



FLASH ANALYSIS OF INFLATION DEVELOPMENTS

SEPTEMBER

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 SEPTEMBER 2023

In September 2023, domestic inflation continued to decline in a faster pace than in previous months. Consumer prices rose by 12.2 percent year on year. Core inflation and core inflation excluding indirect tax effects both fell to 13.1 percent (Chart 1 and Chart 2). The month-on-month, total consumer basket was up by 0.4 percent as prices fell by 0.2 percent regarding core inflation.

The slowdown in inflation is still widely perceived, which is caused by the combined effect of the strict monetary policy, the government's steps to strengthen competition, the subdued demand environment and the external cost environment, which is significantly lower compared to last year.

Inflation slowed down by 4.2 percentage points compared to the previous month. This slowdown was largely driven by the prices of regulated products and services (by -2.6 percentage points) as well as processed food prices (by -0.7 percentage points). Year-on-year core inflation fell by 2.1 percentage points, within which disinflation was widespread. 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 1.8 percentage point and the annual price rise of core inflation excluding processed food prices declined by 1.4 percentage point relative to the previous month (Chart 3).

In a shorter base comparison (3 months on 3 months), core inflation continued to decrease, which indicates a continued slowdown in inflation processes (Chart 4). The price of the basket calculated excluding fuel and regulated product prices was down by 0.2 percent on a monthly basis (Chart 5). Month-on-month core inflation excluding processed food, which better reflect underlying developments, was stagnant in September (Chart 6).

The trend seen in the past months in pricing patterns, continued. All product and service categories, excluding fuels, the annual growth rate of prices moderated. The base effect of the price rise of gas and electricity prices for households in September 2022 was a significant contributing factor to disinflation. In terms of both inflation and core inflation, the rate of price change compared to the previous month was in line with the historical rate seen this time of year.

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

The annual inflation of *tradables* fell to 10.1 percent. The prices of this product group fell by 0.3 percent compared to the previous month (Chart 7). Non-durables prices declined by 0.4 percent relative to the previous month, and durables prices rose slightly by 0.1 percent.

Market services prices rose by 0.2 percent on a monthly basis, which is nearly equivalent to the average of price rises in the months of September over the past ten years (Chart 8). Annual price index of market services declined to 15.2 percent; and as a result, the fall in annual price growth, started in June, continued. The main contributing factor to the disinflation of this was the slowdown in the rate of price increases for catering establishment services.

According to HCSO data, *food* price inflation has been slowing for the ninth month, as a result, it stood at 15.2 percent in September. Within the product group, the annual price indices of both processed and unprocessed food fell sharply (Chart 9). The fall in the inflation of unprocessed food prices was primarily caused by the decrease in fresh vegetable, fruit and egg prices, while the downtrend in processed food annual price dynamics was mainly explained by the decline in milk and dairy products prices. Compared to August, unprocessed food prices and processed food prices decreased by 1.4 percent and 0.7 percent, respectively (Chart 10).

Fuel prices rose by 3.3 percent on a monthly basis. Year-on-year inflation of this product group rose to 35.4 percent reflecting these price rises. The rise in the world market price of oil had a strong effect on fuel prices in Hungary thereby slowing disinflation.

In the group of *alcohol* and *tobacco* products, prices rose moderately by 0.1 percent relative to August.

