

## Instant Reaction

# EcoAlert

## Inflation continues to slow down gradually



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### Consumer price index (February 2021)

	Current	KB forecast	Consensus
<b>Consumer prices</b>			
Consumer prices (% mom)	0.2	0.4	0.3
Consumer prices (% yoy)	2.1	2.3	2.2

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

**Inflation slowed in February due to stagnant food prices but also due to a core component that does not include food prices. On the other hand, fuels prices became more expensive. The base effect will increase the annual inflation rate in the coming months. We still expect the CNB to raise rates in the last quarter of this year.**

Compared to January, consumer prices in the Czech Republic rose an average of 0.2% in February, and their year-on-year rate slowed down to 2.1% from the previous 2.2%. The market expected a stagnation at 2.2% yoy, whereas we expected an acceleration to 2.3%.

The main reason for slightly slower-than-expected inflation were food prices, which stagnated month-on-month, while we estimated a 0.7% rise in prices. The seasonal increase in prices in the recreation and culture segment was also lower, which contributed to the month-on-month increase in consumer prices by one-tenth of a percentage point. The main reason for the month-on-month rise in prices was therefore a 1.7% increase in fuel prices as a result of higher oil prices on world markets.

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

	mom	yoy
<b>Total</b>	<b>0.2%</b>	<b>2.1%</b>
Food and non-alcoholic beverages	0.0%	0.6%
Alcoholic beverages, tobacco	-0.3%	10.5%
Clothing and footwear	0.0%	2.4%
Housing, water, energy, fuel	0.1%	0.7%
Furnishings, household equipment	0.3%	1.9%
Health	0.2%	3.8%
Transport	0.9%	1.5%
Post and telecommunications	0.0%	-1.2%
Recreation and culture	0.6%	1.0%
Education	0.0%	2.8%
Restaurants and hotels	0.2%	2.9%
Miscellaneous goods and services	0.1%	2.9%

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>2.1%</b>
Food and non-alcoholic beverages	0.0	0.1
Alcoholic beverages, tobacco	0.0	0.9
Clothing and footwear	0.0	0.1
Housing, water, energy, fuel	0.0	0.2
Furnishings, household equipment	0.0	0.1
Health	0.0	0.1
Transport	0.1	0.1
Post and telecommunications	0.0	0.0
Recreation and culture	0.1	0.1
Education	0.0	0.0
Restaurants and hotels	0.0	0.2
Miscellaneous goods and services	0.0	0.2

Source: CZSO, Economic & Strategy Research, Komerční banka

According to our calculation, core inflation, which does not include food and energy prices, slowed to a year-on-year rate of 3.0% from the previous 3.6%. Importantly, core prices slowed significantly in a month-on-month comparison (0.1% mom SA after the previous 0.3%). It is still true that inflation slows down more slowly than expected at the

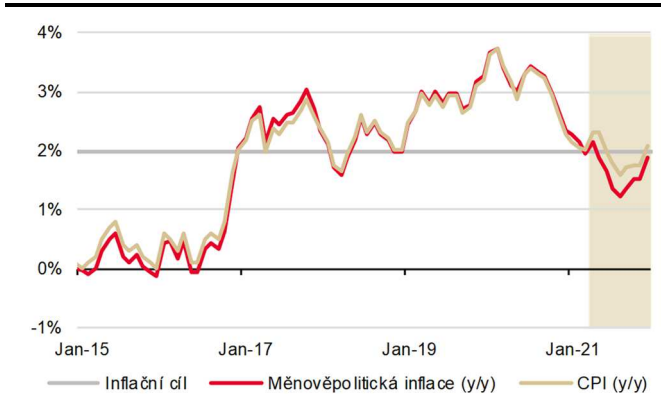
beginning of the year, due to a more pronounced rise in January. Due to the fact that a number of shops and services operate in a limited regime or are completely closed, there is still increased uncertainty about price developments in the coming months. Rising oil prices will lead to a further slight rise in fuel prices. However, although we expect very modest price developments in the coming months, the effect of last year's declining base effect will increase the annual inflation rate, which could be close to 2.3% in April.

**For the whole of this year, our forecast shows inflation averaging 1.8%; however, its faster pace at the beginning of the year shows inflation close to 2.0%.**

**The CNB expected inflation of 1.7% in February, so inflation is now 0.4 percentage point higher.** However, the question is rather the future, which is uncertain due to the pandemic. The CNB will thus still wait for further developments. We continue to expect an increase in interest rates in the last quarter of this year.

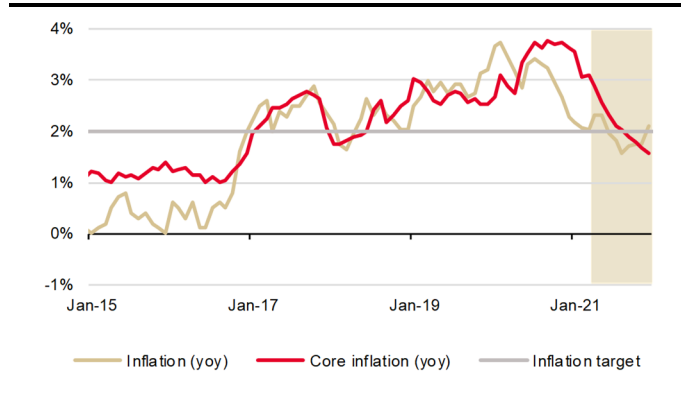
**Financial market did not react significantly to the data published today; however, the figure is lower than expected and core inflation slowed significantly.**

**Inflation is expected to remain close to 2% this year**



Source: CZSO, Economic & Strategy Research, Komerční banka

**Core inflation decelerates**



Source: CZSO, Economic & Strategy Research, Komerční banka

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