

Czech industry attempts to recover from prolonged slump

Both real industrial output and nominal new orders saw annual gains in September, which bodes well for the Czech economic outlook. It remains to be seen whether industry has fully recovered, as the ongoing weakness in the German economy continues to pose a challenge



The Czech Republic is known for its glass products. Pictured: two workers at the Moser Glass Factory in Karlovy Vary

Output and new orders point to the industry's bottoming out

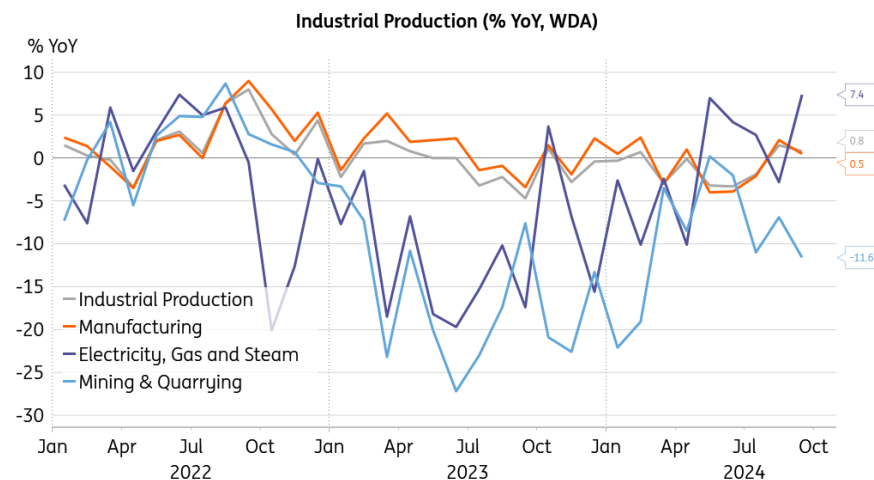
Czech industrial production rose by 0.8% year-on-year in real terms in September after adjusting for the number of working days. Meanwhile, industrial output in September was down 1.1% compared to the preceding month, correcting the previous robust gain.

In September, the industry's average number of registered employees was 2.0% lower than the previous year, reflecting a nearly consistent annual decline over recent months due to the prolonged decrease in output.

Meanwhile, annual growth in average nominal wages rose to 5.4% in September from a low of 4.4% the previous month. The overall nominal wage increases when looking at the January-September average make up 7%, which is expected to boost household spending in the coming

months.

Industrial output continues to gain

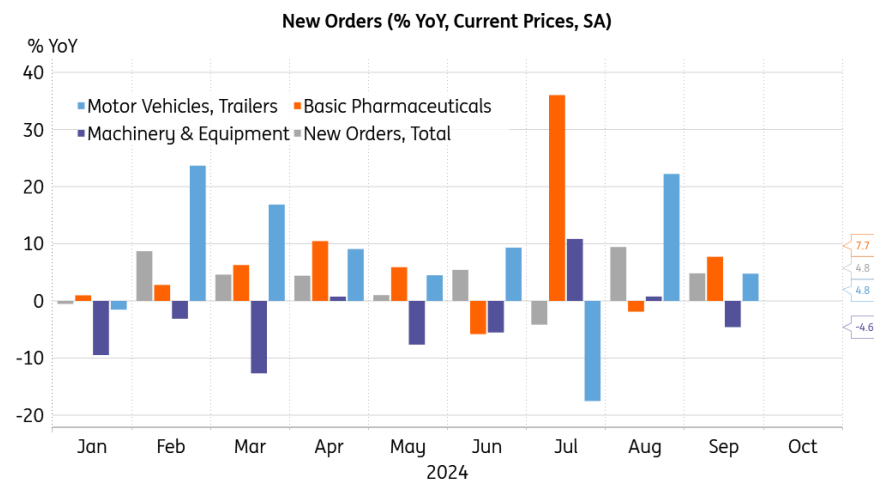


Source: CZSO, Macrobond

The value of new orders at current prices in September picked up by 5.1% YoY, with new orders from abroad gaining 1.4% YoY and domestic new orders adding 12.4% from the previous year.

Companies in the production of other vehicles were again able to make long-term contracts. The value of new orders also increased in the manufacturing of computers, electronics and optical instruments.

New orders allow for cautious excitement



Source: CZSO, Macrobond

Started apartments outpace finished ones, adding to supply-demand mismatch

When looking at developments in construction, output dropped by 7.1% from the preceding year in September after two months of growth. A decline was recorded in both civil engineering and

residential construction. However, this was influenced by exceptionally high rainfall in September, with almost three times more rain compared to the long-term average.

Simultaneously, nearly 50% more residential units were started in September compared to last year, confirming the property market's revival and bolstering demand. In contrast, the number of completed apartments was 25% lower than last year, further widening the gap between high demand and limited supply in this segment, thereby fueling the rise in property prices. Although nominal wage growth in construction slightly weakened in September, it still achieved a robust 6.2% annual increase.

We see the September reading as the first sign that the Czech industry is getting out of its protracted malaise, though an upward trend has to be confirmed in the coming months. The recovery of the industrial sector is crucial for the Czech economy to overcome its prolonged period of underperformance.

It would be a pleasant surprise if the Czech industry manages to progress despite the ongoing struggles of the German economy, which was once a dependable driver of Czech exports. The mismatch between weak supply and reviving demand in the residential market will likely propel property prices in the coming quarters and might, in turn, be transformed into an upward surprise in the market and imputed rents in January's CPI figures.

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