

## Czech inflation accelerates further in December

December inflation ended slightly above the market consensus and the central bank estimate. Food prices continued to grow, as well as prices related to housing. For the whole of 2019, inflation reached 2.8%, the highest since 2012



Source: Shutterstock

December inflation slightly accelerated to 3.2% year-on-year (YoY) after 3.1% in the previous month, but the rise was not as surprising as in November, when food prices accelerated strongly.

- Food prices continued to grow in monthly terms in December, but the annual growth rate slowed to 4.8% from 5.4%.
- Transport prices contributed to growth, not only because of the base effect but also due to an increase in car prices.
- Prices related to housing also continued to grow, mainly due to further rises in electricity prices.
- However, prices of services slowed slightly in December to 3.6% from 3.7%.

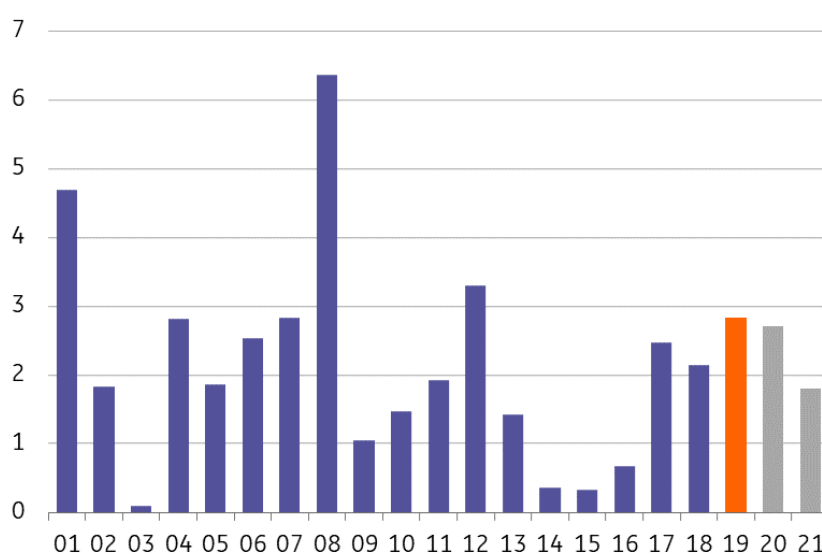
Core inflation, as defined by the Czech National Bank, probably remained at 2.5%, according to our

preliminary estimates.

## Housing prices surged last year

For the whole of 2019, inflation rose 2.8%, the highest since 2012, when it reached 3.3%. Despite the acceleration of food prices at the end of last year, the fastest growing part of the consumer basket was the housing category, which grew by more than 5% YoY, the highest average growth rate in the last 10 years. Housing prices reflected 10% growth in electricity prices, a 5% increase in heating prices, a rise in rents due to the overheated property market, and also an increase in prices of household maintenance services, which also increased by 10% on average last year. The housing category thus contributed more than a half to inflation in 2019.

## Inflation rate (%)



Source: CZSO, ING

## Potential CNB hike on cards again

In its current forecast, the CNB put both November and December inflation at 2.9%. The last two prints were thus not only above the central bank's estimate, but also above the sensitive upper limit of the CNB's inflation tolerance band. As the acceleration of prices above 3% was largely driven by volatile food prices, the CNB will be willing to tolerate inflation to some extent above its upper tolerance band. An interest rate rise will now depend primarily on economic developments abroad, which was the main reason the CNB did not raise rates last year. If the situation in the global economy improves, and domestic inflationary pressures do not slow as expected, another cautious rate hike this year may be in the offing, in our view.