

## Czech inflation unexpectedly slows

CPI decelerated to 2.3% in September due to falling prices for package holidays and newly-introduced bus and rail fare discounts for pensioners and students across the country. This is no game changer for the central bank, which we expect to hike rates in November



Source: Shutterstock

### Deceleration due to package holidays and transport services

September inflation slowed down to 2.3% from 2.5% in August. As such, price growth missed market expectations of 2.5%. The deceleration was mainly due to two items. Firstly, nationwide fare discounts of 75% were introduced in September for students and pensioners. This resulted in a 0.1 percentage point drop in year-on-year CPI growth, according to the more detailed structure of CPI provided by the Czech Statistical Office. Secondly, and more importantly, prices of package holidays declined by more than 20% month-on-month in September.

Though this is a typical seasonal pattern in September, the intensity of the decline was stronger than usual. This was very likely caused by the stronger-than-usual increase in prices of package holidays during July-August this year (double-digit YoY growth in both months), which led to a bigger correction after the season ended. This item cut 0.2 percentage points off YoY CPI growth in September compared to the previous month, moving back to the level reached before July. On the other hand, food prices, housing prices and prices for alcoholic beverages contributed to the YoY

CPI increase compared with August, see the table.

# 2.3% YoY

## September CPI

weaker due to package holidays and transport services

### Inflation will remain above 2.0% in coming months

Inflation should stay above 2.0% for the remainder of the year, resulting in an average level of 2.2% for this year. However, inflationary pressures will step up not only due to the perceptible acceleration in wages but also due to the rise in energy prices, especially electricity and gas for households. At the same time, food prices are expected to accelerate as a result of the weaker harvest following this year's drought. Altogether, this means inflation should come close to the 3% threshold in the first half of next year.

### Structure of the inflation in the Czech economy

	YoY (%)	Cont (ppt)	MoM (%)	Cont (ppt)	YoY( t-1) (%)	Cont (ppt)
<b>Total</b>	<b>2.3</b>	<b>2.3</b>	<b>-0.3</b>	<b>-0.3</b>	<b>2.5</b>	<b>2.5</b>
Food and non-alcoholic beverages	1.3	0.2	0.9	0.2	0.6	0.1
Alcoholic beverages, tobacco	3.3	0.3	0.8	0.1	2.3	0.2
Clothing and footwear	-1.5	-0.1	1.7	0.1	-1.4	-0.1
Housing, water, energy, fuel	3.4	0.9	0.3	0.1	3.2	0.8
Furnishings, households equip.	1.6	0.1	-0.1	0.0	2.1	0.1
Health	3.2	0.1	-0.2	0.0	3.8	0.1
Transport	3.2	0.3	-0.9	-0.1	4.8	0.5
Post and telecommunication	-1.4	0.0	0	0.0	-1.5	0.0
Recreation and culture	0.4	0.0	-6.1	-0.5	3.0	0.3
Education	2.2	0.0	2	0.0	1.6	0.0
Restaurants and hotels	3.1	0.2	0.3	0.0	3.6	0.2
Miscellaneous goods and services	4.1	0.3	0	0.0	3.8	0.3
<b>Items contribution to CPI growth</b>						
<b>Items contribution to CPI slowdown</b>						

Source: CZSO, ING

### Weaker CPI no game changer for the CNB

Although September inflation slightly disappointed, it should be no game changer for the forward-looking central bank. Indeed, prices excluding volatile food and energy prices are gradually accelerating in the monetary policy horizon. With the Czech National Bank seeking to escape the low-interest rate environment amid a relatively weak Czech koruna, we expect one more rate hike this year. As the November monetary policy meeting will bring new updated forecasts, which should confirm the need to tighten monetary policy further, we think the most likely occasion for the next CNB hike will be the start of November.