

| Instant Reaction |

EcoAlert

April's production decreased, construction was successful



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External trade (March 2018)

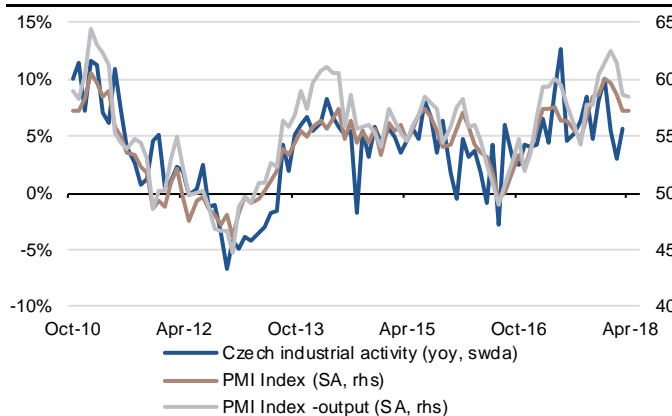
	Actual	KB forecast	Consensus (Bloomberg)
Industrial output (% yoy)	5.5	7.0	9.0
Industrial sales (% yoy)	4.6	n.a.	n.a.
Industrial new orders (% yoy)	0.6	n.a.	n.a.
Construction (% yoy)	7.7	9.7	n.a.
External trade (CZKbn)	15.8	13.7	13.0

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

Industrial production in April disappointed when it grew only 5.5% yoy despite having two more working days. Adjusted by calendar effects, it even declined 0.2%. The second quarter started well for construction. Mainly production in building construction is flourishing because of higher investment activity in the private sector as well as higher construction of residential buildings. The trade balance statistics printed above expectations, showing a surplus that was CZK 3bn higher than a year ago.

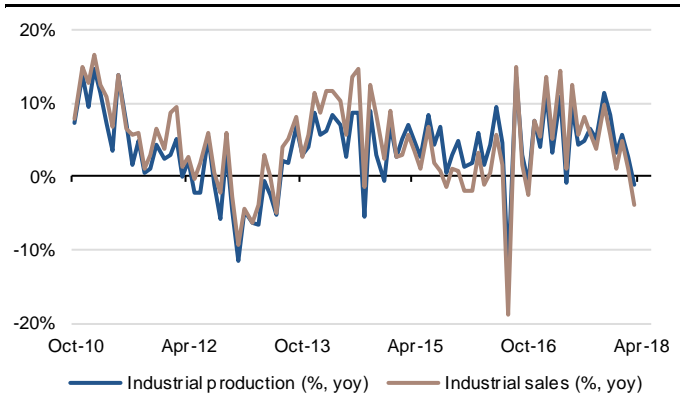
In April, industrial production did not recoup its March losses and declined in mom terms 0.9%. In comparison with a year ago, it increased 5.5% mainly due to calendar effects since this April had two working days more than last year. The working days adjusted industrial production decreased 0.2% yoy.

Easing in industry is shown by forward looking indicators



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

Industrial sales go hand in hand with the industry performance



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

The manufacture of motor vehicles was the strongest in April, when it increased 11.4% yoy and thus contributed to overall growth 2.1pp. **On the contrary, industrial production in electricity supply decreased due to April's warm weather 18% yoy.**

The weaker performance of Czech industry was indicated by a drop in April's confidence indicators at home and abroad. However, the production decline is not caused by a lack of

new orders, which value increased in April 0.6% yoy. **For a long time now, the biggest limitation for the production industry has been the lack of a labour force.**

The tight labour market indicated by record-high employment, the lowest unemployment in Europe as well as in the history of the Czech Republic and consequently solid wage growth. The industrial wages in nominal terms increased in Q1 7.5%. According to today's statistics, they added 9.2% yoy in April, rising to CZK 34,437.

