

Instant Reaction

EcoAlert

Orders are growing but components for production are missing



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Industrial output, foreign trade, construction (May 2021)

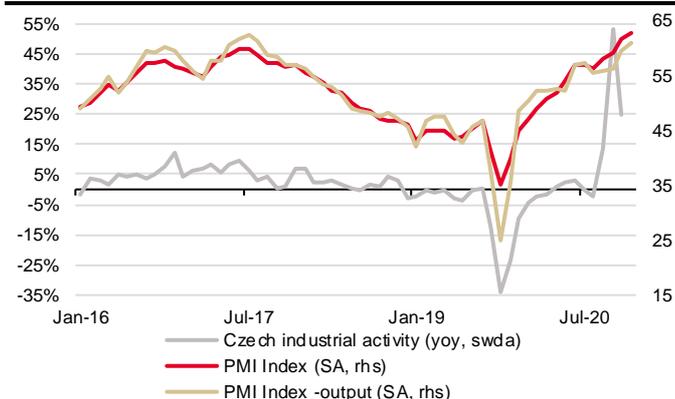
	Current	KB forecast	Consensus (Bloomberg)
Industrial output (% , yoy)	32.3	34.0	34.9
Industrial new orders (% , yoy)	46.5		
Foreign trade balance (CZKbn)	6.3	27.5	25.3
Construction output (% , yoy)	5.8	3.6	

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

In May, industrial production fell more than expected month-on-month after the previous expansion. The reason is the limited supply of production components. The year-on-year comparison is still strongly influenced by last year's slump. Weaker industrial production was also reflected in a reduction of the foreign trade surplus. On the other hand, construction grew slightly in May. From the financial market point of view, production data surprised negatively; however, this should not affect the expected further tightening of monetary policy.

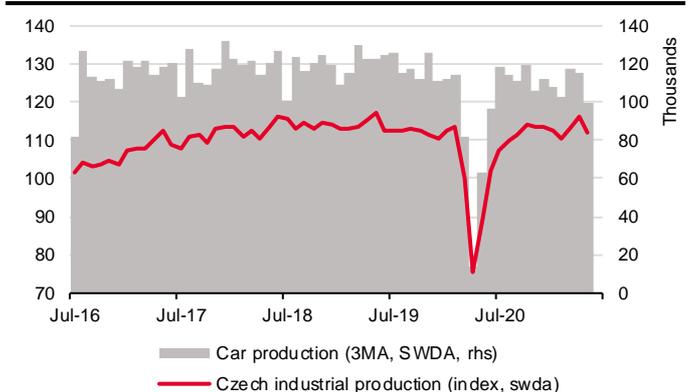
In May, industrial production fell a significant 3.6% mom. The reason for the decline is the lack of parts and materials for production, especially in car production. Precisely due to lower car production, we expected a month-on-month decline in industry of around 1%, but the reality was even weaker. A look at year-on-year data masks recent developments this time considerably. Production added 32.3% in May. Yoy growth is still high due to a comparison with last year, when industry was largely closed. This was slightly below our estimate of 34.0% and below the median market estimate of 34.9%. However, the high uncertainty of the estimates is evidenced by their wide variance ranging from 30% to 45%.

Leading indicators show further production expansion



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

Car production is limited by a lack of components



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

After adjusting for the year-on-year advantage of two working days, year-on-year growth was 25.3% after the previous rate of 55.1%. As already mentioned, the year-on-year

comparison is influenced by the low comparison base from last year. It is therefore not surprising that, despite the month-on-month decline in May, car production is the biggest driver with a year-on-year contribution of 8.5 percentage points. The growth rate of new orders, whose value is growing 46.5% year-on-year after the April rate of 90.0% (WDA), also continues to have a spectacular effect.

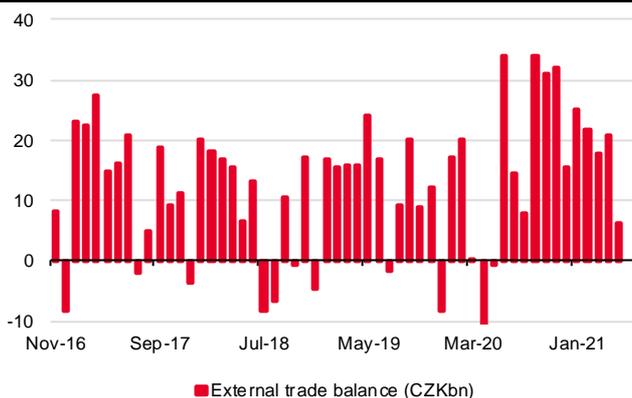
The year-on-year decline in employment fell further to 1.4% from a previous decline of 2.0%. Growth of the average wage in industry accelerated to 12.0% yoy from the previous 11.3% yoy. But here again there is a strong influence compared to last year's pandemic.

