



FLASH ANALYSIS OF INFLATION DEVELOPMENTS

AUGUST

2023

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 Gergely Baksay, Executive Director for Economic Analysis and Competitiveness.

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The publicly available analyses and the related statistical databases are accessible on the MNB's website at:

<https://www.mnb.hu/kiadvanyok/elemzesek-tanulmanyok-statisztikak/az-mnb-inflacios-alapmutatoi>

ASSESSMENT OF INFLATION DATA FOR AUGUST 2023

In August 2023, domestic inflation continued to decline; consumer prices rose by 16.4 percent year on year. Core inflation and core inflation excluding indirect tax effects fell to 15.2 percent (Chart 1 and Chart 2). The price increase calculated on a monthly basis was 0.7 percent for the entire consumer basket, and 0.2 percent for core inflation.

The trend in pricing patterns in recent months has continued. The slowdown in inflation can be seen in an increasingly wide range of the consumer basket, while the rise in fuel prices curbs disinflation. Within core inflation, in addition to the prices of processed food and manufactured goods, the dynamics of market service prices also slowed down. For core inflation items, the rate of repricing in August, after a long time, again corresponded to the historical value typical for this period of the year.

Inflation slowed down by 1.2 percentage points compared with the previous month. This slowdown was largely driven by processed food prices (by -0.6 percentage point) and tradables prices (by -0.5 percentage point). Year-on-year core inflation fell at larger extent than the overall inflation rate, by 2.3 percentage points. Behind the decline in core inflation a slowdown in price inflation was seen across a wide range products and services. The Bank's measures of underlying inflation developments capturing persistent inflationary trends, calculated on a year-on-year basis, also fell. The inflation of sticky-price products fell by 1.2 percentage point and the annual price rise of core inflation excluding processed food prices declined by 1.8 percentage point relative to the previous month (Chart 3).

The price of the basket calculated excluding fuel and regulated product prices was slightly up by 0.1 percent on a monthly basis (Chart 4). Month-on-month core inflation excluding processed food, which better reflect underlying developments, was also 0.1 percent (Chart 5).

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

The annual inflation of *tradables* fell to 11.4 percent. The prices of the product group remained unchanged compared with the previous month (Chart 6). Non-durables prices stagnated relative to the previous month, and durables prices fell slightly.

Market services prices rose by 0.3 percentage point on a monthly basis, which is equivalent to the average of price rises in the month of August over the past ten years (Chart 7). Within market services, mobile phone and Internet charges significantly restrained the pace of monthly price growth. Annual price index of market services declined to 16.4 percent; and as a result, the fall in annual price growth, started in June, continued.

Food price inflation has been slowing for the eighth month, it stood at 19.5 percent according to the HCSO data release in August. Within the product group, the annual price indices of both processed and unprocessed food decreased significantly (Chart 8). The slowdown in the inflation of unprocessed food prices was primarily caused by the decrease in fresh vegetable and egg prices while the downtrend in processed food price dynamics was mainly explained by the decline in milk, dairy products and bread prices. Compared to July, unprocessed food prices fell by 1.0 percent and processed food prices increased by 0.6 percent (Chart 9).

The price of fuel increased by 8.2 percent on a monthly basis. As a result of the price increase, the annual inflation of the product group rose by nearly 10 percentage points to 31.1 percent. The rise in the world market price of crude oil had a greater than usual impact on domestic fuel prices and slowed down the disinflation process.

In the group of *alcohol* and *tobacco* products, prices rose moderately by 0.2 percent relative to July.

