



Monthly analysis of inflation developments

August 2017



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 Barnabas Virág, Executive Director for monetary policy and economic analysis.

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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/mnben_statistikai_idosorok/mnben_elv_prices/underlying_inflation_indicators_MNB

ASSESSMENT OF INFLATION DATA FOR AUGUST 2017

In August 2017, annual *inflation* was 2.6 per cent. *Core inflation* stood at 2.8 per cent and *core inflation adjusted for the effects of indirect taxes* at 2.4 per cent (Chart 1). Headline inflation rose by 0.5 percentage points and core inflation by 0.2 percentage points relative to the previous month. Higher inflation reflected an increase in the price index for fuel, mainly owing to a base effect. The increase in core inflation in turn was mostly driven by rises in tradables prices due to a base effect and in the price index for alcoholic beverages and tobacco. Higher tobacco prices primarily reflected the increase in excise duties from July 2017 (Charts 1 and 2).

The Bank's measures of *underlying inflation developments* (annual inflation rates of demand-sensitive and sticky-price products and services) rose slightly on the previous month, standing at around 2.0 per cent, which is still well below the core inflation (Chart 3).

In August 2017, the prices of more volatile items with greater sensitivity to cost changes, i.e. food and energy, contributed nearly equally to the increase in prices (Chart 1).

Below is a brief analysis of price changes across the main product categories.

Movements in *tradables* prices continued to be moderate in August. The annual price index for this product group rose mainly owing to a base effect (Chart 4). Within this product group, both *durables* and *non-durables* prices were little changed relative to the previous month. Movements in tradables prices continued to be driven by the price reducing effect of moderate import prices and the opposite effect of steadily rising domestic demand.

Services prices rose by 0.1 per cent in August on the previous month. That was consistent with price increases of recent years. Price movements in the month were moderate across a wide range of products (Chart 5).

Seasonally and tax-adjusted *processed food* prices rose slightly relative to July, mainly due to continued increases in the prices of milk and butter.

Seasonally and tax-adjusted *processed food* prices were practically unchanged in the month.

Regulated prices were unchanged from the previous month.

Households' inflation expectations remained at moderate levels in August (Chart 6).

Prepared by Judit Várhegyi

Budapest, 8 September 2017

Chart 1 Inflation decomposition
(annual percentage changes, January 2007 – August 2017)

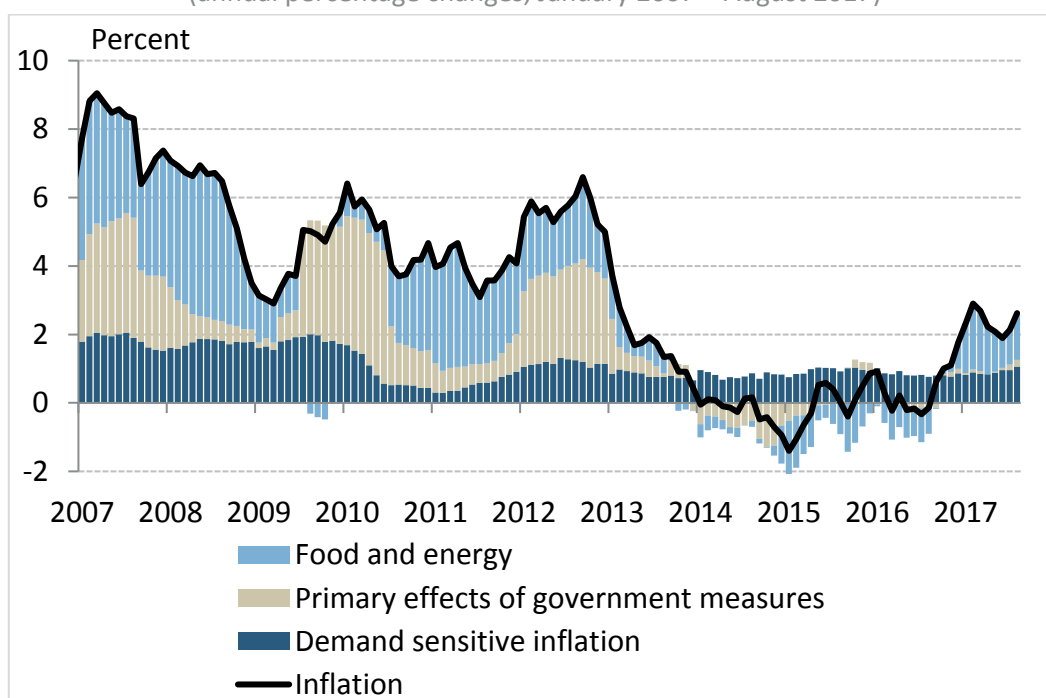


Chart 2 The consumer price index and core inflation excluding indirect taxes
(annual percentage changes, January 2007 – August 2017)

