



Monthly analysis of inflation developments

July 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.

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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 JULY 2016

In July 2016, annual *inflation* stood at -0.3 per cent, *core inflation* at 1.3 per cent and *core inflation adjusted for the effects of indirect taxes* at 1.2 per cent (Chart 1). *Inflation* fell by 0.1 percentage point and *core inflation* rose by 0.1 percentage point relative to the previous month (Charts 1 and 2).

The Bank's measures of *underlying inflation developments* (annual inflation rates of demand-sensitive and sticky-price products) were broadly unchanged compared with 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 was largely unchanged, while movements in the more volatile items with greater sensitivity to cost changes, i.e. food and energy, continued to have a downward effect on prices, reflecting the decline in fuel 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 relative to June and continued to be higher than the average of the past 18 months (Chart 4). Within this product group, seasonally adjusted prices of *durables* fell and those of *non-durables* rose relative to the previous month. Air fares, showing great volatility from month to month, also contributed to the latter. Movements in tradables prices reflected the price reducing effect of moderate import prices and the opposite effect of steadily rising domestic demand.

In July, the monthly increase in *services* prices was consistent with monthly price rises seen in previous years.¹ Overall, prices showed moderate dynamics, which characterised a broad range of products (Chart 5).

Seasonally adjusted *processed food* prices rose slightly in July.

Seasonally adjusted *unprocessed food* prices rose slightly, mainly reflecting the price dynamics of pork as well as fresh domestic and exotic fruits.

A broad range of *regulated* prices were unchanged compared with the previous month.

Households' inflation expectations have been largely unchanged in recent months and remained at moderate levels, in line with low underlying inflation developments (Chart 6).

Prepared by Judit Várhegyi

Budapest, 9 August 2016

¹ One-off effects (e.g. health care services, mobile phone and internet) also contributed to the sharp month-on-month increases in 2014 and 2015.

Chart 1: Inflation decomposition

(annual percentage changes, January 2007 – July 2016)

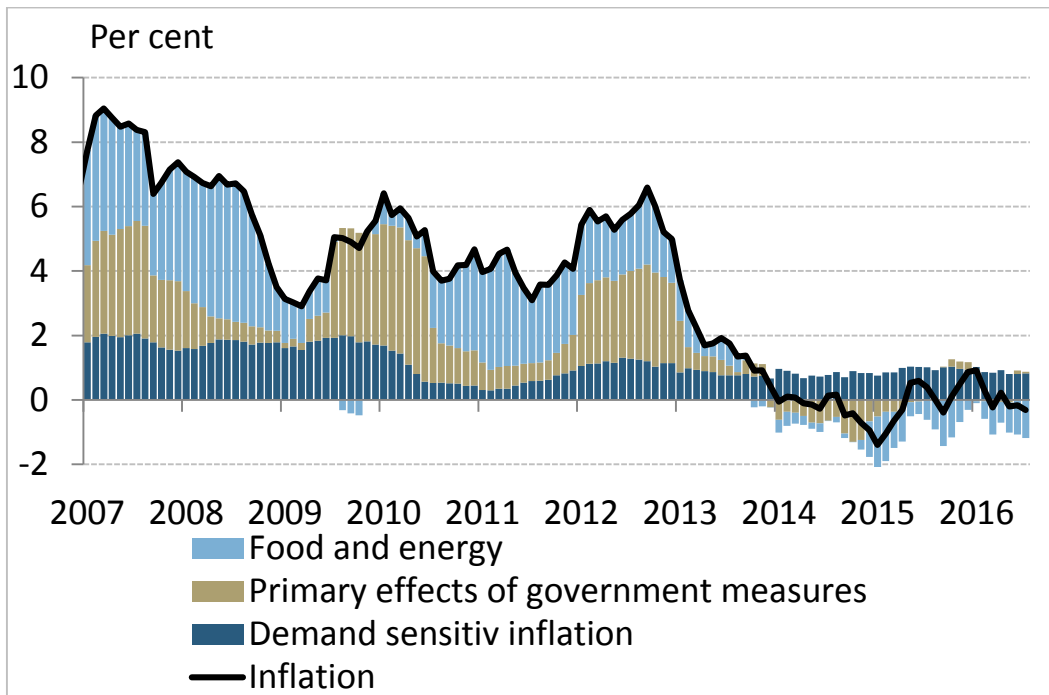


Chart 2: The consumer price index and core inflation excluding indirect taxes

(annual percentage changes, January 2007 – July 2016)

