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ABBREVIATIONS

CPI	Consumer Price Index
EA	euro area
ECB	European Central Bank
EC	European Commission
EMEs	emerging market economies
EONIA	euro overnight index average
ESA 2010	European System of Accounts 2010
ESI	Economic Sentiment Indicator (European Commission)
EU	European Union
EUR	euro
EURIBOR	euro interbank offered rate
Eurostat	statistical office of the European Union
FDI	foreign direct investment
GDP	gross domestic product
GNDI	gross national disposable income
GNI	gross national income
HICP	Harmonised Index of Consumer Prices
Ifo Institute	Leibniz Institute for Economic Research at the University of Munich
IMF	International Monetary Fund
MFI	monetary financial institutions
MF SR	Ministry of Finance of the Slovak Republic
MMF	money market fund
MTF	NBS's Medium-Term Forecast (published on a quarterly basis)
NACE	Statistical Classification of Economic Activities in the European Community (Rev. 2)
NARKS	National Association of Real Estate Offices of Slovakia
NBS	Národná banka Slovenska
NEER	nominal effective exchange rate
NFC	non-financial corporation
NPISHs	Non-profit institutions serving households
OECD	Organisation for Economic Co-operation and Development
p.a.	per annum
p.p.	percentage point
PMI	Purchasing Managers' Index
REER	real effective exchange rate
SASS	Slovenská asociácia správcovských spoločností – Slovak Association of Asset Management Companies
SME	small and medium-sized enterprise
SO SR	Statistical Office of the Slovak Republic
ULC	unit labour costs
ÚPSVR	Ústredie práce, sociálnych vecí a rodiny – Central Office of Labour, Social Affairs and Family
ÚRSO	Úrad pre reguláciu sieťových odvetví – Regulatory Office for Network Industries
USD	US dollar
VAT	value-added tax
ZEW	Das Zentrum für Europäische Wirtschaftsforschung – The Centre for European Economic Research

Symbols used in the tables

- . – Data are not yet available.
- – Data do not exist / data are not applicable.
- (p) – Preliminary data



1 SUMMARY¹

Euro area economic growth in the first quarter of 2017 was slightly stronger than its flash estimate. Foreign demand picked up more than estimated, and short-term indicators in May and June pointed to the continuation of that trend, although some indicators saw a marginal correction from elevated levels.

The Slovak economy maintained its brisk growth rate (0.8% quarter on quarter), driven mainly by domestic demand. Within that component, private consumption and rebounding investment made the largest contributions to GDP growth. Positive foreign demand trends had an upward impact on export performance. Monthly data from the second quarter indicated that the favourable growth trend would continue despite the temporary negative impact of a lower number of working days. This impact was observed in the April figures for industrial production and exports.

The labour market situation remained healthy. Employment growth accelerated in April, with the industry and services sectors adding most of the new jobs and the construction sector seeing a pick-up in labour demand. Wage growth increased owing partly to the fact that the Easter holiday fell in April this year and had fallen in March the previous year. The rest of the acceleration, however, reflected current trends in wage fundamentals and the labour market situation. The sectors reporting the highest wage growth were retail trade and transportation. These developments were in line with NBS's latest projections.

The annual inflation rate increased in May, to 1.1%, after slowing in each of the previous two months. Its acceleration was driven largely by food prices and, to a lesser extent, services prices (excluding administered prices). These prices reflected strengthening domestic demand.

¹ All month-on-month and quarter-on-quarter changes mentioned in the text have been seasonally adjusted using NBS internal models.

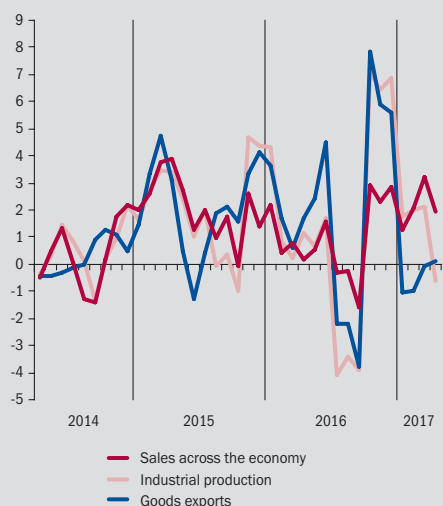
2 THE REAL ECONOMY

2.1 'HARD' INDICATORS OF ECONOMIC ACTIVITY

Production activity weakened in April, seemingly as a correction after strong figures in March. As a result, average industrial production for the three months to April was lower than the corresponding average three months earlier, and overall sales growth slowed in three-month-on-three-month moving average terms. The correction was observed across all the principal sectors.

