

Czech Republic: Industrial production soared in July but...

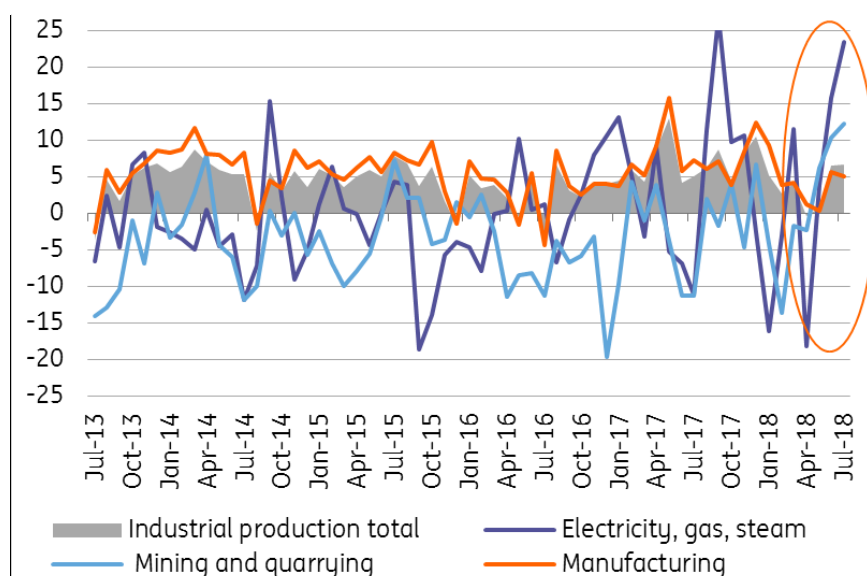
Industry accelerated by 10.3% year-on-year and surprised on the upside. But strong growth shouldn't be overstated, as it's largely due to a low base from last year amid shutdowns and company holidays



July industrial growth surprised on the upside due to one-offs

Industrial production accelerated by 10.3% year-on-year in July. After adjusting for one working day, growth reached 6.7%. As in the previous month, annual growth of industrial production was affected by double-digit growth in electricity production. This is due to the low comparative base of last year. While in June, a weak base was due to outages in the Temelín nuclear power plant production, in July it was due to the Dukovany nuclear power plant. As such, electricity production accelerated by 23% YoY in July and contributed to the YoY growth of industry by 2.1 percentage points (see chart).

Growth in main industrial segments (% YoY, WDA)



Source: CZSO, ING Bank

The base effect due to company holidays also pushed up annual growth

Growth of the manufacturing industry itself was 8.8% YoY, one of the highest year-on-year rates this year, and a figure well above the year-to-date average of 4.3%. However, summer months have been influenced by one-off effects, such as company holidays. This was the case this year, too, meaning the strong July values should not be overestimated because they are probably related more to company holidays in July last year.

Industry is decelerating this year

Growth of domestic industry peaked at the end of last year and we see a gradual slowdown this year to 3.7% year-to-date after 6.5% in 2017. This is related not only to the high comparative base of the previous year and the limited capacity of domestic producers, but also to slightly weaker foreign demand. The deceleration of this industry is mostly linked to the slowdown of car-segment producers, where growth has slowed to 2.5% year-to-date compared to double-digit growth in the last four years. However, a number of major domestic industrial segments remain strong this year and are growing at 5-10%. We believe that domestic industry growth should reach 3% this year. This would still be positive in the context of the recent foreign-demand slowdown and trade war uncertainties.

3.7%

Year-to-date average growth of industry (YoY)

after 6.5% YoY growth in 2017

Wage growth continues, supports hawkish arguments in the CNB

From the CNB's point of view, it is important to note the fact that wages in larger industrial enterprises accelerated to 9.1% year-on-year in July, which supports the need to tighten monetary policy due to rising wage-driven inflationary pressures.