

## Czech industrial output contracts, yet new orders rebound

Czech industrial production came in below market expectations, falling 9.1% from a year earlier. However, this was partially due to a high comparison base and more working days in the previous year. The acceleration in new orders suggests some improvement ahead, while average wage growth in industry decelerated

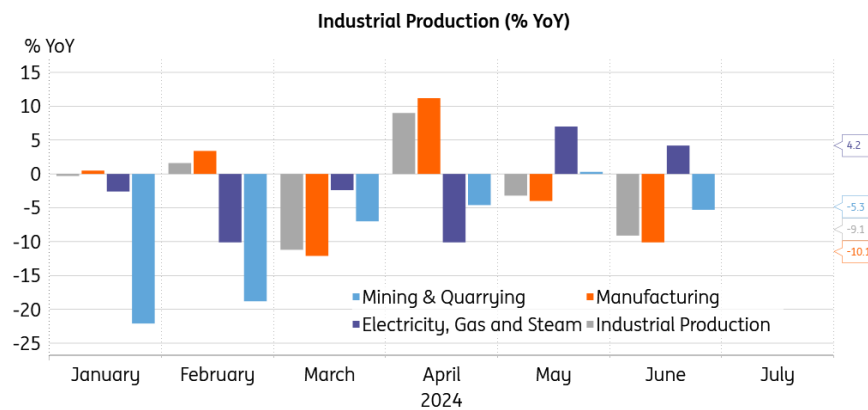


Car workers in Mlada Boleslav, Czech Republic

### June was not too bad after all, but uncertainty has increased

Czech industrial production dropped 9.1% year-on-year in June, partially due to a high comparison base and more working days from the previous year. The long-term decline in machinery and equipment production continued, along with further weakness in basic metals and metallurgy. In contrast, industrial production in June added 0.7% from the previous month in seasonally adjusted terms.

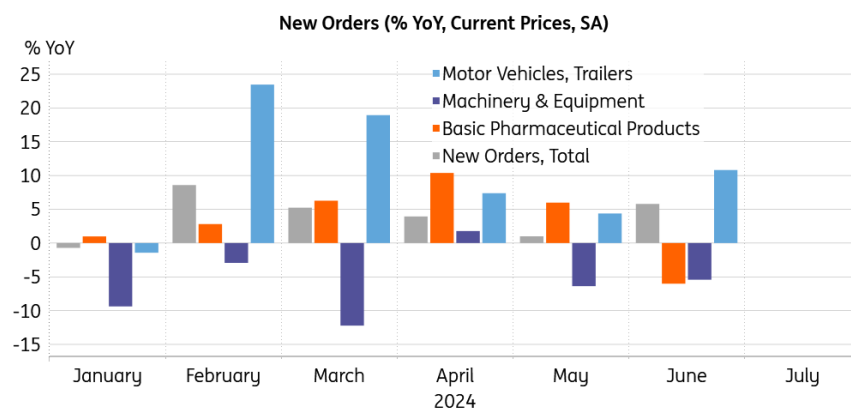
## Industrial output remains under pressure



CZSO, Macrobond

On a positive note, the value of new orders at current prices rose by 4.1% YoY, with new orders from abroad adding 4.8% and domestic new orders up 2.8% from a year earlier. The automotive sector was the main driver of the acceleration in new orders, with an average annual increase in 2Q of 7.6%, which was above the historical average observed between 2016 and 2019. However, the weakness in the Czech industrial sector is still ongoing when gauged by output and employment. The average number of registered employees decreased by 2.1% from a year earlier, while average annual wage growth in industry decelerated to 3.5% YoY in June.

## New orders accelerated with automotive in the lead



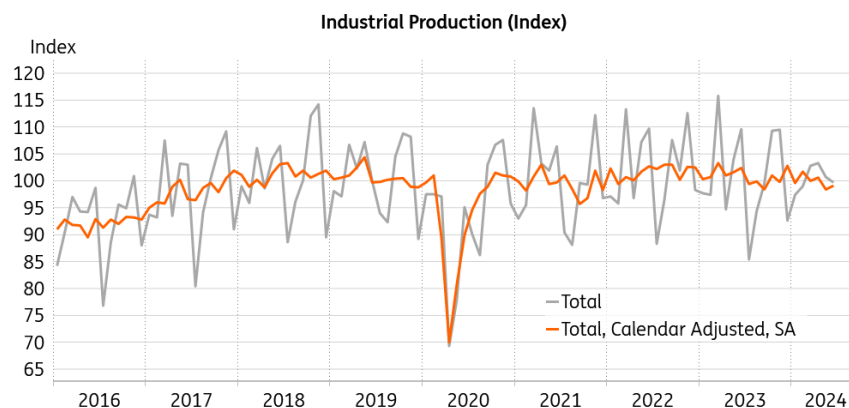
CZSO, Macrobond

## Dichotomy between industry and households continues

Overall, the picture of industrial performance in June is not all bad news, despite the negative surprise in the headline annual figure. New orders seem to have gained ground, providing a positive signal for future performance. Wage cost growth eased, which aligns with our view that the prolonged malaise in manufacturing should put a lid on lofty wage growth. The dichotomy between industry and households in the Czech economic rebound remains tangible, with continued strength in retail spending on the one hand and weak industrial output on the other. The critical question is whether the recent downward trend in industrial production has now been

broken. Or will this spark of hope be extinguished by the German economy's weakness and the recent upsurge in uncertainty surrounding the global economic outlook?

## Czech industry treads water



CZSO, Macrobond

Construction output disappointed, as it fell 10.2% annually in June and declined by 0.8% from the previous month. That said, the indicative value of building permits issued fell 5.6% from a year earlier, and average wage growth in the construction segment softened to 5.7% YoY in June.

## The foreign trade surplus surprised positively

According to preliminary data, the balance of foreign trade in goods at current prices ended with a surplus of CZK29.3bn in June, which was CZK11.2bn higher than the previous year. The overall balance of foreign trade in goods was favourably influenced primarily by a smaller deficit in trade in chemicals, oil, and natural gas. The positive balance increased for electrical equipment and motor vehicles. Considering the export and import side, most segments recorded an annual decline. In June, exports fell 4.2% YoY, while imports declined even more, by 7.3% from a year earlier. Meanwhile, exports added 3.4% and imports 0.9% from the previous month in June on a seasonally adjusted basis. Overall, the foreign trade data suggests a positive contribution of net exports to 2Q economic performance.

### Author

**David Havrlant**

Chief Economist, Czech Republic

420 770 321 486

[david.havrlant@ing.com](mailto:david.havrlant@ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING

does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.