WEEKLY ANALYSIS

NO. 943, 4 MAY 2026

After slowdown in Q1, surveys suggest an unpromising entry into Q2

- Although shorter, the past week turned out to be very rich and significant in terms of data. We learned that economic activity in the eurozone slowed to 0.1% in the first quarter of this year from 0.2% recorded at the end of last year, but mostly due to a decline in activity in Ireland. Namely, if we exclude Ireland (-2.0% q-o-q), the rest of the eurozone recorded growth of 0.2%, which, although a slowdown from 0.4% (ex Ireland) at the end of 2025, is still closer to the potential growth rate. Unfortunately, during the week, the series of earlier publications of deteriorated survey indicators continued, suggesting a bad entry into the second quarter of this year. Namely, after unfavorable data from the consumer confidence index, Purchasing Managers Index (PMI), German IFO and French INSEE, the April survey of the European Commission brought an (expected) decline in the economic sentiment index (ESI) of the eurozone to the level last recorded in November of pandemic 2020. The decline in economic sentiment primarily reflects a decline in expectations, namely with a strong decline in consumer sentiment (which we wrote about in the last edition of Weekly Analyses), in April a sharp decline in expected trends in future demand/output was also recorded in the services and industry segments, while the assessment of past trends recorded a noticeably smaller decline in services and growth in the industrial segment. At the same time, industry and, to a somewhat milder extent, the service sector recorded an increase in expected sales prices, but for now it is difficult to assess whether these expectations will bring the so-called inflationary second round effect, given that the surveys simultaneously suggest a decline in expected employment, a smaller number of companies that consider the lack of labor a limiting factor in activity, and the results of the ECB SAFE survey suggest that companies do not expect an increase in labor costs. Thus, all available surveys currently suggest a stagnation or (slight) decline in eurozone activity in the second quarter of this year. However, an additional downside risk also comes from the latest acceleration in oil price growth, which on Thursday reached its highest level since March 2022.

After slowed growth in Q1, surveys point to a bad start of the euro zone in the second quarter

- As far as Croatia is concerned, the publication of the first estimate of GDP trends in this year's first quarter is scheduled for May 28. During the past week, data on industrial production and retail trade in March were published. In the first quarter of this year, industrial production recorded a decrease of 2.4% (seasonally adjusted) compared to the previous quarter, while compared to the same quarter last year, only a slight increase of 0.4% was recorded according to calendar-adjusted data. At the same time, real retail trade turnover in the first quarter recorded a slight decrease of -0.1% compared to the previous quarter, while y-o-y turnover increased by 3.1%, partly due to the base effect of last year's consumer boycott of retail chains (original data show an increase in turnover volume of 4.2% compared to only 0.6% achieved in 1Q25). Available data for construction activity show that in the first two months of this year, a decrease of -1.1% was recorded compared to the last quarter of last year, while y-o-y the growth rate slowed down to 1.9%, mainly due to a weaker January, while February recorded a recovery in activity. At the same time, foreign trade recorded a -3.9% decrease in exports followed by -9.5% lower imports of goods, while tourism recorded a strong start to the year with an equal, ~9% increase in both arrivals and overnight stays. Although therefore incomplete, the data suggest a slowdown in GDP growth in the first quarter of this year compared to the 3.9% recorded in 4Q25, but also to the 3.6% achieved in 1Q25, compared to which we expect a more concrete contribution of household consumption, but also probably a less generous contribution of investments. Anything but an easily predictable continuation of the year is indicated by the April surveys of economic and consumer sentiment. Namely, the economic sentiment indicator recorded a decline of 2.7 points in April, which is the largest month-to-month decline recorded in the last two years, with the decline, which began in March, deepened in April in consumer sentiment, but also in the trade and service sectors. The consumer confidence index fell to the level of February 2025 – period of consumer boycotts, although it remained above the historical average. Interestingly, sentiment improved in the construction and industrial sectors, in the latter milder than was the case a month earlier, but the assessment of previous and future activity also improved slightly. As expected, inflation expectations have risen for both consumers and business sectors, according to the levels recorded at the end of 2022.

