



FLASH ANALYSIS OF INFLATION DEVELOPMENTS

JANUARY

2024

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 Economic and Fiscal Analysis.

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/elemzesek-tanulmanyok-statisztikak/gyorselemzesek/gyorselemzes-az-inflacio-alakulasarol>

ASSESSMENT OF INFLATION DATA FOR JANUARY 2024

In January 2024, inflation continued to fall at a rapid pace. Consumer prices rose by 3.8 percent in annual terms, thus 34 months after March 2021 the price index fell back into the central bank tolerance band. Core inflation and core inflation excluding indirect tax effects fell to 6.1 percent (Chart 1 and Chart 2). The month-on-month, total consumer basket price was up by 0.7 percent, while prices rose by 0.4 percent regarding core inflation. The rate of price increases compared to the previous month was below the historical rate seen this time of year primarily due to a decline in fuel prices.

Inflation was lower in January than the mean value in the December Inflation Report projection. This difference was primarily caused by the more favourable changes than expected in fuel and processed food prices. Core inflation was also slightly below our expectations while the rises in demand-sensitive items prices was in line with our earlier projection.

The slowdown in inflation continues to be perceived generally, fuelled by the combined effect of tight monetary policy, the Government's measures to strengthen competition, subdued demand, base effects and significantly lower external cost environment than seen in recent years. The consumer price index fell by 1.7 percentage points compared to the previous month, to the greatest extent driven by fuel prices (at -0.5 percentage points), and the market services and non-durables prices (at -0.3 percentage points, each). Year-on-year core inflation fell by 1.5 percentage points with general disinflation. The Bank's measures of underlying inflation developments capturing persistent inflationary trends, calculated on a year-on-year basis, also fell. The inflation of sticky-price products fell by 1.0 percentage point and, in turn, the annual price rise of core inflation excluding processed food prices declined by 1.5 percentage points relative to the previous month (Chart 3).

The continued slowdown in underlying inflation is signalled by the fact that three-month annualised core inflation and inflation were both below 3 percent in a shorter-term comparison (Chart 4). The price of the basket calculated excluding fuel and regulated product prices was up by 0.7 percent compared to the previous month (Chart 5). Month-on-month core inflation excluding processed food, which better reflect underlying developments, was 0.3 percent in January (Chart 6). In the case of tradables, the January repricing corresponded to the historical average, while it was higher for market services and slightly lower for food products.

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

The annual inflation of *tradables* fell to 5.2 percent. The prices of this product group fell by 0.3 percent compared to the previous month (Chart 7). Within the product group, the rise in monthly durables prices was offset by a fall in non-durables prices. A rise in durables prices was primarily caused by changes in furniture, second-hand passenger cars with volatile airfares being the main contributing factor to a fall in non-durables prices.

Year-on-year price index of market services declined to 11.2 percent; and as a result, the fall in annual price growth, started in last June, continued. Prices rose by 1.0 percent on a monthly basis. The rise in monthly prices was broad-based. Announced retrospective pricings in the telecommunications and the banking sector did not appear in the January price index, these will affect statistical data in the coming months.

Annual inflation of *food* prices fell to 3.6 percent according to HCSO data. Within this product group, the inflation of unprocessed food prices declined slightly while the annual price index of processed food turned into negative territory in January following a significant fall (Chart 9). Compared to December, unprocessed food prices rose by 3.0 percent and those of processed food increased by 0.5 percent (Chart 10). The increase in unprocessed food prices was due to fresh vegetable prices while the prices of processed food were increased by a rise within the milk and the spices product groups.

Fuel prices fell by 0.5 percent on a monthly basis. Available information suggests that the effect of the increase in excise taxes, effective from 1 January, was only slightly passed through to prices for now. The average prices of the product group fell by 11.9 percent year on year.

