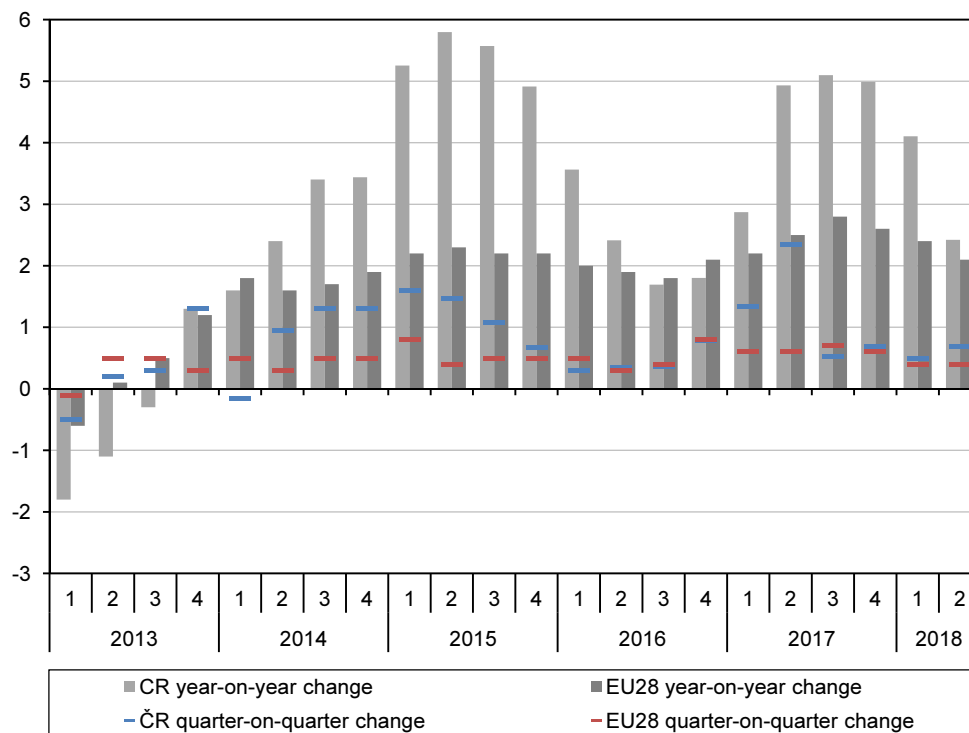


## 2. Overall Economic Performance

Year-on-year dynamics of the GDP growth markedly slowed down in Q2.

Fast rate of growth of the economic expansion, which was characteristic for the Czech economy in the past year, was not sustained in the 1<sup>st</sup> half of year 2018. Moderate slowdown was apparent already in Q1, when the growth of the Gross domestic product (GDP) reached 4.1%<sup>1</sup>. The year-on-year addition of Q2 2018 definitely confirmed this development. It amounted to 2.4%, which is the lowest value since the end of year 2016. Consumption as well as the investment expenditures had a favourable effect on the GDP growth, similar to the foreign trade balance. The adverse influence of the change of the inventory stock however had a large impact. Quarter-on-quarter dynamics of the GDP has been relatively stable in the recent quarters. Following the exceptionally large quarterly additions in H1 2017, whose impulse subsequently transferred into a notable year-on-year rate of growth, the dynamics returned to a lower level. The GDP thus expanded by 0.7% in Q2 compared to Q1. Year-on-year growth of the Gross value added (GVA) copied the GDP in Q2, when it reached 4.2%. Quarter-on-quarter addition to GVA on the contrary lagged somewhat behind (0.5%). Manufacturing kept its significant role regarding the GVA growth, however the contribution of services dominated the dynamics this time.

**Chart 1 GDP** (volume indices adjusted for seasonal and calendar effects, in %)



Source: CZSO, Eurostat

European Union also recorded a smaller slowdown.

