



FLASH ANALYSIS OF INFLATION DEVELOPMENTS

FEBRUARY

2024

Article 3 (1) of the Central Bank Act (Act CXXXIX of 2013 on the Magyar Nemzeti Bank) defines the achievement and maintenance of price stability as the Magyar Nemzeti Bank's primary objective. Assessments of inflation developments have key importance in monetary policy decision-making. The MNB attaches a high priority to informing the general public on a continuous basis and thereby to improving the transparency and predictability of its decisions. Consistent with this principle, the Magyar Nemzeti Bank produces publicly available analyses of its assessments of inflation developments and the extent of medium-term inflationary effects on a monthly basis.

The analysis has been prepared by the Economic Forecasts and Analysis Directorate and approved by Gergely Baksay, Executive Director Economic and Fiscal Analysis.

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The publicly available analyses and the related statistical databases are accessible on the MNB's website at:

<https://www.mnb.hu/en/publications/studies-publications-statistics/flash-analysis-on-inflation-developments>

ASSESSMENT OF INFLATION DATA FOR FEBRUARY 2024

In February 2024, the decline in inflation continued, and consumer prices rose by 3.7 percent in annual terms. Core inflation and core inflation excluding indirect tax effects fell to 5.1 percent (Chart 1 and Chart 2). On a monthly basis, the total consumer basket price was up by 0.7 percent, while core inflation rose by 0.2 percent.

The consumer price index fell by 0.1 percentage points compared to the previous month. The contribution to disinflation by tradables and food prices by -0.4 percentage points and -0.3 percentage points, respectively, was offset by the upward effect of +0.6 percentage points on inflation by fuel prices. Year-on-year core inflation declined by 1.0 percentage point, and here, disinflation was general. The Bank's measures of underlying inflation developments capturing persistent inflationary trends, calculated on a year-on-year basis, also fell. The inflation of sticky-price products fell by 0.9 percentage points and the annual price rise of core inflation excluding processed food prices declined by 1.0 percentage point relative to the previous month (Chart 3).

In February, inflation and core inflation was lower than the mean of the projection in the December Inflation Report. The difference in inflation and core inflation was driven by more favourable changes in food prices and in processed food prices than expected. The dynamic slowdown in inflation in the past 13 months was caused by a combined effect of the disciplined monetary policy, the Government's measures to strengthen competition, subdued domestic demand, base effects and a significantly lower cost environment than seen before.

A slowdown in underlying inflation is signalled by the fact that core inflation and inflation was below 3 percent in an annualised shorter-term (3-month -on-3-month) comparison (Chart 4). In terms of total consumer basket and core inflation, the rate of price rises compared to the previous month was in line with the historical average seen this time of year. The price of the basket calculated excluding fuel and regulated product prices was up by 0.2 percent from the previous month (Chart 5). Month-on-month core inflation excluding processed food, which better reflect underlying developments, stood at 0.3 percent (Chart 6). In the case of tradables, the February repricing corresponded to the historical average, while it was higher for market services and lower for food products.

Below is a brief analysis of price changes across the main product categories.

The annual inflation of *tradables* fell to 3.9 percent. The prices of this product group fell by 0.1 percent compared to the previous month (Chart 7). Within this product group, the monthly rise in non-durables prices was offset by a decline in durables prices. A rise in non-durables prices was primarily caused by volatile fare airline tickets, while in the case of durables, the main contributing factors to price falls were second-hand cars and consumer electronics.

Annual price index of *market services* declined to 10.7 percent; and as a result, the fall in annual price growth, started in last June, continued. On a monthly basis, prices rose by 0.6 percent which was primarily explained by rises in healthcare services and restaurant meals prices.

According to HCSO data release, annual *food* price inflation fell to 2.2 percent in February. Within this product group, unprocessed and processed food price inflation declined. Annual changes in the latter were in the negative territory as perceived in January (Chart 9). Compared to January, unprocessed food prices were stagnant and processed food prices fell by 0.1 percent (Chart 10). The downward drift in processed food prices was mainly caused by milk and dairy product prices.

Fuel prices rose by 6.7 percent on a monthly basis. The increase in excise duties effective from 1 January was a significant contributing factor to price growth, which was gradually passed through to fuel prices. The average price of the product group fell by 2.4 percent on an annual basis.

