



# Monthly analysis of inflation developments

September 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/mnbn\\_statistikai\\_idosorok/mnbn\\_elv\\_prices/underlying\\_inflation\\_indicators\\_MNB](http://english.mnb.hu/Statisztika/data-and-information/mnbn_statistikai_idosorok/mnbn_elv_prices/underlying_inflation_indicators_MNB)

## ASSESSMENT OF INFLATION DATA FOR SEPTEMBER 2017

In September 2017, annual *inflation* was 2.5 percent. *Core inflation* stood at 2.9 percent and *core inflation adjusted for the effects of indirect taxes* at 2.6 percent (Chart 1). Headline inflation fell by 0.1 percentage point and core inflation rose by 0.1 percentage point relative to the previous month. The decline in inflation partly reflected a drop in unprocessed food prices and partly a decrease in the prices of textbooks belonging to the group of regulated products (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, but continued to be significantly below the level of core inflation (Chart 3).

In September 2017, the prices of more volatile items with greater sensitivity to cost changes, i.e. food and energy, as well as demand-sensitive products contributed nearly equally to the increase in prices (Chart 1).

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

Seasonally adjusted *tradables* prices rose slightly on the previous month (Chart 4). Within this product group, both *durables* and *non-durables* prices were modestly higher relative to the previous month. Within the latter group, the increase in prices mainly reflected changes in clothing prices. 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 0.2 percent in September on the previous month. Price dynamics in this product category were slightly higher than in previous years, reflecting increases in Internet and mobile phone charges. Movements in the rest of services prices were moderate (Chart 5).

Seasonally and tax-adjusted *processed food* prices rose slightly further relative to August, mainly due to continued increases in the prices of milk and dairy products, in line with changes in producer prices.

Seasonally and tax-adjusted *unprocessed food* prices fell slightly, mainly reflecting a decline in the prices of fresh fruits.

Within *regulated products*, textbook prices fell, due to the extension of the free textbook programme to the 5<sup>th</sup> to 9<sup>th</sup> grades of primary schools.

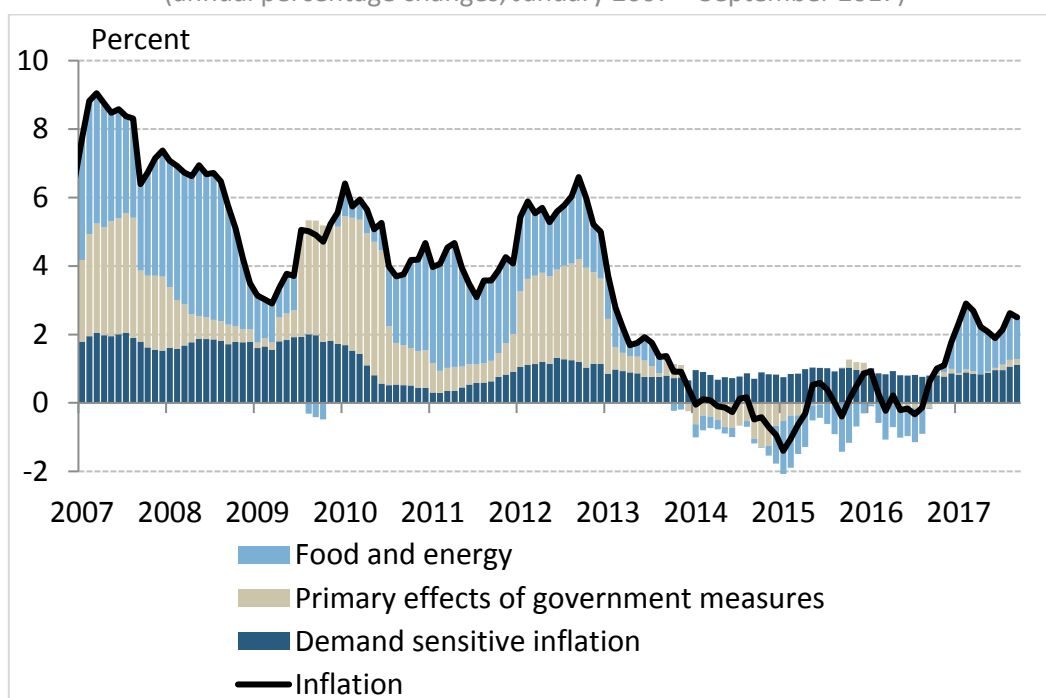
*Households' inflation expectations* remained at moderate levels in September (Chart 6).

