



MONTHLY ANALYSIS OF INFLATION DEVELOPMENTS

OCTOBER

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 OCTOBER 2020

In October 2020, annual *inflation* stood at 3.0 percent and core inflation at 3.8 percent. Core inflation adjusted for the effects of indirect taxes was 3.2 percent (Chart 1). Relative to the previous month, inflation and core inflation declined by 0.4 percentage points and 0.2 percentage points, respectively, primarily reflecting the weaker growth in food and fuel prices.

The Bank's measures of underlying inflation developments capturing persistent inflationary trends, i.e. the price index for demand-sensitive products and the inflation of sticky-price products and services, decreased further in October (Chart 2).

In October 2020, items with greater sensitivity to cost changes, and the contribution of demand-sensitive products had a downward effect on inflation (Chart 4).

Pricing decisions have shown higher volatility and an unusual seasonal pattern in recent months due to the coronavirus pandemic. Following higher repricings in the summer months, we observed a strengthening of disinflationary effects from September. In line with this, the autumn months were generally characterized by lower price dynamics (Chart 3).

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

Annual inflation of *industrial goods* remained broadly unchanged in October. Within this product group durables price index rose relative to the previous month. Non-durables price index declined driven by a simultaneous fall in the prices of several products.

Services prices rose by 0.1 percent compared with the previous month (Chart 5). A lower monthly price growth, unseen in the average of recent years, was mainly due to a fall in the prices of mobile phones and Internet charges.

The inflation of *foods* decreased relative to the previous month. Within this product group, the price index for unprocessed food fell due to a decline in the prices of fresh fruits and potatoes and the decrease in the inflation of processed foods mainly reflected the changes in milk and dairy product prices.

Prices of *regulated products* were unchanged relative to September.

The annual price index of *fuel prices* declined relative to the previous month mainly due to the base effects of a rise in fuel prices in October 2019.

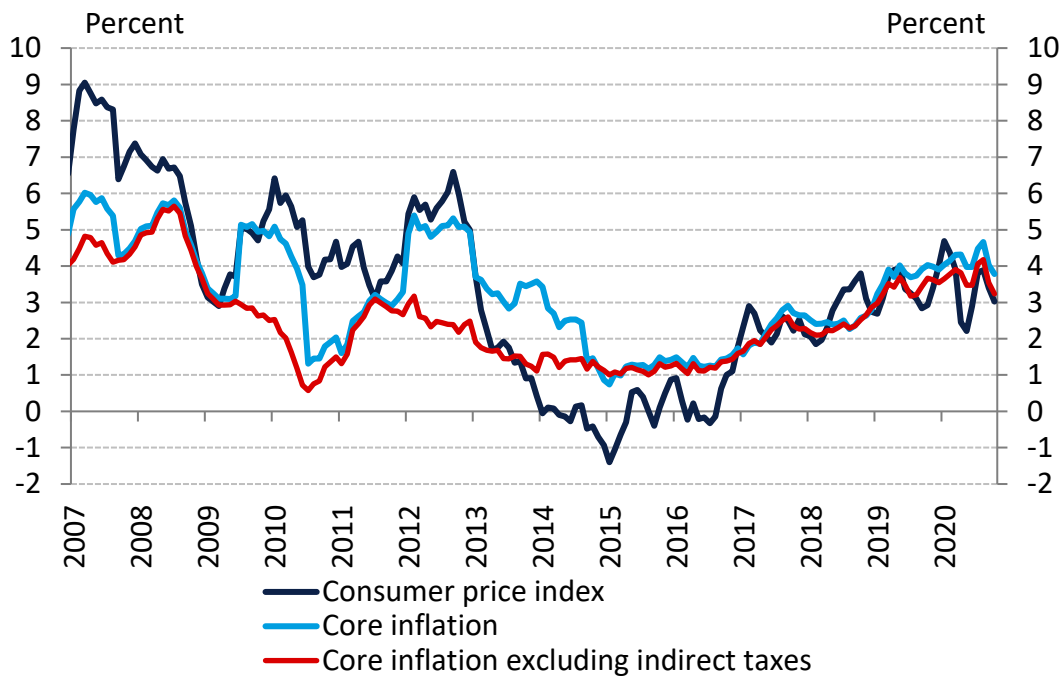
Tobacco prices rose by 1.6 percent relative to September.