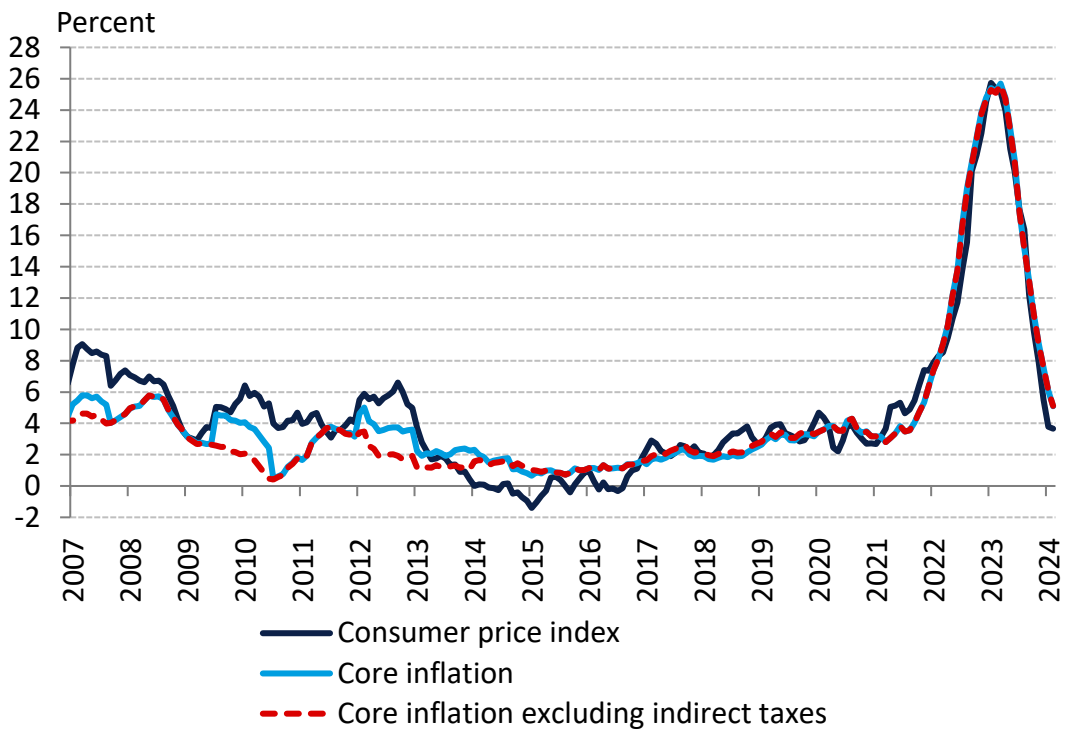
The prices of *regulated products and services* rose by 0.6 percent relative to January, explained by an increase in piped gas prices. The latter was the result of the fact that there was a decline in the share of consumers' consumption falling below the volume limit of the lower officially regulated price.

Households' inflation expectations have fallen in recent months, but the indicators showed unusually high volatility (Chart 11). In February, *corporate expectations for retail sales and services prices* have increased in recent months but remained significantly below the levels seen in 2022 (Chart 12).

Prepared by Géza Rippel

Budapest, 8 March 2024

Chart 1 Consumer price index, core inflation and core inflation excluding indirect taxes
annual change



Note: Seasonally unadjusted core inflation.