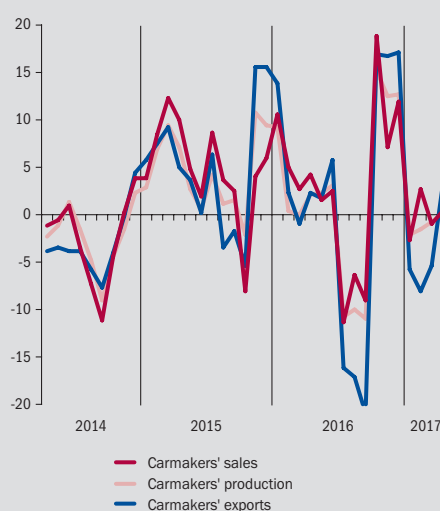
Industrial production for the three months to April was lower by 0.6% on a three-month-on-three-month basis. The decline was caused mainly by results in the following industries: petroleum products manufacturing; repair and installation of machinery and equipment; and mining and quarrying. The situation in industry is not expected to deteriorate further over the next two months. Business sentiment surveys support that outlook, with sentiment picking up moderately in May after deteriorating in April.

Chart 1 Sales, industrial production and exports (three-month-on-three-month percentage changes in the three-month moving average; constant prices)



Sources: SO SR and NBS calculations.

Chart 2 Automotive industry trends (three-month-on-three-month percentage changes in the three-month moving average; constant prices)



Sources: SO SR and NBS calculations.

Sales growth across the economy slowed to 2% in three-month-three-month terms, owing mainly to weaker sales in industry, as well as in services and the car retail sector. In industry, the fall in sales was most marked in petroleum products manufacturing, metal manufacturing, and energy supply.

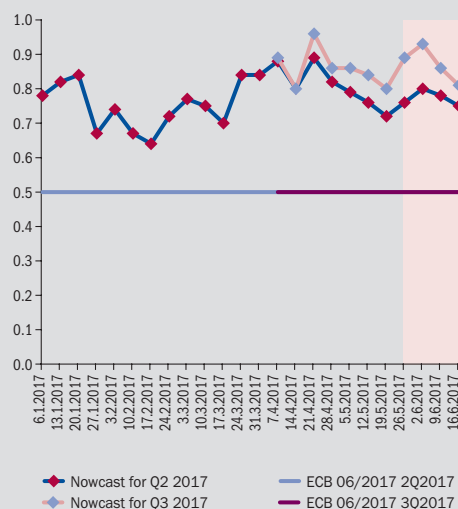
Average goods exports for the three months to April were unchanged from the previous three months. Export performance may have dipped between April and June owing partly to oil refinery shut-downs. These were required both for maintenance work and for plant upgrades designed to reduce the energy intensity of production.

2.2 'SOFT' LEADING INDICATORS

The European Commission's **Economic Sentiment Indicator (ESI)** for the euro area fell in May (by 0.5 point to 109.2) as a result of decreases in services and retail trade confidence, while confidence in industry, construction and among consumers improved. The ESI for Germany also



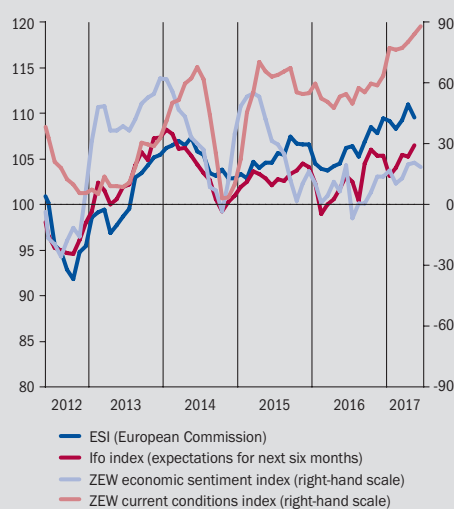
Chart 3 GDP growth estimate for the euro area in Q2 and Q3 2017 (quarter-on-quarter percentage changes)



Source: Now-Casting Economics Ltd. (June 2017 Eurosystem staff macroeconomic projections for the euro area)

Note: The highlighted area denotes developments since the previous Monthly Bulletin.

