



Monthly analysis of inflation developments

December 2015



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 Barnabás Virág, Executive Director responsible for monetary policy, financial stability and credit incentives.

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

http://english.mnb.hu/Statisztika/data-and-information/mnbb_statisztikai_idosorok/mnbb_elv_prices/underlying_inflation_indicators_MNB

ASSESSMENT OF INFLATION DATA FOR DECEMBER 2015

In December 2015, annual *inflation* stood at 0.9 per cent, *core inflation* at 1.4 per cent and *core inflation adjusted for the effects of indirect taxes* at 1.1 per cent (Chart 1). The *overall inflation rate* rose by 0.4 percentage points and *core inflation* remained unchanged compared with the previous month. The rise in inflation reflected the increase in the price index for fuel due to base effects (Charts 1 and 2). Consumer prices fell by 0.3 per cent relative to November.

With the release of December data, fourth-quarter inflation was 0.5 per cent and core inflation was 1.4 per cent. Inflation adjusted for the effects of indirect taxes, calculated by the MNB, stood at 0.3 per cent and core inflation adjusted for the effects of taxes at 1.2 per cent in the fourth quarter of 2015. In 2015 as a whole, the consumer price index was -0.1 per cent, core inflation was 1.2 per cent and core inflation adjusted for the effects of indirect taxes was 1.1 per cent.

The Bank's measures of *underlying inflation developments* (annual inflation rates of demand-sensitive and sticky-price products) fell *relative to the previous month*. The levels of the measures continue to indicate a moderate inflation environment (Chart 3).

The contribution of demand-sensitive products to inflation has been broadly unchanged in recent months, while changes in the more volatile items, i.e. food and energy, sensitive mainly to cost changes, have had a downward effect on prices.

Below is a brief analysis of changes in the prices of items determining medium-term inflation trends.

The annual inflation rate of *tradables* was largely unchanged compared with the previous month and continued to stay over the average levels of the last 16 months (Chart 4). Here, the prices of *durables* fell and those of *non-durables* were unchanged relative to November. The price dynamics of used cars contributed most to the fall in durables prices. Changes in tradables prices have mainly reflected the steadily rising domestic demand, in addition to the price reducing effect of low import prices.

Services prices were unchanged compared with the previous month (Chart 5). Here, price dynamics were generally moderate. Price movements in early 2016 are likely to determine the future course of services inflation.

Seasonally adjusted *processed food* prices rose slightly, reflecting moderate increases in the prices of several product groups.

Seasonally adjusted *unprocessed food* prices were broadly unchanged relative to November.

A broad range of *regulated prices* were unchanged compared with the previous month.

Households' inflation expectations have been broadly unchanged since early 2015, remaining at moderate levels in line with low underlying inflation developments (Chart 6).

Prepared by Judit Várhegyi

Budapest, 14 January 2016

Chart 1: Inflation decomposition

(annual percentage changes, January 2007 – December 2015)

