



MONTHLY ANALYSIS OF INFLATION DEVELOPMENTS

JULY

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

ASSESSMENT OF INFLATION DATA FOR JULY 2020

The first months of the economic recovery were characterized by higher-than-usual uncertainty and volatility in pricing decisions, the effects of which were also reflected in the inflation data of July. There are several statistical and economical factors behind this. On the one hand, the HCSO already carried out a wider price write-up in July compared to the months better affected by the epidemic. On the other hand, the gradual lifting of restrictions has led to a concentrated surge in demand in some sub-markets, while for some products there has been a temporary limited availability due to the gradual recovery of production chains. The comparability of the data is surrounded by greater uncertainty during this transitional period.

In July 2020, annual *inflation* stood at 3.8 percent and core inflation at 4.5 percent. Core inflation adjusted for the effects of indirect taxes was 4.1 percent (Chart 1). Headline inflation rose by 0.9 percentage points and core inflation by 0.5 percentage points on the previous month. The rise in inflation mainly reflected an increase in the price index for fuel. Higher industrial goods prices were a key factor contributing to the increase in core inflation.

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

In July 2020, price changes of items with greater sensitivity to cost changes, primarily fuel prices, had an upward effect on inflation, with the contribution of demand-sensitive products to inflation also increasing (Chart 3).

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

Annual inflation of *industrial goods* rose in July (Chart 4), mainly reflecting the price dynamics of passenger cars.

Annual inflation of *services* prices was broadly unchanged relative to the previous month. In the case of domestic holidays, a substantial price increase was observed (Charts 5 and 6).

Annual inflation of *food* prices remained mainly unchanged on the previous month.

Prices of *regulated goods* rose relative to June, mainly reflecting the termination of the free provision of parking in public spaces.

Fuel prices rose on the previous month, due to the recent sharp rises in world oil prices and the increase in excise duty on the product group effective from 1 July.

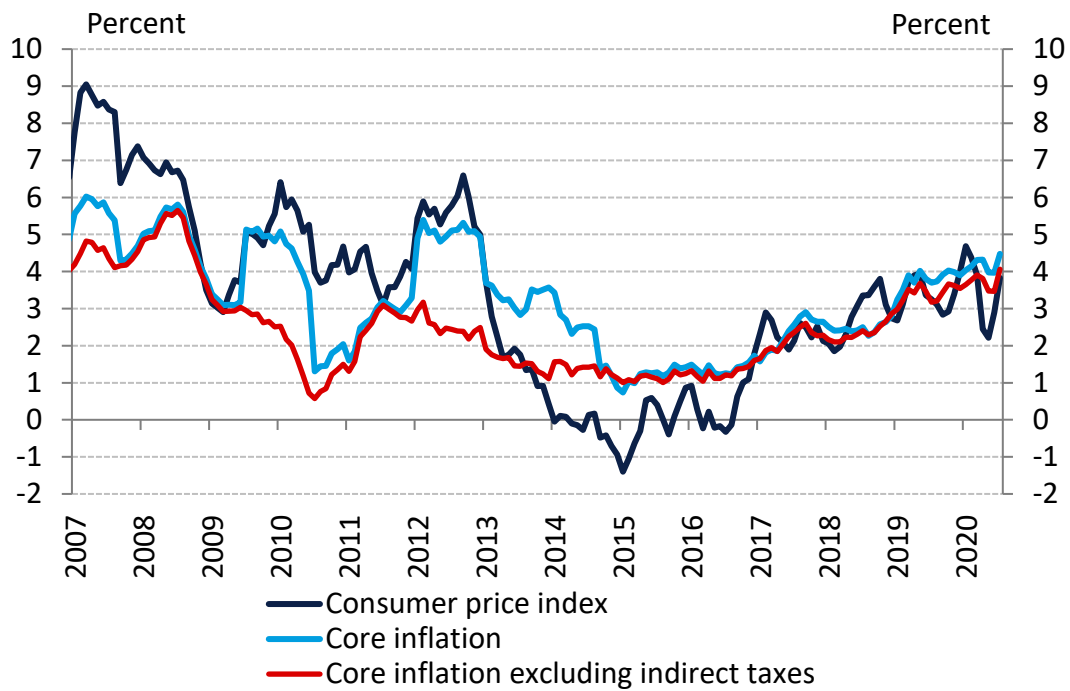
Tobacco prices rose as a result of the excise duty increase in July.

