



# Monthly analysis of inflation developments

July 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.*

*For further information, please contact Judit Várhegyi (e-mail: [varhegyij@mnb.hu](mailto:varhegyij@mnb.hu))*

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](http://english.mnb.hu/Statisztika/data-and-information/mnben_statistikai_idosorok/mnben_elv_prices/underlying_inflation_indicators_MNB)

## ASSESSMENT OF INFLATION DATA FOR JULY 2017

In July 2017, annual *inflation* was 2.1 percent. *Core inflation* stood at 2.6 percent, and *core inflation adjusted for the effects of indirect taxes* at 2.3 percent (Chart 1). Both inflation and core inflation rose by 0.2 percentage points relative to the previous month. The increase in inflation primarily reflected movements in core inflation items in the month. The increase in core inflation in turn was mainly due to rises in the price indices for processed food as well as for market services and alcoholic beverages and tobacco. Higher tobacco prices primarily reflected the increase in excise duties from July 2017 (Charts 1 and 2).

The Bank's measures of *underlying inflation developments* (annual inflation rates of demand-sensitive and sticky-price products and services) continued to be in a 1.5-2.0 percent band (Chart 3).

In July 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.

The annual inflation rate of *tradables* rose slightly relative to the previous month and continued to be at moderate levels (Chart 4). Within this product group, *durables* prices were practically unchanged and *non-durables* prices fell slightly relative to the previous month. In the case of the latter, the increase in volatile air fares was offset by a decline in clothing prices due to summer sales discounts. Movements in tradables prices have continued to be driven by the price reducing effect of moderate import prices and the opposite effect of steadily rising domestic demand.

In July, *services* prices rose by 0.5 percent compared with the previous month, which was one of the strongest monthly increases of recent years. Higher price dynamics relative to a year earlier mainly reflected increases in the prices of domestic holiday services and insurance fees, in line with seasonal patterns (Chart 5).

Seasonally and tax-adjusted *processed food* prices rose relative to June, mainly due to increases in the prices of milk and dairy products.

Seasonally and tax-adjusted *unprocessed food* prices rose, driven primarily by higher potato prices.

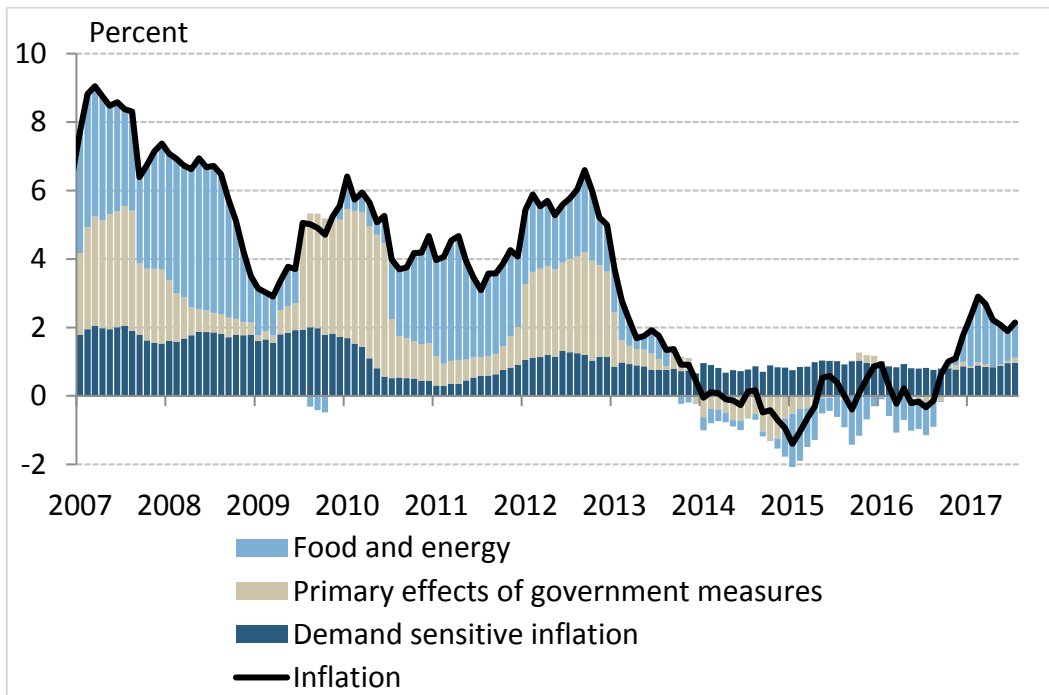
*Regulated prices* were unchanged relative to the previous month.