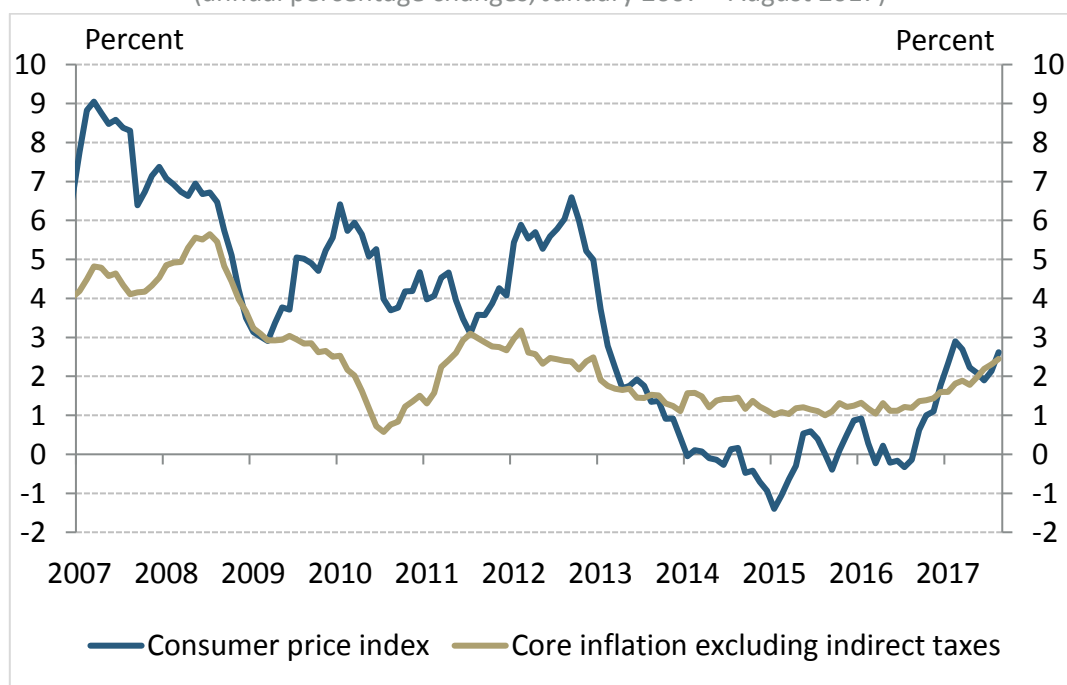
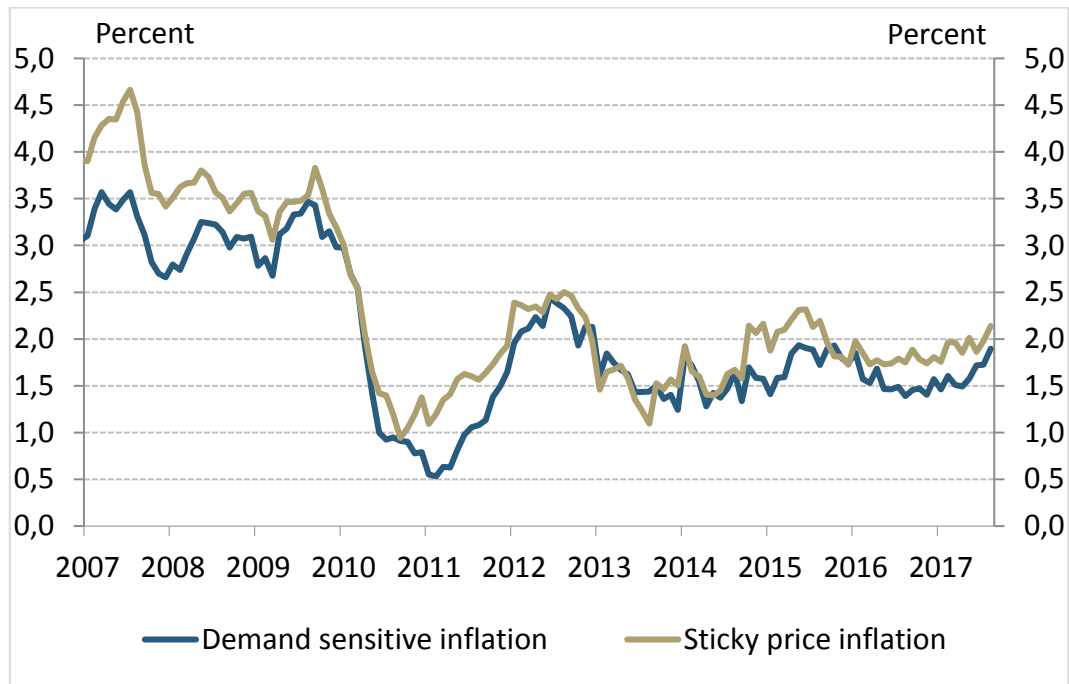


