

Czechia Watch: Food prices and seasonal factors drove unexpected CPI decline

Czech CPI was unexpectedly low in April driven mainly by lower food prices and other seasonal factors. Else, underlying price pressures still appear as broad even though gradual easing is intact. We evaluate risks to our 11.3% forecast as balanced, with no more hikes in sight.



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Food prices and seasonality

Consumer prices rose by 12.7% yoy in April and fell by 0.2% mom. The result caught the market as well as the Czech central bank by surprise, with market median estimate running at 13.3% and the CNB's slightly lower at 13.2%, which translates into a mom increase between 0.3-0.4%. **The reason for the significantly lower CPI dynamics is a decline in food prices and the effect of other seasonal factors.**

Interestingly, preliminary survey data offered by the Czech statistical office hinted at a rise in food prices, which we incorporated into our estimate. The release of April CPI, however, reveals that **food prices including non-alcoholic beverages dropped by 1.6% compared to March.** On top of that, **seasonal factors in the goods sector pushed inflation lower, too.** For instance, neglecting seasonal goods, overall inflation reached 0% mom in contrast to the reported -0.2%. Seasonality also pushed down **core inflation**, however, after seasonal adjustment, core rate was higher compared to March, according to the CZSO methodology. This reflects **still robust underlying price pressures.** For example, prices were up by 0.7% mom (vs. 0.8% in March) in the "other goods and services" segment, by 0.8% mom (vs. 1.1% in March) in "food and accommodation", by 1.1% (vs. 1.2% in March) in "clothing and footwear", and by 1.1% (vs. 0.3% in March) in the "home equipment" segment. **Given that retail sales data point to ongoing weakness, we expect a gradual slowdown in the pace of price growth as supply will react to the adverse situation in demand.** Nevertheless, history suggests that following an episode of significantly higher inflation, **prices tend to be persistent**, which hints at **only a gradual easing of price pressures.**

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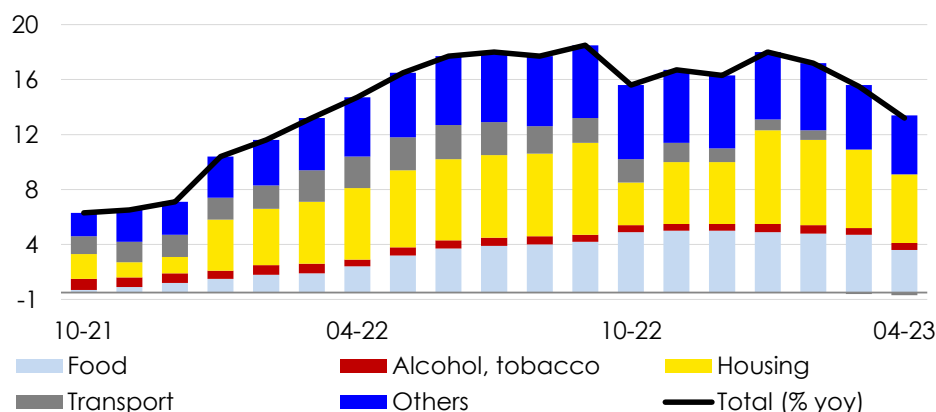
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Contributions to monthly and yearly inflation (in percentage points)

	mom	yoy
Food and non-alcoholic beverages	-0.3	3.1
Alcoholic beverages, tobacco	-0.1	0.5
Clothing and footwear	0.0	0.5
Housing, water, energy and fuel	0.0	5.0
Furnishing, household equipment	0.1	0.7
Health	0.0	0.3
Transport	0.0	-0.2
Post and telecommunication	0.0	0.1
Recreation and culture	-0.1	1.0
Education	0.0	0.0
Restaurants and hotels	0.1	1.0
Miscellaneous goods and services	0.1	0.7
Total	-0.2	12.7

Source: CZSO

From a **monetary policy perspective**, lower inflation than the CNB predicted (12.7% vs. 13.2%) **goes in the direction of rates stability** at the next (June) meeting. **Still, one has to keep in mind that the unexpected CPI drop is mainly due to volatile food prices.**



pp contributions to yoy% headline inflation

Source: Macrobond, RBI/Raiffeisen Research

Risks to 2023 outlook are balanced

For our 2023 inflation forecast at 11.3%, we assess risks as balanced. As a **pro-inflationary risk** we highlight developments in the **labour market**, with the unemployment rate running below our forecast in the first four months of the year. Likewise, monthly data from the industrial sector point to swift wage growth, putting upside risks even to our above-consensus 10% whole-economy nominal wage growth for this year. As a **disinflationary risk factor**, we see **muted demand** playing a dominant role, with even traditionally stable retail segments, such as food, experiencing a mom decline in (both February and March) inflation-adjusted sales.

Forward rate agreements declined following the CPI print while the CZK/EUR pair remained broadly stable.

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Symbol	Date	Recommendation	Company
CZ	30.12.2022	Not rated	Czech Republic
CZ	07.06.2022	Not rated	Czech Republic

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