



Monthly analysis of inflation developments

June 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 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/mnben_statistikai_idosorok/mnben_elv_prices/underlying_inflation_indicators_MNB

ASSESSMENT OF INFLATION DATA FOR JUNE 2017

In June 2017, annual *inflation* was 1.9 per cent. *Core inflation* stood at 2.4 per cent and *core inflation adjusted for the effects of indirect taxes* at 2.2 per cent (Chart 1). Inflation fell by 0.2 percentage points and core inflation rose by 0.3 percentage points relative to the previous month. The decline in inflation primarily reflected a drop in the price index for fuel – partly due to base effects –, while the increase in core inflation was due to rises in the prices of alcoholic drinks and tobacco. Higher tobacco prices primarily reflected the increase in market prices, in parallel with the change to excise duties (Charts 1 and 2).

The Bank's measures of *underlying inflation developments* (annual inflation rates of demand-sensitive and sticky-price products and services) continued to be in a 1.5–2.0 per cent band (Chart 3).

In June 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.

The annual inflation rate of *tradables* rose relative to May; however, the annual index for this product group continued to be at moderate levels (Chart 4). Within this product group, *durables* prices fell and *non-durables* prices rose relative to the previous month, mainly as a result of increases in volatile air fares and non-subsidised pharmaceuticals prices. 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.

In June, *services* prices rose by 0.2 per cent compared with the previous month. The more modest increase in prices relative to a year earlier mainly reflected a decline in insurance fees (Chart 5). Overall, price changes in market services seen so far this year have been in line with those observed in previous years.

Seasonally and tax-adjusted *processed food* prices rose relative to May, primarily due to increases in the prices of milk and bread.

Seasonally and tax-adjusted *processed food* prices rose slightly, driven in part by increases in the majority of product prices.

Regulated prices were unchanged relative to the previous month.

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

Prepared by Judit Várhegyi

Budapest, 11 July 2017

Chart 1 Inflation decomposition

(annual percentage changes, January 2007 – June 2017)

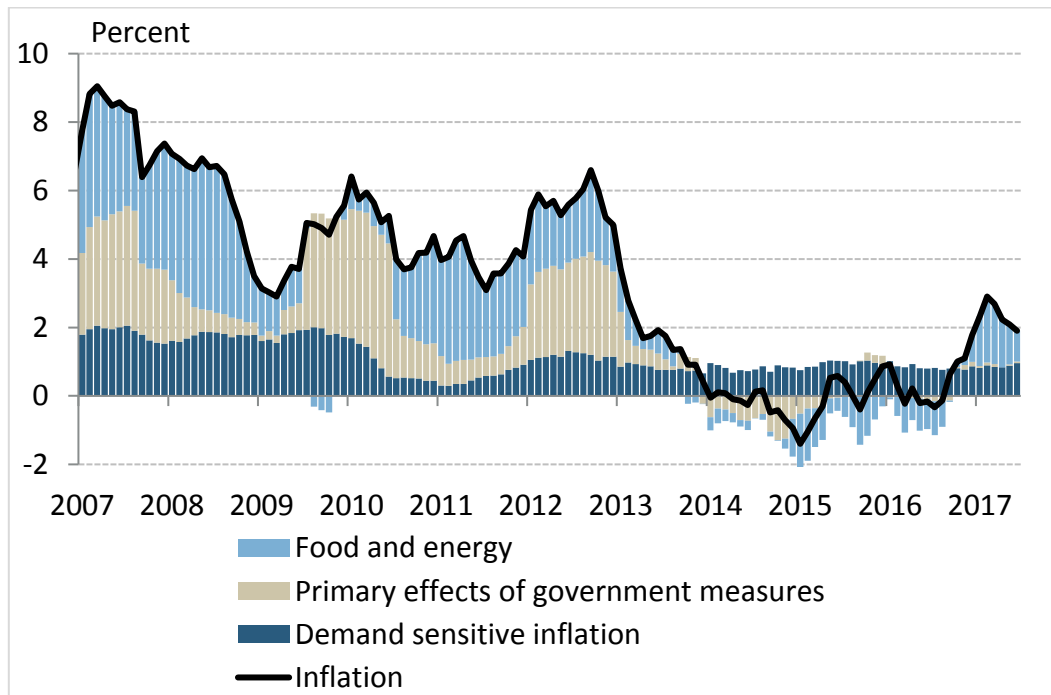


Chart 2 The consumer price index and core inflation excluding indirect taxes

(annual percentage changes, January 2007 – June 2017)

