



Monthly analysis of inflation developments

January 2016



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.

For further information, please contact Judit Várhegyi (e-mail: varhegyij@mnbn.hu)

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/mnbn_statiztikai_idosorok/mnbn_elv_prices/underlying_inflation_indicators_MNB

ASSESSMENT OF INFLATION DATA FOR JANUARY 2016

In January 2016, annual *inflation* stood at 0.9 per cent, *core inflation* at 1.5 per cent and *core inflation adjusted for the effects of indirect taxes* at 1.3 per cent (Chart 1). The *overall inflation rate* was unchanged and *core inflation* rose by 0.1 percentage point compared with the previous month. In the case of inflation, the increase in the price index for fuel due to base effects was offset by the fact that the price index for unprocessed food fell, reflecting the reduction in the VAT of pork (Charts 1 and 2). Consumer prices fell by 0.1 per cent relative to December 2015.

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

The annual inflation rate of *tradables* rose modestly compared with the previous month and stood at higher levels than the average of the past 18 months (Chart 4). Here, the prices of both *durables* and *non-durables* increased relative to last January. Within the group of non-durable goods, air fares which generally show volatile price dynamics, rose significantly compared with the previous month. Changes in tradables prices have mainly reflected the price reducing effect of low import prices and steadily rising domestic demand.

In January, which is generally the decisive month for re-pricing decisions, *services* prices rose slightly compared with the previous month (Chart 5). Here, only insurance premia increased significantly, while price dynamics within the group of other services were generally moderate.

Seasonally adjusted *processed food* prices remained broadly unchanged compared with the previous month.

Seasonally adjusted *unprocessed food* prices have stagnated relative to December.

A broad range of *regulated prices* changed little compared with the previous month.

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

Prepared by Judit Várhegyi

Budapest, 11 February 2016

Chart 1: Inflation decomposition

(annual percentage changes, January 2007 – January 2016)

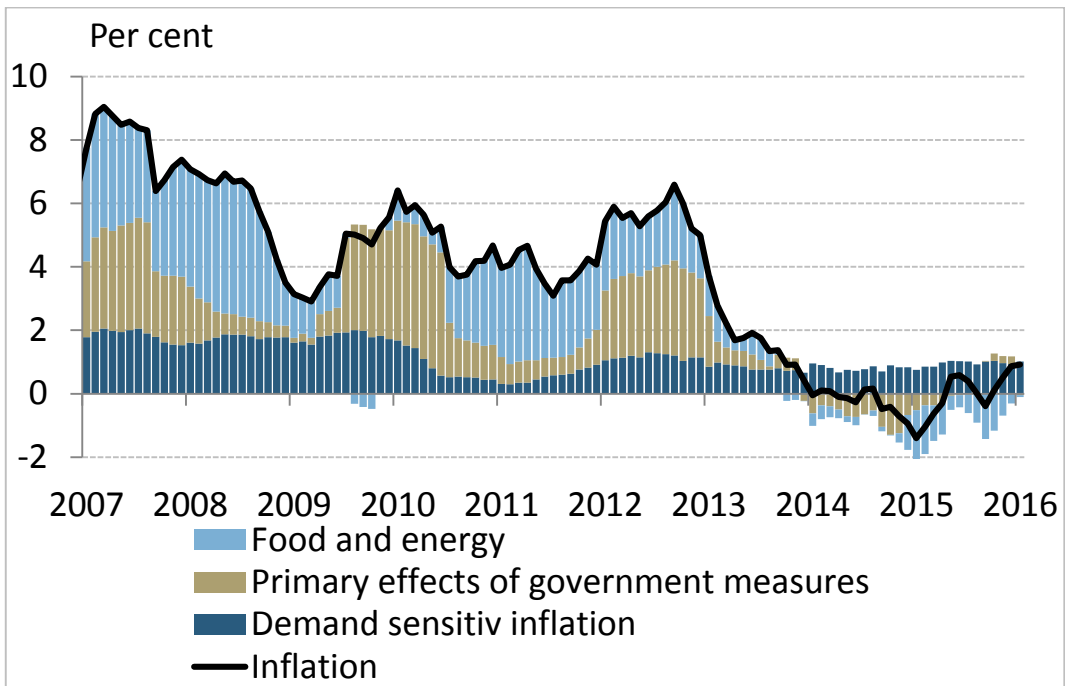


Chart 2: The consumer price index and core inflation excluding indirect taxes

(annual percentage changes, January 2007 – January 2016)