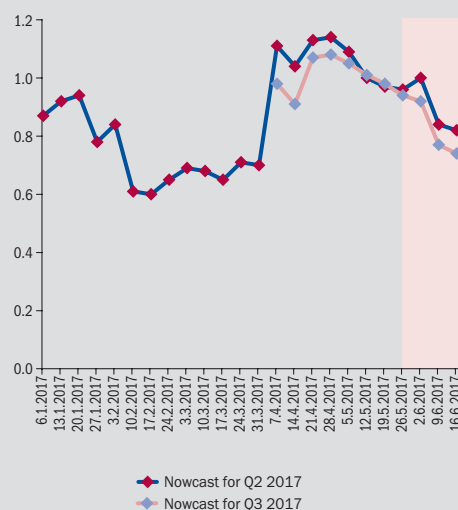
Chart 5 Economic sentiment indicators for Germany



Sources: European Commission, Ifo Institute and ZEW Centre.

Note: ESI (long-run average = 100); Ifo index (2005 = 100); ZEW (balance of responses).

Chart 4 GDP growth estimate for Germany in Q2 and Q3 2017 (quarter-on-quarter percentage changes)



Source: Now-Casting Economics Ltd.

Note: The highlighted area denotes developments since the previous Monthly Bulletin.

Chart 6 Germany – Ifo index (2005 = 100) and annual GDP growth



Sources: Eurostat, Markit, Ifo Institute and NBS calculations.

fell (by 1.5 points, to 109.5), owing to decreases in industry, services and retail trade confidence, while construction and consumer confidence increased. The composite **Purchasing Managers' Index** (PMI) for the euro area remained

unchanged in May from its level in the previous month (56.8). The PMI for Germany increased (57.3). As for other leading indicators of the German economy, the **Ifo** Business Climate Index increased in May to a historical high (114.6), while



the **ZEW** surveys for June showed, on the one hand, a decline in the economic sentiment index and, on the other hand, an improvement in the current conditions index.

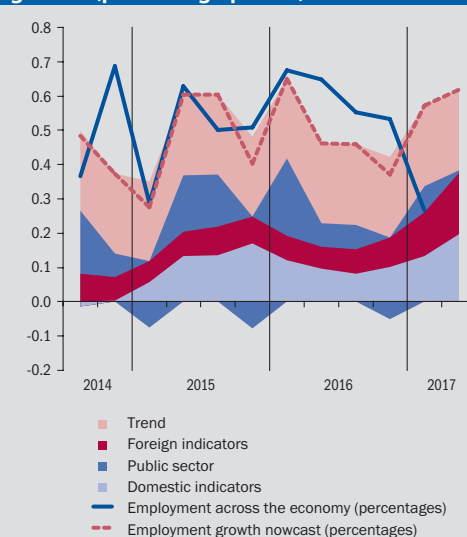
Leading indicators, as well as short-term forecasts, suggest that economic growth in both the euro area and Germany will be maintained in the second quarter of 2017.

3 THE LABOUR MARKET

Employment across the reviewed sectors in April was 2.9% higher compared with April 2016, and 0.4% higher compared with March 2017. This suggests that employment growth across the whole economy in the second quarter may have been quite strong. In three-month-on-three-month terms, employment growth was supported mainly by industry and to a lesser by all the other principal sectors. In the construction sector, employment growth has clearly begun to pick up in the recent period after remaining flat 2016. The services sector positive impact on job growth was also greater in April than in previous months. The implied pace of employment growth for the second quarter is broadly in line with the MTF-2017Q2 projection.

Annual average wage growth across the reviewed sectors stood at 5.7% in April 2017, which was far higher than its rate in the first quarter. The acceleration was due in part to the fact that the Easter holiday fell in April this year and had fallen in March the previous year.

