

Instant Reaction

EcoAlert

Inflation continues subsiding mainly due to oil prices



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Consumer price index (April 2020)

	Current	KB forecast	Consensus
Consumer prices			
Consumer prices (% mom)	-0.2	0.1	-0.2
Consumer prices (% yoy)	3.2	3.5	3.1

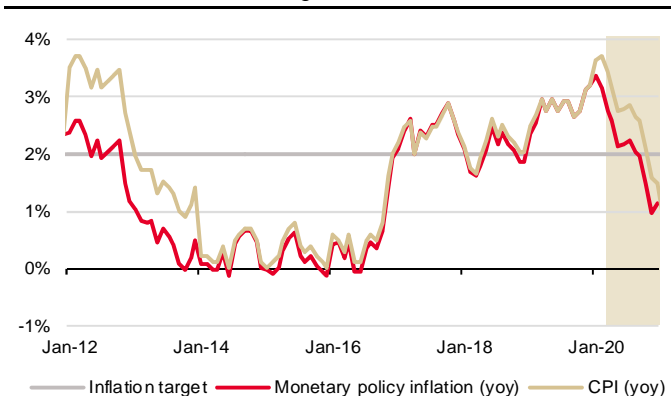
Source: Bloomberg, CZSO, Economic & Strategy Research, Komerční banka

In April, inflation decelerated further. Once again, the prices of fuel were lower, in particular. Prices of food were up. The decline of inflation will probably continue.

In April Czech consumer prices declined 0.2% mom. The year-on-year inflation decelerated to 3.2% down from 3.4%. That was 10bp above the market expectation, 20bp above the CNB forecast but 30 bp below our estimate. The forecasts during the pandemic differ considerably, and inflation in April is no exception with estimates varying from 2.8% yoy to 3.5% yoy.

It is not surprising that the main drag on CPI was the segment of transport. The decline of the prices of fuel was the fastest on record since 1993, reaching 10.5% mom. That was also faster than we estimated. **Without the drop in oil prices, inflation would be 3.6% yoy in April.** Alcoholic beverages also contributed to lower prices. Some foods were also cheaper (such as dairy). However, on average food prices increased mainly due to fruit and vegetables.

Inflation will continue declining (% , yoy)



Source: CZSO, CNB, Macrobond, Economic & Strategy Research, Komerční banka

Transport prices lower with oil price decline

	mom	yoy
Total	-0.2%	3.2%
Food and non-alcoholic beverages	0.6%	7.8%
Alcoholic beverages, tobacco	-1.1%	4.3%
Clothing and footwear	1.5%	3.6%
Housing, water, energy, fuel	0.0%	3.5%
Furnishings, household equipment	0.7%	3.3%
Health	0.5%	1.2%
Transport	-2.6%	-3.8%
Post and telecommunications	-0.3%	-4.9%
Recreation and culture	-0.8%	2.0%
Education	0.0%	4.1%
Restaurants and hotels	0.1%	5.1%
Miscellaneous goods and services	0.1%	3.4%

Source: CZSO, Economic & Strategy Research, Komerční banka

Subsiding inflation is more visible in the prices of services compared with goods. In April, the prices of goods were higher 3.0% yoy while the prices of services were up 3.3% yoy. In March, the readings were 3.2% and 3.7%, respectively.

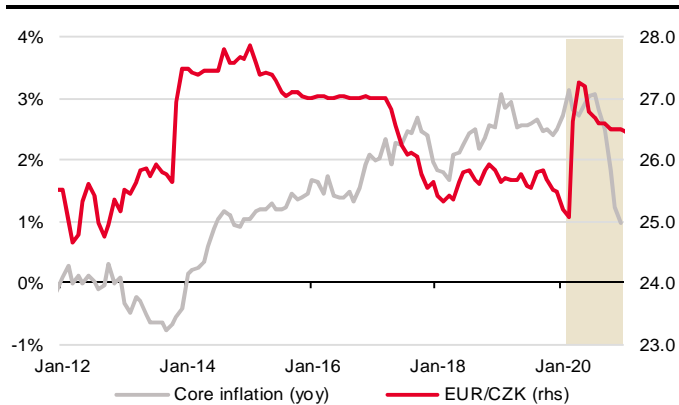
There are several contradictory effects on Czech consumer prices. The decline of oil prices pushes fuel prices lower. Food prices are increasing. Problems with harvesting can potentially push prices higher. With a delay, the weaker CZK is pushing consumer prices higher. The higher

excise taxes on tobacco and alcohol have not yet fully translated into consumer prices, and we should see this more in the data for May. **Nevertheless, the overall decline in domestic demand and the economic recession will increasingly push in the direction of a CPI decline.**

For 2020, our CPI estimate is 3.4% on average as we expected a faster decline of inflation in the second half of this year. Nevertheless, the price development in March and April shows that inflation will be rather lower this year.

The CZK exchange rate reacted negligibly to the data release. CPI came in just a bit above market expectation and 20bp above the CNB forecast. We expect the CNB will cut the key rate to a technical zero.

Core inflation will decline swiftly



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

Prices of transport push inflation down

Contribution to inflation in p.p.	mom	yoy
Total	-0.2%	3.2%
Food and non-alcoholic beverages	0.1	1.3
Alcoholic beverages, tobacco	-0.1	0.4
Clothing and footwear	0.1	0.2
Housing, water, energy, fuel	0.0	0.9
Furnishings, household equipment	0.0	0.2
Health	0.0	0.0
Transport	-0.2	-0.4
Post and telecommunications	0.0	-0.1
Recreation and culture	-0.1	0.2
Education	0.0	0.0
Restaurants and hotels	0.0	0.3
Miscellaneous goods and services	0.0	0.2

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

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