Indicator analysis   Industry and trade balance

EcoAlert

Automotive boosted industry and foreign trade, but not the whole picture

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Industrial output, foreign trade, construction output (October 2024)

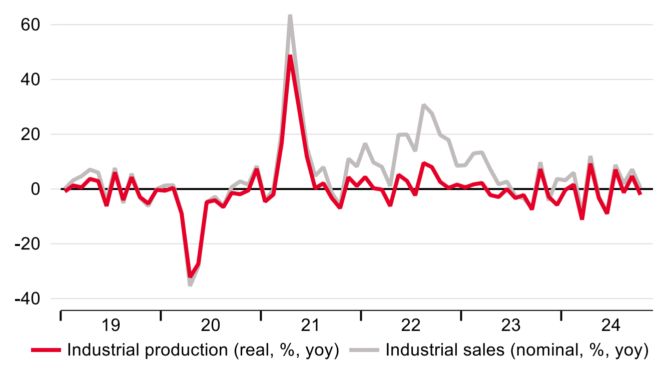
	Current	KB forecast	Consensus (Bloomberg)
Industrial output, NSA (%, yoy)	-2.1	-1.0	-0.6
Industrial new orders (%, yoy)	2.0		
Construction output, WDA (%, yoy)	-3.6		
Trade balance (CZKbn)	11.0	11.8	15.8

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

Industrial production continued to decline in October, despite a mom rise in car production. The automotive industry also continued to support the foreign trade surplus, which likely benefited from exports of previously unfinished goods. Despite the still-robust car production, the outlook for industrial production remains uncertain. A tangible and broad recovery in Czech industry is unlikely for the rest of the year. Following September's strong decline in construction output, which was affected by floods and adverse weather conditions, October was marked by a strong mom increase compared to September.

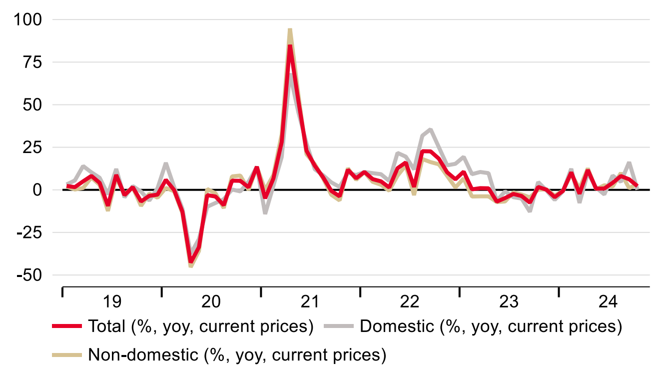
Industrial production continued to contract in October. After a decline of 0.5% mom in September, revised up from -1.1%, industrial production fell by 0.7% mom in October. On a yoy basis, it was 2.1% lower, which was below both the market consensus and our estimate. Despite fairly encouraging leading indicators, domestic industry entered the final quarter of the year on a negative note. Given the unfavourable industrial sentiment, which presumably reflects the subdued performance of German industry, possibly also linked to trade war concerns, a significant recovery of Czech industry is not on the cards for the rest of the year.

Industrial output remains subdued (%, yoy, NSA)



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

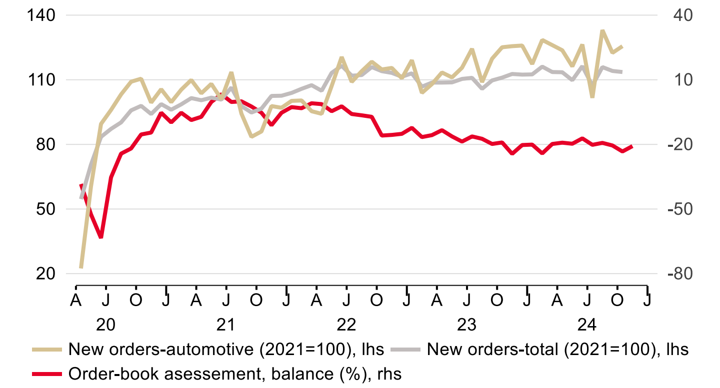
New orders (%, yoy, NSA)



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

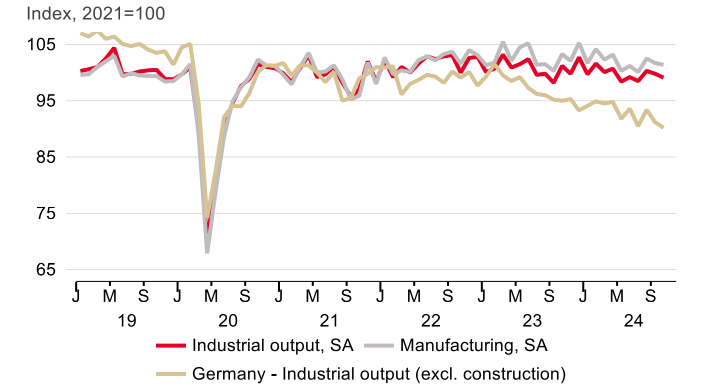
Manufacturing output fell by 0.3% mom in October, after a decline of 0.8% in the previous month. A sharper fall in October was prevented by the transport equipment (automotive) sector, where output rose by 3.1% mom. Although it was 2% lower yoy, mainly due to a higher comparison base, it remains at a solid level. Despite the supply constraints it faced, particularly in 2Q, the automotive industry remains one of the key factors preventing a deeper downturn. The decline in manufacturing output in October was not broad-based. Less than half of the sectors within the industrial production index saw their output fall. However, the rate of decline in these sectors outweighed growth in others. The main contributors to the mom decline in output were machinery (-0.4pp), computer and electronic equipment (-0.3pp), repair and installation of machinery (-0.3pp) and fabricated metal products (-0.2pp).

