Macroeconomic Forecasts

EcoAlert

Monthly forecast – January 2021


Michal Brožka
(420) 222 008 569
michal_brozka@kb.cz


Martin Gürtler
(420) 222 008 509
martin_gurtler@kb.cz

The industry probably revived before the end of the year

Data on car production and leading indicators suggest that industrial production may have grown significantly in November. Higher car sales and a still-solid labour market may have helped retail sales. On the other hand, deteriorating consumer confidence and accelerating inflation are holding back real retail sales. Year-on-year inflation probably rose again towards 7% at the end of the year. We expect this level to be exceeded in January.

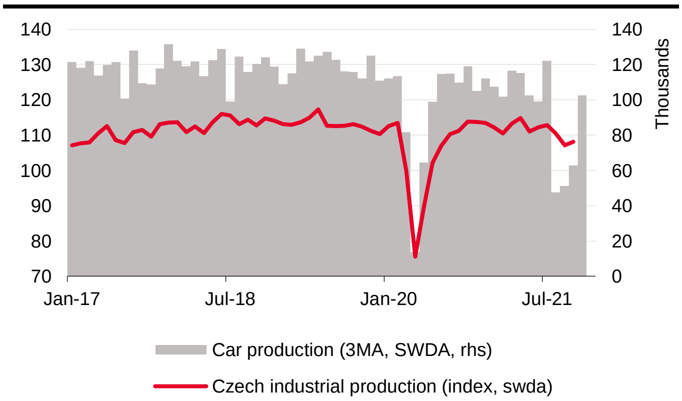
Upcoming indicators

		Period	Previous figure	KB forecast	Release date
GDP third reading	%, qoq	3Q21	1.5	1.5	7.1.
GDP third reading	%, yoy	3Q21	3.1	3.1	7.1.
Industrial production	%, yoy, wda	Nov	-4.9	-0.6	7.1.
Industrial production	%, yoy, nsa	Nov	-7.4	2.0	7.1.
Construction output	%, yoy, wda	Nov	3.7	3.7	7.1.
External trade	CZKbn	Nov	-18.2	-6.9	7.1.
Share of unemployed	%	Dec	3.3	3.5	10.1.
Inflation (CPI)	%, mom	Dec	0.2	0.4	12.1.
Inflation (CPI)	%, yoy	Dec	6.0	6.6	12.1.
Current account	CZKbn	Nov	-3.7	-9.0	13.1.
Retail sales	%, yoy	Nov	0.3	9.3	13.1.
Retail sales ex auto	%, yoy	Nov	5.6	13.8	13.1.
Producer prices (PPI)	%, mom	Dec	1.2	0.5	17.1.
Producer prices (PPI)	%, yoy	Dec	13.5	13.9	17.1.

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

Industrial output: Data on the development of industrial production in November should reflect a partial improvement in supply chains. Although the situation here remains very tense, we are seeing improvements in both leading indicators and the data on automotive production. According to AutoSAP statistics, a strong 65% month-on-month increase in car production (SWDA) suggests a potential increase in overall industrial production. At the same time, it should be recalled that car production volumes since the August slump of more than 50% (SA) have been extremely low and are therefore quite far from recovering the lost volumes. In November, year-on-year car production returned to growth of less than 6% after

Car production rising



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

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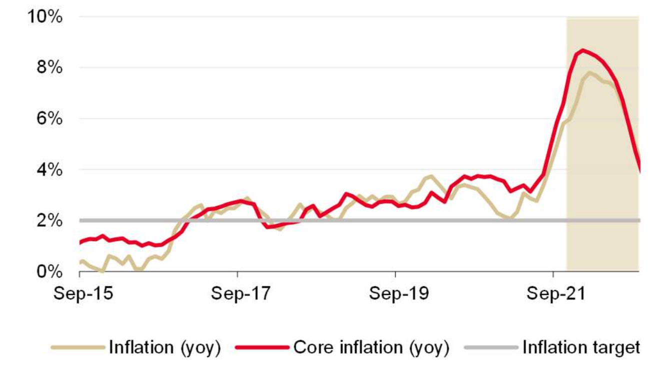
a decline of 47% in October, but this was also significantly helped by the comparison with last November. At that time, production fell by 16% mom (SA) during the COVID wave. In summary, we estimate month-on-month growth of a strong 4.7% for total industrial production in November. This would mean a moderation of the year-on-year decline to -0.6% (adjusted for the different number of working days) after the previous -4.9%. Excluding calendar effects, this would mean growth of 2.0% yoy after a previous decline of 7.4% yoy. The increase in confidence in the industry and thus growth of the purchasing managers' index, together with anecdotal reports of easing supply chain constraints, suggests a further improvement in the industry's performance in the coming months. Another wave of COVID infections due to variant Omicron is still a significant risk.

