



Monthly analysis of inflation developments

March 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/mnben_statistikai_idosorok/mnben_elv_prices/underlying_inflation_indicators_MNB

ASSESSMENT OF INFLATION DATA FOR MARCH 2016

In March 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 1.0 per cent (Chart 1). The *overall inflation rate* fell by 0.5 percentage points and *core inflation* by 0.1 percentage point compared with the previous month. The fall in inflation mainly reflected the decline in the price index for fuel due to a base effect (Charts 1 and 2).

Including the March data, inflation was 0.3 per cent and core inflation was 1.4 per cent in the first quarter of 2016. Inflation excluding the effects of indirect taxes and core inflation excluding taxes, calculated by the MNB, stood at 0.4 per cent and 1.2 per cent, respectively.

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.

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

The annual inflation rate of *tradables* was practically unchanged compared with the previous month and continued to be higher than the average of the past 16 months (Chart 4). Here, the price level of both *durables* and *non-durables* rose modestly relative to the previous month. Within the group of non-durable goods, air fares, which generally show volatile price dynamics, rose considerably relative to February. Changes in tradables prices have mainly reflected the price reducing effect of moderate import prices and steadily rising domestic demand.

In March, *services* prices rose in line with increases seen in previous years (Chart 5). Price dynamics within the group of other services were generally moderate.

Seasonally adjusted *processed food* prices fell significantly compared with the previous month, mainly reflecting the moderating prices of milk and other dairy products.

Seasonally adjusted *unprocessed food* remained unchanged compared with the previous month.

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

Households' inflation expectations were unchanged relative to the previous month and remained at moderate levels slightly below the tolerance band around the inflation target, staying in line with the low underlying inflation developments (Chart 6).

Prepared by Judit Várhegyi

Budapest, 8 April 2016

Chart 1: Inflation decomposition

(annual percentage changes, January 2007 – March 2016)

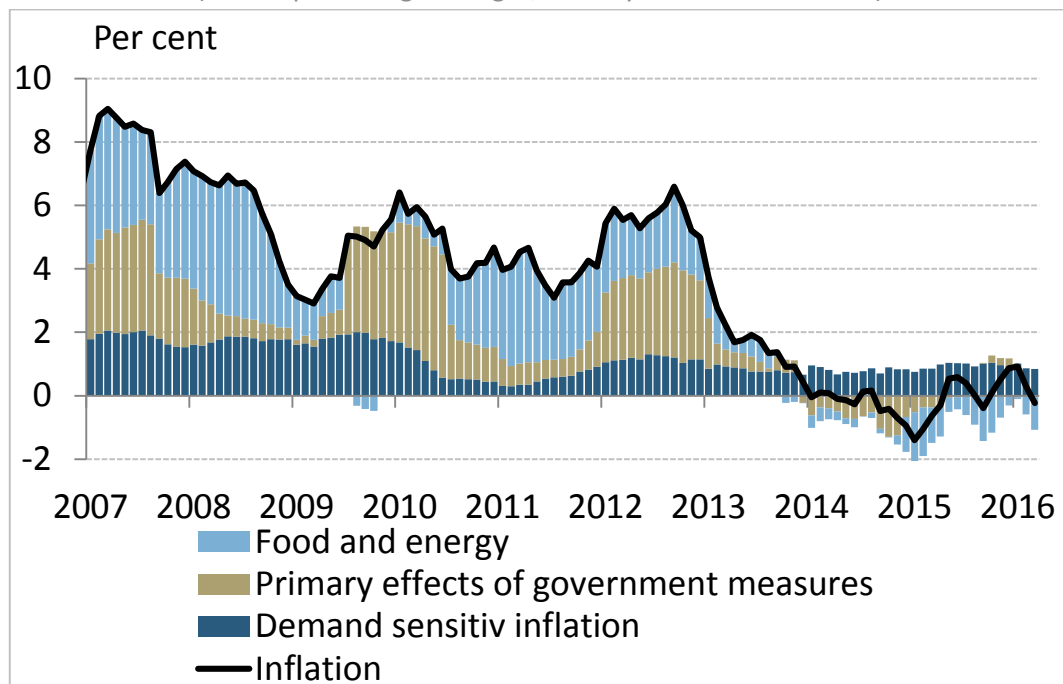


Chart 2: The consumer price index and core inflation excluding indirect taxes

(annual percentage changes, January 2007 – March 2016)

