



MONTHLY ANALYSIS OF INFLATION DEVELOPMENTS

JULY

2021

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 JULY 2021

In July 2021, annual *inflation* stood at 4.6 percent while core inflation and core inflation excluding indirect tax effects was 3.5 percent (Chart 1). Headline inflation fell by 0.7 percentage points and core inflation by 0.3 percentage point compared with the previous month. A decline in inflation was largely driven by base effects relating to a rise in fuel and industrial goods prices last year.

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, fell relative to the previous month (Chart 2).

In July 2021, the contribution of demand-sensitive products, prices of regulated products and indirect tax effects (due to the cancellation of free parking last year in July and the fact that previous increases in the excise duty on tobacco products have run out of base) to inflation declined. Fuel prices continued to make a significant contribution of 1.3 percentage points to inflation (Chart 3).

Pricing decisions showed higher volatility and an unusual seasonal pattern after the onset of coronavirus. In the first months of 2021, repricing was lower than last year (Chart 4). By contrast, in parallel with the reopening of the economy, it was higher from April than in 2020. The restrictions were basically fully lifted in June; therefore, the pace of repricing slowed in July relative to last year; however, it was above the average seen in recent years.

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

The annual inflation of *industrial goods* fell in July. Within this product group, durables price index was practically unchanged. The annual price increase is higher than the average of previous years, to which the fact may have been contributed, that the global rise in commodity prices is gradually being reflected in consumer prices in a wider range of products. At the same time, the price index for non-durable industrial goods decreased compared to the previous month. The decline in the price index was typical of a wide range of products.

Market services prices rose by 0.5 percent compared with the previous month (Chart 5). Within this product group, there was a price growth as seen in recent years.

The inflation of *foods* remained broadly unchanged relative to June. Within the product group, the rise in inflation was primarily relating to fresh vegetables and poultry in the case of unprocessed food. Conversely, the fall in the price index of processed food was driven by several products combined.

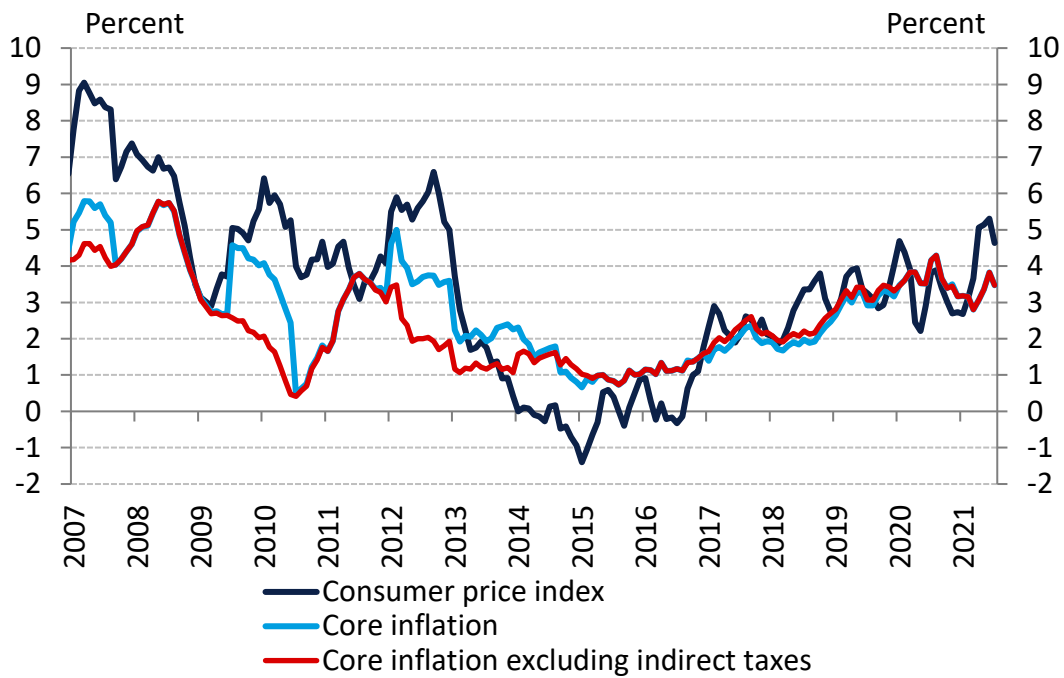
Prices of *regulated products* were broadly unchanged relative to June.

