UniCredit Bank

Weekly

N . o . t . e . s

English translation by an external party

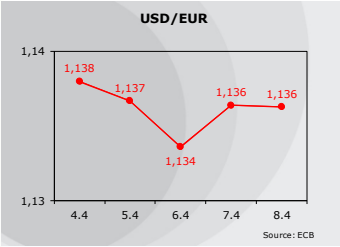
HIGHLIGHTS OF THE WEEK 14/2016

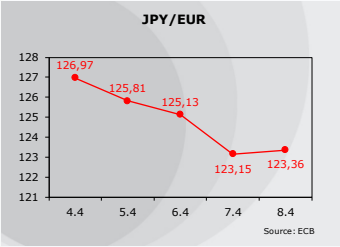
> Chart of the Week: Long-term unemployment remains an outstanding problem of the Slovak economy

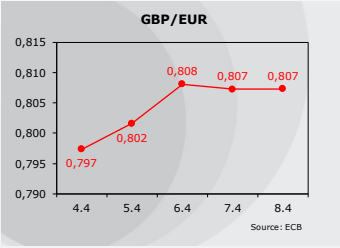
> Retail sales are stagnating, sales from the sale of cars and in hotels are growing dynamically

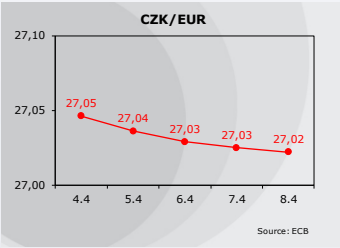
> Foreign trade surplus increased in February, mainly owing to growing exports

WEEK ON THE MARKETS









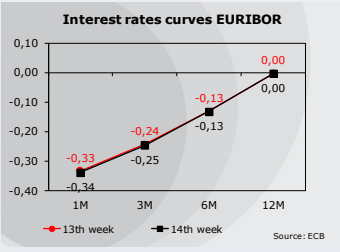
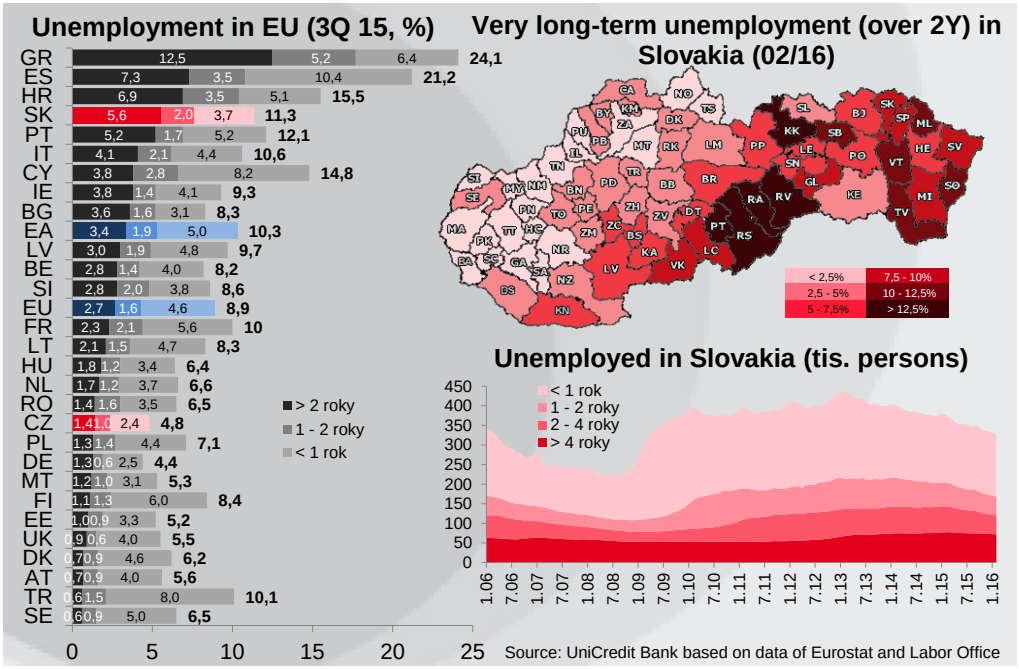


