



# MONTHLY ANALYSIS OF INFLATION DEVELOPMENTS

**APRIL**

2020

*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/Statiztika/data-and-information/mnben\\_statiztikai\\_idosorok/mnben\\_elv\\_prices/underlying\\_inflation\\_indicators\\_MNB](http://english.mnb.hu/Statiztika/data-and-information/mnben_statiztikai_idosorok/mnben_elv_prices/underlying_inflation_indicators_MNB)

## ASSESSMENT OF INFLATION DATA FOR APRIL 2020

In April 2020, annual *inflation* stood at 2.4 percent and core inflation at 4.3 percent. Core inflation adjusted for the effects of indirect taxes was 3.8 percent (Chart 1). Headline inflation fell by 1.5 percentage points and core inflation was unchanged compared with the previous month. The decline in inflation reflected a significant fall in fuel prices, by 22.7 percent relative to the period a year earlier.

The Bank's measures of underlying inflation developments capturing persistent inflationary trends (i.e. the price indices for demand-sensitive products and sticky-price products and services) fell slightly relative to the previous month (Chart 2).

In April 2020, items with greater sensitivity to cost changes, i.e. primarily fuel, had a downward effect on inflation, with the contribution of demand-sensitive products being broadly unchanged relative to the previous month (Chart 3).

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

Annual inflation of *industrial goods* prices rose slightly on the previous month; however, the price index remained below 1 percent (Chart 4). Within this product group, an increase in the prices of *durables* mainly reflected rises in the prices of new passenger cars. The inflation of non-durables remained broadly unchanged relative to March, despite a significant rise in volatile air fares.

In April 2020, *services* prices rose by 0.4 percent on the previous month (Chart 5). A monthly price growth, unseen in recent years, was characteristic across a wide range of services (Charts 5 and 6). Overall, the inflation of market services fell relative to March.

Seasonally and tax-adjusted *processed food* prices rose further relative to the previous month, primarily due to a higher growth in milk and dairy product prices.

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

Prices of regulated goods fell by 1.1 percent relative to March, which was attributable to the effect of the free parking system implemented due to the coronavirus pandemic.

Consistent with a significant decline in world oil prices in recent months, *fuel prices* fell by 16.4 percent relative to the previous month. The base effect of the rise in prices last year played a role in the fall in the annual price index, to -22.7 percent.

*Households' inflation expectations* have risen amid high volatility in recent months (Chart 7).

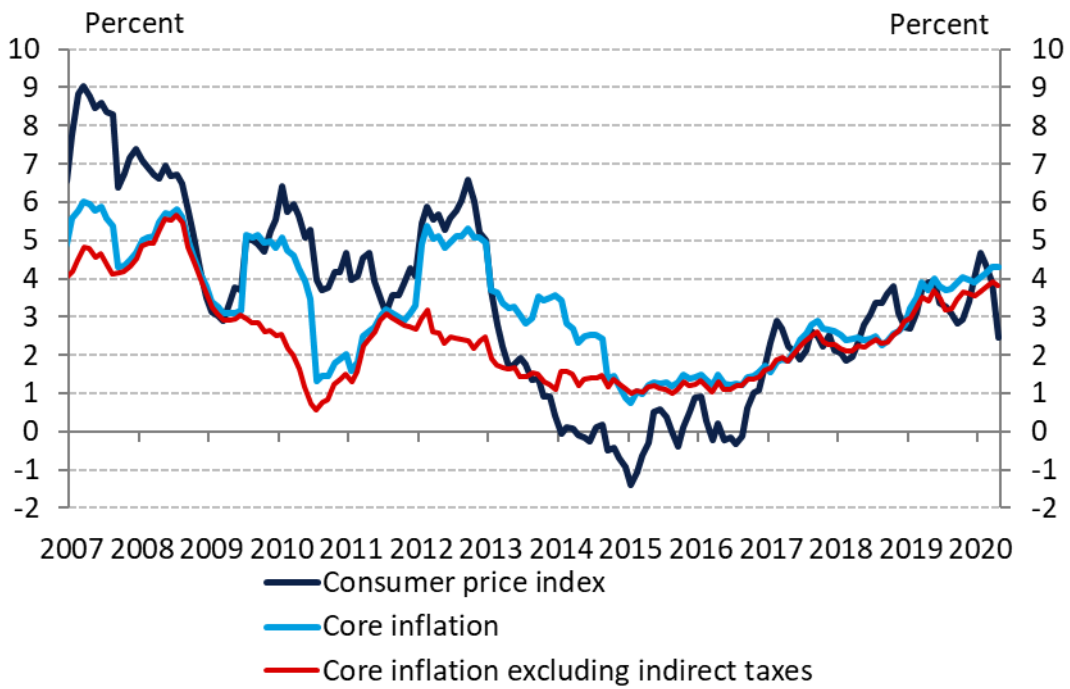
However, the following should be noted. Data on households' inflation expectations are based on a survey conducted by the European Commission. It is underlined that surveys of this kind contain significantly less information in times of crises and all measures calculated using that data show high volatility. Basically there are two reasons for this. First, due to panic reactions seen in crisis situations, the volatility of sentiment indicators multiply all over the world, yielding unprecedented results. Therefore, we believe, that current data are not comparable to that in the period before the coronavirus pandemic started. On the other hand, in surveys on inflation, the information contained in the time series is further reduced by the fact that when asked, households tend to attach more importance to price changes of the products they often purchase. Food, required to meet daily necessities, plays a significant role in this. The distortion, resulting from this, may have been exceptionally large in recent months, when due to panic reactions leading to food panic-buying and interruptions in imports,