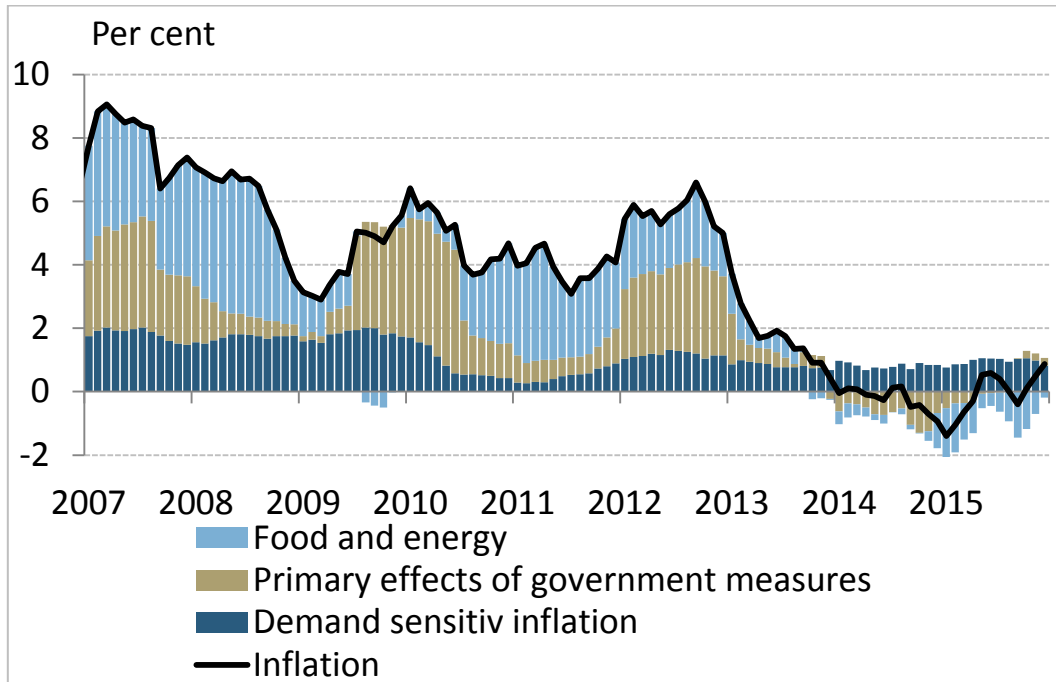


Chart 2: The consumer price index and core inflation excluding indirect taxes

(annual percentage changes, January 2007 – December 2015)

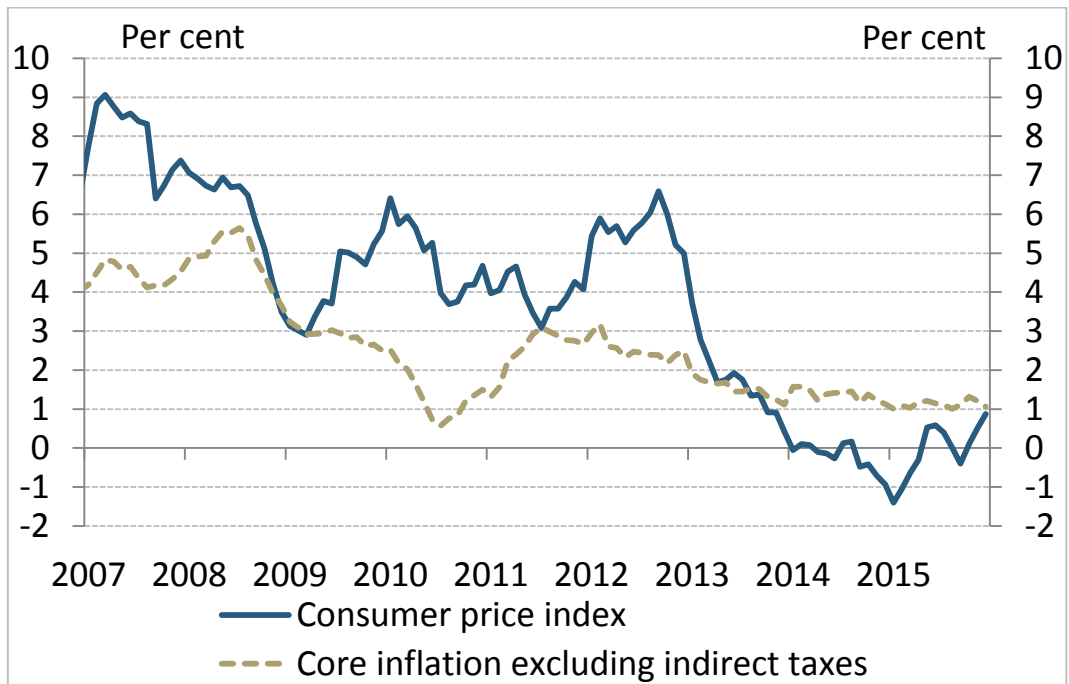
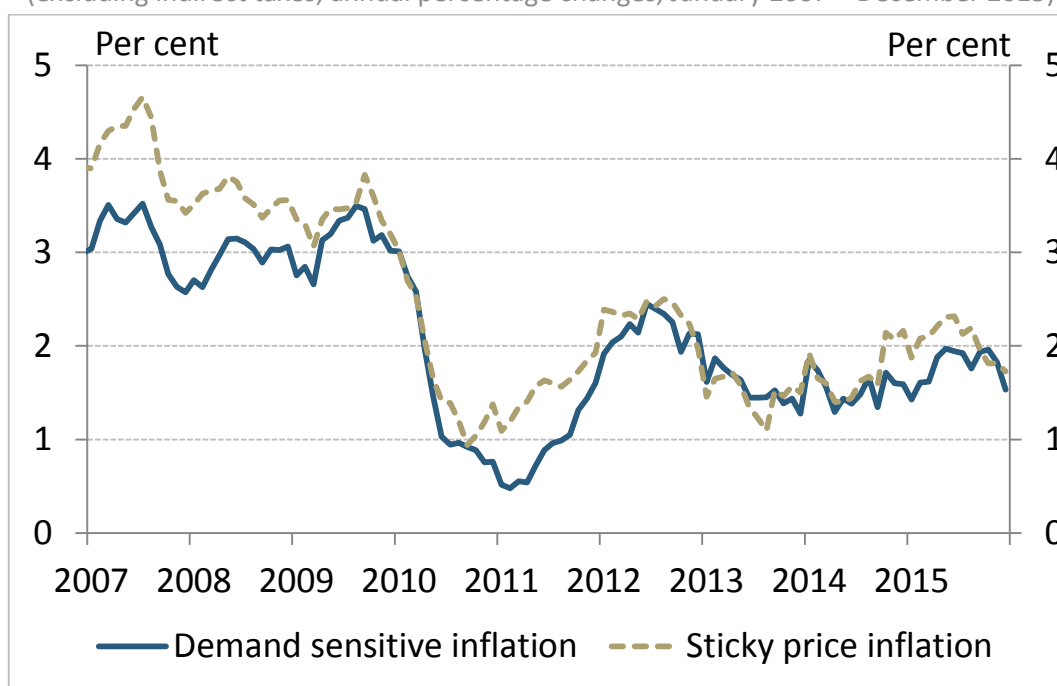


