

# EcoAlert

Monthly forecast – June 2018



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## Inflation back on target despite GDP growth easing

The flash GDP estimate showed only mild growth in the first quarter. The second reading should reveal that domestic demand is behind the growth while external trade curbs its dynamics. April was a successful month for retailers, who after a weaker first quarter gained nice yoy sales growth. An additional two working days supported the dynamics of industrial production, while April's warmer weather encouraged growth in the construction sector. May's figures should confirm April's inflation return. Thanks to higher fuel and food prices, headline inflation should return to the CNB target.

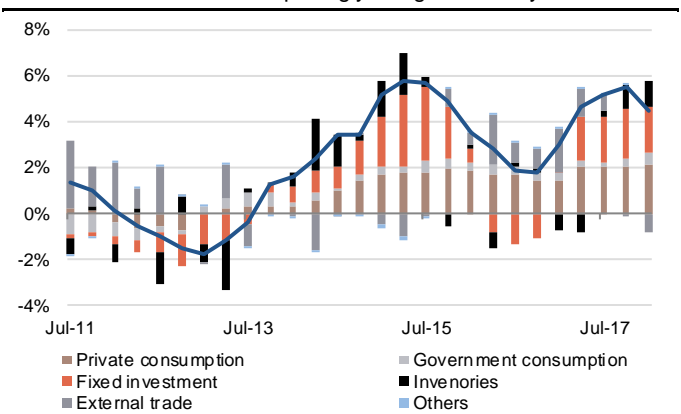
### Upcoming indicators

		Period	Previous figure	KB forecast	Release date
GDP	%, qoq	1Q18	0.5	<b>0.5</b>	1.6.
GDP	%, yoy	1Q18	4.5	<b>4.5</b>	1.6.
Avg real monthly wage	%, yoy	1Q18	5.3	<b>5.1</b>	4.6.
Retail sales ex auto	%, yoy	April	3.7	<b>8.6</b>	5.6.
Industrial production	%, yoy	April	-1.0	<b>7.0</b>	6.6.
Construction output	%, yoy	April	-0.7	<b>9.7</b>	6.6.
External trade	CZKbn	April	18.7	<b>13.7</b>	6.6.
Share of unemployed	%	May	3.2	<b>3.0</b>	8.6.
Inflation (CPI)	%, mom	May	0.3	<b>0.3</b>	11.6.
Inflation (CPI)	%, yoy	May	1.9	<b>2.0</b>	11.6.
Current account	CZKbn	April	-5.6	<b>3.0</b>	13.6.
Producer prices (PPI)	%, mom	May	0.2	<b>0.1</b>	18.6.
Producer prices (PPI)	%, yoy	May	0.0	<b>0.6</b>	18.6.

Source: CZSO, Bloomberg (as of 3 May), MLSA, Macrobond, Economic & Strategy Research, Komerční banka, CNB

The flash GDP reading disappointed, showing the Czech economy grew only 0.5% qoq and 4.5% yoy. Domestic growth figures significantly lagged behind the dynamics among CEE peers. Poland, Hungary and Slovakia have printed growth close to 1% qoq or even higher. Czech GDP dynamics were mainly supported by private consumption and

### Flash estimate revealed surprisingly low growth this year



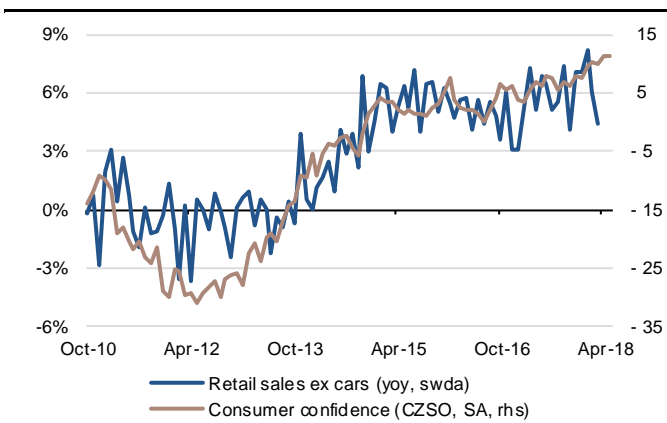
Source: CZSO, Macrobond, Economic & Strategy Research, Komerční banka

investment, in our view. Also, the effect of the public wage increase from November will spill over to the first quarter, as well. In contrast, external trade deteriorates due to higher imports stemming from strong domestic demand. Friday's figures will also bring a significant revision to history including an update of seasonal factors. We are persuaded that the revision will show more

gradual growth in the past year. The surge in 2Q will be decreased, spread out over 3Q and 4Q. We would not be surprised if the first quarter GDP was revise upwards.

Retail sellers started the second quarter successfully in April. The domestic consumer confidence has been increasing to new record highs since the beginning of the year, and consumers are not afraid of a decrease in the overall economic situation, mainly thanks to the tight labour market. The solid wage growth, muted inflation and record-low unemployment play a role. The car retail sales dynamics, which wobbled at the beginning of the year, were again solid. Retail sales ex auto added in our view in mom terms a strong 2.7% after seasonal adjustment.

