

Czech Republic: GDP falls by 3.3% in the first quarter

Revised estimates of 1Q GDP brought a slightly better result, as the economy contracted by 3.3% quarter-on-quarter compared to -3.6% as stated earlier. The contraction was driven by investments but household consumption and exports also fell, while government consumption supported growth. For the year, we expect the Czech economy to contract by 7%



Source: Shutterstock

The GDP fall in 1Q was driven mainly by investment, which declined by -15% QoQ, including fixed investment, which contracted by 10% QoQ. Not surprisingly, household consumption was hit less, falling by 2% QoQ, but stagnating in year-on-year terms. Exports fell by 2.6% while imports declined more, by 3.5%, as investments are import-intensive. This meant that net exports contributed slightly to QoQ growth. However, the most significant pro-growth factor was government consumption, which increased by 5% and contributed 1.15 percentage points to quarterly growth.

The manufacturing industry fell by -3% QoQ given the fact that all car makers shut

down production in the second half of March. The impact of the restrictive measures on services was quite heterogeneous but mostly impacted services in accommodation, retail trade and restaurants, which fell by -5% QoQ. A less negative fall was experienced in finance and the public sphere. Construction increased slightly +0.7% QoQ.

-3.3%

1Q GDP contraction (QoQ)

-2.0 % in YoY terms

Better than expected

1Q20 print in line with the CNB estimate

The revised print was in line with the Czech National Bank's estimate although the structure of growth was a little bit different, as the CNB expected a less intense fall in investments (-11.4 vs -5.4) and more severe fall in foreign trade (-2.4 vs -5.8). However, it was in line with the CNB's baseline, which means that the central bank might avoid any non-standard monetary tools like quantitative easing, negative interest rates or FX-floor renewal, in our view.

Still, restrictive measures to halt the spread of the coronavirus affected only the last two weeks of March, and hit the economy so hard that the whole first quarter was dragged down significantly. The economic downturn in March alone was over 10%, and in the last weeks of March it was around 25%. Given that April was almost entirely affected by restrictions and May also returned to normal relatively slowly, it is clear that the decline in the domestic economy in 2Q will be in the double digits.

Czech GDP structure (%)

| | 1Q 20 | | CNB f'cast | 4Q 19 | | 19 | 18 |
|-----------------------------|-------------|-------------|-------------|------------|------------|------------|------------|
| | yoy | qoq | 1Q20 yoy | yoy | qoq | yoy | yoy |
| GDP | -2.0 | -3.3 | -2.0 | 2.0 | 0.5 | 2.5 | 2.8 |
| - household consumption | 0.0 | -2.0 | 0.4 | 3.2 | 1.0 | 3.0 | 3.2 |
| - government consumption | 7.1 | 5.2 | 4.7 | 1.7 | -1.3 | 2.6 | 3.4 |
| - investments & inventories | -11.4 | -14.6 | -5.4 | 9.2 | 8.6 | 3.3 | 5.7 |
| - fixed investments | -5.5 | -9.7 | -0.9 | 4.6 | 4.1 | 2.7 | 7.5 |
| - exports | -2.4 | -2.6 | -5.8 | -1.5 | -1.5 | 1.1 | 4.4 |
| - imports | -2.1 | -3.5 | -4.0 | 1.4 | 1.2 | 1.5 | 5.9 |

Source: CZSO, CNB, ING

V-shape recovery less likely now

The overall economic downturn this year will largely depend on how quickly the economy recovers and returns to normal in the second half of the year, which is difficult to estimate. For now, we still expect the economy to decline by about 7% this year. However, a V-shaped scenario, ie a sharp decline followed by a rapid recovery, is becoming less likely. This is also due to the fact that many important economies abroad will continue to face the consequences of the coronavirus and

foreign demand will thus recover more slowly.