

| Instant Reaction |

# EcoAlert

## GDP further decelerated despite investment boom



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### GDP data (SA, WDA) – 1Q18

	qoq	yoy
Third release:	29.6.2018	29.6.2018
Second release:	+0.4%	+4.4%
First release:	+0.5%	+4.5%
Original KB forecast:	+1.0%	+5.0%
Original market forecast:	+0.7%	+4.8%

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

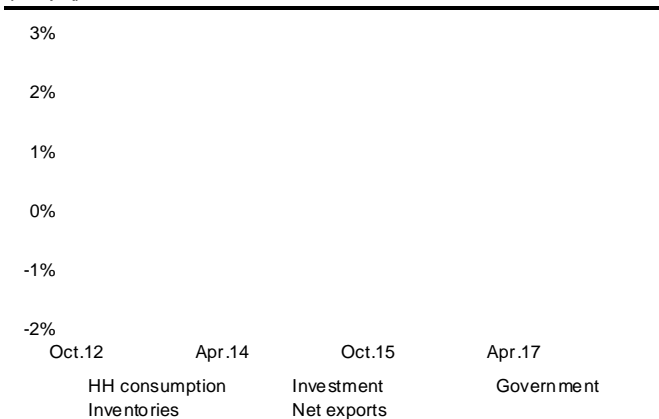
### GDP in other selected countries

1Q18	QoQ	YoY
Czech Republic	0.4%	4.4%
Poland	1.6%	5.2%
Hungary	1.2%	4.4%
Slovakia	0.9%	3.6%
Germany	0.3%	2.3%

Source: Bloomberg, Economic & Strategy Research, Komerční banka

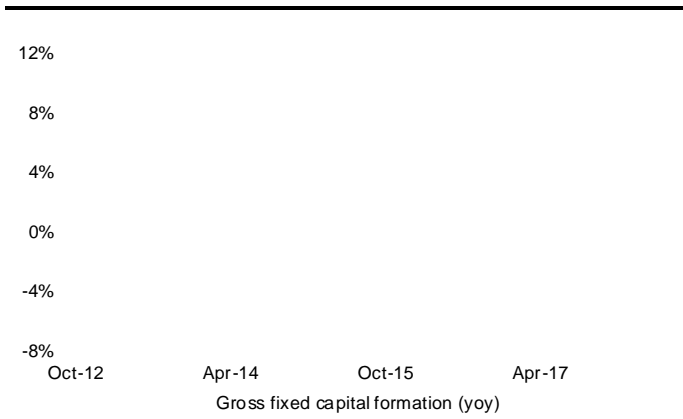
**Czech GDP increased 0.4% qoq in the first quarter according to the second estimate.** In the first half of last year, the Czech economy was a regional high flyer. In the second half of the year, GDP growth eased, and in 1Q18 it notably lags behind its regional peers. Hungary, Poland and Slovakia fares better than the Czech economy. **In yoy terms, the economy added 4.4%, but the relatively sound dynamics are still a remnant of last year's dynamics.** The figures from 2017 might undergo a significant change at the end of the June, when the CZSO will perform major revisions, including seasonal factors.

