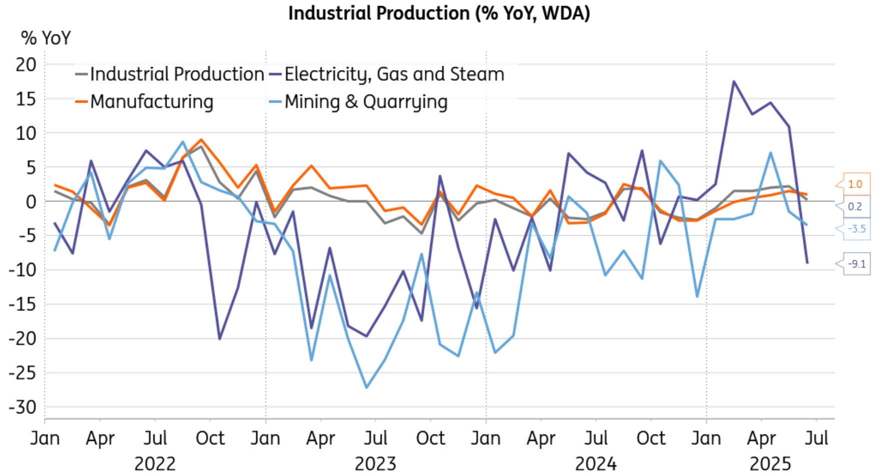
Expansion in Czech industry and construction drives wages

Industrial production continued to expand in June, although new orders fell short of expectations, particularly given the decline in foreign orders. Meanwhile, the construction upturn is likely to continue, driving the Czech recovery and bolstering household budgets. Wage growth picked up in both manufacturing and construction

Wage dynamics in manufacturing remain buoyant

Czech industrial production edged up 0.2% year-on-year in real terms in June when adjusted for the number of working days. However, output fell 1.1% from the previous month. In contrast, unadjusted figures show a much stronger 3.3% year-on-year increase, highlighting the significant impact of calendar effects on headline data. This divergence underscores how methodological choices - such as working-day adjustments - can reshape the narrative.

Manufacturing remains in expansionary mode



Source: CZSO, Macrobond

The slightly positive annual dynamic (in WDA terms) was primarily supported by growth in the production of motor vehicles and related industries such as the manufacture of tires and electrical equipment. Products destined for the construction sector also contributed positively to June's industrial performance. This is precisely the kind of alignment we like to see - when sector-specific data reinforces the broader economic narrative. The ongoing construction boom isn't just anecdotal; it's validated across multiple statistical fronts. Conversely, electricity generation and the chemical industry emerged as the main drags on overall output.

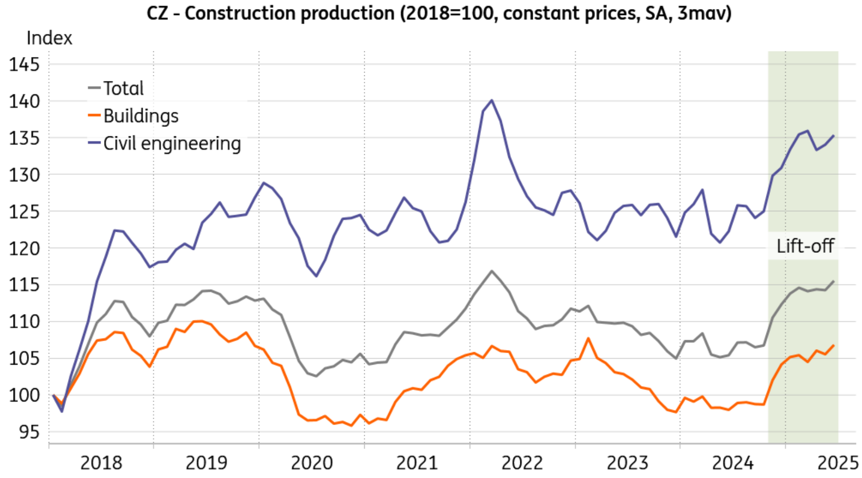
The worrying thing is that the value of new orders at current prices fell by 3.3% YoY in June. New orders from abroad shed 6.0% YoY, while domestic new orders gained 1.7% YoY. It seems that Europe's main trading partners are not lifting off just yet. The total value of new orders was down by 2.9% on a monthly basis, with the most pronounced declines in the manufacture of motor vehicles, the chemical industry, and metal production.

The average number of employees in industry dropped by 1.9% YoY in June, while the average wage growth got back on track with a 7.2% annual increase. It appears that there will be sufficient resources to drive household consumption throughout the third quarter of the year.

Construction boom will bolster household budgets

Construction output rose by 14.0% YoY in June and was 2.6% higher than in the previous month. The indicative value of building permits issued fell by 9.5% from a year earlier, and 2.5% fewer dwellings were started in June. Meanwhile, 40.0% more dwellings were completed. One must keep in mind that these figures are typically somewhat erratic. Production in building construction increased by 10.3% YoY, and civil engineering added 20.3% from the previous year, both growing at a double-digit rate and showing that the construction sector is powering ahead.

The construction ride has just started

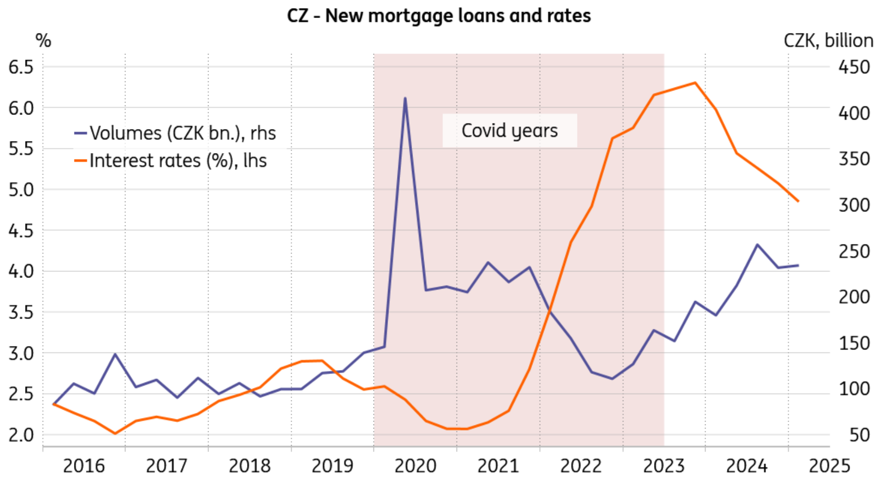


Source: CZSO, Macrobond

The number of employees increased by 0.3% from the previous July, and the average wage growth picked up to 7.9% annually. Again, one of the driving forces behind the Czech economic rebound will bolster aggregate household budgets and provide a fresh wind to the mighty sales of consumption. The construction sector's true takeoff appears to have begun towards the end of 2024, following two subdued years. A key driver has been households channelling accumulated savings into property purchases, often accompanied by a renewed appetite for mortgage borrowing.

This backdrop indicates that housing demand is far from saturated, and the current construction upswing may still be in its early phase. Notably, the volume of new mortgages remained elevated over the first quarter, suggesting that the appetite to acquire and build is still there.

New mortgage volumes fly high



Source: CNB, Macrobond

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