

EcoAlert

Monthly forecast – September 2018



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Company-wide holidays mixed up July's statistics

Economic confidence has remained favourable and positively influenced both industrial activity and construction yoy dynamics in July. Company-wide holidays, however, pulled industrial growth down on a monthly basis. In July, the trade balance ended in its first deficit since the beginning of the year. Wage growth eased in the second quarter, but it remains very strong and propels core price growth. Headline inflation should print a strong 2.5%.

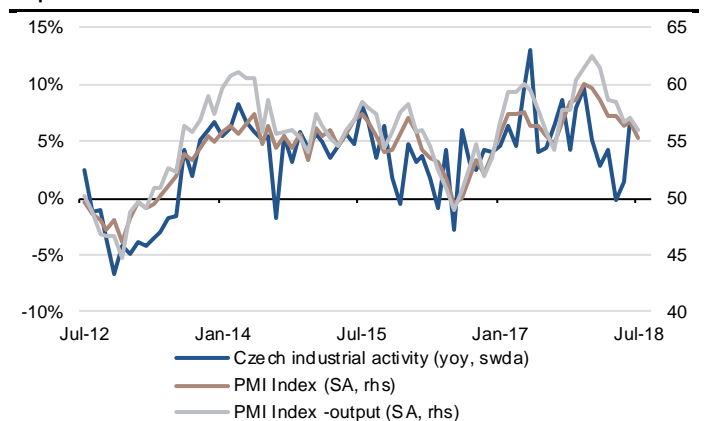
Upcoming indicators

		Period	Previous figure	KB forecast	Release date
Avg real monthly wage	%, yoy	2Q18	6.6	5.9	4.9.
Retail sales ex auto	%, yoy	July	2.0	6.8	5.9
Industrial production	%, yoy	July	3.4	8.6	6.9
Construction output	%, yoy	July	7.5	16.0	6.9
External trade	CZKbn	July	15.8	-6.7	6.9
Share of unemployed	%	August	3.1	3.0	10.9.
Inflation (CPI)	%, mom	August	0.2	0.1	10.9.
Inflation (CPI)	%, yoy	August	2.3	2.5	10.9.
Current account	CZKbn	July	-1.6	-1.1	13.9.
Producer prices (PPI)	%, mom	August	0.3	-0.1	17.9.
Producer prices (PPI)	%, yoy	August	3.4	3.1	17.9.

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

Company-wide holidays at many Czech plants mixed up the forecast for July. Companies used this time for the yearly revision of machinery and needed servicing. **Thus, the holidays were mainly reflected in statistics of industrial production. After solid growth in June, industry significantly dropped in July in mom terms.** Nonetheless, forward-looking indicators point to a continuing optimistic mood in industry. This will be confirmed by solid dynamics in yoy terms.

The mood in the industrial sector indicates a continuing expansion



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

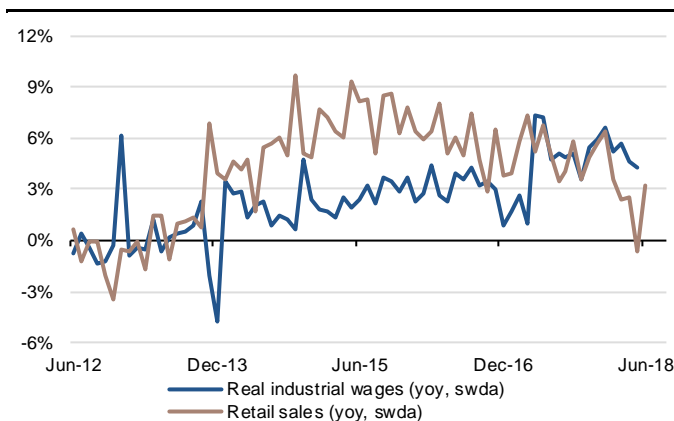
On the other hand, the construction sector does not suffer from company-wide holidays. The private and public sector demand for construction is on the rise. Thus, construction is very

likely to grow significantly in July, which is supported by the relatively low statistical base from last year. Construction has been doing well for a while now. This year, we expect it to increase at a double-digit rate on average.

