

Instant Reaction

EcoAlert

Profit margins decline, households increase savings



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GDP data (SA, WDA) – 1Q20

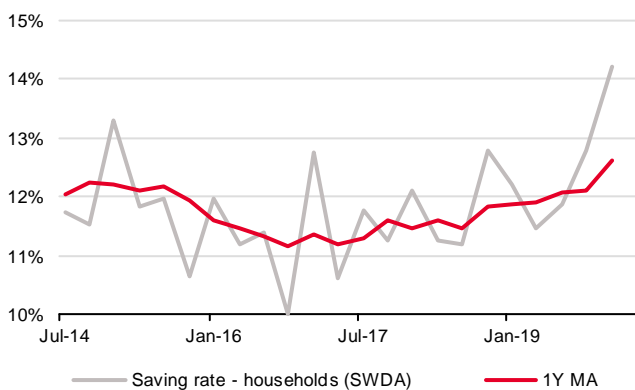
	qoq	yoy
Third release:	-3.4 %	-2.0 %
Second release:	-3.3 %	-2.0 %
First release:	-3.6 %	-2.2 %
Original KB forecast:	-7.2 %	-2.3 %
Original market forecast:	-3.4 %	-2.2 %

Source: Bloomberg, CZSO, Economic & Strategy Research, Komerční banka

As a result of the coronavirus pandemic, the Czech economy contracted 3.4% qoq in the first quarter, i.e. one-tenth more than originally expected. In a year-on-year comparison, the result did not change and the economy fell 2%. Fixed investment followed by household consumption contributed most to the qoq decline. The quarter-on-quarter decline in the dynamic was only partially offset by higher government consumption and higher net exports.

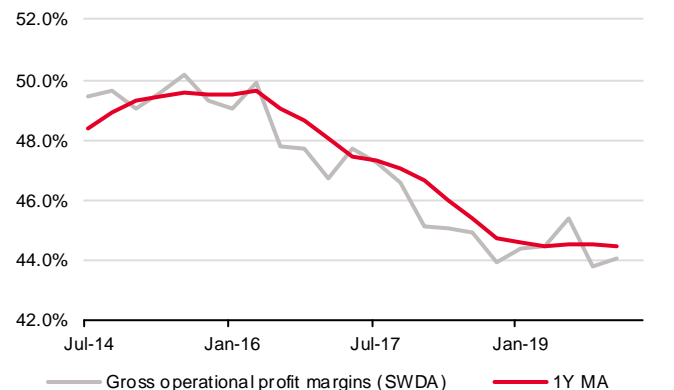
While in the first quarter the Czech economy was affected by measures to combat coronavirus for just the second half of March, restrictive measures were in force for almost two months of 2Q. The most significant decline is still yet to come. The first estimate of GDP for 2Q will be released on 31 July. So far, our forecast assumes a decline in the economy of 8.6% qoq and 11.1% yoy. In the second half of this year, however, the economy should gradually recover. However, it will depend on the development in the euro area, on which our forecast is based. For the whole of this year, we expect a decline in GDP of 6.8% and next year growth of 7.1%.

Households are saving more (%)



Source: CZSO, Macrobond, Economic & Strategy Research, Komerční banka

Profit margins decline (%)

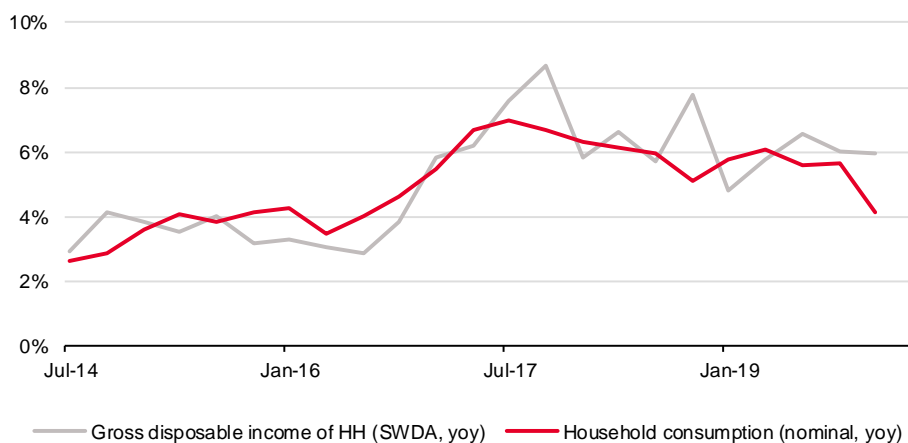


Source: CZSO, Macrobond, Economic & Strategy Research, Komerční banka

Sector accounts were also published today. According to them, the profit rate of companies decreased 0.2pp compared with the previous quarter and 0.3pp year-on-year. In previous years, profit margins were already pushed to lower levels by rising labour costs, which companies failed to pass on to end customers. At the same time, even in 2016, the profit rate of companies

was above the level of 51%. The total wage costs of companies increased 2.6% year-on-year in 1Q. The investment rate decreased 3.9pp qoq to 26.3%. However, a more significant decline is still yet to come. Households performed relatively well in 1Q. Their income increased 2.9% year-on-year and by the same rate quarter-on-quarter. Households did not spend their higher incomes, so the savings rate has increased. It reached the level of 13.5%.

Gross disposable income after the seasonal adjustment stagnates (%)



Source: CZSO, Macrobond, Economic & Strategy Research, Komerční banka

The Czech Statistical Office also published a revised time series of GDP. These have undergone significant changes. For example, 2014 was revised from the original 2.7% to 2.3%; on the contrary, 2017 improved significantly, when after revision the economy grew 5.4% instead of the original 4.5%. The result for 2019 was revised by one-fifth downward to 2.3%.

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