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EcoAlert

Inflation increased after a break as the share of unemployed steadily declines



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Consumer price indices and share of unemployed (April 2018)

	Current	KB forecast	Consensus
Consumer prices			
Consumer prices (% mom)	0.3	0.1	0.1
Consumer prices (% yoy)	1.8	1.7	1.8
Share of unemployed (%)	3.2	3.2	3.2

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

April's inflation surprisingly accelerated despite another drop in food prices. The price growth happened mainly due to the core element as rising wages slowly pass through to prices. Moreover, the share of unemployed printed another decrease to 3.2%. Thus, the wage pressures are not yet at an end. Inflation should get above 2% in the coming months, but it is set to decelerate below that mark again in autumn. The CNB thus does not have to react to these figures.

Inflation accelerated to 1.9% in April, while mom growth of the overall price level printed 0.3%. The core element is to blame. According to our calculation, core prices increased 0.5% and their yoy growth stands at 2.1%. Especially clothes and footwear recorded a seasonal price increase. Alcoholic beverages also became more expensive. The dynamics of fuel price inflation also increased on the back of growing global oil prices. Only food prices continued their decline and dropped another 0.6%; their seasonal adjusted series recorded the sixth decrease in a row. Prices of goods increased 0.4% mom. Prices of services added 0.3%, showing that strong wage growth has already slowly passed through into inflation.

Core inflation bounced over the 2% level



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

CPI sub-indices

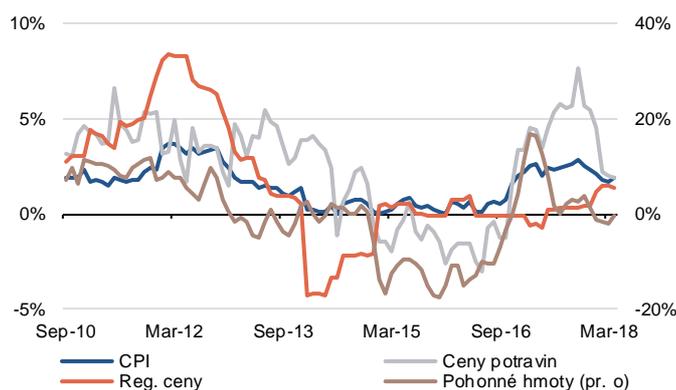
	mom	yoy
Total	0.3%	1.9%
Food and non-alcoholic beverages	-0.6%	1.8%
Alcoholic beverages, tobacco	0.8%	3.8%
Clothing and footwear	3.4%	-0.8%
Housing, water, energy, fuel	0.4%	2.5%
Furnishings, household equipment	0.3%	1.1%
Health	0.6%	3.8%
Transport	0.5%	1.5%
Post and telecommunications	0.0%	-2.2%
Recreation and culture	-0.4%	0.8%
Education	0.0%	1.5%
Restaurants and hotels	0.4%	3.5%
Miscellaneous goods and services	0.4%	1.9%

Source: CZSO, Economic & Strategy Research, Komerční banka

Current inflation is fully in line with the CNB's May forecast although it surpassed all market expectations. The koruna appreciated below 25.50 CZK/EUR in the morning also with the help of inflation figures. **Price growth is set to continuously accelerate in the coming months, and inflation will probably reach above 2% soon. Yet, by the year's end, it will ease below**

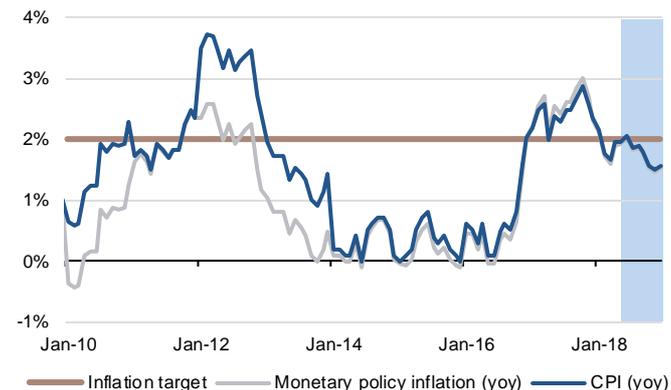
this mark once again. At the beginning of the next year, inflation will speed up once more. Wage growth should be more and more apparent in the price dynamics, and recent developments on the FX market suggest the koruna will not curb inflation as much as before. However, despite April's surprise, inflation remains below the central bank's target. **This is one of the reasons we only expect one more rate hike this year, which should happen in November.** But thanks to the increase in core inflation, the probability of an August hike has also risen. The hiking cycle is set to continue next year.

Food prices keep falling but have not stopped the headline figure



Source: CZSO, Economic & Strategy Research, Komerční banka

Inflation set to move above the 2% mark for a while

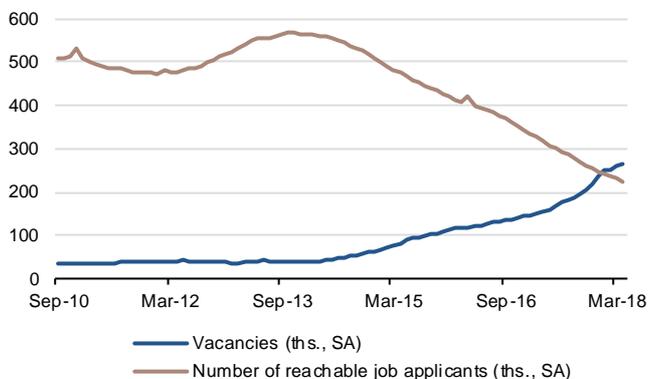


Source: CZSO, CNB, Macrobond, Economic & Strategy Research, Komerční banka

April's unemployment statistics overwrite the record once again

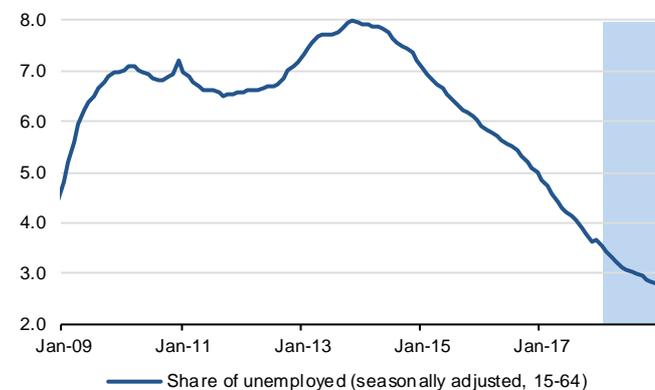
The number of unemployed registered at the labour offices has decreased to a new low. The share of unemployed thus dropped from March's 3.5% to 3.2% in April. The number of job seekers in the labour bureau's evidence dropped by 20,000. Thus, we see the favourable trends on the job market continuing. The share of unemployed increased only in the Rokycany district, where it still stands at a low 2.5%. All other districts reported a decline. The number of job seekers is still lower than the number of vacancies.

There are still more vacancies than job seekers



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

The share of unemployed is set to decrease further



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

The Czech labour market has the lowest unemployment rate in Europe. However, we believe the share of unemployed is set to keep decreasing. On average, it should print 3.1% this year.

The record-low unemployment rate combined with strong wage growth and moderate inflation create puts households into a comfortable situation and thus boosts consumer confidence. Yet, the very same situation also creates worries for the supply side of the market. **The lack of a labour force curbs industrial production dynamics.** Some businesses are not able to increase output and are thus not able to meet growing demand. That leads them to invest in automation and digitisation. **It is good news from the long-term view as the economy increases productivity.**

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