

Instant Reaction

EcoAlert

August data from the real economy partially corrected July's declines



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

Industrial output, foreign trade, construction (August 2023), Unemployment (September)

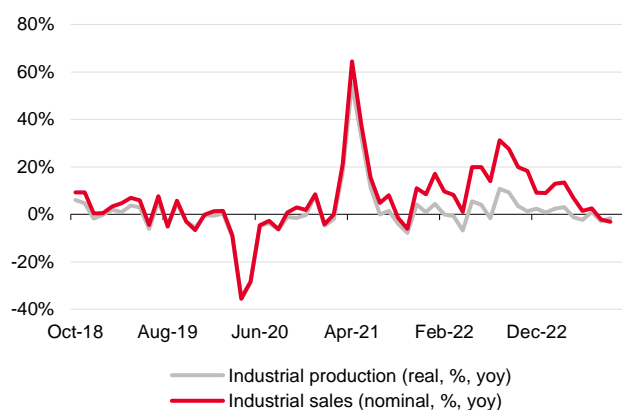
| | Current | KB forecast | Consensus (Bloomberg) |
|------------------------------------|---------|-------------|-----------------------|
| Industrial output (% , yoy) | -1.7 | -2.8 | -2.9 |
| Industrial new orders (% , yoy) | -4.2 | | |
| Trade balance (CZKbn) | -3.8 | -8.5 | -4.0 |
| Construction output (% , yoy) | -0.2 | | |
| Unemployment (% , MLSA) | 3.6 | 3.5 | 3.6 |

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

The August real economy indicators turned out slightly better than expected, partly offsetting the sharp drop in July. Industrial production was surprisingly robust with mom growth, the foreign trade deficit was lower than anticipated, while construction output grew strongly. September's jobless rate then stagnated at the previous month's level. Even so, the third quarter so far looks bleak for the Czech economy. Moreover, the September results for industrial production and foreign trade are likely to be affected by the ongoing shutdowns in the automotive industry due to component shortages. Weak domestic demand will likely dampen output in the construction sector.

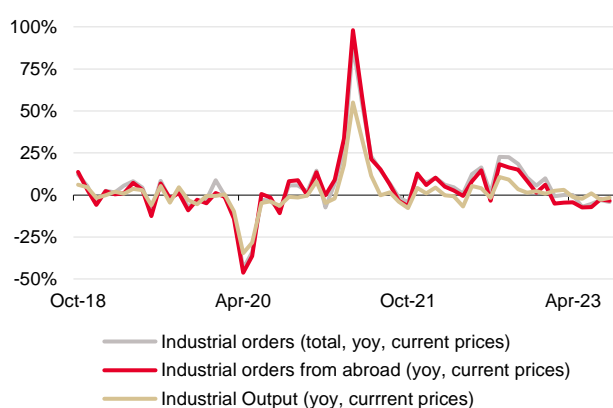
The 0.2% mom growth in industrial production in August was surprisingly robust compared to the market consensus. While the analysts' consensus had predicted a yoy decline of 2.9%, industrial production was ultimately lower by "only" 1.7% in August.

Industrial production declined in yoy terms



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

Industrial orders decreased again



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

Manufacturing output was almost flat mom, rising by 0.1% after a previous sharp decline of 3.8% in July. The marginal mom growth was significantly driven by sectors that partially corrected the previous month's declines, such as metalworking, machinery and other transport equipment. This, in turn, was significantly offset by a strong mom decline of 9.1% in car production. This was probably related to the extended plant-wide holidays as well as factory

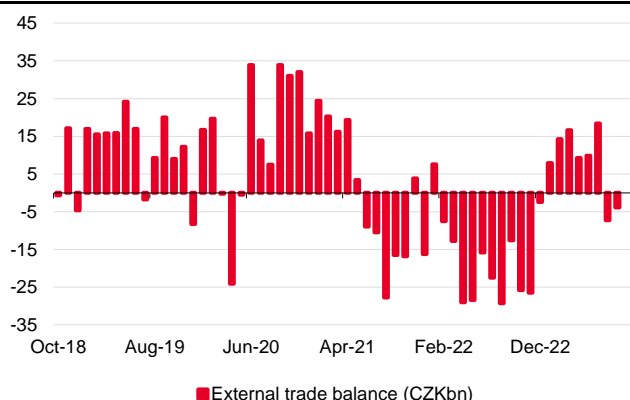
shutdowns due to renewed problems in supply chains. Nevertheless, it is still the production of transport equipment and, to a lesser extent, the production of electrical equipment that are preventing a more significant yoy decline in industrial production.

The decline in new orders continued in August. It accelerated to 2.3% mom after -1.9% in July. Orders in the automotive industry also declined this time (by 4.9%). Demand for industrial goods thus remains weak. Moreover, the outlook is pessimistic even in view of the negative developments in foreign demand, especially in Germany, where industrial sentiment remains rather bleak.

