

## 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

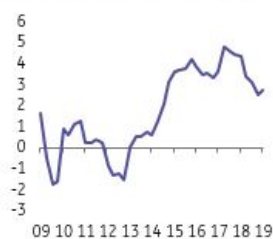
Better than expected

## Investments surprised on the downside

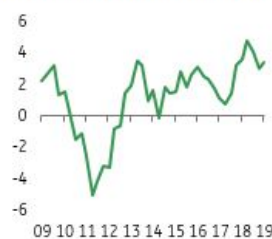
On the other hand, investment significantly lagged expectations, slowing to 0.9% YoY vs the CNB's expectations of 3.7%. The slowdown was broad-based, but in the case of transport equipment, it fell by 2% YoY. This was likely caused by troubles in the automotive segment and the high base effect, as transport 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



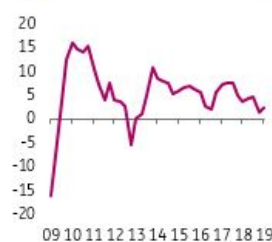
Government consumption



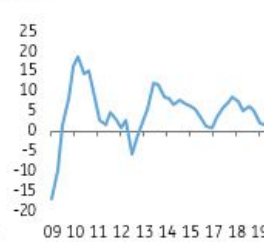
Fixed investments



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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