



CONFEDERATION OF INDUSTRY
OF THE CZECH REPUBLIC

JOINT SURVEY OF THE CONFEDERATION OF INDUSTRY OF THE CZECH REPUBLIC WITH THE CZECH NATIONAL BANK

Survey results – 4th quarter 2020

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MEMBER OF



SUMMARY

Improvement of demand, prevailing negative expectations of contracts

The last survey of the year 2020 **shows mild improvement in the evaluation of domestic and foreign demand despite difficulties**. Although there is a prevailing negative evaluation in the area of demand, the dominance of the negative response is shrinking.

The expectations in the area of contracts for the 1st quarter of 2021 are not reflecting the positive development of the economy at the end of 2020 (by the end of 2020 we registered mild slight growth of industry, positive development of exports based on statistical data, lower than the expected downturn of the GDP indicator – all these gently optimistic results can positively affect the final average 2020 data). We anticipate a slow, gradual improvement in these indicators but it's obvious that economic recovery and smoothing out the losses of enterprises in many sectors of the economy will take quarters or years. The outlook of contracts from the point of view of respondents is a bit optimistic. In a half year outlook horizon there is a prevailing majority of growth in development of contracts.

Optimistic expectations of investment

The expectation of corporate investment is positive compared to the previous quarters of this survey. In one year horizon, a bigger part of corporate respondents plan to increase investment revenues. Unfortunately, these kinds of questions about expectations are affected by the low benchmark of investment during 2020.

In the **area of prices** we observe slight growth, which means the growth of inflation above the targeted level (inflation target in Czech Rep. is 2% with a tolerance band of 1% above and below). The development of the prices of inputs shows a tendency towards stagnation and a slight growth for price of outputs. Nevertheless, the price of inputs is still above the price level of outputs and companies must absorb this difference.

Calming down of overheated labour market

The labour market has cooled from the previous “overheated” situation (*when there was strong growth of wages without increasing of labour productivity and there was nearly full employment for a few years*). Based on our respondents, there will be moderate decrease in employment and there will be a trend of decreased growth pace of wages (compared to the previous quarter, there is an expectation of lower wage increases – such a trend of a slower growth rate is visible in comparison with 2019 and with the beginning of 2020 when we recorded maximal values). However, these indicators are affected by structural problems in Czech labour market and corona crisis measures.

Factors influencing corporate growth like **energy prices and prices of raw materials** are still not affected by the current situation – prices of these inputs have still not experienced any significant reduction of prices (but such overall evaluation of price development is not the general cause of fluctuation in many areas during last year). We observe that the relative calming in the area of labour market which has had an impact into high labour costs (but there is a prevailing lack of qualified labour force as a result of structural problems in the Czech labour market).

Exchange risks securitization

Enterprises must secure exports of exchange risks due to the unwillingness of government to join the Euro area. Businesses are using euro even for domestic payments due to elimination of risks. For avoiding these costs are using euro currency even for domestic payments.

ABOUT OUR SURVEY

Time series [HERE](#)

Regular quarterly joint survey: Ten years of history. Cooperation between two important institutions: a monetary independent authority and the largest organisation of employers in the Czech Rep. **Information from companies:** Expectation information, the future of the business environment, crucial factors and burdens for entrepreneurs etc. **144 respondents** in this survey for 4th quarter 2020.