Households' inflation expectations were broadly unchanged in July, as previous months were characterized by higher volatility (Chart 7).

Prepared by Judit Várhegyi

Budapest, 11 August 2020

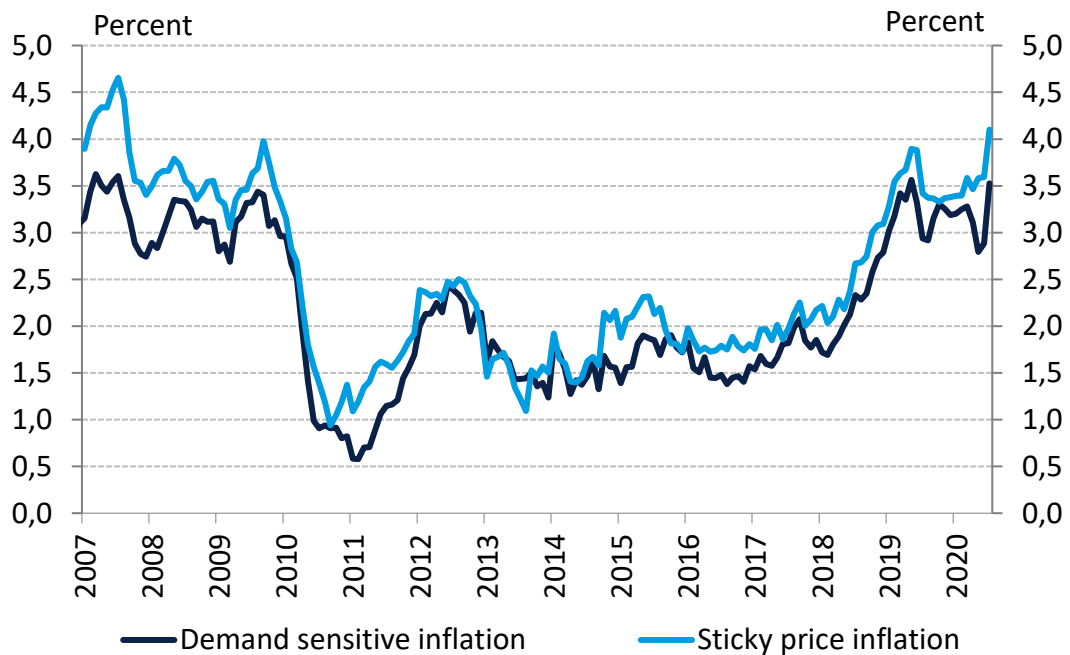
Chart 1 Consumer price index, core inflation and core inflation excluding indirect taxes
(annual percentage changes, January 2007 – July 2020)



Note: Seasonally unadjusted core inflation.

Chart 2 Underlying inflation indicators

(excluding indirect taxes, annual percentage changes, January 2007 – July 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 percent of elementary prices change monthly on average. MNB calculation based on data released by the HCSO.

Chart 2 Inflation decomposition

(annual percentage changes, January 2007 – July 2020)

