

Consumer Rules Summit 2023

Adria Insight & Outlook

Bloomberg Adria

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Soft landing this year

- ❑ GDP growth slows in 2023 – stagnation in Croatia and Slovenia, low-single digit growth elsewhere in region
- ❑ Inflation to decelerate only slowly, high single-digit figures in late 2023
- ❑ Labour market remains tight
- ❑ Investments affected by unstable mid-term outlook and rising interest rates
- ❑ Government expenditure saves the year

		2022	2023F	2024F
SLOVENIA	GDP real growth (%)	5.4	0.1	3.5
	CPI (% , annual average)	9.3	8.6	4.1
	Unemployment rate (% , avg, ILO)	4.0	4.2	4.0
SERBIA	GDP real growth (%)	2.3	1.3	3.5
	CPI (% , annual average)	11.7	12.1	4.8
	Unemployment rate (% , avg, ILO)	9.4	8.9	8.6
CROATIA	GDP real growth (%)	6.3	0.1	2.6
	CPI (% , annual average)	10.7	8.6	4.0
	Unemployment rate (% , avg, ILO)	7.0	7.0	6.8
NORTH MACEDONIA	GDP real growth (%)	2.1	1.1	2.6
	CPI (% , annual average)	14.0	11.8	5.3
	Unemployment rate (% , avg, ILO)	14.5	14.0	13.1
BOSNIA AND HERZEGOVINA	GDP real growth (%)	3.5	1.7	2.0
	CPI (% , annual average)	14.0	9.3	5.3
	Unemployment rate (% , avg, ILO)	15.4	15.0	14.5

Inflation Cooling Down

Inflation and commodity price expectations:

- ❑ Inflation peak in these months; gradual slow down ahead driven by high base effects and results from central banks' tightening
- ❑ In 2023 inflation to remain at multi-year highs given the prolonged spillover effects from this year's upswings of agri and energy commodity prices onto core inflation categories
- ❑ Commodity prices going slowly downward as a result of the global economic cool-down; global money supply is the key factor here, being in a sharp downtrend

Commodity	2016	2017	2018	2019	2020	2021	2022
Sugar	27%	-16%	-27%	-8%	-4%	37%	7%
Cocoa	-9%	-30%	10%	-2%	6%	2%	-8%
Coffee	-8%	-11%	-23%	-22%	-3%	38%	20%
Wheat	-19%	-16%	-6%	-9%	8%	21%	17%
Soybean	5%	-4%	-10%	-12%	-1%	46%	21%
Tin	13%	13%	2%	-6%	-7%	103%	3%
Aluminum	-9%	20%	6%	-16%	-9%	39%	6%

FORECASTS - DISPLAYED AS % CHANGE VS. 2022 AVERAGE

	2Q23	3Q23	4Q23	2024
Sugar	-1%	-4%	-3%	-10%
Cocoa	-2%	-4%	-4%	-2%
Coffee	-9%	-10%	-13%	-10%
Wheat	-18%	-17%	-15%	-16%
Soybean	-7%	-11%	-14%	-15%
Tin	-25%	-22%	-22%	-20%
Aluminum	-11%	-8%	-6%	0%

