



MONTHLY ANALYSIS OF INFLATION DEVELOPMENTS

MAY

2023

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.

For further information, please contact Géza Rippel (e-mail: rippelg@mnbb.hu)

The publicly available analyses and the related statistical databases are accessible on the MNB's website at:

<https://www.mnb.hu/kiadvanyok/elemezsek-tanulmanyok-statisztikak/az-mnb-inflacios-alapmutatoi>

ASSESSMENT OF INFLATION DATA FOR MAY 2023

In May 2023, domestic inflation declined at an accelerating pace for the fourth month. Consumer prices rose by 21.5 percent in annual terms. Core inflation fell to 22.8 percent and core inflation excluding indirect tax effects, in turn, stood at 22.7 percent (Chart 1 and Chart 2).

Inflation slowed down by 2.5 percentage points compared with the previous month. The slowdown was primarily caused by changes in food (-1.0 percentage point), fuel (-0.7 percentage point) and industrial goods prices (-0.5 percentage point). Year-on-year core inflation fell by 2.0 percentage points relative to the previous month. The fall in core inflation was fuelled by a decline in processed food and industrial goods price inflation. The Bank's measures of underlying inflation developments capturing persistent inflationary trends, calculated on a year-on-year basis, fell. The annual price rise of sticky-price products fell by 1.0 percentage point and core inflation excluding processed food prices declined by 0.9 percentage point relative to the previous month (Chart 3).

The basket calculated excluding fuel and regulated product prices was up by 0.4 percent on a monthly basis (Chart 4). Monthly change in core inflation excluding processed food, which better reflect underlying developments, was down to 0.7 percent (Chart 5).

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

Industrial goods prices remained unchanged compared with the previous month (Chart 6). The annual inflation of this product group fell to 17.2 percent. Durables prices declined on a monthly basis. This was offset by a slight rise in non-durables prices, which was slower than in previous months. The fall in the prices of second-hand cars and consumer electronics was the largest contributing factor to the decline in durables prices.

Market services prices rose by 1.5 percent compared with the previous month, mostly driven by the repricing of banking services for the second month (Chart 7). The annual price index of market services rose slightly to 19.0 percent.

According to HCSO data, *food* price inflation has been slowing for the fifth month, as a result, it stood at 33.5 percent in May. Within the product group, the annual price indices of both processed and unprocessed food decreased significantly (Chart 8). The slowdown in food price inflation was primarily due to changes in milk and dairy products prices as well as bread and bakery products prices. Compared to April, unprocessed food prices increased by 0.2 percent and processed food prices decreased by 0.3 percent (Chart 9).

In the group of *alcohol* and *tobacco* products, prices rose by 0.3 percent relative to April.

