

Czech inflation jumps to 2.5%

After stagnating around the 2% mark in previous months, inflation surprised both the central bank and analysts by accelerating to 2.5% in January, mainly due to higher prices of electricity and housing generally



Source: Shutterstock

Housing prices behind January acceleration

The January pick-up in inflation surprised, but this is often the case in January, as many prices are changed at the beginning of the year. Also this year, the main changes were concentrated in housing prices primarily due to higher prices of electricity (+5.3% month-on-month), heating (+2.8% MoM), rentals for housing and charges for both water supply and sewage collection. As such, prices in the “housing” category accelerated by 4.9% YoY from 4.0% in December, which represents the highest YoY rate since mid-2012. This means that the contribution of this item to YoY CPI growth increased from 1.0 to 1.3 percentage points.

2.5%

January headline CPI

accelerated due to higher housing prices

Higher than expected

Prices of services picked up as well as core inflation

Aside from housing, prices also picked up in recreation and culture due to higher prices of package holidays, and in the “miscellaneous goods and services” category due to prices of personal care, insurance and financial services. Food prices also increased slightly as expected (0.9% MoM), together with alcoholic beverages and tobacco (see table). On the other hand, fuel prices declined by 3.8% MoM for a third month in a row given the developments in oil prices. Prices of services accelerated by 3.9% YoY from 3.4% in December. However, as part of this increase was due to regulated prices (accelerating to 2.8% from 1.8% in December), core inflation by the CNB's definition increased slightly less strongly, from 2.6% to 3%.

Structure of inflation in the Czech economy

Structure of the inflation in the Czech economy

	YoY (%)	Cont (ppt)	MoM (%)	Cont (ppt)	YoY(t-1) (%)	Cont (ppt)
Total	2.5	2.5	1	1.0	2.0	2.0
Food and non-alcoholic beverages	-0.2	0.0	0.9	0.2	-0.6	-0.1
Alcoholic beverages, tobacco	3.2	0.3	2.9	0.3	2.8	0.3
Clothing and footwear	-0.7	0.0	-2.5	-0.1	-1.5	-0.1
Housing, water, energy, fuel	4.9	1.3	1.6	0.4	4.0	1.0
Furnishings, households equip.	1.1	0.1	-0.5	0.0	1.8	0.1
Health	3.6	0.1	0.9	0.0	3.4	0.1
Transport	0.8	0.1	-0.4	0.0	1.6	0.2
Post and telecommunication	-1	0.0	-0.2	0.0	-0.8	0.0
Recreation and culture	1.9	0.2	2.8	0.2	0.8	0.1
Education	2.2	0.0	-0.1	0.0	2.3	0.0
Restaurants and hotels	3.8	0.2	0.4	0.0	3.8	0.2
Miscellaneous goods and services	4.7	0.3	1.2	0.1	4.1	0.3

Items contributing to CPI slowdown

Items contribution to CPI acceleration

Source: CZSO, ING Bank

January inflation significantly above central bank estimate

January inflation ended well above the CNB estimate of 2.0% and we think it likely that Czech CPI will accelerate further in the months ahead due to base effects, before moving lower towards 2% in mid-2019. Note that the base effect pushing on CPI is also expected by the CNB, with the bank expecting February CPI at 2.4% and 2.7% for March. Still, January's surprising inflation will affect CPI for the whole year and means that average inflation should move up towards 2.5% from the 2.2% expected by the CNB in its last forecast.

No imminent change in the CNB stance, next hike in May at earliest

Given the CNB's concerns about the external environment, we don't see the January spike in inflation as a sufficient condition for a hike in March (despite the fact that the Czech koruna is also weaker vs the CNB's own forecast). But higher January inflation does suggest that the CNB hiking cycle is not over and we still expect the bank to hike twice more this year, although this will happen once/if external conditions stabilise.

Current inflation is a "lost battle" from the CNB's perspective, as its policy focuses mainly on inflation in the monetary policy horizon. And inflation is slowing down back to the target in a one-year horizon. This means that a short-lived period of higher inflation in 1H2019 will not be a sufficiently strong argument to imminently change policy. After a rather dovish February meeting, which stressed foreign uncertainty, we can hardly imagine another policy twist in March. As such, the May meeting is the earliest occasion for the next hike to be delivered by the CNB, in our view.