

Czech Republic | Inflation in February 2024

EcoAlert

Inflation falls to the CNB's 2% target



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Consumer price index – February 2024

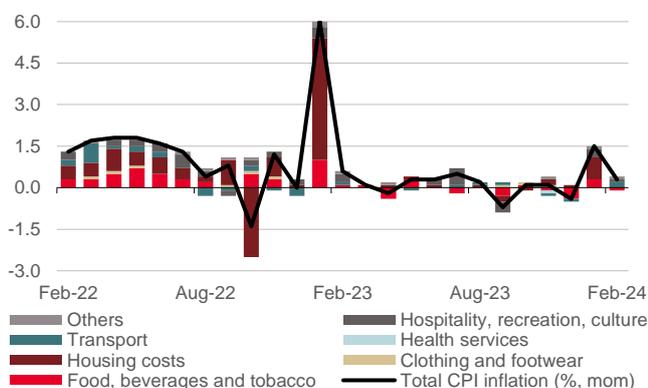
	Actual	KB forecast	Consensus
CPI (% mom)	0.3%	0.1%	0.4%
CPI (% yoy)	2.0%	1.8%	2.1%

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

Czech inflation fell to 2.0% yoy in February from 2.3% yoy in January. This was slightly above our estimate of 1.8% yoy. In contrast, the market consensus was for 2.1% yoy and the CNB had expected 2.8% yoy in its February forecast. However, inflation was already lower than the CNB forecast in January (2.3% yoy vs CNB forecast of 3.0%).

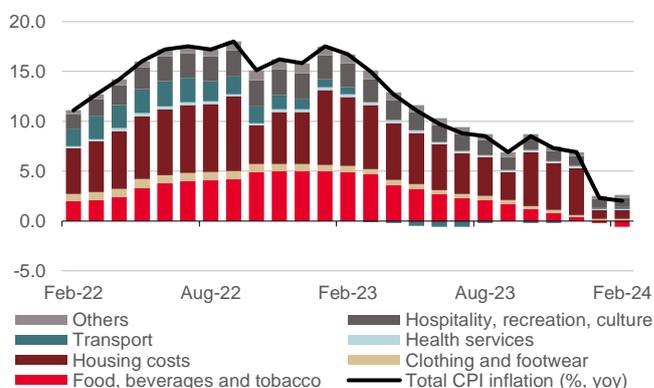
Consumer prices rose by 0.3% mom. In particular, fuel prices grew by 4.3% mom in February. This was due to higher crude oil prices and the weakening of the Czech koruna. Regulated prices also increased, but only by 0.1% mom. On the other hand, food prices were still on a downward trend. Prices for food and non-alcoholic beverages declined by 0.3% mom, while prices for alcoholic beverages and tobacco fell by 1% mom.

Fuel prices rose significantly on the month, while food prices were slightly lower (pp, %, mom)



Source: CZSO, Economic & Strategy Research, Komerční banka

Higher energy and services prices drive annual inflation (pp, %, yoy)



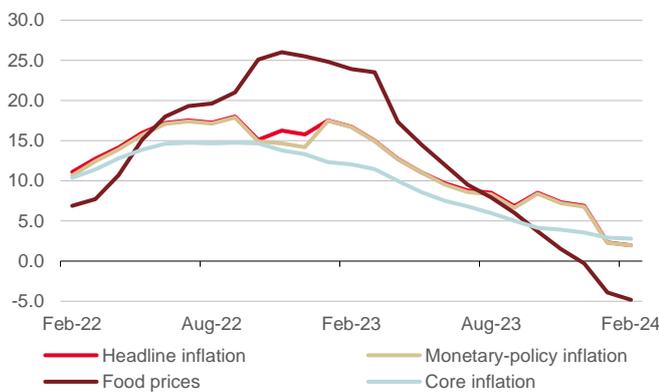
Source: CZSO, Economic & Strategy Research, Komerční banka

The deviation from our forecast was almost entirely due to higher core inflation. The pace eased only marginally to 2.8% yoy in February after 2.9% yoy in January. We had estimated 2.4% yoy. However, the CNB had expected a much higher level (3.5% yoy) in its February forecast. Core price momentum rebounded sharply. While seasonally adjusted core prices were roughly unchanged in January, we estimate that they grew at a pace of 0.4-0.5% mom in February, or around 5% on an annualised basis. Monthly core inflation was last this high in March 2023. The increase over the month may have been the effect of repricing that had been delayed at the beginning of the year. In structural terms, core inflation was driven by services

prices, which rose by a substantial 5.2 % yoy in February. In contrast, goods prices increased by only 0.2% yoy.

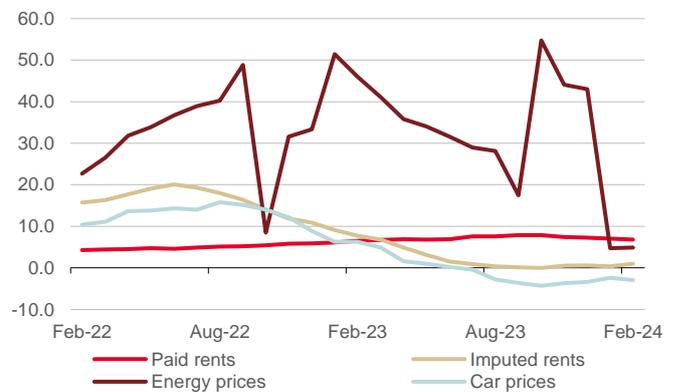
Both headline and core inflation are likely to remain within the central bank’s tolerance band until the end of the year. We expect the full-year figure to be in the range of 2-3% in both cases. The CNB should therefore continue to cut interest rates, in our view. We still see a chance of a 75bp cut at the March meeting, as the current interest rate level is too high given the sharp decline in inflation and the ongoing weakness in the economy. However, the risks are clearly skewed towards another 50bp cut, supported by continued buoyant growth in services prices. Despite the decline in inflation, the CNB board’s communication has remained cautious, mainly because of concerns about the path of core inflation.

Core inflation fell from 2.9% in January to 2.8% in February and remained well below the CNB forecast (% , yoy)



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

Energy prices rose by 4.9% in February, paid rents by 6.8%, while imputed rents were up by only 1% yoy (% , yoy)



Source: CZSO, Economic & Strategy Research, Komerční banka

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