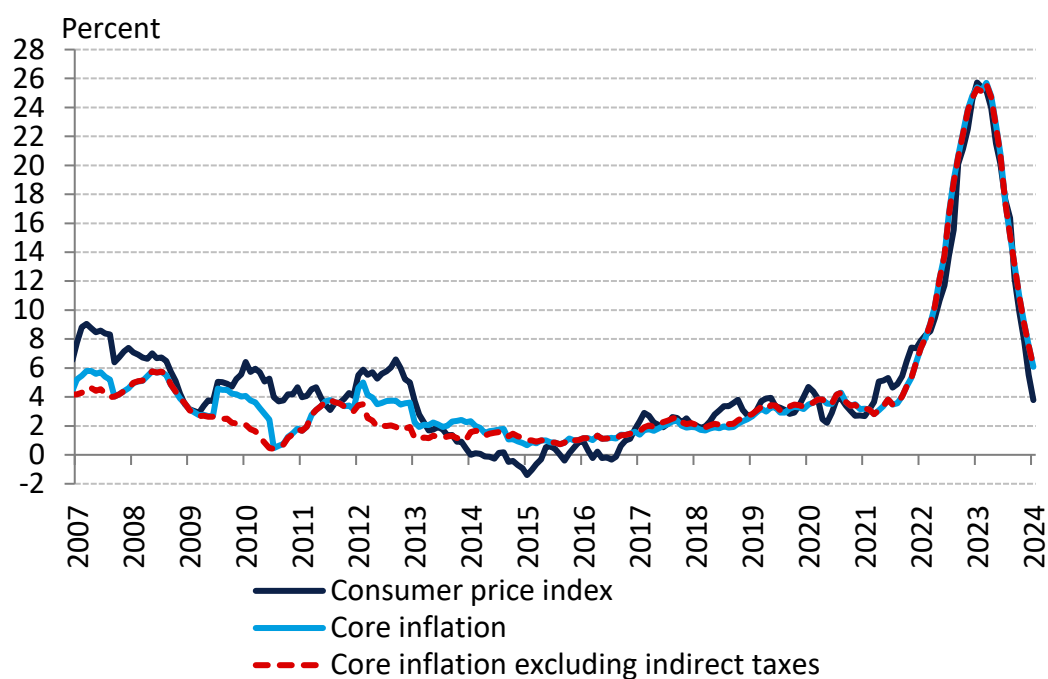
The prices of *regulated products and services* rose by 1.1 percent compared to December. This was primarily due to an increase in motorway tolls and ad piped gas prices. The latter was driven by the declining share of household consumption falling below the volume limit of the lower officially regulated price.

The indicators, measuring *households' inflation expectations*, declined in the recent months, and showed unusually high volatility (Chart 11). *Corporate expectations for retail sales and services prices* have not changed remarkably but were significantly below the values of the last 1-2 years in January (Chart 12).

