Weak automotive sector drags down Czech industry

Czech industrial production was down 2.7% in November compared to the same month a year earlier, coming in short of market expectations. Weakness was tangible in output, new orders, layoffs, and wage dynamics. Meanwhile, the construction sector emerged as an engine of expansion

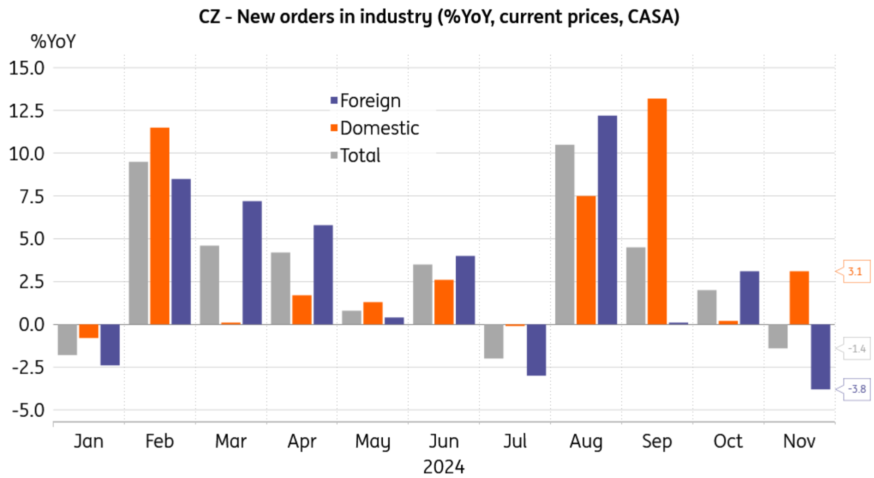
Confidence in Czech industry has come under pressure

Industrial output declines

Czech industrial output dropped by 2.7% year-on-year in November and was down by 1.5% month-on-month when adjusted for the number of working days. The main driver of the slump was the manufacturing of motor vehicles, especially the production of car parts. The associated sector of rubber and plastic products also suffered, namely tyre production. The protracted decline in machinery and equipment production also continued. In contrast, activity in non-metallic mineral products and food segments increased over the year with an apparent pre-Christmas production boost.

New orders at current prices fell 1.4% YoY in November, dragged down by the 3.8% YoY slump in new orders from abroad. Meanwhile, domestic new orders gained 3.1% from the previous year. Motor vehicle manufacturing was the main contributor to the annual fall in new industrial orders, but was partially affected by the high comparison base. Compared to the previous month, new orders fell 1.5%.

Foreign new orders suffer



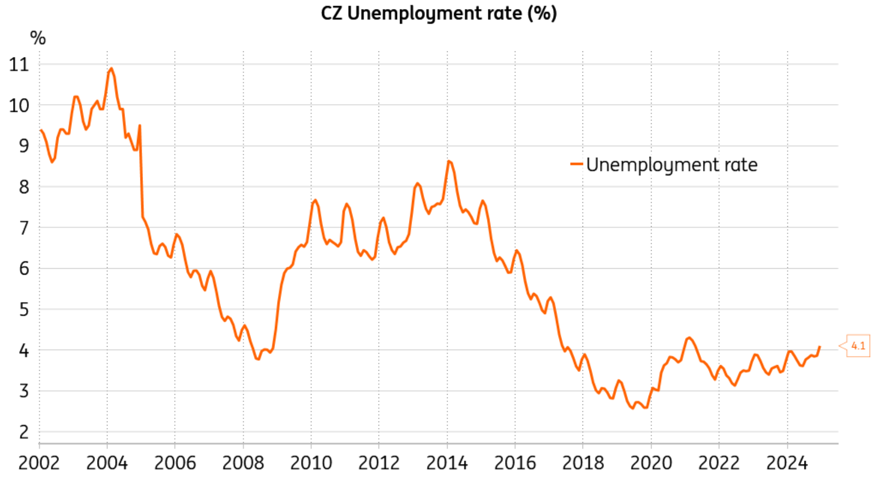
Source: CZSO, Macrobond

The average monthly nominal wage growth in manufacturing decelerated to 4.3% YoY in November, while the average number of registered employees in the industry declined by 2.0% YoY. The average wage growth from January to November gained a robust 6.7% compared to the preceding year. However, given the protracted underperformance of the industry, firms likely will not be keen to continue with the lofty wage increases, although labour market conditions remain relatively tight. This interplay will be key to this year's resilience of aggregate household budgets and their further willingness and ability to adhere to robust spending, keeping the Czech economic rebound alive.

Construction thrives

Construction output rose by 2.5% YoY in November and added 1.8% from the previous month. The indicative value of building permits picked up by 2.6% YoY, with 62.4% more dwellings started and 38.1% fewer dwellings completed. Average nominal wage growth in construction slowed down to 5.7% YoY in November, while the average number of employees dropped by 1.9% YoY.

The labour market getting less tight



Source: Ministry of Labour, Macrobond

Unemployment rises

The unemployment rate picked up to 4.1% in December from 3.9% earlier, according to the latest data from the Czech Ministry of Labour. A December increase can be attributed to a common seasonal effect, with less worker demand in specific segments such as tourism. Nevertheless, with manufacturing under constant pressure, layoffs in the industry are set to contribute to a slightly more relaxed labour market in the coming quarters.

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.