



Monthly analysis of inflation developments

January 2014



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 Dániel Palotai, Executive Director responsible for monetary policy.

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

http://english.mnb.hu/Statisztika/data-and-information/mnben_statisztikai_idosorok/mnben_elv_prices/underlying_inflation_indicators_MNB

ASSESSMENT OF INFLATION DATA FOR JANUARY 2014

In January 2014, the consumer price index stood at 0.0 per cent and core inflation at 3.4 per cent. Indirect tax-adjusted core inflation was 1.6 per cent in the month.¹ The incoming data showed that inflation fell by 0.4 percentage points and core inflation by 0.2 percentage points relative to the previous month. The decline in the inflation rate mainly reflected the moderation in the annual index of fuel prices (Chart 1).

The Bank's measures of underlying inflation developments (demand-sensitive and sticky-price inflation) rose relative to the previous month, which also reflects significant base effects. The levels of the indicators continue to indicate a low inflation environment (Chart 2).

Below is a brief analysis of changes in the prices of items determining medium-term inflation developments.

The price of tradables rose 0.7 percent relative to last year. Extremely high volatility of air fares in recent months has made it difficult to form a judgement on inflation developments in this product group². Eliminating this effect from the time series, the price dynamics of non-durable tradables were moderate in the month. The prices of durable tradables show large volatility on a monthly frequency. After 3 subsequent months of price decreases, month-on-month inflation was positive.

Repricing at the beginning of the year is a key determinant of developments in the annual price index of services. In January 2014, prices of this product group rose by more than the previous year, month-on month inflation was 0.6 percentage. The increase in - vehicle and other private - insurance fees significantly influenced developments in services price inflation. Disregarding these effects price dynamics remain moderate (Chart 3).

The seasonally adjusted price level of processed food was unchanged relative to December. On the whole, price changes within the product group were moderate.

Budapest, 14 January 2014

¹ In Hungary, tobacco products are included in the measure of core inflation. As part of the changes in the tobacco market last year, the retail margin was increased by the Government. The increase in the retail margin affects the consumer price index only temporarily, similarly to an increase in indirect taxes, while it does not influence the assessment of longer-term inflation trends. Accordingly, in addition to the tax effects, the effects of the increase in the margin on tobacco products have also been eliminated from the core measure of inflation in calculating indirect tax-adjusted core inflation.

² The external component represents a significant weight in the air fares, and it tends to respond sensitively to movements in exchange rates. For this reason, air fares have been categorised into tradables.

Chart 1: The consumer price index and core inflation excluding indirect taxes
(annual percentage changes, January 2007 – January 2014)

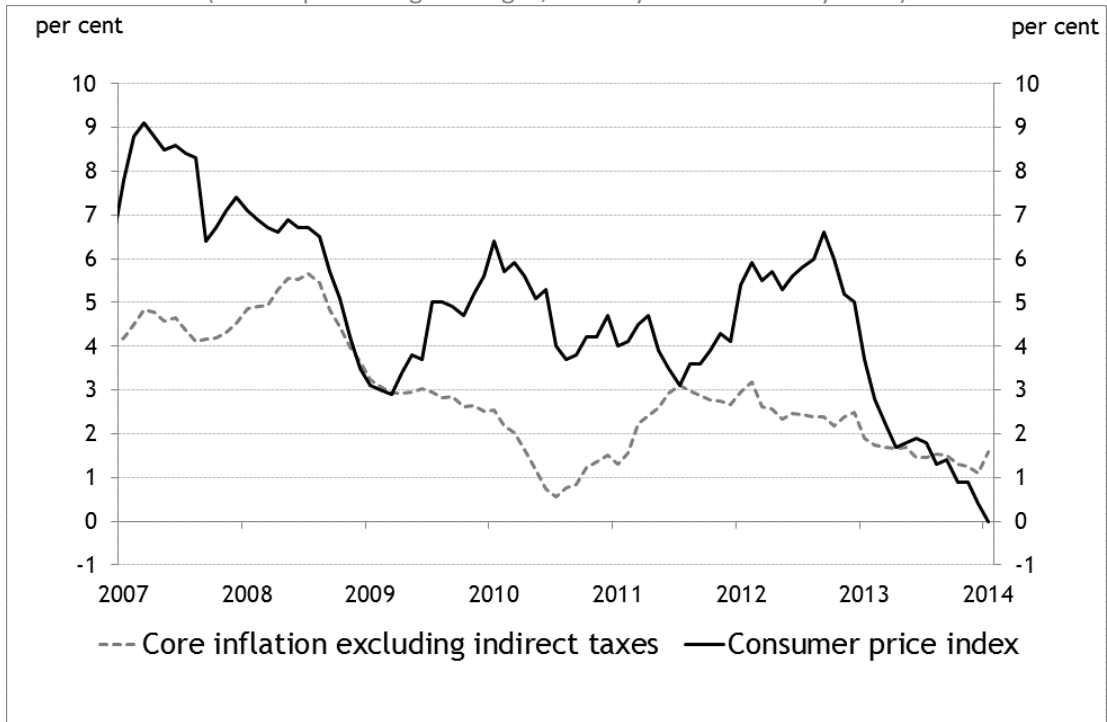
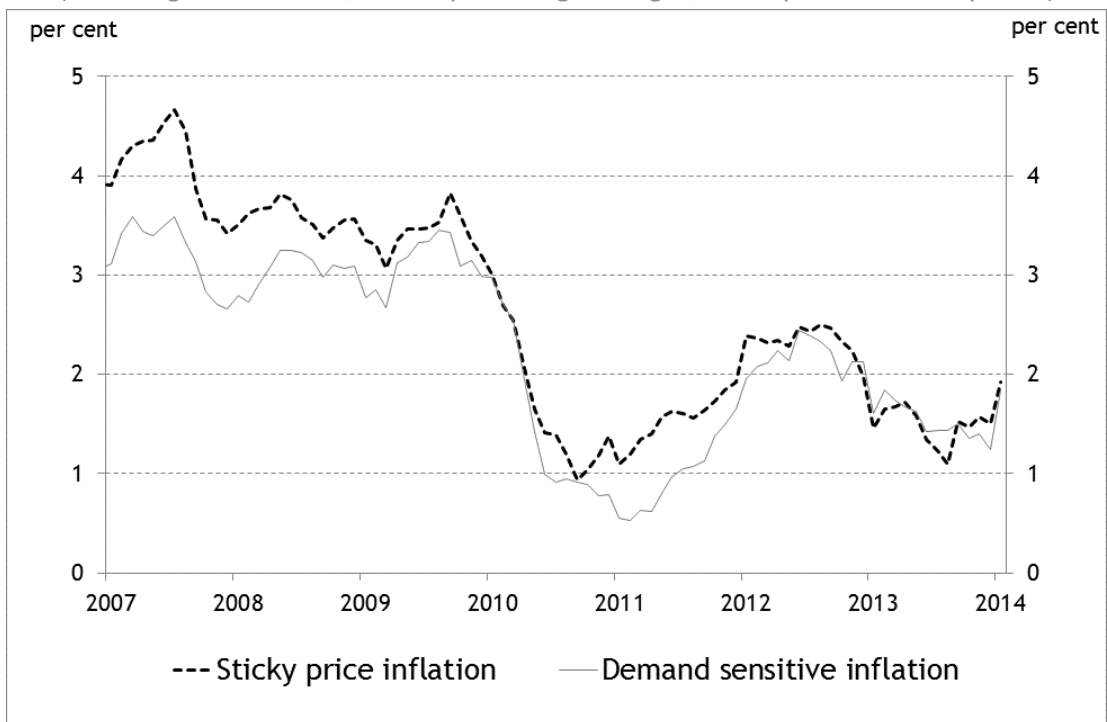