Prepared by Géza Rippel

Budapest, 9 February 2024

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

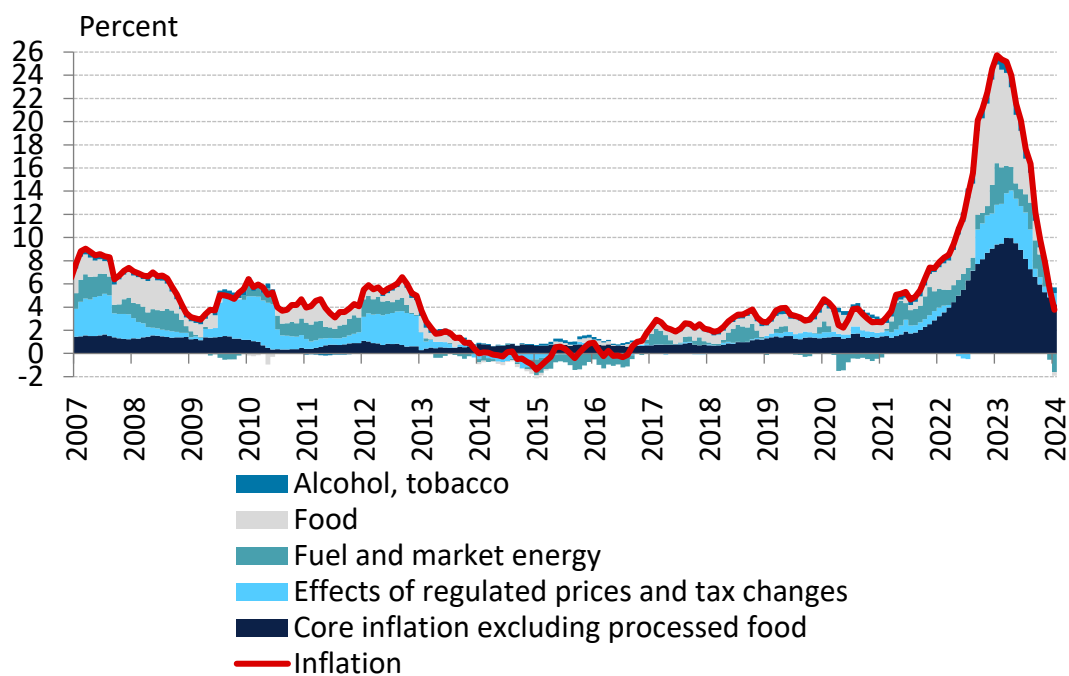
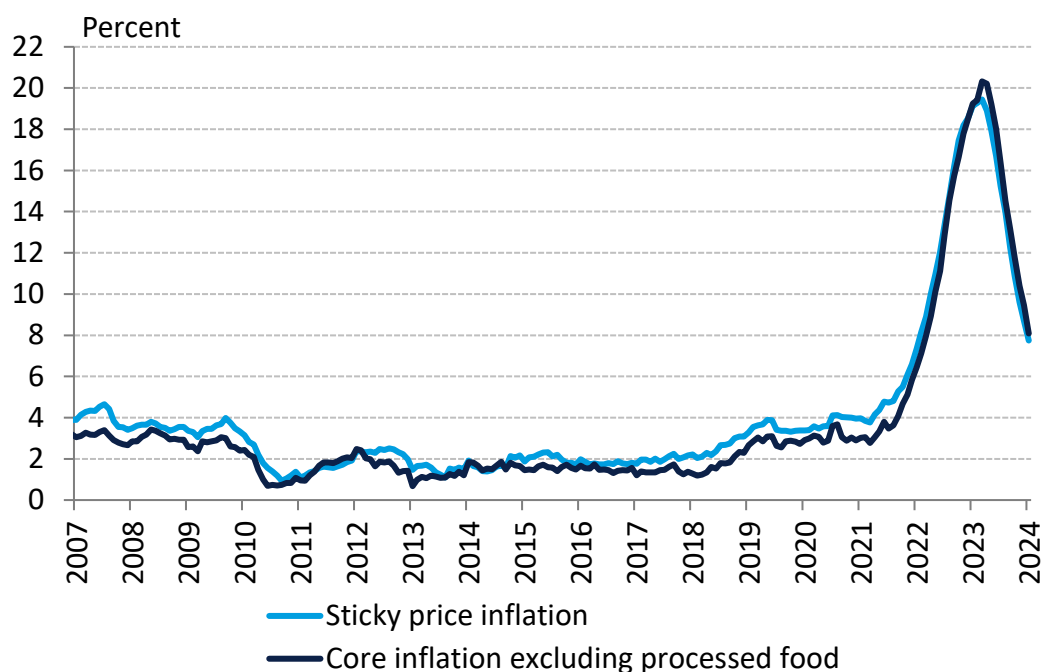


Chart 3 Underlying inflation indicators
annual percentage changes excluding indirect taxes



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 Annualised 3-month changes in inflation and core inflation
On the basis of seasonally adjusted data

