



MONTHLY ANALYSIS OF INFLATION DEVELOPMENTS

MAY

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

ASSESSMENT OF INFLATION DATA FOR MAY 2020

In May 2020, annual *inflation* stood at 2.2 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 fell by 0.2 percentage points and core inflation 0.3 percentage points on the previous month. The decline in inflation reflected the moderate increase in market services and industrial product prices.

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

In May 2020, price changes of items with greater sensitivity to cost changes, primarily fuel prices, had a downward effect on inflation, with the contribution of demand-sensitive products also falling 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 fell on the previous month, with the price index remaining below 1 percent (Chart 4). Within this product group, inflation of *durables* rose, mainly reflecting increases in the prices of new passenger cars. By contrast, inflation of *non-durables* fell relative to April, due to a significant decline in air fares.

In May 2020, *services* prices were 0.4 percent higher than in the previous month. This monthly price growth, more subdued than in the previous year, was characteristic across a wide range of services (Charts 5 and 6). Overall, inflation of market services fell relative to April.

Seasonally and tax-adjusted *processed food* prices rose modestly relative to the previous month, primarily due to increases in milk and dairy product prices.

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

Prices of regulated goods were unchanged relative to April.

Consistent with recent increases in world oil prices in recent months, *fuel prices* rose by 3.9 percent relative to the previous month. The base effect of last year's rises in prices played a role in the fall in the annual price index (-22.0 percent).

Households' inflation expectations have been significantly volatile in recent months. In May, we could observe a correction in the data (Chart 7).

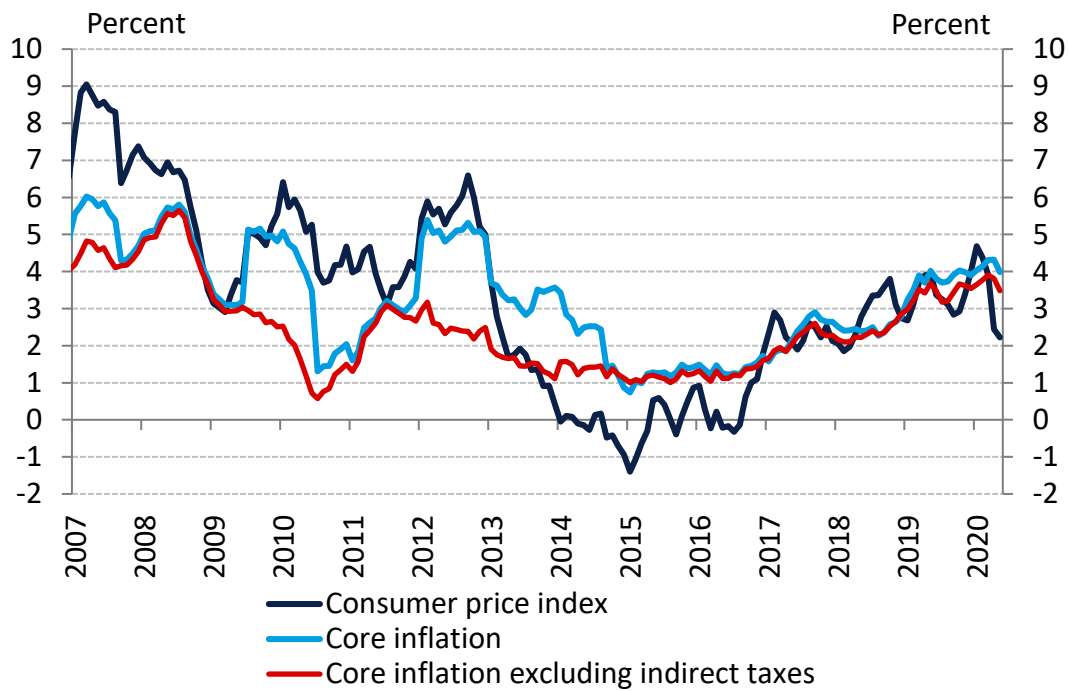
Data on households' inflation expectations are based on a survey conducted by the European Commission. This time, it is also important to emphasize that surveys of this kind contain significantly less information in times of crises and as a result of this, all measures calculated using that data show 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. Consistent with this, households' inflation expectations continue to be anchored.

