



MONTHLY ANALYSIS OF INFLATION DEVELOPMENTS

JULY
2018

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.

For further information, please contact Judit Várhegyi (e-mail: 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

ASSESSMENT OF INFLATION DATA FOR JULY 2018

In July 2018, annual *inflation* was 3.4 per cent. *Core inflation* stood at 2.5 per cent and *core inflation adjusted for the effects of indirect taxes* at 2.4 per cent (Chart 1). Headline inflation rose by 0.3 percentage points and core inflation by 0.1 percentage point compared with the previous month. The increase in inflation in the month reflected rises in the price indices for fuel and tradable goods. In the projection in the MNB's June Inflation Report, inflation rises slightly above 3 percent temporarily, reflecting the increase in oil prices (Chart 2), and reaches the 3 percent target sustainably by the middle of 2019.

The Bank's measures of *underlying inflation developments* (annual inflation rates of demand-sensitive and sticky-price products and services) rose compared with June (Chart 3).

In July 2018, the contribution of fuel prices to inflation increased. The prices of food and demand-sensitive products influenced inflation developments to a similar degree, as seen in the previous month (Chart 2).

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 both *durables* and *non-durables* fell. The increase mainly reflected rises in the prices of new motor cars. 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 0.5 per cent in July compared with the previous month. Price dynamics in this product group were comparable to those seen in previous years (Chart 5). Higher domestic holiday prices were the main factor behind the increase in services prices.

Seasonally and tax-adjusted *processed food* rose compared with June. The increase was mainly related to rises in the prices of processed meat products as well as in milk and dairy product prices.

Seasonally and tax-adjusted *unprocessed food* prices rose in July, mainly reflecting increases in the prices of seasonal goods, particularly fresh vegetables and fruits.

Prices of *regulated products* were broadly unchanged compared with June.

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

Prepared by Judit Várhegyi

Budapest, 8 August 2018

Chart 1: Inflation decomposition
(annual percentage changes, January 2007 – July 2018)

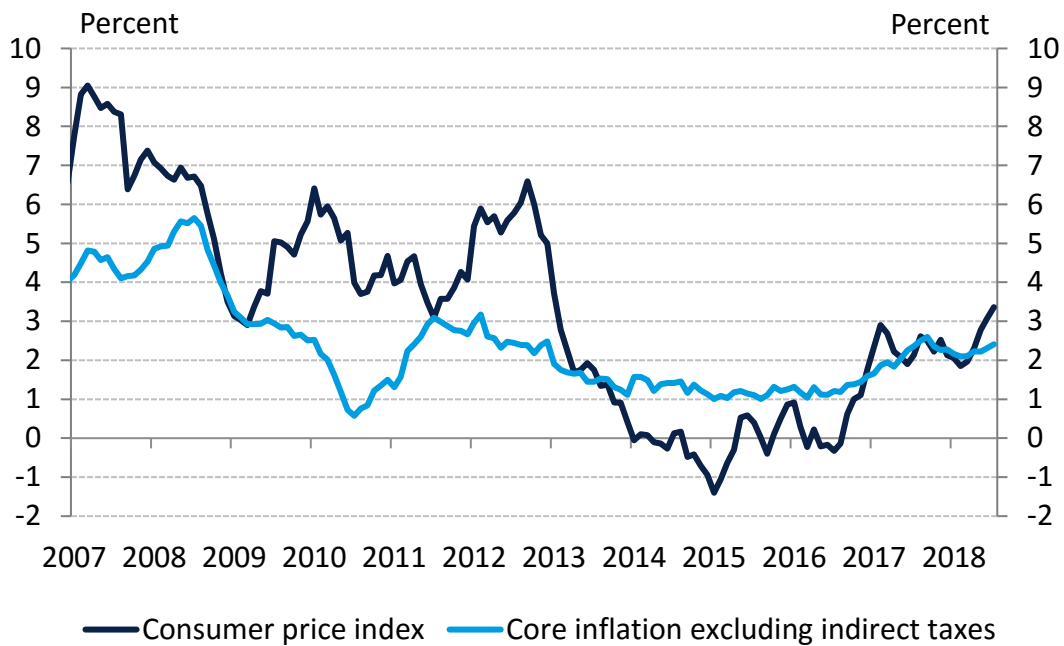


Chart 2: The consumer price index and core inflation excluding indirect taxes
(annual percentage changes, January 2007 – July 2018)

