



MONTHLY ANALYSIS OF INFLATION DEVELOPMENTS

MAY

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.

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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 MAY 2019

In May 2019, annual *inflation* stood at 3.9 percent. *Core inflation* was 4.0 percent and *core inflation adjusted for the effects of indirect taxes* was 3.7 percent (Chart 1). Headline inflation was unchanged, core inflation and core inflation excluding indirect taxes rose by 0.3 percentage points relative to the previous month. The increase in core inflation reflected a rise in market services and processed food prices.

The Bank's 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 May 2019, the contribution to inflation of items with greater sensitivity to cost changes, i.e. food and fuel, remained broadly unchanged and that of demand-sensitive products rose relative to the previous month (Chart 3).

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

Inflation of *industrial goods* compared with the previous month (Chart 4). Within this product group, the price dynamics of *durables* did not change, whereas the inflation of *non-durables* rose primarily reflecting an increase in clothing prices.

Services prices rose by 0.7 percent on a monthly basis (Chart 5). Higher price dynamics relative to previous years were characteristic across a broad range of products (Chart 6).

Seasonally and tax-adjusted *processed food* prices rose in May, mainly due to increases in the prices of milk and dairy products.

Seasonally and tax-adjusted *unprocessed food* prices rose, mainly as a result of an increase in the price of pork.

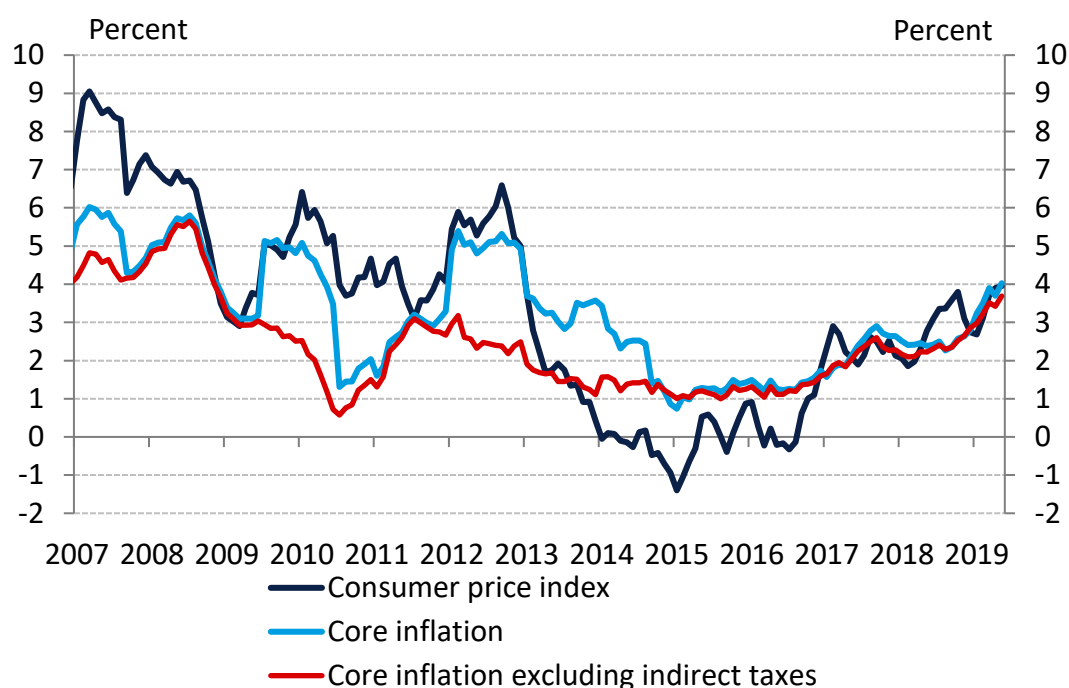
Prices of *regulated products* were largely unchanged relative to April.

Households' inflation expectations remained at moderate levels consistent with the 3 percent inflation target (Chart 7).

