

## Instant Reaction

# EcoAlert

## Inflation is slowing due to lower food prices



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### Consumer price index (May 2021)

	Current	KB forecast	Consensus
<b>Consumer prices</b>			
Consumer prices (% mom)	0.2	0.5	0.4
Consumer prices (% yoy)	2.9	3.2	3.1

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

**Contrary to expectations, inflation slowed in May and returned to the CNB forecast in year-on-year terms. The main reason for the slowdown in inflation was the fall in food prices. On the other hand, prices of services rose after the easing of anti-epidemic measures, and core inflation accelerated slightly month-on-month. Despite slower headline inflation, speculations about an early increase in CNB interest rates are unlikely to fall significantly.**

**While inflation surprised with higher figures in April, it was the opposite in May.** Compared to April, consumer prices rose 0.2% in May, and year-on-year inflation thus fell to 2.9% from the previous rate of 3.1%. The market expected inflation of 3.1%; our estimate was 3.2%. While inflation also exceeded the CNB forecast in April, it returned to the central bank's forecast of 2.9% in May.

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

	mom	yoy
<b>Total</b>	<b>0.2%</b>	<b>2.9%</b>
Food and non-alcoholic beverages	-0.6%	-1.3%
Alcoholic beverages, tobacco	0.0%	9.8%
Clothing and footwear	0.3%	2.9%
Housing, water, energy, fuel	0.4%	1.3%
Furnishings, household equipment	0.2%	1.9%
Health	1.1%	3.5%
Transport	0.7%	9.6%
Post and telecommunications	0.0%	-0.5%
Recreation and culture	0.3%	2.2%
Education	-0.1%	2.8%
Restaurants and hotels	0.2%	2.6%
Miscellaneous goods and services	0.6%	3.1%

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>2.9%</b>
Food and non-alcoholic beverages	-0.1	-0.2
Alcoholic beverages, tobacco	0.0	0.9
Clothing and footwear	0.0	0.1
Housing, water, energy, fuel	0.1	0.3
Furnishings, household equipment	0.0	0.1
Health	0.0	0.1
Transport	0.1	1.0
Post and telecommunications	0.0	0.0
Recreation and culture	0.0	0.2
Education	0.0	0.0
Restaurants and hotels	0.0	0.2
Miscellaneous goods and services	0.1	0.2

Source: CZSO, Economic & Strategy Research, Komerční banka

In line with expectations, inflation was raised by elevated prices of fuel; however, compared to previous months, the month-on-month rise was weaker this time, slightly above 1%. On the contrary, what reduced inflation compared to estimates was the fall in food prices. **In summary, according to our preliminary calculation, the month-on-month growth of core prices accelerated slightly to 0.4% from the previous rate of 0.3% (seasonally adjusted).** This would correspond to a slowdown in annual core inflation to 3.1% from the previous 3.4%.

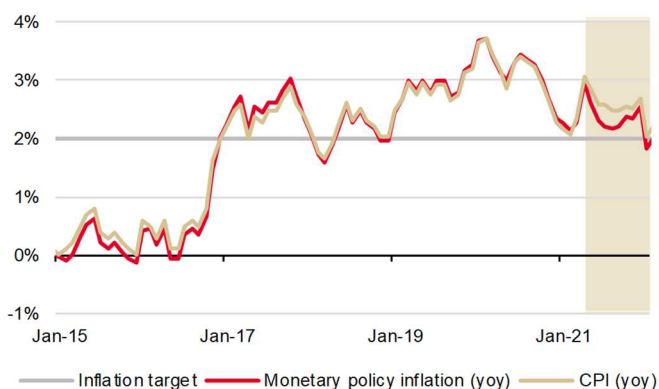
**While on average prices of goods did not change month-on-month, prices of services increased 0.5%.** Such a development is probably a reflection of the May easing of anti-pandemic measures in the services sector. In year-on-year terms, prices of goods increased on average 2.7% and prices of services 3.1%.

**In a year-on-year comparison, the biggest driver of inflation is still transport prices, which are mainly related to more expensive fuel, and alcoholic beverages and tobacco.** If we subtract the contribution of these items from inflation, inflation would be only 1%.

**In our forecast, we anticipate that, in the case of month-on-month growth, inflation will peak during the period from May to July.** Cheaper food may cause us to be behind this peak already. The year-on-year inflation rate could thus fall further in the coming months. However, uncertainty about the further development of service prices is still very high.

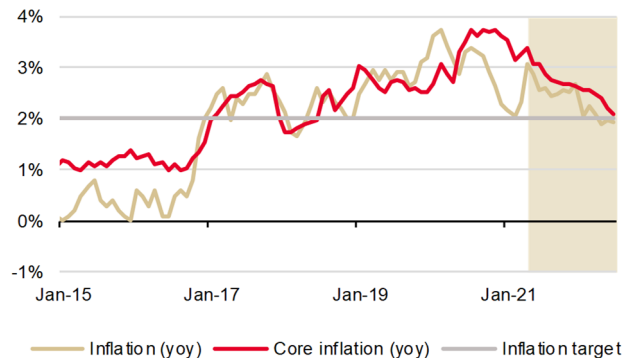
**In response to lower inflation, the koruna weakened by about 6 halers to the level of 25.45 CZK/EUR.** Although inflation in May surprised to the downside and returned to the CNB forecast, this was largely due to lower food prices. On the other hand, higher growth in service prices and, consequently, high core inflation may still be an argument for the CNB to consider raising interest rates at its June meeting. The perception of epidemic risks by individual members of the bank board will now be crucial for decisions on setting monetary policy. From their last statement, however, we perceive a strong decline in perceived risk, and the money market is thus likely to continue to expect an increase in interest rates at the meeting at the end of June.

**Inflation developments can be volatile**



Source: CZSO, Economic & Strategy Research, Komerční banka

**Core inflation has been still relatively fast**



Source: CZSO, Economic & Strategy Research, Komerční banka

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