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Industry and trade growth in September, inflation below 6% in October

- Erratic movement of industrial production continued also in September, where, after two consecutive months of decline, activity increased by 4.3% m-o-m and 1.6% y-o-y. What has been a constant in the last (almost 18) months is a more or less continuous decline in production of intermediate products (-1.8% in September, and -4.5% in the first nine months of this year; with almost all components recording a decline, and with the strongest one recorded in textile, wood processing and paper industry), accompanied by a relatively stable increase in production of capital goods (+6.9% in September, and +7.4% in the first nine months, with a strong increase in production of motor vehicles and other transport equipment) and almost stagnation in production of non-durable consumer goods (+4.8% in September, and only +0.8% in the first nine months, mainly due to strong growth in pharmaceutical production). At the same time, the production of durable consumer goods recorded a strong contraction, which in September amounted to as much as 23.2% y-o-y (-10.7% in the first nine months), while energy production with an increase of 1.4% recorded in September, during this year recorded a decrease of 1.7%. Given that the decline in industrial production started in the last quarter of last year, the base effect could bring somewhat more favorable developments in the last quarter of this year, although so far, we do not see more significant changes in (foreign) demand that would bring more sustainable recovery of industrial production.
- After the summer stagnation, retail trade turnover saw a relatively strong monthly increase of 2.1% in September, hence registering, an unprecedentedly strong over the past 18 months, annual growth rate of 5.5%. In the first nine months, real retail trade turnover thus grew by 2.5% compared to the same period last year, with consumption accelerating to 3.7% in the third quarter after the annual stagnation in the first quarter and a 3.1% increase in the second quarter. Data on amounts of fiscalized October invoices point to a continuation of a double-digit nominal increase in retail trade turnover, which in addition to the inflation movement described below, suggests a good start to the last quarter of this year.
- According to the Croatian Bureau of Statistics flash estimate, the monthly inflation rate slowed to 0.4% in October from 0.5% posted in September, with a 2.4% increase recorded in Non-food industrial products (without energy), which is a slight slowdown after a monthly increase of 2.8% posted a month before, while simultaneously a monthly price increase of as much as 0.4% was recorded in Services, after a monthly drop of -1%

After two months of decline, industrial production finally on the rise

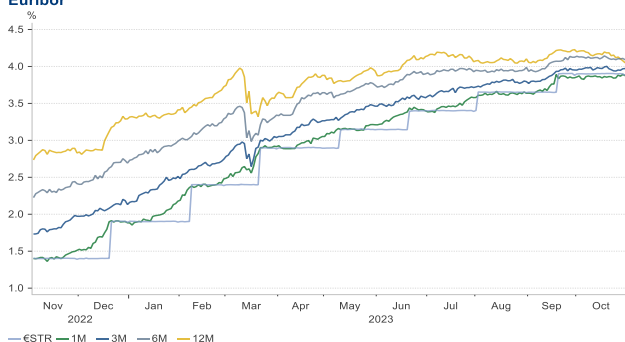
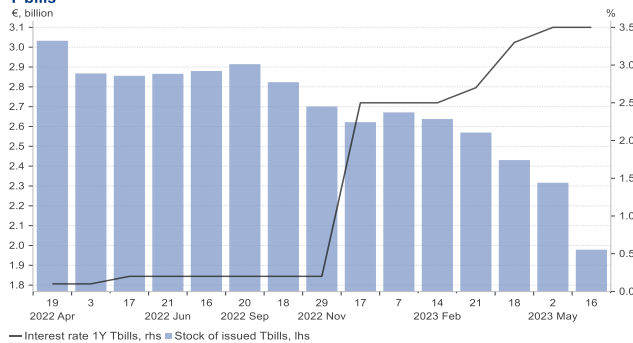
Strong retail trade growth in September

Continued disinflation in October

recorded during September. According to the flash estimate, Energy prices recorded, after four consecutive months of growth, a decrease of -1.1% m-o-m, while prices of Food products recorded a decline of 0.5% for the second consecutive month. On average, during the first ten months of this year, inflation was 8.7%.

- Total loans were up by 6.3% y-o-y in September, almost the same as the month before, with central government lending seeing a trend reversal and growth of 0.5%, while loans to the private sector weakened to 7.7%. Loans to households accelerated to 7.8% owing to the strengthening of demand for cash loans, and loans to non-financial corporations slowed noticeably to 7.5% with accelerated growth of investment loans. The deposit growth rate stood still at 5.7% in September, with private sector deposits slowing slightly to 6.3% (households 6.4%, non-financial corporations 6.2%).
- The Fed at its last week's meeting, like the ECB, decided to keep the fed funds interest rate at the current level, taking into account the scale of the increase so far and risks in the environment. The Fed sees the U.S. economy strong, where third-quarter growth beat expectations. Stating that the full impact of the monetary policy tightening has not yet been achieved, in the period ahead decisions on further tightening and duration of restrictive monetary policy will be based on data, growth outlook and balance of risks.
- The trend was reversed as the possibility that the Fed would raise interest rates once again decreased so the dollar depreciated against the euro. The week ended at \$1.0702 for the euro, up by 1.5% w-o-w.
- Euribor continues to stagnate at short term, while 12M once again records a w-o-w decline. On Friday, 3M was 4.0% and 6M was 4.1%.
- The ZSE maintained a positive climate, so Crobex achieved a weekly growth of 1.6% to 2,389 points. Sectoral indices again recorded a varied performance, so CROBEXindustry and CROBEXnutris ended the week up by 4.1 and 1.1% respectively (at 1,565 and 853 points), while CROBEXtourist plunged by 2.1% (to 3,926 points). Crobis was still at 93.7 points.

**Strengthening
demand for cash
loans**

EUR/ USD**Euribor****T-bills****Crobex/Crobis****LEGAL DISCLAIMER**

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