

Instant Reaction |

EcoAlert

Inflation accelerated to 2.6% while the share of unemployed slid to 2.9%



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Consumer price indices (May 2018)

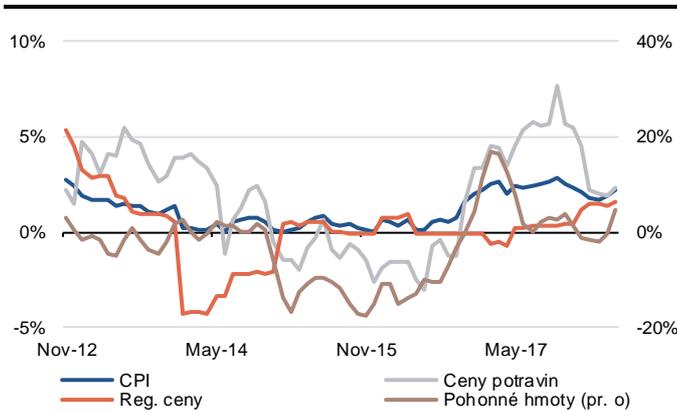
	Current	KB forecast	Consensus
Consumer prices			
Consumer prices (% mom)	0.4	0.3	0.3
Consumer prices (% yoy)	2.6	2.5	2.5
Labour market			
Share of unemployed (%)	2.9	2.9	2.9

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

Inflation spiked to 2.6% in June, which represents the highest level since last November. After the slowdown at the turn of 2017/2018, it seemed that the rapid wage growth does not pass through into inflation. Yet, June and May showed that the effect was just delayed and that wages already support inflation strongly. In June, the statisticians also recorded a decent increase in food, fuel and electricity prices. Accelerating inflation together with a weaker koruna highlights the risk that the CNB will go for a hike in August.

June's inflation accelerated to 2.6% while most analysts expected a tick lower figure. The average price level increased 0.4% mom. Its dynamics were supported by all main components of the consumer basket.

All main consumer basket components went up



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

Many prices increases in the service sector

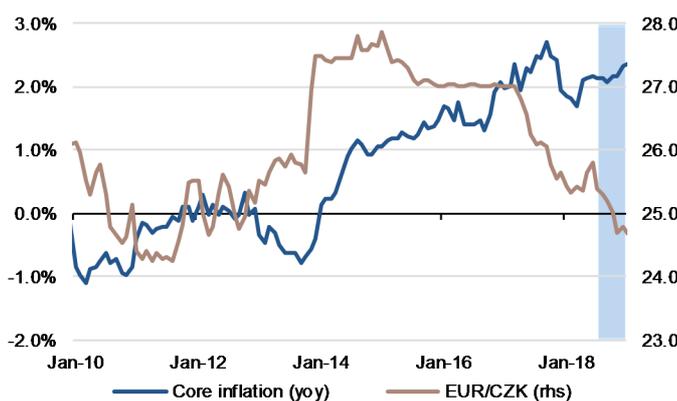
	mom	yoy
Total	0.4%	2.6%
Food and non-alcoholic beverages	0.5%	2.7%
Alcoholic beverages, tobacco	-0.2%	3.5%
Clothing and footwear	-0.8%	-0.9%
Housing, water, energy, fuel	0.6%	2.8%
Furnishings, household equipment	-0.4%	1.3%
Health	0.3%	3.7%
Transport	1.1%	4.6%
Post and telecommunications	-0.1%	-1.8%
Recreation and culture	0.7%	0.5%
Education	0.1%	1.6%
Restaurants and hotels	0.2%	3.6%
Miscellaneous goods and services	0.3%	2.8%

Source: CZSO, Economic & Strategy Research, Komerční banka

The food prices increased 0.5% mom and their yoy dynamics accelerated to 2.6%. Their growth was mainly supported by livestock products as well as fruit and vegetables. Fuel prices still caught up with May's increase in global oil prices when they increased 3.3% compared with May and a strong 10.4% compared with the same month a year ago. They are also supported by a weaker koruna against the dollar as the domestic currency depreciated roughly 5% against the greenback in the first six months of the year. In June, electricity prices increased 2.3% as the biggest distributor (CEZ) hiked prices. That caused an increase in administered prices.

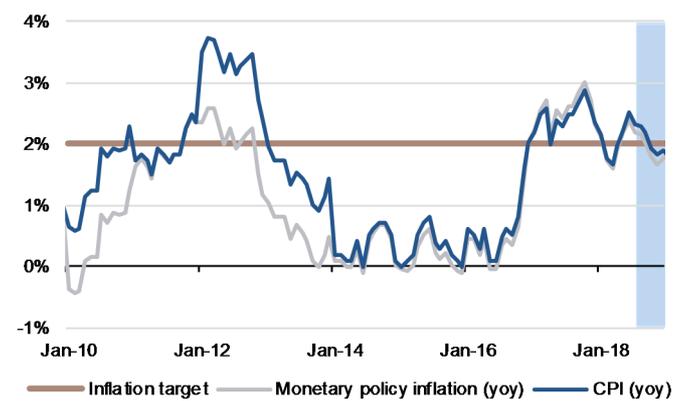
Inflationary pressures remain in the economy. Though the wage growth might ease a bit, it will remain strong. The productivity has been increasing at a much slower pace, which suggests that the increasing wages will continue passing through into inflation and pressure companies' profit margins. The consumer prices will also be pulled by higher commodity prices. Electricity traded at the global exchanges has been becoming more expensive, and some of the distributors indicated that they plan to increase its end-consumer price this year. The price growth should be impeded by a stronger koruna. But the koruna has continuously surprised us with its weak values as it remains under pressure from global events. **We are still persuaded that the koruna will eventually strengthen, but there is a significant risk that it stays anchored at weaker levels.** That represents a notable pro-inflationary risk. Also today, the koruna showed that domestic events currently play a minor role in its development. Stronger than expected inflation has not moved it at all as it even depreciated since the morning. In such a case, the CNB is set to continue its hiking cycle. **Another hike might come at the August meeting. The fact that the last CNB forecast saw June inflation at 1.9% is one of many supportive arguments.**

Strong wage growth supports core inflation



Source: CZSO, Economic & Strategy Research, Komerční banka

Inflation not to deviate far from 2% until the end of the year



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

Share of unemployed decreasing in virtually all districts

The statistics from labour offices showed that the share of unemployed dropped to 2.9% in June. This marks another historical low and confirms that the Czech labour market remains extremely tight. **The seasonally adjusted measure printed 3.1% and decreased only 0.04pp. It suggests that there is not much room for more declines and the share of unemployed is set to stabilise around the 3% level.**

At the end of the year, it might even go a bit lower. Seasonality played its role in the low headline figure as there are more seasonal works in agriculture and tourism in June. The number of vacancies has recorded another increase. Now there are more

Number of job seekers is already visibly lower than the number of vacancies



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

than 300,000 of them. The vacancy per job seeker ratio has climbed to 1.35. The lowest share of unemployed is in Jindrichuv Hradec and Rychnov nad Kneznou districts, where the Skoda factory seeks new employees already for a long time. But the situation is stretched almost in all of the Czech Republic as the unemployment decreased virtually across all districts. In Karvina district, it is still highest, but the job seeker per vacancy stays at a relatively low 5.8. The unemployment rate in the Czech Republic is at its historic low and it is also the lowest in the EU.

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