



MONTHLY ANALYSIS OF INFLATION DEVELOPMENTS

MARCH

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 MARCH 2020

In March 2020, annual inflation stood at 3.9 percent and core inflation at 4.3 percent. Core inflation adjusted for the effects of indirect taxes was 3.9 percent (Chart 1). The decline in inflation reflected the fall in fuel prices, and the rise in core inflation was attributable to an increase in individual processed food and market services prices.

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) rose slightly relative to the previous month (Chart 2).

In March 2020, items with greater sensitivity to cost changes, i.e. food and 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 fell on the previous month, with the price index remaining 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 decreased relative to February, due to the fall in volatile air fares.

In March 2020, services prices rose by 0.7 percent on the previous month (Chart 5). The monthly growth in the prices of market services, exceeding the rate seen in recent years, can be linked to some well-identifiable items. The price rise was mainly caused by the change in the mobile phones and Internet charges, as well as the change in the prices of financial services (Charts 5 and 6).

Seasonally and tax-adjusted processed food prices continued to rise in March. Price increases were seen across a broad range of products, in which the effects of a sudden surge in demand due to the coronavirus pandemic also played a role.

Seasonally and tax-adjusted unprocessed food prices continued to rise.

Prices of regulated products were largely unchanged relative to the previous month.

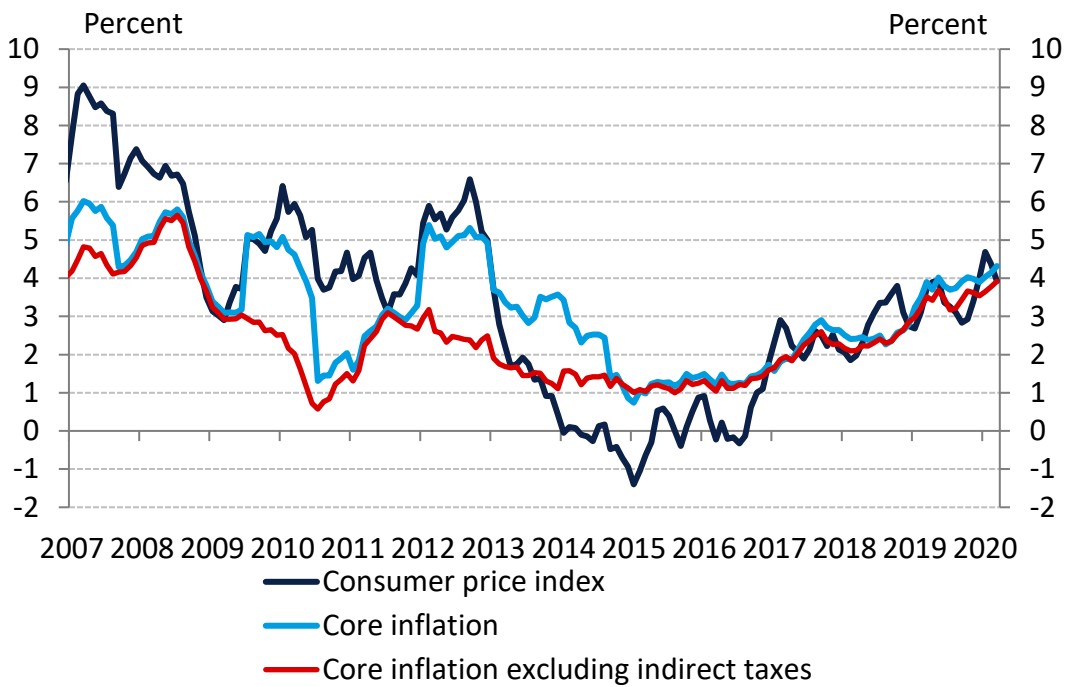
Fuel prices decreased by 5.3 percent relative to the previous month, in line with the significant fall in world oil prices seen in the recent period. The base effect of last year's price increase also contributed to the decline in the annual index.

Households' inflation expectations continued to be moderate in the month, at a level consistent with the 3 percent inflation target (Chart 7).

