

## Czech GDP breakdown shows solid private spending

The Czech economy expanded by a solid 2.4% annually at the beginning of the year. The real GDP revision supports our view that households remain on a spending spree, while firms remain reluctant to unleash investment and unlock future growth potential. Resilient spending will likely prevent any further monetary policy easing



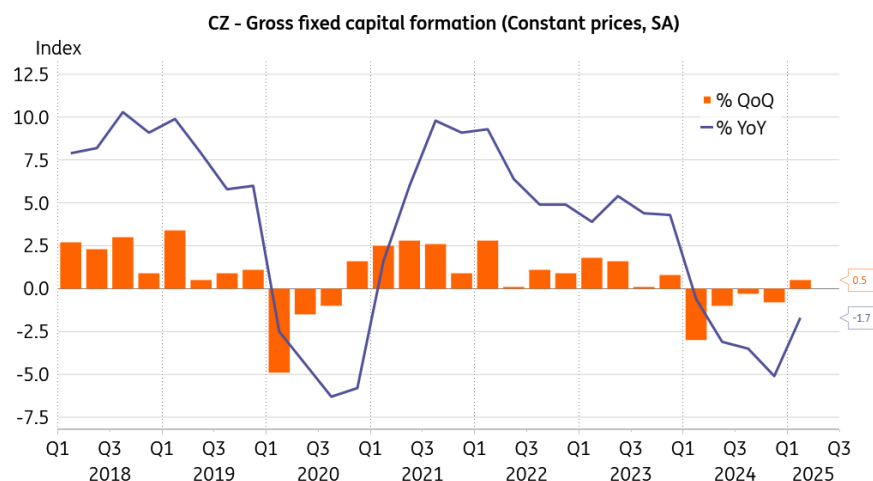
Prague, Czech Republic

### Households spend while companies wait

Household per capita consumption gained 0.3% quarter-on-quarter in real terms in 1Q25, gaining 2.7% year-on-year. Meanwhile, the household savings rate dropped 1.5pp from the previous quarter to 18.3% in 1Q25, which was 1.2pp softer than a year earlier. Still, it remains above the average for previous years. The rate of investment in the household sector stagnated in quarterly terms at 10.2%, while it softened by 0.6pp from a year earlier.

The profit rate of non-financial corporations remained unchanged as compared to the previous quarter at 43.4% in 1Q25, yet it dropped 1.2pp below the previous year. The investment rate of non-financial corporations dropped 1.7pp from the previous quarter to 26.2% in 1Q25 and shed 0.8 pp from a year earlier. Total wage costs for companies gained 7.3% YoY in 1Q25.

## Investment fell sharply during 2024



Source: CZSO, Macrobond

Fixed investment remains weak, down 1.7% from a year ago. That said, we saw a whole year of quarterly declines throughout 2024, which has brought Czech investment roughly to mid-2022 levels. Such an anaemic appetite for investment reflects the structural hurdles and uncertainty Europe is facing, which are taking a toll on today's investment and future growth potential. Moreover, the overall sentiment during the first quarter of this year was positively affected by the following one-off effects: i) the election outcome in Germany, ii) tariff-driven front-loading driving Europe's exports, and iii) the focus on ameliorating the EU's competitiveness.

But that is in the past. Now, uncertainty continues to surround the future role of and overall conditions for industry across the continent. The positive drivers left when looking ahead are the German defence and infrastructure package, as well as the general willingness of EU Member States, including Czechia, to gradually increase their defence spending. The still unimpressive appetite for investment remains a reason for a potentially more relaxed monetary policy stance. This is, however, currently held back by concerns about price stability, accumulated domestic price pressures, and inflation flying too close to or potentially exceeding the upper bound threshold of the inflation target, which is keeping any further cuts at bay.

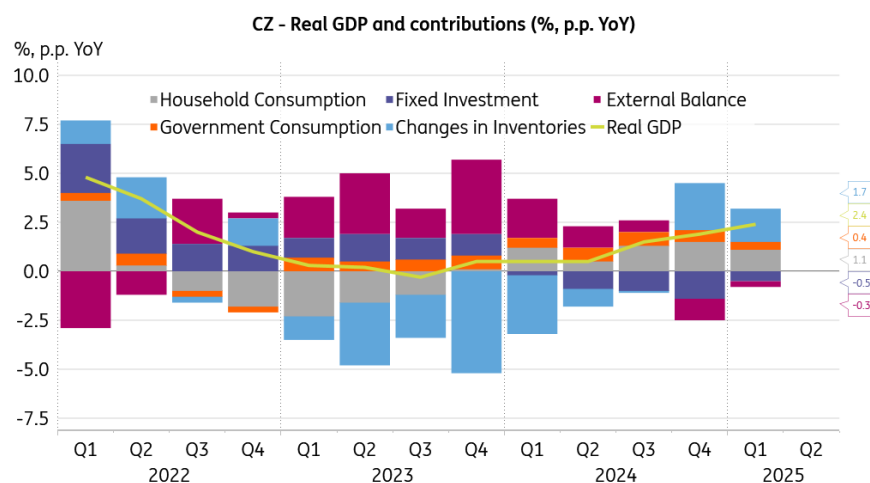
### Revision is in line with our view

The quarterly GDP growth was revised 0.1pp downward to 0.7% QoQ, yet in annual terms, it was revised by 0.2pp upward to 2.4% YoY in 1Q25. Household consumption growth was revised up to 0.5% QoQ (from 0.1%), aligning it more with what we observe in the real retail sales statistics. The decline in government consumption was reduced in the revised figures to -0.2% QoQ (from -1.5%). In contrast, the fixed investment gain in 1Q25 was reduced to 0.5% QoQ (from 1.1%), resulting in an annual decline of 1.7% (0.6% unrevised). The dynamics in exports of 2.6% QoQ and imports of 1.9% were subject to only minor revisions.

The revision is in line with our base case view, so our annual average forecast for the Czech economic performance remains at 2.3% for this year and at 2.5% for the next. This year, growth will still be driven predominantly by domestic consumption and the buoyant contribution of changes in inventories. That said, we see a gradual rebound in fixed investment over subsequent

quarters, with a positive contribution to annual GDP growth towards the year-end.

## Domestic spending and inventories take the lead



Source: CZSO, Macrobond

Overall, the latest observations confirm the story we all know: consumers are spending vigorously and driving the rebound, while industry is unable to take off properly, leaving investment activity rather lukewarm. Households' continued propensity to spend will reinforce the CNB's hawkish stance, as disinflation in the services sector is not progressing as expected.

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