



MONTHLY ANALYSIS OF INFLATION DEVELOPMENTS

OCTOBER
2018

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/Statisztika/data-and-information/mnben_statistikai_idosorok/mnben_elv_prices/underlying_inflation_indicators_MNB

ASSESSMENT OF INFLATION DATA FOR OCTOBER 2018

In October 2018, annual *inflation* was 3.8 percent. *Core inflation* stood at 2.6 percent and *core inflation adjusted for the effects of indirect taxes* at 2.5 percent (Chart 1). Both headline and core inflation rose by 0.2 percentage point compared with the previous month. The increase in inflation in the autumn months reflected rises mainly in the volatile prices of fuel and unprocessed food, and the pass-through of the excise duty increase on tobacco products respectively.

The Bank's measures of *underlying inflation developments* (annual inflation rates of demand-sensitive and sticky-price products and services) rose compared with September (Chart 2).

In October 2018, the contribution to inflation of demand-sensitive products increased slightly and that of more volatile items with greater sensitivity to cost changes remained broadly unchanged compared with the previous month (Chart 3).

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 both *durables* and *non-durables* increased. The increase in durables prices mainly reflected rises in the prices of new passenger cars, which has a big weight within the product group. In the case of non-durables, the increase in prices was due primarily to rises in the prices of non-alcoholic beverages, and sports goods and toys.

Services prices rose by 0.1 percent in October compared with the previous month. Price dynamics in this product group were moderate, in line with the usual seasonality of previous years (Chart 5).

Year-on-year inflation of *processed food* decreased in recent month.

Seasonally and tax-adjusted *unprocessed food* prices rose in October, mainly reflecting increases in the prices of fresh vegetables.

Prices of *regulated products* were broadly unchanged compared with September.

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

Prepared by Judit Várhegyi

Budapest, 8 November 2018

Chart 1: The consumer price index and core inflation excluding indirect taxes
(annual percentage changes, January 2007 – October 2018)

