



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 – 2nd quarter 2020

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SUMMARY

The pandemic has hit economy when it was already slowing down

The results of our survey of the 2nd quarter of 2020 show the consequences of the pandemic on the Czech economy. These consequences were not visible during the first quarter of 2020.

The pandemic hit the Czech economy **in a situation of gradually weakening of pace of economic growth**. Several risks were present as well (e.g. slower growth pace by our main economic partner, trade wars, threats of the protectionism). At the same time highest growth of salaries, increasing growth of price of inputs and relatively high inflation occurred in the Czech Rep. (but still not at the usually accepted rate of galloping inflation).

The spring coronavirus shock affected these negative factors in different ways and these opposing tendencies are visible in our survey too. Before the outbreak of the pandemic and the adoption of special measures, our economy still had slight growth pace. The pandemic decreased the revenues of companies and citizens, the rate of profits and contracts decreased, and economic uncertainty increased.

Index of contracts and demand are getting worse

Obviously, the **expectations in the area of contract development are deteriorating**. In the same way, the **evaluation of domestic and foreign demand is also declining**. Reflection in the current situation is visible in worsening of corporate investment. This reaction is based on deterioration in overall development, lower profit ratio, and caution in the business environment.

There are also **prevailing strong inflationary pressures**, therefore entrepreneurs are waiting for an increase in prices which will be above valid inflation target (target is 2% with a tolerance band of 1% below and above; so, inflation is higher but still within tolerance band). Similarly, we await further growth in the areas of inputs and output prices.

Economic downturn influenced growth of wages

Growth of wages just reached the ceiling in 1st quarter 2020 and the growth pace is weakening – this is the expected trend as well for following quarters.

Among external factors companies consider **burden prices of energy as less important**, nevertheless prices of materials or raw materials have still not started the process of reduction in prices. Lack of financial resources or secondary insolvency related to economic deterioration is visible similarly as less availability of loans.

Fear and risks increasing costs for entrepreneurs

Companies are trying to avoid risks and they **are ensuring their export against exchange rate risks**. Share of secured export is nearly 60%. This securitization requires additional costs. What's more – **companies in the Czech Rep. are using the euro even for domestic transactions as a natural way of securitization**. It would be logical to accept the euro currency in the Czech Republic based on strong connection with euro area countries.

ABOUT OUR SURVEY

Time series [HERE](#)

Regular quarterly joint survey: Nine years of history, 34 investigations. 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. **158 respondents** in this survey for 2nd quarter 2020.

RESULTS IN DETAIL:

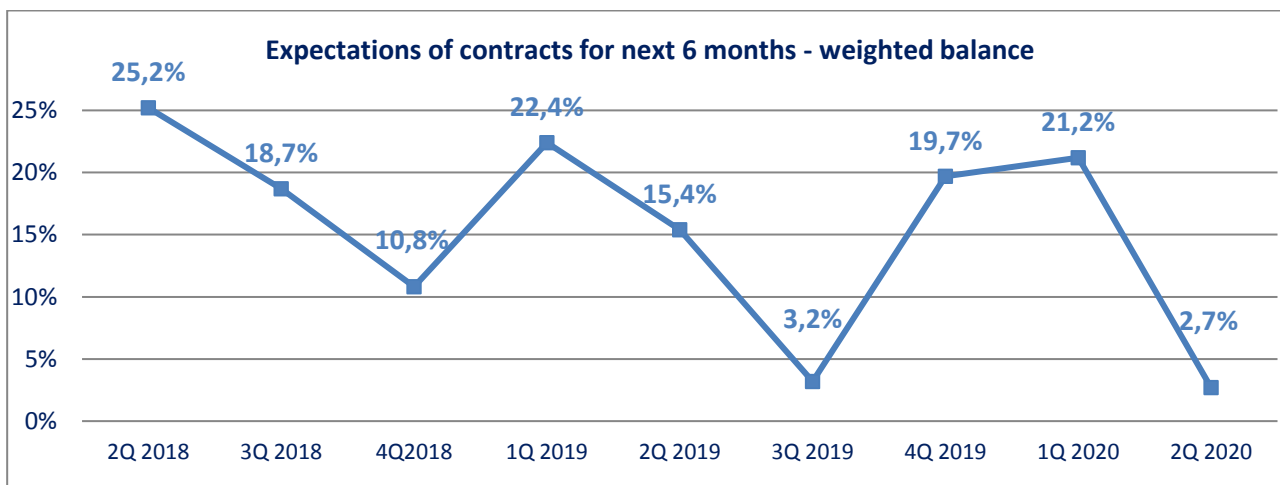
1. SITUATION OF COMPANIES: CONTRACTS, DEMAND, INVESTMENT

Expectations of contracts are decreasing

2nd quarter 2020 was deeply affected by the crisis compared to 1st quarter 2020, which was only impacted in March, since all months of 2nd quarter were impacted by coronavirus and anti-pandemic measures. **We see a strong impact on contract expectations.** It's obvious that within our survey, that **less entrepreneurs are expecting growth in contracts** and conversely **more entrepreneurs await a decrease in contracts**. This expectation is valid for the next 3 months and on the horizon of the next 6 months as well.

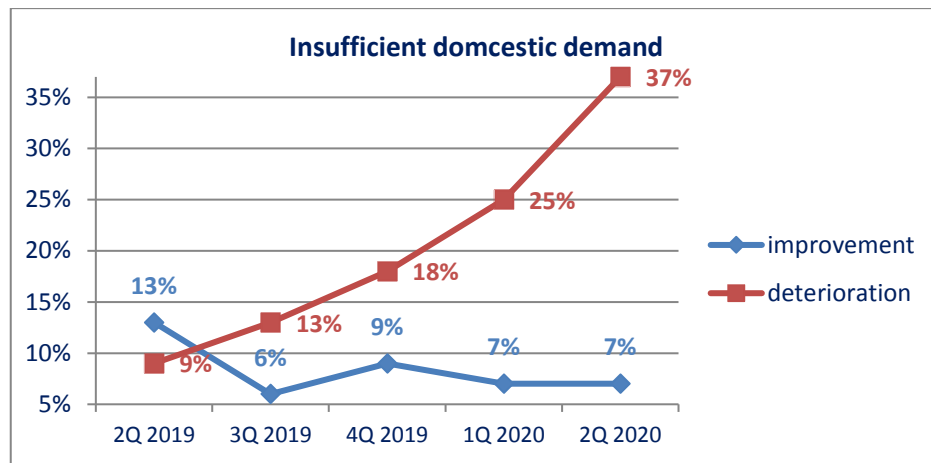
Contracts development expectation for next quarter (weighted relative frequency)	3Q 2019	4Q 2019	1Q 2020	2Q 2020
increase	26,5	24,8	40,5	35,0
decrease	24,6	25,1	23,9	30,2
without changes	48,8	50,1	35,6	34,8

The share of all **positive** reactions (respondents awaiting growth of contracts) is **still higher** than the sum of **negative** reactions. Overall, 2nd quarter had the worst results in the current decade, the expectations for next quarter are as low as 2nd quarter, and 3rd quarter is expected to experience a decrease on year-on-year comparison.



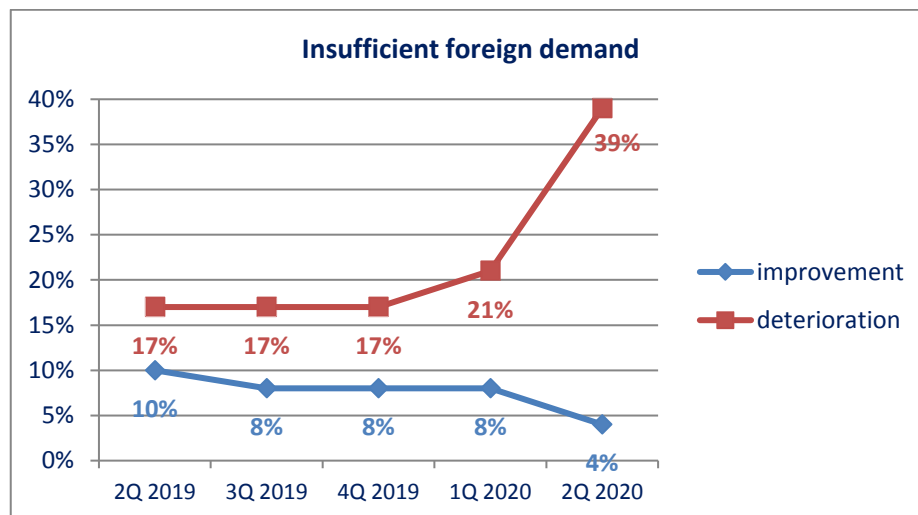
The following charts show a similar trend (as we saw in evaluation of contracts) in the area of **evaluation of demand** (as a factor of enterprises development).

