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CZECH REPUBLIC

## Czech industry's annual growth is bold, but the trend still faces challenges

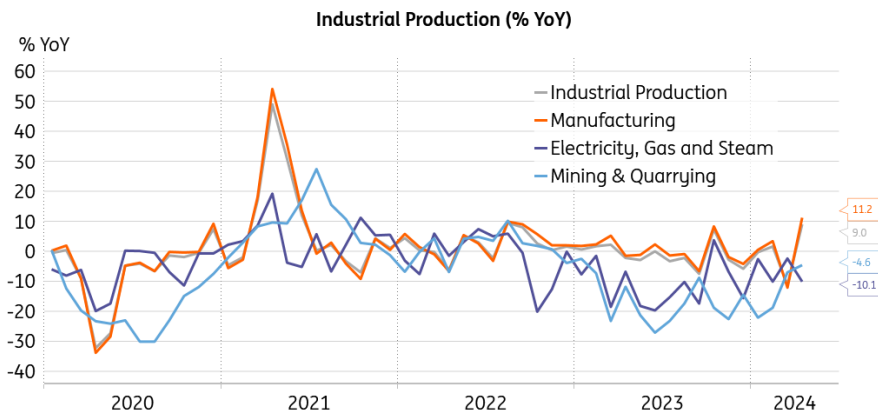
Industrial production in real terms rose by 9.0% year-on-year in April, coming in above market expectations. The value of new orders increased by 3.6% YoY, emerging as the true harbinger of recovery. Wage growth quickened to a lofty 10% from a year earlier



### New orders is good news for expansion

Industrial production added 9.0% YoY in April in real terms, with total manufacturing taking the lead with an 11.2% annual increase. Production of motor vehicles, chemicals, and machinery were the prominent contributors to the upbeat performance. In contrast, industrial production in the energy and mining sector declined from a year earlier, partially due to warm weather conditions, but also reflecting the still mediocre performance of the Czech economy. At the same time, average nominal wage growth in industry quickened to an elevated 10.0% on an annual basis, paving the way to increased appetite for spending in the coming quarters but also adding to the upward pressure on consumer prices.

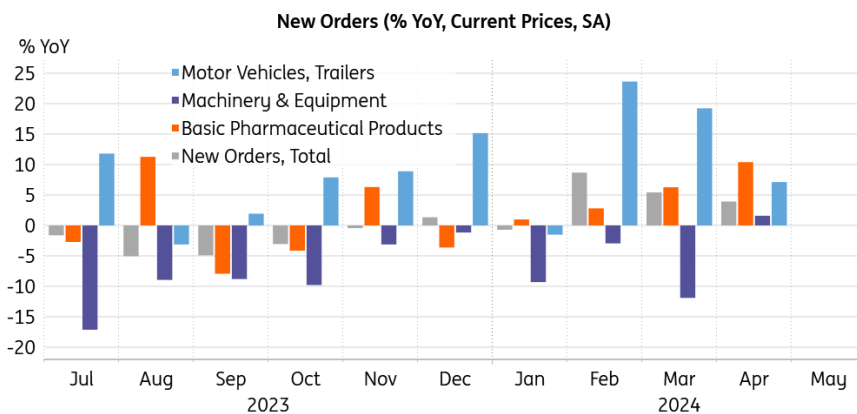
## Manufacturing takes the lead



CZSO, Macrobond

New orders from abroad increased by 5.3% YoY, while domestic new orders added only 0.8% from the year earlier. The pick-up in new orders was mostly visible in the automotive segment. Large and long-term orders were also acquired by firms that manufacture transport equipment and machinery. In contrast, the average number of registered employees in the industry shed 1.9% from the previous year.

## April's new orders look cheerful for recovery



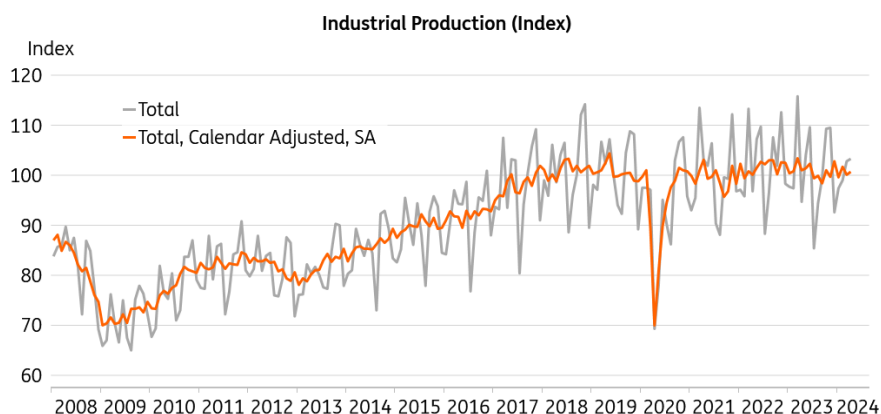
CZSO, Macrobond

Construction output declined 0.3% YoY in April but picked up 3.0% from the previous month. The completed number of dwellings shed 8.1%, while 35.4% more dwellings were started. The average gross monthly nominal wage in construction enterprises with more than 50 employees added 9.0% annually.

## Industry got stuck in 2018

The pickup in the annual rate of industrial output is welcome news for the current economic rebound. At the same time, the seasonally unadjusted index tends to be rather volatile. When looking at the seasonally adjusted index, industrial production only hovers around levels reached in 2018. This mirrors the mediocre performance of the Czech economy. A healthy rebound of an industry-driven economy would require a more trend-based comeback of industrial strength, such as recorded in 2013-2017.

## Fully-fledged recovery requires better performance in industry



CZSO, Macrobond

Overall, new orders are the real good news, benefiting from the emerging recovery of the main trading partners in the eurozone. Construction still struggles after the 2023 malaise, when household budgets were stretched due to the previous years of high consumer inflation and elevated uncertainty about the economic outlook. However, the prominent increase in newly started dwellings likely marks a turnaround that will contribute to economic expansion in the coming quarters. The lofty wage growth in both industry and construction will likely add some heat to consumer price pressure, making wage inflation a hot potato for the Czech National Bank's policymakers.

## Foreign trade points to recovery abroad and at home

According to preliminary data for April, the balance of foreign trade in goods at current prices ended with a surplus of CZK 33.1 billion, which is CZK 24.1 billion higher compared to the previous year. The overall balance was favourably affected by a higher surplus in motor vehicle trade, with a noticeable increase in exports. The deficit in trade in oil and gas narrowed, contributing to the overall positive balance. The pickup in foreign demand was mirrored in a 19.7% annual export rate, while imports added 13.1%. YoY in April. This trade figure points to a positive outlook for the net export contribution to real GDP in 2Q2024, with the economic rebound likely to gain pace.

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