

# Czech consumer confidence tanks amid challenges for European comeback

Mounting uncertainty and worries about deteriorating economic prospects hammered the confidence of Czech consumers in January. Sentiment in industry started the year below the long-term average for a fourth consecutive year, while it is uncertain whether Europe can respond to the recent wake-up call



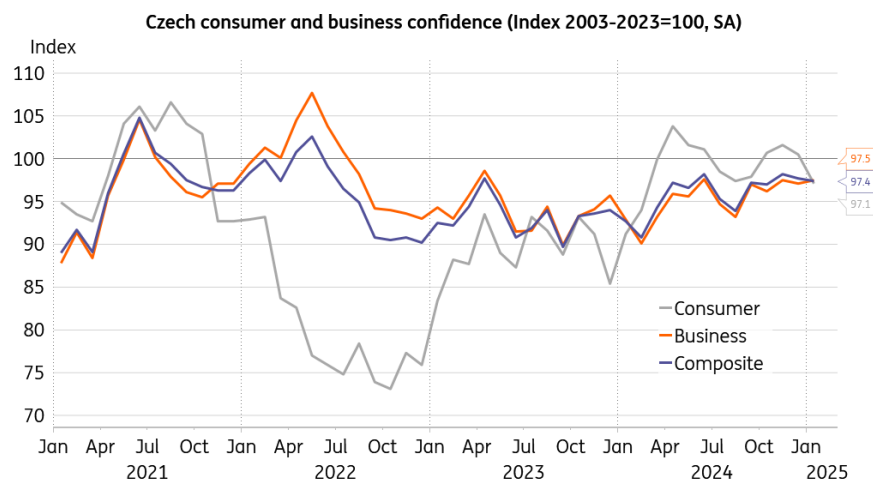
## Worries about economic prospects bite

The Czech consumer confidence index dropped by 3.4 points to 97.1 in January. In contrast, the business confidence indicator picked up by 0.4 points to 97.5 after dropping in the previous reading. The aggregate confidence indicator shed 0.3 points from December, softening to 97.4 in January. Business confidence gained solely in industry, while it declined in the service sector and construction. The mood remained unchanged in trade. That said, industrial enterprises still face challenges due to weak demand, which more than half of the enterprises perceive as the most substantial barrier to growth.

The share of consumers expecting the Czech economic situation to worsen over the next year has increased slightly for the second month in a row. At the same time, the share of households expecting their financial situation to deteriorate over the next year slightly increased in January.

The number of households assessing their current financial situation as worse than in the previous 12 months has further climbed.

## Consumer sentiment has faded



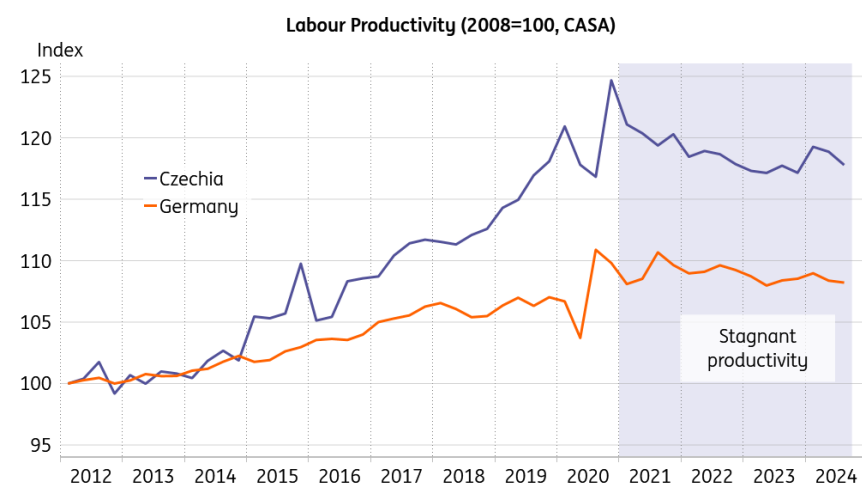
Source: CZSO, Macrobond

Indeed, economic uncertainty and worries about the outlook are gaining traction as Europe's industry remains under pressure with no credible plan for a path out of the misery. Czech industry has been shedding staff for quite some time, and higher energy bills will further bite into manufacturers' margins. Households clearly perceive such a dismal situation as an obvious risk to the potential of future wage growth, and so as a threat to their budgets. It is, however, too difficult to pinpoint when the time comes for firms not to be willing or able to carry on with solid wage increases and when household spending might be curtailed, also for precautionary reasons. The sour mood in business has now continued into a fourth year. The marginal support in January likely reflects expectations of a possible turnaround after the German elections and prospects of the European Commission entering into discussion with the automotive industry.

## The talk is on and the water is flowing

Ursula von der Leyen, the president of the European Commission, acknowledged that Europe has a problem and outlined the main points of the roadmap to guide the Commission's work over the next five years: "The focus will be to increase productivity by closing the innovation gap. A joint plan for decarbonisation and competitiveness. To overcome skills and labour shortages and cut red tape. It is a strategy to make growth faster, cleaner and more equitable, by ensuring that all Europeans can benefit from technological change." Unfortunately, no specific proposals have been announced, at least for now. Moreover, some broadly defined desires clearly go against each other - such as costly decarbonisation and price competitiveness, which seem to be in a clear trade-off relationship. The contradicting effects are actually manifesting in the lived reality of Europe's suffering industry, lower real purchasing power of households, and a deteriorating labour market outlook.