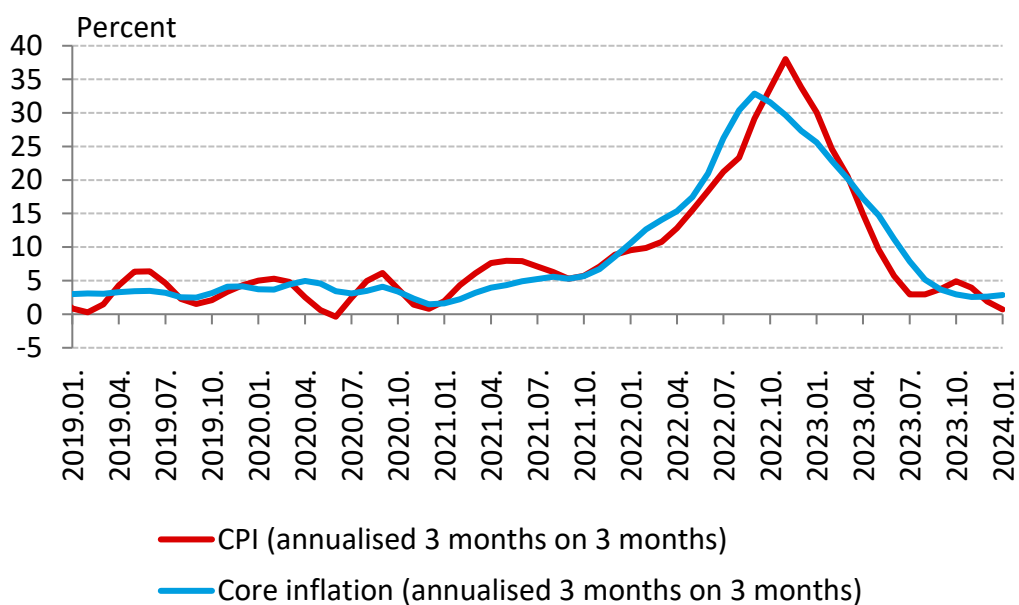


Chart 5 Monthly changes in consumer prices excluding fuel and regulated products prices
tax-adjusted, seasonally unadjusted monthly percentage changes

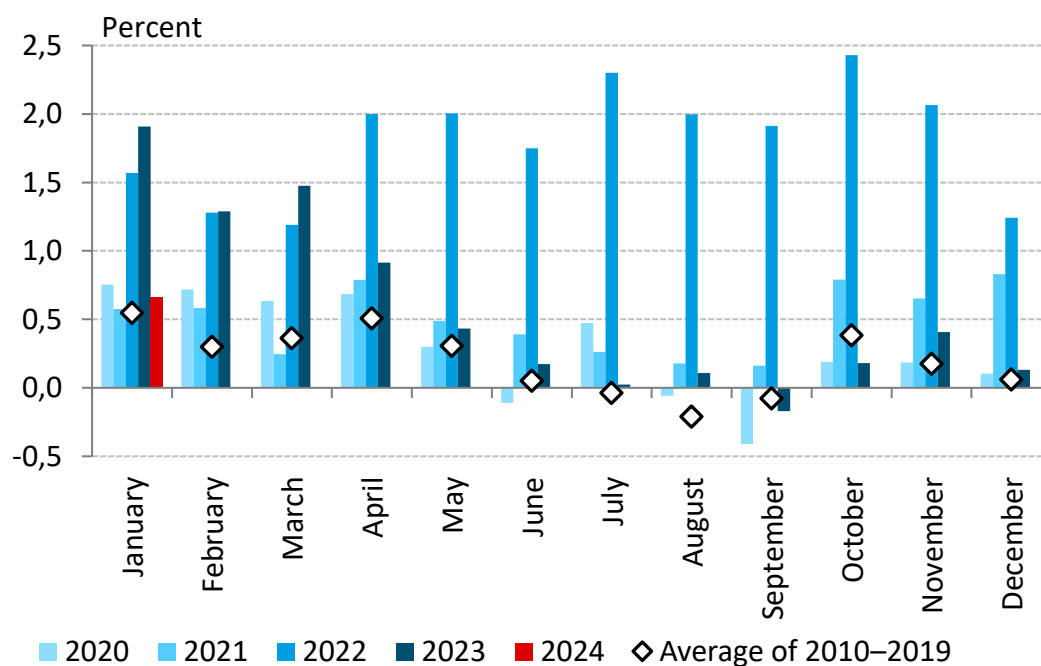


Chart 6 Monthly change in core inflation excluding processed food
tax-adjusted, seasonally unadjusted monthly percentage changes