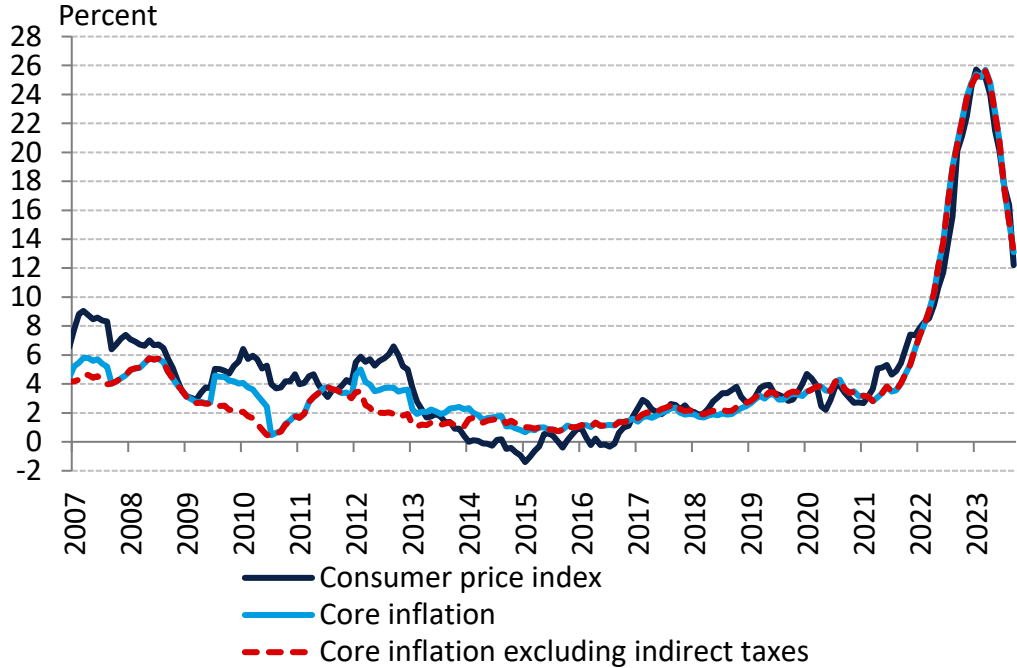
The prices of *regulated products and services* rose by 2.0 percent compared to August. The rise primarily reflects the 16.1 percent price growth of gambling. Despite the monthly increase, annual inflation of this product group fell by almost 20 percentage points to -1.1 percent, due to the base effect of the increase in residential gas and electricity prices in September last year.

The indicators, measuring *households' inflation expectations*, showed unusually high volatility (Chart 11). *Corporate expectations for retail sales and services prices* fluctuated at pre-Covid levels in September (Chart 12).

