



MONTHLY ANALYSIS OF INFLATION DEVELOPMENTS

JUNE

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 Gergely Baksay, Executive Director for economic analysis 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 JUNE 2020

In June 2020, annual *inflation* stood at 2.9 percent and core inflation at 4.0 percent. Core inflation adjusted for the effects of indirect taxes was 3.5 percent (Chart 1). Headline inflation rose by 0.7 percentage points and core inflation remained unchanged on the month. The rise in inflation mainly reflected an increase in the price index for fuel, due in part to base effects.

Of the Bank's measures of underlying inflation developments capturing persistent inflationary trends, the price indices for demand-sensitive products and that of sticky-price products and services were broadly unchanged relative to the previous month (Chart 2).

In June 2020, items with greater sensitivity to cost changes, i.e. primarily fuel, had an upward effect on inflation (Chart 3).

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

Annual inflation of *industrial goods* remained stable below 1 percent (Chart 4). Within this product group, inflation of *durables* rose modestly, while inflation of *non-durables* remained unchanged on the previous month.

In June 2020, *services* prices were 0.3 percent higher than in the previous month. This moderate monthly price growth, similar to that a year earlier, was characteristic across a wide range of services (Charts 5 and 6). Overall, inflation of market services fell from 4.8 percent in May to 4.7 percent in June.

Seasonally and tax-adjusted *processed food* prices showed moderate price dynamics relative to the previous month.

Seasonally and tax-adjusted *unprocessed food* prices were largely unchanged.

Prices of *regulated goods* fell slightly relative to May.

Consistent with recent sharp increases in world oil prices in recent months, *fuel prices* rose by 9.3 percent relative to the previous month. The base effect of last year's decrease in prices played a role in the rise to the previous month in the annual price index (-11.6 percent).

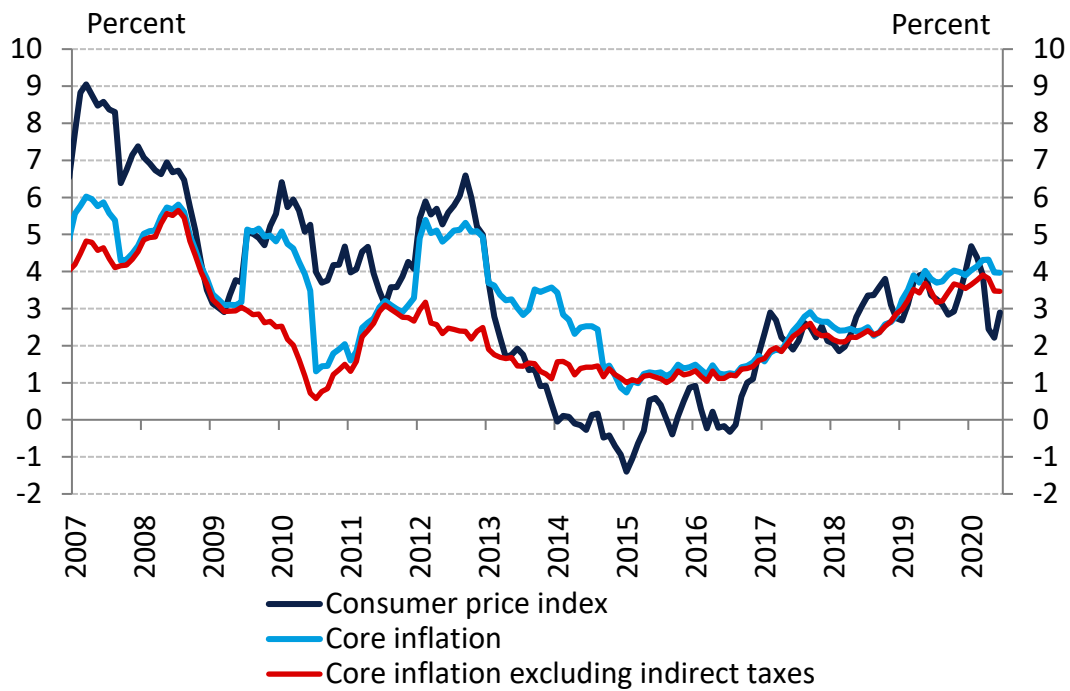
Households' inflation expectations have been strongly volatile in recent months. Following the correction in May, households' inflation expectations were broadly unchanged in June (Chart 7).

