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CZECH REPUBLIC

Czech consumers are worried about the outlook

Consumer sentiment continued to weaken in April, while the business mood remained unchanged. Both were affected by elevated energy prices and heightened uncertainty. We are not witnessing a meltdown at this point, but this could change if the conflict in the Middle East drags on, with repercussions for economic performance

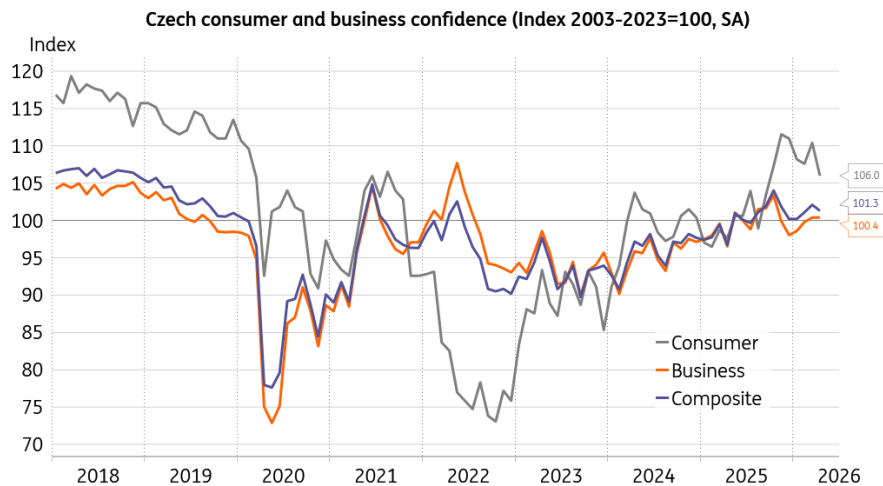


Old Town in Prague, Czech Republic

Consumers start to worry, while businesses hold the line

The Czech consumer confidence indicator fell by 4.4 points to 106.0 in April, while the business confidence indicator remained unchanged at 100.4 points. The composite confidence indicator shed 0.8 points from the previous month, landing at 101.3 in April. Both indices came in slightly stronger than ING expectations, but confirmed our view that the mood would weaken more sharply on the side of consumers, given the ongoing disruption in the Middle East, elevated energy prices, and a deteriorating labour market. By contrast, the unchanged sentiment reading among businesses is a surprise, driven by an uptick in both services and construction. That said, sentiment did soften in trade and industry, although the decline falls well short of anything resembling a meltdown. We expect panic to set in with some delay should the peace talks fail to result in a sustainable resolution.

