

Instant Reaction

EcoAlert

Consumer price inflation accelerates as core inflation breaks records



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Consumer price index (June 2020)

| | Current | KB forecast | Consensus |
|-------------------------|---------|-------------|-----------|
| Consumer prices | | | |
| Consumer prices (% mom) | 0.6 | 0.2 | 0.2 |
| Consumer prices (% yoy) | 3.3 | 2.9 | 2.9 |

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

In June, consumer prices increased 0.6% mom and 3.3% yoy. Czech inflation thus accelerated significantly. This was due to higher prices of alcoholic beverages and tobacco, where the delayed effect of higher excise tax on cigarettes continued. However, core inflation also increased significantly, rising to 3.5% yoy from the previous 3.3%. According to the CNB, this value represents the inflationary risk of its current forecast. In our opinion, however, current high inflation is only a temporary matter and we expect it to decrease in the second half of this year.

The rise in consumer prices in June came as a sharp surprise, accelerating from 0.4% mom in May to 0.6% in June. It thus exceeded the expectations of analysts and the CNB. The rise in prices of alcoholic beverages and tobacco contributed to half of the month-on-month inflation in June. In the case of tobacco, it is still a delayed pass-through of a higher excise tax, which has been in force since January this year, but its impact on the development of final prices was dampened at the beginning of the year by the sale of cigarettes with original stamps. Year-on-year growth in tobacco prices thus accelerated from 7.1% in May to 12.2% in June. However, wine prices also rose about 5%. On the other hand, beer prices decreased month-on-month (less than 2%), while the May reduction in the VAT rate may have had an effect. The delayed impact on final prices was probably related to the fact that restaurants could not open their interiors until the last week of May.

Price growth according to items of the consumer basket ...

| | mom | yoy |
|----------------------------------|-------------|-------------|
| Total | 0.6% | 3.3% |
| Food and non-alcoholic beverages | -0.5% | 5.4% |
| Alcoholic beverages, tobacco | 2.9% | 9.6% |
| Clothing and footwear | 0.2% | 3.7% |
| Housing, water, energy, fuel | 0.1% | 3.0% |
| Furnishings, household equipment | 0.2% | 3.3% |
| Health | 0.6% | 2.3% |
| Transport | 1.5% | -2.6% |
| Post and telecommunications | -0.1% | -4.1% |
| Recreation and culture | 1.4% | 2.0% |
| Education | 0.1% | 4.1% |
| Restaurants and hotels | 0.3% | 5.0% |
| Miscellaneous goods and services | 0.4% | 3.8% |

Source: CZSO, Economic & Strategy Research, Komerční banka

... and their contribution to overall inflation

| Contribution to inflation in p.p. | mom | yoy |
|-----------------------------------|-------------|-------------|
| Total | 0.6% | 3.3% |
| Food and non-alcoholic beverages | -0.1 | 1.0 |
| Alcoholic beverages, tobacco | 0.3 | 0.8 |
| Clothing and footwear | 0.0 | 0.2 |
| Housing, water, energy, fuel | 0.0 | 0.8 |
| Furnishings, household equipment | 0.0 | 0.2 |
| Health | 0.0 | 0.1 |
| Transport | 0.2 | -0.3 |
| 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, Economic & Strategy Research, Komerční banka

Compared with the previous month, prices in the area of transport increased, which was mainly related to the renewed rise in fuel prices. However, month-on-month, prices of passenger road (0.2%) and air transport (0.7%) also rose, as did car prices (1.4%). **Prices increased in the area of recreational and cultural services. Significant growth was recorded mainly by prices of package holidays, which increased more than 5% compared with the previous month.** Prices continued to rise in restaurants (0.4% mom) and at hairdressing salons (0.5%), while prices of accommodation services decreased (0.2%) after a previous increase. In the current situation, the increase in clothing prices (0.4%) is also interesting. The CZSO data show that both month-on-month growth in prices of both goods and services accelerated by one tenth. **Core inflation exceeded the already record high value in May (3.3% yoy) and, according to the CNB's official calculation, accelerated to 3.5%.** According to the central bank, the value of core inflation published today represents the inflationary risk of its current forecast.

On the other hand, food prices, which fell an average of 0.5% mom, led to lower month-on-month inflation. This mainly concerned vegetables, soft drinks, meat products and milk. Compared with last year, however, food prices are more than 3% higher and continue to be the main driver of annual headline inflation.

The rapid rise in the core component of inflation is likely to be fuelled by still-solid consumer demand, which has already reached pre-crisis levels, as shown by this week's retail sales results for May. In real terms, they increased 2% yoy. The fact that consumers are not afraid to spend is also related to the still-low unemployment rate, which was only 3.7% in June. However, demand is lacking in the manufacturing sector, which is an important source of employment in the Czech Republic, and we do not think it will improve. Demand for capital goods and consumer durables such as cars will be burdened by an uncertain economic outlook. **In the second half of the year, we therefore expect an increase in unemployment, which will also be reflected in weaker wage growth, and ultimately also in a slowdown in hitherto significant inflation. Whether this will be a slowdown to the CNB's target or even below it will only be seen in the second half of this year.** The behaviour of fiscal policy will also have a significant impact, especially with regard to the period of validity of the Antivirus programme.

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