

EcoAlert

Monthly forecast – November 2017



Viktor Zeisel
(420) 222 008 523
viktor_zeisel@kb.cz

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

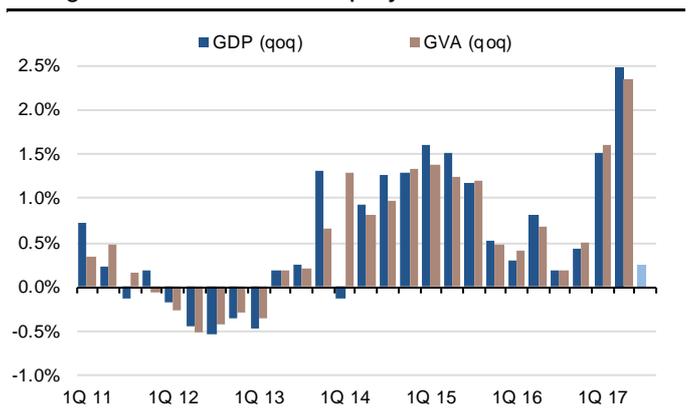
		Period	Previous figure	KB forecast	Consensus (Bloomberg)	Min	Max	Release date
External trade	CZKbn	September	5.9	22.0	17.8	10.5	22.0	3.11.
Retail sales ex auto	%, yoy	September	4.8	5.5	4.0	3.5	5.8	6.11.
Industrial production	%, yoy	September	5.8	4.1	3.3	2.0	6.3	6.11.
Construction output	%, yoy	September	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.

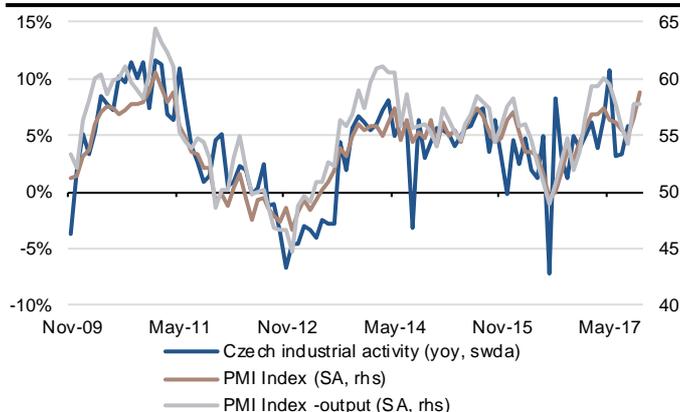
GDP growth set to decelerate rapidly



Source: CZSO, Economic & Strategy Research, KB

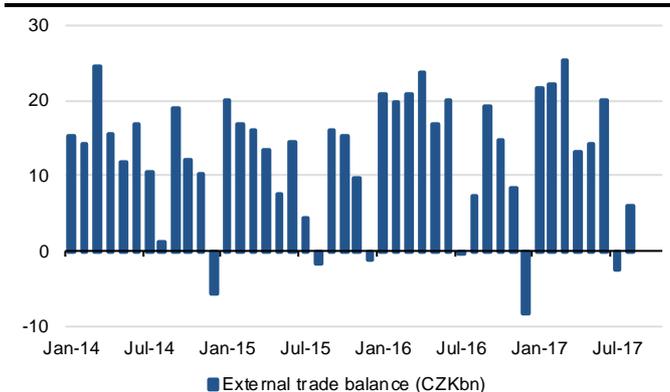
Industrial production showed a decent rebound in August even though parts of the automotive industry still had company-wide holidays. The external trade balance also emerged from a deficit. **Positive trends continued in September.** Figures from Germany and the euro area signal that external demand 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

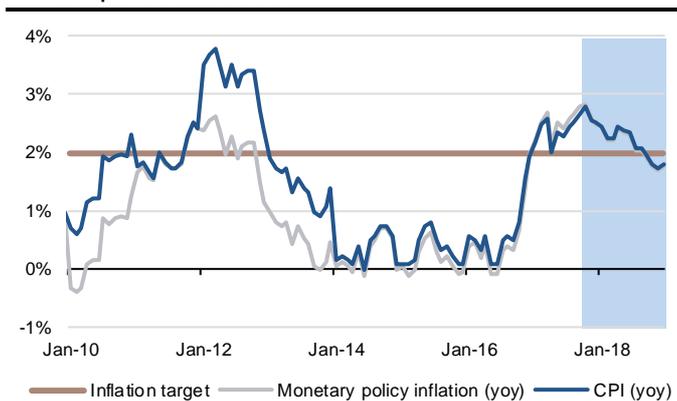
As economic activity accelerated in the third quarter, we believe wage growth will also get stronger. The increase in remuneration is backed by the tight situation on the labour market. The situation on the labour market and the ever-improving economic outlook make the households' position extremely 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

