



Monthly analysis of inflation developments

December 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 DECEMBER 2014

In December 2014, the consumer price index stood at -0.9 per cent. Core inflation and core inflation adjusted for the effects of indirect taxes were 0.9 per cent¹ and 1.1 per cent, respectively. Consumer price inflation fell by 0.2 percentage points and core inflation by 0.3 percentage points relative to the previous month. The fall in inflation was mainly accounted for by the lower price index for *fuel*. The easing in core inflation largely reflected declines in the price indices for *processed food* and *alcoholic drink and tobacco* in the month (Chart 1).

The Bank's measures of *underlying inflation developments* (annual inflation rates of demand-sensitive and sticky-price products) were broadly unchanged *relative to the previous month* and remained in a range between 1.5–2.0 per cent characterising a period of nearly two years. 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 in December 2014.

Tradables prices rose slightly relative to the same period a year earlier. Inflation of both durable and *non-durable goods* showed moderate dynamics in the month.

Services prices were broadly unchanged compared with November (Chart 3). Price changes were generally modest within this product group. In view of the pricing behaviour of firms within the sector, early 2015 may be a guide to future developments in services price inflation.

The seasonally adjusted level of *processed food* prices fell relative to the previous month, mainly due to declines in the price indices for dairy products and sugar.

Budapest, 14 January 2015

¹ The seasonally adjusted core inflation, published by CSO was 0.8 per cent.

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

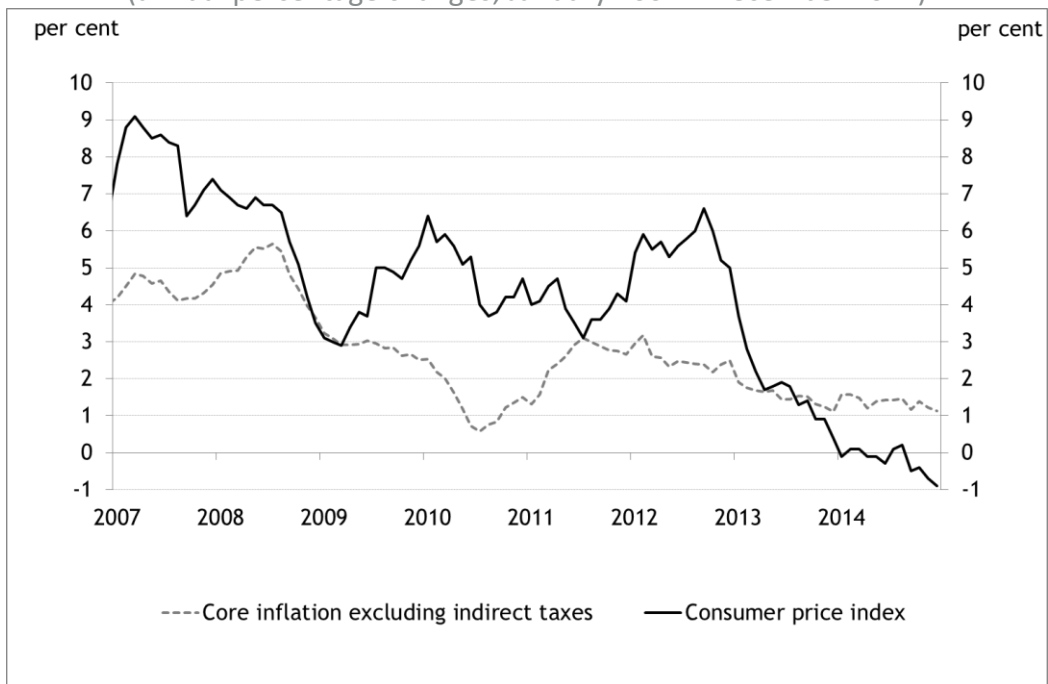
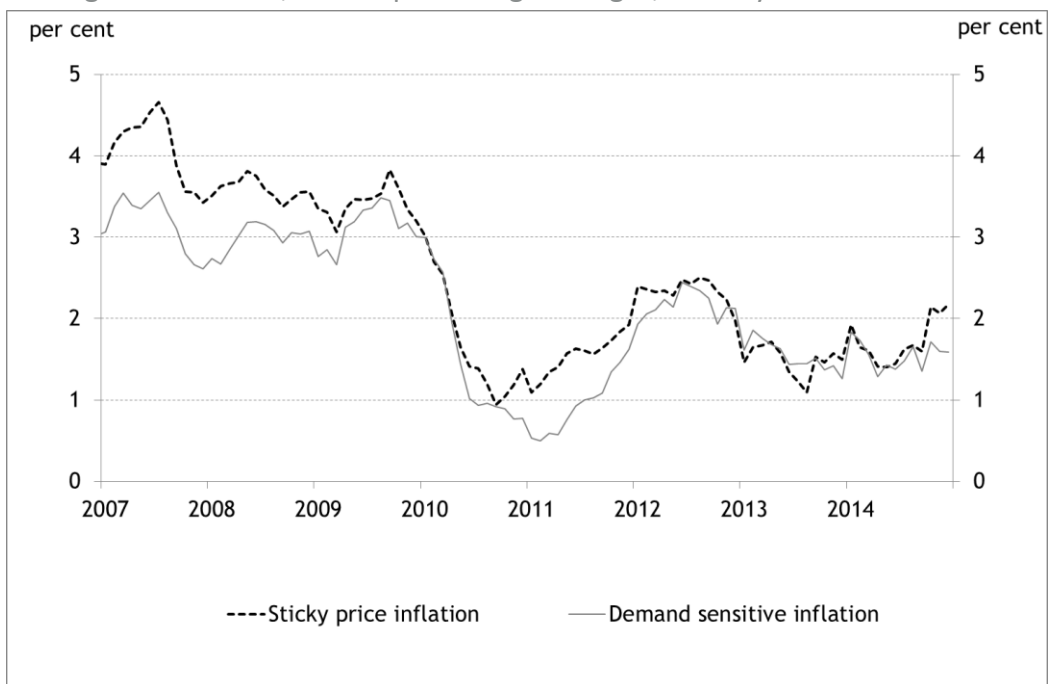


Chart 2: Underlying inflation indicators

(excluding indirect taxes, annual percentage changes, January 2007 – December 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.

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

Consumer price index, December 2014 (CSO)					
-0.9% (annual change)					
MNB underlying inflation indicators (MNB calculation)					
Contribution of sticky price inflation (percentage point), weight 31,3%	0,7	Contribution of demand sensitive inflation (percentage point), weight 52,8%	0,8	Contribution of core inflation excluding indirect taxes (percentage point), weight 65.6%	0,7
Contribution of other items (percentage point)	-1,6	Contribution of other items (percentage point)	-1,8	Contribution of other items (percentage point)	-1,7

Sources: CSO and the MNB's own calculations.

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