CPI inflation: Inflation in December is likely to show another high figure, although there are several factors that will hold back the month-on-month rise in prices. Weekly surveys show a reduction in gas station prices and a slight decline in food prices. There is still significant uncertainty in the case of energy, where there have been strong transitions between suppliers, which may have been disinflationary in December. The level of inflation has been temporarily reduced since November due to the waived VAT on energy payments. However, many companies in the area of production and services have announced rising prices, which will probably be reflected in core inflation. According to our estimate, it rose to 8.5% yoy at the end of the year. From the overall consumer price index, we expect month-on-month growth of 0.4% in December and an acceleration of the year-on-year inflation rate to 6.6% from the previous rate of 6.0%. Full VAT payments for energy will return at the beginning of this year. Traders in many areas will reflect rising costs in consumer prices. Estimates of the extent of these changes at the beginning of the year are highly uncertain. **However, annual inflation is likely to exceed 7% at the beginning of this year and may be close to 8% in the first quarter.** We expect inflationary pressures to subside more markedly in the second half of the year. Inflation has been about a percentage point above the CNB forecast since November, and if our estimate is met, it will be similar for December. Inflation data should thus boost the financial markets’ expectation of a further increase in CNB interest rates. We expect the main repo rate to increase by another 75 bp to 4.50% in February.

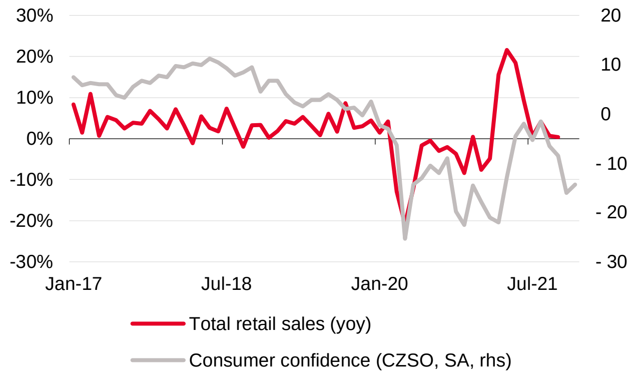
Inflation heading to 7% yoy



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

Retail sales: In November, we expect slightly weaker data on retail sales. This is due to declining consumer confidence, which is related to rapidly rising consumer prices, especially in energy, as well as renewed concerns about the impact of the next COVID-19 wave. Along with increasing retail sales in the period before Christmas, there was a favourable development in the labour market, which goes hand in hand with the growth of the average wage. Data on credit card transactions also shows another slight increase in November. Overall, we expect a month-on-month decrease of 0.8% in real retail sales, which, due to the low base effect from last November, would mean an acceleration of year-on-year growth to 13.8% and, after adjusting for calendar effects, 12.6%. Regarding the increase in car registrations, this time we see a chance for a significant growth in their sales. We expect them to increase by 3% month-on-month and fall year-on-year to 0.2% after falling by 11.8% in October. In this case, total retail sales should increase their year-on-year growth to 9.3% and, after adjusting for calendar effects, 7.2%. **In the coming months, a further decline in consumer confidence and fears of rising prices, especially on the energy side, are likely to have a negative effect on retail sales. However, favourable developments in the labour market will continue to offer support.**

Consumer confidence indicates lower sales



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

KB ECONOMIC & STRATEGY RESEARCH

Chief Economist and Head of Research
Jan Vejmělek, Ph.D., CFA
(420) 222 008 568
jan_vejmelek@kb.cz

