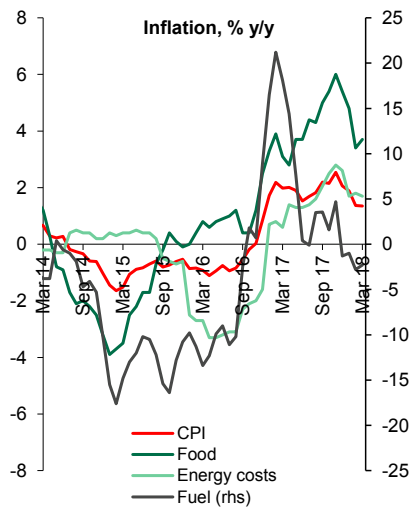


ECONOMIC COMMENT

13 April 2018

CPI dragged lower by core categories

In March CPI inflation dropped to 1.3% y/y from 1.4% in February, in line with the flash reading. The CPI fall was mainly a consequence of weaker tendencies in core categories. We estimate core inflation ex food and energy prices at 0.7%y/y. Behaviour of core categories suggests that in the upcoming months the price growth will be weaker than we had expected, which will be a support for the dovish rhetoric of the MPC. We expect that in mid-2018 CPI y/y will temporarily surpass 2.0% y/y and at the end of the year will return to c1.5%, with the core inflation will climbing towards 2.0% y/y.



In March CPI inflation dropped to 1.3% y/y from 1.4% in February, in line with the flash reading. The CPI fall was mainly a consequence of weaker tendencies in core categories. However, there was no single culprit as price drops were observed in many categories. Both prices of goods and services declined by 0.1% m/m and rose in annual terms by 1.1% and 2.0% y/y, respectively (as compared to 1.0% and 2.3% in February). Behaviour of core categories suggests that in the upcoming months the price growth will be weaker than we had expected, which will be a support for the dovish rhetoric of the MPC. We expect that in mid-2018 CPI y/y will temporarily surpass 2.0% y/y and at the end of the year will return to c1.5%, with the core inflation will climbing towards 2.0% y/y.

We estimate core inflation excluding food and energy at 0.7% y/y. The highest negative influence on inflation was put by categories: recreation and culture (monthly drop of books and package holidays prices), health (decline of pharmaceuticals and hospital services), 'other goods and services' (cheaper insurance) and household equipment (lower prices of furnishings, household appliances and cleaning products).

Food prices fell 0.1% m/m and this was mainly the result of cheaper vegetables and fruits, which prices usually rise in March. We observed also further decline of butter, milk, sugar and egg prices. Energy prices fell 0.5% m/m amid lower gas distribution charge pushing total price of this commodity down by 2.1% m/m. In April, gas prices should rise slightly but not that much to reverse the March drop.

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