UniCredit Bank

Weekly

N . o . t . e . s

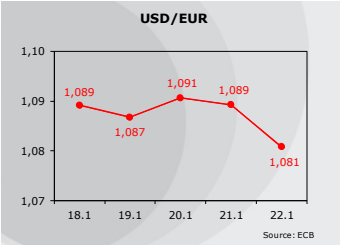
English translation by an external party

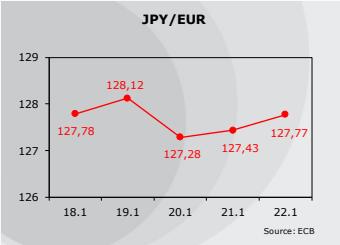
HIGHLIGHTS OF THE WEEK

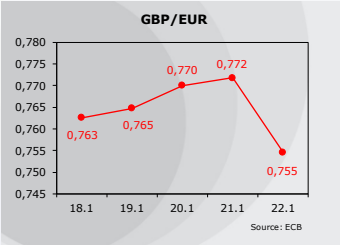
03/2016

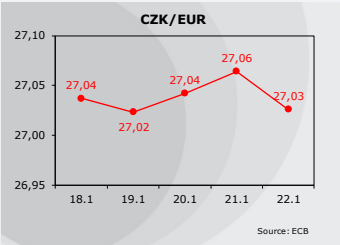
> Chart of the Week: Car sales rose 9% in Europe last year
> Unemployment keeps dropping dynamically
> Falling oil prices preventing inflation in Europe from recovering

WEEK ON THE MARKETS









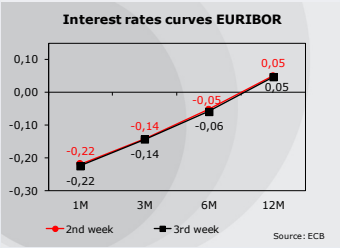
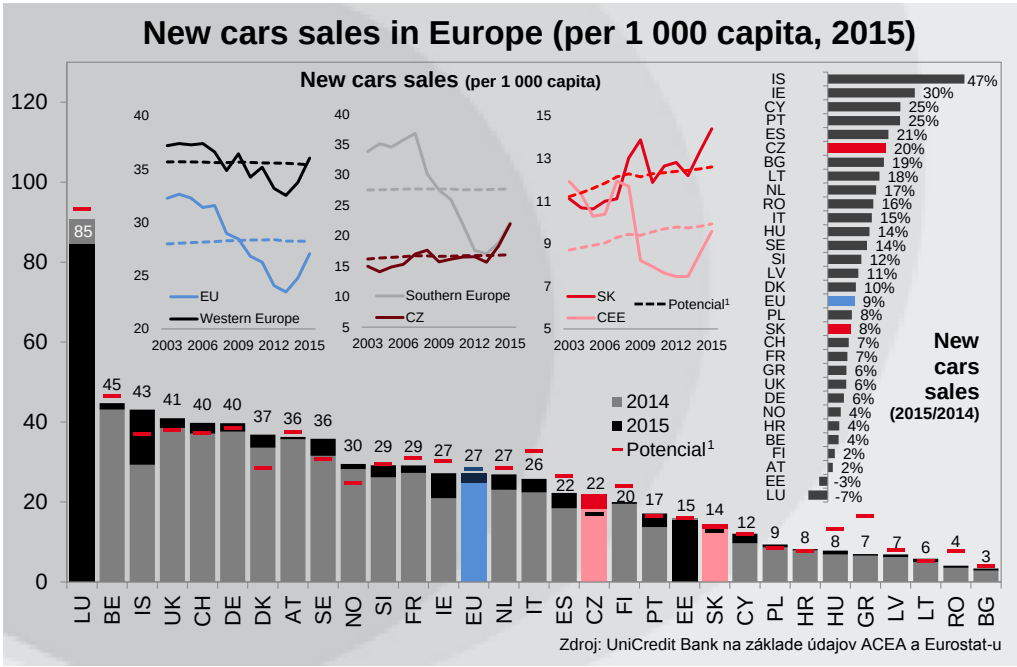


CHART OF THE WEEK



Note: 1. potential sales are based on panel regression with fixed effect between car sales per 1,000 residents and GDP per capita at purchasing power parity (PPP) realised on data of the EU and EFTA countries in 2003-2015; 2009-2010 figures have been left out from the analysis as the sales were distorted by the scrappage scheme in several EU countries in this period.
2. Western Europe: AT, BE, DE, DK, FI, FR, IE, LU, NL, SE, UK; Southern Europe: CY, ES, GR, IT, PT; SVE: BG, CZ, EE, HR, HU, LT, LV, PL, RO, SI, SK