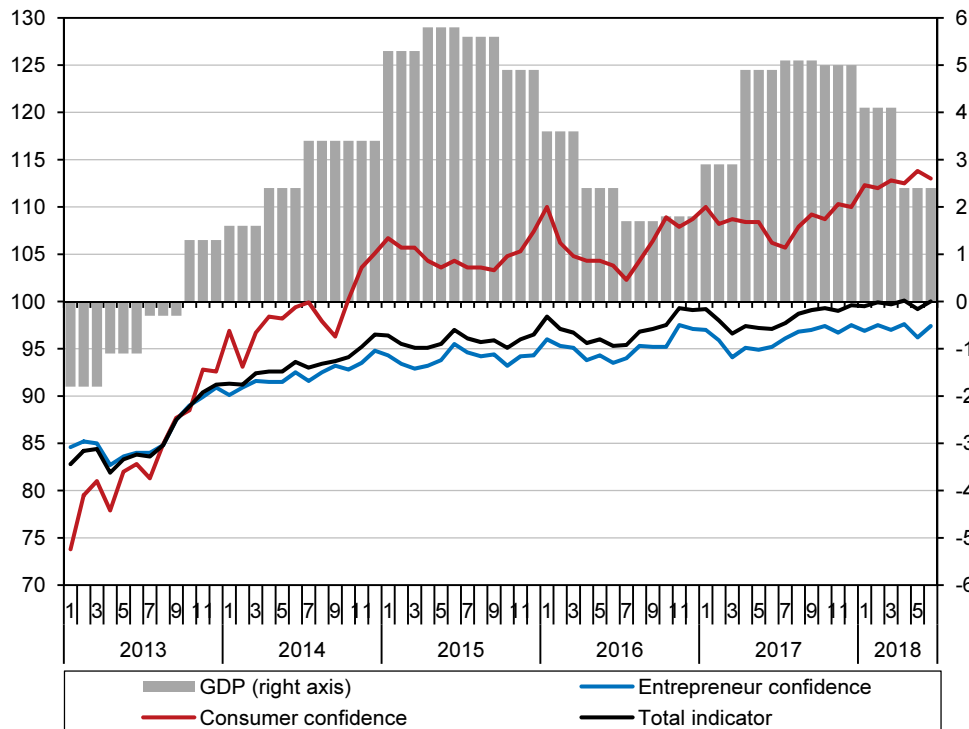
Year-on-year dynamics of the GDP growth also slightly slowed down in the European Union. Total addition arrived at 2.1%<sup>2</sup> and it moderated for the majority of the EU countries. The economies of Malta (5.7%), Poland (5.0%) and Hungary (4.6%) attained the highest year-on-year additions. This trio of countries also experienced the highest year-on-year increase of the household consumption, Hungary and Malta ranked among the first three countries with the highest addition

<sup>1</sup>The development of the GDP, gross value added and their components is expressed with the help of the volume indices (i.e. adjusted for changes in prices) and adjusted for seasonal and calendar effects. Data were published on 31.8.2018 and the revised data will be published on 2. 10. 2018.

<sup>2</sup>Data for Ireland and Luxembourg not available. Slovakian data are not adjusted for calendar effects.

to the investment activity. Denmark (GDP addition 0.6%), Italy (1.2%) and Great Britain (1.3%) ended on the opposite side of the comparison. Quarter-on-quarter rate of growth of GDP preserved the value from the preceding quarter (0.4%) in the EU. Malta reached the highest quarter-on-quarter addition (1.9%) and this impulse lifted it to the top also in the year-on-year perspective. The GDP grew quarter-on-quarter similarly by 1.4% in Estonia and Romania.

**Chart 2 GDP (volume indices, adjusted for seasonal and calendar effects, year-on-year in %, right axis) and confidence indicators (2005 = 100, left axis)**



Source: CZSO

Expenditures on the domestic consumption grew by a relatively fast pace, even though slower compared to the past year.