food prices started to rise. Overall, both factors cause the survey to be significantly less reliable in the time of the pandemic. In the coming months, inflation is expected to decline further. In addition to lower fuel prices, a gradual slowdown in more persistent developments also plays a role in this. Consistent with this, households' inflation expectations may be deemed anchored.

Prepared by Judit Várhegyi

Budapest, 08 May 2020

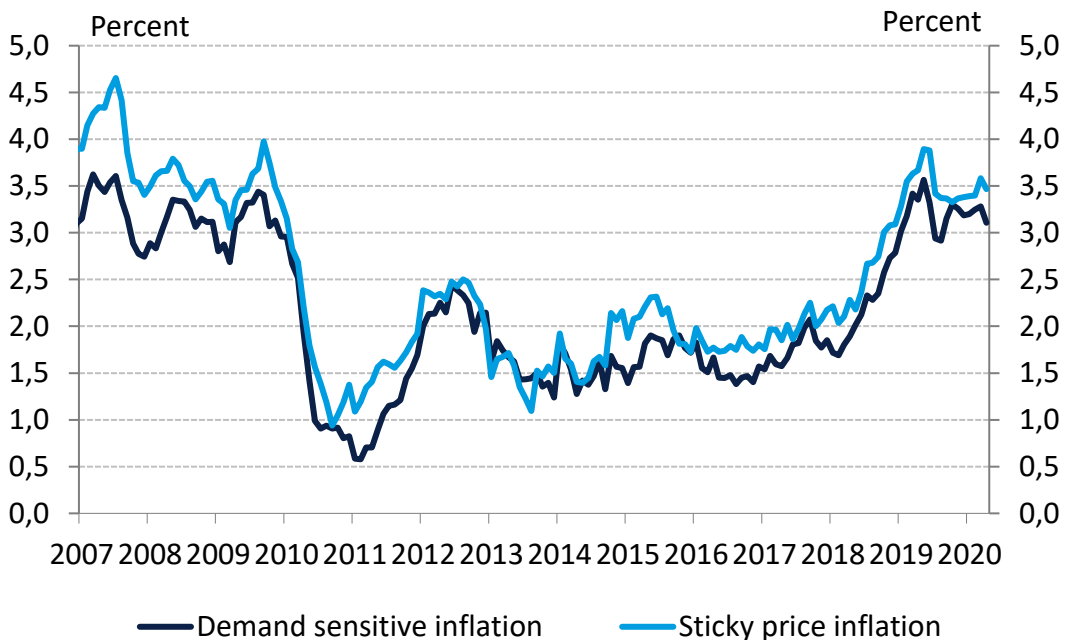
**Chart 1 Consumer price index, core inflation and core inflation excluding indirect taxes**  
(annual percentage changes, January 2007 – April 2020)



Note: Seasonally unadjusted core inflation.