Source: Bloomberg, Bloomberg Adria analytics

Retail trade in a downswing

1

Real retail trade trending downwards

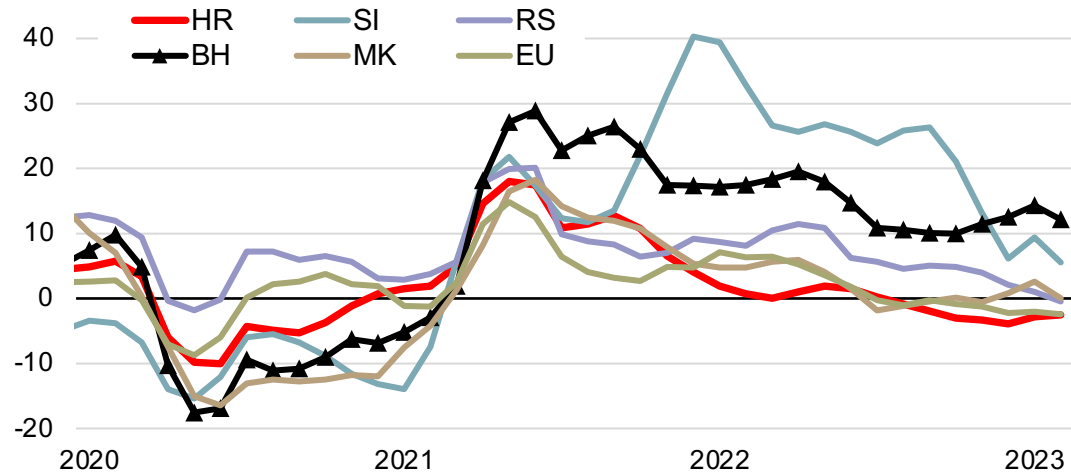
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Weakest figures seen in Croatia; B&H and Slovenia outperform

3

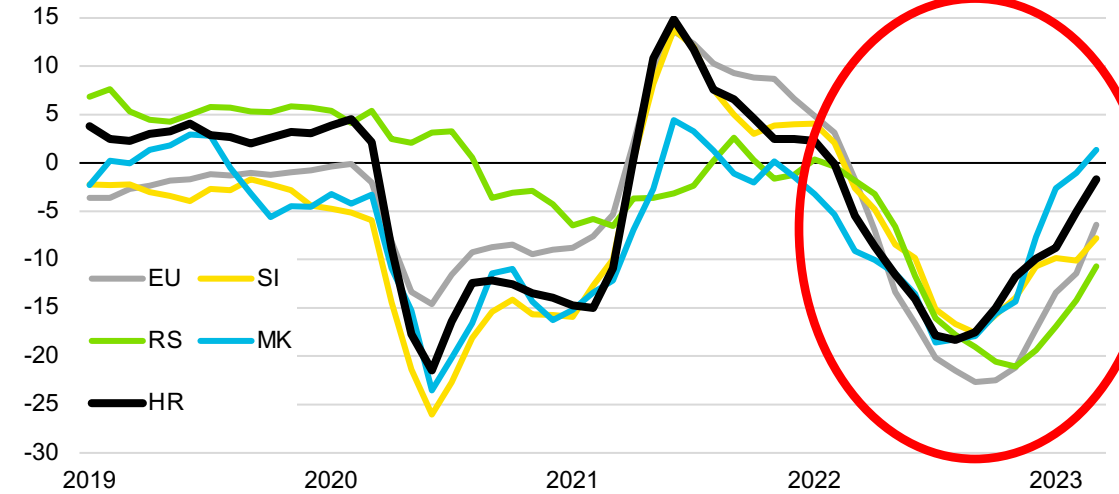
Weakening trends in retail trade driven by consumer sentiment deterioration

Real retail trade (ex motor vehicles)
%, yoy, 3-month moving average



Source: Eurostat, Bloomberg Adria analytics

European Commission consumer confidence indicator
yoy, percentage points, 3-month moving average



