



MONTHLY ANALYSIS OF INFLATION DEVELOPMENTS

MARCH
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/Statisztika/data-and-information/mnben_statistikai_idosorok/mnben_elv_prices/underlying_inflation_indicators_MNB

ASSESSMENT OF INFLATION DATA FOR MARCH 2018

In March 2018, annual *inflation* was 2.0 percent. *Core inflation* stood at 2.4 percent and *core inflation adjusted for the effects of indirect taxes* at 2.1 percent (Chart 1). Inflation rose by 0.1 percentage point and core inflation was unchanged compared with the previous month. The increase in inflation mainly reflected a rise in unprocessed food prices (Charts 1 and 2).

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

In March 2018, 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 were practically unchanged compared with the previous month (Chart 4). Within this product group, the prices of *durables* fell and those of *non-durables* increased. 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 0.2 percent in March compared with the previous month. Price dynamics in this product group were similar to those of previous years across a wide range of products (Chart 5).

Seasonally and tax-adjusted *processed food* prices fell compared with February, mainly reflecting the decline in sugar prices, in line with the change in world market prices.

Seasonally and tax-adjusted *unprocessed food* prices rose in March. The increase in prices within this product group primarily reflected rises in pork and fresh fruit prices.

Prices of *regulated products* were practically unchanged compared with February.

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

Prepared by Judit Várhegyi

Budapest, 10 April 2018

Chart 1: Inflation decomposition

(annual percentage changes, January 2007 – March 2018)

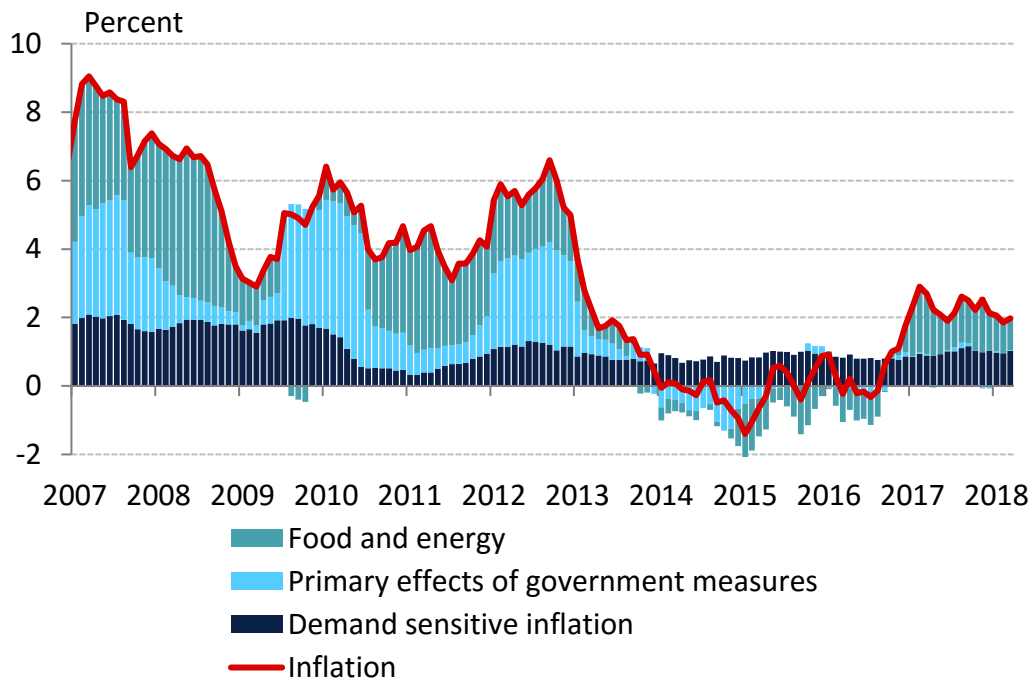


Chart 2: The consumer price index and core inflation excluding indirect taxes

(annual percentage changes, January 2007 – March 2018)

