

## Instant Reaction

# EcoAlert

## Inflation peaks close to 10%



Michal Brožka  
(420) 222 008 569  
michal\_brozka@kb.cz

### Consumer price index (January 2022)

	Current	KB forecast	Consensus
<b>Consumer prices</b>			
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
<b>Total</b>	<b>4.4%</b>	<b>9.9%</b>
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
<b>Total</b>	<b>4.4%</b>	<b>9.9%</b>
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

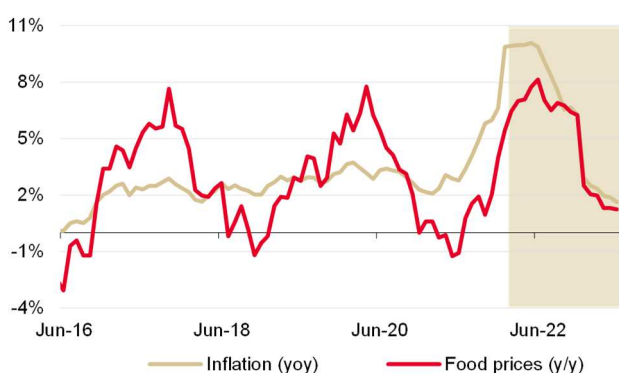
housing costs due to higher energy prices and the return of VAT payments in the case of gas and electricity. According to the CZSO, this contributed a significant 1.4 percentage points to inflation. However, this structure means that the increase was mainly in prices over which the CNB has relatively 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.

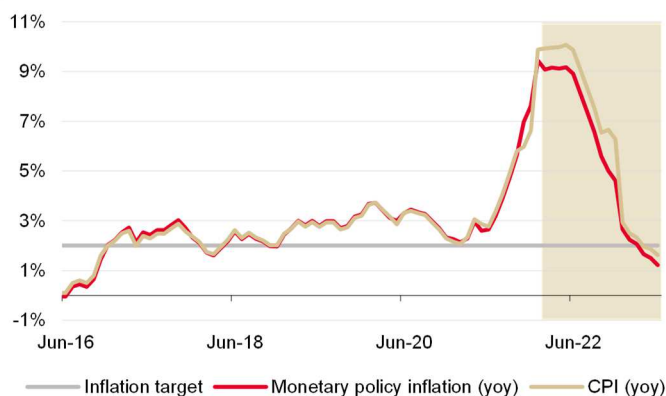
**The Czech koruna reacted to the publication of the result with a slight weakening.** The conflict over Ukraine will now be important for its next development.

Growth in food prices accelerates



Source: CZSO, Economic & Strategy Research, Komerční banka

Inflation close to 10%



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

**KB ECONOMIC & STRATEGY RESEARCH**

**Chief Economist and Head of Research**  
**Jan Vejmelék, Ph.D., CFA**  
 (420) 222 008 568  
 jan\_vejmelék@kb.cz

<p><b>Economists</b>  <b>Michal Brožka</b>                  (420) 222 008 569                  michal_brozka@kb.cz</p>	<p><b>Jana Steckerová</b>                  (420) 222 008 524                  jana_steckerova@kb.cz</p>	<p><b>Martin Gürtler</b>                  (420) 222 008 509                  martin_gurtler@kb.cz</p>	<p><b>Strategist</b>  <b>Jaromír Gec</b>                  (420) 222 008 598                  jaromir_gec@kb.cz</p>
<p><b>Equity Analyst</b>  <b>Bohumil Trampota</b>                  (420) 222 008 560                  bohumil_trampota@kb.cz</p>			

**SG IN CENTRAL AND EASTERN EUROPE**

**Head of Research of Rosbank**  
**Evgeny Koshelev**  
 (7) 495 725 5637  
 evgeny.koshelev@rosbank.ru

<p><b>Economist Rosbank</b>  <b>Yury Tulinov, CFA</b>                  (7) 495 662 1300 (ext. 14-836)                  yury.tulinov@rosbank.ru</p>	<p><b>Economist Rosbank</b>  <b>Anna Zaigrina</b>                  (7) 495 662 1300                  anna.zaigrina@rosbank.ru</p>	<p><b>Economist Rosbank</b>  <b>Evgeniy Vertiporokh</b>                  (7) 495 662 1300 (ext. 14-263)                  evgeniy.vertiporokh@rosbank.ru</p>	<p><b>Romania</b>  <b>Ioan Mincu</b>                  (40) 21 301 4472                  george.mincu-radulescu@brd.ro</p>
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**SG GLOBAL ECONOMICS RESEARCH**

