



# Monthly analysis of inflation developments

November 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](http://english.mnb.hu/Statisztika/data-and-information/mnben_statistikai_idosorok/mnben_elv_prices/underlying_inflation_indicators_MNB)

## ASSESSMENT OF INFLATION DATA FOR NOVEMBER 2017

In November 2017, annual *inflation* was 2.5 percent. *Core inflation* stood at 2.7 percent and *core inflation adjusted for the effects of indirect taxes* at 2.2 percent (Chart 1). Headline inflation rose by 0.3 percentage points and core inflation was unchanged compared with the previous month. The rise in inflation reflected an increase in the price index for fuel (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 October (Chart 3). The measures continued to be at or around 2 percent and remained below the level of core inflation.

In November 2017, the prices of more volatile items with greater sensitivity to cost changes, i.e. food and energy, were the main contributors to the increase in prices, while the contribution of demand-sensitive products was largely unchanged compared with the previous month (Chart 1).

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

Seasonally adjusted *tradables* prices rose slightly compared with the previous month (Chart 4). Within this product group, the prices of *durables* fell and those of *non-durables* rose. 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 fell by 0.5 percent in November compared with the previous month, which, disregarding the effects of tax changes, represented a significant decline by historical standards (Chart 5). The different price dynamics compared with previous years were mainly explained by changes in the prices of cable TV, mobile phone and Internet charges. Based on the pricing practice of enterprises, early next year may be a key factor shaping future movements in services inflation.

Seasonally and tax-adjusted *processed food* prices rose slightly compared with October. The price dynamics of milk and dairy products slowed in November after the significant increase in previous months.

Seasonally and tax-adjusted *unprocessed food* prices rose, due mainly to the sharp increase in egg prices. The increase in egg prices reflected the decline in supply in international markets.

Prices of *regulated products* were unchanged relative to October.

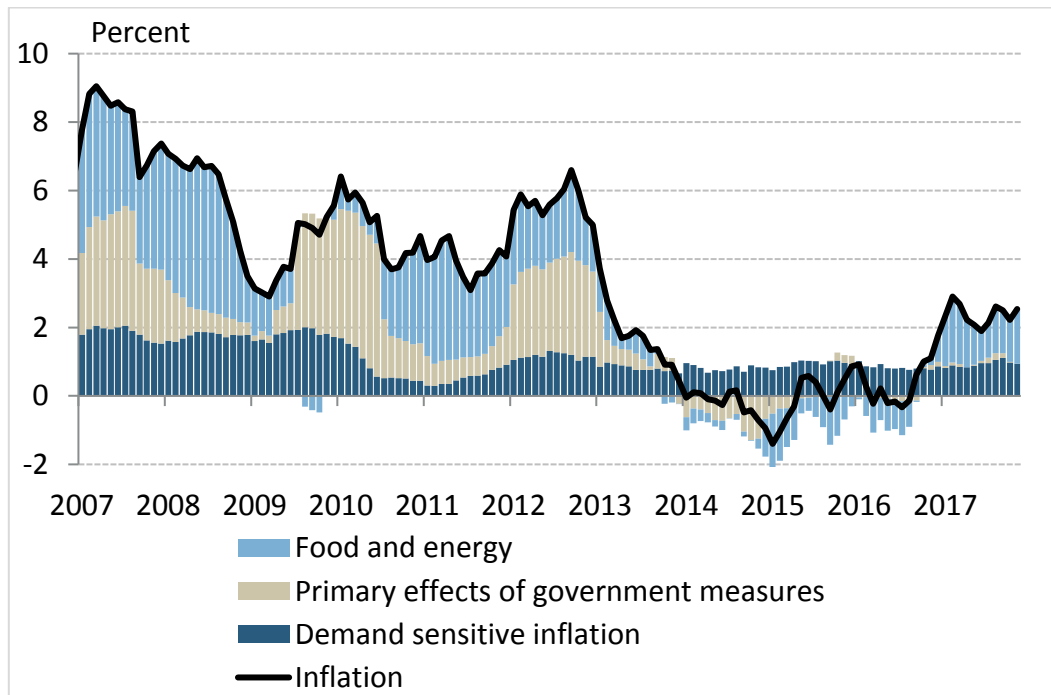
*Households' inflation expectations* remained at moderate levels in November (Chart 6).

