

WEEKLY ANALYSIS

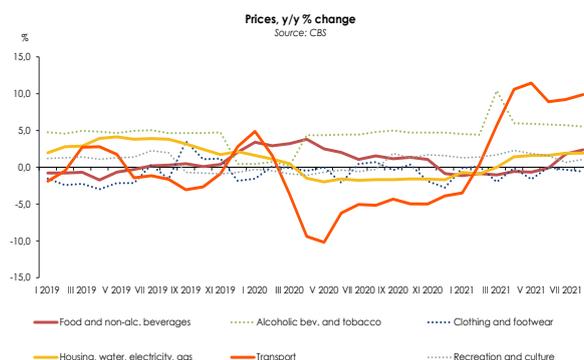
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Rise of inflation in August	1
Weekly overview	2
Statistics.....	3

Rise of inflation in August

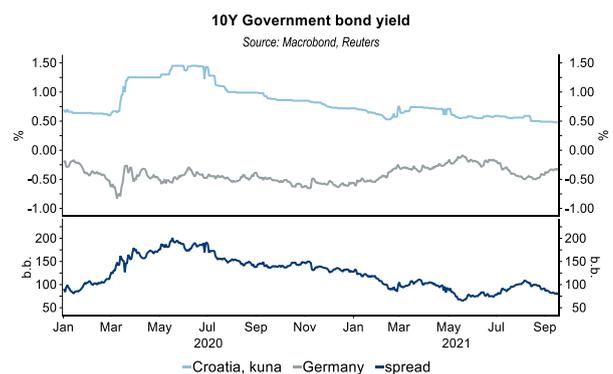
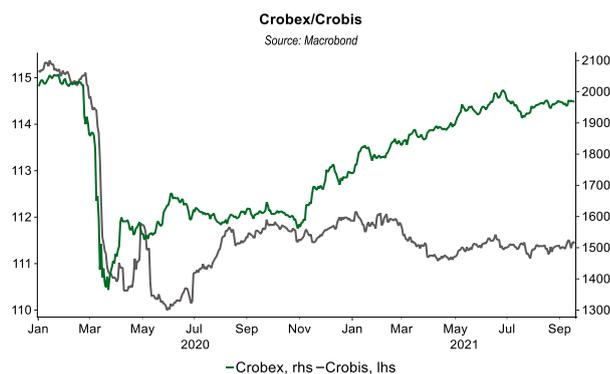
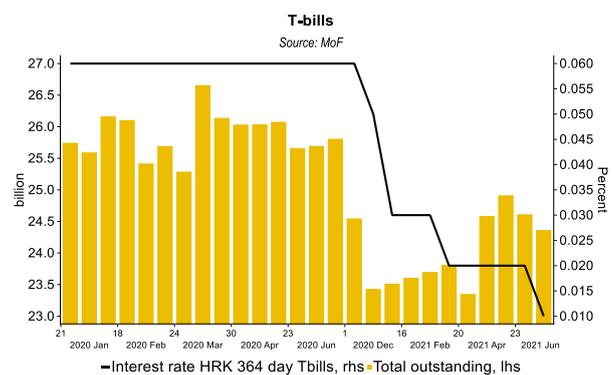
Consumer price index in August recorded an annual increase of 3.1%, representing the strongest price growth since April 2013 (when the aforementioned index rose by 3.3%), and it can be attributed to a mix of low last year's base and recovery of demand for goods and services. Structurally speaking, movement of the index in August was mostly influenced by an increase of crude oil prices (average price of a barrel of oil type Brent rose by 51.1% compared to last August), resulting in a price