CHART OF THE WEEK



In recent months, unemployment in Slovakia experiences a record decline; according to the data of the Labor office, it has gotten very close to the magic level of 10% in February, and it is highly likely that it will exceed this limit as soon as the next month. In the Eurostat methodology, it was at 10.3%, being exactly at the average of the euro area countries. The considerable decline in unemployment is mainly due to the accelerating economic growth. Moreover, the nature of the growth also helps speed up the decline in unemployment when it is no longer generated by the strong growth of labor productivity than in the recent past of the preceding decade (due to the change in the structure of the economy and its massive upgrade together with a strong inflow of foreign investments). Therefore, the economic growth is more considerably reflected in the labor market, being able to create new jobs even with a lower GDP growth. However, Slovakia is undoubtedly struggling with the structure of its unemployment. Its cons are made bigger with its sharp decline, where there are mainly the long-term unemployed who are registered by the labor offices, they have no necessary qualification and working habits and are often virtually useless for the purposes of the labor market. But without extra retraining or upgrading costs and acquisition of working habits of the long-term unemployed, further decline in unemployment will be difficult. To these costs, domestic companies may prefer import of an adequate workforce from abroad; in the worst-case scenario, the lack of suitable domestic workforce could lead also to limitation of further investment in Slovakia.

Therefore, the current *Chart of the Week* focuses on the unemployment statistics, with emphasis on the length of registration of the unemployed. According to the

recent Eurostat data concerning long-term unemployment of 3Q15, it is clear that Slovakia ranks among European countries with the highest very long-term unemployment rate, i.e. unemployment exceeding 2 years. The number of the unemployed for more than 2 years is as much as 5.6% of the economically active population, i.e. more than a double than the European average at 2.7%. A higher ratio of the very long-term unemployed is only in Greece, Spain, and Croatia. Their numbers have increased significantly mainly in recent years in Greece, Spain, Portugal, Italy, and Cyprus, in particular as a consequence of the economic issues of these countries following 2008; as for Croatia, we may speak of a long-term issue as is the case of Slovakia. On the contrary, Sweden, the neighboring Austria, Denmark or Great Britain report less than 1% of economically active population is unemployed for more than 2 years. It means that after losing their existing job, a vast majority of people in these countries finds a new job within 2 years, however, it is usually up to 1 year. This reduces the costs of the social system in these countries, moreover, the unemployed retain their working habits as well as their potential of re-employing themselves. Quite a low very long-term unemployment rate is reported also by the remaining V4 countries - Poland (1.3%), Czech Republic (1.4%), and Hungary (1.8%).

As for the short-term unemployment up to 1 year, which reflects rather the current condition of the economy, Slovakia belongs to the better half of the EU. Unemployment up to 1 year (3.7%) is significantly below the EU average (4.6%), slowly approaching 3%, which could be already considered a level close to the natural workforce fluctuation. Short-term unemployment at around 3% is reported by the best EU countries (only 2 countries – Germany and the Czech Republic report a lower short-term unemployment); short-term unemployment was close to 3% also in Slovakia in the period of boom prior to the outbreak of the crisis, when many companies reported serious troubles finding a suitable workforce.

The issue of long-term unemployment in Slovakia is increased also by its unequal regional distribution. While many districts in Western Slovakia report the very long-term unemployment (exceeding 2 years) below the EU average (even less than 1% in the districts of Trnava, Senec, and Galanta), it exceeds 10% in some districts of Central and Eastern Slovakia; extreme ratios are reported by districts of Rimavská Sobota and Revúca, where there is more than 15% of the economically active population unemployed for more than 2 years, with more than 10% of the population being unemployed for more than 4 years.