Prepared by Judit Várhegyi

Budapest, 8 December 2017

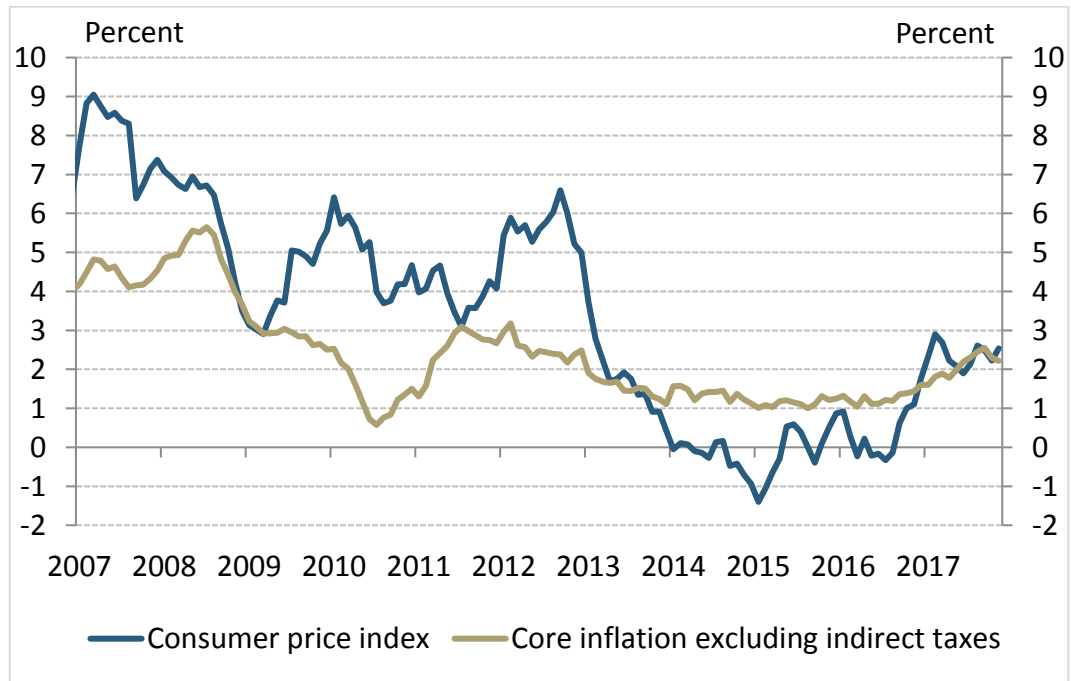
**Chart 1 Inflation decomposition**

(annual percentage changes, January 2007 – November 2017)



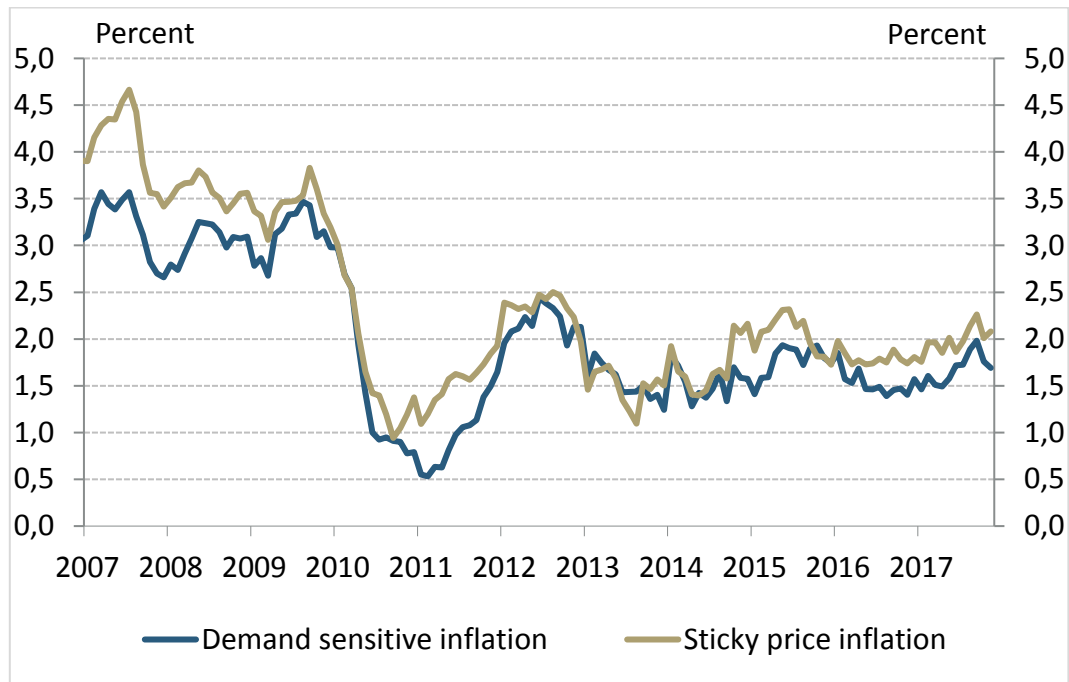
**Chart 2 The consumer price index and core inflation excluding indirect taxes**

