

## Czech inflation slowed in February

Czech inflation slowed down to 2.1% while the market consensus expected stagnation at 2.2%. Still, due to the recent spike in commodity prices, the inflationary outlook has shifted higher and CPI may not slow this year as quickly as expected a month ago. Our outlook for Czech National Bank interest rates does not change, we see rate hikes in 4Q21



Shoppers in a Czech supermarket

### Food prices just stagnated in February

Food prices have been rather volatile recently, unexpectedly increasing in January by more than 3% but just stagnating in February, while the market expected a small increase. As such, year-on-year growth in food prices remained at 0.6% last month.

The year-on-year slowdown in prices was driven by lower holiday prices, as well as a slowdown in clothing and footwear price dynamics (in both cases there is measurement uncertainty in connection with the lockdown). In a pro-inflationary direction were prices of alcoholic beverages and fuel prices in the "transport category".

2.1%

February inflation year-on-year

0.2% month-on-month

Lower than expected

## Fuel prices likely to increase

Fuel prices rose by 2% MoM and can be expected to accelerate in the coming months due to developments in oil prices. As such, fuel prices will gradually rise to levels seen at the turn of 2019 and 2020 and will again contribute to the year-on-year rise in inflation, after weighing on YoY inflation rates in past year (subtracting around half a percentage point).

## Structure of inflation in the Czech economy

	February 2021				January 2021		Change in YoY Cont (ppt)
	YoY (%)	Cont (ppt)	MoM (%)	Cont (ppt)	YoY( t-1) (%)	Cont. (ppt)	
<b>Total</b>	<b>2.1</b>	<b>2.1</b>	<b>0.2</b>	<b>0.2</b>	<b>2.2</b>	<b>2.2</b>	<b>-0.10</b>
Food and non-alcoholic beverages	0.6	0.1	0	0.0	0.6	0.1	0.00
Alcoholic beverages, tobacco	10.5	0.9	-0.3	0.0	9.3	0.8	0.10
Clothing and footwear	2.4	0.1	0	0.0	4.0	0.2	-0.07
Housing, water, energy, fuel	0.7	0.2	0.1	0.0	0.6	0.2	0.03
Furnishings, households equip.	1.9	0.1	0.3	0.0	3.0	0.2	-0.06
Health	3.8	0.1	0.2	0.0	4.0	0.1	0.00
Transport	1.5	0.2	0.9	0.1	0.7	0.1	0.09
Post and telecommunication	-1.2	0.0	0	0.0	-1.2	0.0	0.00
Recreation and culture	1	0.1	0.6	0.1	2.1	0.2	-0.09
Education	2.8	0.0	0	0.0	2.9	0.0	0.00
Restaurants and hotels	2.9	0.2	0.2	0.0	3.4	0.2	-0.03
Miscellaneous goods and services	2.9	0.2	0.1	0.0	3.3	0.2	-0.03

Items contributing to CPI slowdown

Items contributing to CPI acceleration

Source: CZSO, ING

## Core inflation and prices of services decelerated

Prices of services decelerated from 2.6% to 2.3%, and the core CPI by the Czech National Bank's definition fell from 3.6% to 3.2%. Overall, however, the inflationary outlook is shifting higher due to oil prices, which will further push fuel prices up in coming months (also due to a very low base from 2020).

## Weaker slowdown of CPI in 2021 than anticipated a month back

As such, the expected inflation slowdown for this year seems to be weaker than anticipated a month ago due to commodity prices, and we see whole-year inflation around 2.5% now. This is no game changer for the CNB in our view; hikes in the second half of the year remain likely. Earlier hikes (despite accelerating CPI in months ahead) will depend on the Covid situation, which is rather unfavourable in the Czech Republic. So we'd rather prefer to see the beginning of monetary tightening in 4Q21.