



MONTHLY ANALYSIS OF INFLATION DEVELOPMENTS

JUNE
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.

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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/Statiztika/data-and-information/mnben_statiztikai_idosorok/mnben_elv_prices/underlying_inflation_indicators_MNB

ASSESSMENT OF INFLATION DATA FOR JUNE 2018

In June 2018, annual *inflation* was 3.1 percent, rising by 0.3 percentage points compared with the previous month. *Core inflation* was unchanged at 2.4 percent and *core inflation adjusted for the effects of indirect taxes* stood at 2.3 percent (Chart 1). According to the projection in the June Inflation Report, inflation temporarily rise slightly above 3 percent driven by the sharp increase in oil prices (Chart 2). The 3 percent inflation target will be achieved in a sustainable manner by mid-2019.

The Bank's measures of *underlying inflation developments* (annual inflation rates of demand-sensitive and sticky-price products and services) rose slightly compared with May. The measures continued to be between 2–2.5 percent (Chart 3).

In June 2018, the contribution of fuel prices to inflation rose. 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 fell compared with the previous month (Chart 4). Within this product group, the prices of both *durables* (mainly TV sets) and *non-durables* fell. 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 0.4 percent in June compared with the previous month. Price dynamics in this product group were higher than in previous years, which was mainly linked to service categories relating to restaurants and other food services (Chart 5).

Seasonally and tax-adjusted *processed food* rose compared with May. The increase was mainly related to the rise in milk prices.

Seasonally and tax-adjusted *unprocessed food* prices fell in June. Price dynamics in this product group in the month were related to declines in the prices of several products, mainly in potato and pork prices.

Prices of *regulated products* were unchanged compared with May.

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

Prepared by Judit Várhegyi

Budapest, 10 July 2018

Chart 1: The consumer price index and core inflation excluding indirect taxes
(annual percentage changes, January 2007 – June 2018)

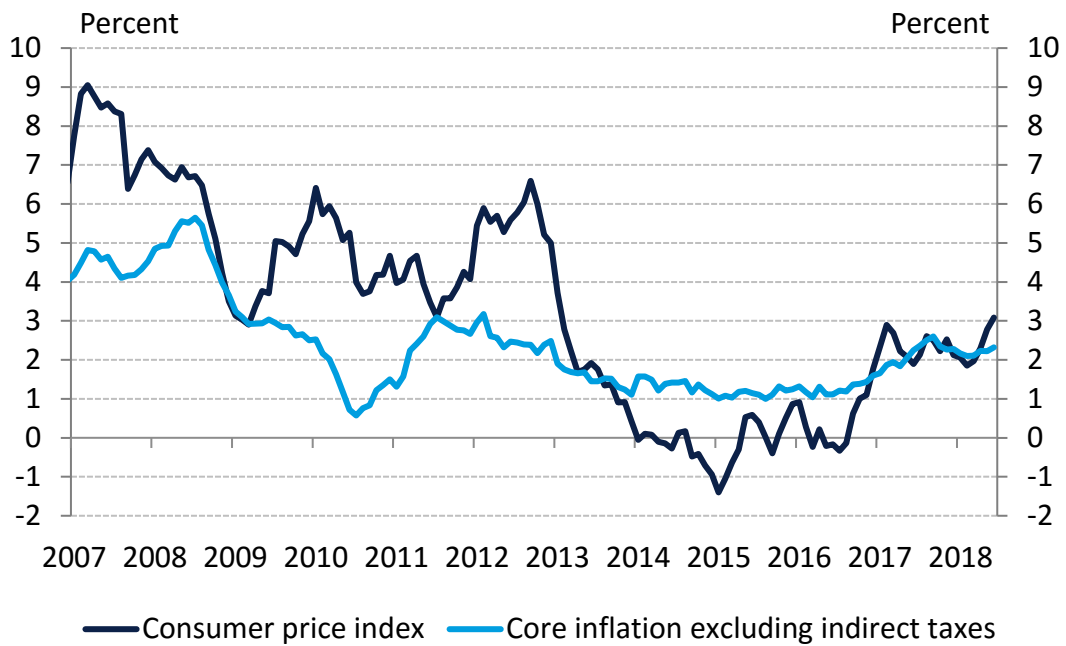


Chart 2: Inflation decomposition

(annual percentage changes, January 2007 – June 2018)