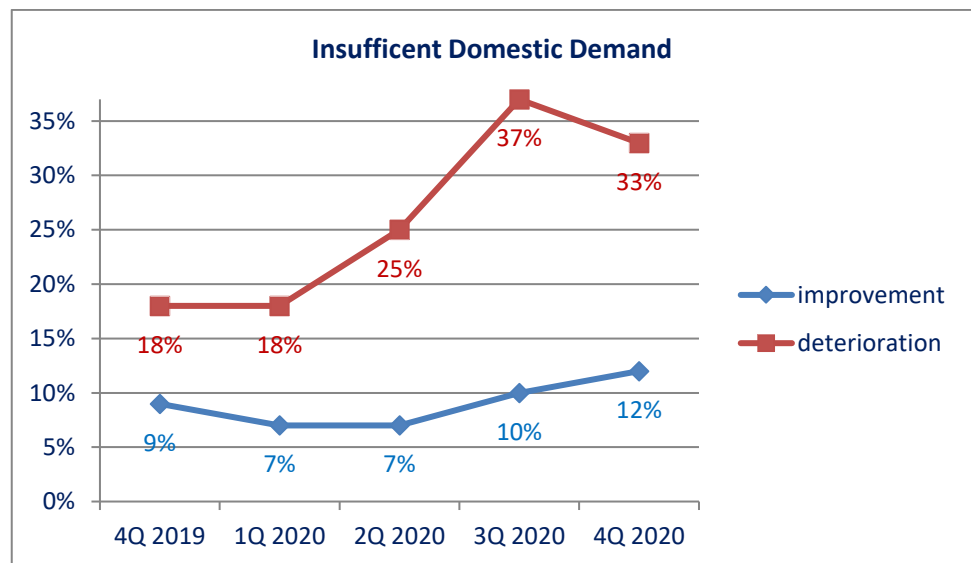
RESULTS IN DETAIL:

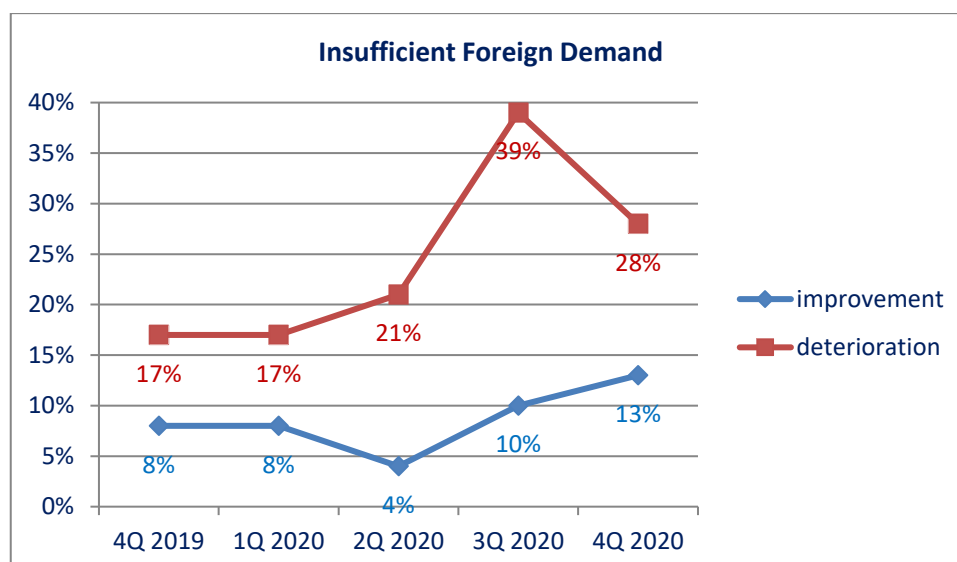
1. SITUATION OF COMPANIES: DEMAND, CONTRACTS, INVESTMENT

Expectations of contracts are decreasing

In the last quarter of 2020 there was still a trend of improvement of demand perception in the form of the reduction of negative balance of this indicator. **This positive development occurred in spite of insufficient demand in reality.**

From the 2nd quarter of 2020, there is an indicator that the evaluation of demand is on a positive path. The spring of 2020 was, from the point of view of entrepreneurs, truly a crisis period (mainly in the area of uncertainty and freezing of economy with expected problems in logistics and supply). For several months after spring there were few anti-pandemic measures still valid, but the consequences for perception of demand were not so significant. **A similar trend is in the area of evaluation of domestic and foreign demand.**





