



MONTHLY ANALYSIS OF INFLATION DEVELOPMENTS

JANUARY
2019

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.

For further information, please contact Judit Várhegyi (e-mail: varhegyij@mnb.hu)

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 JANUARY 2019

In January 2019, annual *inflation* was 2.7 percent. *Core inflation* stood at 3.2 percent and *core inflation adjusted for the effects of indirect taxes* at 3.0 percent (Chart 1). Headline inflation was unchanged and core inflation rose by 0.4 percentage points relative to the previous month. The rise in core inflation reflected the increase in excise taxes on tobacco and a pick-up in services price inflation. At the headline level, the increase in core inflation was partly offset by a decline in fuel prices.

Inflation adjusted for the effects of indirect taxes rose by 0.1 percentage point in January. The Bank's other measures of underlying inflation developments capturing persistent inflationary trends (i.e. inflation rates of demand-sensitive and sticky-price products and services) also rose relative to the previous month (Chart 2).

In January 2019, the contribution to inflation of demand-sensitive products rose slightly relative to the previous month and that of more volatile items with greater sensitivity to cost changes fell (Chart 3).

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

Seasonally adjusted *tradables* prices were broadly unchanged compared with the previous month (Chart 4). Within this product group, the prices of *durables* rose slightly and those of *non-durables* were unchanged. The increase in the public health product tax at the beginning of the year led to a rise in the price index for non-alcoholic beverages.

Services prices were 0.4 percent higher in January compared with the previous month. The withdrawal of the levy on credit transfers below HUF 20,000 contributed to the decrease in the services prices, although adjusted for tax effects, services prices rose somewhat higher than January 2018 (Chart 5).

Seasonally and tax-adjusted *processed food* prices fell slightly in January, mainly reflecting decreases in the prices of milk and dairy products. The reduction in the VAT of ESL milk and the increase in public health product tax had were reflected in the January data.

Seasonally and tax-adjusted *unprocessed food* prices were largely unchanged compared with the previous month.

Prices of *regulated products* were little changed compared with December.

Households' inflation expectations remained at moderate levels in January (Chart 7).

Prepared by Judit Várhegyi

Budapest, 12 February 2019

Chart 1: The consumer price index, core inflation and core inflation excluding indirect taxes
(annual percentage changes, January 2007 – January 2019)