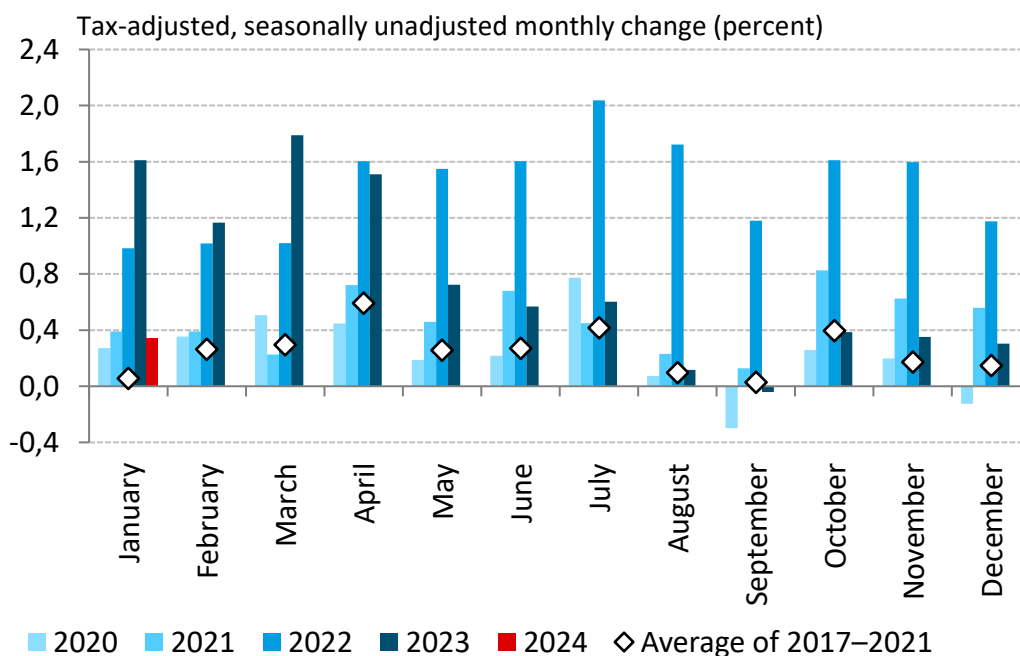


Chart 7 Inflation of tradable goods
seasonally unadjusted, tax-adjusted monthly change

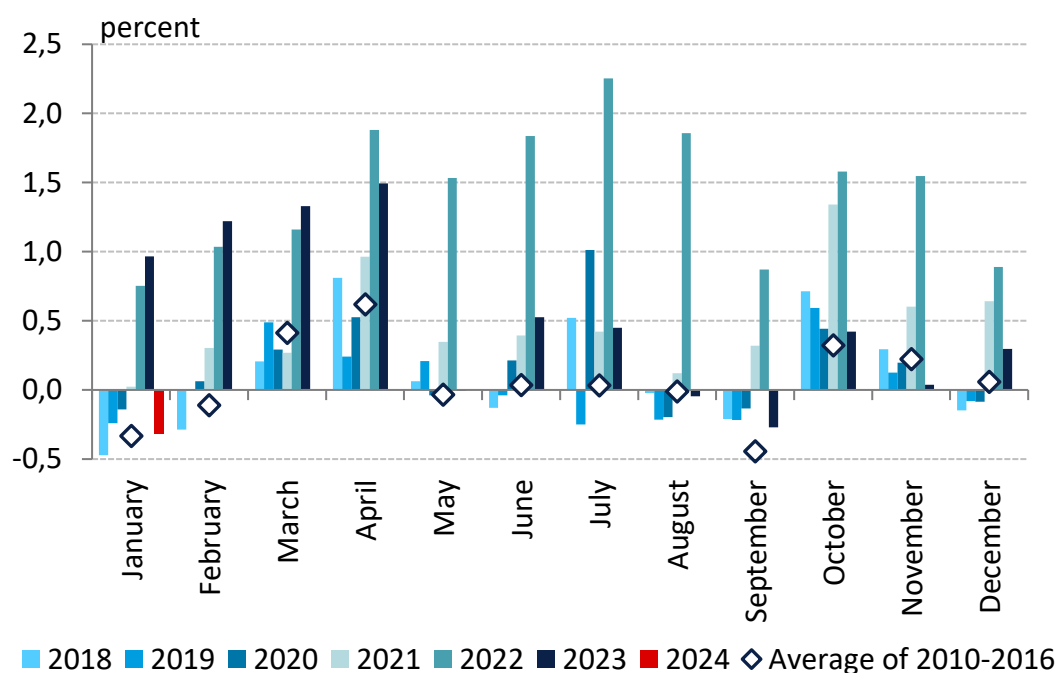


Chart 8 Market services inflation
seasonally unadjusted, tax-adjusted monthly change