The current decline in unemployment has already been able to partially reduce the long-term unemployment. But the extremely long-term unemployment, i.e. unemployment for more than 4 years, is reporting only a negligible decline, and it is questionable whether its decline is driven by the labor market or rather by the shift of the extremely long-unemployed to the economically inactive population (e.g. retirement). The 2008 crisis made the problem of extremely long-term unemployment even more prominent. It seems that more than 20 thousand employees who lost their jobs at the time of the crisis, mainly in 2008 and 2009, have not been able to find new jobs to date, gradually becoming virtually useless for the labor market. The number of the extremely long-term unemployed has jumped from the roughly 50 thousand before the crisis to the current 70 thousand. (lk)

ECONOMIC CALENDAR

Week	Indicator	Period	Market Consensus	UniCredit Bank Estimate	Reality
14.	Retail sales (April 5)	February	-	2.9% yoy	0.5% yoy
	Foreign trade (April 8)	February	420 mil. EUR	413 mil. EUR	460 mil. EUR
15.	Industrial production (April 11)	February	-	2.7% yoy	-
	Construction production (April 11)	February	-	13.6% yoy	-
	Consumer prices (April 14)	March	-0.4% yoy	0.1% mom -0.4% yoy	-
	Harmonised index of consumer prices (April 14)	March	-0.3% yoy	0.1% mom -0.4% yoy	-

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

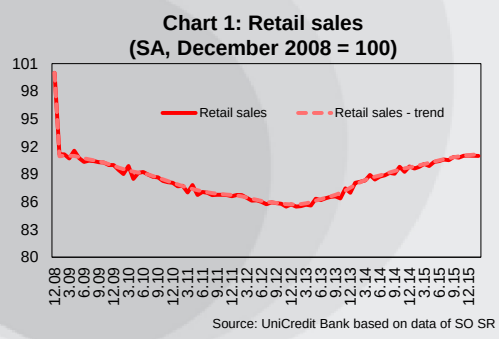
Retail sales stagnating; car sellers and hoteliers are growing

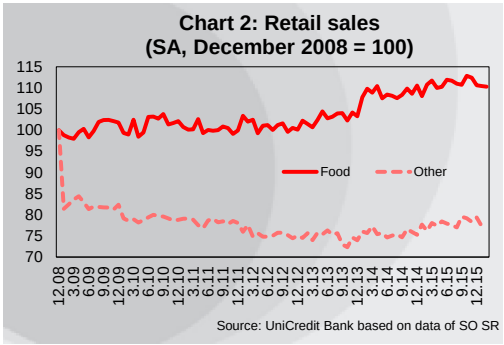
ECONOMY

RETAIL SALES

Even February saw no recovery in the sales of Slovak retailers. Retail sales remained more-or-less unchanged for the third month in a row (seasonally adjusted, calculation of UniCredit Bank based on the SO SR data). February also saw no change in the dynamics of their yoy growth, with retail sales growing by 0.5% yoy as in January.

Thus, the relatively high consumer confidence and positive labor market are still not reflected more substantially in the retail figures. However, Slovak households are still more courageous in other consumption components, for instance in making larger longer-term investments, such as buying a new car; Slovak hoteliers had a rather successful winter season as well. In February, sales from the sale and maintenance of cars continued to rise dynamically, being higher by a record 25.4% yoy (sales from the sale of cars itself were higher by as much as 33.8%). A record increase in sales was reported also by Slovak hotels – by as much as 15.4% yoy (the fastest growth since December 2007). On the aggregate, sales from retail, sale and maintenance of cars and sales of hotels and restaurants were still dynamically rising, growing according to our calculations by 0.7% mom (seasonally adjusted) in February, with the dynamics of their yoy growth accelerating to as much as 8.0%.