Chart 3 Underlying inflation indicators

(excluding indirect taxes, annual percentage changes, January 2007 – August 2017)



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 taxes, annual percentage changes, January 2007 – August 2017)

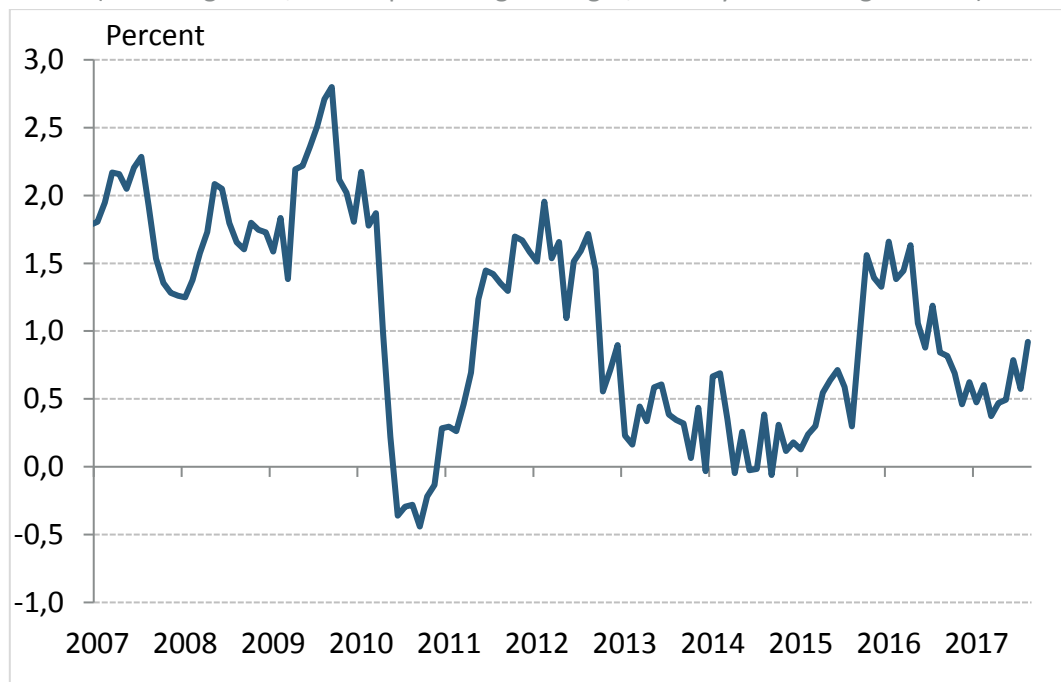


Chart 5 Inflation of market services

(seasonally unadjusted, tax-adjusted monthly percentage changes, January 2013 – August 2017)

