



Monthly analysis of inflation developments

September 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

ASSESSMENT OF INFLATION DATA FOR SEPTEMBER 2016

In September 2016, annual *inflation* was 0.6 per cent. Both *core inflation* and *core inflation adjusted for the effects of indirect taxes* stood at 1.4 per cent (Chart 1). *Inflation* rose by 0.7 percentage point and *core inflation* by 0.2 percentage point relative to the previous month. The rise in inflation in September was mainly due to the increasing annual price index for fuel, reflecting a base effect (Charts 1 and 2).

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. The measures continue to indicate a moderate inflation environment (Chart 3).

The contribution of demand-sensitive products to inflation was unchanged, while movements in the more volatile items with greater sensitivity to cost changes, i.e. food and energy, continued to have 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 unchanged relative to the previous month (Chart 4). Within this product group, seasonally adjusted prices of both *durables* and *non-durables* were broadly unchanged. Movements in tradables prices reflected the price reducing effect of moderate import prices and the opposite effect of steadily rising domestic demand.

In September, *services* prices rose by 0.1 per cent relative to the previous month. This was consistent with monthly price dynamics seen in previous years. Overall, prices dynamics were moderate within this group, which characterised a broad range of products (Chart 5).

Seasonally adjusted *processed food* prices rose slightly relative to August, with the change in the price of milk being a key contributing factor.

Seasonally adjusted *unprocessed food* prices were broadly unchanged in the month.

Within *regulated* prices, textbook prices fell relative to the previous month. Price dynamics of other products were moderate.

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

Prepared by Judit Várhegyi

Budapest, 11 October 2016

Chart 1: Inflation decomposition

(annual percentage changes, January 2007 – September 2016)

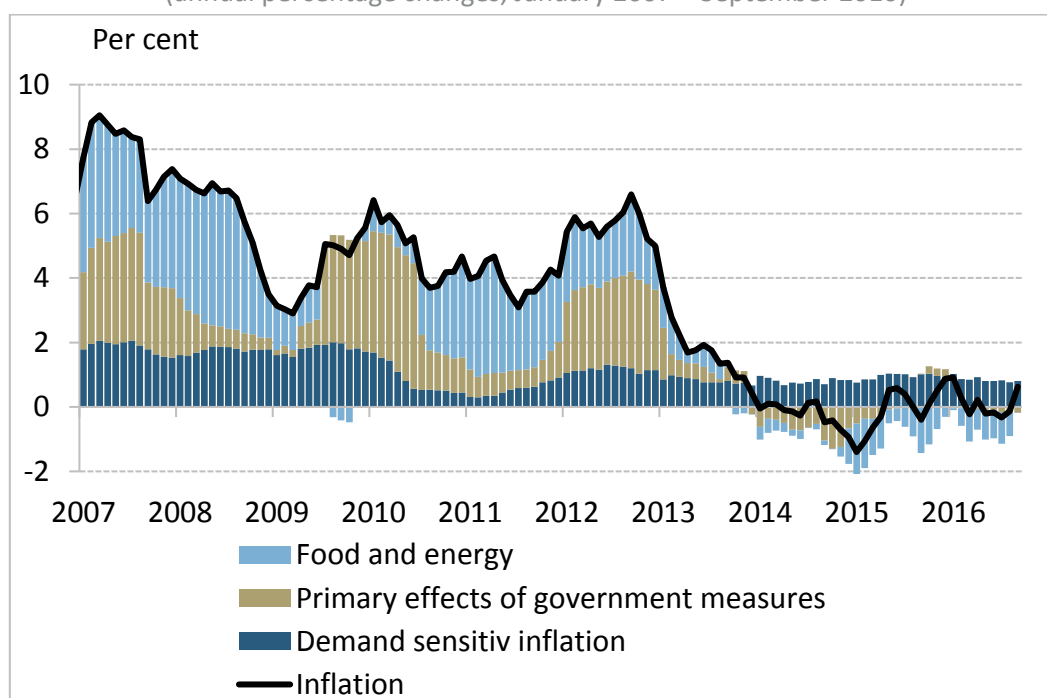


Chart 2: The consumer price index and core inflation excluding indirect taxes

(annual percentage changes, January 2007 – September 2016)