Prepared by Géza Rippel

Budapest, 10 October 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

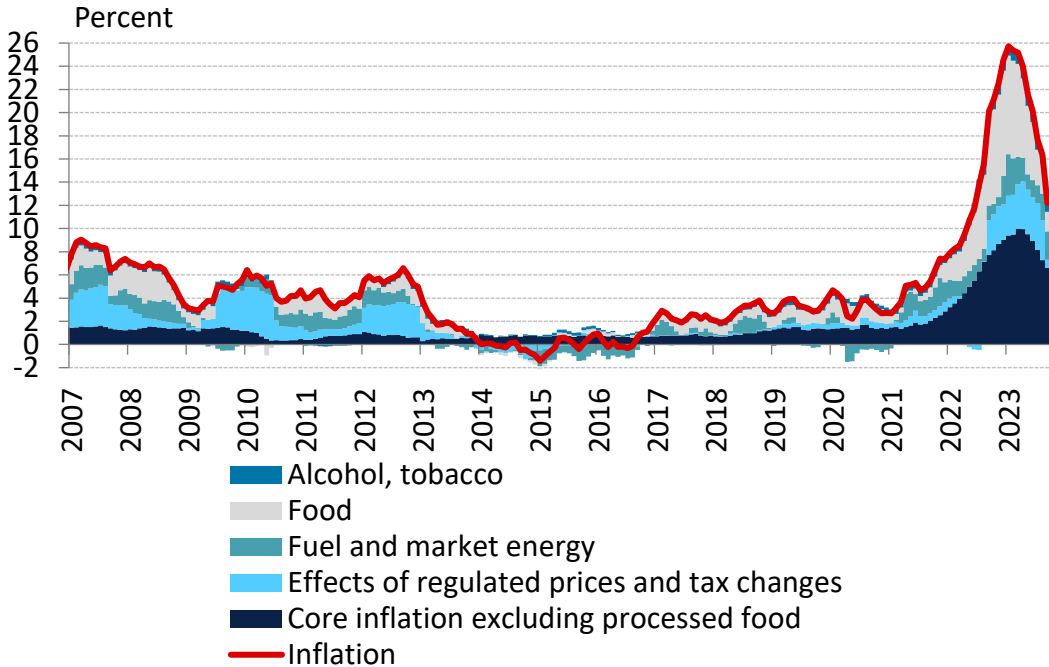
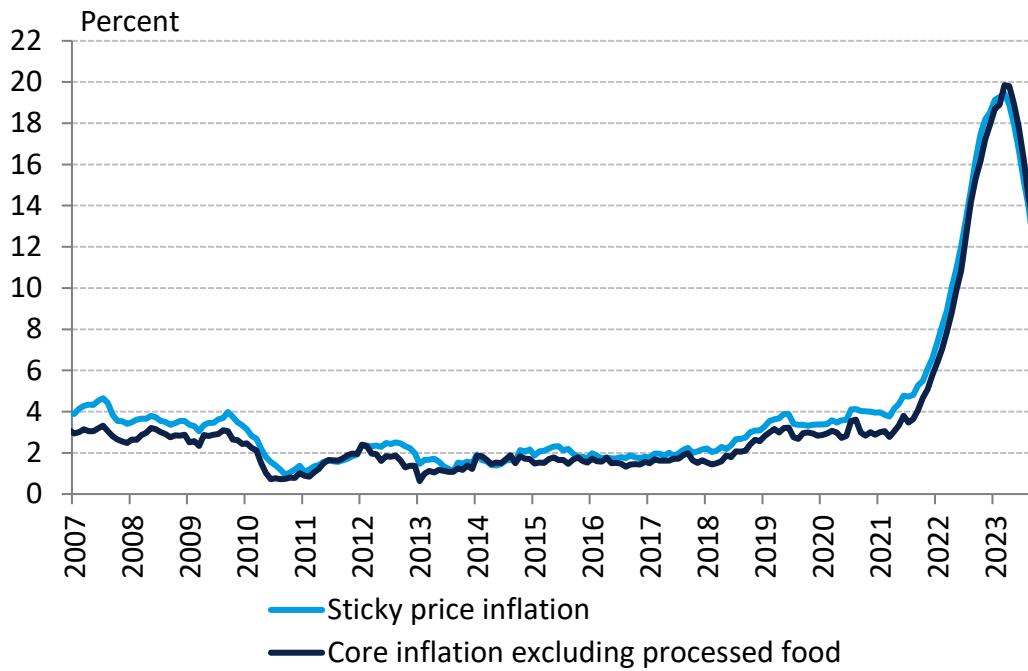


Chart 3 Underlying inflation indicators
annual percentage changes excluding indirect taxes



Note: Inflation of sticky-price products is composed of items of the consumer price index where maximum 15 per cent 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 Annualized 3-month change in inflation and core inflation
seasonally adjusted data

