

## Czech inflation decelerates amid lower food prices

Inflation decelerated to 2.3% in July from 2.6% in the previous month. This weaker print was driven mainly by lower food prices but core inflation accelerated further. This is no game changer for the central bank's hawkish outlook for this year



Source: Shutterstock

### Weaker CPI in July due to fall in food prices

The July CPI decelerated to 2.3% from 2.6%, as expected, mainly on the back of lower food prices, which declined by 1.9% month-on-month (MoM). Food prices year-on-year (YoY) fell 0.1% in July after rising 2.7% YoY in June. This represents the lowest annual print since the end of 2016. The contribution of food prices to YoY CPI growth declined from 0.5 percentage points to zero and was the most important factor for the July CPI slowdown.

2.3%

## July inflation (YoY)

After a 2.6% reading in June due to food prices

## Structure of inflation in the Czech economy

|                                  | YoY (%)    | Cont (ppt) | MoM (%)    | Cont (ppt) | YoY( t-1) (%) | Cont (ppt) |
|----------------------------------|------------|------------|------------|------------|---------------|------------|
| <b>Total</b>                     | <b>2.3</b> | <b>2.3</b> | <b>0.2</b> | <b>0.2</b> | <b>2.6</b>    | <b>2.6</b> |
| Food and non-alcoholic beverages | -0.1       | 0.0        | -1.9       | -0.3       | 2.7           | 0.5        |
| Alcoholic beverages, tobacco     | 2.9        | 0.3        | 0.2        | 0.0        | 3.5           | 0.3        |
| Clothing and footwear            | -1.3       | -0.1       | -2.6       | -0.1       | -0.9          | 0.0        |
| Housing, water, energy, fuel     | 2.9        | 0.7        | 0.2        | 0.1        | 2.8           | 0.7        |
| Furnishings, households equip.   | 1.7        | 0.1        | 0.4        | 0.0        | 1.3           | 0.1        |
| Health                           | 3.6        | 0.1        | 0.3        | 0.0        | 3.7           | 0.1        |
| Transport                        | 5.4        | 0.5        | 0.3        | 0.0        | 4.6           | 0.5        |
| Post and telecommunication       | -1.6       | 0.0        | -0.2       | 0.0        | -1.8          | -0.1       |
| Recreation and culture           | 3.1        | 0.3        | 5.4        | 0.5        | 0.5           | 0.0        |
| Education                        | 1.6        | 0.0        | 0          | 0.0        | 1.6           | 0.0        |
| Restaurants and hotels           | 3.6        | 0.2        | 0.4        | 0.0        | 3.6           | 0.2        |
| Miscellaneous goods and services | 2.9        | 0.2        | 0.5        | 0.0        | 2.8           | 0.2        |

Source: CZSO, ING Bank

## No game changer for the CNB

Though inflation came in below the Czech National Bank forecast of 2.6%, it is not a game-changer for the bank's latest monetary policy outlook. Indeed, the CNB confirmed last week that its July CPI did not incorporate the latest food prices survey. As such, the CNB admitted that prices might be lower and prepared a sensitivity scenario with a lower CPI, showing almost no difference to the policy rate path. Therefore, today's weaker CPI print is no game changer for the CNB's forecast showing further monetary tightening. In addition, the difference between the CNB's CPI forecast and July's data was driven mainly by less relevant food prices. On the other hand, prices of services accelerated by 3.5% in July after climbing 2.8% YoY in June, showing clear pro-inflationary factors stemming from the favourable economic situation.

## Hikes will continue this year

Given the current favourable economic conditions, pro-inflationary risks stemming from an overheated labour market, a still relatively weak Czech koruna and recent CNB forecast indicating the need for further monetary tightening, we believe that one more rate hike this year is a done deal. If the koruna's appreciation remains muted, we could even see two hikes by the end of the year.

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