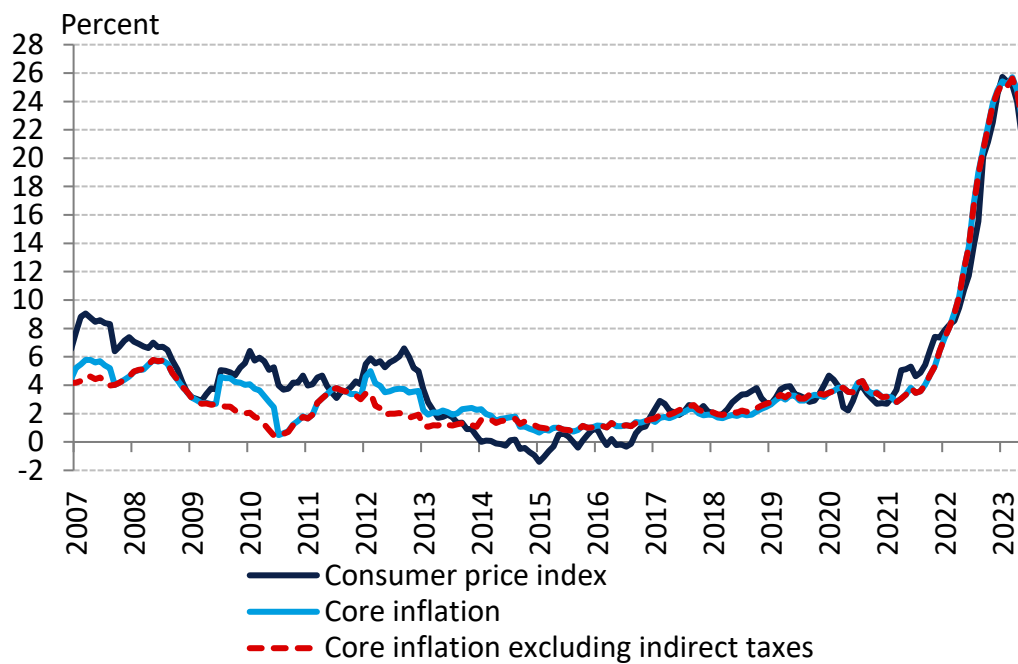
The prices of *regulated products and services* fell by 1.6 percent compared to April. Within this product group, the prices of natural and manufactured gas and commuting fell compared to April. The latter was due to the introduction of the county season pass. The fall in average gas prices was still due to a higher share of consumers' consumption falling below the volume limit of the lower officially regulated price, due to the adaptation of households and favourable weather conditions.

The indicators, measuring *households' inflation expectations*, showed unusually high volatility (Chart 10). The decline in *corporate expectations for both retail sales and services prices* continued (Chart 11).

Prepared by Géza Rippel

Budapest, 8 June 2023

Chart 1 Consumer price index, core inflation and core inflation excluding indirect taxes
annual change



Note: Seasonally unadjusted core inflation.

