

WEEKLY ANALYSIS

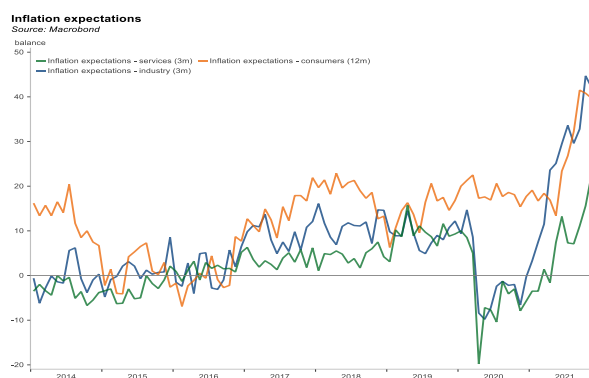
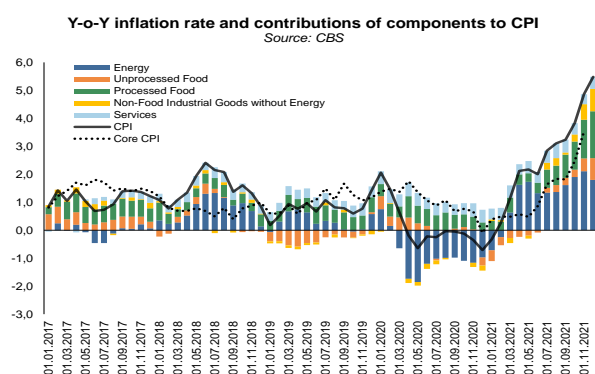
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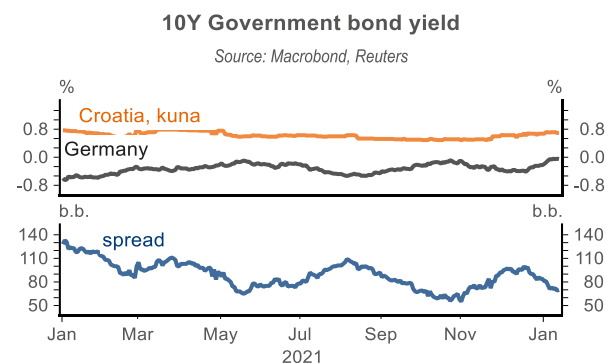
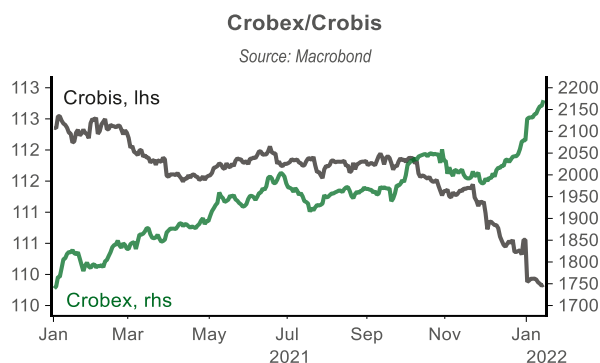
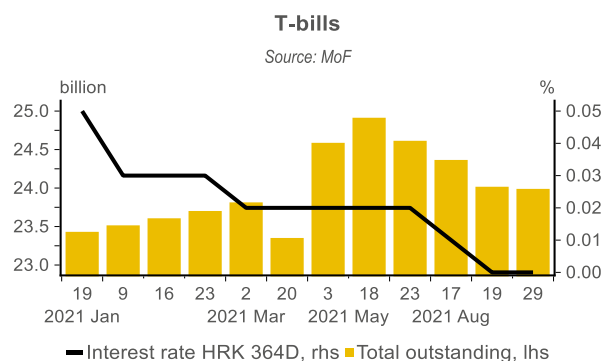
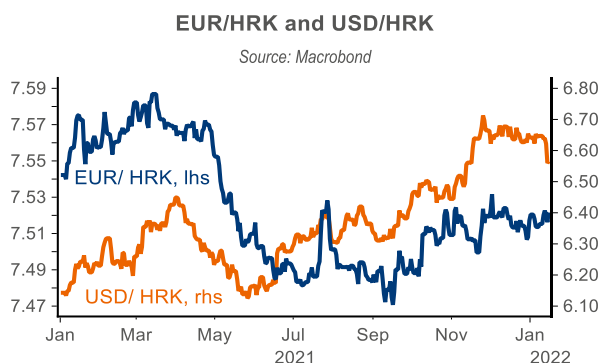
Inflation in December 5.5%