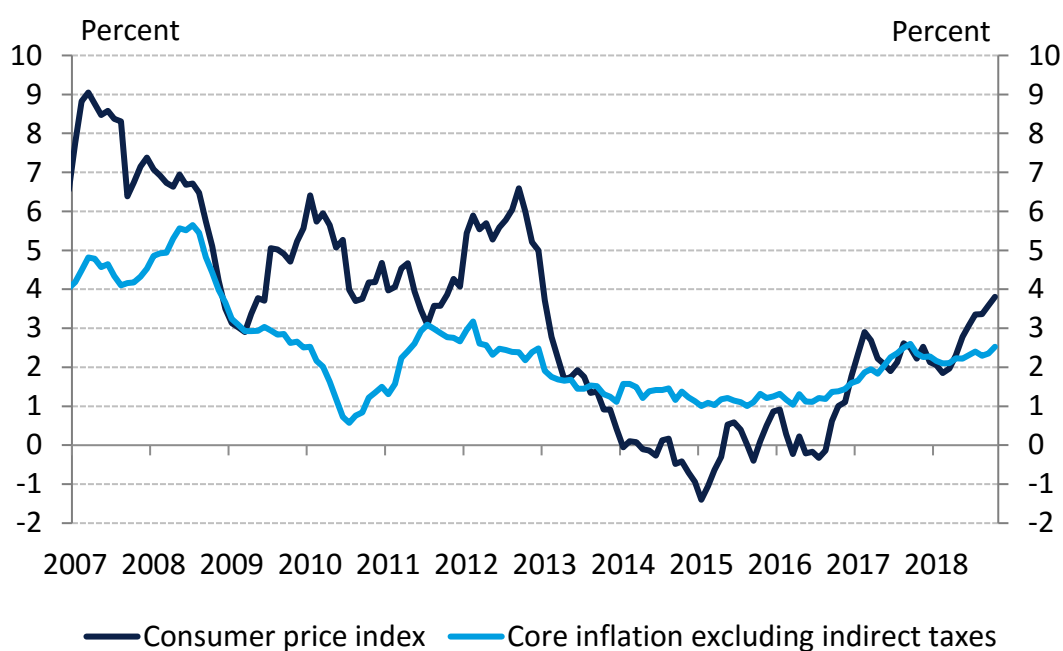
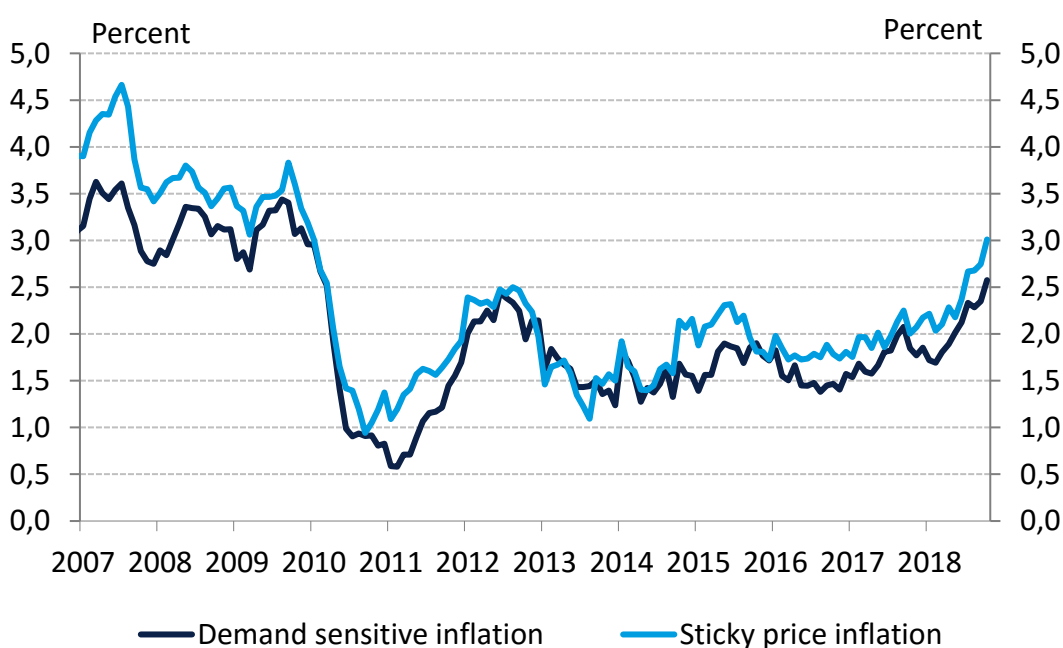


Chart 2: Underlying inflation indicators
(excluding indirect taxes, annual percentage changes, January 2007 – October 2018)



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 3: Inflation decomposition

(annual percentage changes, January 2007 – October 2018)

