



Monthly analysis of inflation developments

November 2015



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/mnbn_statistikai_idosorok/mnbn_elv_prices/underlying_inflation_indicators_MNB

ASSESSMENT OF INFLATION DATA FOR NOVEMBER 2015

In November 2015, annual inflation 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 (Chart 1). The *overall inflation rate* rose by 0.4 percentage points and *core inflation* fell by 0.1 percentage point relative to October. The pick up in inflation reflected the increase in the price index for fuel due to base effects (Charts 1 and 2). Consumer prices were unchanged relative to October.

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*. The levels of the measures continue to indicate a moderate inflation environment (Chart 3).

The contribution of demand-sensitive products to inflation has been broadly unchanged in recent months, while changes in the more volatile items, i.e. food and energy, sensitive mainly to cost changes, have had a downward effect on prices.

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

The annual inflation rate of *tradables* fell relative to October due to a base effect (Chart 4), although it stays high levels in the last 1.5 years. Here, the prices of both *durables* and of *non-durables* rose relative to October 2014. The price dynamics of used cars were the main contributors to the increase in durables prices. In addition to the price depressing effect of low import prices, the prices of tradables is mainly explained by the gradual pass-through of former exchange rate depreciation and recovering domestic demand.

Services prices fell by 0.1 per cent relative to the previous month (Chart 5). Here, price dynamics were generally moderate. Taking into account the price-setting behaviour characterising this product group, no material increase in prices is expected in December. Price movements early next year are likely to determine the future course of services inflation.

Seasonally adjusted *processed food* prices fell. Movements in the prices index for this product group have been significantly influenced in recent months by the decline in the prices of milk prices due to the abolition of the EU's dairy quotas. The fall in dairy prices alone reduced the annual inflation rate by 0.3 percentage points.

Seasonally adjusted *unprocessed food* prices rose by 0.3 per cent relative to October, mainly reflecting the rise in potato prices.

A broad range of *regulated prices* were broadly unchanged relative to the previous month.

Households' inflation expectations have been broadly unchanged since early 2015, remaining at moderate levels in line with low underlying inflation developments (Chart 6).

Prepared by Judit Várhegyi

Budapest, 8 December 2015

Chart 1: Inflation decomposition

(annual percentage changes, January 2007 – November 2015)

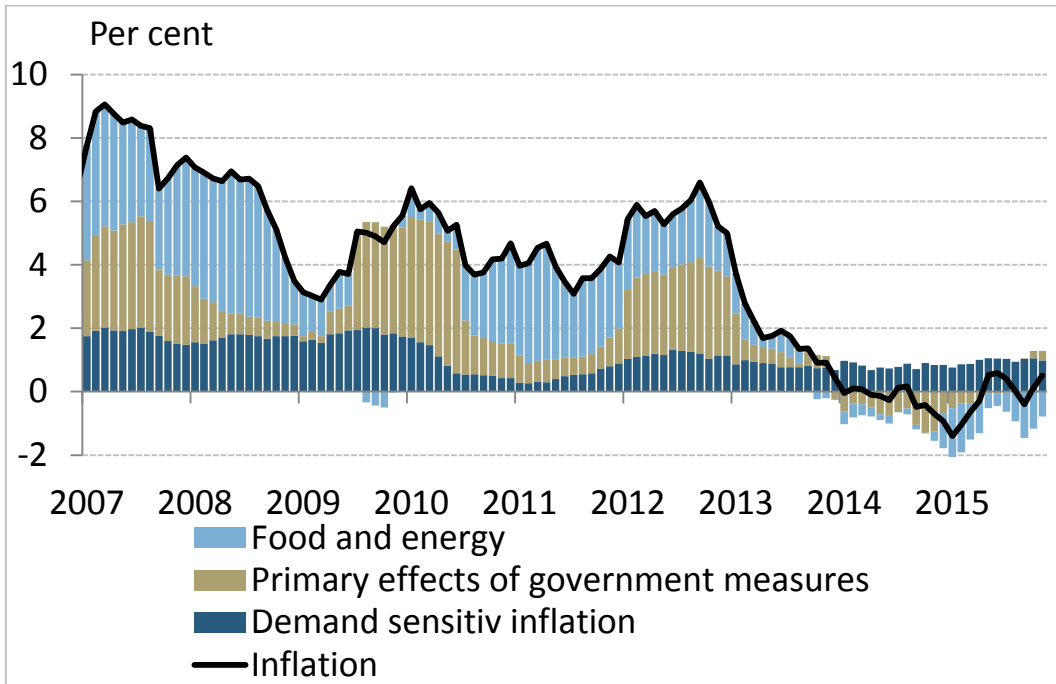


Chart 2: The consumer price index and core inflation excluding indirect taxes

(annual percentage changes, January 2007 – November 2015)

