



MONTHLY ANALYSIS OF INFLATION DEVELOPMENTS

SEPTEMBER

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 SEPTEMBER 2020

In September 2020, annual *inflation* stood at 3.4 percent and core inflation at 4.0 percent. Core inflation adjusted for the effects of indirect taxes was 3.5 percent (Chart 1). Inflation and core inflation fell by 0.5 percentage points and 0.7 percentage points, respectively, relative to the previous month, mainly due to a decline in services prices.

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

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

As a result of the coronavirus pandemic, pricing decisions have been surrounded by greater volatility and an unusual seasonal pattern in recent months. The rate of growth in prices was stronger in the summer months following the restart of the economy, to which in addition to the implementation of repricing postponed in previous months, the bringing forward of price increases in some cases may also have contributed. By contrast, the rate of price growth was generally lower in September (Chart 3).

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

Annual inflation of *industrial goods* was unchanged in September. Within this product group, the price indices for both durables and non-durables were close to levels seen in the previous month.

Services prices fell by 0.5 percent relative to the previous month (Chart 5). The negative monthly rate of growth reflected declines in the prices of mobile phone tariffs, Internet charges and prices of domestic holiday services.

Food price inflation fell on the previous month. Within this product group, the price index for unprocessed food fell, due to a combined fall in the prices of a number of products. The decline in inflation of processed food primarily reflected a fall in the price of milk.

Prices of *regulated products* fell by 0.6 percent relative to August, caused by the last phase of the extension of free textbooks to all primary and secondary school grades.

The annual index for *fuel* prices rose slightly on the previous month.

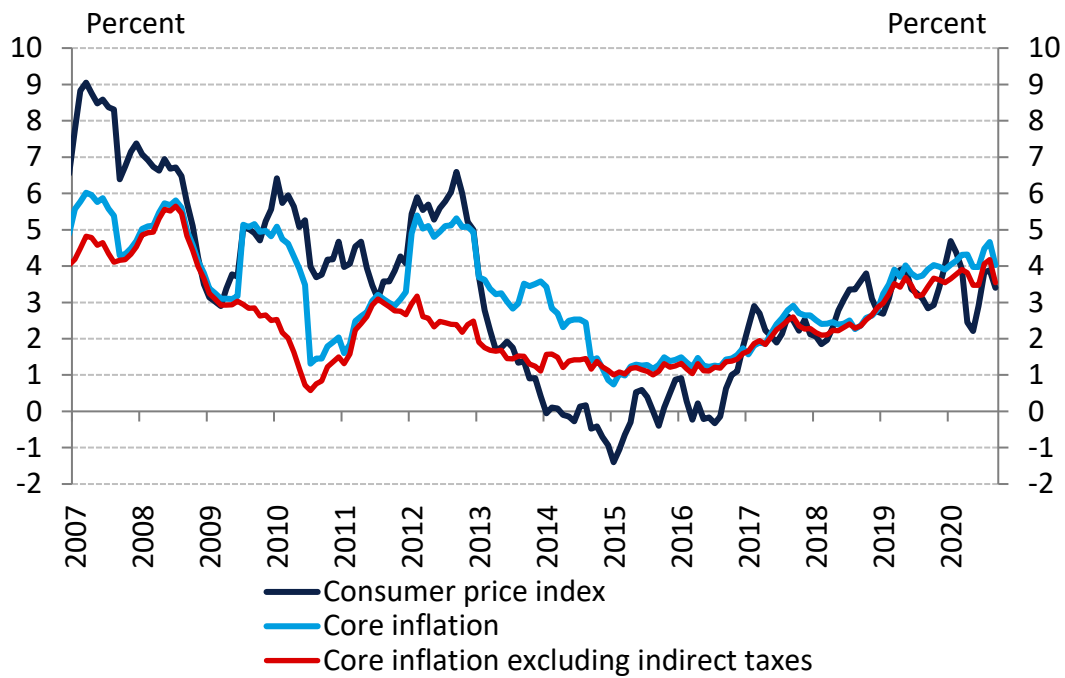
Tobacco prices were unchanged from the previous month.

