

Czech inflation accelerated in June

Czech inflation surprised on the upside and accelerated from 2.9 to 3.3%, mainly on the back of higher tobacco and alcoholic beverages prices. Prices of services are also not slowing down as quickly, as expected



Tobacco and alcoholic beverages behind CPI acceleration

The main reason behind CPI acceleration in June was the prices of alcoholic beverages and tobacco, where higher excise duties from the beginning of the year phased in.

Prices of tobacco products thus accelerated from 7% year on year in May to 12%. The category "alcoholic beverages and tobacco" thus explains most of the June YoY acceleration in price growth (see the table).

Fuel prices also accelerated slightly in June (by 3% MoM), but from a year-on-year point of view, their prices are still broadly 20% lower. As in the previous month, car prices accelerated further, so the "transport" category also made a slight contribution to YoY acceleration in June. On the contrary, for the first time since September last year, food prices fell month on month, and their contribution to inflation growth thus eased.

Prices of services are not decelerating

Despite the pandemic, which caused 20% YoY drop in sales of services in April and May, prices of services remain relatively stable and their year-on-year dynamics stayed at 3.3% YoY in April and May and slowed-down just slightly to 3.1% YoY in June.

Surprisingly, the pandemic hasn't resulted in a faster decline in service prices yet which may also be a result of measuring inflation in current times.

Structure of the inflation in the Czech economy

	June 2020				May 2020		Change in YoY Cont (ppt)
	YoY (%)	Cont (ppt)	MoM (%)	Cont (ppt)	YoY(t-1) (%)	Cont. (ppt)	
Total	3.3	3.3	0.6	0.6	2.9	2.9	0.40
Food and non-alcoholic beverages	5.4	1.0	-0.5	-0.1	6.3	1.1	-0.16
Alcoholic beverages, tobacco	9.6	0.8	2.9	0.3	5.8	0.5	0.33
Clothing and footwear	3.7	0.2	0.2	0.0	2.9	0.1	0.03
Housing, water, energy, fuel	3	0.8	0.1	0.0	3.2	0.8	-0.05
Furnishings, households equip.	3.3	0.2	0.2	0.0	3.1	0.2	0.01
Health	2.3	0.1	0.6	0.0	1.9	0.0	0.01
Transport	-2.6	-0.3	1.5	0.2	-3.9	-0.4	0.15
Post and telecommunication	-4.1	-0.1	-0.1	0.0	-4.1	-0.1	0.00
Recreation and culture	2	0.2	1.4	0.1	1.8	0.2	0.02
Education	4.1	0.0	0.1	0.0	4.0	0.0	0.00
Restaurants and hotels	5	0.3	0.3	0.0	5.1	0.3	-0.01
Miscellaneous goods and services	3.8	0.2	0.4	0.0	3.2	0.2	0.04

Items contributing to CPI slowdown

Items contributing to CPI acceleration

Source: CZSO, ING

2020 inflation higher than expected a few months ago

Despite faster price growth in the first half of the year, we still expect inflation to slow close to 2.5% in the second half of the year. For the whole year, however, inflation will probably stay higher than we expected some time earlier, around 2.8%, same as the last year. Nevertheless, how significantly coronavirus crisis will affect inflation in the coming quarters remains relatively uncertain.

Central bank in wait-and-see mode

The average inflation in the second quarter of this year thus reached 3.1% and was above the CNB's estimate from the last forecast in May of 2.9%. Domestic inflation thus remains elevated and has exceeded the upper limit of the central bank's tolerance band. The risk of deflation, which central bankers are afraid of in a number of countries, seems to be still relatively far away in the Czech economy.

This reduces the chances that the CNB will start any unconventional monetary steps as interest rates are close to zero-lower bound. As such, the most likely scenario seems to be stability of rates in for a longer period of time and wait-and-see approach from the CNB side.