

Czech Republic: Lower-than-expected inflation despite higher energy prices

Inflation continues July's story of unclear pass-through of energy prices to the CPI. In our view, however, the peak in inflation is ahead, not behind us as it might appear at first glance. The Czech National Bank (CNB) is in a comfortable position at the moment and we expect a continuation of its dovish tone



17.2% August inflation (YoY)

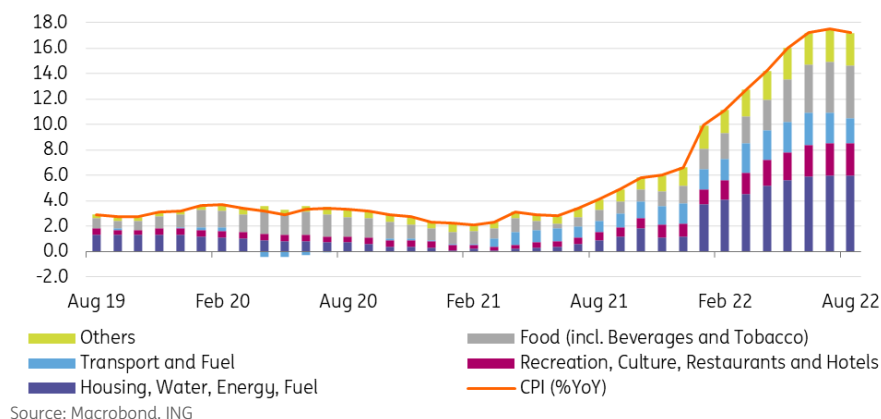
Lower than expected

Third consecutive month of slowing inflation

Consumer prices increased by 0.4% month-on-month in August. This came from price growth in almost all consumer basket segments except transport. The year-on-year growth of consumer prices amounted to 17.2% in August, which was 0.3 percentage points lower than in July. The

slowdown in the month-on-month rate from 1.3% is the third slowdown in a row without seasonal adjustment. Food prices rose 0.5% and housing and energy prices rose 0.7%. In both cases, this is the lowest number this year. Transportation fell 2.4% thanks to fuel prices which dropped by 10%.

Contributions to year-on-year inflation (pp)



The main focus is once again energy prices, which, as in July, were expected to be the main driver of inflation. However, the opposite has happened, with price growth being the lowest this year. In August, a large number of the main energy suppliers in the Czech Republic changed their price lists. We [discussed](#) this more in July. Although the statistical office's approach to such large changes in price lists is still unclear, we believe that sooner or later higher prices are bound to filter through to the CPI. Thus, after today's release, the effect appears to be cumulative for the January repricing, when most fixed contracts traditionally expire. In a nutshell, the surprisingly low figure does not mean that the peak in inflation is over, but rather that the peak will come later.

The result is 0.5 percentage points below market [expectations](#) and 2.1 percentage points below the CNB August forecast. The result supports the dovish tone of the CNB. Core inflation fell from 14.7% to 14.6% YoY according to our calculations. As always, the CNB will publish its calculation and commentary later today.

CNB is in a comfortable situation

It is clear from the headline numbers that the CNB board is in a comfortable position to continue its dovish rhetoric. This week we could hear the first views of the board members ahead of the September meeting and after today's numbers we cannot expect any changes in the previous tone. Moreover, the pressure on the koruna is minimal and the central bank has basically not had to intervene in the FX market since the August meeting. Our forecast thus remains unchanged, i.e. no more rate hikes in this cycle.

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