

Macroeconomic Forecasts |

EcoAlert

Monthly forecast – November 2017



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Inflation peaks and GDP growth took a summer break in 3Q

GDP growth slowed in the third quarter of the year as we expect its dynamics to print only 0.3% qoq. However, the monthly figures from the real economy are set to prove that activity accelerated in September once again with industrial production increasing its pace and external trade back in a high surplus. The share of unemployed is poised for another decline, and inflation is set to peak in October driven by strong growth at its core while food prices supported price growth, as well.

Upcoming indicators

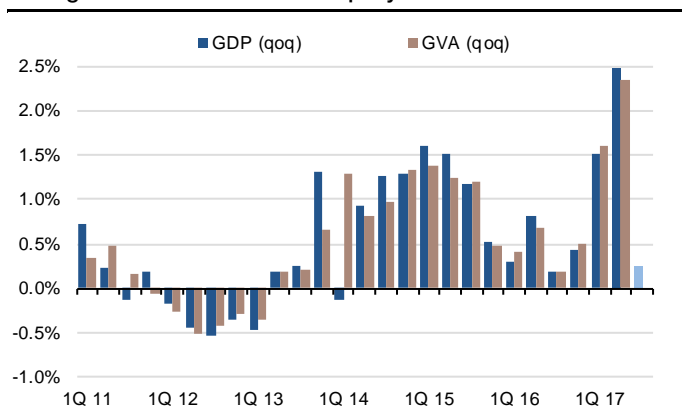
		Period	Previous figure	KB forecast	Consensus (Bloomberg)	Min	Max	Release date
External trade	CZKbn	September	5.9	22.0	17.8	10.5	22.0	3.11.
Retail sales ex auto	%, yoy	September	4.8	5.5	4.0	3.5	5.8	6.11.
Industrial production	%, yoy	September	5.8	4.1	3.3	2.0	6.3	6.11.
Construction output	%, yoy	September	1.9	1.3				6.11.
Share of unemployed	%	October	3.8	3.7	3.6	3.6	3.7	8.11.
Inflation (CPI)	%, mom	October	-0.1	0.5	0.3	0.2	0.4	9.11.
Inflation (CPI)	%, yoy	October	2.7	2.8	2.7	2.6	2.8	9.11.
Current account	CZKbn	September	-8.1	6.7	1.5	-3.0	6.7	13.11.
GDP	%, qoq	3Q17	2.5	0.3	-0.2	-0.7	1.4	14.11.
GDP	%, yoy	3Q17	4.7	4.8	4.3	3.7	5.9	14.11.
Producer prices (PPI)	%, mom	October	0.4	0.1	0.3	0.1	0.4	16.11.
Producer prices (PPI)	%, yoy	October	1.7	1.3	1.5	1.3	1.5	16.11.

Source: CZSO, Bloomberg (as of 2 November), MLSA, Macrobond, Economic & Strategy Research, Komerční banka

GDP printed strong growth in the second quarter of the year. But the third quarter will show a significant slowdown, in our view. The automotive industry stopped for a few weeks during summer as car producers took company-wide holidays. As we described in our *Czech Economic Outlook* <http://bit.ly/ceo4Q17>, this is not fully captured by

seasonal factors and will result in weaker GDP figures for 3Q17. However, it is still only seasonality and thus we shall not draw any conclusions from this particular weaker figure. We see GDP printing 0.3% qoq growth in 3Q17 (+4.8% yoy) after record-high growth of 2.5% qoq (4.7% yoy) in the second quarter.

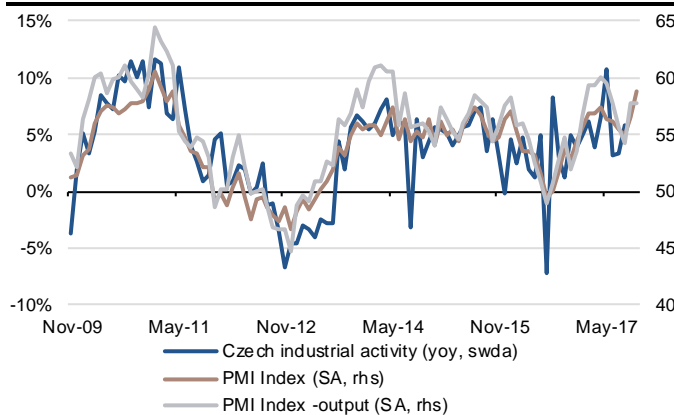
GDP growth set to decelerate rapidly



Source: CZSO, Economic & Strategy Research, KB

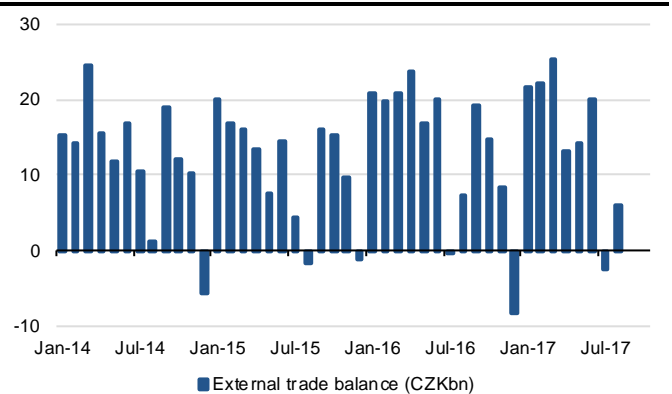
Industrial production showed a decent rebound in August even though parts of the automotive industry still had company-wide holidays. The external trade balance also emerged from a deficit. **Positive trends continued in September.** Figures from Germany and the euro area signal that external demand remains strong. Moreover, we also see signs suggesting domestic demand has strengthened. Public investment surged, and the conditions for private investment remain more than favourable. Thus, **we believe the growth of industrial output is set to print a solid 4.1% yoy** despite the month having one less working day. **The trade balance is set to record a decent surplus of CZK22bn.** However, we see a risk that the surplus will be lower due to imports of investment goods.