Chart 2 Inflation decomposition
annual change

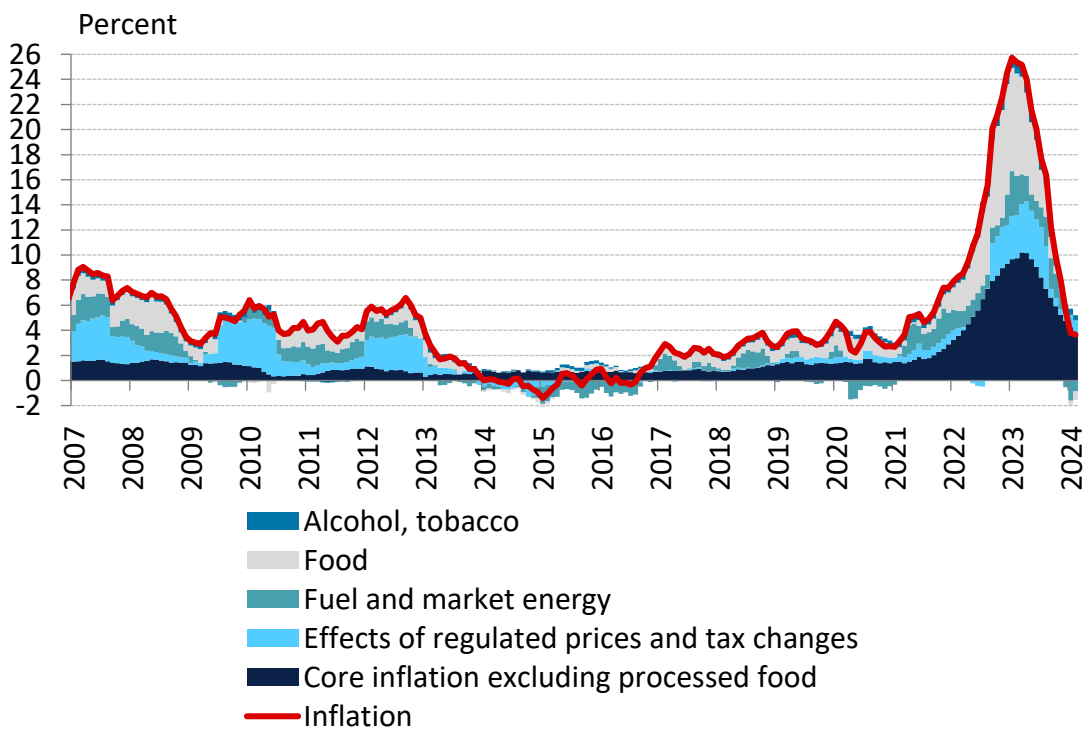
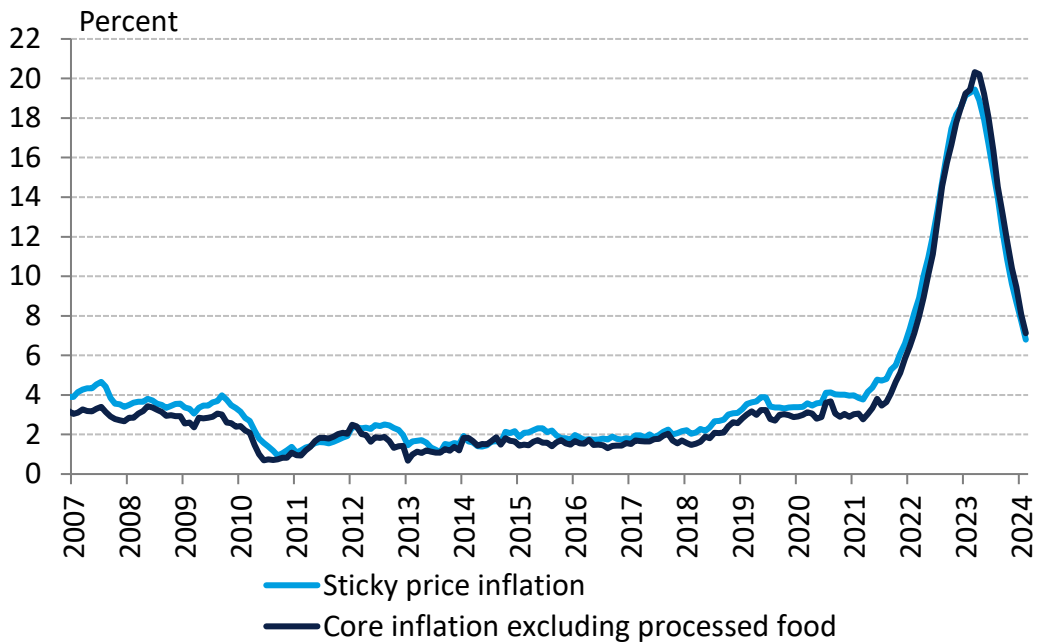


Chart 3 Underlying inflation indicators
annual percentage changes excluding indirect taxes



Note: Inflation of sticky-price products is composed of items of the consumer price index where maximum 15 percent of elementary prices change monthly on average. MNB calculation based on data released by the HCSO. Core inflation excluding processed foods with unchanged content is equivalent with the earlier demand sensitive inflation. The new name is justified by the fact that the previous name might be ambiguous in a period of significant cost shocks with general effects.

Chart 4 The three-month annualised change in inflation and core inflation
based on seasonally adjusted data

