



# Monthly analysis of inflation developments

May 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/Statisztika/data-and-information/mnbb\\_statisztikai\\_idosorok/mnbb\\_elv\\_prices/underlying\\_inflation\\_indicators\\_MNB](http://english.mnb.hu/Statisztika/data-and-information/mnbb_statisztikai_idosorok/mnbb_elv_prices/underlying_inflation_indicators_MNB)

## ASSESSMENT OF INFLATION DATA FOR MAY 2016

In May 2016, annual *inflation* stood at -0.2 per cent, *core inflation* at 1.3 per cent and *core inflation adjusted for the effects of indirect taxes* at 1.1 per cent (Chart 1). The *overall inflation rate* fell by 0.4 percentage points and *core inflation* by 0.2 percentage points compared with the previous month. The fall in inflation mainly reflected the decline in the price index of unprocessed food (Charts 1 and 2).

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 had a downward effect on prices, despite the increase in fuel prices in the previous months.

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

The annual inflation rate of *tradables* fell relative to April, however, it continued to be higher than the average of the past 16 months (Chart 4). Here, both the prices of *durables* and *non-durables* fell. In monthly comparison, changes in the prices of *durables* are mainly explained by the price dynamics of used cars. The prices of *non-durables* declined relative to the previous month. Within the group of non-durable goods, air fares, which generally show volatile price dynamics, declined considerably relative to the previous month. Changes in tradables prices reflected the price reducing effect of moderate import prices and steadily rising domestic demand.

In May, the monthly increase in *services* prices was comparable to the rises seen in the previous year (Chart 5). The price dynamics were generally moderate within this product group.

Seasonally adjusted *processed food* prices did not change.

Seasonally adjusted *unprocessed food* prices marginally declined, which were supported by the price dynamics of seasonal products.

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

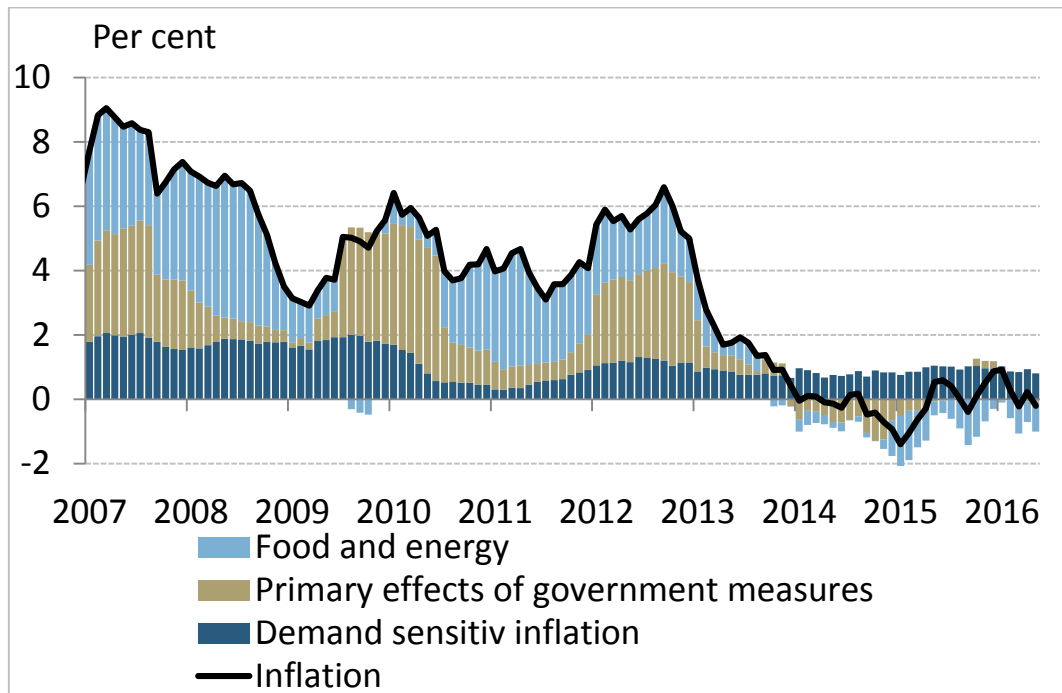
*Households' inflation expectations* marginally declined relative to the previous month and remained at moderate levels, in line with low underlying inflation developments (Chart 6).