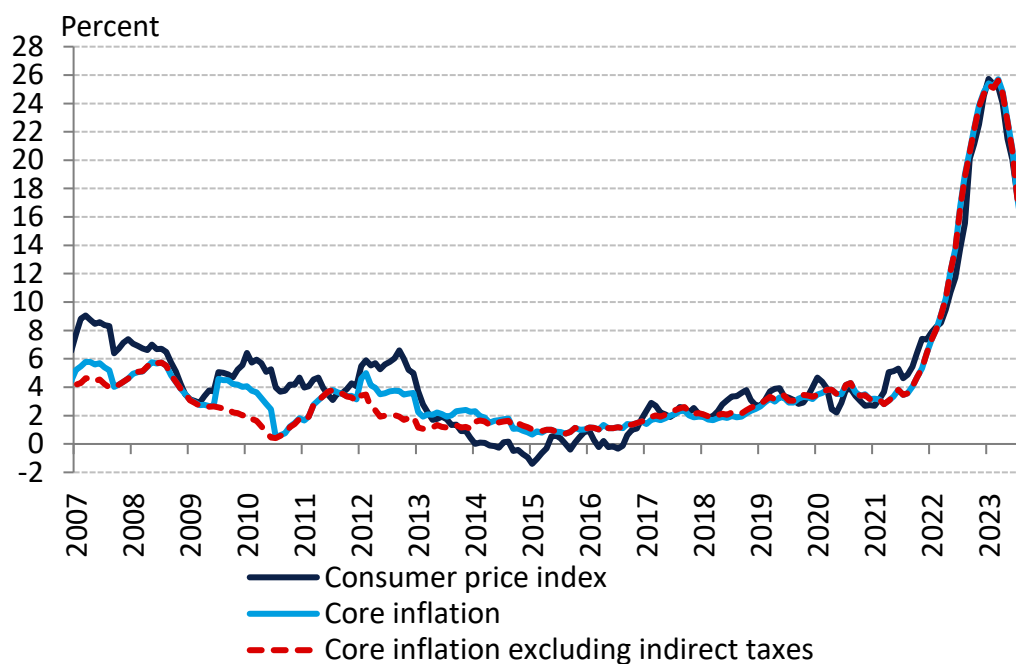
Prices of *regulated products and services* were unchanged compared to July. The fall in electricity and piped gas prices was offset by a rise in the price of local public transport. The price decrease of the former was caused by a fall in the share of higher-priced gas consumption exceeding the volume limit of the officially regulated price.

The indicators, measuring *households' inflation expectations*, showed unusually high volatility (Chart 10). The decline in *corporate expectations for both retail sales and services prices* stopped in August (Chart 11).

Prepared by Géza Rippel

Budapest, 8 September 2023

Chart 1 Consumer price index, core inflation and core inflation excluding indirect taxes
annual change



Note: Seasonally unadjusted core inflation.

