



# Monthly analysis of inflation developments

December 2016



*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/Statiztika/data-and-information/mnbn\\_statiztikai\\_idosorok/mnbn\\_elv\\_prices/underlying\\_inflation\\_indicators\\_MNB](http://english.mnb.hu/Statiztika/data-and-information/mnbn_statiztikai_idosorok/mnbn_elv_prices/underlying_inflation_indicators_MNB)

## ASSESSMENT OF INFLATION DATA FOR DECEMBER 2016

In December 2016, annual *inflation* was 1.8 per cent. *Core inflation* stood at 1.7 per cent and *core inflation adjusted for the effects of indirect taxes* at 1.6 per cent (Chart 1). *Inflation* rose by 0.7 percentage points and *core inflation* by 0.1 percentage point relative to the previous month. The increase in inflation largely reflected higher prices of fuel (Charts 1 and 2).

With the release of December data, fourth-quarter inflation was 1.3 per cent and core inflation was 1.6 per cent. Inflation adjusted for the effects of indirect taxes, calculated by the MNB, stood at 1.2 per cent and core inflation adjusted for the effects of taxes at 1.5 per cent in the fourth quarter of 2016. In 2016 as a whole, the consumer price index was 0.4 per cent, core inflation was 1.4 per cent and core inflation adjusted for the effects of indirect taxes was 1.3 per cent.

The Bank's measures of *underlying inflation developments* (annual inflation rates of demand-sensitive and sticky-price products and services) were broadly unchanged compared with the previous month (Chart 3).

In December 2016, changes in the prices of demand-sensitive products and more volatile items with greater sensitivity to cost changes, i.e. food and energy all had an upward effect on prices.

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

The annual inflation rate of *tradables* rose slightly relative to November, but continued to be at moderate levels (Chart 4). Within this product group, the price indices for both *durables* and *non-durables* rose. Price dynamics of the latter mainly reflected movements in volatile air fares. Changes in tradables prices have been shaped by the price reducing effect of moderate import prices and the opposite effect of steadily rising domestic demand.

In December, *services* prices rose modestly relative to the previous month, and therefore the monthly change in prices was consistent with those seen in previous years (Chart 5). In view of the price-setting behaviour characterising this product group, price movements in early 2017 are likely to determine the future course of services inflation.

Seasonally adjusted *processed food* prices rose relative to November, with the change in the price of milk and dairy products being a key contributing factor.

Seasonally adjusted *unprocessed food* prices rose slightly in the month, due mainly to changes in the prices of seasonal products.

*Regulated* prices were largely unchanged relative to November.

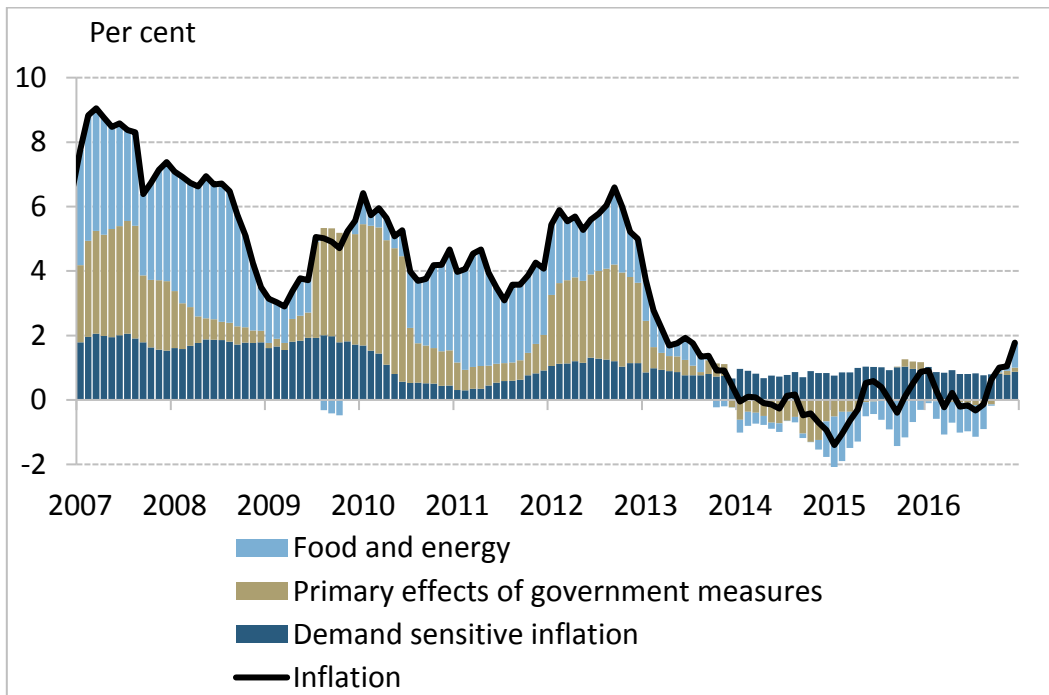
*Households' inflation expectations* have been largely unchanged in recent months and remained at moderate levels, in line with underlying inflation developments (Chart 6).

