

Czech industry positively surprised again

Industrial production grew by 3.2% in May while the market expected a slowdown towards 1%. This solid pace was driven mainly by a surprising 7% acceleration in the automotive segment



Bleak foreign demand, structural issues in the European automotive sector, and challenges to the German economic model were the main issues reported in the Czech PMI survey

While a more than 3% growth rate in April was considered to be a one-off, Czech industry maintained its solid pace in May and surprised market estimates on the upside. The main reason for this was strong growth in the car segment, which accelerated by 6.9% YoY after 5.4% YoY growth in April, with both figures solidly above the 1Q average rate of -1% YoY. This performance is a little bit surprising as domestic car producers signalled a slowdown in a number of produced cars, to 2% after 7% growth in April.

New orders in May slightly decelerated after a strong 9% pace in April but at 4% YoY, the growth rate is still positive, being driven by both foreign and domestic companies. Year-to-date average growth in new orders reached 4.6%, stronger than in 2018.

3.2% YoY

Better than expected

Growth in industrial production in May

driven by 7% production in the auto segment

Positive figures, but global outlook remains challenging

Domestic industry has seen surprisingly positive figures in the last two months, which stands in contrast to confidence indicators and the PMI, which hit multi-years lows in recent months. Still, looking at our biggest trading partner, Germany, the situation remains fragile for domestic industry, in our view. German new orders fell 2% in May, surprising the market on the downside and dragging the annual rate down to an almost 9% decline. Germany industrial production rose slightly in month-on-month terms in May, but the annual decline was almost 4%. Other signals from China indicate that world industry conditions worsened further in May, most likely due to the escalation of US-China trade tensions.

Domestic industry to slowdown this year

Despite renewed talks between China and the US, uncertainty about the development of the global economy remains high, which will sooner or later have an impact on domestic industry. This means that despite more positive figures coming from domestic industry in the last two months, caution remains in place. Czech industry grew slightly above 3% in 2018 and we anticipate a slowdown to 1.5% this year, which might still be a rather positive figure in the context of the aforementioned risks and developments abroad.