

Instant Reaction

EcoAlert

Inflation peaks close to 10%



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Consumer price index (January 2022)

| | Current | KB forecast | Consensus |
|-------------------------|---------|-------------|-----------|
| Consumer prices | | | |
| Consumer prices (% mom) | 4.4 | 4.2 | 3.8 |
| Consumer prices (% yoy) | 9.9 | 9.6 | 9.3 |

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

At the beginning of the year, inflation accelerated to 9.9% yoy. This was slightly above market and CNB expectations, but fears of a much higher price growth did not materialise. According to our preliminary estimate, core inflation, on the other hand, is slightly lower than expected, which reduces the need for further tightening of monetary policy. Nevertheless, due to concerns about inflationary expectations and the pass-through of higher energy prices into other items in the consumer basket, we expect a slight increase in the CNB's main interest rate at the next meeting.

Consumer prices in the Czech Republic rose 4.4% in January compared to December, and the year-on-year inflation rate rose to 9.9% from the previous 6.6%. This was only slightly above our estimate of 9.6%. The market expectation was 9.3%. Given the exceptionally high uncertainty, the result can be said to be very close to estimates.

There is no sensation in the form of a large jump in inflation above 10%, but this does not change the fact that the previous rise in consumer prices was high and year-on-year inflation is thus reaching a record rate. The possibility of exceeding the magic 10% is still quite probable but no longer certain.

Price changes in the consumer basket ...

| | mom | yoy |
|----------------------------------|-------------|-------------|
| Total | 4.4% | 9.9% |
| Food and non-alcoholic beverages | 4.4% | 5.4% |
| Alcoholic beverages, tobacco | 3.1% | 6.7% |
| Clothing and footwear | 0.7% | 15.9% |
| Housing, water, energy, fuel | 9.6% | 14.4% |
| Furnishings, household equipment | 0.7% | 8.0% |
| Health | 2.5% | 5.8% |
| Transport | 1.2% | 14.6% |
| Post and telecommunications | 0.1% | 0.0% |
| Recreation and culture | 3.3% | 7.1% |
| Education | 0.3% | 1.7% |
| Restaurants and hotels | 3.0% | 10.5% |
| Miscellaneous goods and services | 1.8% | 5.8% |

Source: CZSO, Economic & Strategy Research, Komerční banka

... and their contribution to overall inflation

| Contribution to inflation in p.p. | mom | yoy |
|-----------------------------------|-------------|-------------|
| Total | 4.4% | 9.9% |
| Food and non-alcoholic beverages | 0.8 | 1.0 |
| Alcoholic beverages, tobacco | 0.3 | 0.6 |
| Clothing and footwear | 0.0 | 0.7 |
| Housing, water, energy, fuel | 2.6 | 3.7 |
| Furnishings, household equipment | 0.0 | 0.5 |
| Health | 0.0 | 0.2 |
| Transport | 0.1 | 1.6 |
| Post and telecommunications | 0.0 | 0.0 |
| Recreation and culture | 0.3 | 0.6 |
| Education | 0.0 | 0.0 |
| Restaurants and hotels | 0.2 | 0.6 |
| Miscellaneous goods and services | 0.1 | 0.4 |

Source: CZSO, Economic & Strategy Research, Komerční banka

In terms of structure, there was a significantly higher price increase for food than our estimate. Here, prices on average jumped 4.1% mom. However, the biggest price driver was

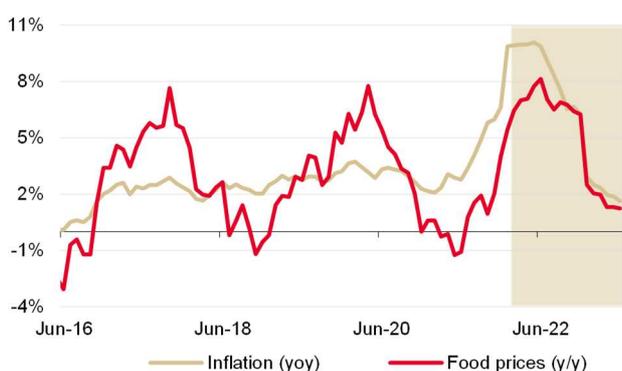
housing costs due to higher energy prices and the return of VAT payments in the case of gas and electricity. According to the CZSO, this contributed a significant 1.4 percentage points to inflation. However, this structure means that the increase was mainly in prices over which the CNB has relatively little or no influence. According to our preliminary calculations, on the other hand, core inflation slowed down slightly both mom and yoy.

In terms of year-on-year inflation, housing costs, including energy prices, are the biggest drivers. Here, the year-on-year price increase is a high 14.4%, which adds a full 3.7 percentage points to headline inflation. The second main driving force is the transport segment, where petrol and cars have risen in price and added 1.6 percentage points to inflation. Year-on-year, prices of goods increased 10.5% and prices of services rose 8.8%.

The CNB forecast for January expected inflation of 9.4% and 8.5% for the whole year. We expected 9.6% and full-year growth of 8.8% on average. The higher figure from the beginning of the year thus rather indicates that the full-year average could be close to 9%. According to our forecast, most of this year's price increase should take place at the beginning of the year, and the rate of price increase should weaken in the coming months. Relieving supply-chain tensions should lead to a significant reduction in upward pressure on prices. Tighter monetary policy will also counteract higher inflation. According to our forecast, fears of rising inflation expectations and risk of a pass-through of higher energy prices into other items in the consumer basket should lead to a further increase in CNB interest rates. At the same time, however, relatively weaker core inflation suggests that interest rates are close to their peak.

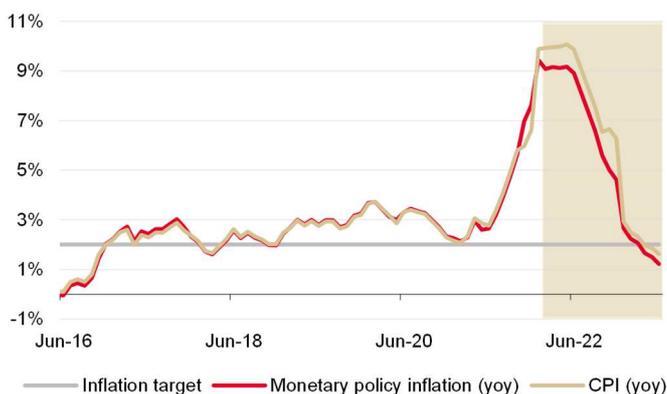
The Czech koruna reacted to the publication of the result with a slight weakening. The conflict over Ukraine will now be important for its next development.

Growth in food prices accelerates



Source: CZSO, Economic & Strategy Research, Komerční banka

Inflation close to 10%



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

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