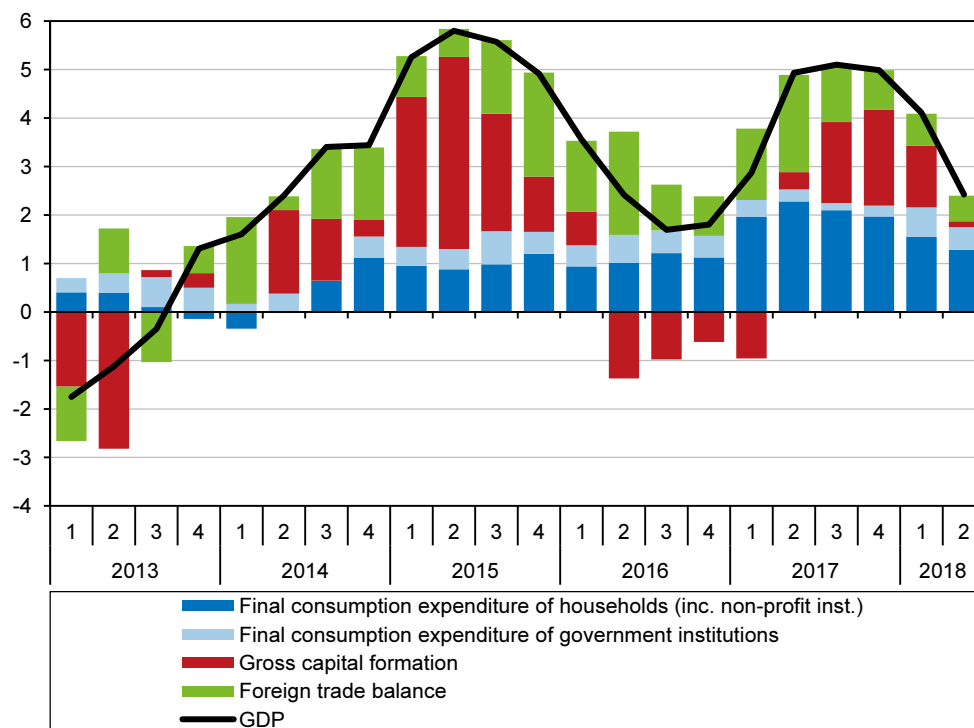
Year-on-year growth of the total final consumption expenditure slowed down to 3.3% in Q2, which simultaneously signified a reduction in the contribution of consumption to total GDP growth to 1.8 p.p.<sup>3</sup> High comparative basis of the last year affected the final rate of growth. The quarter-on-quarter dynamics however also declined considerably compared to Q1 (1.2% and 0.5% in Q1 and 2). Both household consumption and consumption of government institutions observed a slowdown. Household expenditures increased year-on-year by 3.5% in Q2 (the least since the end of year 2016) and contributed to the total GDP growth by 1.3 p.p. quarter-on-quarter addition was 0.7%. View of the consumption development in terms of durability<sup>4</sup> shows that with the exception of semi-durables (6.8%) all segments experienced a mild slowdown of the year-on-year dynamics. Expenditures on non-durables (3.3%) as well as services (3.4%) however managed to maintain a relatively strong pace. After the extraordinarily strong both quarter-on-quarter and year-on-year addition in Q1, the growth rate of consumption expenditures of government dropped. The year-on-year rate of growth thus fell to 2.6% in Q2 and the consumption here rose to 0.2% quarter-on-quarter.

<sup>3</sup> Additions to the GDP change after exclusion of imports for final use.

<sup>4</sup> Data regarding the household consumption based on the durability of goods are not seasonally adjusted.



**Chart 3 Contributions of expenditure items to real GDP change\*** (volume indices, year-on-year growth, contributions in p.p., GDP in %)



Source: CZSO  
\*after exclusion of imports for final use

Volume of paid out wages and salaries again increased by more than 10%. Also, thanks to the moderate growth of prices, the increase is for the most part projected into real incomes.

Moderation of the economic growth has not been reflected in the development of the volume of wages and salaries so far. It increased by 10.2% in total year-on-year in Q2, which is only by 0.3 p.p. less compared to the preceding quarter. Real increase of the wage resources reached 7.4%<sup>5</sup>, so it slightly fell compared to the previous period, however it still represents significantly large value. Growth of total employment<sup>6</sup> attained 1.9% in year-on-year expression and 0.6% quarter-on-quarter. The majority of the increase of the paid-out wage resources was thus reflected in the rise of the average wage. Manufacturing as a branch with the highest number of employees influences the total wage dynamics from a large part. The employment expanded by 2.1% here in Q2, which was also mirrored in the large increase of the volume of wages and salaries by 9.1%. The most notable addition to the volume of wages and salaries occurred in branches with the predominance of the public sector<sup>7</sup> (13.6%). The raised tariffs together with increase of the employed persons by 2.7% stood behind this development. Real estate activities, where the increase of total 2.8% also assisted the resulting rate of growth accomplished the same year-on-year dynamics of wages and salaries in Q2. Information and communication succeeded in reaching the highest growth of employment (4.6%). In spite of 11.1% increase of the volume of wages and salaries, the average wage grew here slower compared to the rest of the economy. However, it is a branch with the second highest average wage in the economy, where the comparatively high absolute increase is the result of the lower relative growth. Employment slump occurred in construction despite revival of this activity (-0.7%). Final increase of the volume of wages was also the lowest in the whole economy (7.1%).

<sup>5</sup> Converted into the real expression using the deflator of final consumption expenditure of households.

<sup>6</sup> In the national accounts conception, seasonally adjusted.

<sup>7</sup> Public administration and defence, education, health and social care.

