

10 June 2020

Snap

Czech Republic: May inflation falls but not as much as expected

Czech inflation decelerated from 3.2% in April to 2.9% in May, but the market expected a stronger deceleration to 2.6%. Interestingly, service prices continue to grow despite Covid-19 issues



Source: Shutterstock

Food prices remain high

In May 2019, inflation accelerated due to soaring food prices. Due to the high base effect, the year-on-year growth rate of food prices slowed from 7.8% in April to 6.3% in May this year, despite the fact that food price continued to rise month-on-month - by 0.6%, as in April. The rise in food prices thus remains high, driven by combination of factors ranging from drought, a weaker Czech koruna and harvest problems in some southern European countries affected by the coronavirus. For example, fruit prices rose by almost 8% in May. From a year-on-year perspective, they are higher by 25%.

2.9%

May inflation (YoY)

higher than expected, though lower than in April

Lower than expected

Mixed CPI forces in May

As in previous months, the slowdown in price growth from last year was also driven by fuel prices. They fell by around 4% MoM, but their year-on-year decline intensified from 17% to 22%.

However, the overall contribution of prices in the transport category did not decrease much, as car prices rose by 1.8%, mainly due to second-hand cars.

The higher than expected monthly increase in prices was driven mainly by higher prices of alcoholic beverages and tobacco, prices of tobacco products increased by 3.7%, spirits by 3.3% and beer by 3.4%.

The CPI slowdown in May was also expected due to a reduction in VAT for selected services, but this effect was not very noticeable. Interestingly, service prices continued growing in MoM terms and YoY dynamics remained at 3.3%.

Structure of inflation in the Czech economy

	May 2020				April 2020		Change in YoY Cont (ppt)
	YoY (%)	Cont (ppt)	MoM (%)	Cont (ppt)	YoY (t-1) (%)	Cont. (ppt)	
Total	2.9	2.9	0.4	0.4	3.2	3.2	-0.30
Food and non-alcoholic beverages	6.3	1.1	0.6	0.1	7.8	1.4	-0.27
Alcoholic beverages, tobacco	5.8	0.5	2.9	0.3	4.3	0.4	0.13
Clothing and footwear	2.9	0.1	-1	0.0	3.6	0.1	-0.03
Housing, water, energy, fuel	3.2	0.8	0	0.0	3.5	0.9	-0.08
Furnishings, households equip.	3.1	0.2	0.4	0.0	3.3	0.2	-0.01
Health	1.9	0.0	1.1	0.0	1.2	0.0	0.02
Transport	-3.9	-0.4	0.2	0.0	-3.8	-0.4	-0.01
Post and telecommunication	-4.1	-0.1	0.7	0.0	-4.9	-0.1	0.02
Recreation and culture	1.8	0.2	-0.5	0.0	2.0	0.2	-0.02
Education	4	0.0	-0.1	0.0	4.1	0.0	0.00
Restaurants and hotels	5.1	0.3	0.4	0.0	5.1	0.3	0.00
Miscellaneous goods and services	3.2	0.2	0	0.0	3.4	0.2	-0.01

Items contributing to CPI slowdown

Items contributing to CPI acceleration

Source: CZSO, ING

Deflationary risks seem muted so far

Despite a slight slowdown in annual inflation in May, price growth was higher than expected. Surprisingly, the coronavirus pandemic has not yet resulted in a faster decline in service prices. However, this may also be related to the fact that the measurement of prices in recent months has not been carried out in the standard way and thus may not have captured price developments correctly. While price growth was stronger in May on a monthly basis, we still expect inflation to slow to 2.5% on average this year. The pro-inflationary risks are a weaker koruna and potentially more expensive food prices while fuel prices and prices affected by Covid-19 issues could go in the other direction. How significantly the current coronavirus crisis affects inflation is relatively uncertain.

Unconventional monetary measures not in the pipeline

For the time being, domestic inflation is not showing a significant slowdown and the risk of deflation seems to be remote, although many countries are approaching this scenario due to the crisis. Stronger deflationary risks would probably push the Czech National Bank to act and adopt more non-standard monetary policy instruments, but current inflation figures suggest that this scenario is still relatively far away, in our view.

Jakub Seidler

Chief Economist, Czech Republic

+420 257 47 4432

jakub.seidler@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("**ING**") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group NV and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice. The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions. Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. The producing legal entity ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is subject to limited regulation by the Financial Conduct Authority (FCA). ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.