



# MONTHLY ANALYSIS OF INFLATION DEVELOPMENTS

DECEMBER  
**2017**

*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 Barnabas 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:

<https://www.mnb.hu/en/statistics/statistical-data-and-information/statistical-time-series/vi-prices/changes-to-the-publication-schedule-of-the-bank-s-measures-of-underlying-inflation-archive>

## ASSESSMENT OF INFLATION DATA FOR DECEMBER 2017

In December 2017, annual *inflation* was 2.1 percent. *Core inflation* stood at 2.7 percent and *core inflation adjusted for the effects of indirect taxes* at 2.2 percent (Chart 1). Headline inflation fell by 0.4 percentage points and core inflation was unchanged compared with the previous month. The decline in inflation reflected a drop in the price index for fuel due to base effects (Charts 1 and 2).

With the release of December data, fourth-quarter inflation was 2.3 percent and core inflation was 2.7 percent. Inflation adjusted for the effects of indirect taxes, calculated by the MNB, stood at 2.4 percent and core inflation adjusted for the effects of taxes at 2.2 percent in the fourth quarter of 2017. In 2017 as a whole, the consumer price index was 2.4 percent, core inflation was 2.3 percent and core inflation adjusted for the effects of indirect taxes was 2.1 percent.

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 November (Chart 3). The measures continued to be at or around 2 percent and remained below the level of core inflation.

In December 2017, the prices of more volatile items with greater sensitivity to cost changes, i.e. food and energy, contributed nearly equally to the increase in prices (Chart 1).

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

Seasonally adjusted *tradables* prices rose compared with the previous month (Chart 4). Within this product group, the prices of *durables* fell and those of *non-durables* rose, due mainly to the sharp increase in air fares. Movements in tradables prices continued to be driven by the price reducing effect of moderate import prices and the opposite effect of steadily rising domestic demand.

*Services* prices edged up by 0.1 percent in December compared with the previous month, which was consistent with the price dynamics seen in the previous year (Chart 5). Within this product group, price movements were moderate across a broad range of products. Based on companies' pricing practice characterising this product category, early next year may be a key factor shaping future movements in services inflation.

Seasonally and tax-adjusted *processed food* prices were largely unchanged compared with November. Milk prices rose markedly; however, this was offset at the level of this product group by declines in the prices of other products, mainly of sugar.

Seasonally and tax-adjusted *unprocessed food* prices rose at a rate comparable with that in November, caused in large part by the continued increase in egg prices. The increase in egg prices reflected the broad-based decline in supply in international markets.

Prices of *regulated products* were unchanged relative to November.

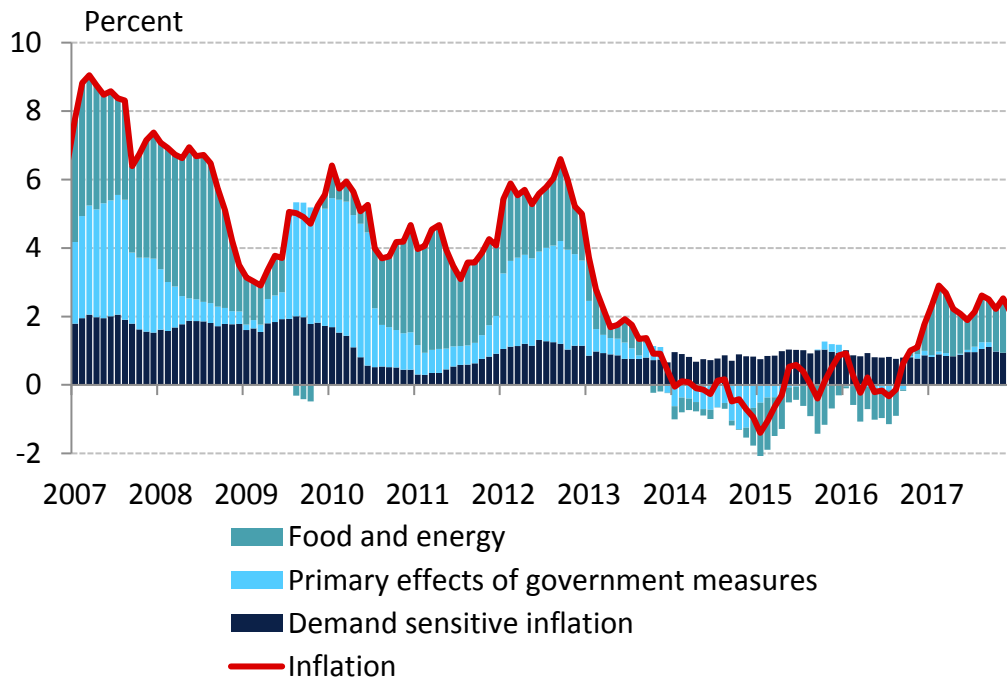
*Households' inflation expectations* remained at moderate levels in December (Chart 6).

