

Instant Reaction

EcoAlert

Inflation was not surprising in December but is rising



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Consumer price index (December 2021)

	Current	KB forecast	Consensus
Consumer prices			
Consumer prices (% mom)	0.4	0.4	0.3
Consumer prices (% yoy)	6.6	6.6	6.6

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

Inflation rose to 6.6% yoy in December, in line with market expectations. Compared to the Czech National Bank's forecast, it was still one percentage point higher. The transition between energy suppliers led to a slight month-on-month decrease in electricity prices. Gas prices have risen. Food prices rose slightly, while fuel prices became cheaper. Without the VAT waiver, annual inflation would be close to 8%. It will head to 9% yoy at the beginning of this year. In February, we expect the CNB repo rate to increase to 4.50%.

Compared to November, consumer prices in the Czech Republic rose 0.4% in December. The year-on-year inflation rate accelerated to 6.6% from the previous 6.0%. This was in line with our estimate and average market expectations. Estimation uncertainty was again high, with analyst estimates ranging from 6.1% to 6.9% yoy.

Price changes in the consumer basket ...

	mom	yoy
Total	0.4%	6.6%
Food and non-alcoholic beverages	0.7%	4.1%
Alcoholic beverages, tobacco	-0.7%	6.7%
Clothing and footwear	1.0%	15.0%
Housing, water, energy, fuel	0.3%	4.8%
Furnishings, household equipment	0.6%	7.1%
Health	-0.1%	4.5%
Transport	0.7%	14.1%
Post and telecommunications	0.1%	-0.2%
Recreation and culture	0.7%	5.9%
Education	0.0%	1.4%
Restaurants and hotels	0.5%	7.6%
Miscellaneous goods and services	0.3%	5.2%

Source: CZSO, Economic & Strategy Research, Komerční banka

... and their contribution to overall inflation

Contribution to inflation in p.p.	mom	yoy
Total	0.4%	6.6%
Food and non-alcoholic beverages	0.1	0.7
Alcoholic beverages, tobacco	-0.1	0.7
Clothing and footwear	0.1	0.6
Housing, water, energy, fuel	0.1	1.2
Furnishings, household equipment	0.0	0.4
Health	0.0	0.1
Transport	0.1	1.6
Post and telecommunications	0.0	0.0
Recreation and culture	0.1	0.5
Education	0.0	0.0
Restaurants and hotels	0.0	0.5
Miscellaneous goods and services	0.0	0.3

Source: CZSO, Economic & Strategy Research, Komerční banka

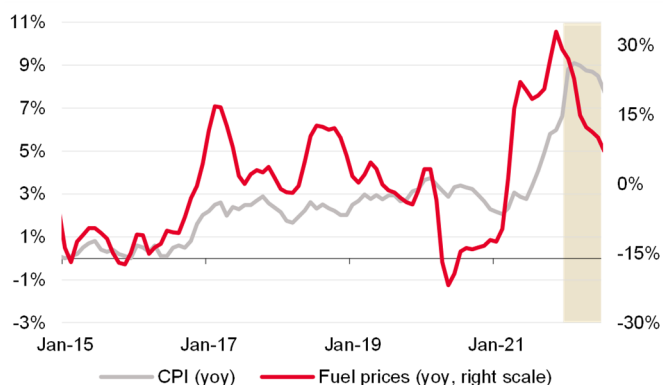
In terms of structure, compared to our estimate, there was a greater reduction in the case of fuels (-1.9% mom). On the other hand, food prices were slightly higher (0.7% mom), wherein bread and vegetables rose in particular. Natural gas prices increased 1.4% mom, and prices of heat, hot water and solid fuels also rose. However, regulated prices remained virtually unchanged month on month, as electricity prices fell slightly as a result of switching suppliers as a last resort.

According to our preliminary estimate, the month-on-month increase in core prices slowed to 0.8%, which would mean an acceleration to 8.6% yoy from the previous 7.8%. In terms of the structure of the consumer basket, there was a 0.4% mom increase in prices of goods and 0.5% mom in services in December. Year-on-year, prices of goods are growing at a rate of 5.8% and services 7.8%.

Questions about inflation are mainly directed to January. It probably accelerated at the beginning of the year. Many companies are using this period to adjust price lists, and many of them have announced their intention to increase prices. In addition, VAT payments for energy have been resumed. The current level of inflation is already one percentage point above the CNB forecast. This shows inflation at close to 7% at the beginning of the year, but already in December the deviation of inflation from the forecast at 5.6% is exactly one percentage point. Without the recent VAT waiver on energy, the year-on-year growth of consumer prices would already be approaching 8% in December. Members of the CNB bank board are already anticipating the possibility of achieving inflation at the beginning of the year of 10%. Our forecast now shows a peak closer to the year-on-year rate of 9% in 1Q22; however, uncertainty at the beginning of the year is high. We anticipate that the CNB's main repo rate will continue to rise to 4.50% in February. We expect the peak of the repo rate to be 5%; however, both the nearest inflation development and the exchange rate of the Czech koruna may significantly affect this.

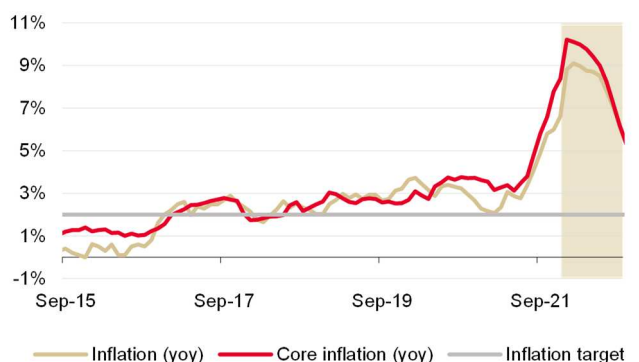
The result of December inflation is in line with analysts' expectations and should not have a significant impact on financial markets. The Czech koruna strengthened slightly after publication, while market interest rates rose slightly.

Fuel prices slowing down



Source: CZSO, Economic & Strategy Research, Komerční banka

Inflation is heading to 9%



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

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