As with the consumer price index, *households' inflation expectations* are surrounded by greater-than-usual volatility. The indicator fell relative to previous months in September (Chart 6).

Prepared by Judit Várhegyi

Budapest, 8 October 2020

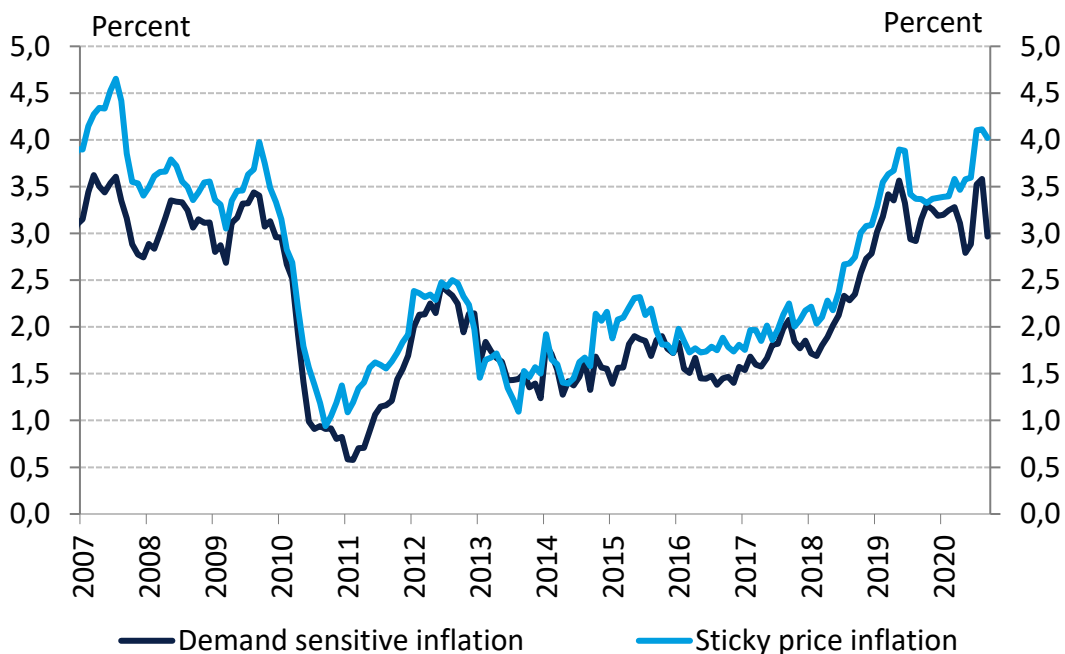
Chart 1 Consumer price index, core inflation and core inflation excluding indirect taxes
(annual percentage changes, January 2007 – September 2020)



Note: Seasonally unadjusted core inflation.