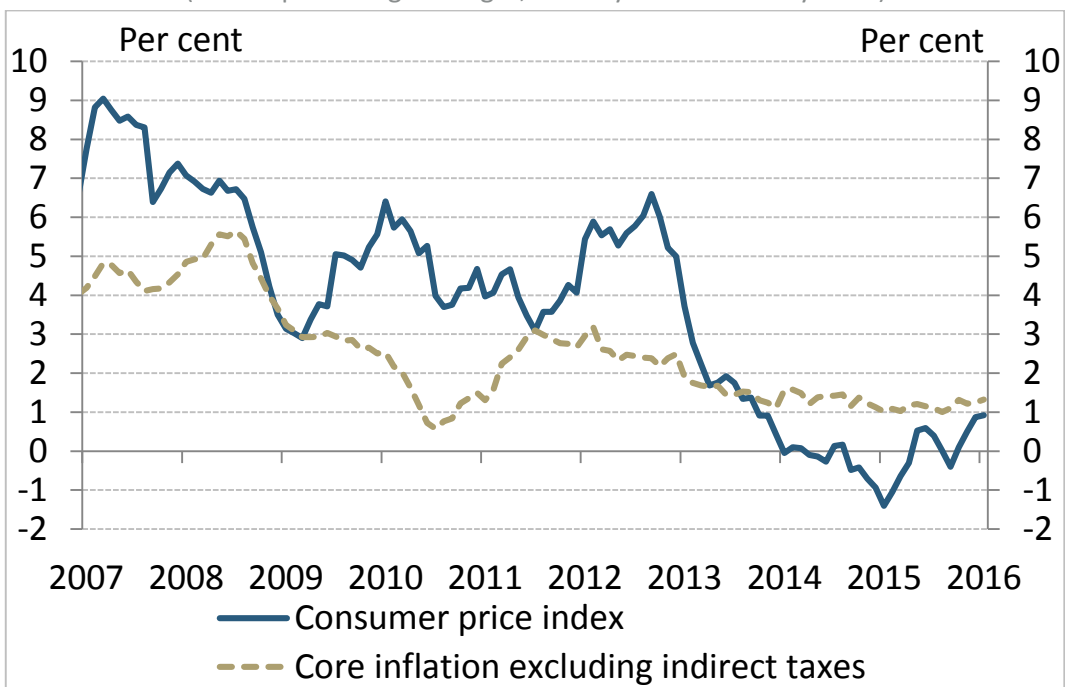
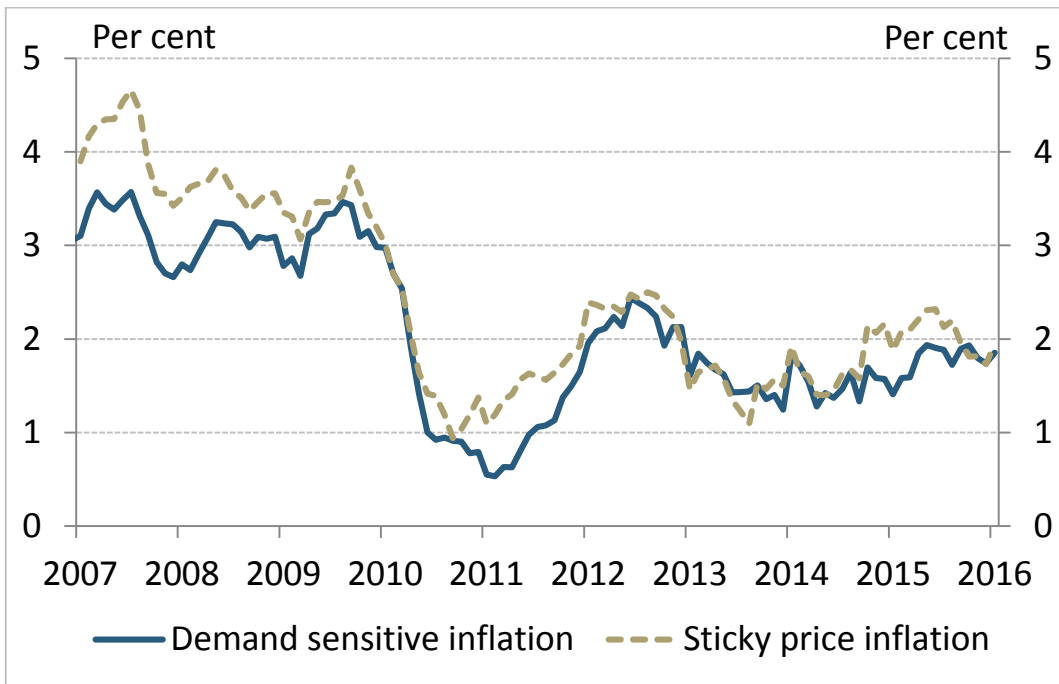


