WEEKLY ANALYSIS

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Data indicate a slowdown in GDP growth in Q1

- According to data from the Central Bureau of Statistics, seasonally adjusted real retail trade turnover recorded a growth of 1.4% month-on-month in March, not enough to compensate for the decline recorded during January and February, and thus in 1Q25 a drop in turnover of -0.9% was recorded compared to the last quarter of last year, which is the first decline posted since 4Q22. Calendar-adjusted data suggest a 3.6% year-on-year growth in real turnover in March, which rounded the overall growth rate in the first quarter to 3.5% (after 6.6% recorded in 4Q2024), while the original (unadjusted) data indicate a modest increase of only 0.6%. The different timing of the Easter holidays, combined with consumer boycotts, therefore reduced the real turnover in retail trade compared to the previous quarter, i.e. slowed down the dynamics of consumption growth year-on-year, which will certainly be seen also in the upcoming disclosure on the movement of the GDP growth rate, i.e. private consumption in the same period. At the same time, the available data of the Tax Administration on the amounts of fiscalized invoices in April as expected indicate a strong increase in the amount of invoices, namely by 12.4% in the G47 activity (total G +12%), and 12.7% in accommodation and food service activities, or 13.3% at the level of all activities, which cumulatively in the first four months of this year rounds up the growth in the G47 to 6.3%, and to 11.9% in accommodation and food service activities, i.e. to 8.2% at the level of all activities, which is probably half the growth rates achieved a year earlier.

1Q25: retail trade turnover declined quarter-on-quarter and slower year-on-year growth

- At the same time, the index of physical volume of industrial production recorded a month-on-month decline in March (-1.9%), while on average the first quarter recorded a growth of 2.3% quarter-on-quarter. Year-on-year, March continued its four-month positive streak with an increase in industrial production volume of 3.1%, which ultimately resulted in an average growth in 1Q25 of 5.2% year-on-year. After four consecutive quarters of decline, intermediate products, most significant in terms of share (33%), recorded an increase in production by 1.9% year-on-year, but at the same time the equally share-wise important non-durable consumer goods recorded a decrease of -2.3% for the second quarter in a row. The largest contribution to the growth of industrial production came from energy production, which recorded a growth of 25.3% with a share of 20%, mostly due to an extremely strong growth in the production of refined petroleum products. Production of capital goods, slightly less significant in terms of share (13%), recorded a growth of 7.6%

1Q25: growth of industrial production spurred by the production of petroleum products, but also the production of intermediate and capital products

(after four consecutive quarters in the red), while production of durable consumer goods (2% share) recorded a decline in production of -8.5% year-on-year, which is the tenth consecutive quarter of decline.

- After three consecutive months of decline, the economic sentiment index recovered slightly month-on-month in April but still remained below the average level recorded in the first quarter, while at the same time the consumer confidence index recorded a slight increase. Observed by sectors, sentiment in the services sector increased slightly in April, still not enough to compensate for the minus recorded in March, while the increase of sentiment in industry was somewhat more palpable and, as in construction, compensated for the decline recorded a month earlier, unlike retail trade, which recorded a rather pronounced decline in sentiment in April, with the exception of March, for the third month in a row this year. Simultaneously, the economic sentiment index in the euro area recorded a decline to the lowest level since the end of last year, thus continuing to "scratch the bottom" below the long-term average that began in mid-2022. Unlike Croatia, the data for the euro area clearly indicate worsened expectations in terms of expected employment – the index has been more or less in constant decline since the beginning of 2023, and below the long-term average since the middle of last year. Negative trends are also recorded in the consumer confidence index, which is likely to have negative repercussions on household consumption in the coming period, and thus represents a potential negative risk for our tourist season.

Economic sentiment index out of steam, suggesting a slowdown

- The first estimate of inflation trends in April indicates only a slight decrease in the inflation rate measured by the national index to 3.1% from 3.2% in March, while inflation measured by the harmonized index slowed down from 4.3% to 3.9%, and the core inflation remained at 4.2%. All major components, with the exception of industrial products, recorded a slowdown in inflation in April, so food price inflation slowed to 4.6% (from 5.2% a month earlier, the third consecutive month of slowdown), due to the fall in prices of petroleum products, the growth of energy prices halved (from 2.2% to 1.1%), the growth in prices of services slowed down to 7.2% from 7.6% due to a favourable base effect, while the growth in prices of industrial products accelerated to 0.5% from 0.2% a month earlier. At the same time, the inflation rate in the euro area remained unchanged at 2.2%, with food price inflation accelerating slightly to 3.0% (from 2.9%) and services to 3.9% (from 3.5%), while the growth rate of industrial goods prices remained unchanged at 0.6% and the fall in energy prices deepened to -3.5% from -1.0% recorded in March.

Harmonized inflation rate in the RC decelerated to 3.9%, in the EA it remained unchanged at 2.2%

- EUR/USD recorded only slight movements in the week behind us, so the week ended with an exchange rate of USD 1.1343 to the euro, down by 0.1% week-on-week.

- Euribor posted only a marginal shift week-on-week, so at the end of the week both 3M and 6M amounted to 2.1%.

- The recovery of Crobex continued, recording a 2.1% weekly growth (to 3,297 points) due to the positive trend of sectoral indices (CROBEXindustry +6.3% to 2,487, CROBEXnutris +0.1% to 802, CROBEXtourist +1.4% to 4,303). Crobis advanced by 0.1% (to 99.1 points).

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