

## Instant Reaction

# EcoAlert

## Inflation is still not easing – rather the opposite



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### Consumer price index (September 2021)

	Current	KB forecast	Consensus
<b>Consumer prices</b>			
Consumer prices (% mom)	0.2	-0.3	-0.2
Consumer prices (% yoy)	4.9	4.4	4.6

Source: Bloomberg, CZSO, Economic & Strategy Research, Komerční banka

**Inflation in September again surprised with higher-than-expected growth. The main driver is housing costs, including the incipient rise in energy prices. Year-on-year core inflation rose to 6%. There is no doubt that the CNB will continue to raise interest rates.**

Consumer prices in the Czech Republic rose 0.2% in September compared to August, which again exceeded all estimates. On average, analysts expected a decline of 0.2% due to seasonal reasons. Our estimate was -0.3%. Year-on-year inflation rose to 4.9% from the previous rate of 4.1%, while an average result of around 4.6% was expected. The difference between the actual and the CNB's inflation forecast increased to 1.7 percentage points, when it stood at 1.0 pp in August.

### Price changes in the consumer basket ...

	mom	yoy
<b>Total</b>	<b>0.2%</b>	<b>4.9%</b>
Food and non-alcoholic beverages	-1.0%	1.9%
Alcoholic beverages, tobacco	1.1%	6.9%
Clothing and footwear	2.8%	9.4%
Housing, water, energy, fuel	1.2%	4.7%
Furnishings, household equipment	0.8%	4.4%
Health	0.4%	3.0%
Transport	0.8%	9.6%
Post and telecommunications	0.0%	-0.9%
Recreation and culture	-4.9%	4.2%
Education	1.1%	1.3%
Restaurants and hotels	0.8%	5.0%
Miscellaneous goods and services	0.4%	4.1%

Source: CZSO, Economic & Strategy Research, Komerční banka

### ... and their contribution to overall inflation

Contribution to inflation in p.p.	mom	yoy
<b>Total</b>	<b>0.2%</b>	<b>4.9%</b>
Food and non-alcoholic beverages	-0.2	0.3
Alcoholic beverages, tobacco	0.1	0.6
Clothing and footwear	0.2	0.4
Housing, water, energy, fuel	0.3	1.2
Furnishings, household equipment	0.1	0.2
Health	0.0	0.1
Transport	0.1	1.1
Post and telecommunications	0.0	0.0
Recreation and culture	-0.5	0.4
Education	0.0	0.0
Restaurants and hotels	0.1	0.3
Miscellaneous goods and services	0.0	0.3

Source: CZSO, Economic & Strategy Research, Komerční banka

The largest price increase is again driven by housing costs, where month-on-month prices of goods and services for the maintenance and repair of the apartment rose 1.4%, compounded by a rise in electricity prices of 1.1%. Clothing and footwear also rose about 3% mom. As expected, higher fuel prices and cars with limited supply also contributed to the rise in prices. The price reduction in the case of recreation and culture is a seasonal phenomenon. On the other hand, the drop in prices was higher than estimated in the case of food. According to our preliminary estimate, core inflation accelerated close to 6% yoy in September from 4.8% in August.

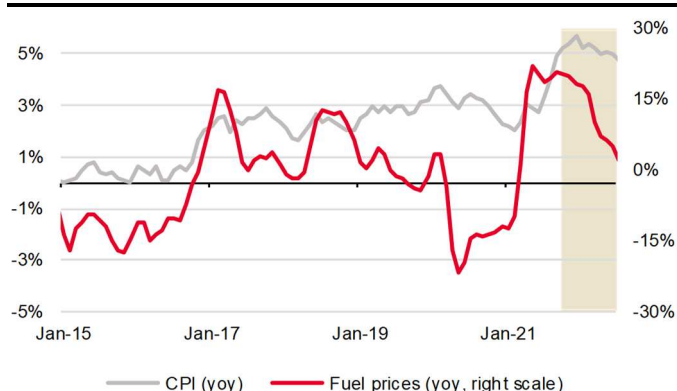
**Rising consumer prices, a tightening labour market and limited supply in some areas affected by delayed deliveries to production still speak in favour of rising consumer prices.**

The question of what part of current price movements is only temporary and remains related to short-term price adjustments after the pandemic remains unanswered. Many other countries are asking similar questions. It is still true that services are contributing more to the rise in prices, with prices rising 5.7% year on year, while in the case of goods the year-on-year price growth was 4.4% in September.

**We still anticipate that the pace of price increases will weaken for the rest of the year. Nevertheless, the annual inflation rate will rise above 5.5% by the end of the year.** If the increase in prices does not weaken, then it would easily go above 6%. Let us recall that inflation in the Czech Republic was last so fast in 2008, when it reached 7.5%. However, this then reflected changes in VAT and rising oil prices, so for different reasons than now.

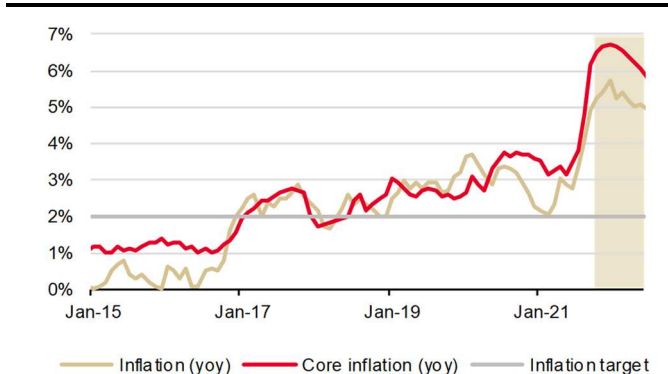
**The fact that price growth was indeed exceptionally high in the summer months is better than in the year-on-year data visible on the month-on-month seasonally adjusted data.** Their annualized rate was as much as 10% in the summer and even 14% in the case of core inflation. Accelerating core inflation and fears of rising inflation expectations present a strong argument for further raising interest rates. We expect the CNB to raise the key interest rate 50 basis points to 2.0% at the beginning of November.

Fuel prices keep inflation higher



Source: CZSO, Economic & Strategy Research, Komerční banka

Core inflation has accelerated further



Source: CZSO, Economic & Strategy Research, Komerční banka

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