



Monthly analysis of inflation developments

August 2014



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 Dániel Palotai, Executive Director responsible for monetary policy.

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 AUGUST 2014

In August 2014, the *consumer price index* stood at 0.2 per cent, *core inflation* at 2.4 per cent and *core inflation adjusted for the effects of indirect taxes* at 1.5 per cent. Consumer price inflation rose by 0.1 percentage point and core inflation fell by 0.1 percentage point relative to the previous month. The rise in inflation in August was mainly accounted for by base effects coming from the price reductions of utilities implemented in the middle of 2013 (Chart 1).

The Bank's measures of *underlying inflation developments* (annual inflation rates of demand-sensitive and sticky-price products) *rose slightly from July*. The levels of the measures continue to indicate a moderate inflation environment (Chart 2).

Below is a brief analysis of changes in the prices of items determining medium-term inflation developments.

Tradables prices rose slightly relative to the same period a year earlier. The inflation rate of non-durables rose, largely reflecting an increase in extremely volatile air fares.¹ By contrast, the inflation rate of *durables* continued to be subdued.

Services prices rose by 0.2 per cent relative to the previous month (Chart 3), which was broadly similar to the price increases in previous years. Within the product group, price increases were generally modest.

In seasonally adjusted terms, *processed food* prices were unchanged relative to the previous month. Price changes were modest across a broad range of products.

Budapest, 11 September 2014

¹ The external component accounts for a significant share in air fares and is sensitive to exchange rate changes. For this reason, air fares have been categorised into tradables.

Chart 1: The consumer price index and core inflation excluding indirect taxes
(annual percentage changes, January 2007 – August 2014)

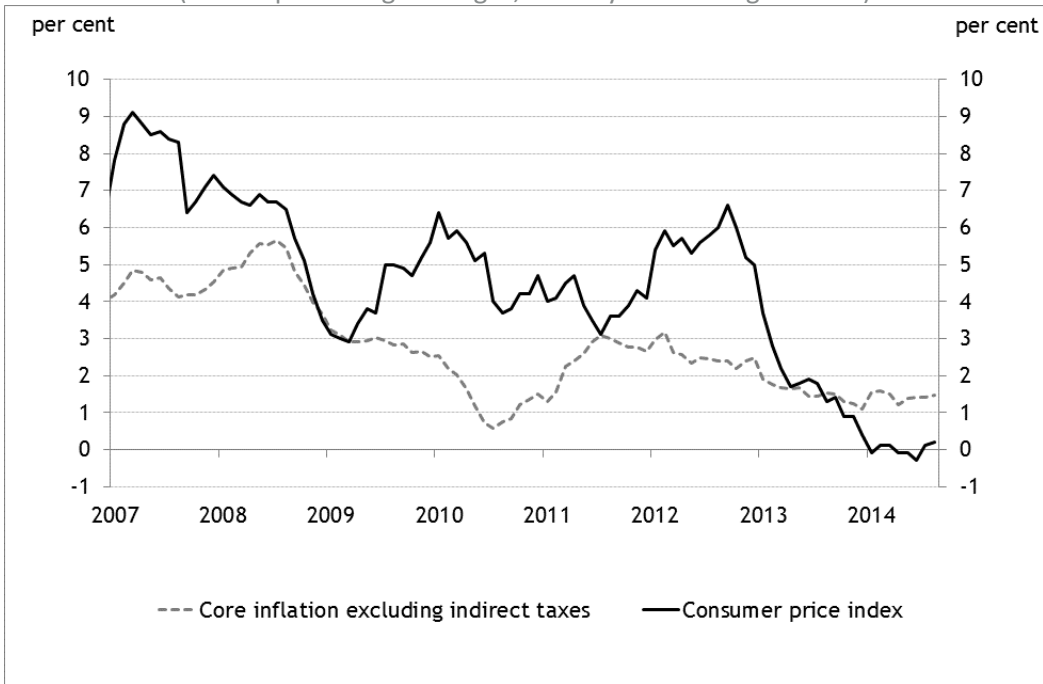
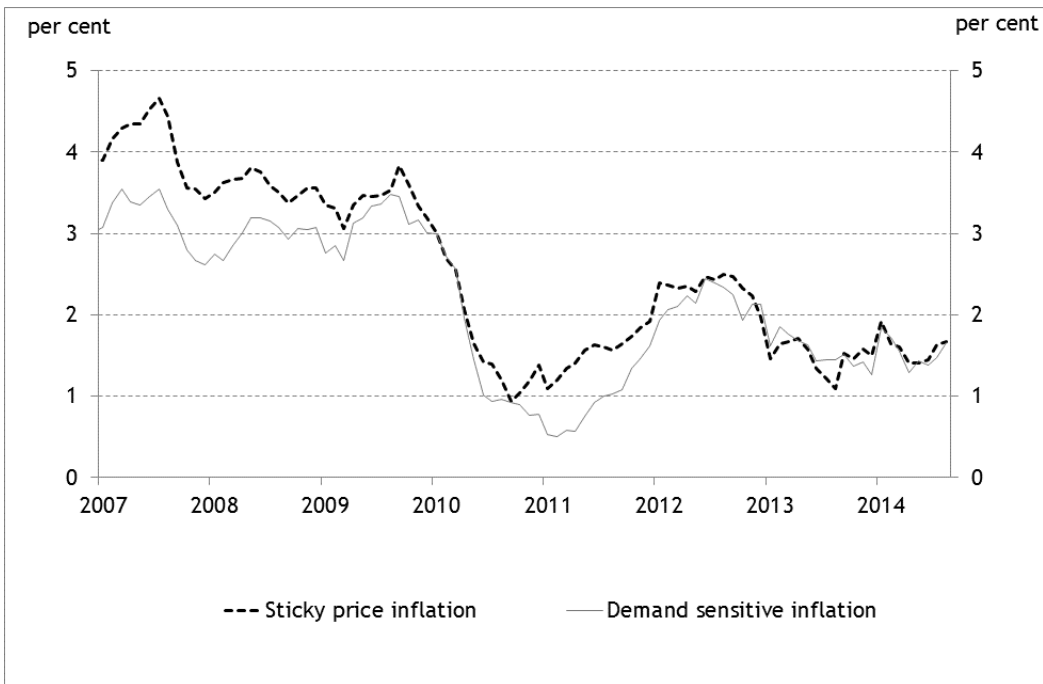


