

Czech inflation slows down further in October

Czech inflation slowed down further in November to 2.7%, which was slightly below the market estimate, mainly due to volatile food prices this year. Despite the slowdown in the inflation outlook, the central banks might start to hike rates in the second half of 2021, amid a more optimistic outlook



Source: Shutterstock

Food prices below the CPI slowdown

Inflation in the Czech Republic slowed down from 2.9% in October to 2.7% in November, which was slightly below the market estimate of 2.8% and the central bank's slightly older estimate of 2.9%. The slowdown was mainly due to volatile food prices, which declined slightly compared to October, and their year-on-year growth slowed to 1.9% from 3.2% in October. In other categories of the consumer basket, the dynamics of prices in November was diverse, with both slightly positive and negative changes in the year-on-year CPI dynamics.

Despite the gradual slowdown in food price annual growth, which peaked in April by almost 8%, food prices have increased by an average of 5% in 2020. Together with housing and alcoholic beverages and tobacco, these are the main factors accelerating inflation this year.

	November 2020				October 2020		Change in YoY Cont (ppt)
	YoY (%)	Cont (ppt)	MoM (%)	Cont (ppt)	YoY(t-1) (%)	Cont. (ppt)	
Total	2.7	2.7	0	0.0	2.9	2.9	-0.20
Food and non-alcoholic beverages	1.9	0.3	-0.1	0.0	3.2	0.6	-0.23
Alcoholic beverages, tobacco	9.7	0.8	0.3	0.0	9.4	0.8	0.03
Clothing and footwear	3.7	0.2	0	0.0	4.2	0.2	-0.02
Housing, water, energy, fuel	1.4	0.4	0.3	0.1	1.6	0.4	-0.05
Furnishings, households equip.	2.3	0.1	-0.7	0.0	3.2	0.2	-0.05
Health	3.3	0.1	-0.1	0.0	2.8	0.1	0.01
Transport	0.7	0.1	-0.1	0.0	0.5	0.1	0.02
Post and telecommunication	-1.4	0.0	-0.4	0.0	-3.2	-0.1	0.05
Recreation and culture	2.5	0.2	-0.1	0.0	2.4	0.2	0.01
Education	3	0.0	0.1	0.0	2.9	0.0	0.00
Restaurants and hotels	4.3	0.3	0.1	0.0	4.5	0.3	-0.01
Miscellaneous goods and services	3.4	0.2	-0.1	0.0	3.4	0.2	0.00

Items contributing to CPI slowdown
 Items contributing to CPI acceleration

Source: CZSO, ING

While inflation has been surprising the market on the upside after the peak of the pandemic, the situation has changed since September and price growth has been slowing down slightly - more than the market expected. However, the main surprise was usually volatile food prices, which was also the case in November. Food prices even accelerated slightly further in November, with year-on-year growth reaching 2.8% after 2.7% in October.

Despite slightly slowing inflation in recent months, headline inflation is still expected to exceed 3% this year - the highest since 2012. However, it should slow further next year due to this year's high base effect and other effects of the coronary crisis on demand.

However, despite the persisting uncertainty, the prospects for next year have been reassessed to a more optimistic direction in the last few weeks thanks to the vaccine. At the same time, the Senate approved the tax-bill with limited changes, which will lead to a fall in government revenues of around CZK 100 bn next year.

Rate hikes possible in the second half of 2021

These factors will be pro-growth and pro-inflationary, which should lead to rate hikes in the second half of the next year, in our view.

As such, we expect two rate hikes next year and average inflation of 2.3% in 2021.