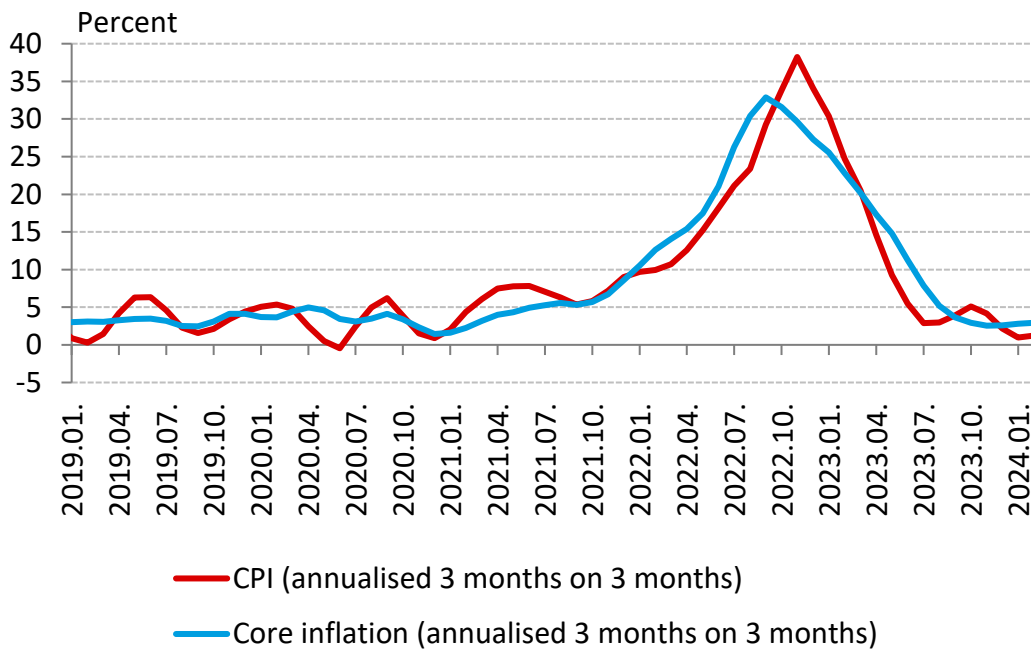


Chart 5 Monthly changes in consumer prices excluding fuel and regulated products prices
tax-adjusted, seasonally unadjusted monthly percentage changes

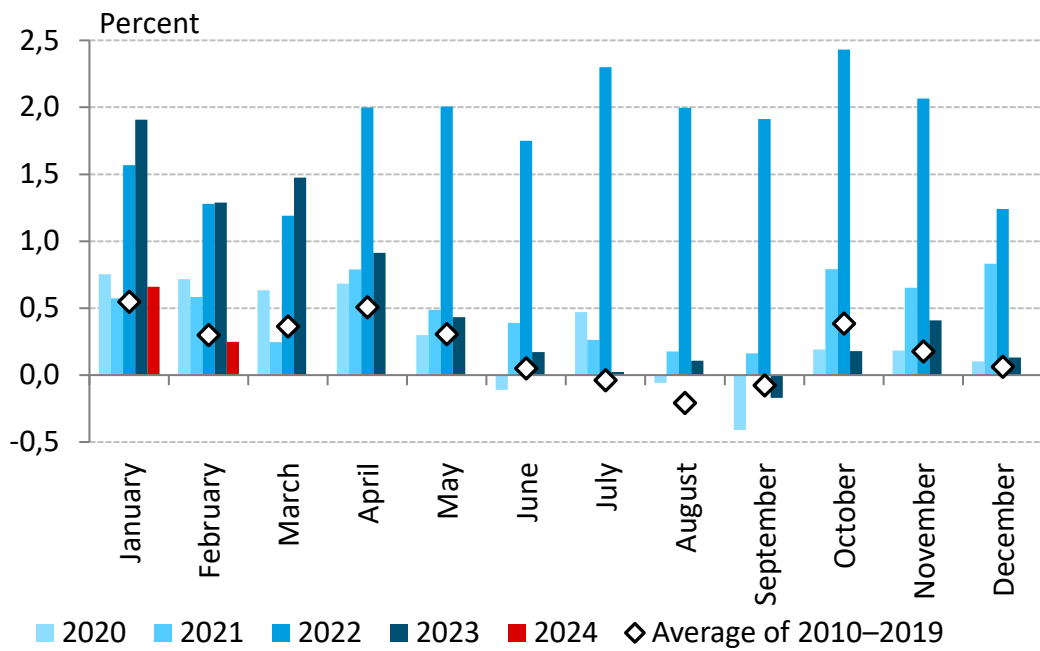


Chart 6 Monthly change in core inflation excluding processed food
tax-adjusted, seasonally unadjusted monthly percentage changes

