

Czech Republic | Inflation in September 2024

# EcoAlert

## Inflation up to 2.6% yoy on higher food prices



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### Consumer price index – September 2024

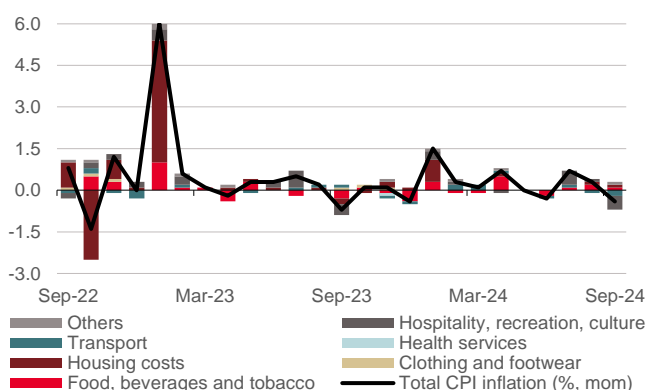
	Actual	KB forecast	Consensus
CPI (% mom)	-0.4%	-0.6%	-0.5%
CPI (% yoy)	2.6%	2.3%	2.4%

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

**Czech inflation rose to 2.6% yoy in September from 2.2% yoy in August.** This was above both the market consensus (2.4%) and our estimate (2.3%). In its forecast published at the beginning of August, the CNB had expected 2.3% yoy for September. Annual growth in services prices remained high at 5% in September, while goods prices accelerated from 0.5% to 1.2% yoy.

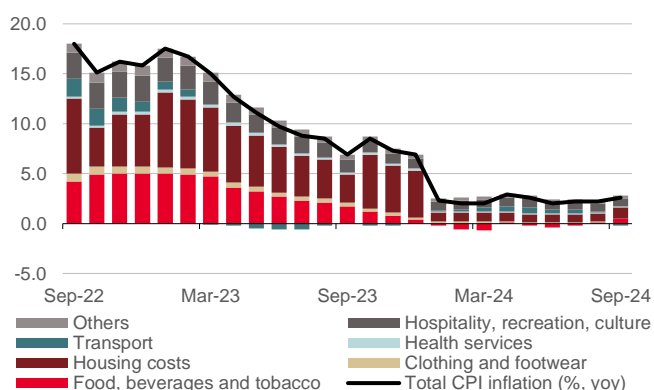
**As in August, the surprise was mainly due to higher food prices.** Prices for food and non-alcoholic beverages rose by 0.8% mom in September, while prices for alcoholic beverages and tobacco rose by 0.1% mom. This, combined with a lower comparison base from last year, led to a marked acceleration in the annual rate of increase for the whole food price category (including alcohol and tobacco) from 1% in August to 2.6% in September.

The monthly fall in consumer prices in September was mainly due to seasonality in the tourism sector (% pp, mom)



Source: CZSO, Economic & Strategy Research, Komerční banka

The rise in annual inflation was driven by food and housing costs, including the effect of a lower comparison base (% pp, yoy)



Source: CZSO, Economic & Strategy Research, Komerční banka

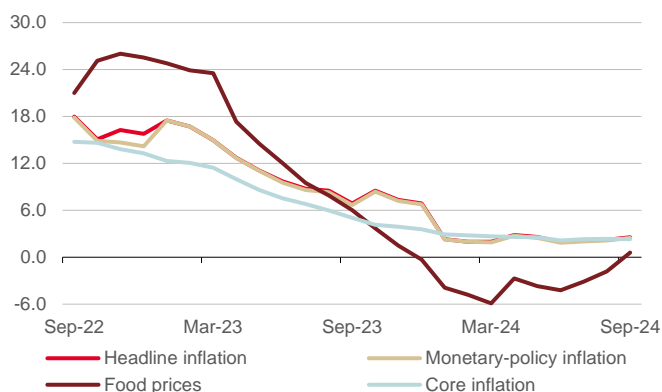
**Regulated prices in September also came in above our forecast,** rising by 0.1% mom, as in August. The energy component of regulated prices fell by 0.7% mom on average, with household electricity prices down 1.5% mom and gas prices down 0.5% mom in September. In contrast, heating prices rose rapidly for the second month in a row (1.1% mom in September after 0.7% mom in August). However, the decline in energy prices was offset by an increase in the non-energy component of regulated prices. Education prices rose by an average of 10.5% mom, in connection with the start of the school year. In particular, after-school programmes (+39.6% mom) and kindergartens (+28.4% mom) became significantly more expensive. As with

