



# MONTHLY ANALYSIS OF INFLATION DEVELOPMENTS

**AUGUST**

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. It has been approved by Gergely Baksay, Executive Director responsible for economic analyses and competitiveness.*

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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 AUGUST 2020

In August 2020, annual *inflation* stood at 3.9 percent and core inflation at 4.7 percent. Core inflation adjusted for the effects of indirect taxes was 4.2 percent (Chart 1). Inflation and core inflation rose slightly, primarily reflecting a rise in alcohol, tobacco and processed food prices, relative to the previous month. In the case of tobacco products, the pass-through of the July excise duty increase continued, thus the tax effect increased core inflation by 0.5 percentage points. At the level of the overall consumer price index, the effect of indirect tax increases (for fuels and tobacco products) was 0.5 percentage points.

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) were broadly unchanged on the previous month (Chart 2).

In August 2020, items with greater sensitivity to cost changes, had an upward effect on inflation, while the contribution of demand-sensitive products was broadly unchanged relative to the previous month (Chart 5).

The annual inflation figure was strongly influenced by re-pricing related to the economic restart due to a sudden shift in supply and demand conditions. The distribution of product-level monthly price changes over the past 2 months differs significantly from the previous pattern. While in previous years the price change in the summer months was less typical, this year the share of products and services with higher price increases increased significantly (Chart 4). As a result of the lifting of restrictions, demand surged in some sub-markets and, for some products, there was a temporary limited availability due to the gradual recovery of production chains. Compared to July, further re-pricing was already observed to a lesser extent in August (Chart 3).

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

Annual inflation of *industrial goods* remained broadly unchanged in August. Within this product group, price indices of both durables and non-durables were close to the previous month's level.

*Market services prices* rose by 0.3 percent relative to the previous month (Chart 6). Services inflation was unchanged relative to July 2020.

Annual inflation of *food* prices remained unchanged on the previous month. Within this product group, the price index for unprocessed food fell, while inflation of processed food increased due to the combined rise in the prices of several products.

Prices of *regulated goods* remained broadly unchanged relative to July.

*Fuel prices* fell slightly relative to the previous month due to a decline in world oil prices over the recent period.

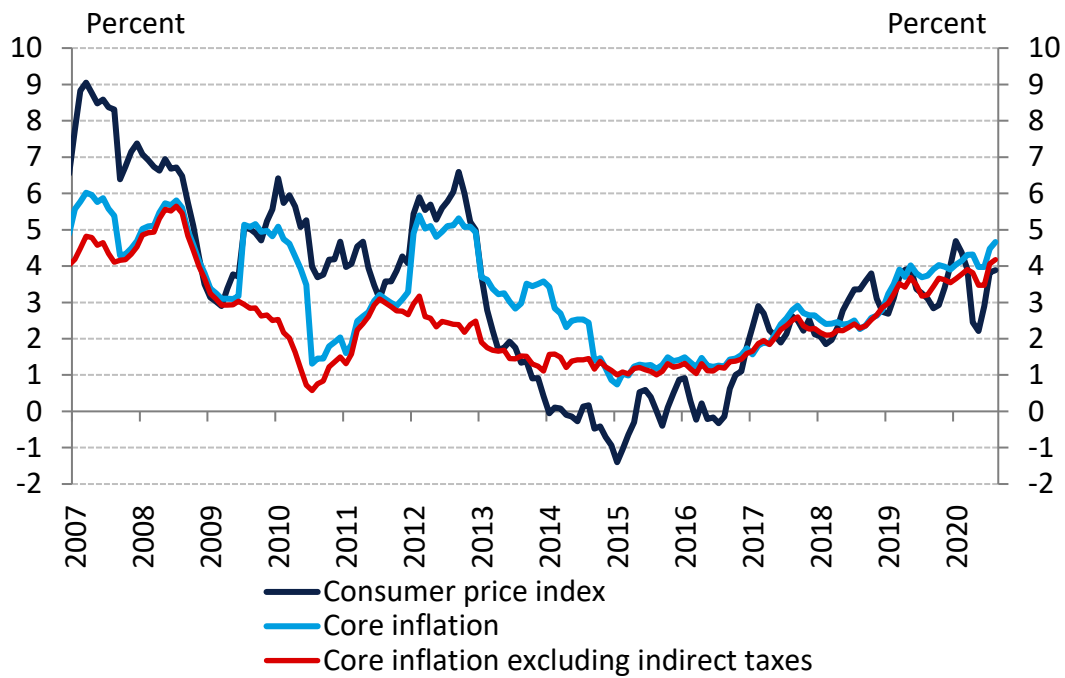
*Tobacco prices* have risen as a result of the further pass-through of the excise duty increase in July. The tax effect raised tobacco product prices by 7 percentage points.

