Czech Republic

September 2020

Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction Const.Mtrls	Consumer Durables	Electronics/ ICT	Financial Services	Food	Machines/ Engineering	Metals	Paper	Services	Steel	Textiles

Source: Atradius

Industry performance

Changes since June 2020 · Sources: Atradius, Oxford Economics

Agriculture

Remains Fair

In 2019 a draught resulted in lower crop yields, while costs for energy, labour, and animal feed have increased. The sector has been impacted by the consequences of the lockdown (e.g. transport and supply chain issues). While agriculture value added growth is forecast to level off in 2020, the prospects for a rebound are good.

Automotive/Transport

Remains Poor

Automotive producers and suppliers suffer from globally deteriorating sales for passenger cars and commercial vehicles, which has led to severe liquidity strains and cash shortfalls. Margins were already under pressure before the coronavirus outbreak, due to disappointing sales in 2019 and increased investment to cope with the shift away from combustion engines towards e-mobility. Automotive value added is expected to contract by more than 22% in 2020. While no substantial increase in payment delays or insolvencies was recorded in H1 of 2020, both are expected to rise in the coming months.

Chemicals/Pharmaceuticals

Remains Fair

Chemicals and pharmaceuticals businesses generally show robust business financials, good payment records and low insolvency rates compared to other industries. As many chemical businesses supply the automotive sector, they suffer from decreased demand, with value added expected to shrink by more than 5% in 2020. Within the pharmaceuticals industry, many businesses request longer payment terms, but value added is forecast to grow modestly by about 0.5% in 2020, due to higher health care expenses.

Construction/ Construction materials

Remains Poor

Operating margins are very tight in this industry, with increased credit risk mainly for smaller players. Due to the ongoing recession, businesses are additionally affected by postponement of projects and reduced order volumes. Construction value added is expected to contract 2% in 2020. While no substantial increase in payment delays or insolvencies was recorded in H1 of 2020, both are expected to rise in the coming months.

Consumer Durables

Remains Fair

Private consumption of non-food consumer goods has deteriorated due to the coronavirus impact, with many businesses temporarily closed due to the lockdown. However, e-commerce and online sales of consumer durable goods have increased. Subdued consumer sentiment and rising unemployment could hamper a rebound in the short-term. Retail value added is expected to contract by about 6% in 2020, followed by a 7% rebound in 2021.

Electronics/ICT

Remains Fair

Sales of electronics/ICT products have been negatively affected by the temporary closure of businesses due to the lockdown. While smaller stationary stores have struggled to survive, e-retailers have been able to partly offset the overall decrease by increasing online sales, although at the expense of lower margins. Value added of the ICT sector is forecast to increase 2% in 2020, driven by higher demand for home-office equipment (phones, laptops, etc.) due to the increase in remote working.

Financial Services

Remains Fair

The sector remains relatively robust, but is impacted by the general economic downturn. Increased financial troubles for businesses and consumers alike could lead to more loan defaults for banks and tighter lending conditions. Value added of the industry is forecast to contract by about 3% in 2020.

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Industry performance

Changes since June 2020 · Sources: Atradius, Oxford Economics

Food

Remains Fair

Since last year, a major decline in sugar prices (due to a surplus after the lifting of the EU quota) has caused losses for sugar refineries, while meat processors have been affected by rising pork prices. Additionally, energy and labour costs have increased. While many food producers have benefited from higher domestic demand in H1 of 2020, exporters have been impacted by the consequences of the coronavirus-related lockdown (e.g. transport and supply chain issues). Food value added growth is forecast to increase by less than 1% in 2020.

Machines/Engineering

Remains Poor

In 2019 machines demand from manufacturing slowed down, leading to lower production and revenues. Rising energy and labour costs had a negative effect on margins. Since Q1 of 2020, investments of manufacturers in machines and related items have deteriorated, while engineering companies faced issues with coronavirus-related restrictions in cross-border employee traffic in early 2020. After levelling off in 2019, engineering value added is forecast to contract by more than 8%. Although no significant increase in payment delays or insolvencies was recorded in H1 of 2020, it cannot be excluded that the numbers will rise in the coming months.

Metals

Remains Poor

Metals demand from manufacturing already slowed down in 2019, leading to lower production and revenues, while rising energy and labour costs had negative effect on margins. Currently, metal producers continue to suffer due to deteriorating demand from key buyer sectors (automotive, construction and machines). Metals value added is forecast to contract by more than 14% in 2020. While no substantial increase in payment delays or insolvencies was recorded in H1 of 2020, both are expected to rise in the coming months.

Paper

Remains fair

The sector remains impacted by the ongoing digitalization, which has led to decreasing demand over the last couple of years. Value added growth of the industry is expected to level off in 2020, after a 4% increase in 2019.

Services

Remains Poor

Due to lockdown measures and subsequent business closures in H1 of 2020, many segments have suffered heavily, especially hotels and catering, restaurants, bars, entertainment and cultural events, travel agencies and tour operators. Hotels and catering value added is expected to shrink 11% in 2020. It is expected that insolvencies will increase after the temporary special protection of debtors against creditors (implemented as an amendment to the insolvency law as a response to the coronavirus-related repercussions) expire in Q3 of 2020.

Steel

Remains Poor

In 2019 steel demand from manufacturing already slowed down, while steel producers were affected by rising energy and production costs and continued import of cheaper Chinese steel. Environmental regulations put additional pressure on the industry. In 2020 steel producers and traders suffer due to deteriorating demand from key buyer sectors (automotive, construction and machines). After a 5.5% decrease in 2019, steel value added is forecast to contract by more than 8% in 2020. It is expected that insolvencies will increase after the temporary special protection of debtors against creditors (implemented as an amendment to the insolvency law as a response to the coronavirus-related repercussions) expire in Q3 of 2020.

Textiles

Remains Poor

Producers, wholesalers and retailers already suffered before the coronavirus outbreak from fierce competition, thin margins, lower sales, changes in customer behaviour and increased competition from new online retailers. The performance has further deteriorated due to low sales during the lockdown. Textile value added is expected to shrink by more than 6% in 2020, and business failures will increase in the coming months.