



MONTHLY ANALYSIS OF INFLATION DEVELOPMENTS

MAY

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 MAY 2021

In May 2021, annual *inflation* stood at 5.1 percent while core inflation and core inflation excluding indirect tax effects was 3.4 percent (Chart 1). Headline inflation was unchanged and core inflation rose by 0.3 percentage points relative to the previous month. The rise in core inflation primarily reflected an increase in the prices of industrial goods.

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

In May 2021, the contribution of demand-sensitive products to inflation slightly rose. Fuel prices contributed to inflation by 2.2 percentage points (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, it was higher in April and May than in 2020. The comparison remains distorted by statistical effects (difficulties in price collection in 2020). Currently, inflation developments are mostly determined by a strong rise of over 35 percent in fuel prices.

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

The annual inflation of *industrial goods* rose in May. Within the product group, durables price index remained broadly unchanged relative to the previous month, and non-durables price index rose.

Market services prices rose by 0.6 percent compared to the previous month (Chart 5). A higher monthly price growth, unseen in the average of recent years, was largely due to changes in restaurant services prices.

The inflation of *foods* remained broadly unchanged relative to April. Within the product group, the unprocessed food price index was mainly reduced by a fall in fresh vegetables and fruit prices, and a rise in the inflation of processed food was caused by several product prices.

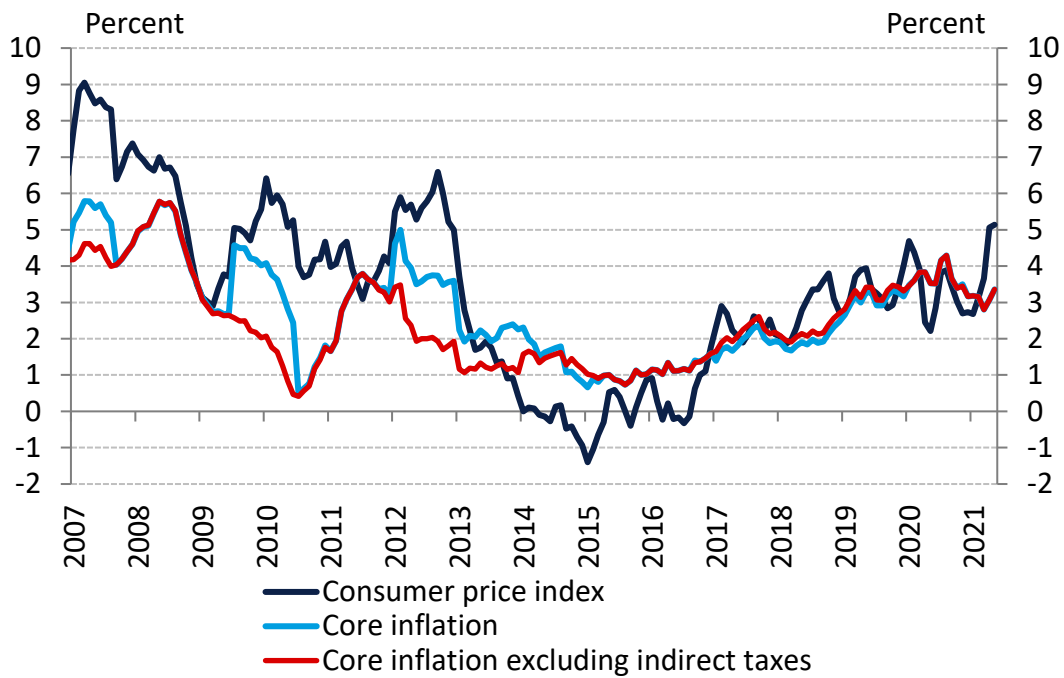
Prices of *regulated products* were broadly unchanged relative to April.

The indicators, measuring *households' inflation expectations*, showed unusually high volatility, similarly to the consumer price index. The indicator increased in May compared to earlier months (Chart 6).