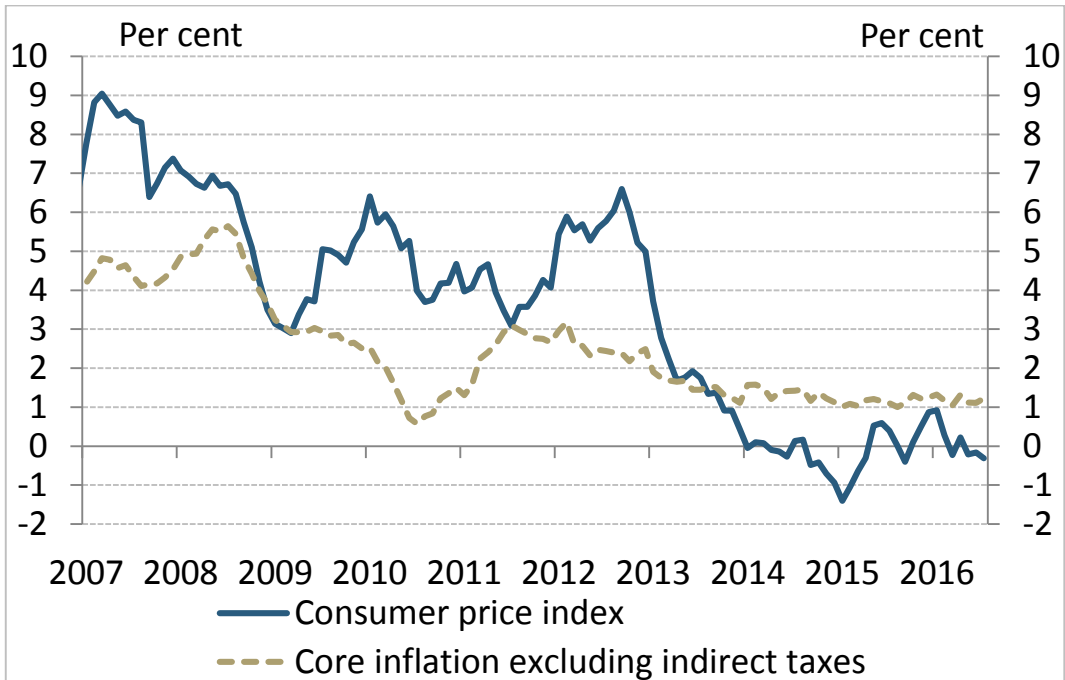
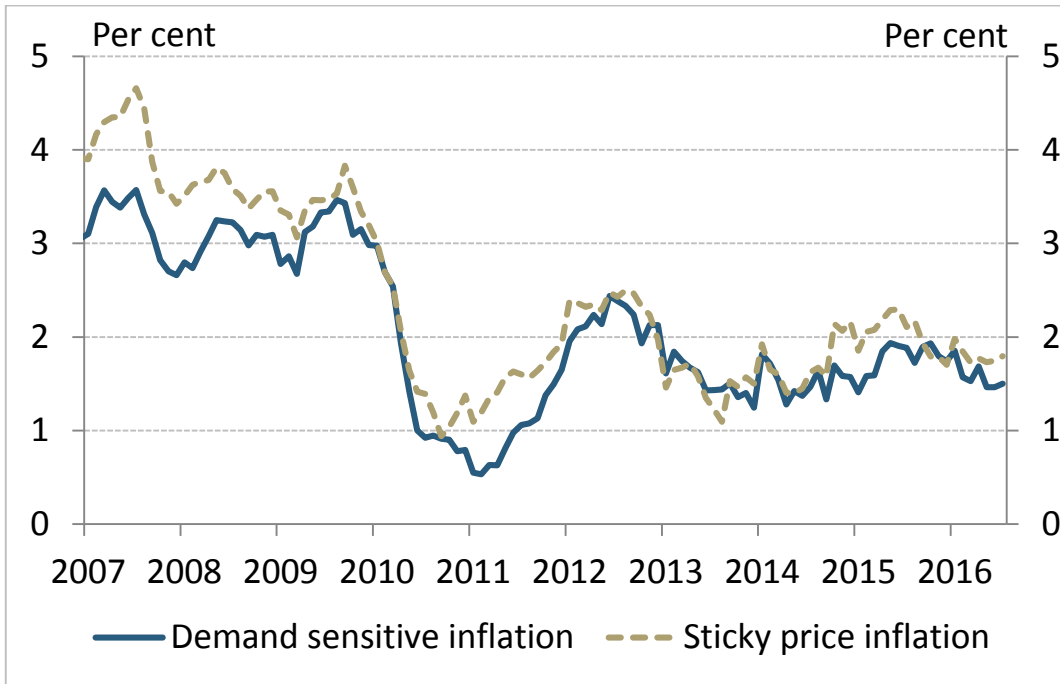