Looking at retail sales, February saw a mom decline in sales in the relatively more stable food segment. Decline was reported mainly by larger shops with the predominance of food. In recent months, the results of this segment have probably been negatively affected also by the financial issues of several shops (mainly in Bratislava which is known for strong sales). On the contrary, the longer-term shift of food sales towards smaller specialised food shops continued also in February, when their sales continued to rise mom, being higher by a considerable 34.6% compared to the same period a year ago. However, an overwhelming majority of sales in the food segment still comes from large-scale shops in stores, while the share of small specialised shops is still only at around 5 to 6%.

The non-food segment more sensitive to consumer sentiment and power of effective demand continued to grow in February. A relatively strong growth (at constant prices) is still reported mainly by petrol stations, probably owing to the low oil prices, which increases the demand for fuels. In a yoy comparison, the sales of Slovak petrol stations were rising by as much as 11.6%. However, even after adjustment for the strong sale of fuels, the non-food segment was growing, with a dynamic growth being still reported mainly by ICT sellers. On the contrary, there is a decline in sales of, in particular, sellers in marketplaces and, surprisingly, also of sellers outside shops, stalls, and markets (i.e. mainly online shops), where it, however, seems that the Statistical Office has not been able to record all sales in the long run.

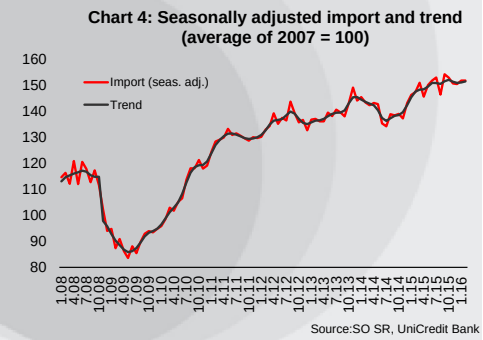
OUTLOOK

The positive development on the labor market and increasing disposable income of households, low interest rates and absent inflation should be beneficial to the growth of household consumption in the following months. Easter might bring also a more dynamic growth of sales in retail in March (mainly in the food segment). (lk)

Foreign trade surplus became distinct in February

FOREIGN TRADE

As expected, the foreign trade surplus became distinct in February, when, according to the interim data of the Statistical Office, the volume of exports exceeded the volume of imports by EUR 460 million. At the same time, based on specified data, the Statistical Office has reviewed the foreign trade surplus in January by EUR 63 million. Thus, the 12-month foreign trade surplus remained unchanged for the third month in a row, i.e. at 4.2% of the GDP.



In February, the turnover in foreign trade accelerated on both sides of the balance – the yoy growth of exports accelerated from 1.1% to 6.5% and imports from 1.3% to 6.9%. Compared to January, a strong growth was reported mainly by exports, which went up, after adjustment for seasonal factors, by a considerable 2.8% mom (calculation of UniCredit Bank). Growth of exports accelerated even despite the more significant decline in export prices in February, so we could see even more considerable acceleration of exports at constant prices. Exports confirm the positive sentiment of Slovak industry, which is indicated by the economic sentiment indicator. So far, Slovak exports have seemed to be relatively resistant to turbulences in financial markets early this year. At the same time, the strong growth of exports in February indicates that the industry figures to be published by the Statistical Office this week could be a pleasant surprise.

As was the case of exports, growth at current prices is subdued by falling prices (of oil in particular) also in the case of imports. The structure of imports in February has not been known yet but the poor retail figures early this year indicate that it is likely that imports are pushed up mainly by investment imports and imports of material and intermediate products for production. This could be good news for exports in the next months.

