

Macroeconomic Forecasts

EcoAlert

Monthly forecast – May 2021



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The economy at the beginning of a strong expansion

Year-on-year data from the real economy will start to show a strong expansion from March, due to comparison with last year's pandemic outbreak. On a month-on-month basis, however, we expect weak data in the case of retail sales, as stores have closed. The manufacturing could grow in March despite problems with the supply of components. Higher prices at petrol stations will increase year-on-year inflation. For the time being, the CNB will wait for further developments. We expect interest rates to continue to rise in the fourth quarter of this year, respectively, once the risks associated with the epidemic have subsided.

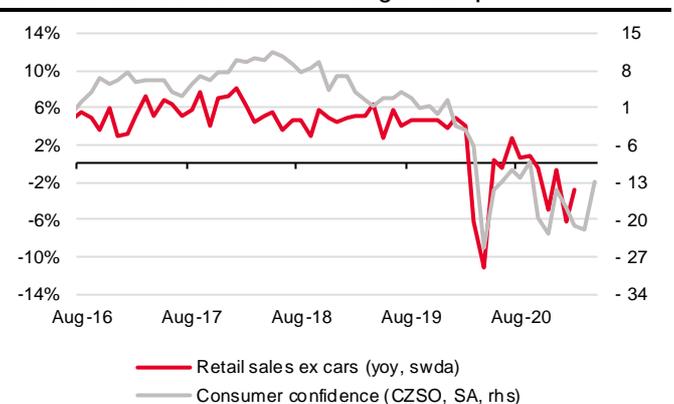
Upcoming indicators

		Period	Previous figure	KB forecast	Release date
Retail sales	%, yoy	March	1.7	17.2	6.5.
Retail sales ex auto	%, yoy	March	-5.8	9.3	6.5.
CNB Repo rate	%		0.25	0.25	6.5.
Industrial production	%, yoy, swda	March	-2.6	12.0	7.5.
Construction output	%, yoy	March	-11.0	-8.3	7.5.
External trade	CZKbn	March	22.5	13.0	7.5.
Share of unemployed	%	April	4.2	4.1	10.5.
Inflation (CPI)	%, mom	April	0.2	0.2	11.5.
Inflation (CPI)	%, yoy	April	2.3	2.8	11.5.
Current account	CZKbn	March	24.3	10.1	14.5.
Producer prices (PPI)	%, mom	April	1.4	0.3	17.5.
Producer prices (PPI)	%, yoy	April	3.3	4.1	17.5.

Source: CZSO, MLSA, CNB, Bloomberg, Economic & Strategy Research, Komerční banka

Retail sales: Closed deals and tighter epidemic measures do not bode well for the March retail result. Although credit card transactions show some increase, this is likely to be due to calendar effects rather than fundamentally stronger sales. **Rising net wages speak in favor of revenue growth, but in March this may have been reflected mainly in higher internet sales.** Car registrations show a slight decrease (SA) in the month-on-month comparison. In the case of their sales, we therefore expect a month-on-month decline of around 2%. We expect a slight decrease of 0.1% mom in sales without the automotive segment. However, in the

Consumer confidence has been rising since April

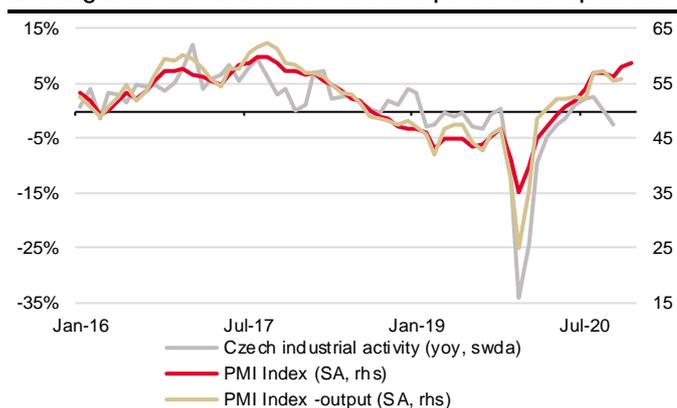


Source: CZSO, Macrobond, Economic & Strategy Research, Komerční banka

year-on-year comparison, retail statistics will already show strong growth, as sales fell sharply in the second half of March last year. In March, we expect retail sales to grow, excluding car sales, by 9.3% and, together with the automotive segment, by 17.2%. April is likely to bring some month-on-month improvement, but there will be a jump in May as epidemic measures loosen.