Indicators measuring *households' inflation expectations*, similarly to the consumer price index, are characterized by higher-than-usual volatility. In October, the indicator was broadly unchanged relative to recent months (Chart 6).

Prepared by Judit Várhegyi

Budapest, 10 November 2020

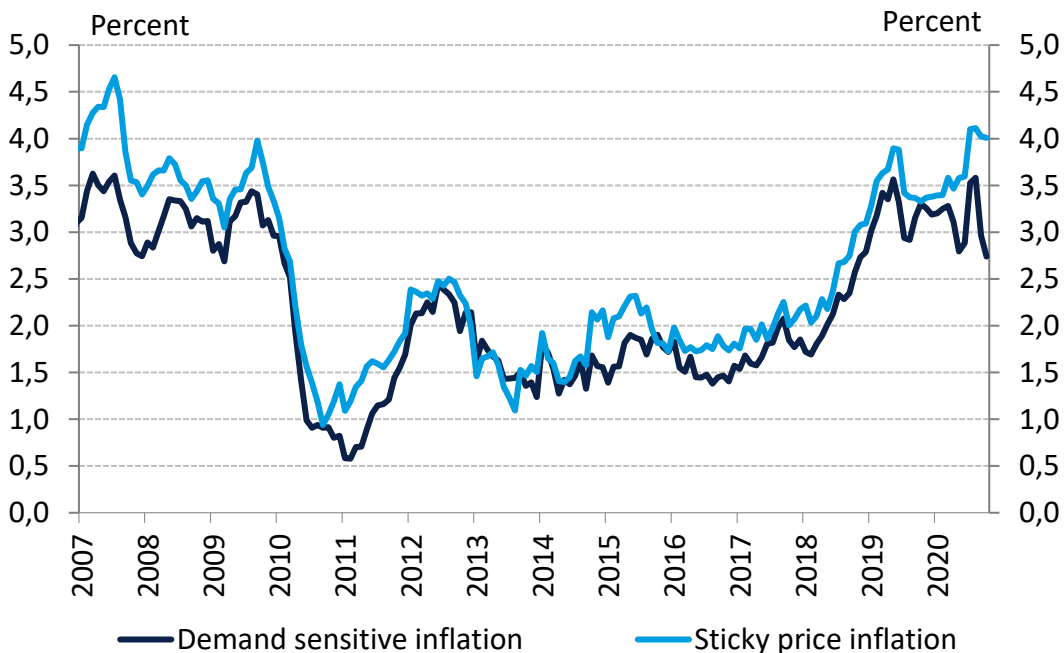
Chart 1 Consumer price index, core inflation and core inflation excluding indirect taxes
(annual percentage changes, January 2007 – October 2020)



Note: Seasonally unadjusted core inflation.

Chart 2 Underlying inflation indicators

(excluding indirect taxes, annual percentage changes, January 2007 – October 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 changes in consumer prices excluding fuel prices
(tax-adjusted, seasonally unadjusted monthly percentage changes)