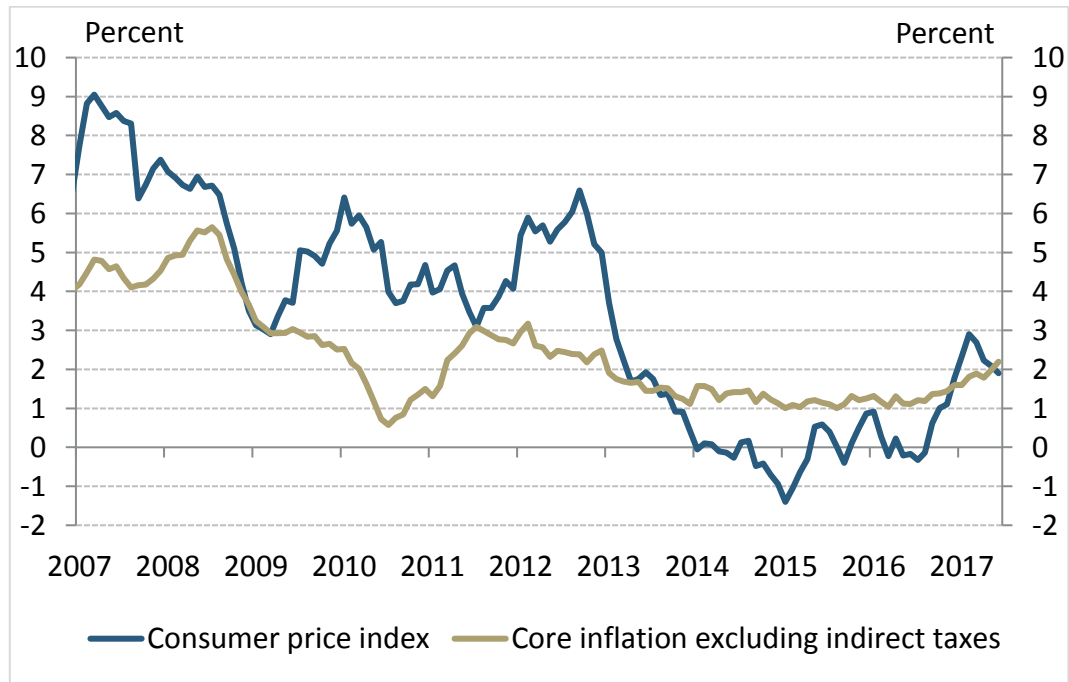
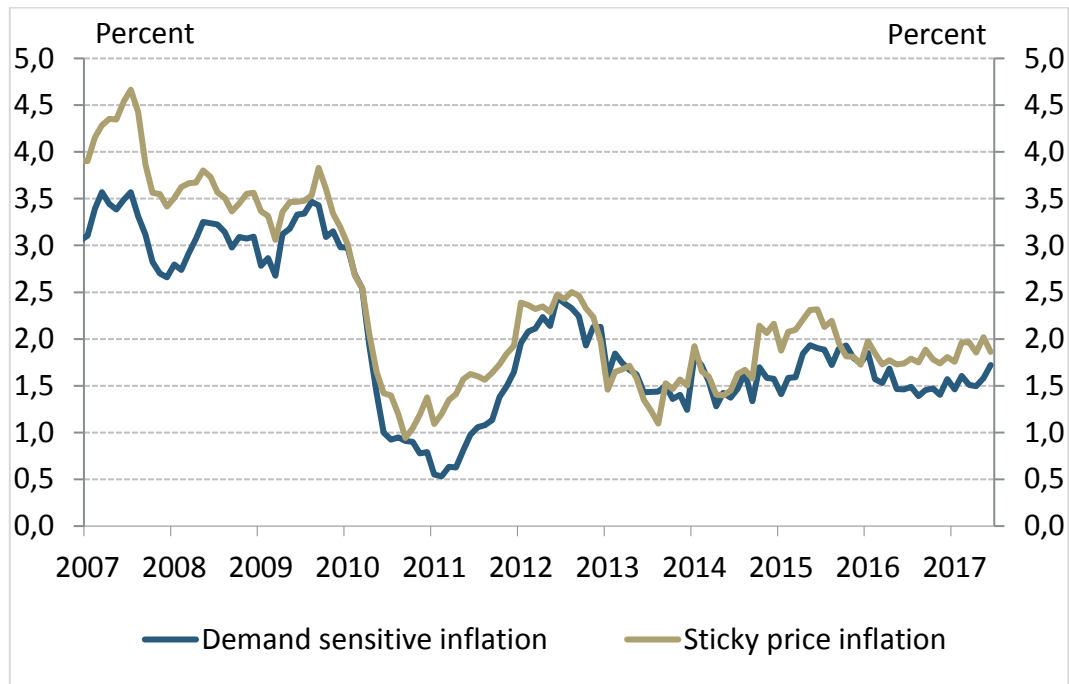