OUTLOOK

We assume than foreign trade surpluses could gradually grow in the following months and subsequently stabilise at around 4.7-4.8% of the GDP. Although imports will be pulled up by the increasing household consumption and recovering private investment, this growth should already be fully compensated by the growing exports driven by the cyclical recovery of European economies. (lk)

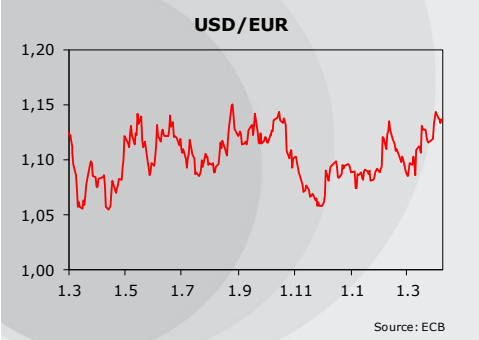
ECONOMIC OUTLOOK

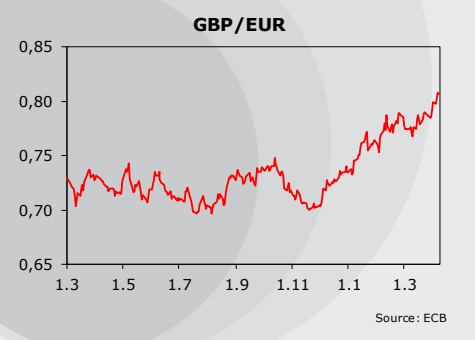
Slovakia	2011	2012	2013	2014	2015E	2016F	2017F
Real GDP growth	**2,8**	**1,5**	**1,4**	**2,5**	**3,6**	**3,2**	**3,2**
GDP per capita	13 052	13 398	13 643	13 947	14 287	14 860	15 383
Household consumption	**-0,6**	**-0,4**	**-0,8**	**2,4**	**2,4**	**2,9**	**2,6**
Government consumption	-1,7	-2,6	2,2	5,9	3,4	1,7	0,0
Gross investments	7,6	-14,0	1,5	2,6	13,1	-0,2	10,8
Exports	12,0	9,3	6,2	3,6	7,0	6,1	5,1
Imports	9,6	2,5	5,1	4,3	8,2	5,1	6,1
Industrial Production	**6,9**	**13,4**	**5,3**	**3,7**	**7,0**	**5,5**	**6,5**
Construction	-1,7	-12,5	-5,3	-4,2	16,3	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**	**1,4**
CPI (Dec.)	4,4	3,2	0,4	-0,1	-0,5	0,5	1,6
Real Estate inflation	-3,0	-1,1	-0,9	-0,8	0,3	2,3	2,5
Average Wage level	786	805	824	858	883	911	941
Nominal Wage growth	**2,2**	**2,4**	**2,4**	**4,1**	**2,9**	**3,1**	**3,4**
Real Wage growth	-1,6	-1,2	1,0	4,2	3,2	3,3	2,0
Employment growth (LFS)	1,5	-1,0	0,0	1,5	2,6	1,0	1,3
Unemployment (average, LFS)	**13,5**	**14,0**	**14,2**	**13,2**	**11,5**	**10,6**	**9,4**
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	53,0	52,7	51,4
Foreign Direct investment (EURbn)	2,8	3,2	-0,3	0,2	0,7	2,5	3,5
ECB Refi rate (%, Dec.)	**1,00**	**0,75**	**0,25**	**0,05**	**0,05**	**0,00**	**0,00**
3M EURIBOR (%, Dec.)	1,2	0,2	0,3	0,1	-0,1	-0,3	-0,3
3Y SK gov't bonds(%,Dec.)	2,7	0,3	0,7	-0,1	-0,6	0,0	1,5
10Y SK gov't bonds(%,Dec.)	5,2	3,9	2,7	1,2	0,7	1,0	2,0

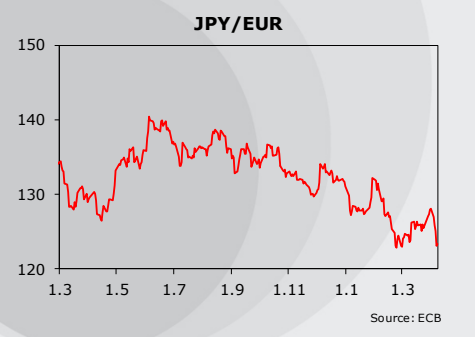
Abroad	2011	2012	2013	2014	2015	2016F	2017F
Eurozone GDP	**1,5**	**-0,6**	**-0,4**	**0,9**	**1,5**	**1,7**	**1,6**
German GDP	**3,1**	**0,9**	**0,5**	**1,6**	**1,7**	**1,8**	**1,4**
Czech R GDP	1,7	-1,0	-0,9	2,0	4,3	2,2	3,0
USA GDP	1,7	2,8	1,9	2,4	2,4	2,2	2,4
Eurozone Inflation	2,7	2,5	1,3	0,4	0	0,4	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