Economists
Michal Brožka
(420) 222 008 569
michal_brozka@kb.cz

Jana Steckerová
(420) 222 008 524
jana_steckerova@kb.cz

Martin Gürtler
(420) 222 008 509
martin_gurtler@kb.cz

Strategist
Jaromír Gec
(420) 222 008 598
jaromir_gec@kb.cz

Equity Analyst
Bohumil Trampota
(420) 222 008 560
bohumil_trampota@kb.cz

SG IN CENTRAL AND EASTERN EUROPE

Head of Research of Rosbank
Evgeny Koshelev
(7) 495 725 5637
evgeny.Koshelev@rosbank.ru

Economist Rosbank
Yury Tulinov, CFA
(7) 495 662 1300 (ext. 14-836)
yury.tulinov@rosbank.ru

Economist Rosbank
Anna Zaigrina
(7) 495 662 1300
anna.zaigrina@rosbank.ru

Economist Rosbank
Evgeniy Vertiporokh
(7) 495 662 1300 (ext. 14-263)
evgeniy.vertiporokh@rosbank.ru

Romania
Ioan Mincu
(40) 21 301 4472
george.mincu-radulescu@brd.ro

SG GLOBAL ECONOMICS RESEARCH

Head of Global Economics
Klaus Baader
(44) 20 7762 4714
klaus.baader@sgcib.com

Euro area
Michel Martinez
(33) 1 4213 3421
michel.martinez@sgcib.com

Anatoli Annenkov
(44) 20 7762 4676
anatoli.annenkov@sgcib.com

Yvan Mamalet
(44) 20 7762 5665
yvan.mamalet@sgcib.com

United Kingdom
Brian Hilliard
(44) 20 7676 7165
brian.hilliard@sgcib.com

North America
Stephen Gallagher
(1) 212 278 4496
stephen.gallagher@sgcib.com

Latin America
Dev Ashish
(91) 80 2802 4381
dev.ashish@socgen.com

India
Kunal Kumar Kundu
(91) 80 6716 8266
kunal.kundu@sgcib.cz

Korea
Suktae Oh
(82) 2195 7430
suktae.oh@sgcib.com

China
Wei Yao
(33) 1 57 29 69 60
wei.yao@sgcib.com

Greater China
Michelle Lam
(85) 2 21 66 57 21
michelle.lam@sgcib.com

Japan
Jin Kenzaki
(81) 3 6777 8032
jin.kenzaki@sgcib.com

SG CROSS ASSET RESEARCH – FIXED INCOME & FOREX GROUPS

Global Head of Economics,
Cross-Asset & Quant Research
Kokou Agbo Bloua
(44) 20 7762 5433
kokou.agbo-bloua@sgcib.com

Head of Fixed Income & Forex Strategy
Guy Stear
(33) 1 41 13 63 99
guy.stear@sgcib.com

Head of Rates Strategy
Adam Kurpiel
(33) 1 42 13 63 42
adam.kurpiel@sgcib.com

Covered Bonds & SSA
Cristina Costa
(33) 1 58 98 51 71
cristina.costa@sgcib.com

Head of US Rates Strategy
Subadra Rajappa
(1) 212 278 5241
subadra.rajappa@sgcib.com

Shakeeb Hulikatti
(91) 80 2802 4380
shakeeb.hulikatti@sgcib.com

Jorge Garayo
(44) 20 7676 7404
jorge.garayo@sgcib.com

Jean-David Cirotteau
(33) 1 42 13 72 52
jean-david.cirotteau@sgcib.com

Ruben Marciano
(1) 212 278 5129
ruben.marciano@sgcib.com

Rohit Gaurav
(91) 8067318958
rohit.gaurav@sgcib.com

Ninon Bachet
(33) 1 58 98 30 26
ninon.bachet@sgcib.com

Chief Global FX Strategy
Kit Juckes
(44) 20 7676 7972
Kit.juckes@sgcib.com

FX Derivatives Strategy
Olivier Korber
(33) 1 42 13 32 88
olivier.korber@sgcib.com

Head of Emerging Markets Strategy
Phoenix Kalen
(44) 20 7676 7305
phoenix.kalen@sgcib.com

Bertrand Delgado
(1) 212 278 6918
bertrand.delgado-calderon@sgcib.com

Marek Dřímal
(44) 20 7550 2395
marek.drimal@sgcib.com

Kiyong Seong
(852) 2166 4658
kiyong.seong@sgcib.com

Vijay Kannan
(91) 7010445705
Vijay.kannan@sgcib.com

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