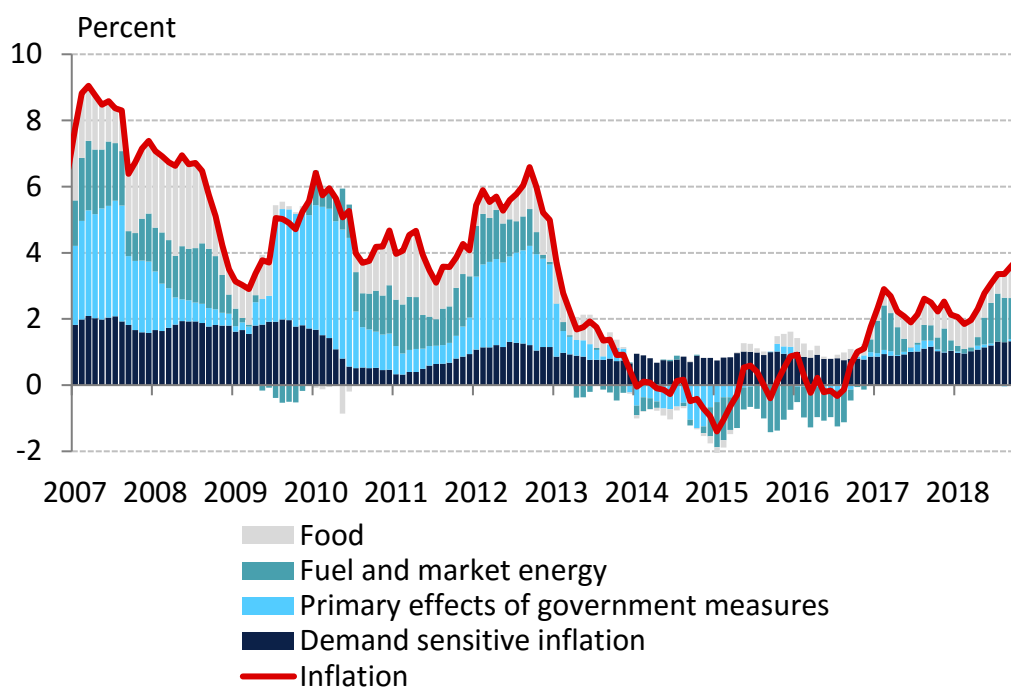


Chart 4: Inflation of tradable goods

(excluding taxes, annual percentage changes, January 2007 – October 2018)

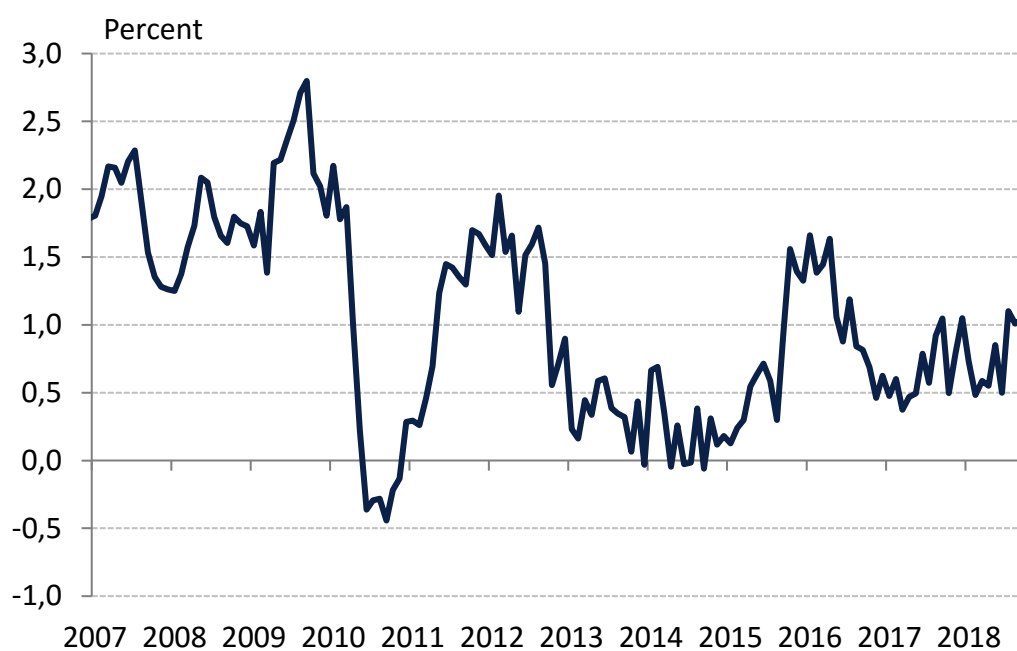


Chart 5: Market services inflation

(seasonally unadjusted, tax-adjusted monthly percentage changes, January 2014 – October 2018)