The assessment of *household inflation expectations*, similarly to the consumer price index, is characterized by greater uncertainty than usual. The indicator was close to the July level in August (Chart 7).

Prepared by Judit Várhegyi

Budapest, 9 September 2020

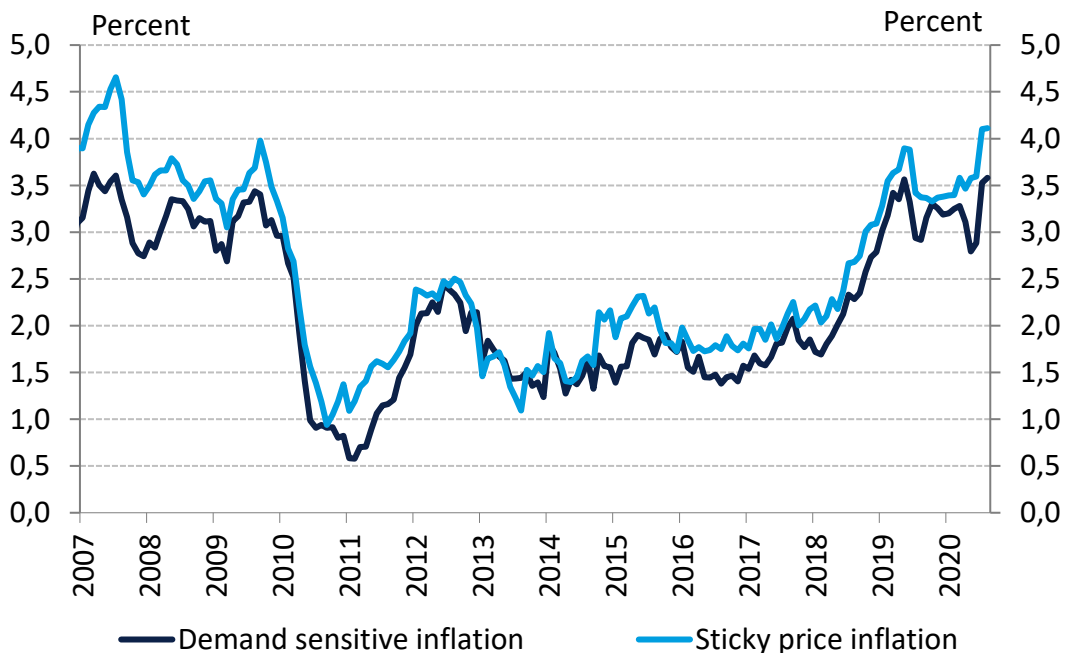
**Chart 1 Consumer price index, core inflation and core inflation excluding indirect taxes**  
(annual percentage changes, January 2007 – August 2020)



Note: Seasonally unadjusted core inflation.