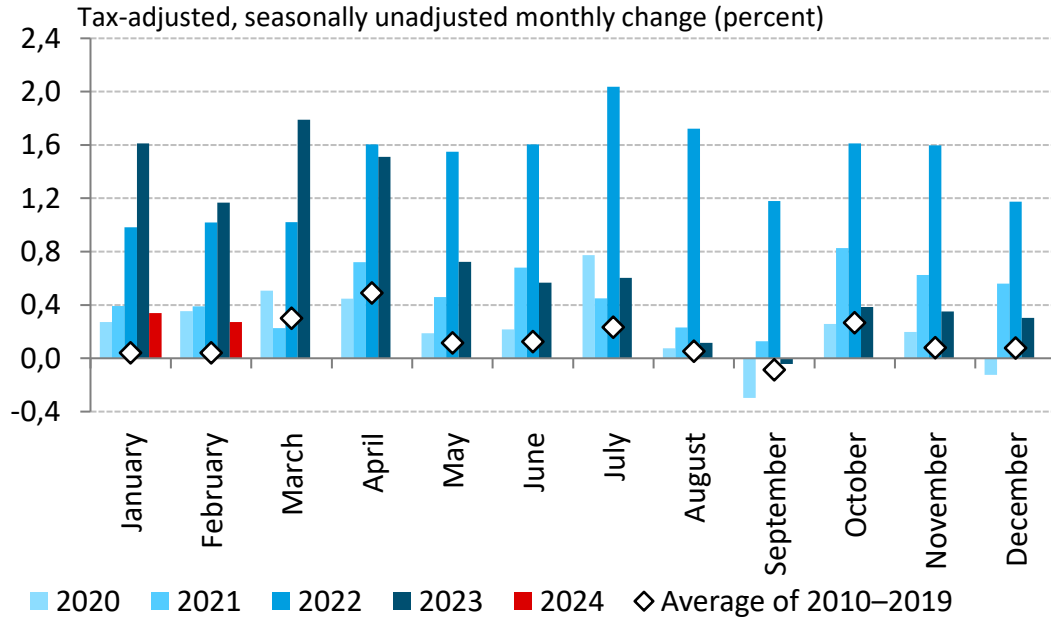


Chart 7 Inflation of tradable goods
 seasonally unadjusted, tax-adjusted monthly change

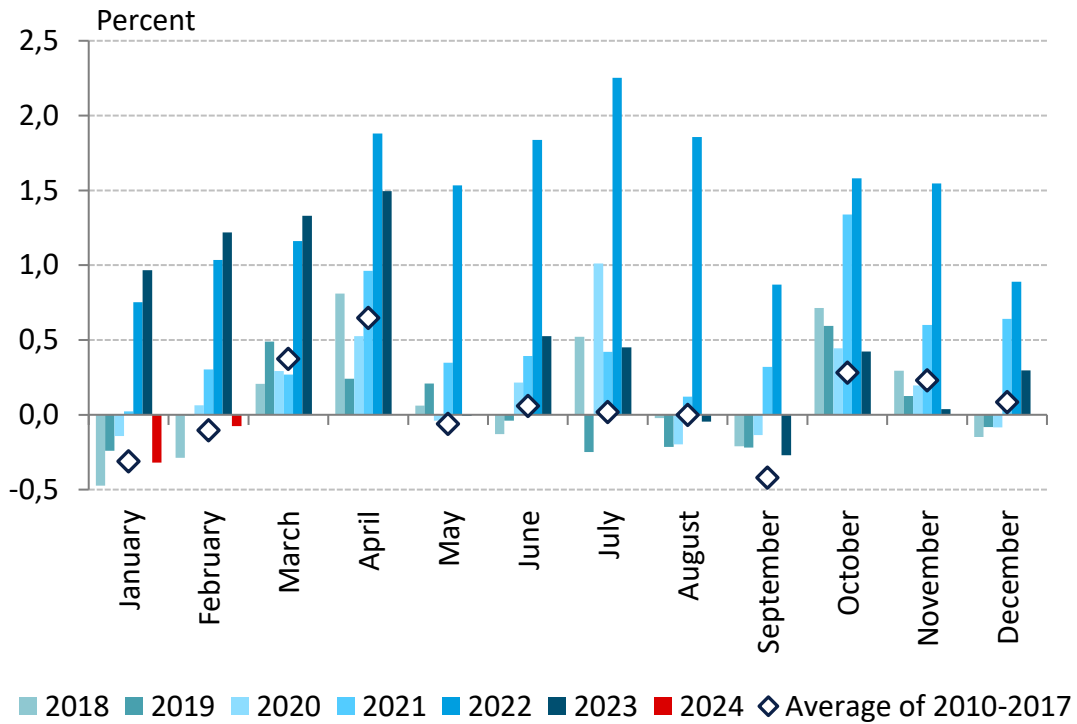


Chart 8 Market services inflation
 seasonally unadjusted, tax-adjusted monthly change