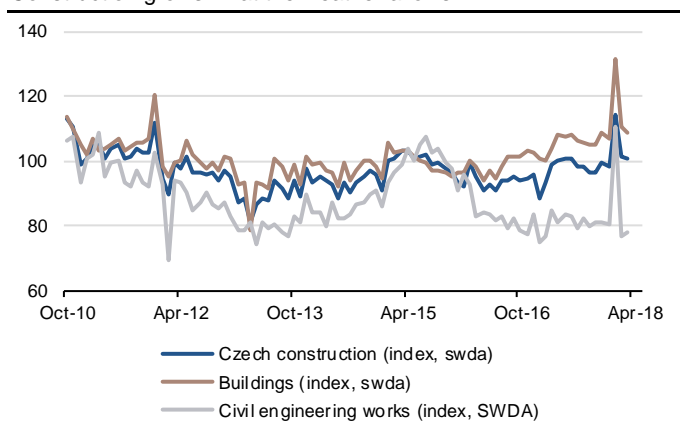
Consumer confidence breaks new records



Source: Zdroj: Ekonomický a strategický výzkum, Komerční banka

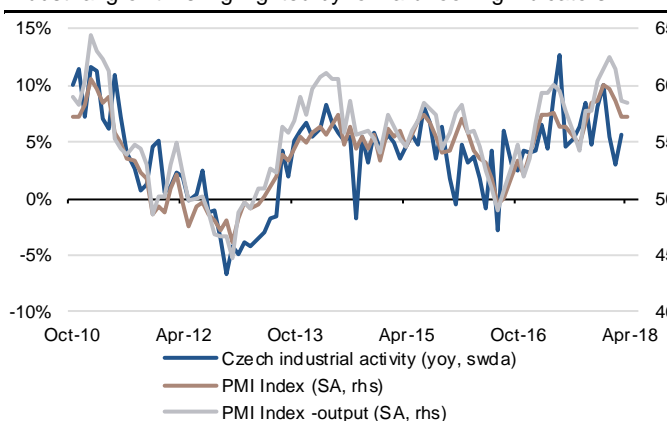
In contrast, industrial production corrected March's solid growth. The number of produced cars decreased 4.2% mom after seasonal adjustment. Also, we noticed another fall in April's economic confidence indicators in industry at home as well as abroad. The lack of workers has been the main obstacle of industrial production for a long time now. Thus, firms that want to expand production have to invest to increase labour productivity. Despite the mom decrease, industrial production in yoy terms increased 7%. However, after an adjustment for calendar effects, April's growth will be lowered to 1.3% yoy.

Construction grows what the weather allows



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

Industrial growth is highlighted by forward-looking indicators



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

Nice weather and the long-lasting demand for construction works support the construction sector's dynamics. This will accelerate to 5.4% mom in April and due to calendar effects to nearly 10% yoy. In the following period, construction will be supported by an increase in investment from the private as well as the public sector. On average, the construction sector should grow nearly 10% this year.

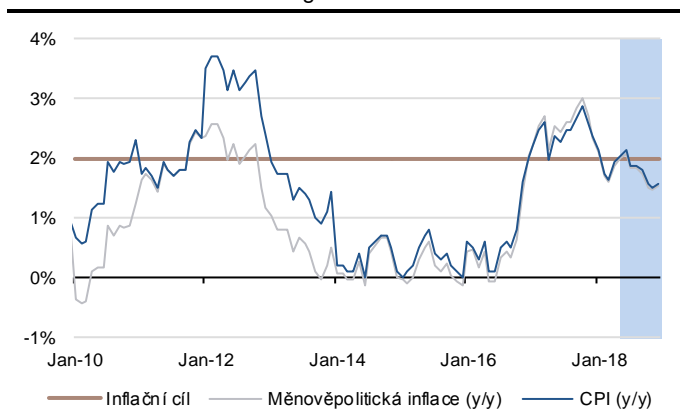
In industry as well as in construction sector, worries about the lack of workers have been increasing. The labour market situation is extreme. Furthermore, the share of unemployed dropped further by two ticks to 3% in May. Labour market tightness reflects also on wage growth. In order to attract new employees, businesses must offer much higher wages than previously. The public sector also added to the pressure when it increased salaries in the public sector 13% in November. In the first quarter, the average nominal wage increased 7.9% in our view, which is equivalent to 5.9% real wage growth.

### Inflation back on target

April's figures showed that domestic price pressures are not dead yet when core inflation strongly revived. The reflation story on the European level was confirmed by May's German figures printing yoy price growth of 2.1%. Czech inflation is also set to accelerate further. We believe the price level increased 0.3% in May supported by all main components with the exception of administered prices, which stayed unchanged in our view. Core prices continued increasing as they started reflecting rapid wage growth in the economy and a sharp depreciation of the currency at the turn of April and May. The upward move in inflation was also supported by an increase of fuel prices led by the global upswing of oil prices. Moreover, food prices have revived after several months of declines. **Headline inflation will print at 2.0%, in our view.** We see a risk of one tick higher inflation due to the possible stronger rebound in food prices and a more robust increase of the core element.

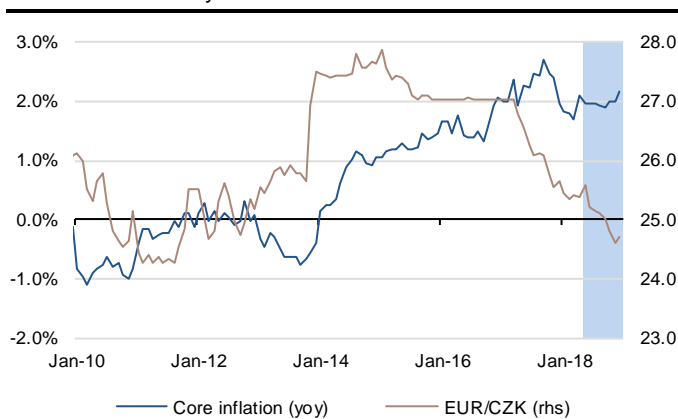
Higher inflation and a depreciating koruna might indicate earlier hikes by the CNB. Yet, we believe that in an environment of political instability in the euro area, the CNB will take a cautious stance. Thus, the rate hike is set to come as late as November, in our view.

Headline inflation back on target



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

Core inflation to stay close to 2%



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

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