

Christmas spending went well in Czechia

Annual growth in real retail sales picked up in December, coming in above market expectations. Continued real wage growth allowed spending to bridge the gap to pre-pandemic levels. At year-end, Czech consumers drove the economy forward, creating room for price increases



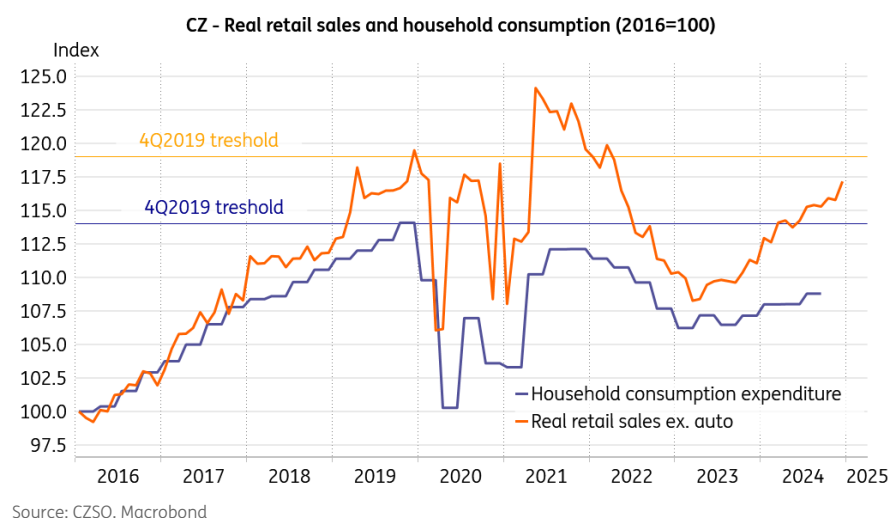
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Consumers make up for the post-pandemic loss

Czech real retail sales gained 6.2% year-on-year and 1.2% month-on-month in December, receiving a genuine Christmas boost. Sales and repair of motor vehicles shed 0.5% YoY and 1.0% MoM. When looking back at the entire year, retail sales, excluding automotive, were up 4.6%, and motor vehicle sales and repairs added 1.2% in 2024.

In terms of the monthly change, non-food goods sales gained 1.5%, food sales added 1.1%, and fuel sales rose by 0.2%. In the annual comparison, both non-food goods and fuel sales increased by 8.1%, while dynamics in food sales picked up to 2.7%.

The gap toward 2019 remains to be filled

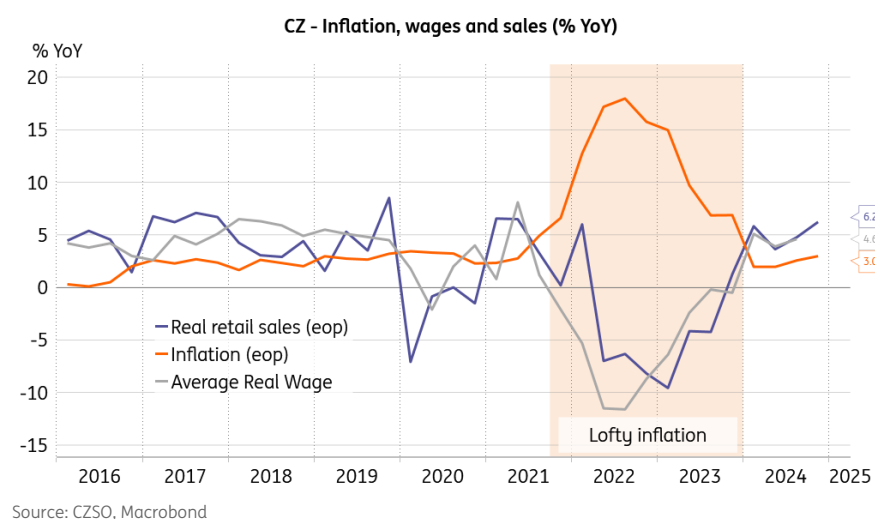


Overall, annual growth in real retail sales picked up noticeably in December, coming in above market expectations. Continued real wage growth allowed spending to bridge the gap to pre-pandemic levels, which could carry on in the coming months. Household consumption, as measured in the national accounts, obviously has even more room to grow before reaching its 2019 levels. The gap between the two measures of household spending continues to widen.

Strong spending opens door to price increases

At the same time, the stronger spending on food items may allow accumulated cost pressures in agricultural production to be reflected in final prices over the coming quarters. As the economic expansion gains traction, the current negative output gap is expected to gradually close throughout the year. By year-end, the overall conditions for inflationary pressures to appear in final prices should become neutral. Such a situation would make it easier for rising costs, be it wages, energy, or materials, to reach the consumer segment.

Real wage growth drives spending



When looking ahead, we reiterate our hypothesis that as long as the annual wage growth exceeds some 2% in real terms, households will be able to support the economic expansion further. The years of high inflation smashed the real purchasing power of Czech households, yet it has gradually crept back since the onset of last year. Indeed, real retail sales dynamics have mostly surprised on the upside in the past few months.

Moreover, recent nominal wage growth has exceeded expectations, which may lead policymakers to adopt a cautious approach toward further monetary easing. Still, given the challenging situation across Europe when it comes to manufacturing, the threat of US tariffs, and stagnant Czech investment, we see a 25bp rate reduction to 3.75% as the likely outcome of Thursday's Czech National Bank vote.

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