



MONTHLY ANALYSIS OF INFLATION DEVELOPMENTS

SEPTEMBER

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 SEPTEMBER 2018

In September 2018, annual *inflation* was 3.6 percent. *Core inflation* and *core inflation adjusted for the effects of indirect taxes* stood at 2.4 percent (Chart 1). Headline inflation rose by 0.2 percentage points and core inflation by 0.1 percentage point compared with the previous month. The increase in inflation reflected rises in volatile unprocessed food prices in the month. Core inflation rose as a result of the increase in excise duties on tobacco products.

The Bank's measures of *underlying inflation developments* (annual inflation rates of demand-sensitive and sticky-price products and services) remained broadly static compared with August (Chart 2).

In September 2018, the contribution to inflation of demand-sensitive products and the prices of more volatile items with greater sensitivity to cost changes, i.e. food and energy, was largely unchanged compared with the previous month (Chart 3).

Below is a brief analysis of price changes across the main product categories.

Seasonally adjusted *tradables* prices rose slightly compared with the previous month (Chart 4). Within this product group, the prices of both *durables* and *non-durables* increased. The increase in durables prices mainly reflected rises in the prices of new and used passenger cars. Movements in tradables prices continued to be driven by the price reducing effect of moderate imported inflation and the opposite effect of steadily rising domestic demand.

Services prices rose by 0.2 percent in September compared with the previous month. Pricing in the services sector – in line with the buoyant increase in household consumption – was slightly higher than the usual seasonality of previous years (Chart 5).

Seasonally and tax-adjusted *processed food* prices rose across a wide range of products compared with the previous month.

Seasonally and tax-adjusted *unprocessed food* prices rose faster than expected in September, reflecting increases mainly attributable to the prices of fresh vegetables.

