



# Monthly analysis of inflation developments

February 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 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/Statiztika/data-and-information/mnbn\\_statiztikai\\_idosorok/mnbn\\_elv\\_prices/underlying\\_inflation\\_indicators\\_MNB](http://english.mnb.hu/Statiztika/data-and-information/mnbn_statiztikai_idosorok/mnbn_elv_prices/underlying_inflation_indicators_MNB)

## ASSESSMENT OF INFLATION DATA FOR FEBRUARY 2017

In February 2017, annual *inflation* was 2.9 per cent. Both *core inflation* and *core inflation adjusted for the effects of indirect taxes* stood at 1.8 per cent (Chart 1). *Inflation* rose by 0.6 percentage points and *core inflation* by 0.2 percentage points relative to the previous month. The increase in inflation in February primarily reflected a temporary rise in the price index for fuel mainly due to base effects. (Charts 1 and 2).

The Bank's measures of *underlying inflation developments* (annual inflation rates of demand-sensitive and sticky-price products and services) were broadly unchanged compared with the previous month, and are still within the 1.5–2.0 per cent range (Chart 3).

In February, changes in the prices of the more volatile items with greater sensitivity to cost changes, i.e. food and energy, had an upward effect on prices. Looking ahead the price index will decrease in spring due to base effects.

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

The annual inflation rate of *tradables* was broadly unchanged relative to January, and continued to be at moderate levels (Chart 4). Within this product group, the price indices for both *durables* and *non-durables* were little changed. Movements in tradables prices have been shaped by the price reducing effect of moderate import prices and the opposite effect of steadily rising domestic demand.

*Services* prices rose by 0.4 per cent in February relative to the previous month, by slightly more than in previous years. A combination of increases in the prices of several product groups contributed to the monthly change. Movements in services prices excluding VAT at the beginning of the year, which mainly determinates the annual price dynamics, were broadly in line with those in previous years, explained by the smaller monthly change in January followed by a slightly greater change in February (Chart 5).

Seasonally and tax-adjusted *processed food* prices rose slightly relative to January, with changes in bread and dairy prices being the key contributing factors.

Seasonally adjusted and tax-adjusted *unprocessed food* prices rose in the month, due mainly to the change in fresh vegetable prices.

*Regulated* prices were largely unchanged relative to the previous month.

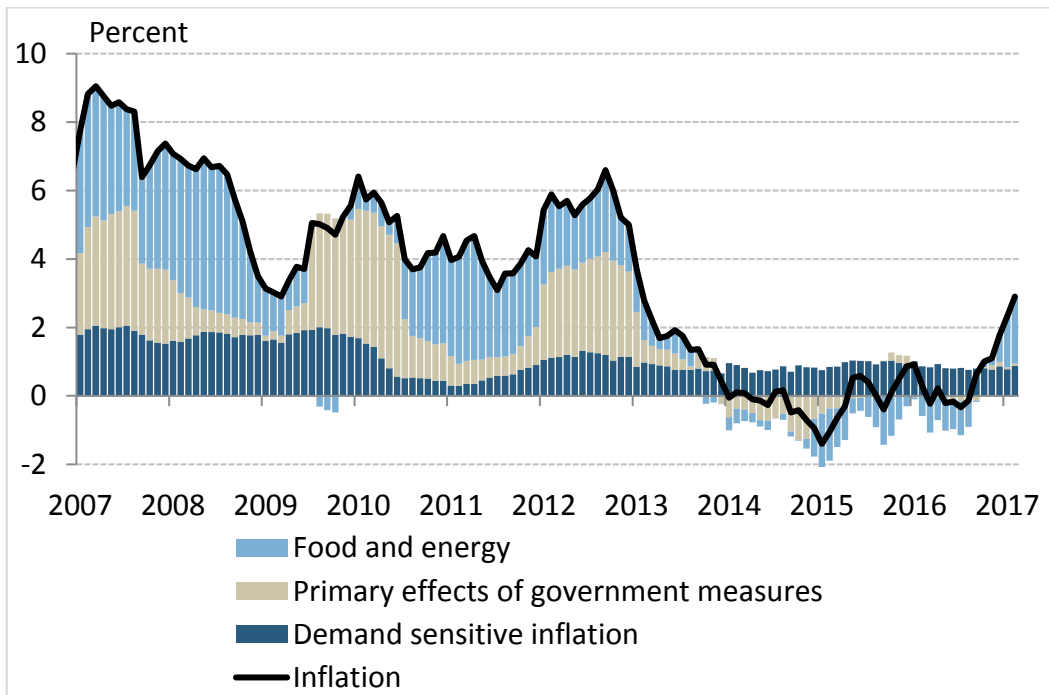
*Households' inflation expectations* have been broadly unchanged in recent months and remained at moderate levels, in line with underlying inflation developments (Chart 6).