Chart 2 Inflation decomposition
annual change

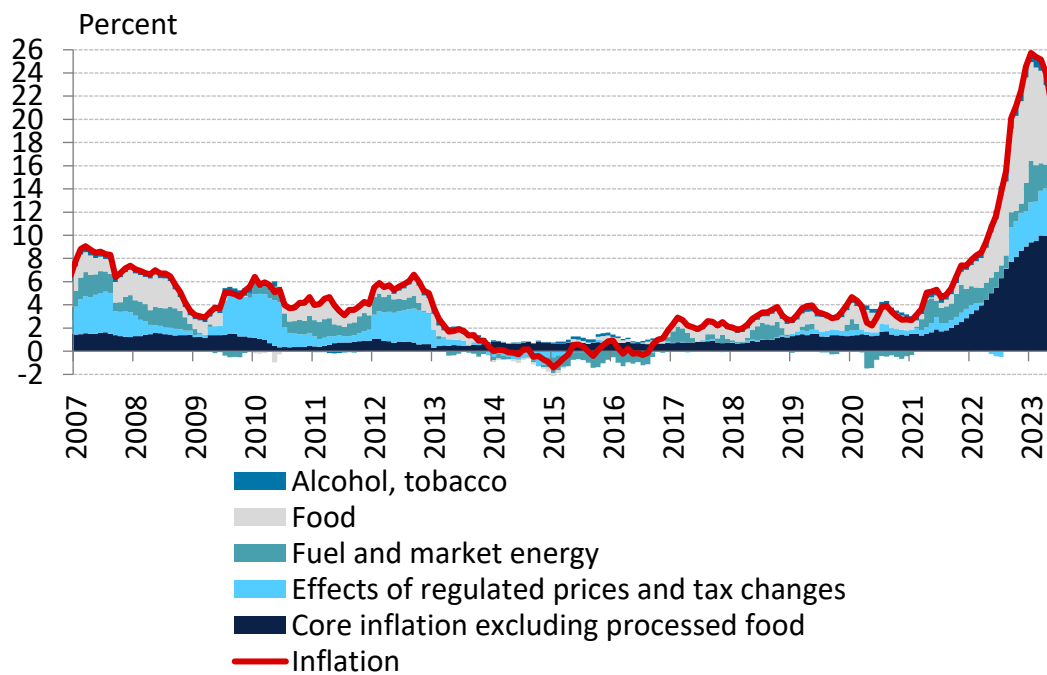
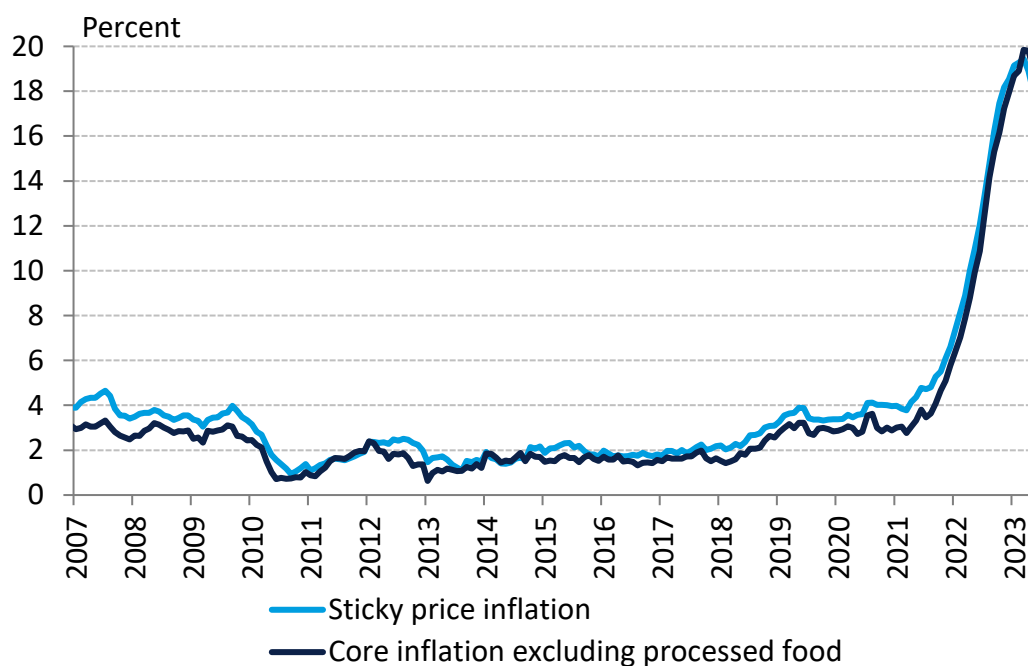


Chart 3 Underlying inflation indicators
annual percentage changes excluding indirect taxes



Note: Inflation of sticky-price products is composed of items of the consumer price index where maximum 15 percent of elementary prices change monthly on average. MNB calculation based on data released by the HCSO. Core inflation excluding processed foods with unchanged content is equivalent with the earlier demand sensitive inflation. The new name is justified by the fact that the previous name might be ambiguous in a period of significant cost shocks with general effects.

Chart 4 Monthly changes in consumer prices excluding fuel and regulated products prices
tax-adjusted, seasonally unadjusted monthly percentage changes

