

| Instant Reaction |

EcoAlert

Czech economy decelerates; productivity gains are small



Viktor Zeisel
(420) 222 008 523
viktor_zeisel@kb.cz

GDP data (SA, WDA) – 2Q18

	qoq	yoy
Third release:	2. 10. 2018	2. 10. 2018
Second release:	31. 8. 2018	31. 8. 2018
First release:	0.5%	2.3%
Original KB forecast:	0.7%	2.5%
Original market forecast:	0.8%	2.7%

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

GDP in other selected countries

1Q18	QoQ	YoY
Czech Republic	0.5%	2.3%
Poland	0.9%	5.1%
Hungary	0.9%	4.6%
Slovakia	1.0%	4.1%
Germany	0.5%	2.0%

Source: Bloomberg, Economic & Strategy Research, Komerční banka

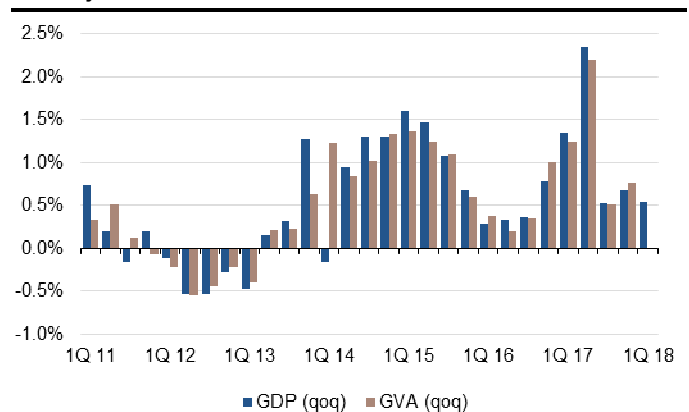
Czech GDP dynamics have eased. Qoq growth printed only 0.5%. The Czech economy has recorded sluggish growth figures since the second half of last year. For the second quarter, this is visible also in a yoy comparison as dynamics do not include the exceptional growth from 2Q17. **Yoy dynamics thus recorded a low 2.3%, clearly showing that the economy lags behind its regional peers.**

Hungarian GDP increased 4.6% yoy, and Polish GDP added 5.2%. **Domestic dynamics correspond more with German growth, which rose 2.0% yoy.** To a large extent, capacity constraints are to blame. These are most visible on the labour market. **Unfortunately, we do see no notable productivity gains. Without an increase in productivity, the Czech economy cannot aim for stronger dynamics.** Productivity so far shows very modest growth despite the solid investment activity of the private sector.

The growth structure was not released today. Comments by the Czech Statistical Office suggest that GDP dynamics were mainly supported by domestic demand. Consumption increased along with wage growth and a still-rosy economic outlook. Investment supported the economy in the previous quarters and contributed positively in the second quarter, but from the statistical office's report we assume the contribution is not as strong as before. This is corroborated by the fact that external trade has surprisingly acted positively, which suggests slower imports.

The domestic economy is set to accelerate during the remainder of the year. It should be supported by a revival in the euro area led by Germany. We continue to expect positive contributions from household consumption. Investment should maintain sound growth as

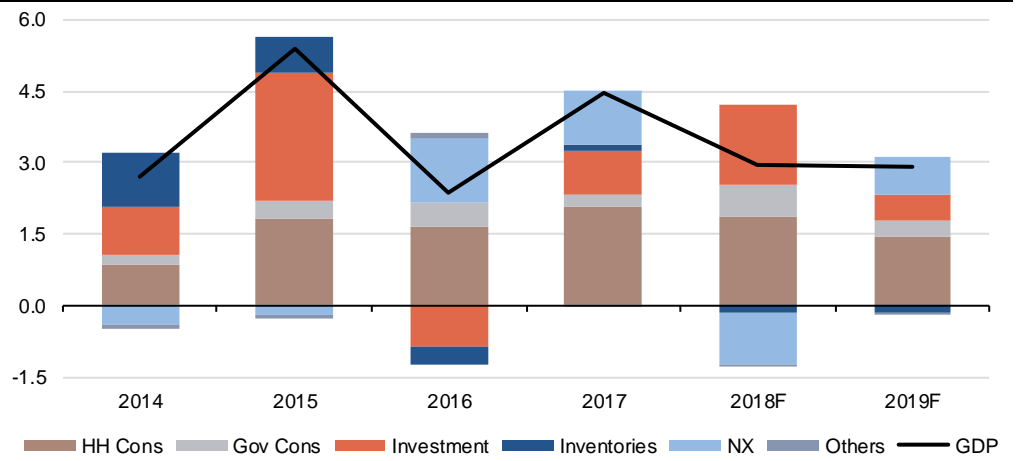
The economy has shown sluggish growth since the second half of last year



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

entrepreneurs will try to increase productivity under pressure to find a suitable labour force. **Overall, we expect GDP growth to print 3.0% this year.**

Domestic demand to drive up GDP while external trade becomes an impediment to growth



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

KB ECONOMIC & STRATEGY RESEARCH

Chief Economist and Head of Research
Jan Vejmelek, Ph.D., CFA
 (420) 222 008 568
 jan_vejmelek@kb.cz