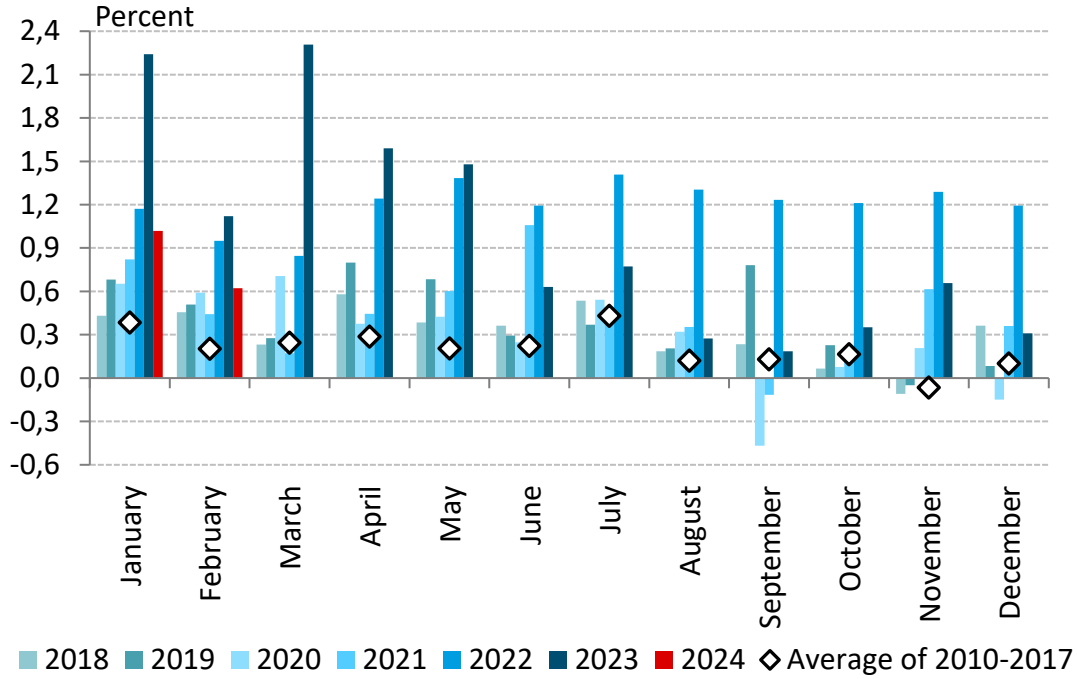
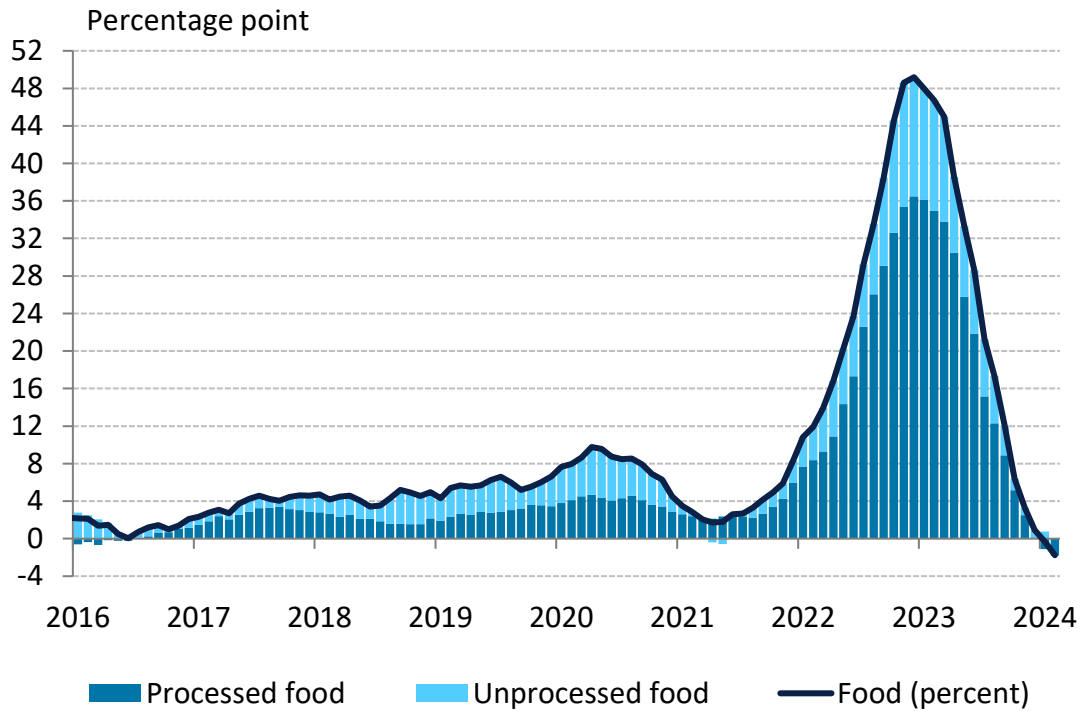
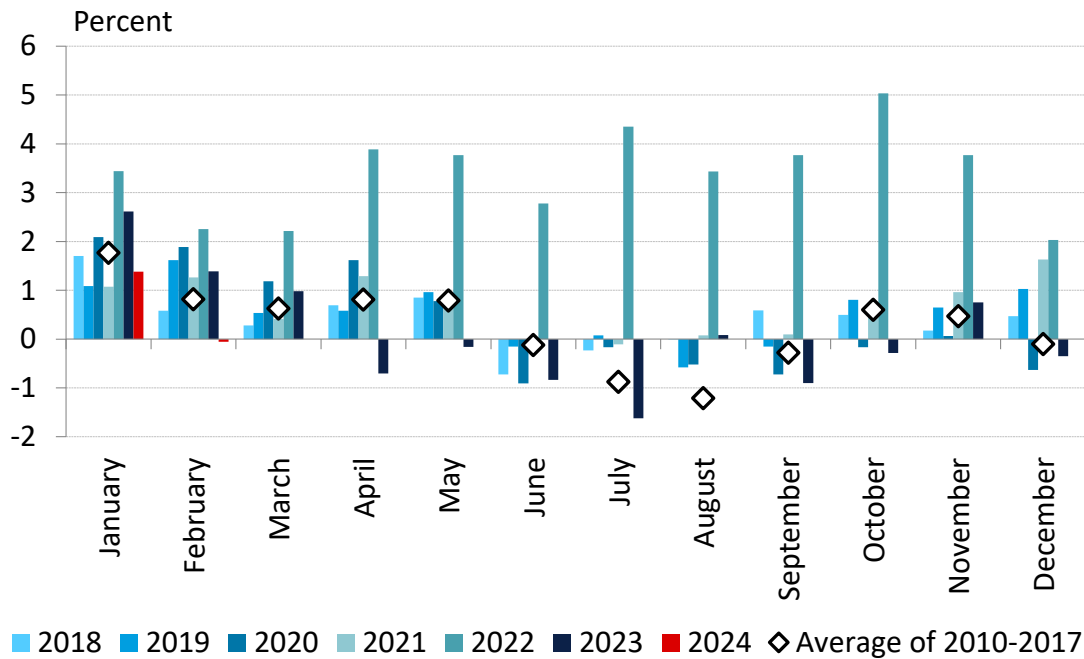