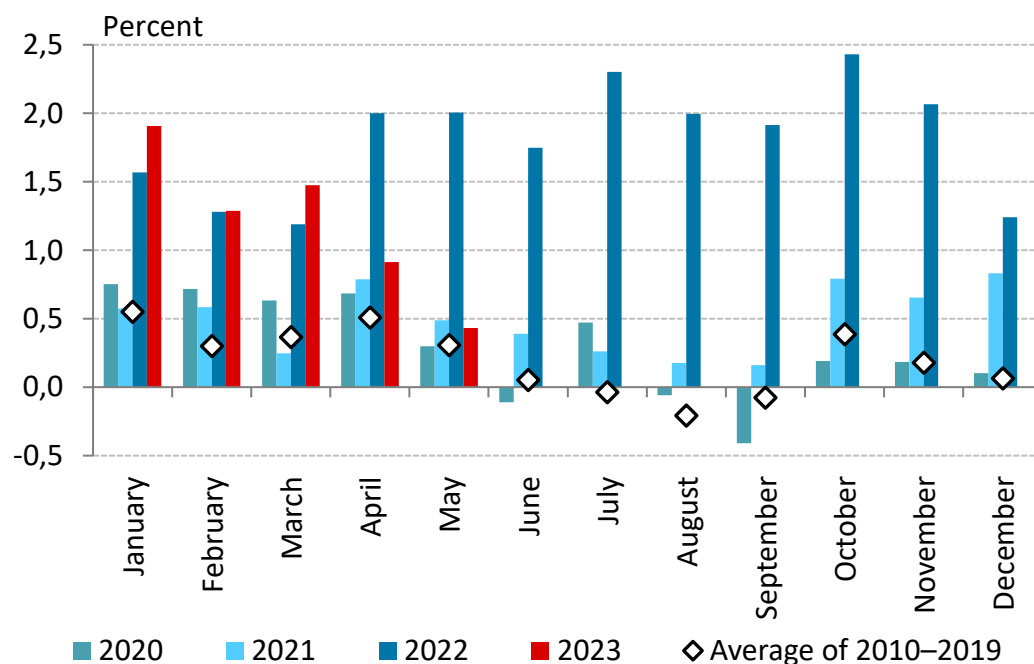


Chart 5 Monthly change in core inflation excluding processed food
tax-adjusted, seasonally unadjusted monthly percentage changes