Available data suggest a slowdown in growth in Q1 also on domestic front

- The series of statistical releases concluded on Thursday with the release of the first estimate of inflation in the eurozone, which in line with the expectations rose from 2.6% in March to 3% (+1% m-o-m) in April, which is the highest inflation rate recorded since September 2023. As in the previous month, core inflation fell by one-tenth of a percentage point: the index excluding energy, food, alcohol and tobacco fell from 2.3% to 2.2%. Of course, energy was again the main driver of growth, accelerating from 5.1% to 10.9% y-o-y (highest value since February 2023; +3% m-o-m). Food price growth remained broadly unchanged at 2.5% (vs 2.4% in March, in line with the average of the last six months); with fresh food prices accelerating (from 4.2% to 4.7%), and we expect that the delayed effect of the increase in transport and fertilizer prices will further accelerate the growth of food prices in the coming months. Price growth for non-energy industrial products rose slightly to 0.8% from 0.5%. Services slowed down by two-tenths of a percentage point for the second month in a row, to 3% y-o-y: this is the lowest level since December 2024 (with seasonal growth of +1.1% m-o-m due to Easter). The current trend in services is encouraging, although the experience of 2022/23 shows that if an energy shock is widespread and long-lasting, the risk of its spillover (with a time lag) to services also increases. At the same time, in Croatia, the comparable harmonised inflation rate accelerated to 5.4% from 4.6% in March (+1.4% m-o-m), with the contribution of energy, due to the acceleration of price growth to 17.3%, jumping from 1.3 pp in March to 2.1 pp, with 2/3 of the contribution coming from the increase in liquid fuel prices. A slight acceleration in price growth was also recorded in services (from 7.2% to 7.3%, in line with the multi-month average, +1.4% m-o-m due to Easter), while the growth of food prices slowed to 3.7% (from 4.0%), and non-energy industrial products remained unchanged at -0.7%. According to the national index, inflation accelerated from 4.8% to 5.8% in April, primarily influenced by the acceleration of energy price growth (to 17.5% from 11.2%), but also by a somewhat more noticeable acceleration in the growth of service prices, from 7.8% to 8.2%. And while measured by the harmonized index, the prices of services still recorded a higher contribution to headline inflation than energy prices, in the case of the national index, a higher contribution comes from energy (difference in weights), which resulted in 0.4 pp higher national than harmonized inflation (after almost three years of higher harmonized inflation rate, the difference in favor of the national rate appeared as early as March when it amounted to 0.2pp). Available data, the uncertain time horizon for the opening of the Strait of Hormuz, the likely longer time needed for normalization after the opening itself, combined with still solid domestic demand and the upcoming tourist season, currently suggest that the new June round of macroeconomic estimates will bring a correction to our initial estimate of the average harmonized inflation rate in 2026 (4.6%).

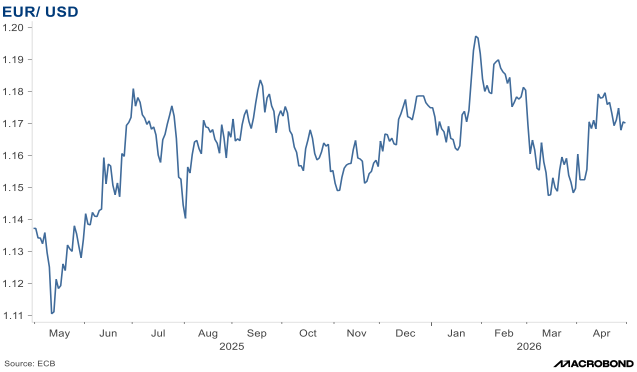
Inflation in the eurozone accelerated to 3.0%, in Croatia to 5.4%