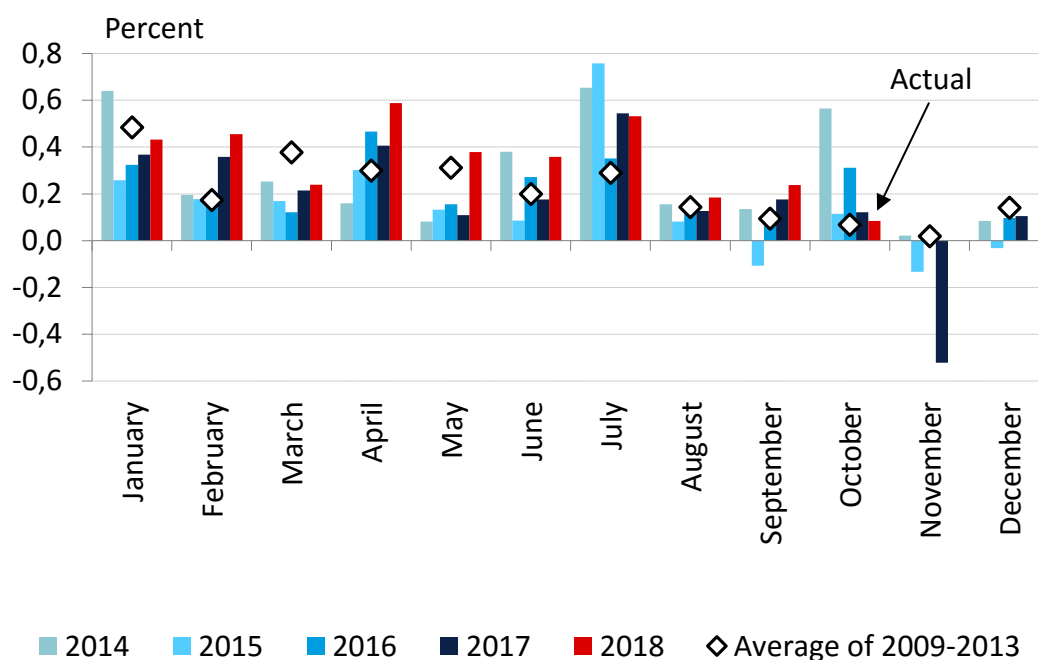
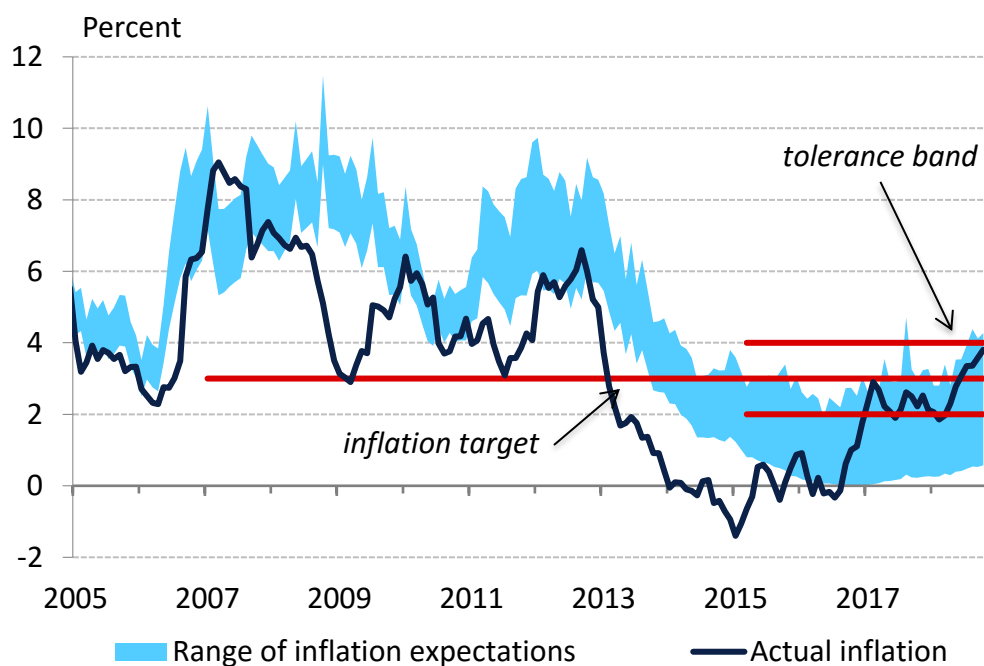


Chart 6: Households' inflation expectations

(January 2005 – October 2018)



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, October 2018 (HCSO)					
3.8% (annual change)					
MNB underlying inflation indicators (MNB calculation)					
Contribution of sticky price inflation (percentage points), weight 33.5%	1.0	Contribution of demand sensitive inflation (percentage points), weight 56.6%	1.4	Contribution of core inflation excluding taxes (percentage points), weight 69.3%	1.7
Contribution of other items (percentage points), weight 66.5%	2.8	Contribution of other items (percentage points), weight 43.4%	2.4	Contribution of other items (percentage points), weight 30.7%	2.1

Sources: CSO and the MNB's own calculations.

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