Chart 3: Underlying inflation indicators

(excluding indirect taxes, annual percentage changes, January 2007 – January 2016)



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 – January 2016)

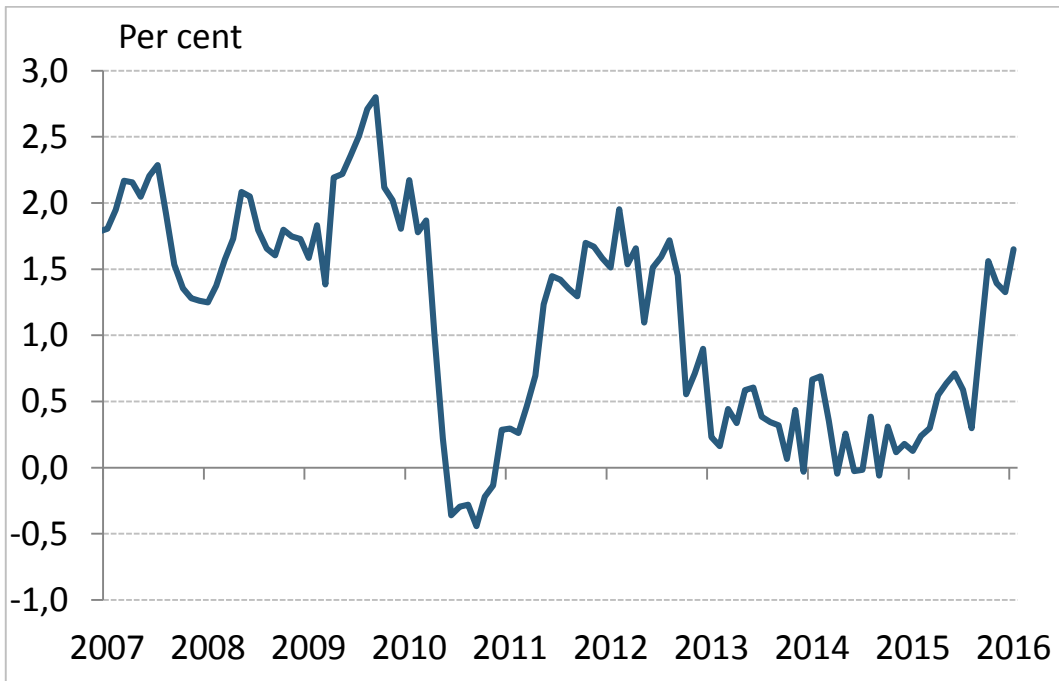


Chart 5: Inflation of market services

(seasonally unadjusted, tax-adjusted monthly percentage changes, January 2007 – January 2016)

