

Short Note

GDP – Q3 2013 flash estimate

14.11.2013

Czech GDP: strong negative surprise

According to the preliminary results the Czech economy contracted by 0.5% quarter-on-quarter in Q3 after 0.6% increase in Q2. That is absolutely out of the forecasted range. The most pessimistic estimate was +0.4% and median at +0.5%. We expected even slightly better figure at +0.6%. Year-on-year GDP decline accelerated to -1.6% in Q3 from -1.3% in Q2.

The Czech statistical office pointed out that without seasonal adjustment and adjustment for working days the result was +0.4%qoq and +0.7%yoy. It is relevant to ask about the way of the adjustment. Monthly data such as industrial output, retail sales, some services and PMI were trending upward in Q3 indicating GDP rise. Therefore, the surprisingly high GDP decline is a strong negative surprise. Although the GDP structure was a bit puzzling in Q2 it does not explain the amount of surprise in Q3. The Statistical office ascribes the bad result to low investment activity, which is a bad news and to faster imports.

We do not change our expectation of the GDP decline by 1.0% in 2013, but the preliminary result shows obviously a significant risk that it might be lower (easily around -1.5%). Due to the weaker Czech koruna we have increased our GDP estimate for 2014 to 2.3 % up from 1.9%. We do not change our estimate for 2015 at 2.4%. With the increased political uncertainty it is questionable which way the Czech economy will continue.

The bad results might justify the weaker CZK. Without the recent CNB intervention the CZK would probably weaken but now has no reason to weaken further. However the figures are puzzling and the final GDP result and structure will be very interesting. We expect that the Czech economy will expand in the coming quarters. The Czech government bond prices might react slightly positively on the data today. We stick to our SELL recommendation for the Czech government bonds with maturities 5 years and longer.

Michal Brožka, chief analyst Raiffeisenbank a.s., +420 234 401 498