Source: European Commission, Bloomberg Adria analytics

Spending on strong grounds

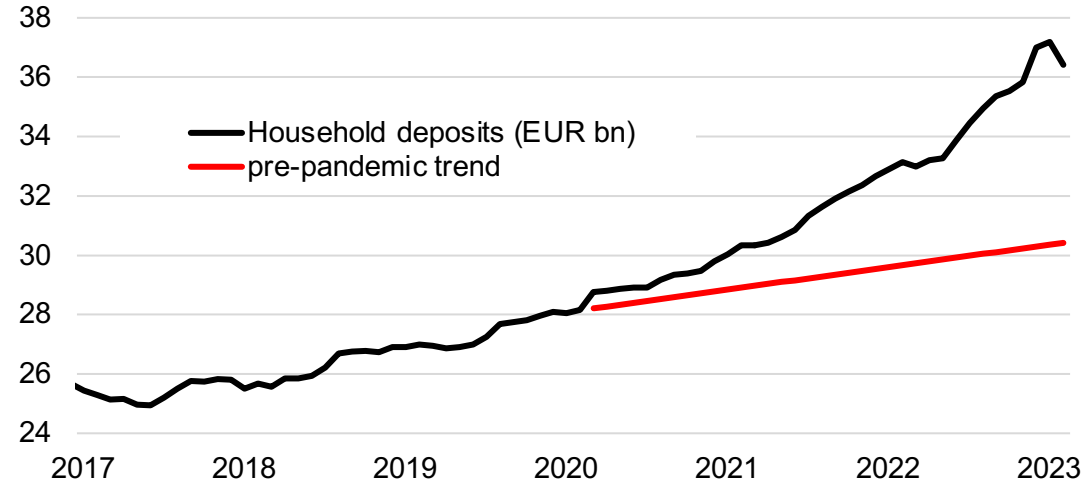
- ❑ Household spending fundamentals deteriorating due to high inflation
- ❑ Even when adjusted for inflation, fundamentals still stronger in most cases than before the pandemic
- ❑ Fundamentals expected to deteriorate further as price growth decelerates only slowly and weakening economic activity weighs on companies' ability to lift salaries

Inflation-adjusted % changes vs. end-2019		31.12.2021	31.12.2022	Δ pp during 2022
Slovenia	Household deposits	13.4	11.1	-2.3
	Household loans	1.4	-1.8	-3.1
	Net wages	6.1	1.8	-4.4
Croatia	Household deposits	11.3	13.5	2.1
	Household loans	1.4	-6.2	-7.6
	Net wages	6.0	1.9	-4.1
Serbia	Household deposits	18.6	6.4	-12.2
	Household loans	14.3	5.9	-8.4
	Net wages	15.5	15.7	0.1
B&H	Household deposits	6.4	-10.0	-16.4
	Household loans	0.0	-10.0	-10.0
	Net wages	4.9	5.1	0.1
North Macedonia	Household deposits	4.0	-8.7	-12.6
	Household loans	8.3	-2.3	-10.6
	Net wages	3.5	0.7	-2.7

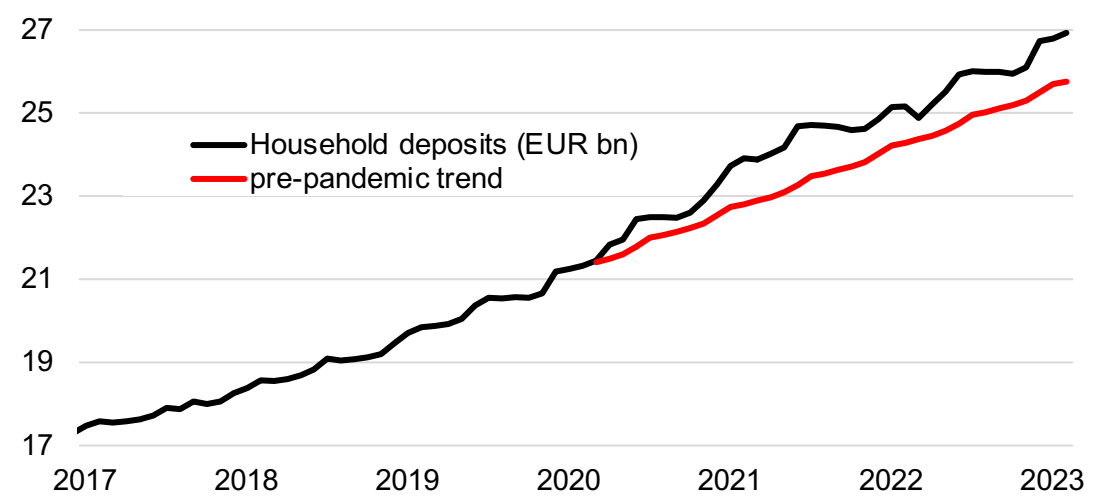
Source: local central banks, local statistics offices, Bloomberg Adria analytics

