



Monthly analysis of inflation developments

September 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 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 2015

In September 2015, annual inflation stood at -0.4 per cent, *core inflation* at 1.3 per cent and *core inflation adjusted for the effects of indirect taxes* at 1.1 per cent (Chart 1). The *overall inflation rate* fell by 0.4 percentage points and *core inflation* rose by 0.1 percentage points to the previous month. The lower rate of inflation in the month reflected a fall in fuel prices, while the slight increase in core inflation was mainly due to a rise in the price index for tradable goods (Charts 1 and 2). Fuel prices fell by 5.1 per cent relative to August, driven by the significant decline in the world market price of crude oil.

Consumer prices fell by 0.6 per cent relative to August and rose by 0.9 per cent relative to December 2014. With the receipt of data for September, inflation was 0.0 per cent and core inflation was 1.2 per cent in the third quarter of 2015. Inflation excluding indirect taxes, calculated by the MNB, was -0.1 per cent and core inflation excluding taxes was 1.1 per cent in the third quarter of 2015.

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).

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

Tradables prices increased relative to the same period a year earlier, to which base effects also contributed (Chart 4). Here, the prices of both *durables* and of *non-durables* rose relative to September 2014. Seasonally adjusted prices of products within this group have shown moderate dynamics in recent months, which may be explained by the downward effect of low import prices.

Services prices fell by 0.1 per cent relative to the previous month (Chart 5). Here, price dynamics education moderated. Excluding this component, price changes were generally modest. As a result of these effects, annual services inflation fell relative to previous months.

Seasonally adjusted *processed food* prices fell relative to the previous month. Movements in the prices index for food in recent months have been influenced significantly by the decline in the prices of milk and dairy products due to the abolition of milk quotas by the EU. The fall in the prices of milk prices itself reduced the annual inflation rate of processed food prices by 0.3 percentage points.

Seasonally adjusted *unprocessed food* prices rose by 0.8 per cent relative to August, mainly reflecting rises in the prices of fresh vegetables.

Within *regulated prices*, the prices of textbooks fell 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 October 2015

Chart 1: Inflation decomposition
 (annual percentage changes, January 2007 – September 2015)

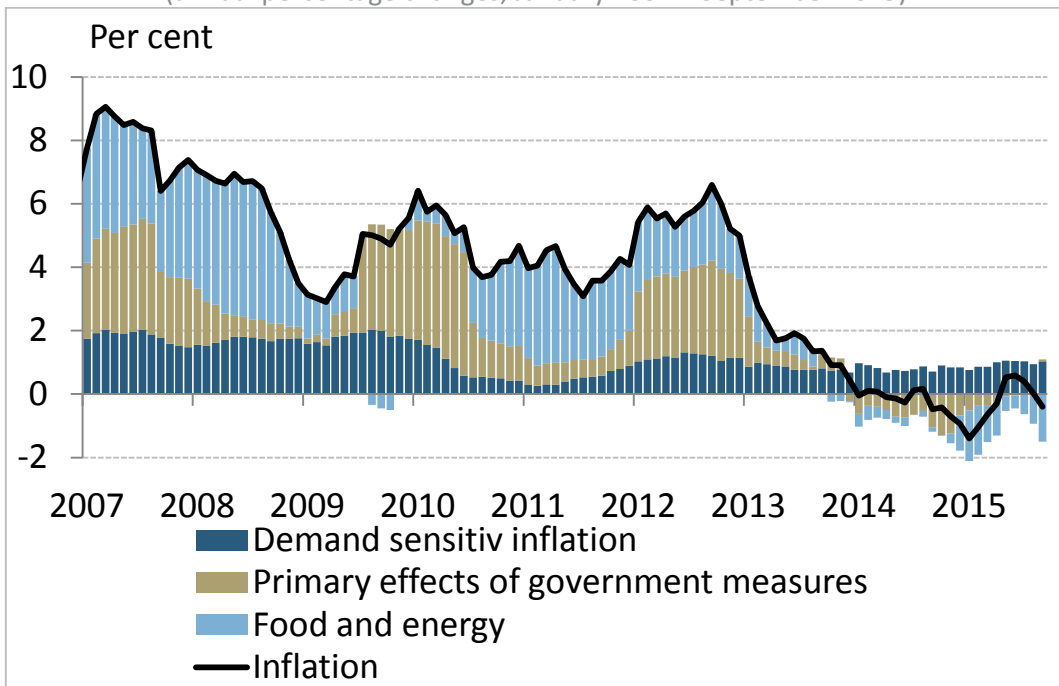


Chart 2: The consumer price index and core inflation excluding indirect taxes
 (annual percentage changes, January 2007 – September 2015)

