

No end to the weakness in Czech industry, and auto-sector holidays are only partly to blame

Industrial output in the Czech Republic lost 1.9% from a year earlier in July when adjusted for the number of working days. The contraction is partially related to holidays in the automotive sector, but this does not change the overall weakness in manufacturing

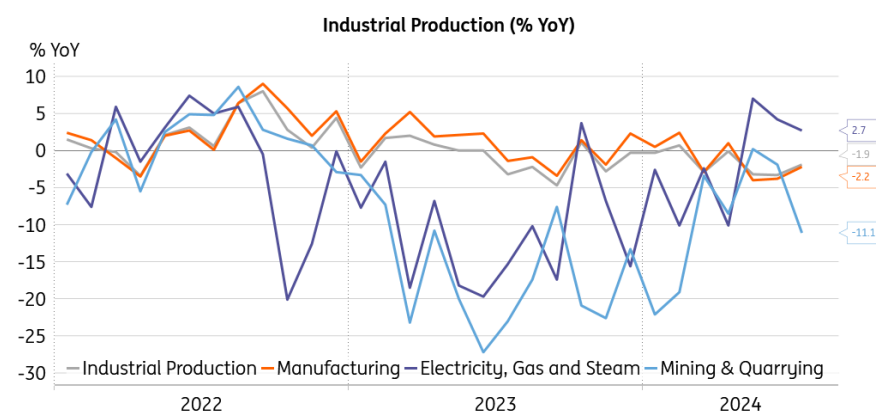


A car manufacturing plant in Kolin, Czech Republic

Output and new orders are both losing out

Czech industrial production shed 1.9% in July from a year earlier in real terms, when adjusted for the number of working days. It also has contracted by 0.8% from the previous month. That said, industrial output deteriorated due to a shift of holidays in car manufacturing companies. Some sectors, such as food production, posted annual production gains in July.

Industrial production remains in decline



CZSO, Macrobond

The value of new orders lost 1.8% from a year earlier. New orders from abroad fell by 2.0% YoY, while domestic new orders lost 1.5% YoY. The sectoral breakdown provides a more nuanced picture. New orders gained in most sectors surveyed, while the overall decline, similar to output, was on account of the automotive industry. The average number of employees there decreased by 1.9% YoY in July, while the average nominal wage bounced back to a lofty annual increase of 9.1% after a weak June figure.

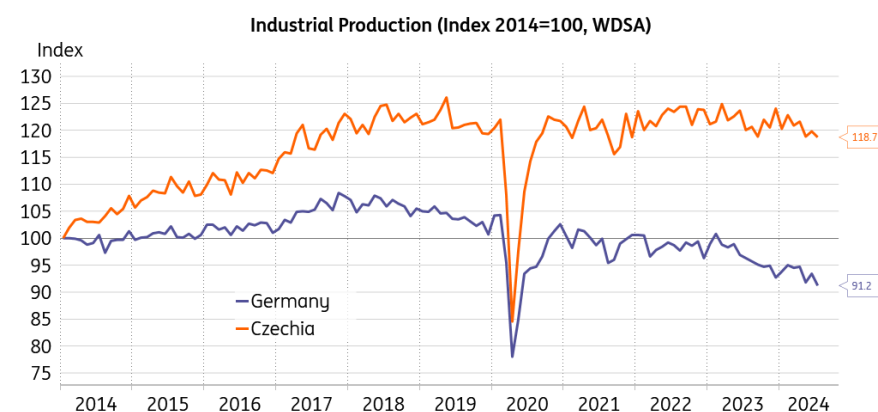
Construction output rose by 2.0% YoY in July and was 6.9% higher MoM, with civil engineering representing the main driver of overall gains.

Weak demand from European trading partners is a drag

Overall, the Czech industry continued on a downward trend when looking at the number of working days adjusted index. The manufacturers report limping external demand as a major barrier to growth, with demand from major European trading partners not being able to support the export performance. The protracted weakness in industry is not good news for the medium-term economic rebound in the Czech economy.

Nominal wages returned to robust growth, so there will likely be enough fuel for household spending to propel the expansion in the year's second half.

Industry is under pressure in Czechia and Germany



Macrobond

Author

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.