Evaluation of demand: deterioration



Negative perception has *increased* in the cases of *domestic and foreign demand*. **Positive** perception has *decreased* in the case of *domestic demand*; positive perception remains unchanged in the case of *foreign demand*.

Pesimistic evaluation exceeds optimistic opinions



Based on these two charts dedicated to demand is obvious that negative evaluations prevail positive opinions on further development.

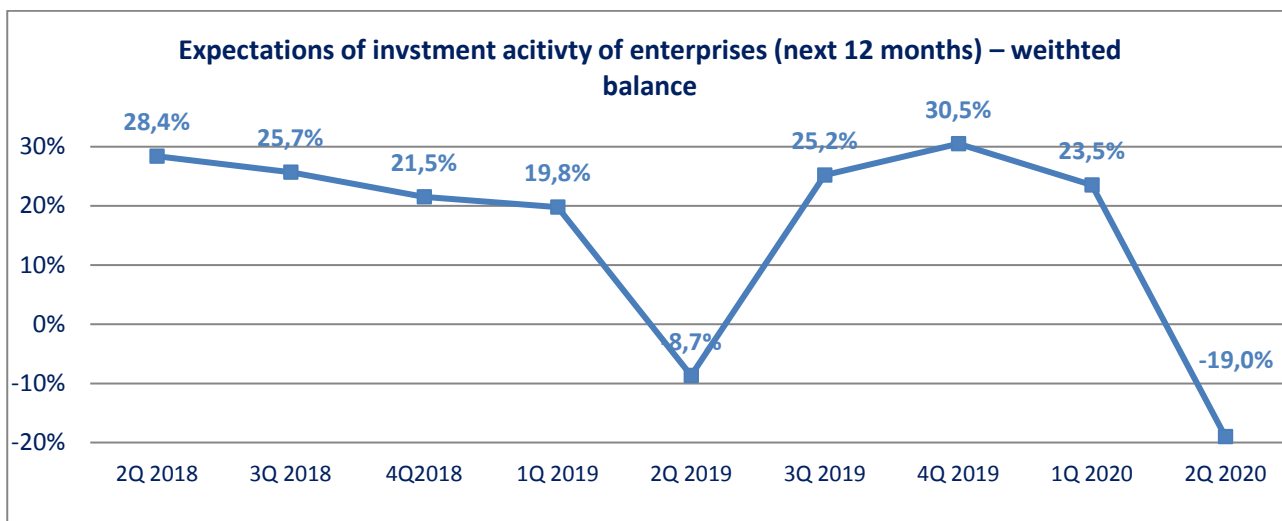
Limitations for growth of enterprises:

Factor:	improvement					deterioration				
	2Q 2019	3Q 2019	4Q 2019	1Q 2020	2Q 2020	2Q 2019	3Q 2019	4Q 2019	1Q 2020	2Q 2020
Insufficient demand: domestic	13%	6%	9%	7%	7%	9%	13%	18%	25%	37%
Insufficient demand: foreign	10%	8%	8%	8%	4%	17%	17%	17%	21%	39%

Investment is going to decrease this year

We await remarkable and more dramatic developments (in another word a decrease) in the area of **investment expenses**. On the **horizon of 1 year** a much deeper decrease compared to 1st quarter should occur. Deterioration is present in the expectation of development of investment on the horizon of the **next 6 months**.

