

Czech inflation soars above 3%

Czech inflation soared to 3.1% in April from 2.3% a month ago amid higher fuel prices and a low base from last year, as well as higher prices for alcoholic beverages, tobacco and food. A reading above 3% should only last for another month or so, but the inflationary outlook for this year has risen and this increases the chances of an earlier central bank hike



Shoppers in a Czech supermarket

Some acceleration was anticipated in April

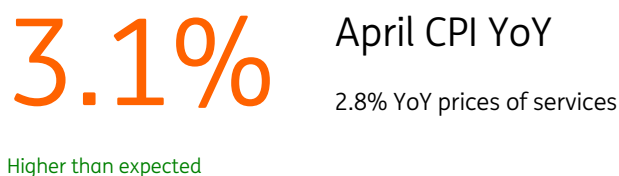
CPI was above expectations in April, reaching 3.1% from 2.3% in March, while the market consensus and the Czech National Bank's forecast penciled in a weaker acceleration to 2.7% and 2.9%, respectively.

Growth in the headline CPI was driven by:

1. A low base in fuel prices, which accelerated from 1% year-on-year in March to 16% in April. The contribution therefore increased from a slightly positive figure in March to 0.6 percentage points. This effect was fully anticipated, however, and was not a source of surprise.
2. Food prices accelerated by 0.8% month-on-month while some preliminary data suggested

weaker growth or even some small decline compared to March.

- Alcoholic beverages and tobacco prices grew more than expected, increasing from 10% YoY to 13%. As such, the contribution to YoY CPI increased by 0.3 percentage points compared to March. This was the biggest surprise which pushed CPI above expectations, in our view.



CNB will hike soon

As such, it was mainly technical factors or volatile food/alcohol items which pushed CPI higher in April although prices of services accelerated from 2.6% to 2.8% in April. The CPI outlook for this year is moving higher, which is also suggested by the latest CNB forecast (revising 2021 inflation outlook from 2.0% to 2.7%). However, a CPI reading above 3% will likely be short-lived. After a similar print in May, we should see prices decelerate again.

While the CPI was driven higher by technical and supply factors, it is still above the central bank's tolerance band and likely increases the chances for an end-of-June hike, in our view. It is clear now that the CNB meeting in June or August will deliver the first CNB tightening.