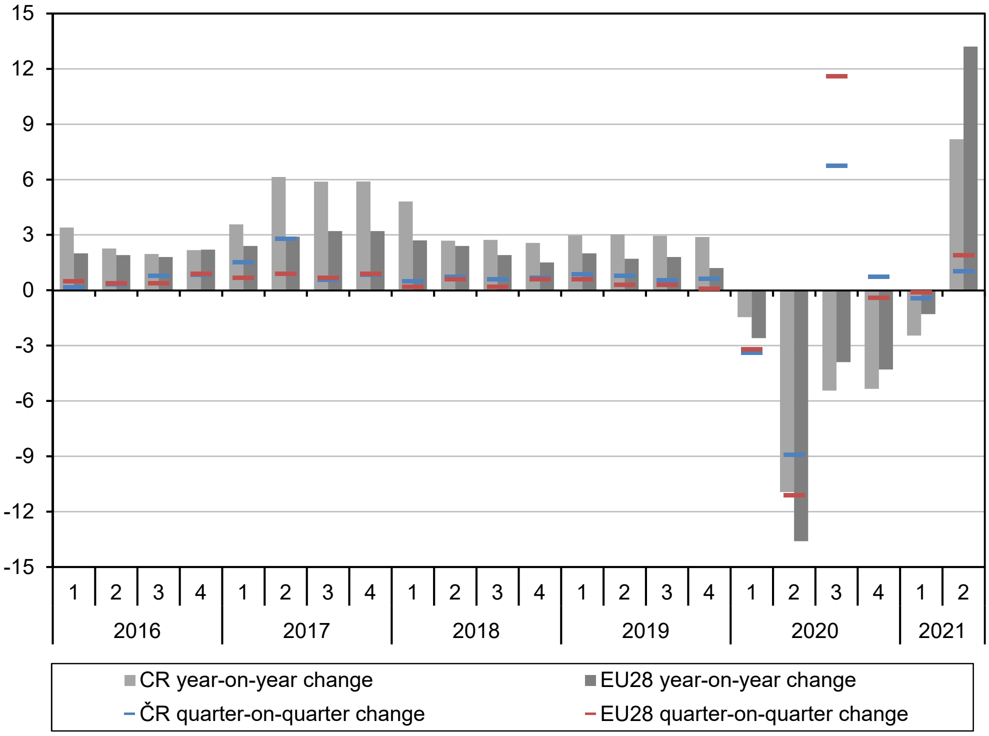
2. Overall Economic Performance

The Gross domestic product substantially expanded year-on-year in Q2.

The counter pandemic measures, which were restricting trade and services and stood behind the downturn of the domestic consumption in the last year were eased during Q2 2021. The Gross domestic product thus increased by 1.0%[1] compared to Q1. Mainly the domestic consumption and also investment activity contributed to the increase. On the contrary, the foreign demand had a negative influence. The increase thus lagged behind the EU average and also behind the market outlook, which was caused especially by the obstacles, which the industry faced due to shortage of some components. This year's GDP was by 8.2% higher compared to last year's Q2, which was hit by the deepest GDP slump in the history of independent CR. All expenditure components with the foreign demand, which suffered an extraordinary shock just in the last year's Q2 in the lead, contributed to this outcome. Domestic consumption (of both households and government institutions) and investment also grew. Large part of the strong increase can be ascribed to the weak basis – comparison with data in year 2015 prices shows, that the GDP still slightly lagged behind the precrisis Q2 2019 and even the same period of year 2018 in this year's Q2.

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



Source: CZSO, Eurostat

European economies are also gradually recovering.

The GDP in the EU expanded by 1.9%[2] compared to Q1. Quarter-on-quarter addition followed after two quarters of decreases and it was influenced mainly by the strengthening domestic demand. Apart from Malta and Croatia, the GDP grew in all EU countries quarter-on-quarter. The economies of Portugal (4.9%), Latvia (4.4%) and Estonia (4.3%) grew the strongest. Development of neighbouring Austria was also however favourable, Polish and Slovakian economies were also improving at above average rate. The CR (1.0%) but also large economies France (1.1%) and Germany (1.6%) counted among countries with the lowest quarter-on-quarter increase. Total GDP in the European Union was by 13.2% higher year-on-year in Q2, which was of