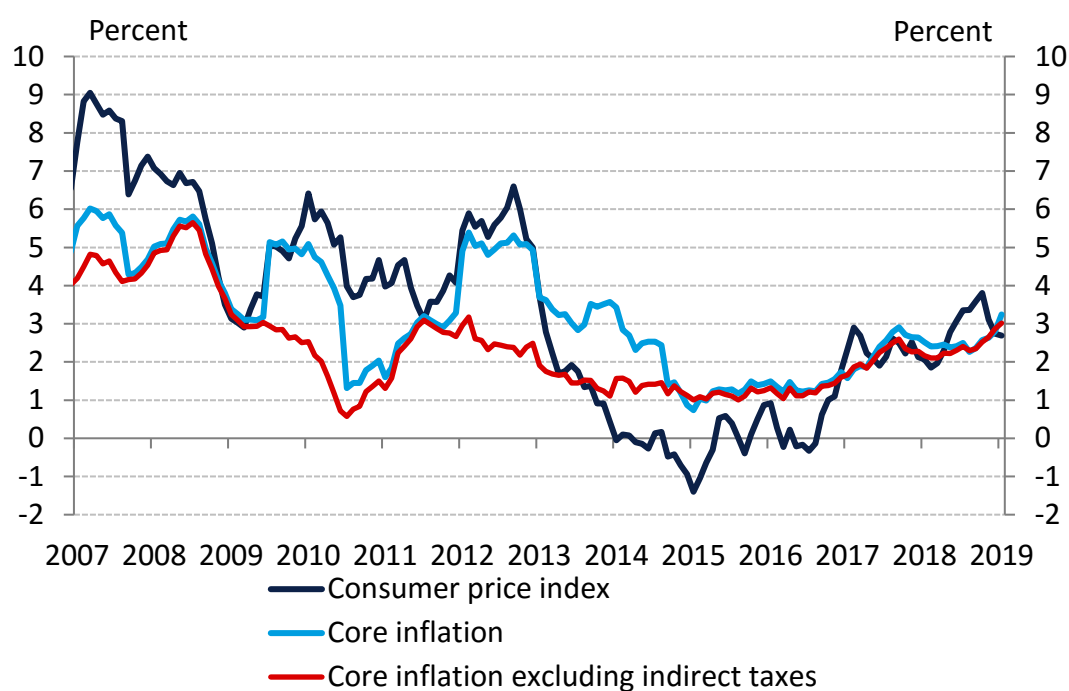
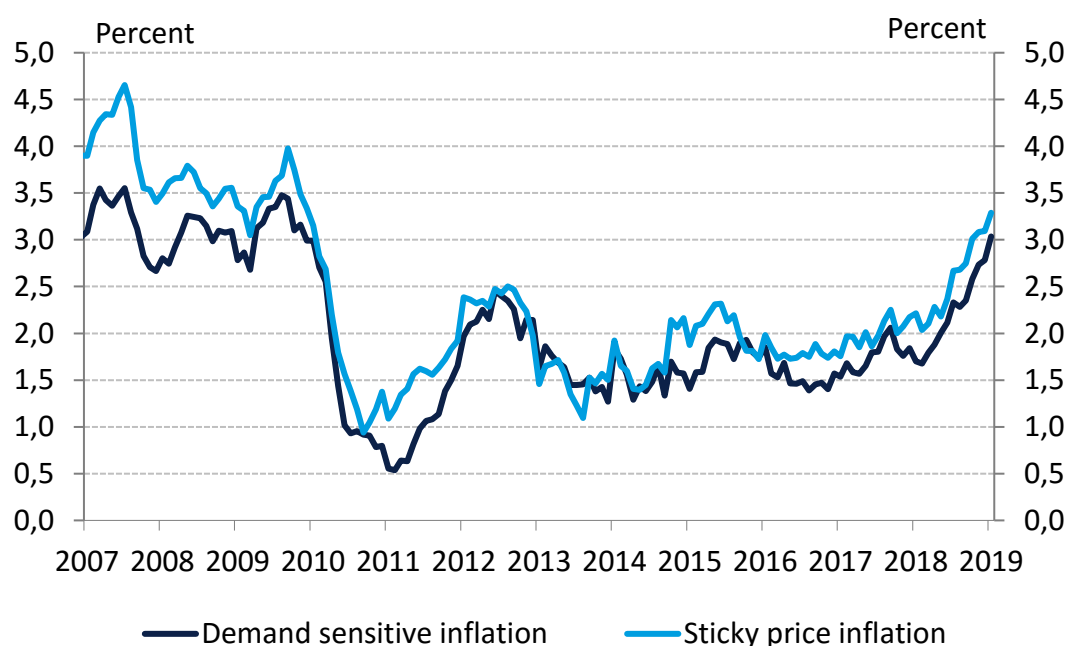


Chart 2: Underlying inflation indicators
(excluding indirect taxes, annual percentage changes, January 2007 – January 2019)



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 – January 2019)

