



Monthly analysis of inflation developments

October 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:

http://english.mnb.hu/Statisztika/data-and-information/mnben_statisztikai_idosorok/mnben_elv_prices/underlying_inflation_indicators_MNB

ASSESSMENT OF INFLATION DATA FOR OCTOBER 2017

In October 2017, annual *inflation* was 2.2 percent. *Core inflation* stood at 2.7 percent and *core inflation adjusted for the effects of indirect taxes* at 2.3 percent (Chart 1). Headline inflation fell by 0.3 percentage points and core inflation by 0.2 percentage points compared with the previous month. The decline in inflation primarily reflected a drop in the price indices for tradables and fuel (Charts 1 and 2).

The Bank's measures of *underlying inflation developments* (annual inflation rates of demand-sensitive and sticky-price products and services) fell compared with the previous month to around 2 percent, and continued to be significantly below the level of core inflation (Chart 3).

In October 2017, the prices of more volatile items with greater sensitivity to cost changes, i.e. food and energy, as well as demand-sensitive products 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 fell compared with the previous month. Within this product group, the prices of both *durables* and *non-durables* were lower than in the previous month. Within the latter group, the decrease in prices mainly reflected movements in air fares. Base effects also contributed to the decline in the annual inflation rate of tradables. 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 rose by 0.1 percent in October compared with the previous month. Price dynamics in this product category were lower than in the previous year, mainly reflecting changes in the prices of health services and cable TV charges, which showed moderate dynamics after the higher than usual in last October. Movements in the rest of services prices were moderate (Chart 5).

Seasonally and tax-adjusted *processed food* prices rose slightly compared with September, mainly due to continued increases in the prices of milk and dairy products. Price dynamics in this product category slowed in October after the significant price increases in the last few months.

Seasonally and tax-adjusted *unprocessed food* prices rose, mainly reflecting an increase in vegetable prices.

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

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

Prepared by Judit Várhegyi

Budapest, 9 November 2017

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

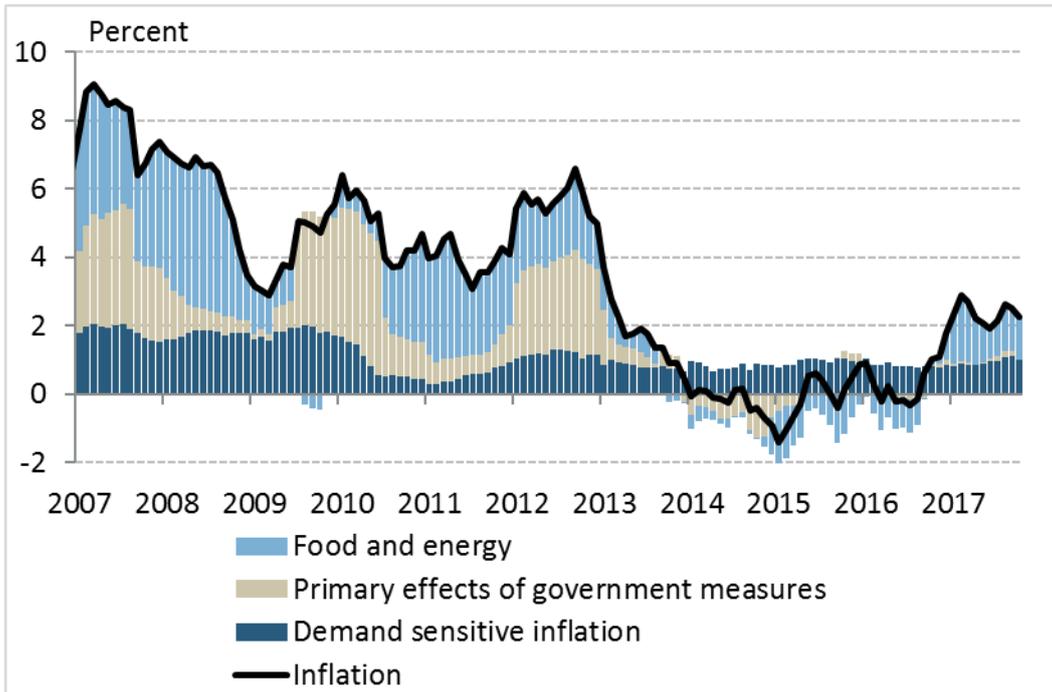


Chart 2 The consumer price index and core inflation excluding indirect taxes
 (annual percentage changes, January 2007 – October 2017)