Prepared by Judit Várhegyi

Budapest, 8 June 2016

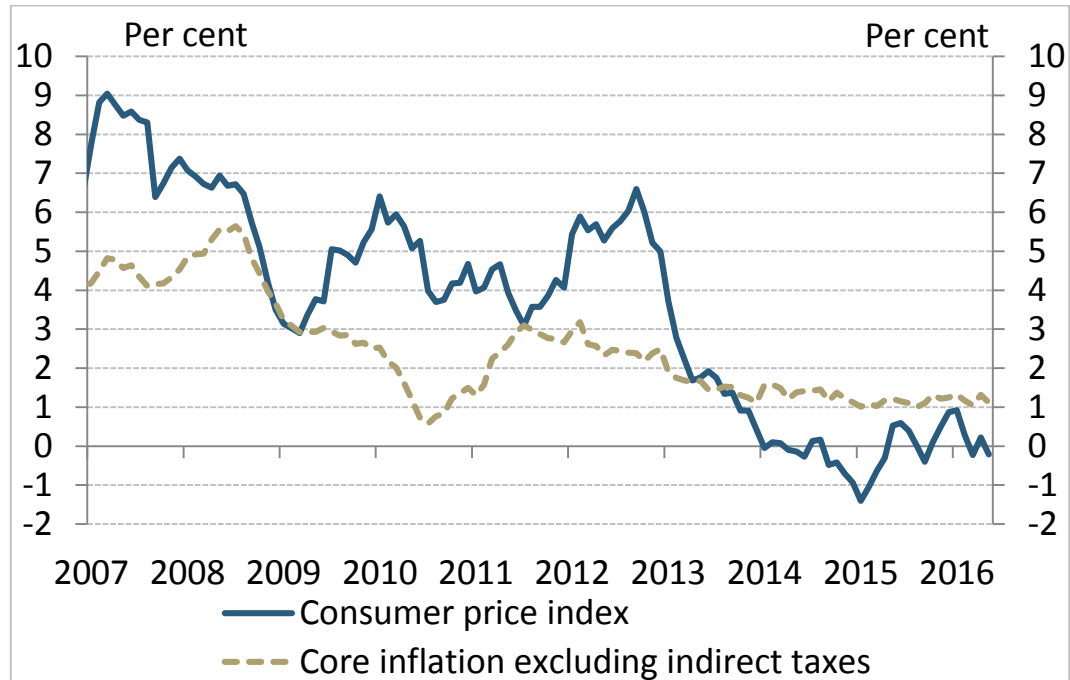
**Chart 1: Inflation decomposition**

(annual percentage changes, January 2007 – May 2016)



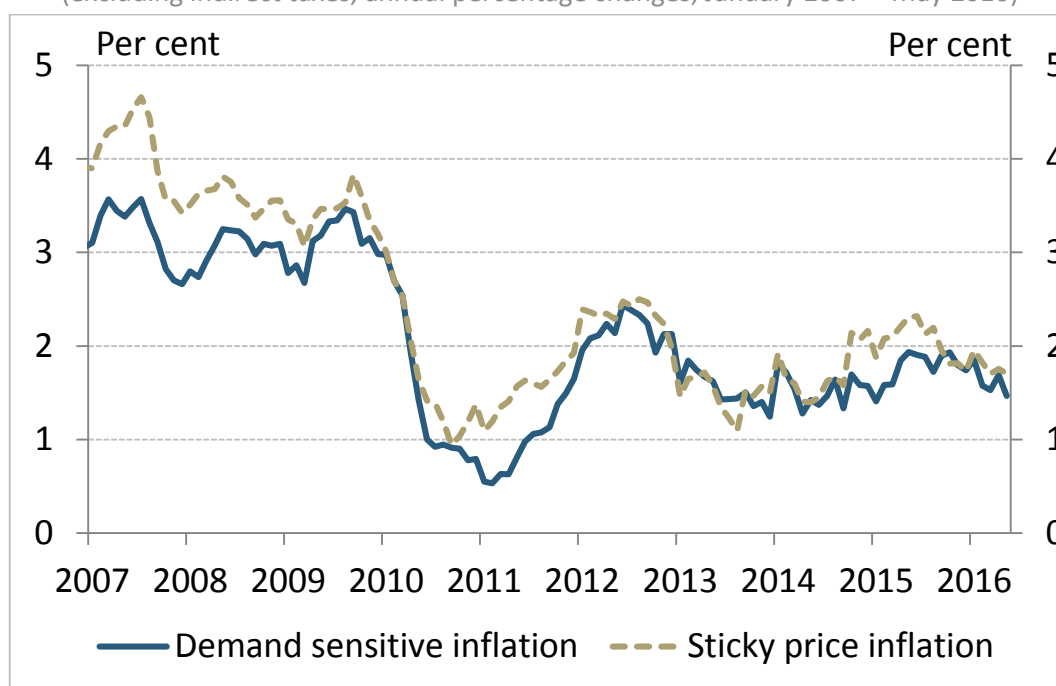
**Chart 2: The consumer price index and core inflation excluding indirect taxes**

