

Czech economy slowed down in 3Q

The Czech economy slowed down to 2.5% year-on-year in the third quarter, which slightly lagged behind the market (2.6%) and the Czech National Bank's expectations of 2.7%. We do not know the details yet, but household consumption probably remained the main growth factor



Source: Shutterstock

Weakest QoQ dynamics in the last three years

According to the flash estimate, the Czech economy grew by 2.5% YoY in the third quarter and by 0.3% quarter-on-quarter (QoQ), which represents not only a slowdown compared to the second quarter figures (2.8% YoY, 0.7% QoQ), but also the weakest quarterly growth rate since 1Q16.

The preliminary estimate does not break down the details of GDP growth, the Czech statistical office only stated that both domestic and foreign demand contributed to the positive development, and growth was concentrated in services, while the industrial sector was weaker than in 1H19. For more details, we need to wait until the end of November.

3Q GDP figure still positive given the preliminary monthly figures

As expected, growth in the domestic economy slowed down in the third quarter. However, given some preliminary figures, GDP growth remained quite favourable. Indeed, industrial production fell by 0.4% QoQ in 3Q and was also 0.6% lower YoY (vs. 2Q: +0.7% QoQ, +0.8% YoY) according to monthly figures, while a sub-segment of services published a week ago was also quite weak. Sales in services, adjusted for calendar effects, fell by 1.1% YoY in 3Q. Without this adjustment, they grew just 0.3% YoY.

2.5%

Lower than expected

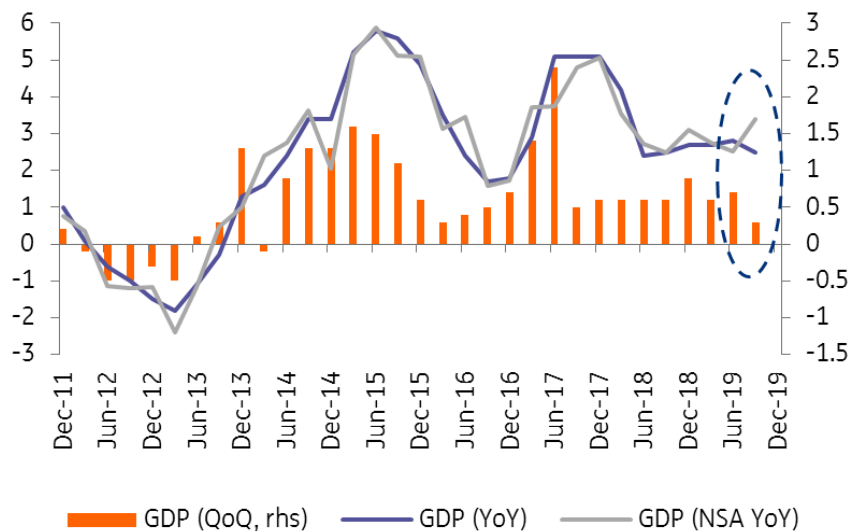
Czech GDP growth slowed in 3Q (YoY)

0.3% QoQ, the weakest print in last three years

Calendar bias important in 3Q

As seen for services, the difference in calendar-adjusted and unadjusted YoY dynamics is relatively high in 3Q19, as this quarter had three working days more in YoY terms, and four in QoQ terms. This also holds for GDP. While 2.5% YoY growth is the “adjusted figure”, which is to some extent an “estimate”, the unadjusted figure (not published yet) will be around 3.5% YoY, i.e. much more positive. Not everything is directly linked to the number of working days but there might be some negative bias in the 3Q figures due to this effect.

Czech GDP growth (%)



Source: CZSO, ING

Slowdown ahead due to foreign development

For the whole year, Czech economic growth should be around 2.5% after 3% in 2018. Although foreign risks seem to have moderated in recent weeks, they remain elevated. Some positive news is that the German economy avoided a technical recession in the third quarter, with modest QoQ growth of 0.1%, while the market expected a slightly negative figure. But developments abroad remain fragile and it will be crucial for the growth of the domestic economy next year. Right now, we expect the domestic economy to slow further to 2% in 2020, which is in line with the Ministry of Finance's forecast.