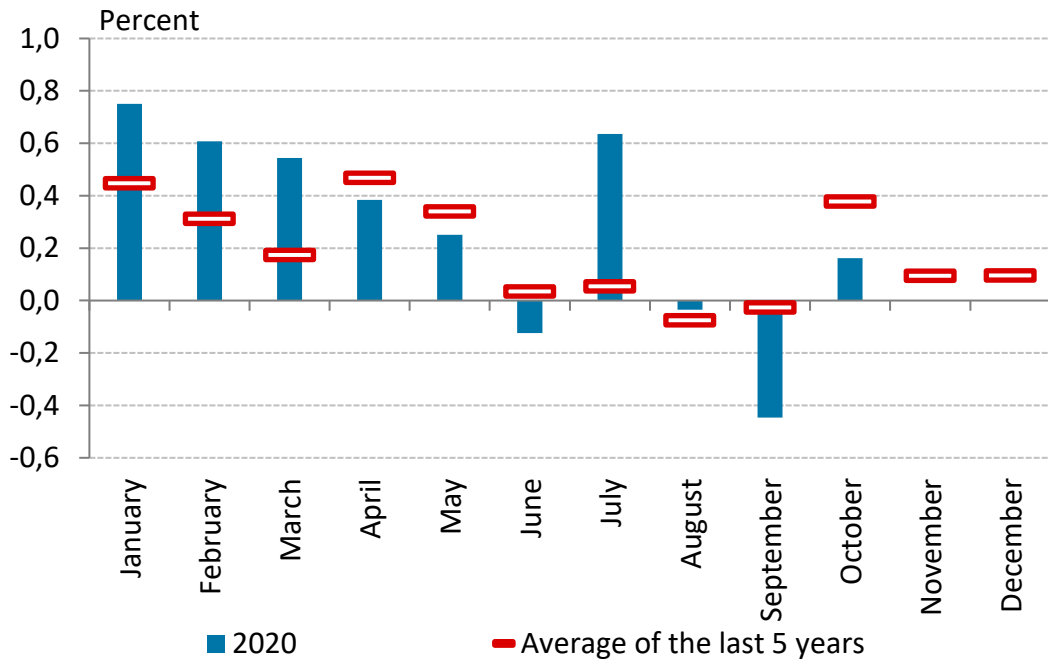


Chart 4 Inflation decomposition
(annual percentage changes, January 2007 – October 2020)