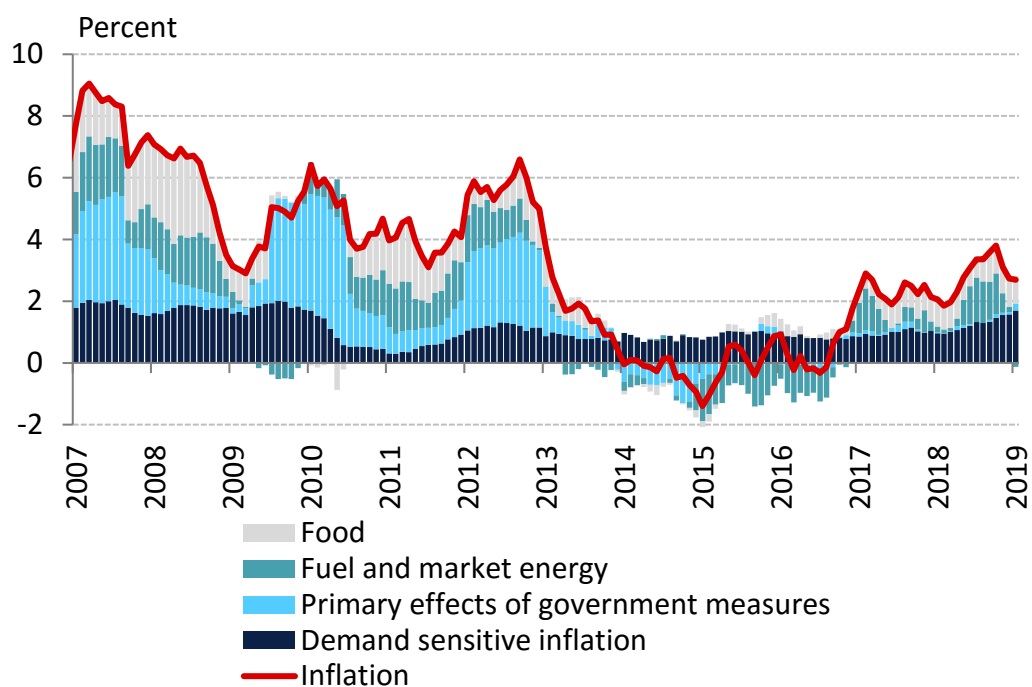


Chart 4: Inflation of tradable goods

(excluding taxes, annual percentage changes, January 2007 – January 2019)

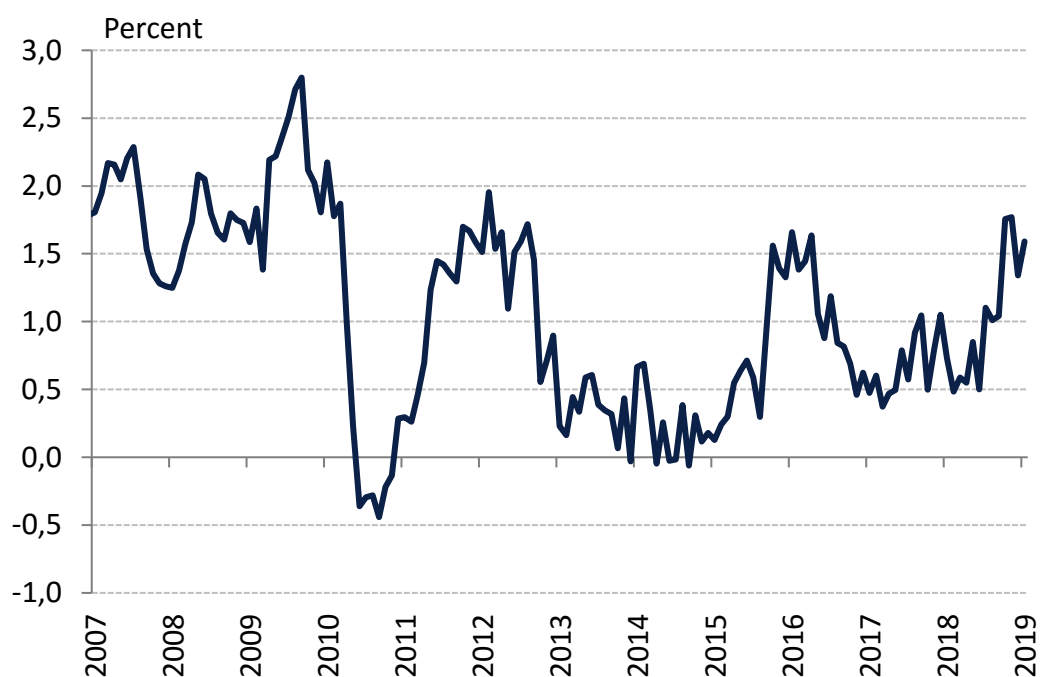


Chart 5: Market services inflation

(seasonally unadjusted, tax-adjusted monthly percentage changes, January 2015 – January 2019)