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

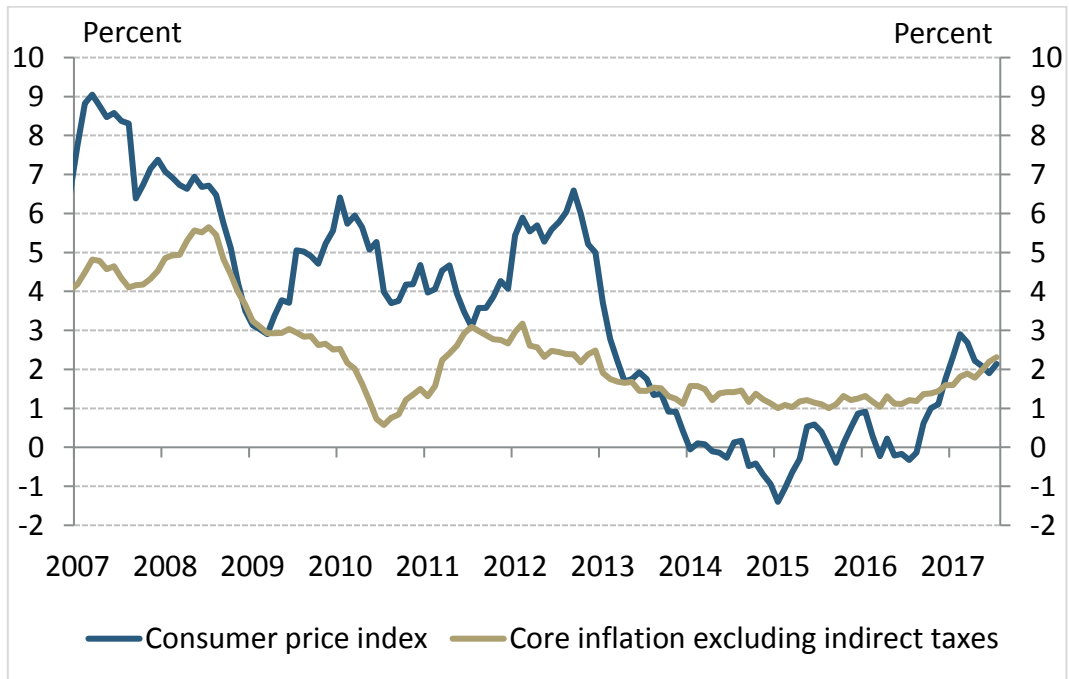
Prepared by Judit Várhegyi

Budapest, 8 August 2017

**Chart 1 Inflation decomposition**  
 (annual percentage changes, January 2007 – July 2017)

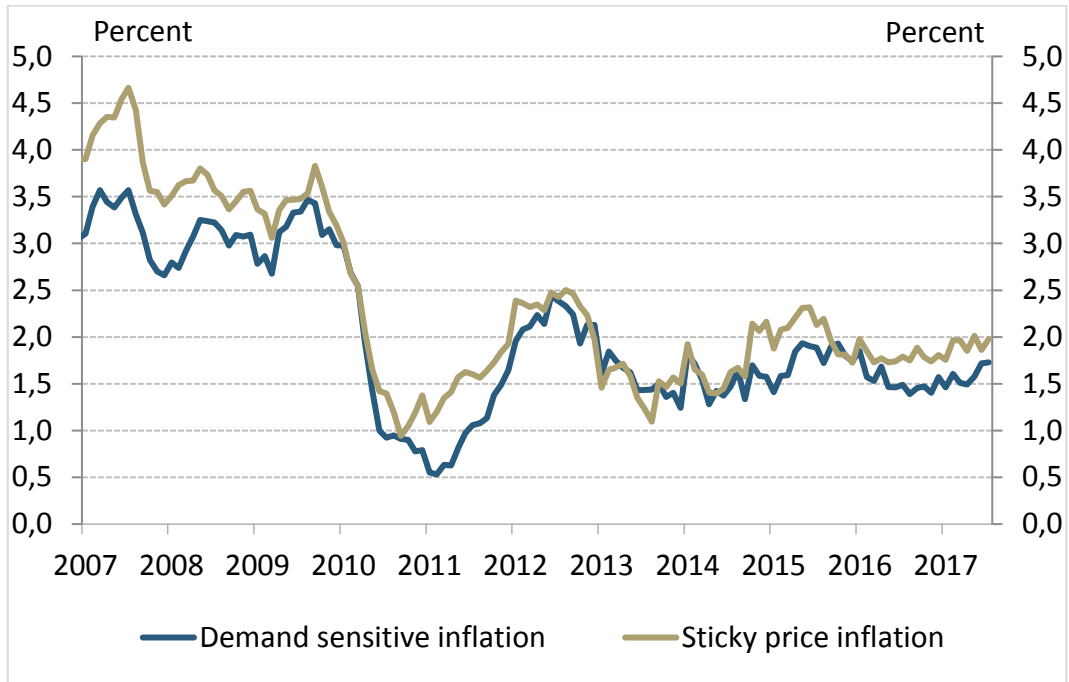