Prepared by Judit Várhegyi

Budapest, 9 June 2020

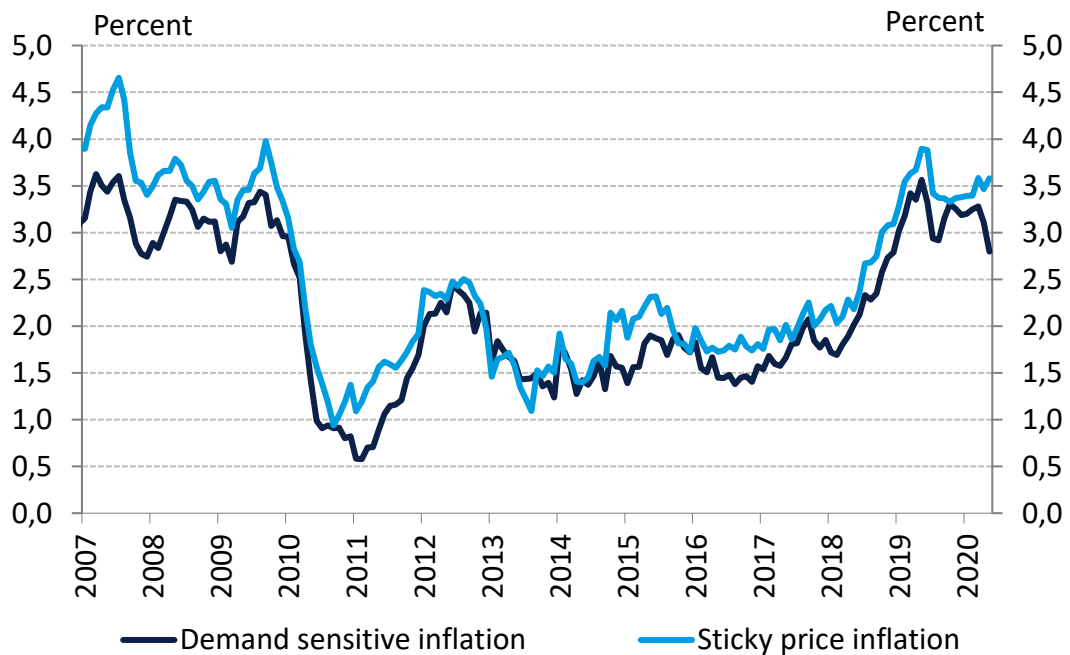
Chart 1 Consumer price index, core inflation and core inflation excluding indirect taxes
(annual percentage changes, January 2007 – May 2020)



Note: Seasonally unadjusted core inflation.

Chart 2 Underlying inflation indicators

(excluding indirect taxes, annual percentage changes, January 2007 – May 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 2 Inflation decomposition

(annual percentage changes, January 2007 – May 2020)

