

Instant Reaction

EcoAlert

The economy recovered significantly but unfortunately only temporarily



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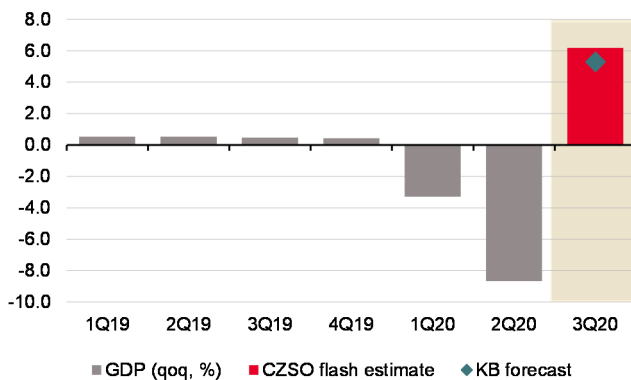
GDP data (SA, WDA) – 3Q20

	qoq	yoy
Third release:	8. 1. 2021	8. 1. 2021
Second release:	1. 12. 2020	1. 12. 2020
First release:	6.2%	-5.8%
Original KB forecast:	5.3%	-6.6%
Original market forecast:	5.0%	-6.7%

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

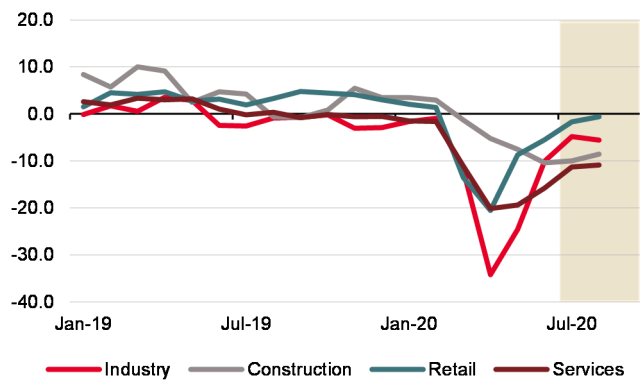
According to the CZSO's preliminary estimate published today, the Czech economy strongly rebounded in 3Q. Domestic GDP grew 6.2% qoq, and its yoy decline thus slowed to 5.8%. Compared with market expectations, this was a slightly better result, as the analysts expected GDP to rise 5.0% qoq on average. The economy also performed better compared with our forecast, which expected 5.3% qoq growth. The Czech National Bank was much more pessimistic, as it predicted an increase in economic activity of only 2.8% in its latest forecast.

The Czech economy rebounded in 3Q



Source: CZSO, Economic & Strategy Research, Komerční banka

Industry and retail were the main source of GDP growth (yoy, %)



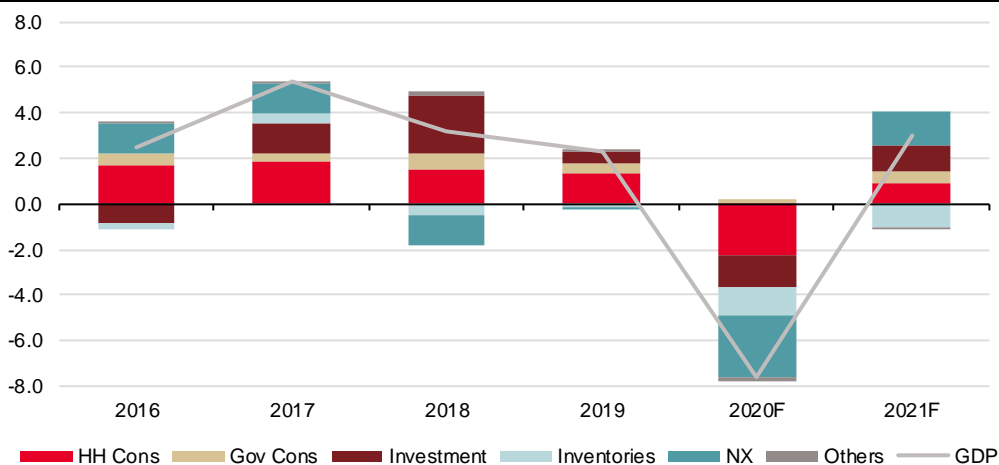
Source: CZSO, Economic & Strategy Research, Komerční banka

A strong rebound of the economy in 3Q was expected. Beyond expectations, the domestic economy began to recover shortly after the easing of restrictive measures in the spring. Industry and trade were particularly successful, where, according to available monthly indicators, rapid growth continued during the summer, as well. While industrial production still lagged slightly behind last year, retail sales were already close to pre-crisis levels. Both the renewed appetite for household consumption, as also evidenced by solid car sales, and an increase in demand from abroad helped. The economies of our business partners also started to work relatively quickly. **Based on this, the main source of economic recovery in 3Q was likely household consumption and foreign trade.** Higher foreign trade surpluses were likely supported by continuing low imports of capital goods, as firms have certainly not rushed to invest due to the

prevailing high uncertainty. However, we can now only guess what the structure of GDP was in 3Q, as the data will be published a month later.

However, with the advent of autumn, the COVID-19 second wave has halted the well-started economy. It is thus likely to decline again in 4Q and much or all of the 3Q recovery will be lost. Previous estimates of the full-year economic downturn are therefore likely to be revised significantly downward. We now expect the Czech economy to decline 7.6% this year, and this may turn out to be rather optimistic. We write more about this in our updated forecast that was published earlier this week, the full text of which is available here <https://bit.ly/KB20Q4EN>.

According to our forecast, domestic GDP will fall more than 7% this year



Source: CZSO, Economic & Strategy Research, Komerční banka

The services sector is most affected by the restrictive government measures, especially restaurants, hotels, culture and tourism. They witnessed only a modest recovery during the summer, as large cities in particular were missing foreign tourists. The entrepreneurs in services are thus entering the second wave from a worse position, and fears about their overall survival are unfortunately valid. Of the entire industry, only IT companies and courier services are likely to continue to thrive.

After a large part of retail has been closed, the main focus is on industry, which has not been significantly affected so far. The often-criticised industrial orientation of the Czech economy can now, as in the first wave of the pandemic, be an advantage. The good news for the domestic industry is that the German manufacturing sector has shown very good results in recent months. This was not just the summer months, as evidenced by October PMI, which rose further to a significant 58 points and was the highest in over two years. **At the moment, the biggest threat to industrial companies is the lack of workers resulting from the increasing number of imposed quarantines rather than insufficient demand. Moreover, there is still a lack of workers from abroad.** Recall that during the first wave, industrial companies did not close their operations due to the government regulations but because they were worried about the health of their employees.

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