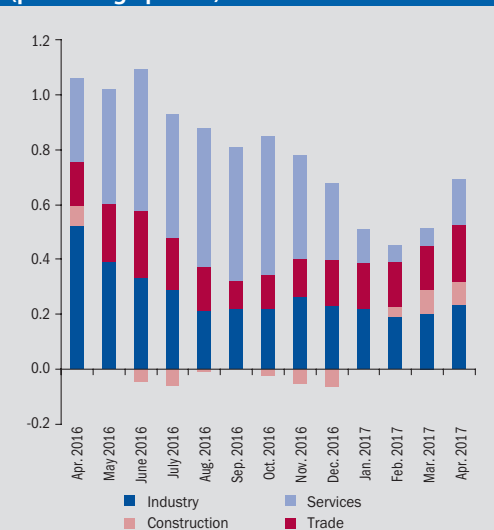
Chart 8 Indicator contributions to the nowcast for quarter-on-quarter employment growth (percentage points)



Sources: SO SR, ÚPSVR and NBS calculations.

Note: The public sector comprising public administration, education and human health as defined in the sections O, P and Q of the NACE statistical classification of economic activities.

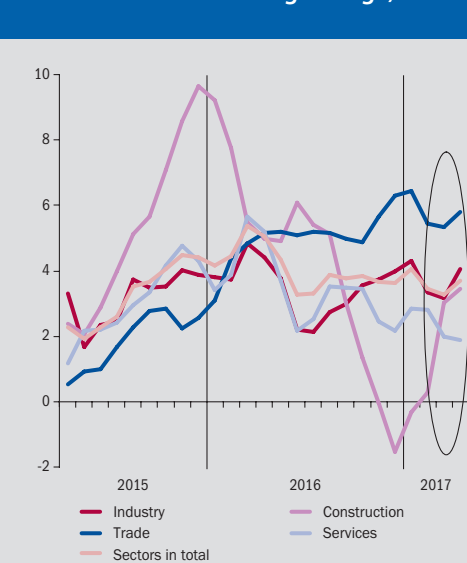
Chart 7 Employment – sectoral contributions to three-month-on-three-month changes in the three-month moving average (percentage points)



Sources: SO SR and NBS calculations based on monthly figures for employment in the reviewed sectors.

Note: The contribution of employment in trade and services does not include the impact of a methodological change in January 2016.

Chart 9 Wage growth by sector based on monthly figures (annual percentage changes in the three-month moving average)



Sources: SO SR and NBS calculations.

Thus overtime payments paid for Easter work had a moderately upward impact, around 0.9 percentage point, on overall wage growth. The rest of the acceleration, however, reflected current trends in wage fundamentals. Large firms increased wages in order to both to retain staff and to attract new staff from rivals. The sectors reporting the highest annual wage growth in

April were retail trade (11.1%) and transportation and storage (8.1%).

The strong wage growth in April implies that wage growth across the economy could be higher in the second quarter than it was in the first. The trend is broadly in line with the MTF-2017Q2 projection.

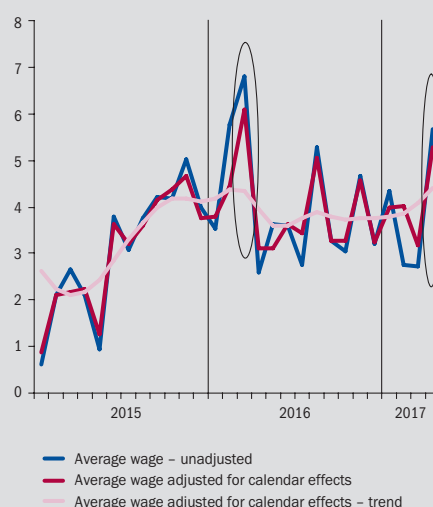
**Chart 10 Wage trends in the economy
(annual percentage changes)**



Sources: SO SR and NBS calculations.

Note: The average wage for the economy as a whole in the second quarter of 2017 as projected in the MTF-2017Q2 forecast.

**Chart 11 Wage growth adjusted for calendar
effects (annual percentage changes)**



Sources: SO SR and NBS calculations.

Note: Adjusted for the effects of the number of working days, the leap day, Easter holiday (timing) and other Slovak holidays.

4 PRICES

Annual HICP inflation increased in May after slowing in each of the previous two months. The headline rate accelerated to 1.1% (up from 0.8% in April), which was only slightly higher than projected. In month-on-month terms, the price level edged up by 0.3%, owing mainly to seasonal increases in food prices.

