Czech inflation accelerates in November

November inflation surprised on the upside, reaching the highest level since the end of 2012. The acceleration to 3.1% in November from 2.7% in October was driven mainly by food prices, while core inflation slowed down to 2.5%

Source: Shutterstock

November annual price growth of 3.1% was the highest since October 2012, above both the market and Czech National Bank's estimate of 2.9%. The surprising rise in prices was driven mainly by food prices, which increased by 1.2% month-on-month. This pushed year-on-year food price growth up to 5.4% YoY in November from 2.8% in October, with the low base from November 2018 also helping. As such, the contribution of food price growth to YoY CPI increased from 0.5 percentage point to 1 percentage point, fully explaining the acceleration in November CPI.

3.1%

Higher than expected

Czech inflation in November (YoY)

the highest in last 7 years

Housing prices are main inflation driver this year

For the whole year, inflation will likely reach 2.8%, the highest figure since 2012, when it was 3.3%. Despite the November rise in food prices, the fastest growing part of the consumer basket this year was the housing category, which grew by more than 5%, the highest average growth rate in the last 10 years. Housing prices reflect this year's 10% growth in electricity prices, a 5% increase in heating prices, a rise in rental prices due to the overheated real estate market, but also an increase in prices of household maintenance services, which also increased by 10% on average this year. The housing category thus contributed more than half to inflation this year. In November, prices of services slowed slightly from 3.8% in October to 3.7%, and so core inflation, as defined by the Czech National Bank, also slowed from 2.6% to 2.5%.

Structure of the inflation in the Czech economy

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	November 2019				October 2019		Change in YoY Cont (ppt)
	YoY (%)	Cont (ppt)	MoM (%)	Cont (ppt)	YoY(t-1) (%)	Cont. (ppt)	
Total	**3.1**	**3.1**	**0.3**	**0.3**	**2.7**	**2.7**	**0.4**
Food and non-alcoholic beverages	5.4	1.0	1.2	0.2	2.8	0.5	0.46
Alcoholic beverages, tobacco	1.7	0.2	0	0.0	1.9	0.2	-0.02
Clothing and footwear	-0.8	0.0	0.5	0.0	-0.8	0.0	0.00
Housing, water, energy, fuel	5	1.3	0.4	0.1	4.9	1.3	0.03
Furnishings, households equip.	2.4	0.1	0.2	0.0	1.8	0.1	0.03
Health	2.5	0.1	-0.6	0.0	3.0	0.1	-0.01
Transport	-0.1	0.0	-0.3	0.0	0.3	0.0	-0.04
Post and telecommunication	-4.1	-0.1	-2.2	-0.1	-2.0	-0.1	-0.06
Recreation and culture	2.2	0.2	-0.2	0.0	2.0	0.2	0.02
Education	3.8	0.0	0	0.0	3.8	0.0	0.00
Restaurants and hotels	4.6	0.3	0.3	0.0	4.6	0.3	0.00
Miscellaneous goods and services	3.4	0.2	-0.1	0.0	3.3	0.2	0.01

Items contributing to CPI slowdown
Items contributing to CPI acceleration
Source: CZSO, ING

The CNB on hold in December

In its current forecast, the CNB expected November inflation to accelerate to 2.9%. Today's result is thus not only above the central bank's estimate, but also above the sensitive upper limit of the CNB's inflation tolerance band. However, November's 3.1% rise was largely driven by food price inflation, while services prices slowed slightly, as did core inflation. At the same time, inflation in the monetary policy horizon is decelerating. As such, the CNB Board might tolerate higher inflation in the short term and leave interest rates unchanged in December. However, January inflation and other numbers coming from abroad will be essential for the CNB's inflation outlook and potential interest rate decision, as uncertain developments abroad have been the main reason preventing the CNB from raising interest rates at previous monetary meetings.