Based on our expectations, we assume on the basis of our survey that contracts will not be growing in 1st quarter 2021.

| Contracts development expectation for <i>next quarter</i> (weighted relative frequency) | 4Q 2019 | 1Q 2020 | 2Q 2020 | 3Q 2020 | 4Q 2020 |
|---|---------|---------|---------|---------|---------|
| Increase | 24,8 | 40,5 | 35,0 | 30,8 | 25,0 |
| Decrease | 25,1 | 23,9 | 30,2 | 40,3 | 40,0 |
| Without changes | 50,1 | 35,6 | 34,8 | 25,7 | 35,0 |

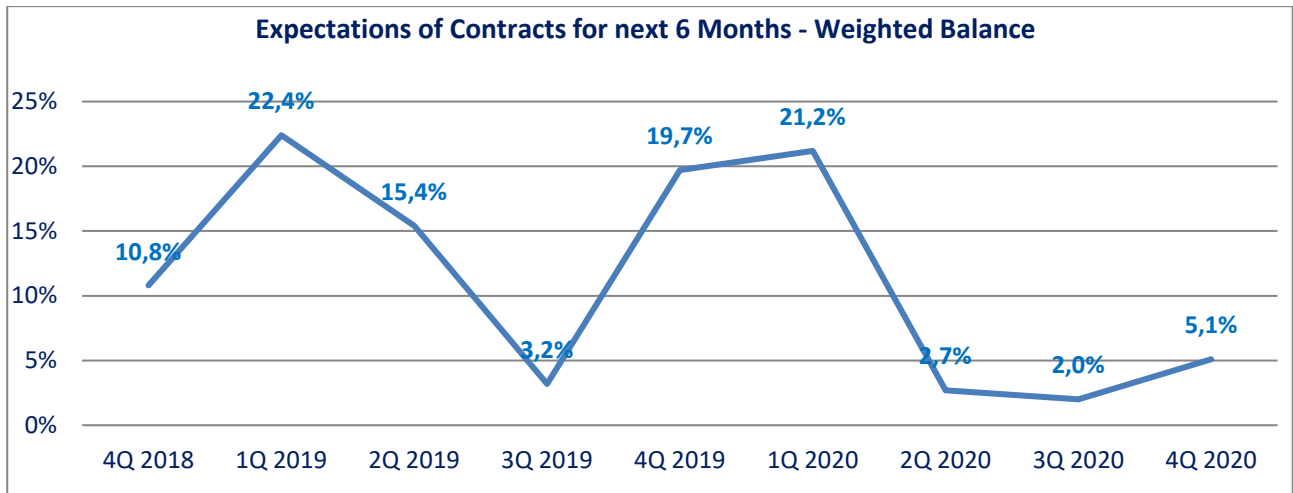
Expectation in longer horizon

In half year horizon there is an obvious optimistic attitude.

| Contracts development expectation for <i>next 6 months</i> (weighted relative frequency) | 4Q 2019 | 1Q 2020 | 2Q 2020 | 3Q 2020 | 4Q 2020 |
|--|---------|---------|---------|---------|---------|
| Increase | 35,4 | 40,1 | 34,2 | 32,5 | 30,7 |
| Decrease | 15,7 | 18,9 | 31,4 | 30,5 | 25,6 |
| Without changes | 48,9 | 41 | 34,4 | 37,1 | 43,7 |

Contracts expectation

The next chart is dedicated to the **weighted balance of contracts expectations**. It seems that the overhang of negative expectations is diminishing and the situation after reaching the “floor” is improving. Growth in the balance of expectations is based on the decrease of negative predictions of entrepreneurs. The beginning of 2021 could bring stabilisation to the expectations of future contracts.