(annual percentage changes, January 2007 – November 2017)



**Chart 3 Underlying inflation indicators**

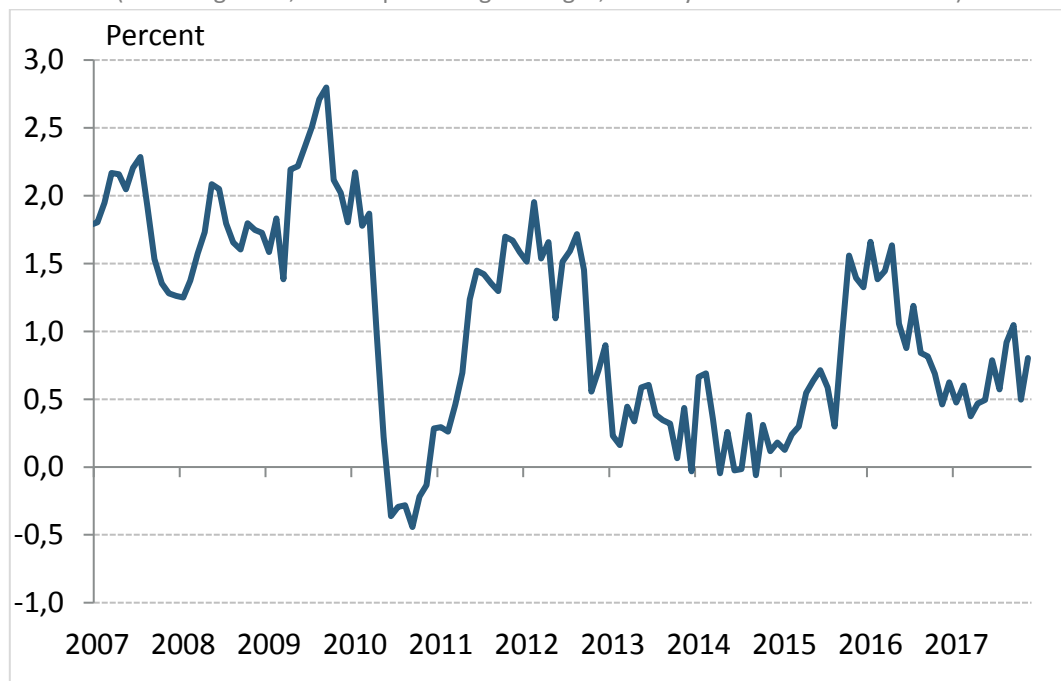
(excluding indirect taxes, annual percentage changes, January 2007 – November 2017)