Industrial output: On a month-on-month basis, Czech industrial production has been declining since December last year. After a decline of 2.0% in February, we believed that March would bring a further reduction due to the announced reduction in production in some car manufacturers. The reason for outages is delayed deliveries of components to

Leading indicators indicate accelerated production expansion

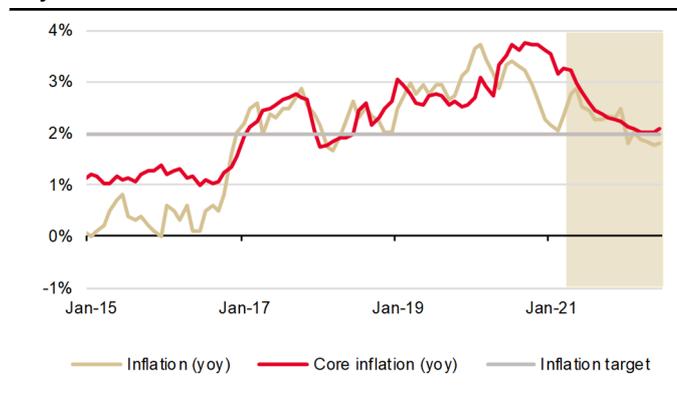


Source: CZSO, Macrobond, Economic & Strategy Research, Komerční banka

production not only in car manufacturers. These difficulties persist and it is possible that companies will face them for the rest of this year. **However, signals of growing foreign demand are multiplying.** Leading indicators are increasing and already in March, according to the Association of the Automotive Industry, there was a significant increase in car production. This means a year-on-year increase of almost 50%, as car sales fell dramatically last March. Compared to February, for March we estimate the growth of industrial production in the Czech Republic by 2.1%, which in year-on-year terms would mean an increase of 14.0% and after adjusting for calendar effects by 12.0%. Regarding the development of leading indicators in our country and abroad and with the end of anti-epidemic restrictions, we are likely to see continued growth in the coming months, with year-on-year figures in double digits. For the whole of this year, we expect an expansion of domestic industrial production of close to 9%.

CPI Inflation: Consumer prices in April were probably higher due to previous increases in oil prices. In addition, gas station prices will have a strong year-on-year impression due to the extremely low base effect. Fuel prices will thus show an increase of almost 16% compared to last year and probably around 20% in May. We expect food prices

Yoy inflation to rise in the near term



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

to grow rather slowly in April. Again, tobacco products can make a smaller contribution to inflation due to higher taxes. The more difficult question is what will happen at the level of trade and services in the event of core inflation. Here, we expect a similar rate of rise in April as in previous months, so that year-on-year core inflation would slow only slightly to 3.2%. The entire

consumer basket should record an increase of 0.2%, and year-on-year inflation should thus accelerate to 2.8% from the previous rate of 2.3%. The opening of shops and services could lead to significant price fluctuations. **Together with the low base effect, inflation is likely to approach the psychological level of 3% in May.**

Czech National Bank: The CNB interest rates are likely to remain low until November, when we expect a first hike. The main reason for continued interest rate stability is uncertainty surrounding the pandemic and economic developments. The low vaccination rate means that we cannot rule out another wave of infection. Meanwhile, central bankers say they would rather delay raising rates than rush an increase. **Following the significant rate of infection at the beginning of the year, the CNB's May forecast is likely to call for lower GDP growth in 2021 and a later increase in interest rates.** On the other hand, this year's inflation forecast could shift slightly upwards. We expect a stronger economic rebound only in 2H21, when enough people are vaccinated. A November rate hike of 25bp would likely to trigger a gradual normalisation of monetary policy. At end-2022, we expect the key repo rate to be 1.25%. However, the risk to our rates forecast is that the central bank hikes earlier – as soon as 3Q21. This could take the form of a speedy response by the CNB to significantly improving leading indicators or to rapid increases in consumer prices due to pent-up demand after the opening of shops and services. We write more on this topic in our new *Czech Economic Outlook*, see here <https://bit.ly/KB21Q2EN>.

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