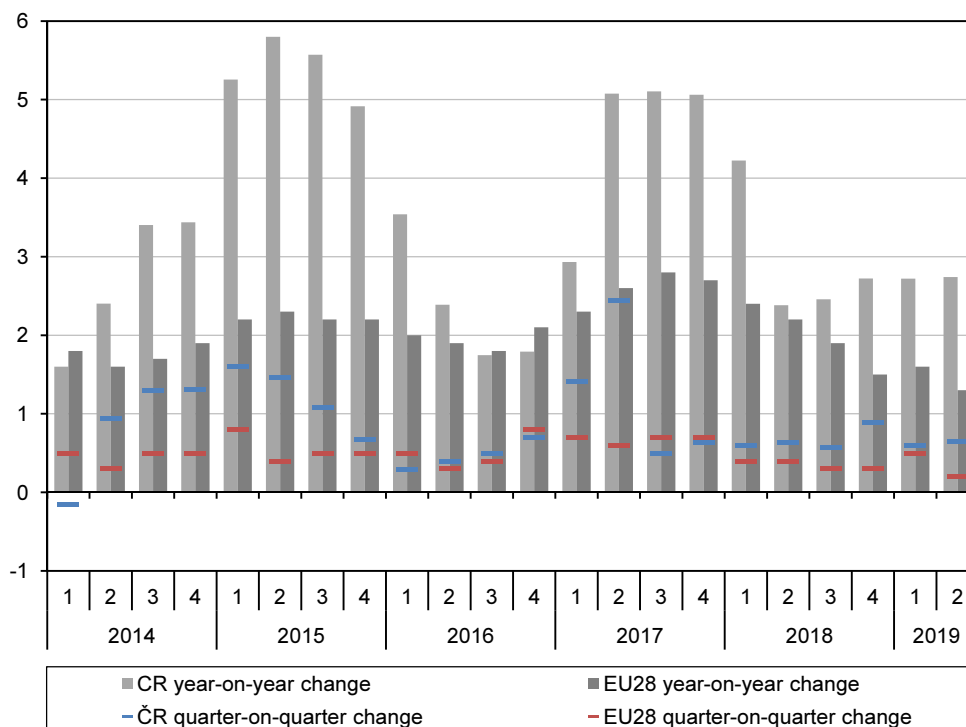


## 2. Overall Economic Performance

Year-on-year GDP growth did not decline in Q2.

The year-on-year dynamics of the gross domestic product (GDP) was the same in Q2 as in the preceding quarter and reached 2.7%<sup>1</sup>. GDP growth in the CR thus does not follow the declining trend in many EU economies for now and remains at a stable level. Even though the expectations captured in the business cycle surveys signal cooling of both entrepreneur and consumer confidence for already several quarters. Breaking down the growth on contributions of individual components shows, that final consumption expenditures maintained their dominant role (1.8 p.p.<sup>2</sup>) in Q2, joined by the foreign trade balance (1.1 p.p.). In contrast, the capital expenditures dampened the year-on-year GDP dynamics (-0.2 p.p.) for the first time since Q1 2017. Compared to the previous quarter, the GDP increased by 0.7% in Q2, which confirmed the continuation of trend of moderate, but stable dynamics (GDP grew by 0.6% quarter-on-quarter in Q1). The gross value added (GVA) increased by 2.8% year-on-year in Q2. The services branches contributed the most similarly to the previous six quarters, prospering from the strong domestic demand. In the opposite direction, the contribution of manufacturing, which felt more the impact of slowing European economies, remained weak. Quarter-on-quarter addition of GVA reached 0.7% in Q2.

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



Source: CZSO, Eurostat

Growth slowed in many EU countries.

Year-on-year GDP dynamics again slowed in the European twenty-eight and arrived at 1.3%<sup>3</sup> in Q2. Quarter-on-quarter addition was also markedly lower (0.2%) compared to the previous period. The year-on-year growth of the largest European economy – Germany – slowed also in Q2 (from 0.9% in Q1 to 0.4% in Q2). GDP decreased by 0.1% here in comparison to the preceding quarter. Most EU countries registered a slowdown of the year-on-year dynamics. The most markedly in Croatia (from 3.8% to 2.5%), in Slovakia (from 3.4% to 2.5%) and in Slovenia (from 3.5% to

