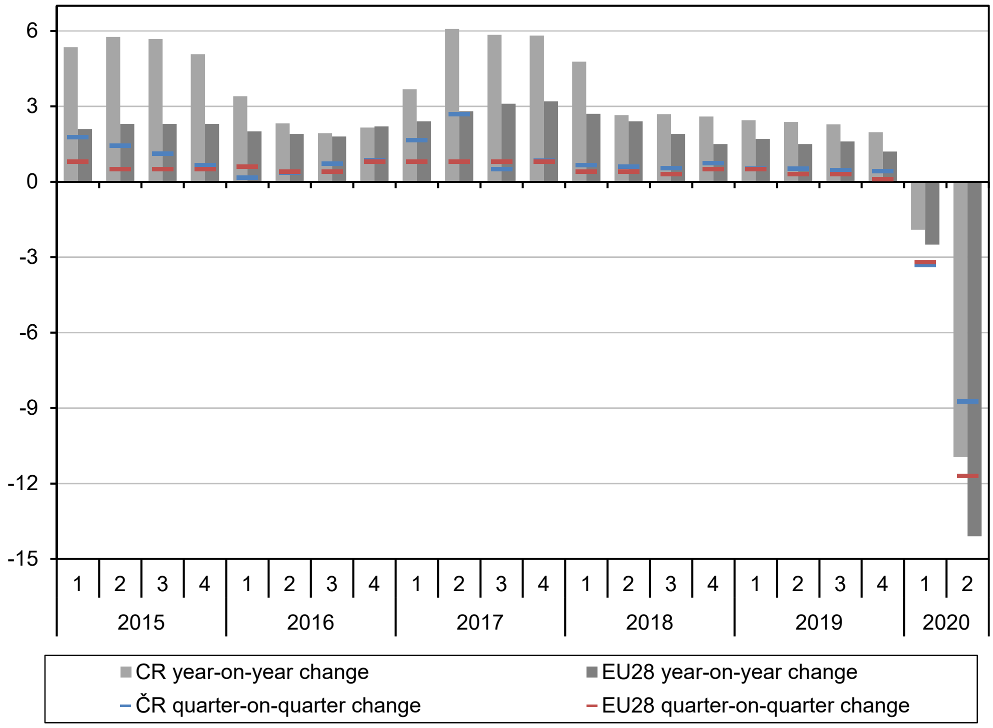
2. Overall Economic Performance

In relation to covid-19, the Czech economy recorded the deepest downturn in its history.

The Czech economy underwent the worst economic downturn in its history in Q2 2020. The Gross domestic product (GDP) sunk by 11.0%[1] year-on-year (the previous deepest fall from Q2 2009 was 5.4%). It was the consequence of the extraordinary situation of the counter pandemic measures, when the operations in large part of the economy, especially services, retail trade as well as some important industrial branches were halted or restricted. The development commencing already during March, affecting also the results of Q1 (GDP decrease of 1.9%) thus continued. All its components exerted influence upon the GDP in the direction of its downturn in Q2. The strongest was the slump of foreign trade balance (–7.9 p.p.)[2]. It was partly caused by the suspension of production in some domestic export-oriented businesses, partly also by the decrease of demand on the part of foreign producers employing domestic suppliers. Domestic consumption and investment however went also down. In comparison to Q1, the GDP declined by 8.7% and it also represented the deepest recorded fall (previous largest decrease was 3.4% and occurred in Q1 2009). Compared to Q1, the quarter-on-quarter downturn deepened for all GDP components.

Chart 1 GDP (volume indices, adjusted for seasonal and calendar effects, in %)



Source: CZSO, Eurostat

The whole EU experienced deep economic downturn.