**Chart 2 The consumer price index and core inflation excluding indirect taxes**  
 (annual percentage changes, January 2007 – July 2017)



**Chart 3 Underlying inflation indicators**

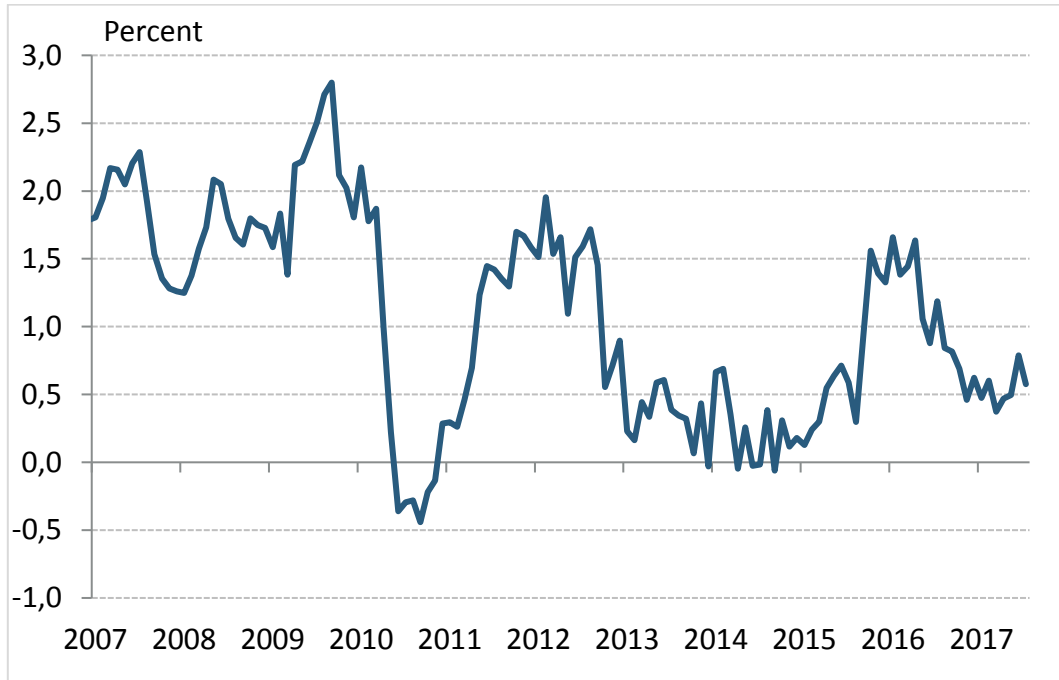
(excluding indirect taxes, annual percentage changes, January 2007 – July 2017)



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.

