



Commentary CBA to the consumer prices in December 2015

Under the spell of cheap oil and food

Prague 12/01/2016

Consumer prices dropped by 0.1%, month-on-month, and increased by mere 0.1%, year-on-year. The gap between real inflation and the inflation forecast of the central bank (0.8%, y/y) thus further widened. Moreover, the Eurostat estimate of December HICP was at -0.1%, y/y. As for the internationally comparable standards, Czech economy thus fell into deflation at the end of 2015.

In 2015, the average annual inflation was at 0.3%. This was the second lowest figure in history, just slightly higher than record low average CPI reported in 2003 (0.1%, y/y).

Cheaper food and fuel played the main role. Food prices were by 0.9% lower than in November, fuel was cheaper by 2.3%, m/m.

Also in comparison with the previous year, fuel prices were the main factor pressing inflation down falling by 15.1%, y/y. Food products were cheaper by 2.4% than a year before. Only a few items recorded year over year growth in prices: alcohol and tobacco prices rose by 4.4%, prices of clothing and footwear increased by 2.7%, y/y. Prices of holidays were higher by 6.8%, y/y driven among other factors by a strong USD.

Eurostat announced November HICP at 0.2%, y/y for Eurozone, therefore Czech inflation was lower. Under low inflation, Czech economy has been enjoying strong growth. Companies have been reporting high profitability under low costs, consumers do not seem to postpone their purchases eventhough further selective decline in prices is not unrealistic. While the consumers enjoy low inflation, central bank will not be happy with extremely high deviation from November inflation forecast. The exchange rate floor will probably not be abandoned during 2016. It cannot be excluded that the discussion on negative interest rates may be on the table.

Labour market reports data indicating deepening mismatch between the qualification structure of free labour force and needs of companies. Selective wage pressures will thus strengthen. This pro-inflationary factor will be however weaker than the effect of importing low inflation. Massive imports from China will be cheaper due to weaker yuan. Low oil prices will lead to further decline of fuel prices in the forthcoming months. Inflation will thus continue to be very low at least in the first half of the year, annual average inflation expected around one percent for 2016.

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