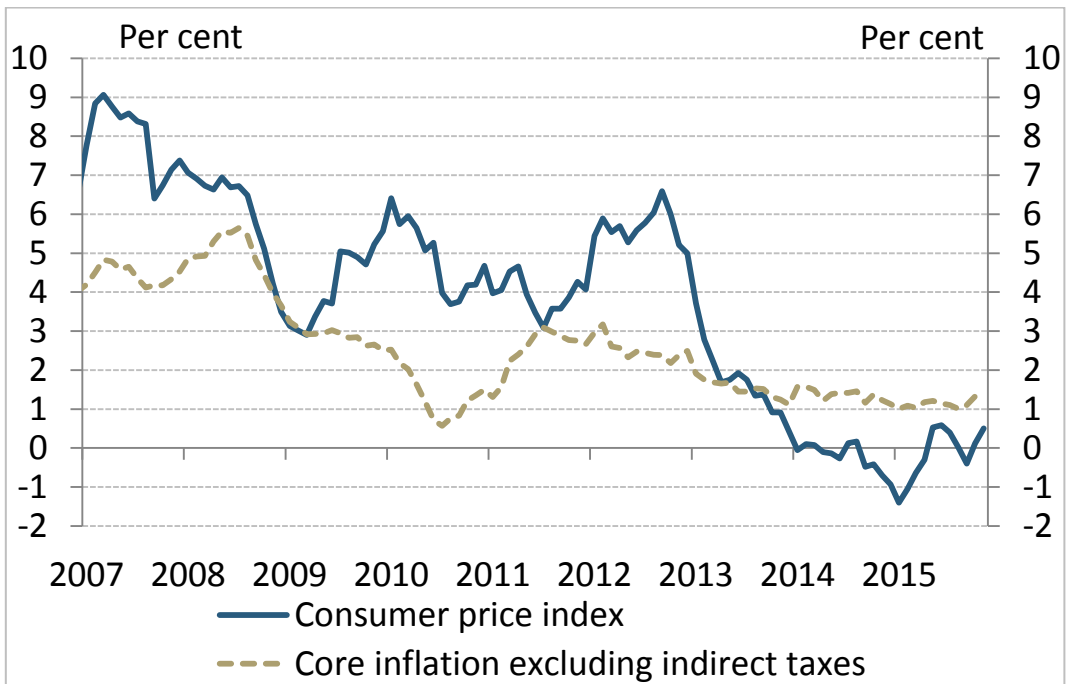
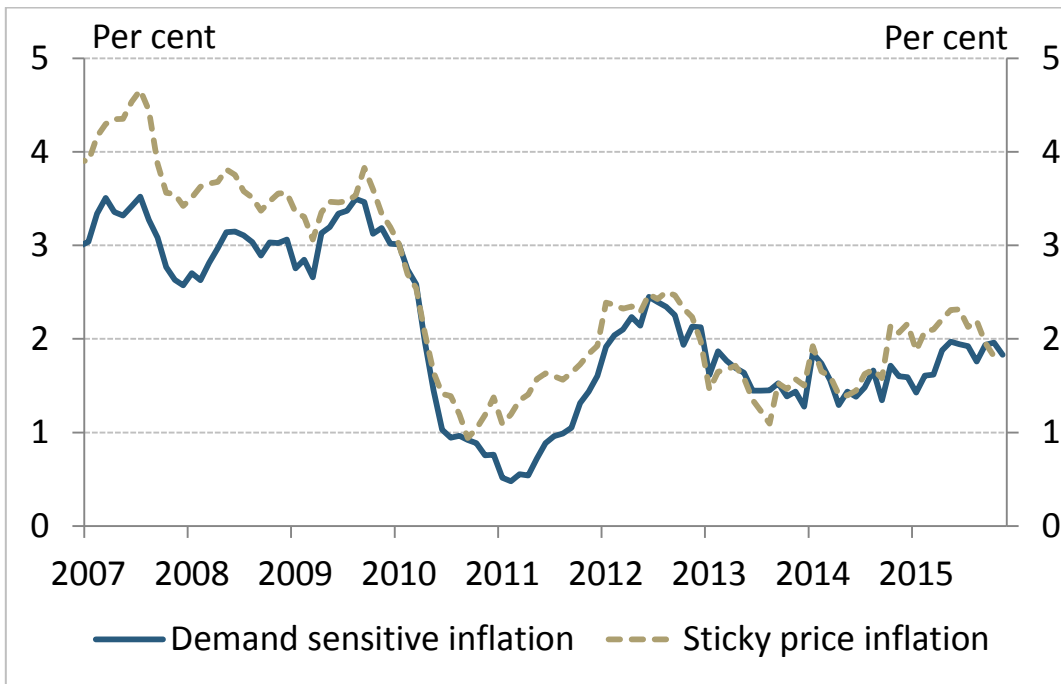


