

Instant Reaction

EcoAlert

Economy driven by consumption and investments; exports are the brake



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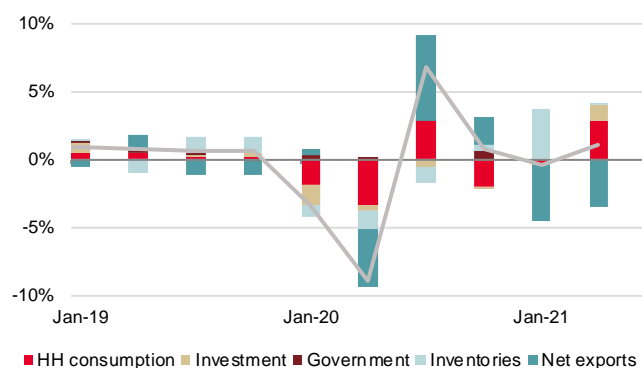
GDP data (SA, WDA) – 2Q21

	qoq	yoy
Third release:	30 September 2021	30 September 2021
Second release:	1.0 %	8.2 %
First release:	0.6 %	7.8 %
KB forecast:	0.6 %	7.8 %
Consensus:	0.6 %	7.8 %

Source: CZSO, Bloomberg, Economic & Strategy Research, Komerční banka

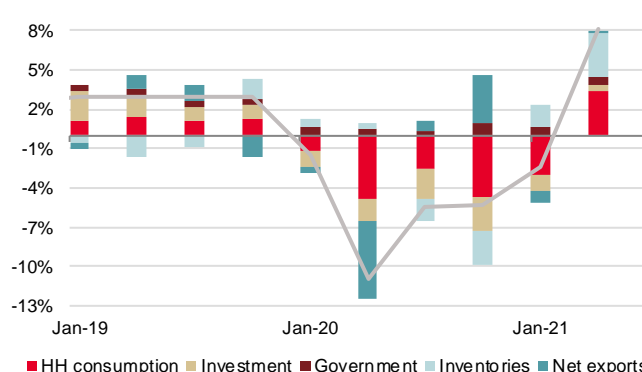
According to a revised estimate, the Czech economy grew 1.0% qoq in 2Q21, after declining 0.4% in 1Q. A preliminary estimate showed growth of only 0.6%. In a year-on-year comparison, GDP grew at a rate of 8.2%, while the preliminary estimate showed 7.8%. **Let us recall that the original expectations of economic development for the second quarter were significantly higher, the market consensus was around 2.0% quarter-on-quarter growth.** So 1% growth is disappointing in light of the economy waking up after COVID-19 closures. However, given the level of uncertainty, such a surprise is understandable.

Qoq growth is driven by consumption and investment (% contributions in pp)



Source: CZSO, Economic & Strategy Research, Komerční banka

Household consumption is also taking on the role of a driver of GDP in a yoy comparison (% contributions in pp)



Source: CZSO, Economic & Strategy Research, Komerční banka

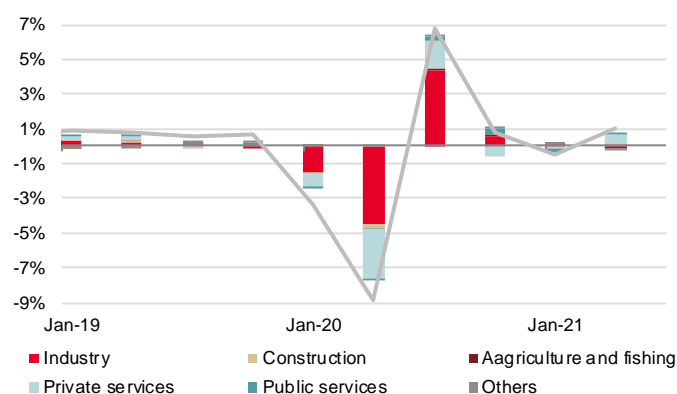
In terms of structure, however, the opening up of the economy is clearly visible. Household consumption jumped much faster than we estimated, 6.5% qoq and 7.4% yoy. Investments in fixed capital also rose above expectations, adding 4.2% qoq and 1.5% yoy. On the contrary, what kept the economy down was foreign trade. Exports of goods fell 0.7% qoq, while imports grew 5.1% as domestic demand and investment increased.