Prepared by Judit Várhegyi

Budapest, 12 January 2018

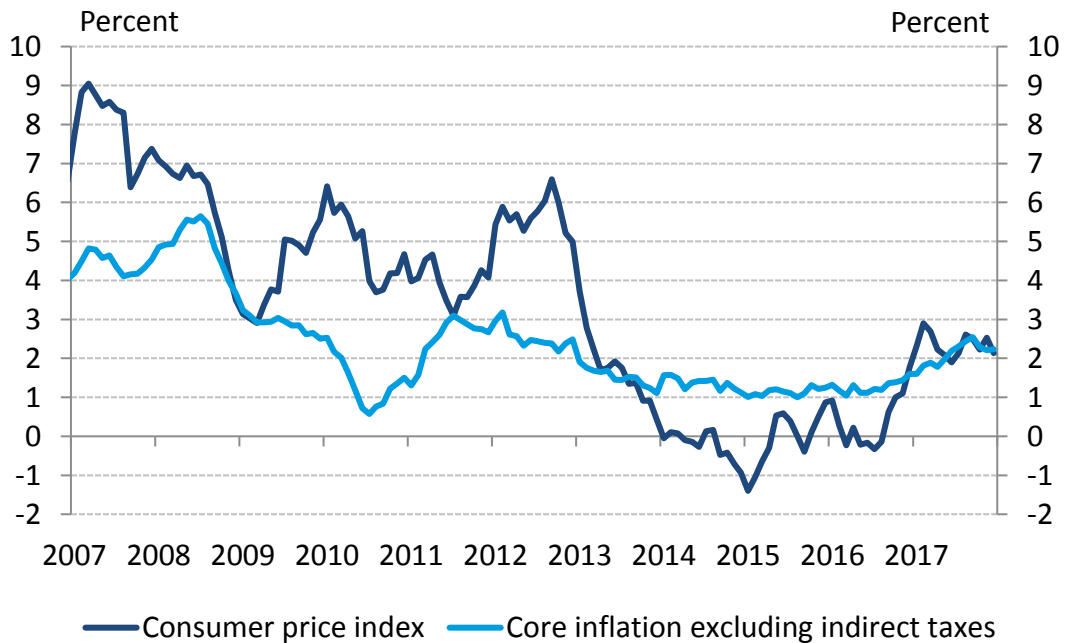
**Chart 1 Inflation decomposition**

(annual percentage changes, January 2007 – December 2017)



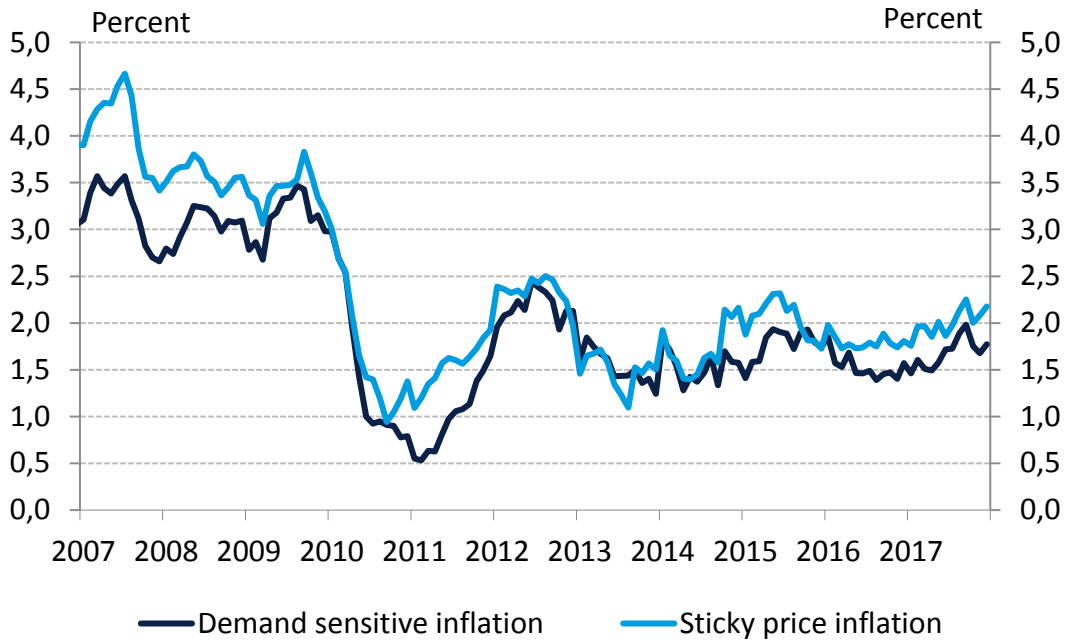
**Chart 2 The consumer price index and core inflation excluding indirect taxes**

