



Monthly analysis of inflation developments

October 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 Dániel Palotai, Executive Director responsible for monetary policy.

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

http://english.mnb.hu/Statiztika/data-and-information/mnben_statiztikai_idosorok/mnben_elv_prices/underlying_inflation_indicators_MNB

ASSESSMENT OF INFLATION DATA FOR OCTOBER 2015

In October 2015, annual inflation stood at 0.1 per cent, *core inflation* at 1.5 per cent and *core inflation adjusted for the effects of indirect taxes* at 1.3 per cent (Chart 1). The *overall inflation rate* rose by 0.5 percentage points and *core inflation* by 0.2 percentage points relative to September. The increase in inflation and core inflation reflected rises in the price index for regulated prices in the price indices for tradable goods and processed food, respectively (Charts 1 and 2). The increase in regulated price inflation was driven by the dropping-out of the reduction in district heating and electricity prices last autumn.

Consumer prices rose by 0.3 per cent relative to September and by 1.2 per cent relative to December 2014.

The Bank's measures of *underlying inflation developments* (annual inflation rates of demand-sensitive and sticky-price products) were broadly unchanged *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 pointed in the direction of a decline in prices.

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

Tradables prices increased relative to the same period a year earlier (Chart 4). Here, the prices of both *durables* and of *non-durables* rose relative to October 2014. Strong price dynamics of sports goods and toys were the main contributors to the increase in non-durables prices. By contrast, the monthly changes in tradables prices have continued to show moderate dynamics in recent months, explained by the price reducing effect of low import prices.

Services prices rose by 0.1 per cent relative to the previous month (Chart 5). Here, price dynamics were generally moderate. Annual services inflation fell relative to the previous month, also explained by the dropping-out of the increase in bank fees last October.

Seasonally adjusted *processed food* prices rose, with the increase in the price dynamics of sugar being the main contributing factor. Overall, movements in the prices index for this product group have been significantly influenced by the fall in the prices of milk prices due to the abolition of the EU's dairy quotas.

Seasonally adjusted *unprocessed food* prices rose by 0.8 per cent relative to September, mainly reflecting rises in the prices of fresh vegetables.

A broad range of *regulated prices* were broadly unchanged relative to 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, 10 November 2015

Chart 1: Inflation decomposition
(annual percentage changes, January 2007 – October 2015)

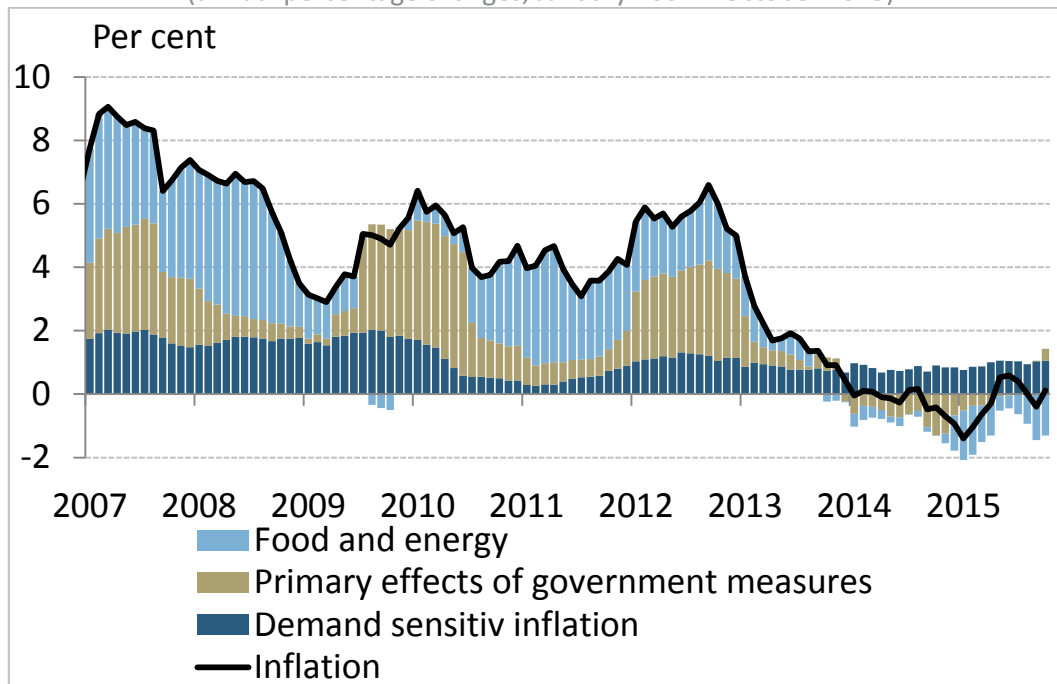


Chart 2: The consumer price index and core inflation excluding indirect taxes
(annual percentage changes, January 2007 – October 2015)