Year-on-year decline of GDP attained 13.9%[3] in the European Union in Q2. In accordance to expectations, it represented the worst recorded result in history. Since practically the whole Union was tackling more or less strict restrictions related to the coronavirus for the most part of the quarter. View of the individual GDP components shows a sharp decline of both consumption and investment activity. Disturbance of the foreign trade and subsequent balance worsening however also had large effect. The GDP fell by 11.4% in the Union compared to Q1. While several economies managed to maintain year-on-year growth still in Q1, the downturn already struck all EU countries

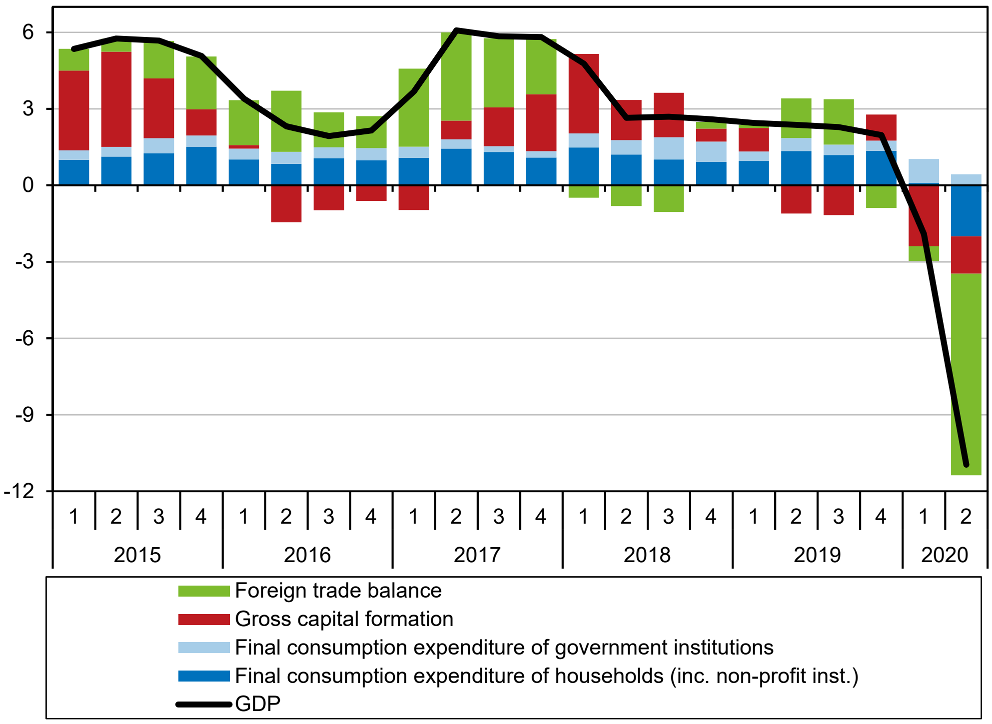
[1] The development of the GDP, gross value added and their components is expressed with the help of the volume indices (i.e. adjusted for changes in prices) and adjusted for seasonal and calendar effects. Data are valid as of 1st September 2020.
[2] Additions to the GDP change after exclusion of imports for final use.
[3] Data for Luxembourg not available. Data for Slovakia not adjusted for calendar effects.

according to the available data in Q2. The largest year-on-year decline occurred in Spain (–22.1%), France (–18.9%) and Italy (–17.7%). The GDP decrease was the most moderate in Ireland (–3.7%), Lithuania (–4.0%) and in Finland (–6.3%).

Turning point was apparent in the development of both employment and wage dynamics on the labour market in Q2.

The economic downturn also hit the volume of paid out wages and salaries, which went down by 5.3% year-on-year in Q2. It presented the first fall since the end of year 2013. At the same time, the notable price growth continued in the economy, which impinged upon the development of the household purchasing power. Real decrease amounted to 8.3%[4]. Reversal occurred also in the development of total employment (expressed in persons), whose year-on-year decrease accelerated to 1.9%[5]. The total employment reduced by 1.4% compared to Q1. The fall of the number of hours worked was even more pronounced (year-on-year –10.7%, quarter-on-quarter –7.8%). Volume of paid out wage resources was shrinking the most in manufacturing year-on-year (–11.5%, drop of employment was 3.5% here). Similarly, deep downswing also occurred in grouping trade, transportation, accommodation and restaurants (–11.2%, employment decreased by 3.2%). In case of professional, scientific, technical and administrative activities, the volume of salaries and wages reduced by 9.7% in Q2 and total employment dropped by 4.4%. Other branches of services nevertheless maintained the year-on-year growth of wages, even if weaker compared to Q1. Real estate activities experienced an increase of 6.4%, financial and insurance activities 5.8%, information and communication 4.7% and activities with predominant government sector[6] 4.1%. Following more than three-year period, fall of paid out wages eventuated also in construction (–2.8%) and agriculture, forestry and fishing (–2.3%).