Household savings outside trend over last 3 years

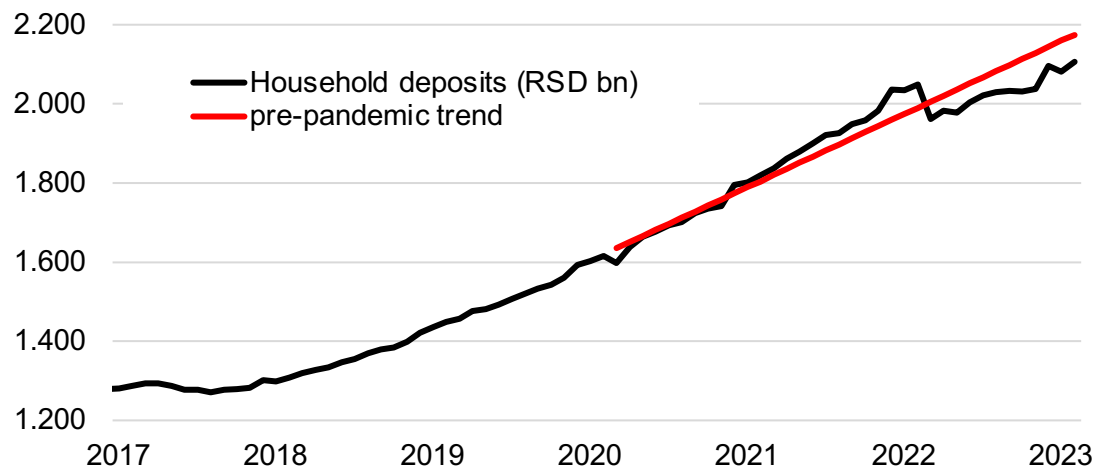
Croatia – household deposits



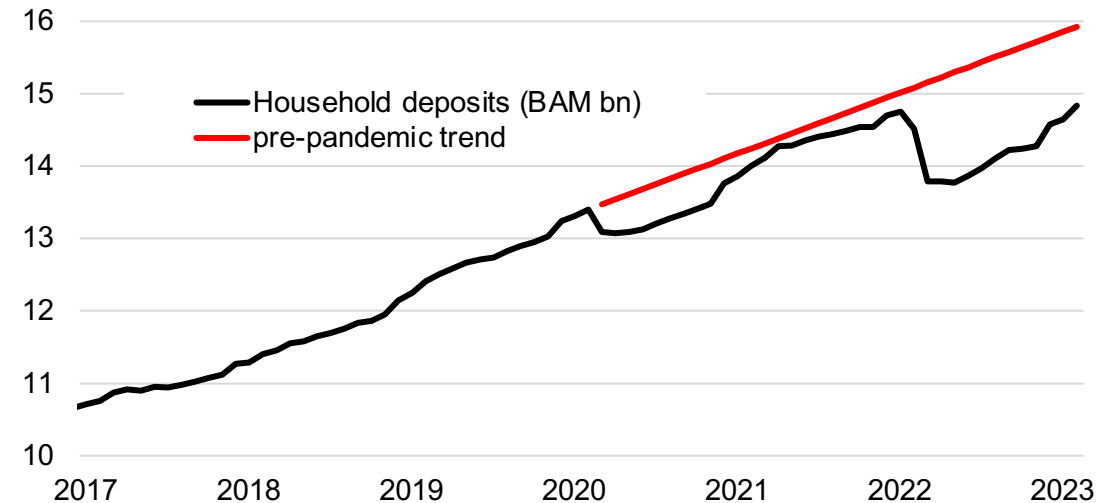
Slovenia – household deposits



Serbia – household deposits



Bosnia and Herzegovina – household deposits



Household savings outside trend over last 3 years

1

Households created **excess savings** during pandemic in many countries