Prepared by Judit Várhegyi

Budapest, 13 January 2017

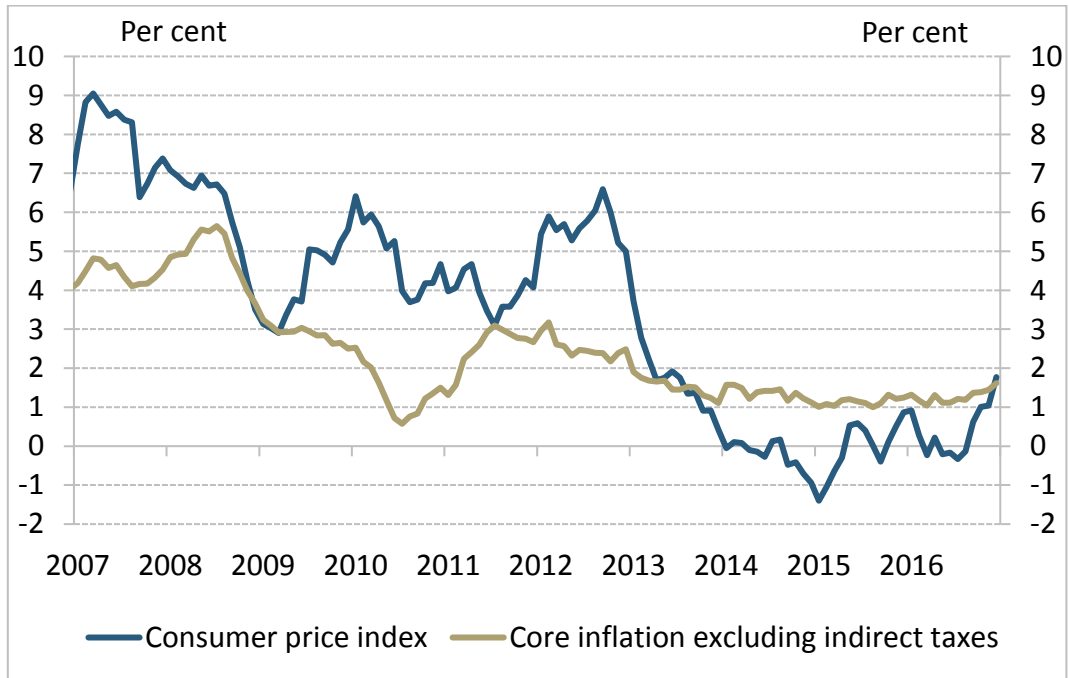
**Chart 1: Inflation decomposition**

(annual percentage changes, January 2007 – December 2016)



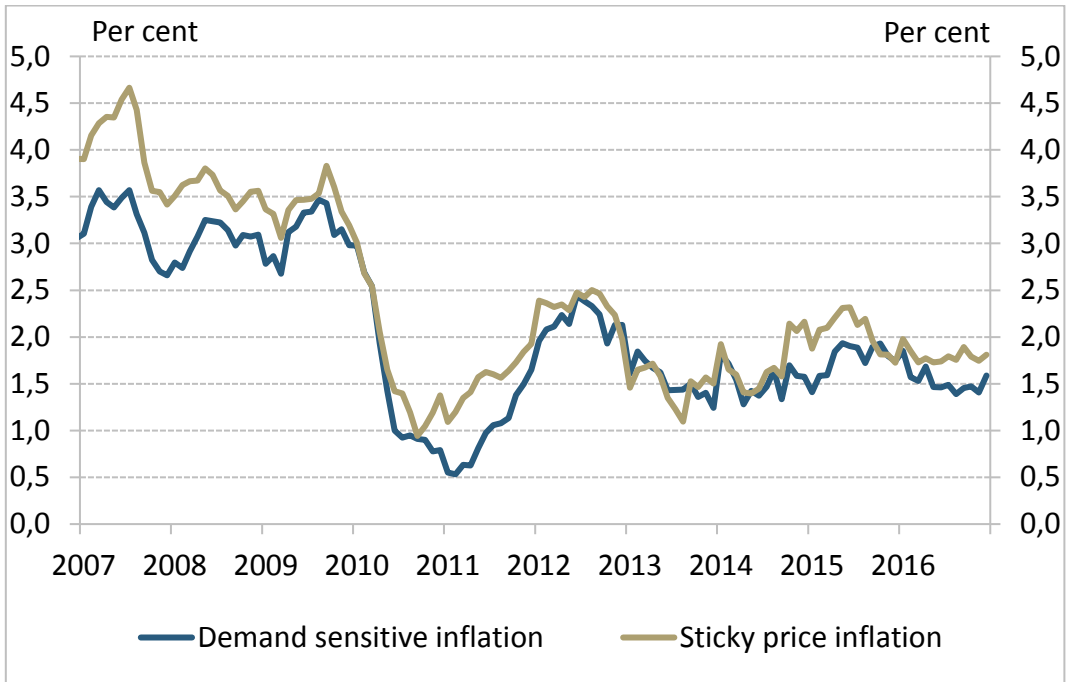
**Chart 2: The consumer price index and core inflation excluding indirect taxes**