Prepared by Judit Várhegyi

Budapest, 10 October 2017

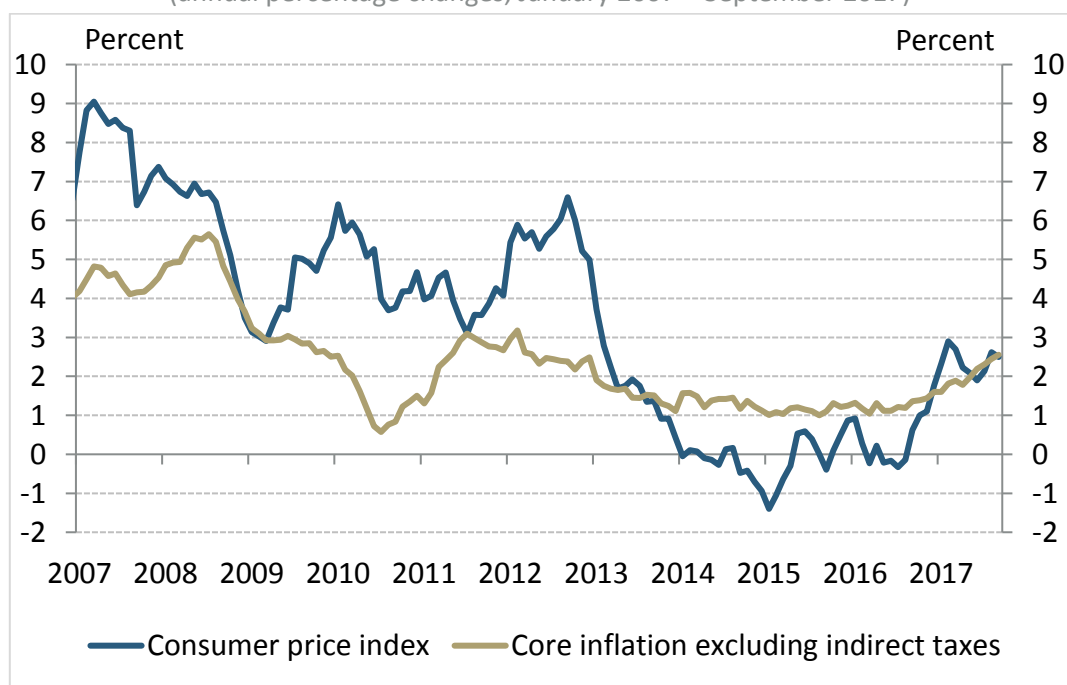
**Chart 1 Inflation decomposition**

(annual percentage changes, January 2007 – September 2017)



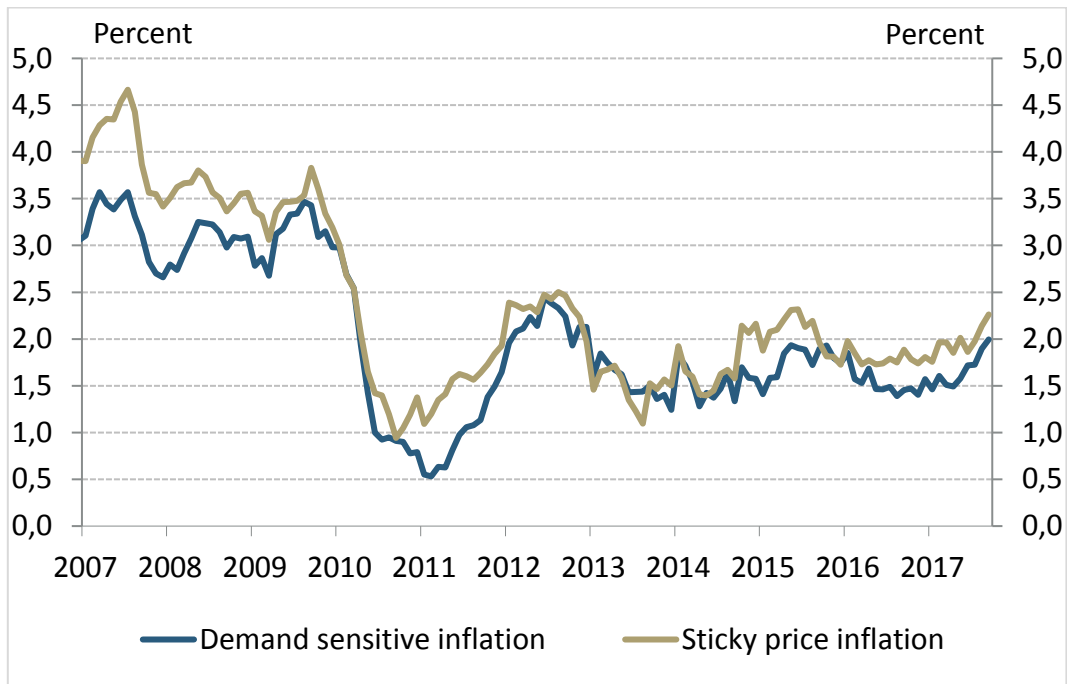
**Chart 2 The consumer price index and core inflation excluding indirect taxes**