**Chart 2 Underlying inflation indicators**

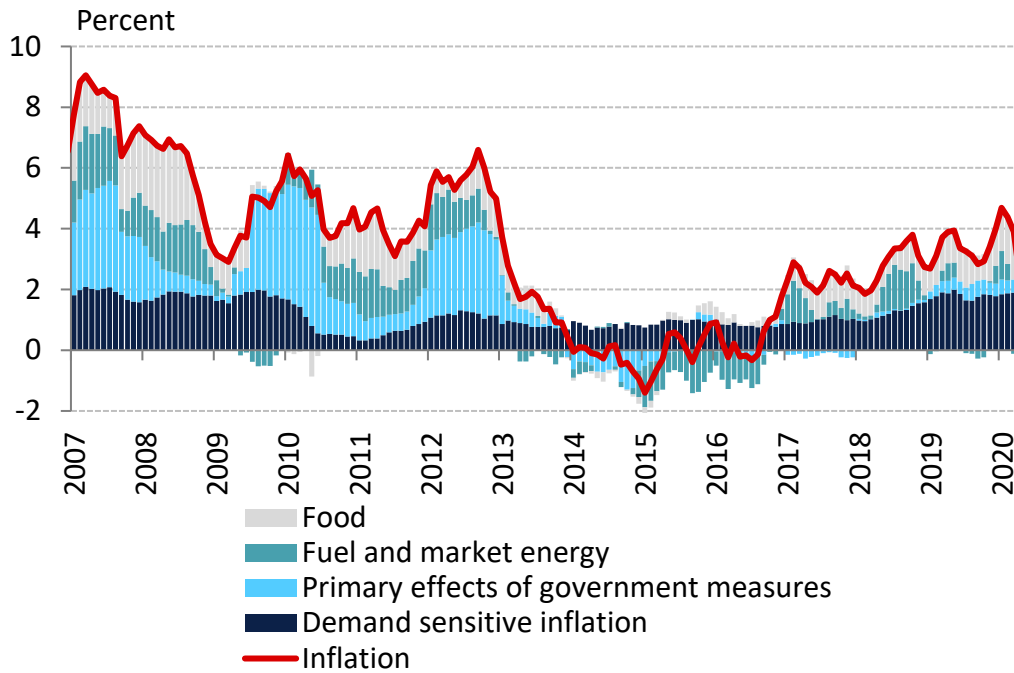
(excluding indirect taxes, annual percentage changes, January 2007 – April 2020)



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 HCSO.

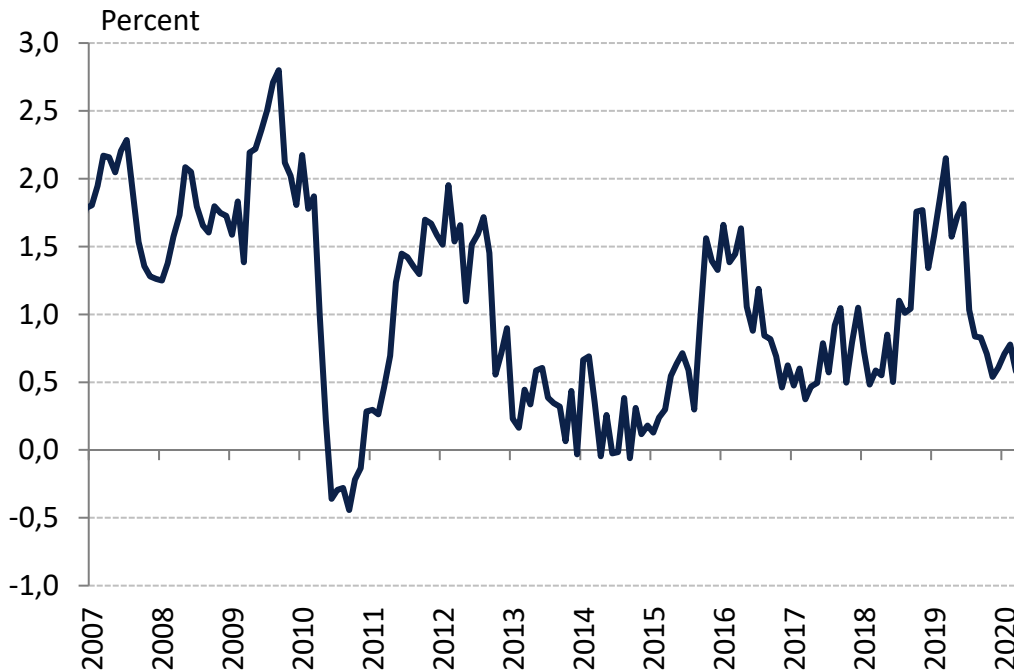
**Chart 3 Inflation decomposition**

(annual percentage changes, January 2007 – April 2020)