Chart 3: Underlying inflation indicators

(excluding indirect taxes, annual percentage changes, January 2007 – December 2015)



Note: Demand-sensitive inflation is derived by eliminating processed food prices from core inflation. Inflation of sticky-price products is composed of items of the consumer price index where maximum 15 per cent of elementary prices change monthly on average. MNB calculation based on data released by the CSO.

Chart 4: Inflation of tradable goods

(annual percentage changes, January 2007 – December 2015)

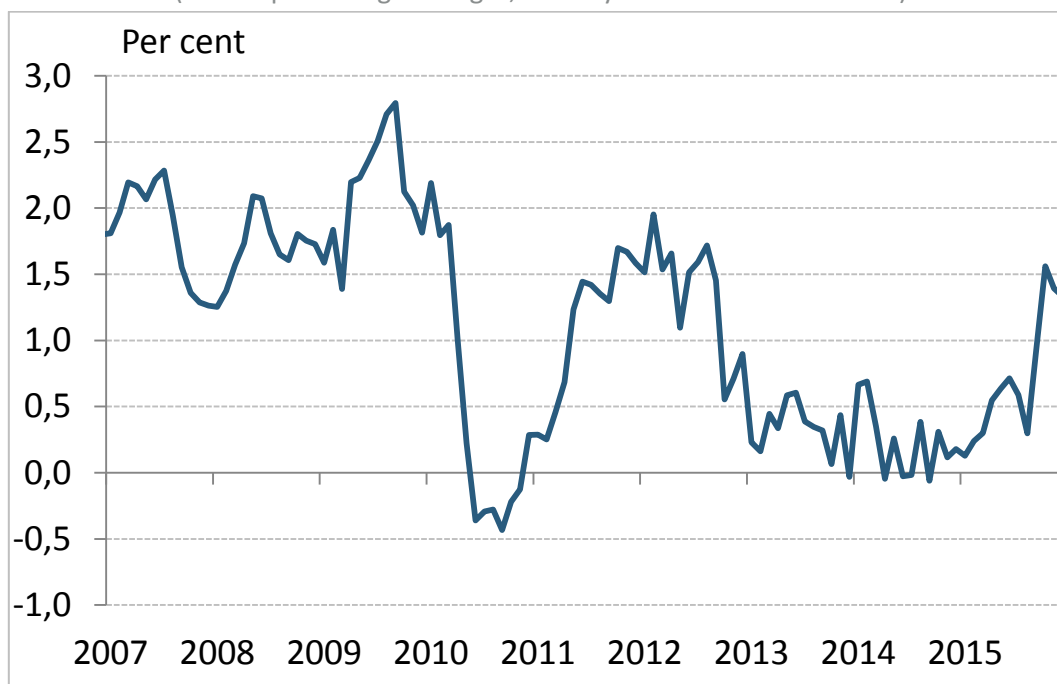


Chart 5: Inflation of market services

(seasonally unadjusted, tax-adjusted monthly percentage changes, January 2007 – December 2015)

