

## Czech inflation slows again on food prices

Inflation slowed further to 2.0% in November, the lowest since April. But weaker prices are mainly due to a slowdown in food prices so this is no game changer for central bank policy



Source: Shutterstock

### Weaker CPI on the back of food prices

November inflation slowed to 2.0% year-on-year from 2.2% in October, mainly due to a month-on-month decline in food prices. Fuel prices followed developments in oil prices but dropped only marginally by 0.3% month-on-month in November. Compared to a year ago, fuel prices were up 10%, decelerating from the 12% YoY growth seen in October. However, food prices declined by 1.2% month-on-month, a substantial decline given the fact that food prices usually rise in November. The fall in food prices was due mainly to prices of fruit and vegetables. In September, food prices contributed 0.2 percentage points to YoY CPI growth but detracted -0.2ppt in November. Still, this is supposed to be a temporary drop, as food prices should start to increase again next year as a result of a bad harvest this year.

# 2.0%

November CPI (YoY)

affected by recent food price decline

## Prices of services continue to grow

On the contrary, the biggest influence on the growth of the YoY price level came, as before, from prices in housing, water, electricity, gas and other fuels. Also, restaurant prices further picked up in November. As such, total services prices accelerated from 3.2% in October to 3.3%, confirming that core prices are continuing to accelerate.

## Structure of the inflation in the Czech economy

|                                  | YoY (%)  | Cont (ppt) | MoM (%)     | Cont (ppt)  | YoY( t-1) (%) | Cont (ppt) |
|----------------------------------|----------|------------|-------------|-------------|---------------|------------|
| <b>Total</b>                     | <b>2</b> | <b>2.0</b> | <b>-0.1</b> | <b>-0.1</b> | <b>2.2</b>    | <b>2.2</b> |
| Food and non-alcoholic beverages | -1.2     | -0.2       | -1.2        | -0.2        | 0.2           | 0.0        |
| Alcoholic beverages, tobacco     | 3.2      | 0.3        | 0.2         | 0.0         | 3.2           | 0.3        |
| Clothing and footwear            | -1.4     | -0.1       | 0.5         | 0.0         | -2.0          | -0.1       |
| Housing, water, energy, fuel     | 3.9      | 1.0        | 0.4         | 0.1         | 3.5           | 0.9        |
| Furnishings, households equip.   | 1.6      | 0.1        | -0.4        | 0.0         | 2.0           | 0.1        |
| Health                           | 3.4      | 0.1        | -0.2        | 0.0         | 3.6           | 0.1        |
| Transport                        | 2.9      | 0.3        | 0.1         | 0.0         | 3.3           | 0.3        |
| Post and telecommunication       | -0.8     | 0.0        | 0           | 0.0         | -0.9          | 0.0        |
| Recreation and culture           | 0.4      | 0.0        | -0.4        | 0.0         | 0.3           | 0.0        |
| Education                        | 2.2      | 0.0        | 0           | 0.0         | 2.2           | 0.0        |
| Restaurants and hotels           | 3.8      | 0.2        | 0.3         | 0.0         | 3.5           | 0.2        |
| Miscellaneous goods and services | 4        | 0.3        | -0.2        | 0.0         | 4.1           | 0.3        |

Source: CZSO, ING Bank

## No game changer for the central bank

Despite the fact that November inflation ended well below the central bank estimate of 2.5% (forecast at the end of October), it was mainly related to the recent food price decline. Excluding volatile food and fuel prices, inflationary pressures remain visible in the domestic economy via prices of services. These should gradually increase due to the combination of a very tight labour market and increasing wages. Despite recent ant-inflationary factors related to food and fuel prices (gives the recent decline in oil prices), these are less relevant prices from a monetary policy perspective, and should be no game changer for the CNB's expected monetary stance, in our view. We continue to believe that a further hike will be delivered at the February meeting, as inflationary pressures will gradually increase and the Czech koruna will be substantially weaker compared to the central bank's expectations (25.1 EUR/CZK in 1Q19).