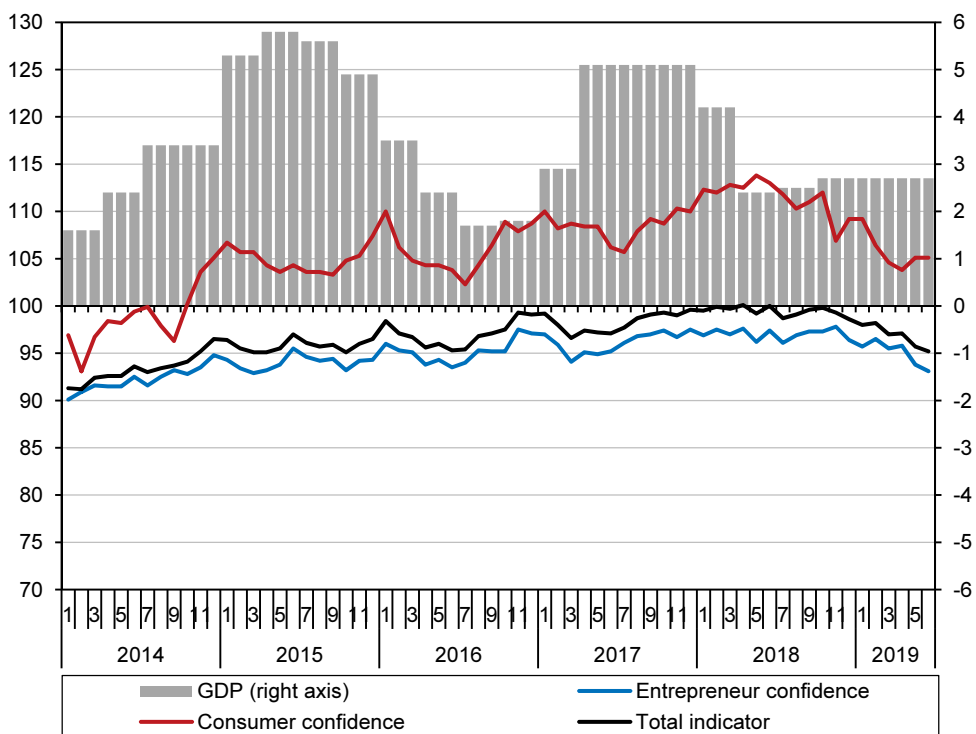
<sup>1</sup> The development of the GDP, gross value added and their components is expressed with the help of the volume indices (i.e. adjusted for changes in prices) and adjusted for seasonal and calendar effects. Data are valid as of 30th August 2019.

<sup>2</sup> Additions to the GDP change after exclusion of imports for final use.

<sup>3</sup> Data for Bulgaria, Ireland, Greece, Cyprus, Luxembourg and Malta not available. Data for Slovakia are not adjusted for calendar effects.

2.6%). Hungary (5.2%, the same as in Q1), Romania (4.6%) and Poland (4.2%) enjoyed the highest year-on-year GDP growth according to the available data. In contrast, Italy recorded year-on-year decline (-0.1%), the already mentioned Germany had the smallest addition and the GDP of the Great Britain, Belgium and Finland grew at the same rate of 1.2%.

**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

Domestic demand was the main driver of the GDP growth.

Year-on-year growth of the final consumption expenditures was 2.9%. Households kept the dynamics from the previous quarter (2.7%). In case of government institutions, the year-on-year growth strengthened to 3.4%. Consumption of government institutions thus again notably contributed to the GDP growth (0.7 p.p.) in Q2. Quarter-on-quarter growth of household consumption reached 0.7%, it was 1.2% for government institutions. With the view to the durability of the consumed goods, further slowdown of year-on-year dynamics can be observed for durable goods in Q2 (3.0%<sup>4</sup>). And vice versa, the growth remained relatively high (6.6%) for the goods of medium-term consumption. The growth of consumption of non-durable goods stayed at a low level (1.8%). Year-on-year dynamics of consumption of services sank substantially – from more than 3% to 1.6% in Q2.

Volume of paid out wages and salaries increased by 7.5% year-on-year.

Volume of paid out salaries and wages grew by 7.5% year-on-year in Q2. It is by 0.4 p.p. less compared to the previous quarter. Volume of wage resources also did not expand as fast as in the last two years. Still, it presents a relatively strong growth, which is for the most part transferred into the size of wages themselves, because the year-on-year increase of employment<sup>5</sup> was 0.8% in Q2, the least since Q3 2014. The price growth nevertheless strengthened in contrast to the previous years. The earnings thus grew by 4.4%<sup>6</sup> in real terms. The volume of paid out wages grew the most year-on-year in the area of real estate activities (15.1%) in Q2. Simultaneously,

<sup>4</sup> Data related to consumption according to durability are in the domestic conception and not seasonally adjusted.