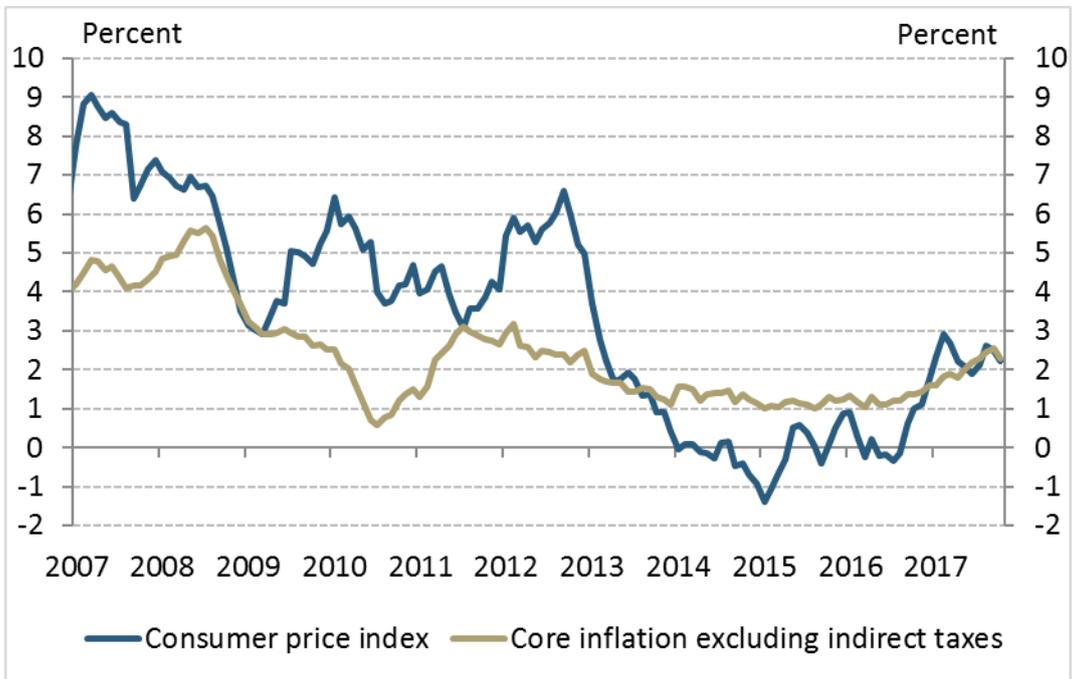
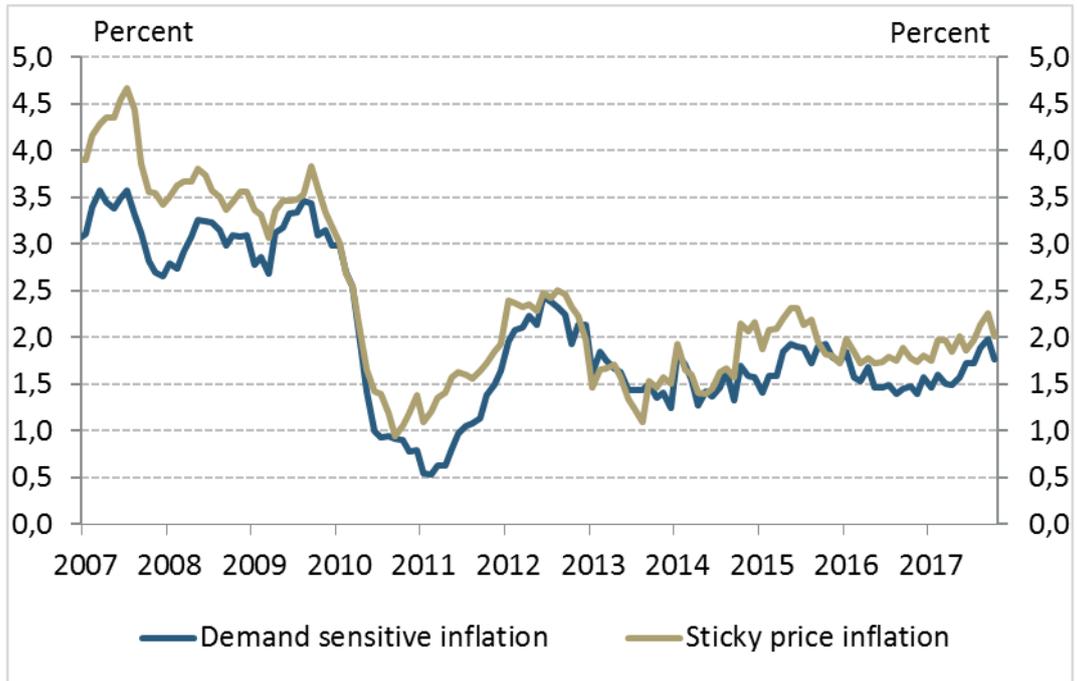