Last year, the economic growth has recovered in most of European countries, with the growth structure shifting more towards domestic consumption. Cheap oil (and absent inflation) or relax monetary stance massively supported European consumption, with consumer confidence improving, too. Also the European market with sales of new passenger car enjoyed the recovery of economies. The first signs of rebound could be seen at the end of 2013 and in 2014. However, sales continued along the road already embarked upon also in 2015, with the dynamics of their growth accelerating even more in line with the economic cycle of European economies. On average, the new-car sales in Europe went up by considerable 9% yoy last year, clearly reporting the fastest dynamics of growth at least in the last 10 years and making Europe the fastest growing market at the same time. Increasing sales in Europe have thus helped European car plants cover potential losses on non-European markets, with mainly the close Russian market reporting decline. This has helped both the Slovak car plants, producing a record volume of cars and exceeding the magic threshold of one million cars produced for the first time in history, and the Czech car plants, reporting historical maximum production volumes, too.

The growth of new-car sales in Europe last year has been reported across the countries, with sales falling only in 2 countries - Luxembourg and Estonia. Last year, an above-average growth of sales was reported mainly by Southern European countries (as much as by 17.5% yoy) – mainly countries on the Iberian peninsula, however, even Greece reported strong growth earlier this year, although the car sales in this country were falling once again due to the development in early summer. Last year, also sales in the CEE countries were doing well (12% yoy), including the V4 countries (12% yoy in average). Strong growth was reported mainly by the Czech Republic, with new-car sales rising by as much as 20% yoy. Also Slovakia has reported a historically highest demand for new cars - their sales went up by another 8% yoy. A bit slower growth of sales was reported in Western European countries (not reporting even such a substantial crisis slump in sales as the Southern and Eastern Europe region), still reporting growth by considerable 7% yoy in average.

27 new passenger cars per 1,000 residents were sold in Europe last year. Highest sales per capita are reported in the long run by Luxembourg (85 per 1,000 residents); however, quite strong sales are reported also by Belgium (45), Iceland (43), Great Britain (41), Switzerland and Germany (both 40). On the contrary, it is no surprise that the lowest new-car sales per capita are reported by the poorest European countries, i.e. mainly Eastern European countries – Bulgaria (3), Romania (4), Lithuania (6), Latvia (7), as well as Greece (7), which is still struggling with the debt crisis. As for CEE, highest sales per capita are still reported by Slovenia (29 per 1,000 residents), followed by the Czech Republic (22), Estonia (15) and Slovakia (14).

After the weaker "crisis" years, new-car sales in Europe have come considerably closer to their potential last year. Based on a simple model, the lagging behind the potential based on the GDP per capita last year has been reduced by more than two thirds and the potential gap has contracted to around 500 thousand cars or one car per 1,000 residents. Despite this fact, we may see a relatively dynamic growth of sales (although a bit slower than last year) this year, too. With a strong cyclical recovery of European economies, we may expect that new-car sales in Europe could be above their potential, partially offsetting the losses of recent years, when they were substantially lower than the model potential due to low consumer confidence, and the cumulated loss of sales in Europe was more than 8 million cars (16.5 cars per 1,000 residents) in 2009-2015 compared to the estimated potential. At the same time, natural room for the growth of sales (catching up with the model potential level) is still reported by several Southern and Eastern European countries – mainly in Greece, Romania, Hungary, Italy, Finland and Spain. On the contrary, new-car sales were well beyond the model potential in Central European countries last year – in the Czech Republic and Slovakia, as well as in Denmark and Sweden. The room for further dynamic growth of sales seems considerably limited in these countries. Slightly higher sales than the model potential have been reported also by the key European market – Germany. (lk)

ECONOMIC CALENDAR

Week	Indicator	Period	Market Consensus	UniCredit Bank Estimate	Reality
3.	Harmonised index of consumer prices (January 19)	December	-	-0.3% mom -0.4% yoy	-0.3% mom -0.5% yoy
	Unemployment (January 15-20)	December	-	10.8%	10.63%
4.	Producer prices (January 28)	December	-	-5.0% yoy	-

Source: Bloomberg, Reuters, NBS, SOSR, UPSVaR, MinFin SR, UniCredit Bank Slovakia

