WEEKLY ANALYSIS

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Retail trade in the black, industrial production in the red

- According to the data of the Croatian Bureau of Statistics, real retail trade turnover in December increased by 0.7% month-on-month and by 6.5% year-on-year. In both cases, the observed growth rate is identical or similar to the rates recorded during October and December. Accordingly, the last quarter of last year brought an increase in real retail trade turnover by 2.1% compared to the previous quarter, while compared to 4Q2023, real turnover increased by 6.6%, with a slight slowdown noticeable in growth rates in the last five quarters. At a full-year level, the average increase in real turnover in retail trade was 7.3%, with growth in retail trade of food products, beverages and tobacco amounting to 4.3%, while trade in non-food products recorded an increase in real turnover of 11.7%, indicating that the growth in real disposable income encouraged households to make larger purchases. Also in the current year, we expect continued growth in real retail trade turnover, driven by further growth in real incomes and a stable labour market, although the growth dynamics will slow down compared to last year. The first data of the Tax Administration indicate that the amount of fiscalized invoices in January this year in the G-47 activity advanced by 7.6% compared to January last year, while on the last two Fridays of the month we also had a collective action of boycotting retail stores by consumers, which reduced the amount of fiscalized invoices by 47% and 36% respectively compared to the average amount recorded in the previous two Fridays before the start of the boycott.

Strong growth in real retail trade turnover in 2024

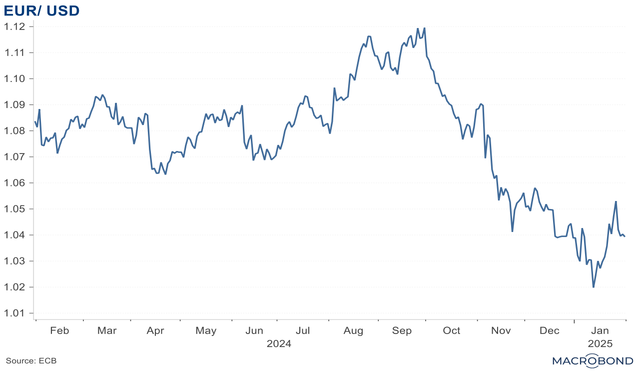
- At the same time, data on industrial production were published, which in December recorded a growth of 6.3% month-on-month and 5.3% year-on-year, which ultimately rounded up the average annual rate of decline in production to -2.4% in 2024 and let us remind you that a slight decrease of -0.1% was also achieved in 2023. Developments in industrial production during the last year were extremely volatile, namely, during the first half of the year there was a sharp decline in activity (-4.3%), and in the second half of the year there were months of slightly milder growth and decline until the very end of the year, when activity recorded a decline of -6.3% in November, and the aforementioned growth of 5.3% in December, which ultimately resulted in a decline in activity of only -0.5% in 2H24. And while during the first half of the year a decline in activity was recorded in all major groups (intermediate goods -1.7%, energy -15.1%, capital goods -7%

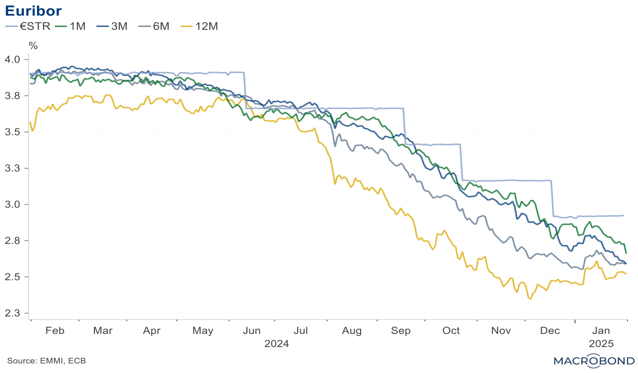
Industrial production in the red for the second year in a row

and durable consumer goods -12.4%), with the exception of non-durable consumer goods (+1%), in the second part of the year energy recorded an increase of 6.1%, and the decline in capital goods decreased to -1.8%, while the production of non-durable consumer goods fell into the red. Given the uncertain dynamics of the recovery in foreign demand, we expect volatility to continue in the coming period, although developments in line with the expected recovery of growth in the main trading partners should stabilise to some extent, even though negative risks currently prevail due to the protectionist moves of the US administration.

ECB cuts interest rates by 25 b.p., FED unchanged

- At last week's meeting, the Governing Council of the ECB, in line with our expectations, decided to lower key interest rates by 25 b.p., encouraged by the movement of inflation, which is within the forecast range and is set to return towards the 2% target in the course of this year. Forward guidance has been routinely absent, and the ECB reiterates that it is not pre-committing to a particular rate path. From February 5th, the interest rates on the deposit facility will be 2.75%, the main refinancing operations 2.90%, and the marginal lending facility 3.15%. Unlike the ECB, at last week's meeting, the FED decided to keep the target range of the fed funds rate at 4.25-4.50%, and according to our estimates, the FED will cut rates twice by the middle of the year if the downward trend in inflation is stabilized or if the still solid labour market cools down. The second half of the year, however, remains quite uncertain. According to Powell, some of the announced measures of the new administration could slow down the disinflationary trend in the short term, but so far there is not enough information to assess their economic impact.
- In the week of central bank decisions and the disclosure of disappointing data on the stagnation of euro area GDP in the last quarter of last year, the euro weakened against the dollar to 1.0393, down by 0.8% week-on-week.
- Euribor has seen mixed developments in the past week following the ECB's decision. Thus, in the shorter maturities, a decline was recorded week-on-week, marginal growth in the medium term, and stagnation in the longest maturity. At the end of the week, 3M and 6M thus stood at 2.6%.
- Shares maintained a positive trend, so Crobex achieved a 0.6% week-on-week growth (to 3,481 points) with an uneven performance of sectoral indices (CROBEXindustry +0.9% to 2,473, CROBEXnutris -0.1% to 866, CROBEXtourist +2.8% to 4,430). Crobis stagnated (at 99.4 points).





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