



MONTHLY ANALYSIS OF INFLATION DEVELOPMENTS

DECEMBER

2019

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 DECEMBER 2019

In December 2019, annual *inflation* was 4.0 percent, and core inflation was 3.9 percent. Core inflation adjusted for the effects of indirect taxes stood at 3.5 percent (Chart 1). Inflation rose by 0.6 percentage points and core inflation fell by 0.1 percentage point relative to the previous month. Higher inflation mainly reflected the base effect of the decline in fuel prices at end of last year. The slight decrease in core inflation was attributable to a drop in the price index of market services.

With the release of December data, the consumer price index was 3.4 percent, core inflation was 3.8 percent and core inflation adjusted for the effects of indirect taxes was 3.4 percent in 2019 as a whole.

The Bank's measures of underlying inflation developments capturing persistent inflationary trends (i.e. inflation rates of demand-sensitive and sticky-price products and services) remained unchanged relative to the previous month (Chart 2).

In December 2019, items with greater sensitivity to cost changes, i.e. food and fuel, pointed to a rise in inflation, and the contribution of demand-sensitive products to inflation remained unchanged (Chart 3).

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

Annual inflation of *industrial goods* was broadly unchanged compared with the previous month (Chart 4). Within this product group, the inflation of *durables* and *non-durables* remained broadly unchanged.

Market services prices edged up by 0.1 percent in December compared with the previous month, which was consistent with the price dynamics seen in the previous years. Within this product group, price movements were moderate across a broad range of products. Based on companies' pricing practice characterising this product category, early next year may be a key factor shaping future movements in services inflation (Charts 5 and 6).

Seasonally and tax-adjusted *processed food* prices rose in December primarily reflecting a rise in processed meat prices.

Seasonally and tax-adjusted *unprocessed food* prices rose relative to the previous month, mainly due to an increase in the prices of pork and fresh fruits.

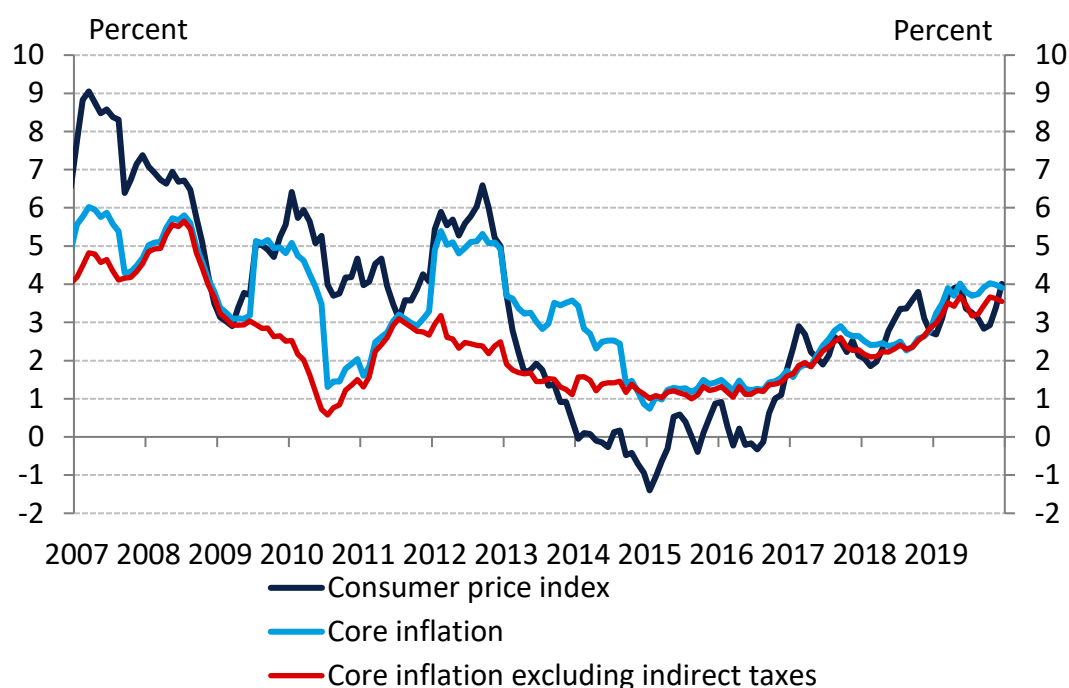
Prices of *regulated products* were unchanged relative to November.