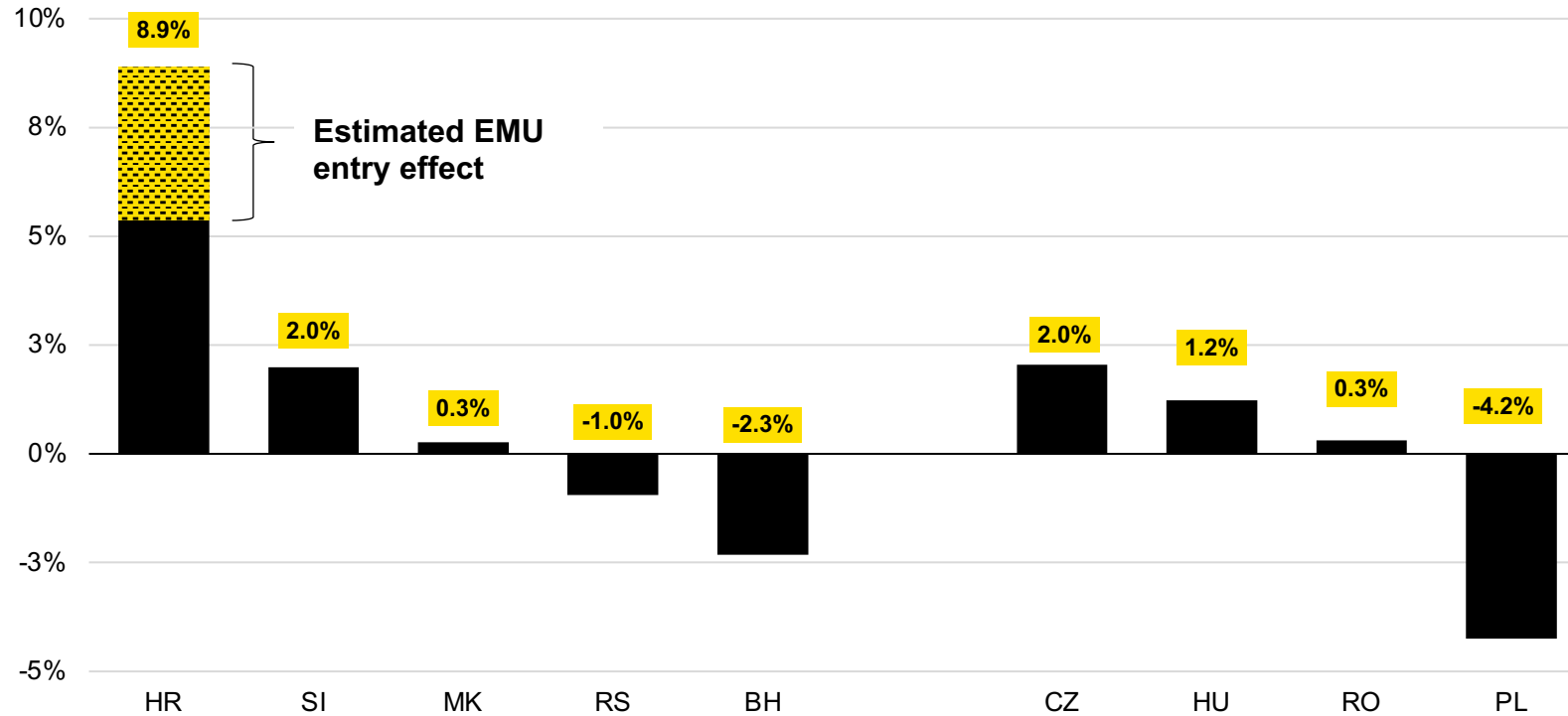
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Highest excess savings in **Croatia (9% GDP)**, with EMU entry adding approx. 4% GDP

3

Excess savings already reversed in some countries e.g. Serbia

Household deposit increase since Mar-2020 vs pre-pandemic implied trend as % of GDP