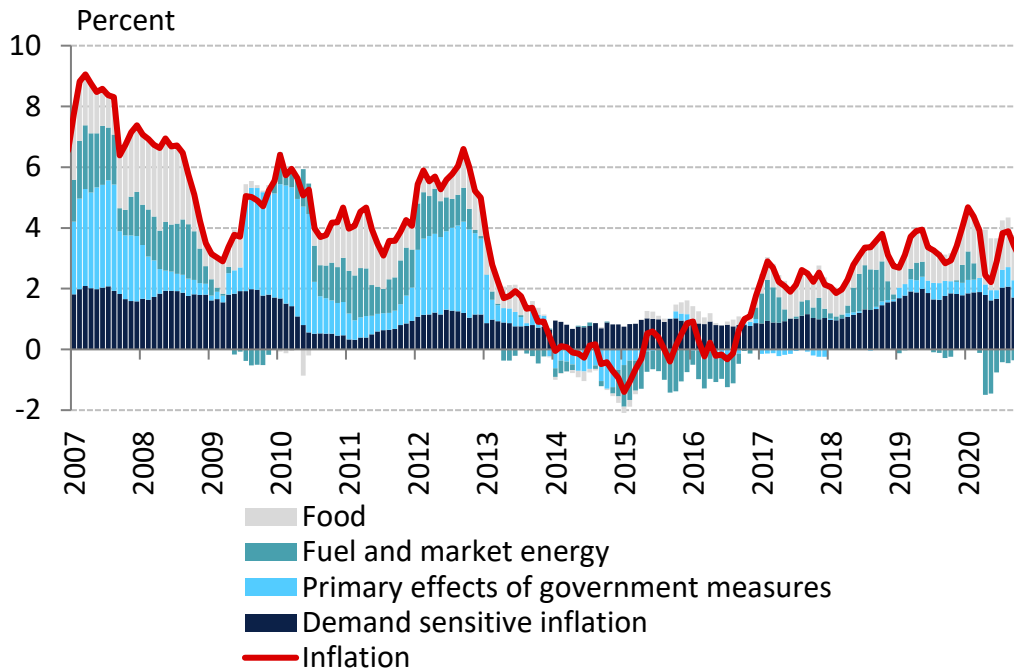


Chart 5 Market services inflation

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

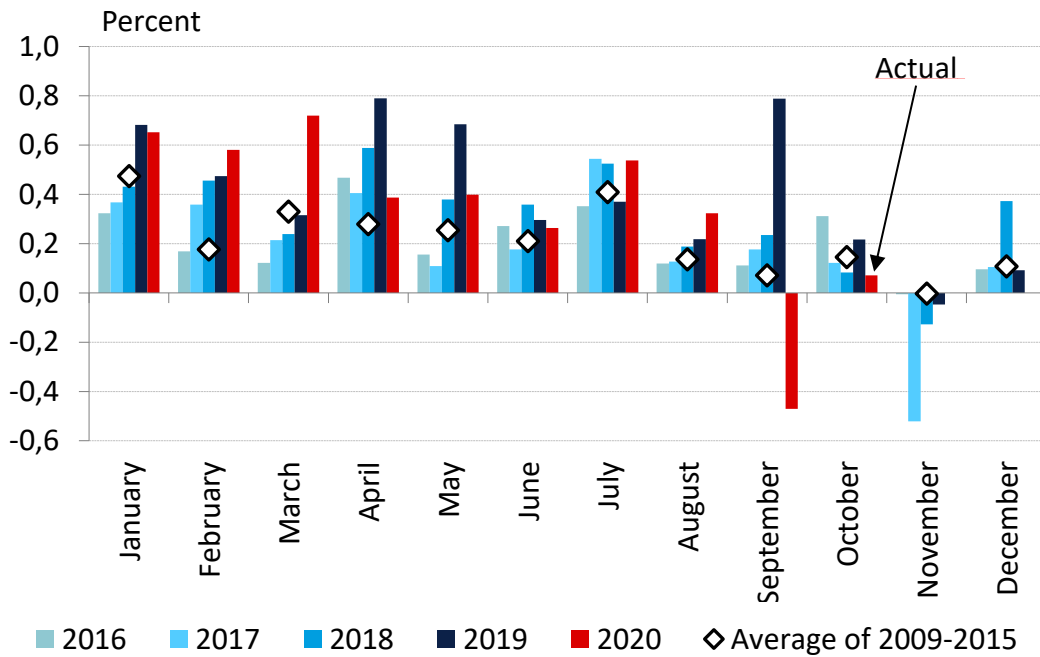
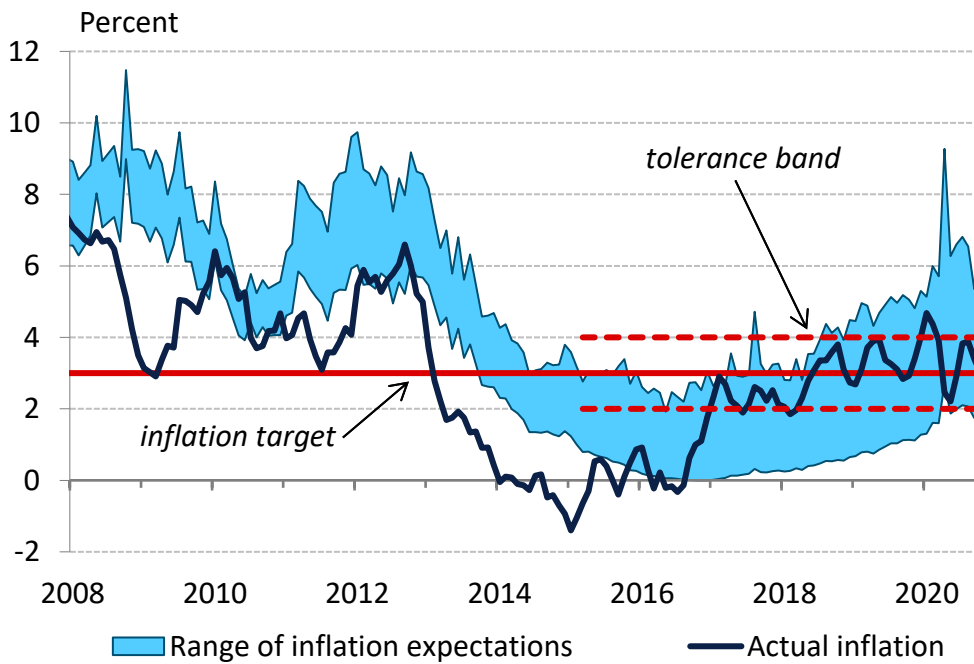


Chart 6 Households' inflation expectations

(January 2005 – October 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, October 2020 (HCSO)					
3.0% (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%	1.5	Contribution of core inflation excluding taxes (percentage points), weight 70.6%	2.2
Contribution of other items (percentage points), weight 65.2%	1.7	Contribution of other items (percentage points), weight 42.3%	1.5	Contribution of other items (percentage points), weight 29.4%	0.8

Sources: HCSO and the MNB's own calculations.

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