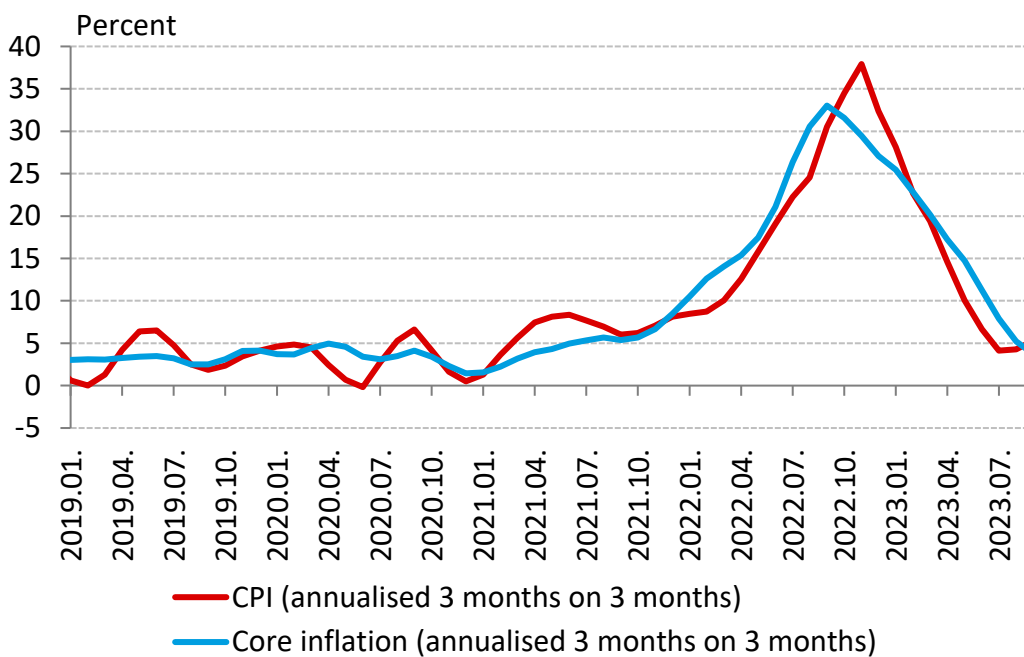


Chart 5 Monthly changes in consumer prices excluding fuel and regulated products prices
tax-adjusted, seasonally unadjusted monthly percentage changes

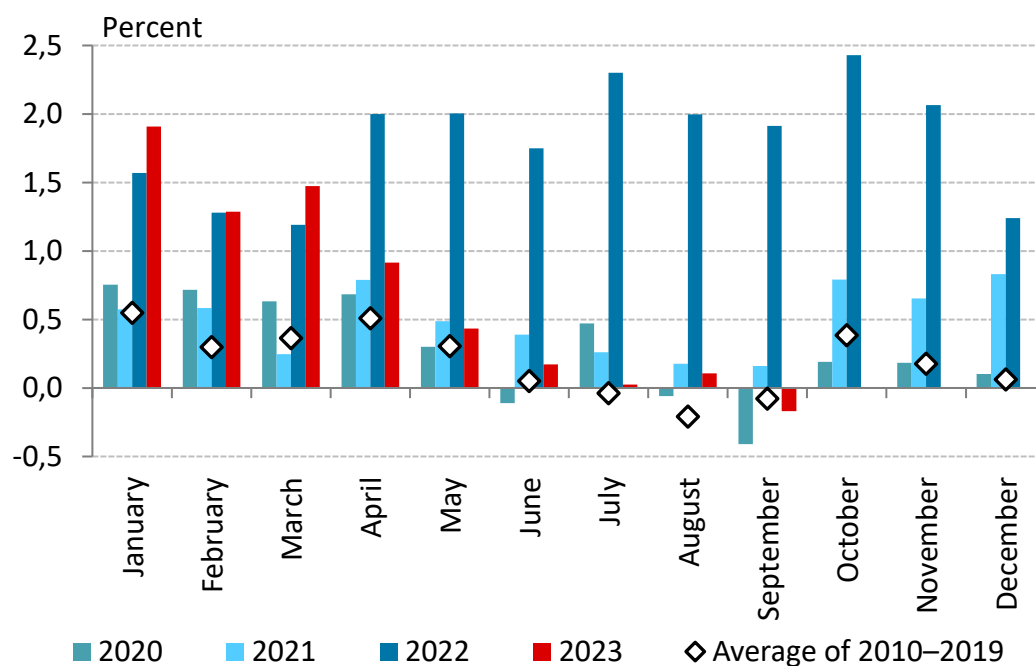


Chart 6 Monthly change in core inflation excluding processed food
tax-adjusted, seasonally unadjusted monthly percentage changes

