

# EcoAlert

## Monthly forecast – March 2018



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### Despite strong wages, inflation eased further

Average wages in the last quarter of 2017 accelerated massively on the back of an increase of salaries in the public sector, but the impact on inflation is so far limited. Core inflation eased due to strong base effects. Headline inflation is thus set to decrease to 2%. Monthly data from the real economy are set to confirm the sound dynamics of the economy at the beginning of the year.

#### Upcoming indicators

			Previous figure	KB forecast	Consensus (Bloomberg)	Min	Max	Release date
Share of unemployed	%	February	3.9	<b>3.8</b>	<b>3.8</b>	3.6	3.9	8.3.
Avg real monthly wage	%, yoy	4Q17	4.2	<b>5.1</b>	<b>5.2</b>	4.8	7.9	9.3.
External trade	CZKbn	January	-2.2	<b>16.5</b>	<b>20.0</b>	16.5	21.0	9.3.
Inflation (CPI)	%, mom	February	0.6	<b>0.2</b>	<b>0.1</b>	0.0	0.2	9.3.
Inflation (CPI)	%, yoy	February	2.1	<b>2.0</b>	<b>2.0</b>	1.8	2.4	9.3.
Retail sales ex auto	%, yoy	January	4.7	<b>6.9</b>	<b>6.4</b>	5.0	7.0	15.3.
Industrial production	%, yoy	January	2.7	<b>4.0</b>	<b>5.3</b>	4.0	7.0	15.3.
Construction output	%, yoy	January	-3.2	<b>0.9</b>				15.3.
Producer prices (PPI)	%, mom	February	0.5	<b>-0.1</b>	<b>0.0</b>	-0.1	0.1	16.3.
Producer prices (PPI)	%, yoy	February	0.5	<b>0.1</b>	<b>0.1</b>	0.1	0.3	16.3.
Current account	CZKbn	January	-2.9	<b>31.2</b>	<b>29.0</b>	23.7	32.0	16.3.

Source: CZSO, Bloomberg (as of 30 November), MLSA, Macrobond, Economic & Strategy Research, Komerční banka

Industrial production				15.3.
January	Prev.	KB	Market	
YoY	2.7	4.0	5.3	
MoM (SWDA)	-1.9	1.5		

Source: KB, CZSO, Bloomberg

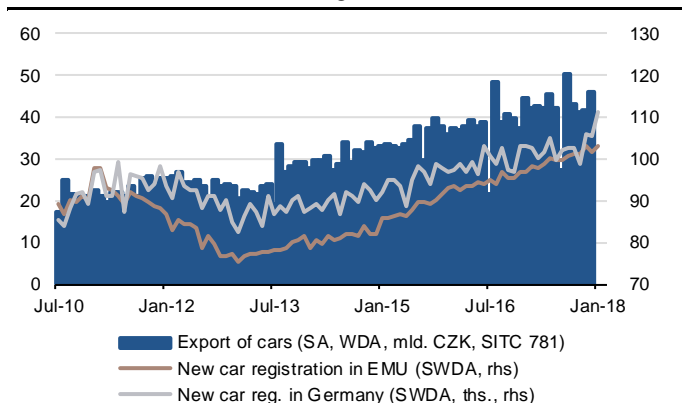
External trade				9.3.
January	Prev.	KB	Market	
CZK bn	-2.2	16.5	20.0	
CZK bn (SA)	15.3	10.3		

Source: KB, CZSO, Bloomberg

The economic recovery of the main Czech trading partners is not losing momentum, which should be visible in domestic external trade and industrial production. The demand for cars has been growing in Germany and the euro area but has been also changing. The changes are not always in favour of Czech producers. The demand for small cars has been

continuously decreasing as wealthier consumers want bigger cars. Moreover, demand from the UK has decreased on the back of Brexit uncertainty. Figures from the Automotive Industry Association show that the number of cars produced in the Czech Republic has stopped growing. We still believe the value of the cars has increased as there is demand for bigger cars. The dynamics in other sectors should be positive, though many have already hit their production capacity constraints. Growth in the industrial sector will be curbed by the labour supply shortage.