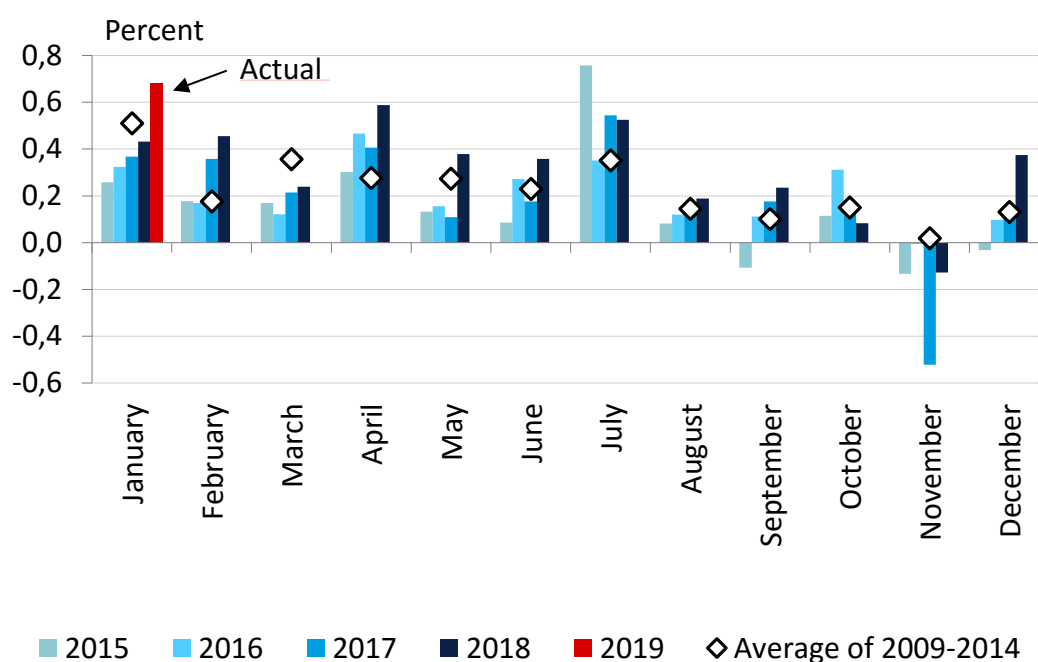
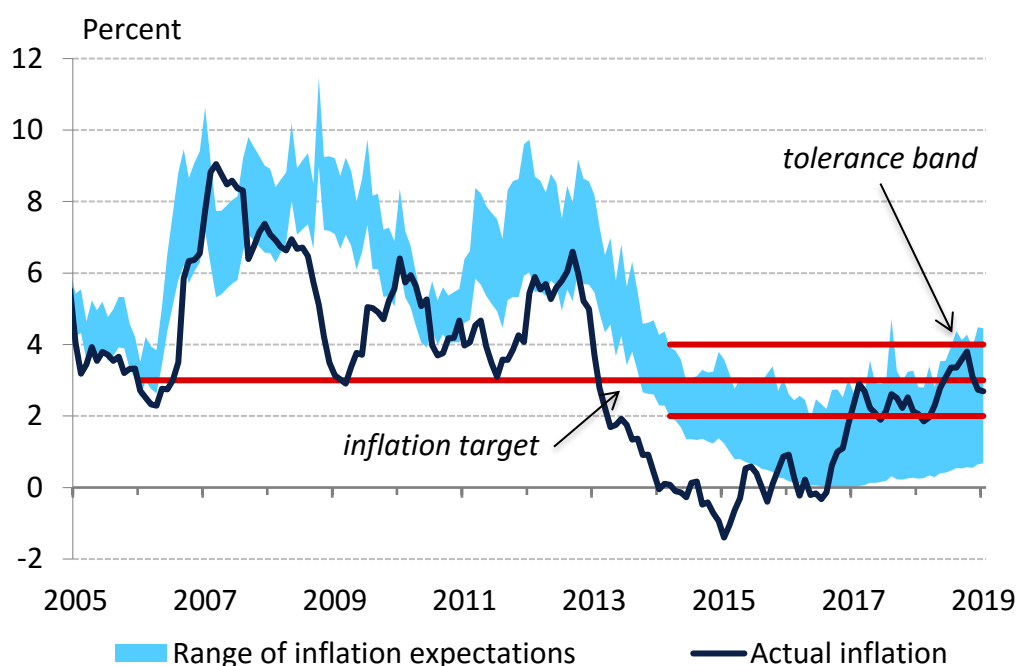


Chart 6: Inflation of market services

(excluding taxes, annual percentage changes, January 2007 – January 2019)



Chart 7: Households' inflation expectations
(January 2005 – January 2019)



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, January 2019 (HCSO)					
2.7% (annual change)					
MNB underlying inflation indicators (MNB calculation)					
Contribution of sticky price inflation (percentage points), weight 33.4%	1.1	Contribution of demand sensitive inflation (percentage points), weight 55.9%	1.7	Contribution of core inflation excluding taxes (percentage points), weight 69.0%	2.1
Contribution of other items (percentage points), weight 66.6%	1.6	Contribution of other items (percentage points), weight 44.1%	1.0	Contribution of other items (percentage points), weight 31.0%	0.6

Sources: CSO and the MNB's own calculations.

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