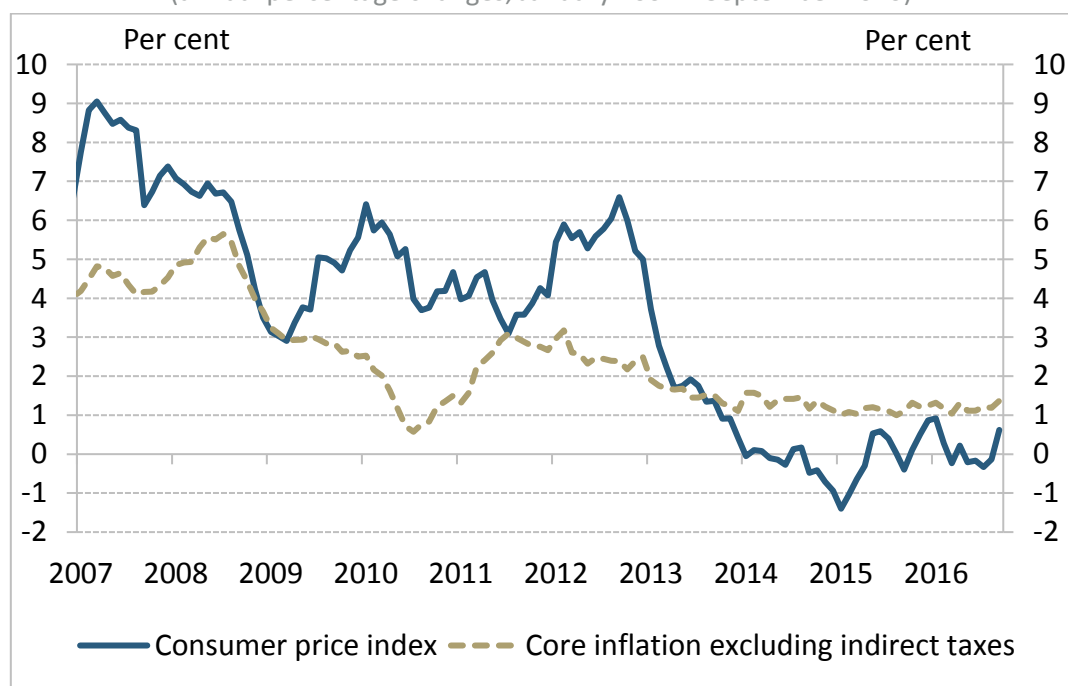
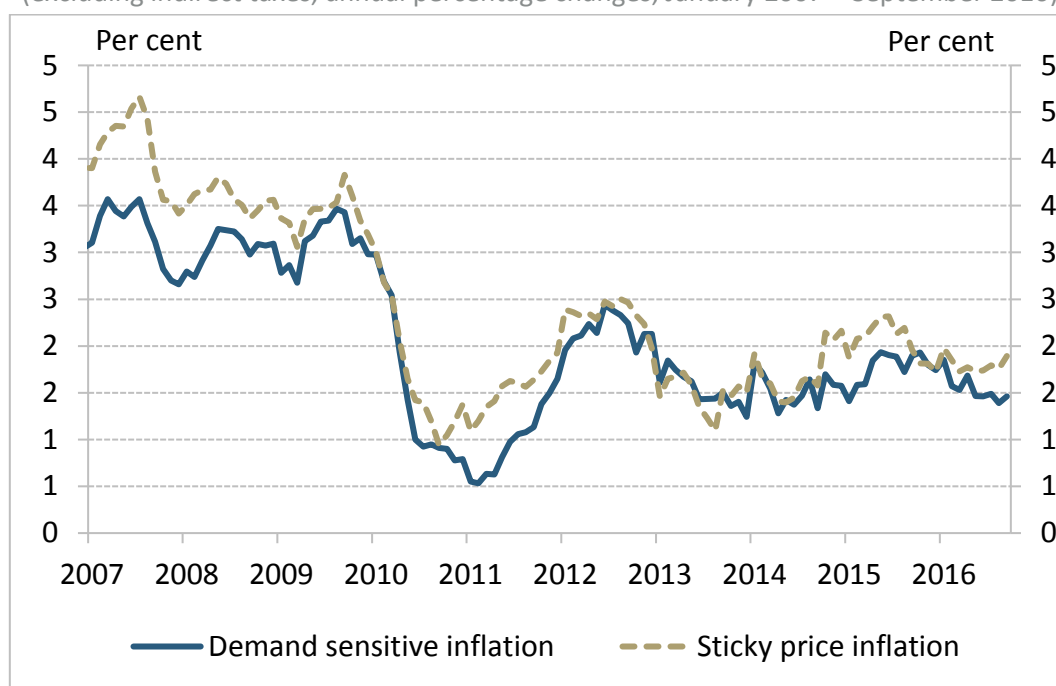


