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# EcoAlert

MiFID II

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## Inflation eased despite an increase in energy prices



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### Consumer price indices – January 2018

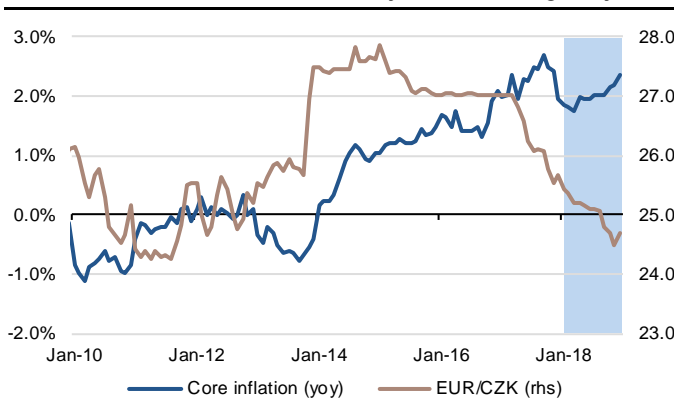
	Current	KB forecast	Consensus
<b>Consumer prices</b>			
Consumer prices (% mom)	0.6	0.6	0.7
Consumer prices (% yoy)	2.2	2.2	2.2

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

The price level increased significantly at the beginning of the year. Energy prices are partially to blame as distribution fees increased. But other prices joined, as well. Businesses traditionally change price lists at the beginning of the year. They have already factored in their expectations about wage growth, which mainly impacts the core element. Food prices also increased. Headline inflation eased due to statistical base effects as the beginning of 2017 was also marked by a strong price increase. Yet, inflation still remains above the 2% CNB target, where it should remain for the months to come.

The domestic price level increased 0.6% in the first month of 2018. Growth is to a gross extent seasonal and reflects longer-term inflationary pressures in the economy. Businesses change price lists at the beginning of the year and thus factor in their expectations. We believe many entrepreneurs will have to raise wages, which will in turn increase their costs. That is visible in the core price dynamics of 0.4% mom. Energy prices traditionally change at the beginning of the year. This year, we see a notable increase in electricity prices. First, distribution fees rose 2.5% while commodity prices also grew. Together, regulated prices climbed 1.2%.

### Core inflation eased but will modestly recover during the year



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

### CPI sub-indices

	mom	yoy
<b>Total</b>	<b>0.6%</b>	<b>2.2%</b>
Food and non-alcoholic beverages	0.6%	4.5%
Alcoholic beverages, tobacco	2.5%	3.2%
Clothing and footwear	-3.3%	-0.5%
Housing, water, energy, fuel	0.7%	2.3%
Furnishings, household equipment	0.2%	0.6%
Health	0.7%	4.0%
Transport	0.4%	1.0%
Post and telecommunications	0.0%	-1.2%
Recreation and culture	1.7%	0.4%
Education	0.0%	1.5%
Restaurants and hotels	0.4%	3.8%
Miscellaneous goods and services	0.7%	0.8%

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

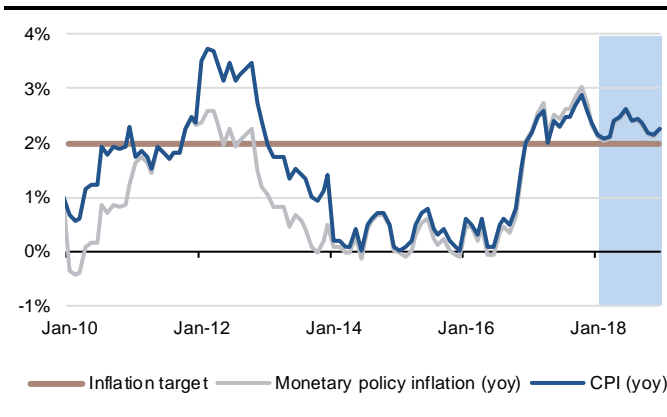
Fuel prices followed the developments of global oil prices and added 0.5%. CZK appreciation against USD prevented a more profound price increase. Food prices increased 0.6% in January.

Prices recorded significant growth also at the beginning of 2017. Thus, despite the solid price level increase, headline inflation eased from December's 2.4% to January's 2.2%, which is slightly below the CNB estimate of 2.3%. The slowdown is apparent in food prices, which slowed from 5.5% to 4.5% yoy. Fuel prices had slightly less impact when their yoy dynamics dropped from an increase of 1.3% in December to a decrease of 1.1% in January. In contrast, administered prices surged 1.2% yoy after negligible 0.4% yoy dynamics in the previous month. Core inflation eased surprisingly to 1.8% according to our estimate and thus also contributed negatively to the headline figure.

Average inflation for 2017 printed 2.5%. **We expect it to ease to 2.1% this year. While food prices played a significant role in 2017 (increased 5.1% on average), this year's regulated prices headed by energy will push headline inflation higher.** Core price development will be key again. On the one hand, they will be supported by growing wages, which

propel consumer demand, but also enter costs and retailers must factor them in. On the other hand, price growth will be impeded by CZK appreciation, which makes imported goods cheaper. **Inflationary pressures will permit the CNB to continue its hiking cycle. One hike already happened on the February meeting. We expect three more on the main monetary policy meetings in May, August, and November.** At the end of the year, the repo rate should stand at 1.5%. The stronger koruna represents a downward risk and weaker wage growth. If the currency appreciates abruptly or wage growth eases notably, the central bank would postpone the rate hikes.

The inflation will stay just above the 2% this year



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

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