The indicators, measuring *households' inflation expectations*, showed unusually high volatility, similarly to the consumer price index. In July, the indicators rose relative to the previous month (Chart 6).

Prepared by Judit Várhegyi

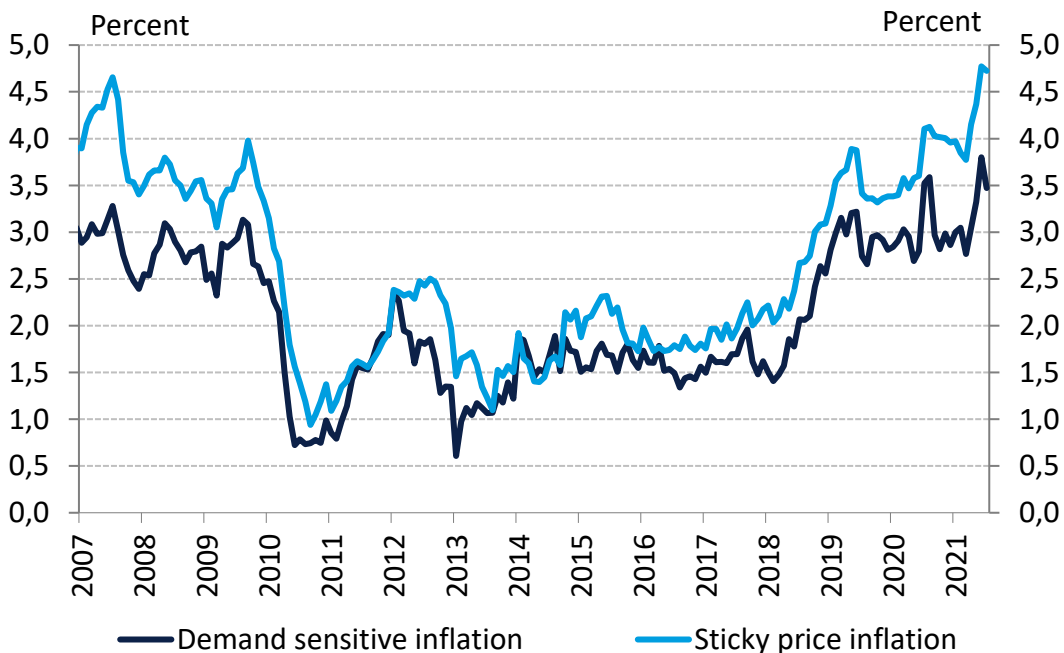
Budapest, 10 August 2021

Chart 1 Consumer price index, core inflation and core inflation excluding indirect taxes
(annual percentage changes, January 2007 – July 2021)



Note: Seasonally unadjusted core inflation.

Chart 2 Underlying inflation indicators
(excluding indirect taxes, annual percentage changes, January 2007 – July 2021)



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 – July 2021)

