

| Instant Reaction |

EcoAlert

Producer prices surpassed all expectations



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Industrial producer prices – March 2018

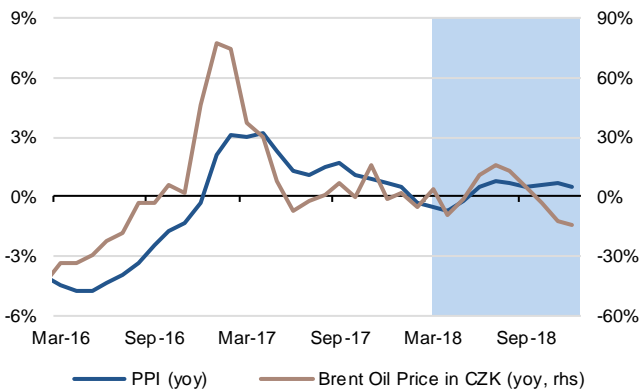
	mom	yoy
Actual:	+0.3%	+0.1%
KB Forecast:	-0.3%	-0.5%
Consensus (Bloomberg):	0.0%	-0.2%

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

The producer price index increased in all sections in March. Industrial producer price index growth was a surprise after its drop in February. On the contrary, the dynamics of agricultural prices have been decelerating continuously since last year. Construction prices are supported by extensive demand and thus in March grew at the fastest pace in this economic cycle. Although the dynamics of industrial producer prices surpassed market expectations, we no longer expect the CNB to change its monetary policy in the first half of this year.

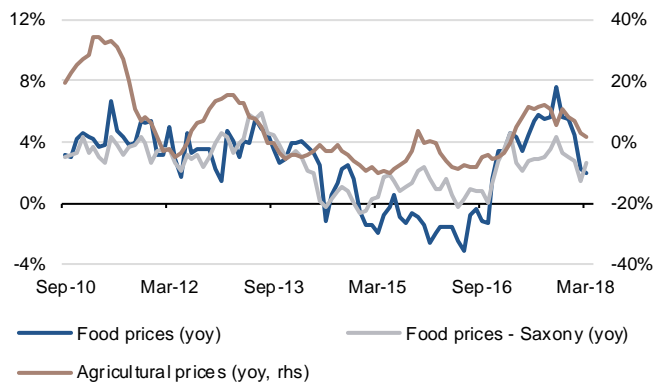
Industrial producer prices grew 0.4% mom in March. In yoy terms, producer prices increased 0.1%. Thus, their dynamics surpassed all market expectations after the decline in February. Industrial producer price growth was mainly supported by higher prices of metal products and electricity. On the contrary, prices of machinery and chemical products decreased most in yoy terms.

The rise of oil prices on the global market is balanced out by a stronger koruna



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

Dynamics of agricultural producer prices decelerate this year



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

The dynamics of industrial producer prices is strongly influenced by development of the koruna, which appreciated 5.8% yoy at the end of March. We expect it to further strengthen toward 24.70 CZK/EUR at the end of the year. On the other hand, higher oil prices compared with last year and a low statistical base will support the dynamics of producer prices in the coming months.

Agricultural producer prices increased 1.6% yoy in March, and their dynamics have decreased steadily since November. Prices of meat products and eggs declined while milk prices rose nearly 10%. Significant yoy growth was indicated by prices of fruit (+67%) and vegetables (+20%).

At the beginning of the year, construction got a second wind and rising demand increases prices of construction work. Those increased 2.3%, which is the fastest pace in this economic cycle.

March's statistics of industrial producer prices exceeded expectations; however, we do not expect any impact on the CNB's decision at the board meeting in May. Thus, the CNB will keep its monetary policy unchanged at this meeting, and the next interest rate hike will occur in the second half of the year.

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