Source: central banks, Bloomberg Adria analytics

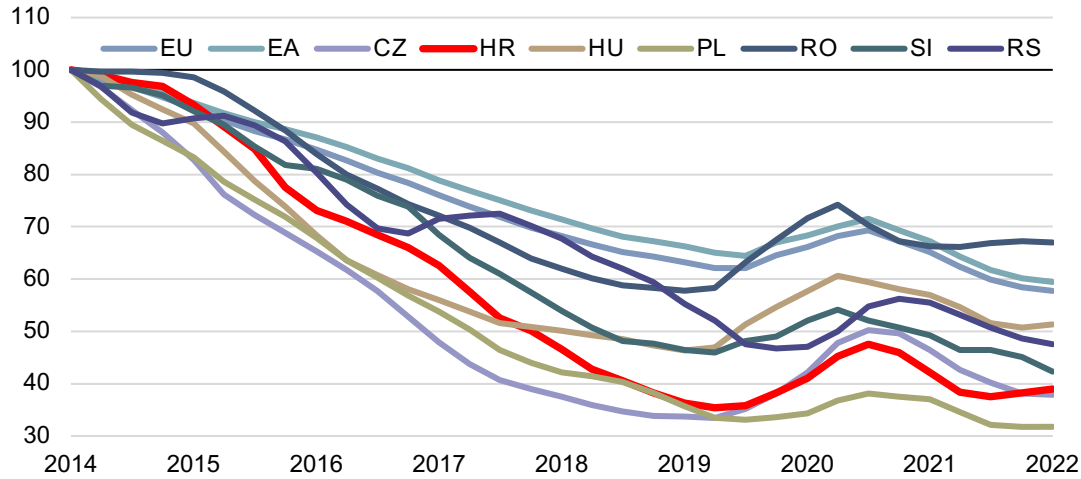
Unemployment settles at lower level

1 Wide spread **reduction in unemployment** during second half of 2010s

2 Unemployment stabilized at lower level, with only partial reversal during pandemic

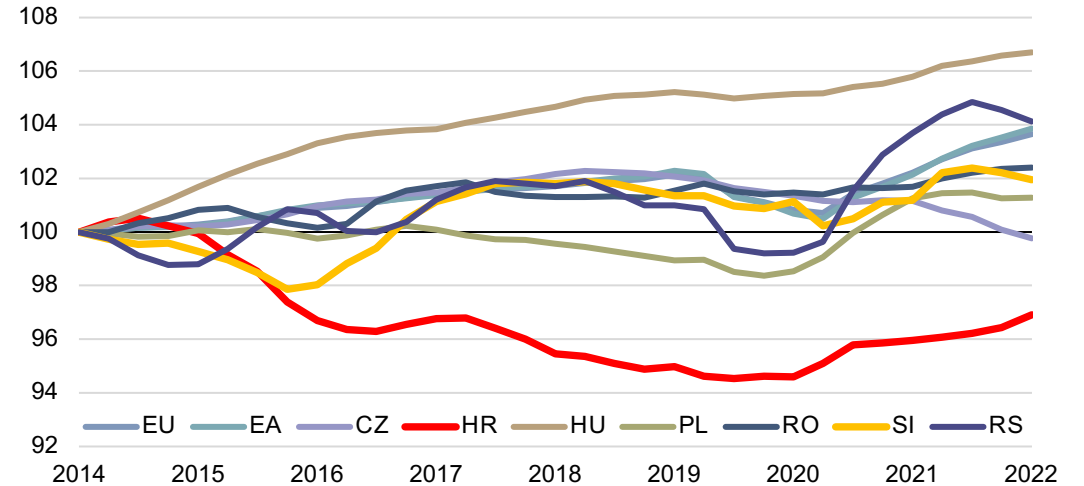
3 In last ten years, labour force reduced in Croatia; increases elsewhere in EU

