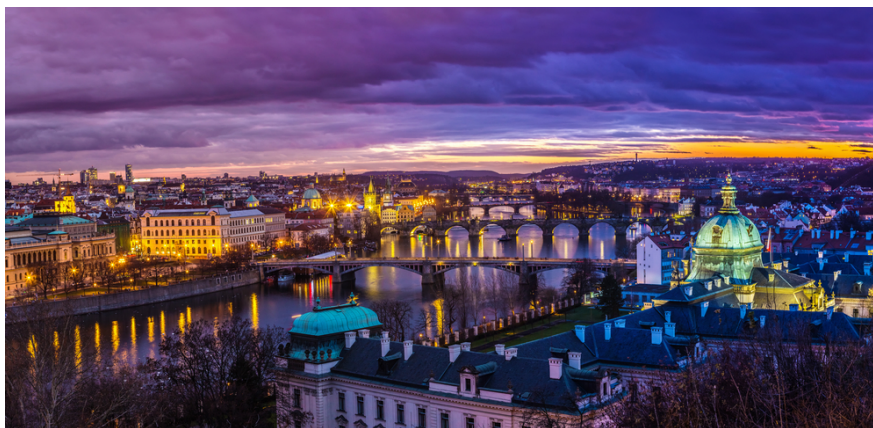


## Czech Republic: Industrial production not as weak as it seems

Industrial production fell by 0.9% YoY in September and we think this was caused by the calendar bias and temporary shutdowns, otherwise, we would have seen growth around 3%



Source: Shutterstock

### Industrial production impacted by calendar bias and shutdowns

Industrial production declined by 0.9% year on year in September.

After adjusting for the working day bias (-1 YoY), industrial production would have been 2.5% YoY, which is just slightly below the year to date-average growth of 3.0%. Importantly, some negative contribution to growth comes on the back of chemical industry declining by 15% YoY and -0.6ppt, due to temporary shutdowns. Without these effects, the industry would grow around 3% YoY in September.

# -0.9% YoY

Lower than expected

## Industrial production

Growing by 2.5% in working-days adjusted terms

## New orders not so strong for the car segment

Also, new orders fell by 1% YoY in September versus the year to date-average of 3.6%, and moreover, new orders for car segment declined by 6% YoY.

Their YTD-average growth is just slightly above 1%, so basically stagnates this year. Weaker new orders also signaled recent PMI indicators, suggesting that some supply chains manufacturers are more intensively recognising softer demand from the car industry.

However, what's not clear is if the recent weakness is also related to the new emission limits starting in September, which is preventing new cars sales and could thus lead to a temporary car production slowdown.

## Shift from manufacturing to services

Domestic industry activity peaked at the end of last year and had been gradually slowing down since. This is related not only to the high comparative base of the previous year and the limited capacities of domestic producers but also to weaker foreign demand. The deceleration of the industry is mostly driven by the most important car segment, which grew by just 1.3% YoY this year on average, whereas the growth was double-digit in the previous four years.

While industrial production accelerated by 6.5% in 2017, we expect a slowdown towards 3% this year. At the same time, the development of new orders does not indicate a quick turnover in this trend. As a result, the growth of the domestic economy will move from the manufacturing sector to services for the rest of 2018 and 2019.