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May strikes a positive note for industry and trade, unpleasantly tough inflation in June

- On Friday, the Croatian Bureau of Statistics released the data on industrial production and retail trade movements in May and the first estimate of inflation in June.
- Thus, we learned that industrial production recorded a monthly increase of 4.4%, with a strong increase recorded in all major industry groupings except in the production of durable consumer goods (-6.9% m/m), which ultimately pushed the annual rate, after six consecutive months of decline, to a positive +1.2%. In terms of MIGs, the largest annual increase in production during May was recorded in energy production (+5.9% y/y), followed by production of capital products (+4.7%) and non-durable consumer goods (+2.9%), while production of intermediate products (-2.1%) and durable consumer goods (-13.2%) remains in the red. Overall, during the first five months of this year, industrial production is down by 1.5% compared to the same period last year.
- At the same time, retail trade volumes rose by 0.3% month-on-month in May, enough to keep the annual growth rate at a solid 3% (after 4.2% recorded in April), signaling that (after a stagnant first quarter) the second quarter could bring a more tangible positive contribution of personal consumption to overall economic growth.
- And while the first two indicators brought a touch of optimism, it cooled with the flash estimate of inflation for June. Namely, according to the estimate, inflation accelerated month-on-month in June (to 0.9% after a 0.5% rise recorded a month earlier), slowing the subsiding of the annual inflation rate (from 7.9% recorded in May to 7.7% in June). CBS states that the estimated monthly increase of 1.4% was recorded for the components Food, Drink and Tobacco and Energy, while in Services the increase was 1.2%, and for Industrial non-food products without energy, there was a decrease of 0.1%. Although the coming months will bring a further calming of the annual rate of inflation, the calming pace is slower than expected and currently poses a negative risk to our estimate that the average annual inflation rate will be around 7%.

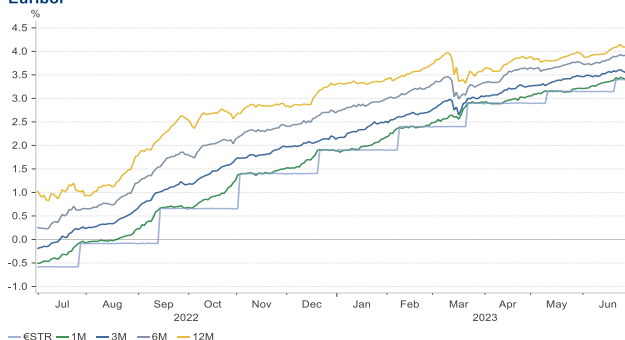
May recovery in industrial production accompanied by continued growth in retail trade volumes brought a touch of optimism, but...

...flash estimate for June warns of tough inflationary pressures

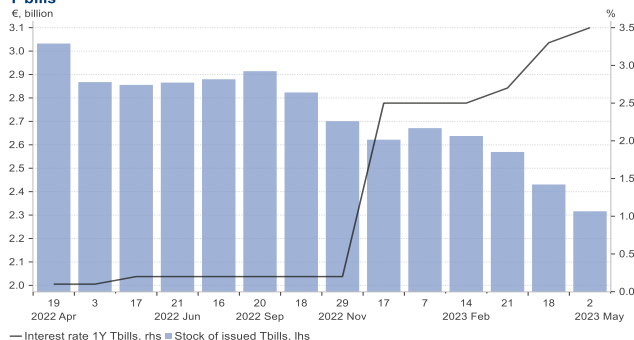
- The dollar continued to weaken against the euro for most of last week and fluctuate above 1.09, only to see a correction in the exchange rate on Friday ending the week down by 0.2% w-o-w, or \$1.0866 for the euro.
- Euribor in the week behind us recorded a slight shift towards lower levels, up to 5 b. p. w-o-w. 3M was 3.6% on Friday and 6M was 3.9%.
- The positive streak on the ZSE was interrupted, so Crobex concluded Friday with a 0.8% decline w-o-w (to 2,348 points) due to the varied performance of the most important sectoral indices. Crobexindustry grew by a slight 0.1% (to 1,556 points), while CROBEXnutris and CROBEXtourist recorded corrections of 3.3 and 1.0% respectively (to 811 and 4,151 points, respectively). Crobis recovered advancing by 0.1% (to 94.5 points).

EUR/ USD

MACROBOND

Euribor

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T-bills

— Interest rate 1Y T-bills, rhs ■ Stock of issued T-bills, lhs

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Crobex/Crobis

— Crobex, rhs — Crobis, lhs

MACROBOND

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