

## Czech inflation slowed down in April

April inflation came in below expectations at 2.8% year-on-year, driven by a decline in prices of alcoholic drinks. The slowdown was no surprise as inflation had been expected to decelerate gradually after hitting a peak of 3% in March



Source: Shutterstock

### April inflation slowed due to alcoholic beverages

The main reason behind weaker price growth in April was a 3.6% month-on-month fall in alcoholic drink prices. On an annual basis, prices decelerated from 4.5% to -0.2% year-on-year and the total contribution of this item to the consumer basket fell by 0.2 percentage points, largely explaining the slowdown in April inflation to 2.8% after 3% in March. Some price slowdown also came from household equipment and furniture.

# 2.8%

Lower than expected

### April inflation YoY

slowed down after 3% peak in March

## Food prices declined despite higher prices of vegetables

As usual in April, food prices decreased slightly in monthly terms, and as such, the year-on-year rate remained at a similar level as in the previous month (slightly below 2% YoY). While prices of vegetables increased by just 2.4% in MoM terms, they are 30% higher compared to last year's level. Still, some other food items compensated for this (e.g. prices of fruits, coffee and sugar were lower). Fuel prices grew by 4% MoM, representing the highest monthly growth rate over the last year due to rising oil prices.

## Structure of inflation in the Czech economy

	April 2019				March 2019		Change in YoY Cont (ppt)
	YoY (%)	Cont (ppt)	MoM (%)	Cont (ppt)	YoY(t-1) (%)	Cont. (ppt)	
<b>Total</b>	<b>2.8</b>	<b>2.8</b>	<b>0.1</b>	<b>0.1</b>	<b>3.0</b>	<b>3.0</b>	<b>-0.2</b>
Food and non-alcoholic beverages	1.8	0.3	-0.7	-0.1	1.9	0.3	0.0
Alcoholic beverages, tobacco	1.1	0.1	-1.6	-0.1	3.6	0.3	-0.2
Clothing and footwear	-2.1	-0.1	2.7	0.1	-1.5	-0.1	0.0
Housing, water, energy, fuel	5.8	1.5	0.3	0.1	5.9	1.5	0.0
Furnishings, households equip.	0.8	0.0	-0.6	0.0	1.7	0.1	-0.1
Health	3.7	0.1	0.6	0.0	3.8	0.1	0.0
Transport	1.7	0.2	1.3	0.1	0.9	0.1	0.1
Post and telecommunication	-1.3	0.0	-0.1	0.0	-1.2	0.0	0.0
Recreation and culture	0.9	0.1	-0.5	0.0	1.0	0.1	0.0
Education	2.2	0.0	0	0.0	2.2	0.0	0.0
Restaurants and hotels	3.9	0.2	0.4	0.0	3.8	0.2	0.0
Miscellaneous goods and services	4.3	0.3	0.6	0.0	4.0	0.3	0.0

Items contributing to CPI slowdown

Items contribution to CPI acceleration

Source: CZSO, ING

## Base effects behind the inflation slowdown

While fuel prices rose, they are expected to start gradually slowing down in year-on-year terms due to a high base from last year. Base effects will also be apparent for core and regulated prices, as these also started to accelerate more in 2H18. Signs of a gradual price slowdown are also apparent in so-far buoyant service prices, which slowed from 3.9% in January-February to 3.6% in April, with core inflation (in the Czech National Bank's definition) decelerating to 2.6% YoY from 2.8% in March and 3% at the beginning of the year. In addition, the imputed rent item might contribute less to YoY CPI growth as property price growth is supposed to slow down gradually this year. This item contributes 0.6 percentage points to YoY CPI, with a rate of 5.5% after hitting 5.7% in March.

## CNB on hold for some time

Inflation hit its peak in March and should gradually slow down in coming months, based on our estimates. This is also consistent with the current CNB outlook, which sees inflation hitting 2.4% in mid-2019. This means that rates might stay on hold for a longer period of time, as suggested by Gov. Rusnok during the press conference after the May monetary policy meeting, as inflation pressures are gradually diminishing after hitting a peak in the first quarter of this year.

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