Prepared by Judit Várhegyi

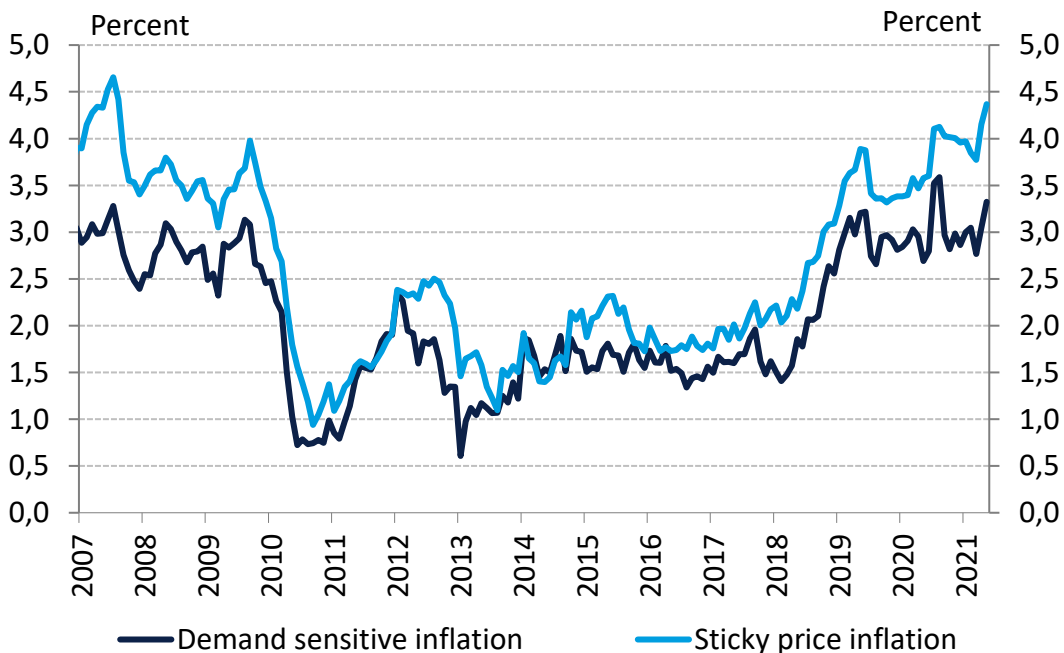
Budapest, 9 June 2021

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



Note: Seasonally unadjusted core inflation.

