

## Czech inflation fell below 3% in October

Czech inflation slowed further in October to 2.9%, which was slightly below the market and the Czech National Bank's estimate of 3.0%. The slowdown was mainly due to energy prices and prices of alcoholic beverages. This is no game changer for the CNB



### Energy prices mainly behind CPI slowdown

The slowdown in October inflation was mainly due to prices in the housing category, where electricity and gas prices fell month-on-month. As a result, year-on-year housing prices decelerated from 2.5% in September to 1.6% in October, and contributed to YoY CPI by 0.2 percentage points less than in September. Prices of alcoholic beverages also fell somewhat, so the YoY figure decelerated. The transport category contributed to the rise in prices, however, with car prices increasing further (+ 8.9% YoY in October to 7.7% in September).

Food prices rose slightly in October compared with September (+ 0.6% vs -1.2 MoM in Sep), but due to the base effect, the year-on-year figure slowed down slightly in October from 3.4% to 3.2%. Still, despite a slight slowdown in food prices in recent months, food prices remain among the main drivers of inflation this year.

## Structure of inflation in the Czech economy

	October 2020				September 2020		Change in YoY Cont (ppt)
	YoY (%)	Cont (ppt)	MoM (%)	Cont (ppt)	YoY( t-1) (%)	Cont. (ppt)	
<b>Total</b>	<b>2.9</b>	<b>2.9</b>	<b>0.2</b>	<b>0.2</b>	<b>3.2</b>	<b>3.2</b>	<b>-0.30</b>
Food and non-alcoholic beverages	3.2	0.6	0.6	0.1	3.4	0.6	-0.04
Alcoholic beverages, tobacco	9.4	0.8	-0.9	-0.1	10.3	0.9	-0.08
Clothing and footwear	4.2	0.2	2.8	0.1	4.6	0.2	-0.02
Housing, water, energy, fuel	1.6	0.4	-0.6	-0.2	2.5	0.6	-0.23
Furnishings, households equip.	3.2	0.2	0.8	0.0	3.2	0.2	0.00
Health	2.8	0.1	-0.4	0.0	3.1	0.1	-0.01
Transport	0.5	0.1	0.6	0.1	0.0	0.0	0.06
Post and telecommunication	-3.2	-0.1	0	0.0	-3.5	-0.1	0.01
Recreation and culture	2.4	0.2	0.2	0.0	2.6	0.2	-0.02
Education	2.9	0.0	0	0.0	3.0	0.0	0.00
Restaurants and hotels	4.5	0.3	0.1	0.0	4.7	0.3	-0.01
Miscellaneous goods and services	3.4	0.2	0.5	0.0	3.4	0.2	0.00

Items contributing to CPI slowdown

Items contributing to CPI acceleration

Source: CZSO, ING

## Prices of services stagnate

While inflation surprised on the upside in previous months, the situation has reversed since September. However, the main downside surprise has come from volatile food prices, alcoholic beverages or regulated prices, rather than service prices. They still maintained solid dynamics in October, growing by 2.7% for the third month in a row and core inflation in the CNB definition stagnated at a historic high of 3.7% (though we might argue that some prices in the CPI are non-existent in the renewed lockdown).

# 2.9%

October CPI (YoY)

3.7% core inflation

Lower than expected

## Highest average inflation since 2012

Inflation is expected to decelerate slightly further in the coming months. For the whole year, however, it will exceed the 3% threshold and will be the highest since 2012. Next year, it should slow down towards 2%, which is the current consensus, though there is a lot of uncertainty in terms of how the coronavirus crisis will impact inflation in the coming quarters. In the new forecast, the CNB expects inflation at 2.3% in 2021. As such, the CNB does not need to loosen its monetary policy further, a view expressed by the CNB at the monetary meeting last week.