



Monthly analysis of inflation developments

September 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/Statisztika/data-and-information/mnben_statistikai_idosorok/mnben_elv_prices/underlying_inflation_indicators_MNB

ASSESSMENT OF INFLATION DATA FOR SEPTEMBER 2014

In September 2014, the consumer price index stood at -0.5 per cent, core inflation at 1.4 per cent and core inflation adjusted for the effects of indirect taxes at 1.2 per cent. Consumer price inflation fell by 0.7 percentage points and core inflation by 1.0 percentage point relative to the previous month. The decline in inflation was mainly accounted for by the dropping-out from the base of the increases in the financial transaction tax and the retail margin on tobacco products in the autumn of 2013 (Chart 1).

The Bank's measures of *underlying inflation developments* (annual inflation rates of demand-sensitive and sticky-price products) fell slightly relative to the previous month. 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.

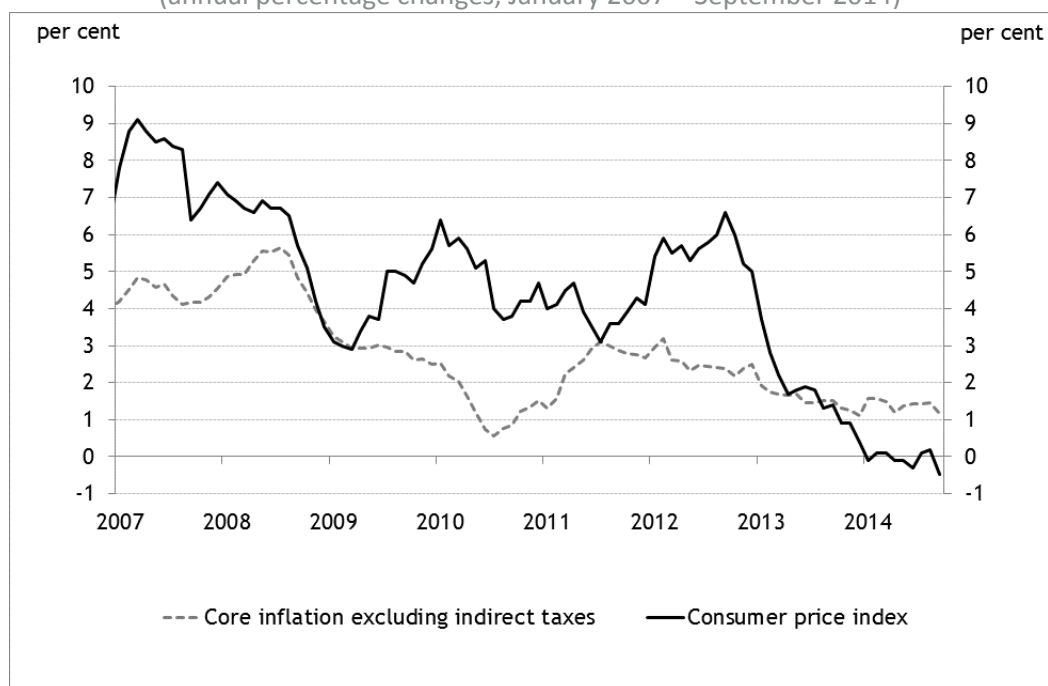
Tradables prices were unchanged relative to the same period a year earlier. The inflation rate of non-durables fell, largely reflecting the significant decline in extremely volatile air fares following the sharp rise in August.¹ The inflation rate of *durables* continued to be moderate.

Services prices rose by 0.1 per cent relative to the previous month (Chart 3), which was lower than the increase in September 2013. Within this product group, price increases were generally moderate.

In seasonally adjusted terms, *processed food* prices fell slightly relative to August. There were moderate price changes across a broad range of products in the month.