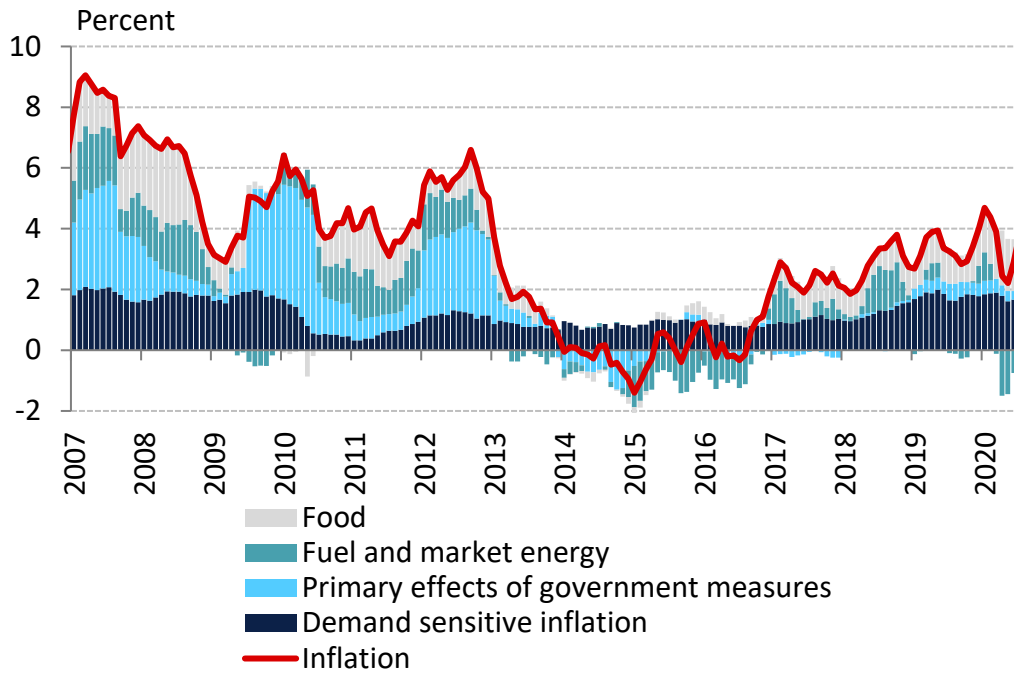


Chart 3 Inflation of tradable goods

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

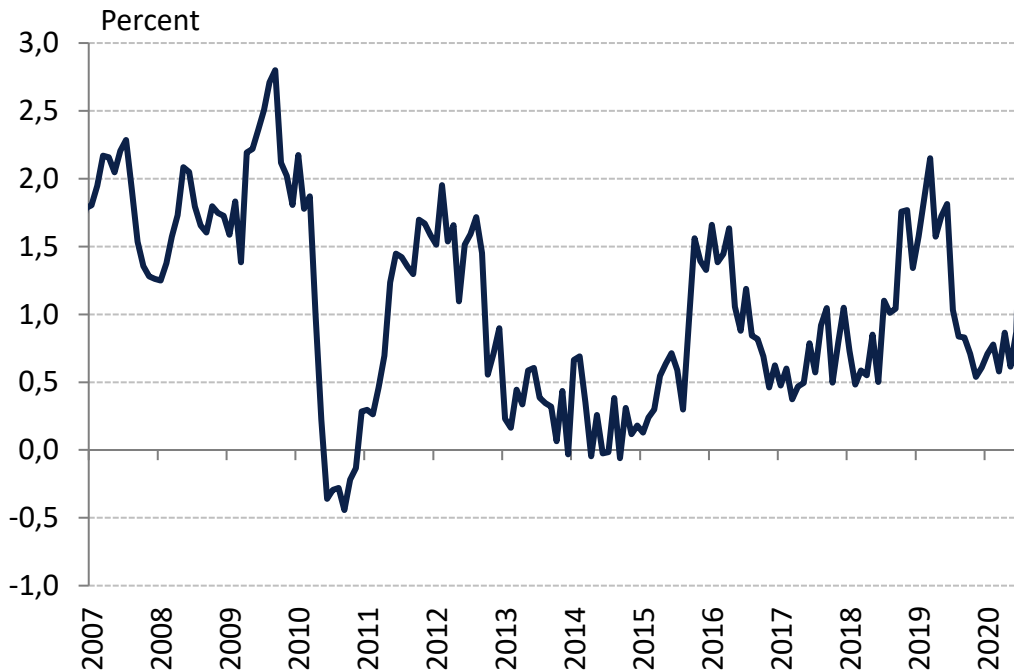


Chart 4 Market services inflation

(seasonally unadjusted, tax-adjusted monthly percentage changes, January 2015 – July 2020)