Although it remained unchanged m-o-m, annual inflation of consumer prices in December 2021 reached 5.5% which is the highest inflation rate recorded since October 2008. On an annual level, average inflation rate amounted to 2.6% - which is also the highest annual inflation rate recorded in the last nine years, i.e., since 2012 when it was 3.4%. If we observe contributions of individual categories, we see that during the whole year the highest individual contribution to inflation came from energy prices, primarily from petroleum product prices due to the growth of crude oil price on the international market. Thus, at one point, energy price increase was responsible for 2/3 of consumer price increase, while at the end of the year that share was reduced to around 1/3. Strengthening of inflationary pressures due to price increase of several raw materials, intermediary products and transport costs caused by difficulties and delays in supply chains resulted in continuous growth of the inflation diffusion index. For example, from mid-year to the end of the year the contribution of price growth of processed food especially strengthened, and so in November and December the contribution of price growth for this category to the overall inflation was 1.4, i.e., 1.7 p.p. At the end of the year, price growth for industrial products but also for unprocessed food also increased, probably due to a spill-over of input price growth, while service price growth mildly decelerated after summer months. Regarding expected trends in the upcoming year, it is probable that inflationary pressures will remain longer than previously expected, indicated also by inflation expectations of consumers and companies which remained at elevated levels. Our current expectation is that the average annual inflation for this year will be 3.2%, whereas for now the trends of electricity and gas prices remain unknown, as well as modality by which the Government of RoC will try to limit the announced price hike (for example by reducing the VAT rate for gas). According to recently published simulations of the CNB, a hypothetical 10%-increase for both energy sources (with the presumption of unchanged other factors and taking into account only direct effects of the aforementioned price hike) increases the average annual inflation rate by 0.6 p.p. compared to base projection. Regarding food prices (share of processed and unprocessed food in food basket amounts to almost 1/3), the UN FAO food price index is at the highest level recorded in the last ten years or so, and food prices will definitely continue to reflect input price growth (e.g. fertilizers and other), and additional risks also come from unpredictable extreme weather conditions. Strengthening of inflationary pressures also resulted, in the last four months, in a decline of real net wage, which was lower by approx. 3.3% than in August 2021, according to our calculation in November (payroll for October).



Weekly overview

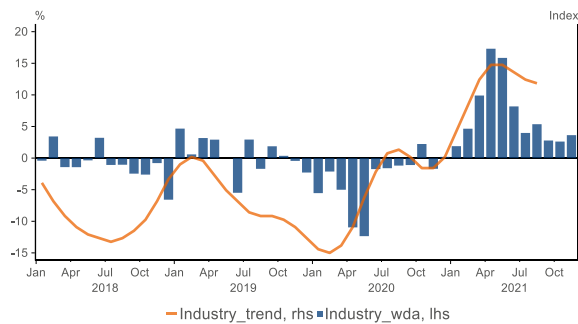
- During the previous quiet week with low trading volumes, we continued to record only smaller fluctuations of the EUR/HRK exchange rate. By the end of the week EUR/HRK mid-exchange rate was up by 0.1% w-o-w and amounted to 7.5216, while kuna appreciated against the dollar by 1.2% and the exchange rate decreased to 6.5651 kuna to the dollar. This week we expect a continuation of trading in the range of 7.51-7.53 kuna to the euro.
- Excess liquidity continued to grow and reached 78 billion kuna, interest rates stagnated or slightly increased, and there was no interest at the CNB's repo auction. This week 1.7 billion kuna of 1Y T-bills are due so the announced auction is planned in the amount of 1.3 billion kuna.
- The Crobex Index closed last Friday at 2,171.46 points, up by 1.5% w-o-w, while Crobis simultaneously reached 109.84 points, i.e., down by 0.1% w-o-w. As for sector indices, CROBEXtourist was down last Friday by 1.5% w-o-w (to 3,637.38 points), while CROBEXindustry and CROBEXconstruct rose by 2.6%, i.e. 2.8% (1,324.34 and 506.40 points). Total ZSE turnover last week amounted to 122.1 million kuna or down by 63.1% w-o-w, owing to 63.8% lower turnover in shares (reaching 37.1 million kuna) and 62.8% lower turnover in bonds (85.0 million kuna).



