WEEKLY ANALYSIS

NUMBER 815, APRIL 3, 2023

Base effect alleviates the annual rate of inflation

Inflation slows year-on-year but accelerates month-on-month

- According to the first estimate of the Croatian Bureau of Statistics, inflation slowed year-on-year from 12% in February to 10.6% in March, mainly reflecting the high last year's base, as prices simultaneously increased by 0.8% month-on-month. The CBS estimates that the monthly increase is due to an increase in the prices of industrial non-food products without energy (by 2.2%), food products (by 1.0%) and the prices of services by 0.2%). At the same time, according to Eurostat data, the harmonized index of consumer prices slowed to 10.5% year-on-year (from 11.7% in February), which puts Croatia in the upper tier of euro zone countries in terms of inflation – just above Slovenia (10.4%) and below Slovakia (14.8%). The lowest annual inflation rate in March was estimated in Luxembourg (3.0%), the highest in Latvia (17.3%), while the average inflation rate in the euro zone was 6.9%. Although the overall inflation rate in the euro zone slowed from the 8.5% recorded in February, the core rate accelerated simultaneously to a new record high of 5.7%, which combined with the simultaneously announced unchanged unemployment rate of 6.6% in February, and the fact that business surveys have not yet suggested a faltering in expected employment, indicates a still very tense labour market, which stimulates wage growth and creates additional inflationary pressure (especially with services) and thus suggests a continuation of the tightening of ECB monetary policy.

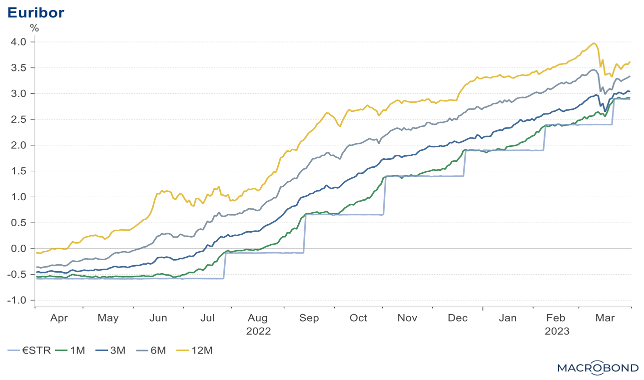
Industrial production -1.7%

- Over the past week, CBS also released data on industrial production, which recorded a second consecutive monthly increase of 0.7% in February (after 0.9% in January), further slowing the annual decline to 1.7% (after -2.8% in January). All in all during the first two months of this year, industrial production recorded a year-to-year decline of 2.2%, while compared to the last quarter of last year it increased by 0.9%, but manufacturing causes concern due to a decline posted both year-on-year (-2.7%) and quarter-on-quarter (-0.7%). According to the latest data, industrial sentiment has deteriorated slightly compared to February, mainly due to a weaker (rather volatile) rating of the level of (export) orders, although at the same time expectations of future production have improved. Year-on-year, industrial sentiment is seeing a slight improvement.

- This data-abundant week also concludes with a review of domestic demand, i.e., developments in retail trade, which in February, after an increase of 0.3% recorded in January, stagnated month-on-month, which slowed the year-on-year growth from 1.1% in January to only 0.4%. Given the still high double-digit inflation, nominal turnover saw an increase of 13.9% in February. Year-on-year, a real increase of turnover was recorded in retail trade in food products (0.8%) and other activities (9.3%), while a decrease in turnover of 2.3% was recorded in retail trade in non-food products. On average, during the first two months of this year, real retail trade turnover recorded an annual increase of 0.8%, while compared to the last quarter of last year, consumption stagnated. The extent to which a stable labour market and strong growth in the average net wage recorded in January, as well as the gradual easing of inflationary pressures, will support personal consumption over the coming months remains to be seen, the first signal will arrive today from the Tax Administration and data on fiscalised invoices.

Modest growth of retail trade

- Total loans slowed slightly to 10.5% year-on-year in February, with the central government growing by 15.1% and the private sector by 10.9% (non-financial corporations 20.0%, households 5.3%). At the same time, year-to-year growth of deposits weakened to 10.6% due to a lower growth rate of private sector deposits of 11.2% (non-financial corporations 16.0%, households 9.3%).
- The easing of market tensions again brought into focus interest rate movements and expectations that the Fed would raise the fed funds rate just once more, by 25 b. p. On Friday, the exchange rate was up by 1.2% week-on-week at $1.0875 for the euro.
- Last week Euribor recorded minor growth, up to 10 b. p. week-on-week. 3M Euribor saw the end of the week at 3.0% and 6M at 3.3%.
- The weakening of uncertainty brought a positive trend to the ZSE, so Crobex closed on Friday up by 1.3% w-o-w (2,237.4 points) due to a recovery of all the most significant sectoral indices (CROBEXindustry +0.4% to 1,311.7, CROBEXnutris +1.7% to 786.6, CROBEXtourist +1.2% to 4,090.4). Crobis continued to grow slightly (+0.2% to 94.2 points).



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