Overall expectations on one year’s horizon in the area of investment is illustrated via the following chart:



2. STABILITY OF ECONOMY AND PRICE OF ENTERPRISES INPUTS

Expected inflation is increasing

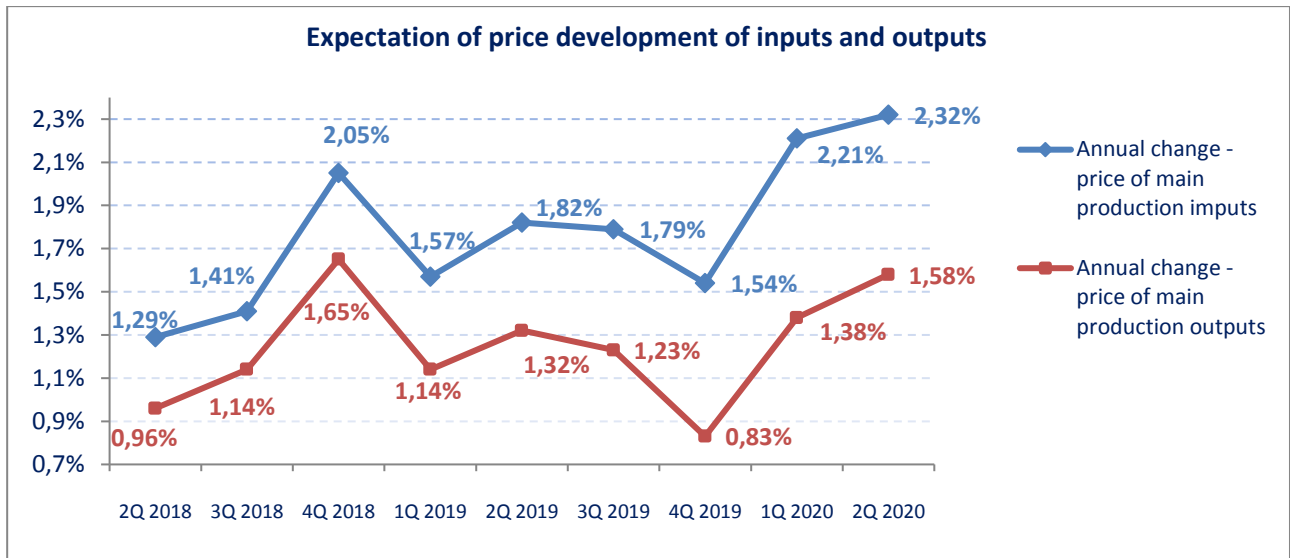
There is an **increase in prices**, and respondents of our survey still expect growth of inflation to be above the inflation target.

Price of inputs and outputs – expected increase

Interviewed/surveyed entrepreneurs on the horizon of **1 year** await the growth of consumption prices by **2,38%** and on the horizon of **3 years 2,64%**. Such level of inflation is above the current level of the Euro area average inflation rate and EU average as well.

Another indicator of inflation is development of the **price of main production inputs and outputs**. In a year’s time respondents await the growth of price at a level of **2,32% for inputs**. For **outputs** the expected growth level in year’s time is at **1,58%**.

Based on the chart below is obvious that the Czech economy still remains at a higher growth level in area of outputs compared to inputs. This difference must absorb enterprises.



The stability of the economy is illustrated by the **expectation in the area of wages and labour market** as well. This kind of expenses is not only a cost for business but from our point of view it has an influence on the tendency to increase price level (e.g. wage inflation with strong relation to overall price level).

For 2nd quarter 2020 respondents anticipate **a mild decrease of 0,45% in employment**. It is a significant change against the current trend – in prior surveys respondents always predicted further moderate growth in employment in spite of already a very high level of working people in economy (employment has reached its potential peak). For the year 2021 respondents anticipate additional growth at level of 0,44%. Further development despite these expectations remains uncertain.