Chart 9 Developments in food price inflation
seasonally unadjusted, tax-adjusted annual change



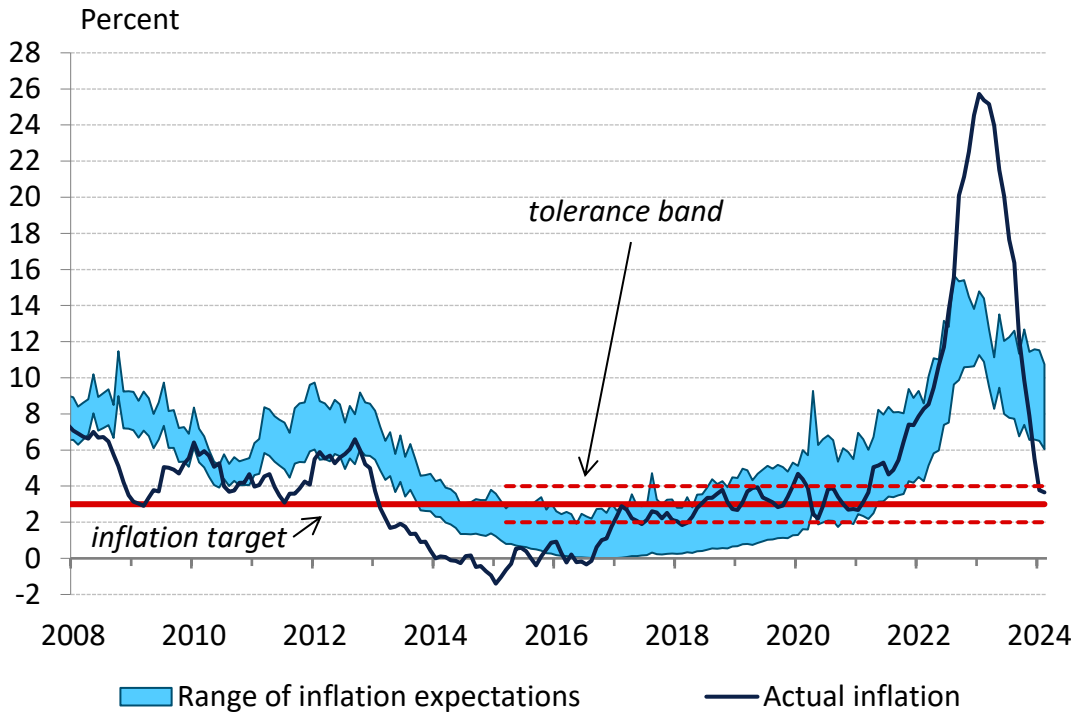
Note: The difference in food price inflation calculated by the HCSO and the MNB is explained by methodological differences. The MNB classifies food-related services as market services (restaurant meals, workplace meals, canteen goods) and the prices of regulated goods and services (school meals, nursery and kindergarten meals), and some beverages as non-durable industrial goods (coffee, tea, alcohol-free drinks).

