

Czech Republic: Industry slowed in November

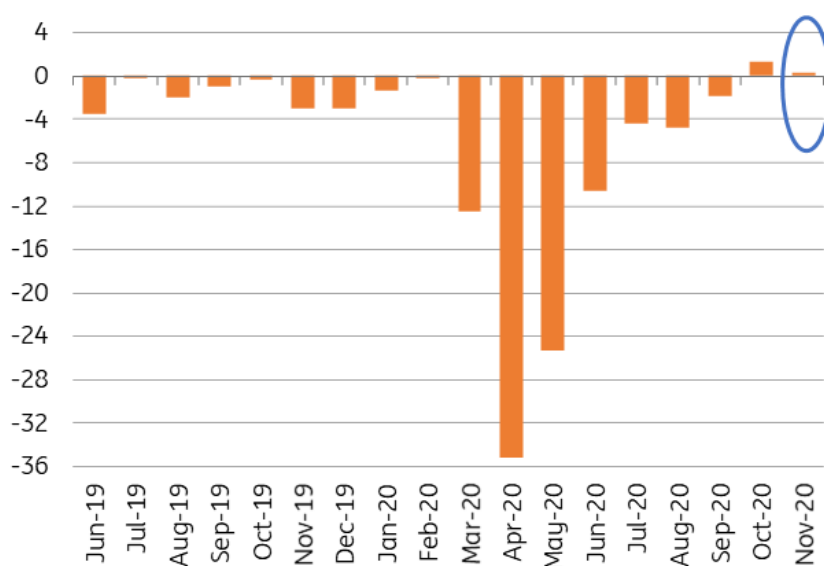
Czech industrial production slowed down in November, growing just 0.4% year-on-year after 1.3% growth in October. Between January and November, output fell by 9%, however. Unemployment increased in December amid typical winter seasonality but remains low



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

November industrial production eased after a strong October, with the month-on-month rate declining by 1.7% and working day-adjusted (WDA) year-on-year rate easing from 1.3% in October to 0.4%, though this was still modest after adjusting for the calendar bias. Unadjusted production was 2.2% YoY lower following a 1.3% fall in October. New orders also slowed down to just 1% from 5% in October.

Industrial production (% YOY WDA)



Source: CZSO, ING

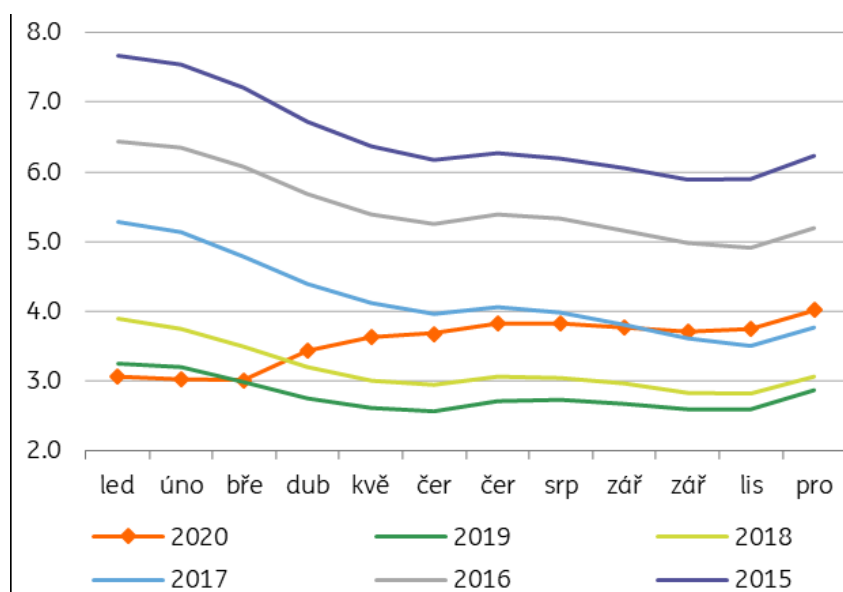
All in all, the recovery of industry eased in November, but given the second Covid wave, which has led to illness and/or the quarantining of employees, along with other disruptions in supply chains, the figures remain relatively favourable. Also, recent PMIs and German new orders look optimistic, so industry should remain solid in December and should grow in 4Q20, hindering the decline of the economy. For the whole year 2020, industry is likely to fall by around 8.5%.

Unemployment just slightly higher in 2020

The December share of unemployed people increased to just 4% from 3.8%, which is typical seasonality in the winter months (+0.3 ppt increase in December is typical). For the whole of 2020, unemployment reached 3.6%, up from 2.8% in 2019, so a very modest increase given the coronavirus crisis and still lower than in 2017.

As such, government measures supporting employment worked, and given that 2021 is an election year (beginning of October), the government will be incentivised to keep the measures in place. As such, the Czech labour market should remain relatively strong, supporting our view that the Czech National Bank might start to tighten in the second half of the year as prospects improve due to the vaccine and fiscal measures lowering income tax.

The share of unemployed people (%)



Source: MinLab, ING