(annual percentage changes, January 2007 – December 2016)



**Chart 3: Underlying inflation indicators**

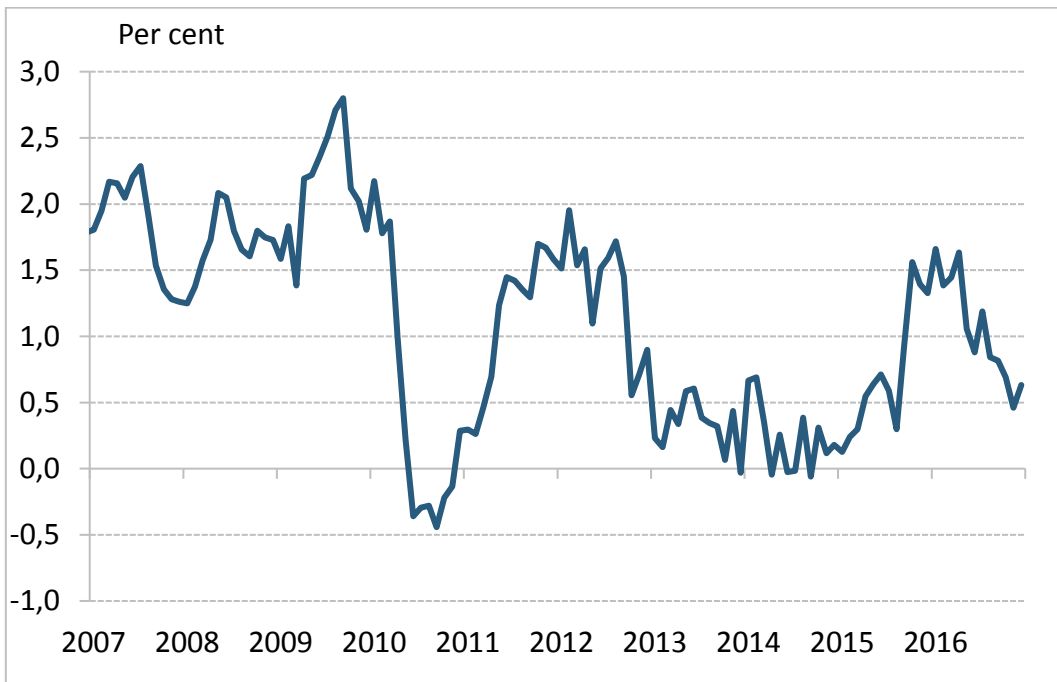
(excluding indirect taxes, annual percentage changes, January 2007 – December 2016)