Chart 2 Inflation decomposition
annual change

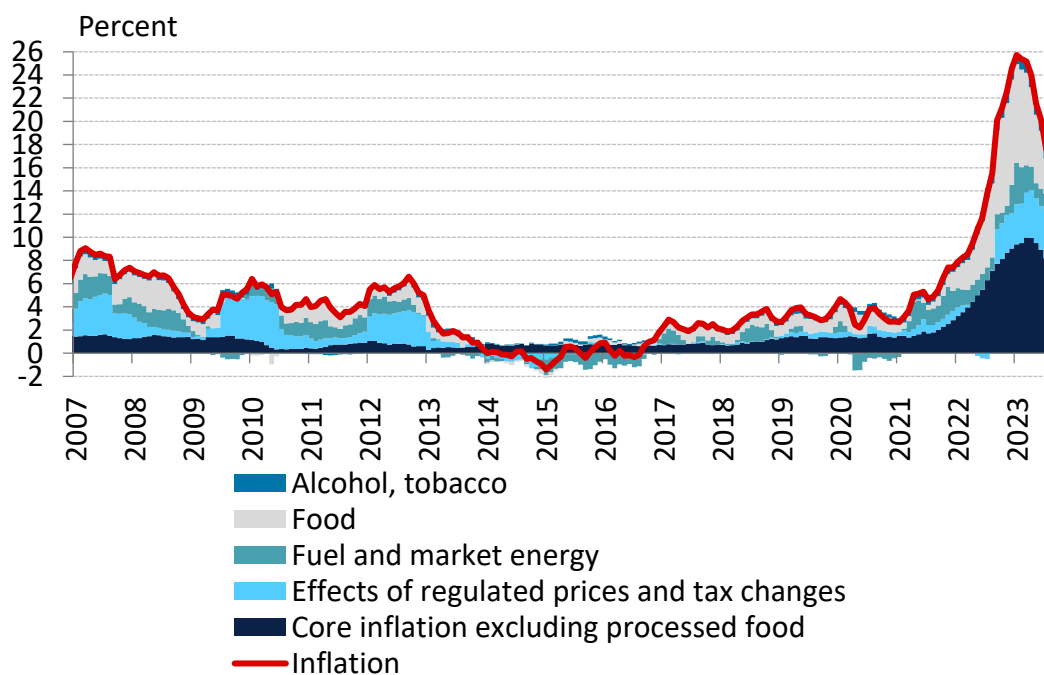
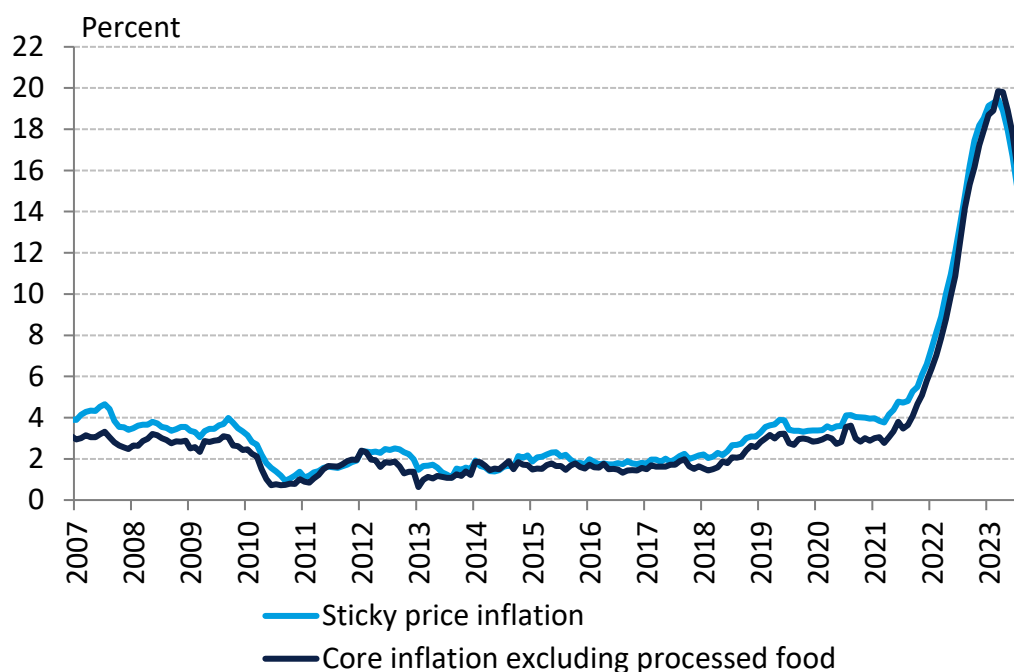


Chart 3 Underlying inflation indicators
annual percentage changes excluding indirect taxes



Note: 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 HCSO. Core inflation excluding processed foods with unchanged content is equivalent with the earlier demand sensitive inflation. The new name is justified by the fact that the previous name might be ambiguous in a period of significant cost shocks with general effects.

Chart 4 Monthly changes in consumer prices excluding fuel and regulated products prices
tax-adjusted, seasonally unadjusted monthly percentage changes