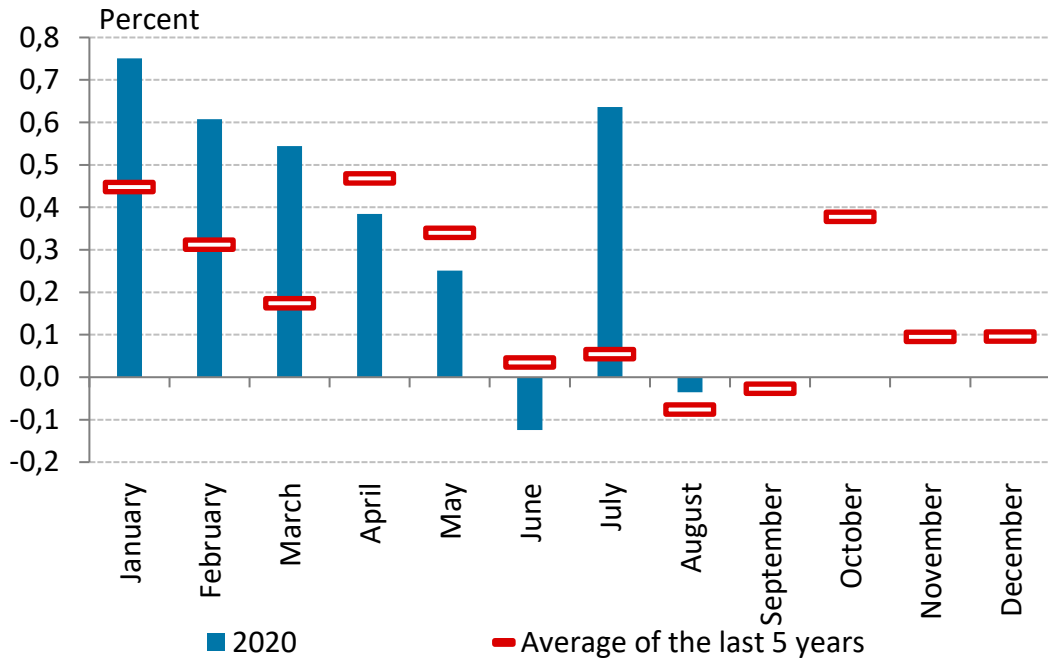
**Chart 2 Underlying inflation indicators**

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

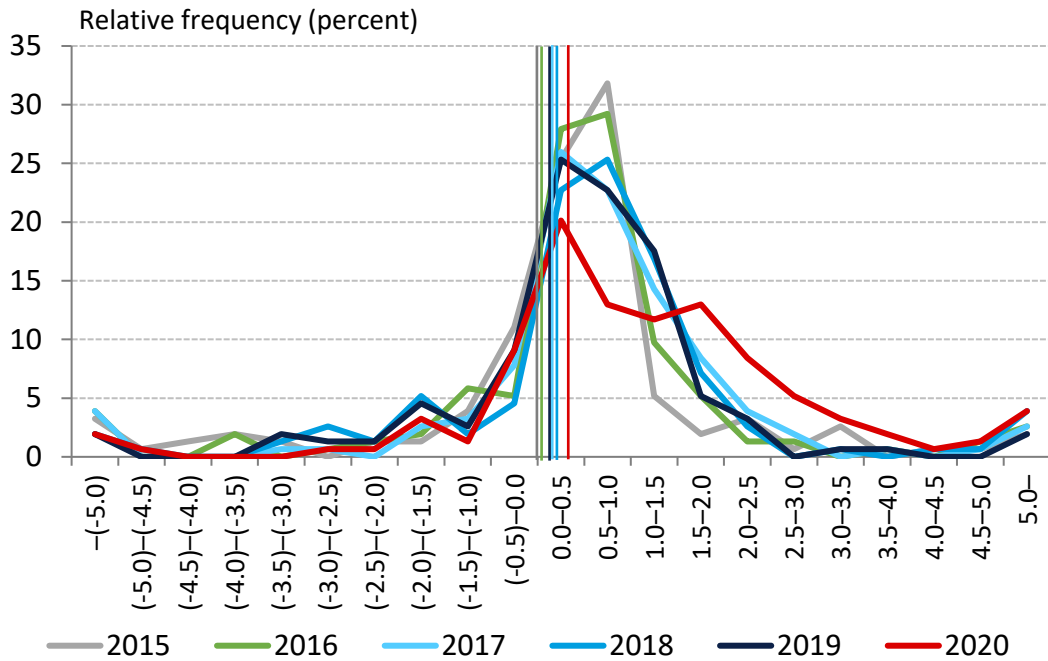


Note: Demand-sensitive inflation is derived by eliminating processed food prices from core inflation. Inflation of sticky-price products is composed of items of the consumer price index where maximum 15 per cent of elementary prices change monthly on average. MNB calculation based on data released by the HCSO.