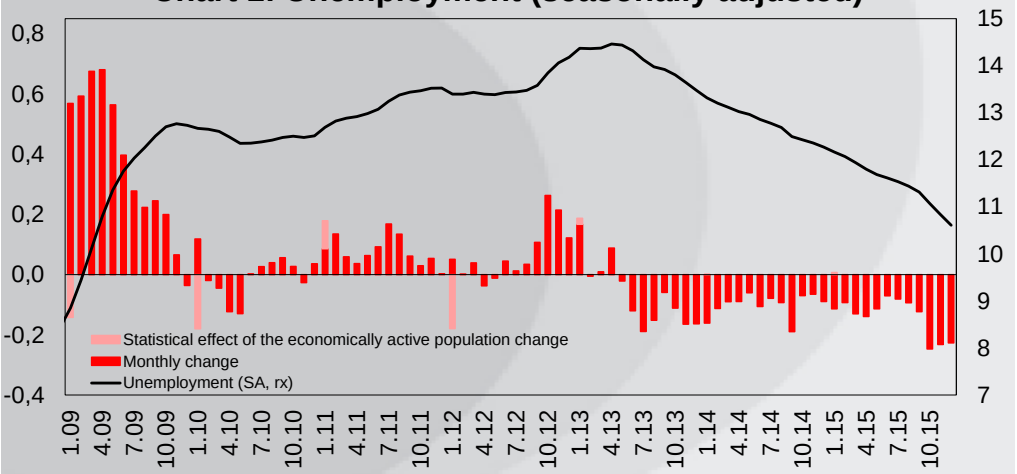
ECONOMY

UNEMPLOYMENT

Unemployment unexpectedly falling in December – for the first time in history

According to the Central Office of Labour, Social Affairs and Family methodology, (disposable) unemployment fell once again in December - by -0.14 pp to 10.63%. Unemployment is usually rising in December due to completion of seasonal works and subdued activity of companies at the end of the year - it has been the first time in history that unemployment reported a mom decline in the last month of the year. The seasonally adjusted unemployment (calculation of UniCredit Bank) went down by another 0.23 pp to 10.61. After adjustment for seasonal effects, unemployment dropped by considerable -0.71 pp in the last three months, falling faster in 2006 for the last time. To date, Slovakia, as an independent state, has reported lower unemployment only in June 2006 until March 2009. Compared to last year's November, unemployment went down by 1.66 pp, i.e. by 45 thousand unemployed.

Chart 1: Unemployment (seasonally adjusted)

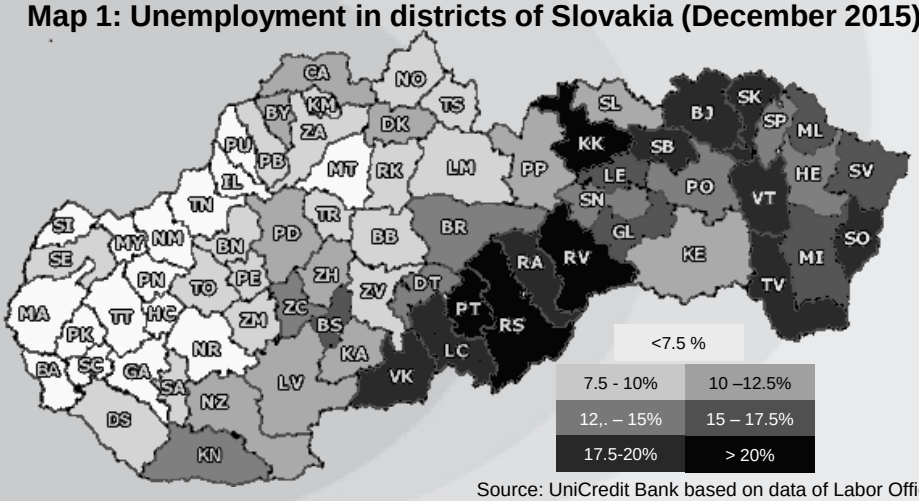


Source: UniCredit Bank base on data of Labour Office

As in the previous two months, also in December one may mention a combination of good condition of the economy, generating new jobs and reducing the mass of unemployed people, and several administrative and statistical factors with regard to the decline in unemployment. Although the number of people placed on the market dropped from almost 18 thousand in November to 11.3 thousand in December, this drop may be fully attributed to the seasonal effects, when the activity of companies on the labour market is usually subdued at the end of the year. After adjustment for these seasonal factors, the number of unemployed people placed on the labour market maintained its November level, i.e. well above average of the previous months, and an almost 9-year peak. However, unlike the previous months, the number of open vacancies for jobs has no longer increased; on the contrary, it fell by almost 8 thousand mom to 27.6 thousand, which can also be partially attributed to season (companies are usually not offering new jobs before Christmas) - the number of vacant positions is still higher by nearly 18.5 thousand yoy.

Besides the higher number of unemployed people placed on the labour market, (disposable) unemployment was reduced also by administrative and statistical factors in December as well. The trend of the previous months in the form of increase in sick leaves continued in December - the sick leave rate (reducing the disposable unemployment) went up (after adjustment for the season – calculation of UniCredit Bank), reaching its peak in the last 3 years, being already at 7.5% (growing by more than 1 pp yoy). It is likely that control of the unemployed by labour offices has been more intensive again in recent months, with as much as 3,033 unemployed being forced to de-register due to non-cooperation - only around 2,250 unemployed, on average, de-registered due to non-cooperation in the first 9 months of the year. The number of unemployed people involved in municipal and voluntary jobs increased too in December (by almost 2 thousand mom to nearly 18 thousand). We expect that these administrative and statistical factors could reduce unemployment by 0.09-0.11 pp in December (compared to the previous month).