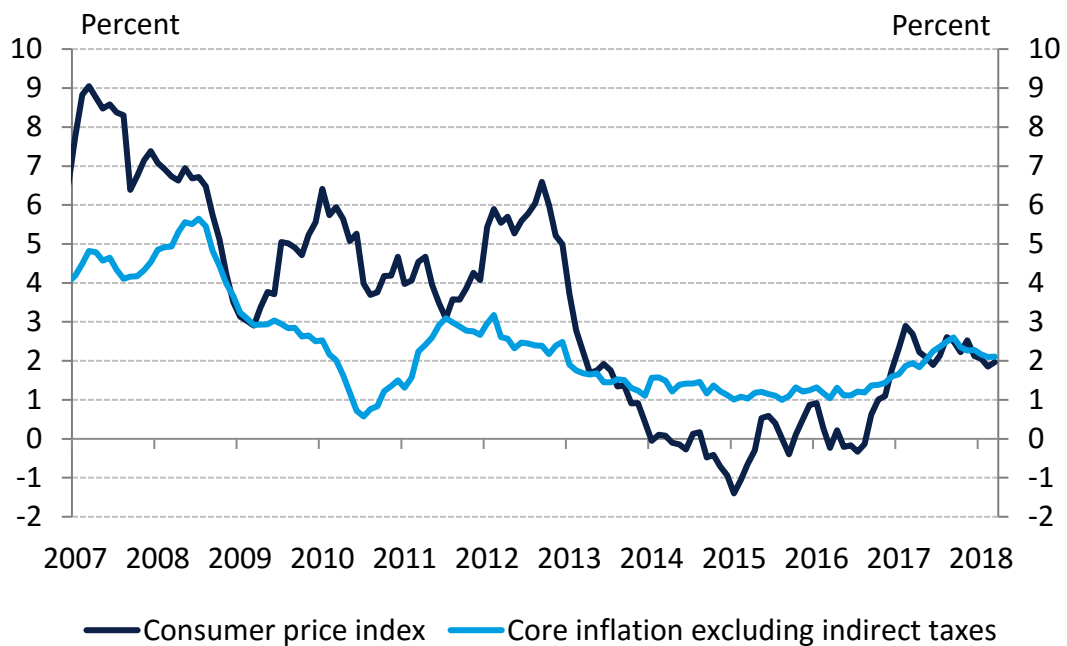
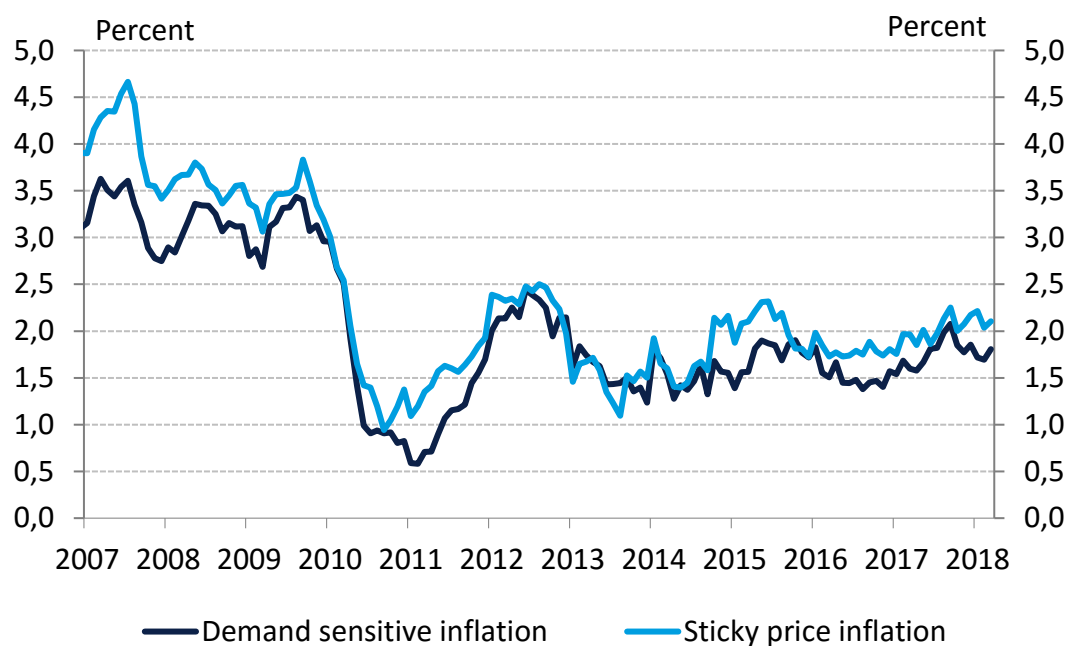