(annual percentage changes, January 2007 – May 2016)



**Chart 3: Underlying inflation indicators**

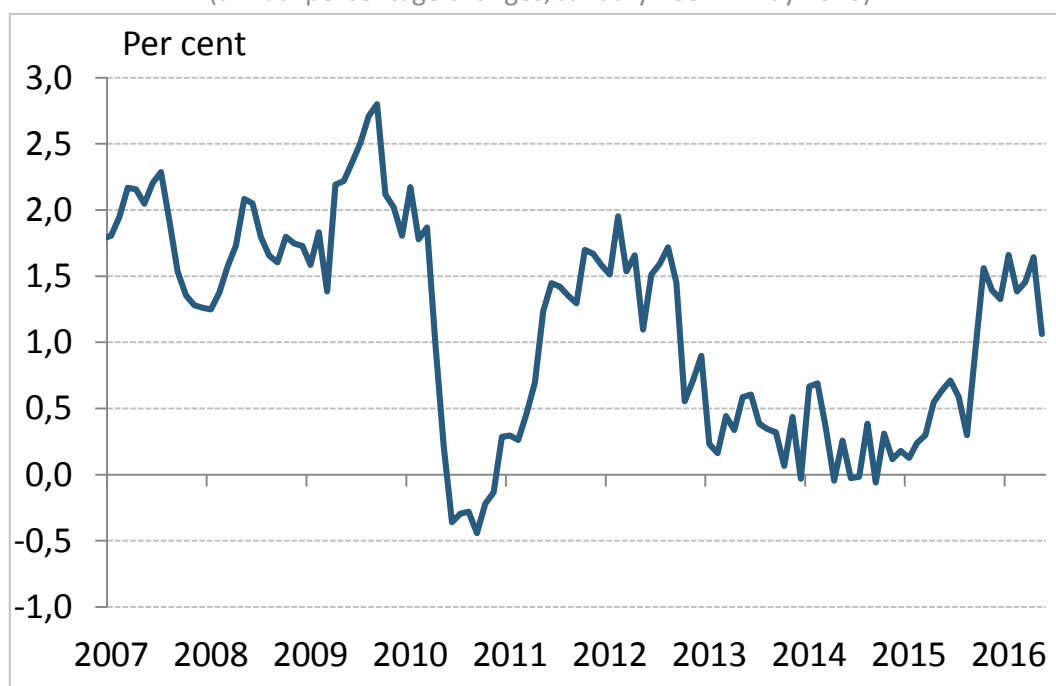
(excluding indirect taxes, annual percentage changes, January 2007 – May 2016)