Sentiment has only just started to come under pressure



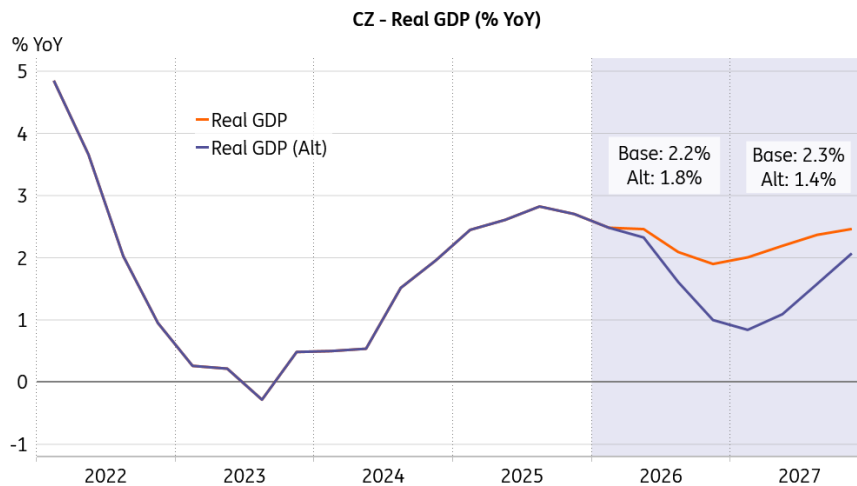
Source: CZSO, Macrobond

Looking into the consumer survey, the shifts in answers seem rather nuanced in April, considering the extent of the current supply and energy shock. The share of consumers expecting the economic situation in Czechia to worsen over the next year has increased significantly, and the share of households expecting their financial situation to improve over the next year has dropped. Nevertheless, the share of respondents who assess their current financial situation as worse and the number of respondents who do not plan to make major purchases has hardly changed. So, the deterioration is mostly about the expectations so far, while the real economic impact has yet to bite.

Economic situation may flip completely

We expect the Czech economy to gain 2.2% this year, provided the situation in the Middle East begins to calm down in May, leading to a tangible and lasting weakening in oil and natural gas prices, and a retreat of threats of physical fuel shortages further ahead. That said, we take the position that most institutions still tend to underestimate the negative consequences for economic growth right now, as this type of shock raises the probability of a synchronised slowdown in which nonlinearities and negative feedback loops are amplified to new levels. Considering the Czech circumstances, you could switch relatively swiftly from an economy of low inflation and high growth to an economy of high inflation and low growth, especially if the Middle Eastern conflict drags on.

Energy prices and uncertainty can play an ugly tune



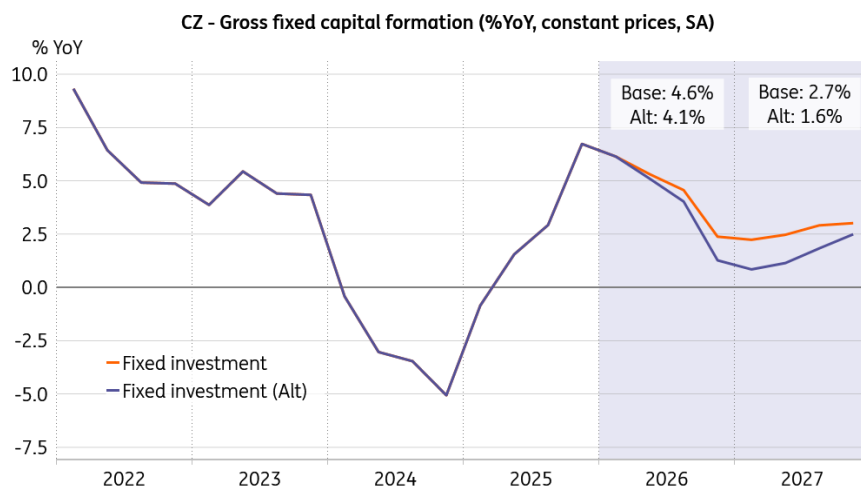
Source: CZSO, ING, Macrobond

Our base case scenario still delivers solid performance for the Czech economy for this year and next. However, should the disruption in the Middle East carry on, with Brent crude prices hovering above USD 100/bbl until December, issues for supply chains mounting, and uncertainty for consumers and businesses on the rise, we could see quite a different situation. The impact is likely to become more visible in the second half of this year, with potential repercussions for medium-term economic performance. For reflections of this kind in such eventful times, we can only tip our hat to Stanley Kubrick's [Dr. Strangelove](#).

Events come in packs

And voilà: can you change your mindset as rapidly as events evolve? The problem is that events tend to travel in packs rather than alone. Periods of elevated geopolitical tension rarely remain confined to a single issue and instead increase the risk that additional, unforeseen risks materialise elsewhere. As the Stoic say: Hope for the best, prepare for the worst. If you succeed in this subtle art, please, tell me how. Anyway, in that spirit of our *premeditatio malorum*, we would simply draw attention to our belief that the longer the conflict in the Middle East persists, the higher the probability that something else will go wrong.

Fixed investment is never a nice sacrifice



Source: CZSO, ING, Macrobond

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