Chart 3: Underlying inflation indicators

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

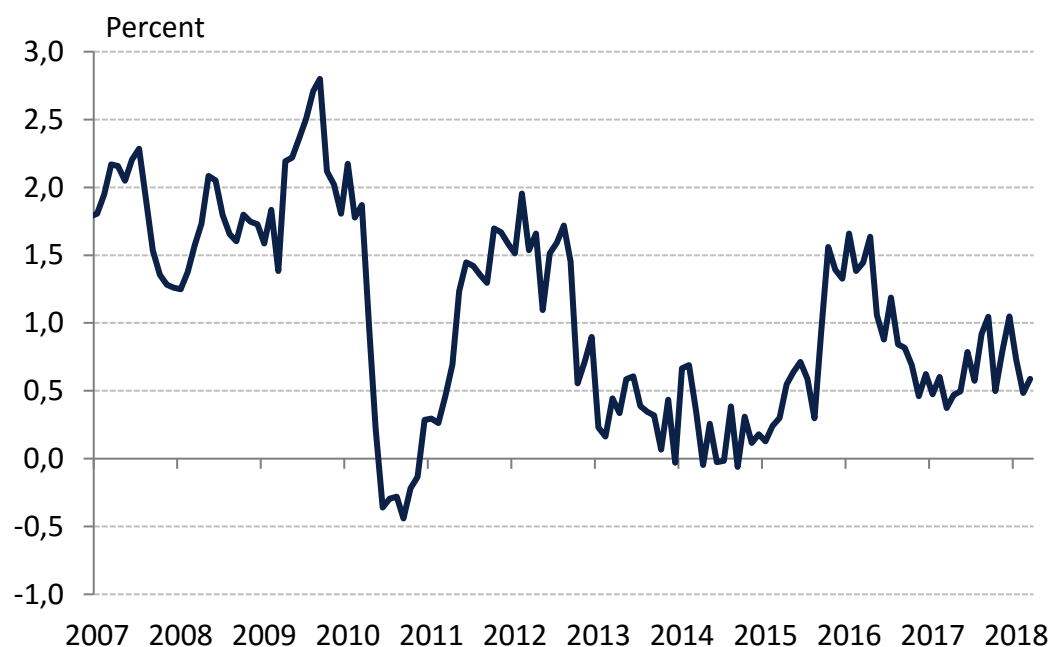


Chart 5: Market services inflation

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

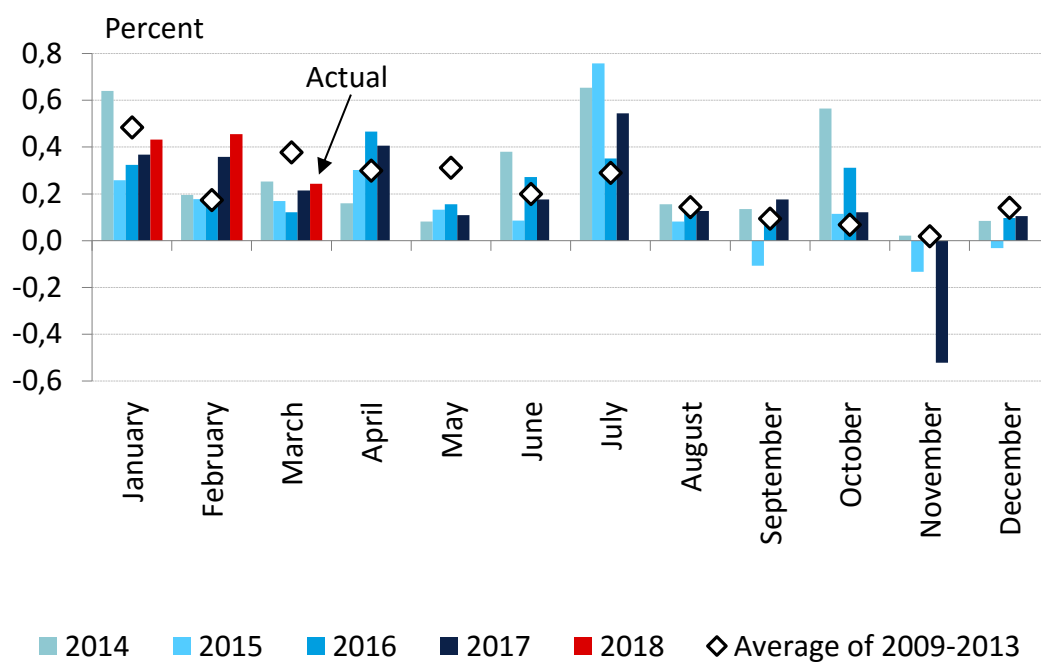
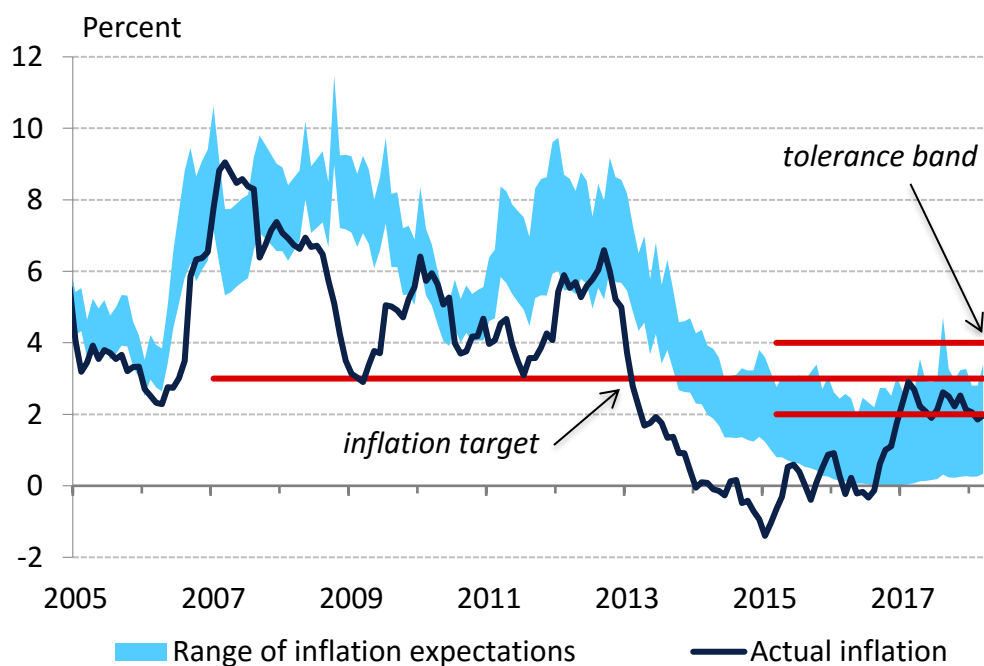


Chart 6: Households' inflation expectations

(January 2005 – March 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, March 2018 (HCSO)					
2.0% (annual change)					
MNB underlying inflation indicators (MNB calculation)					
Contribution of sticky price inflation (percentage points), weight 33.5%	0.7	Contribution of demand sensitive inflation (percentage points), weight 56.6%	1.0	Contribution of core inflation excluding taxes (percentage points), weight 69.3%	1.5
Contribution of other items (percentage points), weight 66.5%	1.3	Contribution of other items (percentage points), weight 43.4%	1.0	Contribution of other items (percentage points), weight 30.7%	0.5

Sources: CSO and the MNB's own calculations.

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