Statistics

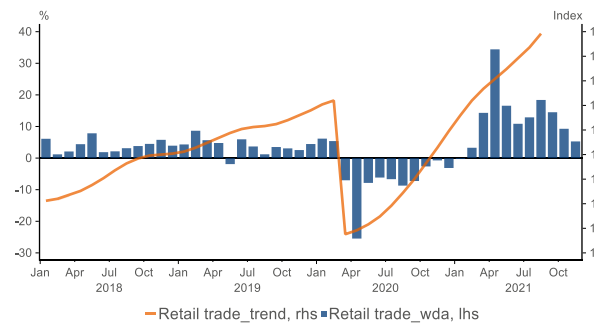
Industrial production, wda % ch. y/y and index (2015=100)

Source: Macrobond



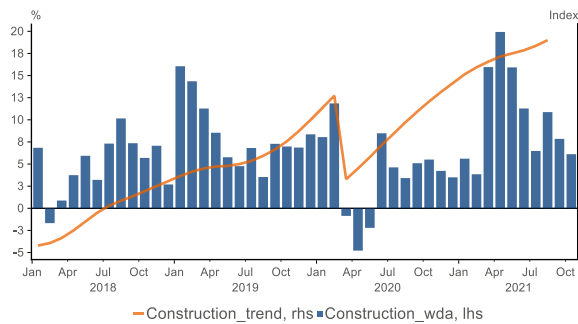
Retail trade, real, wda % ch. y/y and index (2015=100)

Source: Macrobond



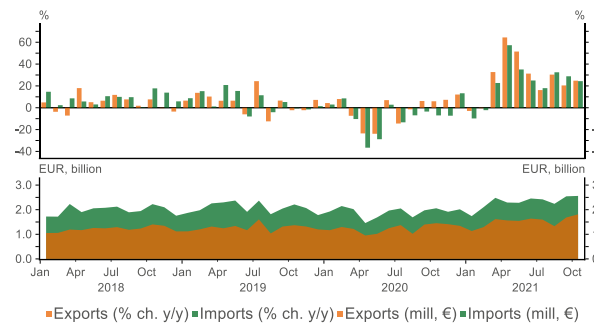
Construction works, wda % ch. y/y and index (2015=100)

Source: Macrobond



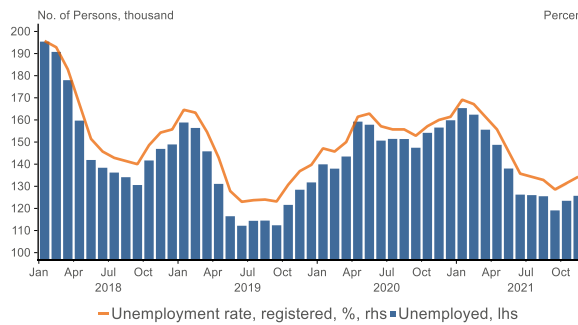
Goods exports and imports (% ch. y/y and mill €)

Source: Macrobond



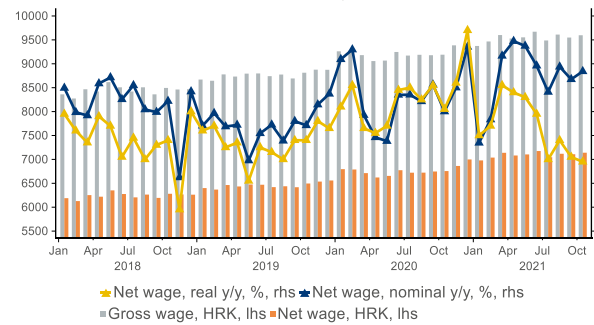
Total number of unemployed and unemployment rate

