

## **SHORT COMMENTS**

### **Foreign Trade in December 2009**

**In December 2009, the exports of goods grew 4.8% y/y, and the imports fell 2.6%. The trade balance registered a surplus of CZK 2.8 bill.**

#### **Comments**

The December's trade balance result was under the market expectations—consensus forecast expected a surplus of CZK 3.5 bill. December's trade balance was positive for the first time in history of the CR and the figure exceeded the December 2008's outcome by CZK 11.9 bill. The development of both foreign trade components registered the most favourable values since September 2008. Export dynamics returned back to black numbers after fourteen months; this favourable figure was highly affected by a growth of surplus in trade with machinery and transport equipment, where the Czech export largely profited from foreign fiscal stimulation programmes. Despite considerable stabilisation of its falling trend, the import sustains poor as a reflection of weak domestic demand of firms and households; narrowing of the deficit in trade with mineral fuels affected the overall trade balance positively. Nevertheless, a considerable role in the year-over-year dynamics played the low comparative bases of previous periods; in month-on-month perspective, the seasonally adjusted export fell 0.9% and the import 0.2%.

The outcome of foreign trade was determined by an improvement of trade outcome in all SITC sections with the exception of moderate deterioration of trade outcomes in trade with beverages and tobacco, foods and chemical products. The largest growth of trade surplus was registered in machinery and transport equipments (+CZK 2.6 bill.). Furthermore, an improvement followed in miscellaneous manufactured articles (+CZK 1.4 bill.), manufactured goods classified chiefly by material (+CZK 2.8 bill.) and in crude materials (+CZK 1.6 bill.). Deficit in trade with mineral fuels shrank (-CZK 4.0 bill.).

Exports of machinery and transport equipment registered a y/y pick up by CZK 4.8 bill. (representing 5.6%); the most pronounced growth was recorded in road vehicles, telecommunication and data-processing devices. These groups also recorded a growth in imports, probably connected with the Christmas shopping of households. In contrast, imports of machinery used in industry dropped alongside the falling investment activity of firms. The factors behind the improving deficit in trade with mineral fuels were both lower prices of natural gas and lower import demand for crude oil. The volume of imports of crude oil decreased by 16.2% (fall of 18.1% in value), volume of natural gas imports went 20.7% up (39.9% drop in value).

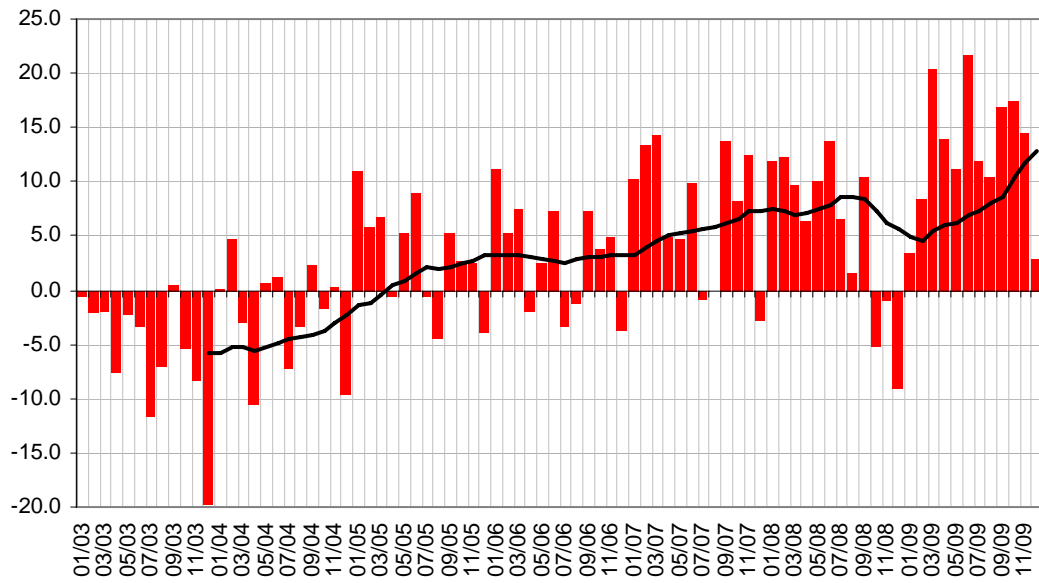
Trade with the EU-27 ended up in a surplus of CZK 33.0 bill., representing a year-over-year gain of CZK 6.8 bill. An improvement was recorded in trade with main trading partner, Germany (+CZK 0.5 bill; effect of scrapping bonuses). The trade shortfall with the non-EU countries fell by CZK 5.1 bill. y/y to CZK 30.2 bill.

