Macroeconomic Forecasts

EcoAlert

Monthly forecast – November 2021


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Inflation accelerates; CNB will raise interest rates again

At its November meeting, the CNB will continue to raise interest rates. We expect them to increase by 50bp, but the risk is higher growth. The tightening of monetary policy is justified by the development of inflation, which we expect to get closer to 6% in October. Industrial production and retail sales should show minor growth in September.

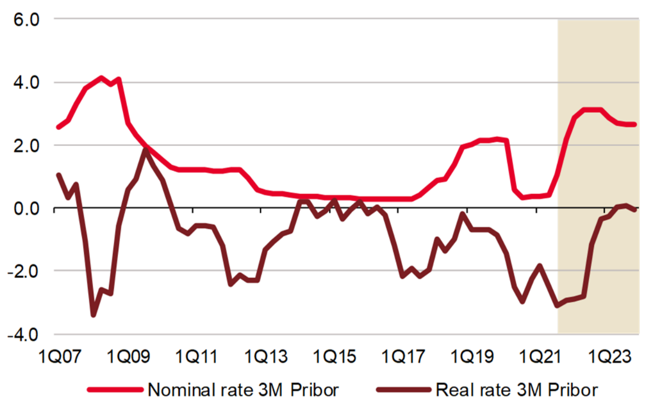
Upcoming indicators

		Period	Previous figure	KB forecast	Release date
CNB Repo rate	%		1.5	**2.0**	4.11.
Retail sales	%, yoy	Sep	3.7	**3.8**	5.11.
Retail sales ex auto	%, yoy	Sep	5.1	**5.9**	5.11.
Industrial production	%, yoy, wda	Sep	-1.4	**0.4**	8.11.
Construction output	%, yoy, wda	Sep	1.2	**3.9**	8.11.
External trade	CZKbn	Sep	-28.1	**-10.0**	8.11.
Share of unemployed	%	Oct	3.5	**3.5**	8.11.
Inflation (CPI)	%, mom	Oct	0.2	**1.0**	10.11.
Inflation (CPI)	%, yoy	Oct	4.9	**5.8**	10.11.
Current account	CZKbn	Sep	-37.8	**-22.7**	15.11.
Producer prices (PPI)	%, mom	Oct	0.7	**0.7**	16.11.
Producer prices (PPI)	%, yoy	Oct	9.9	**10.2**	16.11.

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

CNB: The central bank is likely to continue raising interest rates rapidly. At the next meeting in November, we expect the key repo rate to be increased by another 50bp, but there is a risk of an even higher rate hike. The central bank is likely to focus on fighting inflation, which we forecast to peak at 6%. However, the crisis in the automotive industry and the renewed spread of the coronavirus might hinder rising interest rates. In spite of this, we expect them to increase to 3% in 1Q22. With the easing of strong inflationary pressures, our forecast envisages a gradual reduction of the repo rate to 2.5% over 1H23. We write more on the Czech monetary policy in our updated *Czech Economic Outlook* here https://bit.ly/KB21Q4EN.

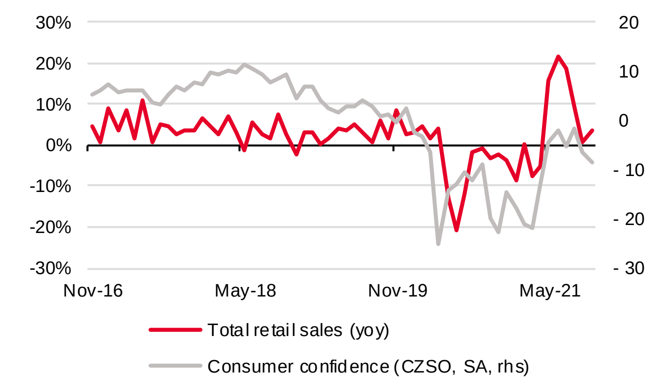
Interest rates are heading towards 3%



Source: CNB, Economic & Strategy Research, Komerční banka

Retail sales: **With the exception of June, real retail sales have been recording month-on-month increases since April this year, if we do not count sales of cars, for which availability is reduced.** In September, according to our estimate, retail sales excluding the automotive segment increased slightly 0.2% mom, behind which we still see relatively decent consumer confidence. This decreased only slightly in September, with a slight improvement also indicated by credit card transactions. In summary, we expect the retail sales to grow 0.2% mom, with rapidly rising consumer prices hindering a better result. Regarding the increase in car registrations, this time we expect a small increase of 0.2% mom (SA) in their sales, which would be slightly positive news after a series of declines from May. **Year-on-year, this would mean an expansion of 5.9% excluding and 3.8% including car sales.** The effect of post-pandemic euphooria and the increase from a very low base is over, and room for expansion in the coming months has narrowed. Moreover, given a further decline in consumer confidence in October, linked to accelerating inflation and probably concerns about the spread of the virus, all indicates the possibility of weaker results in the coming months.