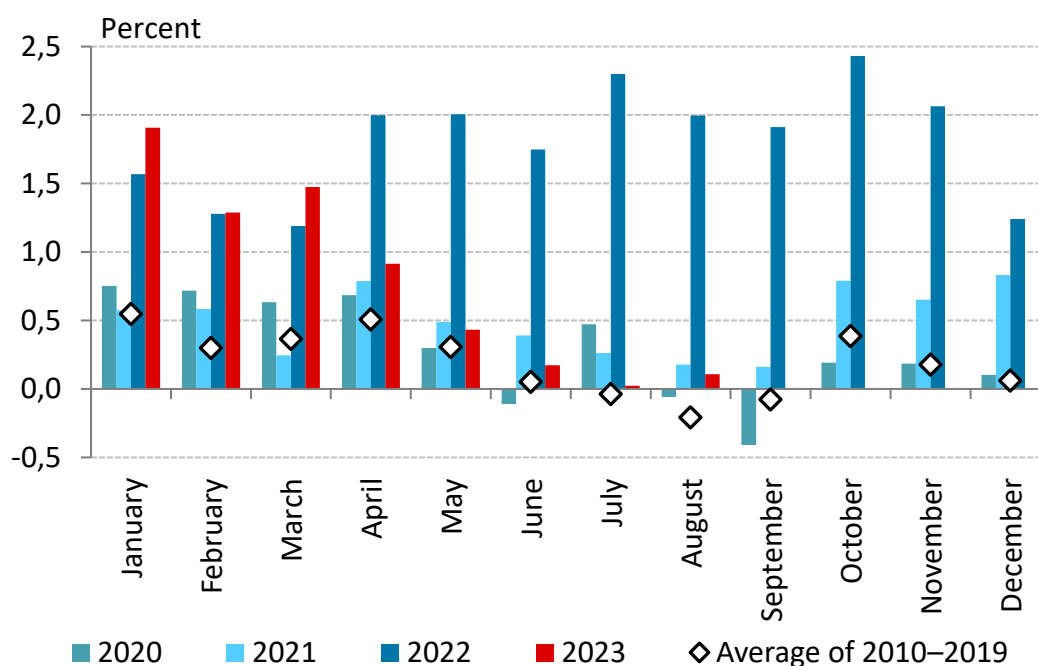


Chart 5 Monthly change in core inflation excluding processed food
tax-adjusted, seasonally unadjusted monthly percentage changes