<p>Economists Viktor Zeisel (420) 222 008 523 viktor_zeisel@kb.cz</p>	<p>Monika Junicke (420) 222 008 509 monika_junicke@kb.cz</p>	<p>Jana Steckerová (420) 222 008 524 jana_steckerova@kb.cz</p>	<p>Jakub Matějů (420) 222 008 598 j_mateju@kb.cz</p>
<p>Equity Analysts Miroslav Frayer (420) 222 008 567 miroslav_frayer@kb.cz</p>	<p>Jiří Kostka (420) 222 008 560 jiri_kostka@kb.cz</p>	<p>Sectors David Kocourek (420) 222 008 569 david_kocourek@kb.cz</p>	

SG IN CENTRAL AND EASTERN EUROPE

<p>Chief Economist of SG Poland Jaroslav Janecki (48) 225 284 162 jaroslav_janecki@sgcib.com</p>	<p>Head of Research of Rosbank Evgeny Koshelev (7) 495 725 5637 evgeny_koshelev@rosbank.ru</p>	<p>Chief Economist of BRD-GSG Florian Libocor (40) 213 016 869 florian.libocor@brd.ro</p>
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<p>Head of Fin. Markets Research BRD-GSG Carmen Lipara (40) 213 014 370 carmen.lipara@brd.ro</p>	<p>Economist Ioan Mincu (40) 213 014 472 george.mincu-radulescu@brd.ro</p>	<p>Equity Analyst Laura Simion, CFA (40) 213 014 370 laura.simion@brd.ro</p>
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SG GLOBAL ECONOMICS RESEARCH

Head of Global Economics
Klaus Baader
 (852) 2166 4095
 klaus.baader@sgcib.com

<p>Euro area Michel Martinez (33) 1 4213 3421 michel.martinez@sgcib.com</p>	<p>Anatoli Annenkov (44) 20 7762 4676 anatoli.annenkov@sgcib.com</p>	<p>Yvan Mamalet (44) 20 7762 5665 yvan.mamalet@sgcib.com</p>	<p>United Kingdom Brian Hilliard (44) 20 7676 7165 brian.hilliard@sgcib.com</p>
<p>North America Stephen Gallagher (212) 278 4496 stephen.gallagher@sgcib.com</p>	<p>Omair Sharif (1) 212 278 48 29 omair.sharif@sgcib.com</p>	<p>Latin America Dev Ashish (91) 80 2802 4381 dev.ashish@socgen.com</p>	<p>India Kunal Kumar Kundu (91) 80 6716 8266 kunal.kundu@sgcib.com</p>
<p>China Wei Yao (33) 1 57 29 69 60 wei.yao@sgcib.com</p>	<p>Japan Takuji Aida (81) 3-6777-8063 takuji.aida@sgcib.com</p>	<p>Arata Oto (81) 3 6777 8064 arata.oto@sgcib.com</p>	<p>Korea Suktae Oh (82) 2195 7430 suktae.oh@sgcib.com</p>
<p>Inflation Vaibhav Tandon (91) 80 6731 9449 vaibhav.tandon@sgcib.com</p>			

SG CROSS ASSET RESEARCH - FIXED INCOME & FOREX GROUPS

Global Head of Research
Brigitte Richard-Hidden
 (33) 1 42 13 78 46
 brigitte.richard-hidden@sgcib.com

Head of Fixed Income & Forex Strategy
Guy Stear
 (33) 1 41 13 63 99
 guy.stear@sgcib.com

<p>Head of Retes Strategy Adam Kurpiel (33) 1 42 13 63 42 adam.kurpiel@sgcib.com</p>	<p>Bruno Braizinha (1) 212 278 5296 bruno.braizinha@sgcib.com</p>	<p>Jean-David Cirotteau (33) 1 42 13 72 52 jean-david.cirotteau@sgcib.com</p>	<p>Cristina Costa (33) 1 58 98 51 71 cristina.costa@sgcib.com</p>
<p>Jorge Garayo (44) 20 7676 7404 jorge.garayo@sgcib.com</p>	<p>Head of Euro Area Rates Strategy Ciaran O'Hagan (33) 1 42 13 58 60 ciaran.ohagan@sgcib.com</p>	<p>Shakeeb Hulikatti (91) 80 2802 4380 shakeeb.hulikatti@sgcib.com</p>	<p>Head of US Rates Strategy Subadra Rajappa (1) 212 278 5241 subadra.rajappa@sgcib.com</p>
<p>Jason Simpson (44) 20 7676 7580 jason.simpson@sgcib.com</p>	<p>Marc-Henri Thoumin (44) 20 7676 7770 marc-henri.thoumin@sgcib.com</p>	<p>Kevin Ferret (44) 20 7676 7073 kevin.ferret@sgcib.com</p>	

<p>Foreign Exchange Kit Juckes (44) 20 7676 7972 kit.juckes@sgcib.com</p>	<p>FX Derivatives Strategy Olivier Korber (33) 1 42 13 32 88 olivier.korber@sgcib.com</p>	<p>Alvin T. Tan (44) 20 7676 7971 alvin-t.tan@sgcib.com</p>
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<p>Head of Emerging Markets Strategy Jason Daw (65) 6326 7890 jason.daw@sgcib.com</p>	<p>Phoenix Kalen (44) 20 7676 7305 phoenix.kalen@sgcib.com</p>	<p>Kiyong Seong (852) 2166 4658 kiyong.seong@sgcib.com</p>	<p>Marek Drimal (44) 20 7550 2395 marek.drimal@sgcib.com</p>
<p>Régis Chatellier (44) 20 7676 7354 regis.chatellier@sgcib.com</p>			

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