From the point of view of the production side, weaker growth in industrial production by 0.4% qoq and 0.1% qoq was disappointing, as already indicated by previously published data. The lack of production components and materials is a strong brake on the economy and

exports at the moment. This is partially evident in the construction industry, which grew only 0.5% qoq in the second quarter and stagnated year on year. However, the recovery has so far been rather average in the private services sector, where there was quarter-on-quarter growth of 1.0% and year-on-year growth shifted to a slightly positive rate of 0.4%.

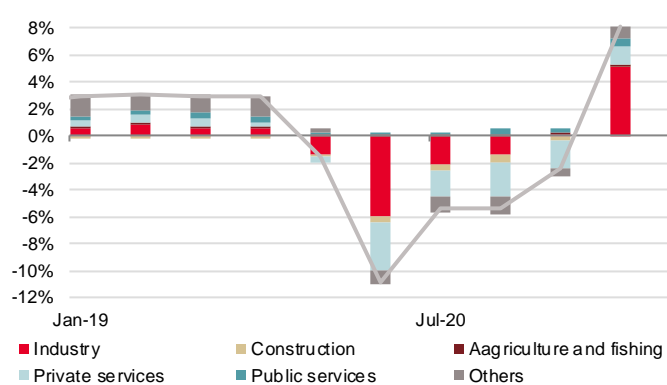
In terms of quarter-on-quarter contributions, the main driver of growth in 2Q was household consumption (2.9pp), followed by investment in fixed capital (1.1pp). On the contrary, the main brake was foreign trade with a negative contribution to GDP growth of 3.5pp.

The private services sector is the qoq main driver of the supply side of GDP (% contributions in pp)



Source: CZSO, Economic & Strategy Research, Komerční banka

Industry contributes the most to yoy GDP growth thanks to a comparison with last year's lockdown (% contributions in pp)

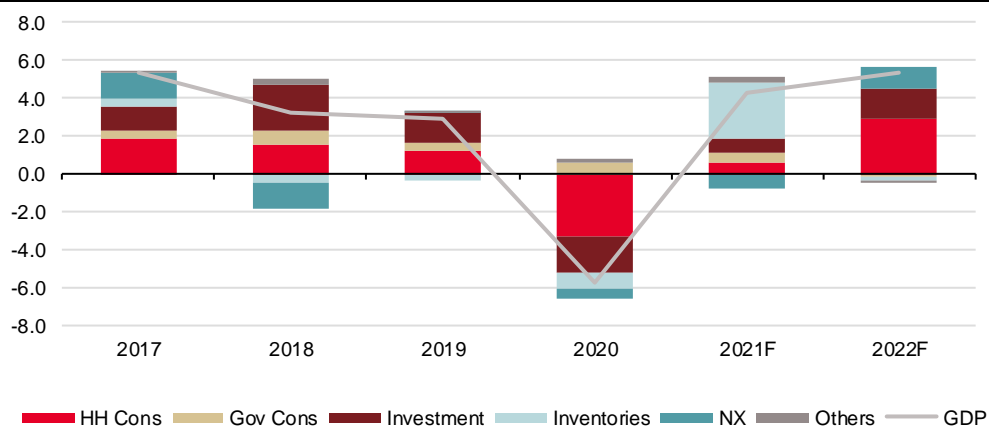


Source: CZSO, Economic & Strategy Research, Komerční banka

Given that the significant end of anti-pandemic measures did not begin until around the middle of the second quarter, data on GDP growth in the third quarter should also show strong growth. It is probable that in terms of quarter-on-quarter dynamics, this summer will be the fastest point of economic recovery. This should be followed by a gradual slowdown. The main brake on growth is currently the lack of production components and gradually also the tightening labour market. In addition, there is still some uncertainty related to the Delta variant.

At the beginning of the year, GDP growth was boosted by high inventories. Their high level is likely to persist, but household consumption and investment are now becoming the main drivers of economic growth. Our full-year estimate of GDP development for this year is 4.2%. Developments in the second quarter alone show a risk of slightly slower growth. Strong household consumption is an argument in favour of further tightening monetary policy. At the end of September, we expect a further increase in the CNB's main repo rate to 1.0%.

We forecast the economy growing 4.2% this year and 5.3% next year



Source: CZSO. Economic & Strategy Research. Komerční banka

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