

Czech recovery carries on but household spending disappoints

A second estimate has confirmed that the Czech economy expanded by 0.3% in 2Q24 from the previous quarter, but household spending softened significantly. The annual performance was more substantial than expected in the second quarter, mainly due to an upward revision of the preceding GDP figure



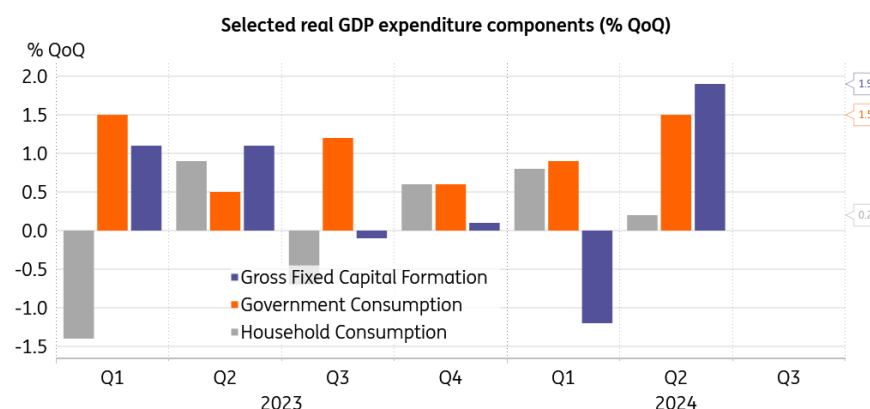
Fixed investment and government spending recovers while households take a breather

The revised estimate confirmed the expansion of the Czech economy in the second quarter 2024, with real GDP adding 0.3% from the previous quarter and 0.6% from a year earlier. The main growth drivers were final consumption expenditure and gross fixed capital formation, while the change in inventories had a negative impact.

Final consumption expenditure rose by 0.6% from the preceding quarter of which household consumption increased by 0.2%, while government consumption expenditure added 1.5% from the previous quarter. Gross fixed capital formation returned to growth, picking up by 1.9% in quarterly terms. Exports added 0.6%, and imports gained 0.7% from the last quarter. The return to

growth of fixed investment especially represents cheerful news for the Czech economic outlook, while consumers were less keen on spending than before.

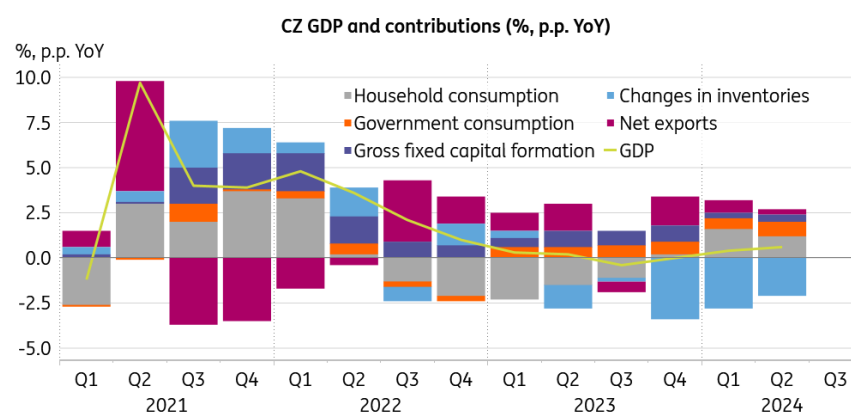
Fixed investment returns but spenders take a break



Source: CZSO, Macrobond

In annual terms, final consumption expenditure expanded by 2.0%, of which household consumption rose by 1.0%. Purchases of non-durable goods and services were the main driver of household spending. Government consumption expenditure picked up by 4.3% from a year earlier, flying relatively high compared to the historical average of 2.6% observed between 2016 and 2019. Gross fixed capital formation rose by 0.7% from a year earlier, leaving behind the sluggish performance of the past three quarters. Exports grew 0.4% year-on-year due to a substantial increase in services exports, while imports fell by 1.5% from a year earlier. That said, we have seen apparent weakness in both exports and imports for the whole year, given that the historical standard suggests annual growth of around 4% for each.

Contribution of net exports is tiny along with tepid foreign demand

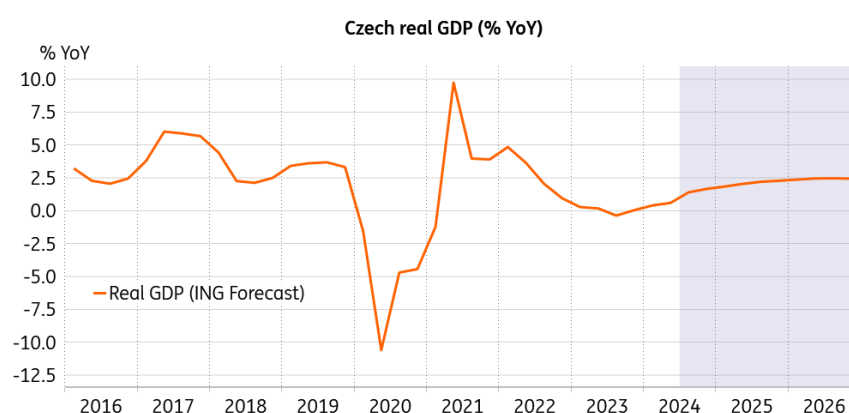


Source: CZSO, Macrobond

Satisfactory halftime with stronger first quarter but more uncertainty lies ahead

The upward revision in 2Q annual GDP growth reflects a stronger 1Q quarterly figure, which was revised almost 0.2 percentage points towards a better performance. With this first quarter revision in mind, our whole year expected real expansion would be revised toward 1% ceteris paribus. Overall, the Czech economic recovery continues, but household spending in the second quarter was disappointing, raising some questions about whether consumers' appetite for spending is losing steam. In contrast, government consumption clearly gained pace over the past two quarters. The robust comeback of fixed investment is welcome news, as it signals that firms are possibly waking up from a protracted sleep.

Base case scenario counts on gradual rebound



Source: CZSO, ING, Macrobond

The first quarter upward revision impacts the whole-year figure mainly in a technical manner. It must be reflected in a higher growth figure for the whole year, as a 0.2ppt upward revision in the first quarter has a straightforward impact. However, when looking forward, the hard and soft data point to less pronounced household spending in the second half of the year. We will get a bit more clarity on consumer attitudes with the real retail sales data release next Thursday. Meanwhile, consumer sentiment has tanked in the past three months. This requires a reasonable degree of prudence when it comes to the growth outlook, which is surrounded by a thicker fog of uncertainty. Overall, we stick to our headline scenario of a continued gradual recovery, with a 1% whole-year economic expansion. However, an adverse scenario is gaining a bit more prominence due to the observed deterioration in consumer sentiment and an expected slowdown in real wage growth.

Stronger annual GDP reading supports CNB's hawkish stance

The loftier annual GDP growth will likely lend support to the Czech National Bank in keeping a hawkish tone during its September meeting. At the same time, the relatively tight monetary policy setup with real interest rates hovering around 2.5% and an outlook for softer inflation in the coming months will likely tilt the Board's decision toward a 25bp cut that we expect. Less robust wage growth and crumbling consumer sentiment might result in headline inflation going below target for a couple of months. Yet, policymakers have clarified that sub-target inflation is fine with

them for some time.

Author

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.