Czech GDP growth slows in 2Q

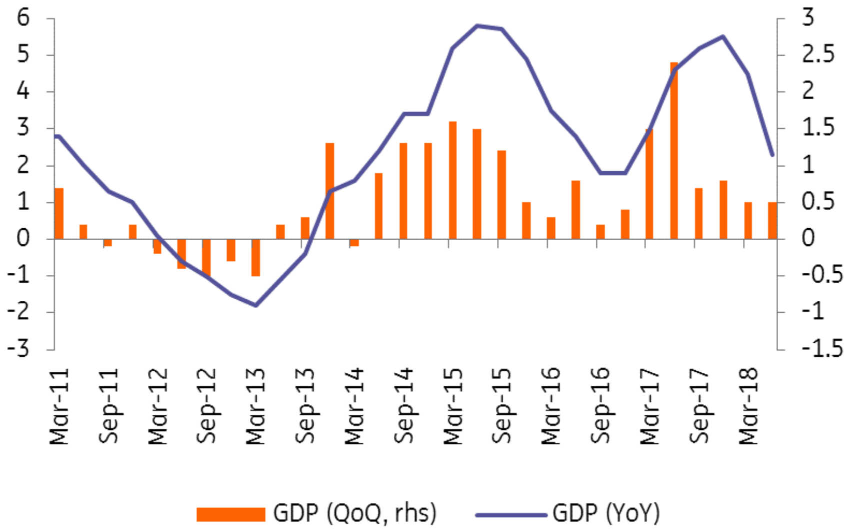
The first estimate of GDP growth in the second quarter slipped to 2.3% year-on-year (0.5% quarter-on-quarter). A weaker print below 3% was expected due to the base effect so this is no game changer for our 2018 outlook or the central bank's monetary stance

Source: Shutterstock

Domestic demand was main growth driver

The preliminary GDP estimate does not include any detailed information about the structure of growth. The Czech Statistical Office just stated that: "Domestic demand continued to be crucial for the positive development of the economy. The following contributed the most to GDP growth: consumption expenditure of households followed by investment expenditure of companies. Also, external trade positively contributed to GDP." For more information, we need to wait until the end of August, when more details will be released.

Czech GDP growth (%)



Source: CZSO, ING Bank

Weaker than expected print might be due to weaker investment

The main message seems to be clear. Czech economic growth was driven by domestic demand, mainly by household spending and corporate investment. This was generally expected, but the weaker-than-expected result for 2Q (the Czech National Bank and Ministry of Finance were expecting 2.6% growth) suggests that investment activity might be weaker than previously thought, which could be due to weaker government investment. This is typical uncertainty in recent GDP prints due to the slow tapping of EU funds. A slightly weaker GDP figure due to weaker investment would not be a surprise.

Though a weaker result, QoQ dynamics matched the previous quarter

While YoY growth decelerated significantly in 2Q18, this was due to the base effect. From a QoQ perspective, the economy grew at a similar pace as 1Q18, at 0.5%. We expect that economic activity will slightly accelerate in coming quarters and total GDP growth will reach 3% this year. Growth this year will be weaker than last mainly due to the negative contribution of net exports. Stronger domestic demand combined with import-intense investments will push up imports while a stronger koruna and slightly weaker foreign demand will undermine exports.

What it means for policy

This is no game changer for the Czech National Bank and its recent monetary stance, in our view, as the labour market remains overheated, wages are accelerating, consumption is strong and pro-inflationary factors are gradually mounting.