

## Czech industry performs better than expectations

Industrial production in the Czech Republic increased by 13% in June compared to May. Looking at the year-on-year comparison, it remains 7% lower, but it still surpassed expectations. New orders also improved in June and foreign orders reached last year's level



Source: Shutterstock

The improvement in Czech industrial production was broad-based, although most segments remained in YoY decline. Compared with the May figures, which deteriorated in almost all industrial segments, the June development was the opposite.

In comparison to May, car production increased by 42% MoM but remained 7% lower year-on-year. Car production fell by 46% YoY in the second quarter, and by 27% in the first half of the year, which illustrates the intensity of the impact of the coronavirus crisis on the domestic industry.

**-7% YoY** June industrial production  
-11.9 % working-day adjusted

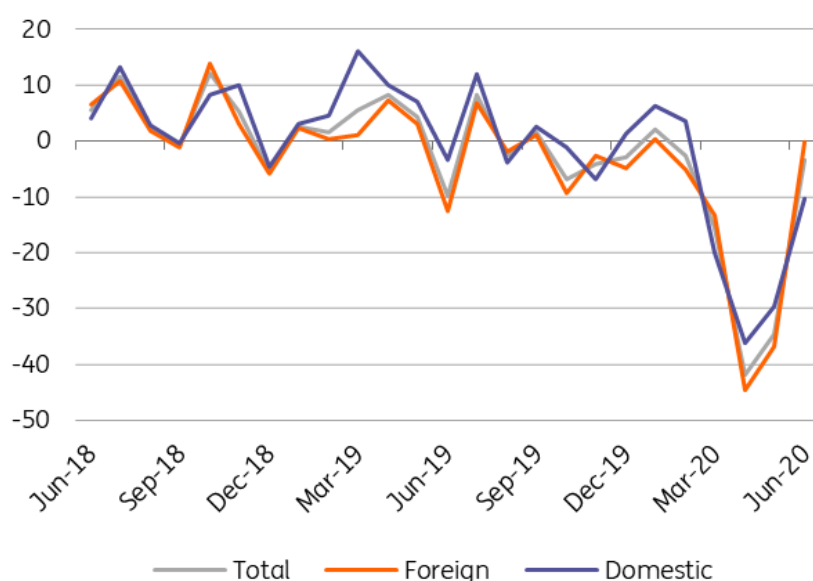
Better than expected

For the entire second quarter, industry fell by 24% year on year. As such, the domestic industry thus reached its bottom in 2Q, and will now hopefully grow again gradually.

In general, however, the recovery is rather slow, as indicated by previously published leading indicators. But June new orders improved and were only 3.4% lower year-on-year, while foreign ones just stagnated. In the case of the automotive sector, foreign orders even grew by 8% year on year.

These numbers show that foreign demand is beginning to recover, as confirmed also by new orders from Germany in June, which rose by a strong 28% month-on-month (but remain 11% weaker year-on-year).

### New orders (% YoY)



Source: CZSO, ING

Despite the positive June readings indicating a recovery in industry, the domestic industry will be hit hardest by the Covid-19 crisis this year.

According to the latest consensus expectations of analysts for Focus Economics, domestic industry is expected to fall by almost 12% this year, while the German industry by around 10%. Critical will be the developments in the automotive segment, which have been doubly hit hard this year, by the Covid-19 crisis and new emission norms standards.

Right now, this is quite a black-box and a huge uncertainty for the Czech economy, where the automotive segment represents around 9% of GDP.