Budapest, 10 October 2014

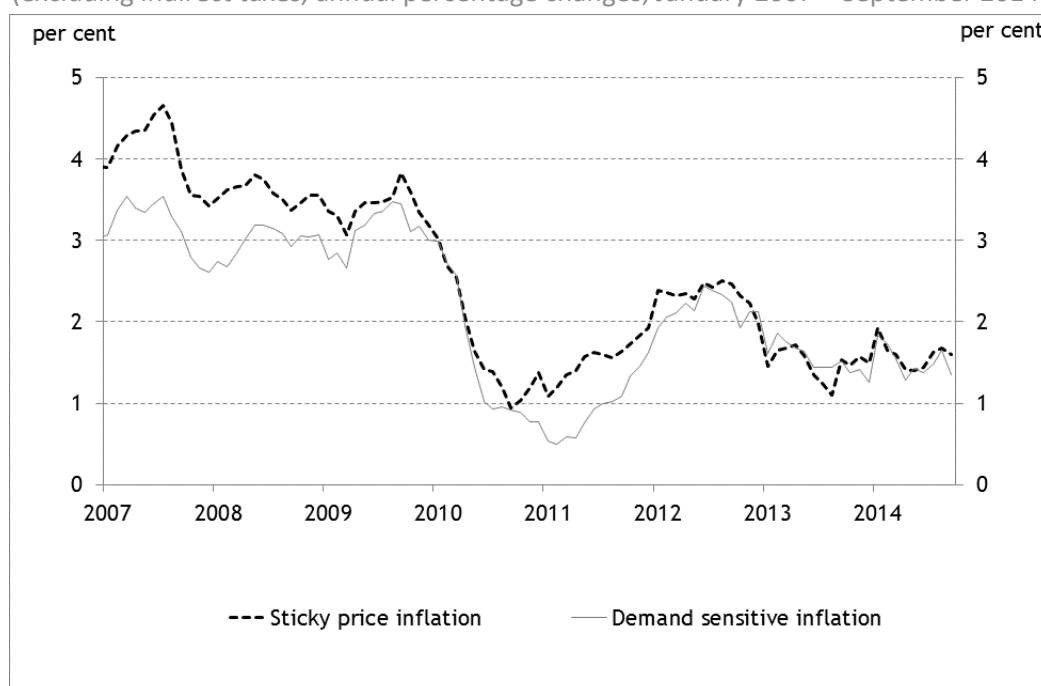
Chart 1: The consumer price index and core inflation excluding indirect taxes
(annual percentage changes, January 2007 – September 2014)



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 2: Underlying inflation indicators

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

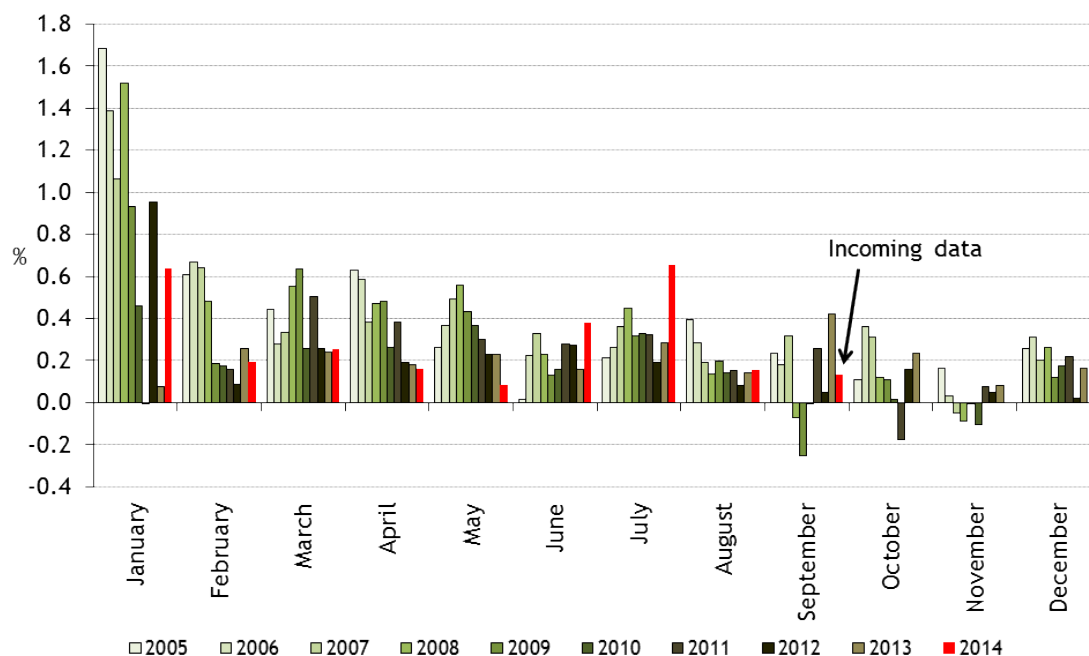


Table 1: Annual change in the consumer price index and contribution of the measures of underlying inflation

Consumer price index, September 2014 (CSO)					
-0,5% (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%	0.7	Contribution of core inflation excluding indirect taxes (percentage point), weight 65.6%	0.8
Contribution of other items (percentage point)	-1.0	Contribution of other items (percentage point)	-1.2	Contribution of other items (percentage point)	-1.2

Sources: CSO and the MNB's own calculations.

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