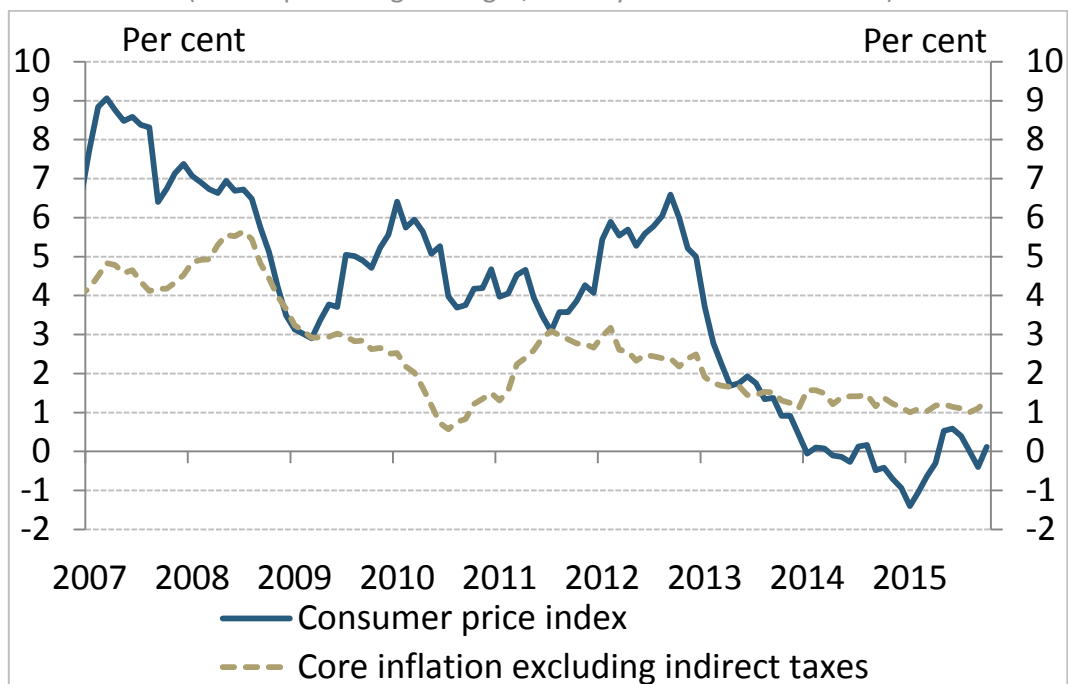
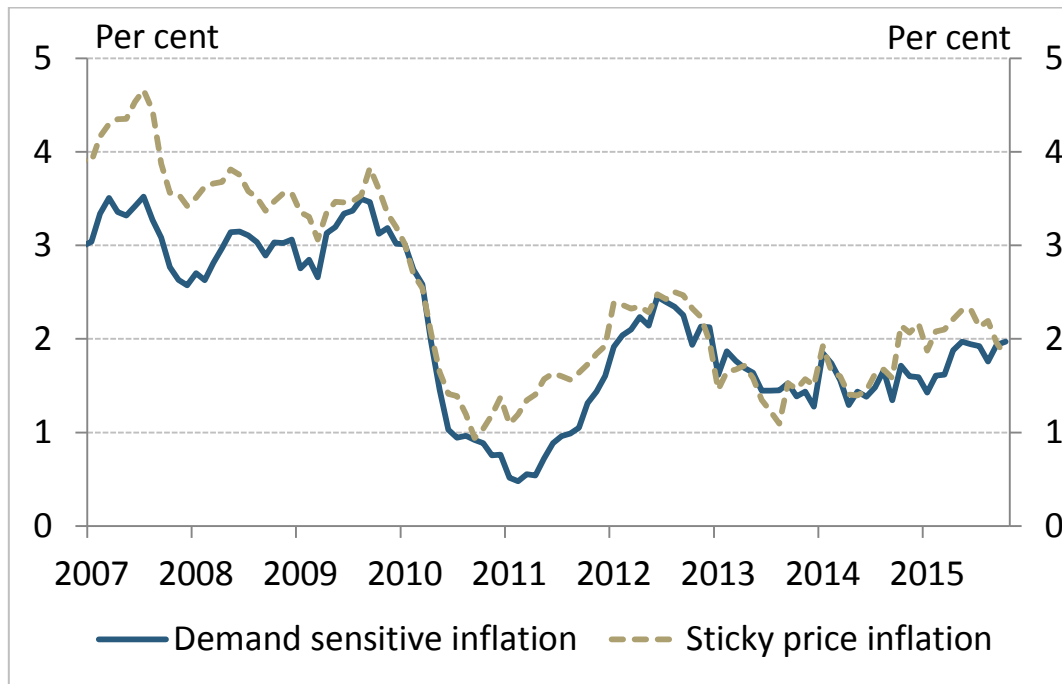