New industrial orders



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

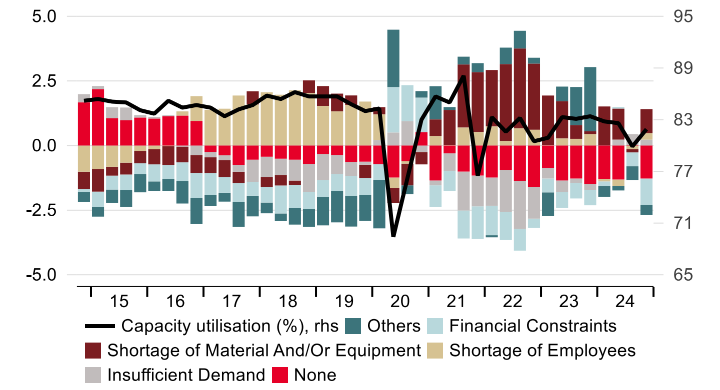
Czech and German industrial production



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

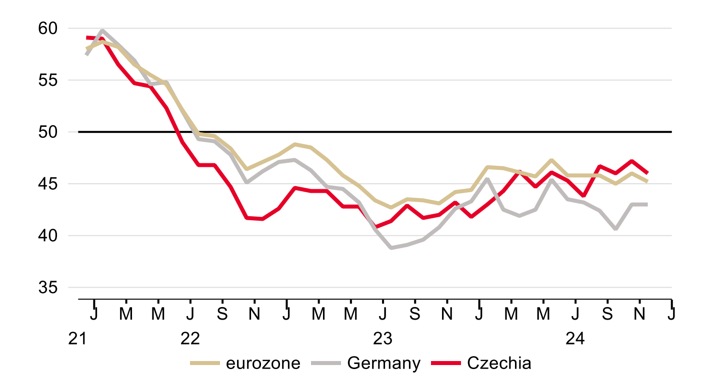
The value of new orders (in current prices) rose by 5.1% yoy in October, but it was 0.9% mom lower than in September. Demand for the output of domestic auto manufacturers remained solid, with the value of new orders in this sector rising by 2.5% mom, after an 8% contraction in September. Nevertheless, the transport equipment sector continues to outperform other manufacturing sectors in terms of both output and new orders.

Limits to production in industry (z-scores)



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

PMI in manufacturing



Source: Macrobond, Economic & Strategy Research, Komerční banka

In October, output was also dragged down by a 4.8% mom decline in the energy sector, already indicated by leading indicators for electricity generation. This remains at a low level, possibly reflecting energy savings and the weak performance of energy-intensive industries.

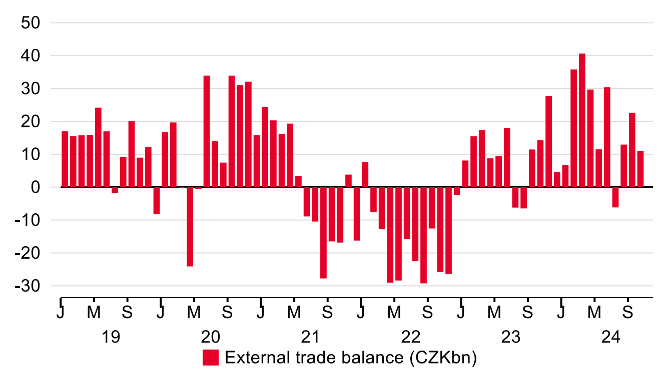
Industrial production is unlikely to recover significantly in the coming months. Its further development remains uncertain in view of the subdued German economy and the negative sentiment largely reflects the continued weakness of the German manufacturing, which still forms an integral part of the demand for Czech industrial products.

Foreign trade boosted by car exports

The balance of foreign trade was in a surplus of CZK11.0bn in October, which was in line with our expectations but below the market consensus. The result was favourably influenced by a CZK2.8bn yoy higher surplus on trade in motor vehicles. This reflected positively the resolution of subcontracting problems, as manufacturers were able to complete work-in-progress production and subsequently export it. Thanks to the development of world prices, the trade deficit in oil and natural gas was reduced by almost CZK3bn. On a seasonally adjusted monthly basis, exports increased by 1.1% and imports by 2.0%.

