

## Czech Republic: October retail sales slightly disappointing, outlook still optimistic

October retail sales increased by 6.3% YoY. This apparently positive figure was supported by two additional working days. After adjustment, retail sales ended below the year-to-date average.



Source: iStockphoto

### Additional working days helped retail sales in October

Retail sales (excluding automotive) grew 6.3% in October. Although this is a solid YoY figure that is above-average for 2017, it was largely effected by a higher number of working days. Oct-17 has two more working days than October 2016 - taking this into account, retail sales grew just by 3.9% YoY in October, below this year's average of 5.6%. As such, October sales lagged analyst expectations of 7.7 %.

# 6.3% YoY

## Retail sales in October

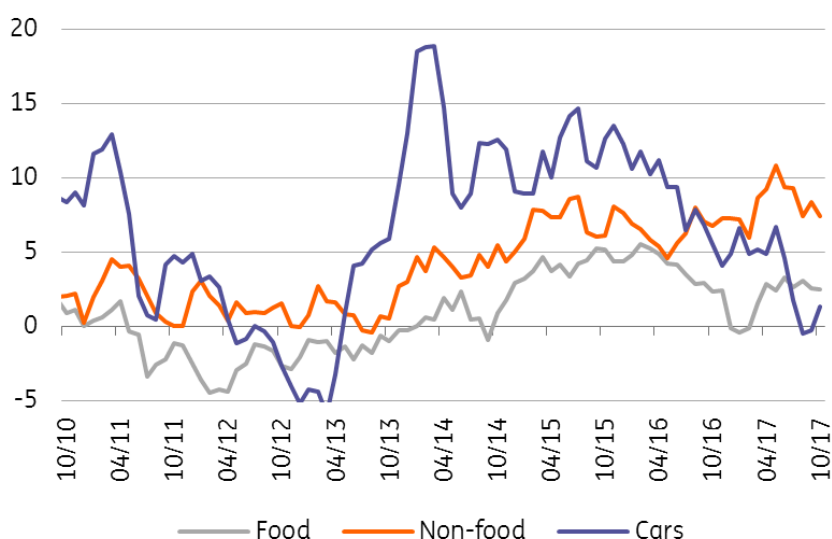
3.9% YoY after working-day-adjustment

Worse than expected

### Weaker sales driven by non-food items

The weaker than expected figure was mainly driven by non-food items. These sales decelerated from September's 10% growth to 5.1%, well below to year-to-date average of 8.1%. Food sales dynamics have been at 2-3% YoY in recent months, with October slightly below this range. Motor vehicle sales dynamics are favorable at first glance, at 8.5% in October. However, after adjusting for the two extra working days, October growth reached just 1.7%. Overall, the dynamics of motor vehicle sales are weakening this year. While over the last three years these sales has grown at double-digit pace, average 2017 growth is around 3%.

### Retail sales (% YoY, 3M-avg, working days adjusted)



Source: CZSO, ING Bank

### Outlook remains optimistic, cars sales should be carefully watched

Although October retail sales ended below expectations, we do not consider weaker October sales a negative sign. Firstly, the methodology behind the working days adjustment might be slightly biased as sensitivity of sales to working days is not stable. Secondly, some deceleration in YoY dynamics is natural due to the relatively high base from last year. The tight labour market will keep wage growth elevated and the retail sales outlook is still optimistic. The trend of gradually slowing sales in the car segment, not only in the Czech Republic but in the whole EU, demands attention. The exposure of the Czech economy to the car segment is high and the automotive sector has been experiencing strong double-digit growth over the last three years.