**Chart 3 Monthly price changes of consumer prices excluding fuel prices**  
(tax-adjusted, seasonally unadjusted monthly change)



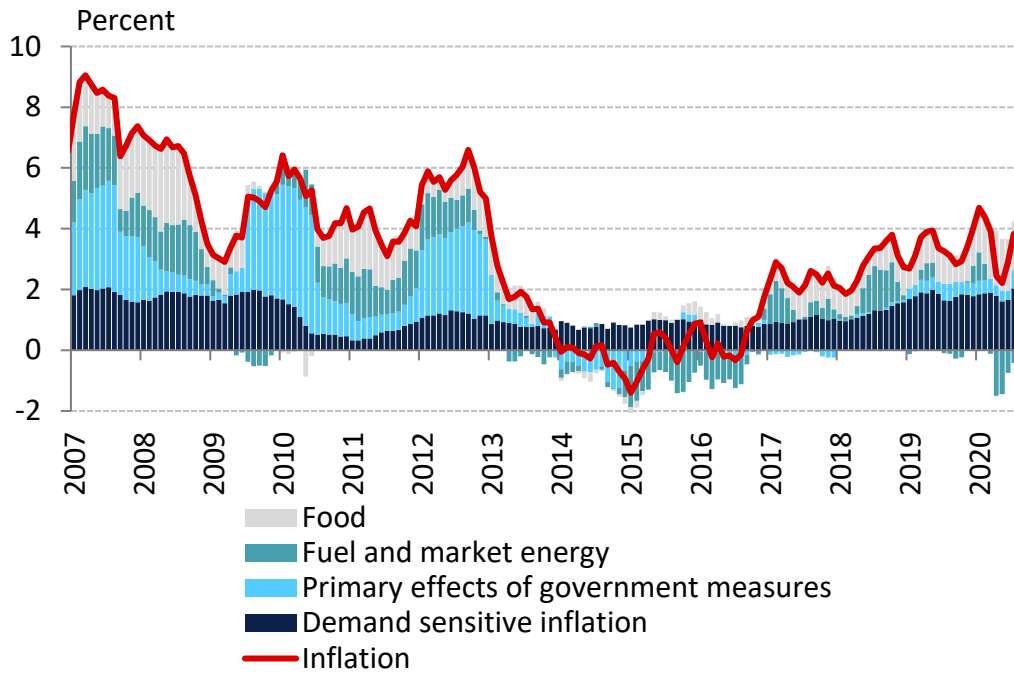
**Chart 4 Distribution of price changes of inflation items**  
(tax-adjusted, seasonally unadjusted change, July-August 2020)



Note: The vertical lines indicate the median value for each year.