Strong growth of wages is slowing down

Beside the threat of the growth of prices there is **deceleration in the wages area**. From the maximum predicted values of growth of wages (high above 3%) for next quarter and for whole year 2020 (above 4%) is now anticipation for growth in this area lower.

Current expectations from 2nd quarter shows growth of **2,54% for one following quarter** and **3,35% for the whole year 2020**. For **2021** there is the expectation based on our survey at the level of **2,95%** (estimates from our survey do not take into account wages benefits such as overtime work, 13th salary, the influence of statutory minimum wage, etc.).

The peak of expectation at labour market was based on our survey in the 1st quarter. Starting in the 2nd quarter there will be a decrease in the pressures in the labour market after reaching the ceiling.

3. EXTERNAL FACTORS WITH AN IMPACT ON ENTERPRISES

The changes in the economy due to the pandemic (e.g. lower economic activity, reduction and breaks of production, weaker demand) resulted in lower pressure in the area of production costs. **Energy prices** are, based on the survey, a less significant burden for the growth of enterprises. Similarly, less limiting for company

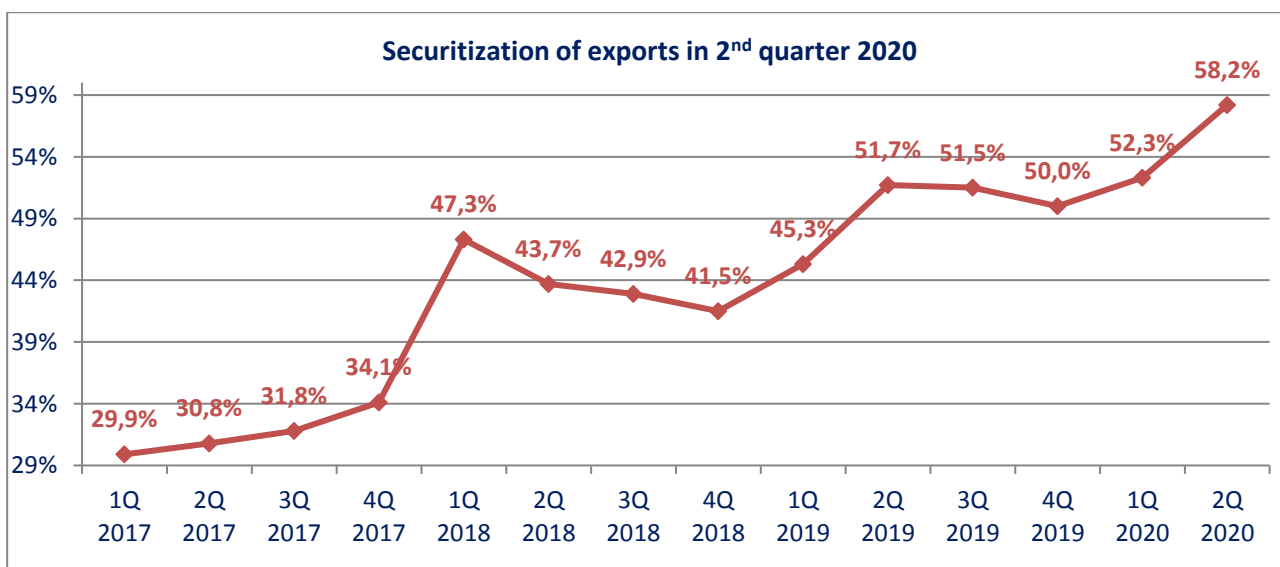
growth is the **lack of qualified labour force**. Conversely, **prices of materials and raw materials** are still unchanged at quite a high pre-crisis level.

Economic decrease in the 2nd quarter (which resulted in a quite significant decrease in annual growth of GDP) means deterioration in the **financial area** (less availability of loanable funds and secondary insolvency).

