

# Czechia Watch: Month-on-month inflation stagnation

After rising to 2.9% yoy in April, CPI fell to 2.6% in May. Food prices, the main reason for the April rise in inflation, had the opposite effect this time. Following the CPI release, we still expect the CNB to cut rates by 50bps in June, but with a 25bps cut also very likely.

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**The price level was unchanged month-on-month**, but price developments in the consumer basket were often markedly different, with prices of fuel and some food items falling, for example. By contrast, prices of dining and accommodation services increased.

**In year-on-year terms**, the slowdown in inflation was mainly due to the development in the food and non-alcoholic beverages section, where in many cases the disinflationary process of individual items had accelerated. The prices of flour were down by 23.5% (19.1% in April), eggs by 23.5% (15.5% in April), fruit by 6.7% (2.8% in April) and meat by 5.8% (3.9% in April).

The price level rose mainly due to further price increases in the housing section, where electricity, water and sewerage prices continued to rise by more than 10%. Rent prices were up by more than 7% yoy.

Fuel prices also increased by more than 10%, driven by higher oil prices and a weaker koruna. In the dining and accommodation division, prices of dining services rose by 7.5% and accommodation services by 10.2%, possibly due to the Ice Hockey World Championship held in Czechia. Businesses were able to take advantage of the high popularity of the championship and increase their price demands. However, inflationary pressures were already present in this area before and therefore a sharp reduction in inflation should not be expected. As in April, prices in services rose by 5.3%, while goods dynamics saw a decrease from 1.4% to 0.9%.

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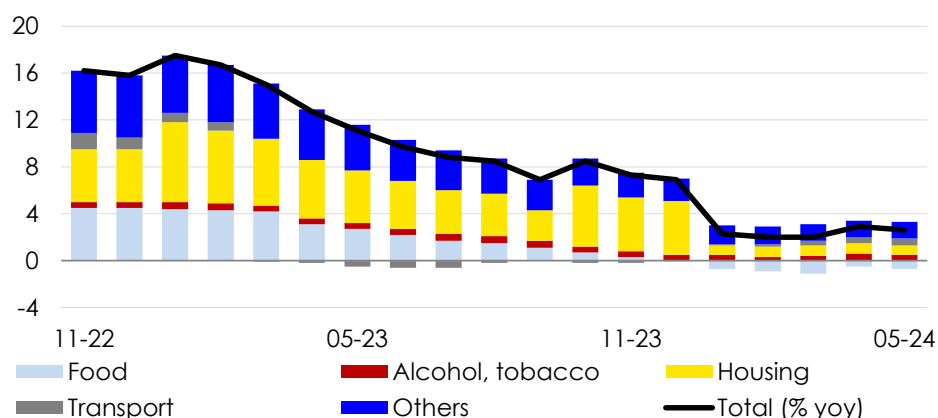
**Contributions to monthly and yearly inflation  
(in percentage points)**

	<b>mom</b>	<b>yoy</b>
Food and non-alcoholic beverages	0,0	-0,7
Alcoholic beverages, tobacco	0,0	0,5
Clothing and footwear	0,0	0,1
Housing, water, energy and fuel	0,0	0,8
Furnishing, household equipment	0,0	0,0
Health	0,0	0,1
Transport	0,0	0,6
Post and telecommunication	0,0	0,1
Recreation and culture	0,0	0,4
Education	0,0	0,0
Restaurants and hotels	0,0	0,5
Miscellaneous goods and services	0,0	0,2
<b>Total</b>	<b>0,0</b>	<b>2,6</b>

Source: CZSO

The latest version of the **Czech National Bank's macroeconomic forecast** has predicted inflation of 2.5% in May, and this result may therefore indicate to the Bank Board that the spike in April was a one-off event. In our view, there is thus room for further monetary easing, although some Bank Board members seem in favour of a rather cautious approach. We currently expect the CNB to cut rates by 50bps at its June meeting (27th June), but the probability of a 25bps cut is at least as high.

**Inflation structure**



pp contributions to yoy% headline inflation

Source: Macrobond, Raiffeisen Research

Inflation fell to 2.6% in May from 2.9% in April, although the market had expected a more modest decline to 2.8%. The development in the foods section remained a key factor for the slowdown. However, renewed increases in food prices constitute a risk, and the developments in this segment should continue to be monitored closely.

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Symbol	Date	Recommendation	Company
CZ	25.09.2023	Under Revision	Czech Republic

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