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

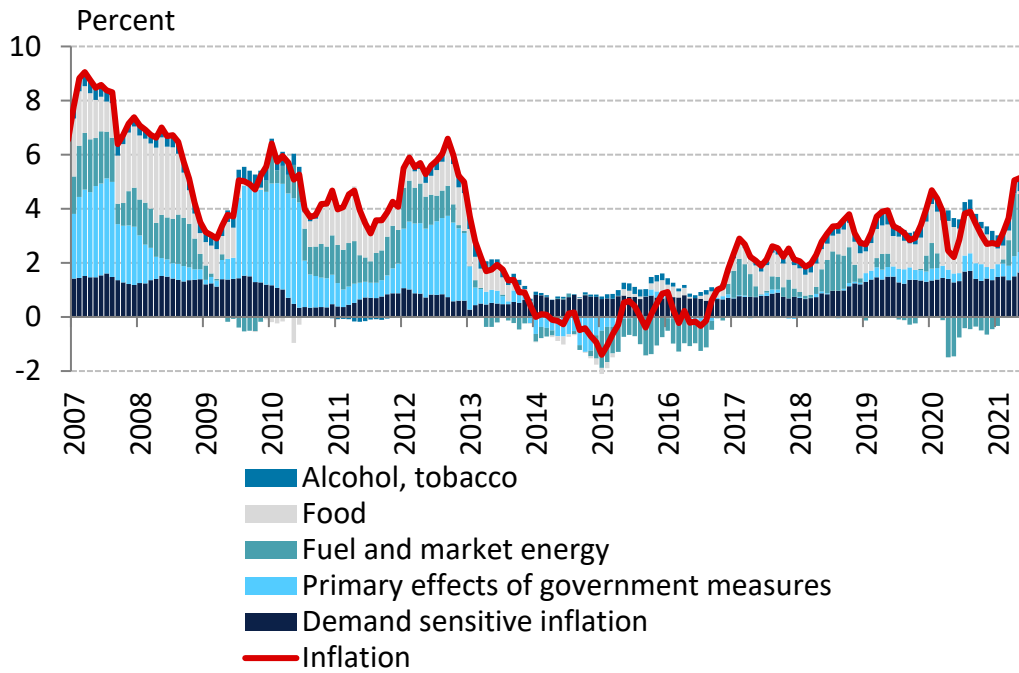


Chart 4 Monthly changes in consumer prices excluding fuel prices

(tax-adjusted, seasonally unadjusted monthly percentage changes)