rise in the Transport category by 9.9% (contribution to a total price increase of 1.3 p.p.) – more precisely, mostly in sub-category of fuels and lubricants for personal transport equipment (+19.0%). A significant contribution (+0.6 p.p.) to the total price increase also came from the increase of prices of Food by 2.6% (share in consumer price index is approximately 25%), considering bad weather conditions that influenced domestic agricultural production, but also due to a general increase of food product prices on the world market, partially caused by disturbances in supply (Hamburg Institute of International Economics price index points to annual growth in food prices without beverages and sugar on the world market by high 48.3%). Especially prominent (observed by share) is the rise in prices of vegetables by 8.5% compared to last year's August, then in oils and fats (+17.4%) and in milk products (+3.8%) and in bread and cereals (+2.7%). In the first eight months of this year, average annual growth rate of consumer prices was 1.7% (+0.3% in the same last year's period), whereas the largest contribution to such trends came from a price rise in Transport (+6.6%) and in smaller part in Alcoholic beverages and tobacco (+6.0%, due to rise in excise duties) and in Housing, water, electricity, gas and other fuels (+0.8%, with a significant rise in gas prices by 7.0%). Other categories contributed to the total price rise minimally or not at all, whereas prices of food also contributed negatively, considering a decrease by 0.2%. Considering that in the first eight months producer prices on the domestic market increased by 5.2% and that global trends suggest an increase of electricity and gas prices, we expect that in the following months inflation rate will remain elevated. On average, we expect inflation rates of around 2% for this and the following year, but over the next few months trends will become clearer, especially in the movement of energy prices, but also other factors affecting current inflationary pressures, and thus the assessment of future trends will be more accurate.



Weekly overview

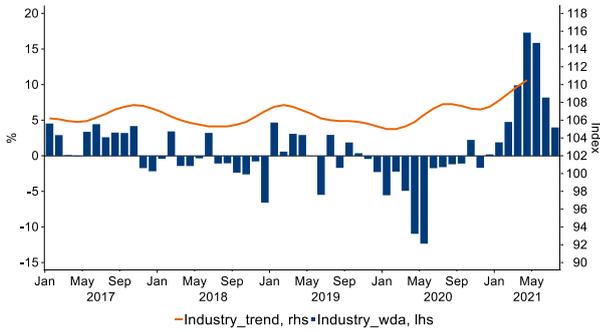
- Last week kuna slightly depreciated due to an announcement from the central bank regarding possible removal of the ban on disbursement of dividends of banks from the beginning of October. The week was concluded with the exchange rate of 7.4901 kuna to the euro, up by 0.1% wow. Kuna simultaneously depreciated against the dollar by 0.6%, and the exchange rate rose to 6.3583 kuna to the dollar. This week we expect trading in the range of 7.48-7.51 kuna to the euro.
- Excess liquidity held at 63 billion kuna, at the CNB's repo auction there were no placements, and interest rates rose up to 20 b.p. wow.
- The Crobex Index last Friday closed at 1,968.66 points, down by 0.2% wow, while Crobis simultaneously reached 111.87 points or down by 0.1% compared to Friday the week before. As for sector indices, they ended in the red, with CROBEXtourist down by 1.3% (to 3,495.88 points), CROBEXindustry by 1.4% (1,075.03), and CROBEXconstruct by 3.5% (435.20). Total ZSE turnover last week reached 87.8 million kuna, down by 56.7% wow, owing to 80.1% lower turnover in bonds (reaching 35.8 million kuna), while turnover in shares increased by 2.2 times (to 52.1 million kuna).



Statistics

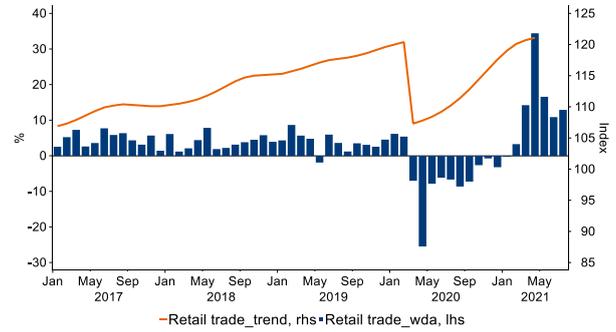
Industrial production, wda % ch. y/y and index (2015=100)

