

## Czech inflation stagnates at 2.5%

Lower food prices kept inflation steady but to prevent overheating, we think a hike in November is a done deal



Source: istock

The Czech National Bank confirmed August inflation was slightly below its estimate due to lower food prices. This declined by almost 1% month on month in August, but its year on year dynamics remained above the 5% border. Though food prices are the main contributor to the 1 percentage point YoY price growth, we see more broad-based inflationary pressures. Indeed, prices of services accelerated further to 3.2% YoY in August after 3.1% in June and also core inflation reached 2.7% YoY after 2.6% in the previous month.

These inflationary measures demonstrate that demand-driven inflationary pressures are gradually rising in the Czech economy. This is due to the favourable economic activity and the increasing consumption of households driven by the historically low unemployment rate and rising wages.

Yesterday's approval of state-employees wage increase starting in November 2017 will be another impulse for next year's wage growth, which might get to 8% YoY according to our preliminary estimates.

For the whole of 2017, average inflation should reach 2.4%, and a similar print might be expected for next year vs. 0.7% on average in 2016.

## Composition of CPI

|                                  | YoY (%) | MoM (%) |
|----------------------------------|---------|---------|
| Total                            | 2.5     | -0.1    |
| Food and non-alcoholic beverages | 5.6     | -0.8    |
| Alcoholic beverages, tobacco     | 1.4     | 0.0     |
| Clothing and footwear            | 0.5     | -0.9    |
| Housing, water, energy, fuel     | 2.2     | 0.3     |
| Furnishings, households equip.   | -0.6    | -0.3    |
| Health                           | 3.9     | 0.2     |
| Transport                        | 2.7     | 0.1     |
| Post and telecommunication       | -1.4    | -0.1    |
| Recreation and culture           | 1.3     | 0.3     |
| Education                        | 2.1     | 0.0     |
| Restaurants and hotels           | 6.0     | 0.2     |
| Miscellaneous goods and services | 0.9     | -0.5    |

Source: CZSO

Given the lack of CZK strength, due to the heavy one-way positioning and sound domestic economic data, further monetary tightening is demanded, and we believe that a 25bp hike till the end of the year is a done deal, most likely during the November meeting.