*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.*

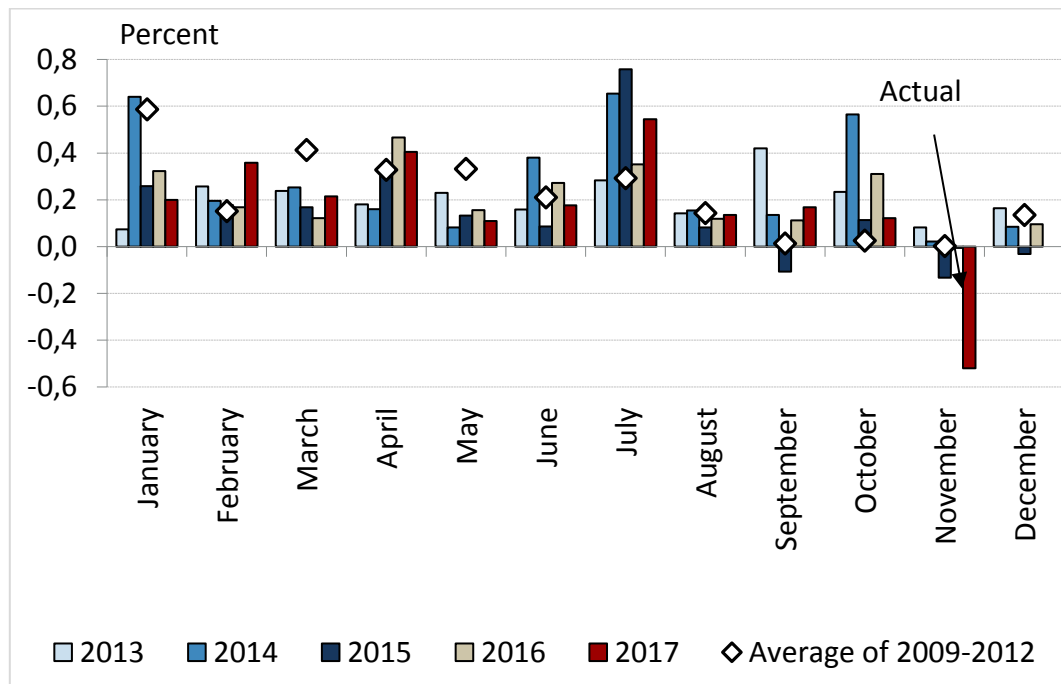
**Chart 4 Inflation of tradable goods**

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



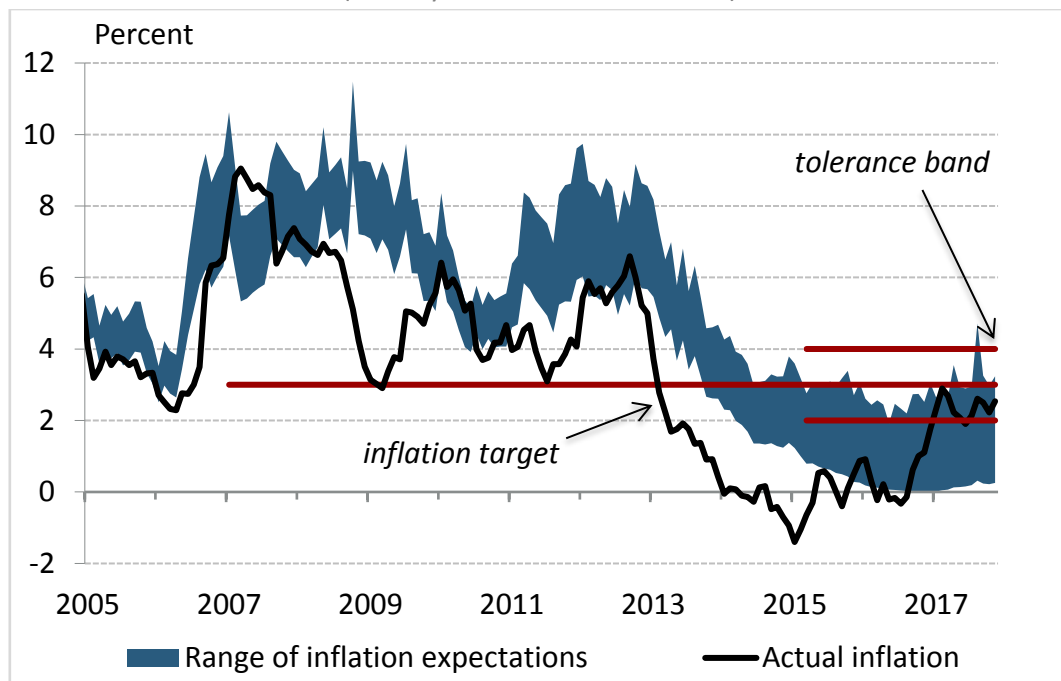
**Chart 5 Inflation of market services**

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



**Chart 6 Households' inflation expectations**

(January 2005 – November 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, November 2017 (HCSO)					
2.5% (annual change)					
MNB underlying inflation indicators (MNB calculation)					
<b>Contribution of sticky price inflation (percentage points), weight 32.9%</b>	<b>0.7</b>	<b>Contribution of demand sensitive inflation (percentage points), weight 55.8%</b>	<b>1.9</b>	<b>Contribution of core inflation excluding taxes (percentage points), weight 68.9%</b>	<b>1.5</b>
Contribution of other items (percentage points), weight 67.1%	1.8	Contribution of other items (percentage points), weight 44.2%	1.6	Contribution of other items (percentage points), weight 31.1%	1.0

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

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