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

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

Prepared by Judit Várhegyi

Budapest, 9 October 2018

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

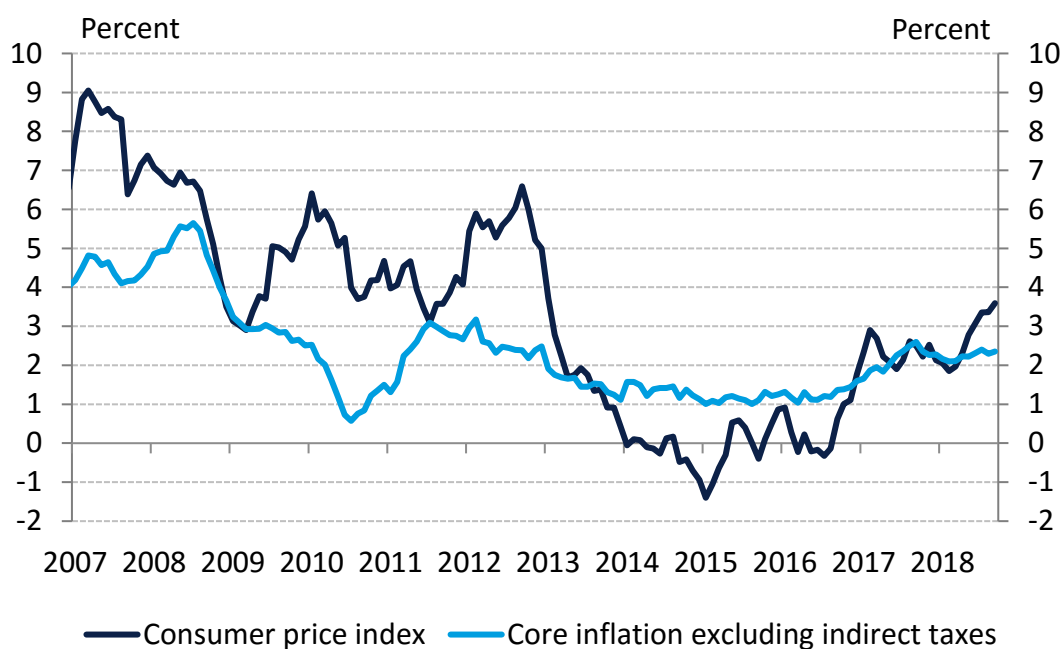
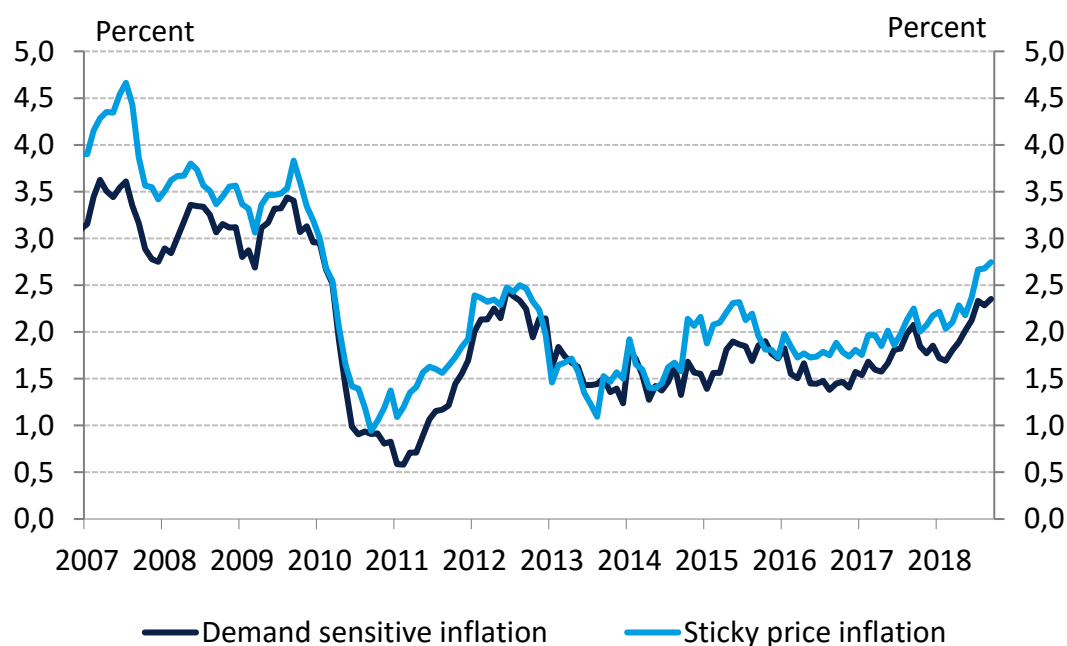


Chart 2: Underlying inflation indicators

(excluding indirect taxes, annual percentage changes, January 2007 – September 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 3: Inflation decomposition

(annual percentage changes, January 2007 – September 2018)