Chart 12 Annual HICP inflation and contributions of components (annual percentage changes; percentage point contributions)

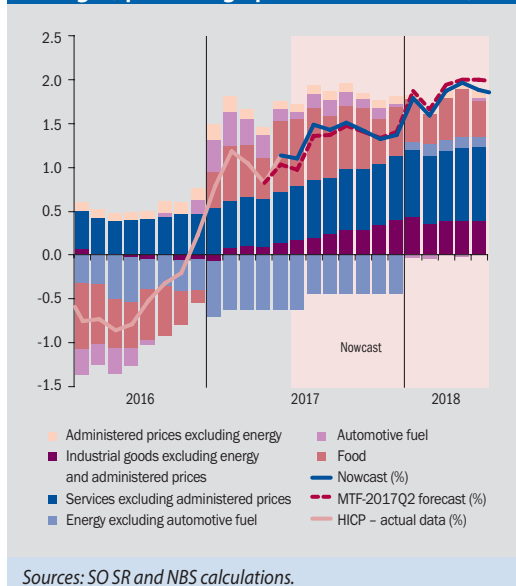
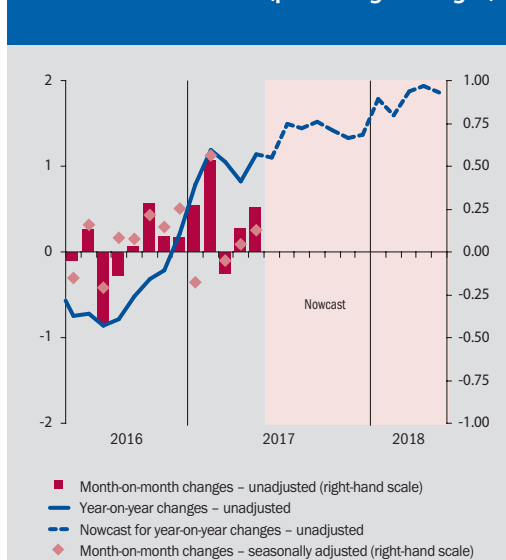


Chart 13 HICP inflation (percentage changes)



The acceleration in annual headline stemmed mainly from food inflation, which accelerated moderately despite a substantial downward correction in food commodity prices. Alcohol prices had been expected to rebound in May after falling before Easter, but they did not. On the other hand, prices of non-alcoholic beverages did increase (by 3.3%). As for non-energy industrial goods prices, they increased further in

Table 1 HICP components – comparison of projected and actual rates of change (percentages; percentage point contributions)

			Non-energy industrial goods	Energy	Food	Services	HICP	Net inflation excluding fuel
Year-on-year changes	A	April 2017 – actual figure	0.5	-2.6	1.7	1.8	0.8	1.3
	B	May 2017 – MTF-2017Q2 forecast	0.7	-3.2	2.7	1.9	1.0	1.4
	B-A	May 2017 – actual figure	0.7	-3.3	3.1	1.9	1.1	1.4
	B-A	May – actual figure minus forecast	0.0	-0.1	0.4	0.0	0.10	0.0
	(B-A) *	Contribution to overall forecast	0.01	-0.02	0.11	0.00	0.10	0.01
	weight	error ¹⁾						

Sources: SO SR and NBS calculations.

1) Projections taken from NBS's June 2017 Medium-Term Forecast (MTF-2017Q2).

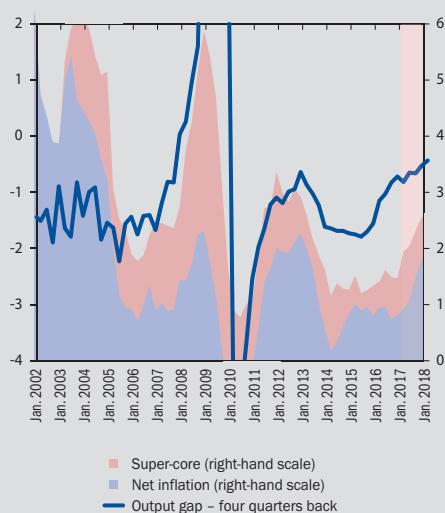


May as the seasonal rise in clothing and footwear prices continued (usually it is confined to April). Non-fuel industrial goods prices maintained their gradual upward trend. Strong consumer demand is slowly beginning to put upward pressure on services prices. Annual services inflation in May stood at 1.9%, but its rate excluding administered prices accelerated to 2.3% (from 2.1% in April). Trend data on oil inventories and petro-

leum products indicate that their oversupply at the global level will continue in the short term. Automotive fuel prices in Slovakia are therefore continuing to rise moderately.

