

# WEEKLY ANALYSIS

## Number 792, September 26, 2022

FED's third 75-basis-point rate hike in a row.....	1
Weekly overview .....	2
Statistics.....	3

## FED's third 75-basis-point rate hike in a row

In line with expectations, the Federal Open Market Committee (FOMC) of the US Federal Reserve (FED) raised its key interest rate by additional 75 basis points to a range of 3-3.25%, raising it for third time in a row by the said 75 basis points. At the same time, the so-called forward guidance remained very hawkish in line with inflation and labour market developments, with inflation remaining high and the labour market very tense. The FOMC also presented revised economic growth projections, expecting annual growth in the last quarter of this year to be only 0.2% and 1.2% in the final quarter of next year, down by 0.5 percentage points compared to what was previously expected. At the same time, the unemployment rate should rise to 4.4% at the end of 2023, which is about 0.7 percentage points higher than the current unemployment rate (3.7%). This year's inflation projection rose to 4.5% (from 4.3%), while the expectation for next year advanced to 3.1% (from 2.7% in June), which is also the main driver of the FED's decisions to raise interest rates. How the assessment of the respective monetary policy has moved in the last year is evident from the graphs presented below (the so-called dot plot), where the left graph refers to September 2021, the one in the middle to June 2022, and the right one to the last week's assessment of the FOMC members which suggests that by the end of this year the interest rate should rise to 4.4% (in June the assessment was 3.4%), that is, that there will most likely be another increase of 75 basis points in November, and further 50 points in December. According to the new dot plot until the end of 2023, the median interest rate should rise to 4.6%, while in June the projection was 3.8%.

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range of target level for the federal funds rate

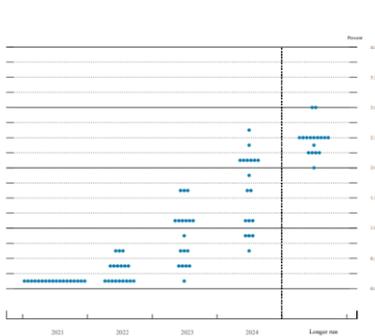


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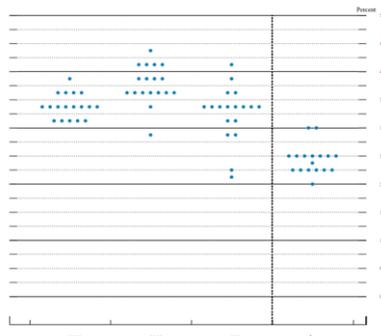
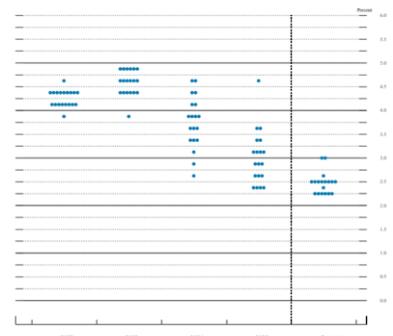
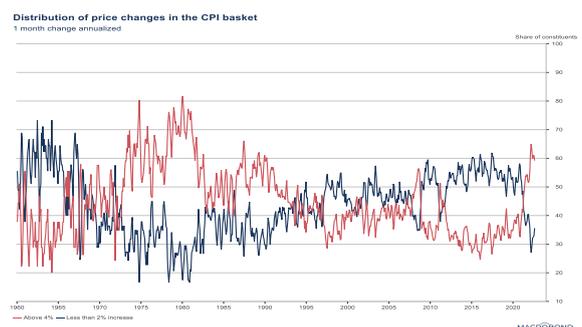