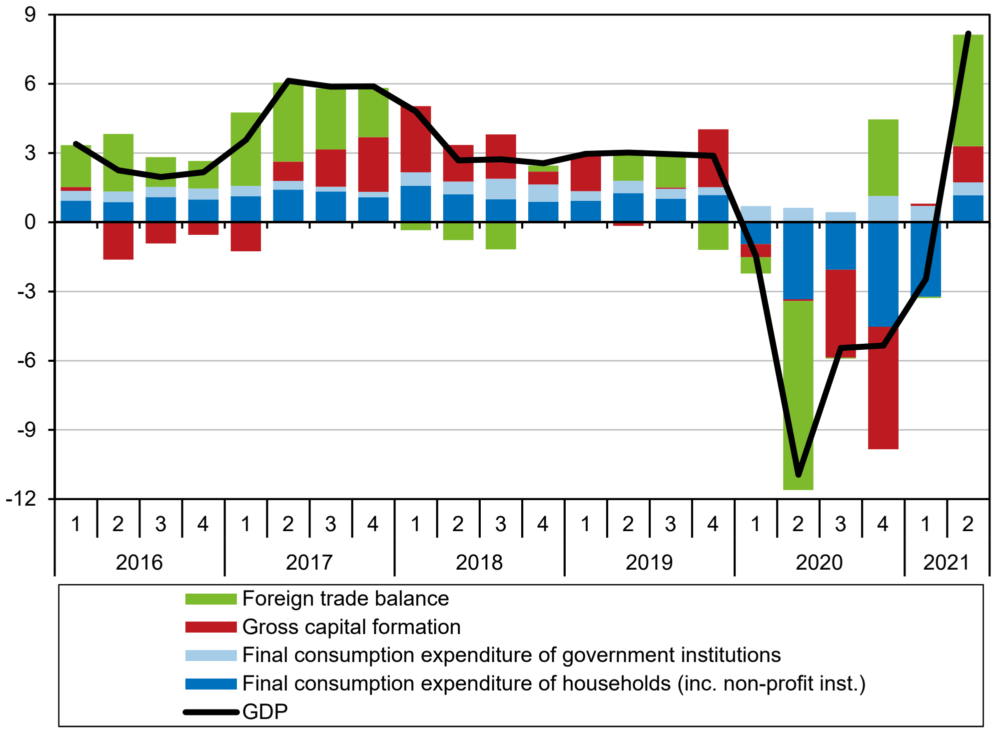
[1] The development of the GDP, gross value added and their components is expressed with the help of the volume indices (i.e. adjusted for changes in prices) and adjusted for seasonal and calendar effects. Data are valid as of 31st August 2021.
[2] Data for Bulgaria, Ireland, Luxembourg and Greece were not available.

course similarly to the CR to a large part affected by the low basis of the last year's Q2. All EU countries were thus economically growing year-on-year. Look on the precrisis period however shows, that the real GDP in the EU falls behind the level of year 2019 by 2.3%[3]. The real GDP was lower in the majority of countries than in Q2 2019, while Spain (–6.1%) and Italy (–4.0%) lagged behind the most. However the CR also ranked high in this comparison (–3.7%) and France (–3.4%), Germany (–2.9%) or Austria (–2.7%), often countries with strong motor vehicle industry, also dived by an above average rate compared to Q2 2019. Baltic states, Ireland, Romania, Slovenia, Poland, Hungary, Denmark and Sweden belonged to countries, which manage returning to the precrisis level.

Volume of paid out wages and salaries sharply hiked up in Q2.

Volume of paid out wages and salaries expanded by 17.7% year-on-year in Q2. Compared to Q1, the volume of paid out wages and salaries increased by 7.4%. Extraordinarily high year-on-year increase was affected by the low basis of the last year's Q2. It was linked to the markedly lower number of hours worked. In addition, more bonuses were paid out in this year's Q2. Wages and salaries grew by 15.3%[4] in real terms year-on-year. The volume of wages and salaries grew the most in real estate activities (25.4%), in branches with the prevalence of government institutions[5] (23.1%), in manufacturing (21.6%), in other activities and in trading group, transportation, accommodations and food service (17.3%). Nevertheless also construction (11.3%) and information and communication (8.0%), where the growth was also supported by increased employment to a large extent and also agriculture, forestry and fishing (7.0%) also recorded strong rates of growth. The only branch experiencing decrease was financial and insurance services (–2.7%).

