

Instant Reaction

EcoAlert

After a strong 6.9% recovery in 3Q, Czech GDP should fall again at year-end



Martin Gurtler
(420) 222 008 509
martin_gurtler@kb.cz

GDP data (SA, WDA) – 3Q20

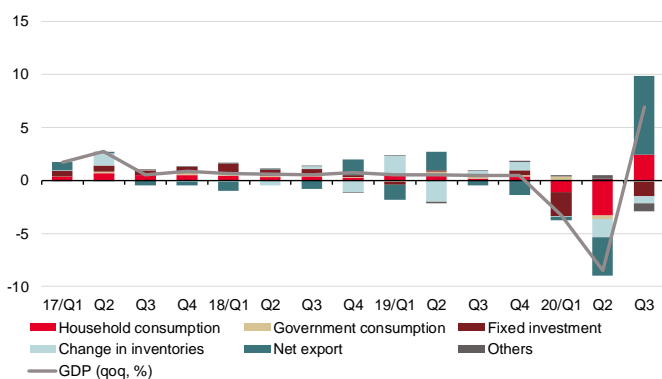
	qoq	yoy
Third release:	8. 1. 2021	8. 1. 2021
Second release:	6.9%	-5.0%
First release:	6.2%	-5.8%
Original KB forecast:	6.2%	-5.8%
Original market forecast:	6.2%	-5.8%

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

The CZSO's refined estimate of Czech GDP published today brought a significant revision of the advance figures announced at the end of October. In the third quarter, the Czech economy grew by 6.9% qoq, which is 0.7pp more than originally estimated by the statistical office. The year-on-year decline thus eased from -10.9% in 2Q to -5.0%.

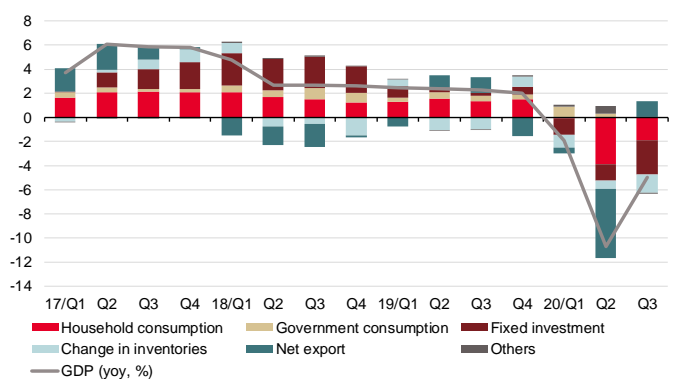
The economy's fast rebound was fostered by improved household consumption amid a still relatively strong labour market. Unemployment has risen only slightly in recent months, hovering around 3.7% in November, according to the Ministry of Labor and Social Affairs. For the time being, household income has not been significantly affected either. Although average wage growth slowed to 0.5% yoy in 2Q, our estimates indicate that it is likely to accelerate to 2.1% again in 3Q. The wage data for 3Q will be published this Friday. **As a result, household consumption (including non-profit institutions) increased by 4.9% qoq, and the yoy decline eased from -8.1% to -3.9%.**

Strong recovery in 3Q was fostered by foreign trade and household consumption (% , contributions in pp)



Source: CZSO, Economic & Strategy Research, Komerční banka

Czech GDP decline eased from -10.9% yoy in 2Q to -5.0% yoy

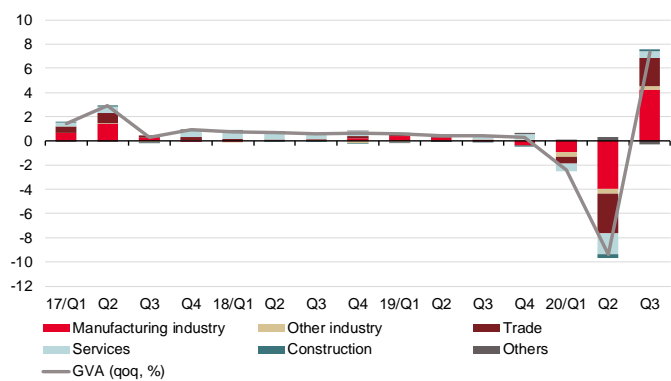


Source: CZSO, Economic & Strategy Research, Komerční banka

External demand also increased significantly in 3Q as other countries eased pandemic restrictions as well. This was evidenced by the volume of industrial production, which rose well above expectations. After the opening of borders and resumption of foreign trade, domestic exporters were also supported by the weaker koruna. **Investment activity, on the other hand, remained subdued due to ongoing uncertainty about future developments.** Fixed investment fell by a significant 5% qoq and its yoy decline roughly doubled to -10.7% in 3Q. **As many capital goods are imported from abroad, reduced imports contributed greatly to a record foreign trade surplus of CZK109bn** (at constant prices and seasonally adjusted).