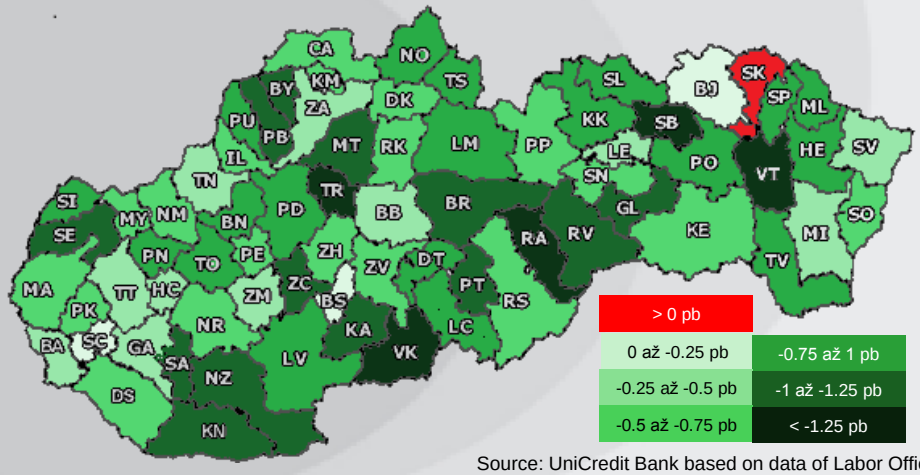
Map 1: Unemployment in districts of Slovakia (December 2015)



Source: UniCredit Bank based on data of Labor Office

After adjustment for traditional season, unemployment was falling in all Slovak regions in December, with the highest decline being reported by regions with highest unemployment rate – Košice, Banská Bystrica and Prešov. In terms of districts, unemployment went up (after adjustment for the season) only in 4 out of 79 districts compared to the previous month - Svidník, Bratislava III, Galanta and Michalovce. In the remaining 75 districts, unemployment was falling in December, with the strongest decline being reported by the districts of Medzilaborce, Poltár, Revúca and Stropkov. Unemployment higher than 15% was reported only by 20 out of 79 Slovak districts in December (1 less than in November), with only 4 of them reporting unemployment higher than 20% - Rimavská Sobota (27.4%), Kežmarok (23.4%), Rožňava (21.6%) and Poltár (20.9%). The lowest unemployment rate is still reported by the vicinity of the capital – districts of Bratislava (from 4.7% to 5.7%), Galanta (5.1%), Trnava (5.5%), Senec (5.6%), Pezinok (5.6%) and Malacky (5.9%), followed by some districts in the area of Považie – Púchov (5.7%), Piešťany (5.8%). Unemployment below 10% was reported by as much as 41 out of 79 Slovak districts in December (1 more than in November).

Map 2: Unemployment change by districts (SA, in last 3M, 12/2015)



Source: UniCredit Bank based on data of Labor Office

OUTLOOK

Although unemployment was reduced also by administrative effects in the last quarter, the main driver of its decline was the improving labour market, which was able to absorb a considerable portion of the unemployed. The growing economy is likely to retain current trend also in the next months and the seasonally adjusted unemployment will keep falling gradually. However, its decline may be gradually decelerated by the structure of unemployed people with the prevalence of the long-term unemployed with no experience and qualification, or an unequal regional distribution of unemployment and low mobility of the unemployed in some regions. In some parts of Slovakia, employers may often face the issue of not finding suitable

candidates for the job to be occupied from among the unemployed today. Therefore, domestic employers are dealing with the issue of inappropriate structure of job applicants on the domestic labour market also by higher imports of workforce from abroad – according to the statistics of labour offices, more than 25 thousand foreigners have been working in Slovakia in December 2015 (around one fourth of them were Romanians, with employees from the surrounding V4 countries, Ukraine and Serbia reporting above-average rates, too); their number has increased by more than one fifth only in the course of the last year.

Despite this fact, due to traditional season (end of seasonal works in agriculture and construction), we expect a moderate increase in the unemployment rate at the beginning of the year (in January). Due to completion of "EU projects", construction should deliver a bit more unemployed people than usually; on the contrary, the strong growth of the economy could flatten the seasonal effect, as at the end of the year – according to our calculations, unemployment should range at 10.7-10.75% in January. (lk)