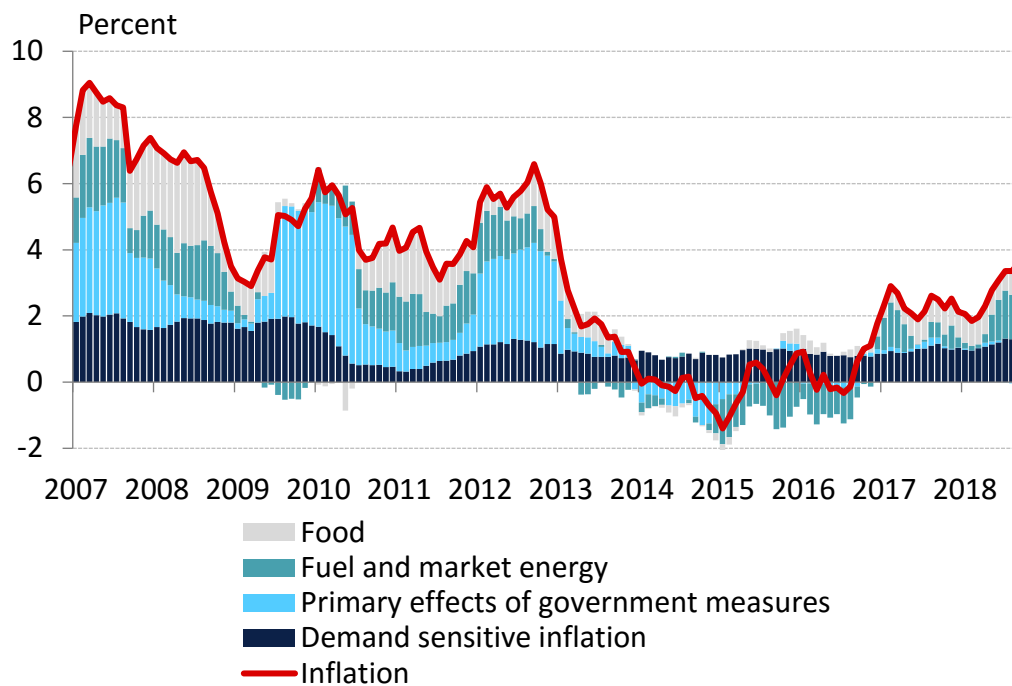


Chart 4: Inflation of tradable goods

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

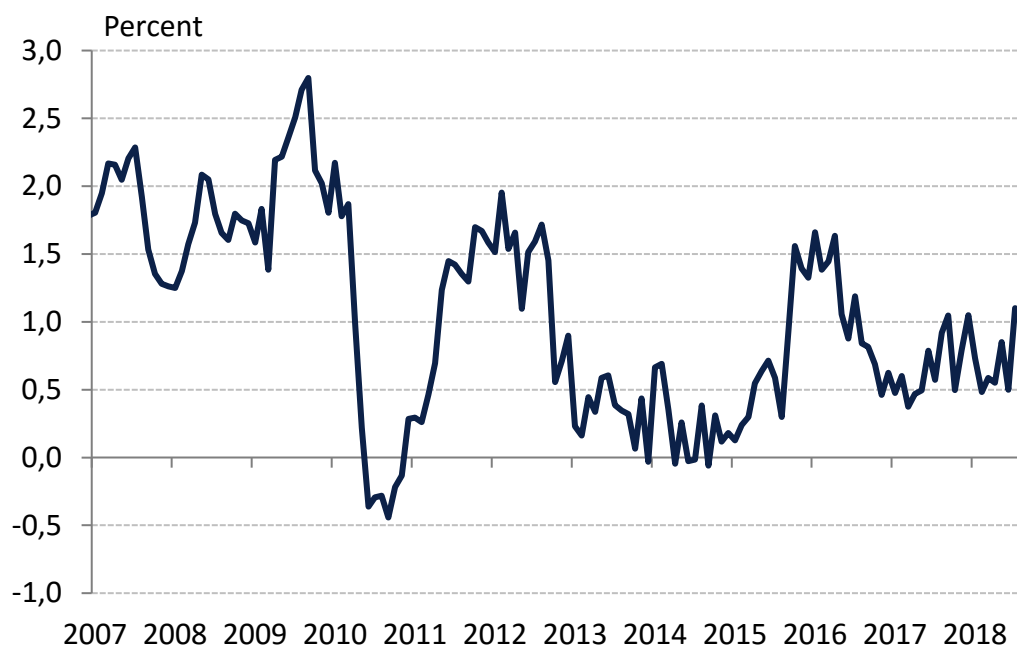


Chart 5: Market services inflation

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

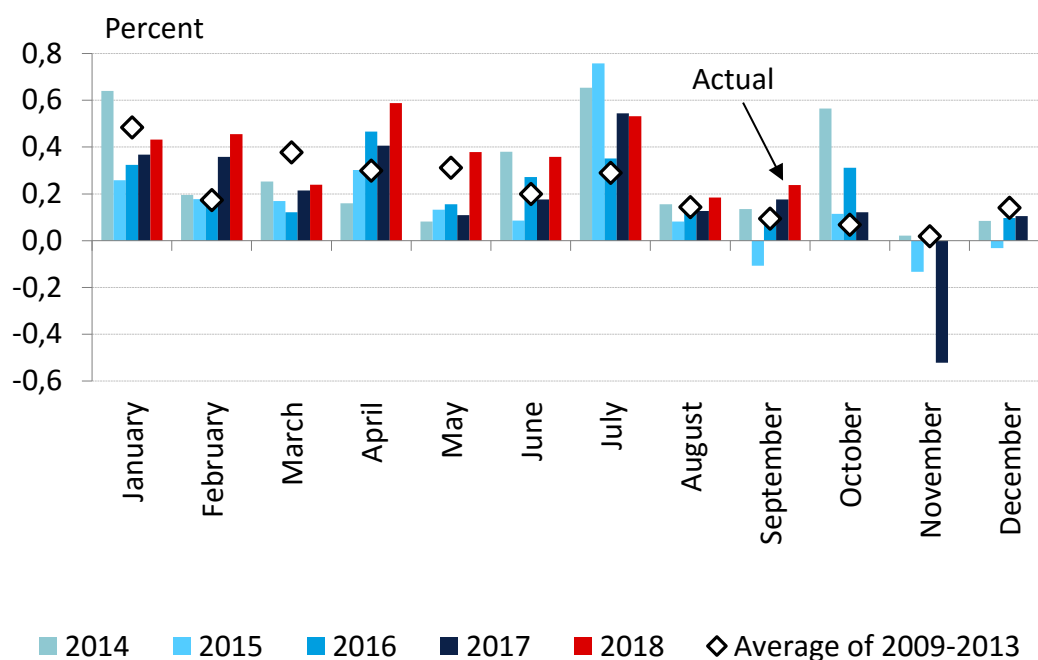
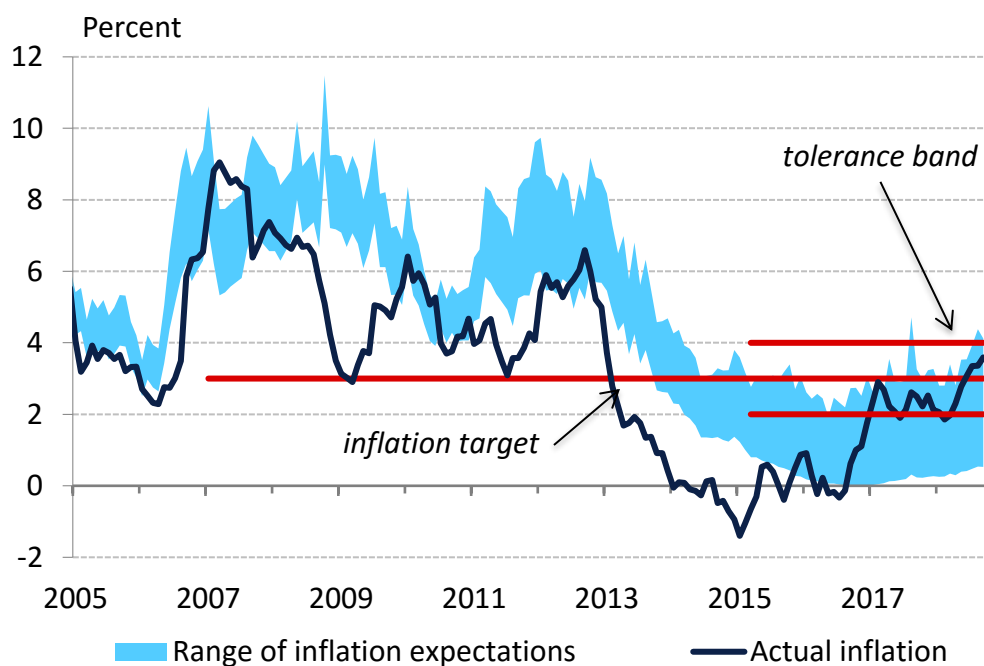


Chart 6: Households' inflation expectations

(January 2005 – September 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, September 2018 (HCSO)					
3.6% (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%	1.6
Contribution of other items (percentage points), weight 66.5%	2.7	Contribution of other items (percentage points), weight 43.4%	2.3	Contribution of other items (percentage points), weight 30.7%	2.0

Sources: CSO and the MNB's own calculations.

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