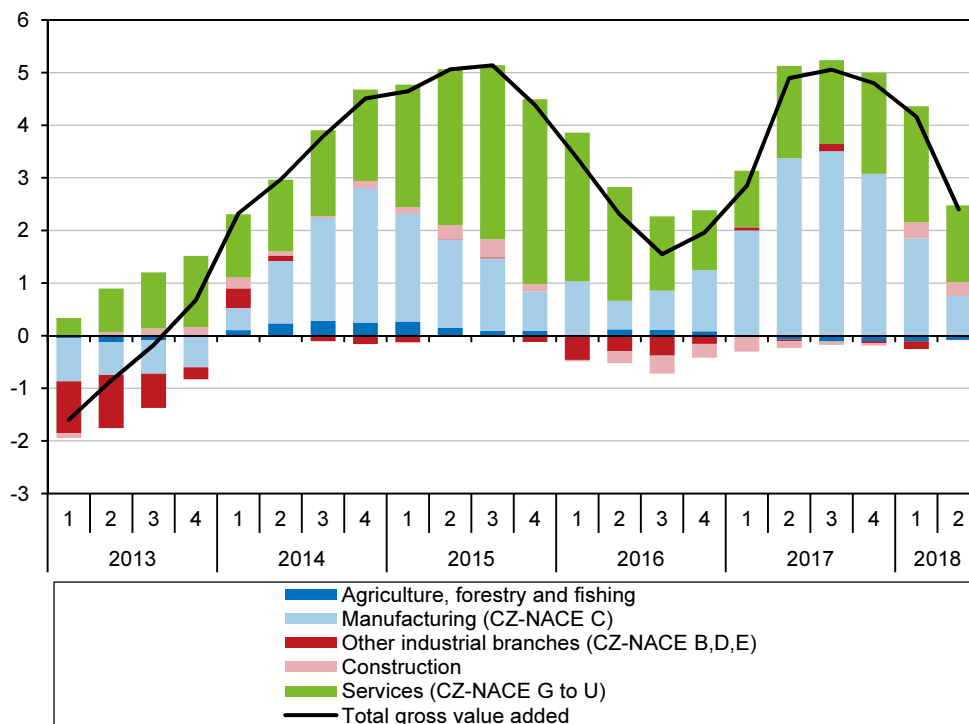
Investment activity does not ease up. Both investments into infrastructure as well as housing participated to a larger extent.

High year-on-year pace of the gross capital formation expenditure, which significantly supported the total economic growth in the past periods slumped notably to the value of 2.4%. The reason is mainly the change in the inventory stock, whose markedly negative effect even overtook the 7.8% increase of investment into the fixed capital. Final contribution of gross capital formation to the GDP growth was only 0.1 p.p., even though the investment activity itself added 1.4 p.p. Type classification of investment activity<sup>8</sup> showed, that high year-on-year growth of investment into housing continued in Q2 (13.0%). This increase indirectly signals the still high investment activity of households. Moderate slowdown occurred for investment into the ICT and other machines and equipment (7.9%). In contrast the investment expenditure on transport equipment followed in the high rate of growth of Q1 and further accelerated to 13.9%. Investment into other buildings and structures was not much hindered even by the high basis of the same period of the last year and it grew by 10.7%.

Surplus of the foreign trade balance shrank.

Total surplus of the trade with goods and services amounted to 185.4 CZK bn<sup>9</sup> in the first half year and it lowered by 6.8 bn year-on-year. The drop was equally spread between the individual quarters. The surplus was 93.2 CZK bn in Q2 and it decreased by 3.7 bn year-on-year. The fall of the surplus was again related only to the trade with goods (-6.0 CZK bn), for services a year-on-year increase of 2.3 bn eventuated. The terms of trade mildly fell in Q2 and reached 100.3%.

**Chart 4 Contributions of branches to real change in GVA** (volume indices, year-on-year contributions in p.p., GVA in %)



Source: CZSO

Services affected the GVA growth the most.

Manufacturing dominated the development of the gross value added in 2017, followed by the services sector supported by the growth of the domestic consumption. Nevertheless, the year-on-year GVA growth markedly slowed down to 2.8% in manufacturing in Q2 2018 (7.0% in Q1) and the addition to the total GVA also shrank (0.8 p.p., the least since Q3 2016). Total contribution of services

<sup>8</sup> Data regarding the type classification of gross fixed capital formation are not seasonally adjusted.

<sup>9</sup> According to the methodology of quarterly national accounts (import and export in CIF/FOB prices).



attained 1.5 p.p. in Q2. Trade, transportation, accommodation and food service added the most (0.7 p.p.), with the GVA growing by 3.4% (however it slowed down compared to Q1). Lower level of the year-on-year growth was common to the majority of the services branches. Information and communication (4.6%, addition 0.2 p.p.) maintained a fast growth pace. Professional, scientific, technical and administrative activities (GVA growth 2.9%) and branches with the predominance of public sector (here the GVA growth slightly increased to 1.6%) accomplished the same addition to the GVA growth. In contrast to the rest of the economy, the GVA growth did not slacken much in construction (5.0%), which was also illustrated by the addition in the amount of 0.3 p.p.