Chart 2 Underlying inflation indicators

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

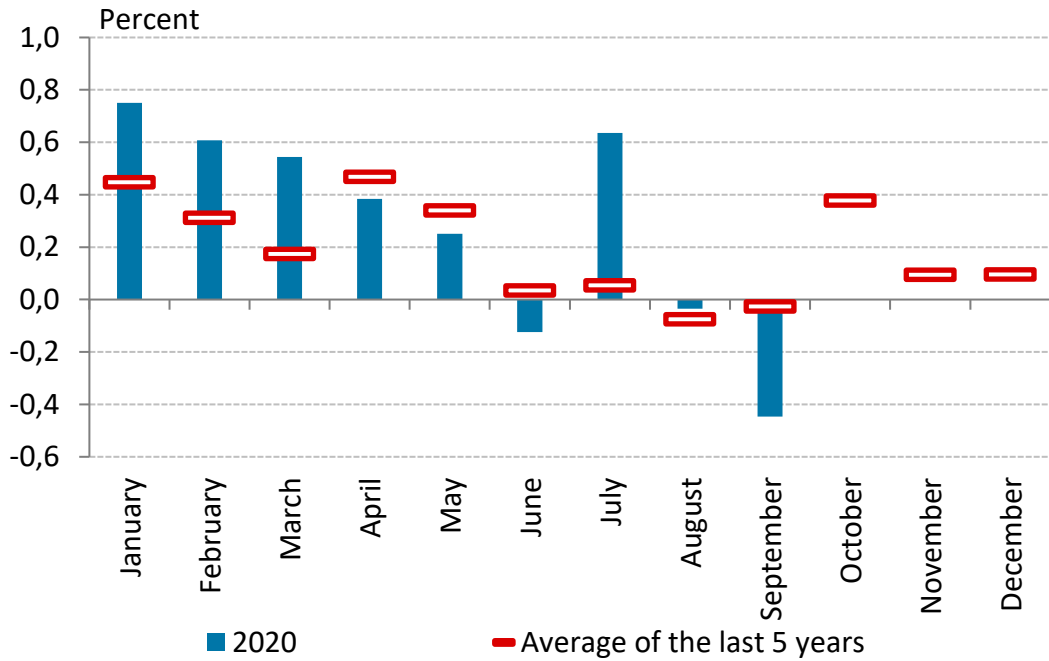


Chart 4 Inflation decomposition

(annual percentage changes, January 2007 – September 2020)