Source: Macrobond



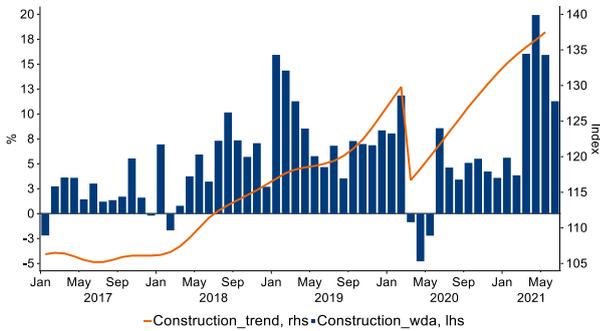
Retail trade, real, wda % ch. y/y and index (2015=100)

Source: Macrobond



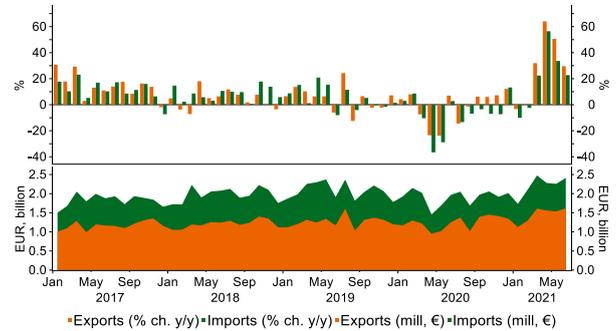
Construction works, wda % ch. y/y and index (2015=100)

Source: Macrobond



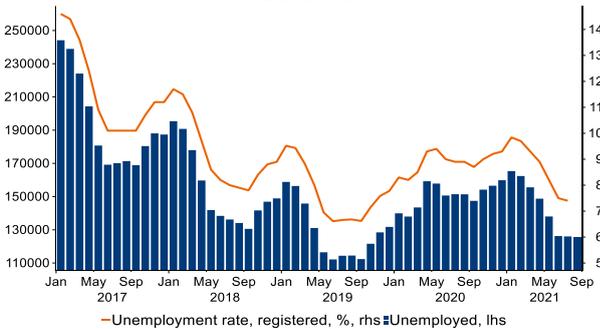
Goods exports and imports (% ch. y/y and mill €)

Source: Macrobond



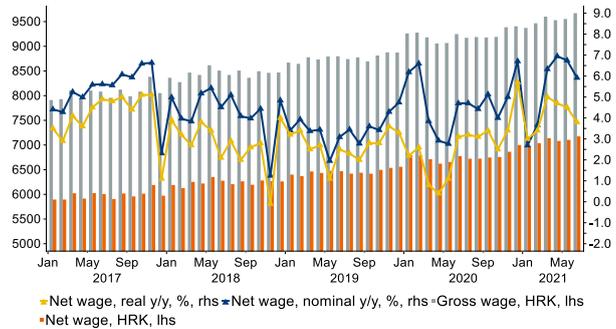
Total number of unemployed and unemployment rate