Chart 3: Underlying inflation indicators

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

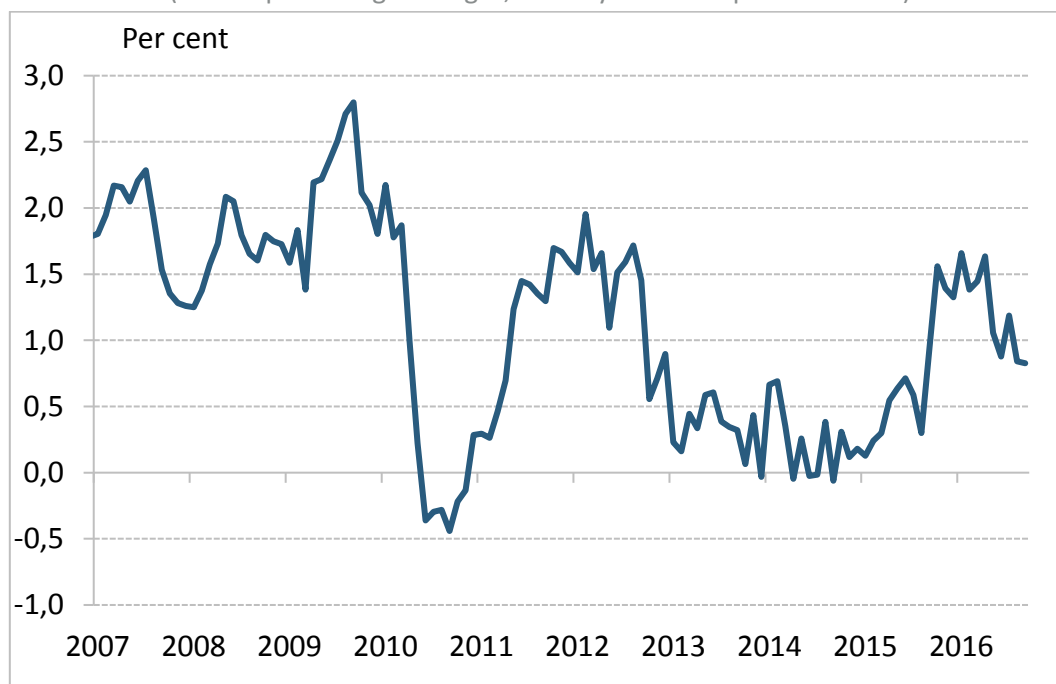


Chart 5: Inflation of market services

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

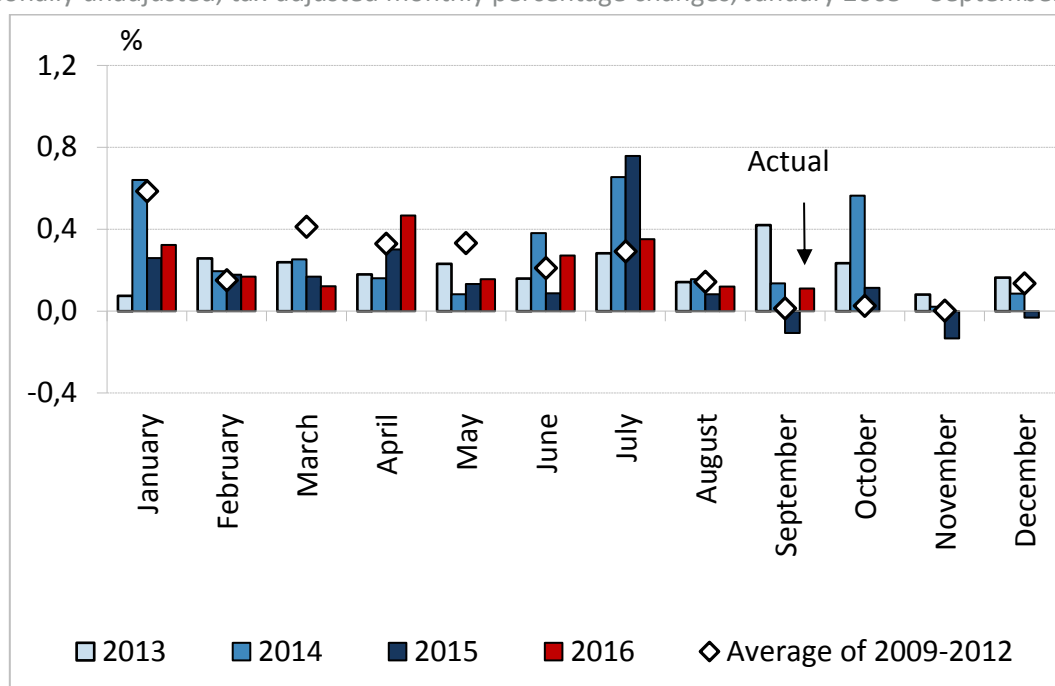
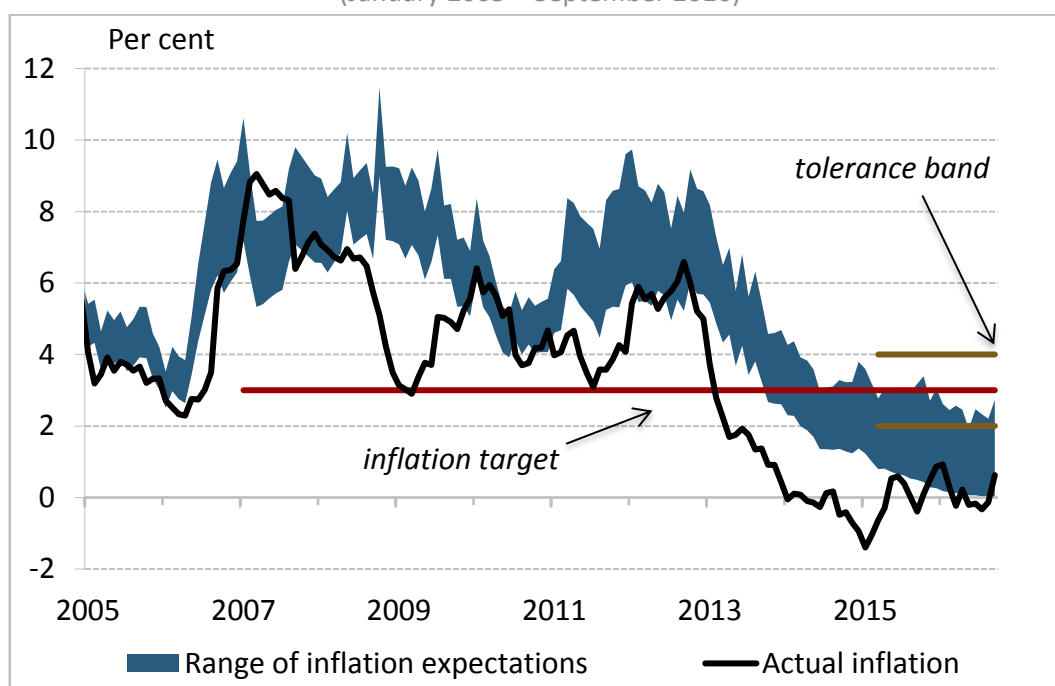


Chart 6 Households' inflation expectations

(January 2005 – September 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, September 2016 (HCSO)					
0.6% (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%	0.9
Contribution of other items (percentage points), weight 67.6%	0.0	Contribution of other items (percentage points), weight 45.0%	-0.2	Contribution of other items (percentage points), weight 32.1%	-0.3

Sources: CSO and the MNB's own calculations.

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