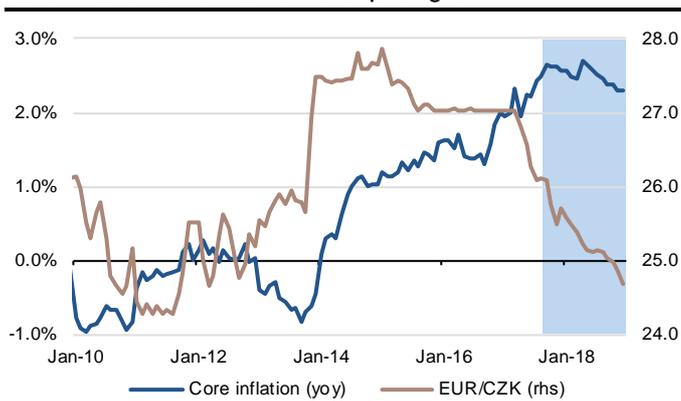
half of next year. The price level is set to increase 0.5% in October partly due to seasonality in shoes and clothing, but it is mainly driven by strong wage growth. Another increase in prices was recorded in the food category. Dairy products like butter, cheese and eggs are becoming more and more expensive.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

KB ECONOMIC & STRATEGY RESEARCH

Chief Economist and Head of Research



Jan Vejmelek, Ph.D., CFA
(420) 222 008 568
jan_vejmelek@kb.cz

Economists



Viktor Zeisel
(420) 222 008 523
viktor_zeisel@kb.cz



Marek Dřimal
(420) 222 008 598
marek_drimal@kb.cz



Monika Junicke
(420) 222 008 509
monika_junicke@kb.cz



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

Equity Analysts



Miroslav Frayer
(420) 222 008 567
miroslav_frayer@kb.cz



Jiří Kostka
(420) 222 008 560
jiri_kostka@kb.cz



David Kocourek
(420) 222 008 569
david_kocourek@kb.cz

SG IN CENTRAL AND EASTERN EUROPE

Chief Economist of SG Poland



Jaroslaw Janecki
(48) 225 284 162
jaroslaw_janecki@sgcib.com



Head of Research of Rosbank
Yury Tulinov, CFA
(7) 495 662 13 00 (ext. 14836)
yury.tulinov@rosbank.ru

Chief Economist of BRD-GSG

Florian Libocor
(40) 213 016 869
florian.libocor@brd.ro

Head of Fin. Markets Research BRD-GSG



Carmen Lipara
(40) 213 014 370
carmen.lipara@brd.ro

Economist

Ioan Mincu
(40) 213 014 472
george.mincu-radulescu@brd.ro

Equity Analyst



Laura Simon, CFA
(40) 213 014 370
laura.simon@brd.ro

SG GLOBAL ECONOMICS RESEARCH

Head of Global Economics



Klaus Baader
(852) 2166 4095
klaus.baader@sgcib.com

Euro area



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



Michel Martinez
(33) 1 4213 3421
michel.martinez@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
(212) 278 4496
stephen.gallagher@sgcib.com



Omair Sharif
(1) 212 278 48 29
omair.sharif@sgcib.com



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



Ankur Shukla
(91) 80 6731 4432
ankur.shukla@sgcib.com

China



Wei Yao
(852) 2166 5437
wei.yao@sgcib.com



Japan
Takuji Aida
(81) 3 5549 5187
takuji.aida@sgcib.com



Kiyoko Katahira
(81) 3 5549 5190
kiyoko.katahira@sgcib.com



Arata Oto
(81) 3 6777 8064
arata.oto@sgcib.com

Korea



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



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



Inflation
Vaibhav Tandon
(91) 80 6731 9449
vaibhav.tandon@sgcib.com

SG CROSS ASSET RESEARCH - FIXED INCOME & FOREX GROUPS

Global Head of Research



Brigitte Richard-Hidden
(33) 1 42 13 78 46
brigitte.richard-hidden@sgcib.com

Head of Fixed Income & Forex Strategy



Guy Stear
(33) 1 41 13 63 99
guy.stear@sgcib.com

Fixed Income



Bruno Braizinha
(1) 212 278 5296
bruno.braizinha@sgcib.com



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



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



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

Head of Euro Area Rates Strategy



Ciaran O'Hagan
(33) 1 42 13 58 60
ciaran.ohagan@sgcib.com



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



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

Head of US Rates Strategy



Subadra Rajappa
(1) 212 278 5241
subadra.rajappa@sgcib.com



Jason Simpson
(44) 20 7676 7580
jason.simpson@sgcib.com



Marc-Henri Thoumin
(44) 20 7676 7770
marc-henri.thoumin@sgcib.com

Foreign Exchange



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



Alvin T. Tan
(44) 20 7676 7971
alvin-t.tan@sgcib.com

Head of Emerging Markets Strategy



Jason Daw
(65) 6326 7890
jason.daw@sgcib.com



Régis Chatellier
(44) 20 7676 7354
regis.chatellier@sgcib.com



Phoenix Kalen
(44) 20 7676 7305
phoenix.kalen@sgcib.com



Amit Agrawal
(91) 80 6758 4096
amit.agrawal@sgcib.com

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