Households' inflation expectations remained at moderate levels, consistent with the inflation target of 3 percent (Chart 7).

Prepared by Judit Várhegyi

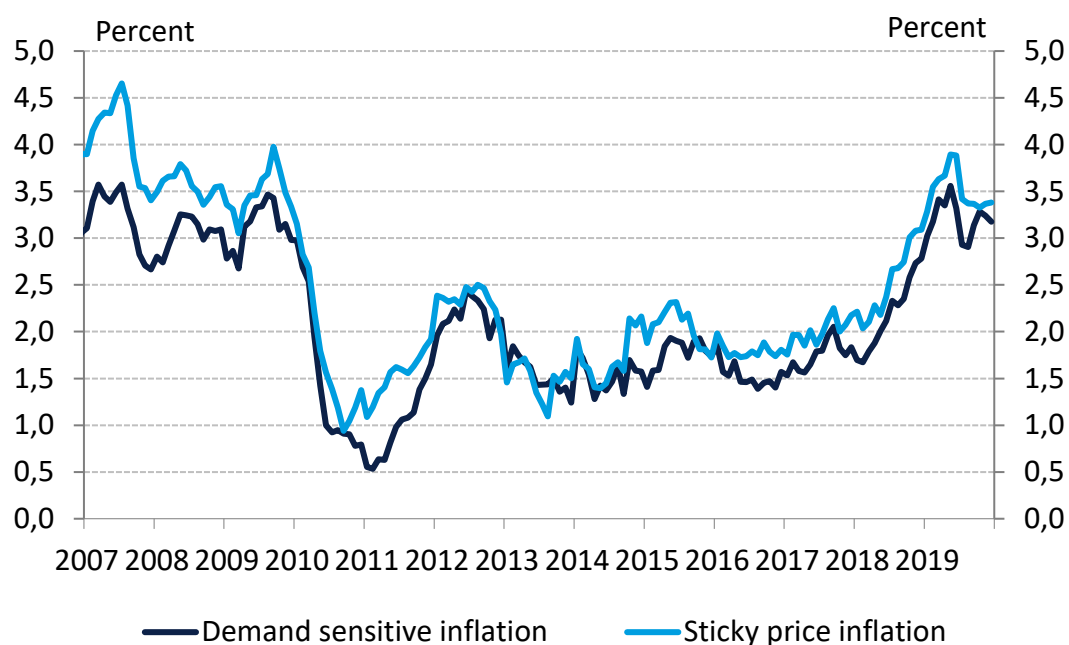
Budapest, 14 January 2020

Chart 1 The consumer price index, core inflation and core inflation excluding indirect taxes
(annual percentage changes, January 2007 – December 2019)



Note: Seasonally unadjusted core inflation.

Chart 2 Underlying inflation indicators
(excluding indirect taxes, annual percentage changes, January 2007 – December 2019)



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 percent of elementary prices change monthly on average. MNB calculation based on data released by the HCSO.

Chart 3 Inflation decomposition

(annual percentage changes, January 2007 – December 2019)

