

## Czech inflation accelerates slightly to 2.9%

While both the market and the CNB expected a further price slowdown in May, inflation accelerated to 2.9% on the back of strongly growing food and alcohol prices. However, we expect inflation will gradually decelerate in the coming quarters



Source: istock

### Strong food price acceleration in May

The month-on-month rise in food prices was 2% in May, which was the main reason behind higher than expected inflation monthly figure. Indeed, the year-on-year dynamics in food prices accelerated from 1.8% in April to 2.8% in May, which means the contribution of this item to YoY inflation increased by 0.2 percentage points (see the table). Also, prices of alcoholic beverages, which surprised by a strong decline last month and caused earlier inflation to fall below the 3% threshold, corrected in May and prices rose by 1.5% month on month.

# 2.9% Czech May inflation, YoY

Acceleration due to stronger food prices

## Fuel prices contribute to growth, but YoY dynamics will be weakening

In monthly terms, CPI growth was also driven by fuel prices, which were 3.1% higher than in April. However, their year-on-year dynamics, and hence their contribution to YoY inflation, decreased due to a higher base, as fuel prices started to accelerate in May last year and remained at a higher level above CZK 33 per litre throughout the second half of 2018. Recent Brent oil prices declined close to 60 USD per barrel, and if that continues the effect will be intensified.

## Inflation structure in the Czech economy

	May 2019				April 2019		Change in YoY Cont (ppt)
	YoY (%)	Cont (ppt)	MoM (%)	Cont (ppt)	YoY(t-1) (%)	Cont. (ppt)	
<b>Total</b>	<b>2.9</b>	<b>2.9</b>	<b>0.7</b>	<b>0.7</b>	<b>2.8</b>	<b>2.8</b>	<b>0.1</b>
Food and non-alcoholic beverages	2.8	0.5	2	0.4	1.8	0.3	0.2
Alcoholic beverages, tobacco	2.3	0.2	1.5	0.1	1.1	0.1	0.1
Clothing and footwear	-1.9	-0.1	-0.3	0.0	-2.1	-0.1	0.0
Housing, water, energy, fuel	5.8	1.5	0.4	0.1	5.8	1.5	0.0
Furnishings, households equip.	1.1	0.1	0.6	0.0	0.8	0.0	0.0
Health	3.4	0.1	0.4	0.0	3.7	0.1	0.0
Transport	0.9	0.1	0.3	0.0	1.7	0.2	-0.1
Post and telecommunication	-1.3	0.0	-0.2	0.0	-1.3	0.0	0.0
Recreation and culture	0.8	0.1	-0.3	0.0	0.9	0.1	0.0
Education	2.2	0.0	0	0.0	2.2	0.0	0.0
Restaurants and hotels	3.9	0.2	0.4	0.0	3.9	0.2	0.0
Miscellaneous goods and services	4.2	0.3	0.2	0.0	4.3	0.3	0.0

Items contributing to CPI slowdown

Items contributing to CPI acceleration

Source: CZSO, ING

## Prices of services the main reason behind higher inflation

In general, the prices of services are the main reason behind an elevated CPI this year. At the beginning of the year, they were growing by almost 4%, in May by 3.4%. Housing prices play a major role in this respect, rising by almost 6% this year and contributing more than half to inflation growth. However, the housing prices category also started to accelerate in the second half of last year, partially due to an increase in electricity prices. As such, the higher base will push YoY CPI down not only for fuel but also on housing prices, and annual inflation growth will therefore gradually slow down. This will also be reflected in the slowdown in core inflation, i.e. inflation excluding fuel and food prices.

## No game changer for the CNB

For the central bank, the current rate of inflation is relatively favourable, as it has not exceeded the 3% tolerance band and should also gradually return to the 2% target. Though the CNB model may assess the need for further rate hikes due to the weaker than assumed koruna, in the current global uncertainty, the CNB Board will prefer a “wait and see”

approach in our view. The market is even betting on a price cut this year, as in the case of the Fed. However, this is very premature in the case of the CNB, as the impact of the global slowdown on the domestic economy is still relatively limited. At this point in time, interest rate stability seems the most likely scenario for now.