Chart 2 Contribution of expenditure items to real GDP change* (volume indices, year-on-year growth, contributions in p.p., GDP in %)



Source: CZSO
*after exclusion of import for final use

[4] Converted into the real expression using the deflator of final consumption expenditure of households.
[5] Employment in the national accounts conception (persons), figure seasonally adjusted.
[6] Public administration, education, health and social work.

Household consumption diminished. Government institutions heightened their expenditure year-on-year.

Total year-on-year fall of domestic consumption reached 4.8% and its contribution in the direction of GDP fall was 1.6 p.p. Consumption reduced year-on-year for the first time since Q4 2012. Household consumption was exclusively falling, households had limited options, where and what to spend, given the introduced measures. Year-on-year decrease of household consumption thus arrived at 7.6% and it concerned the deepest recorded slump. Government institution consumption on the contrary went up by 1.8% year-on-year. Quarter-on-quarter decrease of the total consumption was 4.8%. Deep slump related to households (–6.3%), government consumption however also decreased (–1.5%). Development of consumption with respect to durability[7] completely reflected the situation in the economy. Expenditure on items of short-term consumption fall was relatively moderate year-on-year – by 1.7%. Closure of large part of shops with non-essential goods then besides other things led to large fallouts of consumption of long-term consumption goods (–12.2%) and medium-term consumption goods (-25.0%). Consumption of services plunged by 13.8% in Q2.

Investment activity plunged year-on-year, but mildly increased quarter-on-quarter.

Expenditures on gross capital formation dropped by 10.2% year-on-year in Q2 and contributed 1.5 p.p. to the total GDP decrease. In that expenditures on gross fixed capital formation decreased by 4.8% year-on-year. Inventory stock exerted a negative influence. Quarter-on-quarter development painted a more optimistic picture regarding the investment activity. While the expenditures on gross capital went down by 8.5% compared to Q1, investment activity (gross fixed capital) increased by 0.9%. Analysis of the type classification of gross fixed capital formation revealed, that other buildings and structures were the only investment category, where the expenditures went up year-on-year (6.7%)[8]. Other categories on the other hand recorded decrease. Investment into the transport equipment (–19.5%) and ICT and other machinery and equipment (–12.3%) shrank the most. Moderate year-on-year decrease then affected the products of intellectual property (–1.3%) and housing (–0.3%). From the type classification of investment, it can be indirectly assumed, that the investment activity of government institution sector (other building and structures) was the least disrupted. In contrast, the non-financial businesses were, given the situation, likely more restrained in the area of investment (machinery, transport equipment).

Foreign trade was hardly hit by the crisis. Trade balance with both goods and services experienced record worsening.

Both export and import of goods and services markedly decreased in real terms in Q2. Year-on-year slump of export reached 23.3%, for import it was 18.2%. Although the balance of foreign trade with goods and services[9] thus attained a surplus of 44.1 CZK bn, it presented the worst result for 2nd quarter since year 2012. Positive balance diminished by 56.5 CZK bn year-on-year. Significantly negative impact of the balance development on the year-on-year growth of GDP was also heightened in comparison to the exceptionally successful Q2 2019 (surplus reached 100.6 bn). Mainly the surplus of trade with goods dropped (22.0 CZK bn, decrease by 47.9 bn), but the positive balance of trade with services was also falling (22.2 bn, decrease by 8.5 bn). The services balance last overtook the goods in Q3 2011.

Measures were directly aimed at part of services, which impinged upon the drastic decrease of their GVA.