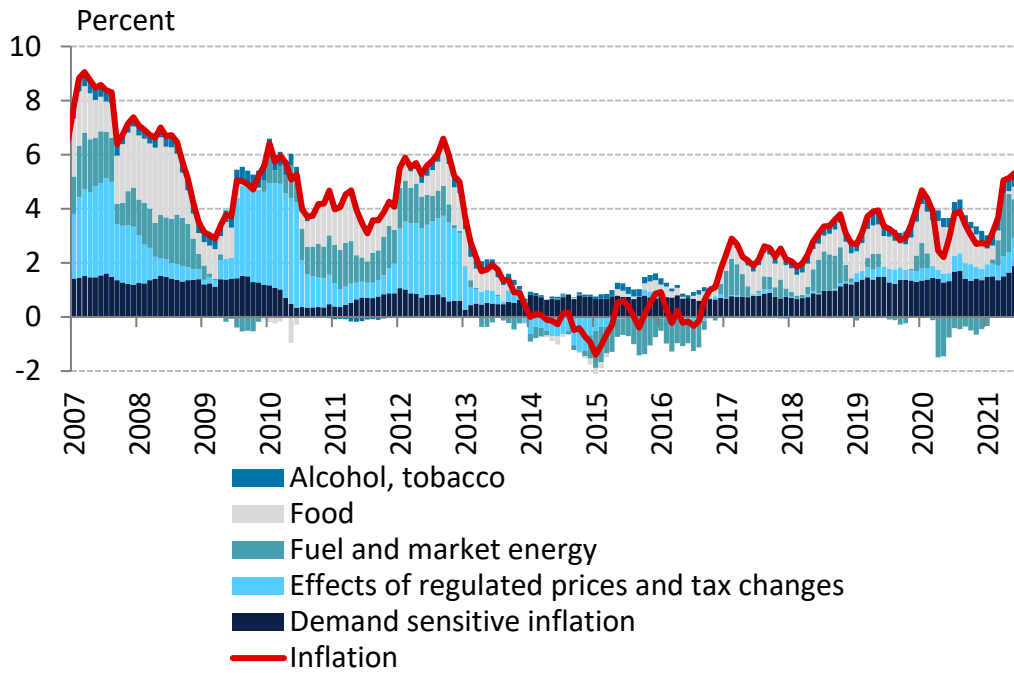


Chart 4 Monthly changes in consumer prices excluding fuel prices

(tax-adjusted, seasonally unadjusted monthly percentage changes)

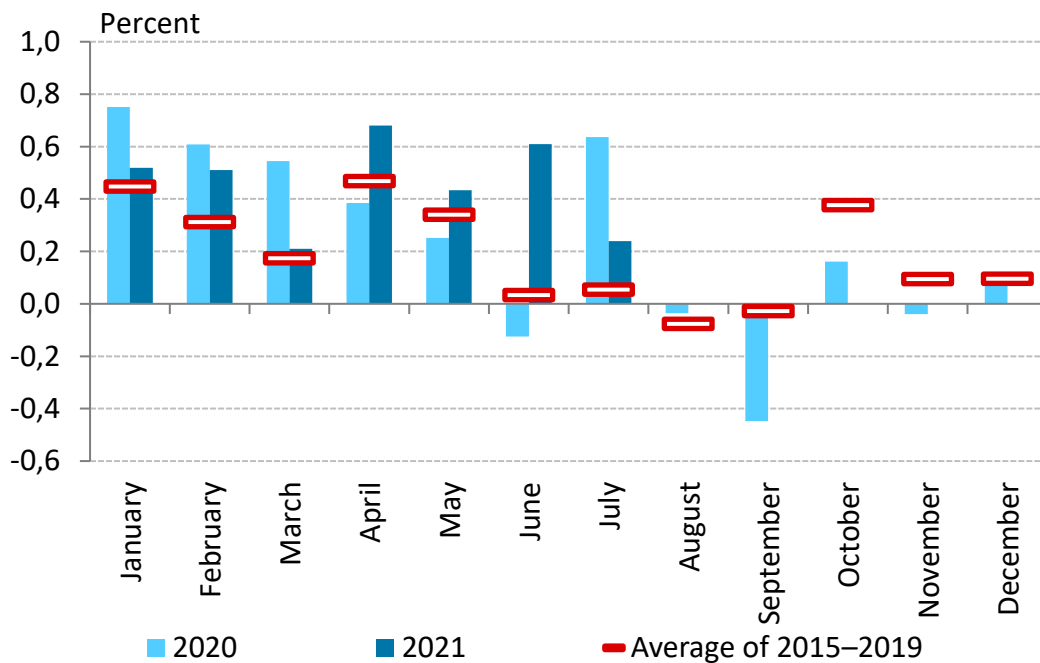


Chart 5 Market services inflation

(seasonally unadjusted, tax-adjusted monthly percentage changes, January 2016 – July 2021)