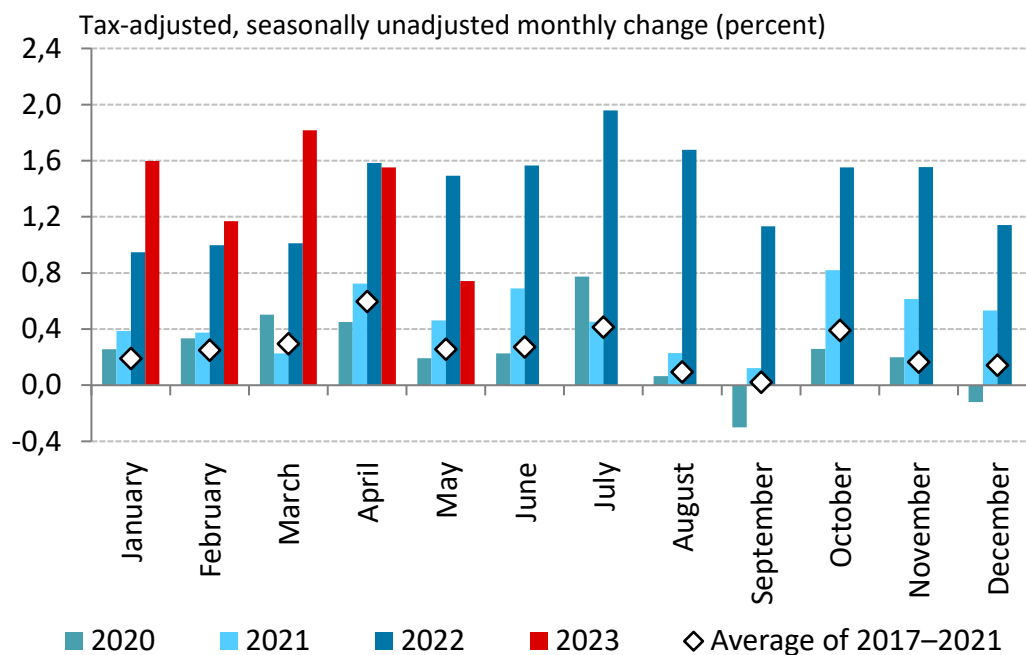
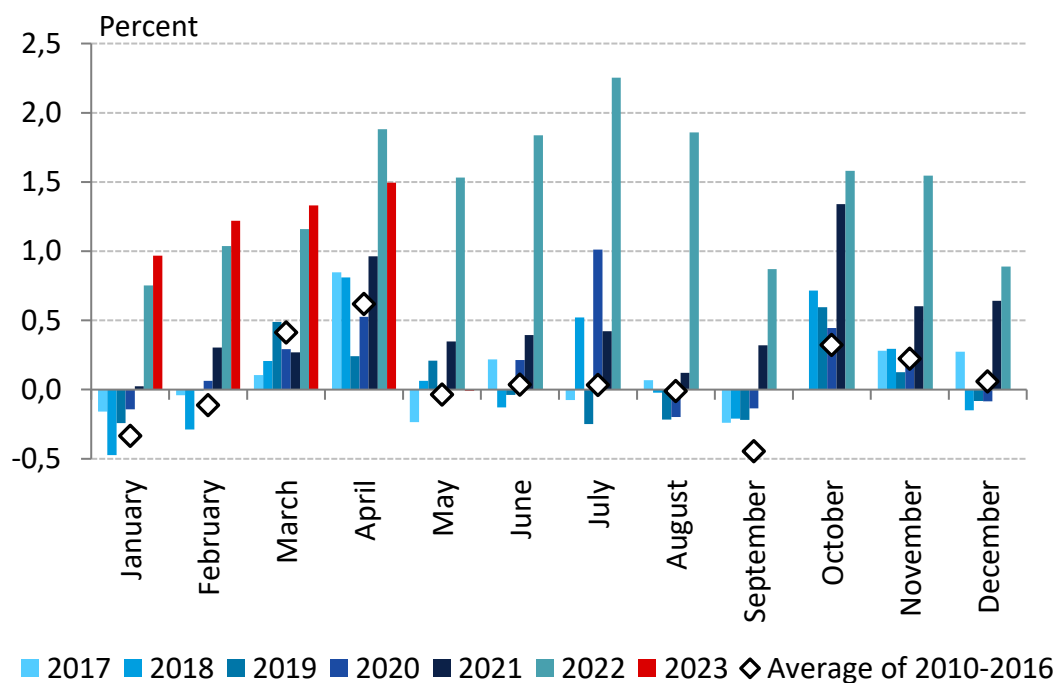
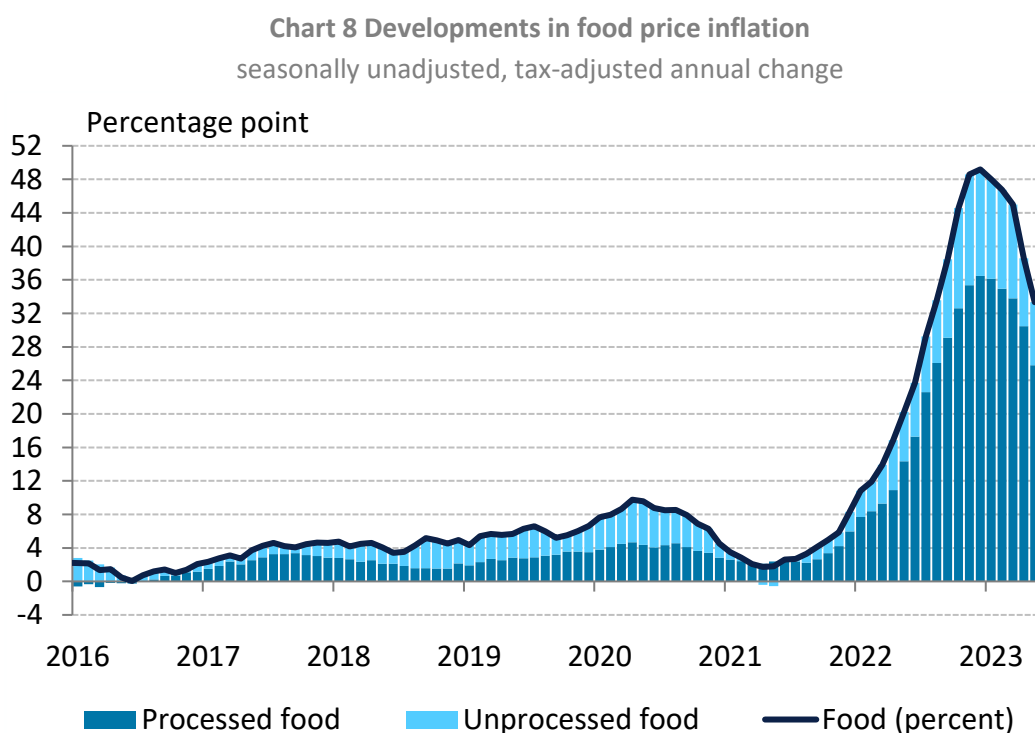
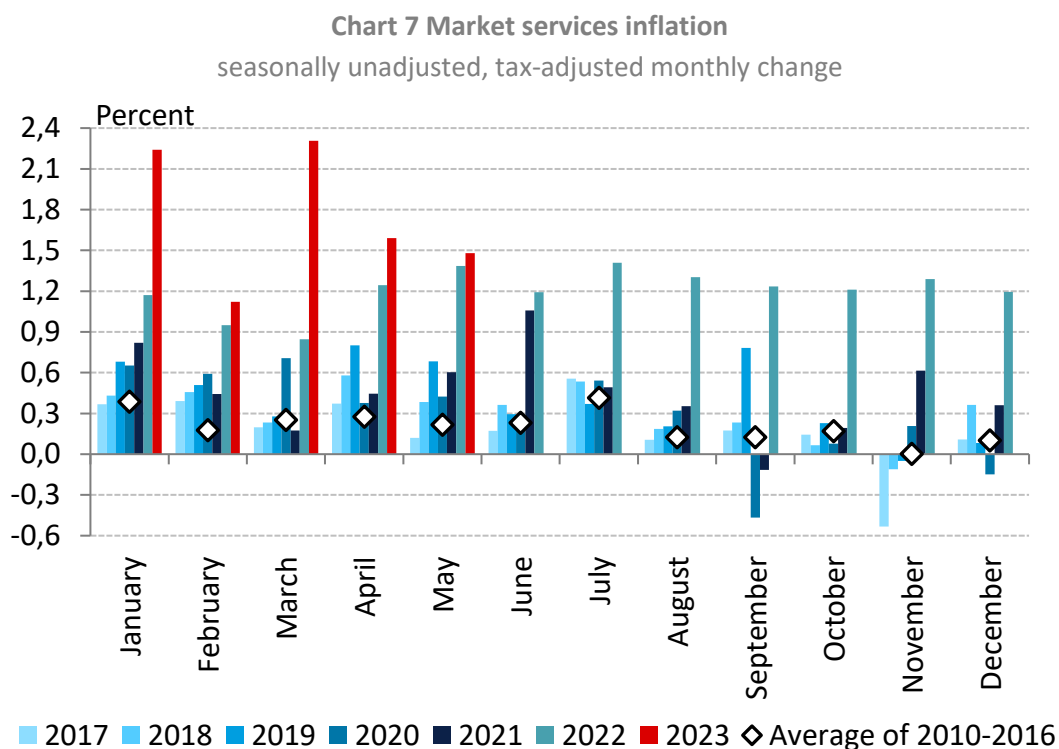


