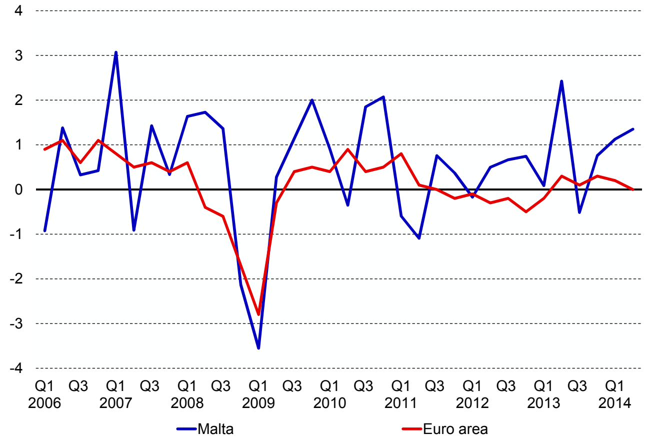
SUPPLEMENT TO THE QUARTERLY REVIEW 2014:2

Real gross domestic product in the second quarter of 2014

Economic growth remains strong

On 27 August 2014 the National Statistics Office (NSO) published gross domestic product (GDP) estimates for the second quarter of 2014.[1]

Chart 1
REAL GDP GROWTH
(quarter-on-quarter percentage changes; seasonally and working day adjusted)



Source: Eurostat.

During this period the Maltese economy continued to expand at a solid pace, although the annual rate of change moderated compared with the first quarter. In annual terms, real GDP growth stood at 2.9% in the second quarter, compared with 4.0% in the first quarter (see Table 1). In quarter-on-quarter terms, however, seasonally adjusted real GDP increased by 1.3%, following growth of 1.1% in the previous quarter. Both domestic demand and net exports contributed to the annual expansion in GDP.

Meanwhile, in the euro area as a whole, the annual growth rate slowed down, while the quarter-on-quarter growth rate declined to nil from 0.2% in the first quarter (see Chart 1).[2]

Net exports increase

During the second quarter of 2014 net exports increased, as exports registered positive growth while imports fell on a year earlier (see Table 1). Net exports contributed 1.3 percentage points to real GDP growth in the quarter under review.

The expansion in exports was entirely driven by services as exports of goods declined marginally. Meanwhile, despite the increase in domestic demand, imports were lower due to a fall in both goods and services.

Domestic demand continues to grow

Domestic demand expanded for the fourth consecutive quarter in annual terms, increasing by 1.7% and accounting for more than half of the expansion of real GDP. All major components of domestic demand, except changes in inventories & acquisitions, were higher compared with the second quarter of 2013.

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1 See NSO *News Release* 159/2014. These statistics are not commented on in the main text of the *Quarterly Review* 2014:2, as they became available after the *Review's* cut-off date.

2 The data for the euro area shown in Chart 1 are in line with the GDP estimate for the second quarter of 2014, published on 14 August 2014.

Table 1
GROSS DOMESTIC PRODUCT AT CONSTANT PRICES

	2013			2014	
	Q2	Q3	Q4	Q1	Q2
	Annual percentage changes				
Private final consumption expenditure	3.8	2.3	2.9	2.7	1.6
Government final consumption expenditure	1.8	-0.7	-0.4	4.1	10.4
Gross fixed capital formation	-2.1	-2.8	2.3	22.2	14.7
Changes in inventories (% of GDP)(1)	2.0	0.1	-2.2	1.8	-1.4
Domestic demand	**-0.2**	**3.5**	**1.8**	**1.9**	**1.7**
Exports of goods & services	-11.6	6.8	-3.5	-5.1	0.7
Imports of goods & services	-15.3	8.0	-4.6	-6.6	-0.7
Gross domestic product	**4.4**	**2.5**	**2.6**	**4.0**	**2.9**
	Percentage point contributions				
Private final consumption expenditure	2.4	1.4	1.8	1.8	1.0
Government final consumption expenditure	0.4	-0.1	-0.1	0.9	2.0
Gross fixed capital formation	-0.3	-0.4	0.3	3.1	1.9
Changes in inventories(1)	-2.7	2.2	-0.4	-3.8	-3.4
Domestic demand	**-0.2**	**3.2**	**1.7**	**2.0**	**1.6**
Exports of goods & services	-13.7	7.3	-3.5	-5.1	0.7
Imports of goods & services	18.2	-7.9	4.4	7.1	0.6
Net exports	**4.6**	**-0.6**	**0.9**	**2.0**	**1.3**
Gross domestic product	**4.4**	**2.5**	**2.6**	**4.0**	**2.9**

(1) Includes acquisitions less disposal of valuables.
Source: NSO.

Private consumption continued to rise, albeit at a slower pace compared with the previous quarter, by 1.6% on a year earlier, with its contribution to GDP growth standing at 1.0 percentage point.

Gross fixed capital formation recorded further significant growth, an annual rate of 14.7%, in the second quarter of the year, boosting real GDP growth by 1.9 percentage points. The increase in investment largely reflected higher spending on non-residential construction, IT-related products and machinery. Spending on transport equipment also rose. Conversely, investment in dwellings was lower.

Following an addition of 4.1% in the previous quarter, government consumption recorded a further increase of 10.4% on a year earlier. This growth emanated from both intermediate consumption and compensation of employees, with the former rising strongly after a period of weak or negative growth.

In contrast, changes in inventories & acquisitions, which include the statistical discrepancy, turned negative, and consequently reduced GDP growth.