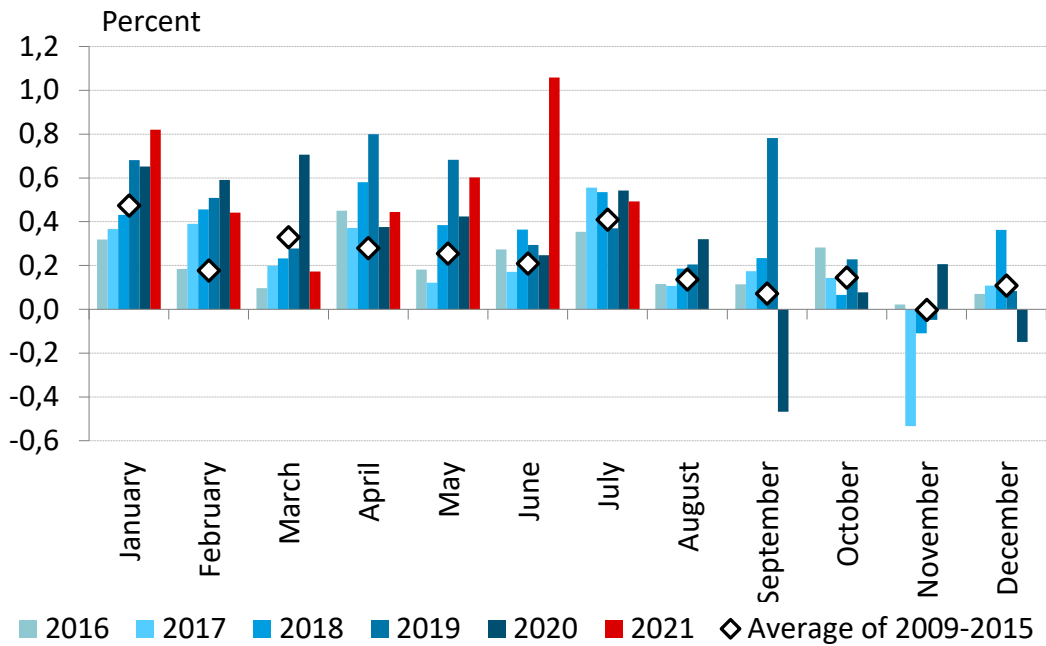
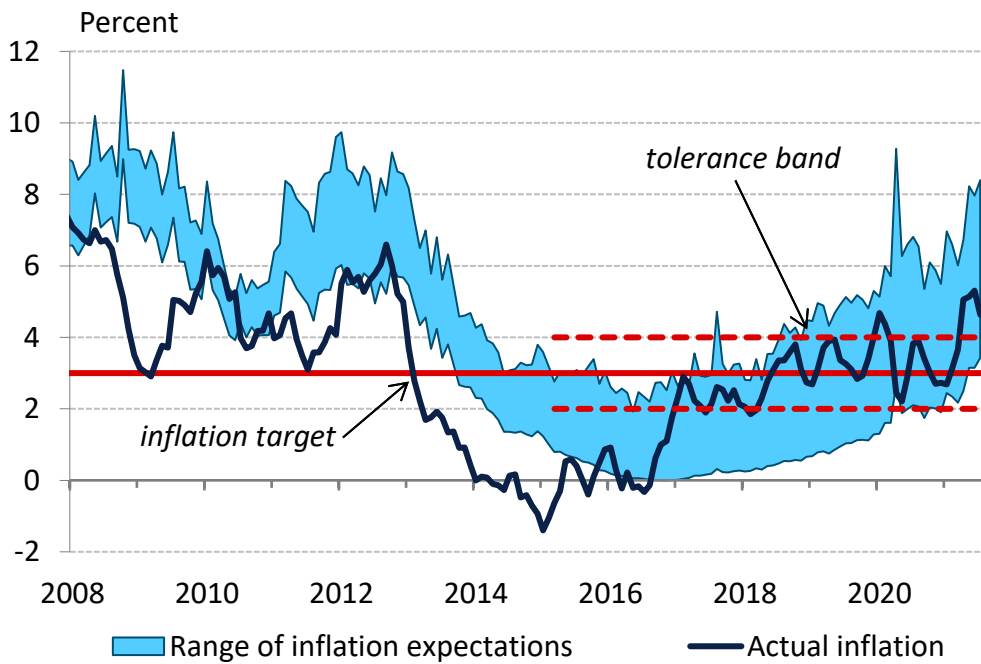


Chart 6 Households' inflation expectations

(January 2008 – July 2021)



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, July 2021 (HCSO)					
4.6% (annual change)					
MNB underlying inflation indicators (MNB calculation)					
Contribution of sticky price inflation (percentage points), weight 36.7%	1.7	Contribution of demand sensitive inflation (percentage points), weight 49.4%	1.7	Contribution of core inflation excluding taxes (percentage points), weight 63.2%	2.2
Contribution of other items (percentage points), weight 63.3%	2.9	Contribution of other items (percentage points), weight 50.6%	2.9	Contribution of other items (percentage points), weight 36.8%	2.4

Sources: HCSO and the MNB's own calculations.

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