

## Instant Reaction

# EcoAlert

## Inflation in the Czech Republic jumped above 3% again



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### Consumer price index (April 2021)

	Current	KB forecast	Consensus
<b>Consumer prices</b>			
Consumer prices (% mom)	0.5	0.2	0.2
Consumer prices (% yoy)	3.1	2.8	2.7

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

**In April, higher prices of goods accelerated inflation above all estimates and the CNB forecast. Faster loosening of the epidemic measures implies a higher risk of faster growth in consumer prices in the coming months. More dynamic inflation also increases speculation about the CNB's earlier tightening of monetary policy.**

Compared to March, consumer prices rose 0.5% in April, and the year-on-year inflation jumped to 3.1% from the previous rate of 2.3%. The rate of rise in price exceeded all estimates in April. The market expected inflation of 2.7% yoy; our estimate was 2.8% yoy.

The increase in April was driven by prices of goods, which were up 1% mom, and not services, whose prices stagnated month-on-month. Higher prices cannot be attributed to a single factor. Not surprisingly, there were further increases at petrol stations due to rising oil prices and more expensive alcohol and tobacco products against a background of higher excise taxes. Contrary to our expectations, prices of food, housing and household goods were higher. According to our preliminary estimates, core inflation remained close to 3.3%, which would mean a slight slowdown in its month-on-month seasonally adjusted rate to 0.2%.

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

	mom	yoy
<b>Total</b>	<b>0.5%</b>	<b>3.1%</b>
Food and non-alcoholic beverages	0.8%	-0.1%
Alcoholic beverages, tobacco	1.6%	13.0%
Clothing and footwear	1.2%	1.6%
Housing, water, energy, fuel	0.3%	0.9%
Furnishings, household equipment	1.1%	2.1%
Health	0.3%	3.6%
Transport	1.0%	9.1%
Post and telecommunications	-0.1%	0.1%
Recreation and culture	-0.4%	1.4%
Education	0.1%	2.8%
Restaurants and hotels	0.1%	2.7%
Miscellaneous goods and services	-0.1%	2.5%

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>0.5%</b>	<b>3.1%</b>
Food and non-alcoholic beverages	0.1	0.0
Alcoholic beverages, tobacco	0.1	1.1
Clothing and footwear	0.0	0.1
Housing, water, energy, fuel	0.1	0.2
Furnishings, household equipment	0.1	0.1
Health	0.0	0.1
Transport	0.1	1.0
Post and telecommunications	0.0	0.0
Recreation and culture	0.0	0.1
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

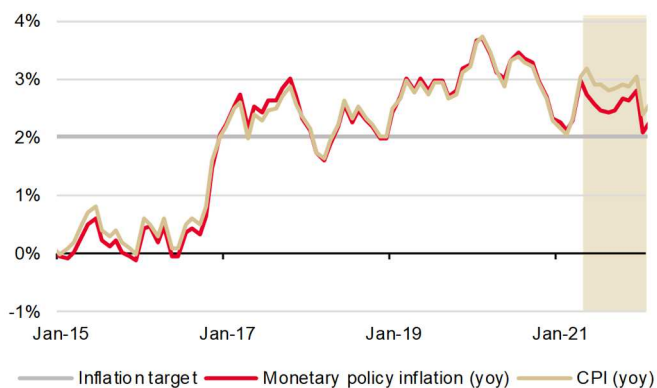
**In the coming months, we are likely to see larger price movements for items affected by the easing of anti-epidemic measures, such as clothing, footwear and some services. Our forecast anticipated reaching 3% year-on-year inflation in May, and although its value for April**

is clearly above all estimates, it is not a bolt from the blue. **At the same time, it must be acknowledged that the current wave of loosening of epidemic measures is significantly faster than projected in our forecast, which implies a greater risk of faster growth in consumer prices in the short term.** It is possible that in May we will see a year-on-year inflation rate even higher, close to 3.2%. However, as early as July, the growing base effect from last year should bring the year-on-year inflation rate back below 3%. At the end of the year, it will rise again due to a comparison with last year's decline in food prices. **On a month-on-month basis, we expect inflation to peak in the middle of this year** (3M SA inflation at 4.9% mom).

**In the year-on-year comparison, the biggest drivers of inflation are alcoholic beverages and tobacco and prices at petrol stations.** If we subtract the contribution of these items from inflation, inflation would be only 1%.

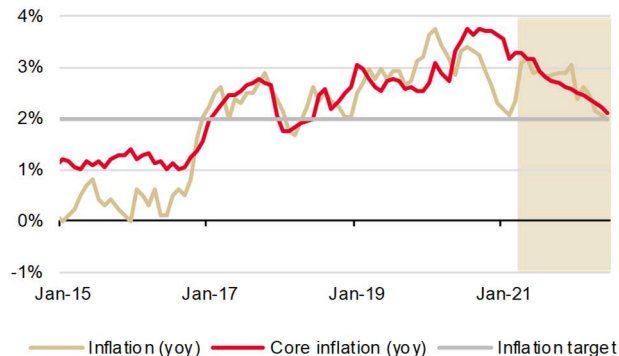
**The CNB forecast projected inflation at 2.9% in April, and the result published today thus indicates a growing chance for an earlier increase in interest rates.** With the current level of inflation, monetary policy will do nothing, but as it increases further, the risk of rising inflation expectations may increase. For the time being, the prevailing view is that the current rise in inflation on a global scale is of a short-term nature. Our forecast assumes the beginning of a cycle of raising the CNB's interest rates in November, and inflation data published today pushes market speculation about tightening monetary policy closer to the August meeting. Nevertheless, we still consider the increase in interest rates to be premature for June. The further development of the epidemic will be crucial.

Inflation developments can be volatile



Source: CZSO, Economic & Strategy Research, Komerční banka

We are still expecting slowdown in core inflation



Source: CZSO, Economic & Strategy Research, Komerční banka

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