Chart 3: Underlying inflation indicators

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

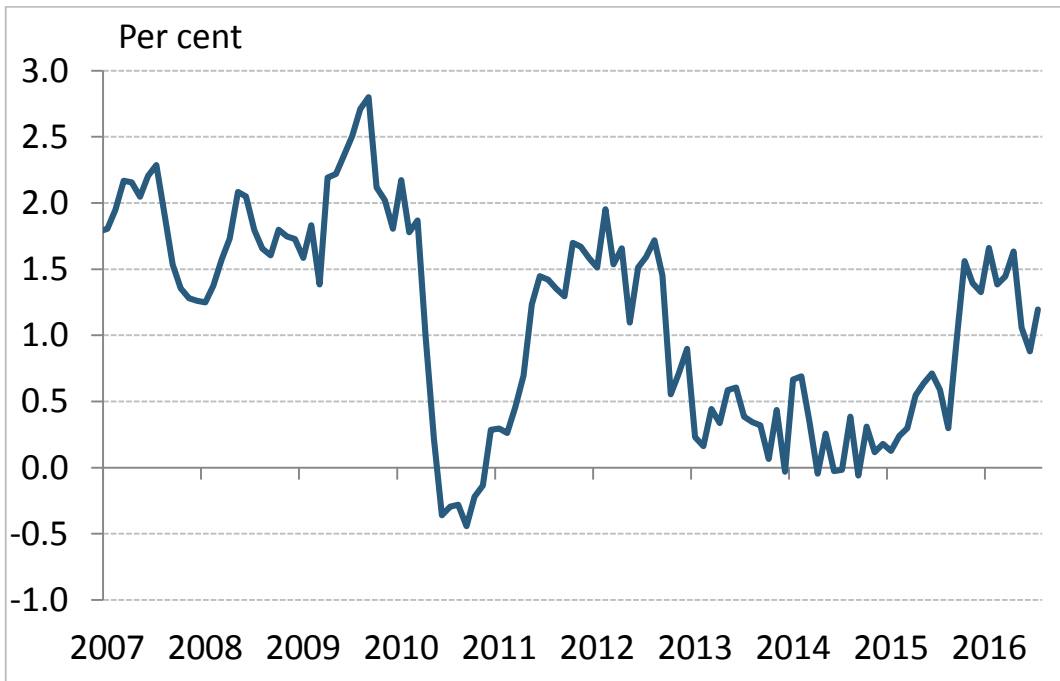


Chart 5: Inflation of market services

(seasonally unadjusted, tax-adjusted monthly percentage changes, January 2005 – July 2016)