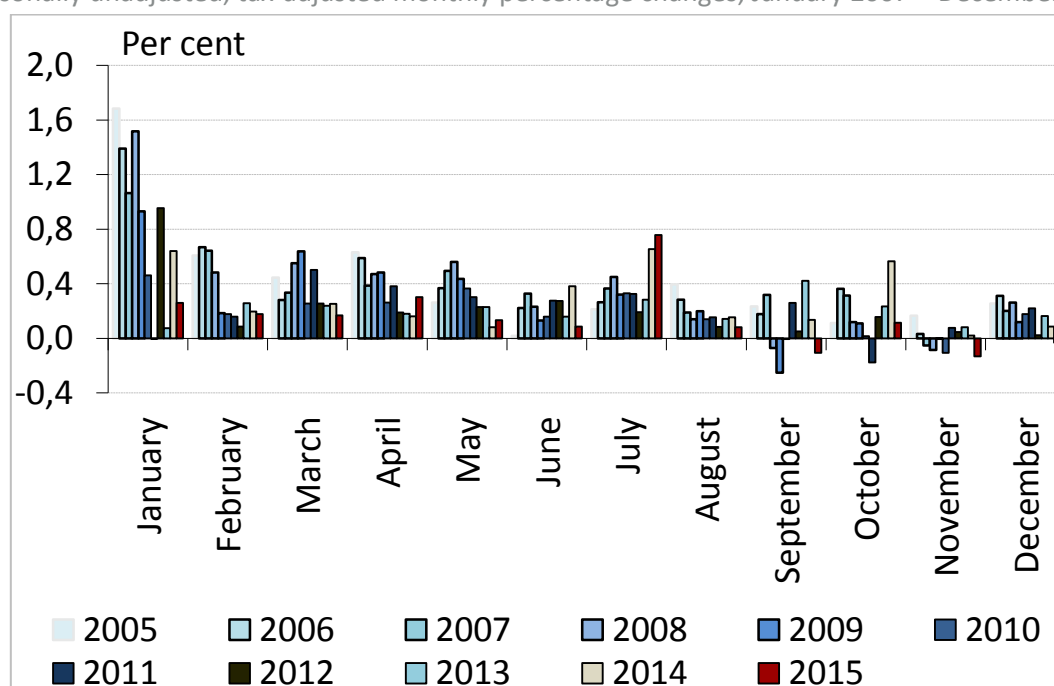
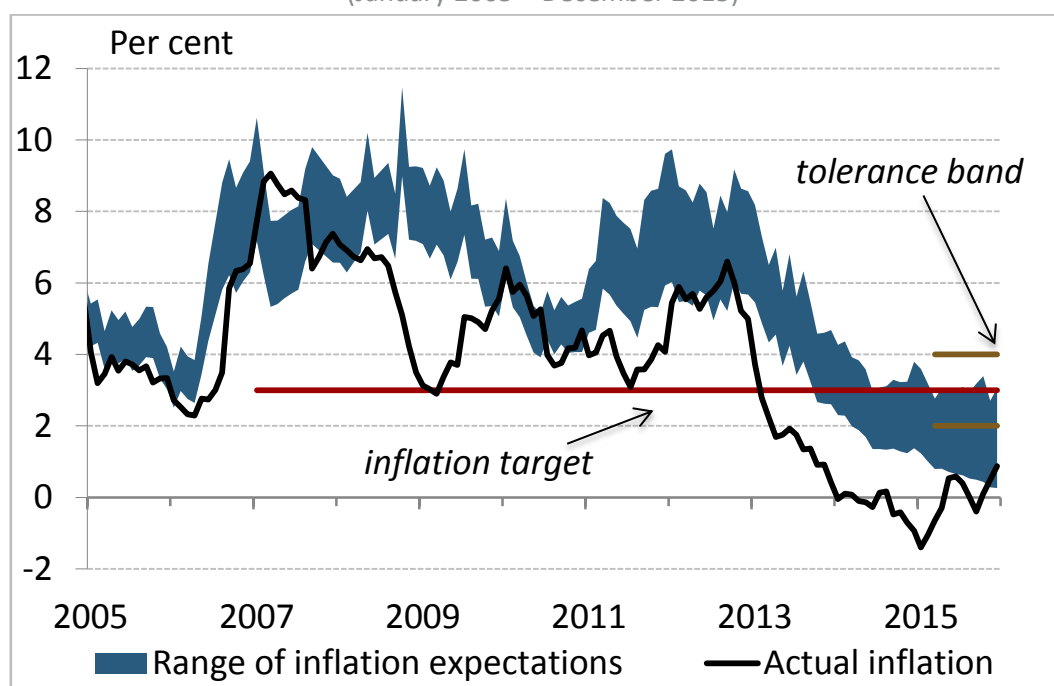


Chart 6 Households' inflation expectations

(January 2005 – December 2015)



Sources: MNB calculations based on European Union data; and CSO.

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

Consumer price index, December 2015 (HCSO)					
0.9% (annual change)					
MNB underlying inflation indicators (MNB calculation)					
Contribution of sticky price inflation (percentage points), weight 32.1%	0.6	Contribution of demand sensitive inflation (percentage points), weight 53.6%	0.8	Contribution of core inflation excluding taxes (percentage points), weight 66.8%	0.7
Contribution of other items (percentage points)	0.3	Contribution of other items (percentage points)	0.1	Contribution of other items (percentage points)	0.2

Sources: CSO and the MNB's own calculations.

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