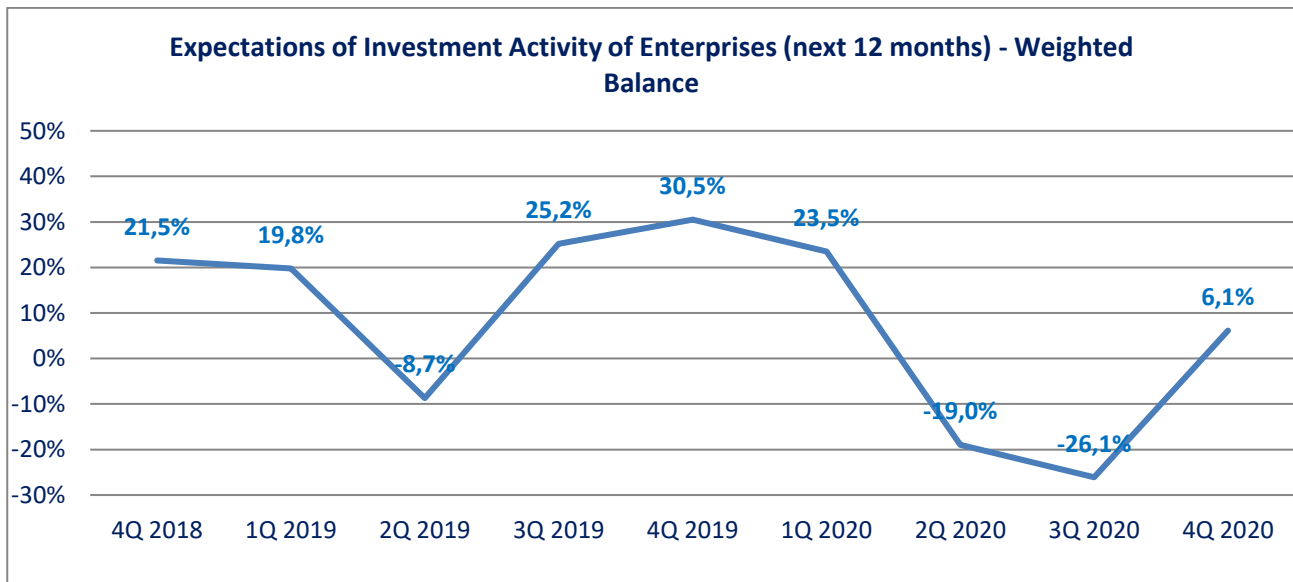


Investment:
positive trend for
future

There is a positive turn of expectations of investment. The prevailing overhang of negative expectations is now replaced by a mild majority of positive expectations. In the **half year horizon** there is a balance of expectations on the positive path of improvement (after a dramatic fall in expectations in 3rd quarter 2020 to the level of -34.5%, this indicator has a much better balance of -2.9%).

The annual horizon even reached a positive value of balance and we can expect further increases in 2021. Such a horizon is based on quite a low level of expectations during 2020. Uncertainty is present and it has enormous influence on all valuables in this area.

Nevertheless, it is still valid that to reach economic growth in 2021 our economy needs higher investment rate. Insecurity and anti-pandemic measures caused lower investment activity of companies. Due to this, the Confederation of Industry of the Czech Rep. enforced some changes in tax policy and recommended a number of changes in economic policy to the Czech government.