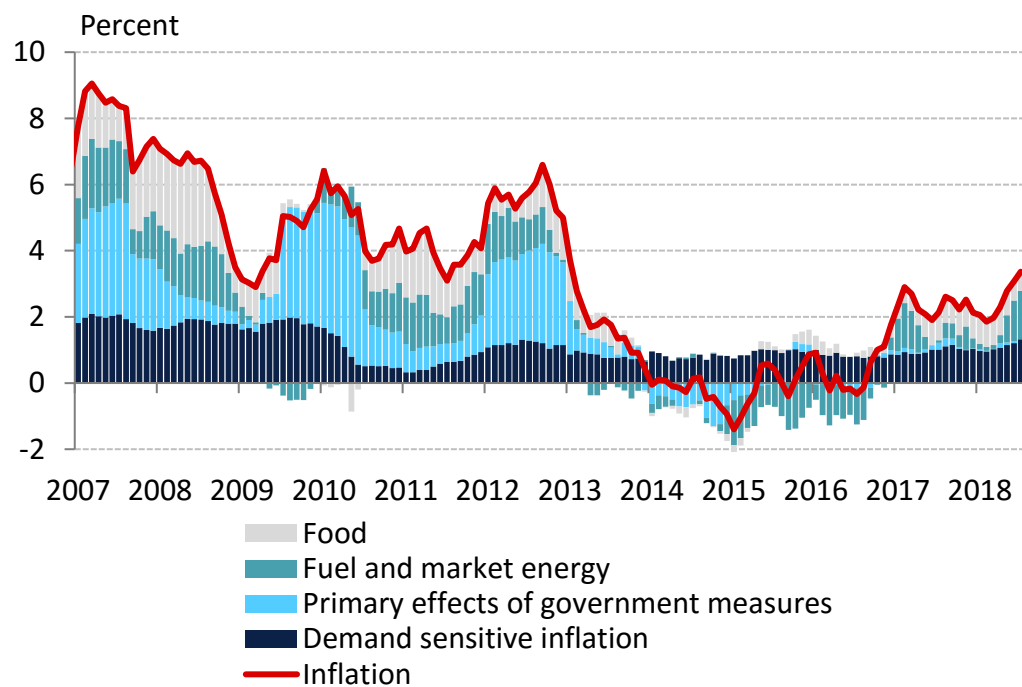
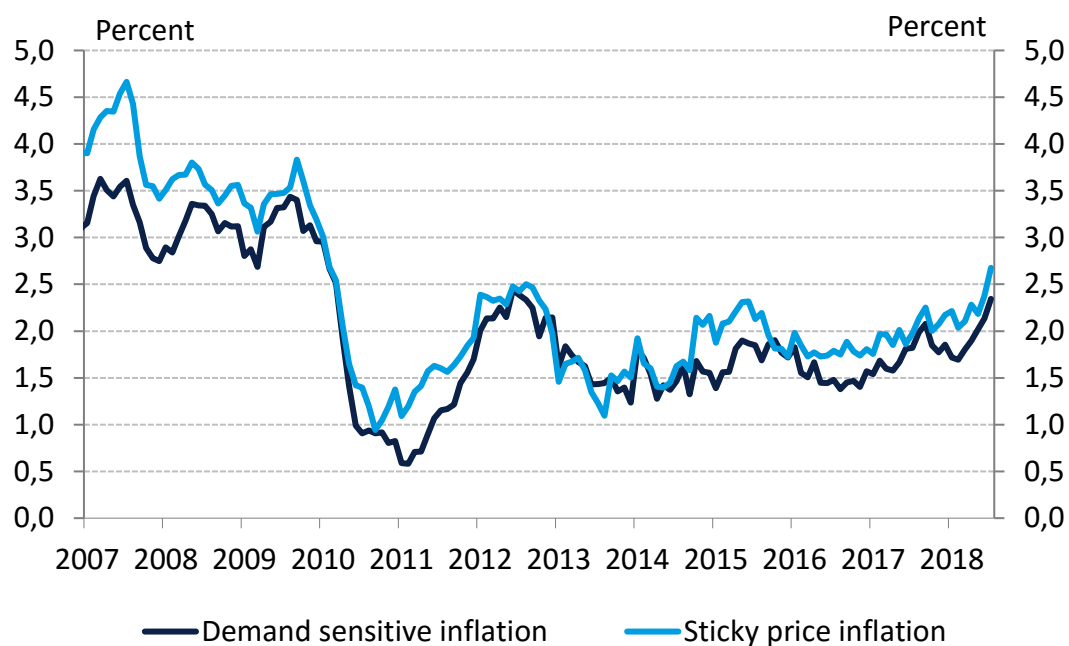