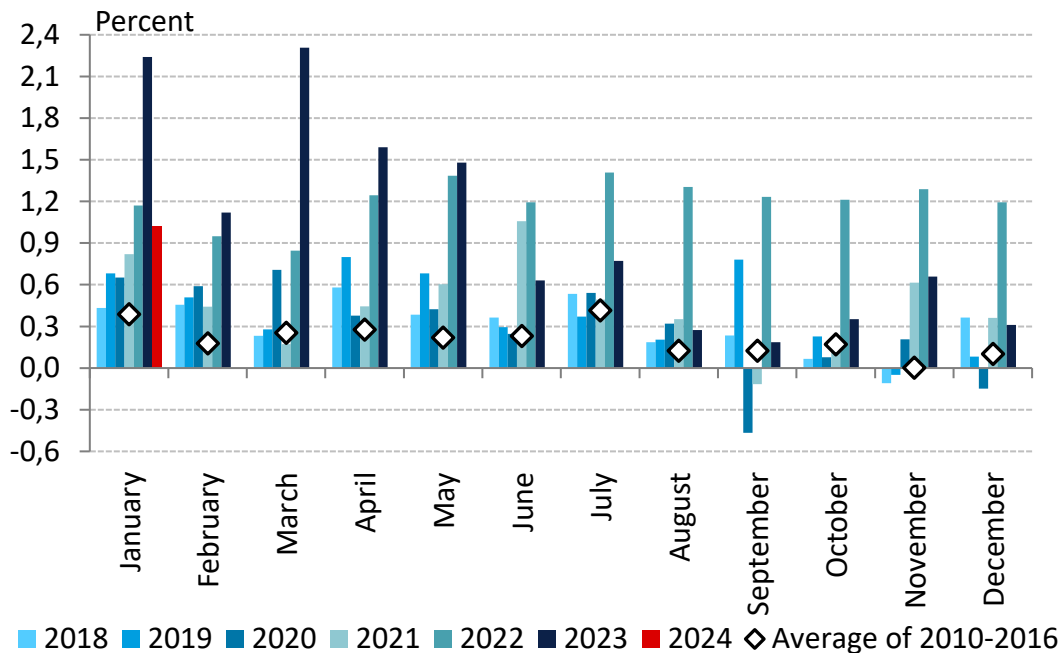
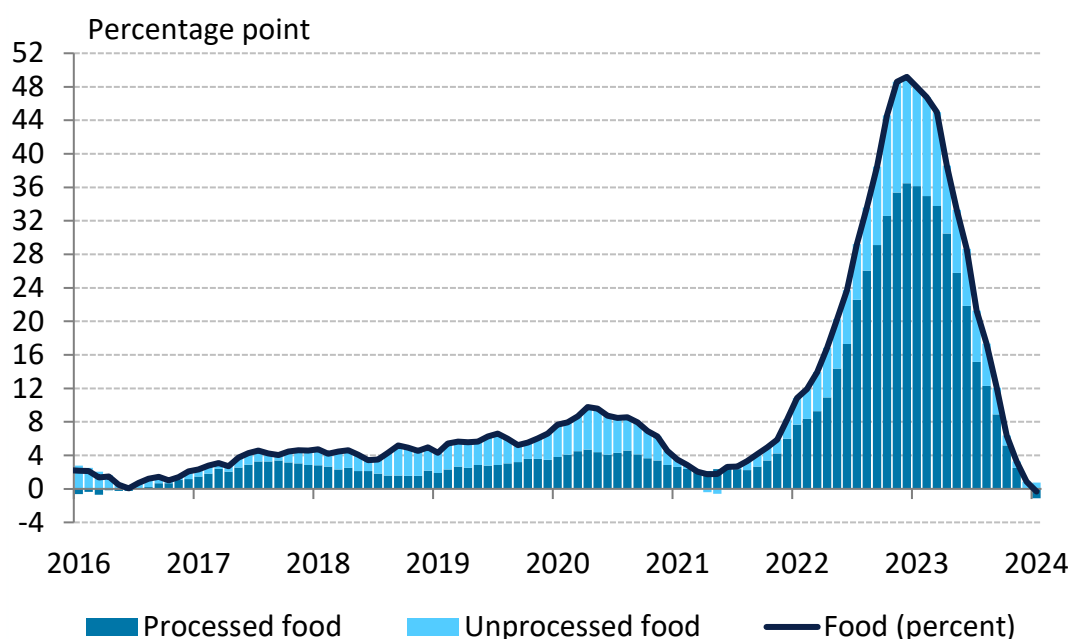
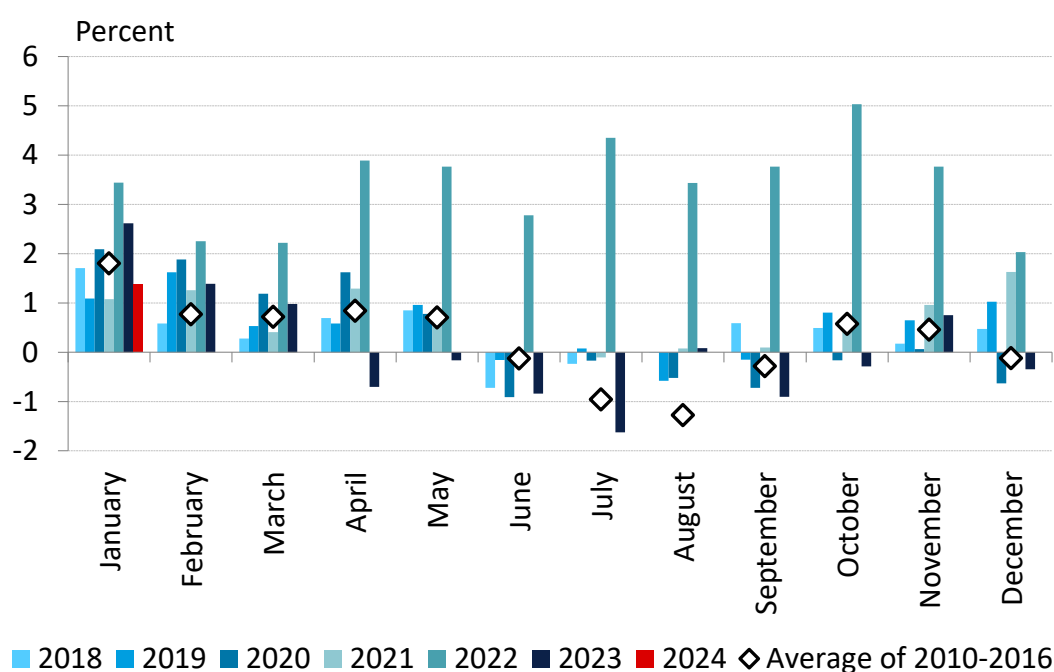


