Instant Reaction

EcoAlert

Industry is growing, but missing components are putting on the brakes


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Industrial output, foreign trade, construction (June 2021)

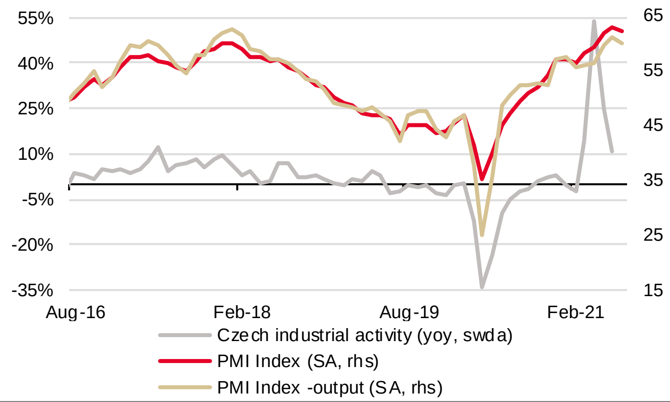
	Current	KB forecast	Consensus (Bloomberg)
Industrial output (%, yoy)	11.4	10.0	8.3
Industrial new orders (%, yoy)	22.8		
Foreign trade balance (CZKbn)	-6.9	22.7	19.8
Construction output (%, yoy)	7.9	8.8	

Source: Bloomberg, CZSO, Economic & Strategy Research, Komerční banka

Industrial production increased month-on-month, although missing components led to a further decline in car production. The decline in exports and the growth of imports unexpectedly dragged the foreign trade balance into a deficit in June. The construction industry stagnated month-on-month, and its production thus remained in solid growth year-on-year.

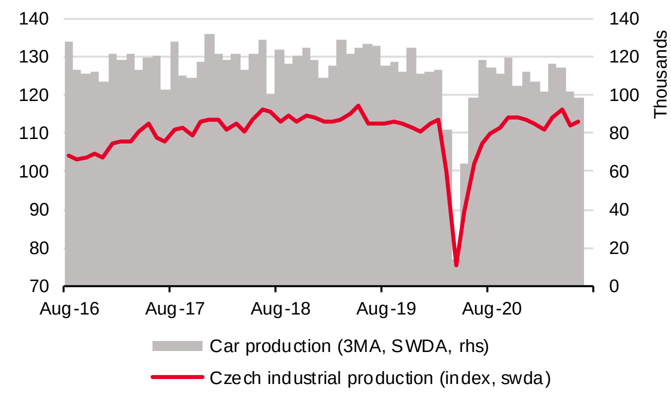
Compared to May, industrial production increased 1.0% in June. It only partially compensated for the decrease of 3.6% in May. Even such a result is good news in the context of delayed deliveries of components to production. This is also pleasing in view of the June decline in industrial production in neighboring Germany by 1.3% mom. In addition, the June result is significantly above analysts' estimates. On average, they expected year-on-year growth in industry of 7.9%, while our estimate was 10.0% and the reality then showed 11.4%. In May, year-on-year growth was 32.3%, but this was largely due to last year's low base effect.

Leading indicators overestimate the expansion of the industry



Source: CZSO, Macrobond, Economic & Strategy Research, Komerční banka

Car production is increasingly limited by a lack of components



Source: CZSO, Macrobond, Economic & Strategy Research, Komerční banka

The double-digit year-on-year growth rates of industry are still given by comparison with the low level of production last year. The main driver is metal production with a year-on-year growth of 21.0%, followed by the production of motor vehicles with a growth of 7.0% yoy and the production of rubber and plastic products growing 17.8% yoy.

There is an increase in employment in industry. In a year-on-year comparison, its decline in June decreased to -0.9% from the previous -1.4%. The year-on-year growth rate of wages decreased to a still-high 10.1%. New orders from abroad increased 20.5% yoy in June, while domestic orders increased 27.9% yoy.

