Financial Market Inflation Expectations

8/2024

CZECH NATIONAL BANK

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Contents

I. SUMMARY

Fifteen domestic and three foreign analysts took part in the August survey of financial market inflation expectations. The results show that the changes compared to last month's survey are not significant. The one-year inflation forecast remains unchanged, rising slightly only at the three-year horizon. The estimate for economic growth this year is less optimistic, but the outlook for next year is also unchanged. Most of the respondents expect key interest rates to be cut by 25 basis points at the next monetary policy meeting of the CNB Bank Board. The forecasts for the koruna exchange rate only saw cosmetic changes. The expected nominal wage growth rate for this year has increased slightly, while the outlook for next year remains the same as in July.

DOMESTIC ANALYSTS	I.	II.	III.	IV.	V.	VI.	VII.	VIII.	IX.	X.	XI.	XII.
Jiří Polanský, Česká spořitelna	+	+	+	+	+	+	+	+				
Jan Vejmělek, Komerční banka	+	+	+	+	+	+	+	+				
Patrik Rožumberský, Unicredit Global Research	+	+	+	+	+	+	+	+				
Helena Horská, Martin Kron, Raiffeisenbank	+	+	+	+	+	+	+	+				
Petr Dufek, Banka CREDITAS	+	+	+	+	+	+	+	+				
Petr Sklenář, J&T Banka	+	+	+	+	+	+	+	+				
Radomír Jáč, Generali Investments CEE	+	+	+	+	+	+	+	+				
Jaromír Šindel, Citi	+	+	+		+	+	+	+				
Kamil Kovář, Moody's Analytics	+		+	+	+	+						
Jan Kudláček, Tomáš Lébl, Patrick Vyroubal, UNIQA	+	+	+	+	+	+	+	+				
Jakub Seidler, ČBA	+	+	+	+	+	+	+	+				
Lukáš Kovanda, Trinity Bank	+	+	+	+	+	+	+	+				
Michal Šoltés, RoklenFin	+	+	+	+	+	+	+	+				
Martin Janíčko, MND	+	+	+	+	+	+	+	+				
Jan Bureš, ČSOB			+		+	+		+				
David Havrlant, ING					+	+	+	+				
FOREIGN ANALYSTS												
Basak Edizgil, Goldman Sachs	+	+	+	+	+	+	+	+				
Sili Tian, The Economist Intelligence Unit	+	+	+	+		+	+	+				
Jose A. Cerveira, Henry Burdon, JP Morgan	+	+		+	+	+	+	+				

We would like to thank everyone who contributed to this survey of financial market inflation expectations.

Prague, 22th August 2024

II. INFLATION

FORECAST FOR Y/Y CPI GROWTH

(%)

August 2024	CPI 1Y	3Y
minimum	0.9	1.7
average	2.1	2.2
maximum	2.9	2.5

1Y AND 3Y FORECAST FOR CPI GROWTH

(%)

Date of Prediction	ANALYSTS 1Y	3Y	CNB (%) 1Y
VIII.23	2.7	2.4	
IX.23	2.7	2.4	3Q: 1.9
XI.23	2.8	2.3	
XII.23	2.9	2.3	4Q:2.8
II.24	2.4	2.3	1Q: 1.7
IV.24	2.2	2.2	2Q: 1.9
VII.24	2.1	2.1	
VIII.24	2.1	2.2	3Q: 1.9

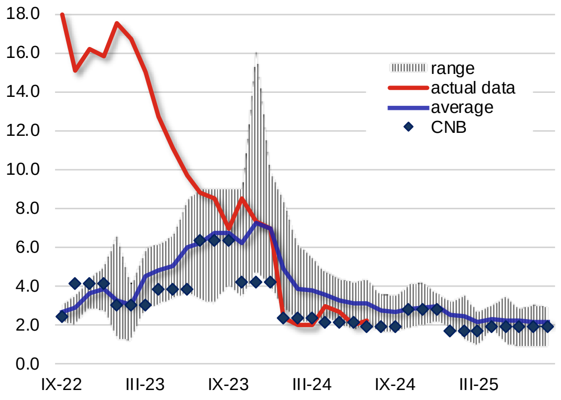
July inflation surprised with its upwards trend. The consumer price index rose by 2.2% year on year, i.e. 0.2 percentage points up on June. This acceleration was partly due to the prices of food and non-alcoholic beverages, as their year-on-year decline moderated. However, housing continues to make the largest contribution to this growth, reflecting rising rents, water and sewerage rates, and electricity and hot water prices. Prices of goods rose by 0.6%, while prices of services continued to maintain their high growth rate at 4.9%. Consumer prices rose by 0.7% month on month. This included a significant seasonal effect, with package holiday prices rising. The July inflation trend had no impact on analysts' annual average forecast, which remained at 2.1%. By contrast, the forecast for the three-year horizon has risen by 0.1 percentage point to 2.2%. The range of the individual estimates narrowed over both monitored time horizons. At the one-year horizon this was due to a decrease in the maximum value, while at the three-year horizon there was an increase in the minimum and a slight decrease in the maximum values.

