

Instant Reaction

EcoAlert

Industry dropped strongly due to car manufacturers



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Industrial output, foreign trade, construction (August 2021)

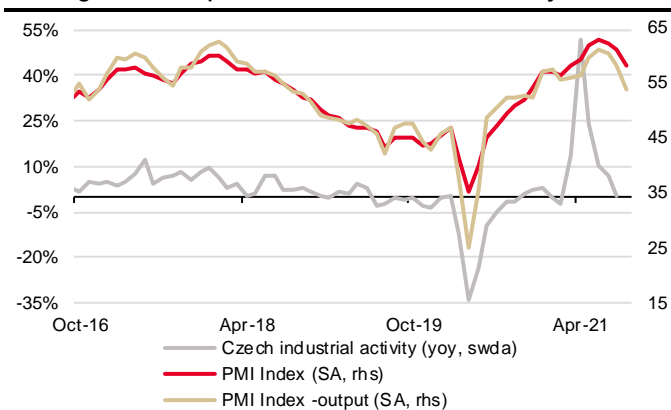
	Current	KB forecast	Consensus (Bloomberg)
Industrial output (% , yoy)	1.4	4.3	5.1
Industrial new orders (% , yoy)	3.5		
Foreign trade balance (CZKbn)	-28.1	-12.5	-5.9
Construction output (% , yoy)	2.5	3.8	

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

Industry fell sharply below all estimates in August, mainly due to a drop in car production. Hand in hand with this, the foreign trade balance also deteriorated. Construction output grew slightly. In summary, the published data were worse than expected, and although it is not good to draw strong conclusions from the summer months, supply chain problems appear to continue to weigh heavily on industry.

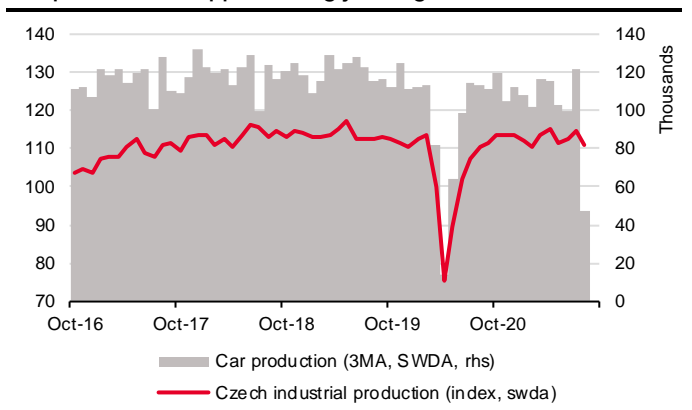
Seasonally adjusted industrial production in the Czech Republic fell 3.2% in August compared to July. This was fully in line with our estimate. However, historical data have been revised. Industry thus grew only 1.4% while we expected growth of around 4%. Market expectations were on average slightly above 5%; however, the variance of estimates was high ranging from 1.9% to 8.5%, indicating a high level of uncertainty in the development of industrial production. At the same time, it can also be said that industrial production in August was below all estimates. Moreover, the August result was supported by a year-on-year calendar advantage in the form of one extra working day. After a standard adjustment for this effect, the statistical office estimates even a negative 1.4% yoy comparison.

Leading indicators point to a deceleration in industry



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

Car production dropped strongly in August



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

Not surprisingly, the biggest brake on industry in August was carmakers. They lack important components and either accumulated unfinished cars or shut down operations while employees took holidays. The year-on-year decline in production here in August was a massive

28.4%, which represents a negative contribution to total industry of 5.1 pp. The sector was further dragged down by the wood processing industry. On the other hand, year-on-year growth of production of machinery and equipment of 11.3%, metal products and metal structures 6.0% and production of electrical equipment 7.1% was pleasing.

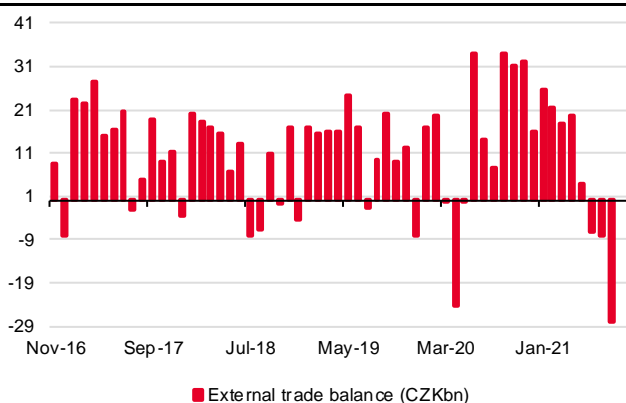
There is still an increase in employment in industry. In a year-on-year comparison, its decline in August decreased to -0.2% from the previous -0.6%. The year-on-year growth rate of wages increased to 6.9% after the previous 5.3%. Revenues from industrial activity grew 5.4% yoy, which, however, was largely due to a significant increase in prices, especially in the metal processing segment. What was striking in August was the decline in orders, again mainly in the automotive industry. Total year-on-year growth of new orders thus fell to 3.5% after a strong rate of 18.6% in July.