Chart 9 Developments in food price inflation
seasonally unadjusted, tax-adjusted annual change



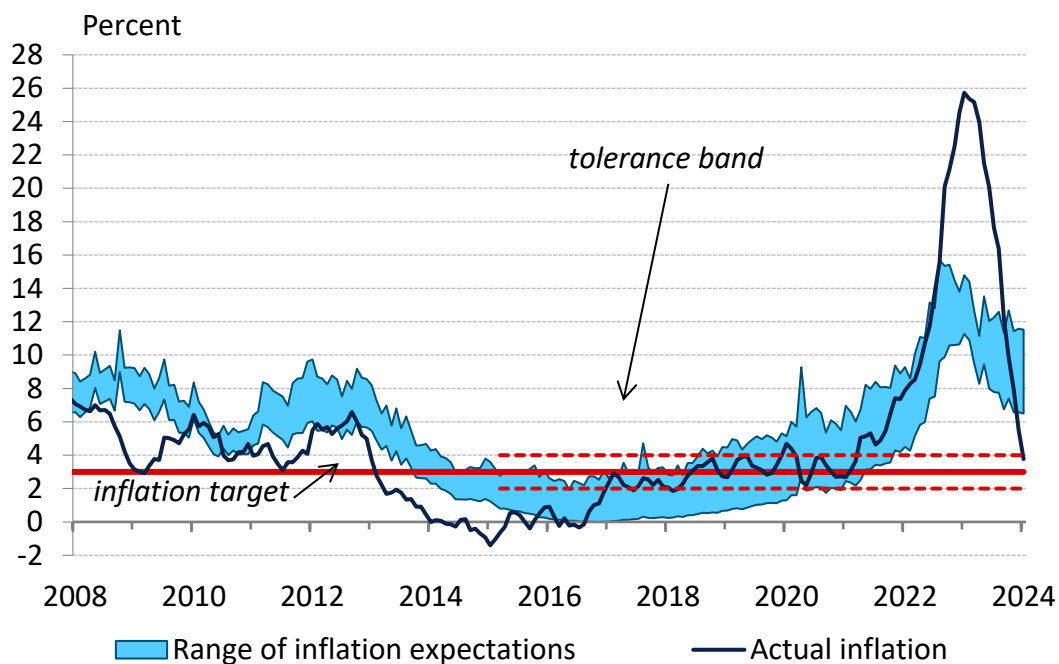
Note: The difference in food price inflation calculated by the HCSO and the MNB is explained by methodological differences. The MNB classifies food-related services as market services (restaurant meals, workplace meals, canteen goods) and the prices of regulated goods and services (school meals, nursery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