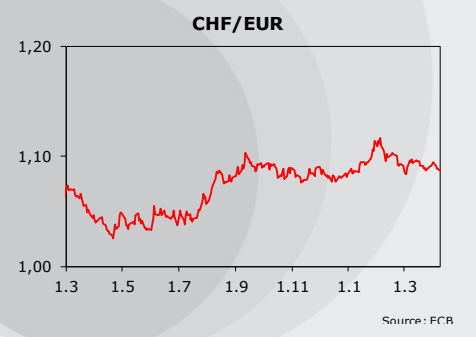
Source: NBS. SOSR. ÚPSVaR. MinFin SR. Eurostat. ECB
Forecasts: UniCredit Bank Slovakia – Slovakia. Eurozone. USA (EURIBOR. USDLIBOR. Brent. USD/EUR); UniCredit Group (CEE Economic Research. CIB) – Eurozone. USA

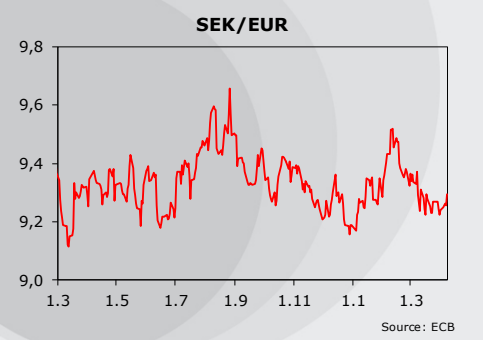
FOREIGN EXCHANGE

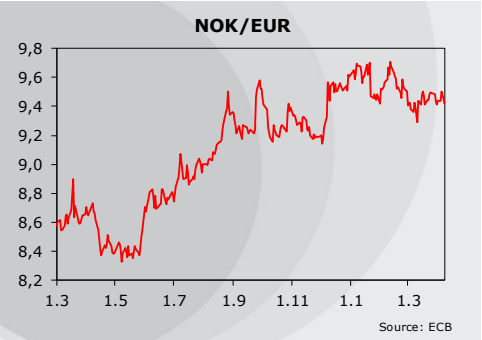


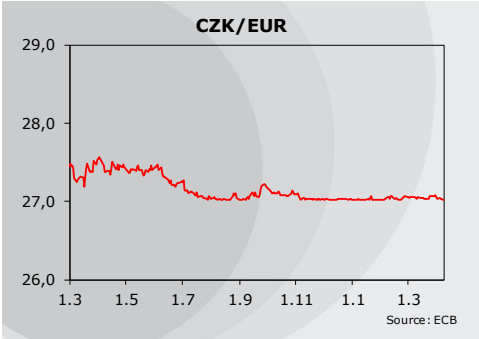


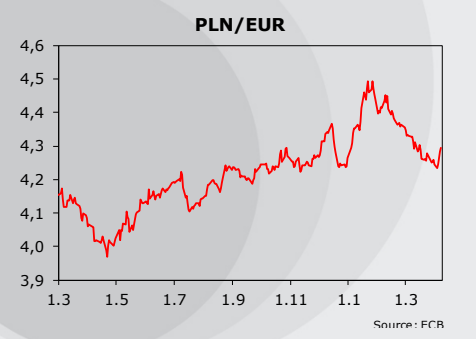


