

| Instant Reaction |

EcoAlert

MiFID II

Information about our offer

Inflation dropped to this year's minimum in March



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Consumer price indices and share of unemployed (March 2018)

| | Current | KB forecast | Consensus |
|--------------------------------|---------|-------------|-----------|
| Consumer prices | | | |
| Consumer prices (% mom) | -0.1 | 0.0 | 0.0 |
| Consumer prices (% yoy) | 1.7 | 1.7 | 1.7 |
| Share of unemployed (%) | | | |
| | 3.5 | 3.5 | 3.5 |

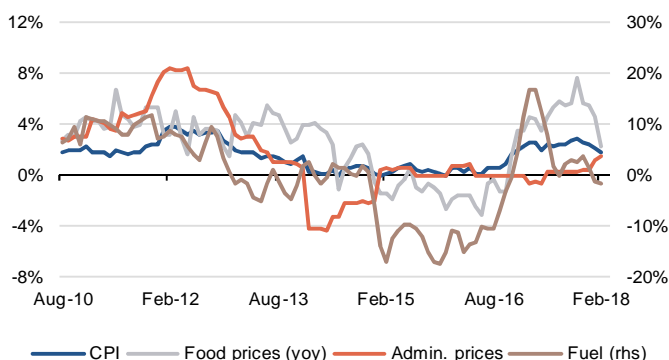
Source: Bloomberg, CZSO, Economic & Strategy Research, Komerční banka

March's inflation decelerated by a tick in line with our expectations and is currently half of a percentage point below the CNB forecast. The reason is mainly lower food price dynamics as well as a drop in fuel prices. Although the unemployment statistics indicate a record tightness on the labour market, core inflation decelerated slightly. Year-on-year inflation dropped to this year's low and should reach the 2% CNB target this summer.

Consumer prices dropped by a tick in March compared with February, and **yoy inflation decelerated slightly to 1.7%. The decline was caused mainly by lower growth in food prices**, the dynamics of which have decelerated since October, when they peaked at 7.6%. In March, food prices increased "only" 2% with the growth in prices of eggs, butter and meat slowing down.

Fuel prices left their growth period behind. Since the beginning of the year, they have been declining due to the strong koruna, although the price of crude oil increased in yoy terms. Compared with last March, prices of health products, restaurants, hotels and costs of housing increased the most. Core inflation decelerated slightly to 1.7% yoy. Its dynamics were supported by labour market pressures, wherein the share of unemployed reached a new minimum and according to the latest statistics industrial wages grew at a 7% pace.

Inflation eased due to food prices



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

CPI sub-indices

| | mom | yoy |
|----------------------------------|-------------|-------------|
| Total | 0.0% | 1.8% |
| Food and non-alcoholic beverages | -0.7% | 2.3% |
| Alcoholic beverages, tobacco | -1.2% | 2.3% |
| Clothing and footwear | -0.8% | -0.1% |
| Housing, water, energy, fuel | -0.1% | 2.3% |
| Furnishings, household equipment | 0.4% | 1.3% |
| Health | 0.3% | 3.8% |
| Transport | 0.4% | 1.1% |
| Post and telecommunications | 0.1% | -2.3% |
| Recreation and culture | 1.3% | 0.4% |
| Education | 0.1% | 1.5% |
| Restaurants and hotels | 0.2% | 3.4% |
| Miscellaneous goods and services | 0.7% | 1.4% |

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

Consumer inflation remained three ticks below the inflation target of the CNB and half a percentage point below its forecast in March. Despite this, we think the **CNB will have some room for further monetary policy tightening this year. Overall inflation will accelerate gradually in the following months also due to the diminishing effect of the statistical base.** The inflation target should be reached this summer. Thus, nothing will stand in the way of the next hike. In its forecast, the CNB expects only one hike at the end of the year, while our outlook is more hawkish. Regarding CZK weakness as well as solid economic growth, we expect two hikes in the second half of the year.

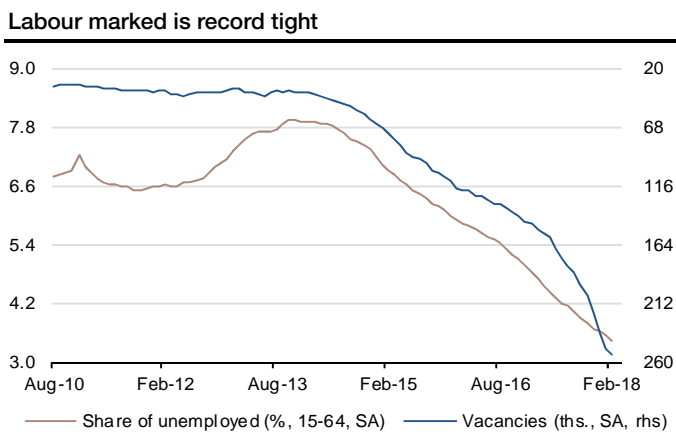
The number of vacancies was higher than of the reachable unemployed

The solid economic growth in the first quarter of the year is also confirmed by labour market statistics. The share of unemployed reached a new record low in March by cutting two ticks to 3.5%. The number of vacancies also grew significantly and for the first time in history it surpassed the number of reachable unemployed.

Thus, there is more than one vacancy per reachable unemployed person. This confirms the situation of the labour market being extremely tight. The lack of workers in industry as well as construction limits production in these sectors.

The decline in the share of unemployed is likely to continue in the following months. Seasonal works

begin with the warm weather, requiring more workers. **We believe the share of unemployed will reach its minimum in the autumn,** when we expect it to approach the 3% level. On average, it should reach 3.3% after 4.1% last year.



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

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