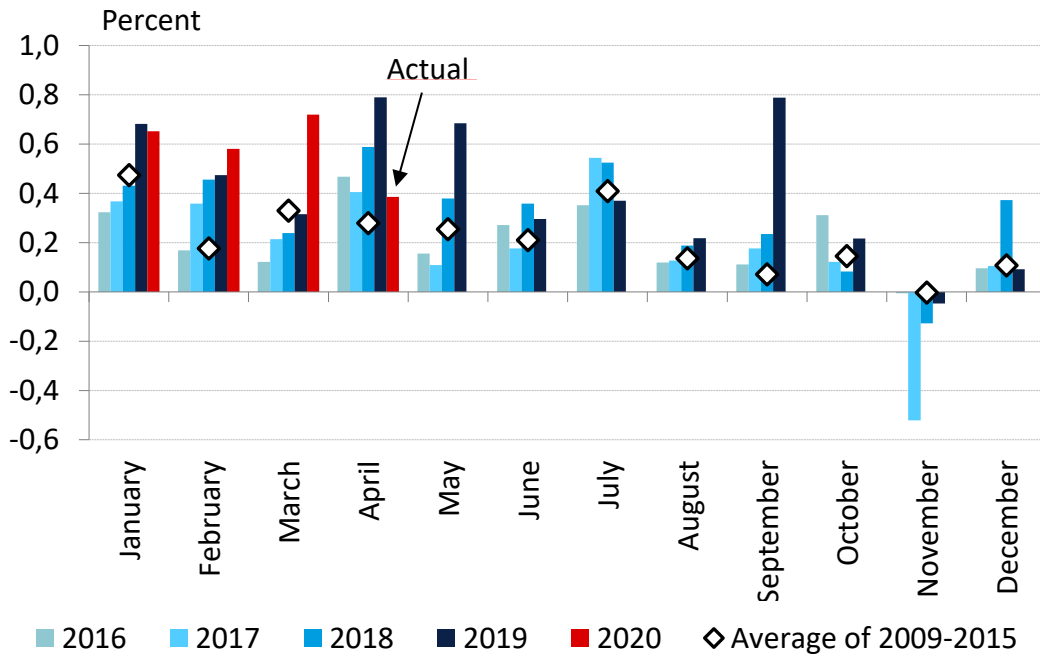
**Chart 4 Inflation of tradable goods**

(tax-adjusted annual percentage changes, January 2007 – April 2020)



**Chart 5 Market services inflation**

(seasonally unadjusted, tax-adjusted monthly percentage changes, January 2016 – April 2020)

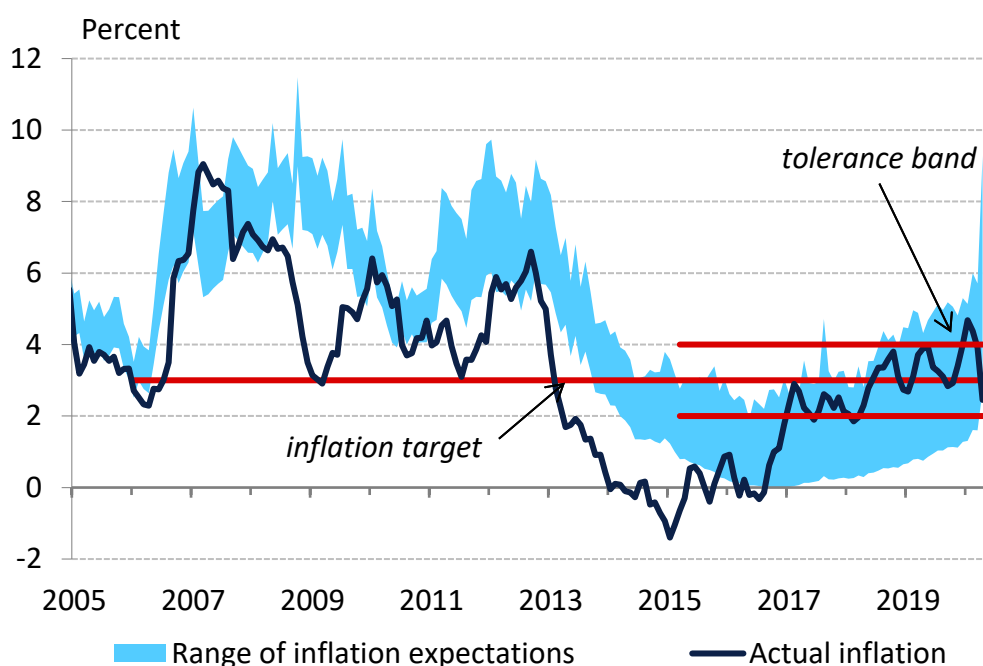


**Chart 6 Market services inflation**

(tax-adjusted annual percentage changes, January 2007 – April 2020)



**Chart 7 Households' inflation expectations**  
(January 2005 – April 2020)



Sources: MNB calculations based on European Commission data; and HCSO.

**Table 1 Annual change in the consumer price index and contribution of the measures of underlying inflation**

Consumer price index, April 2020 (HCSO)					
2.4% (annual change)					
MNB underlying inflation indicators (MNB calculation)					
<b>Contribution of sticky price inflation (percentage points), weight 34.8%</b>	<b>1.1</b>	<b>Contribution of demand sensitive inflation (percentage points), weight 57.7%</b>	<b>1.7</b>	<b>Contribution of core inflation excluding taxes (percentage points), weight 70.6%</b>	<b>2.6</b>
Contribution of other items (percentage points), weight 65.2%	1.3	Contribution of other items (percentage points), weight 42.3%	0.7	Contribution of other items (percentage points), weight 29.4%	-0.2

Sources: HCSO and the MNB's own calculations.

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