



Commentary CBA to the consumer prices in November 2015

Inflation fell close to zero

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Consumer prices dropped by 0.4%, 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 (0.6%, y/y) thus widened to half of percentage point.

Fuel prices were the main factor pressing inflation down – fuel was by 2.4% cheaper than in October. Food prices went down by 0.8%, m/m. Prices of many dairy products fell because of the abolition of European milk quotas.

Also in comparison with the previous year, fuel prices were the main factor pressing inflation down – they fell by 17.6%, y/y. Food products were cheaper by 1.4% than a year before. Only a few items recorded year over year growth in prices: tobacco prices rose by 7.2%, prices of alcoholic beverages increased by 1.9%, y/y. Prices of holidays were higher by 7.3%, y/y driven among other factors by a strong USD.

Eurostat announced November HICP at 0.1%, y/y for Eurozone, the respective estimate of Czech HICP is at zero. Under low inflation, Czech economy has been enjoying growth. While the labour market reflects strong growth, inflation has been so far ignoring strong domestic demand. Domestic inflation is mainly influenced by global factors of cheap oil and low inflation across the whole Europe. If the global inflation environment does not change, inflationary pressures will remain subdued. The key question is, to what extent will inflation be supported by strong labour market - the growth of wages is expected around 3.5% in 2016. Anyway solid growth of domestic demand around 3% can be expected next year.

While the consumers enjoy low inflation, central bank will not be happy with high deviation from November inflation forecast. Czech National Bank may feel appropriate to respond so that the negative interest rates may be on the table.

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