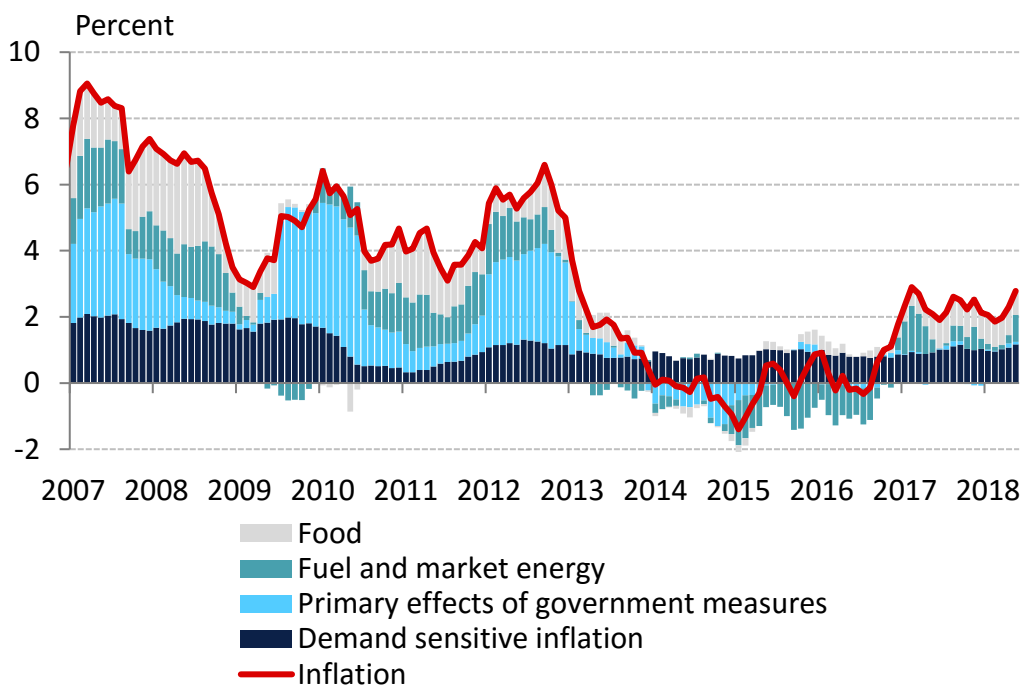
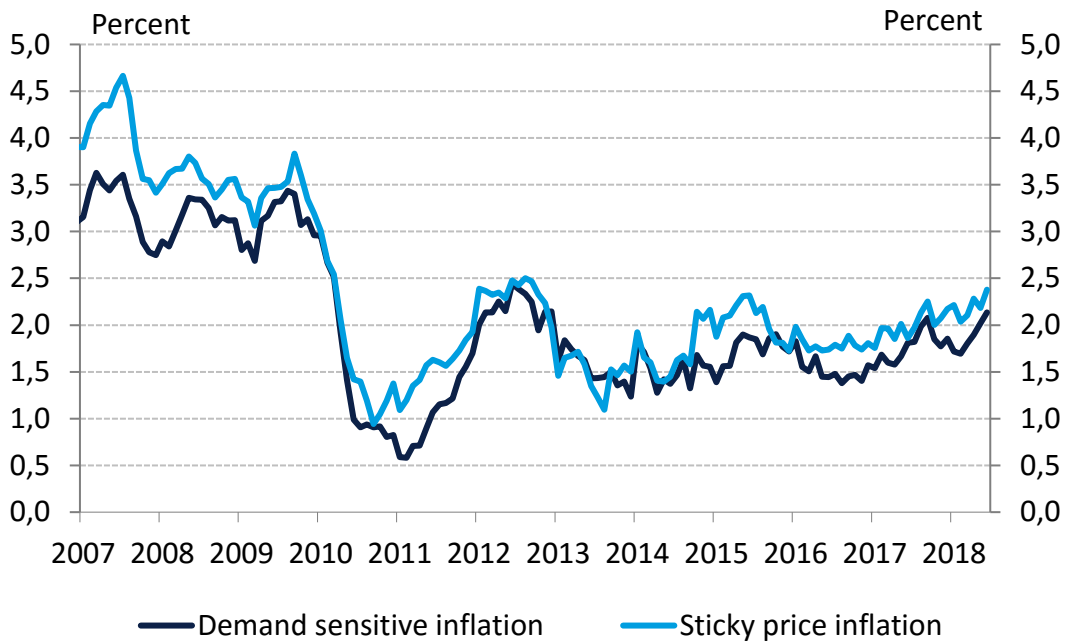


