

Czech Republic: December inflation lower

Czech inflation slowed down more than expected in December to 2.3% year-on-year amid lower prices of food. November sales in retail and services were impacted by the lockdown, though less than in April



Shoppers in a Czech supermarket

Food prices behind CPI slowdown in December

December inflation decelerated more than expected to 2.3% after 2.7% in November. The deceleration was driven mainly by food prices, which fell by 1.2% month-on-month (MoM) and their year-on-year dynamics switched to -0.1% YoY after 2% in November. As such, the contribution of food prices to YoY CPI fell by 0.35 percentage points and explains most of the CPI deceleration in December. Prices of services remained stable at 2.8% YoY, as in November. Core inflation in the Czech National Bank definition slowed down just slightly from 3.7% to 3.6% YoY.

Structure of the inflation in the Czech economy

	December 2020				November 2020		Change in YoY Cont (ppt)
	YoY (%)	Cont (ppt)	MoM (%)	Cont (ppt)	YoY(t-1) (%)	Cont. (ppt)	
Total	2.3	2.3	-0.2	-0.2	2.7	2.7	-0.40
Food and non-alcoholic beverages	-0.1	0.0	-1.2	-0.2	1.9	0.3	-0.35
Alcoholic beverages, tobacco	10.7	0.9	0.4	0.0	9.7	0.8	0.09
Clothing and footwear	2.2	0.1	-1.3	-0.1	3.7	0.2	-0.06
Housing, water, energy, fuel	1.2	0.3	0.2	0.1	1.4	0.4	-0.05
Furnishings, households equip.	2.8	0.2	0.2	0.0	2.3	0.1	0.03
Health	3.2	0.1	-0.8	0.0	3.3	0.1	0.00
Transport	0.6	0.1	0.2	0.0	0.7	0.1	-0.01
Post and telecommunication	-1.2	0.0	-0.1	0.0	-1.4	0.0	0.01
Recreation and culture	2.5	0.2	0.2	0.0	2.5	0.2	0.00
Education	3	0.0	0	0.0	3.0	0.0	0.00
Restaurants and hotels	4.1	0.3	0.1	0.0	4.3	0.3	-0.01
Miscellaneous goods and services	3.9	0.2	-0.1	0.0	3.4	0.2	0.03

Items contributing to CPI slowdown

Items contributing to CPI acceleration

Source: CZSO, ING

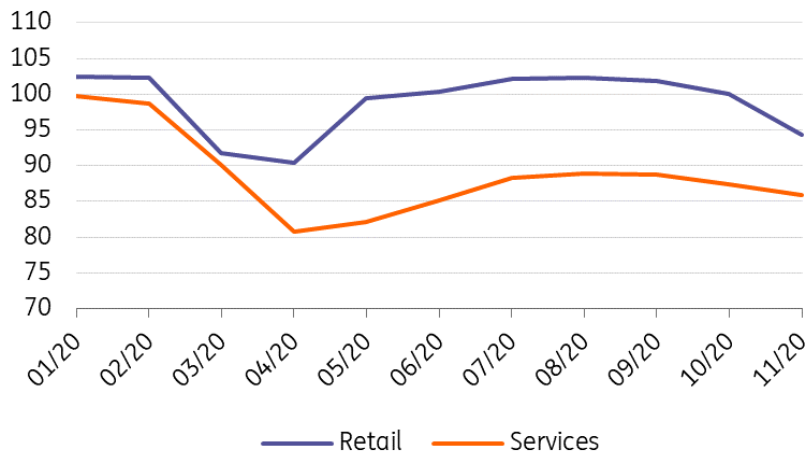
2020 inflation highest in last 8 years

For the whole 2020, CPI reached 3.2%, the highest print since 2012, but it should decelerate to slightly above 2% for this year. There is a lot of uncertainty stemming not only from the coronacrisis, but also the new fiscal package, which will most likely be pro-inflationary. Given the fact that lower December CPI was driven by volatile food prices only, it does not change our outlook for 2021 inflation of 2.3% and CNB tightening in 2H21.

November sales impacted by lockdown, but less than in April

November retail was impacted by the second lockdown, as sales fell by 5.6% MoM and 7% YoY. However, November had a different number of working days compared to November 2019, and adjusting for that, retail sales (without cars) would have fallen by -5.3% YoY working day adjusted. Though the number ended below market consensus (-5% vs -7%), it still remained better than during the first lockdown in April, when sales fell by -10.4% YoY WDA. Sales in selected services remained -10.9% YoY lower in November (vs. -21% YoY in April and May), as a further fall in sales in the lockdown impacted sectors (restaurants: -65% YoY; accommodation: -82% YoY) were compensated by IT (+16% YoY) and delivery services (+28% YoY).

Sales in retail and selected servies (2019 avg = 100)



Source: CZSO, ING