Chart 3: Underlying inflation indicators

(excluding indirect taxes, annual percentage changes, January 2007 – July 2018)



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 2018)

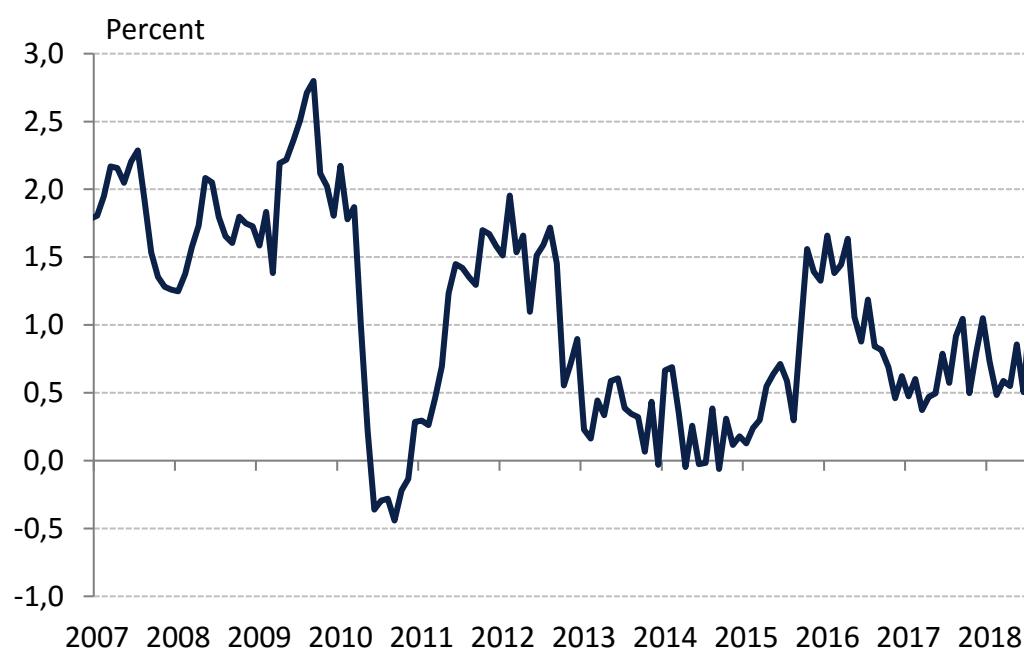


Chart 5: Market services inflation

(seasonally unadjusted, tax-adjusted monthly percentage changes, January 2014 – July 2018)