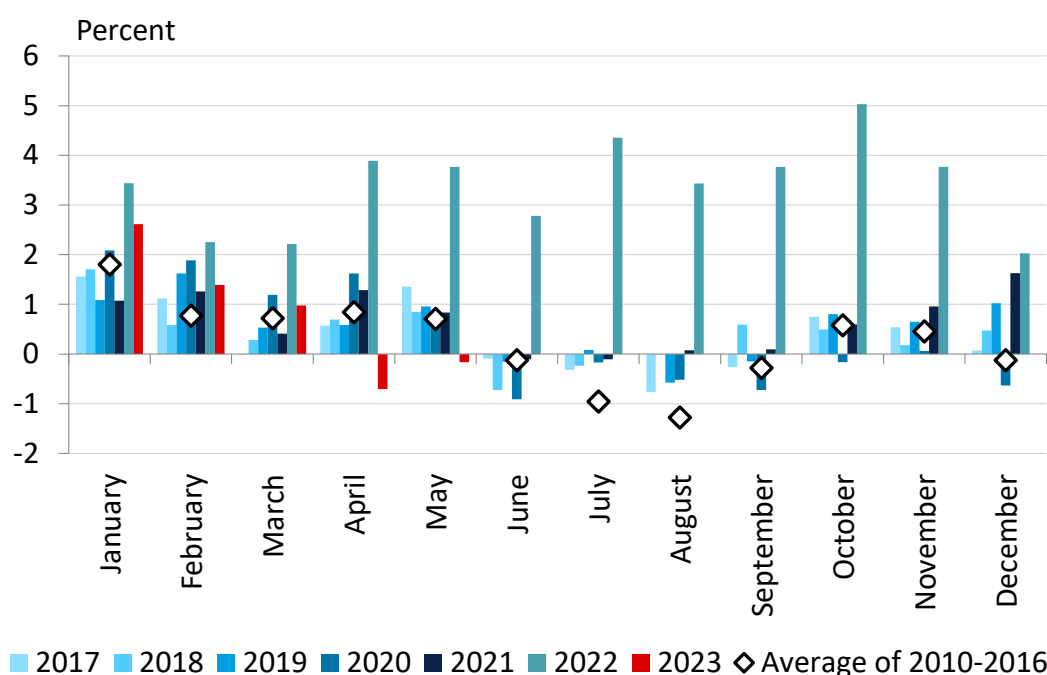
Chart 6 Inflation of tradable goods
seasonally unadjusted, tax-adjusted monthly change





