

# Czech headline inflation picks up due to higher food prices

Czech headline inflation picked up to 2.6% in September, coming in above market expectations and the CNB summer forecast. Price increases in the food segment were the main driver of the rebound. The risks of inflation crossing the 3% upper bound of the CNB tolerance band have increased, making a December pause in easing a plausible option

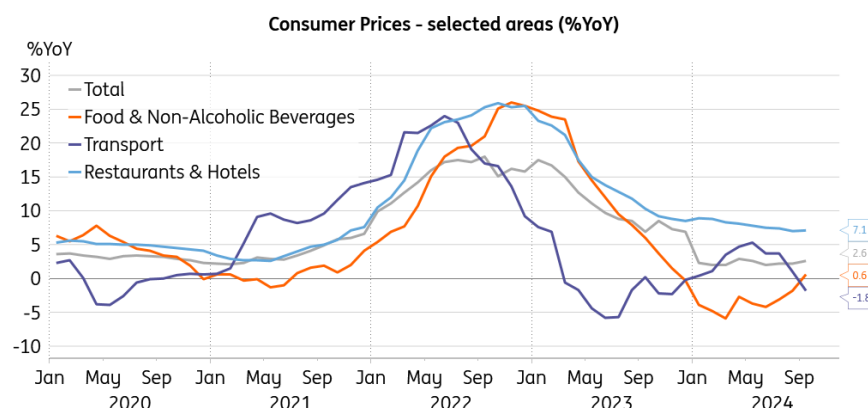


## Food prices on the march

Annual headline inflation increased to 2.6% in September, adding a higher-than-expected 0.4ppt compared to the previous reading. The food and non-alcoholic beverages section was the main driver of this pick-up. Food prices switched to a 0.6% annual increase in September from a 1.8% decline in August. For instance, milk prices picked up by 20.3% year-on-year in September (down 3.3% in August), and butter prices accelerated to 42.5% YoY (22.4% in August). Prices of goods rose 1.2% in September, while prices of services added 5.0% from a year earlier. The increase in basic grocery prices will strain consumers' budgets, as wage increases for low-income households do

not fully offset these costs.

## Food prices recorded renewed growth



Source: CZSO, Macrobond

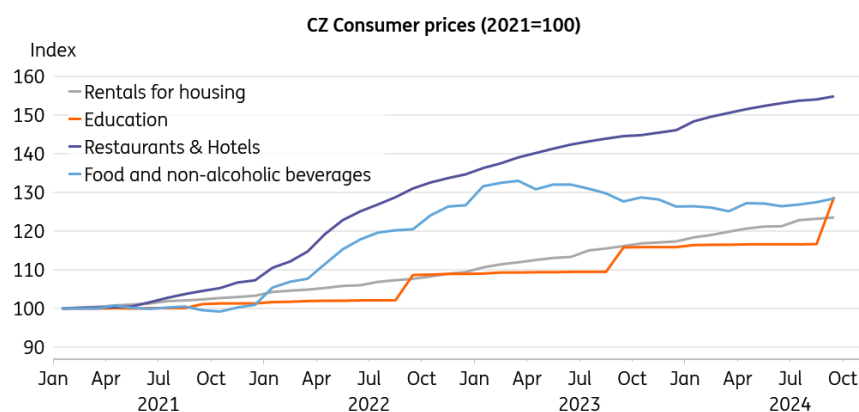
In terms of the monthly comparison, consumer prices fell by 0.4% month-on-month in September. Prices in the recreation and culture section were the main drag, as full-service holidays fell 20.9% given that the summer season has ended. The transport section also recorded a price decline from the preceding month, with prices of fuel and oil down 4.8% in September, reflecting lower Brent crude prices and a stronger exchange rate in the same month. The expected and observed decrease in electricity prices also contributed to a reduction in overall consumer prices.

In contrast, the food section saw upbeat pricing in September, with prices of butter up 16.0%, milk up 14.1%, and poultry up 4.1% from the preceding month. The start of the school year marks the usual occasion to change fees in education, with prices in the sector adding 10.5% from the month earlier in September, as nursery school fees jumped 39.6%, kindergarten fees picked up by 28.4%, and private grammar school fees added 7.1%. Such upward moves in mandatory expenditure for some families will tighten the aggregate budget constraint once again.

## A December pause in the cutting cycle gains traction

Our preliminary estimate shows that core inflation likely softened to 2.2%-2.3% YoY. Prices in the housing section contributed significantly to the annual consumer price dynamic in September and to core inflation, with rents rising by 6.4% YoY. The revival of the residential market, followed by renewed growth in property prices, sets the scene for further increases in both market and imputed rents. Such increases are usually more pronounced in January, which could drive both core and headline inflation early next year. Overall, headline inflation came in on a rather strong footing in September, increasing the likelihood of crossing the 3% upper bound limit of the Czech National Bank's tolerance band in December or even earlier. Already in September's reading, headline inflation is 0.3ppt above the CNB's summer forecast, adding to the chances of a pause in the cutting cycle toward year-end.

## Fees in education jump in September



Source: CZSO, Macrobond

We anticipate a modest cut in November, bringing the rate down to 4.0%. This will likely be followed by a pause to assess the January inflation figures, given the strong inflation print for September. If nothing stands out in January’s consumer inflation reading, the soft cuts will follow according to the scheduled meetings from March onward, bringing the base rate down to 3.25% mid-next year.

### Author

#### David Havrlant

Chief Economist, Czech Republic

420 770 321 486

[david.havrlant@ing.com](mailto:david.havrlant@ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.