

Instant Reaction

EcoAlert

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



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GDP data (SA, WDA) – 3Q20

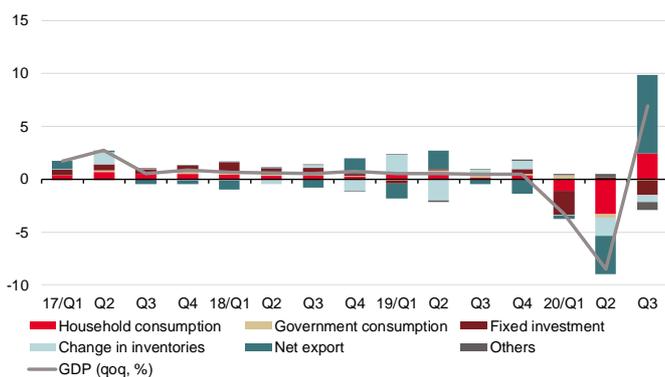
	qoq	yoy
Third release:	8. 1. 2021	8. 1. 2021
Second release:	6.9%	-5.0%
First release:	6.2%	-5.8%
Original KB forecast:	6.2%	-5.8%
Original market forecast:	6.2%	-5.8%

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%.

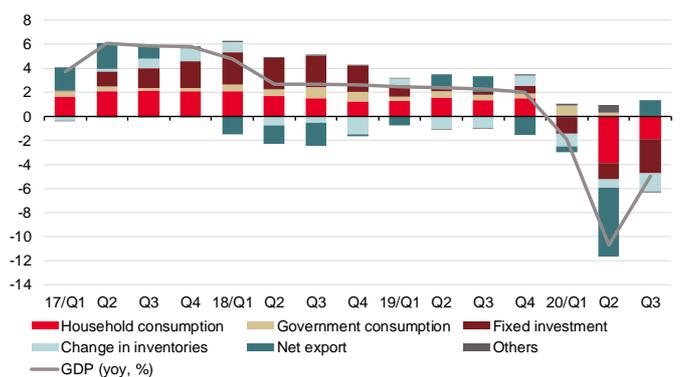
The economy's fast rebound was fostered by improved household consumption amid a still relatively strong labour market. Unemployment has risen only slightly in recent months, hovering around 3.7% in November, according to the Ministry of Labor and Social Affairs. For the time being, household income 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).

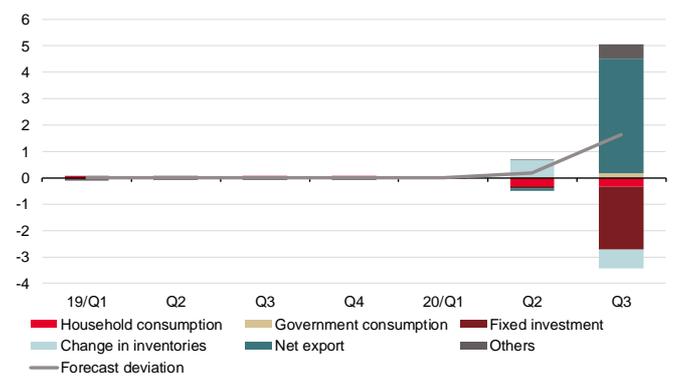
Net exports made the largest contribution to qoq GDP growth in 3Q, amounting to +7.4pp. Next came household consumption with a contribution of +2.4pp. On the contrary, the contribution of other expenditure components was negative. **Due to the 2Q low base, qoq growth in value added was seen in 3Q in 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)



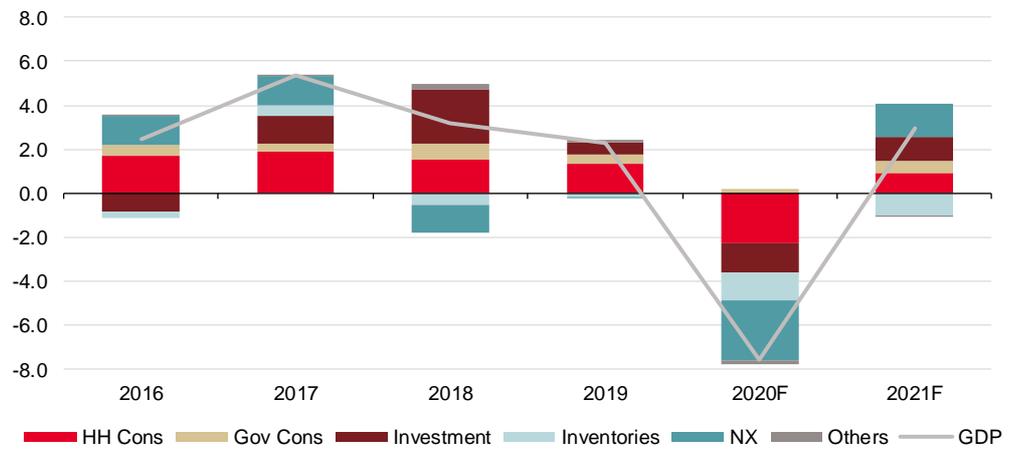
Source: CZSO, Economic & Strategy Research, Komerční banka

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.

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