

Czech Republic: 2Q GDP sends mixed signals

Despite the fact that GDP growth was confirmed at 2.7% year-on-year, slightly above the initial market estimate, the structure of growth is sending mixed signals. Household consumption is still solid but investments slowed significantly



Source: Shutterstock

2Q19 GDP was confirmed at 2.7%, in line with the Czech National Bank's estimate and slightly above the initial market consensus of 2.6%. The quarterly rate was even revised slightly higher from 0.6% to 0.7%, and as such, these are quite positive GDP prints at first sight. These figures were adjusted for the different number of working days and other seasonal effects. The non-

adjusted figures seem less positive, as GDP growth slowed down to 2.4% YoY after 2.8% in 1Q19.

Household consumption remains solid

Though seasonally-adjusted figures seem positive, the GDP structure itself is sending somewhat mixed signals. Household consumption remained solid, growing slightly below 3%. This is weaker than in 2015-2018 where we experienced 3-4% YoY growth but given recent uncertainty and the fall in household confidence, it's not too bad, although slightly below the CNB's estimate of 2.9%. Household consumption was the main growth factor, with the highest contribution (1.3 percentage points).

2.7%

2Q19 GDP growth (YoY SA)

in line with the CNB forecast

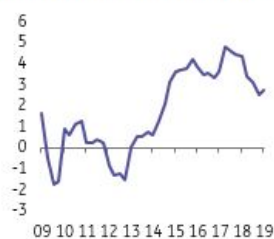
Better than expected

Investments surprised on the downside

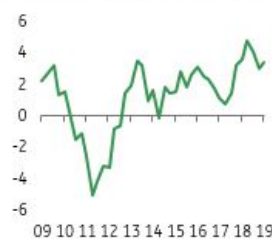
On the other hand, investment significantly lagged expectations, slowing to 0.9% YoY vs the CNB's expectations of 3.7%. The slowdown was broad-based, but in the case of transport equipment, it fell by 2% YoY. This was likely caused by troubles in the automotive segment and the high base effect, as transport investment grew at a double-digit pace in the previous year. We believe that investment generally represents a downside risk to growth this year, as strong dynamics last year (driven partially by tapping EU funds) will result in a deceleration due to base effects (we saw a similar effect in 2015 vs 2016, though it should be less intense this year). As investments are import-intensive, a deceleration here caused imports to decline, resulting in the stronger-than-expected growth of net exports (contribution of 0.7 ppt to YoY GDP growth).

GDP components (%YoY)

Households consumption



Government consumption



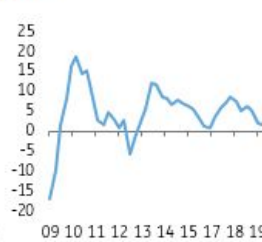
Fixed investments



Export



Import



Source: CZSO, ING

Manufacturing segment is losing steam

The manufacturing segment fell slightly in quarterly terms and annual growth was just slightly above 1%. 1Q19 YoY figures were revised down to 0.8% YoY, more in line with monthly data. As such, some weakness in industry is becoming more pronounced, though significantly less than in Germany. Still, services have maintained a solid YoY pace, though weaker compared to last year.

Risks are skewed to the downside

This year, the domestic economy should further slow down, with the market consensus shifting towards 2.5% growth this year and 2.4% for next year after 3% growth in 2018. However, a hard Brexit or further escalation of trade wars between the US and China/EU are significant risks, which have even intensified in the past week. That said, if we see a growth figure starting with the number 2 next year, this would be a favourable result.

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