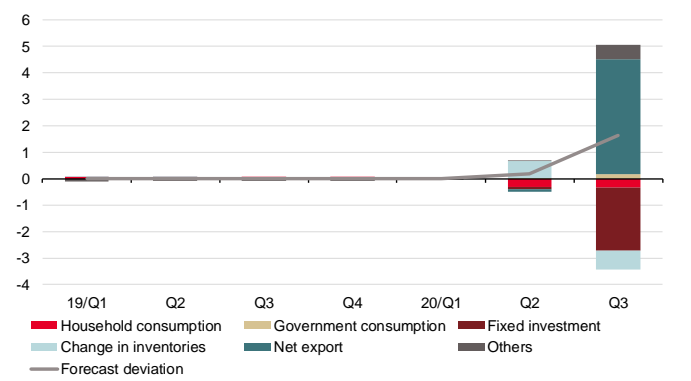
Net exports made the largest contribution to qoq GDP growth in 3Q, amounting to +7.4pp. Next came household consumption with a contribution of +2.4pp. On the contrary, the contribution of other expenditure components was negative. **Due to the 2Q low base, qoq growth in value added was seen in 3Q in almost all sectors,** but most of all in manufacturing and trade. There was only a slight recovery in services.

Manufacturing and trade saw the most qoq growth in terms of gross value added (%), contributions in pp



Source: CZSO, Economic & Strategy Research, Komerční banka

Deviation of components of annual GDP growth (pp) from the current KB forecast (including the revision of previous quarters)



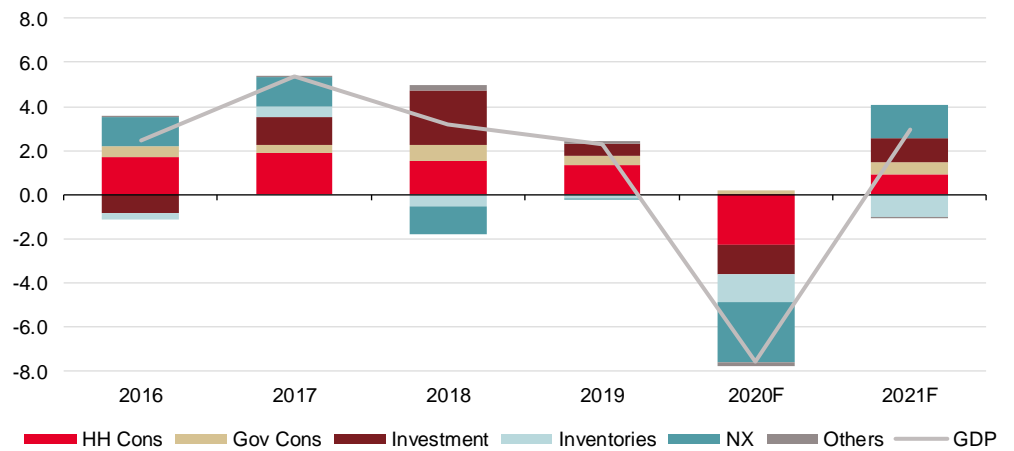
Source: CZSO, Economic & Strategy Research, Komerční banka

The size of the foreign trade surplus was a positive surprise for our forecast, which expected an increase but not to such an extent. On the other hand, **fixed investment, for which our forecast expected modest qoq growth, surprised with a decline.** Household consumption was roughly in line with our forecast.

Fears became reality in autumn when the coronavirus began to spread again. The second wave struck with force, and restrictive measures have been reimposed. **As in the spring, many retail and service outlets were closed.** Losses in these sectors will again be significant, exacerbated by the worse financial position of firms after the first wave. **The hope in the Czech Republic is that Thursday's re-opening of stores, announced by the government last week,** can at least partly alleviate the decline in sales. However, will consumers want to return to stores or will online sales continue to predominate due to persistent fears of infection?

The main difference from spring, however, is that producers in industry did not voluntarily close their factories. And as leading indicators show, despite the ongoing second wave of the pandemic, industry continues to increase production. This is greatly helped by the fact that, compared to the spring months, there has been no disruption to international supply chains, with industrial enterprises also remaining in operation in other countries.

According to our forecast, GDP will decrease by 7.6% this year and rise by 3% in 2021



Source: CZSO, Economic & Strategy Research, Komerční banka

The economy is thus likely to record another qoq decline in 4Q, but not by as much as in the spring. In yoy terms, according to our forecast, the economic downturn should deepen back to 10%. **In our opinion, Czech GDP will fall by 7.6% for full-year 2020 and grow by only 3% next year.** The economy's recovery back to pre-crisis levels will now take longer given the second wave, and we forecast it not to happen until the beginning of 2023.