Chart 3: Underlying inflation indicators

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

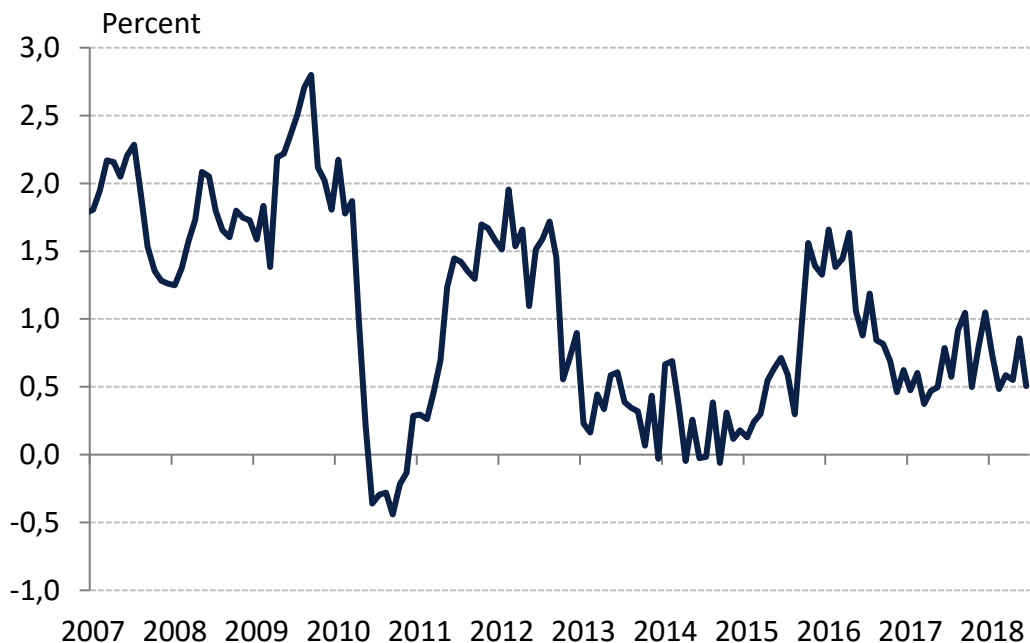


Chart 5: Market services inflation

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

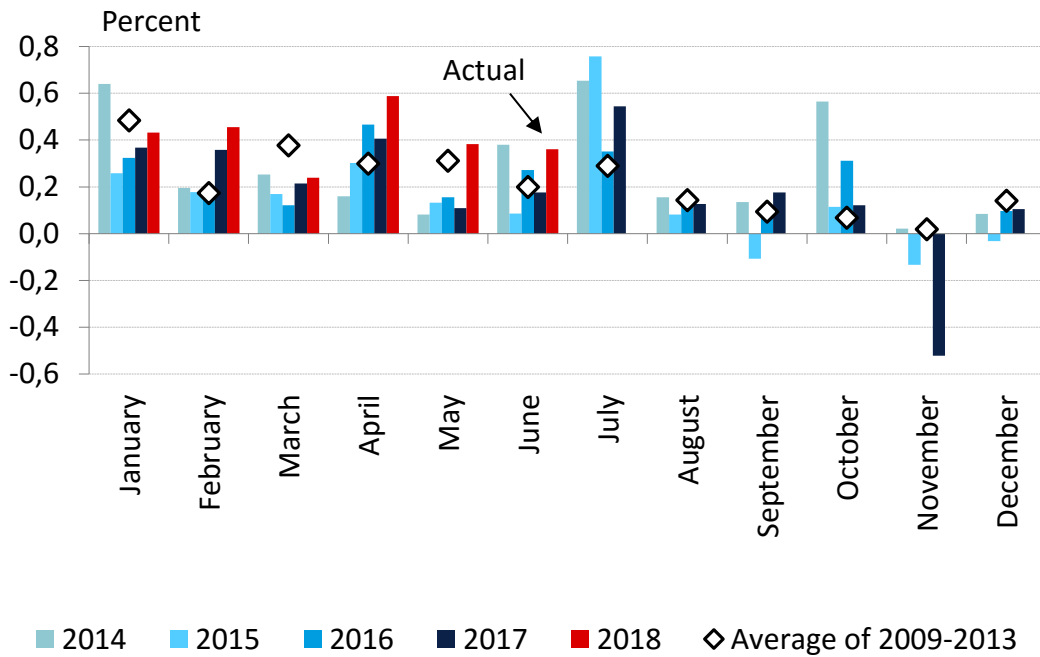
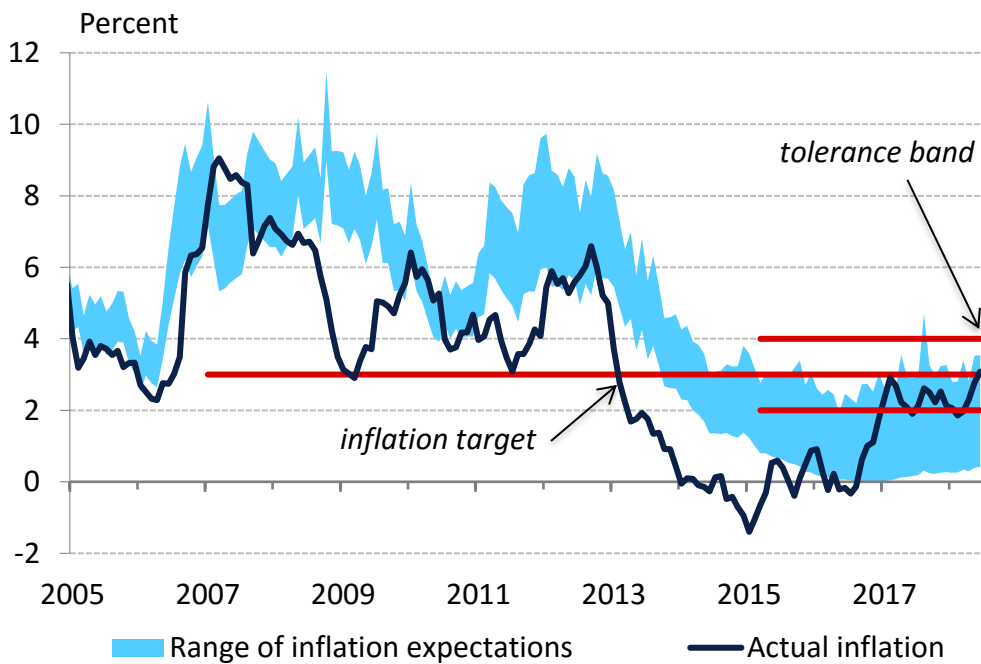


Chart 6: Households' inflation expectations

(January 2005 – June 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, June 2018 (HCSO)					
3.1% (annual change)					
MNB underlying inflation indicators (MNB calculation)					
Contribution of sticky price inflation (percentage points), weight 33.5%	0.8	Contribution of demand sensitive inflation (percentage points), weight 56.6%	1.2	Contribution of core inflation excluding taxes (percentage points), weight 69.3%	1.6
Contribution of other items (percentage points), weight 66.5%	2.3	Contribution of other items (percentage points), weight 43.4%	1.9	Contribution of other items (percentage points), weight 30.7%	1.5

Sources: CSO and the MNB's own calculations.

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