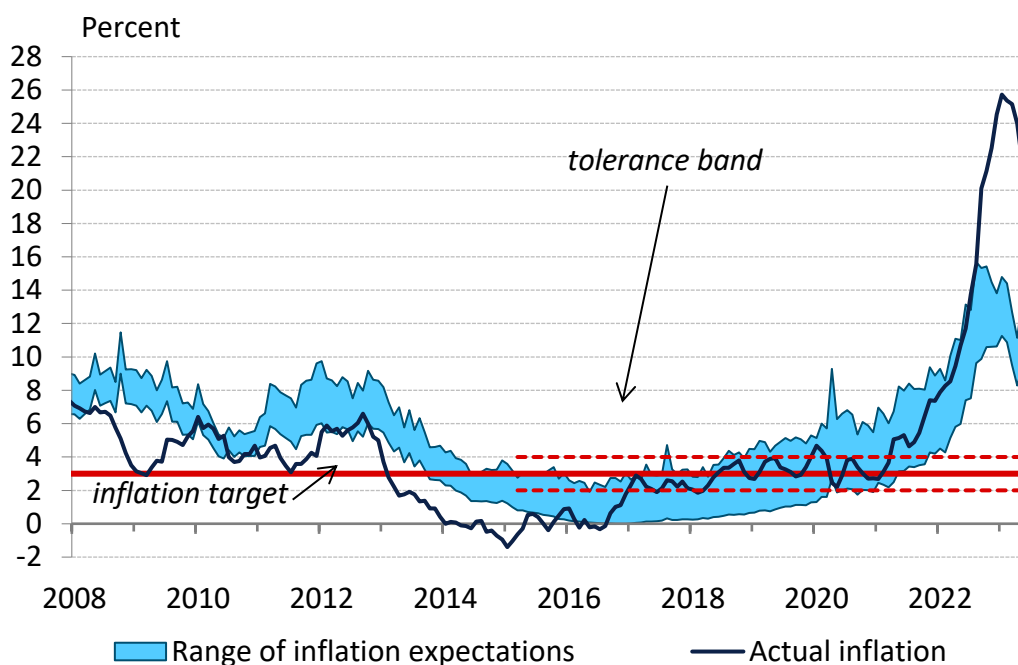
Note: The difference in food price inflation calculated by the HCSO and the MNB is explained by methodological differences. The MNB classifies food-related services as market services (restaurant meals, workplace meals, canteen goods) and the prices of regulated goods and services (school meals, nursery and kindergarten meals), and some beverages as non-durable industrial goods (coffee, tea, soft drinks).