KB ECONOMIC & STRATEGY RESEARCH

Chief Economist and Head of Research
Jan Vejmelek, Ph.D., CFA
 (420) 222 008 568
 jan_vejmelek@kb.cz

Economists
Michal Brožka
 (420) 222 008 569
 michal_brozka@kb.cz

Equity Analyst
Bohumil Trampota
 (420) 222 008 560
 bohumil_trampota@kb.cz

Jana Steckerová
 (420) 222 008 524
 jana_steckerova@kb.cz

Martin Gürtler
 (420) 222 008 509
 martin_gurtler@kb.cz

Strategist
František Táborský
 (420) 222 008 598
 frantisek_taborsky@kb.cz

SG IN CENTRAL AND EASTERN EUROPE

Head of Research of Rosbank
Evgeny Koshelev
 (7) 495 725 5637
 evgeny.koshelev@rosbank.ru

Chief Economist of BRD-GSG
Florian Libocor
 (40) 213 016 869
 florian.libocor@brd.ro

Economist BRD-GSG
Ioan Mincu
 (40) 213 014 472
 george.mincu-radulescu@brd.ro

Equity Analyst
Laura Simon, CFA
 (40) 213 014 370
 laura.simon@brd.ro

Economist Rosbank
Anna Zaigrina
 (7) 495 662 1300
 anna.zaigrina@rosbank.ru

SG GLOBAL ECONOMICS RESEARCH

Head of Global Economics
Klaus Baader
 (852) 2166 4095
 klaus.baader@sgcib.com

Euro area
Michel Martinez
 (33) 1 4213 3421
 michel.martinez@sgcib.com

North America
Stephen Gallagher
 (212) 278 4496
 stephen.gallagher@sgcib.com

China
Wei Yao
 (33) 1 57 29 69 60
 wei.yao@sgcib.com

Anatoli Annenkov
 (44) 20 7762 4676
 anatoli.annenkov@sgcib.com

Latin America
Dev Ashish
 (91) 80 2802 4381
 dev.ashish@socgen.com

Greater China
Michelle Lam
 (85) 2 21 66 57 21
 michelle.lam@sgcib.com

Yvan Mamalet
 (44) 20 7762 5665
 yvan.mamalet@sgcib.com

India
Kunal Kumar Kundu
 (91) 80 6716 8266
 kunal.kundu@sgcib.cz

Japan
Takuji Aida
 (81) 3-6777-8063
 takuji.aida@sgcib.com

United Kingdom
Brian Hilliard
 (44) 20 7676 7165
 brian.hilliard@sgcib.com

Korea
Suktae Oh
 (82) 2195 7430
 suktae.oh@sgcib.com

Arata Oto
 (81) 3 6777 8064
 arata.oto@sgcib.com

SG CROSS ASSET RESEARCH - FIXED INCOME & FOREX GROUPS

Global Head of Economics, Cross-Asset & Quant Research
Kokou Agbo Bloua
 +44 20 7762 5433
 kokou.agbo-bloua@sgcib.com

Head of Fixed Income & Forex Strategy
Guy Stear
 (33) 1 41 13 63 99
 guy.stear@sgcib.com

Head of Rates Strategy
Adam Kurpiel
 (33) 1 42 13 63 42
 adam.kurpiel@sgcib.com

Head of Euro Area Rates Strategy
Ciaran O'Hagan
 (33) 1 42 13 58 60
 ciaran.ohagan@sgcib.com

Covered Bonds & SSA
Cristina Costa
 (33) 1 58 98 51 71
 cristina.costa@sgcib.com

Head of US Rates Strategy
Subadra Rajappa
 (1) 212 278 5241
 subadra.rajappa@sgcib.com

Jorge Garayo
 (44) 20 7676 7404
 jorge.garayo@sgcib.com

Jean-David Cirotteau
 (33) 1 42 13 72 52
 jean-david.cirotteau@sgcib.com

Shakeeb Hulikatti
 (91) 80 2802 4380
 shakeeb.hulikatti@sgcib.com

Kevin Ferret
 (44) 20 7676 7073
 kevin.ferret@sgcib.com

Rohit Gaurav
 (91) 8067318958
 rohit.gaurav@sgcib.com

Michael Chang
 (1) 212 278 5307
 michael.chang@sgcib.com

Chief Global FX Strategy
Kit Juckes
 (44) 20 7676 7972
 kit.juckes@sgcib.com

FX Derivatives Strategy
Olivier Korber
 (33) 1 42 13 32 88
 olivier.korber@sgcib.com

Head of Emerging Markets Strategy
Jason Daw
 (65) 6326 7890
 jason.daw@sgcib.com

Bertrand Delgado
 (1) 212 278 6918
 bertrand.delgado-calderon@sgcib.com

Phoenix Kalen
 (44) 20 7676 7305
 phoenix.kalen@sgcib.com

Kiyong Seong
 (852) 2166 4658
 kiyong.seong@sgcib.com

Marek Drimal
 (44) 20 7550 2395
 marek.drimal@sgcib.com

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