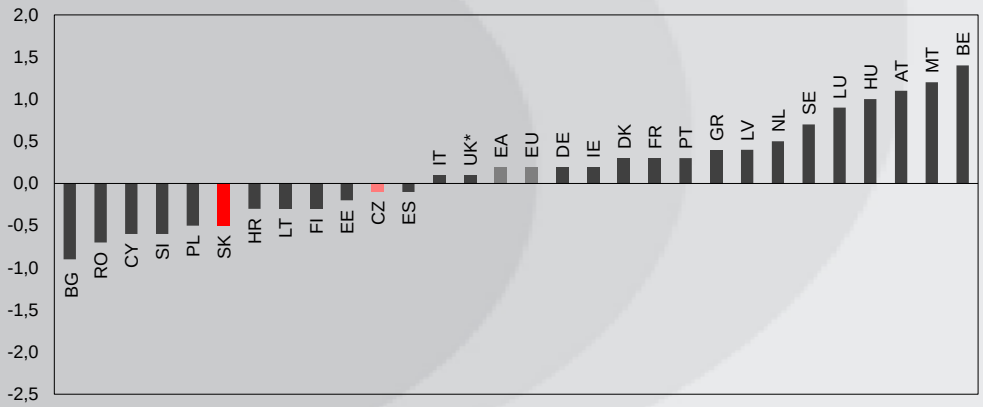
HARMONISED INDEX OF CONSUMER PRICES

Falling oil prices preventing inflation in Europe from recovering

In the harmonised Eurostat methodology, prices fell by -0.3% mom in Slovakia in December, with the dynamics of their yoy decline deepening from -0.4% to -0.5%. On average in the euro area countries, consumer prices remained unchanged in December, with the dynamics of their yoy growth slightly accelerating from 0.1% to 0.2%. Prices of fuels were once again the main factor hampering the price growth in Europe. The current decline in oil prices on global markets has considerably moderated the expected influence of the base effect on the yoy inflation in European countries. Although the negative contribution of fuel prices had moderated in several countries, the fuel prices were falling by -8.3% yoy in the euro area, reducing overall inflation by considerable 0.4 pp.

Core inflation (i.e. inflation adjusted for the change in prices of food and energy) is still subdued by the secondary effects of cheap energy, however, it remained relatively stable also in December – core prices went up by 0.3% in the euro area in December, growing by 0.9% yoy as in November; a moderate yoy growth is already reported by all euro area countries (with Bulgaria being the only EU country where core prices are still slightly falling yoy). Dynamics of the yoy growth of core prices in Slovakia accelerated from 0.5% to 0.7% in December, reaching its 13-month peak.

Chart 2: Harmonised index of consumer prices (12/15, YoY)



* 11/2015

Source: UniCredit Bank based on data of Eurostat

The number of euro area countries with deflation went down from 8 to 7 in December (with Ireland and Greece no longer reporting deflation and Estonia returning to the negative) - with the fastest price decline being reported by Cyprus and Slovenia (identically by -0.6%). Out of the 9 EU countries that are not yet members of the euro area, as many as five of them reported a yoy price decline, with the highest decline being reported by Bulgaria (by -0.9%) and Romania (by -0.7%). On the contrary, the fastest price growth was reported by Belgium (1.4%), Malta (1.2%) and Austria (by 1.1%); as for the non-euro area EU countries, by Hungary (by 1.0%).

OUTLOOK

There is still no stronger inflation driver in Europe (in Slovakia either) and this situation should persist during most of 2015. The current further considerable decline in oil prices on global markets has only postponed the recovery of inflation in European countries.

The supply-side nature of absent inflation in Europe supports the consumption of European households - with low energy prices, households have more available funds to purchase other goods and services. The risks of occurrence of the harmful deflationary spiral still seems to be relatively low. Although the secondary effects of low energy prices prevent the substantial recovery of demand-pull inflation (even with an increasing demand); however, it is still relatively stable just above zero. (lk)