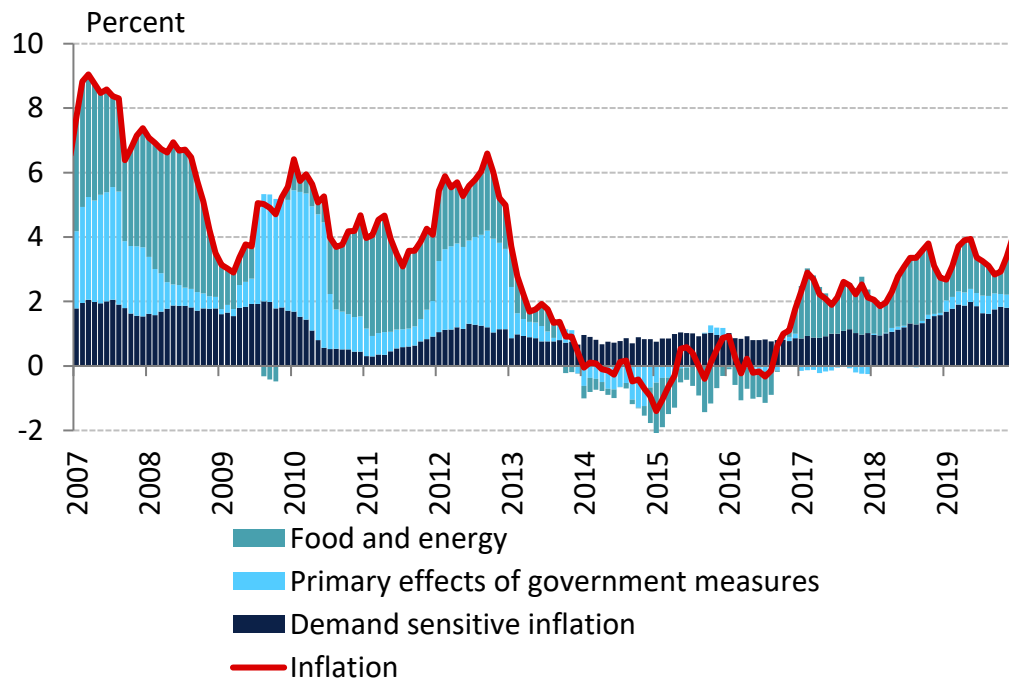


Chart 4 Inflation of industrial goods

(excluding taxes, annual percentage changes, January 2007 – December 2019)

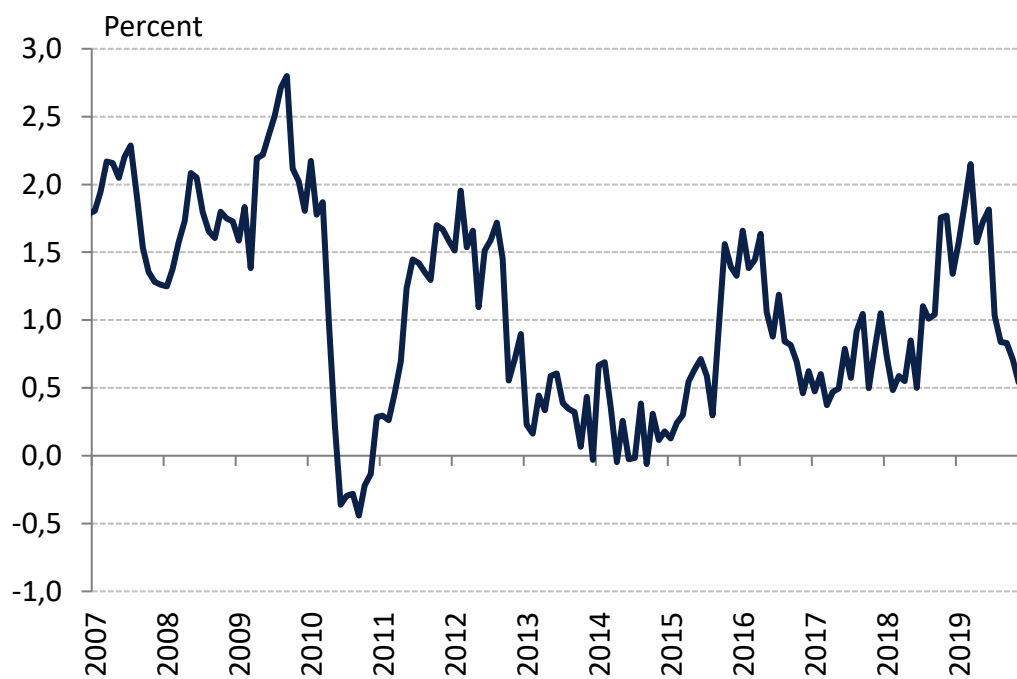


Chart 5 Market services inflation

(seasonally unadjusted, tax-adjusted monthly percentage changes, January 2015 – December 2019)