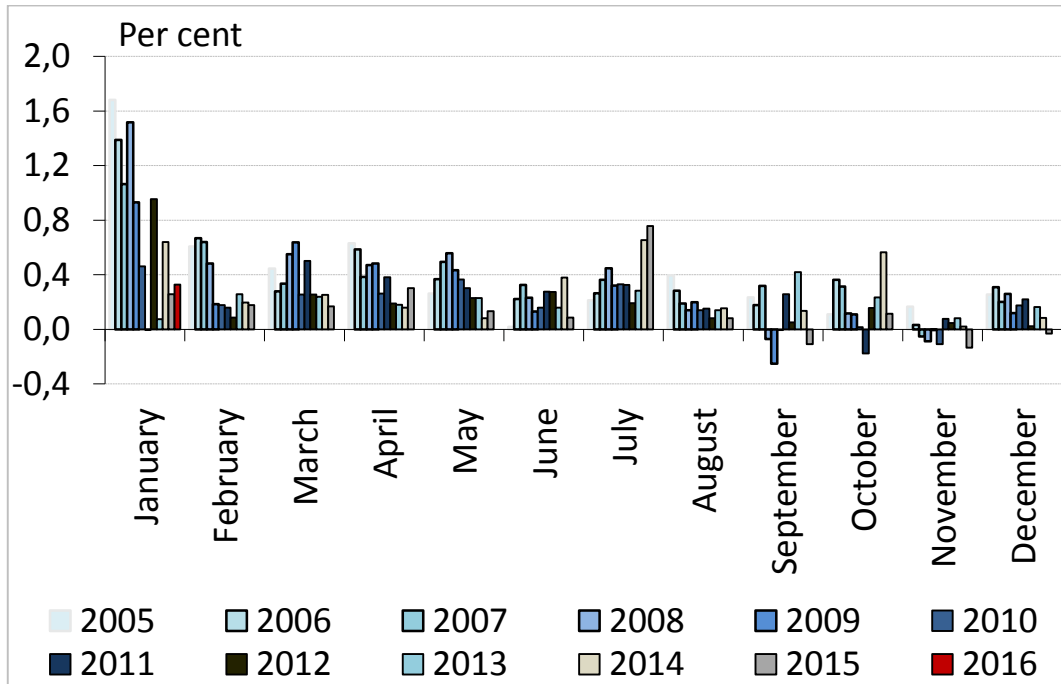
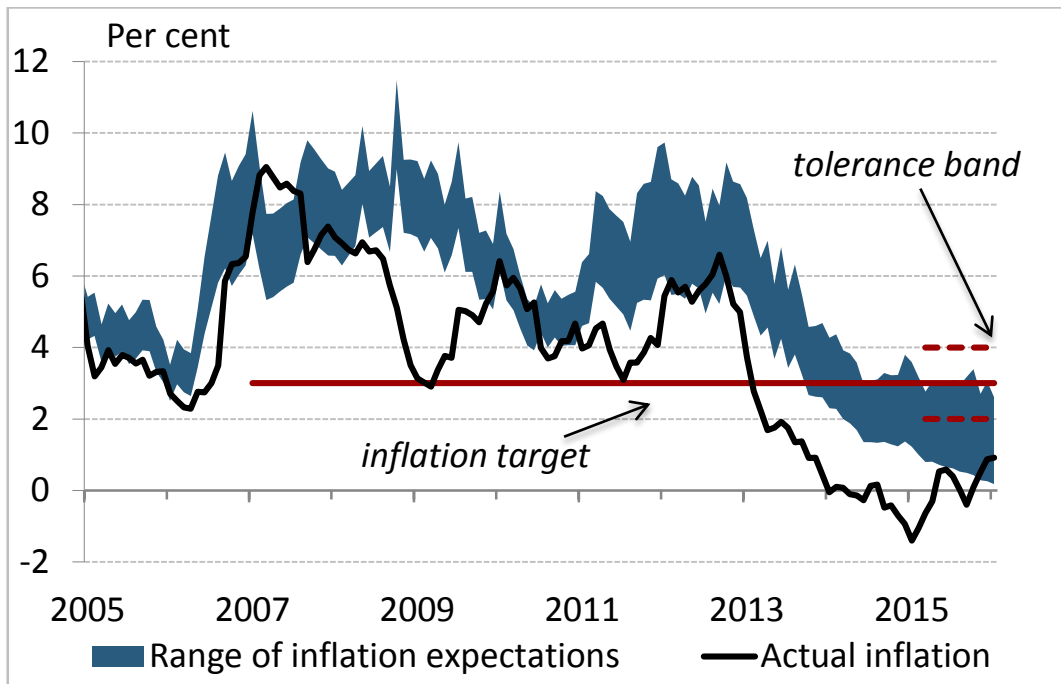


Chart 6: Households' inflation expectations

(January 2005 – January 2016)



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, January 2016 (HCSO)					
0.9% (annual change)					
MNB underlying inflation indicators (MNB calculation)					
Contribution of sticky price inflation (percentage points), weight 32.4%	0.6	Contribution of demand sensitive inflation (percentage points), weight 55.0%	1.0	Contribution of core inflation excluding taxes (percentage points), weight 67.9%	0.9
Contribution of other items (percentage points)	0.3	Contribution of other items (percentage points)	-0.1	Contribution of other items (percentage points)	0.0

Sources: CSO and the MNB's own calculations.

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