Czech Republic: Historic fall in industry

Czech industrial production fell by 34% in April compared to the previous year, mainly due to a fall in car production, which slumped by 80%. This should be the bottom, but recovery in May remains slow

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

April industrial production declined by 34% year-on-year, which was worse than the market estimate of -25%. The main driver was an 80% fall in car production but almost all industrial segments declined in April. This is the strongest YoY fall in the time series' history and the worst since February 2009, when the YoY decline reached 22%.

-33.7%

Worse than expected

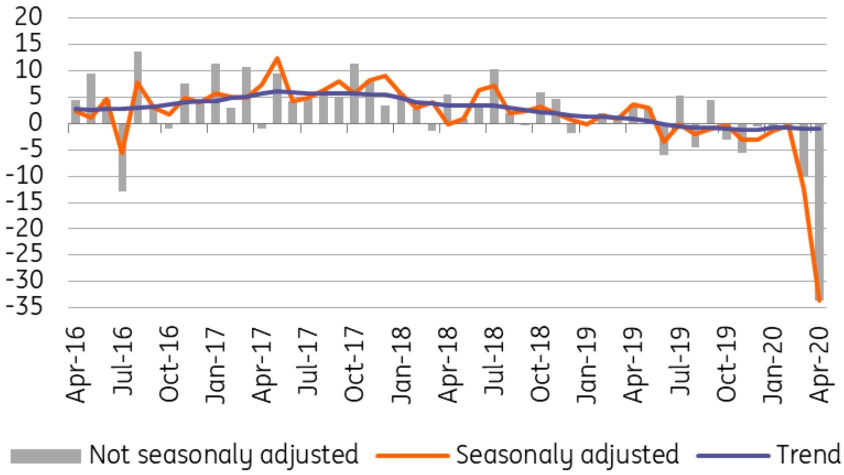
Industrial production fall in April (YoY)

-80% fall in car production

Car production fell due to shutdowns

However, the strong decline was not so surprising as major car maker factories were closed. Only Hyundai reopened in mid-April, but it was not operating at full capacity. As such, only 14,500 cars were produced in April vs. a monthly average of 120,000. May will bring some improvement, but not much as Toyota Peugeot Citroën Automobile remained closed during May. Also, the May PMI improved just slightly, approaching 40 points, which still points to a deterioration of conditions in industry.

Czech industrial production (% YoY)



Source: CZSO, ING

As such, Czech industry will fall by at least 10% this year, with the automotive sector being hit hard. We thought that a German scrappage scheme would help but this has not been approved. While grants for electric vehicles have been doubled in Germany this will be of limited help to the Czech automotive industry. Automotive support has not yet been discussed by the Czech government, though talks could start if the sector continues on a very weak footing.