

| Instant Reaction |

EcoAlert

Economic dynamics did not slow at the beginning of the year



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Industry, construction and retail sales (January 2018)

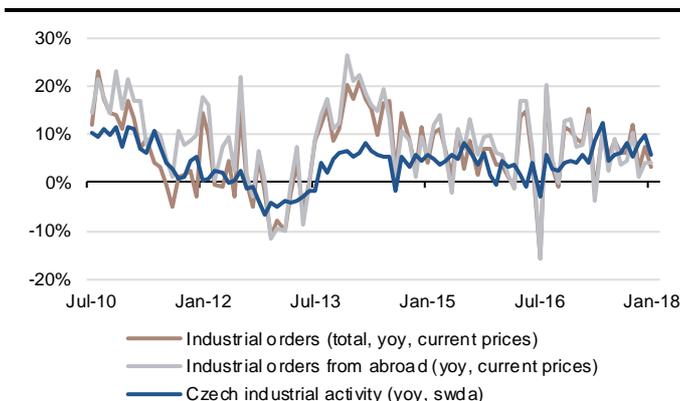
	Actual	KB forecast	Consensus (Bloomberg)
Industrial output (% yoy)	5.5	4.0	5.5
Industrial sales (% yoy)	4.8	n.a.	n.a.
Industrial new orders (% yoy)	3.4	n.a.	n.a.
Construction (% yoy)	33.6	0.9	n.a.
Retail sales			
Retail sales (excl. cars) (% yoy)	8.2	6.9	6.5
Retail sales (incl. cars) (% yoy)	5.7	4.3	6.3

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

Today's statistical reports surprise on the upside. Industrial production maintains strong dynamics; retail sales even accelerated, and construction statistics are booming. The figures show that the domestic economy began the new year on a high note. So far, the monthly statistics corroborate our view of strong GDP growth of 3.8% this year.

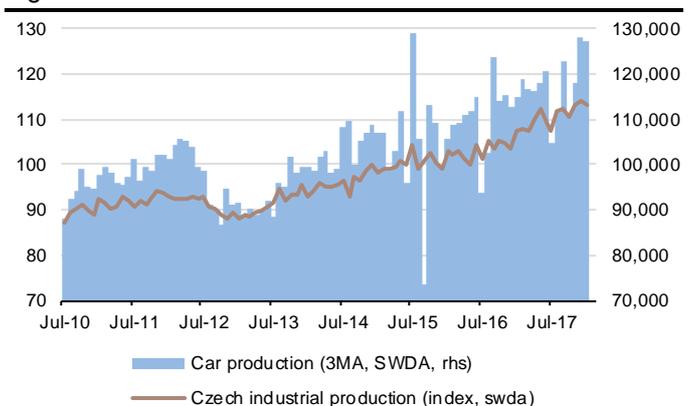
January's industrial production printed 5.5% yoy growth, perfectly in line with the market consensus and slightly above our in-house estimate. The automotive industry provided a significant contribution to growth with production increasing 5.6% yoy. Car production decreased slightly as the number of manufactured cars negligibly dropped in January; there is less demand for smaller cars during the current economic boom. Moreover, the uncertainty around Brexit curbs the demand for cars in the UK, which also affects domestic producers. On the other hand, sales of bigger cars have surged, so despite the slightly lower number of cars produced the output of the sector increased.

Industrial production maintains solid dynamics



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

The number of produced cars has not grown, but their value is higher



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

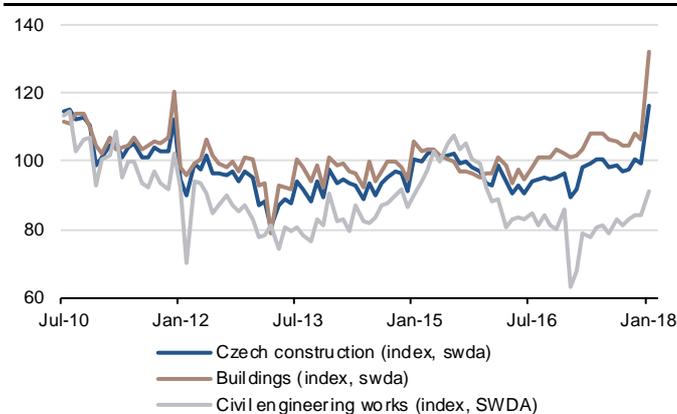
Aside from car production, other sectors did very well, too. Machinery increased 13.9% while the production of electricity added 15.3%. **This suggests that the investment boom is not over in the Czech economy nor in the economies of its main trading partners.**

Industrial sales dynamics returned to positive figures. However, they are still lower than industrial output. The strengthening CZK is probably behind this as it does not allow domestic producers to increase prices on export markets. Nevertheless, businesses are still able to raise employees' remuneration. **In January, the average wage in industry increased 9.6% yoy. Strong wage growth in the Czech economy is thus apparently not at an end.**

Massive increase in production thanks to the warmer weather

January's construction surprised with unprecedented growth of 33.6% yoy. Warmer weather is the main reason, according to the statistical office. Activity in construction is usually weak in the winter months, but when temperatures are above zero much of the work can continue. This is what happened in January, while in the previous year

Construction output surge. Unfortunately only temporarily



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

cold weather forced workers to stay at home. **With the relative low levels of output during these months, it may cause significant volatility.** In addition, higher public capital expenditures might have played a role, as well. In the final quarter of 2017, capital expenditures surpassed CZK40bn, which almost matches the amount from the previous nine months.

