

| Instant Reaction |

EcoAlert

Wage increases drag company profits down further



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GDP data (SA, WDA) – 2Q17

	qoq	yoy
Third release:	+2.5%	+4.7%
Second release:	+2.5%	+4.7%
First release:	+2.3%	+4.5%
Original KB forecast:	+1.3%	+3.5%
Original market forecast:	+0.8%	+3.0%

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

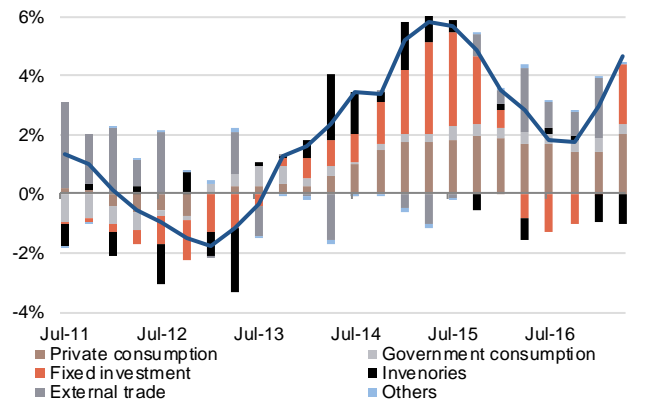
GDP in other selected countries

2Q17	QoQ	YoY
Czech Republic	+2.5%	+4.7%
Poland	+1.1%	+3.9%
Hungary	+0.9%	+3.2%
Slovakia	+0.8%	+3.3%
Germany	+0.6%	+2.1%

Source: Bloomberg, Economic & Strategy Research, Komerční banka

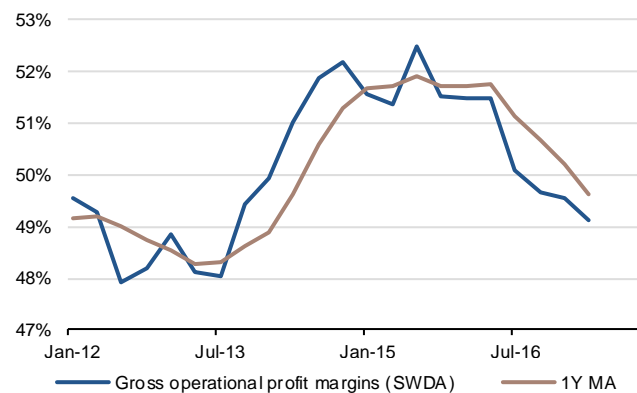
The Czech Statistical Office (CZSO) confirmed its previous estimate that Czech GDP increased 2.5% qoq and 4.7% yoy in 2Q17. There were no major revisions to the structure compared with the previous reading. Domestic demand remains the main driver as the biggest portion of growth was created by investment activity. Household consumption also saw sound acceleration while external trade contributed marginally negatively to qoq growth.

Domestic demand is the main growth contributor



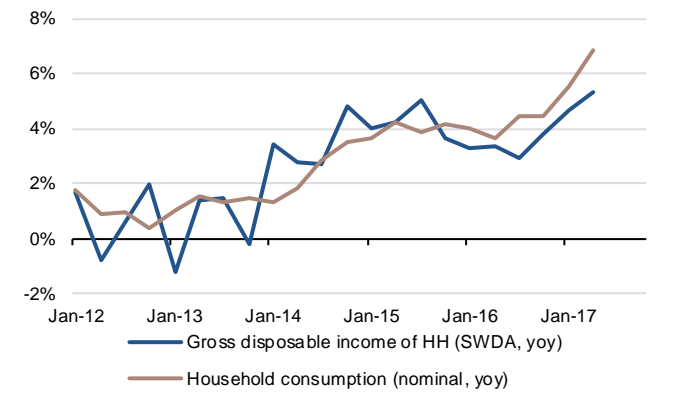
Source: CZSO, Economic & Strategy Research, Komerční banka

NFC profitability has been sinking while ...