Some respondents saw the July increase in holiday prices as a correction of the development that occurred in June despite strong demand. Similarly, food prices fell significantly in June but then made up the loss in July. Consumer prices are thus highly volatile on a month-on-month basis. The pace of inflation in services remains very high, thanks in part to a recovery in demand. In addition to the rise in holiday prices, this is also due to rising rents, something also considered seasonal, as July is also a month in which rents often rise. According to the analysts, inflation will be close to 2% in the months ahead. Yet uncertainty remains elevated, for example, as regards food prices, which may remain highly volatile. Given the base effect, inflation could pick up in the autumn, but should remain within the upper half of the tolerance band, perhaps slightly exceeding it at the end of the year. This may be due to a recovery in household consumption as a result of wage growth. A more moderate or delayed recovery of the German economy could act in the opposite direction.

The CNB summer forecast expects consumer prices to rise by 1.9% year on year in Q3 2025.

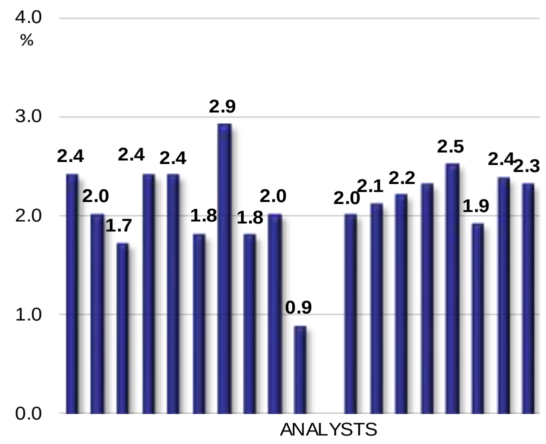
CONSUMER PRICE INDEX

ACTUAL DATA AND 1Y PREDICTIONS OF ANALYSTS (AVERAGE) AND OF CNB (%)



CONSUMER PRICE INDEX AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS (%)



III. GROSS DOMESTIC PRODUCT

FORECAST FOR GDP GROWTH
(%)

August 2024	current year	current+ 1Y
minimum	0.7	1.9
average	1.0	2.6
maximum	1.5	4.3

FORECAST FOR GDP GROWTH
(%)

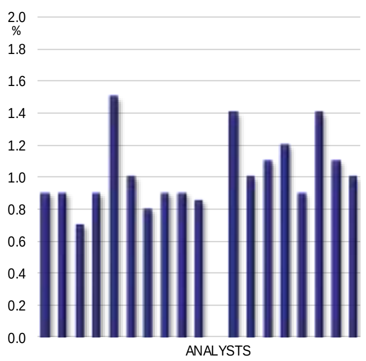
Date of Prediction	current year	current+1Y
VIII.23	0.1	2.3
IX.23	0.1	2.2
XI.23	-0.3	1.8
XII.23	-0.4	1.4
II.24	1.2	2.6
IV.24	1.2	2.6
VII.24	1.3	2.6
VIII.24	1.0	2.6

Gross domestic product grew by 0.4% year on year in the second quarter of this year. According to the CZSO, this growth was supported mainly by household final consumption expenditure. However, the government final consumption expenditure and external demand also made positive contributions. On the other hand, the development in Q2 was negatively affected by a change in inventories. Trade, transport, accommodation and hospitality were particularly successful in terms of value added. By contrast, industry continued to struggle and decline. In quarter-on-quarter terms, adjusted for price effects and seasonality, there was economic growth of 0.3%. Overall, the GDP figures lagged behind estimates, something also reflected in our estimate for the output of the domestic economy this year, which compared to last month was lowered by 0.3 percentage points to 1.0% in our survey. The range of individual estimates widened due to a larger decrease in the minimum value. The outlook for GDP growth next year remains unchanged at 2.6%. The range of individual forecasts widened slightly due to the fall in the minimum value.