#### Demand for cars remains strong



Source: Zdroj: Ekonomický a strategický výzkum, Komerční banka

Share of unemployed				8.3.
February	Prev.	KB	Market	
%	3.9	3.8	3.8	
% (SA)	3.59	3.49		

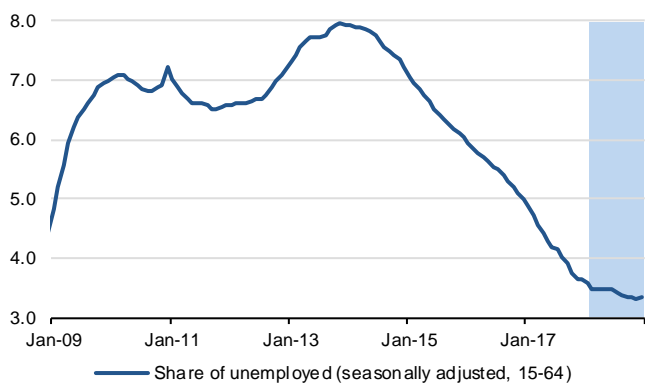
Source: KB, MLSA, Bloomberg

Avg real monthly wage				9.3.
4Q17	Prev.	KB	Market	
YoY	4.2	5.1	5.2	

Source: KB, CZSO, Bloomberg

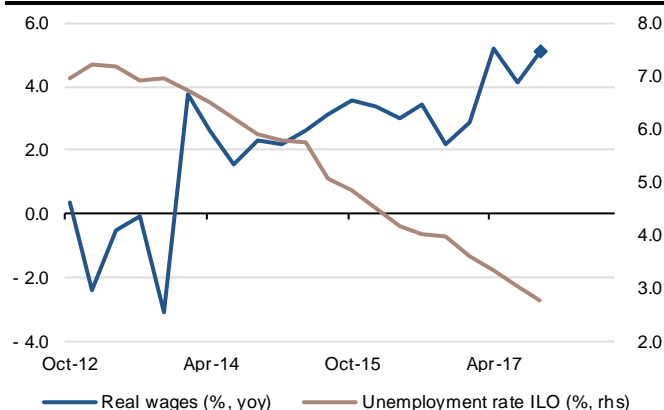
The share of unemployed cut another tick, according to our forecast, which corroborates our view that the economy is keeping up its momentum. The tight situation on the labour market propels strong wage dynamics. Wages in 4Q17 were lifted by a massive increase in salaries in the public sector as of 1 November. On average, remuneration of public servants increased 10% while teachers should get 15% more on their pay checks. The surge in public wages will also pressure the private sector to improve conditions for employees.

The share of unemployed went a tick lower



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

Wages surge due to a spike in public sector salaries



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

Retail sales ex auto				15.3.
January	Prev.	KB	Market	
YoY	4.7	6.9	6.4	
MoM (SWDA)	-0.9	1.5		

Source: KB, CZSO, Bloomberg

Retail sales profit from the tight situation on the labour market and strong wage growth. Their dynamics remains strong in the long term, and we believe January's data are set to confirm consumers' appetite for spending as consumer confidence hit its high at the beginning of the year. The strength of retail sales will also be reflected in private consumption, which will remain the main growth driver this year.

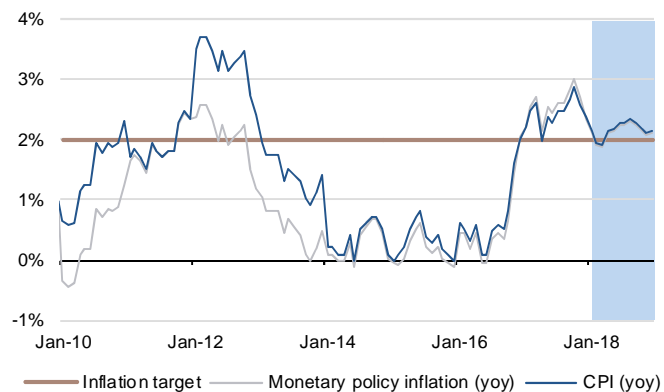
Inflation (CPI)				9.3.
February	Prev.	KB	Market	
MoM	0.6	0.2	0.1	
YoY	2.1	2.0	2.0	

Source: KB, CZSO, Bloomberg

### Core inflation easing despite strong wage growth

Strong base effects from the beginning of last year caused inflation to ease at the beginning of 2018. This trend continued in February, as well. Core inflation surprised us with a weaker figure in January. Wage growth was not reflected in consumer prices while CZK appreciation might have helped tame price growth. Food price inflation fell from the heights recorded last year, and its contribution to headline inflation will not be as pronounced as last year. In contrast, administered prices will support the headline figure this year as the increase in electricity prices recorded in January will most probably influence inflation in the coming months. The risks for inflation readings in February and the spring months are tilted downward as it seems wage growth is passing through into core inflation more slowly than we expected. Inflation might get below the 2% level. However, inflationary pressures are accumulating, and

A significant risk of inflation below 2%



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

we believe that, in the longer term, inflation will pick up again. In summer, it should return safely above the 2% mark.

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