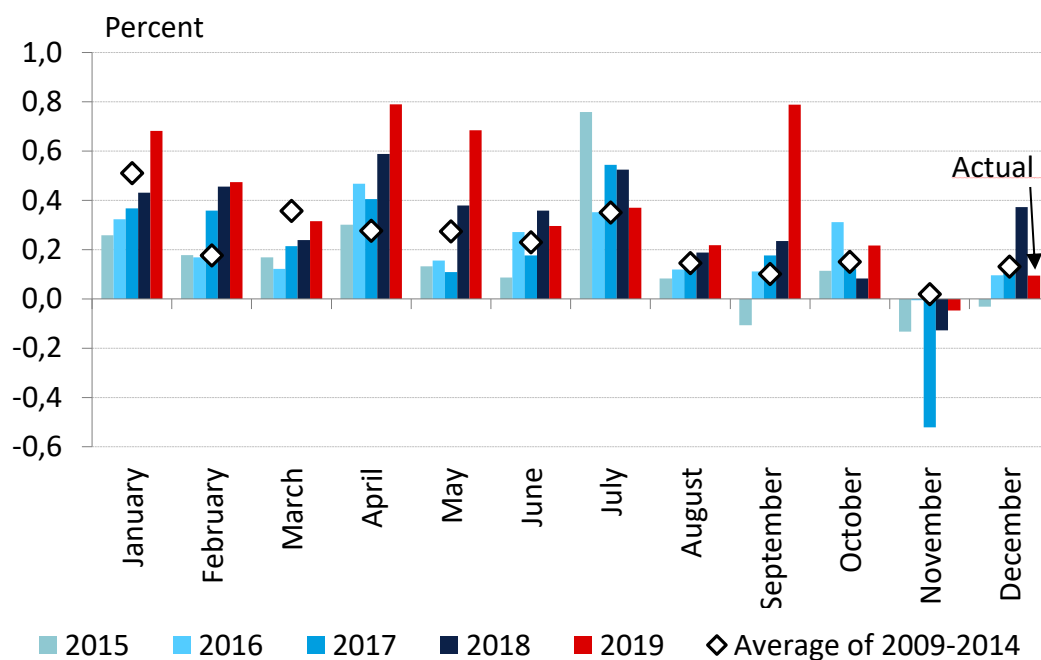
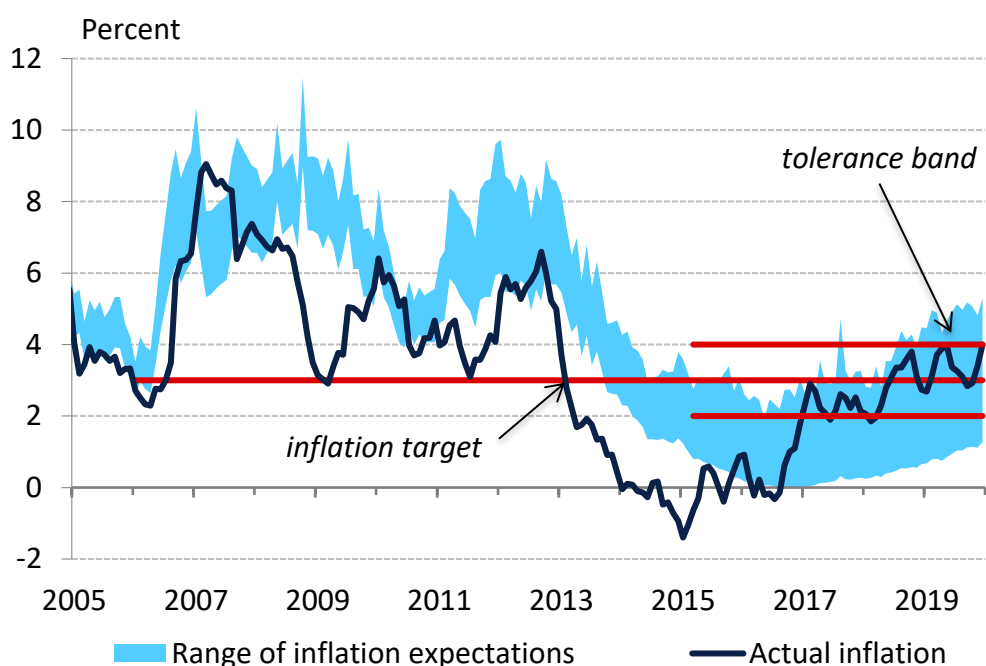


Chart 6 Market services inflation

(excluding taxes, annual percentage changes, January 2007 – December 2019)



Chart 7 Households' inflation expectations
(January 2005 – December 2019)



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

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

Consumer price index, December 2019 (HCSO)					
4.0% (annual change)					
MNB underlying inflation indicators (MNB calculation)					
Contribution of sticky price inflation (percentage points), weight 33.4%	1.1	Contribution of demand-sensitive inflation (percentage points), weight 55.9%	1.7	Contribution of core inflation excluding taxes (percentage points), weight 69.0%	2.4
Contribution of other items (percentage points), weight 66.6%	2.9	Contribution of other items (percentage points), weight 44.1%	2.3	Contribution of other items (percentage points), weight 31.0%	1.6

Sources: HCSO and the MNB's own calculations.

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