Chart 3: Underlying inflation indicators

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

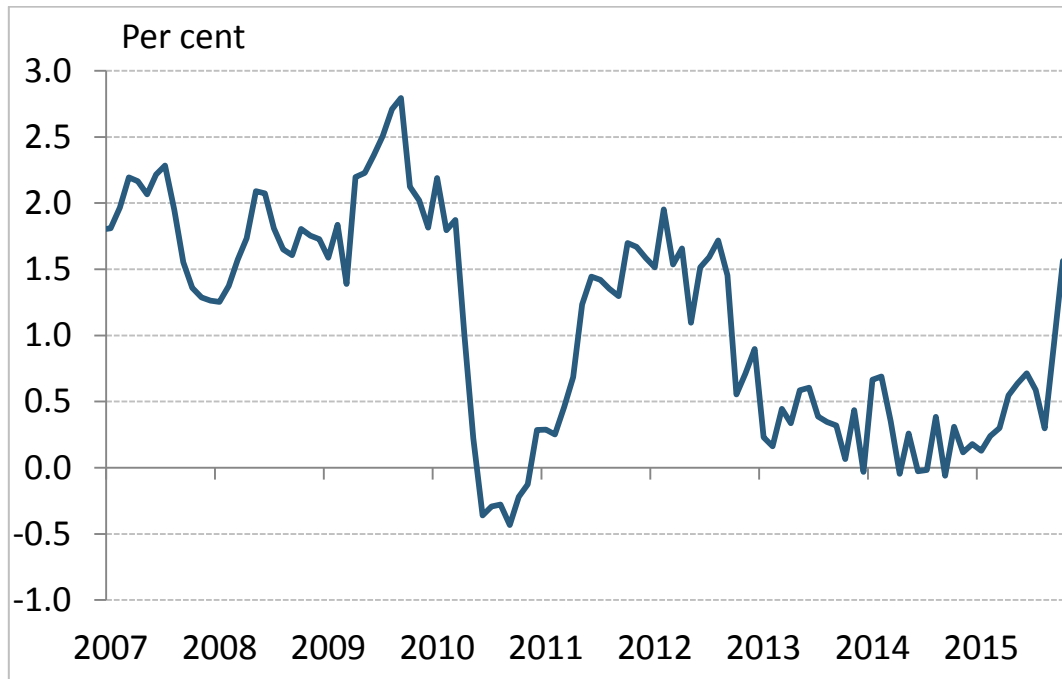


Chart 5: Inflation of market services

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

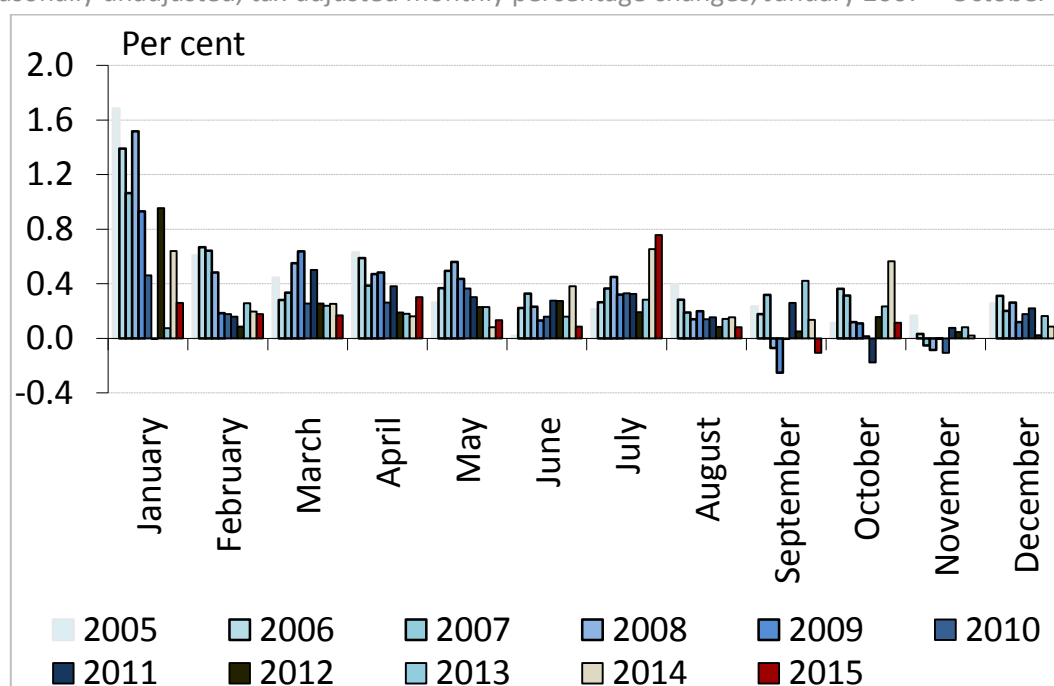
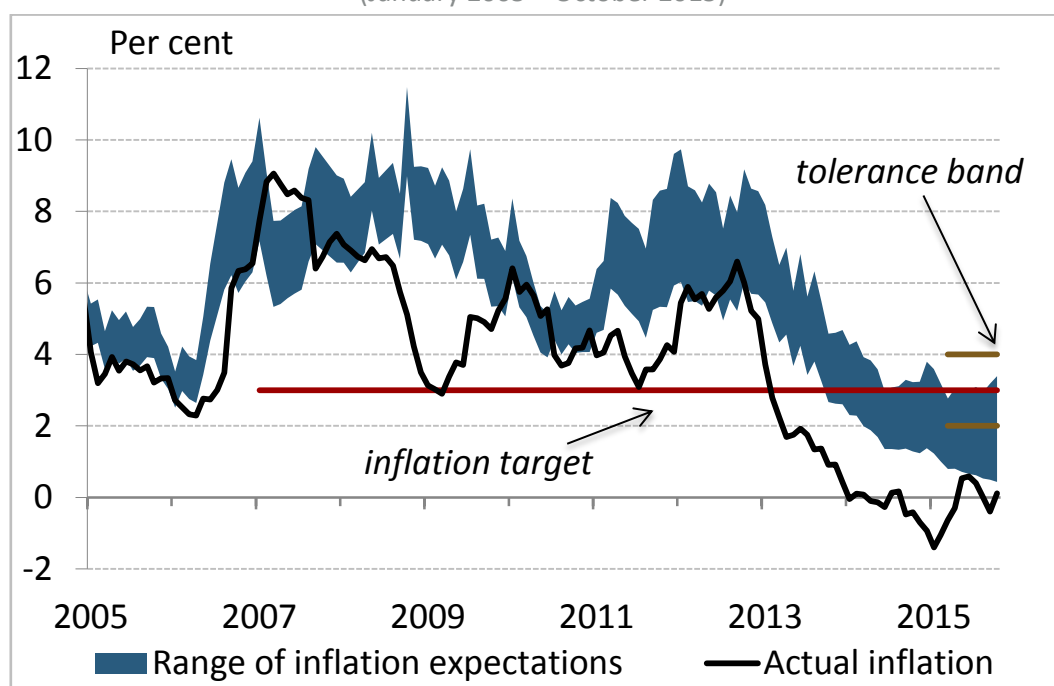


Chart 6 Households' inflation expectations

(January 2005 – October 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, October 2015 (HCSO)					
0.1% (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%	1.1	Contribution of core inflation excluding taxes (percentage points), weight 66.8%	0.9
Contribution of other items (percentage points)	-0.5	Contribution of other items (percentage points)	-0.9	Contribution of other items (percentage points)	-0.8

Sources: CSO and the MNB's own calculations.

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