

## Macroeconomic Forecasts

# EcoAlert

## Monthly forecast – July 2021



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### Slower inflation will not discourage the CNB from raising rates

The decline in car production indicates a slight month-on-month decline in industrial production in May. In the same month, on the other hand, due to the easing of epidemic measures, we expect an accelerated expansion of retail sales. In the case of consumer prices in June, we expect an acceleration in month-on-month growth after an unexpectedly small increase in May. However, the effect of last year's higher base effect should lead to a further decline in the annual inflation rate slightly below the CNB forecast. Such a development should not discourage the intention to continue raising interest rates.

#### Upcoming indicators

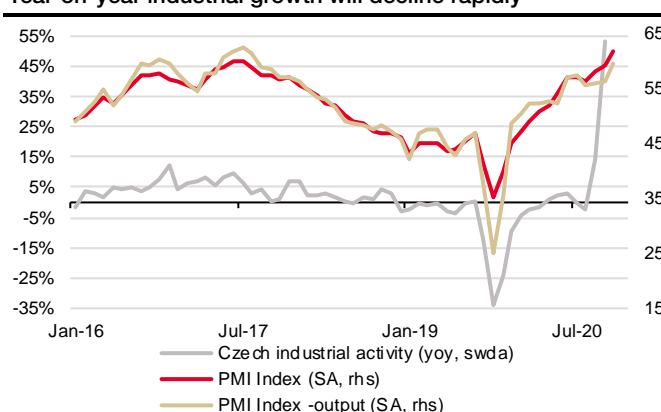
		Period	Previous figure	KB forecast	Release date
Purchasing Managers' Index	points	June	61.8	<b>63.0</b>	1.7.
Industrial production	%, yoy, swda	May	55.1	<b>29.0</b>	7.7.
Construction output	%, yoy	May	-3.90	<b>3.60</b>	7.7.
External trade	CZKbn	May	19.3	<b>27.5</b>	7.7.
Retail sales	%, yoy	May	21.0	<b>15.7</b>	8.7.
Retail sales ex auto	%, yoy	May	7.5	<b>2.9</b>	8.7.
Share of unemployed	%	June	3.9	<b>3.8</b>	9.7.
Inflation (CPI)	%, mom	June	0.2	<b>0.4</b>	13.7.
Inflation (CPI)	%, yoy	June	2.9	<b>2.6</b>	13.7.
Current account	CZKbn	May	37.3	<b>24.4</b>	14.7.
Producer prices (PPI)	%, mom	June	0.9	<b>0.6</b>	20.7.
Producer prices (PPI)	%, yoy	June	5.1	<b>5.9</b>	20.7.

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

**Industrial output:** After strong month-on-month increases in industrial production in March and April, we expect a slight correction in May. This is mainly indicated by the decline in car production, which is closely related to the missing components in production. On the other hand, we have indications that production is expanding in other sectors. The Purchasing Managers' Index

rose sharply in May, including the output sub-index. The performance of industry in neighboring Poland, which correlates with Czech production, also showed a slight month-on-month increase of 0.8% in May (SA). In summary, we believe that industrial production in the Czech Republic

#### Year-on-year industrial growth will decline rapidly



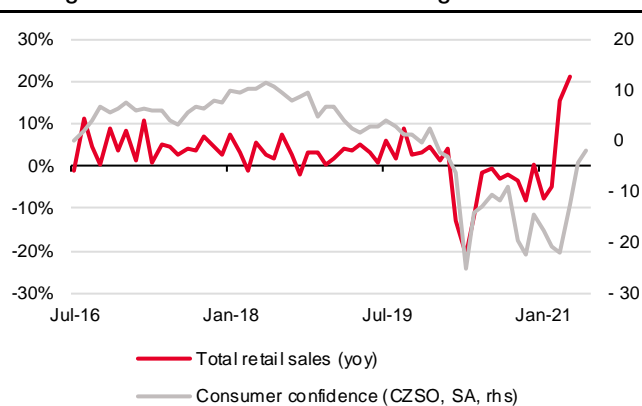
Source: CZSO, Macrobond, Economic & Strategy Research, Komerční banka

fell 0.9% month-on-month (SA) in May. In year-on-year terms, which still reflects the extremely low but already growing base effect from last year, this would mean a slowdown to 34.0% after the previous 55.1%. In addition, this May had a year-on-year advantage in the form of two extra working days, and after adjusting for these calendar effects, the year-on-year rate would be 29.0%. In the coming months, the effect of a low base effect will weaken rapidly, but it is still likely that we will still see double-digit year-on-year growth rates for the industry and its full-year expansion will average around 10%. The next wave of the epidemic remains a significant risk, but from today's point of view, the key barrier to faster industry expansion for this year seems to be the lack of components, due to which mainly carmakers are shutting down and in many cases similar to pre-pandemic staff shortages. On the contrary, demand seems to be growing.