Chart 2 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

[3] GDP comparison in 2015 prices.
[4] Converted into the real expression using the deflator of final consumption expenditure of households.
[5] Public administration, education, health and social work.

Domestic consumption started to rise thanks to easing of restrictions.

The domestic consumption increased by 4.2% quarter-on-quarter in Q2. Mainly the consumption of households, which had more purchasing possibilities compared to Q1, was growing (6.5%). The addition was at the same time stronger compared to Q3 of the last year when the restrictions were also loosened. The current development however shows the realisation of delayed consumption of households. On the contrary, the consumption of government institutions stagnated (–0.2%). The consumption increased by 6.0% year-on-year and it contributed 1.8 p.p.[6] to the GDP growth. Addition of the household consumption was again substantial (7.4%), in case of government institutions it attained 3.0%. The segments of durable goods and services left behind in the preceding quarters of course gained a major growth impulse – the consumption of goods of medium term durability[7] jumped up by 26.5%[8] quarter-on-quarter, goods with long-term durability by 6.4% and services by 7.6%. Consumption of non-durable goods also strongly grew quarter-on-quarter (4.3%).

Investment expenditures recorded considerable revival.

Gross fixed capital expenditures rose by 4.3% quarter-on-quarter and by 13.0% year-on-year in Q2. Contribution of gross capital formation to the year-on-year GDP growth reached 1.6 p.p. The change of inventories played a significant role especially in the year-on-year comparison. Increase of inventories of unfinished production and finished products of industrial businesses thus notably contributed to the year-on-year increase of gross capital formation[9]. Expenditures on gross fixed capital formation increased by 4.2% quarter-on-quarter and year-on-year rise attained 1.5%. Investment went up at the same time for the first time since Q4 2019. Comparison of data adjusted for price effects indicates, that investment lag behind the period before the arrival of pandemics in this year’s Q2 so far. Type classification of gross fixed capital formation indirectly proves the boost of investment of non-financial businesses – expenditures on transport equipment (10.2%) Strongly grew quarter-on-quarter and the increase of investment into ICT and other machinery and equipment (4.8%) also accelerated. Investment into products of intellectual property rose by 1.0%. The addition to investments into dwellings, dominated by households, was also very strong (9.9%). Investment into buildings and structures also mildly grew quarter-on-quarter (0.3%). Investment into other buildings and structures (–4.2%) as well as products of intellectual property (–0.5%) however still lagged behind in comparison to the last year’s Q2. In contrast, the expenditures on dwellings were by 9.7% higher, on ICT and other machinery and equipment by 2.7% and on transport equipment by 1.9%.

Foreign trade balance contributed to the year-on-year GDP growth, its surplus was however among the lowest for the last years.

Industry and consequently also foreign trade was not restricted during the Autumn and Winter wave of epidemics anymore. Quarter-on-quarter real increase of export of goods and services thus arrived at 0.6%[10]. In that the export of goods dropped by 0.7%, while the export of services rose by 8.7%. On the contrary, the import lifted by substantial 4.9% quarter-on-quarter and it can be assumed, that part of this increase is connected also to the heightened investment activity of businesses. This notable difference between the dynamics of export and import led to the quarter-on-quarter worsening of the balance of foreign trade, which made the foreign demand to be the only factor operating in the direction of quarter-on-quarter GDP decrease. Export increased by 30.6% year-on-year, which is however affected by weak comparative period and similarly import expanded by 31.3%. The foreign trade balance was gauged at surplus of 56.3 CZK bn in Q2, which is by 15.0 bn better result year-on-year, thus the resulting contribution of foreign demand to the year-on-year GDP growth reached 4.8 p.p. With the exception of the last year’s Q2, it represents the weakest surplus since Q2 2015.

[6] Additions to the GDP change after exclusion of imports for final use.
[7] Large part of the restricted retail belongs to the medium term category – wearing apparel, recreational and sports goods etc.
[8] Data regarding consumption based on durability are in domestic conception.
[9] Change of inventories (in current prices and seasonally adjusted) attained +58.9 CZK bn in Q2.
[10] According to the methodology of quarterly national accounts (export and import in FOB/FOB prices).