(annual percentage changes, January 2007 – September 2017)



**Chart 3 Underlying inflation indicators**

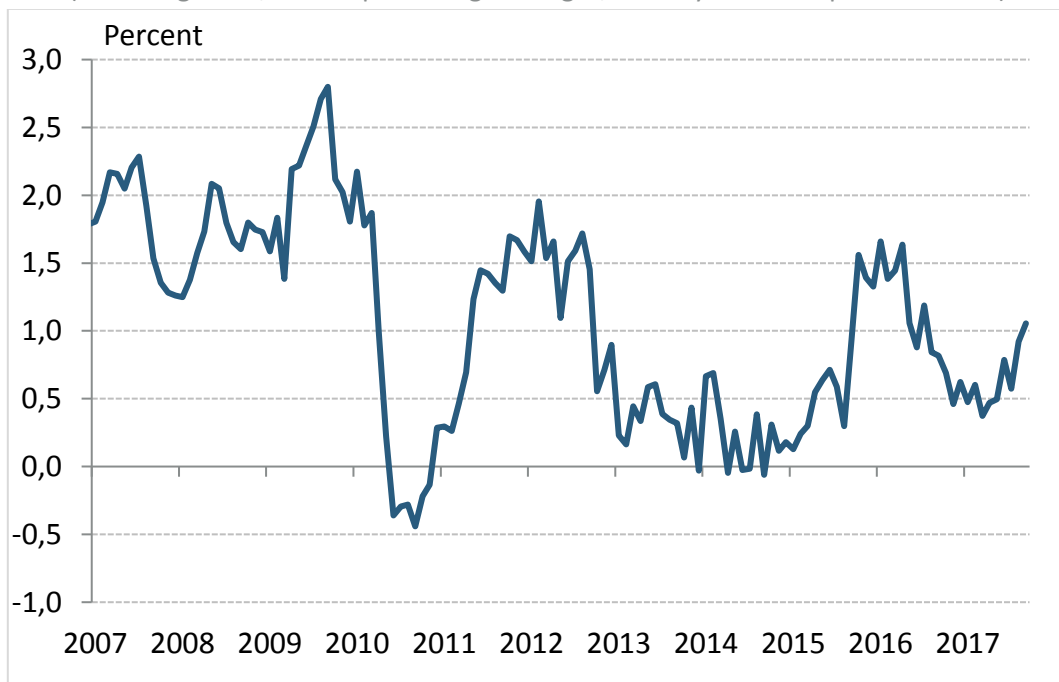
(excluding indirect taxes, annual percentage changes, January 2007 – September 2017)