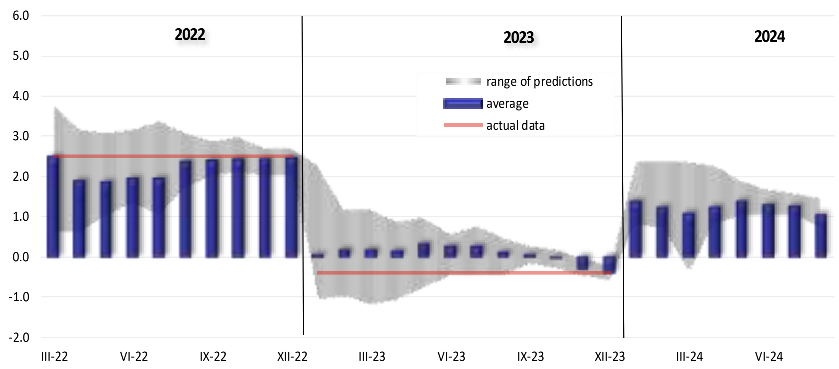
The growth of the domestic economy is thus being driven mainly by final household and government consumption. In the case of households, the analysts say this is mainly related to renewed growth in real wages and improved consumer sentiment. An unpleasant surprise for some of the analysts was the negative quarter-on-quarter contribution of external demand which, in addition to the growth in domestic consumption, they attributed to the gradual fading of the positive effect of exports of previously unfinished production. Foreign trade may also be adversely affected by the weaker performance of domestic industry, respectively the quarter-on-quarter decline in the economic performance of our key export market – Germany. Weakening external demand is thus dampening the prospects for this year's economic growth. Its gradual recovery should contribute to the acceleration of the Czech economy next year. The weakness of the German economy thus remains the main risk.

According to the CNB summer forecast, GDP will grow by 1.2% in 2024 and accelerate to 2.8% in 2025.

INDIVIDUAL 1Y PREDICTIONS
OUTLOOK FOR THIS YEAR



GDP GROWTH AT END OF YEAR
AVERAGE AND RANGE OF PREDICTIONS



IV. INTEREST RATES – 2W REPO, PRIBOR, IRS

FORECAST FOR 2W REPO, 12M PRIBOR AND 5Y AND 10Y IRS

(%)

Date of Prediction	2W repo rate		12M PRIBOR		5Y IRS		10Y IRS	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
VIII.23	7.00	5.11	6.96	4.88	4.34	3.84	4.11	3.66
IX.23	7.00	4.90	6.89	4.70	4.42	3.74	4.17	3.61
XI.23	6.83	4.38	6.40	4.25	4.30	3.62	4.23	3.64
XII.23	6.81	4.33	6.20	4.13	3.96	3.58	3.91	3.62
II.24	5.75	3.66	4.90	3.50	3.41	3.21	3.45	3.27
IV.24	5.29	3.49	4.31	3.47	3.71	3.33	3.81	3.45
VII.24	4.51	3.35	4.21	3.42	3.58	3.45	3.66	3.55
VIII.24	4.26	3.38	3.88	3.38	3.35	3.44	3.41	3.54

FORECASTS: MINIMUM, AVERAGE AND MAXIMUM 2W REPO, 12M PRIBOR, 5Y AND 10Y IRS

(%)

August 2024	2W repo rate		12M PRIBOR		5Y IRS		10Y IRS	
	1M	1Y	1M	1Y	1M	1Y	1M	1Y
minimum	4.25	3.00	3.60	3.00	3.20	2.80	3.20	2.73
average	4.26	3.38	3.88	3.38	3.35	3.44	3.41	3.54
maximum	4.50	4.00	4.60	3.75	3.70	3.85	3.60	4.00

ACTUAL INDICATOR VALUES AS OF FORECAST DEADLINE

(%)

	2W repo rate	12M PRIBOR	5Y IRS	10Y IRS
15.7.	4.50	3.85	3.20	3.31

The vast majority of the respondents (17 out of 18 to be precise) expected the September meeting of the CNB Bank Board to bring a 25 basis point drop in key interest rates. The 2W repo rate should then be set at 4.25%. These speculations have been supported by the weaker performance of the Czech economy and inflation close to the 2% target, while some inflation pressures and risks still persist. Only one respondent expected key interest rates to remain at current levels.