Prepared by Judit Várhegyi

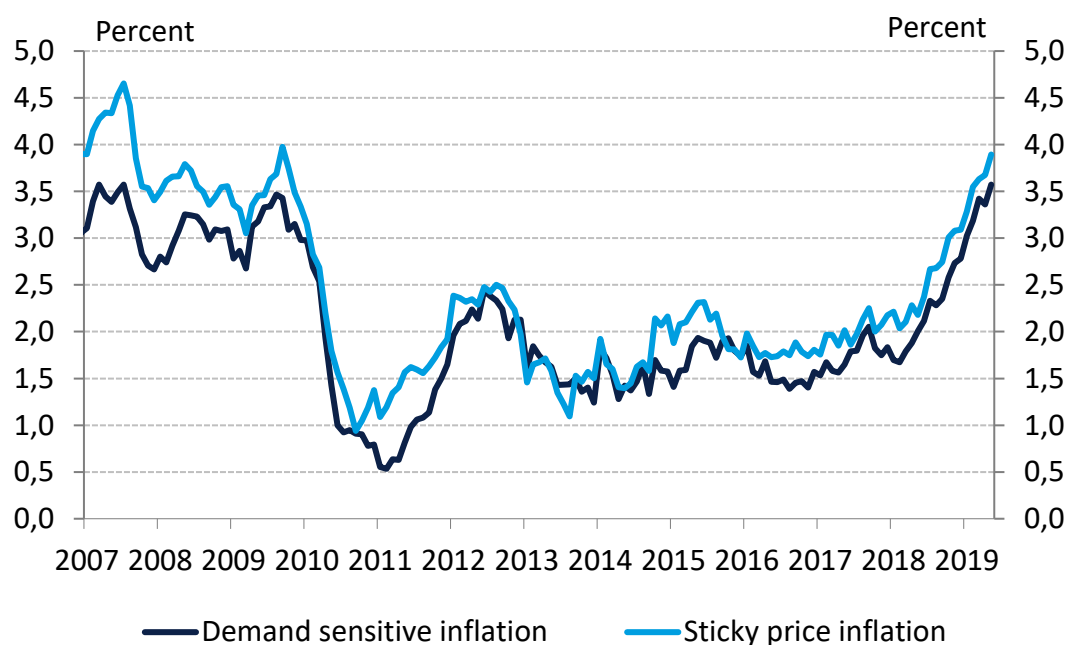
Budapest, 7 June 2019

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



Note: Seasonally unadjusted core inflation.

