

## Czech inflation slowed in March

March inflation slowed down to 3.4% after 3.7% YoY in February, amid the decline in oil prices. However, food prices accelerated further to the highest level since the end of 2012



Source: Shutterstock

Czech March CPI came in slightly lower at 3.4% YoY after 3.7% in February, but still very close to the market consensus estimate of 3.5%. Weaker prices came mainly on the back of oil prices, as fuel prices switched from 3.6% YoY growth in February to a 3% YoY decline. As such, the contribution of the “transport” category to year-on-year CPI decreased by 0.3 percentage points in March compared to February.

Also, prices related to housing slightly contributed to a weaker YoY inflation rate, mainly due to a base effect in energy prices, which decelerated in YoY terms (from 9.7% to 8.6%) although it slightly rose compared to February.

Food prices accelerated by 1% MoM, reaching 6.4% YoY, the highest dynamics since the end of 2012. It's very likely down to higher demand given stockpiling related to the Covid-19 crisis along with other factors such as problems with the pork supply, which is 22% higher YoY.

## Inflation structure in the Czech economy

	March 2020				February 2020		Change in YoY Cont (ppt)
	YoY (%)	Cont (ppt)	MoM (%)	Cont (ppt)	YoY(t-1) (%)	Cont. (ppt)	
<b>Total</b>	<b>3.4</b>	<b>3.4</b>	<b>-0.1</b>	<b>-0.1</b>	<b>3.7</b>	<b>3.7</b>	<b>-0.30</b>
Food and non-alcoholic beverages	6.4	1.1	0.9	0.2	5.5	1.0	0.16
Alcoholic beverages, tobacco	3.8	0.3	1.4	0.1	3.1	0.3	0.06
Clothing and footwear	4.9	0.2	1.2	0.0	4.3	0.2	0.02
Housing, water, energy, fuel	3.8	1.0	0.2	0.1	4.2	1.1	-0.10
Furnishings, households equip.	2.1	0.1	-0.1	0.0	2.9	0.2	-0.05
Health	1.3	0.0	0.4	0.0	1.8	0.0	-0.01
Transport	0.1	0.0	-2	-0.2	2.7	0.3	-0.30
Post and telecommunication	-4.7	-0.1	-0.9	0.0	-3.8	-0.1	-0.03
Recreation and culture	2.3	0.2	-2.1	-0.2	2.1	0.2	0.02
Education	4.1	0.0	0.1	0.0	4.0	0.0	0.00
Restaurants and hotels	5.5	0.3	0.2	0.0	5.6	0.4	-0.01
Miscellaneous goods and services	4	0.3	0.5	0.0	3.7	0.2	0.02

Items contributing to CPI slowdown

Items contributing to CPI acceleration

Source: CZSO, ING

We expect CPI to come in around 2.5% this year, mainly due to oil prices, though there will be a broad combination of pro- and anti-inflationary factors this year. While weaker CZK, supply troubles or food prices will be pro-inflationary, the fall in oil prices or in prices of services related to the coronavirus crisis will push inflation lower. As such, uncertainty surrounding predictions is high but inflation will be less relevant for the Czech National Bank unless the economy faces deflation or very strong inflationary pressure. For now, we expect the CNB to cut rates further during its May meeting, but we are not sure the CNB will get to zero-bound as other central banks and expect a minimum rate of 0.5%.