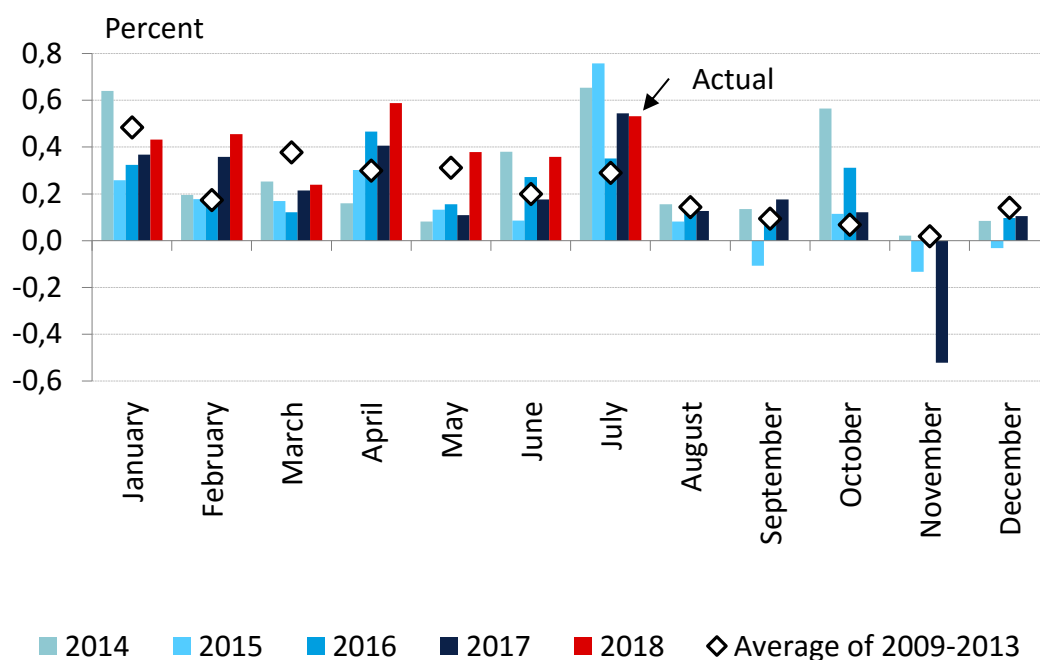
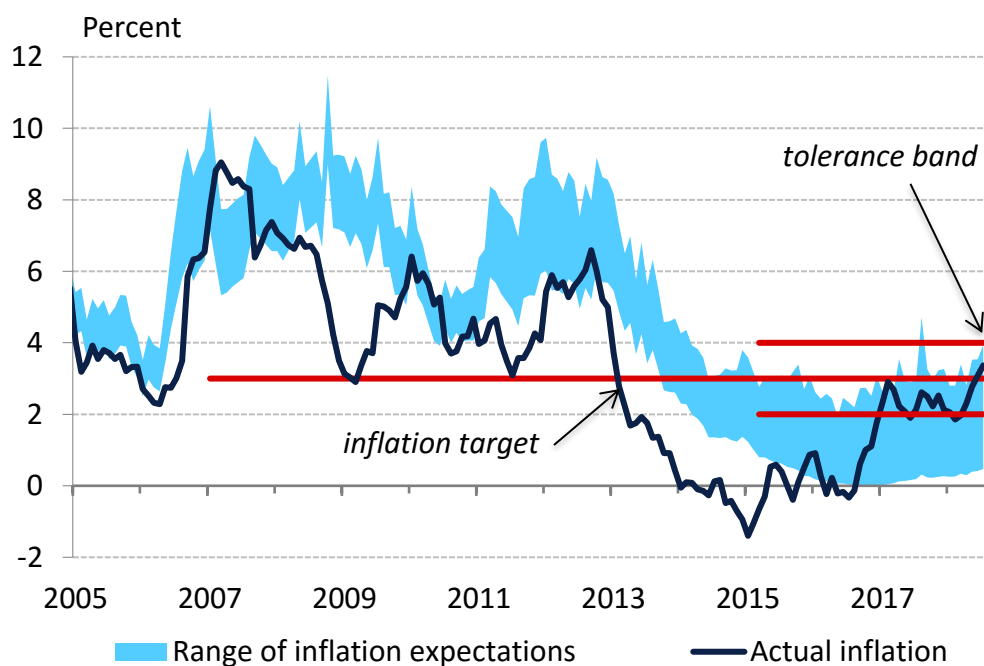


Chart 6: Households' inflation expectations

(January 2005 – July 2018)



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 2018 (HCSO)					
3.4% (annual change)					
MNB underlying inflation indicators (MNB calculation)					
Contribution of sticky price inflation (percentage points), weight 33.5%	0.9	Contribution of demand sensitive inflation (percentage points), weight 56.6%	1.3	Contribution of core inflation excluding taxes (percentage points), weight 69.3%	1.7
Contribution of other items (percentage points), weight 66.5%	2.5	Contribution of other items (percentage points), weight 43.4%	2.1	Contribution of other items (percentage points), weight 30.7%	1.7

Sources: CSO and the MNB's own calculations.

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