

| Instant Reaction |

EcoAlert

Inflation is beginning to slow down



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Consumer price indices – November 2017

	Current	KB forecast	Consensus
Consumer prices			
Consumer prices (% mom)	0.1	0.1	0.1
Consumer prices (% yoy)	2.6	2.6	2.7

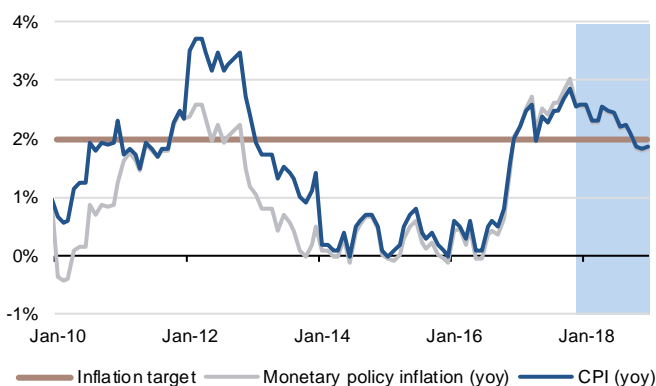
Source: Bloomberg, CZSO, Economic & Strategy Research, Komerční banka

The year-on-year inflation slowed down in November to 2.6% after its peak in October, when it reached the highest pace in the past five years. Despite that, consumer prices increased moderately on a mom basis. According to our forecast, the inflation pace will further decelerate in the following months.

In a yoy comparison, consumer inflation slowed down to 2.6%, which was fully in line with our forecast as well as the ČNB forecast. The market consensus expected a higher inflation rate by a tenth. The Czech currency reacted to the statistics immediately with a moderate depreciation of 0.1% toward 25.59 EUR/CZK.

In October, the inflation rate reached its peak, and according to our outlook it has begun to decelerate since November. The reason is the high statistical base from the previous year, when consumer inflation was pushed up by the introduction of electronic sales registration. However, the dynamics of the CPI index are boosted by an increase in prices of food and fuel prices. On the mom basis, the prices rose by 0.1% mainly due to higher prices of food, alcoholic beverages and fuel. The most significant increase we observed was noted in the price of fresh eggs. On the other hand, the price of butter, as discussed in previous months, has declined.

Inflation is set to remain slightly above the target throughout the end of 2018



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

CPI sub-indices

	mom	yoy
Total	0.1%	2.6%
Food and non-alcoholic beverages	0.2%	5.7%
Alcoholic beverages, tobacco	0.2%	1.3%
Clothing and footwear	-0.1%	-0.5%
Housing, water, energy, fuel	0.0%	2.3%
Furnishings, household equipment	0.0%	0.4%
Health	0.0%	4.6%
Transport	0.5%	2.8%
Post and telecommunications	-0.1%	-1.0%
Recreation and culture	-0.5%	1.0%
Education	0.0%	1.6%
Restaurants and hotels	0.0%	6.1%
Miscellaneous goods and services	-0.1%	0.9%

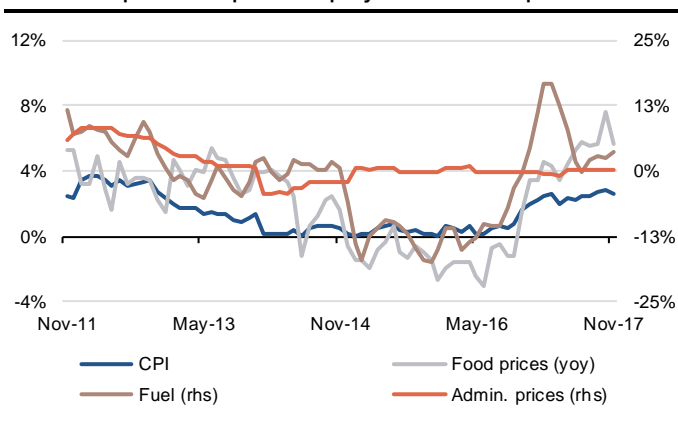
Source: CZSO, Macrobond, Economic & Strategy Research, Komerční banka

In comparison with last November, the price of food and cost of living in both rent as well as fees increased the most. Consumers also paid more at petrol stations. On the contrary, clothing and footwear as well as some telecommunications services cost less.

At the beginning of 2018, inflation dynamics will be influenced mainly by price growth of energy, in particular electricity. Due to a very tight labour market and significant wage increase, core inflation rises, too. It grew 2.4% in November and remains above 2% in the following period, as well. On average, consumer prices will increase 2.4% this year. Next year, inflation should remain above the 2% ČNB target, although it will be 0.2pb lower on average.

Therefore, the ČNB will have to continue tightening its monetary policy. According to our outlook, it will hike its key rate every quarter by 25bp until 1Q19, which will be the top of the current cycle. The three-month interest rate will be, according to our estimates, at 1.9% in 2Q19. A higher key rate will be mirrored in loan prices provided to consumers and investors, which will become more expensive.

Consumer prices are pushed up by food and fuel prices



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

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