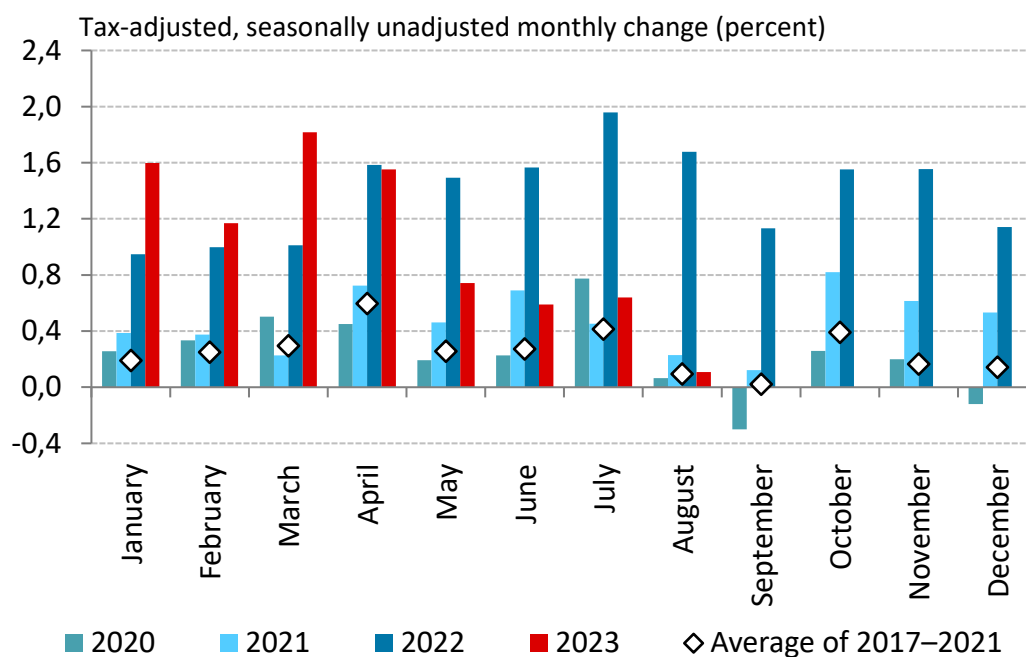
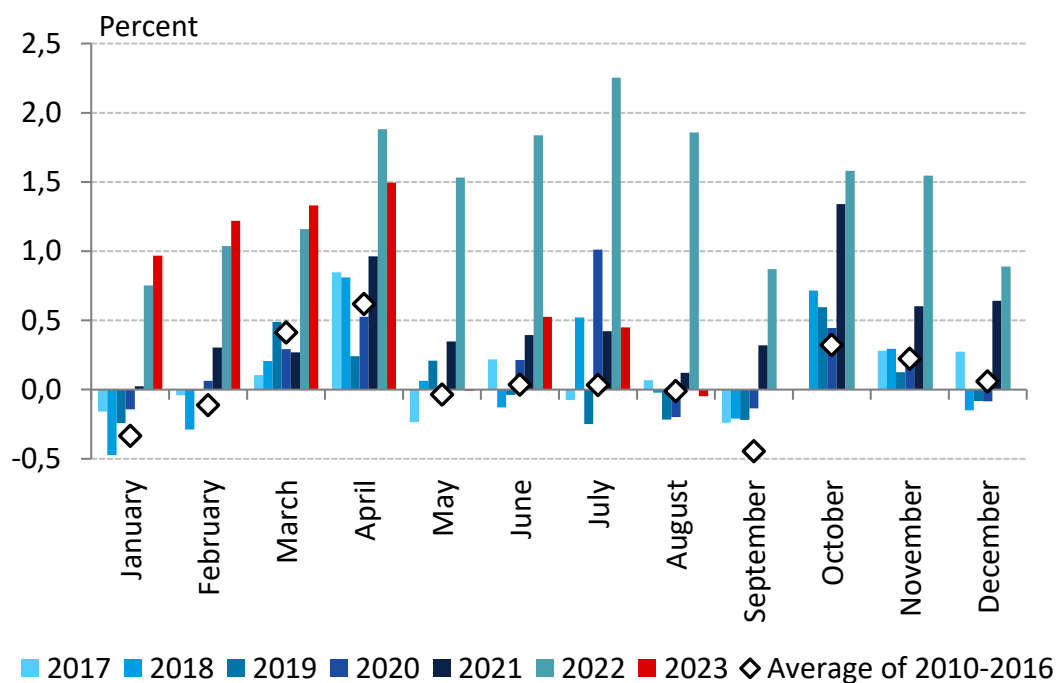
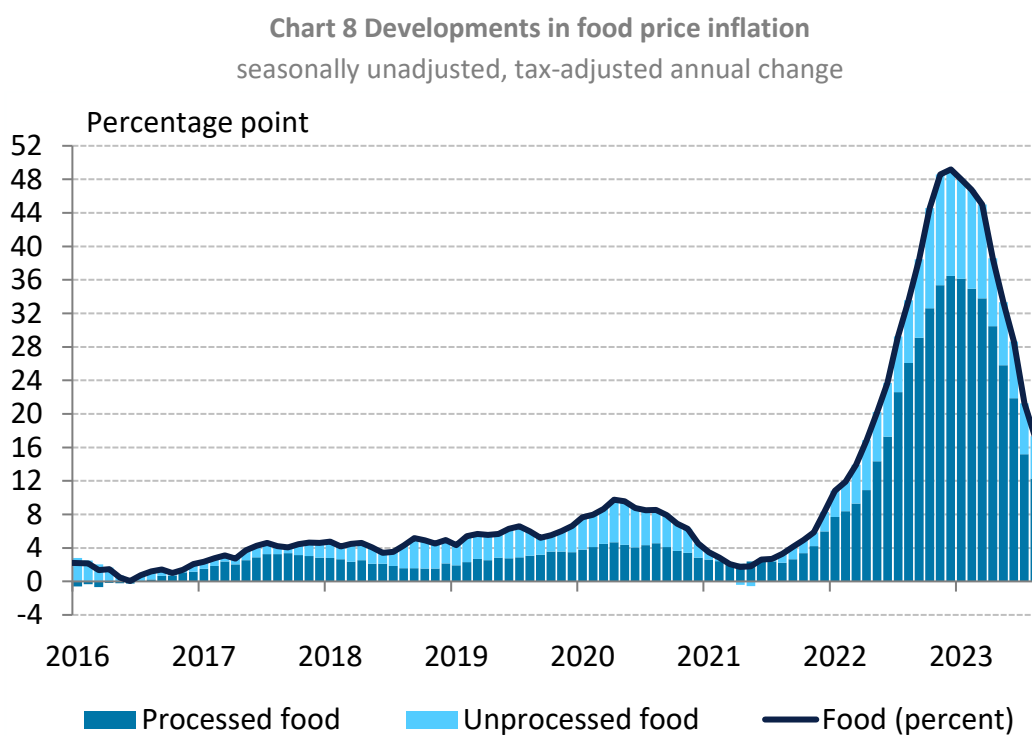
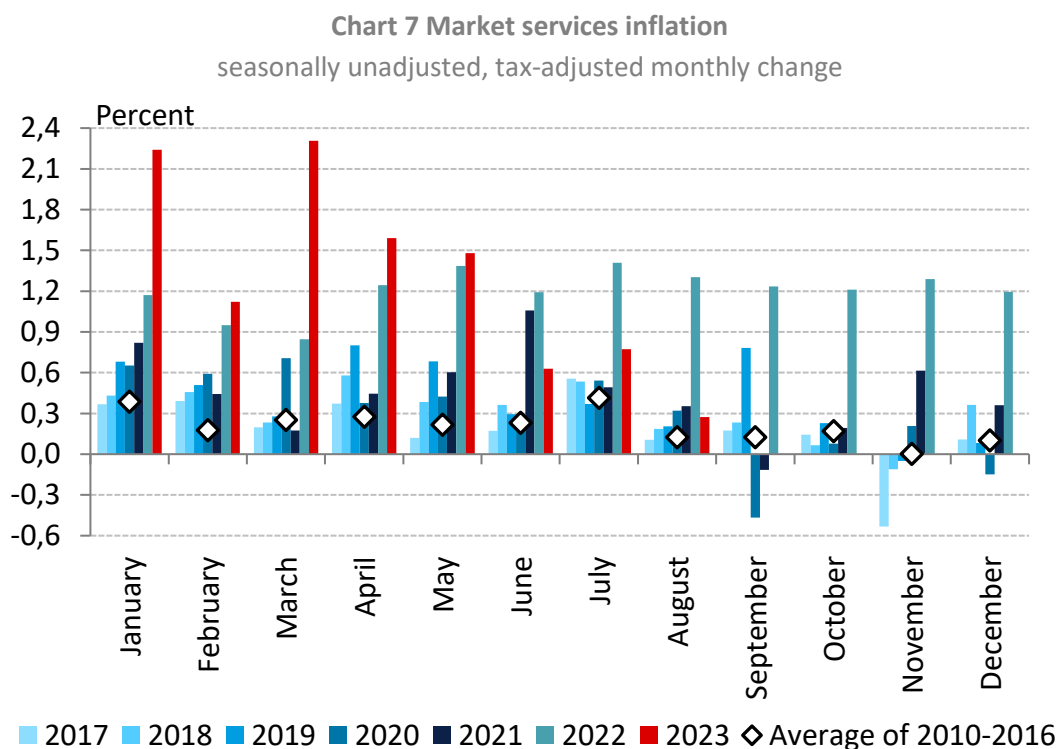