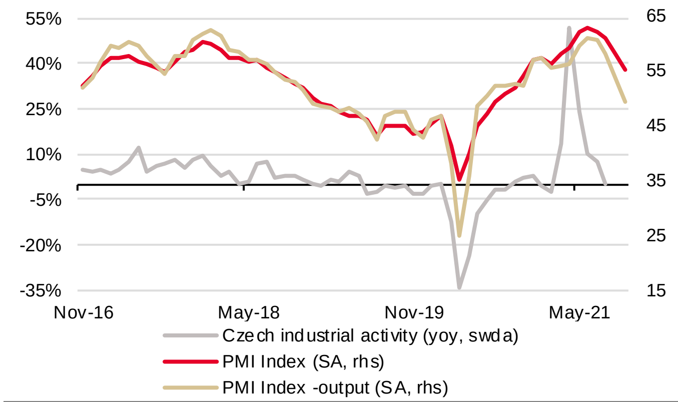
Consumer confidence is moving sideways



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

Industrial output: **The limited supply of components is still a key barrier to industrial growth.** This is also indicated by the developments seen in leading indicators, which have been declining in recent months. However, after a significant drop in industrial production in August by 3.1% mom (SA), we expect a slight increase of 0.3% in September. The main reason is the increase in car production by 16% mom (SA). Even so, the year-on-year decline in their production is a massive 53.1%. At the same time, preliminary data for GDP growth in the third quarter show there is a chance that industry may have caught up with a smaller part of the previous decline in September. In a year-on-year comparison, we expect industrial production to grow 0.4% (WDA) in September and, without adjusting for calendar effects, to fall 0.1%. However, the slight increase in industrial production in September does not imply a significant improvement in the trade balance. Even for the next few months, we expect fluctuating developments for industrial production and, on average, a certain level of stagnation. **We have reduced our full-year estimate for industrial production to 8.5% from the previous estimate of 10.8%. In terms of the optics, such a result might look positive at first glance,**

Industrial output is losing steam

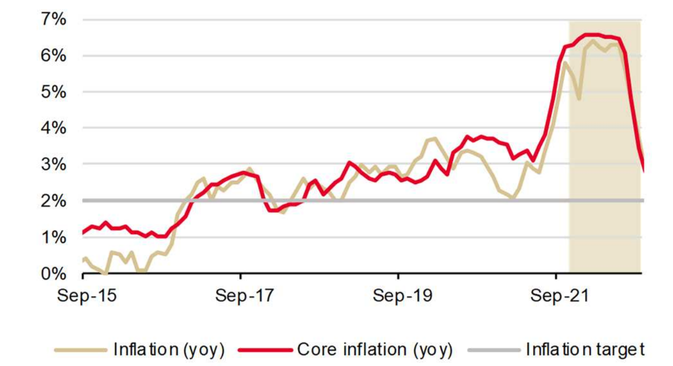


Source: CZSO, Macrobond, Economic & Strategy Research, Komerční banka

but this is only because of the effect of a direct comparison with last year's decline. Taking that factor into account, the performance of industry this year can still be described as weak.

CPI inflation: The growth rate of consumer prices accelerated again last month, with the main reason being rising housing costs, including the incipient rise in energy prices. In October, we expect an average month-on-month increase in consumer prices of 1.0%. The main reasons will again be housing-related costs, this time mainly due to increased uncertainty about the inclusion of a jump in energy prices for clients of bankrupt suppliers. They were forced to switch to other suppliers under significantly different market conditions. Due to the developments in the oil market, further price increases at petrol filling stations can be expected. In the case of food, on the other hand, we see a slight reduction on average. Food prices are still disinflationary, but due to rising energy prices, we can expect a gradual, faster rise in prices here, as well. **Our estimate of a month-on-month rise in consumer prices of 1.0% would mean an acceleration in year-on-year inflation of 5.8% after the previous rate of 4.9%. We will probably see inflation data above 6% at the beginning of 2022.** Core inflation was 5.8% yoy in September, and we expect it to rise to 6.4% in October.

Inflation is still speeding up



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

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