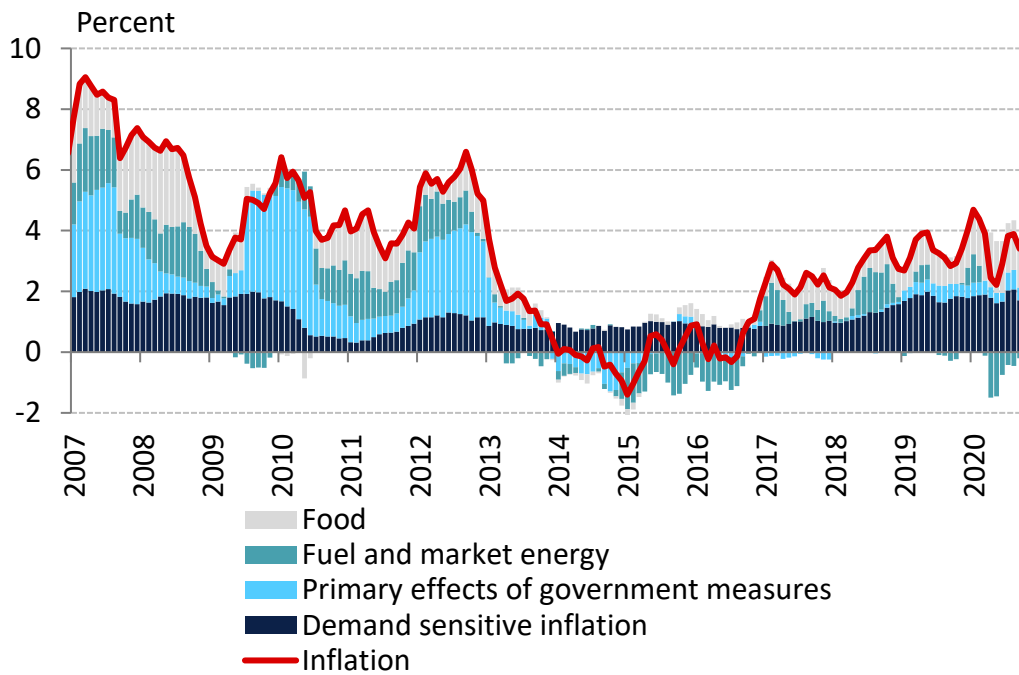


Chart 5 Market services inflation

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

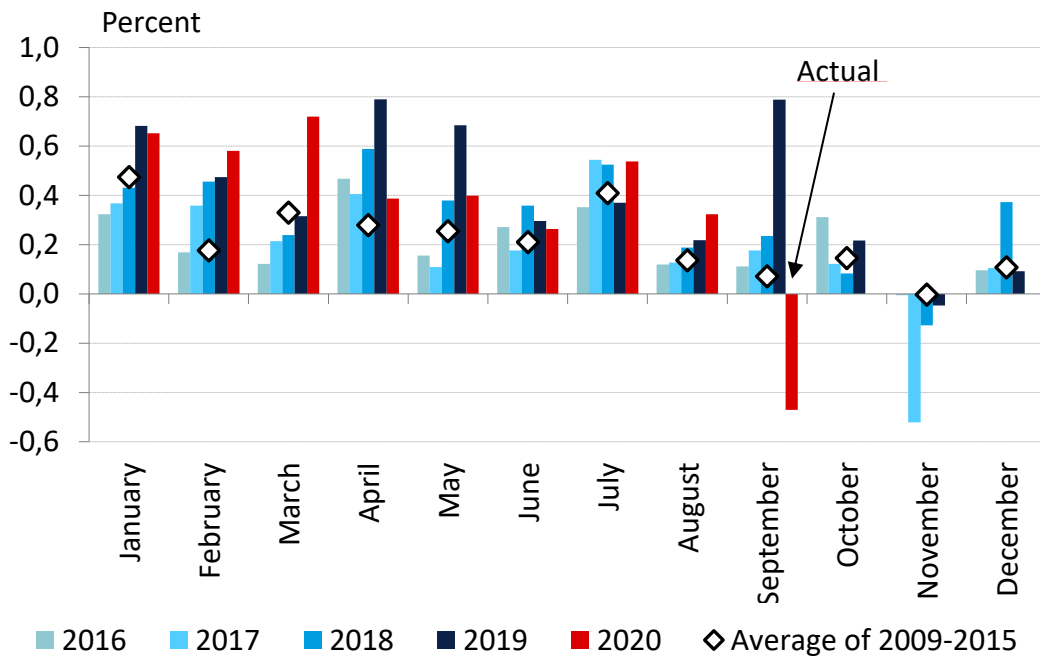
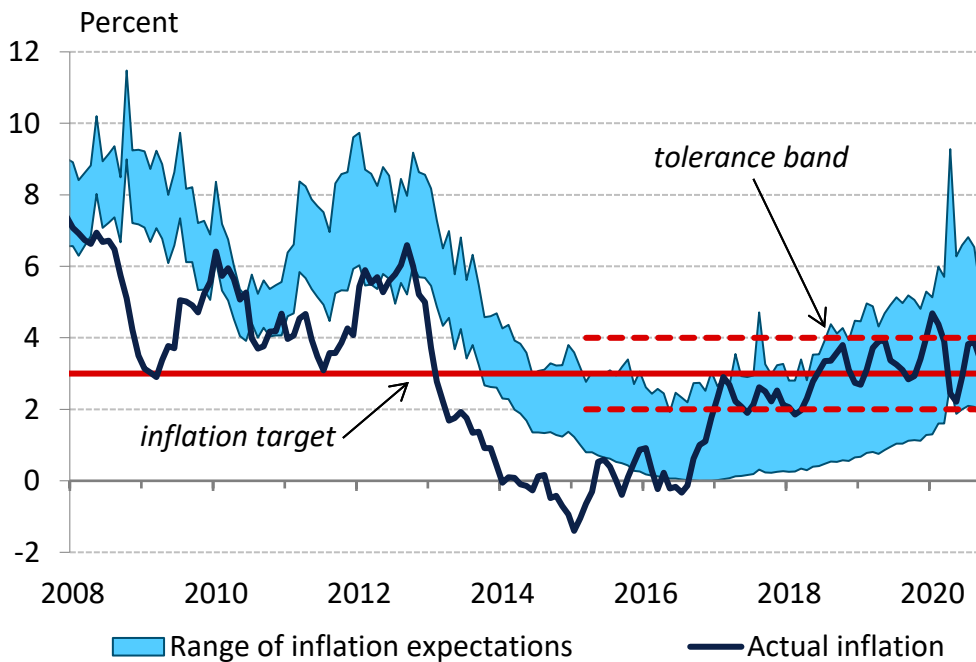


Chart 6 Households' inflation expectations

(January 2005 – September 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, September 2020 (HCSO)					
3.4% (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%	1.6	Contribution of core inflation excluding taxes (percentage points), weight 70.6%	2.4
Contribution of other items (percentage points), weight 65.2%	2.1	Contribution of other items (percentage points), weight 42.3%	1.8	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.