Czech inflation peaks in February

Czech inflation accelerated to 3.7% YoY in February but given the recent slump in oil prices, we expect inflation to slow down to around 2.5% this year

Shoppers in a Czech supermarket

Clothing and footwear drive CPI higher

Czech CPI accelerated slightly to 3.7% in February after 3.6% in January. The year-on-year acceleration was driven mainly by clothing and footwear, which accelerated by 4.3% YoY and mostly contributed to the growth. Alcoholic price beverages didn't grow as much as we'd expected, in fact, they decelerated in MoM terms.

In month-on-month terms, prices grew by 0.3% after 1.5% in January, and February price growth was driven mainly by holiday packages, which is traditional seasonal development. Coronavirus fears started to mount in the last week of February, so this is not reflected in prices just yet.

Food prices stagnated while fuel prices fell by 1.5%. Prices of services accelerated from 3.9 to 4.1% YoY.

Structure of the inflation in the Czech economy

	February 2020				January 2020		Change in YoY Cont (ppt)
	YoY (%)	Cont (ppt)	MoM (%)	Cont (ppt)	YoY(t-1) (%)	Cont. (ppt)	
Total	**3.7**	**3.7**	**0.3**	**0.3**	**3.6**	**3.6**	**0.10**
Food and non-alcoholic beverages	5.5	1.0	0	0.0	6.3	1.1	-0.14
Alcoholic beverages, tobacco	3.1	0.3	-1.5	-0.1	3.5	0.3	-0.03
Clothing and footwear	4.3	0.2	1.6	0.1	1.3	0.1	0.12
Housing, water, energy, fuel	4.2	1.1	0	0.0	4.6	1.2	-0.10
Furnishings, households equip.	2.9	0.2	1.4	0.1	2.2	0.1	0.04
Health	1.8	0.0	0.4	0.0	1.6	0.0	0.00
Transport	2.7	0.3	0.1	0.0	2.3	0.3	0.05
Post and telecommunication	-3.8	-0.1	0	0.0	-4.0	-0.1	0.01
Recreation and culture	2.1	0.2	1.7	0.1	2.0	0.2	0.01
Education	4	0.0	0.1	0.0	4.0	0.0	0.00
Restaurants and hotels	5.6	0.4	0.6	0.0	5.3	0.3	0.02
Miscellaneous goods and services	3.7	0.2	0.4	0.0	3.4	0.2	0.02

Items contributing to CPI slowdown
Items contributing to CPI acceleration

Source: CZSO, ING

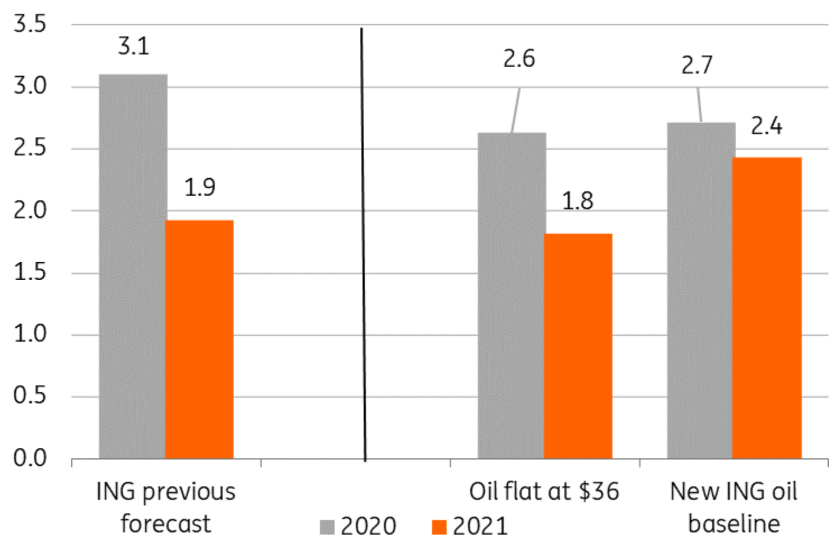
CPI will decelerate due to oil prices

The central bank expected February CPI around 3.5%, but that estimate was calculated before the January numbers were released. But given the recent volatility in oil prices, today's inflation numbers don't mean very much anymore.

If oil prices remain below 40 USD/b in the coming quarters, total CPI would decelerate about 0.5ppt this year, so instead of coming in around 3.1%, it is likely to come in around 2.6-2.7%.

We think overall inflation will remain above the 2% target for the whole year, so the central bank shouldn't really be worried about the oil slump (which is usually neglected as a supply shock), even the secondary-round effects, which might affect core inflation via prices of transport and other services linked to lower oil prices.

Yearly Czech CPI scenarios (% YoY)



Source: ING

Market pricing is too aggressive

Even though the central bank is pricing in aggressive action now, first cut at the end of the March, four cuts in six-months and six-cuts in a year's time we think this is exaggerated.

If the situation doesn't improve in a month's time, we foresee, one to two cuts in 2H20, so a lot less rapid and intense than the market is currently pricing.