

Instant Reaction

EcoAlert

Industrial output and foreign trade surprised positively



Michal Brožka
(420) 222 008 569
michal_brozka@kb.cz

Industrial output, trade balance, construction (June 2020)

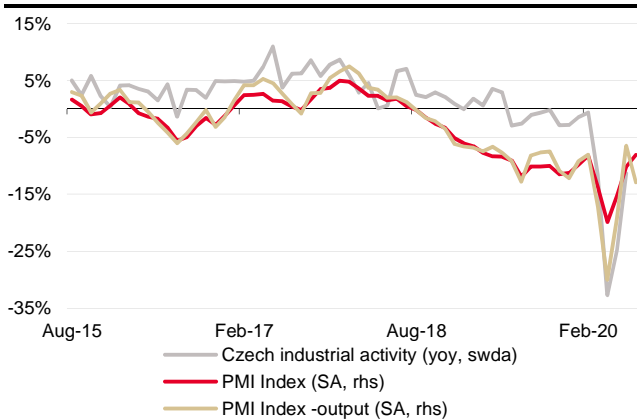
	Current	KB forecast	Consensus (Bloomberg)
Industrial output (% yoy)	-7,0	-12,2	-11,4
Industrial new orders (% yoy)	-3,4		
Trade balance (CZK, bn)	34,1	8,9	7,5
Construction output (% yoy)	-11,5	-7,2	

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

In June, Czech industrial output revived significantly faster than expected. Along with that, the trade balance improved above all estimates. The data confirm our forecast of a full-year GDP decline of “only” 5%. On the contrary, the construction sector decline became deeper.

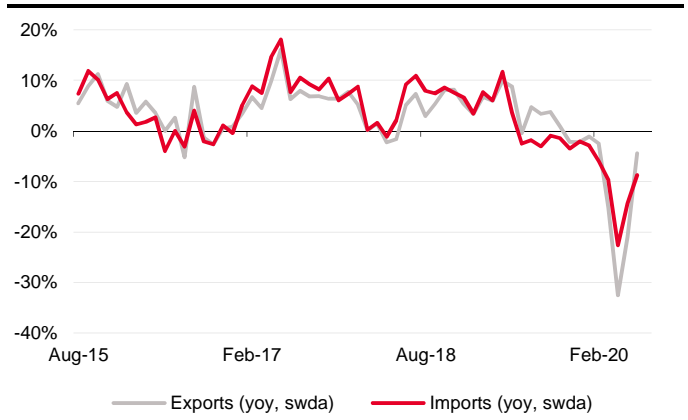
In June, Czech industrial output expanded by a strong 13.4%. The year-on-year decline reached just 11.9% after the previous decline of one-fourth. Without adjusting for the working days' effect, the yoy decline reached just 7.0 % when analyst estimates including us expected a decline around 11% – 12%.

Leading indicators point to continuing recovery



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

Export and import turning after strong declines



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

The main drivers of the decline was still the automotive segment, but its negative contribution declined substantially to -2.8 pp after the previous -8.9 pp. Sectors that grew in yoy terms were above all pharma, manufacturing of wood and the other industries segment.

The year-on-year decline in the number of employees deepened to -3.8%. However, a somewhat positive was the turn of the average wage into positive yoy growth of 0.7% after being negative at -6.8% in the previous month. This might relate to the government Antivirus programme. There is a visible improvement of the external environment on the data. The overall value of new orders was still in a slight yoy decline at 3.4%, which was a big improvement after 36.8% in May. Nevertheless, new orders from abroad returned to slight yoy growth of 0.1%. Domestic new orders were still negative at -10.3%.

The continuing improvement of leading indicators points to further recovery for Czech industrial production. On the other hand, the summer months and this year's nonstandard holidays will lower the interpretation ability of the incoming data.

The industrial output decline for the whole 2Q was 23% yoy and 18.7% qoq.

We expect industrial production will continue to recover in the second half of this year. Still, for the whole year we expect its decline of 15.2%. For next year, we expect industrial output expansion of 12.2%. The pre-pandemic level should be reached in 2022.

The already-mentioned improvement of external conditions relates to a turn in foreign trade. The balance jumped to a surplus of CZK34.1 bn. This was well above all estimates, which were around CZK7bn on average. While the decline of exports weakened to only 0.4% yoy after the previous -29% yoy, the import improvement slightly slowed to -6.6% yoy after 23.6% yoy in May.

According to our forecast, GDP will be the main drag on the Czech economy this year. But the data from the manufacturing sector and foreign trade released today support our notion that the GDP drop this year will not be as strong as many pessimist forecasts indicated. **For this year, we expect the economy to decline around 5%.** Nevertheless, that is still a serious decline and will have strong mid-term effects. The data from the construction sector released today showed that some sectors will be hit with a delay. The construction output in June fell deeper to negative territory at -11.5% yoy, which was the worst result from mid-2013. For the construction sector, our forecast reckons with -0.4% for this year and -4.1% for the next year.