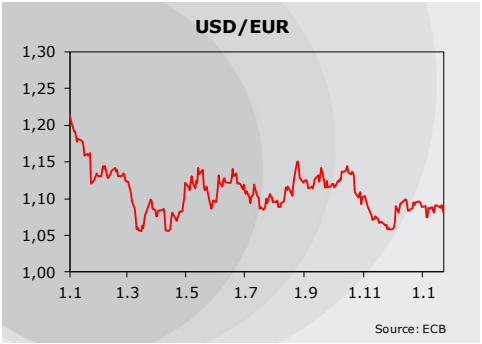
ECONOMIC OUTLOOK

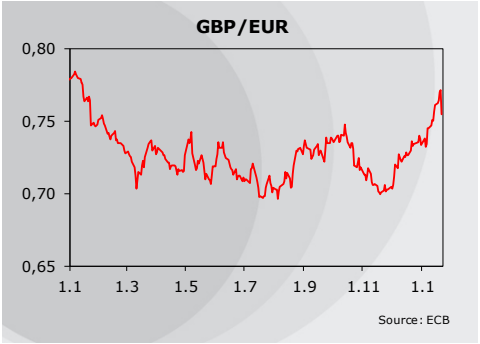
Slovakia	2011	2012	2013	2014	2015F	2016F	2017F
Real GDP growth	**2,8**	**1,5**	**1,4**	**2,5**	**3,4**	**3,0**	**3,0**
GDP per capita	13 052	13 398	13 643	13 947	14 372	14 788	15 291
Household consumption	**-0,6**	**-0,4**	**-0,8**	**2,4**	**2,5**	**2,9**	**2,6**
Government consumption	-1,7	-2,6	2,2	5,9	3,8	1,7	0,5
Gross investments	7,6	-14,0	1,5	2,6	11,4	-2,5	6,8
Exports	12,0	9,3	6,2	3,6	6,4	5,6	4,1
Imports	9,6	2,5	5,1	4,3	8,1	4,1	4,5
Industrial Production	**6,9**	**13,4**	**5,3**	**3,7**	**5,8**	**5,5**	**6,5**
Construction	-1,7	-12,5	-5,3	-4,2	15,1	2,7	6,5
Retail Sales	-2,8	-1,0	0,1	3,6	1,7	2,3	2,5
CPI (average)	**3,9**	**3,6**	**1,4**	**-0,1**	**-0,3**	**0,3**	**1,5**
CPI (Dec.)	4,4	3,2	0,4	-0,1	-0,2	0,9	1,6
Real Estate inflation	-3,0	-1,1	-0,9	-0,8	0,9	2,3	2,4
Average Wage level	786	805	824	858	880	904	930
Nominal Wage growth	**2,2**	**2,4**	**2,4**	**4,1**	**2,5**	**2,8**	**2,9**
Real Wage growth	-1,6	-1,2	1,0	4,2	2,8	2,5	1,4
Employment growth (LFS)	1,5	-1,0	0,0	1,5	2,2	1,0	1,0
Unemployment (average, LFS)	**13,5**	**14,0**	**14,2**	**13,2**	**11,6**	**10,8**	**9,9**
Fiscal deficit (% of GDP)	-4,1	-4,2	-2,7	-2,8	-2,7	-2,0	-1,0
Public Debt (% of GDP)	43,3	51,9	54,6	53,5	53,1	52,9	51,7
Foreign Direct investment (EURbn)	2,8	3,2	-0,3	0,2	2,0	2,5	3,3
ECB Refi rate (%, Dec.)	**1,00**	**0,75**	**0,25**	**0,05**	**0,05**	**0,05**	**0,50**
3M EURIBOR (%, Dec.)	1,2	0,2	0,3	0,1	-0,2	-0,2	0,5
3Y SK gov't bonds(%,Dec.)	1,1	0,3	0,7	0,5	-0,1	0,0	1,5
10Y SK gov't bonds(%,Dec.)	4,8	2,2	2,6	1,3	0,8	1,0	2,0

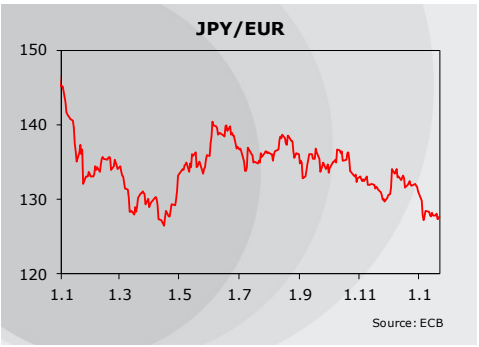
Abroad	2011	2012	2013	2014	2015F	2016F	2017F
Eurozone GDP	**1,5**	**-0,6**	**-0,4**	**0,9**	**1,5**	**1,9**	**1,6**
German GDP	**3,1**	**0,9**	**0,5**	**1,6**	**1,7**	**2,1**	**1,4**
Czech R GDP	1,7	-1,0	-0,9	2,0	4,3	2,3	3,0
USA GDP	1,7	2,8	1,9	2,4	2,5	2,6	2,4
Eurozone Inflation	2,7	2,5	1,3	0,4	0	0,9	1,4
EUR/USD (average)	**1,39**	**1,28**	**1,33**	**1,33**	**1,11**	**1,08**	**1,16**
EUR/USD (Dec)	1,32	1,31	1,37	1,21	1,09	1,12	1,18
EUR/CZK (Dec)	25,8	25,1	27,5	27,7	27,0	27,0	26,5
EUR/HUF (Dec)	304,2	285,8	300,2	315,5	314,0	320,0	325,0
EUR/PLN (Dec)	4,5	4,1	4,2	4,3	4,3	4,2	4,2

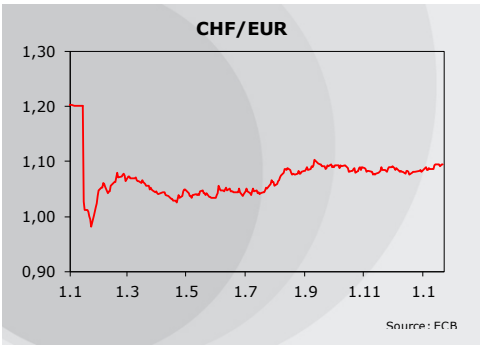
Source: NBS. SOSR. ÚPSVaR. MinFin SR. Eurostat. ECB
Forecasts: UniCredit Bank Slovakia – Slovakia. Eurozone. USA (EURIBOR. USDLIBOR. Brent. USD/EUR); UniCredit Group (CEE Economic Research. CIB) – Eurozone. USA

