



| Instant Reaction |

EcoAlert

PPI sent a signal to the CNB of easing external inflationary pressures



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Industrial producer prices – November 2017

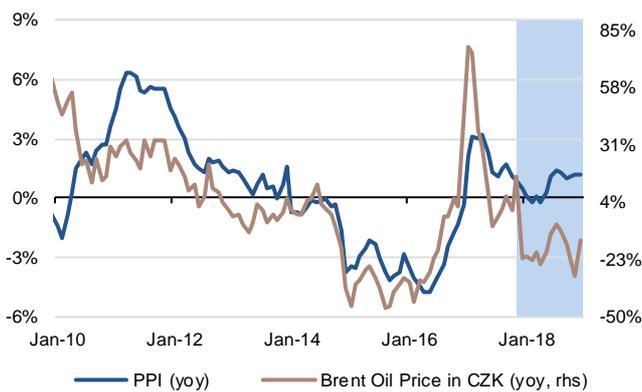
	mom	yoy
Actual:	-0.1%	+0.9%
KB Forecast:	+0.4%	+1.4%
Consensus (Bloomberg):	+0.3%	+1.3%

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

The prices in industry eased surprisingly in November even though the global oil prices surged. The agriculture prices started easing as they increased only 0.3% mom. Yet in the mom terms the growth is back in double digit. Thus, even the pressures into headline inflation stemming from food prices has been weakening, they will still help to maintain the inflation above the CNB target. The prices in construction and services has been continuously rising.

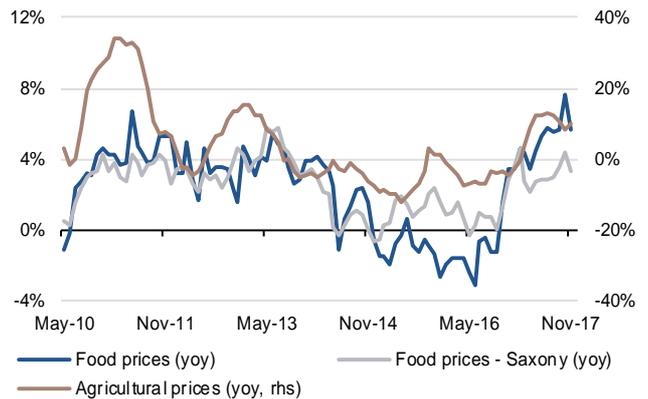
Producer prices dropped 0.1% mom in November. In yoy terms, the dynamics eased to 0.9%. The surprising decrease happened despite the Brent price increasing 9.1% (in dollar terms), while the metal price index has recorded only marginal decrease. The prices decreased in majority of manufacturing sectors. Koruna's strengthening provides partial explanation as its value against USD appreciated by almost 1%.

Prices in industry decline despite higher prices of oil on the global market



Source: CZSO, Macrobond, Economic & Strategy Research, KB

Agricultural price dynamics are easing, yet their yoy growth remains strong



Source: CZSO, Macrobond, Economic & Strategy Research, KB

Agricultural producer prices increased 0.3% mom which represents some easing. In contrast, the yoy dynamics accelerated to 10.1% in November after 8.3% in October. The inflationary pressures from food prices into headline inflation will continue at the turn of the year while the pressures will somewhat weaken.

Market services prices, and prices in construction both increased 0.1% mom in November and thus continue in their steady rise. Inflation in construction recorded 1.8% while inflation in services is 1.6% higher.

Today's figures show that external pressures on domestic inflation have been easing. Koruna's long-term appreciation trend is one of the main drivers. Though it takes a break in the year end, we expect it to continue strengthening at the beginning of 2018. This will slow down consumer price growth, which peaked in October. Nevertheless, the slowdown will not be as pronounced as domestic factors (with wage growth in the lead accompanied by increase in administrative prices) will still act strongly pro-inflationary. **In the first half of the year, the inflation rate should print around 2.5% while in the second half of the year it should approach 2%. We believe that at the moment, the CNB is in no rush with hiking and it will stay on hold in December. Yet, overall inflationary pressures remain strong, and thus the central bank will hike the rates 25 bp in each quarter.**

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