Prepared by Judit Várhegyi

Budapest, 8 March 2017

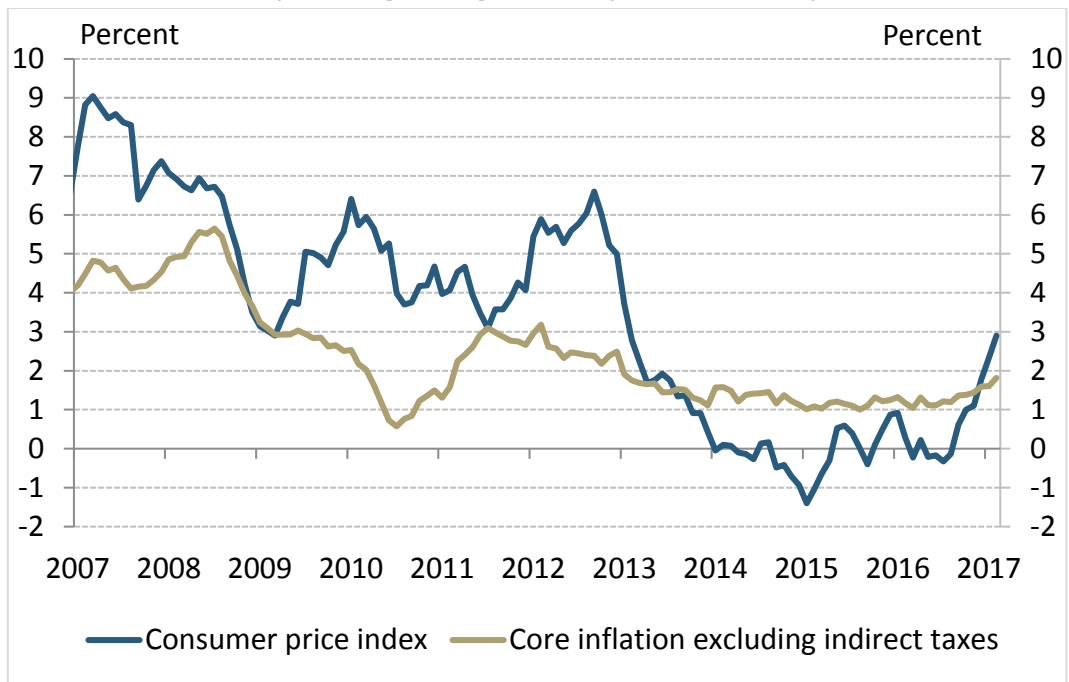
**Chart 1: Inflation decomposition**

(annual percentage changes, January 2007 – February 2017)



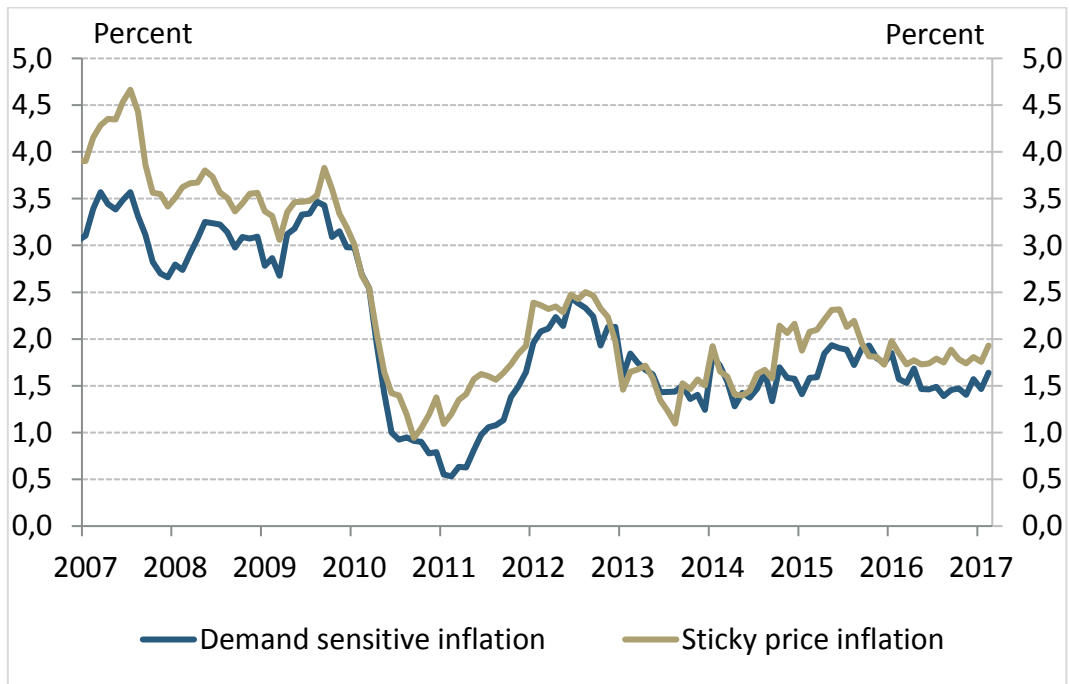
**Chart 2: The consumer price index and core inflation excluding indirect taxes**

