

Czech industrial production not quite as good as it seems

The figures are certainly good, but the headline number is distorted by a 30% year-on-year growth in the energy sector given shutdowns last year



7%

September industrial growth (YoY)

Adjusted for working day bias

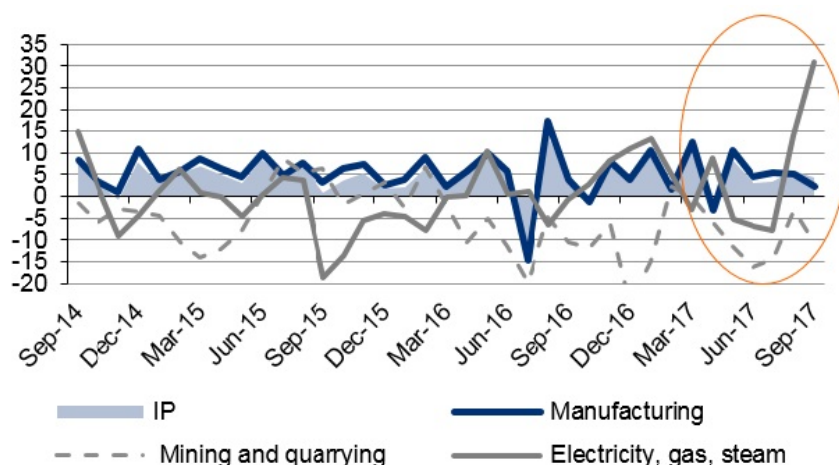
Better than expected

Better than expected figure in September

Czech industrial production has beaten market consensus, growing 4.4% year-on-year in September (markets were expecting a figure closer to 3.5%). If you adjust for one less working day in YoY terms, September industrial growth hit 7%, the second strongest figure this year. These positive numbers, however, were mainly caused by particularly strong readings in the energy sector. Those energy sector figures were impressive, increasing 31% YoY and contributing 2.7 percentage points to total industrial growth for September. Manufacturing was more

disappointing, notably the automotive industry which has been decelerating due to a high base and capacity limitations.

Growth in main industrial segments (% YoY)



Partially optically biased

Manufacturings rose 'only' 2.3% YoY, below the year-to-date average of 5.5%. Even after adjusting for the calendar bias, September's figure was below average, caused mainly by a deceleration in the car segment production which reached 3.7%, while one-year average growth is closer to 9%. As such, the strong industry figures in September are deeply flattered by the energy sector. And this was caused partially by a colder September, but chiefly by last year's partial shutdown of both the Temelin (pictured) and Dukovany nuclear power plants, while this September those closures are less pronounced. This means that strong YoY dynamics in the energy sector was mainly driven by the low base given the shutdowns in September 2016.

31%

September growth in the energy sector (YoY)

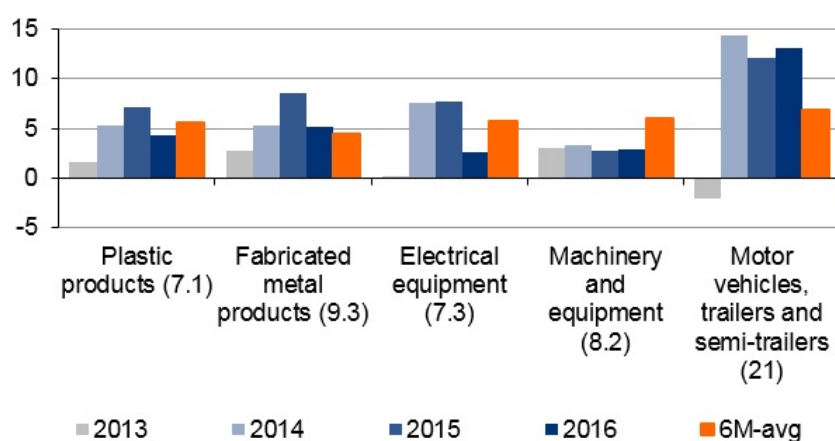
driven by power plants shut-downs in September 2016

Czech industry should remain positive

As such, positive September industrial production is slightly biased, but we still are optimistic about the outlook. New orders rose by 5.4% in September, mainly due to the growth of domestic orders (8.3% YoY), but also foreign orders did not fall significantly behind, growing by 4% YoY. A positive sign is also re-newed acceleration in a car-segment new orders, which declined in YoY terms during August.

Given the favourable forward-looking indicators, Czech industrial production growth should remain on a positive footing, though an already notable deceleration in the automotive segment (Chart 2) is likely to continue due to the high base effect, capacity utilisation and tight labour market, which makes further increases in production more difficult.

Production in the most important industrial segments (% YoY)



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