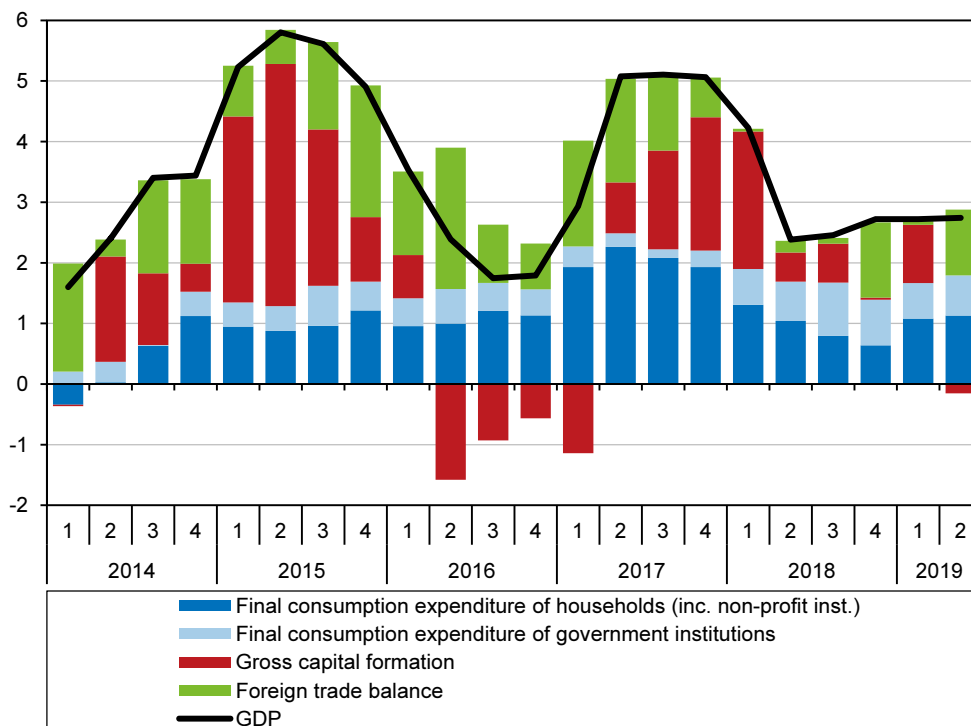
<sup>5</sup> Employment in the national accounts conception, figure seasonally adjusted.

<sup>6</sup> Converted into the real expression using the deflator of final consumption expenditure of households.



the employment fell here year-on-year by 0.8%. More than ten percent increase was in the group of branches public administration and defence, education, health and social work (10.6%). A relatively strong increase of total employment (2.1%) was also apparent in this group. Moderate slowdown of the dynamics, occurring since the last year, continued in case of manufacturing. The volume of paid out wages expanded here by 5.7% in Q2, accompanied by below-average growth of employment of 0.6%. Even though the total year-on-year rate of growth of employment was falling in the economy, it did not apply to information and communication, where employment grew the most year-on-year in Q2, specifically by 2.9%. Growth of the paid out wages in the given branch thus reached 7.9%, despite information and communication belonging to branches with the lowest wage dynamics.

**Chart 3 Contribution 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

Investment activity stagnated in Q2.

Expenditures on gross capital formation increased by 0.2% year-on-year in Q2, the least since Q1 2017. The expenditures on fixed capital formation themselves grew only slightly more (0.9%). Even this addition was however saturated by import, as shown by the comparison of contributions to the year-on-year growth of GDP. While without the exclusion of import the contribution of capital expenditures is zero, it already dampens the GDP dynamics by 0.2 p.p. after exclusion. Capital expenditures contracted by 5.6% compared to Q1. Type classification of gross fixed capital formation indicates, that the investment activity was cooling in all areas<sup>7</sup>. Expenditures on the intellectual property increased the most (3.3%), nevertheless it represents a substantial slowdown compared to the preceding quarter (9.3%) as well as year 2018 (5.2%). Year-on-year growth of investment into housing was 1.1% in Q2 and it was the lowest since the end of year 2017. Expenditures on other buildings and structures grew only by 0.2%. Other areas recorded a decrease. Investment into transport equipment was affected mainly by the last year's high comparative basis (fall by 2.0% in Q2, growth by 13.0% in year 2018). The most weight significant