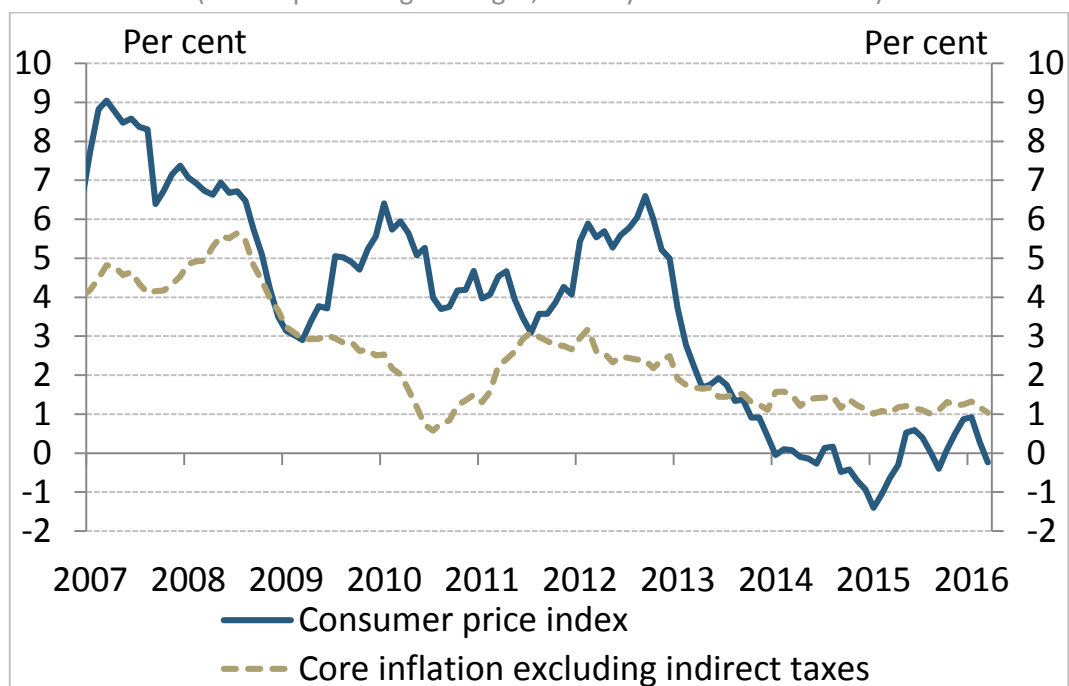
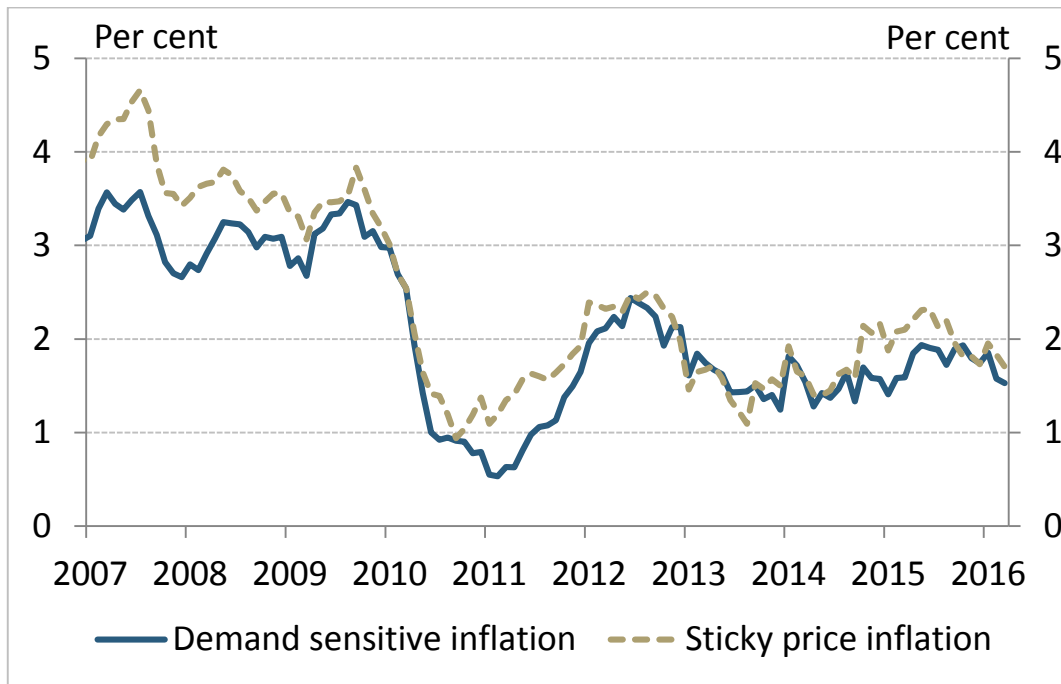