*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.*

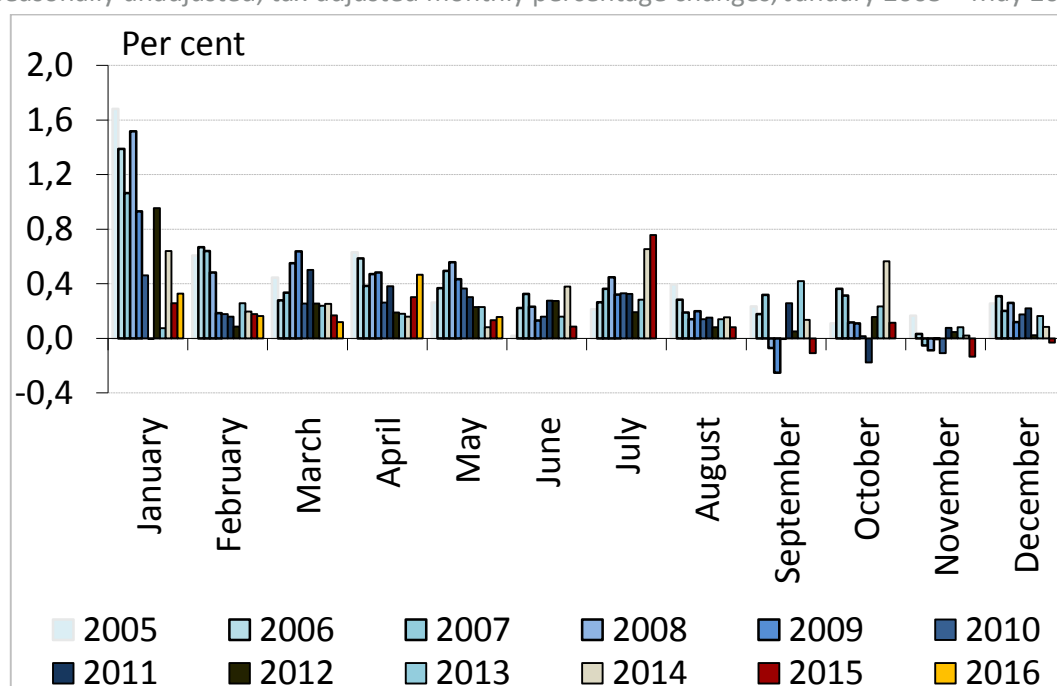
**Chart 4: Inflation of tradable goods**

(annual percentage changes, January 2007 – May 2016)



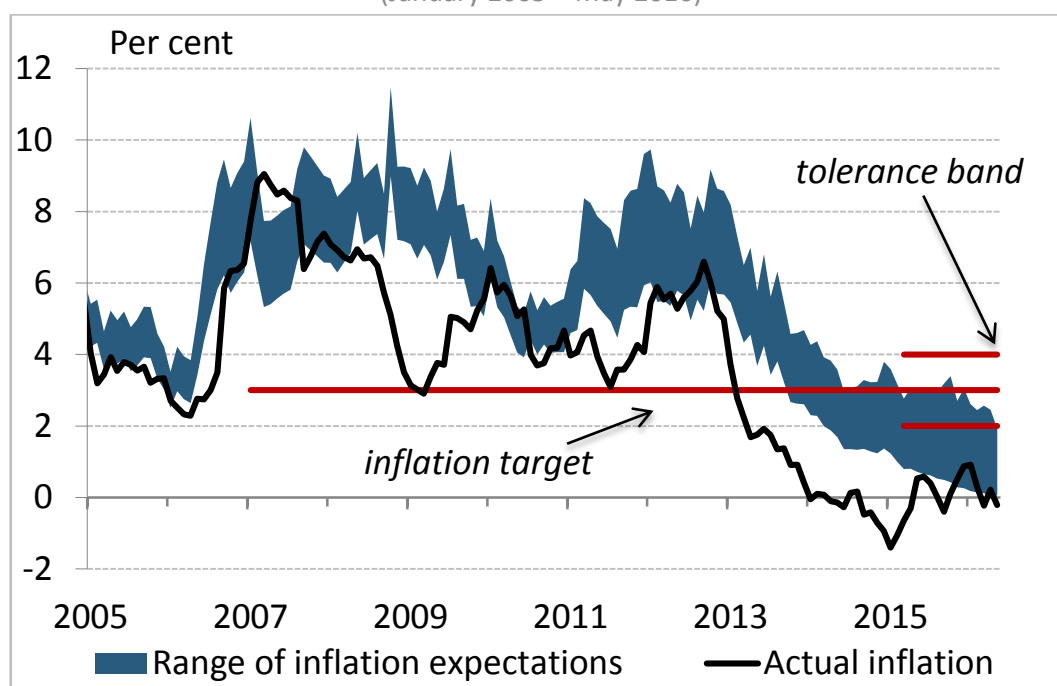
**Chart 5: Inflation of market services**

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



**Chart 6 Households' inflation expectations**

(January 2005 – May 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, May 2016 (HCSO)					
-0.2% (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>0.8</b>	<b>Contribution of core inflation excluding taxes (percentage points), weight 67.9%</b>	<b>0.8</b>
Contribution of other items (percentage points), weight 67.6%	-0.8	Contribution of other items (percentage points), weight 45.0%	-1.0	Contribution of other items (percentage points), weight 32.1%	-1.0

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

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