Chart 3 Underlying inflation indicators

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

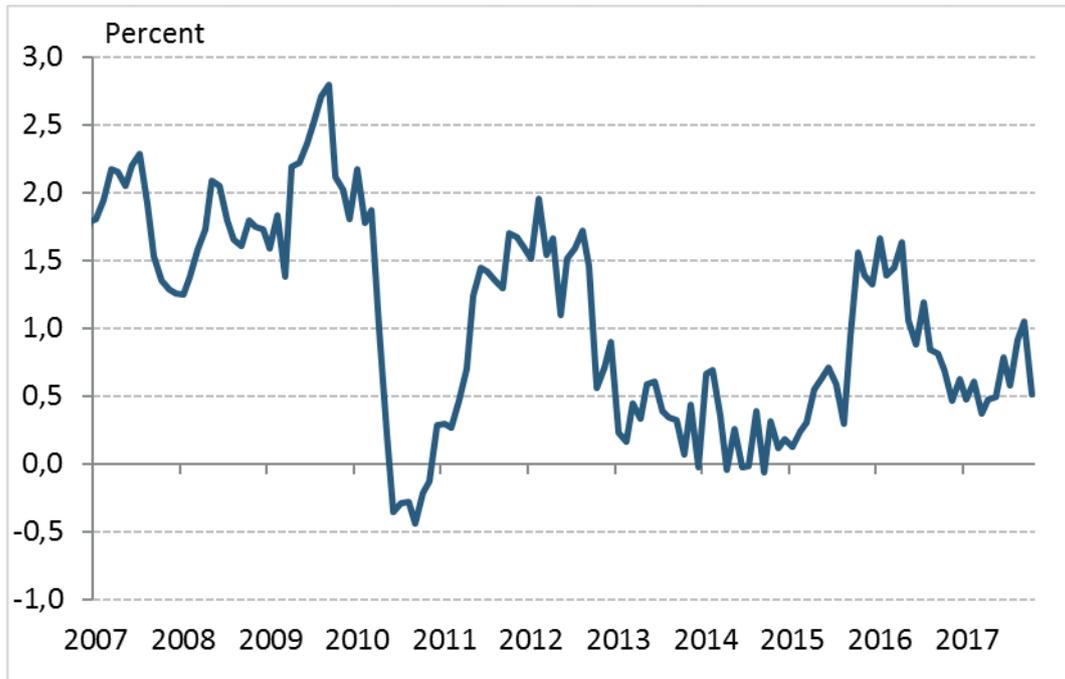


Chart 5 Inflation of market services

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

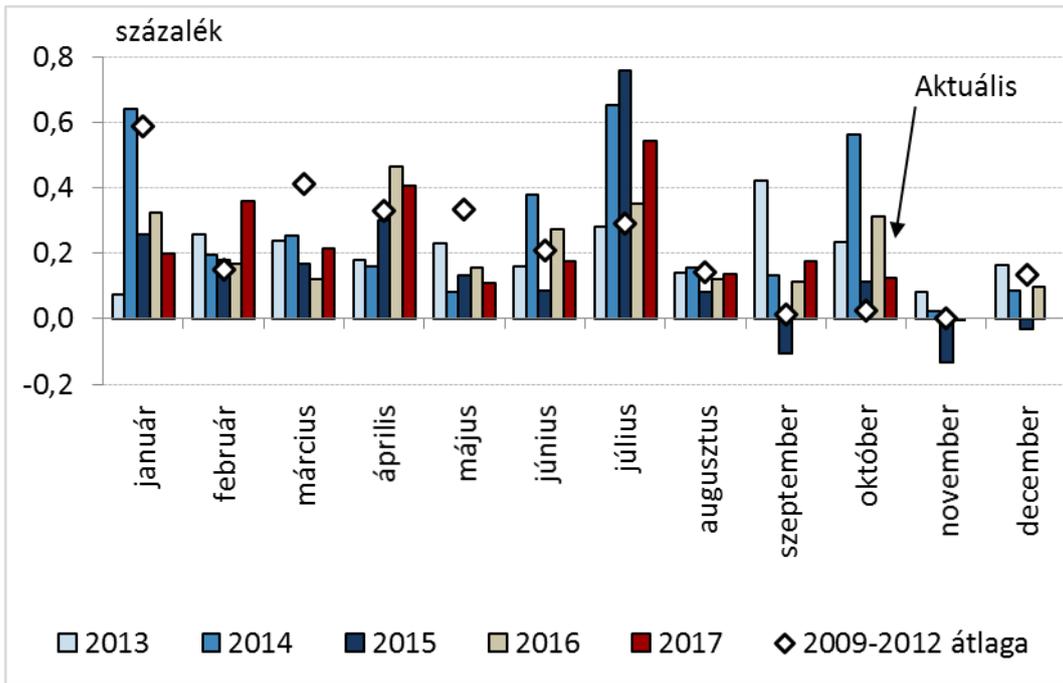
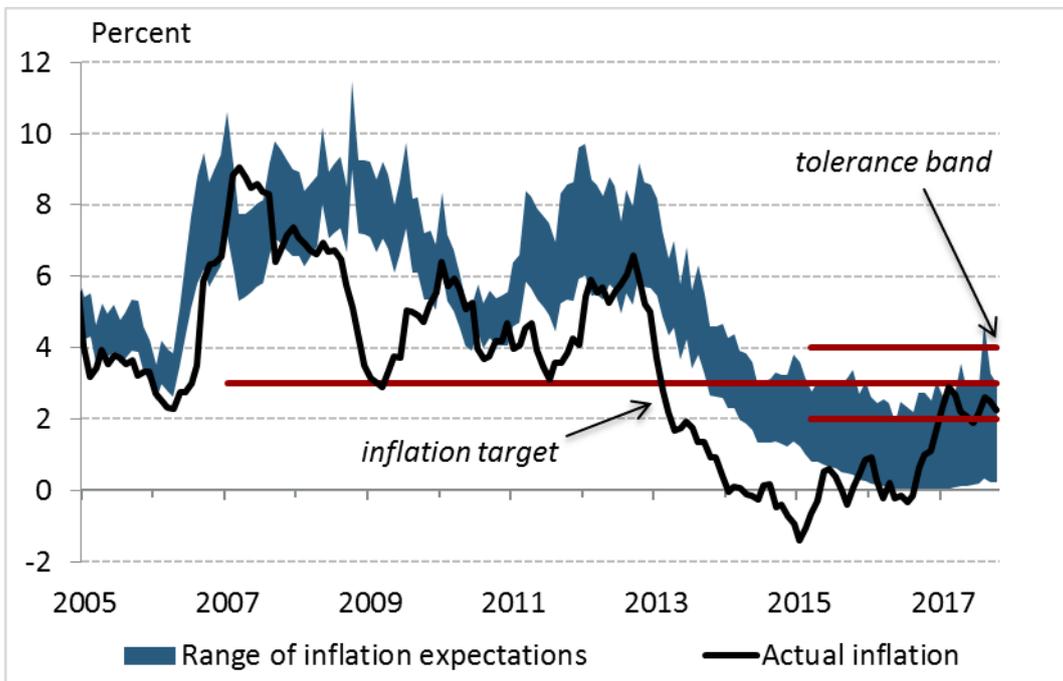


Chart 6 Households' inflation expectations

(January 2005 – October 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, October 2017 (HCSO)					
2.2% (annual change)					
MNB underlying inflation indicators (MNB calculation)					
Contribution of sticky price inflation (percentage points), weight 32.9%	0.7	Contribution of demand sensitive inflation (percentage points), weight 55.8%	1.0	Contribution of core inflation excluding taxes (percentage points), weight 68.9%	1.6
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.