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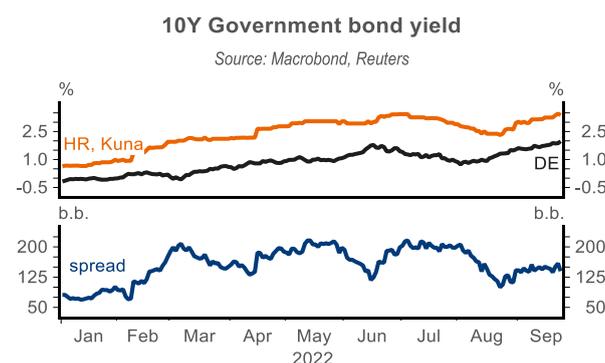
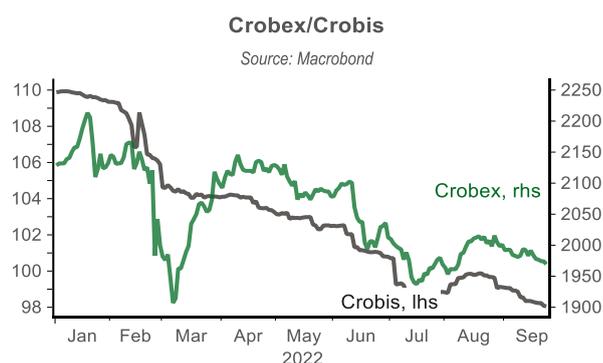
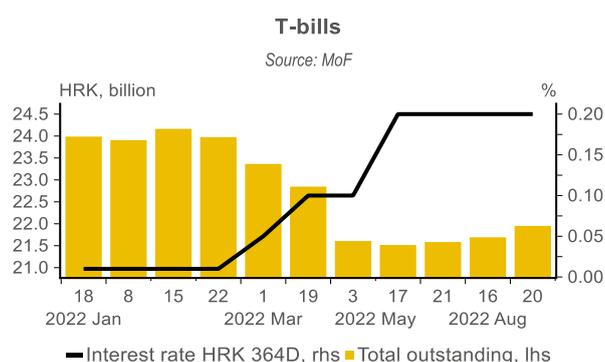
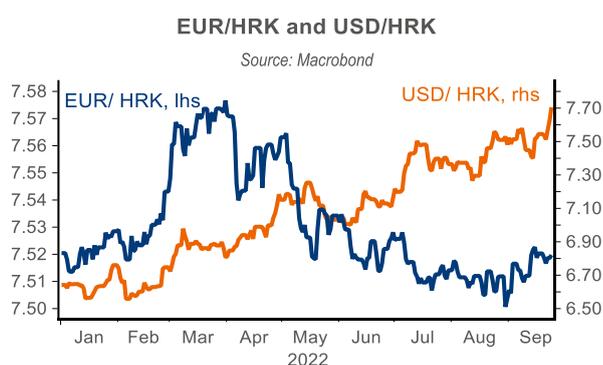


Stubbornly high inflation therefore continues to give the FED headaches, and so instead of the expected drop, the monthly inflation rate in August was 0.1% despite the decline in the price of oil. Year-on-year inflation slowed to 8.3% after the 8.5% recorded in July. Simultaneously, core inflation accelerated to 0.6% month-on-month from the 0.3% recorded in July, and accelerated year-on-year to 6.3% from July's 5.9%, indicating the spread of inflationary pressures outside the energy and food categories, as clearly shown by the right graph below the text.



## Weekly overview

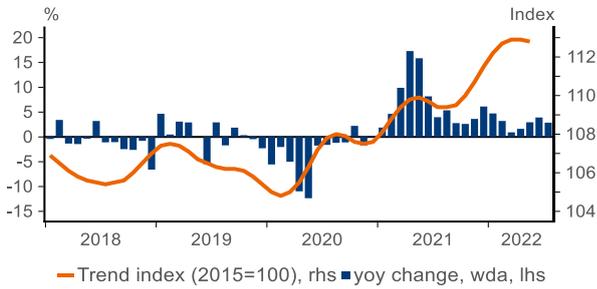
- Statistics released over the past week covered the labour market, census, and construction work. Thus, the data on the average salary for July was published, which was HRK 7,576 (net) and HRK 10,306 gross, which is nominally 7.5% and 8.6% higher than a year earlier, but also 4.3% and 3.3% lower in real terms. According to provisional data, employment was at a 1.3% higher level in August than in the same month last year, while the number of unemployed persons decreased by 12% to 110,420. The index of construction works recorded a year-to-year increase of 4.0% in July, primarily owing to an 8.4% increase in residential building work, as works on other buildings saw a decrease of 2.2%. And for the end of the week, data from last year's Census were published, according to which the total population is 3,871,833 or 413,056 inhabitants less than established in the 2011 Census.
- Last week, there were no sharper exchange rate changes in the domestic foreign exchange market, and there was a slightly higher turnover of the corporate sector. At the end of the week, the mid-point exchange rate was HRK 7.5197 per euro, which is slightly lower on a weekly basis. At the same time, the dollar continued to rise, with the exchange rate reaching HRK 7.7046 per dollar, up by 2.1% w-o-w. This week we see a continuation of trading at the level of around HRK 7.52 per €.
- Excess liquidity increased to HRK 87 bn last week, interest rates stagnated and there was no interest at the regular repo auction. Last week, HRK 380 m of T-bills were due, with HRK 632 m subscribed, so the government debt in T-bills increased to HRK 22.0 bn. HRK 51 m of six-month and HRK 581 m of one-year T-bills were subscribed at an interest rate of 0.10 and 0.20% (+5 b.p., i.e., unchanged compared to the previous issue). This week and for the following two weeks there is no maturity, so there will be no auction, and the next one is announced on October 18.
- ZSE turnover increased more than three times w-o-w in the week behind us, soaring to HRK 354 m, with bond turnover increasing to HRK 153 m (+107.5%), while turnover in shares rocketed to HRK 200 m (HRK 29 m the week before). In the negative climate of global stock markets, Crobex sank by 0.7% w-o-w to 1,969.4 points due to the drop in major indices. CROBEXindustry was thus down by 0.4% to 1,008.9 points, CROBEXnutris by 1.8% to 714.4 points and CROBEXtourist by 2.3% to 3,337.5 points. Crobis continued to fall (-0.3% to 98.0 points).