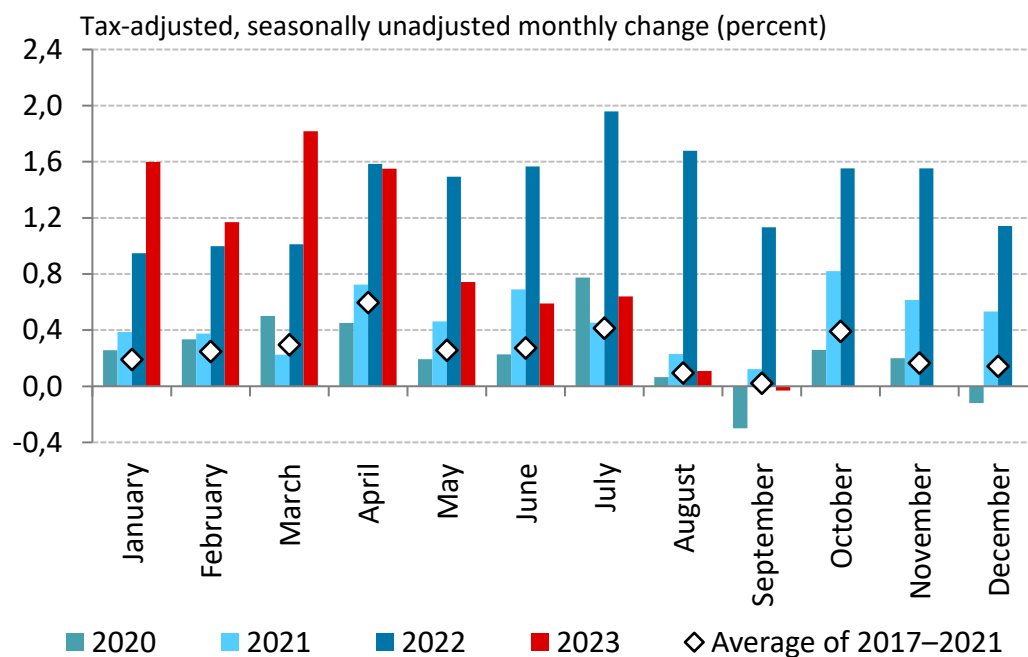


Chart 7 Inflation of tradable goods
seasonally unadjusted, tax-adjusted monthly change

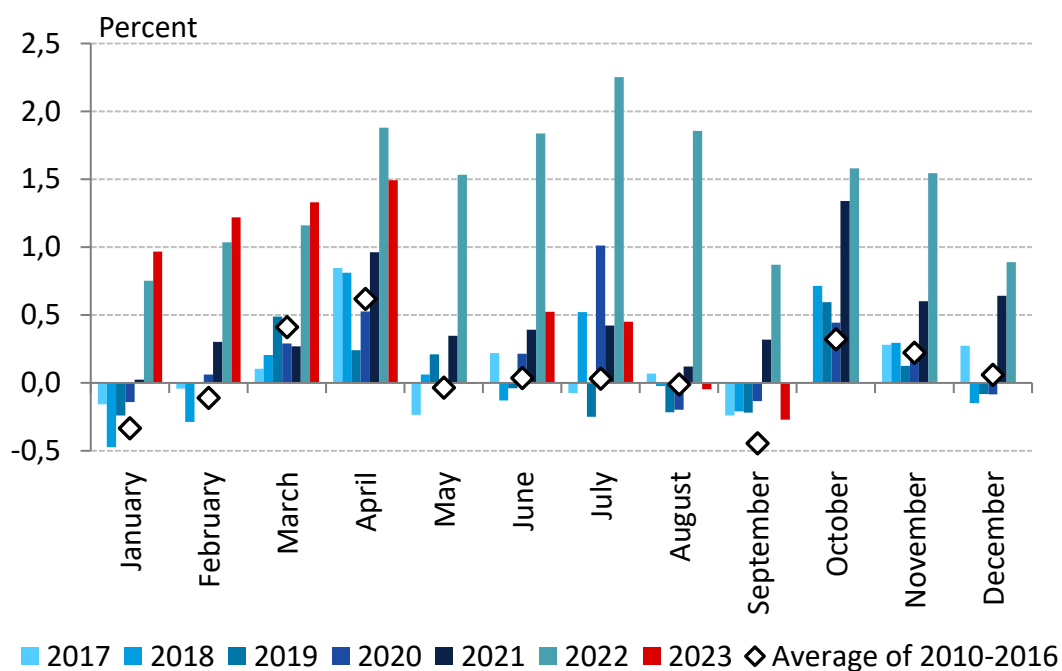


Chart 8 Market services inflation
seasonally unadjusted, tax-adjusted monthly change