**Head of Global Economics**  
**Klaus Baader**  
 (44) 20 7762 4714  
 klaus.baader@sgcib.com

<p><b>Euro area</b>  <b>Michel Martinez</b>                  (33) 1 4213 3421                  michel.martinez@sgcib.com</p>	<p><b>Anatoli Annenkov</b>                  (44) 20 7762 4676                  anatoli.annenkov@sgcib.com</p>	<p><b>Yvan Mamalet</b>                  (44) 20 7762 5665                  yvan.mamalet@sgcib.com</p>	<p><b>United Kingdom</b>  <b>Brian Hilliard</b>                  (44) 20 7676 7165                  brian.hilliard@sgcib.com</p>
<p><b>North America</b>  <b>Stephen Gallagher</b>                  (1) 212 278 4496                  stephen.gallagher@sgcib.com</p>	<p><b>Latin America</b>  <b>Dev Ashish</b>                  (91) 80 2802 4381                  dev.ashish@socgen.com</p>	<p><b>India</b>  <b>Kunal Kumar Kundu</b>                  (91) 80 6716 8266                  kunal.kundu@sgcib.cz</p>	<p><b>Korea</b>  <b>Suktae Oh</b>                  (82) 2195 7430                  suktae.oh@sgcib.com</p>
<p><b>China</b>  <b>Wei Yao</b>                  (33) 1 57 29 69 60                  wei.yao@sgcib.com</p>	<p><b>Greater China</b>  <b>Michelle Lam</b>                  (85) 2 21 66 57 21                  michelle.lam@sgcib.com</p>	<p><b>Japan</b>  <b>Jin KENZAKI</b>                  (81) 3 6777 8032                  jin.kenzaki@sgcib.com</p>	

**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

<p><b>Head of Rates Strategy</b>  <b>Adam Kurpiel</b>                  (33) 1 42 13 63 42                  adam.kurpiel@sgcib.com</p>	<p><b>Covered Bonds &amp; SSA</b>  <b>Cristina Costa</b>                  (33) 1 58 98 51 71                  cristina.costa@sgcib.com</p>	<p><b>Head of US Rates Strategy</b>  <b>Subadra Rajappa</b>                  (1) 212 278 5241                  subadra.rajappa@sgcib.com</p>	<p><b>Shakeeb Hulikatti</b>                  (91) 80 2802 4380                  shakeeb.hulikatti@sgcib.com</p>
<p><b>Jorge Garayo</b>                  (44) 20 7676 7404                  jorge.garayo@sgcib.com</p>	<p><b>Jean-David Cirotteau</b>                  (33) 1 42 13 72 52                  jean-david.cirotteau@sgcib.com</p>	<p><b>Ruben Marciano</b>                  (1) 212 278 5129                  ruben.marciano@sgcib.com</p>	<p><b>Rohit Gaurav</b>                  (91) 8067318958                  rohit.gaurav@sgcib.com</p>
<p><b>Ninon Bachel</b>                  (33) 1 58 98 30 26                  ninon.bachel@sgcib.com</p>			

<p><b>Chief Global FX Strategy</b>  <b>Kit Juckes</b>                  (44) 20 7676 7972                  kit.juckes@sgcib.com</p>	<p><b>FX Derivatives Strategy</b>  <b>Olivier Korber</b>                  (33) 1 42 13 32 88                  olivier.korber@sgcib.com</p>
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<p><b>Head of Emerging Markets Strategy</b>  <b>Phoenix Kalen</b>                  (44) 20 7676 7305                  phoenix.kalen@sgcib.com</p>	<p><b>Marek Dřimal</b>                  (44) 20 7550 2395                  marek.drimal@sgcib.com</p>	<p><b>Kiyong Seong</b>                  (852) 2166 4658                  kiyong.seong@sgcib.com</p>	<p><b>Vijay Kannan</b>                  (91) 7010445705                  vijay.kannan@sgcib.com</p>
<p><b>Bertrand Delgado</b>                  (1) 212 278 6918                  bertrand.delgado-calderon@sgcib.com</p>			

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