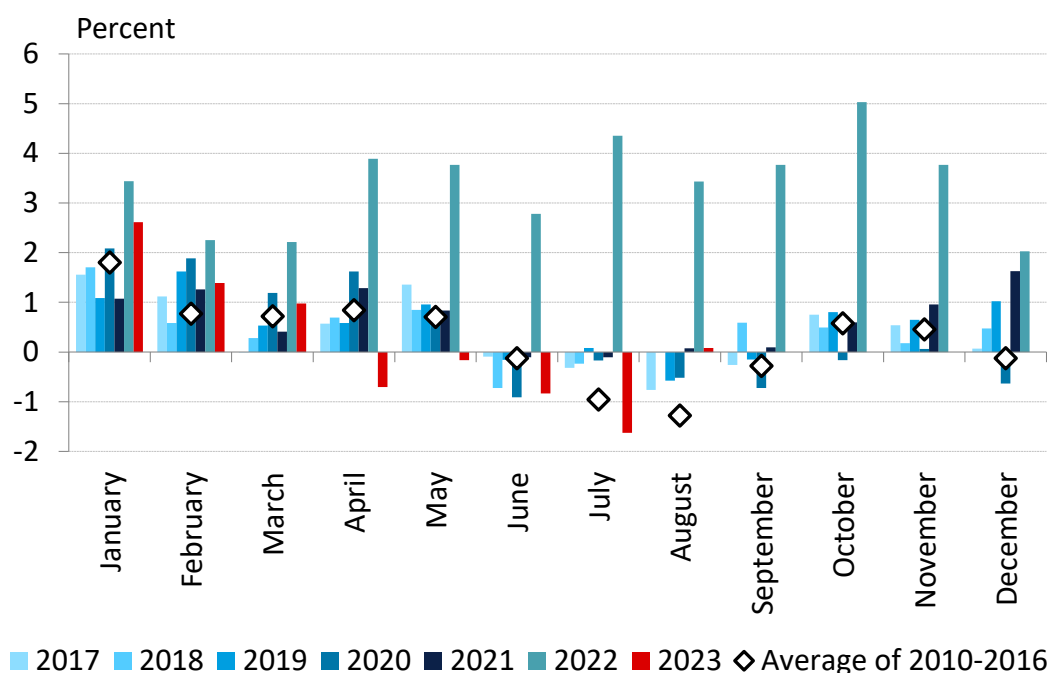
Chart 6 Inflation of tradable goods
seasonally unadjusted, tax-adjusted monthly change