Chart 2: Underlying inflation indicators

(excluding indirect taxes, annual percentage changes, January 2007 – August 2014)



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: Services price inflation

(seasonally unadjusted, tax-adjusted monthly changes, January 2005 – August 2014)

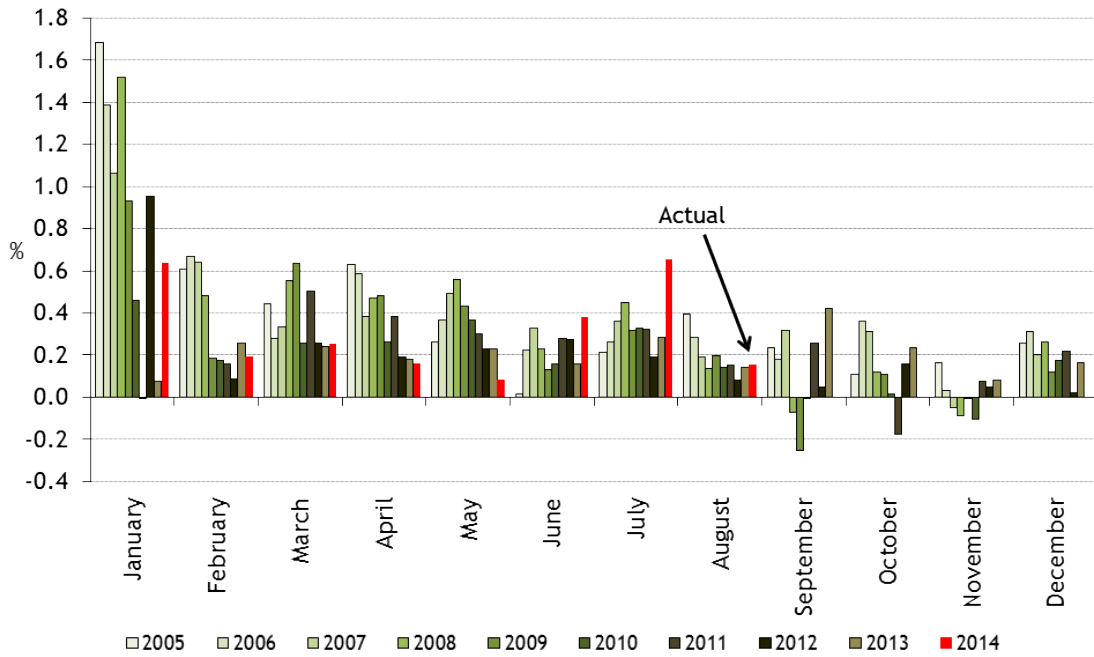


Table 1: Annual change in the consumer price index and contribution of the measures of underlying inflation

Consumer price index, August 2014 (CSO)					
0.2% (annual change)					
MNB underlying inflation indicators (MNB calculation)					
Contribution of sticky price inflation (percentage point), weight 31,3%	0.5	Contribution of demand sensitive inflation (percentage point), weight 52,8%	0.9	Contribution of core inflation excluding indirect taxes (percentage point), weight 65.6%	1.0
Contribution of other items (percentage point)	-0.4	Contribution of other items (percentage point)	-0.7	Contribution of other items (percentage point)	-0.8

Sources: CSO and the MNB's own calculations.

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