

Czech Republic | Inflation in June 2024

EcoAlert

Inflation moves surprisingly back to CNB target



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Consumer price index – June 2024

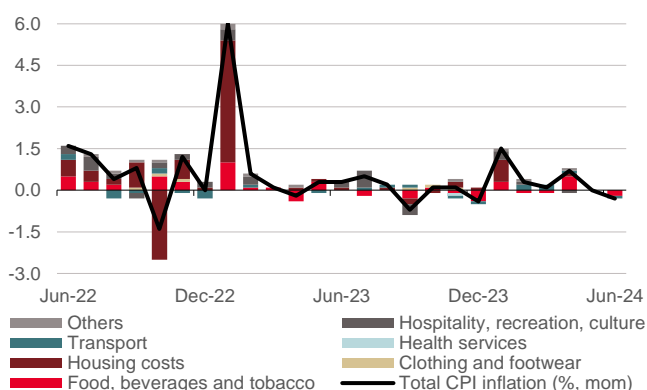
	Actual	KB forecast	Consensus
CPI (% , mom)	-0.3%	0.2%	0.2%
CPI (% , yoy)	2.0%	2.5%	2.4%

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

Czech inflation fell surprisingly sharply to 2.0% yoy in June from 2.6% yoy in May. Both our forecast (2.5% yoy) and the market consensus (2.4% yoy) pointed to only a slight slowdown in consumer price growth. Like the market, the central bank had estimated 2.4% yoy in its forecast published at the beginning of May.

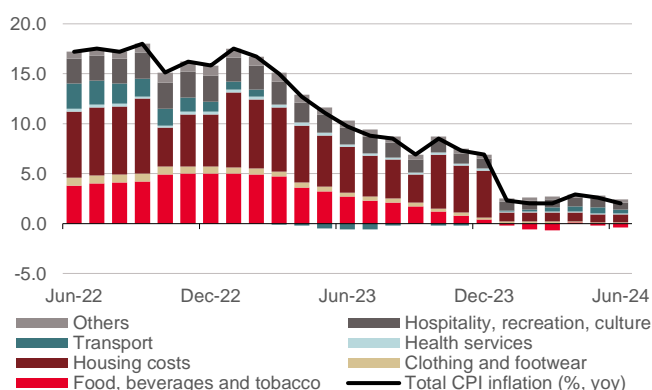
Consumer prices declined by 0.3% mom against expectations for a rise of 0.2% mom. This was mainly due to falling fuel and food prices. The decline in fuel prices accelerated from 1.8% mom in May to 3.7% mom in June. Food prices also fell at a faster pace, by 0.6% mom after -0.1% mom. Regulated prices were 0.1% mom lower, driven by a gradual decline in household energy prices.

Decline in consumer prices mainly due to cheaper fuel and food (pp, %, mom)



Source: CZSO, Economic & Strategy Research, Komerční banka

In addition to transport and food, annual price growth also eased in the hospitality and tourism sector (pp, %, yoy)



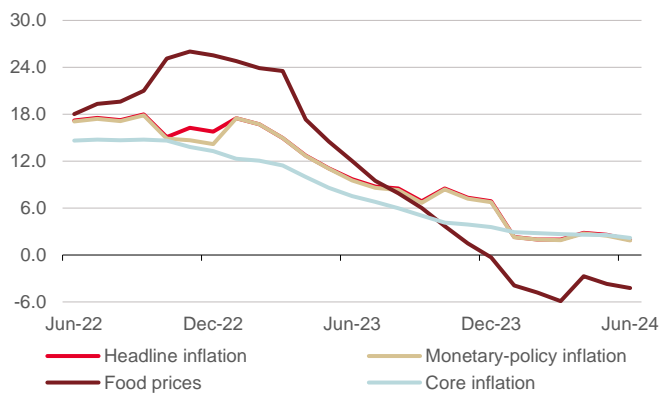
Source: CZSO, Economic & Strategy Research, Komerční banka

Core inflation also slowed significantly. After reaching 2.5% yoy in May, core inflation came in at 2.2% yoy in June, well below the CNB's forecast of 2.6% yoy. In seasonally adjusted terms, this means that core prices fell mom. The mom dynamics had already slowed considerably in May. According to our estimate, seasonally adjusted mom core inflation declined from 0.14% in May to -0.1% in June. The last two months thus point to surprisingly weak demand pressures in the Czech economy. It's possible that the effects of tight monetary policy and the ongoing weakness in consumer demand – with household purchasing power having been severely eroded by high inflation – are being felt with a time lag. The difference between our forecast and

the actual result can be attributed to weak momentum in core inflation and food prices, as leading indicators for the latter predicted a mom increase.

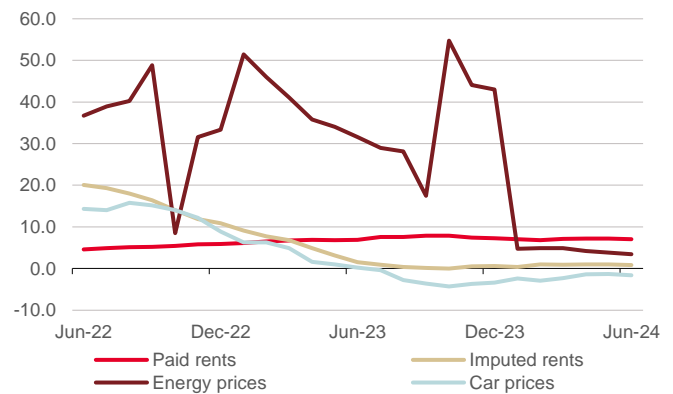
After today's inflation data, downward pressure on CNB rates is likely to intensify. The consensus view has so far been that the key repo rate will fall from the current 4.75% to close to 4% by the end of the year. With both headline and core inflation already close to the central bank's target, the chances of the repo rate falling below 4% by the end of the year are increasing. Core inflation in mom annualised SA terms has come in below 2% for the second month in a row. At the same time, annual growth in services prices remains strong despite having fallen from 5.3% in May to 4.9% in June. Goods price inflation remained well below the 2% target (+0.2% yoy).

Both headline and core inflation have fallen markedly close to the CNB's 2% target (% , yoy)



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

Imputed rents grew by a still-subdued 0.8% in June, while paid rents increased by 7% (% , yoy)



Source: CZSO, Economic & Strategy Research, Komerční banka

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