Gross value added (GVA) descended by 10.9% year-on-year in Q2. The decrease at the same time affected the majority of branches. In comparison to the preceding quarter, the GVA dropped by 9.4%. Majority of both services and industry branches were afflicted. The fall of GVA was especially strong in the grouping trade, transportation, accommodation and restaurants (–20.5%, contribution to the total GVA decrease was 3.8 p.p.). It concerned activities, which were directly impacted by the restrictions aiming at slowing down spreading of the infection. Manufacturing was also markedly hit (–18.2%, effect on the total GDP growth –4.6 p.p.). Here, the production

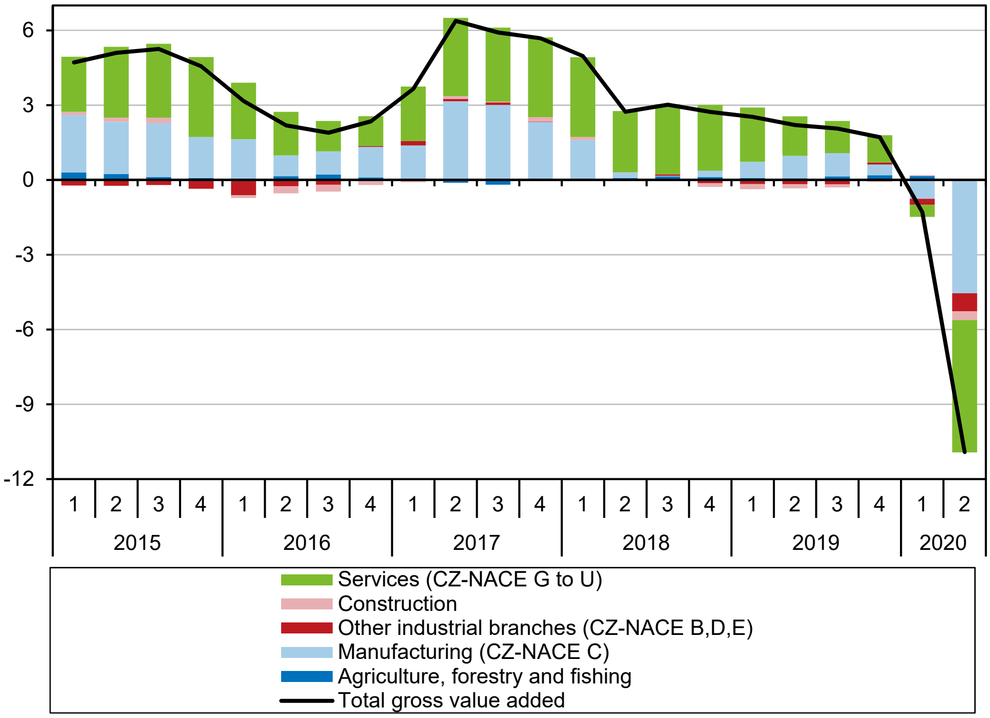
[7] Data regarding consumption based on durability are in domestic conception and not seasonally adjusted.
[8] Data regarding the type classification of gross fixed capital formation are not seasonally adjusted.
[9] According to the methodology of quarterly national accounts (export and import in FOB/FOB prices).

was restricted by the decision of the producers themselves, partially due to the easier abiding by the epidemiologic measures, limited demand on part of both domestic and foreign buyers however also played a role.

GVA grew in information and communication year-on-year.

Decrease of GVA in other branches was more result of both social and economic operations being brought to a standstill. Lowering of the GVA in professional, scientific and technical activities was 6.4% and it was the first since Q3 2011 (effect on GVA decrease –0.5 p.p.). The gross value added in financial and insurance activities went down by 5.1% year-on-year in Q2. Real estate activities recorded the fourth decrease in a row (–3.1%). Despite the total situation, information and communication on the contrary maintained the year-on-year GVA growth (1.1%) and partially thus assessed its indispensable role. The GVA markedly fell in construction (–6.2%), whose part was facing a lack of labour force, mainly the foreign labour force. By contrast, the GVA grew in agriculture, forestry and fishing (1.0%).

Chart 3 Contributions of branches to real change in GVA (volume indices, year-on-year contributions in p.p., GVA in %)



Source: CZSO