*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.*

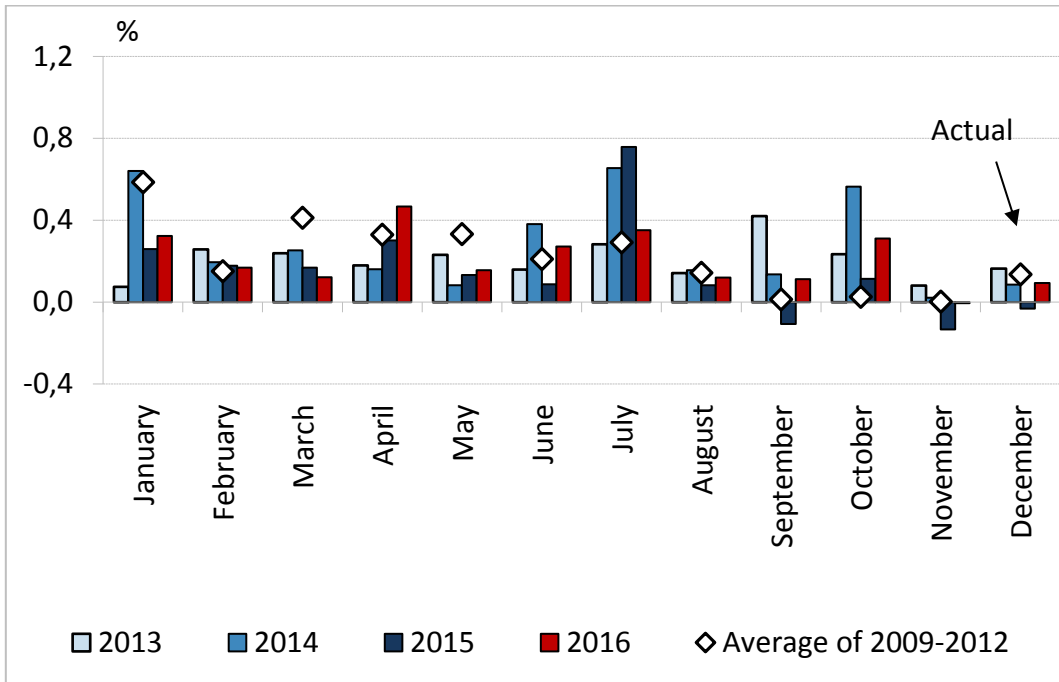
**Chart 4: Inflation of tradable goods**

(annual percentage changes, January 2007 – December 2016)



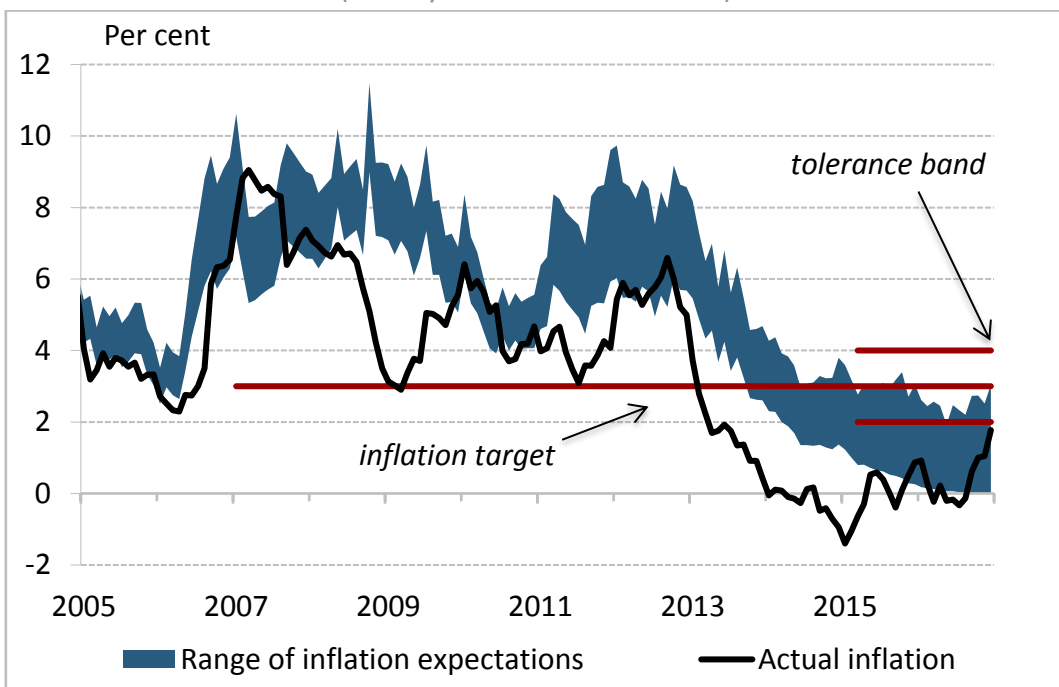
**Chart 5: Inflation of market services**

(seasonally unadjusted, tax-adjusted monthly percentage changes, January 2005 – December 2016)



**Chart 6 Households' inflation expectations**

(January 2005 – December 2016)



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

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

Consumer price index, December 2016 (HCSO)					
1.8% (annual change)					
MNB underlying inflation indicators (MNB calculation)					
<b>Contribution of sticky price inflation (percentage points), weight 32.4%</b>	<b>0.6</b>	<b>Contribution of demand sensitive inflation (percentage points), weight 55.0%</b>	<b>0.9</b>	<b>Contribution of core inflation excluding taxes (percentage points), weight 67.9%</b>	<b>1.1</b>
Contribution of other items (percentage points), weight 67.6%	1.2	Contribution of other items (percentage points), weight 45.0%	0.9	Contribution of other items (percentage points), weight 32.1%	0.7

*Sources: CSO and the MNB's own calculations.*

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