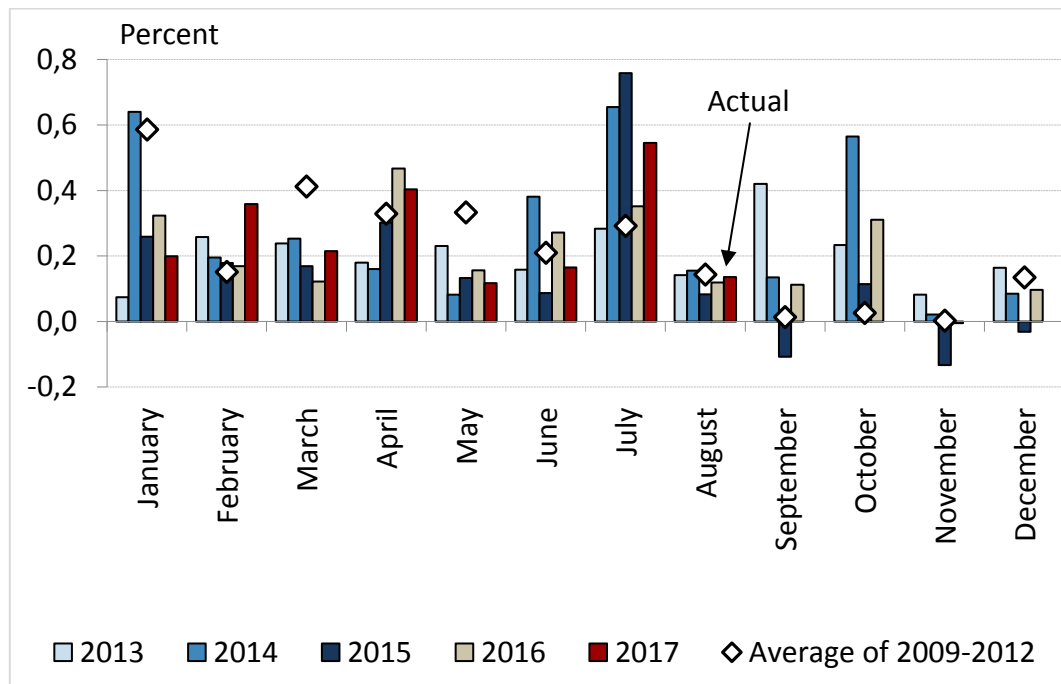
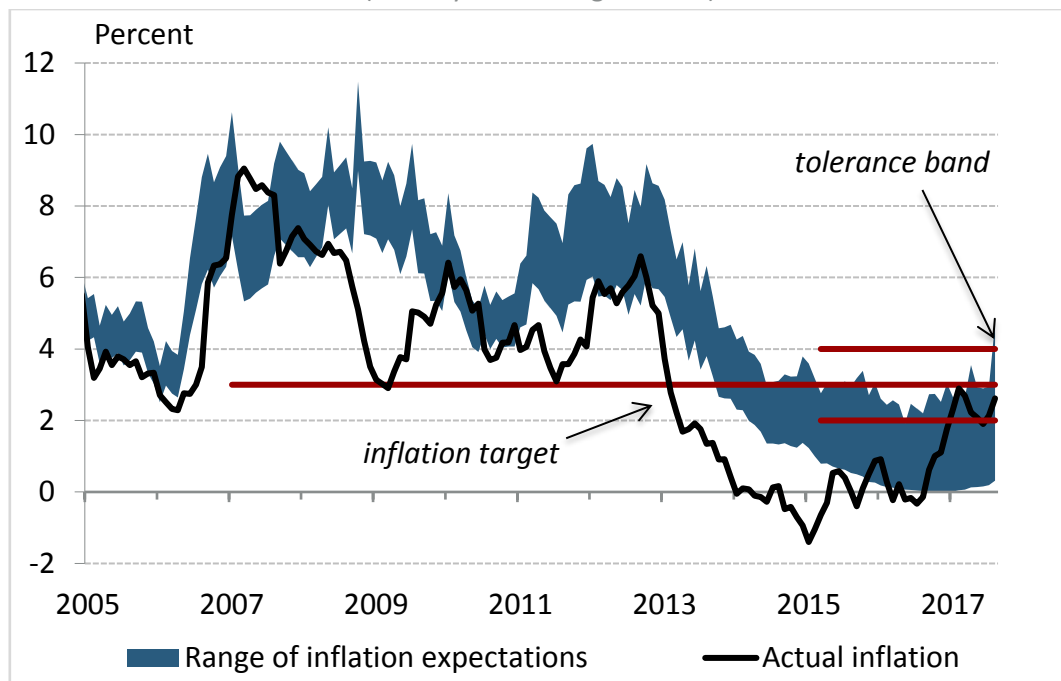


Chart 6 Households' inflation expectations

(January 2005 – August 2017)



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, August 2017 (HCSO)					
2.6% (annual change)					
MNB underlying inflation indicators (MNB calculation)					
Contribution of sticky price inflation (percentage points), weight 32.9%	0.7	Contribution of demand sensitive inflation (percentage points), weight 55.8%	1.0	Contribution of core inflation excluding taxes (percentage points), weight 68.9%	1.7
Contribution of other items (percentage points), weight 67.1%	1.9	Contribution of other items (percentage points), weight 44.2%	1.6	Contribution of other items (percentage points), weight 31.1%	0.9

Sources: CSO and the MNB's own calculations.

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