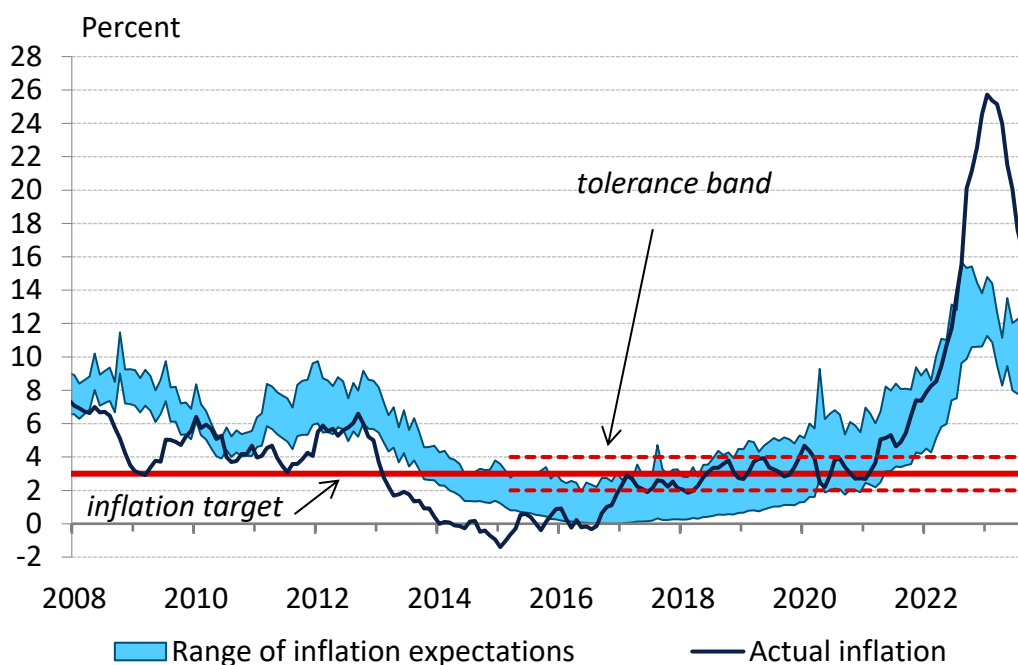
Note: The difference in food price inflation calculated by the HCSO and the MNB is explained by methodological differences. The MNB classifies food-related services as market services (restaurant meals, workplace meals, canteen goods) and the prices of regulated goods and services (school meals, nursery and kindergarten meals), and some beverages as non-durable industrial goods (coffee, tea, soft drinks).