*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.*

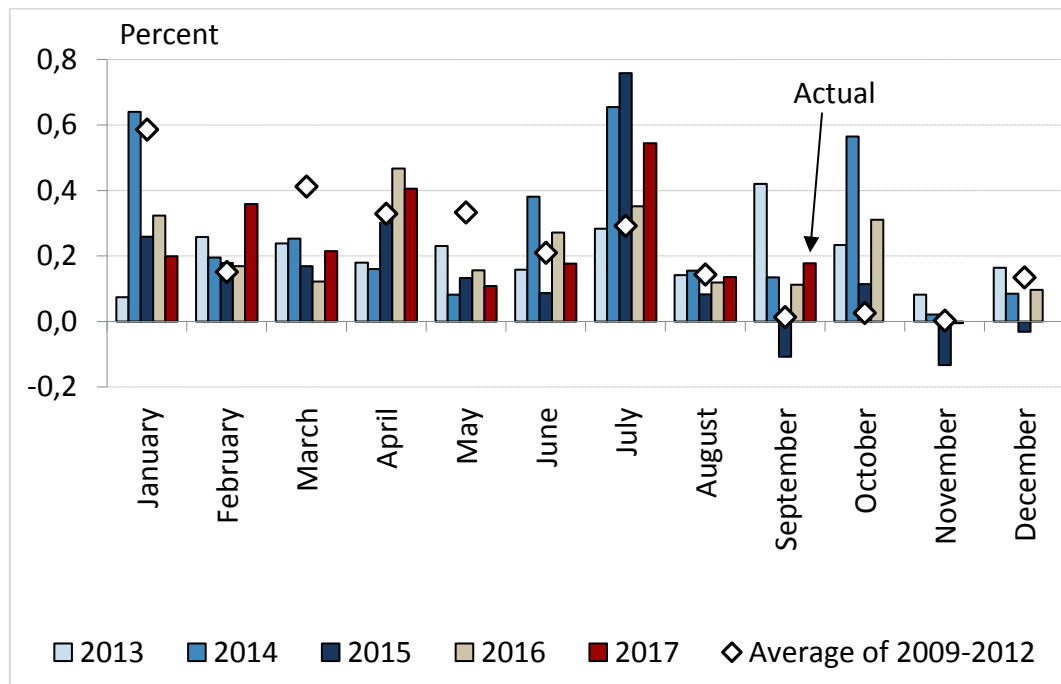
**Chart 4 Inflation of tradable goods**

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



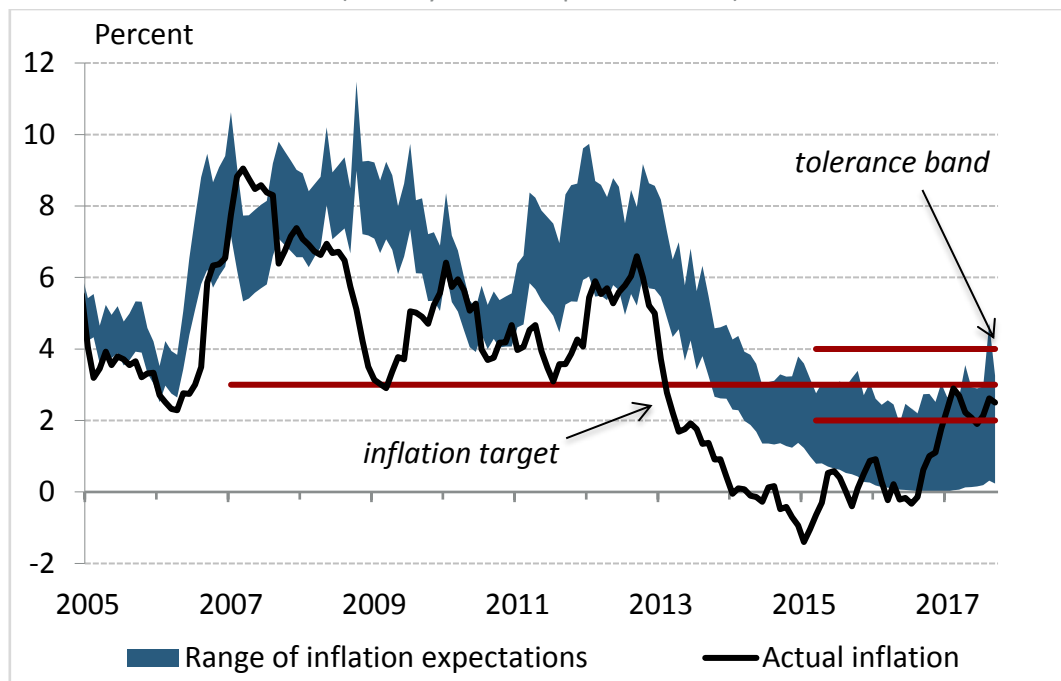
**Chart 5 Inflation of market services**

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



**Chart 6 Households' inflation expectations**

(January 2005 – September 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, September 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>1.1</b>	<b>Contribution of core inflation excluding taxes (percentage points), weight 68.9%</b>	<b>1.8</b>
Contribution of other items (percentage points), weight 67.1%	1.8	Contribution of other items (percentage points), weight 44.2%	1.4	Contribution of other items (percentage points), weight 31.1%	0.7

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

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