The Czech koruna did not react to the new data and awaits today's CNB meeting.

KB ECONOMIC & STRATEGY RESEARCH

Chief Economist and Head of Research



Jan Vejmelek, Ph.D., CFA
(420) 222 008 568
jan_vejmelek@kb.cz

Economists



Michal Brozka
(420) 222 008 569
michal_brozka@kb.cz



Jana Steckerová
(420) 222 008 524
jana_steckerova@kb.cz



Martin Gürtler
(420) 222 008 509
martin_gurtler@kb.cz



Strategist

František Táborský
(420) 222 008 598
frantisek_taborsky@kb.cz

Equity Analyst



Bohumil Trampota
(420) 222 008 560
bohumil_trampota@kb.cz

SG IN CENTRAL AND EASTERN EUROPE

Head of Research of Rosbank



Evgeny Koshelev
(7) 495 725 5637
evgeny.koshelev@rosbank.ru

Chief Economist of BRD-GSG

Florian Libocor
(40) 213 016 869
florian.libocor@brd.ro

Economist BRD-GSG



Ioan Mincu
(40) 213 014 472
george.mincu-radulescu@brd.ro



Equity Analyst

Laura Simion, CFA
(40) 213 014 370
laura.simon@brd.ro



Economist Rosbank

Anna Zaigrina
(7) 495 662 1300
anna.zaigrina@rosbank.ru

SG GLOBAL ECONOMICS RESEARCH

Head of Global Economics



Klaus Baader
(852) 2166 4095
klaus.baader@sgcib.com

Euro area



Michel Martinez
(33) 1 4213 3421
michel.martinez@sgcib.com



Anatoli Annenkov
(44) 20 7762 4676
anatoli.annenkov@sgcib.com



Yvan Mamalet
(44) 20 7762 5665
yvan.mamalet@sgcib.com



United Kingdom

Brian Hilliard
(44) 20 7676 7165
brian.hilliard@sgcib.com

North America



Stephen Gallagher
(212) 278 4496
stephen.gallagher@sgcib.com



Latin America
Dev Ashish
(91) 80 2802 4381
dev.ashish@socgen.com



India
Kunal Kumar Kundu
(91) 80 6716 8266
kunal.kundu@sgcib.cz



Korea
Suktae Oh
(82) 2195 7430
suktae.oh@sgcib.com

China



Wei Yao
(33) 1 57 29 69 60
wei.yao@sgcib.com



Greater China
Michelle Lam
(85) 2 21 66 57 21
michelle.lam@sgcib.com



Japan
Takuji Aida
(81) 3-6777-8063
takuji.aida@sgcib.com



Arata Oto
(81) 3 6777 8064
arata.oto@sgcib.com

SG CROSS ASSET RESEARCH - FIXED INCOME & FOREX GROUPS

Global Head of Research



Brigitte Richard-Hidden
(33) 1 42 13 78 46
brigitte.richard-hidden@sgcib.com

Head of Fixed Income & Forex Strategy



Guy Stear
(33) 1 41 13 63 99
guy.stear@sgcib.com

Head of Rates Strategy



Adam Kurpiel
(33) 1 42 13 63 42
adam.kurpiel@sgcib.com



Head of Euro Area Rates Strategy

Ciaran O'Hagan
(33) 1 42 13 58 60
ciaran.ohagan@sgcib.com



Covered Bonds & SSA

Cristina Costa
(33) 1 58 98 51 71
cristina.costa@sgcib.com



Head of US Rates Strategy

Subadra Rajappa
(1) 212 278 5241
subadra.rajappa@sgcib.com



Jorge Garayo
(44) 20 7676 7404
jorge.garayo@sgcib.com



Jean-David Cirotteau
(33) 1 42 13 72 52
jean-david.cirotteau@sgcib.com



Shakeeb Hulikatti
(91) 80 2802 4380
shakeeb.hulikatti@sgcib.com



Kevin Ferret
(44) 20 7676 7073
kevin.ferret@sgcib.com



Rohit Gaurav
(91) 8067318958
rohit.gaurav@sgcib.com



Michael Chang
(1) 212 278 5307
michael.chang@sgcib.com

Chief Global FX Strategy



Kit Juckes
(44) 20 7676 7972
kit.juckes@sgcib.com



FX Derivatives Strategy

Olivier Korber
(33) 1 42 13 32 88
olivier.korber@sgcib.com

Head of Emerging Markets Strategy



Jason Daw
(65) 6326 7890
jason.daw@sgcib.com



Phoenix Kalen
(44) 20 7676 7305
phoenix.kalen@sgcib.com



Kiyong Seong
(852) 2166 4658
kiyong.seong@sgcib.com



Marek Drimal
(44) 20 7550 2395
marek.drimal@sgcib.com

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