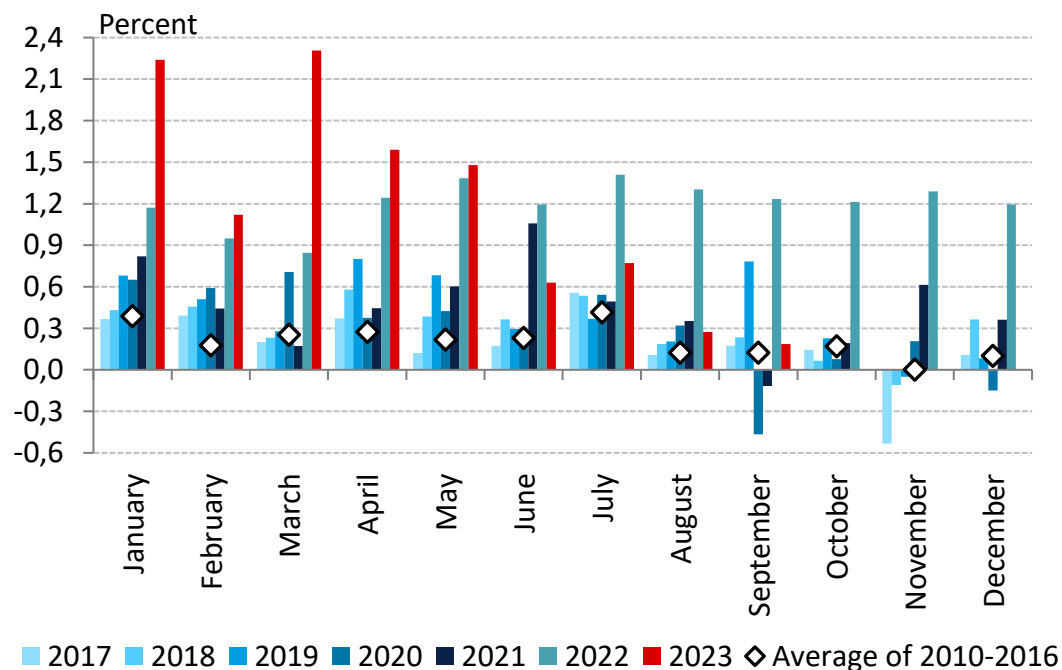
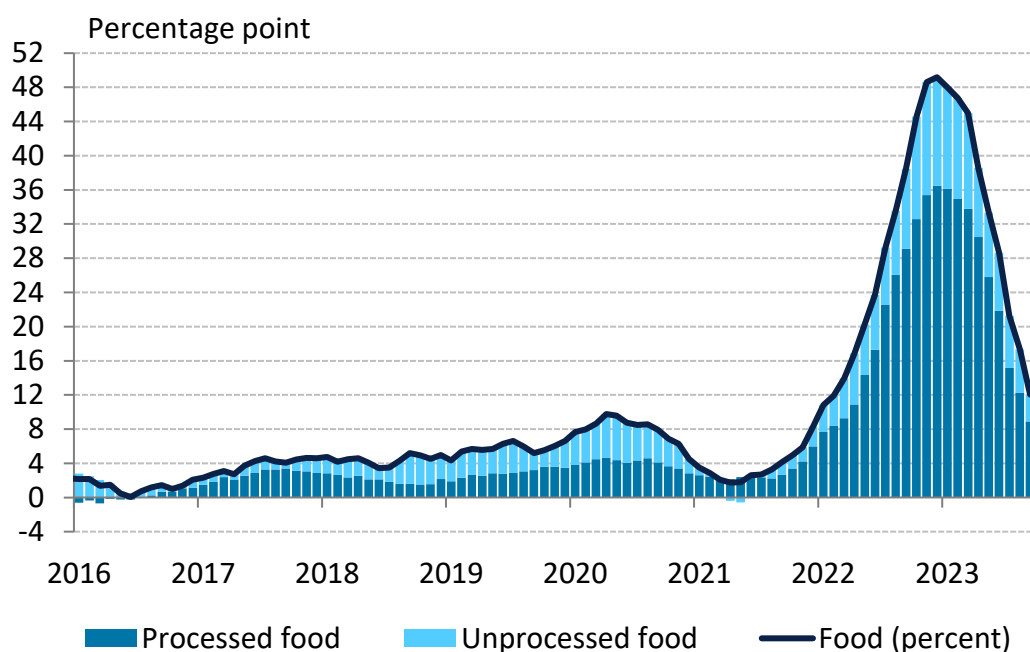
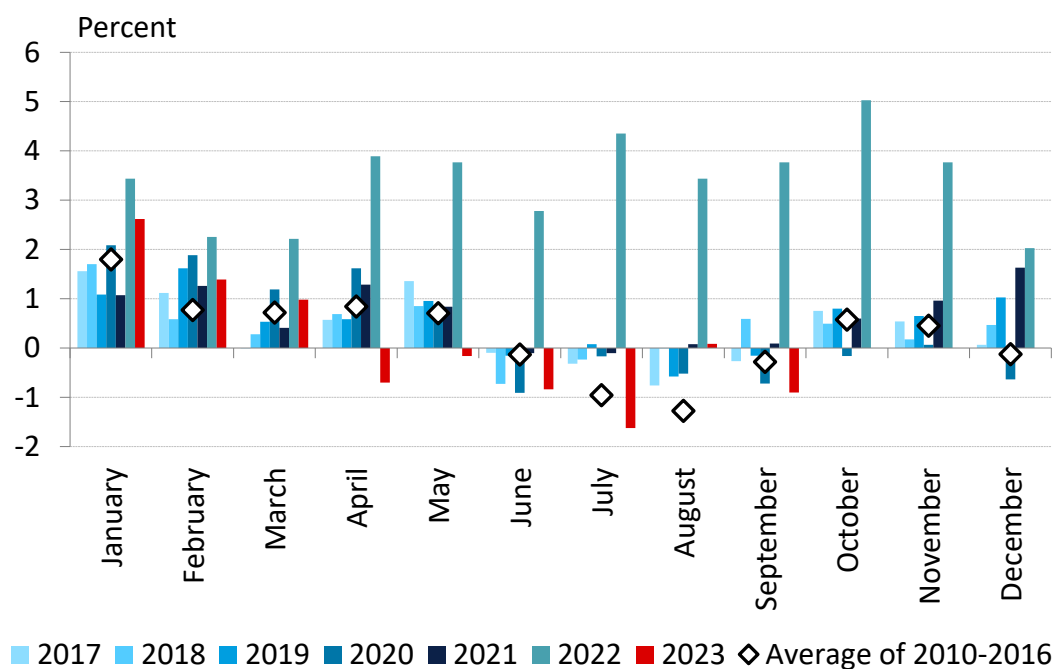


