

## Czech inflation slowed slightly in June

After higher than expected inflation in May, which reached 2.9 % in YoY terms, price growth slowed to 2.7% in June due to slightly weaker growth in prices of alcoholic beverages, fuel and electricity for households. We expect average inflation to reach 2.6% this year. This is no game changer for the CNB, in our view.



The month-on-month rise in prices was negligible in June, with May's 2% rise in food prices not repeated. In June, food grew by only 0.4% on average, usual during the summer as the new harvest gets to market.

Also fuel prices are not pushing inflation up as they did in previous months. Despite June fuel prices stagnating MoM, YoY dynamics slowed from 3.1% to -0.3 due to a base effect from last year. As such, the contribution of fuel prices to YoY inflation decreased by 0.1 percentage points in June vs May's level.

A similar reduction in the contribution to price growth came on the back of housing category prices, where annual growth in electricity prices slowed from 12.5% in May to 10.4% (despite the fact that electricity prices slightly increased in MoM terms). This is related to the base effect as electricity prices started to grow in June 2018. Prices of alcoholic beverages fell by 0.6% in June.

All in all, behind slightly weaker inflation in June stands weaker YoY dynamics for fuel prices, alcoholic beverages prices and electricity, due to a high base

**2.7% YoY** June CPI, after 2.9% YoY in May  
in line with expectations

## Structure of the inflation in the Czech economy

	June 2019				May 2019		Change in YoY Cont (ppt)
	YoY (%)	Cont (ppt)	MoM (%)	Cont (ppt)	YoY(t-1) (%)	Cont. (ppt)	
<b>Total</b>	<b>2.7</b>	<b>2.7</b>	<b>0.2</b>	<b>0.2</b>	<b>2.9</b>	<b>2.9</b>	<b>-0.2</b>
Food and non-alcoholic beverages	2.7	0.5	0.4	0.1	2.8	0.5	-0.02
Alcoholic beverages, tobacco	1.8	0.2	-0.6	-0.1	2.3	0.2	-0.05
Clothing and footwear	-1.8	-0.1	-0.6	0.0	-1.9	-0.1	0.00
Housing, water, energy, fuel	5.5	1.4	0.3	0.1	5.8	1.5	-0.08
Furnishings, households equip.	1.5	0.1	0	0.0	1.1	0.1	0.02
Health	3.4	0.1	0.3	0.0	3.4	0.1	0.00
Transport	-0.1	0.0	0.2	0.0	0.9	0.1	-0.10
Post and telecommunication	-1.3	0.0	-0.1	0.0	-1.3	0.0	0.00
Recreation and culture	1.4	0.1	1.3	0.1	0.8	0.1	0.05
Education	2.1	0.0	0	0.0	2.2	0.0	0.00
Restaurants and hotels	4.1	0.2	0.4	0.0	3.9	0.2	0.01
Miscellaneous goods and services	3.8	0.3	-0.1	0.0	4.2	0.3	-0.03

Items contributing to CPI slowdown

Items contributing to CPI acceleration

Source: CZSO, ING

## Housing prices the most important factor behind higher inflation this year

From a broader perspective, mainly housing prices are contributing to inflation growth this year. This is due to a double-digit increase in electricity prices, as well as for rent in an overheated real estate market. As such, growth in prices related to housing contributes more than half to inflation this year (1.5 of 2.8 percentage points). Another item pushing inflation higher are already mentioned food prices, growing around 2% this year on average, which - together with other costs like wages - are transiting into a rise of prices in restaurants (+4,7 % YoY in June). In general, prices of services are growing fast this year, by around 3.6% this year.

## Base effect should cause CPI to moderate to close to 2.5%

The higher base for housing prices should play a role in coming months. Electricity prices have started to accelerate more markedly in the second half of last year. Annual growth in prices will continue to moderate slightly, but should remain around 2.5% in coming months. For the whole of 2019 we expect average inflation at 2.6%, the highest yearly figure since 2012. Next year, price growth should slow to 2 %.

## No game changer for the central bank, most likely remaining on hold

Although the CNB was expecting lower inflation in June (2.4%), the CNB's estimate is already a few months old and the discrepancy is mainly due to higher food prices. The current inflation rate is relatively favorable from the CNB's point of view, as it did not exceed the 3% upper tolerance band of the central bank and should gradually return to the 2% target. This is especially so next year, the monetary policy horizon important for the central bank. As a result, the CNB will not respond to higher inflation and we expect rates to remain at current levels this year. Although the market is starting to price possible CNB's rate cuts as a result of global slowdown, as for the Fed and/or the ECB, this is premature given the current shape of domestic economy, in our view. At this point, the most likely development is interest rate stability, consistent with the current CNB forecast.

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