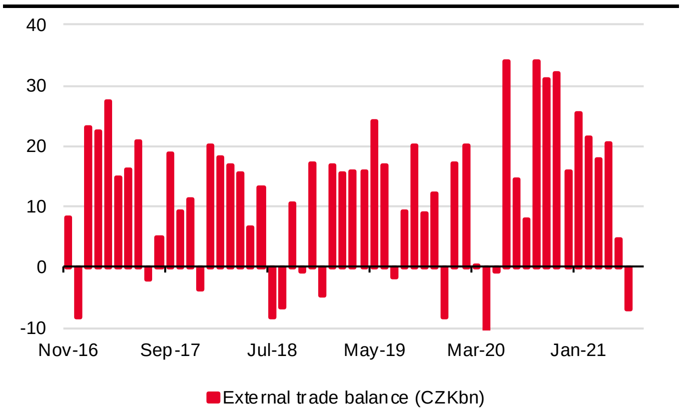
The result for June is good news, but the data show a negative effect of missing components on production, especially in the automotive industry, where production fell for the second month in a row.

Problems with missing components are likely to persist in the coming months and will limit the performance of the industry. On the contrary, it will be driven upward by growing demand and orders. The expansion of production is indicated by the development of leading indicators and the growth of business confidence. The effect of a low base from 2020 will weaken rapidly, and in the coming months the year-on-year growth rates of industry will return to single-digit territory. Our forecast for this year assumes industrial growth of close to 11%. Without the problems with missing components, it would not be a problem to achieve growth of around 20% this year.

Foreign trade fell into a deficit

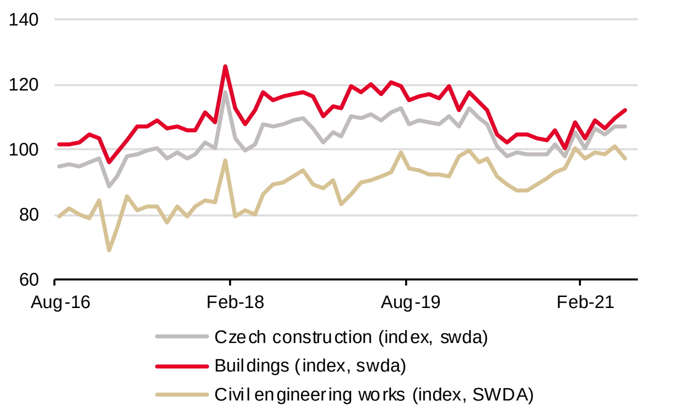
In the context of the solid result of industrial production in June, on the other hand, the fall in the foreign trade balance to a deficit of CZK6.9bn surprised. This is a year-on-year deterioration of almost CZK41bn. A surplus of around 20bn was expected. The reason is growing imports in connection with the recovery in investment and consumption, while exports are also declining due to weaker motor vehicle production and a widening oil and gas balance deficit. In June, month-on-month, exports fell 2.1% (SA), while imports grew a strong 3.0% (SA). Year-on-year, imports grew 30.1%, while exports grew only 13.2%. Our forecast for this year assumes a foreign trade surplus of close to CZK180bn, i.e. similar to last year. However, the June result showed how a significant surprise can happen due to the limitations on the export side. A similar development may be repeated in the coming months.

Foreign trade balance fell to deficit



Source: CZSO, Macrobond, Economic & Strategy Research, Komerční banka

Construction is holding up



Source: CZSO, Macrobond, Economic & Strategy Research, Komerční banka

The construction industry is developing relatively favourably

The construction industry sent a neutral signal in June as production stagnated month-on-month. In a year-on-year comparison, this represents growth of 7.9%. In general, the construction result for the first half of the year is relatively favourable and indicates growth of construction output of around 4% this year, which is a pleasing development given the previous economic shock. However, the construction industry also has significant problems with the supply of materials, leading to upward pressure on prices. This, too, will limit the pace of output recovery, although not with such force as in the case of manufacturing, where missing subcontracting is a major barrier to expansion. In the case of construction, according to statistical surveys, the main barrier to growth is missing employees.

From the point of view of the financial market, the data published today are generally rather neutral or slightly positive. Nevertheless, the koruna strengthened, supported by speculation on a further increase in interest rates, which was signalled by the CNB at yesterday's meeting.

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