(annual percentage changes, January 2007 – December 2017)



**Chart 3 Underlying inflation indicators**

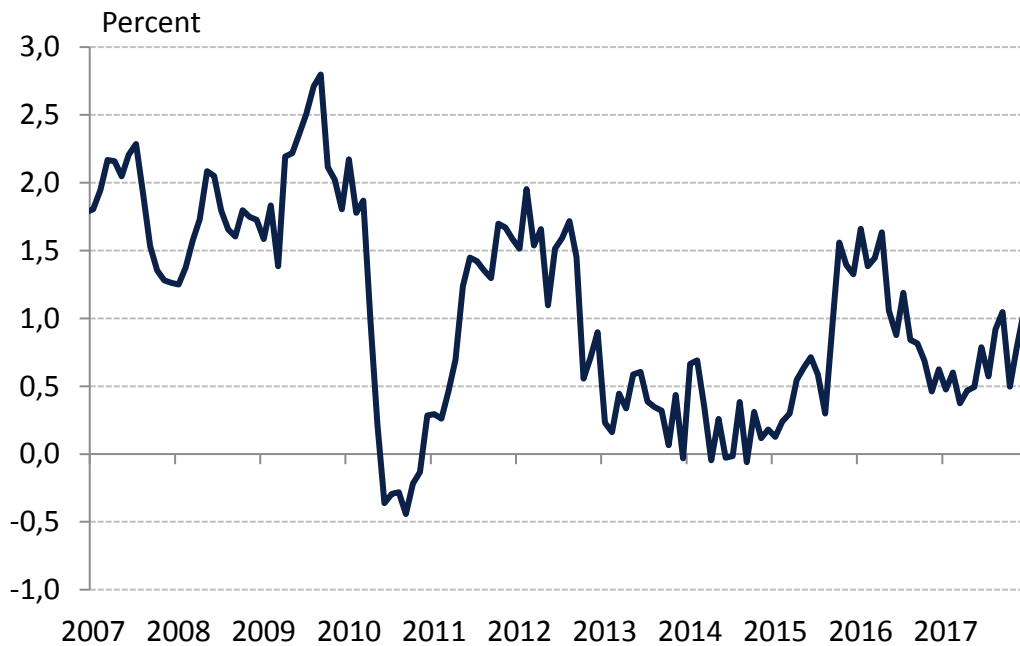
(excluding indirect taxes, annual percentage changes, January 2007 – December 2017)