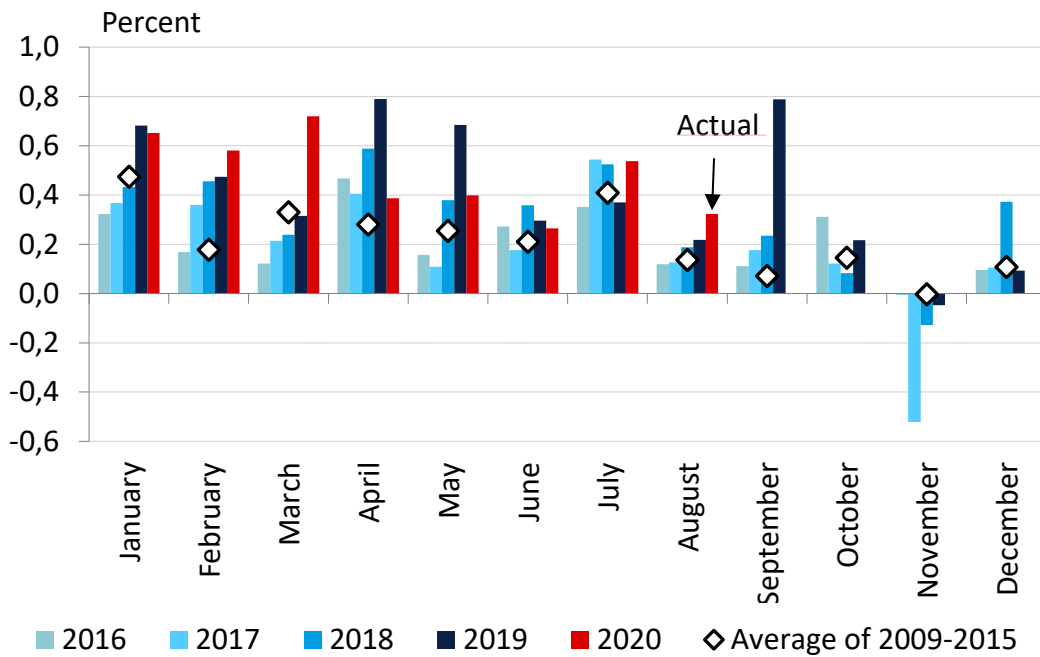
**Chart 5 Inflation decomposition**

(annual percentage changes, January 2007 – August 2020)

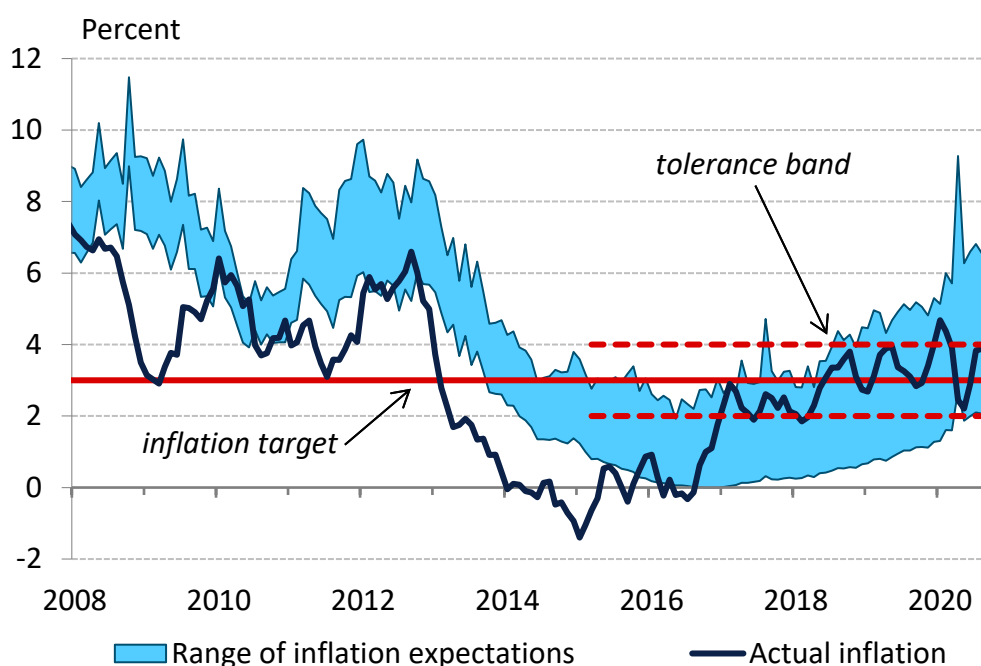


**Chart 6 Market services inflation**

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



**Chart 7 Households' inflation expectations**  
(January 2005 – August 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, August 2020 (HCSO)					
3.9% (annual change)					
MNB underlying inflation indicators (MNB calculation)					
<b>Contribution of sticky price inflation (percentage points), weight 34.8%</b>	<b>1.3</b>	<b>Contribution of demand sensitive inflation (percentage points), weight 57.7%</b>	<b>2.0</b>	<b>Contribution of core inflation excluding taxes (percentage points), weight 70.6%</b>	<b>2.9</b>
Contribution of other items (percentage points), weight 65.2%	2.6	Contribution of other items (percentage points), weight 42.3%	1.9	Contribution of other items (percentage points), weight 29.4%	1.0

Sources: HCSO and the MNB's own calculations.

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