Prepared by Judit Várhegyi

Budapest, 8 April 2020

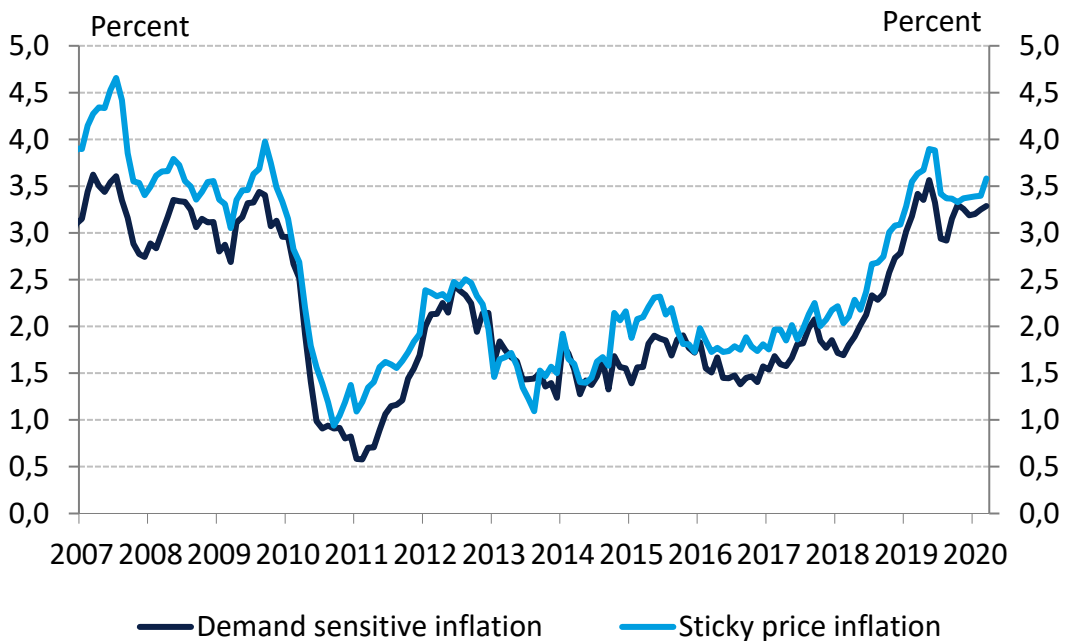
Chart 1 Consumer price index, core inflation and core inflation excluding indirect taxes
(annual percentage changes, January 2007 – March 2020)



Note: Seasonally unadjusted core inflation.