# Statistics

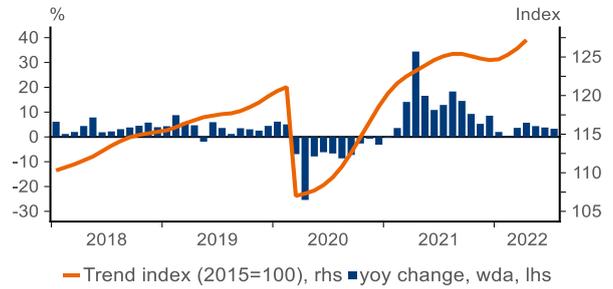
## Industrial production

Source: Macrobond



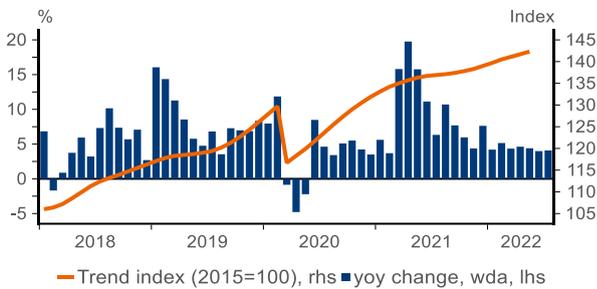
## Retail trade, real

Source: Macrobond



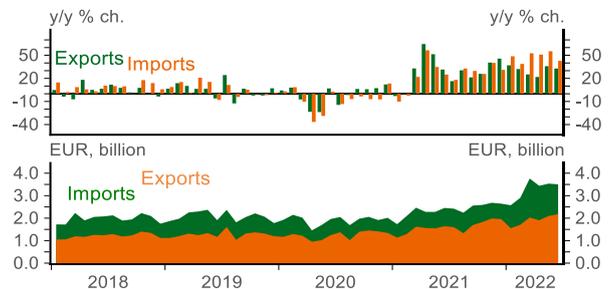
## Construction works

Source: Macrobond



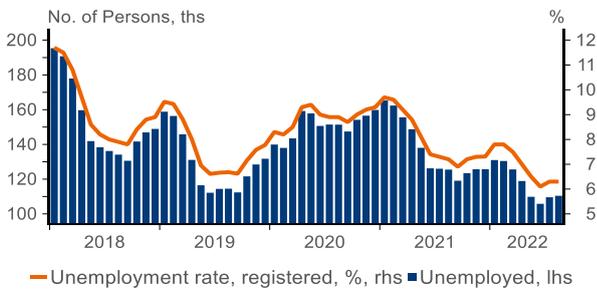
## Goods exports and imports

Source: Macrobond



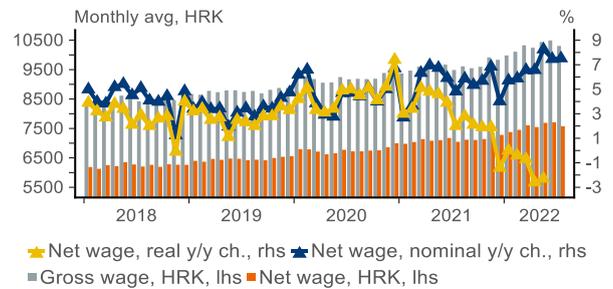
## Unemployment

Source: Macrobond