Chart 3: Underlying inflation indicators

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

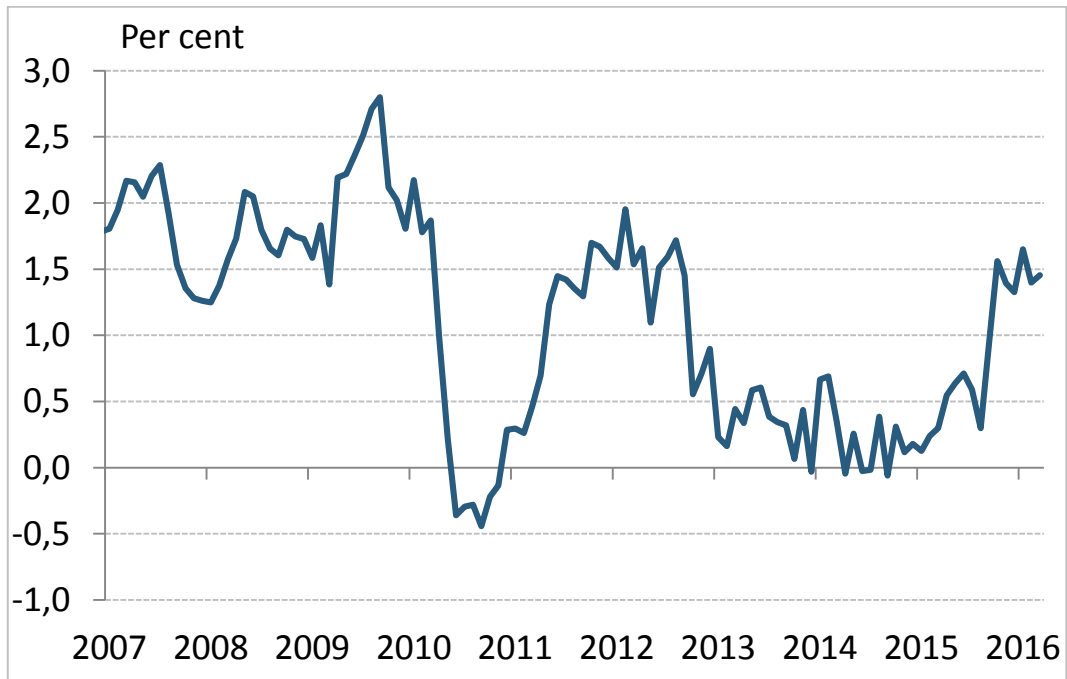


Chart 5: Inflation of market services

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

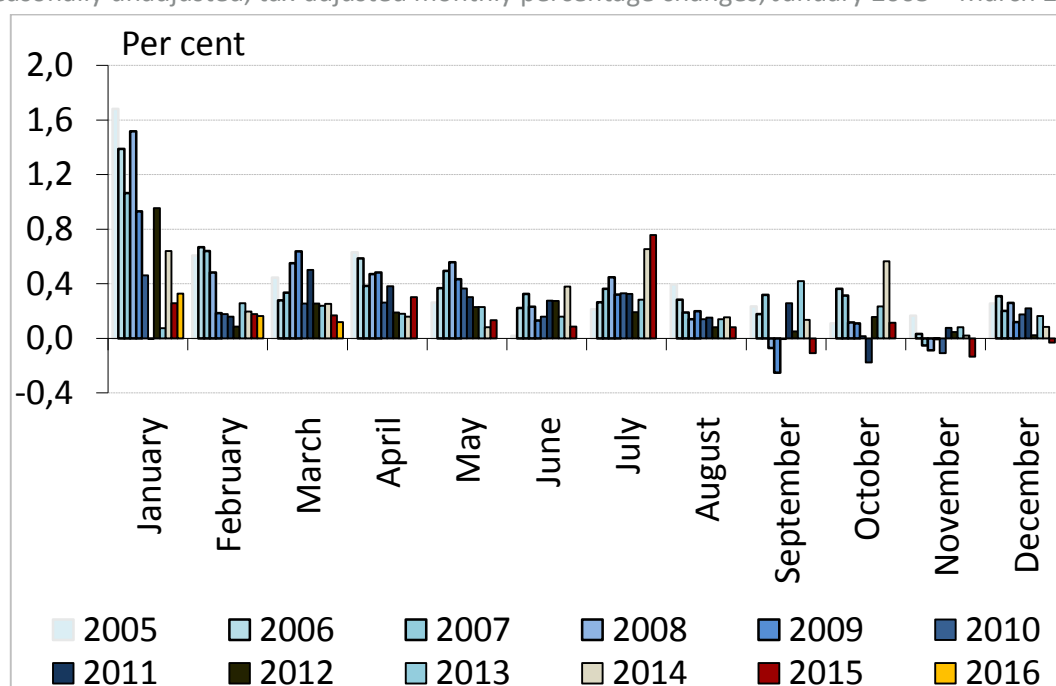
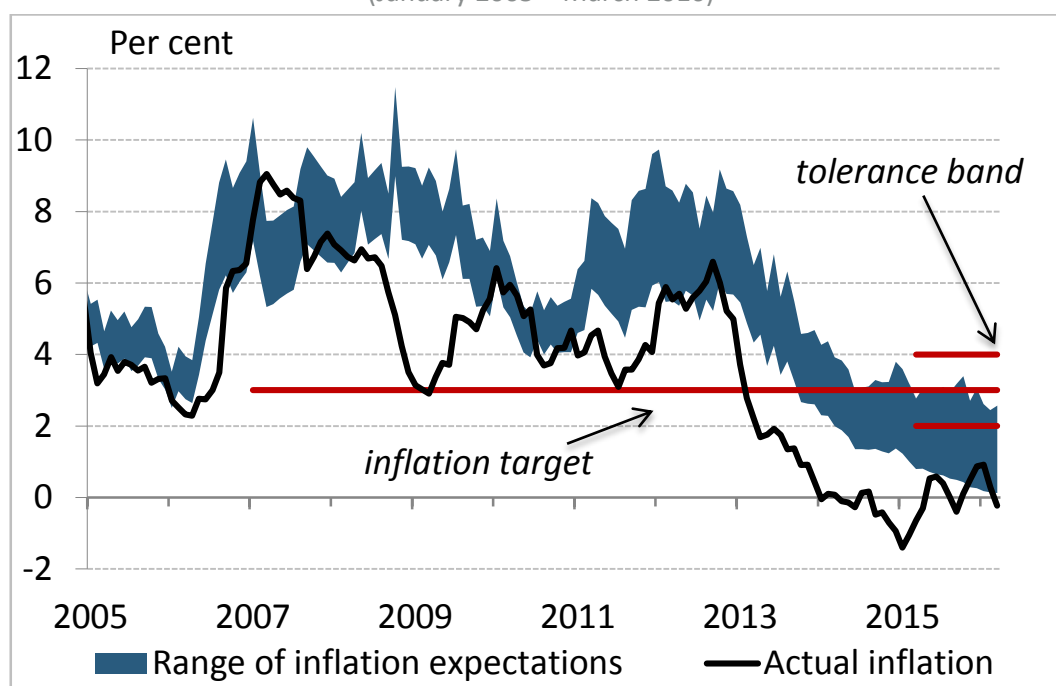


Chart 6 Households' inflation expectations

(January 2005 – March 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, March 2016 (HCSO)					
-0.2% (annual change)					
MNB underlying inflation indicators (MNB calculation)					
Contribution of sticky price inflation (percentage points), weight 32.4%	0.6	Contribution of demand sensitive inflation (percentage points), weight 55.0%	0.8	Contribution of core inflation excluding taxes (percentage points), weight 67.9%	0.7
Contribution of other items (percentage points)	-0.8	Contribution of other items (percentage points)	-1.1	Contribution of other items (percentage points)	-0.9

Sources: CSO and the MNB's own calculations.

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