The 2W repo rate forecast rose slightly at the one-year horizon. The analysts probably took into account the prospect of a rise in inflation towards the end of this year, which should occur as a result of base effects. In addition, wage growth, exchange rate developments and inflation in services could pose upside risks to inflation. They therefore assumed that the Bank Board will again take a precautionary approach and will cut key interest rates rather slowly (despite the weaker economic performance).

ANALYSTS' FORECAST – 2W REPO RATE LEVEL IN 1Y

(%)

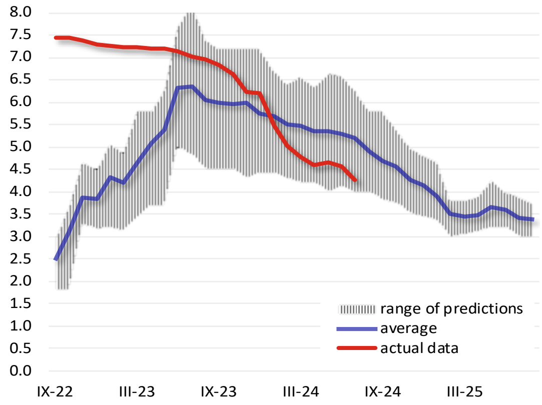
2W repo rate level in 1Y (%)	2.50	2.75	3.00	3.25	3.50	3.75	4.00
number of analysts - current survey	0	0	4	3	8	1	1
-previous survey	1	0	3	4	7	0	2

Taking into account the latest macroeconomic developments, the 12M PRIBOR interbank reference rate has fallen by 40 basis points since the last survey. Swap rates with 5Y and 10Y maturities recorded a smaller shift downwards, by 25 and 23 basis points respectively. The one-month average forecasts in our survey changed in a similar vein, with a decrease of 33 basis points for the 12M PRIBOR, 23 basis points for the 5Y IRS and 24 basis points for the 10Y IRS. By contrast, the one-year forecasts were virtually flat, falling by 1 to 5 basis points. The forecasts for the 12M PRIBOR continue to reflect the expected decline in key interest rates at the one-year horizon, but this decline has already been factored in for longer rates and the one-month IRS rate estimates are already below the corresponding annual forecasts.

The CNB summer forecast implies a 2W repo rate of 3.7% in Q3 2025.

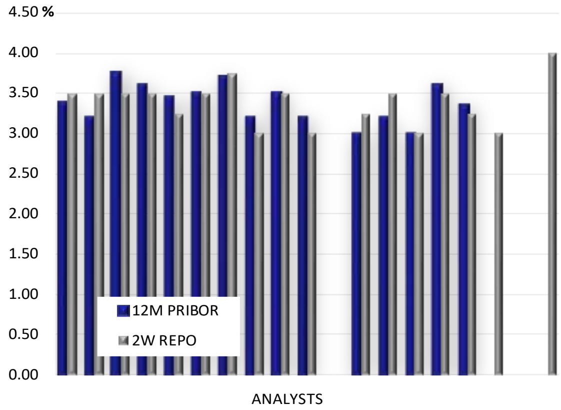
12M PRIBOR AT 1Y

ACTUAL DATA, AVERAGE AND RANGE OF PREDICTIONS



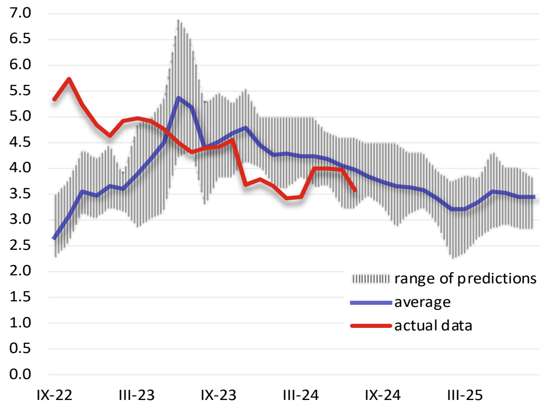
2W REPO AND 12M PRIBOR AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