Overall, foreign trade balance during January–December 2009 reached high CZK 153.2 bill. (+85.9 compared to 2008's outcome), mainly as a result of low prices of crude oil, weak domestic demand and foreign scrapping bonuses. Overall, the exports of goods fell 14.1% y/y, and the imports slumped 18.1%.

#### **Outlook**

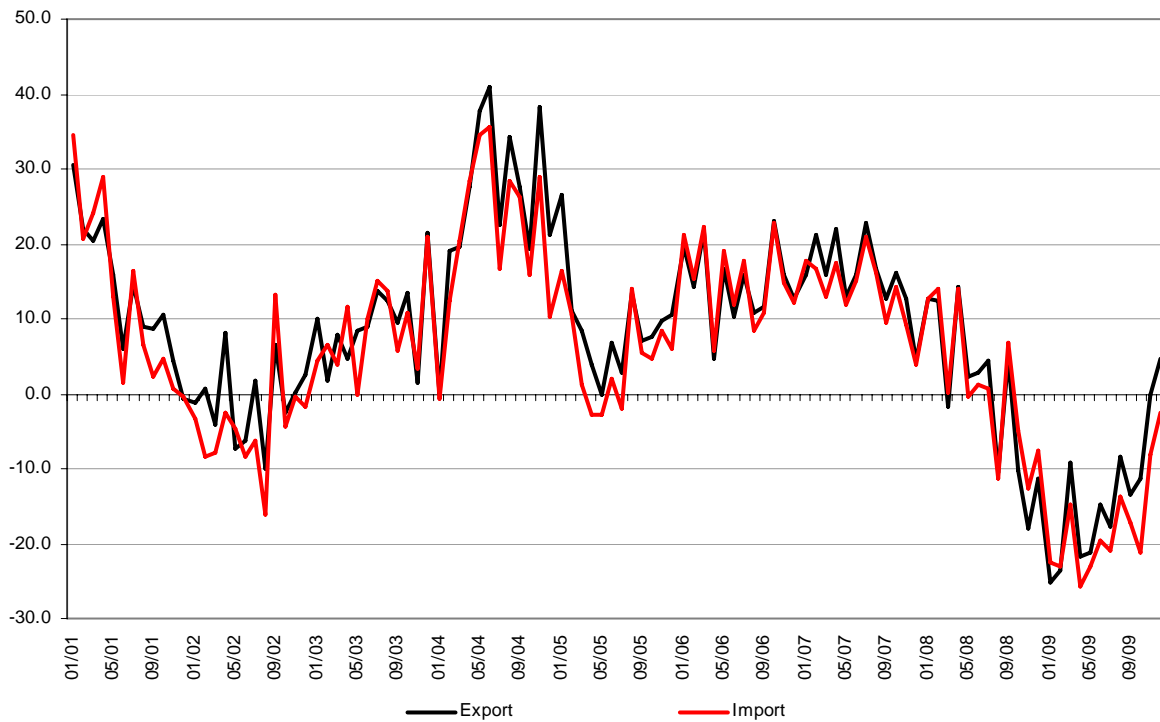
Despite the strong surpluses of Czech foreign trade in 2009 indicating a good external balance of the economy, sustaining such a trend in 2010 as well is rather unlikely. The main factors determining the 2009's situation in foreign trade were low commodity prices, weak domestic demand and fiscal stimulation packages of our main trading partners. In 2010, one can not rely on any of these but poor domestic demand and revival of foreign demand in case it survives after the fiscal stimulation edges away; commodity prices have been already increasing. Yet, foreign trade will represent the main driver of domestic economic growth in 2010. **We expect the full-year trade surplus around CZK 80 bill. in 2010, which means about half of 2009's outcome.**

**Trade balance: monthly figures (CZK bill.)**



Source: Czech Statistical Office

**Export and import growth rates, % y/y**



Source: Czech Statistical Office