Chart 9 Developments in food price inflation
seasonally unadjusted, tax-adjusted annual change



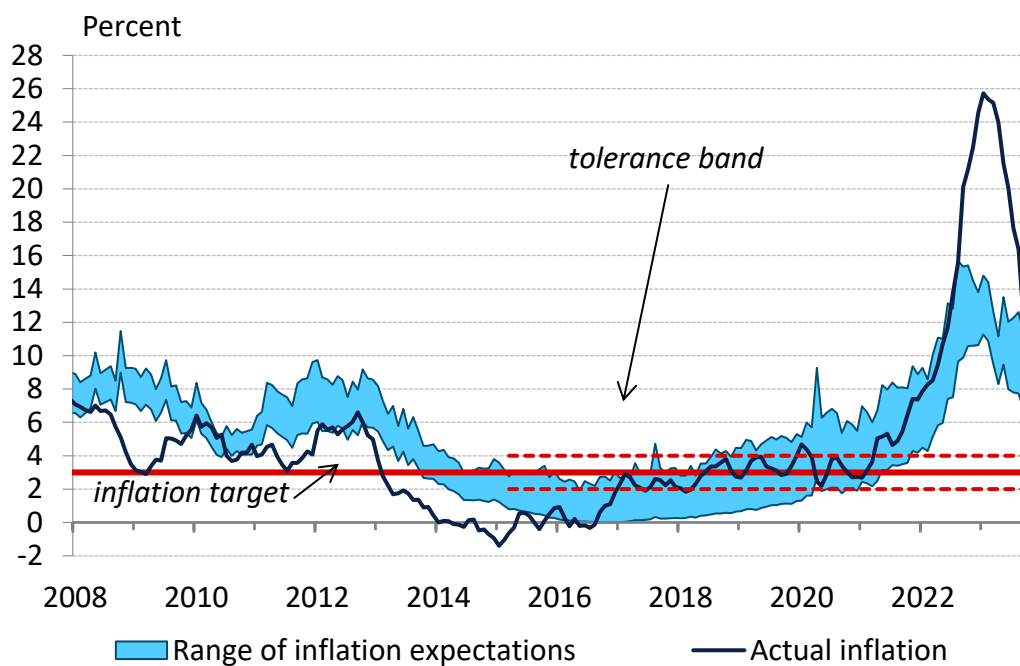
Note: The difference in food price inflation calculated by the HCSO and the MNB is explained by methodological differences. The MNB classifies food-related services as market services (restaurant meals, workplace meals, canteen goods) and the prices of regulated goods and services (school meals, nursery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