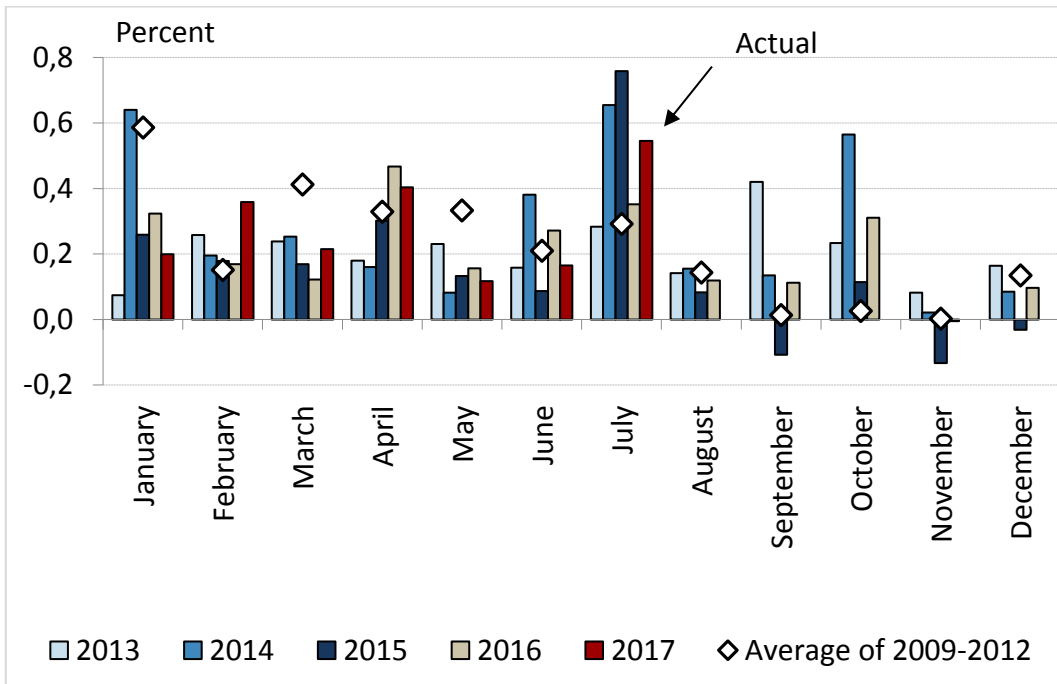
**Chart 4 Inflation of tradable goods**

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



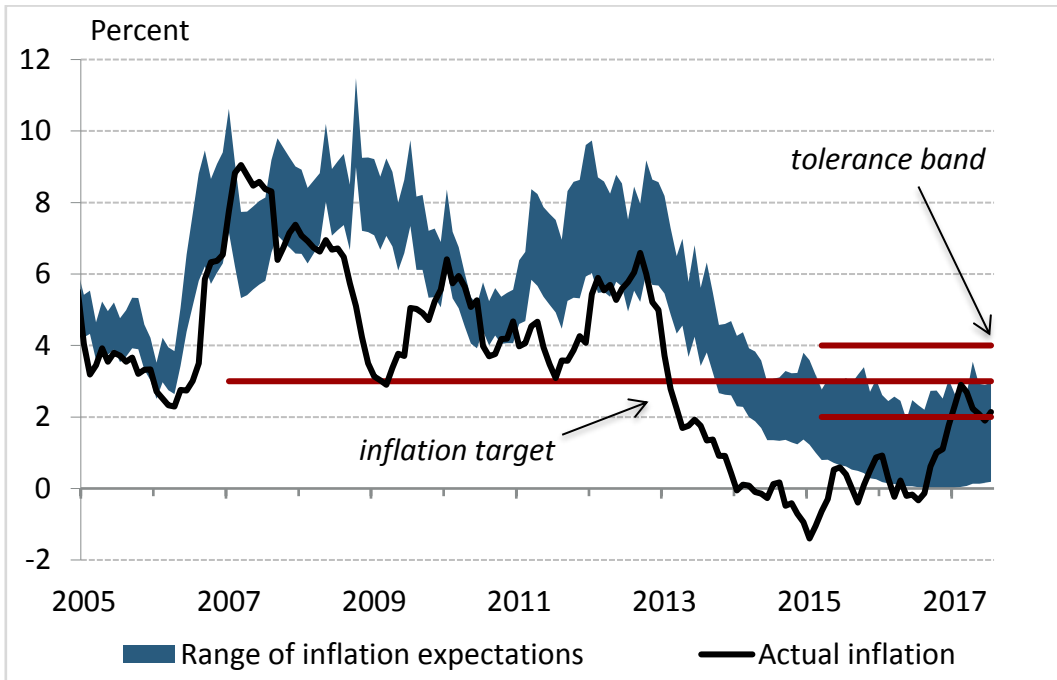
**Chart 5 Inflation of market services**

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



**Chart 6 Households' inflation expectations**

(January 2005 – July 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, July 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>0.6</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>1.6</b>
Contribution of other items (percentage points), weight 67.1%	1.5	Contribution of other items (percentage points), weight 44.2%	1.2	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.