For the entire year, **we expect a deceleration of industry dynamics toward 2.7% on average.** The main reason is the **lack of production capacity, for which expansion through an increase in employment is almost not possible anymore.** We assume that it is necessary for the Czech companies to expand capacity by productivity growth. **This will result in a transition to higher added value production.**

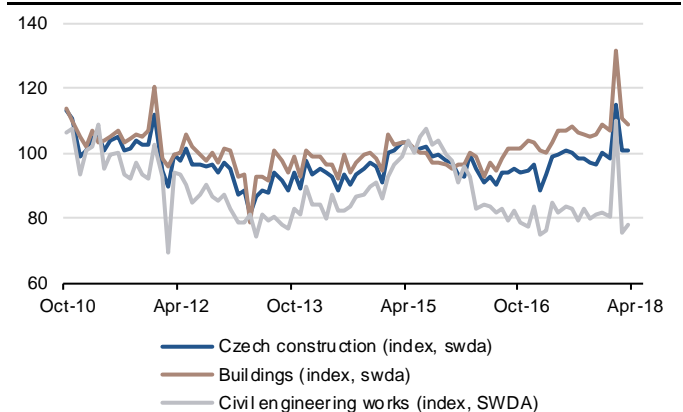
In contrast, the construction sector was successful in April. **Its production increased 7.7% yoy** after revised March's growth of 0.4%. This was due to a April's warm weather as well as the higher number of working days. **As in past months, mainly production in building construction was flourishing** by adding almost 11%. It was pushed up by higher investment activity of the private sector

as well as increasing residential building construction. Civil engineering is still muted by a slow start on infrastructure projects in the public sector. The production of civil engineering construction declined 1.2% yoy in April.

In our view, construction will flourish for the rest of the year. It will be supported by further investment activity in the private as well as the public sector. High demand for Czech goods pushes the private sector to invest to expand their production capacity. **Also, the public sector begins with infrastructure projects.** The investment growth will be also supported by regional governments, which have been running surpluses, and part of their reserves might be dissolved in more investment. Moreover, the public administration will be pushed to tap a part of EU funds otherwise the Czech Republic it will lose the money. **For the entire year, we expect the construction sector to add almost 10% on average.**

In April, the trade balance deficit printed CZK15.8bn, which is a little lower than in March. However, in comparison with last April, the trade balance was higher by nearly CZK4bn. The reason is the calendar effect as well as lower trade deficit in petroleum and gas by more than CZK3bn. This is surprising since the price of these commodities was significantly higher than a year ago. The balance of trade with motor vehicles improved CZK2.3bn, and the balances with machinery and electrical equipment improved more than CZK 1bn each.

Construction has been flourishing since the beginning of the year

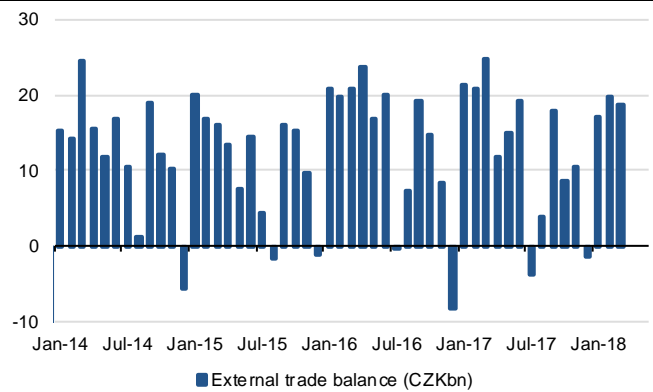


Source: CZSO, Macrobond, Economic & Strategy Research, Komerční banka

The surplus with the European Union increased the most and thus is CZK4.2bn higher than a year ago.

Domestic producers do not lack demand from abroad. After a weaker first quarter, we expect further increasing dynamics of European economics that will support the desire for Czech products further.

April's external trade printed better surplus than a year ago



Source: Zdroj: Ekonomický a strategický výzkum, Komerční banka

However, for this year we expect a deteriorated external trade balance. This is due to higher investment that increase the import dynamics. Those will grow faster than exports and thus the trade balance ends this year CZK20bn lower than last year.

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