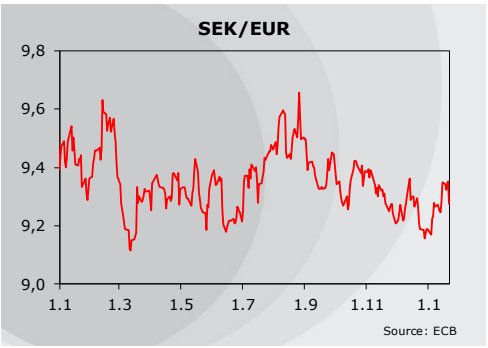
FOREIGN EXCHANGE

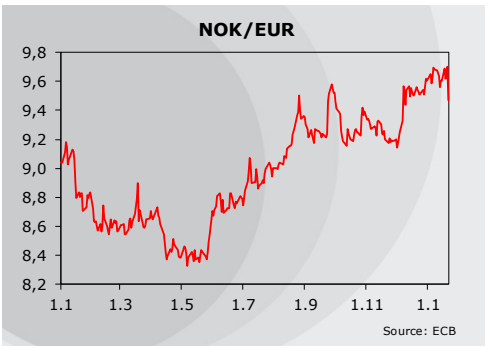


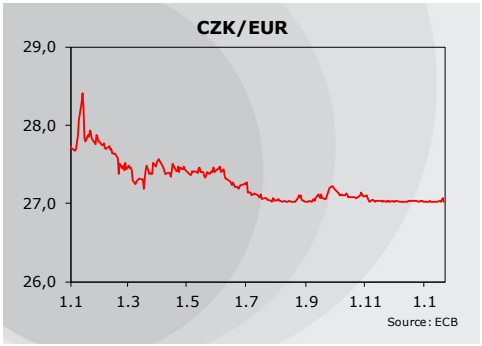


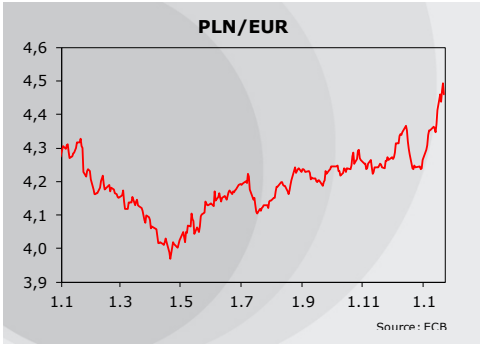


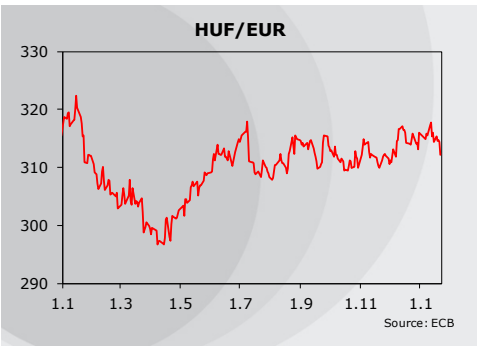


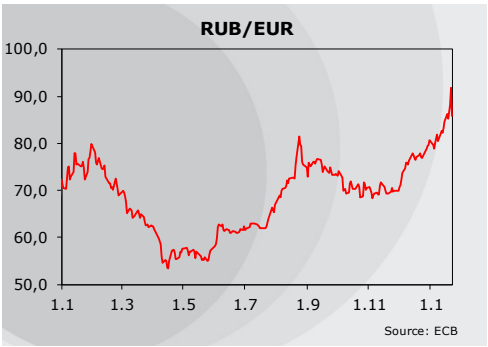






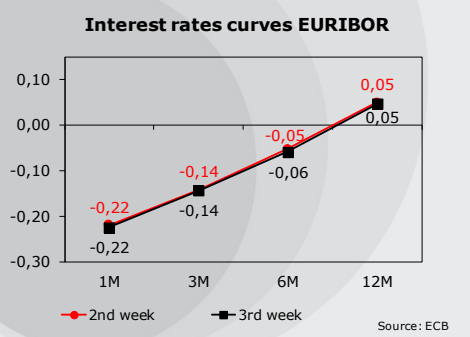




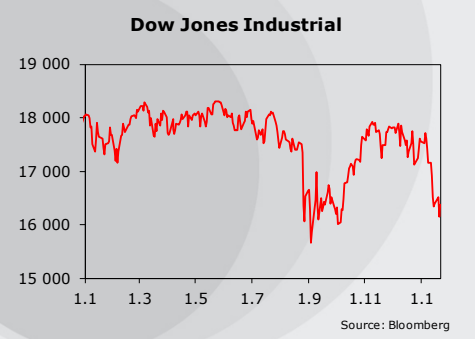


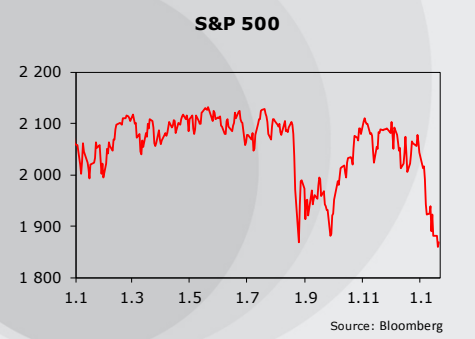
MONEY MARKET

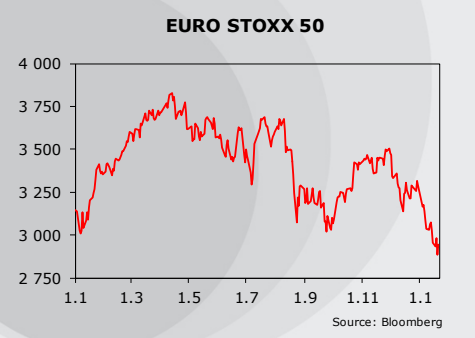
MONEY MARKET

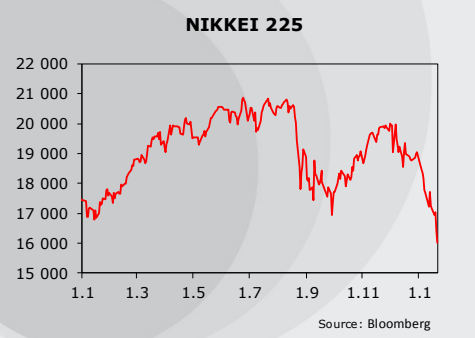


EQUITY









UniCredit Bank Weekly N.o.t.e.s has been prepared by Macroeconomic Analysis

Ľubomír Koršňák,
+421 2 4950 2427; Lubomir.Korsnak@unicreditgroup.sk

CONTACTS:

Jaroslav Habo, Large Corporates and Multinationals
+421 2 4950 4319; Jaroslav.Habo@unicreditgroup.sk

František Doležal, MID Corporates
+421 2 4950 4229; Frantisek.Dolezal@unicreditgroup.sk

Raymond Kopka, Retail and SB
+421 2 4950 3212; Raymond.Kopka@unicreditgroup.sk

Roman Hajduk, Private
+421 2 5942 8022; Roman.Hajduk@unicreditgroup.sk

The present material was elaborated by UniCredit Bank Czech Republic and Slovakia, a.s. and can be reproduced only with its prior written consent. The document contains opinions of authors, which do not necessarily have to correspond with the opinion of UniCredit Bank Czech Republic and Slovakia, a.s.. Information and opinions contained herein were obtained from sources, which were deemed as reliable, however. UniCredit Bank Czech Republic and Slovakia, a.s. does not provide any guarantee for their correctness and completeness. UniCredit Bank Czech Republic and Slovakia, a.s. bears no responsibility for possible damage or other detriment, which can be suffered by third parties if they decide to use information contained herein.

