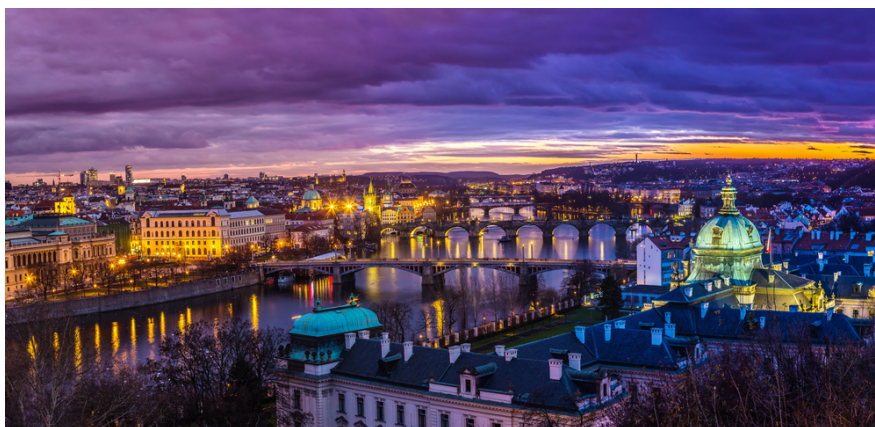


Czech GDP figure better than expected in 4Q18, though sending mixed signals

Czech economic growth was stronger than expected in 4Q18, mainly due to stronger exports and helped by government consumption. On the other hand, household consumption disappointed, which brings some uncertainty to the outlook. We expect GDP growth to decelerate to close to 2.5% this year, after 3% growth in 2018.



Source: Shutterstock

Investments the strongest growth factor in 4Q18

Looking at the detail, the growth in GDP was most driven by investment activity maintaining double-digit growth in 4Q18. In particular, investment in ICT machinery and equipment accelerated (by 13.4% YoY), as companies try to deal with an overheated labour market and workforce scarcity. While infrastructure investment growth slowed slightly, it continued to register double-digit dynamics (12.8% YoY), as did investment in dwellings (11% YoY). Investment in transport equipment decelerated, likely driven by 2H18 emission troubles in the auto segment.

2.8% YoY

4Q18 GDP growth

3.0% YoY for the whole of 2018

Household consumption weaker

The second most significant growth factor was household consumption. Surprisingly, this slowed to just 2.2% YoY, having grown by over 3% in previous quarters. The slowdown in household consumption was apparent not only in durable goods consumption (possibly also affected by one-offs in the car segment last year), but in all types of goods consumption. Interestingly, wage dynamics slowed from 9.5% YoY in 3Q18 to 7.6%, likely leading to weaker-than-expected average wage growth to be released next week.

Government consumption higher

Government consumption grew more strongly at the end of the year, by almost 5%. The growth in government consumption in the second half of last year was the strongest since 2003 and indicates how expansive fiscal policy was last year. Government consumption contributed 0.8ppt to total 3% GDP growth in 2018.

Czech GDP structure (%)

GDP structure (%)

	4Q 18		CNB f'cast	3Q 18		2018	2017	2016	2015
	yoy	qoq	4Q18 yoy	yoy	qoq	yoy	yoy	yoy	yoy
GDP	2.8	0.9	2.3	2.5	0.7	3.0	4.5	2.5	5.4
- household consumption	2.2	0.2	3.2	2.8	0.6	3.1	4.0	3.6	3.8
- government consumption	4.7	-0.2	3.1	5.3	2.6	3.9	1.6	2.0	1.9
- investments & inventories	4.0	-0.6	4.6	4.9	4.7	5.7	5.0	-2.4	13.2
- fixed investments	10.1	-0.2	9.9	11.0	3.2	10.1	5.8	-2.4	10.4
- exports	5.0	2.6	3.9	4.2	0.2	4.5	6.9	4.3	6.2
- imports	5.7	1.4	5.7	6.3	2.0	6.0	6.2	3.2	7.0

Source: CZSO, CNB, ING Bank

Source: Czech Statistical Office, ING Bank

Better than expected figure driven by net exports

Government consumption aside, the main reason behind the stronger than initially expected 4Q GDP growth was net exports. With total exports growing by 5% YoY, the total negative contribution of net exports to YoY growth was just 0.2ppt. Both ING and the CNB expected a more significant negative impact, -1.2ppt in the case of the CNB.

GDP details sent mixed signals

The structure of GDP growth in 4Q18 brought some mixed signals. While the GDP details confirm solid investment growth, the better than expected print was mainly due to surprisingly strong exports which are likely to decelerate this year on weaker foreign demand. Also, household consumption ended below expectations, suggesting that households are becoming more concerned about the economic outlook. Although the stronger than expected GDP growth, coupled with higher inflation, has led the market to believe that the CNB will raise rates at its March meeting, the current GDP does not signal any imminent need to hike during the next monetary meeting. CNB Board members might prefer to wait for May to have a new forecast in hand, in our view.

Author

Alissa Lefebvre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania
tiberiu-stefan.posea@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross
Senior Sector Strategist, Real Estate
jesse.norcross@ing.com

Teise Stellema
Research Assistant, Energy Transition
teise.stellema@ing.com

Diederik Stadig
Sector Economist, TMT & Healthcare
diederik.stadig@ing.com

Diogo Gouveia
Sector Economist
diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

ING Analysts

James Wilson
EM Sovereign Strategist
James.wilson@ing.com

Sophie Smith
Digital Editor
sophie.smith@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Adam Antoniak
Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Marieke Blom

Chief Economist and Global Head of Research

marieke.blom@ing.com

Raoul Leering

Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research
+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com