Data on households' inflation expectations are based on a survey conducted by the European Commission. It is important to note 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 multiplies all over the world, yielding unprecedented results. Therefore, we believe, that current data are not comparable to those 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 more often purchase. Food, required to meet daily necessities, plays a significant role in this. The resulting distortion 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. Taking all this into account, households' inflation expectations continue to be anchored.

Prepared by Judit Várhegyi

Budapest, 8 July 2020

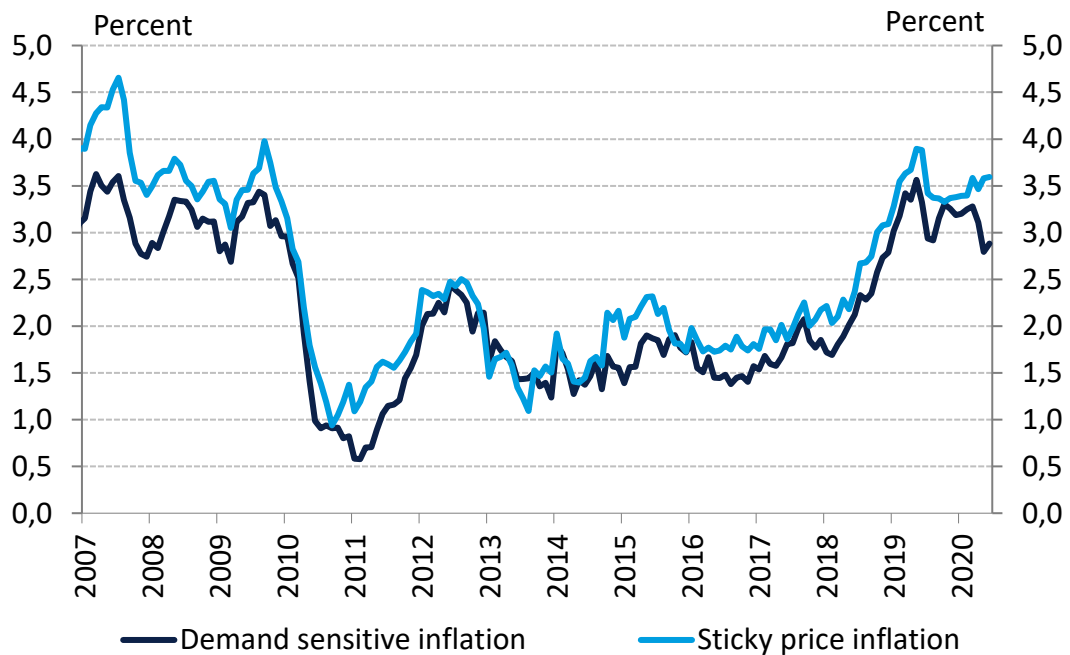
Chart 1 Consumer price index, core inflation and core inflation excluding indirect taxes
(annual percentage changes, January 2007 – June 2020)



Note: Seasonally unadjusted core inflation.