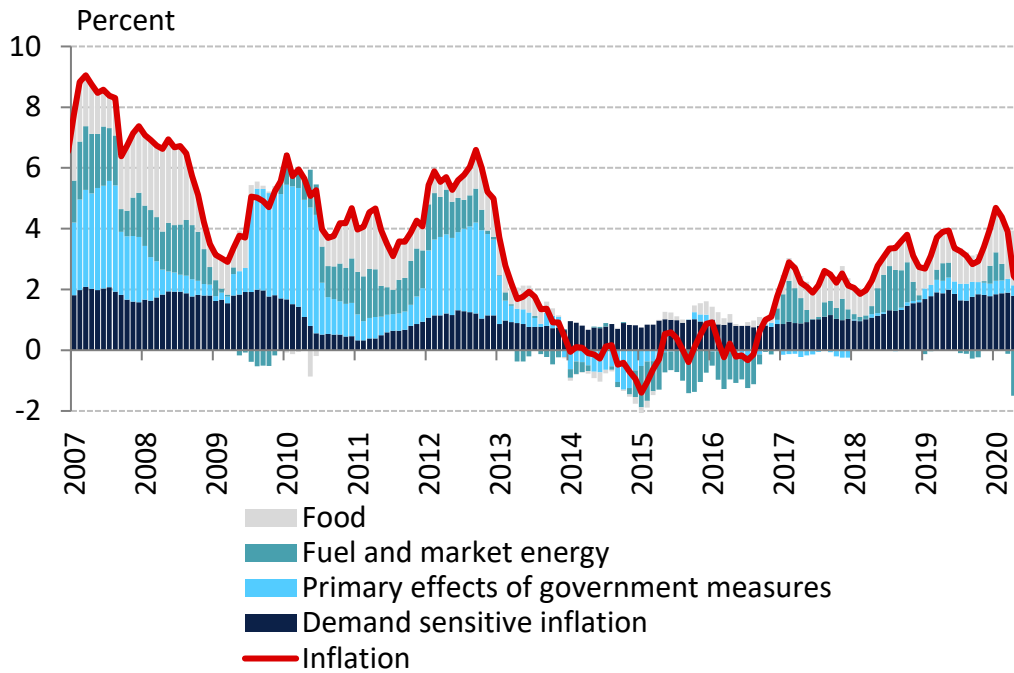


Chart 3 Inflation of tradable goods

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

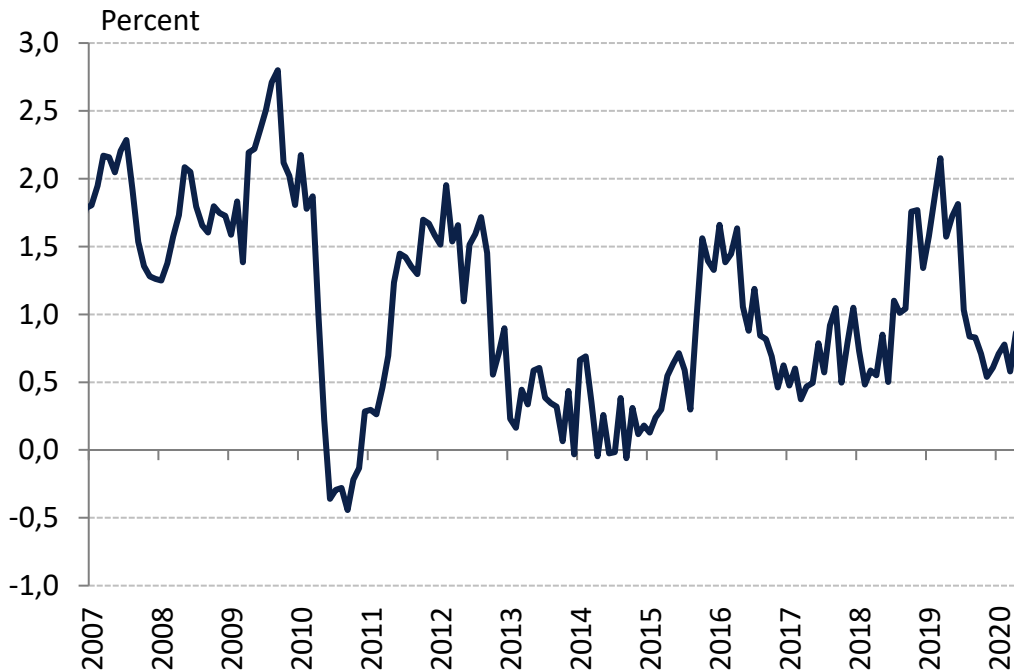


Chart 4 Market services inflation

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

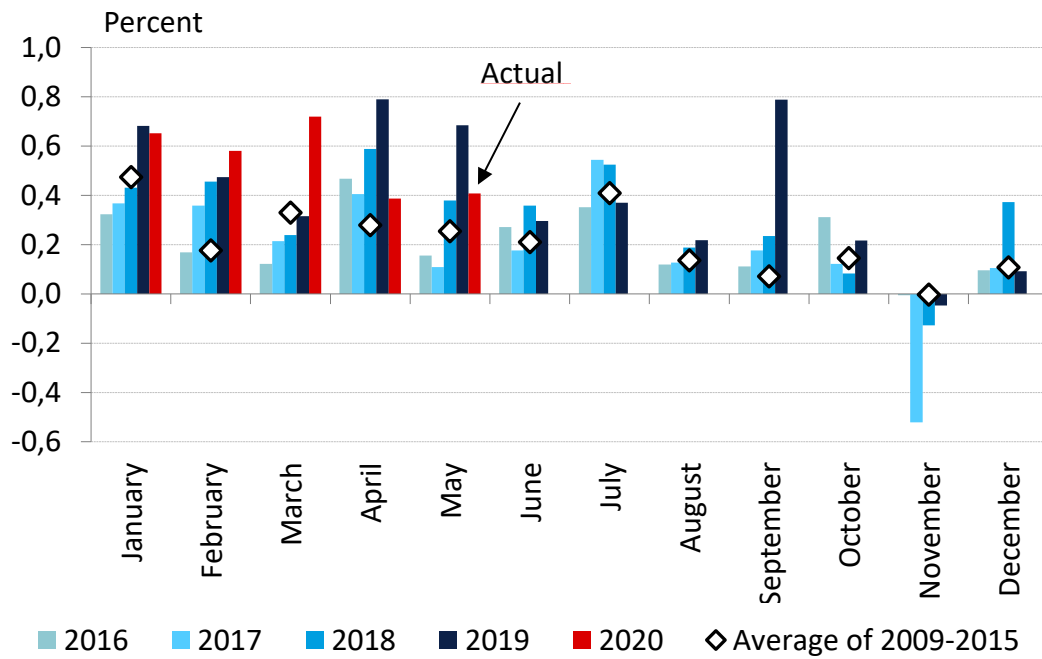
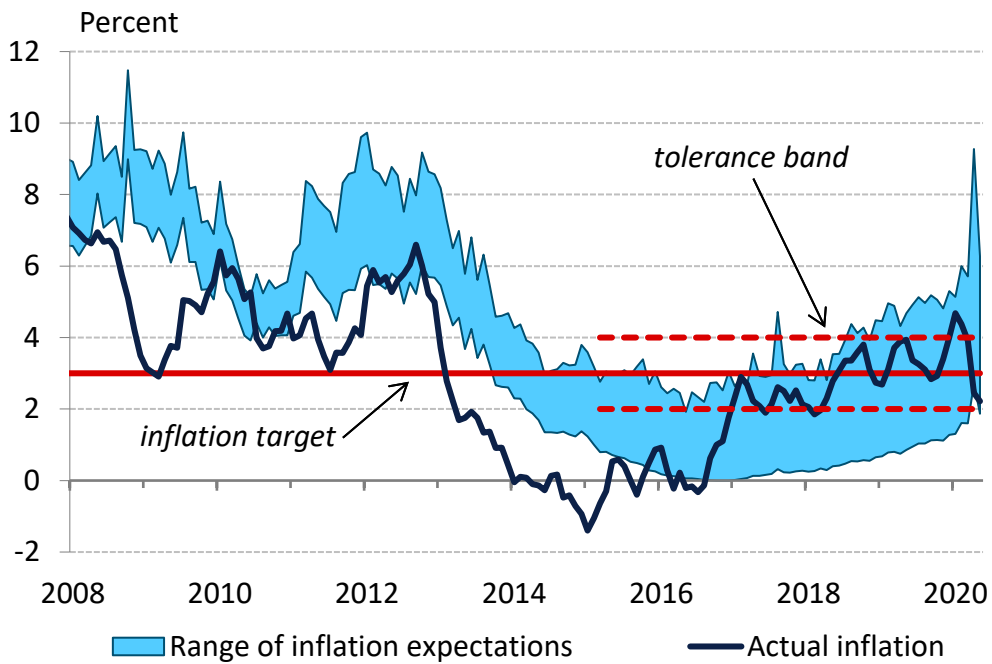


Chart 5 Market services inflation

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



Chart 6 Households' inflation expectations
(January 2005 – May 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, May 2020 (HCSO)					
2.2% (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%	1.5	Contribution of core inflation excluding taxes (percentage points), weight 70.6%	2.4
Contribution of other items (percentage points), weight 65.2%	1.1	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.