Chart 10 Monthly changes in food prices
seasonally unadjusted, tax-adjusted monthly change



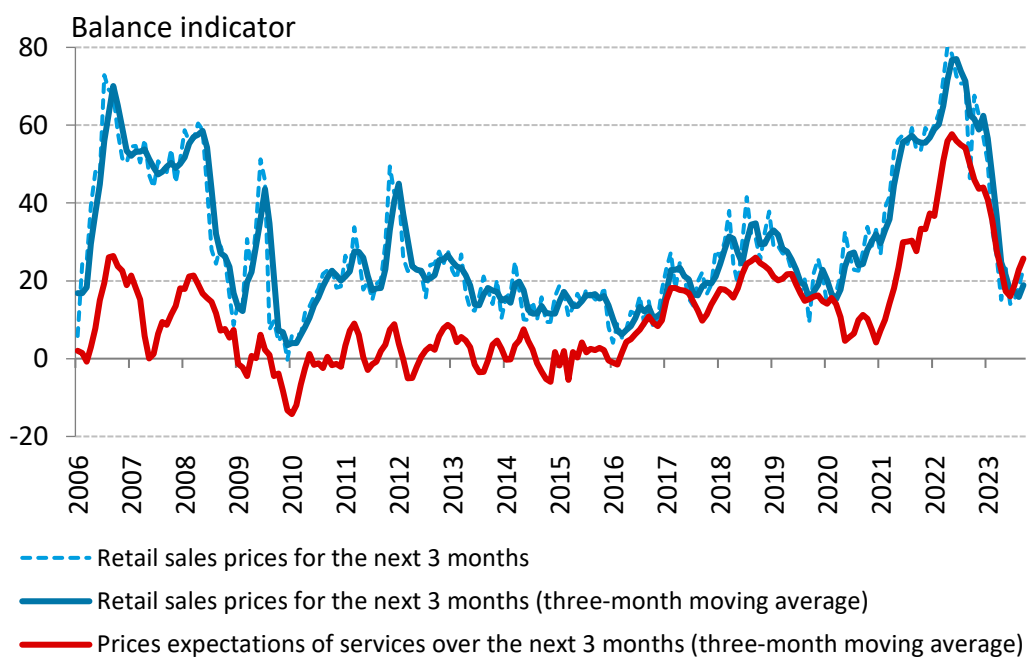
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Chart 11 Households' inflation expectations



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

Chart 12 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, September 2023 (HCSO)					
12.2% (annual change)					
MNB underlying inflation indicators (MNB calculation)					
Contribution of sticky price inflation (percentage points), weight 39.2%	4.8	Contribution of core inflation excluding processed foods (percentage points), weight 50.2%	6.6	Contribution of core inflation excluding taxes (percentage points), weight 63.7%	8.3
Contribution of other items (percentage points), weight 60.8%	7.4	Contribution of other items (percentage points), weight 49.8%	5.6	Contribution of other items (percentage points), weight 36.3%	3.9

Sources: HCSO and the MNB's own calculations.

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