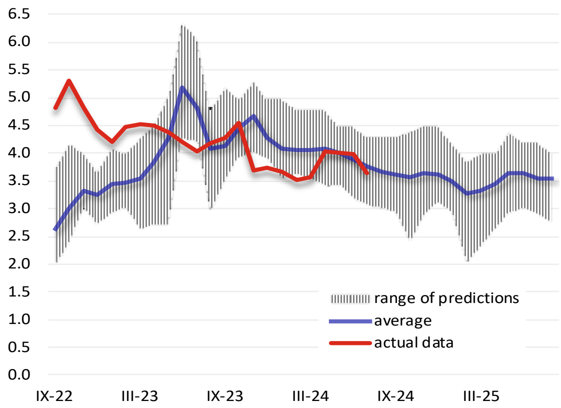
5Y IRS AT 1Y

AVERAGE AND RANGE OF PREDICTIONS



10Y IRS AT 1Y

AVERAGE AND RANGE OF PREDICTIONS



V. EXCHANGE RATE

1M AND 1Y EXCHANGE RATE FORECAST

	1M	1Y
VIII.23	24.16	24.16
IX.23	24.45	24.28
XI.23	24.63	24.58
XII.23	24.52	24.51
II.24	25.25	24.78
IV.24	25.28	24.74
VII.24	25.21	24.70
VIII.24	25.19	24.75

EXCHANGE RATE FORECAST

August 2024	EUR/CZK 1M	EUR/CZK 1Y
minimum	25.10	23.80
average	25.19	24.75
maximum	25.50	26.25

ACTUAL EUR/CZK AS OF FORECAST DEADLINE

15.7.	25.20

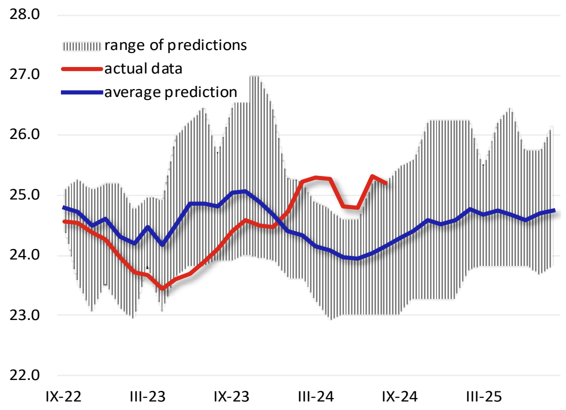
The koruna exchange rate strengthened from CZK 25.43 to the euro to CZK 25.20 to the euro between the last survey and the cut-off date for the current survey. The result of the August meeting of the CNB Bank Board contributed to the koruna's appreciation. Some market participants expected that the CNB could cut key interest rates by 50 basis points, which ultimately did not happen, and the koruna exchange rate corrected its previous weakening. In addition, the subsequent press conference was hawkish, with the governor admitting that undershooting the 2% inflation target would be quite welcome. The higher July inflation also helped strengthen the koruna, as it supported the hypothesis of a slower reduction in the CNB's key interest rates or USD sell-offs, stemming from the weaker macroeconomic data from the US labour market.

However, the analysts' opinions have not changed significantly since the previous survey. On average, they moved to a very slightly stronger level (by 2 hellers) at the one-month horizon, namely to CZK 25.19 to the euro. At the one-year horizon, the change in the forecast was also very small, corrected to a level only 5 hellers weaker. The koruna exchange rate is thus expected to be CZK 24.75 to the euro next August.

The CNB summer forecast expects the koruna exchange rate to be CZK 24.9 to the euro in Q3 2025.