Industrial production set to accelerate growth



Source: CZSO, Macrobond, Economic & Strategy Research, KB

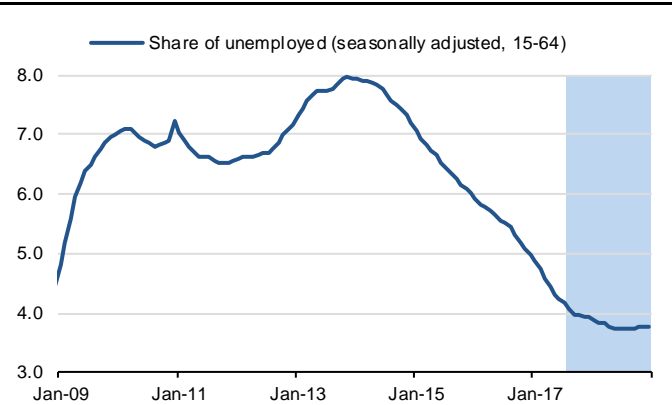
External trade surplus to increase



Source: CZSO, Macrobond, Economic & Strategy Research, KB

The decline in unemployment continued during the summer, and the share of unemployed remains on a downward trend in autumn. Moreover, the move induced by strong economic activity was also supported by seasonal effects in October. Thus, we see the share of unemployed dropping to 3.7% in October from September's 3.8%. But, we admit that it is a close call and there is a significant risk that this share will fall two ticks.

Share of unemployed on its downward trend



Source: MLSA, Macrobond, Economic & Strategy Research, KB

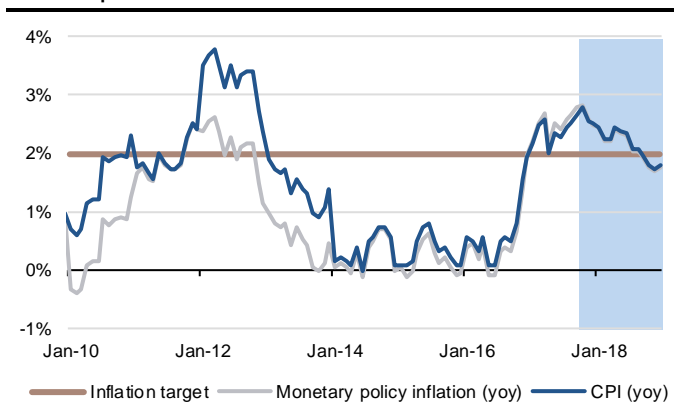
As economic activity accelerated in the third quarter, we believe wage growth will also get stronger. The increase in remuneration is backed by the tight situation on the labour market. The situation on the labour market and the ever-improving economic outlook make the households' position extremely comfortable. That will be apparent in retail sales (ex. cars) which should in our view print growth of 5.5% yoy.

Czech inflation peaked in October

The yoy inflation rate is set to accelerate to 2.8% in our view and thus approached the upper bound of the CNB's tolerance band. But given the statistical base effects, we believe inflation is at its peak and will ease in the coming months, moving close to 2% in the second

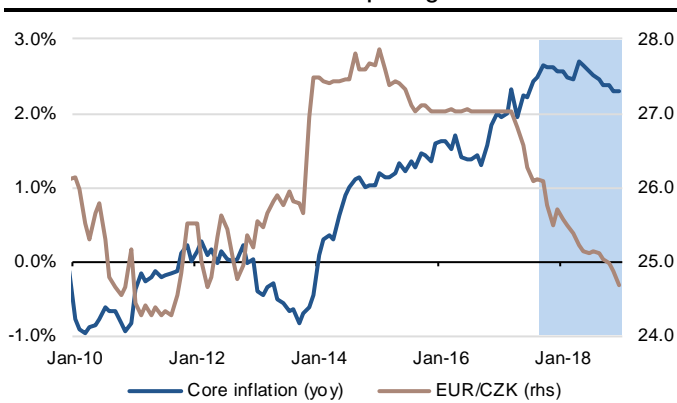
half of next year. The price level is set to increase 0.5% in October partly due to seasonality in shoes and clothing, but it is mainly driven by strong wage growth. Another increase in prices was recorded in the food category. Dairy products like butter, cheese and eggs are becoming more and more expensive. Prices also grew at gas stations as fuel prices rose 0.8% mom in October.

Inflation peaked in October



Source: CZSO, CNB, Macrobond, Economic & Strategy Research, KB

Core inflation is the main driver of price growth



Source: CZSO, Bloomberg, Macrobond, Economic & Strategy Research, KB

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