The external trade deficit has narrowed

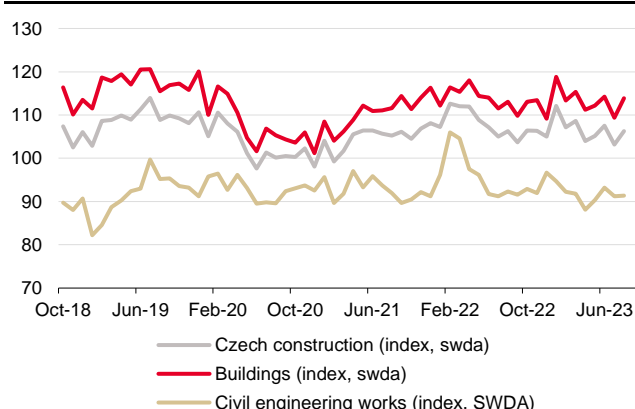
The foreign trade balance improved in August, with the deficit narrowing to CZK -3.8 billion after CZK -7.2 billion in July. The improvement was driven by a higher trade surplus in motor vehicles, which may have reflected the finalisation of products previously in the pipeline. Adjusted for seasonal effects, the mom improvement was driven by a more pronounced 1.7% decline in imports compared to a more modest 0.5% decline in exports.

Trade balance in deficit once again



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

Czech construction output saw improvement



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

Construction output grew strongly in August, but still not enough to compensate for July's drop

The August construction output statistics were pleasantly surprising at first glance. In mom terms, strong growth of 2.0% was reported after seasonal adjustment. This was primarily due to a significant rise in building construction (+2.8% mom), while a slight decline was recorded in civil engineering (-0.3% mom). On a yoy basis, the decline eased from -2.1% in July to -0.2% in August. In civil engineering, output was 0.6% higher yoy in August, while in civil engineering it was 2.0% lower. However, for both holiday months the picture is not so encouraging. The two need to be considered together, as they are traditionally affected by the different timing of holidays each year. Even the aforementioned 2.0% mom rise in construction output in August was not enough to offset July's significant 3.7% drop. Total construction output is down 1.9% ytd through August, with civil engineering down 0.6% and civil engineering down 5.4%.

Contract statistics are not improving. Building authorities issued 8.4% fewer building permits in August yoy. Although the indicative value of permitted constructions increased by a significant 31%, it was affected by nine infrastructure constructions with a budget of over CZK 1 billion. Adjusted for these one-off events, the yoy growth was just 2%. Statistics from the residential

market are not encouraging either. The number of housing starts was 23.1% lower yoy in August, while the number of completed apartments fell by 21.8% compared to August last year. Despite the long-term unfavourable situation in the sector, one of the barriers to growth here remains the lack of labour. Employment in the construction sector was 0.6% higher yoy in August, while average gross monthly nominal wages rose by 9.7%.

The fact that the Czech labour market remains tight was confirmed by labour market statistics. The share of unemployed persons stagnated at 3.6% in September. After seasonal adjustment, it rose to 3.7%. The number of job seekers increased by 2.2 thousand to 263 thousand compared to the previous month and was 6.6 thousand higher compared to September 2022. The number of job vacancies fell by 0.8 thousand mom to 282 thousand. However, after seasonal adjustment, their number increased. In September, there was one job vacancy for every one applicant. The domestic labour market thus remains tight. We forecast that the share of unemployed people will rise only slightly this year. After last year's average of 3.4%, it should reach 3.6% this year and again next year.

Overall, the data released today partially improved the poor July results. Holiday data is traditionally volatile, so it helps to look at the big picture. In any case, despite a slight mom increase in August, industrial production remains relatively weak in the third quarter of this year. Assuming a stagnation in September, industrial production would be down by a significant 1.4%qoq. Given the ongoing shutdowns by auto producers, which have been set back by shortages of production components due to natural disasters, the crucial auto industry is also unlikely to offer much support for growth in September. This is evidenced by the deterioration in mood in industry indicated by the September sentiment surveys, all of which will be reflected in the foreign trade results. Furthermore, we don't expect a significant improvement in the construction sector. However, as the end of the year approaches, activity in the civil engineering sector in particular should gradually increase. Overall, after last year's full-year output growth of 3.6% in the construction sector, we expect this year to be essentially flat.