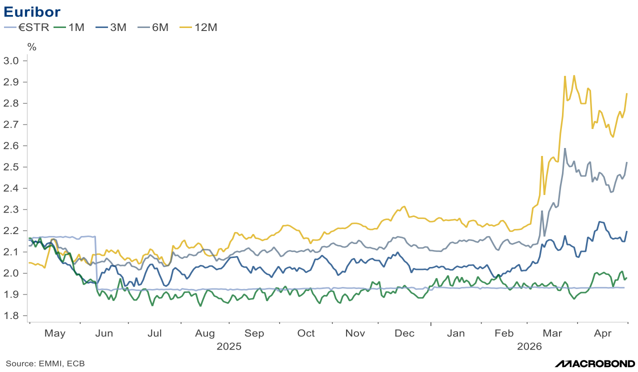
After almost three years, the national inflation rate higher than the harmonized rate

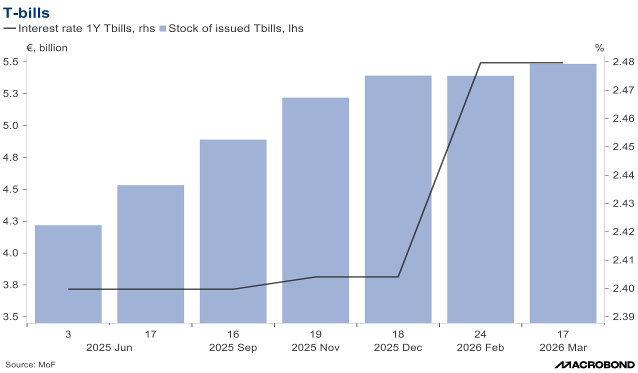
- We conclude the weekly review with the information that, as expected, there has been no change in interest rates on either side of the Atlantic. Namely, the key interest rate of the Fed remained unchanged at 3.50%-3.75%, as well as the interest rates of the ECB (interest rate on deposit facility at 2.00%, interest rate on main refinancing operations at 2.15% and interest rate on the marginal lending facility at 2.40%). Colleagues from the economic research of our parent bank maintain the view that the Fed's next move is more likely to be a reduction than an increase in interest rates, although the space for this has narrowed, namely, in the event of a rapid normalization of the energy shock (no later than May), a reduction in interest rates at the end of the year remains possible; otherwise, the continuation of the easing cycle could be delayed until 2027. On the other hand, the European Central Bank's press release highlights the intensification of the risk of higher inflation and lower economic growth, noting that the Governing Council will "closely monitor the situation" (a phrase that has tended to signal a high probability of a change in interest rates in the past), but continues to take a data-driven approach at each meeting. Markets are currently concluding with a high probability that interest rate hikes will occur at the June meeting, which we agree with, but at the moment it is premature to conclude that the same could continue as early as July – we are currently more inclined to assume that this will happen at a later meeting.

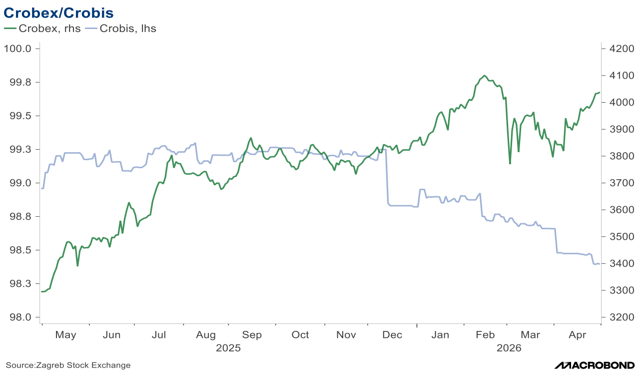
Central banks with no changes to interest rates

- The EUR/USD exchange rate closed at $1.1702 to the euro on Thursday (-0.1% compared to Friday a week earlier).
- Compared to Friday a week earlier, the 3M Euribor closed the week at 2.20% (+4 basis points), while the 6M Euribor closed the week at 2.52% (+6 b.p.).
- Crobex closed the week at 4,038 points, or +1.2% w-o-w, with CROBEXindustry and CROBEXnutris recording an increase of 0.6% (to 3,808) and 0.8% (to 851), while CROBEXtourist recorded a decrease of 4.2% to 5,462 points. Crobis recorded a slight decline to 98.4 points from 98.5 a week earlier.









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