Source: CZSO, Economic & Strategy Research, Komerční banka

... disposable income surges

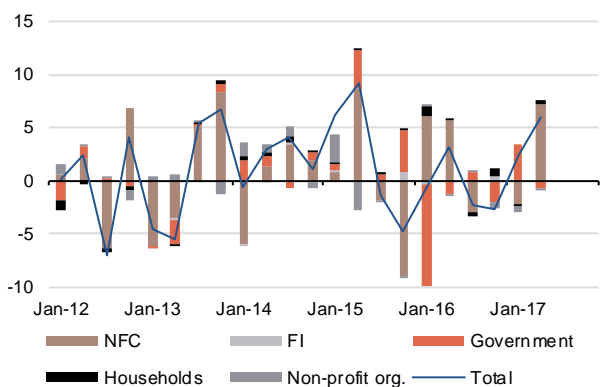


Source: CZSO, Economic & Strategy Research, Komerční banka

The sectoral accounts released today show the trend of diminishing profit margins at the cost of higher wages continues. Profit margins decreased 2.9pp while wage costs added 9.4%. The rise in the savings rate comes as a surprise, but we believe it is only a temporary phenomenon. Households are becoming accustomed to steeper wage growth, and it is only a matter of time before they consume a larger part of their income. The savings rate is thus set to return downward.

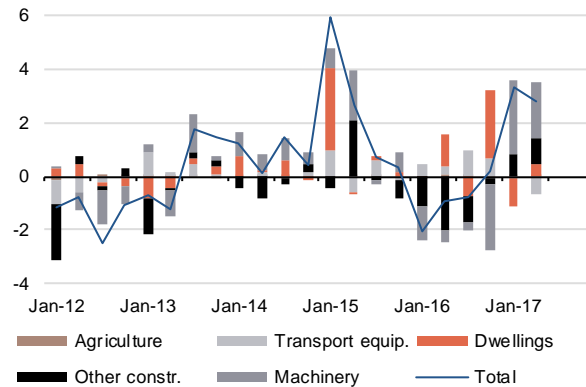
Accelerating investment increased its share of GDP. However, the increase in investment is only due to the private sector as activity in the public sphere remains muted. Investment is directed mainly into transport equipment and machinery.

Investment activity dynamics are strong thanks to the private sector



Source: CZSO, Economic & Strategy Research, Komerční banka

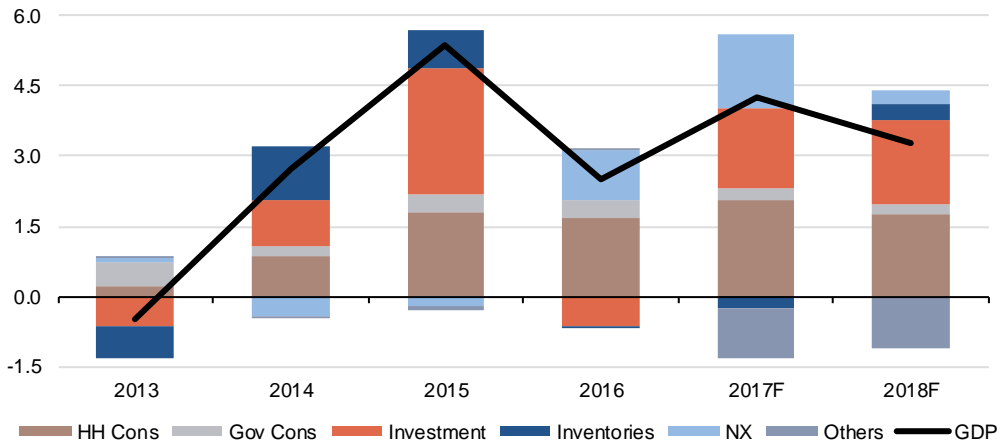
Investment is directed mainly toward transport equipment and machinery



Source: CZSO, Economic & Strategy Research, Komerční banka

We believe economic activity slowed down notably during the summer months. Industrial production dynamics were weak, though the figures are hard to interpret as they are spoiled by company-wide holidays. Our rough estimates point to virtually no growth in the third quarter. Investment still lacks higher contributions by the public sector. Despite that, we believe all-year growth will print at 4.3% this year mainly thanks to the excellent performance in the first half of the year.

Economic growth accelerates mainly due to domestic demand



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

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