KB ECONOMIC & STRATEGY RESEARCH

Chief Economist and Head of Research



Jan Vejmlík, Ph.D., CFA
(420) 222 008 568
jan_vejmlík@kb.cz

Economists



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



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



Kevin Tran Nguyen
(420) 222 008 569
kevin_tran@kb.cz



Strategist
Jaromír Gec
(420) 222 008 598
jaromir_gec@kb.cz

Equity Analyst



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

SG GLOBAL ECONOMICS RESEARCH

Head of Global Economics



Klaus Baader
(44) 20 7762 4714
klaus.baader@sgcib.com

Euro area



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

United Kingdom



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

China



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



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



North America
Stephen Gallagher
(1) 212 278 4496
stephen.gallagher@sgcib.com



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



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



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



Japan
Jin Kenzaki
(81) 3 6777 8032
jin.kenzaki@sgcib.com



Sam Cartwright
(44) 20 7762 4506
sam.cartwright@sgcib.com



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



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

SG CROSS ASSET RESEARCH – FIXED INCOME & FOREX GROUPS

Global Head of Economics, Cross-Asset & Quant Research



Kokou Agbo Bloua
(44) 20 7762 5433
kokou.agbo-bloua@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

Jorge Garayo



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



Head of US Rates Strategy
Subadra Rajappa
(1) 212 278 5241
subadra.rajappa@sgcib.com



Sean Kou
(44) 20 7550 2053
sean.kou@sgcib.com



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



Mathias Kpade
+33 157294393
mathias.kpade@socgen.com



Ninon Bachet
(33) 1 58 98 30 26
ninon.bachet@sgcib.com



Theodore Kalambokidis
+1 212 278 4504
theodore.kalambokidis@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



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



Gergely Urmossy
(44) 20 7762 4815
gergely.urmossy@sgcib.com



Bertrand Delgado
(1) 212 278 6918
bertrand.delgado-calderon@sgcib.com



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



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



Vijay Kannan
(91) 7010445705
vijay.kannan@sgcib.com

Disclaimer

The information herein is not intended to be an offer to buy or sell, or a solicitation of an offer to buy or sell any securities. All information and opinions have been obtained from or are based on sources believed to be reliable, but their completeness and accuracy are not guaranteed by Komerční banka, a.s., even though Komerční banka, a.s. believes them to be fair and not misleading or deceptive. The views of Komerční banka, a.s. reflected in this document may change without notice.

Komerční banka, a.s. and its affiliated companies may from time to time deal in, profit from the trading of, hold or act as market makers of securities, or act as advisers, brokers or bankers in relation to securities or derivatives thereof emitted by persons, firms or entities mentioned in this document.

Employees of Komerční banka, a.s. and its affiliated companies, or individuals connected to them may from time to time have a position in or be holding any of the investments or related derivatives mentioned in this document. The authors of this document are not authorized to acquire the investment instruments mentioned in this document. This does not apply to cases when information mentioned in this document represents dissemination of an investment recommendation earlier produced by third parties according to Chapter III of regulation (EU) 2016/958. Komerční banka, a.s. and its affiliated companies are under no obligation to provide any services to their clients on the basis of this document.

Komerční banka, a.s. does not accept any liability whatsoever arising from the use of the material or information contained herein beyond what is required by law. This research document is primarily intended for professional and qualified investors. Should a private customer obtain a copy of this report, they should not base their investment decisions solely on the basis of this document and should seek independent financial advice. The investors must make their own informed decisions regarding the appropriateness of their investments because the securities discussed in this report may not be suitable for all investors.

The performance attained by investment instruments in the past may not under any circumstance serve as an guarantee of future performance. The estimates of future performance are based on assumptions that may not be realized. Investment instruments and investments are connected with different investment risks, the value of any investment can rise and fall and there is no guarantee for the return of the initial invested amount. Investment instruments denominated in foreign currencies are also subject to fluctuations caused by changes in exchange rates, which can have both positive and negative influences particularly on the prices of the investment instrument and consequently on the investment return.

This publication is issued by Komerční banka, a.s. which is a bank/stockbroker according to the applicable legislation and thus regulated by the Czech National Bank. Komerční banka, a.s. applies various measures to prevent conflict of interests in the process of creating this document and other investment recommendations, such as the implementation of an appropriate internal separation including information barriers between different departments of Komerční banka, a.s. in compliance with the requirements imposed by applicable regulation. The employees of Komerční banka, a.s. proceed in accordance with the internal regulations governing conflict of interest.

The evaluation of employees creating this document is never by any means tied with the volume or profit of the trades with instruments mentioned in this document done by Komerční banka, a.s., or the trades of Komerční banka, a.s. with the issuers of such instruments. However, the evaluation of the authors of this document is linked to the profits of Komerční banka, a.s. which also partially include the results of trading with investment instruments.

Information mentioned in this document are intended for the public and the document before its publication is not available to persons not involved in the creation of this document. As per our practice, the issuers do not receive a copy of research reports prior to their publication. Each author of this research report hereby states that (i) the views expressed in the research report accurately reflect his or her personal views about any and all of the securities or issuers at stake.

This document and its contents is not designed for persons with permanent residence or seat in the United States of America and to persons who are deemed as "U.S. persons", as defined in Regulation S under the US Securities Act of 1933, as amended.

This document is not an investment recommendation according to Regulation (EU) No 596/2014 of the European Parliament and of the Council on market abuse and does not constitute investment advisory according to Act no 256/2004 Coll., on Capital market undertakings as amended.

Please refer to our website <http://www.trading.kb.cz> for more details.