Source: Macrobond



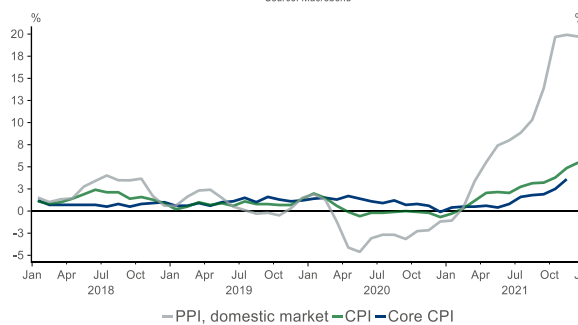
Wages, monthly average and % ch. y/y

Source: Macrobond, CBS



Prices, y/y % change

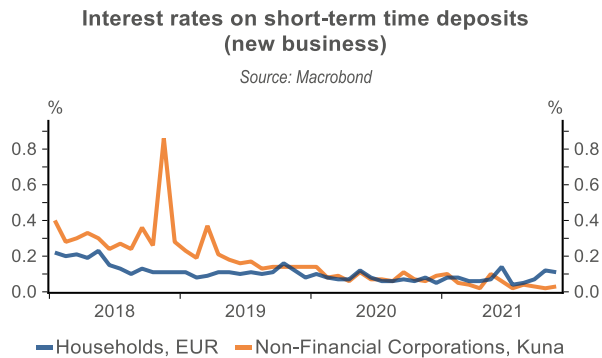
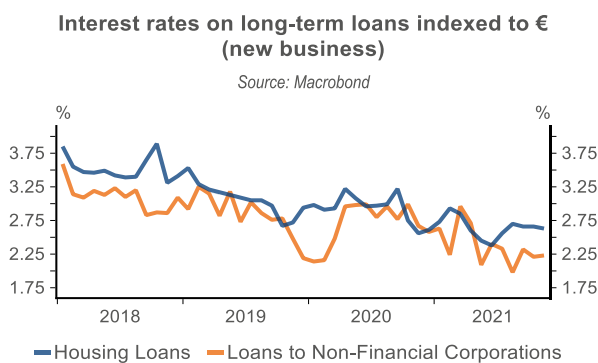
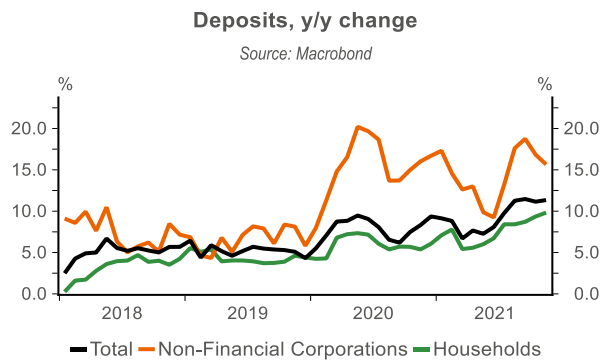
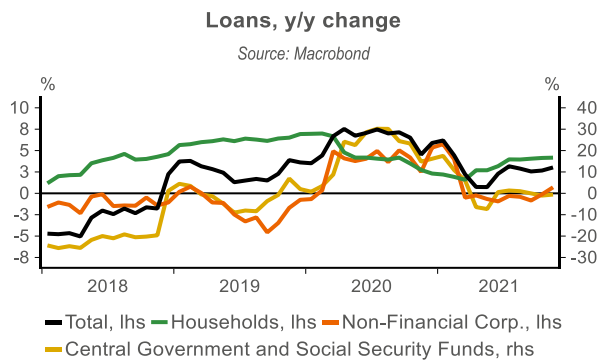
Source: Macrobond



HR Economic Sentiment Indicator

Source: Macrobond





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