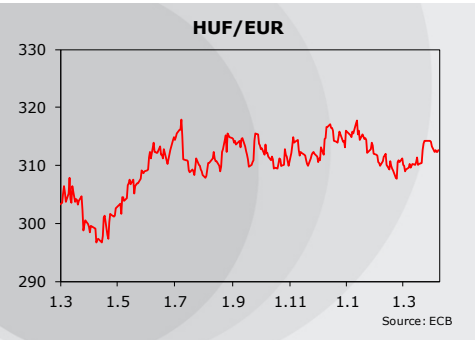


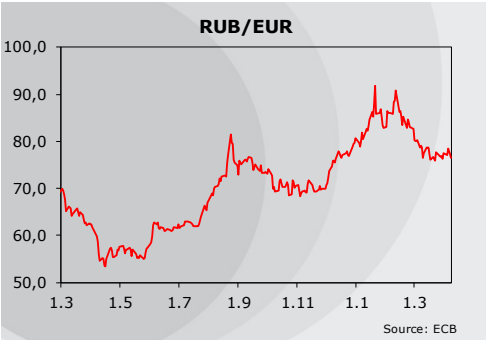












MONEY MARKET

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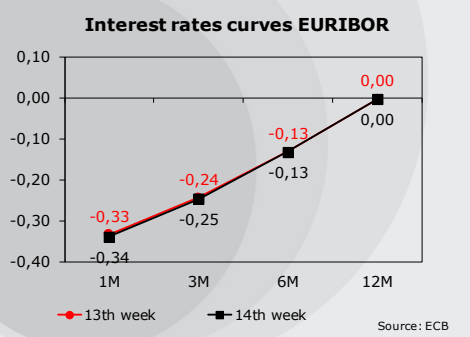
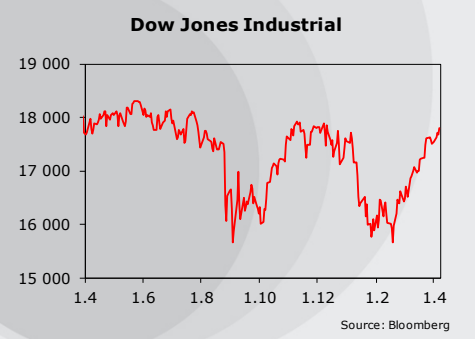
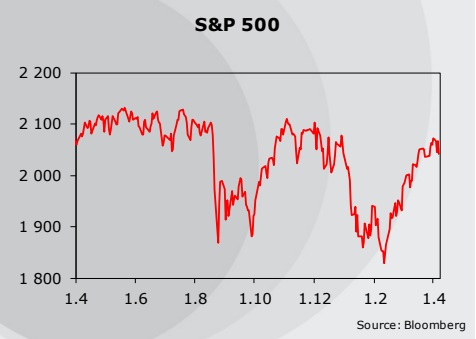
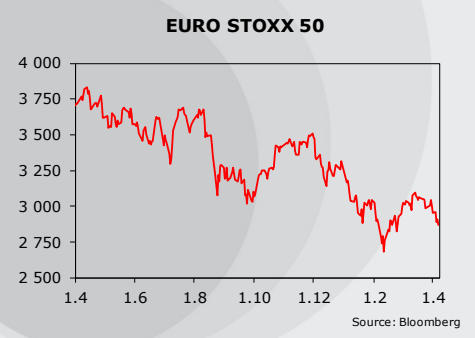
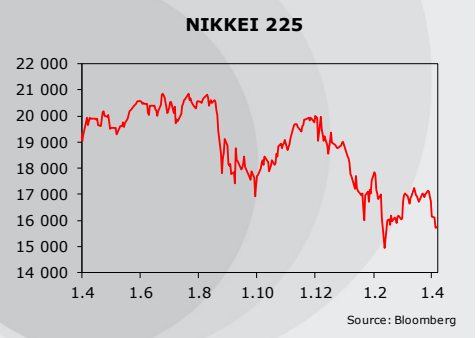


EQUITY









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