Number of unemployed
4-quarter average vs. Ø2014 = 100



Source: Eurostat, Bloomberg Adria analytics

Labour force (# employed + # unemployed)
4-quarter average vs. Ø2014 = 100



Source: Eurostat, Bloomberg Adria analytics

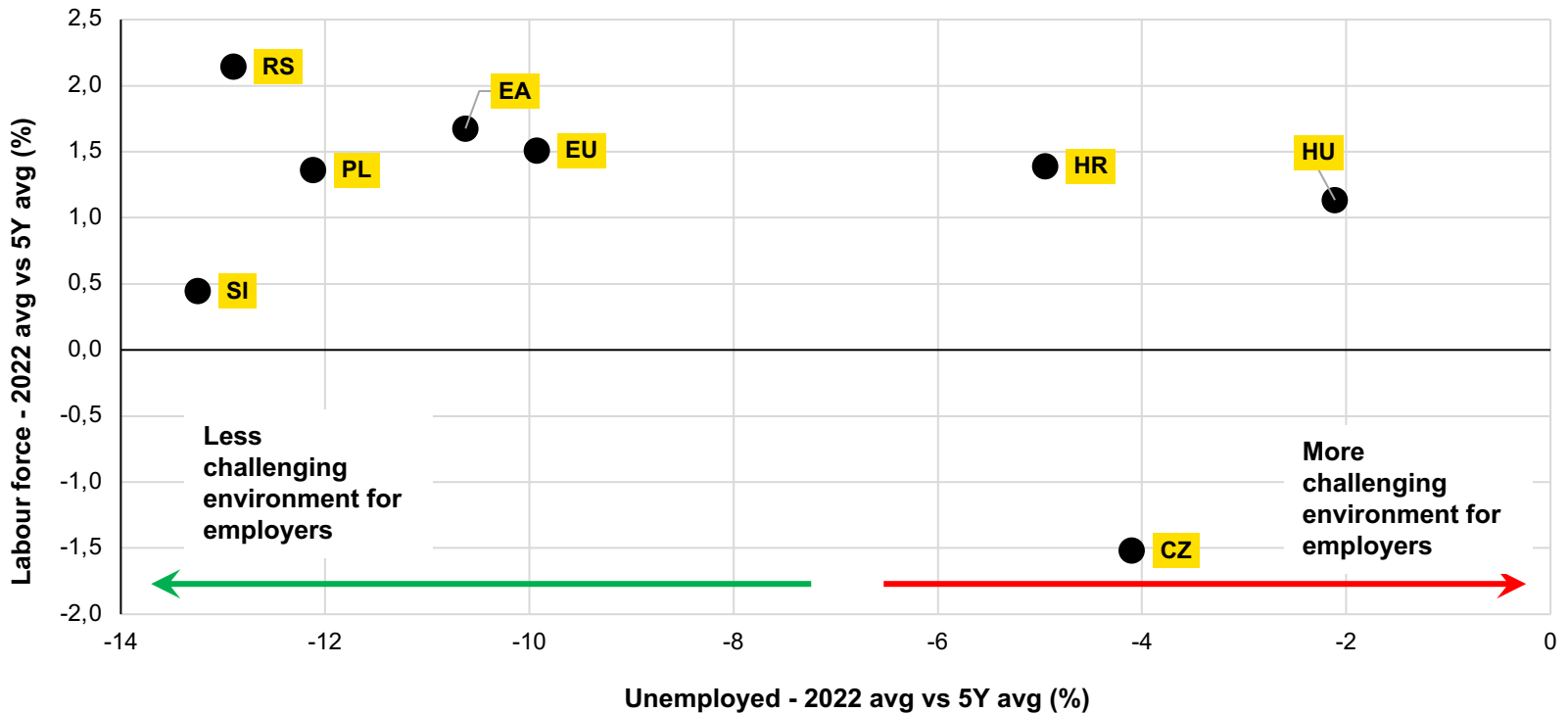
Workers have stronger negotiating power than before