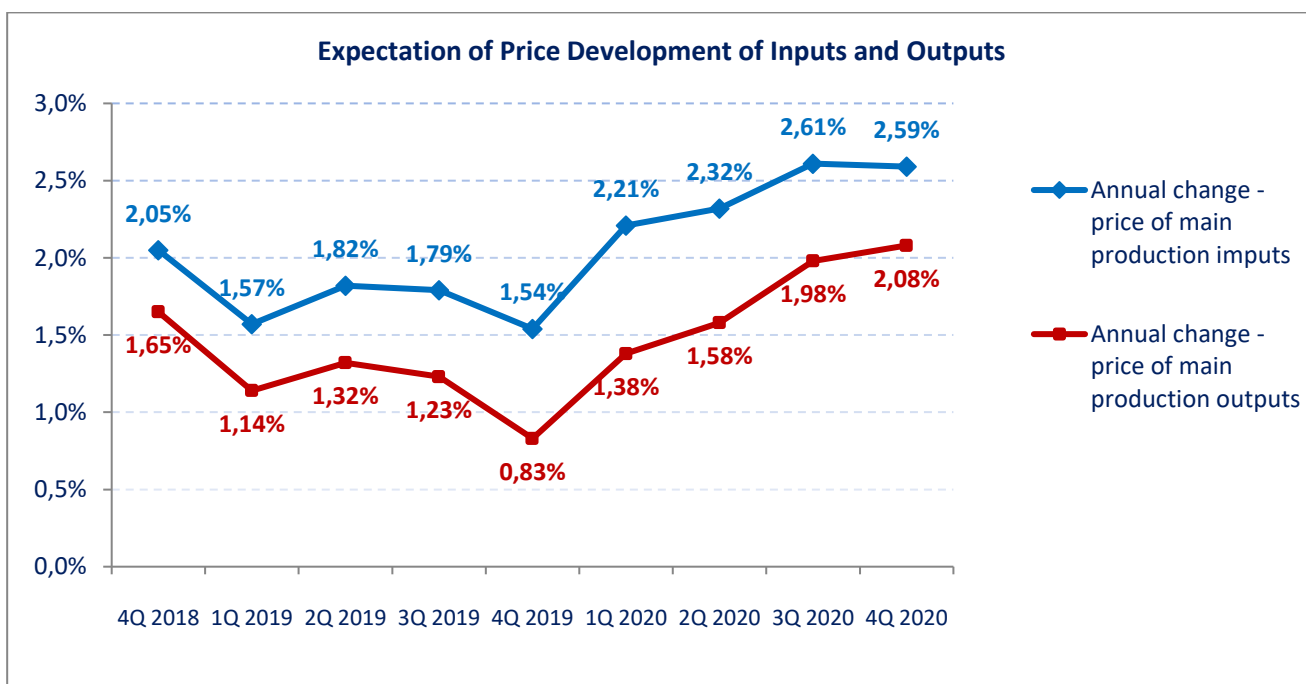


2. STABILITY OF ECONOMY AND PRICE OF ENTERPRISES INPUTS

Expectations of price growth

There is an **ongoing increase of prices** still above the inflation target (but inside the tolerance band of 1% below and above 2% target). Entrepreneurs in the horizon 1 year await growth of consumption prices by **2.39%** and in horizon of 3 years there is awaited growth in prices by **2.68%**. Compared to the previous quarter current expectations are a bit higher (3rd quarter 2020 price expectation levels were at **2.35%** and **2.63%**).

In the area of **prices of inputs and outputs** there is a lower level of growth, so we anticipate the situation to stabilise. In 1 year horizon there are expectations for production inputs of 2.59% and outputs 2.08%.



Slowing down of wage growth

The labour market has cooled from the previous “overheated” situation (*when there was several years of strong wage growth without an increase of labour productivity and nearly full employment*) and the consequences of the corona-crisis are visible even in this area.

Based on our respondents there will be a moderate decrease of employment. Next quarter (e.g. first quarter 2021) there will be a decrease in employment by 0.66% and in all of 2021 there will be a decrease by 0.35%.

Structural problems at the labour market

However, these indicators are affected by structural problems in the Czech labour market and corona crisis measures. It is obvious based on our data that the growth of wages is influenced by economic reality.

From maximal growth at a level of 4 or 5% in 2019 and at the beginning of 2020 there is now growth at a slower pace. In the next quarter wages will be growing by 2.66% and 2.68% in the whole year 2021. (Estimates from our survey do not take wages benefits such as overtime work, 13th salary, the influence of statutory minimum wage, etc. into account). Now we are sure that the peak of expectation of the labour market was based on our survey in the 1st quarter.