Chart 9 Monthly changes in food prices
seasonally unadjusted, tax-adjusted monthly change



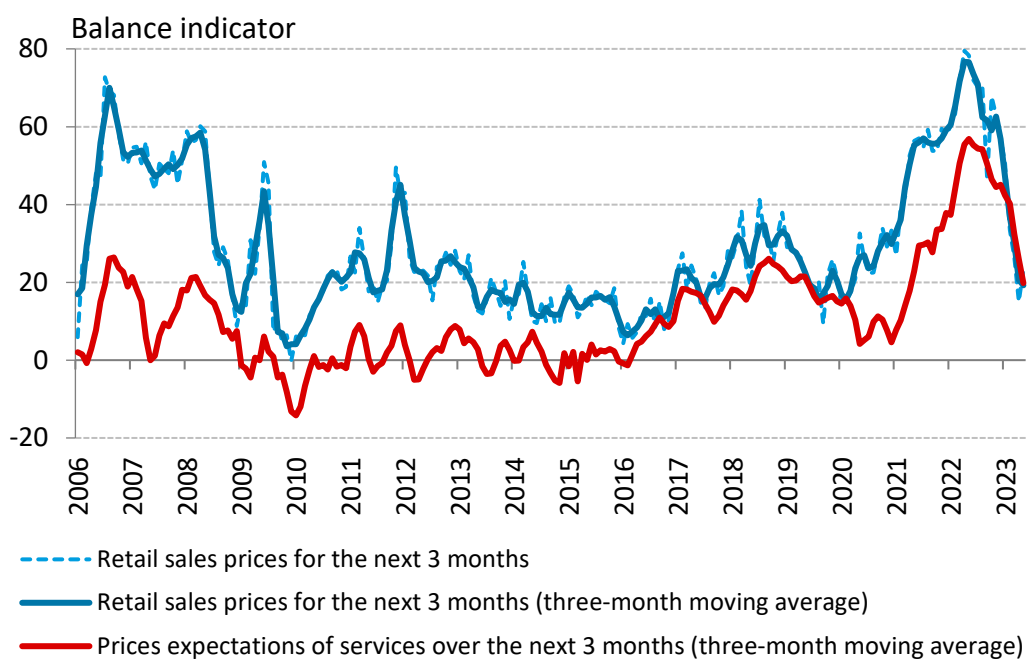
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Chart 10 Households' inflation expectations



Sources: MNB calculations based on European Commission data; and HCSO.

Chart 11 Changes in the expectations for retail sales and services prices in Hungary



Sources: MNB's own calculations based on data from the European Commission

Table 1 Annual change in the consumer price index and contribution of the measures of underlying inflation

Consumer price index, May 2023 (HCSO)					
21.5% (annual change)					
MNB underlying inflation indicators (MNB calculation)					
Contribution of sticky price inflation (percentage points), weight 39.2%	7.0	Contribution of core inflation excluding processed foods (percentage points), weight 50.2%	9.5	Contribution of core inflation excluding taxes (percentage points), weight 63.7%	14.5
Contribution of other items (percentage points), weight 60.8%	14.5	Contribution of other items (percentage points), weight 49.8%	12.0	Contribution of other items (percentage points), weight 36.3%	7.1

Sources: HCSO and the MNB's own calculations.

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