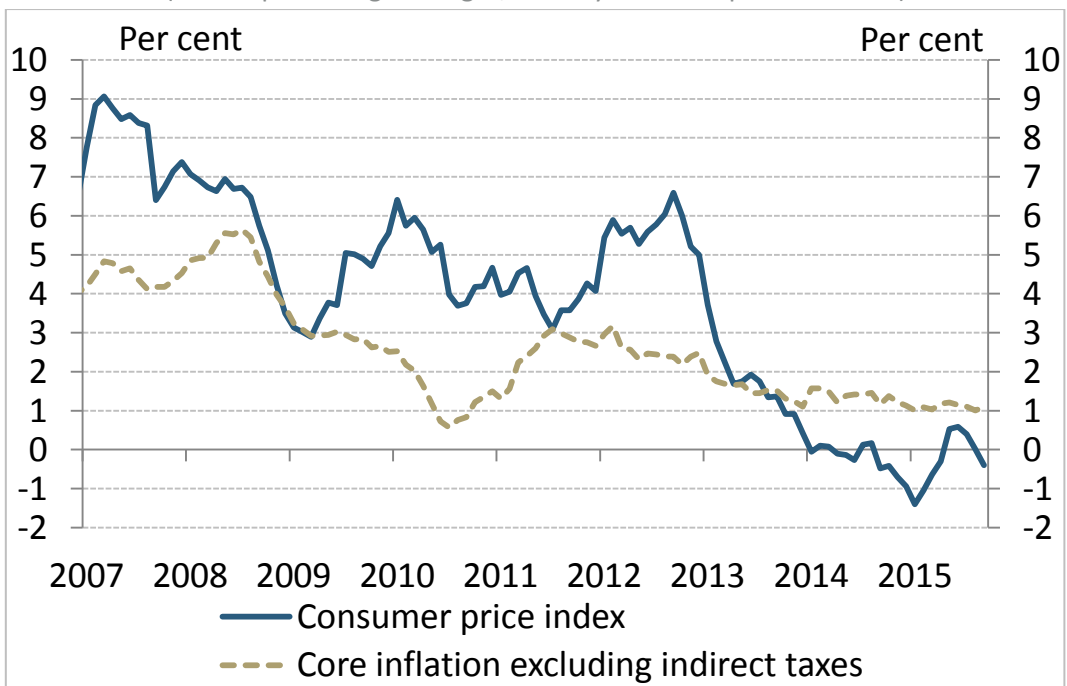
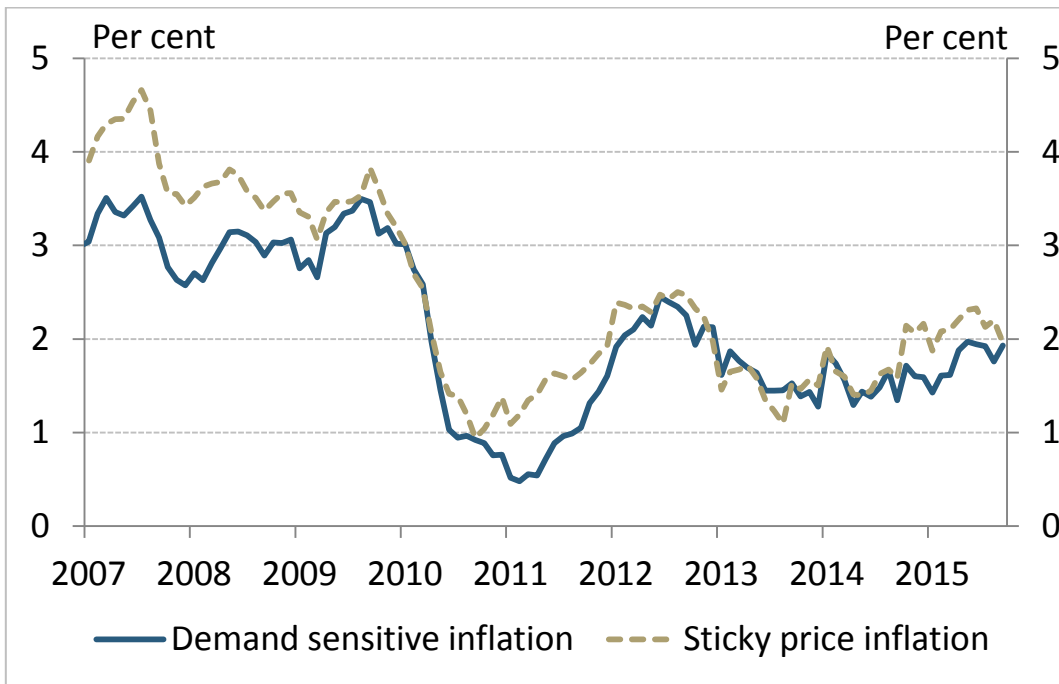