Chart 10 Monthly changes in food prices
seasonally unadjusted, tax-adjusted monthly change



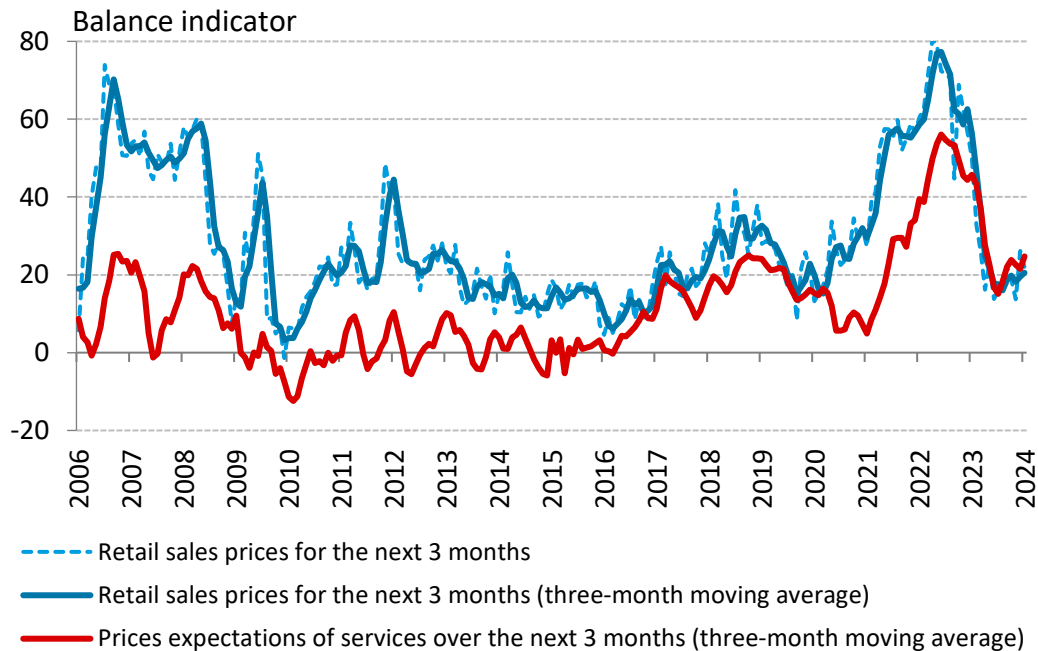
Note: The difference in food price inflation calculated by the HCSO and the MNB is explained by methodological differences. The MNB classifies food-related services as market services (restaurant meals, workplace meals, canteen goods) and the prices of regulated goods and services (school meals, nursery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

Chart 11 Households' inflation expectations



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

Chart 12 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, January 2024 (HCSO)					
3.8% (annual change)					
MNB underlying inflation indicators (MNB calculation)					
Contribution of sticky price inflation (percentage points), weight 41.1%	3.2	Contribution of core inflation excluding processed foods (percentage points), weight 52.3%	4.2	Contribution of core inflation excluding taxes (percentage points), weight 65.1%	4.0
Contribution of other items (percentage points), weight 58.9%	0.6	Contribution of other items (percentage points), weight 47.7%	-0.4	Contribution of other items (percentage points), weight 34.9%	-0.2

Sources: HCSO and the MNB's own calculations.

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