

| Instant Reaction |

EcoAlert

Car production down while construction increased



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Industry, construction and retail sales (February 2018)

	Actual	KB forecast	Consensus (Bloomberg)
Industrial output (% yoy)	2.7	5.3	5.5
Industrial sales (% yoy)	1.1	n.a.	n.a.
Industrial new orders (% yoy)	4.1	n.a.	n.a.
Construction (% yoy)	9.4	7.7	n.a.
Retail sales			
Retail sales (excl. cars) (% yoy)	6.0	8.4	7.2
Retail sales (incl. cars) (% yoy)	2.3	6.0	5.3

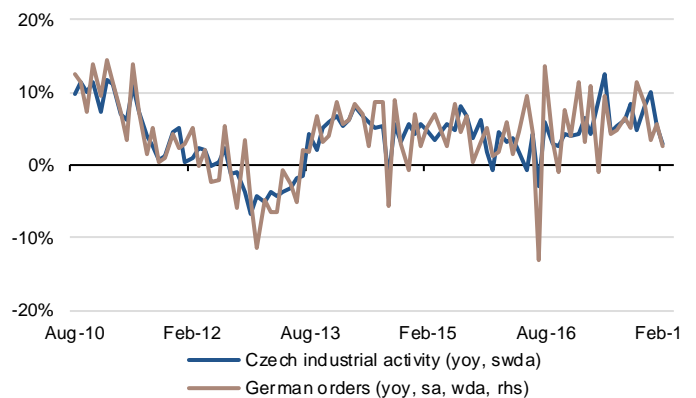
Source: Bloomberg, CZSO, Economic & Strategy Research, Komerční banka

February's statistics remain weak despite high expectations. While the number of working days was comparable with last February, and industry and retail did well year-round, both indicators added a relatively small increase. On the contrary, construction followed its surprisingly high dynamics from January.

Industry production growth eased in February with a yoy increase of 2.7% in real terms instead of the expected 5.5%. In mom terms, it continued to decline. While it decreased 0.4% after seasonal adjustment in January, it dropped 1.2% in February. Reasons for this weak result include lower production in the car industry affected by declining demand for smaller cars. Producers in energy and machinery repair and installation didn't fare well, either. In contrast, metal products manufacturers contributed significantly to overall growth, and production of electrical equipment grew at a double-digit pace.

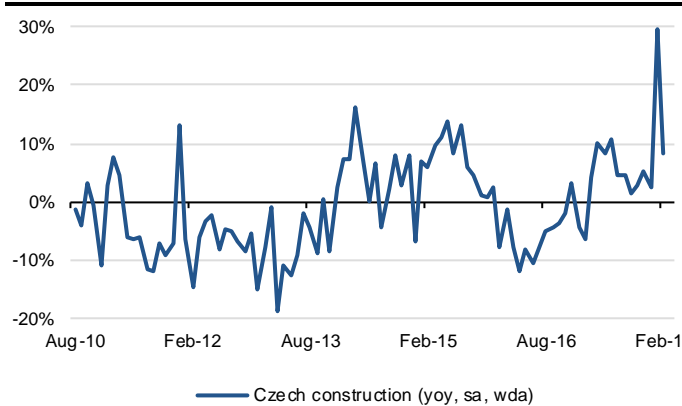
In the coming months, industrial production will probably slow down. The forward-looking indicators from March note the less optimistic mood in industry at home and for the most important partners. **In the longer run, however, industrial production will be supported by higher investment activity as well as orders from abroad and should add up to 6% this year.**

Industrial production disappointed in February



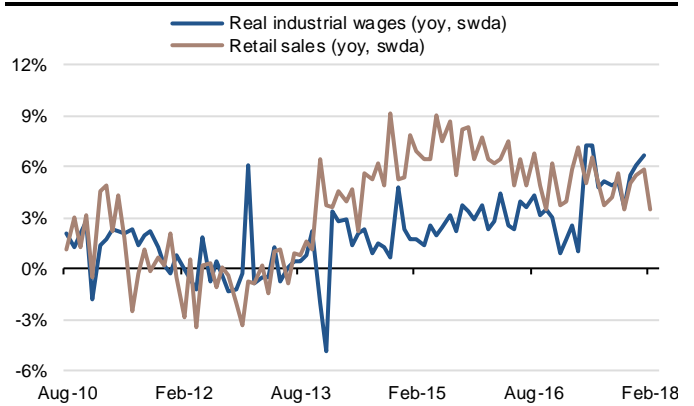
Source: CZSO, Macrobond, Economic & Strategy Research, Komerční banka

Construction corrected its massive January growth



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

Consumer confidence creates new records and supports retail growth



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

Building construction pulled up the entire sector

Despite February's cold weather, the construction sector did not disappoint. In mom terms, seasonally adjusted, construction output increased 0.6%, which after the surprising growth of 33.6% in January brought the yoy pace to a more credible 9.4%. Production in building construction increased 11.6% yoy, while civil engineering construction dropped 1%. Additionally, the building control authorities granted 6.2% fewer building permits yoy, but their approximate value jumped 20%. However, these statistics are volatile, and we thus take them with a pinch of salt.

Demand for housing is on the rise, and building construction will be supported by an amendment to the Construction Law simplifying preparation for construction works. The accelerating dynamics in engineering construction should also be realised this year, and the amendment is useful for this part of the sector. There should be enough means to finance infrastructure as part of EU funds has to be tapped by the end of the year. Otherwise, there is a risk that the funds will be lost. Thus, construction is likely to keep its solid dynamics for the year and grow more than 7% on average.

Consumers took time out in February

Retail sale growth, excluding cars, stagnated in February after January's mom pace of 0.8%. Only food sales increased, while gas station sales and sales of non-food goods dropped. In yoy terms, retail sales increased 6%, which is less than the consensus expected.

February is one of the calmer months in terms of shopping. Consumers mostly take advantage of post-Christmas sales in January and then postpone further spending until the spring. **However, in the following months, we expect retail sales to revive.** The situation is still favourable, as shown by consumer confidence around its historical maximum. Households benefit from record-low unemployment and strong wage growth. We expect their consumption to increase 3.9% this year, corresponding to half of GDP growth.

Despite February's wobble, we expect the positive trend to continue. The economic growth of the main Czech business partners continues its solid dynamics, and domestic demand remains strong.

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