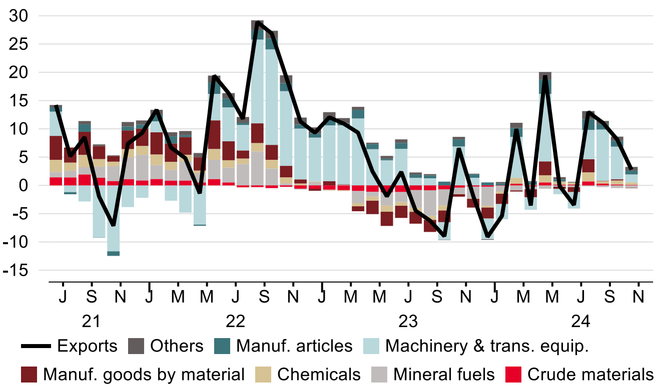
In January-October 2024, the trade surplus reached CZK195bn, representing a yoy increase of CZK104.9bn. For this year as a whole, we estimate a surplus of CZK222bn. Next year, we expect a smaller positive balance (CZK170bn). We estimate that the import side will be influenced by higher import-intensive investment activity, while higher imports will also be driven by stronger domestic demand. The export side, on the other hand, will be negatively affected by the fading of the effect of exports of unfinished goods or persisting lower global demand for manufactured goods.

Trade balance in a surplus



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

Decomposition of exports by SITC (%, yoy, pp)



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

Construction output in October: waters receded, builders moved in

While September's construction output fell dramatically, partly due to the floods, October marked a strong rise. Mom, construction output improved by 3.8% in real terms. Civil engineering and building construction were up by 5.7%mom and 2.8%, respectively.

On a yoy basis, the rate of decline slowed more markedly in October, to -3.6% from -8.1% in September. Here, however, the initially reported result of -7.1% was revised downwards. The yoy decline eased from -8.1% in September to -3.1% in October for civil engineering and from -8.2% to -4.3% for civil engineering.

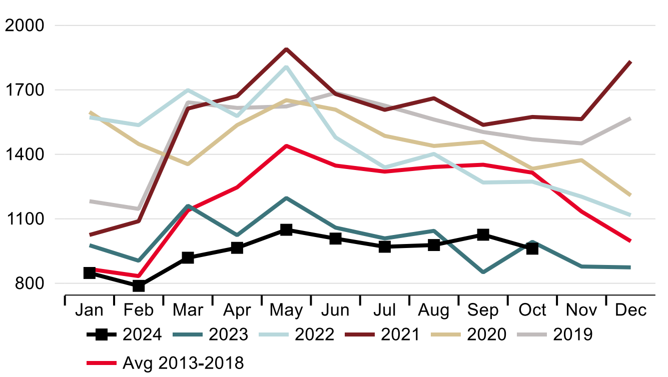
However, in terms of future developments, the statistics on building permits issued did not bring much encouragement, at least at first glance. The indicative value of new building permits fell by a significant 17.6% yoy. It should be noted, however, that this is the result of a very high statistical base – according to the CZSO, eight large buildings with budgets of over CZK1bn were permitted last October. Adjusted for this fact, this October's indicative value of permitted constructions would have increased by 12% yoy.

A very bleak picture persists in the case of residential housing. Indeed, the yoy fall in the number of newly completed dwellings reached 48.4% in October. The yoy decline in apartment buildings was even more pronounced, reaching -50.3%. The number of building starts fell by 14.6% yoy, and by 30.0% in housing starts.

Employment in the construction sector continues to decline, with the average number of registered employees in October down by 2.1% yoy. However, wages are rising at a relatively brisk pace, with nominal gross wages up 10.1% yoy in October.

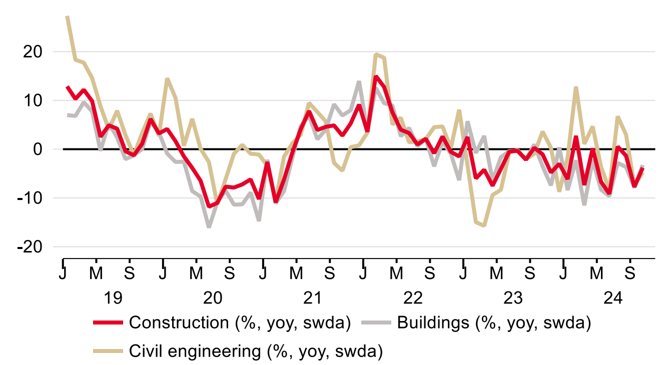
For this year as a whole, construction output will fall significantly. For January to October, construction output was 4.2% lower in real terms. November and December are unlikely to make any significant difference to this result and a decline of around 4% will likely soon materialise. The situation should only turn for the better during the course of 2025, as indicated by the rising confidence in the construction sector. This is shown by the national business survey. Lower interest rates, and thus cheaper financing, should play a role, as should increased investment activity supported by EU funds.

Number of new permits for residential buildings



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

Czech construction output remains subdued



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

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