

Instant Reaction

EcoAlert

Inflation hit 6%; without the VAT waiver on energy it would be 7%



Michal Brožka
(420) 222 008 569
michal_brozka@kb.cz

Consumer price index (November 2021)

	Current	KB forecast	Consensus
Consumer prices			
Consumer prices (% mom)	0.2	0.1	0.3
Consumer prices (% yoy)	6.0	5.9	6.0

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

Inflation rose in November in line with market expectations, but well above the Czech National Bank's forecast. Price increases were driven by fuel and food, while housing costs fell due to the waiver of VAT payments on energy. Without it, inflation would be 7% yoy. We expect the CNB's repo rate to increase to 3.25% in December and 3.75% in February.

Consumer prices in the Czech Republic rose 0.2% in November compared with October, and the year-on-year inflation rate accelerated to 6.0% from the previous 5.8%. This was fully in line with analysts' average expectations and just a tenth above our estimate. However, the uncertainty of estimates was high this time, ranging from 5.2% yoy to 6.4% yoy.

Price changes in the consumer basket ...

	mom	yoy
Total	0.2%	6.0%
Food and non-alcoholic beverages	1.1%	2.0%
Alcoholic beverages, tobacco	-0.3%	7.9%
Clothing and footwear	1.7%	12.4%
Housing, water, energy, fuel	-2.3%	4.7%
Furnishings, household equipment	1.4%	6.7%
Health	0.4%	3.8%
Transport	1.6%	13.5%
Post and telecommunications	-0.1%	-0.4%
Recreation and culture	0.6%	5.4%
Education	0.0%	1.4%
Restaurants and hotels	1.4%	7.1%
Miscellaneous goods and services	0.9%	4.7%

Source: CZSO, Economic & Strategy Research, Komerční banka

... and their contribution to overall inflation

Contribution to inflation in p.p.	mom	yoy
Total	0.2%	6.0%
Food and non-alcoholic beverages	0.2	0.4
Alcoholic beverages, tobacco	0.0	0.7
Clothing and footwear	0.1	0.5
Housing, water, energy, fuel	-0.7	1.1
Furnishings, household equipment	0.1	0.4
Health	0.0	0.1
Transport	0.2	1.6
Post and telecommunications	0.0	0.0
Recreation and culture	0.1	0.5
Education	0.0	0.0
Restaurants and hotels	0.1	0.5
Miscellaneous goods and services	0.1	0.3

Source: CZSO, Economic & Strategy Research, Komerční banka

At first glance, the main drivers this time were price increases at petrol stations with a month-on-month increase of 4.4% and food prices, which rose more than 1%. However, strong price shifts this time took place in energy. Although for many customers the prices have risen, the waiver of VAT payments for energy for all consumers has counteracted this. As a result, the average price for electricity in November fell 16.2% mom and for natural gas 11.2% mom. Without this VAT waiver, the year-on-year inflation rate would no longer be at 6% but at 7%. At the same time, this means a further significant acceleration in core inflation. According to our preliminary estimate, it increased from 6.6% yoy towards 10% yoy.

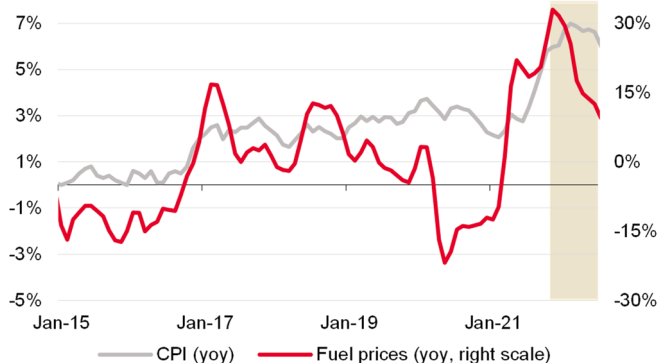
Recently, higher housing-related prices have been the main driver of inflation. Their contribution to annual inflation was 1.8 percentage points in October. In November, it decreased to 1.1 pp. However, from January VAT payments are likely to be resumed, leading to a resurgence in housing costs.

In terms of the structure of the consumer basket, in November there was a 0.4% mom decrease in prices of goods and a 0.9% increase in prices in services. Year-on-year, prices of goods are growing at a rate of 5.0% and services 7.5%.

In any case, the biggest question marks are for January, when retailers and services most often adjust their price lists. We expect the annual inflation rate to rise to 7% at the beginning of next year. We do not expect a significant slowdown until the second half of next year, which will be helped by the expected improvement in the supply of components and materials. On average, inflation should be close to 5% next year. The risk is that supply-side problems will last longer and then inflation can easily rise well above 7%.

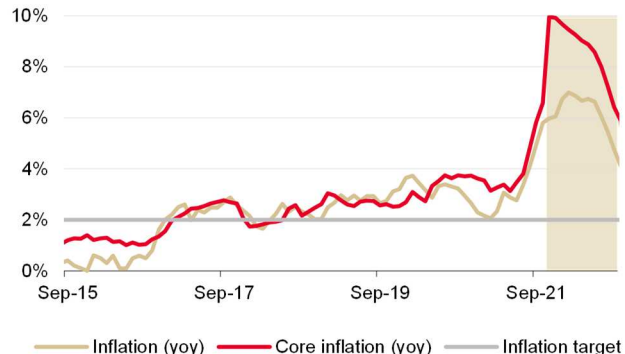
Inflation is currently more than a percentage point above the central bank's forecast. The koruna's reluctance to strengthen, faster growth in household consumption and wages and rapid growth in foreign prices also speak in favour of tightening monetary policy. In December, we expect a further increase in CNB interest rates by 50 basis points and in February a further 50 basis points to 3.75%. This is slightly above the CNB's current forecast.