Although annual headline inflation slowed temporarily in March and April, its average rate for the whole of 2017 is expected to be higher than 1%.

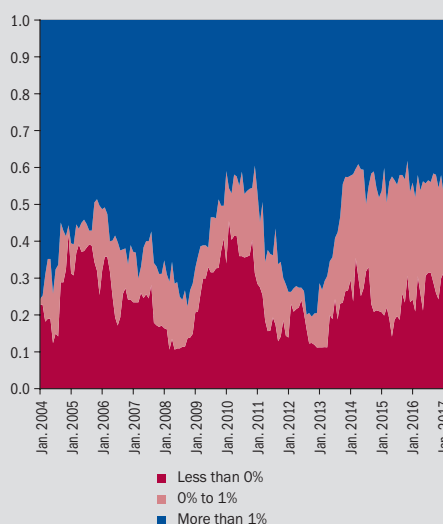
Chart 14 Demand-pull inflation unadjusted for methodological revisions (annual percentage changes; seasonally adjusted)



Sources: SO SR and NBS calculations.

Note: Demand-pull inflation comprises non-energy industrial goods. The super-core index comprises sub-items in the HICP for which the output gap has predictive power with statistical significance.

Chart 15 HICP core inflation broken down by price-change intervals

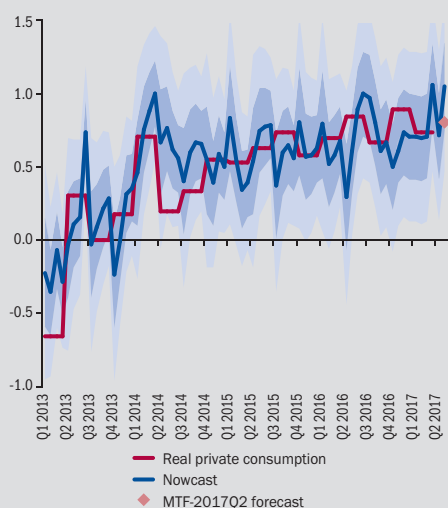


Source: NBS calculations.

5 INDICATIVE IMPACT ON THE FORECAST

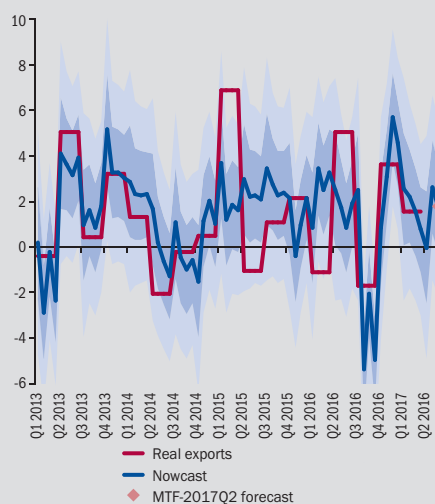
Nowcast movements and all the most recent monthly data have been incorporated into NBS's June 2017 Medium-Term Forecast (MTF-2017Q2).

Chart 16 Private consumption nowcast (quarter-on-quarter percentage changes)²



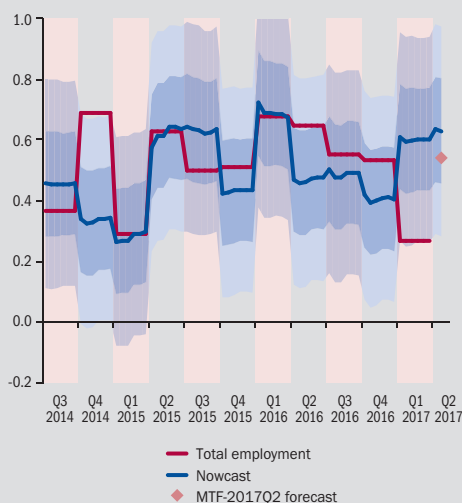
Sources: SO SR and NBS calculations.