Chart 10 Monthly changes in food prices
seasonally unadjusted, tax-adjusted monthly change



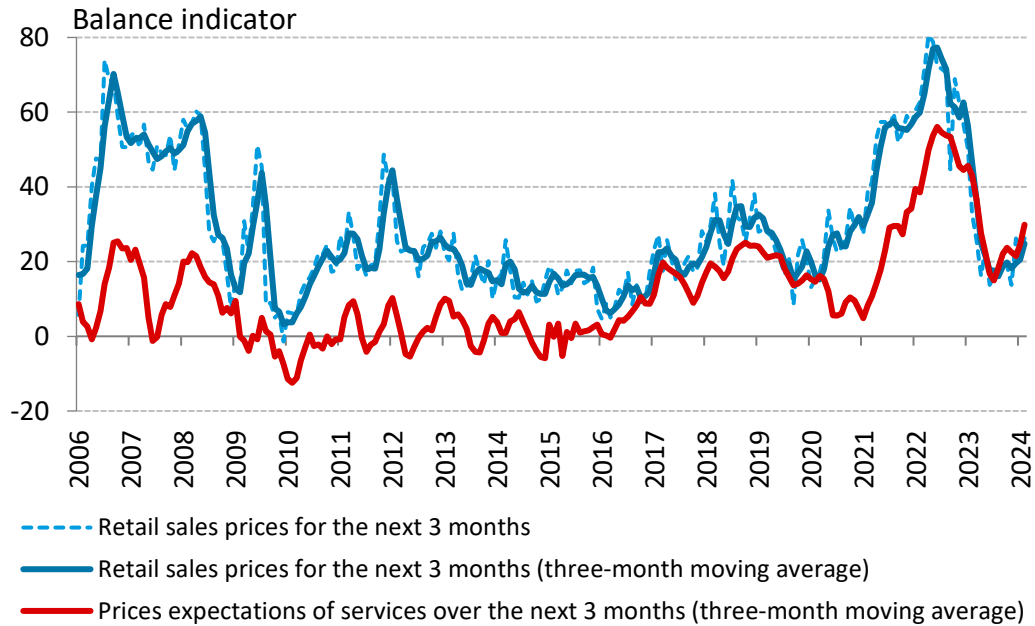
Note: The difference in food price inflation calculated by the HCSO and the MNB is explained by methodological differences. The MNB classifies food-related services as market services (restaurant meals, workplace meals, canteen goods) and the prices of regulated goods and services (school meals, nursery and kindergarten meals), and some beverages as non-durable industrial goods (coffee, tea, soft drinks).

Chart 11 Households' inflation expectations



Sources: MNB calculations based on European Commission data; and HCSO.

Chart 12 Changes in the expectations for retail sales and services prices in Hungary



Sources: MNB's own calculations based on data from the European Commission

Table 1 Annual change in the consumer price index and contribution of the measures of underlying inflation

Consumer price index, February 2024 (HCSO)					
3.7% (annual change)					
MNB underlying inflation indicators (MNB calculation)					
Contribution of sticky price inflation (percentage points), weight 41.1%	2.8	Contribution of core inflation excluding processed foods (percentage points), weight 52.3%	3.7	Contribution of core inflation excluding taxes (percentage points), weight 65.1%	3.3
Contribution of other items (percentage points), weight 58.9%	0.9	Contribution of other items (percentage points), weight 47.7%	-0.1	Contribution of other items (percentage points), weight 34.9%	0.3

Sources: HCSO and the MNB's own calculations.

The sum of contributions may differ from the official figures due to rounding.