Chart 3: Underlying inflation indicators

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

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

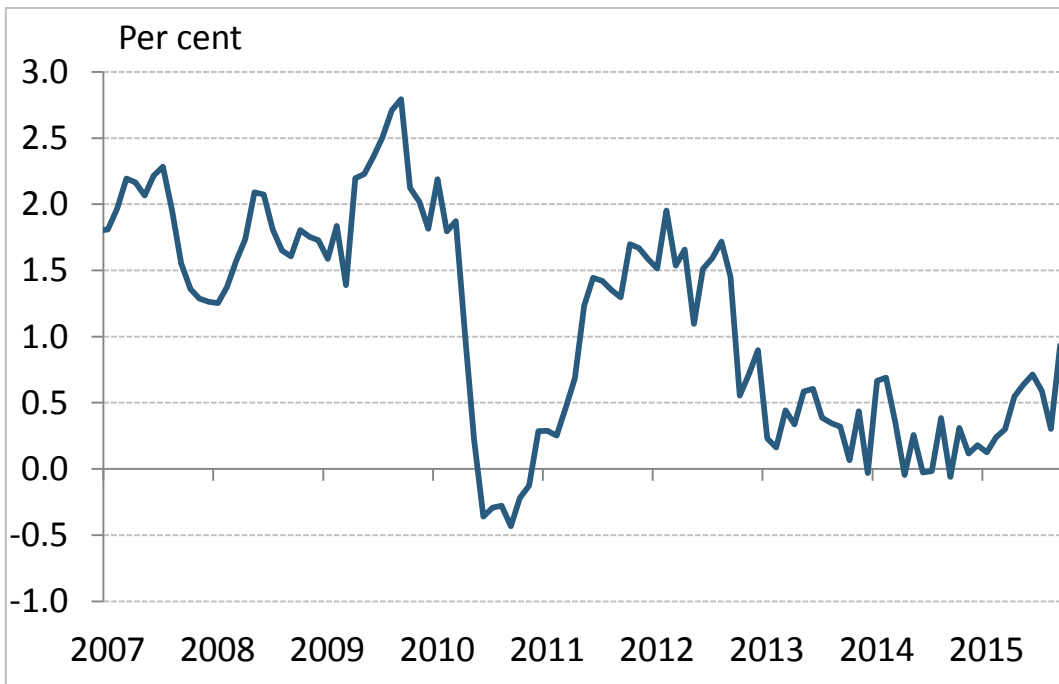


Chart 5: Inflation of market services

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

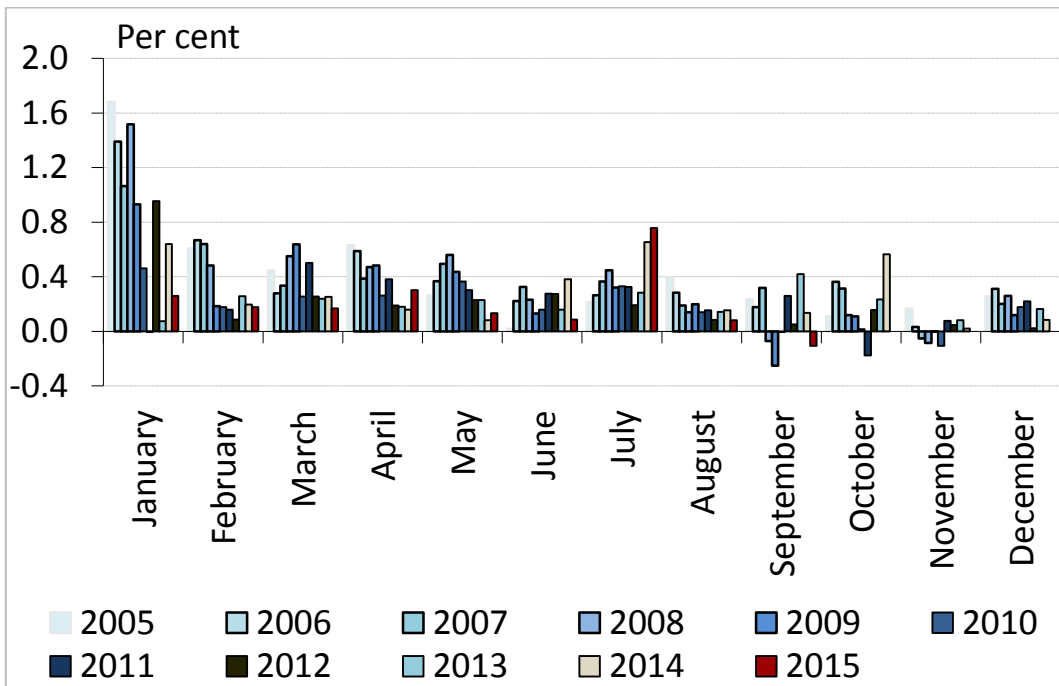
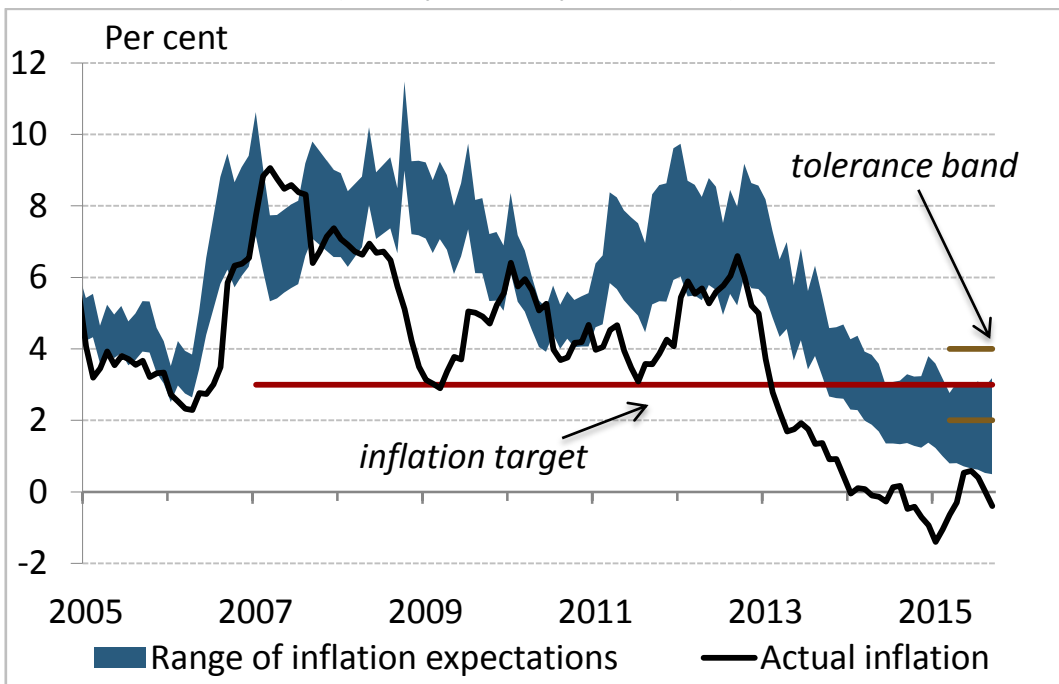


Chart 6 Households' inflation expectations

(January 2005 – September 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, September 2015 (HCSO)					
-0.4% (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%	0.7
Contribution of other items (percentage points)	-1.0	Contribution of other items (percentage points)	-1.4	Contribution of other items (percentage points)	-1.1

Sources: CSO and the MNB's own calculations.

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