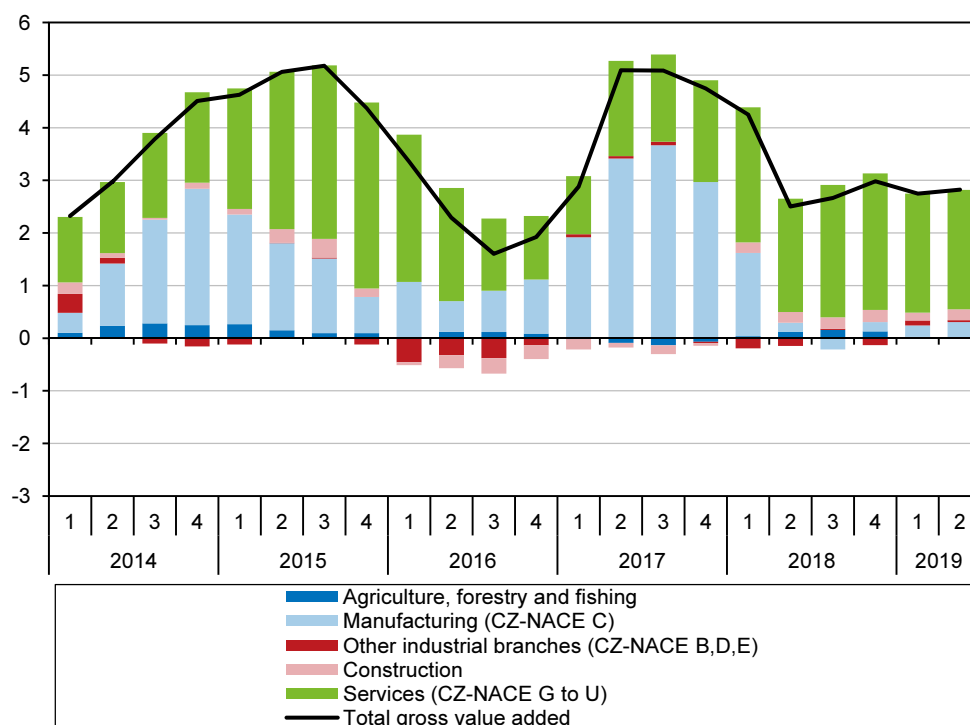
<sup>7</sup> Data regarding the type classification of gross fixed capital formation are not seasonally adjusted.

expenditures on ICT and other machinery and equipment fell by 0.6% after eight quarters of year-on-year growth.

Foreign trade balance surplus expanded thanks to services year-on-year.

Surplus of the foreign trade with goods and services<sup>8</sup> attained 101.3 CZK bn in Q2 and expanded by 13.9 bn year-on-year. The given value is the highest in the whole time series available since year 1995 and the year-on-year addition is the strongest since Q3 2016. The trade with goods played the main role in the year-on-year improvement of the balance with the positive result of 68.5 CZK bn (year-on-year increase of 11.6 bn). Surplus of trade with services also increased (by 2.3 bn to 32.9 CZK bn). The change in foreign trade dynamics caused the vigorous growth of surplus, which became evident in Q2. The year-on-year rate of growth of exports in real terms (2.2%) overtook imports after six quarters (1.4%).

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



Source: CZSO

Services persisted on the position of the driver of gross value added growth.

The branches of the services sector play a dominant role in the year-on-year growth of the gross value added already five quarters, benefiting from the strong demand. On the other hand, the traditional driver of the Czech economic growth, manufacturing, experiences a decline. It is the effect of the weaker foreign demand. Trend of this nature continued also in Q2. Year-on-year addition of GVA of manufacturing amounted to 1.2% in Q2 and contribution to total growth reached 0.3 p.p. Branches of the services sector in total contributed to the GVA growth 2.3 p.p. Group trade, transportation, accommodation and food service featured the strongest contribution (0.7 p.p., 3.8%). Information and communication activities kept a brisk growth (8.9%), which also assisted to relatively high contribution of this branch to the GVA growth (0.5 p.p.). Branches professional, scientific, technical and administrative activities (GVA growth of 4.4%) and also branches with the predominant public sector<sup>9</sup> (1.7%) supported the growth similarly by 0.3 p.p. Construction continued in the year-on-year

<sup>8</sup> According to the methodology of quarterly national accounts (import and export in FOB/FOB prices).

<sup>9</sup> Public administration and defence, education, health and social work.



growth of the GVA (3.6%), the branch contributed with a view to its relatively small weight to total dynamics 0.2 p.p.