Chart 9 Monthly changes in food prices
seasonally unadjusted, tax-adjusted monthly change



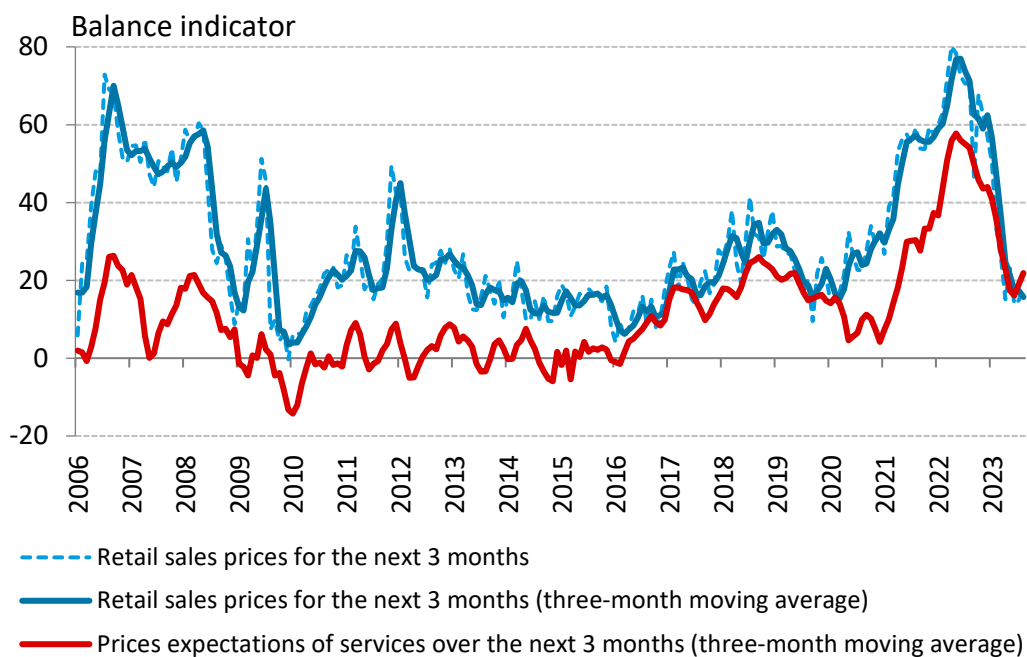
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Chart 10 Households' inflation expectations



Sources: MNB calculations based on European Commission data; and HCSO.

Chart 11 Changes in the expectations for retail sales and services prices in Hungary



Sources: MNB's own calculations based on data from the European Commission

Table 1 Annual change in the consumer price index and contribution of the measures of underlying inflation

Consumer price index, August 2023 (HCSO)					
16.4% (annual change)					
MNB underlying inflation indicators (MNB calculation)					
Contribution of sticky price inflation (percentage points), weight 39.2%	5.5	Contribution of core inflation excluding processed foods (percentage points), weight 50.2%	7.3	Contribution of core inflation excluding taxes (percentage points), weight 63.7%	9.7
Contribution of other items (percentage points), weight 60.8%	10.9	Contribution of other items (percentage points), weight 49.8%	9.1	Contribution of other items (percentage points), weight 36.3%	6.7

Sources: HCSO and the MNB's own calculations.

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