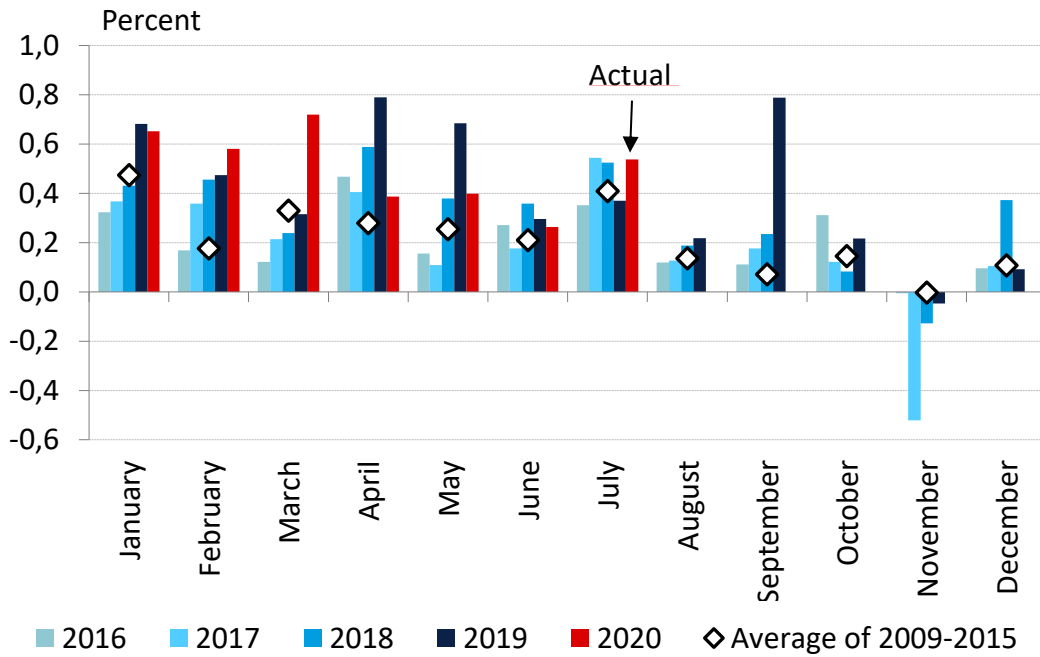
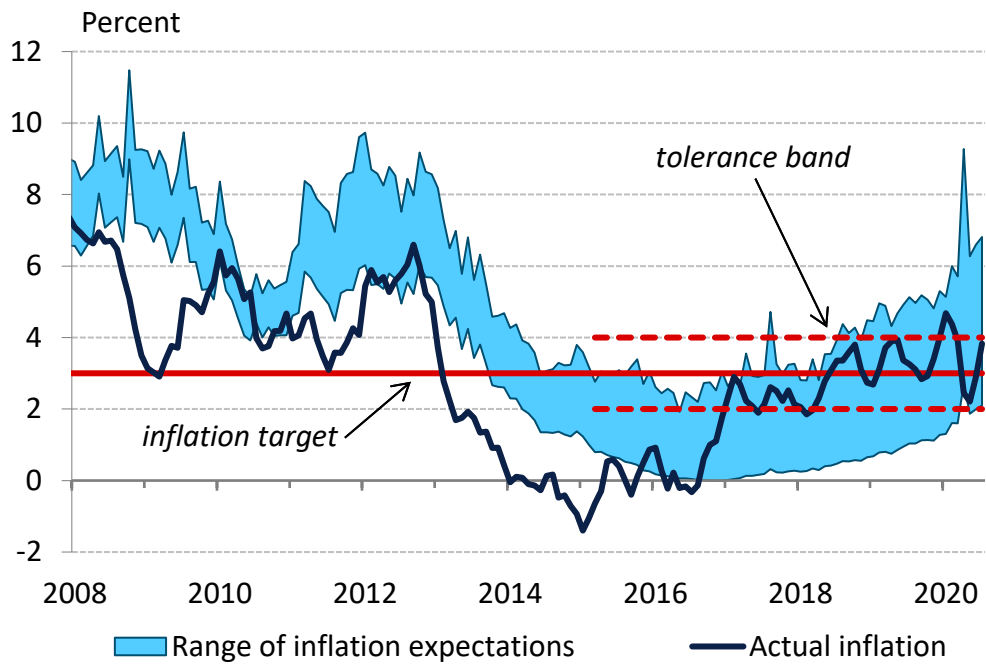


Chart 5 Market services inflation

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



Chart 6 Households' inflation expectations
(January 2005 – July 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, July 2020 (HCSO)					
3.8% (annual change)					
MNB underlying inflation indicators (MNB calculation)					
Contribution of sticky price inflation (percentage points), weight 34.8%	1.3	Contribution of demand sensitive inflation (percentage points), weight 57.7%	1.9	Contribution of core inflation excluding taxes (percentage points), weight 70.6%	2.8
Contribution of other items (percentage points), weight 65.2%	2.5	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.