Difficulties in supply chains will persist in the coming months and will limit the performance of industry. On the contrary, it will be driven upward by growing demand and orders. The expansion of production is also indicated by the development of leading indicators and the growth of business confidence. The effect of a low base effect will weaken rapidly, and in the summer months the annual growth rates of industry will return to single-digit territory. Our forecast for this year assumes industrial growth of around 9%. Recent developments, however, rather show that the full-year result could be in slightly double-digit numbers.

Foreign trade has weakened

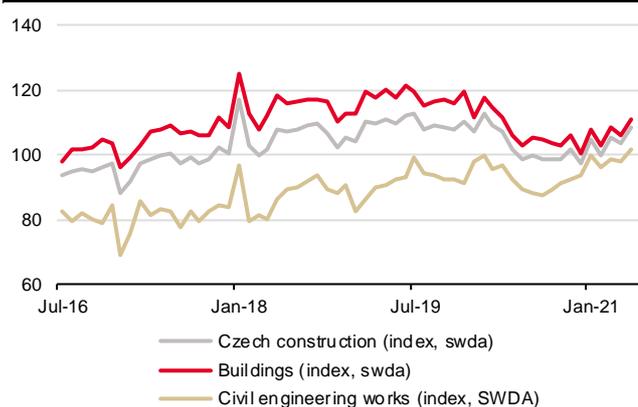
The foreign trade balance ended in May with a surplus of CZK6.3bn. From the point of view of market expectations, this was a relatively significant disappointment. The market median expected an increase in the surplus from CZK19.3bn in April to CZK25.3bn. Even the most pessimistic estimate was CZK20.0bn. Weaker foreign trade corresponds to a decline in industrial production, which is linked to both imports and exports. Compared to April, exports decreased 8.1% and imports 4.1%. The result was a reduction in the trade balance surplus to CZK6.3bn, which is still almost CZK7bn higher year-on-year. Last May, however, was marked by a paralysis of foreign trade due to COVID restrictions.

Foreign trade surplus decreased



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

Construction ticked up in May



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

In the first five months of this year, the surplus between exports and imports increased a significant CZK79.9bn to CZK92.3bn. Exports are 26.3% higher yoy, while imports are 20.5% higher. Currently, however, trends are beginning to break as the economy leaves the COVID recession and enters a recovery phase.

From the point of view of the foreign trade balance, last year's success has passed. The record surplus of CZK181.4bn was mainly helped by the COVID recession and a significant

reduction of imports. On the contrary, mainly due to resistant industry, exports remained relatively stable. This year, the economy is recovering, which will be reflected in a higher increase in consumer and investment imports, so the foreign trade surplus will be weaker than last year.

As in the case of industrial production, the effect of year-on-year comparisons will quickly disappear. Significantly, signals of growing demand point to further export expansion. However, as investment activity grows, imports should pick up and we should rather see a year-on-year deterioration in the trade balance.

Construction expanded in May

After adjusting for the effects of seasonality and the different number of working days, construction output in the Czech Republic increased 4.4% year on year in May after a previous decline of 4.2%. Although this was partly due to last year's low base effect, the positive news is that construction output also grew a significant 3% mom. **Both building and civil engineering grew approximately 3% mom.**

In the construction industry, the significant loosening of anti-epidemic restrictions in May and possibly the arrival of warmer weather were driving factors. Households were thus able to start carrying out planned repairs and alterations to their homes, which they had postponed during the pandemic. However, the impact of renewed corporate demand for investment was probably even stronger. According to national accounts, they grew quarter-on-quarter in the first quarter, and it can be assumed that private investment continued to grow in the second quarter, with uncertainty surrounding the pandemic and declining restrictions. In addition, higher investment activity of companies is likely to be affected by the continuing shortage of labour.

A positive signal for the coming months is the continuing growth in the number of building permits, which increased 10% mom and was 15% higher than last year. However, the already-mentioned shortage of manpower and the lack of construction material may be limiting factors for the further growth of construction output.

From the point of view of the financial market, the data published today are a disappointment proving the difficulties of producers. However, in terms of the direction of monetary policy, it is unlikely to change much. In August, we expect a further increase in CNB interest rates.

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