

Czech inflation up slightly, to 2.7% YoY in February

Inflation accelerated further, from 2.5% YoY in January to 2.7% in February. This was mainly due to food prices. Inflation should continue to grow over the next two months, but then should slow. For the whole year, we expect a level of 2.5% on average. The next CNB hike seems likely in May.



Source: Shutterstock

Food prices the main factor behind CPI growth in February

February CPI increased by 2.7% YoY and by 0.2% MoM. The main factor behind the acceleration was food prices, which increased by 0.7% MoM. Due to a base effect, their YoY dynamics accelerated from -0.2% YoY in January to 1.3% YoY in February. Food prices alone saw YoY CPI growth 0.3ppt higher than in January. On the other hand, fuel prices fell by 1.5% in February, but should start to grow again in March.

2.7% YoY

February CPI growth

Above the central bank estimate of 2.4%

Higher than expected

Housing costs are growing, but will slowdown

The surprising increase to 2.5% in January inflation was concentrated mainly in housing prices, with notable rises in electricity, gas, rent and heat prices. Housing items have grown only moderately in February. Still, the housing category is the most important factor behind the annual CPI growth this year, contributing 1.4ppt in February. This growth is also driven by imputed rent, which is part of the CPI computed by the Czech Statistical Office, but not in the Eurostat's Harmonized Index of Consumer Prices (HICP).

However, imputed rent will gradually slow as we expect housing prices do decelerate significantly this year due to the CNB's macroprudential measures. CPI excluding imputed rent was just 2.3 % YoY in February.

Structure of inflation in the Czech economy

	February 2019				January 2019		Change in YoY Cont (ppt)
	YoY (%)	Cont (ppt)	MoM (%)	Cont (ppt)	YoY(t-1) (%)	Cont. (ppt)	
Total	2.7	2.7	0.2	0.2	2.5	2.5	0.2
Food and non-alcoholic beverages	1.3	0.2	0.7	0.1	-0.2	0.0	0.3
Alcoholic beverages, tobacco	3.2	0.3	-1.2	-0.1	3.2	0.3	0.0
Clothing and footwear	-1.2	0.0	-1.3	-0.1	-0.7	0.0	0.0
Housing, water, energy, fuel	5.4	1.4	0.4	0.1	4.9	1.3	0.1
Furnishings, households equip.	1.4	0.1	0.7	0.0	1.1	0.1	0.0
Health	3.5	0.1	0.2	0.0	3.6	0.1	0.0
Transport	0.1	0.0	-0.3	0.0	0.8	0.1	-0.1
Post and telecommunication	-1.3	0.0	-0.2	0.0	-1.0	0.0	0.0
Recreation and culture	2.2	0.2	1.6	0.1	1.9	0.2	0.0
Education	2.2	0.0	0.1	0.0	2.2	0.0	0.0
Restaurants and hotels	3.8	0.2	0.3	0.0	3.8	0.2	0.0
Miscellaneous goods and services	4.2	0.3	0.2	0.0	4.7	0.3	0.0

Items contributing to CPI slowdown

Items contribution to CPI acceleration

Source: Czech Statistical Office, ING

Gradual slowdown expected after a few months

While inflation will accelerate further over the next two months (though it should remain within the CNB tolerance band), from May it should start to slow to close to 2%. Therefore we do not think the CNB will be under pressure to deliver any imminent hike in March, with current inflation a "lost battle". More relevant for the central bank is inflation over the monetary policy horizon. Based on our estimate, this is just above 2%.

Two hikes this year, the first most likely in May

All in all, we still expect the CNB to deliver two hikes this year. The Czech economy is in relatively good shape although the global outlook continues to deteriorate. But despite inflation (at 2.7%

YoY) being above CNB expectations (2.4%), we prefer the May meeting for the first hike, as there will be a new forecast available. There is only one month between the end-of-March meeting and the beginning-of-May meeting, which should motivate the CNB board to keep to a “wait-and-see” approach at the end of March.

Author

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com