Surplus of trade with goods (+10.8 CZK bn) as well as services (+4.2 bn) improved, but the value of 30.2 bn for the trade balance with goods was apart from the last year's Q2 the worst since Q4 2012.

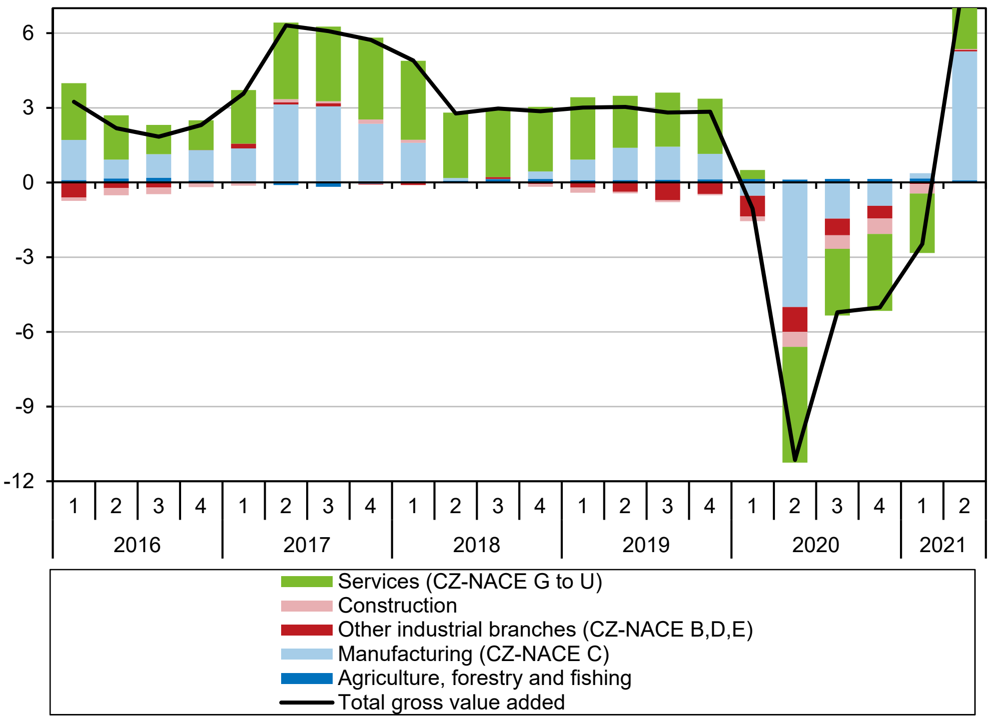
Easing of restrictions in trade and services aided the quarter-on-quarter growth of the gross value added.

The Gross value added (GVA) increased by 0.7% quarter-on-quarter in Q2. The performance of majority of branches improved compared to Q1, except for agriculture (–3.1%), financial and insurance activities (–2.2%) and real estate activities (–1.2%). Group of activities trade, transportation, accommodation and food service (3.5%) in contrast recorded marked quarter-on-quarter revival, benefiting notably from loosening of the counter pandemic restrictions. Other services branches attained smaller additions – professional, scientific, technical and administrative activities and branches with the dominance of the government sector increased similarly by 0.8%, information and communication mildly grew (0.3%) and other activities stagnated (0.1%). Manufacturing, which faced difficulties resulting from the disruption of the supply chains, increased by 1.1% in the end. The GVA also moderately grew in construction (0.5%).

Year-on-year GVA increase was affected mainly by the low comparative basis of the last year.

The gross value added was by 8.4% year-on-year. Strong increase was of course affected by the low comparative basis and was also valid for individual branches. Year-on-year GVA increase in manufacturing of 23.2% is thus to a large part connected to the last year's halt of operations in part of industry, the branch however lagged behind for example level of Q2 2019. Group of activities trade, transportation, accommodation and food service, whose GVA was by 9.4% higher, is in a similar situation. Financial and insurance activities (6.6%), other activities (4.8%), information and communication (4.3%), public administration, education, health and social work (4.2%) and agriculture (4.1%) also attained a solid year-on-year GVA increases. Real estate activities (0.7%), construction (0.4%) and professional, scientific, technical and administrative activities (0.2%) in contrast only mildly exceeded the level of the last year.

Chart 3 Contributions of branches to real change in GVA (volume indices, year-on-year contributions in p.p., GVA in %)



Source: CZSO