Source: Macrobond



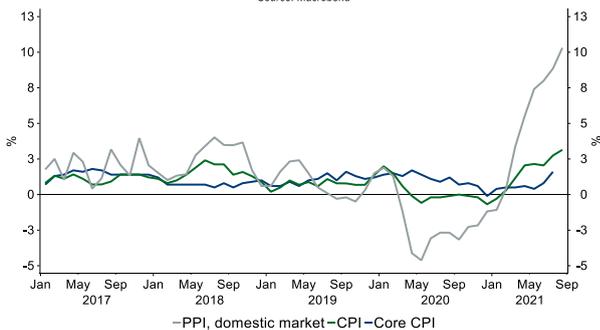
Wages, monthly average and % ch. y/y

Source: Macrobond, CBS



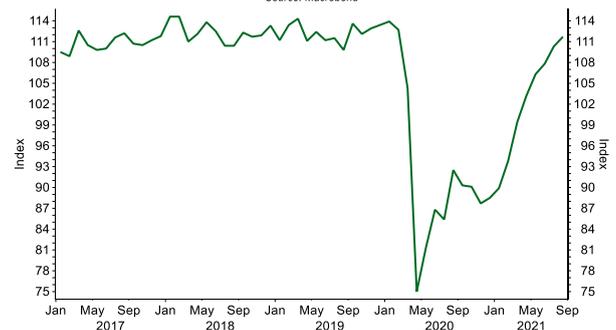
Prices, y/y % change

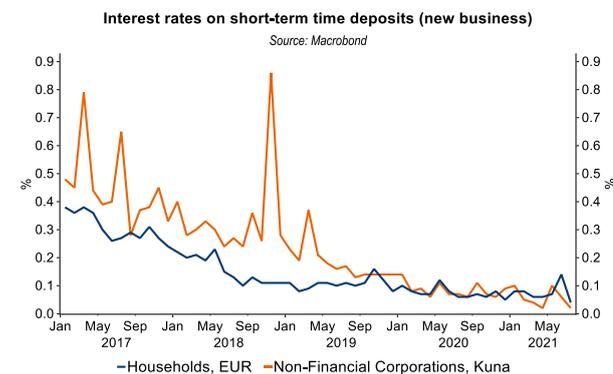
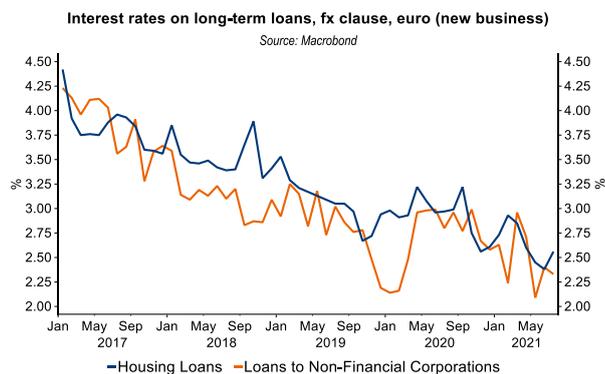
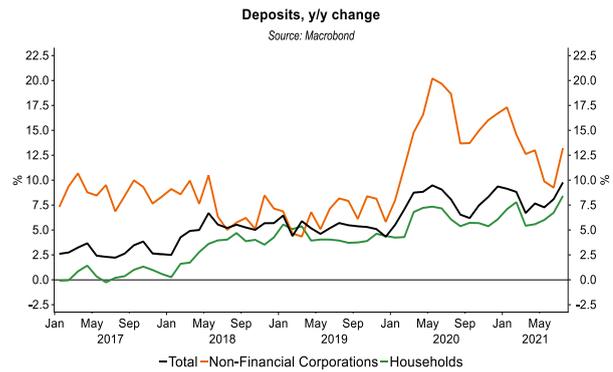
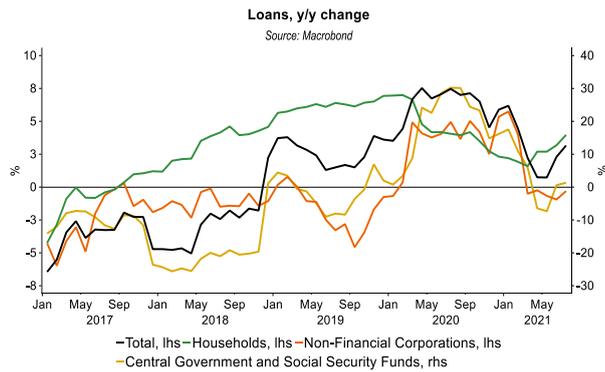
Source: Macrobond



Economic Sentiment Indicator (ESI)

Source: Macrobond





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