

| Instant Reaction |

EcoAlert

Weak imports kicked the trade balance up



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GDP data (SA, WDA) – 2Q18

	qoq	yoy
Third release:	2. 10. 2018	2. 10. 2018
Second release:	0.7%	2.4%
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

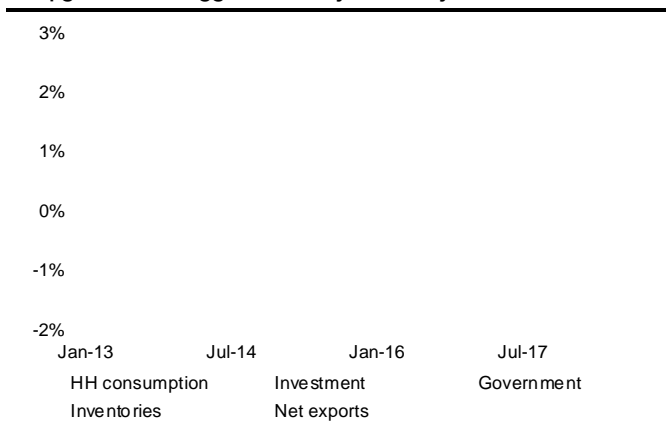
GDP in other selected countries

2Q18	QoQ	YoY
Czech Republic	0.7%	2.4%
Poland	1.0%	5.1%
Hungary	0.9%	4.6%
Slovakia	1.0%	4.1%
Germany	0.5%	2.0%

Source: Bloomberg, Economic & Strategy Research, Komerční banka

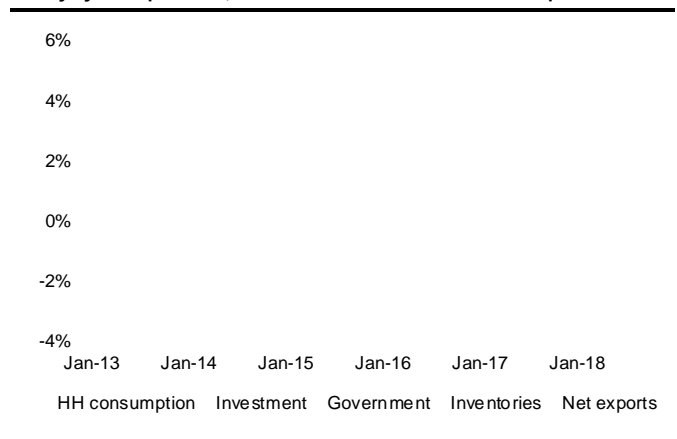
Today's statistics from Czech GDP confirmed that the economy has geared down since the second half of last year. **Even though GDP dynamics were revised two tick up to 0.7%, they lag behind Poland, Hungary and Slovakia.** In a yoy comparison, growth eased to 2.4%. The comment for the preliminary reading indicated that growth was supported by the trade balance. Today's figures showed it contributed 0.7pp to overall dynamics. Yet, in a yoy comparison, it acted negatively as it cut yoy growth 0.4pp. **The very good results of external trade are not entirely positive news.** The surplus is due to weak import dynamics. Consumption increased only 0.5% qoq. These are the weakest dynamics since the beginning of 2016. **Investment has surprised with sound dynamics.** We assume that a big amount of finished investment was moved from the inventory category to the investment category. Thus, inventory built was the biggest drag on growth as it impeded overall dynamics 0.8pp. In contrast, investment added 0.5pp with a 1.7% increase.

Qoq growth is dragged down by inventory built



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

In a yoy comparison, net trade also becomes an impediment

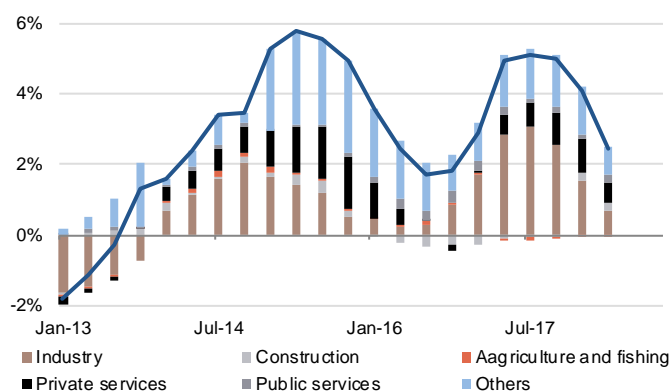


Source: CZSO, Macrobond, Economic & Strategy Research, Komerční banka

The yoy dynamics reveal that domestic demand has been slowing. Consumption growth decelerated from 4.1% in 1Q to 3.3% in 2Q. Investment activity no longer increases at a double-digit rate, and it eased from 10.3% in 1Q to 7.8% in 1Q. Government expenditure dynamics are also lower, and the negative contribution of inventory built is even more negative.

The supply side has not provided us with notably surprises. There was a deceleration in gross value added in private services, which corresponds with slower private consumption growth. Industry has modestly accelerated compared with the first quarter while construction activity has eased a bit as it was extremely elevated thanks to the warm weather in 1Q. Thus, it only returned to sustainable growth dynamics in 2Q.

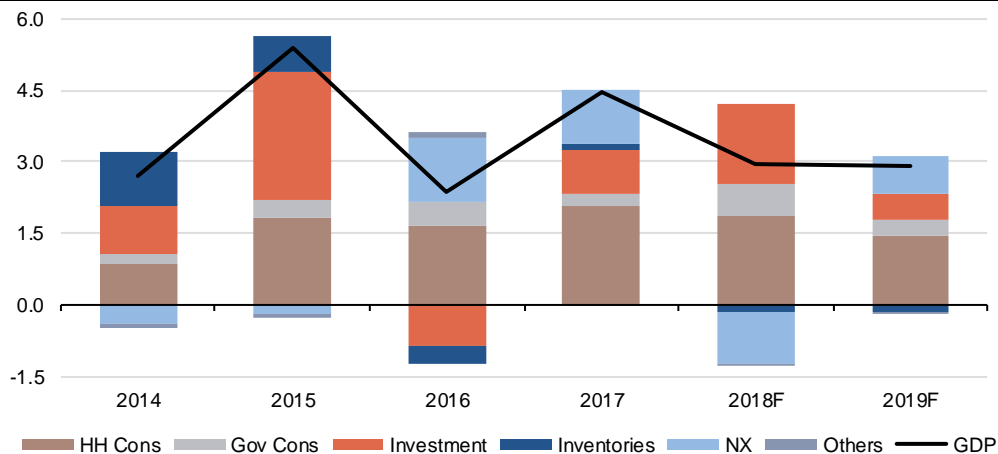
Gross value added dynamics have decelerated across sectors



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

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 expect a reacceleration of household consumption. Investment should maintain sound growth as 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

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