The koruna weakened slightly after the publication of worse data. It is not good to draw big conclusions from the development of industrial production in the summer months. However, companies are still facing a shortage of materials and components. For the coming months, it is appropriate to expect fluctuating development of industrial production and, on average, rather slow growth. Our full-year estimate of industrial production is still 10.8%. However, the high number is due to the low base effect last year, when the activity of part of industry stopped for some time. In the absence of the missing components, according to our estimate, realistically achievable growth of the industry for this year would be close to 20%.

Foreign trade has slipped deeper into a deficit

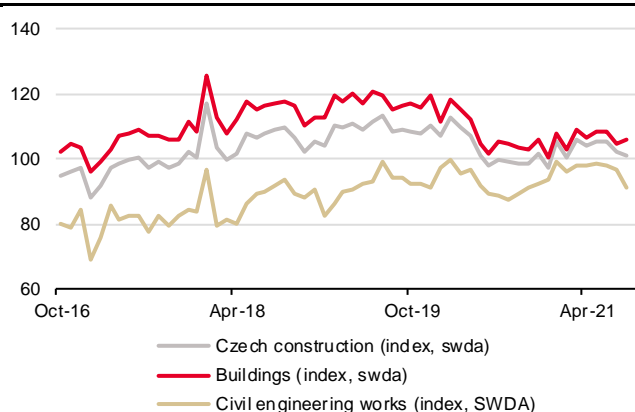
Foreign trade ended in August with a deep deficit of CZK28.1bn, which was a deterioration of CZK35.6bn compared to the same period last year. We expected a deficit of around CZK12bn and analysts on average expected a negative balance of around CZK6bn. Seasonally adjusted exports decreased 5.7% mom and imports 1.5% mom.

Foreign trade balance deteriorates



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

Construction stagnated in August



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

The decline in the balance was mainly due to the trade in cars, which also corresponds to data on industrial production, and developments on world commodity markets. Not surprisingly, the decline in car production in August of more than 60% mom (-57% yoy) was reflected in a decline in the surplus in motor vehicle trade, which decreased CZK10.4bn yoy. The trade deficit in oil and natural gas also widened (by CZK8.9bn) and in base metals (by CZK6.7bn). However, the balance deteriorated with electronic and optical instruments and appliances (by CZK3.8bn) and chemical substances and preparations (by CZK2.6bn). In the first

eight months of this year, the trade balance surplus reached CZK44.8bn, which represents a year-on-year decrease of CZK22.1bn. So far, our full-year estimate of the trade balance has counted on a similar result as last year, i.e. CZK180bn. Given that the development of prices on commodity markets will probably continue to create pressure to widen the trade deficit and problems with subcontracting in the automotive industry limit exports, the full-year foreign trade result could be about CZK50bn lower.

After slowing in July, construction industry stagnated in August

In August, domestic construction output increased slightly 0.1% mom (SA) after a previous decline of 2.6%. It was 1.2% higher yoy (excluding adjustment for calendar effects by 2.5%), which, however, was mainly due to last year's low comparison base. Compared to August 2019, construction output was still about 7% lower. In August this year, production increased only in building construction, 1.3% mom, while civil engineering continued to decline at a rate of 2.5%.

The figure for the number of newly issued building permits looks positive, increasing 7.2% mom in August. In a year-on-year comparison, it was 7.6% higher and even 11% higher than in August 2019. The number of dwellings started was the highest in the second quarter since 2008, when it reached the level of 11,899. In August, the construction of 4,503 new dwellings was started, which represented a 40.2% yoy increase.

Leading indicators thus show the potential for promising demand for construction work in the coming months. However, high prices of construction materials and a shortage of workers will continue to be a strong constraint on construction output growth. **The year-on-year decline in the number of employees in construction fell to 1.1% in August after 1.3% in July.** The lack of employees in the construction industry is further accelerated by growth of their average wage to 7.8% from the previous 5.3%.

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