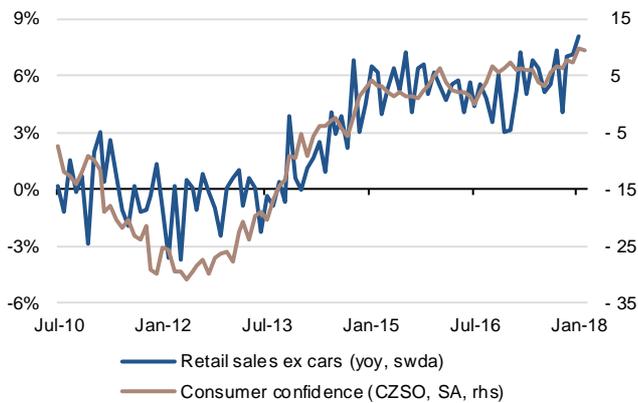
However, today's figures do not represent a renewed construction boom, unfortunately. In mom terms, after seasonal adjustment, construction output increased only 0.8%. As per the recent Supreme Audit Office report, many infrastructure works are still having problems with the initiation phase. The problematic situation with the metropolitan zoning plan in Prague has not improved, either. We expect an increase in construction and investment this year (the state must tap EU funds; municipal elections are approaching, which might propel investment from regional surplus budgets). Overall growth of the sector should print "only" 7%.

Households enjoyed January sales

Retail sales (excl. cars) increased 8.2% yoy. Consumers massively took advantage of seasonal sales as their financial situation improved rapidly. Households shopped mainly at specialised shops as sales of computers and phones increased 30% and household equipment 18% compared with the previous year. Traditionally, electronic sales did very well, as e-shops increased sales almost by a quarter on a yoy basis.

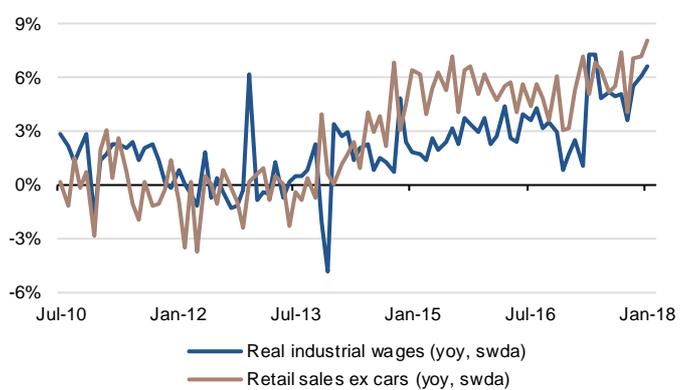
Consumption benefits from strong wage growth. Today's figures revealed high wage dynamics in industry in January while statistics last week showed an economy-wide surge in wages during the final quarter of 2017.

Record-high consumer confidence propels retail sales



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

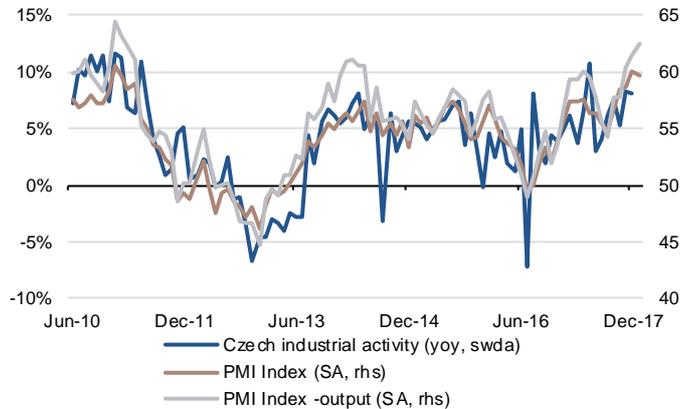
Wage acceleration supports spending



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

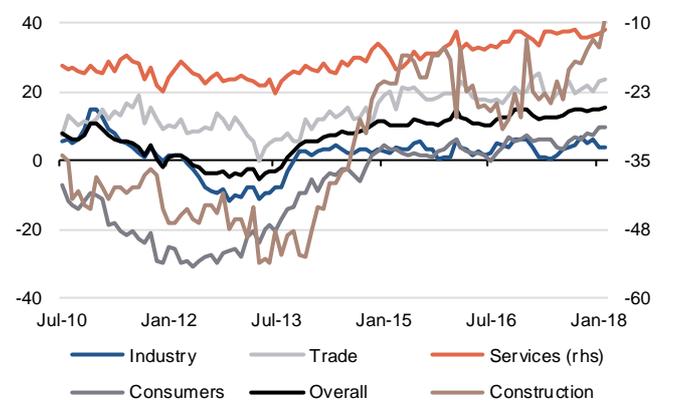
The confidence in the domestic industry was very high in the first months of the year. The expansion in the countries of Czech main trading partners has not halted. According to PMIs, domestic businesses do not lack orders. That is one of the reasons the PMI is located close to multiple-year highs. Consumer confidence is also near historic highs. **The economy should thus further expand this year. We expect GDP growth of 3.8%. Industrial production should add 5.9% and retail sales 5.8%.**

PMI close to multiple-year highs



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

Consumer confidence growing in January



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

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