Lower industrial activity in July also influenced the external trade results. **According to our estimates, the foreign trade balance ended in its first deficit since the beginning of the year.** However, lower exports are not the only reason; the deficit is also due to higher demand for goods from abroad.

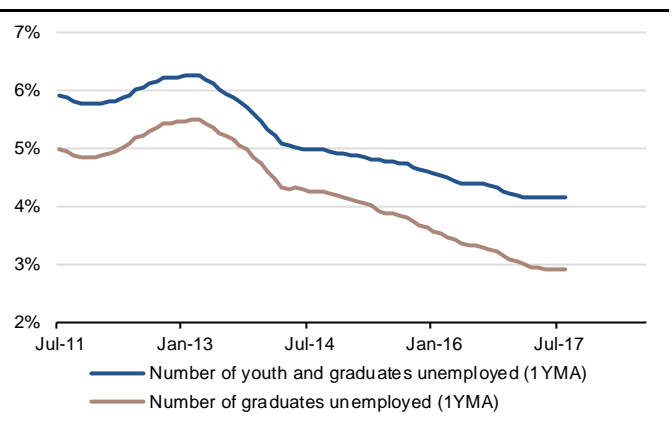
Increasing consumer demand due to the July holidays pushes up retail sales. Stable wage growth and low unemployment increased consumer confidence. According to the last business cycle survey, consumers are more afraid of a decrease in the overall economic situation, **but only few admit that their financial standing could worsen. This corresponds to a fact that the intention to save money decreased during the summer.** The statistics of car registration indicate an increase in the retail trade of motor vehicles, which is set to print double-digit yoy growth.

Wage growth supports retail sales dynamics



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

The share of young without job on the overall unemployment rate decreased



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

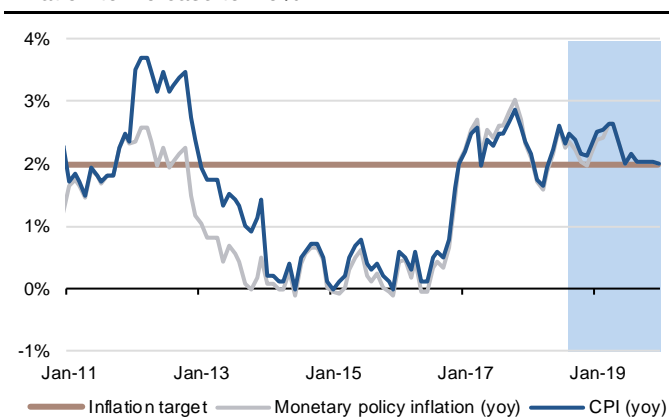
During the holidays, the share of unemployed is usually pushed up by recent graduates on the labour market. This time, however, the tight market managed to absorb the inflow quite well. The lack of available workers pushes employers to look for the required labour force among graduates in advance. Thus, firms were able to fill their vacancies already during the holidays. In August, we expect the share of unemployed to move a tick lower again.

Though economic growth has decelerated a bit since the second half of last year, wage dynamics continued strongly in 2Q18. Low productivity gains corroborate the demand for labour, which in turn creates more pressure on wage growth. **While in the first quarter the average wage was pushed up by a pay rise in the public sector, remuneration in the private sphere was the driver in the second quarter, supported by wage deals in the automotive and retail sectors.** That said, we expect average nominal wage growth to print 8.3% yoy.

Domestic inflation to confirm strength

After July's slowdown, the **Czech inflation is set to have regained its momentum in August when it accelerated to 2.5%**, according to our estimate. **The price level increased 0.1%** as seasonal effects in food prices curbed growth. **Sound wage growth propels core inflation,** which is set to remain at a strong 2.4%. We expect energy prices to increase a bit as energy distributors will adjust their price lists for higher energy prices on the market.

Inflation to increase to 2.5%



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

We expect inflation to decelerate toward the end of the year, but it is set to remain safely above the 2% mark. At the beginning of 2019, it should accelerate due to an increase in energy prices, which are predominantly changed at the beginning of year. We assume inflation will print around 2.5% in the first few months of 2019.

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