Chart 2 Underlying inflation indicators

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

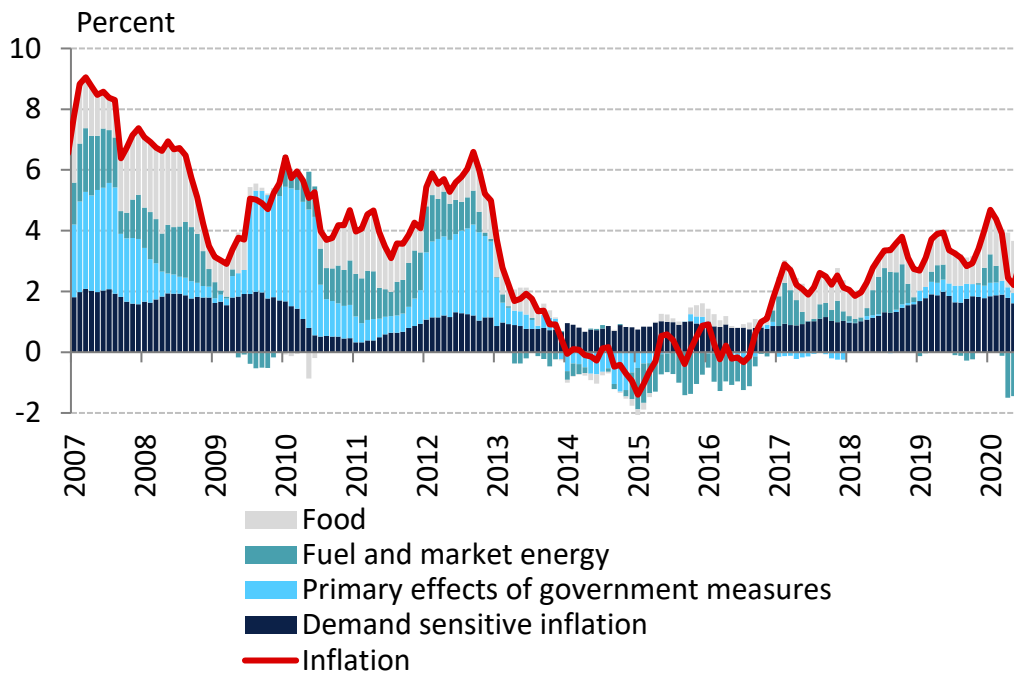


Chart 3 Inflation of tradable goods

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

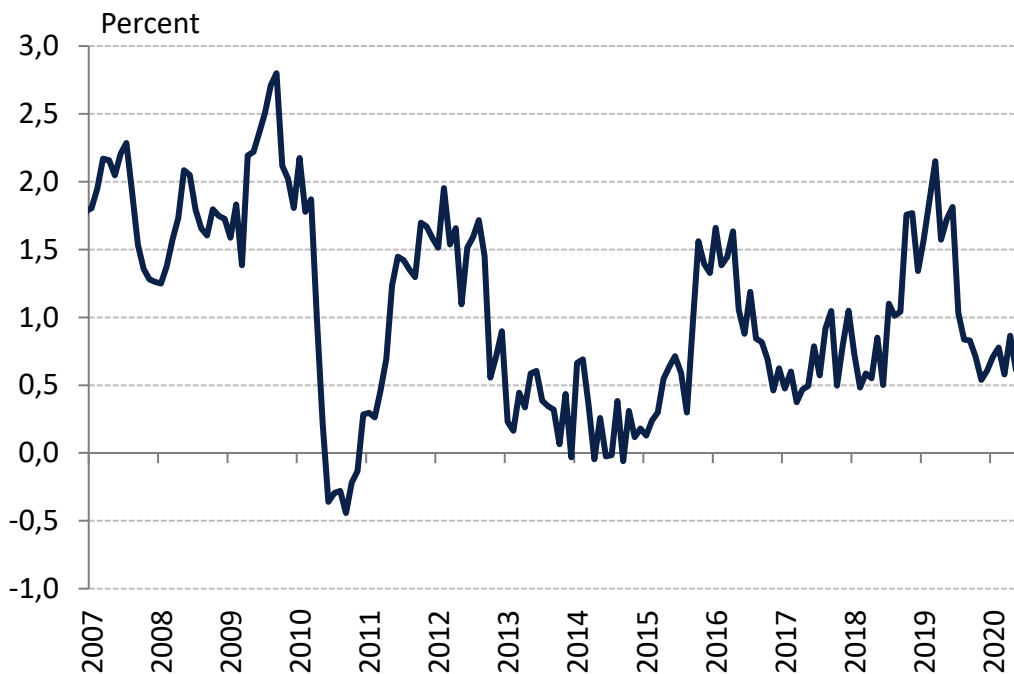


Chart 4 Market services inflation

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

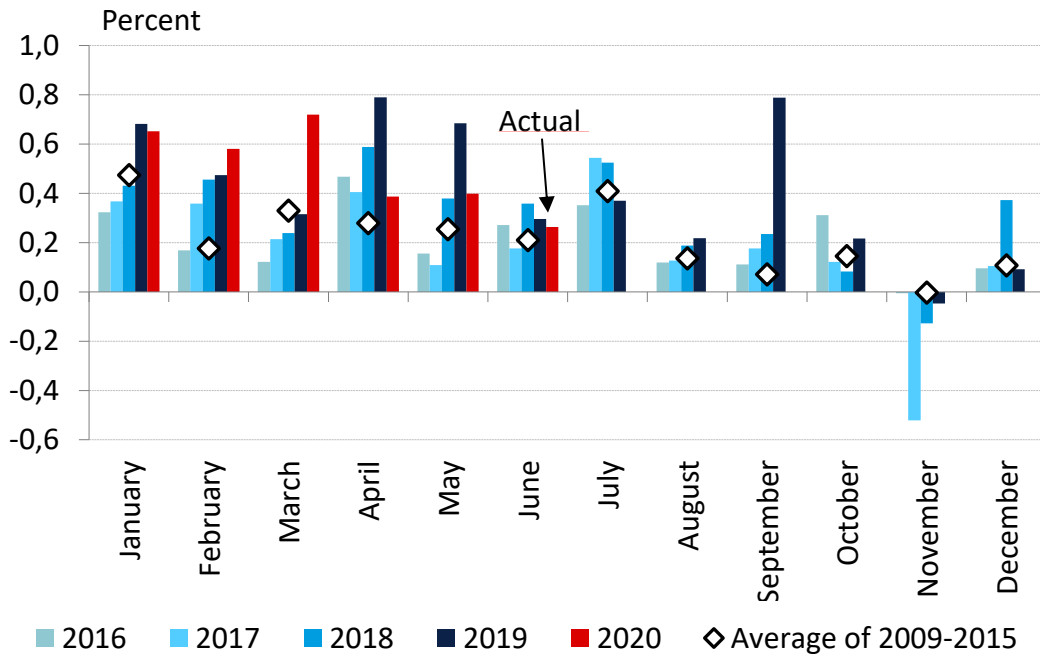
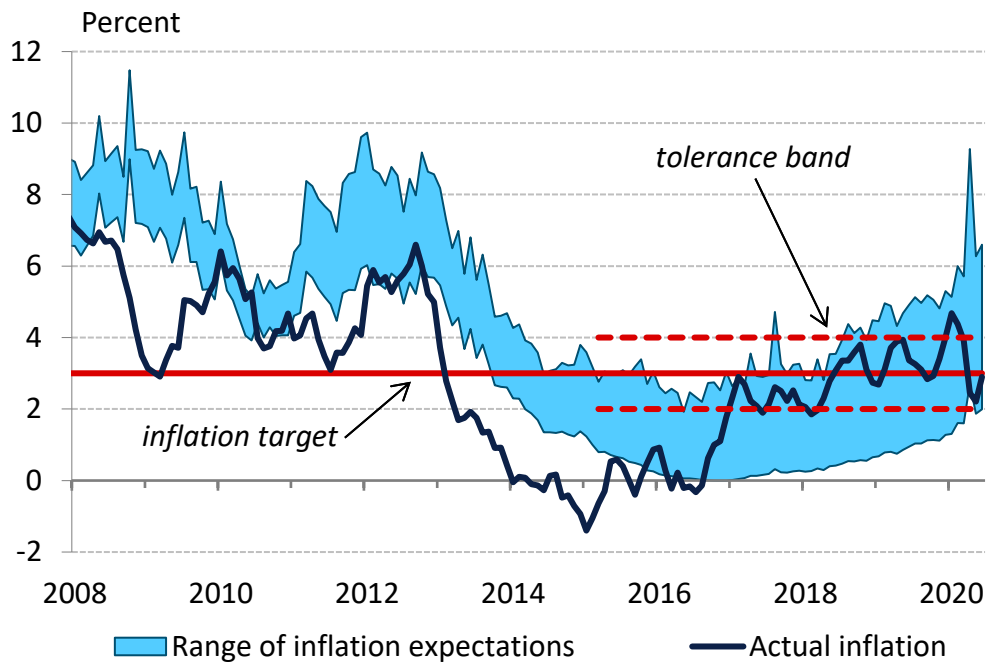


Chart 5 Market services inflation

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



Chart 6 Households' inflation expectations
(January 2005 – June 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, June 2020 (HCSO)					
2.9% (annual change)					
MNB underlying inflation indicators (MNB calculation)					
Contribution of sticky price inflation (percentage points), weight 34.8%	1.2	Contribution of demand sensitive inflation (percentage points), weight 57.7%	1.6	Contribution of core inflation excluding taxes (percentage points), weight 70.6%	2.4
Contribution of other items (percentage points), weight 65.2%	1.7	Contribution of other items (percentage points), weight 42.3%	1.3	Contribution of other items (percentage points), weight 29.4%	0.5

Sources: HCSO and the MNB's own calculations.

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