3. EXTERNAL FACTORS WITH AN IMPACT ON ENTERPRISES

This survey investigates the share of respondents who expect improvement or deterioration of main factors which are crucial for enterprises.

Factors influencing growth of company

The current economic situation is mirrored in the pressure to lower costs, although this pressure is still quite mild (Areas affected by this pressure to lower prices are energy prices and raw materials prices that from spring 2020 a gradually lower share of respondents anticipated the price of these inputs as a barrier for further growth of company).

The high labour costs barrier remains unchanged from the previous quarter and these costs are still a limitation for entrepreneurs.

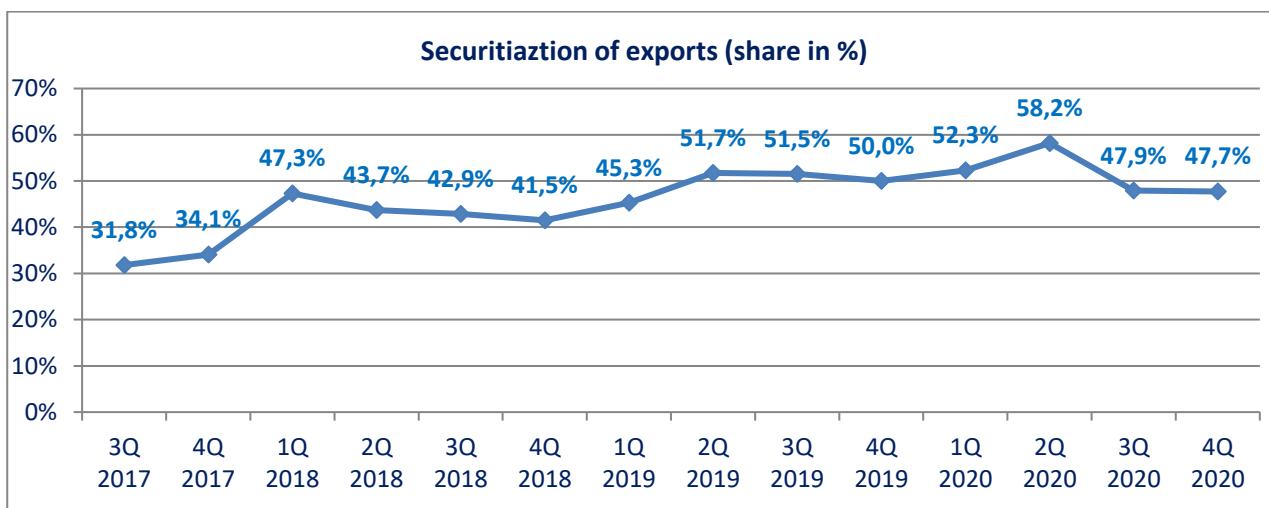
Lack of a qualified labour force is not such a significant barrier now compared to whole year 2019 and spring 2020.

A mild improvement of the economic situation during the end of 2020 is visible in the financial area (a slight improvement in the availability of loanable funds and secondary insolvency).

Absence in the euro area

Companies are still influenced in a negative way because of the absence of the Czech Rep. in the Euro area and due to this, enterprises suffer **higher costs for the securitization of exchange rate risk**.