(annual percentage changes, January 2007 – February 2017)



**Chart 3: Underlying inflation indicators**

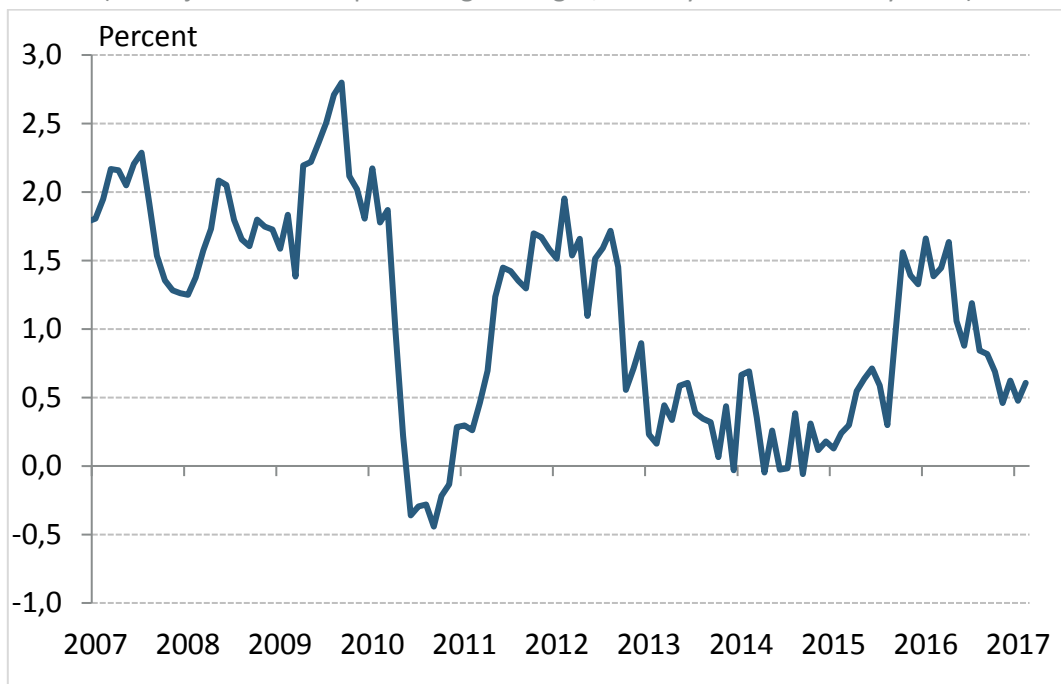
(excluding indirect taxes, annual percentage changes, January 2007 – February 2017)