Fuel prices push inflation higher



Source: CZSO, Economic & Strategy Research, Komerční banka

Core inflation is heading to 10%



Source: CZSO, Economic & Strategy Research, Komerční banka

KB ECONOMIC & STRATEGY RESEARCH

Chief Economist and Head of Research



Jan Vejmelék, Ph.D., CFA
(420) 222 008 568
jan_vejmelék@kb.cz

Economists



Michal Brožka
(420) 222 008 569
michal_brozka@kb.cz



Jana Steckerová
(420) 222 008 524
jana_steckerova@kb.cz



Martin Gürtler
(420) 222 008 509
martin_gurtler@kb.cz



Strategist
Jaromír Gec
(420) 222 008 598
jaromir_gec@kb.cz

Equity Analyst



Bohumil Trampota
(420) 222 008 560
bohumil_trampota@kb.cz

SG IN CENTRAL AND EASTERN EUROPE

Head of Research of Rosbank



Evgeny Koshelev
(7) 495 725 5637
evgeny.koshelev@rosbank.ru

Economist Rosbank



Yury Tulinov, CFA
(7) 495 662 1300 (ext. 14-836)
yury.tulinov@rosbank.ru



Economist Rosbank
Anna Zaigrina
(7) 495 662 1300
anna.zaigrina@rosbank.ru



Economist Rosbank
Evgeniy Vertiporokh
(7) 495 662 1300 (ext. 14-263)
evgeniy.vertiporokh@rosbank.ru



Romania
Ioan Mincu
(40) 21 301 4472
george.mincu-radulescu@brd.ro

SG GLOBAL ECONOMICS RESEARCH

Head of Global Economics



Klaus Baader
(44) 20 7762 4714
klaus.baader@sgcib.com

Euro area



Michel Martinez
(33) 1 4213 3421
michel.martinez@sgcib.com



Anatoli Annenkov
(44) 20 7762 4676
anatoli.annenkov@sgcib.com



Yvan Mamalet
(44) 20 7762 5665
yvan.mamalet@sgcib.com



United Kingdom
Brian Hilliard
(44) 20 7676 7165
brian.hilliard@sgcib.com

North America



Stephen Gallagher
(1) 212 278 4496
stephen.gallagher@sgcib.com



Latin America
Dev Ashish
(91) 80 2802 4381
dev.ashish@socgen.com



India
Kunal Kumar Kundu
(91) 80 6716 8266
kunal.kundu@sgcib.cz



Korea
Suktae Oh
(82) 2195 7430
suktae.oh@sgcib.com

China



Wei Yao
(33) 1 57 29 69 60
wei.yao@sgcib.com



Greater China
Michelle Lam
(85) 2 21 66 57 21
michelle.lam@sgcib.com



Japan
Jin Kenzaki
(81) 3 6777 8032
jin.kenzaki@sgcib.com

SG CROSS ASSET RESEARCH – FIXED INCOME & FOREX GROUPS

Global Head of Economics, Cross-Asset & Quant Research



Kokou Agbo Bloua
(44) 20 7762 5433
kokou.agbo-bloua@sgcib.com

Head of Fixed Income & Forex Strategy



Guy Stear
(33) 1 41 13 63 99
guy.stear@sgcib.com

Head of Rates Strategy



Adam Kurpiel
(33) 1 42 13 63 42
adam.kurpiel@sgcib.com



Covered Bonds & SSA
Cristina Costa
(33) 1 58 98 51 71
cristina.costa@sgcib.com



Head of US Rates Strategy
Subadra Rajappa
(1) 212 278 5241
subadra.rajappa@sgcib.com



Shakeeb Hulikatti
(91) 80 2802 4380
shakeeb.hulikatti@sgcib.com



Jorge Garayo
(44) 20 7676 7404
jorge.garayo@sgcib.com



Jean-David Cirotteau
(33) 1 42 13 72 52
jean-david.cirotteau@sgcib.com



Ruben Marciano
(1) 212 278 5129
ruben.marciano@sgcib.com



Rohit Gaurav
(91) 8067318958
rohit.gaurav@sgcib.com



Ninon Bachet
(33) 1 58 98 30 26
ninon.bachet@sgcib.com

Chief Global FX Strategy



Kit Juckes
(44) 20 7676 7972
kit.juckes@sgcib.com



FX Derivatives Strategy
Olivier Korber
(33) 1 42 13 32 88
olivier.korber@sgcib.com

Head of Emerging Markets Strategy



Phoenix Kalen
(44) 20 7676 7305
phoenix.kalen@sgcib.com



Marek Dřimal
(44) 20 7550 2395
marek.drimal@sgcib.com



Kiyong Seong
(852) 2166 4658
kiyong.seong@sgcib.com



Vijay Kannan
(91) 7010445705
vijay.kannan@sgcib.com



Bertrand Delgado
(1) 212 278 6918
bertrand.delgado-calderon@sgcib.com

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