Chart 3: Underlying inflation indicators

(excluding indirect taxes, annual percentage changes, January 2007 – November 2015)



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 4: Inflation of tradable goods

(annual percentage changes, January 2007 – November 2015)

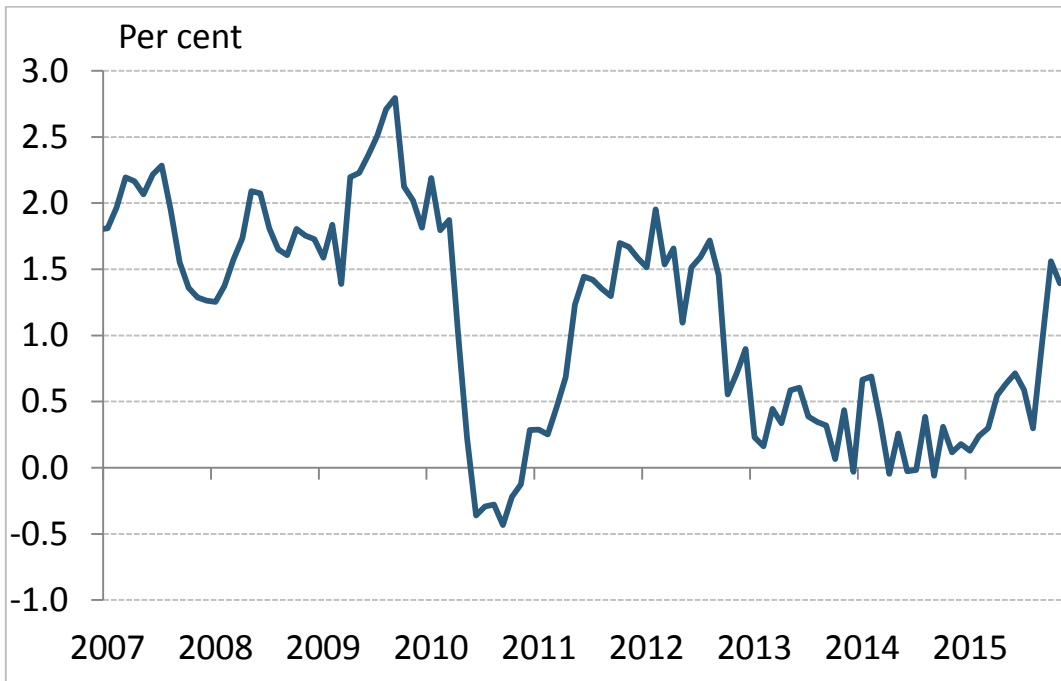


Chart 5: Inflation of market services

(seasonally unadjusted, tax-adjusted monthly percentage changes, January 2007 – November 2015)