*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.*

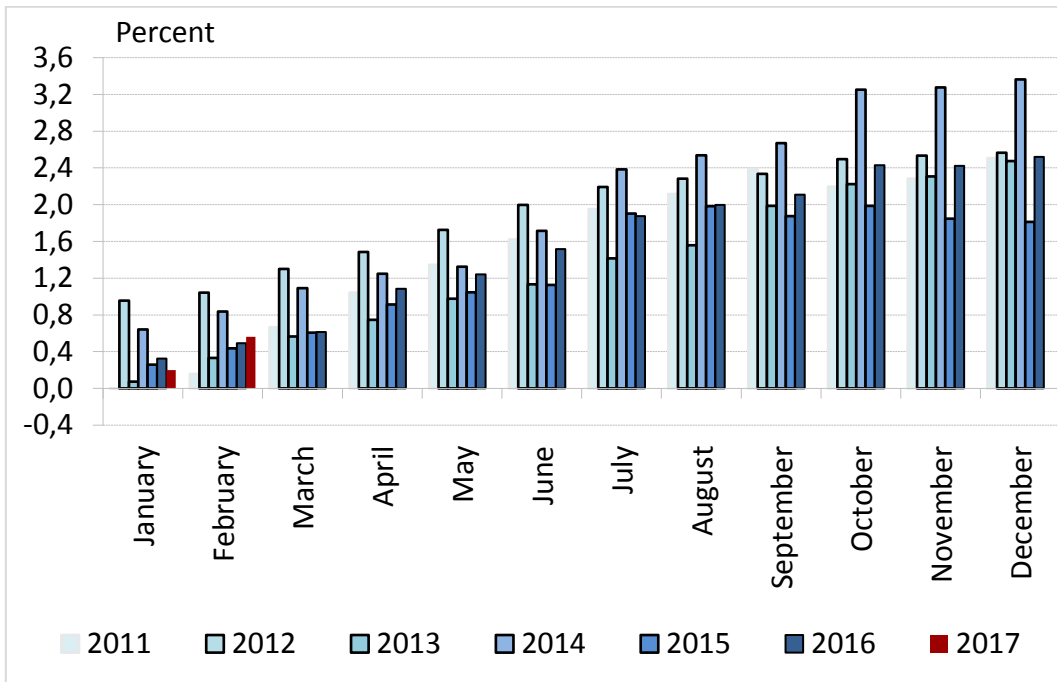
**Chart 4: Inflation of tradable goods**

(tax-adjusted annual percentage changes, January 2007 – February 2017)



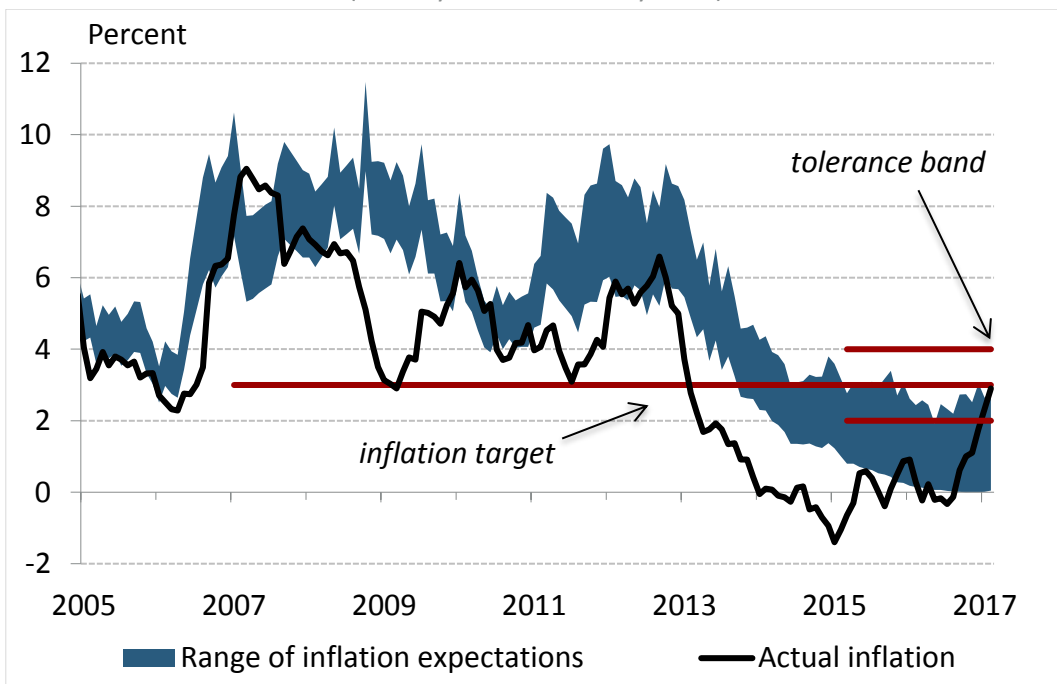
**Chart 5: Inflation of market services**

(seasonally unadjusted, tax-adjusted, percentage changes compared to last december, January 2011 – February 2017)



**Chart 6: Households' inflation expectations**

(January 2005 – February 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, February 2017 (HCSO)					
2.9% (annual change)					
MNB underlying inflation indicators (MNB calculation)					
<b>Contribution of sticky price inflation (percentage points), weight 32.9%</b>	<b>0.6</b>	<b>Contribution of demand sensitive inflation (percentage points), weight 55.8%</b>	<b>0.9</b>	<b>Contribution of core inflation excluding taxes (percentage points), weight 68.9%</b>	<b>1.3</b>
Contribution of other items (percentage points), weight 67.1%	2.3	Contribution of other items (percentage points), weight 44.2%	2.0	Contribution of other items (percentage points), weight 31.1%	1.6

*Sources: CSO and the MNB's own calculations.*

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