1 Labour force more or less stable in last five years

2 In 2022, unemployment only slightly lower vs 5Y average in Croatia, Hungary and Czechia

3 Tight labour market conditions (proxied by stagnant unemployment) weighs on employers' negotiating power

Employers faced with more challenges to hire and/or negotiate wages



Source: Eurostat, Bloomberg Adria analytics

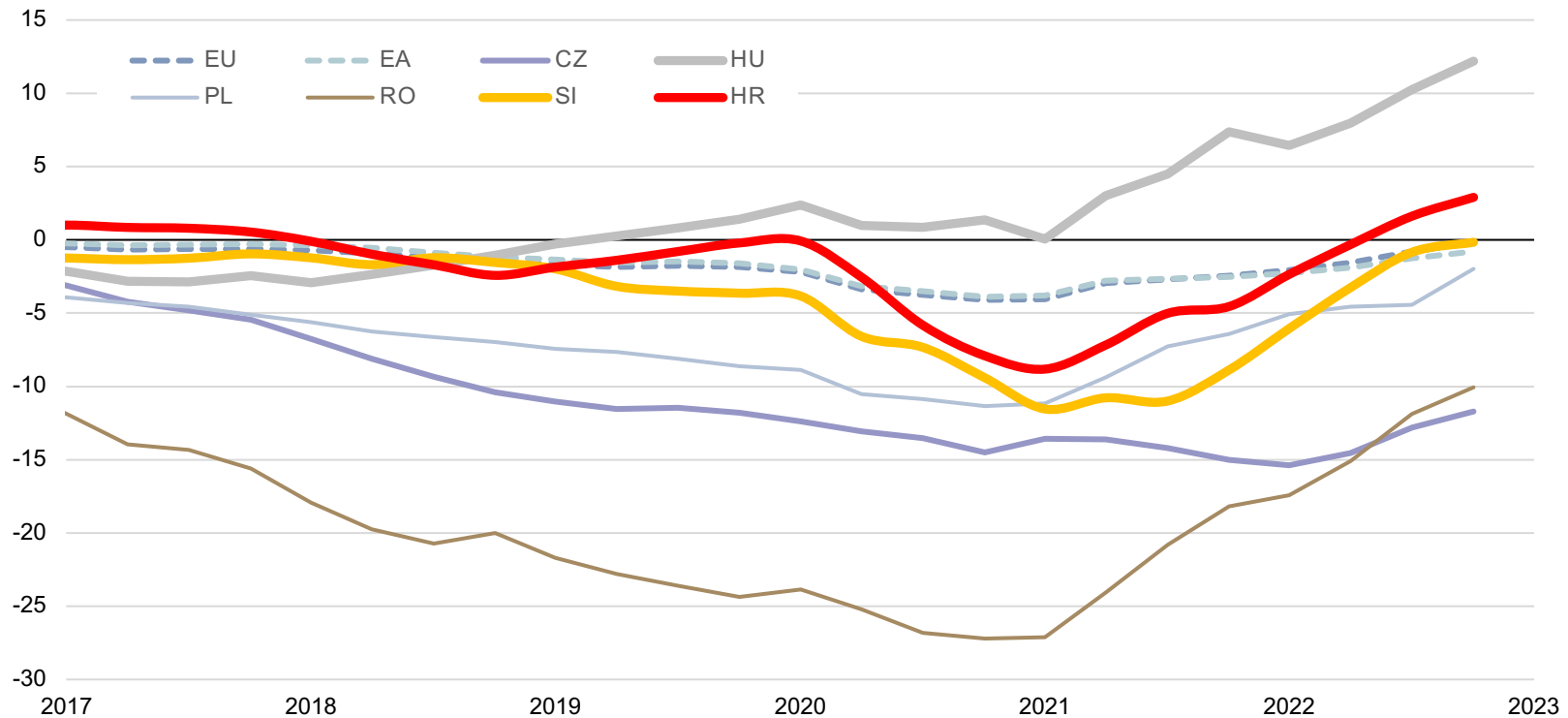
Company gross incomes & workers salaries

1 Company gross profits were growing faster than workers compensations in 2022 only in Croatia and Hungary

2 Energy-heavy sectors outperform, car industrials perform weaker

3 Limited room to increase workers compensations as profits drop ahead

Gross value added minus workers compensations
4-quarter sum, compared to 2015



Gross profits growing faster than workers compensations

Workers compensations growing faster than gross profits

Source: Eurostat, Bloomberg Adria analytics

Wrap Up

- ❑ Real wage growth expected to weaken ahead as companies' profits deteriorate
- ❑ Demographics will not improve any time soon, leaving the pressure on labour supply present
- ❑ Unemployment to remain around current levels or deteriorate only slightly
- ❑ Household savings provide strong buffer, however bear the differences between markets
- ❑ Personal spending more likely to stagnate in 2023, some recovery potential in 2024



Thank you!

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