**Retail sales: The rapid dismantling of anti-epidemic measures promises a strong increase in retail sales in May.**

In addition to the actual increase in opportunities to physically shop, a significant increase in consumer confidence speaks in favour of the growth of shopping appetite. The expansion is also indicated by a further increase in card transactions, which jumped by a strong 25% year-on-year. In May, we expect an increase in retail sales excluding car sales and repairs (which also reflects the purchases of companies) by a strong 3.6% mom (SWDA). Given the already growing base effect from last year, this would mean a slowdown to a year-on-year rate of 2.9% from the previous 7.5%. It should be added that this May was positively affected by the year-on-year calendar advantage of two extra working days. In the case of car sales, the effect

Growing consumer confidence indicates higher sales

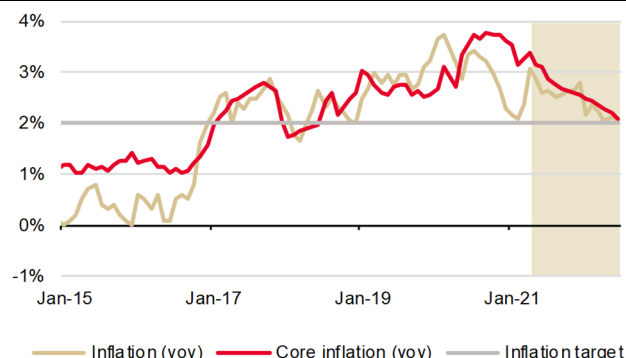


Source: CZSO, Macrobond, Economic & Strategy Research, Komerční banka

of the growing base effect will also be felt, and we will see a slowdown in the year-on-year growth rate, albeit at a still very high pace. Regarding the growth of car registrations, we expect a month-on-month expansion of sales of 1.5% (SWDA). This would correspond to a rapid year-on-year growth of 42.1%. We expect year-on-year growth of 15.7% for total retail trade, including the automotive segment. If our estimate of the development of retail sales in May is fulfilled, then it would mean they have already reached levels comparable to the period before the outbreak of the pandemic in March last year. The general easing of economic life and growing consumer confidence is likely to continue to have a positive effect in the coming months. Our April forecast for this year expected retail growth excluding car sales to be around 1%, but the pace of anti-pandemic measures suggests it could be more than 2-3%.

**CPI inflation:** The development of the economy after the easing of anti-pandemic measures still carries with it uncertainty about price developments. Significant price pressures are now evident mainly on the part of producers, due to the supply shock, which will in part gradually spill over into final prices. In the case of consumer prices, after an unexpectedly slight price increase of 0.2% mom, we expect an acceleration in price growth to 0.4% mom. The reason is a slight increase in food prices, a further rise in petrol station prices and core inflation. Regarding the loosening of measures, especially in services, we expect a slight acceleration of month-on-month price growth to 0.5%, which would mean that the year-on-year core inflation rate would remain at 3.1%. **For the entire consumer basket, we expect year-on-year price growth to slow to 2.6% in June from the previous rate of 2.9%.**

Yoy inflation will slightly decrease further



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

Contrary to the CNB's forecast, this would mean a lower result of 10 basis points, which is not a significant deviation that would discourage the CNB from further raising interest rates. At the next meeting at the beginning of August, we expect a further increase in the 2W repo rate by 25bp to 0.75% and another increase to 1.0% by the end of the year. The main risk here is the development of a pandemic, however, the uncertainty of price development is considerable, and reality can also significantly influence the bank board's decision. However, in terms of month-on-month changes in our forecast, inflation has already reached its peak and should slow down in the second half of the year. In a year-on-year comparison, it should remain close to current values by the end of the year, but core inflation should fall.

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