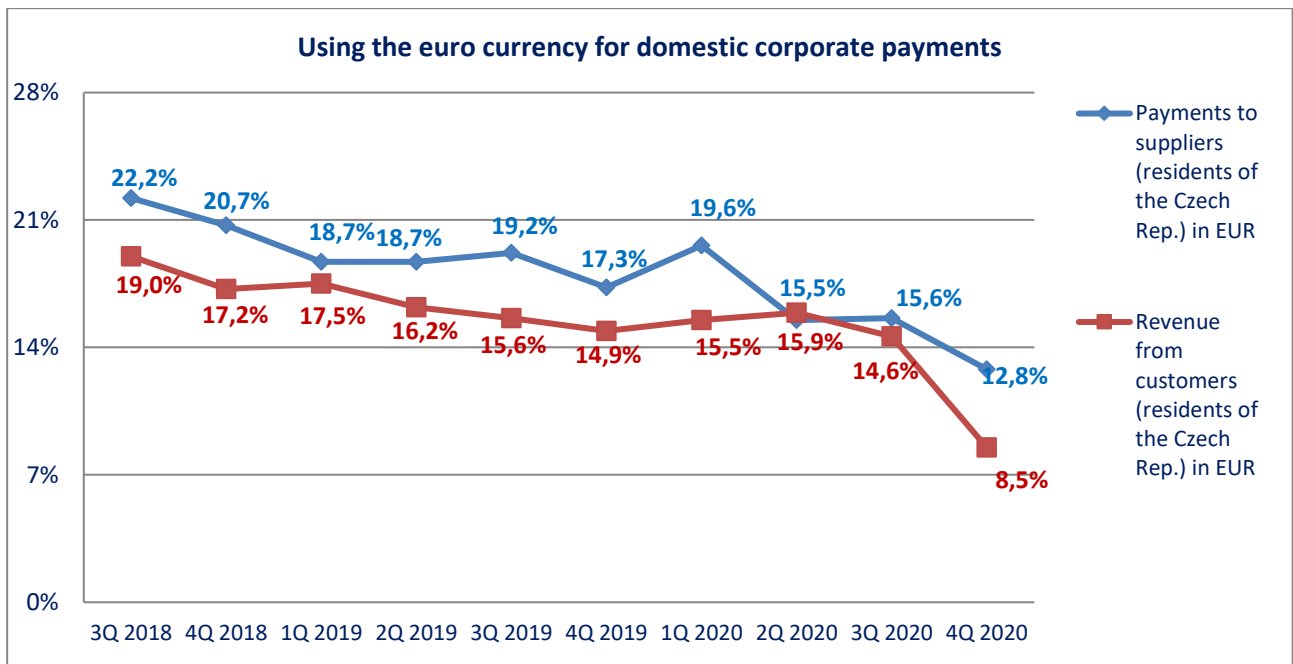
The private sector actually uses the Euro for domestic transactions, because the majority of companies are using the Euro with their suppliers and customers due the absence of an exchange rate risk.



Based on the chart above it is obvious that **the share of financial securitization of exports is still significant** (from a 50% share in 2019 led development to a share of 60% as a reaction of respondents among entrepreneurs to the risks in international trade after the corona crisis; next the share decreased slightly to a 48% share).

This indicator means that in the long term nearly half of Czech exports were securitized against exchange rate risk – which incurs an additional cost for entrepreneurs. If Czech Republic adopts Euro currency, these costs will disappear.

Another unstudied kind of risk hedging is using the euro currency for domestic payment. **Based on the survey, entrepreneurs in the Czech Rep. are using the Euro for 15–20% of their domestic transactions.**



Note: All charts have an origin in data of this joint survey of 4Q 2020

INFORMATION ABOUT SURVEY

Unique
cooperation
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cnb.cz/en

Since 2011 there has been a quarterly survey given by the Confederation of Industry of the Czech Republic to the Czech national bank.

The respondents of this survey represent a key part of industry in the Czech Republic. Industry plays a significant role in the Czech economy and is a crucial factor for development of the whole country. This survey is thus a relevant leading indicator which shows trends and is indicative of the real economy.

If you are interested in detailed information or methodological procedure you can contact us via e-mails vstipek@spcr.cz or Setreni@cnb.cz

Information from companies: Expectation information, forecasts about business environment, crucial factors and burdens for entrepreneurs etc. **Respondents: 144** respondents in this survey for 4th quarter 2020

Direct link to time series of Czech National Bank:

http://www.cnb.cz/cnb/STAT.ARADY_PKG.STROM_SESTAVY?p_strid=ACAA&p_sestuid=&p_lang=CS

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