*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.*

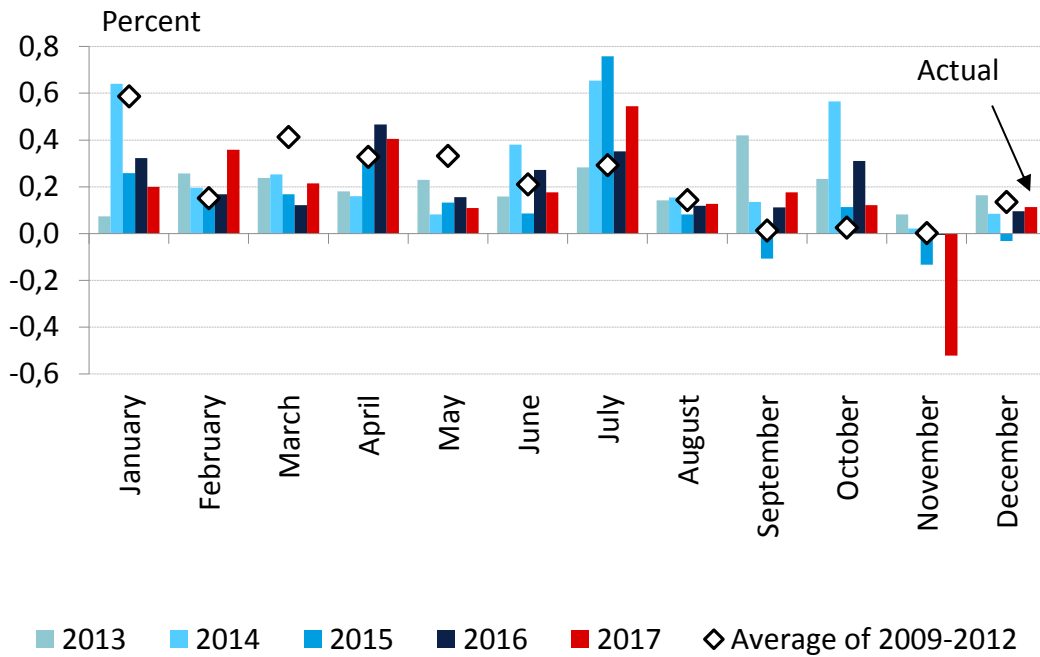
**Chart 4 Inflation of tradable goods**

(excluding taxes, annual percentage changes, January 2007 – December 2017)



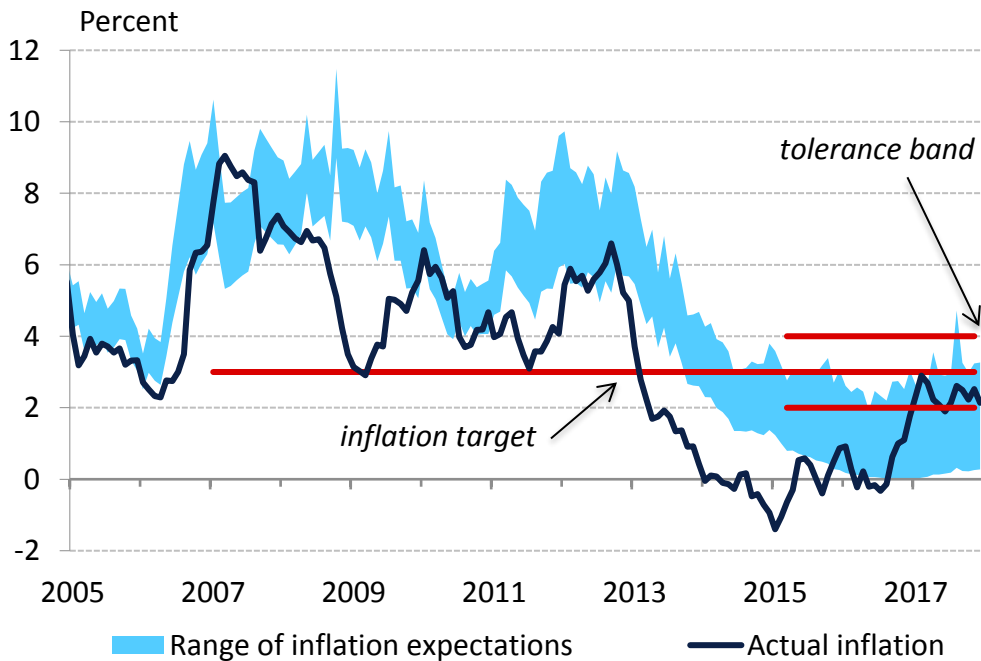
**Chart 5 Inflation of market services**

(seasonally unadjusted, tax-adjusted monthly percentage changes, January 2013 – December 2017)



**Chart 6 Households' inflation expectations**

(January 2005 – December 2017)



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 2017 (HCSO)					
2.1% (annual change)					
MNB underlying inflation indicators (MNB calculation)					
<b>Contribution of sticky price inflation (percentage points), weight 32.9%</b>	<b>0.7</b>	<b>Contribution of demand sensitive inflation (percentage points), weight 55.8%</b>	<b>1.0</b>	<b>Contribution of core inflation excluding taxes (percentage points), weight 68.9%</b>	<b>1.5</b>
Contribution of other items (percentage points), weight 67.1%	1.4	Contribution of other items (percentage points), weight 44.2%	1.1	Contribution of other items (percentage points), weight 31.1%	0.6

Sources: CSO and the MNB's own calculations.

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