Chart 17 Nowcast for goods and services exports (quarter-on-quarter percentage changes)²



Sources: SO SR and NBS calculations.

Chart 18 Employment nowcast (quarter-on-quarter percentage changes)²

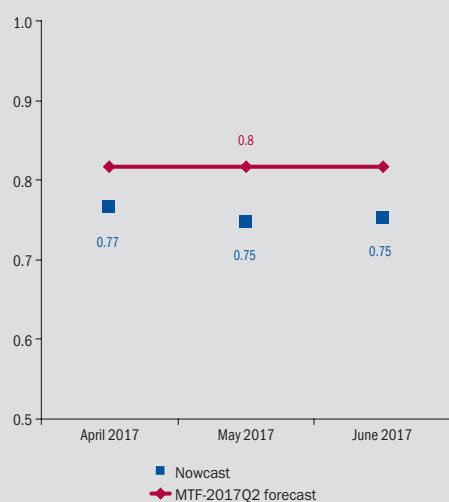


Sources: SO SR and NBS calculations.

² The band around the point estimate denotes ± 1 and ± 2 times the root mean square error. Nowcasts are calculated using OLS time series models based on selected sets of monthly indicators (for employment, a factor model is used). Nowcasts provide a current estimate of future developments using available monthly figures from the current quarter, their future values forecast with ARIMA models, and their lagged values. The individual model projections are independent of each other and therefore a forecasting error in a past quarter cannot affect current projections. Further details are available in the commentaries on the [GDP nowcasts](#), [private consumption nowcasts](#), [export nowcasts](#) and [employment nowcasts](#).

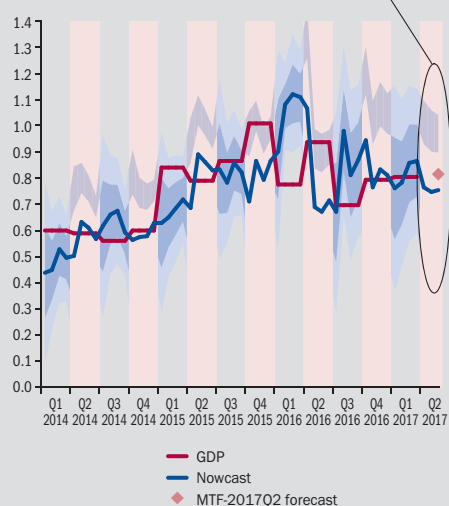


**Chart 19 Nowcast for GDP in Q2 2017
(quarter-on-quarter percentage changes)**



Sources: SO SR and NBS calculations.

Chart 20 GDP nowcast (quarter-on-quarter percentage changes)²



Sources: SO SR and NBS calculations.

Note: The GDP nowcast excludes qualitative impacts and one-off effects (e.g. EU funds).



OVERVIEW OF MAIN MACROECONOMIC INDICATORS FOR SLOVAKIA

Table 2 Selected economic and monetary indicators for Slovakia*(annual percentage changes, unless otherwise indicated)*

