

Czechia Watch — Inflation shows strong momentum

Consumer prices unexpectedly surged again in April reaching 14.2% yoy and leaving the consensus estimate (13.2%) far behind. Food and energy prices grew stronger than we expected, but underlying price pressures remain intact as well.



Consumer prices unexpectedly surged again. Following the monthly 1.7% increment in March, inflation stood at 1.8% mom in April. From a year-on-year perspective, this translates into a significant jump **from 12.7% to 14.2%**. The sustained strong price growth momentum caught markets by surprise with the median estimate (including ours) pointing to 13.2%.

Food and energy behind the increase

The bulk of the deviation of our forecast from the actual is due to higher than expected price increases in the **energy** and **food** segments. Following the March price spike in the non-regulated part of energy, we anticipated a lower momentum in April. However, the slowdown proved to be less pronounced with **natural gas prices** up by 4.7% mom (vs. our estimate 2.0%) compared to 7.4% in March. **Electricity prices** grew by 4.2% mom after 1.7% mom a month earlier. **Food inflation** also came in hotter than anticipated adding 3.6% mom. **In sum**, prices in the category of housing, water and energy added 0.7pp to the 1.7% monthly growth rate (5.2pp to the 14.2 yearly rate), while food and non-alcoholic beverages contributed 0.6pp to the monthly increment and 1.9pp to the yearly one.

Altogether, it was external price pressures that caused the upside deviation. That being said, **underlying inflation remains robust** with services prices growing by 1.6% mom and goods prices by 1.9% mom. Thus, core inflation increased as well from 11.4% yoy to 12.8% (vs. our estimate close to 12%).

Food and energy behind the increase **1**

Underlying inflation remains robust, external shock not yet fully absorbed **2**

More hikes in June **2**

Disclaimer **3**

Analyst **6**

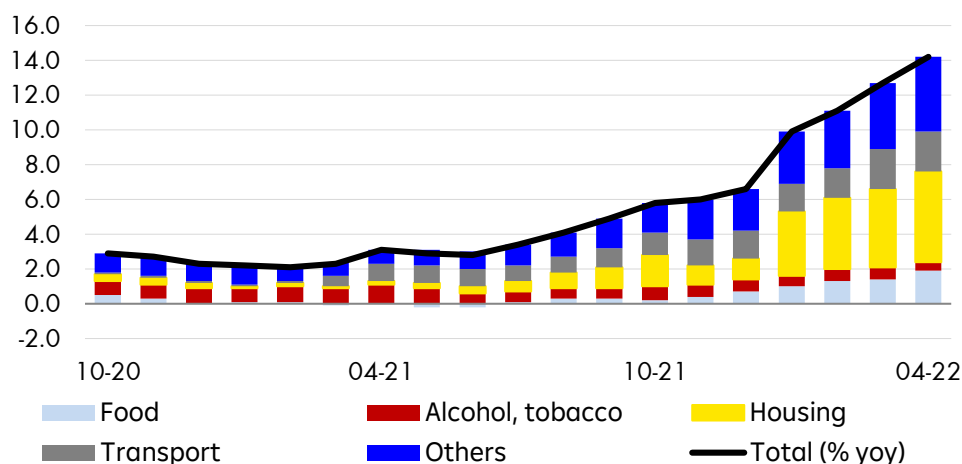
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Structure of inflation



Macrobond, Raiffeisen Research

Underlying inflation remains robust, external shock not yet fully absorbed

We expect that energy prices for households will still be adjusted to the current market situation. Furthermore, looking at elevated prices of agricultural commodities, we think that food inflation is yet to gain pace. Therefore, the **external factors** will continue to lift inflation in the coming months. Regarding **underlying inflation**, we expect ongoing but gradually decelerating growth since consumer sentiment has deteriorated and negative real wages do not leave much room for further increases in margins. Still, some further increase in the core inflation is likely as firms are challenged by high production costs (pressure from input prices as well as wages) coupled with tighter financing conditions. Some upward adjustment in the prices of goods and services is thus warranted and should be more pronounced in the goods sector since it is relatively more energy-intensive, and thus more susceptible to high energy prices.

More hikes in June

With April's inflation at 14.2%, the peak of inflation will likely lie between 15-16% mid-year putting **upside risk to our forecast of the average 12.6% in 2022**. Next year, we expect inflation to reach 6.0%, on average. However, the recent rise in energy prices might affect long-term contracts, such that next year's forecast also sees upside risks.

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