Chart 3 Underlying inflation indicators

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

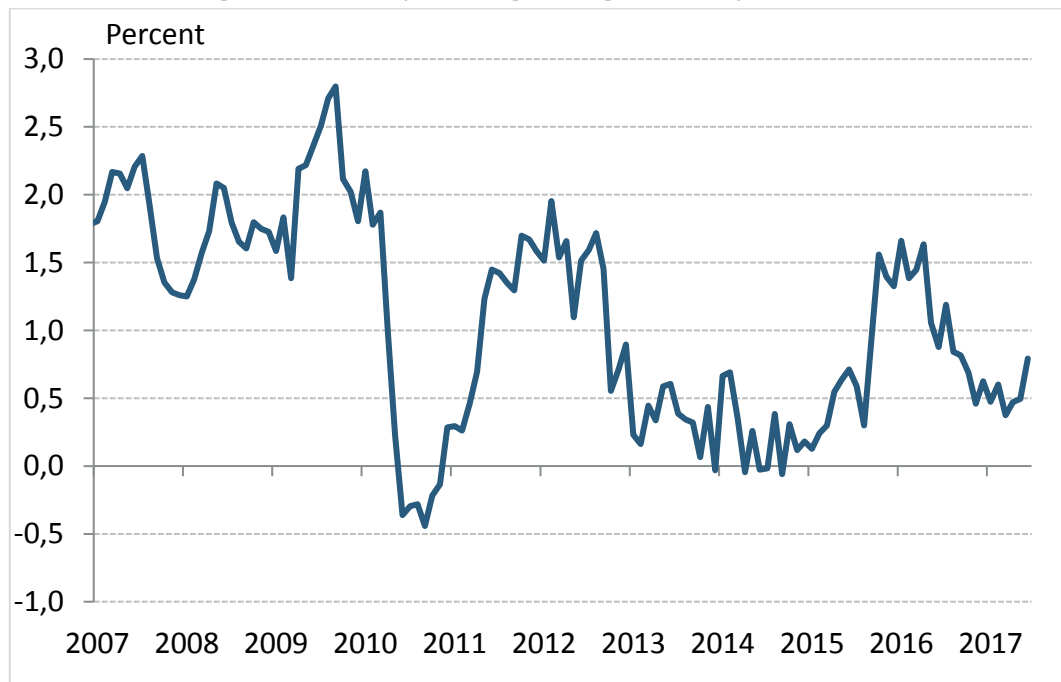


Chart 5 Inflation of market services

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

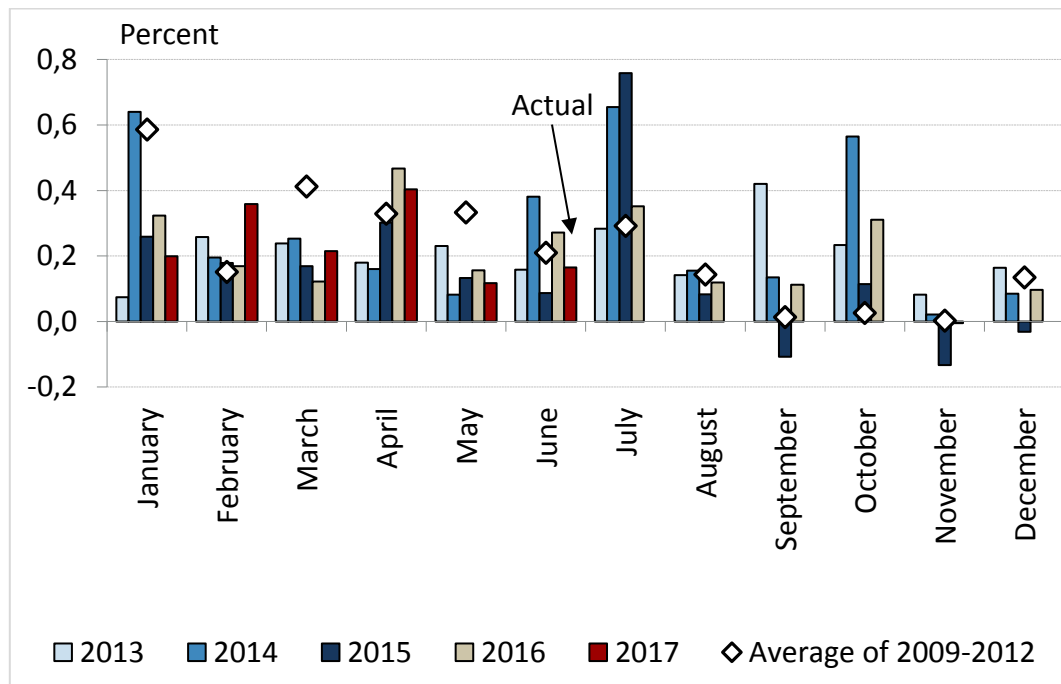
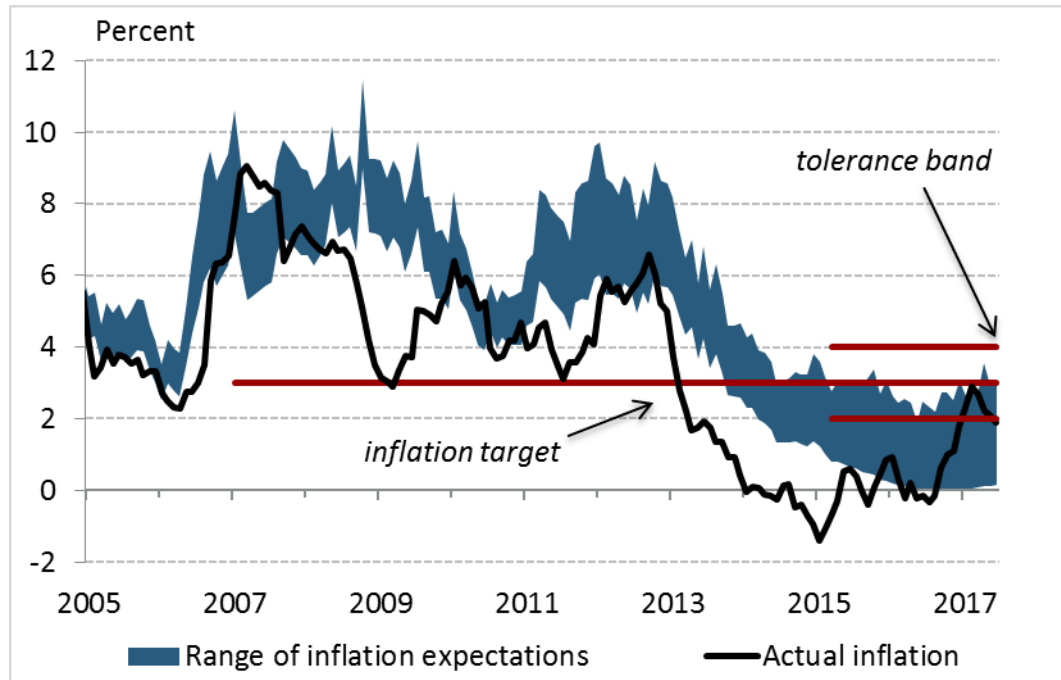


Chart 6 Households' inflation expectations

(January 2005 – June 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, June 2017 (HCSO)					
1.9% (annual change)					
MNB underlying inflation indicators (MNB calculation)					
Contribution of sticky price inflation (percentage points), weight 32.9%	0.6	Contribution of demand sensitive inflation (percentage points), weight 55.8%	1.0	Contribution of core inflation excluding taxes (percentage points), weight 68.9%	1.5
Contribution of other items (percentage points), weight 67.1%	1.3	Contribution of other items (percentage points), weight 44.2%	0.9	Contribution of other items (percentage points), weight 31.1%	0.4

Sources: CSO and the MNB's own calculations.

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