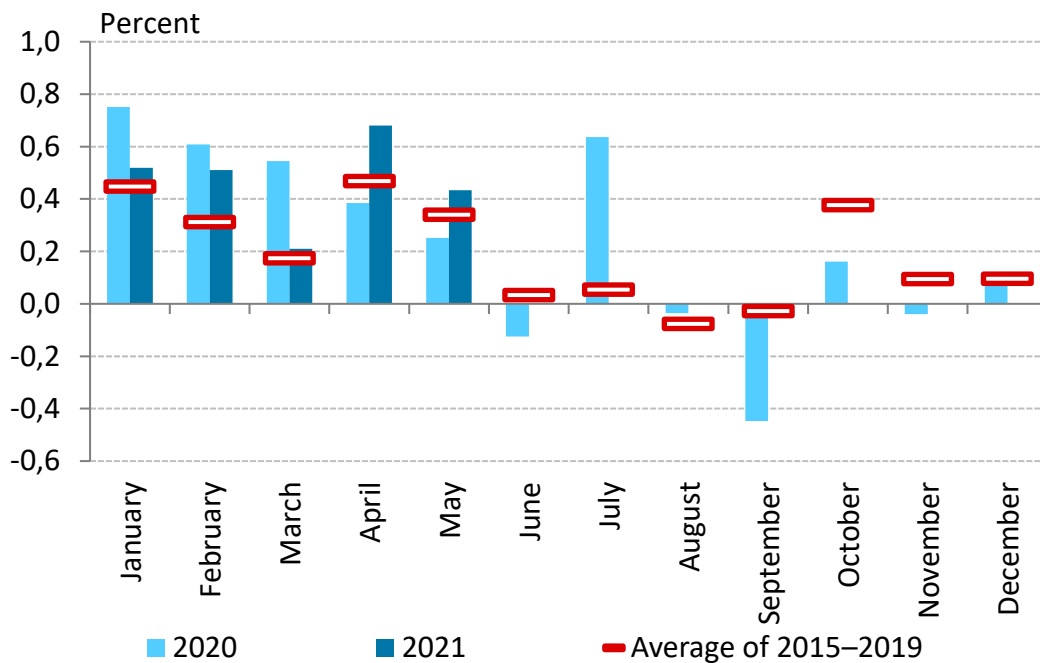


Chart 5 Market services inflation

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

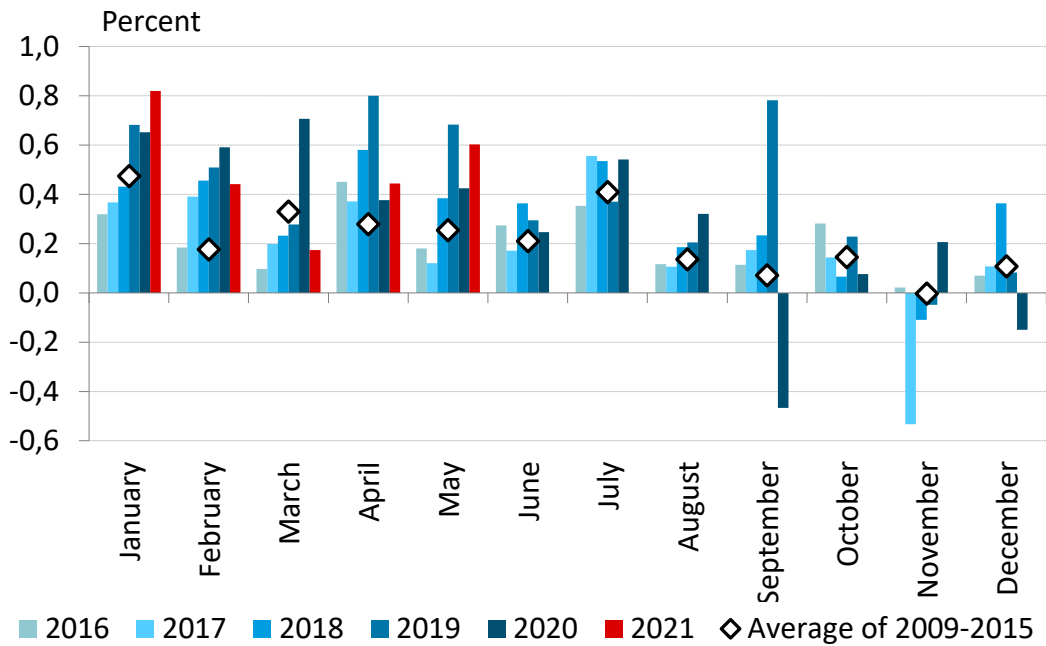
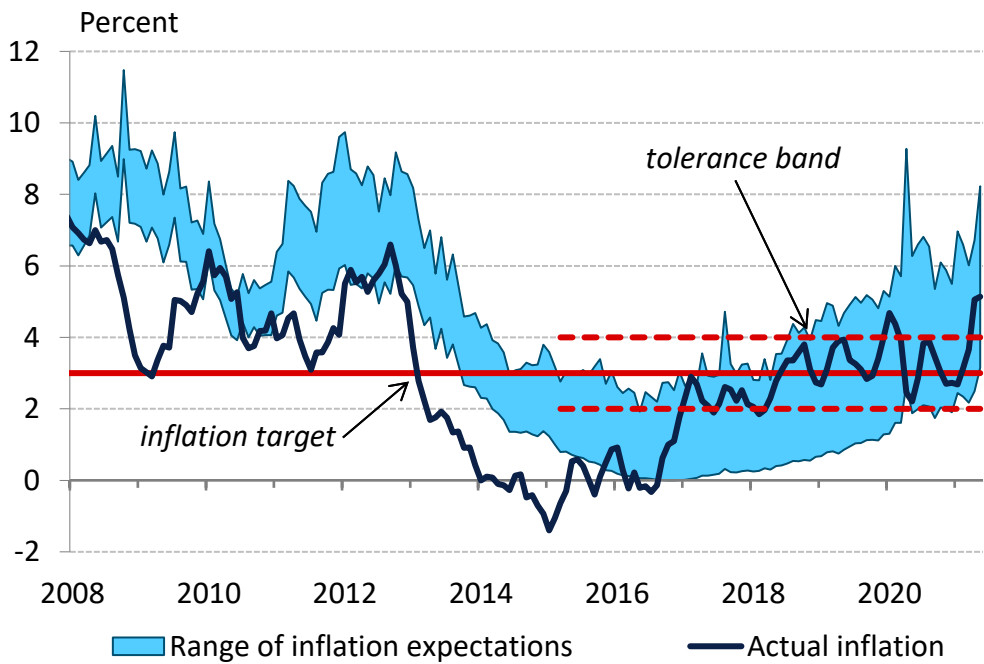


Chart 6 Households' inflation expectations

(January 2008 – May 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, May 2021 (HCSO)					
5.1% (annual change)					
MNB underlying inflation indicators (MNB calculation)					
Contribution of sticky price inflation (percentage points), weight 36.7%	1.6	Contribution of demand sensitive inflation (percentage points), weight 49.4%	1.6	Contribution of core inflation excluding taxes (percentage points), weight 63.2%	2.1
Contribution of other items (percentage points), weight 63.3%	3.5	Contribution of other items (percentage points), weight 50.6%	3.5	Contribution of other items (percentage points), weight 36.8%	3.0

Sources: HCSO and the MNB's own calculations.

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