

Czech inflation stagnates at 2.7% in October

Czech inflation stagnated in annual terms in October, in line with market estimates and just slightly below the central bank forecast. For the whole year, it will reach 2.8% - the highest figure since 2012



Source: Shutterstock

Prices increased slightly compared to September

From a month-on-month perspective, prices accelerated by 0.5%, due to a rise in food prices, mainly the 7% month on month increase in fruit prices given the bad harvest this year, while vegetable prices fell. Higher prices of clothing and footwear also contributed to the price increase, as did the prices of furnishings and household equipment.

From a year-on-year perspective, dynamics were heterogeneous, some items of the consumer basket contributed to the YoY acceleration of inflation (food, clothing and footwear, recreation and culture), others to the slowdown (post and telecommunications, transport, housing), see the table.

2.7% YoY October CPI

at September level

As expected

House prices are pushing inflation high this year

For the whole year, inflation will reach 2.8% - the highest figure since 2012, when it reached 3.3%. The fastest-growing part of the consumer basket this year was generally the housing category, which grew by more than 5% - the highest average growth in the last 10 years. House prices reflect this year's 10% growth in electricity prices, a 5% increase in heat prices, a rise in rental prices due to the overheated real estate market, but also an increase in prices of household maintenance services, which increased by 10% on average this year. The housing category thus contributes more than half to inflation this year.

Structure of inflation in the Czech economy

	October 2019				September 2019		Change in YoY Cont (ppt)
	YoY (%)	Cont (ppt)	MoM (%)	Cont (ppt)	YoY(t-1) (%)	Cont. (ppt)	
Total	2.7	2.7	0.5	0.5	2.7	2.7	0.0
Food and non-alcoholic beverages	2.8	0.5	0.8	0.1	2.5	0.4	0.05
Alcoholic beverages, tobacco	1.9	0.2	0	0.0	2.0	0.2	-0.01
Clothing and footwear	-0.8	0.0	3.1	0.1	-1.6	-0.1	0.03
Housing, water, energy, fuel	4.9	1.3	0.3	0.1	5.0	1.3	-0.03
Furnishings, households equip.	1.8	0.1	0.9	0.1	1.4	0.1	0.02
Health	3	0.1	-0.1	0.0	3.1	0.1	0.00
Transport	0.3	0.0	0.1	0.0	0.5	0.1	-0.02
Post and telecommunication	-2	-0.1	-0.3	0.0	-1.6	0.0	-0.01
Recreation and culture	2	0.2	0.4	0.0	1.5	0.1	0.04
Education	3.8	0.0	0.1	0.0	3.8	0.0	0.00
Restaurants and hotels	4.6	0.3	0.3	0.0	4.8	0.3	-0.01
Miscellaneous goods and services	3.3	0.2	0.5	0.0	3.6	0.2	-0.02

Items contributing to CPI slowdown
 Items contributing to CPI acceleration

Source: CZSO, ING

Also core inflation stagnated in October

In general, prices of services are rising fast this year, reaching 3.8% in October (4% in September), in line with this year's average growth.

However, the rise in the price of services is to some extent also linked to higher costs, such as food or energy in terms of growing prices in restaurants, meaning these are not purely demand-driven inflation pressures, but also cost-related. Core inflation according to the central bank's definition stagnated at 2.6% according to our estimates, and its average 2019 dynamics reached 2.7%.

Taxes will push inflation higher next year

The central bank expects October inflation to be around 2.8%, followed by an acceleration to 2.9% in the months ahead. For the next year, the central bank has revised inflation higher to 2.7% in its latest forecast, which come partially on the back of planned increase in excise duties on cigarettes

and alcohol. Cigarettes have a 5% weight in the consumer basket so their 10% increase will increase headline inflation by half a percentage point.

On the other hand, with the introduction of the latest phase of on-line sales registration, VAT will be reduced for some items, but it is generally assumed that this drop will not enter significantly into the final prices, remaining in the sellers' margins. All in all, inflation will remain around 2.5% next year, while without tax it would decelerate to 2%.