

Czech industry will likely see better times ahead

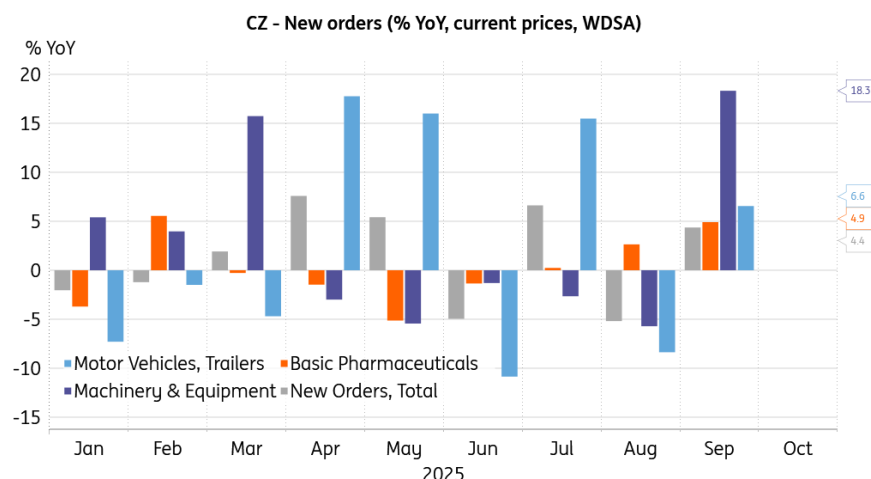
Industrial production increased in September, but it is still far from a proper lift-off, which is the missing jigsaw piece for a fully-fledged economic expansion. New orders provide some hope for future performance in manufacturing, while wage growth remains solid. A performing economy allows for a stable monetary policy stance



A proper lift off is still envisaged

Czech industrial production added 0.4% year-on-year in September when measured in real terms and adjusted for the number of working days, underlined by a 1.1% month-on-month increase. The value of new orders, expressed in current prices, increased by 4.5% from the previous year. The average number of employees in industry fell by 1.6% YoY in September, showing a less pronounced pace of layoffs compared to preceding months. Meanwhile, average nominal wage growth in industry quickened to 6.7% annually in September. This is overall not bad news at all; however, when looking at levels, Czech industrial production has remained stagnant since 2018. That said, the perception that general conditions must be adjusted substantially in reality to allow Europe's industry to survive and potentially flourish once again may bear some fruit.

New orders rise across sectors



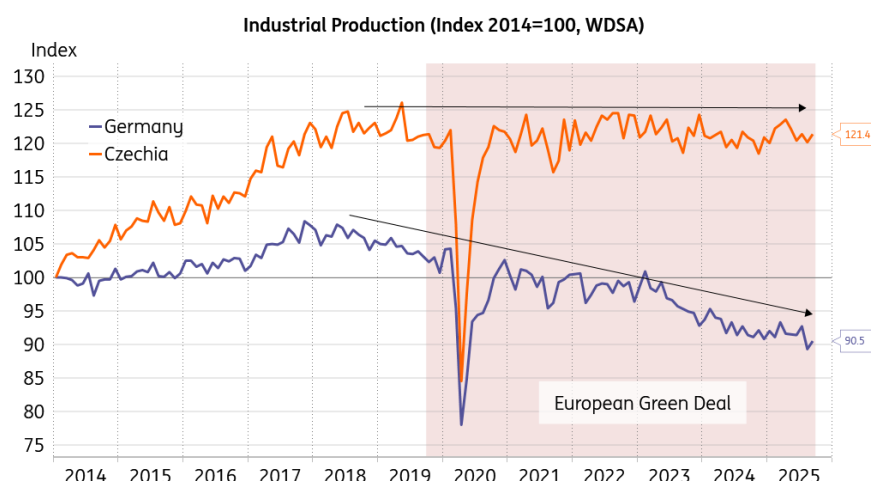
Source: CZSO, Macrobond

Construction output rose by 12.8% YoY in September but was down 3.2% from the previous month. Production in building construction increased by 11.0% YoY, and civil engineering grew by 15.9% YoY. The construction industry recorded its seventh consecutive month of double-digit growth in September. That said, the low comparative base from the preceding year, when construction output was affected by above-normal rainfall, contributed in part to the good annual outcome. Still, the construction boom was reflected in 1% YoY stronger employment in the sector, with workers enjoying 6.4% higher nominal wages than in September a year ago.

An economy in a good position allows rates to stay on hold

The good news is that new orders look positive in September across manufacturing sectors, underscoring the hope for better times ahead. Still, for the export-oriented Czech industrial base, lukewarm external demand represents the main growth barrier. For things to shift from stabilisation to genuine expansion, we would need to see the main European trading partners flourish and propel demand for Czech exports. The postponement to 2028 of the second phase of the EU Emissions Trading System may be the first tentative sign that policymakers are beginning to recognise the importance of predictable and affordable energy prices as a prerequisite for maintaining industrial competitiveness and keeping production within Europe. We are cautiously enthusiastic in this regard, but let's see what unfolds when 2028 is upon us.

Czech industrial production muddles through



Source: Macrobond

Overall, construction continues to be a key driver of the economic rebound, along with household spending. Czech industry has stabilised recently, and we suggest it's in a good position to lift off properly, also subject to the development of external demand conditions. With the continued solid wage dynamic, households should have enough resources to boost their spending as the year nears its end. For this reason, we expect discretionary spending to remain solid and supportive of items included in the core inflation basket. As far as monetary policy is concerned, it's wise not to adjust interest rates when the economy is performing well. Keeping the base rate on hold and being prepared to act when conditions change is the most prudent approach.

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