Chart 2: Underlying inflation indicators

(excluding indirect taxes, annual percentage changes, January 2007 – January 2014)



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 CSO.

Chart 3: Services price inflation
(seasonally unadjusted, tax-adjusted monthly changes)

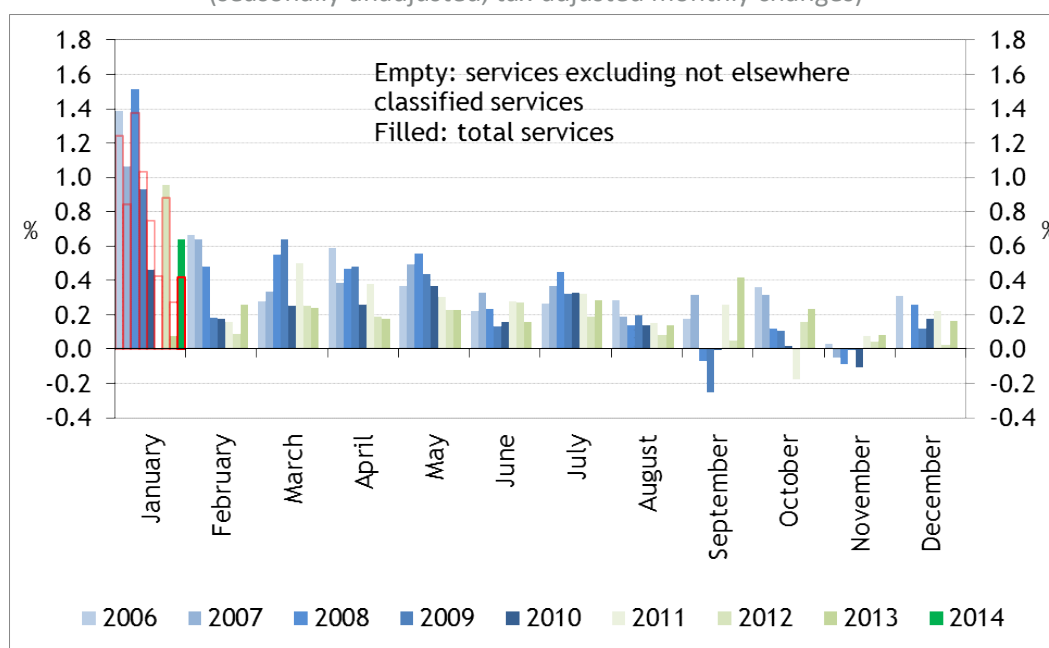


Table 1: Annual change in the consumer price index and contribution of the measures of underlying inflation

Consumer price index, January 2014 (CSO)					
0% (annual change)					
MNB underlying inflation indicators (MNB calculation)					
Contribution of sticky price inflation (percentage point), weight 31,3%	0.6	Contribution of demand sensitive inflation (percentage point), weight 52,8%	1.0	Contribution of core inflation excluding indirect taxes (percentage point), weight 65.6%	1.0
Contribution of other items (percentage point)	-0.6	Contribution of other items (percentage point)	-1.0	Contribution of other items (percentage point)	-1.1

Sources: CSO and the MNB's own calculations.

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