Factor:	improvement					deterioration				
	2Q 2019	3Q 2019	4Q 2019	1Q 2020	2Q 2020	2Q 2019	3Q 2019	4Q 2019	1Q 2020	2Q 2020
Lack of loanable funds	11%	10%	14%	11%	7%	12%	15%	8%	11%	16%
Secondary insolvency	2%	4%	2%	4%	2%	4%	6%	10%	10%	19%
Prices of raw materials	2%	1%	5%	4%	7%	47%	45%	40%	36%	38%
Energy prices	2%	5%	4%	3%	5%	41%	43%	50%	38%	32%
High labour costs	2%	3%	4%	4%	4%	55%	53%	51%	46%	35%
Lack of qualified labour force	2%	1%	2%	7%	9%	49%	45%	45%	34%	27%
Competition	1%	0%	1%	1%	2%	13%	15%	15%	15%	14%

Absence in the euro area

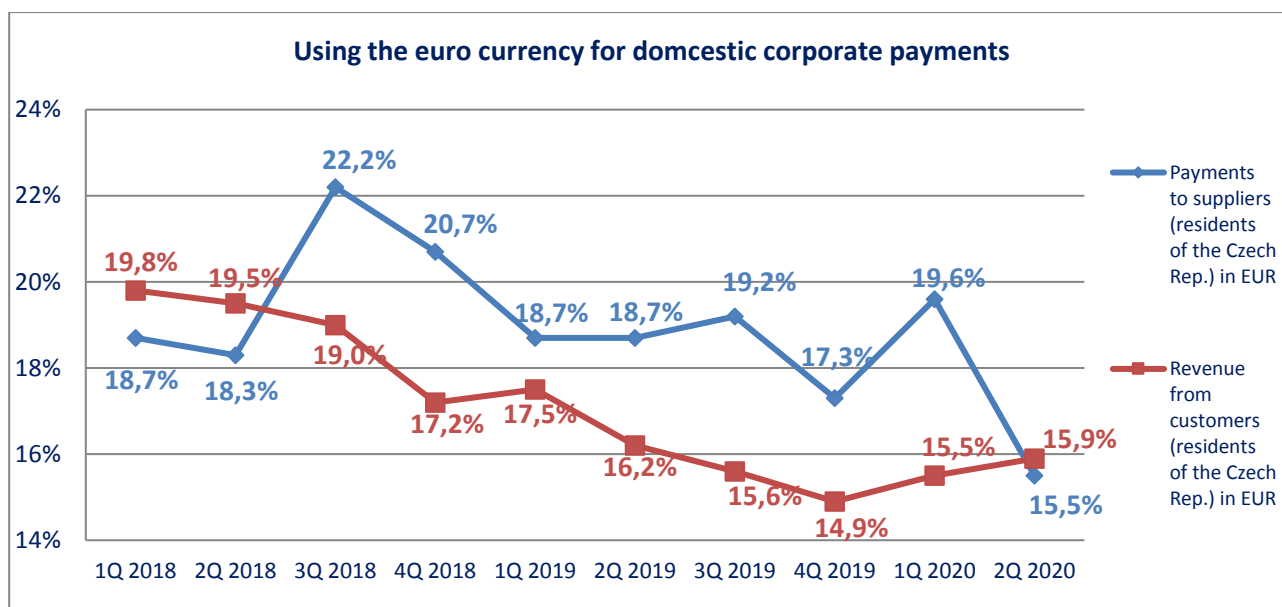
Companies are influenced in a negative way because of the absence of the Czech Rep. in the Euro area – enterprises suffer **higher costs for securitization of exchange rate risk**. The private sector even uses the Euro for domestic transactions, because the majority of companies are using the Euro with their suppliers and customers due the absence of an exchange rate risk. The Czech Rep. is strongly connected to Euro area countries and acceptance of the Euro currency in Czech Rep. is rational.



From the chart above it is obvious that the **share of secured export is increasing** – for the whole year the share was at the level of 50% (which means that half of Czech exports were securitized against exchange rate risk – which incurs an additional

cost for entrepreneurs). In the 2nd quarter the share **increased to 60%** (exactly to 58,2% share) partly based on threats in the international trade and instability caused by coronavirus.

Another natural way 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 2Q 2020

INFORMATION ABOUT SURVEY

Uniqe
cooperation
sPCR.cz/en
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: 158** respondents in this survey for 2nd 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