## Stagnant productivity is a pressing issue across Europe



Source: Macrobond

In real life, some quid pro quo usually holds: something must be given up to achieve something else. Decision-making is necessarily about understanding preferences, costs, and benefits. And so, to get growth that is all faster, cleaner, and fairer, it seems to come from the realm of having your cake and eating it. It is hard to imagine that the same formula that sent the European economy to its knees will get it back on its feet, only if it is applied in higher doses. One faces the harsh assessment of whether the genre currently being performed on the stage of the resuscitation of European competitiveness inclines more towards comedy or tragedy. Nota bene, given the recent finding that funds tied to the Commission were used to finance lobbying by NGOs to push more green measures through European legislation, which could, in turn, prove to be harmful to the European industrial base.

### Europe is not great at hearing the wake-up calls

It is hard to believe the proclaimed 180-degree rudder turn will materialise early enough. Of course, almost anything is possible in words. However, after a decade of the Commission tightening the regulatory screws and thickening the administrative soup, a turnaround in the thinking, let alone the practice, will not be easy. On the contrary, I daresay it will be difficult for the Commission to live up to the maxim *Acta non verba* in this specific mission. The president's statement underlines that "We will be pragmatic, but we will always stand by our principles." That almost sounds like an oxymoron. Well, if the game played so far is to change dramatically, some fundamental adjustment in underlying convictions is warranted. Putting it differently, either one understands the far-reaching change in the geopolitical and socio-economic paradigm and proceeds with substantial modifications to the existing modus operandi, or one takes the change lightly and sticks to existing principles in all circumstances.

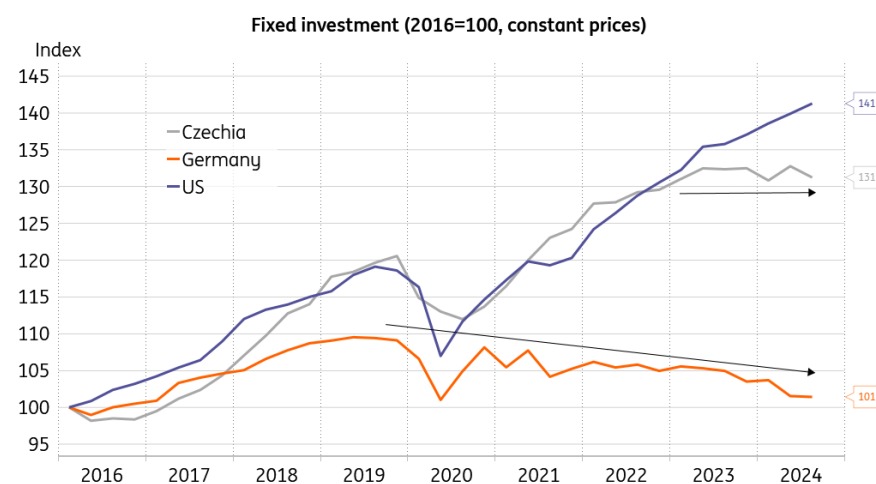
Europe has a clear track record of not being great at responding to wake-up calls. In 2014, Russia seized Ukraine's Crimea. The response? Germany calmly stepped up its strategy towards Russia, called *Wandel durch Handel*, a change through trade, and initiated moves to build the Nordstream 2 gas pipeline the following year. Russian aggression in Ukraine started in 2022, and years later, European states are still unable to adequately increase defence spending. The European Commission has long hesitated about whether funding for the arms industry aligns with its green

strategy. In some respects, the election of Donald Trump is not terrible news for Europe. Eventually, the sleeping beauty wakes up from her lethargic slumber and looks for what she actually wants to become in a new world that has changed so much.

## Awareness of the crisis opens the door to hope

Donald Tusk, the Polish prime minister, seems to understand some of the fundamental issues in the context and to be willing to go ahead with fundamental changes, as was signalled in his recent speech when he said: "Let us be courageous and stay away from routines ... So we need to change the status quo ... We should identify the problems, but we should also have the courage to change those rules that might result in excessively high, prohibitively high energy prices." Indeed, with demand from major European trading partners continuing to fade, rising energy bills are not good news for the Czech manufacturing base, especially in the face of ever-tougher global competition. The Chinese car producers interested in taking over car production facilities in Germany are a good example of how difficult times have become for European automotive. It is still the case that, inevitably, any product is at least partly just converted energy. The recent renewed rise in the price of emission allowances is only adding fuel to the fire.

## Fixing investment incentives and retention is crucial



Source: Macrobond

So, can the heads of European countries act? Well, not really without the European Commission moving on. At the same time, the shift in voters' preferences was more than evident in the outcome of the last European Parliament elections. However, nothing has fundamentally changed in the Commission's views until now. Perhaps only a crash into the wall of geopolitical and domestic socio-economic dismal reality will stir up the murky European waters. We will observe with curiosity how the interplay between the more flexible prime ministers and the more rigid European Commission will evolve.

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