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

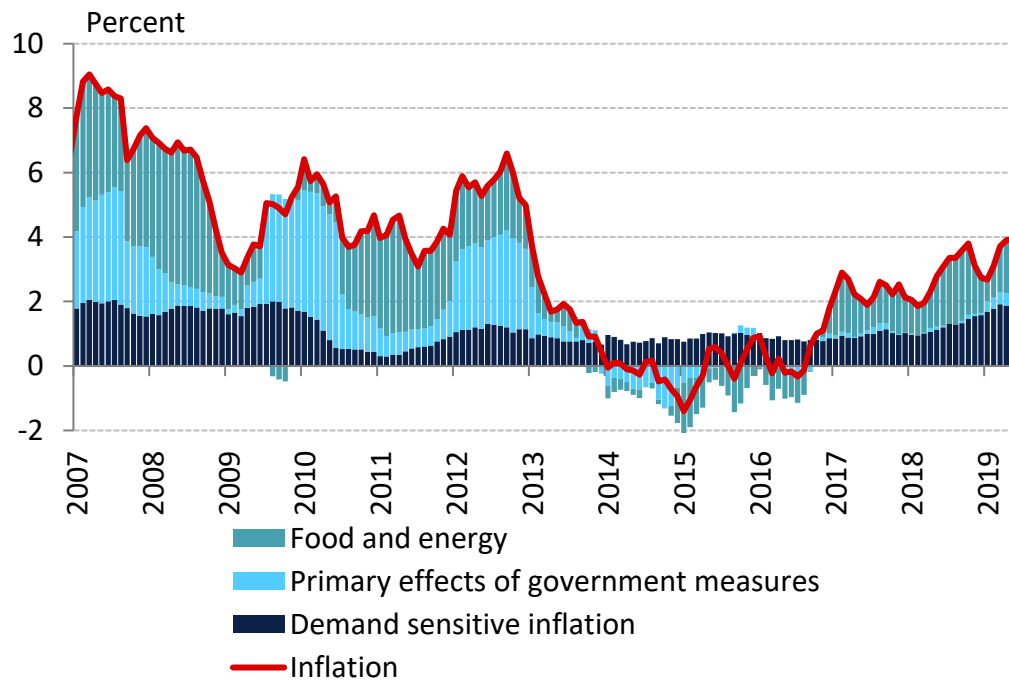


Chart 4 Inflation of tradable goods

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



Chart 5 Market services inflation

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

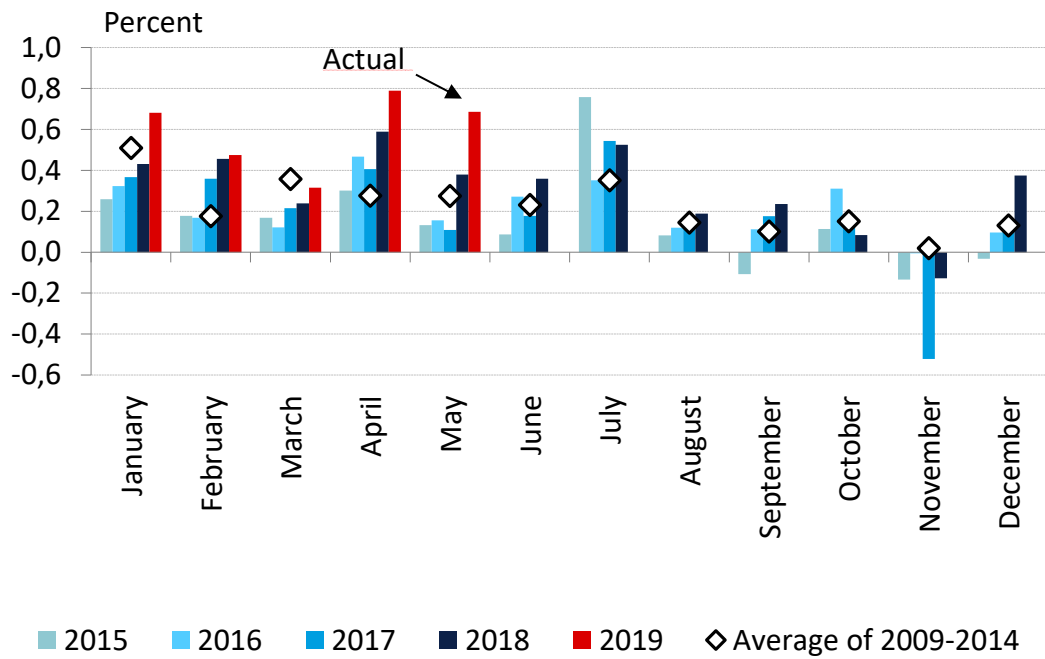


Chart 6 Market services inflation

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

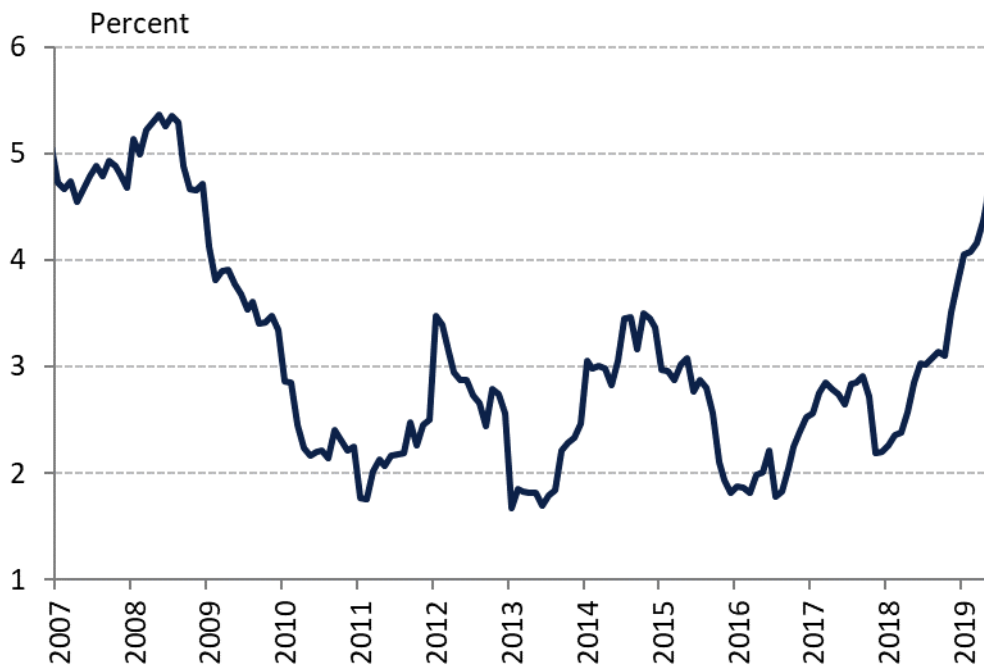
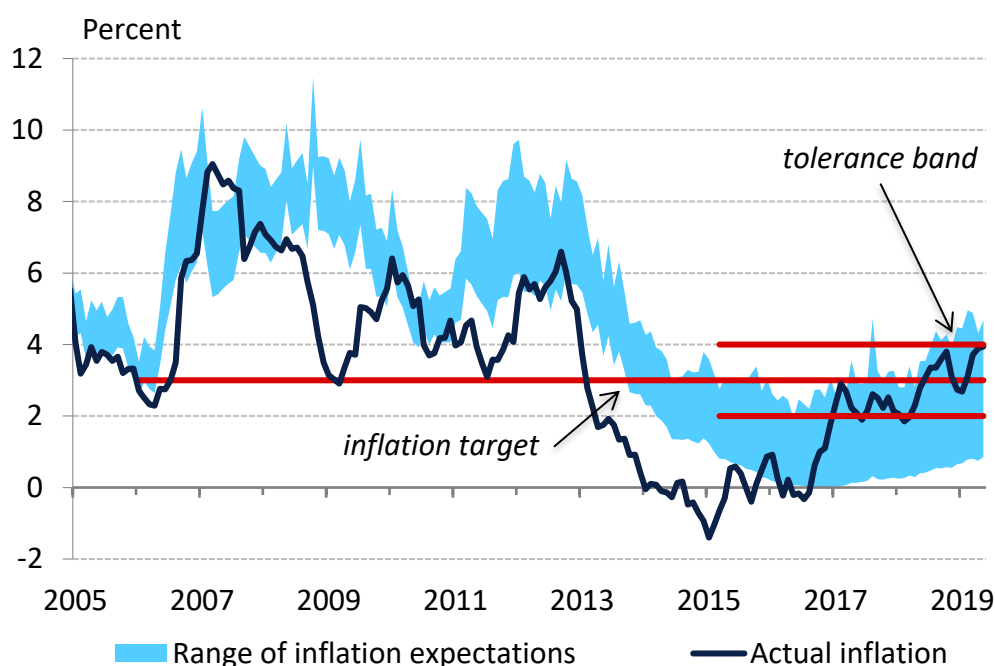


Chart 7 Households' inflation expectations
(January 2005 – May 2019)



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, May 2019 (HCSO)					
3.9% (annual change)					
MNB underlying inflation indicators (MNB calculation)					
Contribution of sticky price inflation (percentage points), weight 33.4%	1.3	Contribution of demand sensitive inflation (percentage points), weight 55.9%	2.0	Contribution of core inflation excluding taxes (percentage points), weight 69.0%	2.5
Contribution of other items (percentage points), weight 66.6%	2.6	Contribution of other items (percentage points), weight 44.1%	1.9	Contribution of other items (percentage points), weight 31.0%	1.4

Sources: CSO and the MNB's own calculations.

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