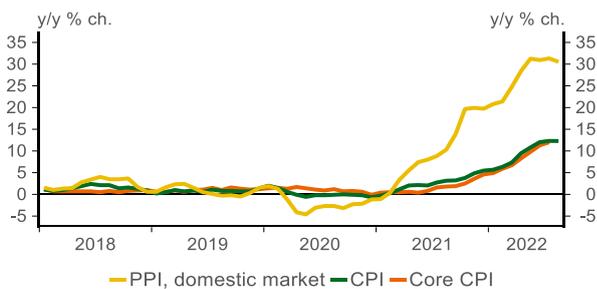
## Wages

Source: Macrobond, CBS



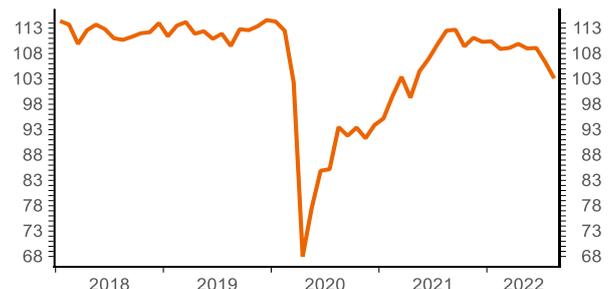
## Prices

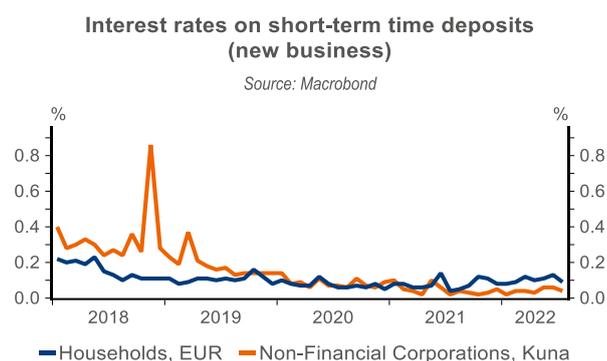
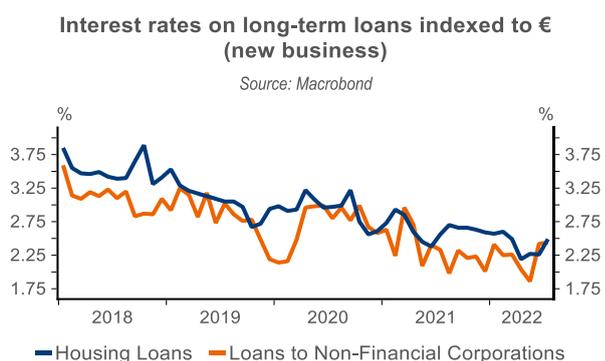
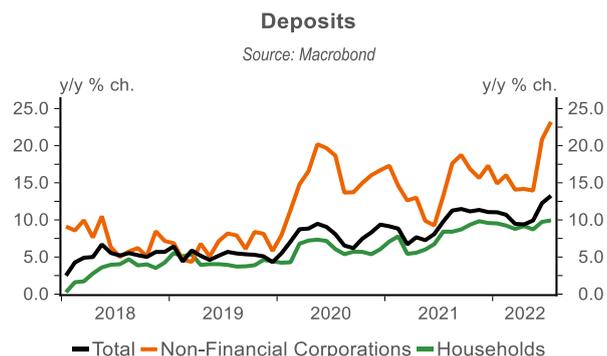
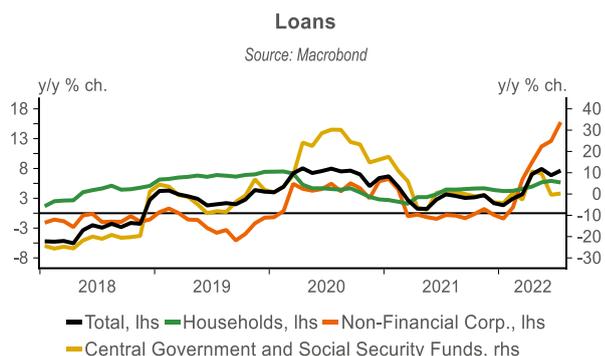
Source: Macrobond



## Economic Sentiment Indicator (ESI)

Source: Macrobond





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