food prices, the effect of last year's lower base was also felt in regulated prices, which accelerated from 5.2% to 6.6% yoy. Energy and food prices started to come down from their peaks in 2H23. On the other hand, fuel prices fell sharply for the second consecutive month, by 4.8% mom in September. As a result, the annual decline in fuel prices accelerated from 4.2% to 11.3%.

**Core inflation slowed to 2.3% yoy in September from 2.4% yoy in August.** This was in line with our forecast but slightly below the central bank's estimate of 2.4% yoy. In seasonally adjusted monthly terms, we estimate that core inflation eased from 0.2% in August to 0.1% in September. Among the services prices included in core inflation, those related to education mainly increased, while those related to tourism decreased. However, some of these movements reflect traditional seasonality. Growth in weighted imputed rents remained elevated for the second consecutive month, at 0.6% mom, leading to an acceleration in the annual increase from 1.2% to 1.4%. The recovery in the housing market may have contributed to this. Similarly, growth in paid rents remained at 0.3% mom in September, with the annual increase slowing slightly from 6.6% to 6.4%.

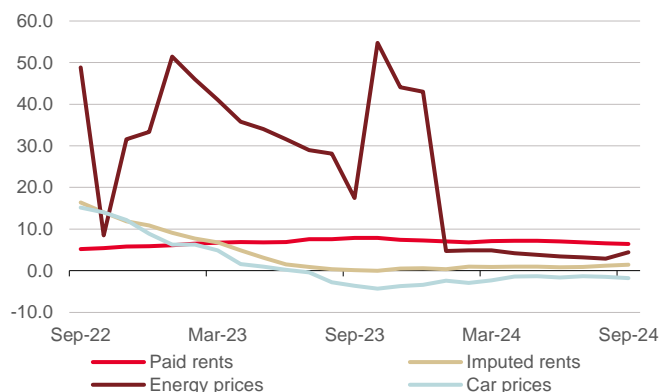
**Although headline inflation accelerated due to traditionally volatile items, the trend in its core component was favourable.** It is core inflation, which best reflects demand pressures in the economy, that is key for monetary policy. We expect the disinflationary trend to continue due to still-subdued consumer demand and only moderate wage growth, with core inflation potentially falling below 2% next year. The CNB's interest rate cuts should therefore continue, but probably only at a cautious pace of -25bp per meeting in our view. However, we see the current recovery in the housing market, which is starting to be reflected in house price growth, as a significant risk to higher core inflation. The decline in the market components of energy prices should also contribute to lower inflation. Headline inflation is less predictable due to the high volatility of food and fuel prices. This is influenced by global factors, such as the conflict in the Middle East and the impact of climate change on agricultural harvests. However, we expect headline inflation to remain close to 2% next year, as potentially higher food and fuel price dynamics should be offset by lower core inflation and energy market prices. Another uncertainty for headline inflation next year is the development of the regulated components of energy prices.

Core inflation declined slightly from 2.4% to 2.3% in September, vs the central bank's forecast of 2.4% (% , yoy)



Note: Food prices do not include alcoholic beverages and tobacco.  
Source: CZSO, CNB, Economic & Strategy Research, Komerční banka

The acceleration in energy price growth from 2.9% to 4.4% yoy in September was due to the lower comparison base (% , yoy)



Source: CZSO, Economic & Strategy Research, Komerční banka

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