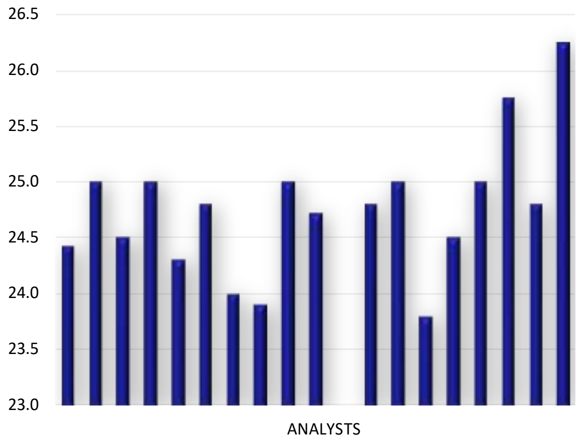
EUR/CZK

ACTUAL DATA, 1Y PREDICTIONS AND THEIR RANGE



EUR/CZK AT 1Y

PREDICTIONS OF INDIVIDUAL ANALYSTS



VI. NOMINAL WAGES

FORECAST FOR NOMINAL WAGE GROWTH

(%)

August 2024	current year	current+1Y
minimum	5.8	3.5
average	6.9	5.4
maximum	7.8	7.0

FORECAST FOR NOMINAL WAGE GROWTH

(%)

Date of Prediction	current year	current+1Y
VIII.23	8.8	6.8
IX.23	8.4	6.7
XI.23	8.1	6.5
XII.23	7.8	6.5
II.24	6.2	5.2
IV.24	6.1	5.1
VII.24	6.8	5.4
VIII.24	6.9	5.4

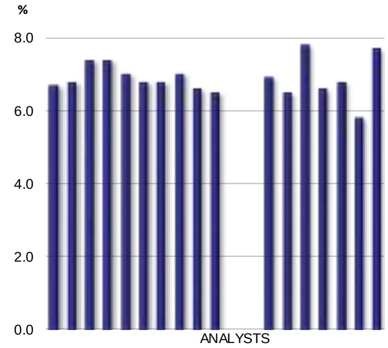
Labour market conditions continue to ease. According to the Labour Office of the Czech Republic, the number of registered jobseekers increased by more than 10,000 to 283,000 at the end of this July. This was a year-on-year increase of 24,000. The unemployment rate reached 3.8% at the end of July, an increase of 0.15 percentage points compared to the previous month. At the same time, the number of vacancies decreased by 1,500 month on month, and by almost 24,000 year on year. The number of jobseekers exceeded the number of registered vacancies by almost 21,000. This is the eighth month in a row in which demand has exceeded supply. However, a significant proportion of the newly registered unemployed is the result of seasonal factors, i.e. professions such as tutors and language-course teachers, who are usually on the unemployment register for a short time and return to work at the beginning of the school year. Reduced recruitment activity during the holiday period also plays a role. In an international comparison, unemployment in the Czech Republic is the second-lowest among EU countries.

Despite the easing labour market conditions, the analysts slightly raised their outlook for nominal wage growth this year. Overall, wages are expected to increase by 6.9% on average in 2024, which is 0.1 percentage point more than in the July survey. Wage growth is expected to slow to 5.4% in 2025, in line with the previous estimate. At the same time, the above nominal wage growth rates will guarantee an increase in real wages in both years.

According to the CNB summer forecast, nominal wages are expected to grow by 7.4% in 2024, slowing to 6.4% in 2025.

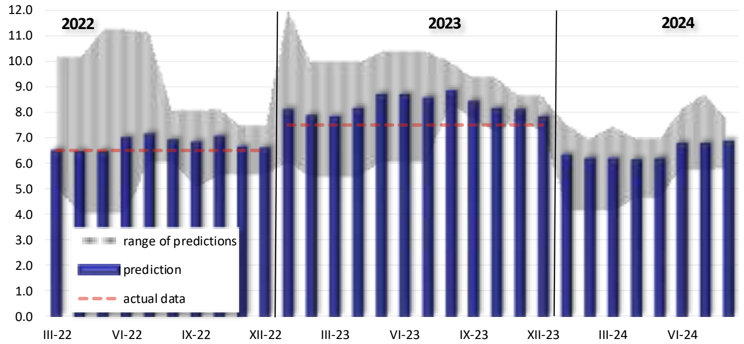
INDIVIDUAL 1Y PREDICTIONS

OUTLOOK FOR THIS YEAR



NOMINAL WAGE GROWTH

END OF CURRENT YEAR: AVERAGE AND RANGE OF PREDICTIONS (%)



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