### GDP dynamics impeded by inventory built and external trade (% , qoq)



Source: CZSO, Economic & Strategy Research, Komerční banka

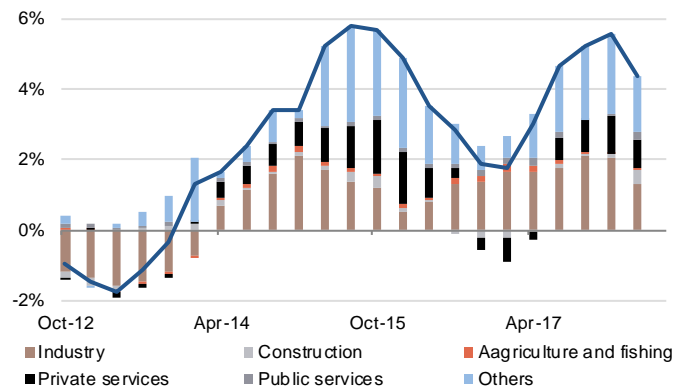
### Investment accelerates



Source: CZSO, Economic & Strategy Research, Komerční banka

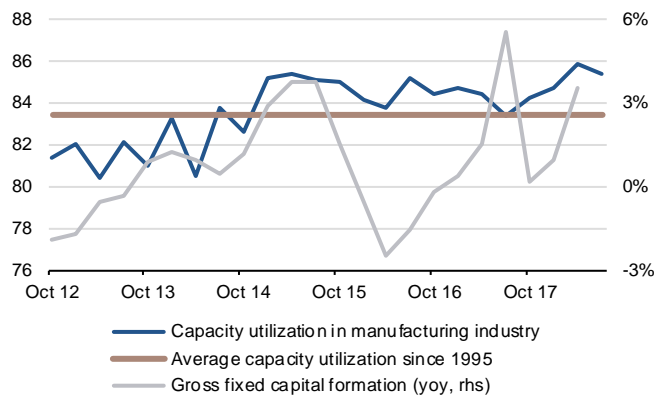
The economy has been driven up by domestic demand. Strong wage growth and increasing employment have been reflected in sound private consumption. **The investment activity has surged again and created the biggest part of GDP growth.** Both above-stated items are very import-intensive, which mirrors in external trade statistics. Import dynamics surpassed export growth, the and external trade balance impedes overall growth. Yet, inventories represent the biggest drag. The lower export contribution might be due to a slowdown in the euro area caused by several one-off factors (flu epidemics, strikes and unfavourable weather). Also, the lack of capacity (especially of the labour force) probably played a role.

**Industrial growth significantly decelerates in yoy terms (% , yoy)**



Source: CZSO, Economic & Strategy Research, Komerční banka

**Lack of capacity stimulates investment growth**

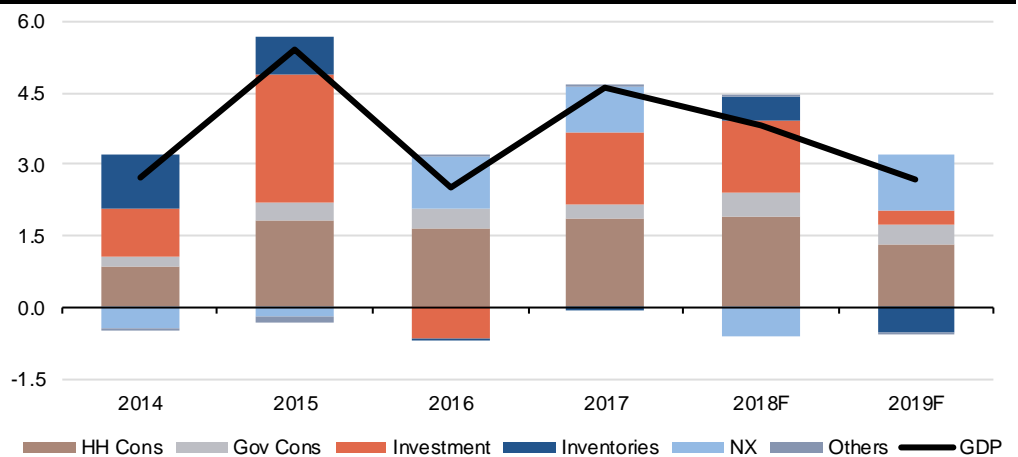


Source: CZSO, Macrobond, Economic & Strategy Research, Komerční banka

On the supply side, the construction sector recorded a significant increase in value added. This was mainly thanks to favourable weather at the beginning of the year. **In contrast, industry did not fare that well** when it decreased value added in a qoq comparison and significantly decelerated in yoy terms. The service sector also slowed down in the first quarter.

We expect that similarly to euro area economies, the Czech economy is set to accelerate. The lack of capacity will propel investment while strong wage growth will support private consumption. Both items will curb the external trade surplus, which will not contribute positively to the GDP dynamics this year. Nevertheless, GDP is set to retain sound dynamics of 3.8% in our view.

**Domestic demand to propel GDP growth this year**



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

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