Chart 2 Underlying inflation indicators

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

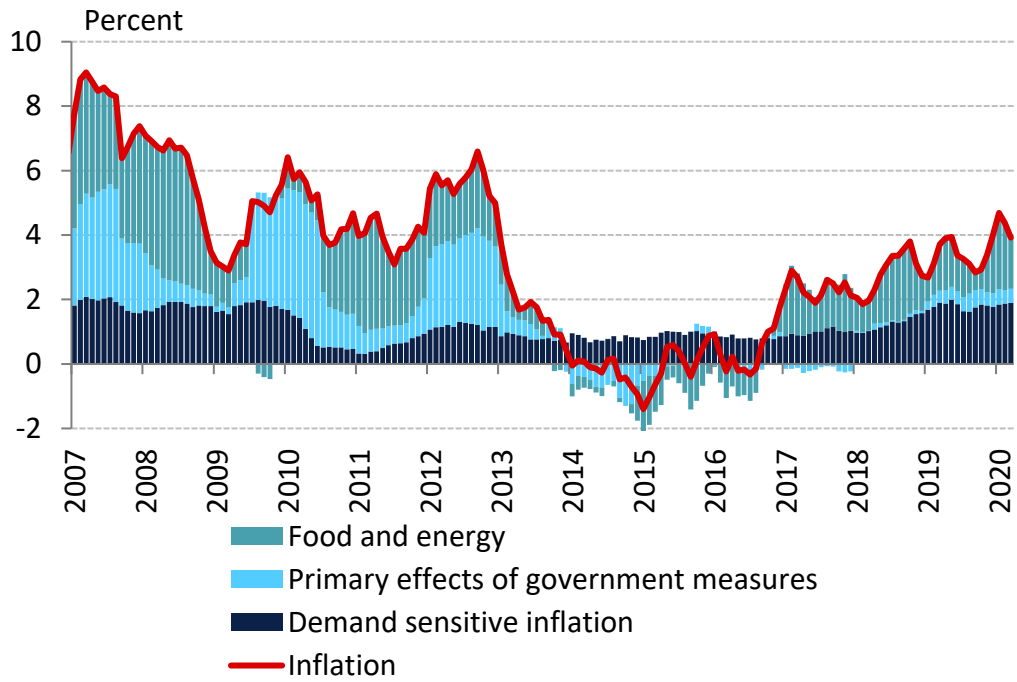


Chart 4 Inflation of tradable goods

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

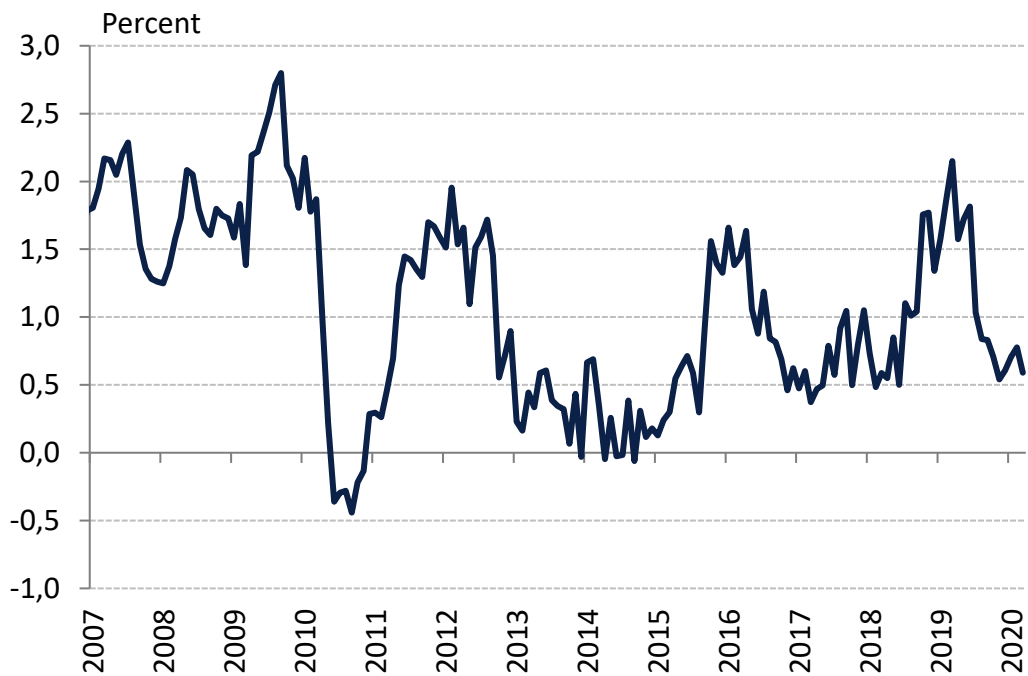


Chart 5 Market services inflation

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

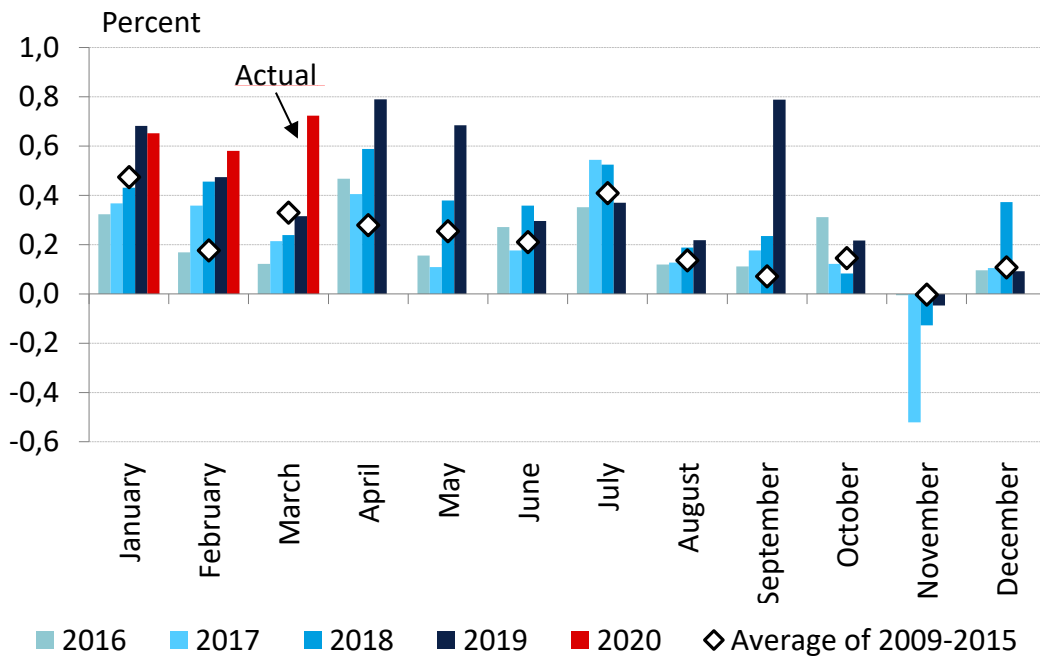
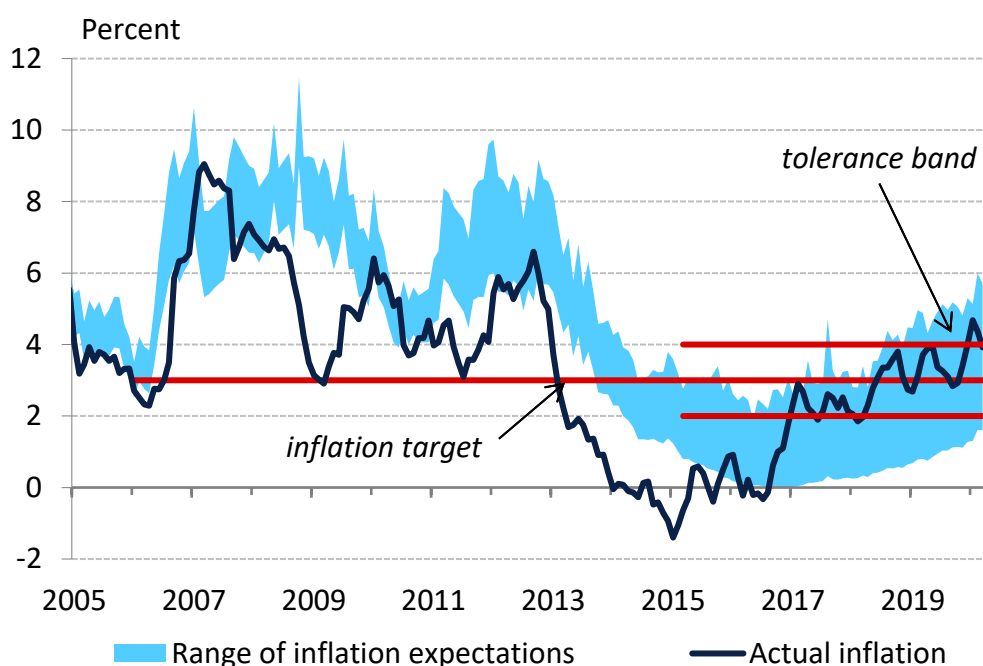


Chart 6 Market services inflation

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



Chart 7 Households' inflation expectations
(January 2005 – March 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, March 2020 (HCSO)					
3.9% (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%	1.8	Contribution of core inflation excluding taxes (percentage points), weight 70.6%	2.7
Contribution of other items (percentage points), weight 65.2%	2.8	Contribution of other items (percentage points), weight 42.3%	2.1	Contribution of other items (percentage points), weight 29.4%	1.2

Sources: HCSO and the MNB's own calculations.

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