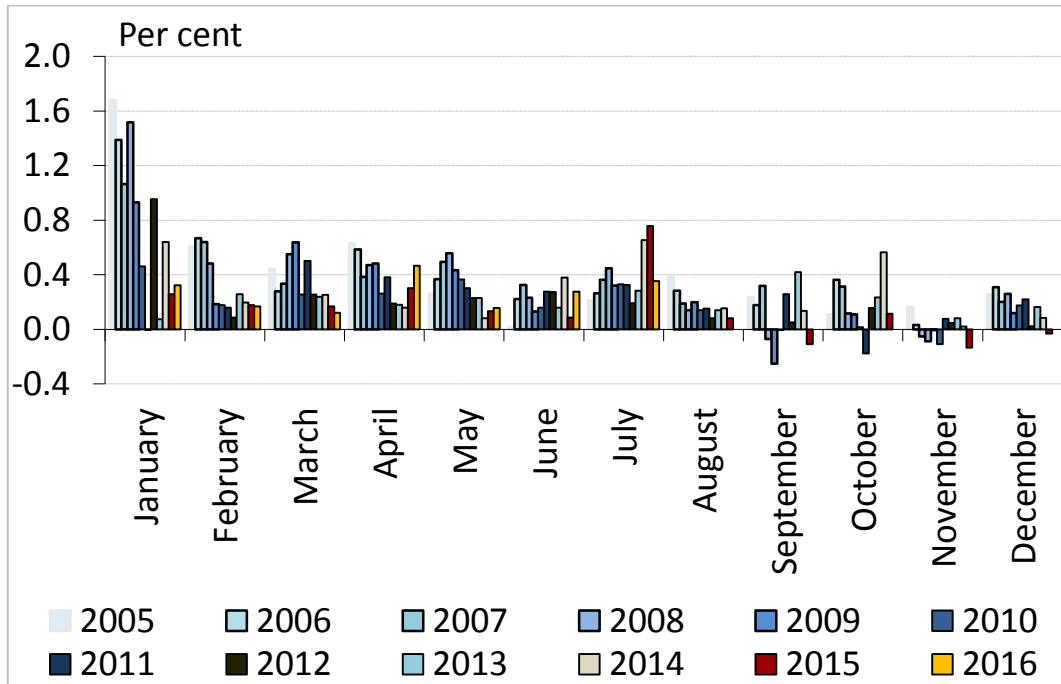
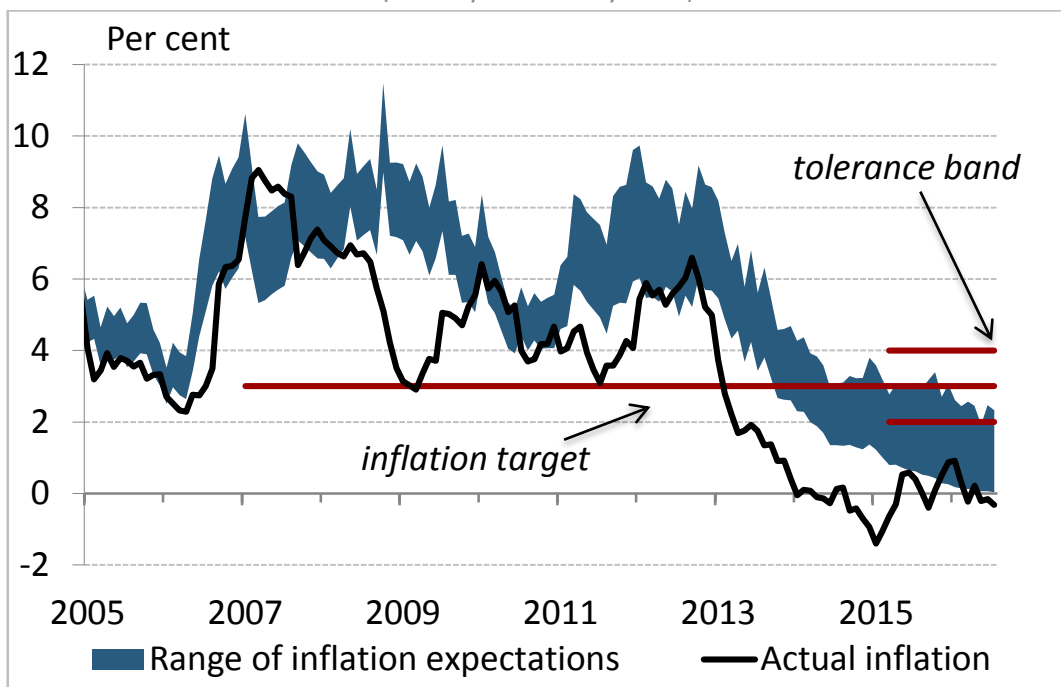


Chart 6: Households' inflation expectations

(January 2005 – July 2016)



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

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

Consumer price index, July 2016 (HCSO)					
-0.3% (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%	0.8	Contribution of core inflation excluding taxes (percentage points), weight 67.9%	0.8
Contribution of other items (percentage points), weight 67.6%	-0.9	Contribution of other items (percentage points), weight 45.0%	-1.1	Contribution of other items (percentage points), weight 32.1%	-1.1

Sources: CSO and the MNB's own calculations.

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