The present document cannot be deemed as a replacement for provision of individual investment consultancy. Investors have to make their own assessment of suitability and adequacy of investment in any financial instrument mentioned herein and that based on the substance of and risks connected with the relevant financial instrument, their own investment strategy and their own conditions and financial situation. The present document is not an investment recommendation or direct personal advice, neither this document nor any part hereof is a basis for conclusion of any contract or agreement upon obligation of whatsoever kind, and one cannot rely on the present document in connection with conclusion of any contract or agreement upon any obligation and it is not meant to be used as persuasion or recommendation for conclusion of any contract or agreement upon any obligation of any kind. We strongly recommend investors to contact their own investment consultants in order to receive the required explanations and individual investment consultancy.

The present material is only for information purposes and (i) it does not represent any offer for sale or subscription or call to file proposals for purchase or subscription of any financial instruments or securities (ii) it does not represent whatsoever propagation thereof. Investment opportunities mentioned herein do not have to be suitable and adequate for certain particular investors, namely depending on their specific investment objectives and time horizon of investment or in connection with their overall financial situation. Investments in financial instruments are connected with risk and value of the investment and revenue on the investment can grow or fall, and that also as a consequence of currency fluctuations. Performance in the past is not a reliable indicator of future performances. No predictions of performance in the future are a reliable indicator of performance in the future. One cannot rely on this document as on an explanation of all risks connected with investing in financial instruments, instruments of the money market, investment instruments or securities referred to herein.