	Gross domestic product	HICP	Industrial producer prices	Employment ESA 2010	Unemployment rate (%)	Industrial production index	Total sales of sectors ¹⁾	Economic Sentiment Indicator (long-term average=100)	M3 (for analytical use) ²⁾	Loans to private sector ³⁾	Loans to non-financial corporations ³⁾	Loans to households ³⁾	State budget balance (EUR mil.)	General government balance (% of GDP)	General government gross debt (% of GDP)	Current account (% of GDP)	Balance of trade (% of GDP)	USD/EUR exchange rate (average for the period)
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
2009	-5.4	0.9	-2.6	-2.0	12.1	-15.5	-16.5	76.9	-2.8	1.1	-3.3	11.0	-2,791.3	-7.8	36.3	-3.4	0.4	1.3948
2010	5.0	0.7	-2.7	-1.5	14.4	8.1	8.0	98.7	7.8	5.3	1.6	12.5	-4,436.1	-7.5	41.2	-4.7	-0.1	1.3257
2011	2.8	4.1	2.7	1.8	13.6	5.3	6.2	98.8	2.9	9.3	7.6	11.1	-3,275.7	-4.3	43.7	-5.0	-0.1	1.3920
2012	1.7	3.7	3.9	0.1	14.0	8.0	4.4	93.9	8.8	3.8	-2.3	10.3	-3,810.7	-4.3	52.2	0.9	3.4	1.2848
2013	1.5	1.5	-0.1	-0.8	14.2	3.8	1.9	90.2	6.4	6.4	1.7	10.3	-2,023.3	-2.7	54.7	1.9	3.9	1.3281
2014	2.6	-0.1	-3.5	1.4	13.2	3.5	2.7	100.4	2.5	7.7	1.9	13.2	-2,923.4	-2.7	53.6	1.1	3.6	1.3285
2015	3.8	-0.3	-4.2	2.0	11.5	7.4	7.4	99.7	11.5	10.7	7.3	13.1	-1,932.6	-2.7	52.5	0.2	2.6	1.1095
2016	3.3	-0.5	-4.3	2.4	9.7	4.7	4.1	101.6	6.1	10.2	4.2	13.4	-980.3	-1.7	51.9	-0.7	2.8	1.1069
2016 Q2	3.8	-0.6	-5.2	2.3	9.6	7.4	5.6	98.7	9.7	8.5	1.3	13.4	-	-1.7	52.2	0.6	4.0	1.1292
2016 Q3	3.0	-0.7	-4.2	2.4	9.5	2.8	2.1	102.4	9.3	9.9	4.4	13.1	-	-0.6	52.4	-1.0	2.2	1.1166
2016 Q4	3.0	-0.1	-2.4	2.6	9.1	4.1	3.6	102.7	6.1	10.2	4.2	13.4	-	-3.1	51.9	-1.8	1.8	1.0789
2017 Q1	3.1	1.0	2.0	2.1	8.7	7.8	6.1	104.3	5.7	11.1	8.0	12.6	-	.	.	-0.1	3.1	1.0648
2016 June	-	-0.7	-4.5	-	9.5	5.8	6.1	98.6	9.7	8.5	1.3	13.4	375.1	-	-	-	-	1.1229
2016 July	-	-0.9	-4.6	-	9.4	-11.9	-5.3	104.0	8.9	10.3	5.3	13.1	112.2	-	-	-	-	1.1069
2016 Aug.	-	-0.8	-4.8	-	9.4	17.9	9.7	99.9	9.0	10.4	5.4	13.1	13.1	-	-	-	-	1.1212
2016 Sep.	-	-0.5	-3.2	-	9.4	4.1	2.4	103.4	9.3	9.9	4.4	13.1	-33.2	-	-	-	-	1.1212
2016 Oct.	-	-0.3	-2.8	-	9.1	3.5	3.2	102.8	8.7	10.1	5.4	13.0	223.7	-	-	-	-	1.1026
2016 Nov.	-	-0.2	-2.6	-	8.8	3.3	3.4	101.3	8.1	9.4	3.5	13.1	-201.6	-	-	-	-	1.0799
2016 Dec.	-	0.2	-1.8	-	8.8	5.8	4.1	103.9	6.1	10.2	4.2	13.4	-358.1	-	-	-	-	1.0543
2017 Jan.	-	0.8	0.4	-	8.6	7.6	4.7	104.6	6.2	11.4	7.3	13.5	92.3	-	-	-	-	1.0614
2017 Feb.	-	1.2	2.6	-	8.4	2.5	5.2	106.6	6.6	11.9	9.4	13.5	-500.0	-	-	-	-	1.0643
2017 Mar.	-	1.0	3.0	-	8.0	13.1	8.4	101.6	5.7	12.0	8.5	13.8	70.7	-	-	-	-	1.0685
2017 Apr.	-	0.8	2.5	-	7.7	-3.2	4.2	101.6	6.1	12.3	9.6	13.6	-298.2	-	-	-	-	1.0723
2017 May	-	1.1	.	-	.	.	.	102.6	-256.4	-	-	-	-	1.1058

Sources: Statistical Office of the Slovak Republic, MF SR, the European Commission and NBS.

1) Constant prices (seasonally adjusted).

2) Currency in circulation in M3 refers to money held by the public (according to methodology in place prior to 2008).

3) Adjusted for sales and securitisation.

More detailed time series for selected macroeconomic indicators

http://www.nbs.sk/_img/Documents/_MonthlyBulletin/2017/StatisticsMB0617.xls