 3% in 2020, while it could ease to 2.5% in 2021 due to the weakening demand-driven price pressure.

Peter Virovacz
Senior Economist, Hungary
+36 1 235 8757
peter.virovacz@ing.com

Disclaimer