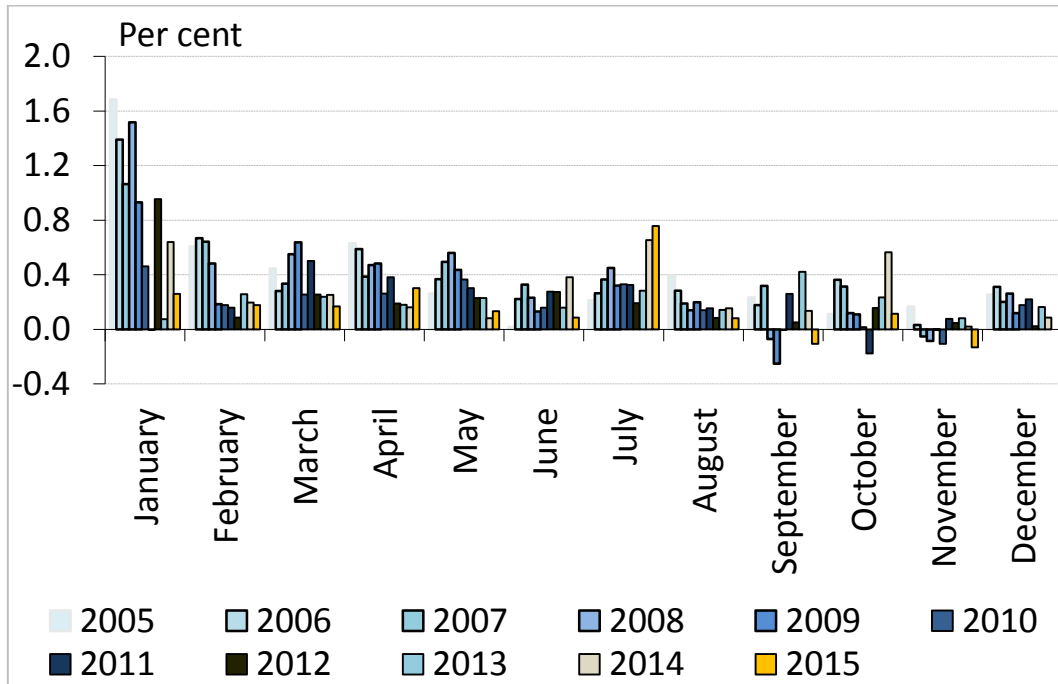
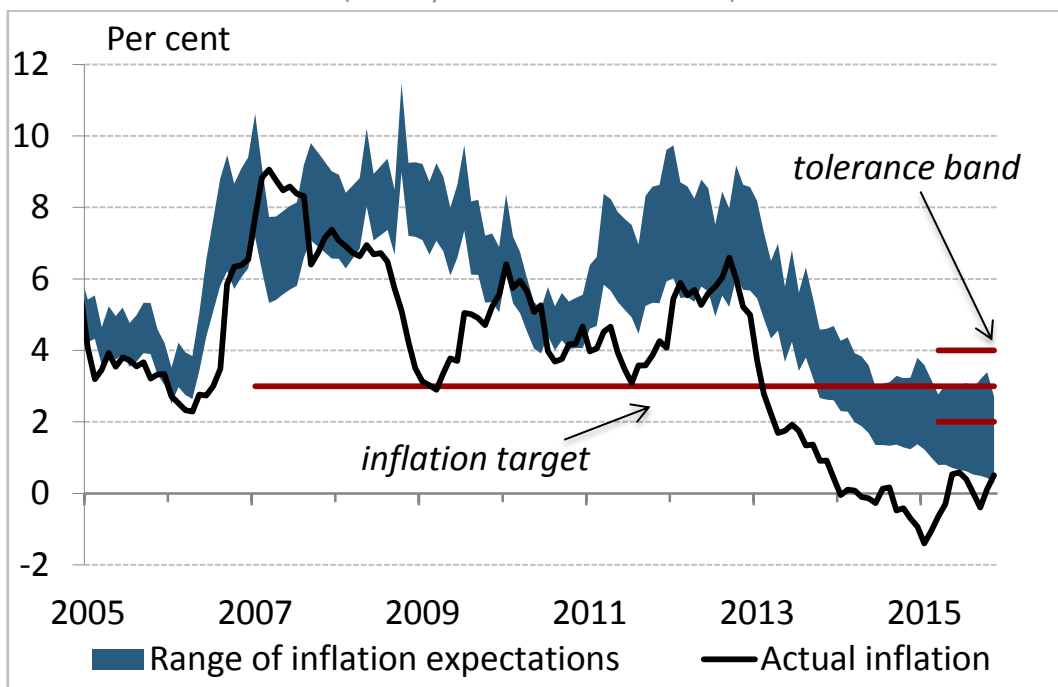


Chart 6 Households' inflation expectations

(January 2005 – November 2015)



Sources: MNB calculations based on European Union data; and CSO.

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

Consumer price index, November 2015 (HCSO)					
0.5% (annual change)					
MNB underlying inflation indicators (MNB calculation)					
Contribution of sticky price inflation (percentage points), weight 32.1%	0.6	Contribution of demand sensitive inflation (percentage points), weight 53.6%	1.0	Contribution of core inflation excluding taxes (percentage points), weight 66.8%	0.8
Contribution of other items (percentage points)	-0.1	Contribution of other items (percentage points)	-0.5	Contribution of other items (percentage points)	-0.3

Sources: CSO and the MNB's own calculations.

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