

## Czech consumers drive economic recovery

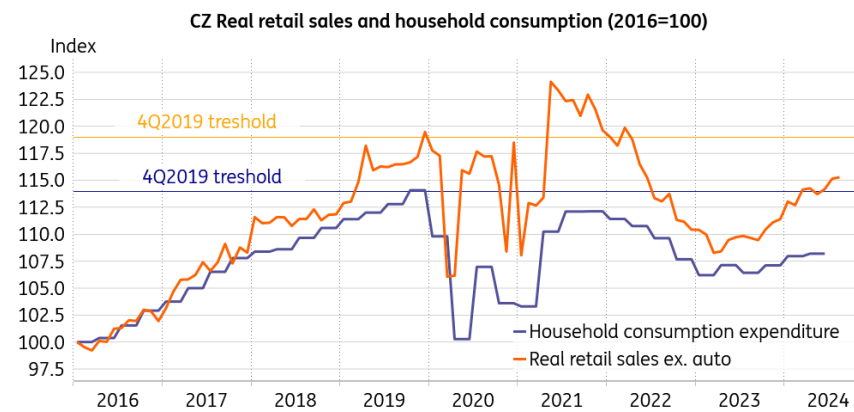
Czech spenders excelled in August, sending real retail sales 5.3% above the previous year's reading. The expansion exceeded market expectations, likely confirming household spending as a key driver of the economic rebound in the third quarter. Still, spending remains below the pre-Covid levels



### The shopping spree goes on, but the level remains below 2019

Czech real retail sales in August increased by 5.3% from the previous year excluding the automotive sector and added 0.1% on a monthly basis. Sales and repair of motor vehicles fell by 0.4% year-on-year in August but added 0.3% from the previous month. As compared to the previous month, fuel sales were up 2.1% in August, and non-food goods added 0.6%, while food real sales shed 1.2%. In annual terms, real sales in non-specialised stores with a predominance of non-food goods rose by 16.8% while online and mail-order sales increased by 16.1%.

## Private spending remains below pre-pandemic levels



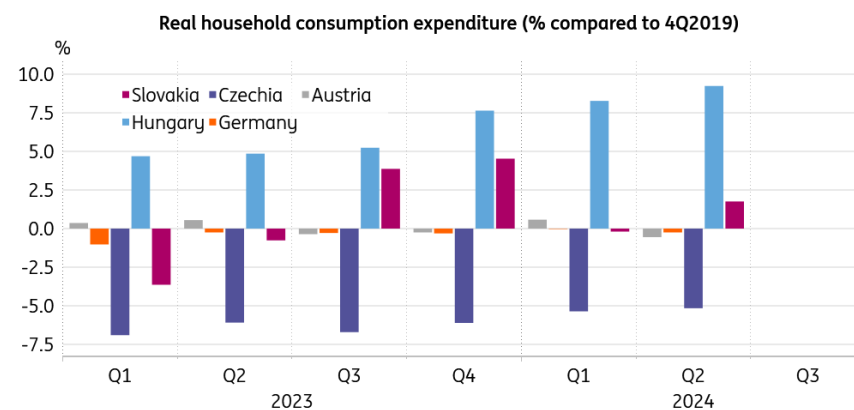
Source: CZSO, Macrobond

When looking at the levels, real retail sales have been on an upward trend since roughly mid-last year, turning private spending into the key driver of the economic recovery. However, the spending levels of the pre-pandemic year have not yet been reached, predominantly due to the 2022 downturn when spending was restrained by inflation peaking at 18% and hovering just above 15% for the whole year. With households benefiting from solid nominal and real wage increases, there seems to be some space to fill the gap. According to national accounts, household consumption shows a greater shortfall compared to 2019. Interestingly, it is recovering at a much slower pace and lags behind retail sales statistics. However, there is still ample opportunity for private consumption to grow and return to pre-pandemic levels.

## Heterogeneity in private consumption among neighbours

Considering other countries in the region, none is experiencing such a negative gap in private spending as Czechia when compared to the pre-pandemic level of 4Q 2019. Austria and Germany have crept up roughly to pre-Covid levels, while household consumption in Slovakia and Hungary has moved well above the threshold, according to the latest data. Meanwhile, Czech household expenditure remains more than 5% below its pre-pandemic levels.

## Czech household consumption is the laggard



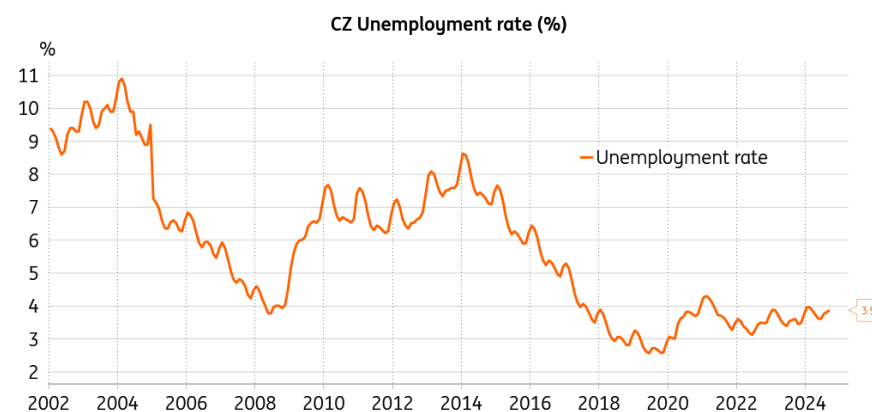
Source: Macrobond

Still, the recovery goes on, as real retail sales exceeded market expectations, signalling household expenditures should drive the third quarter rebound. Spenders' budgetary constraints have relaxed recently, as nominal wage growth has remained solid while headline inflation has moved close to the central bank's target. Overall, real wage growth provides enough firepower for the spending spree to continue for some time. This will factor into the Czech National Bank board's decision, with a new forecast due in November, price growth in the service sector remaining stubborn, and private demand beginning to surge.

## Tight labour market amid gradual recovery

According to the Ministry of Labour, the unemployment rate increased to 3.9% in August from 3.8% in the previous month. This is still very low given the historical standard, and the labour market conditions can still be considered tight. Nevertheless, the record lows of 2019 have been assigned to history given the mounting uncertainty to the global economic outlook, especially the challenges of German industry, which have had a profound impact on Czech exports.

## The unemployment rate remains low



Source: Ministry of Labour, Macrobond

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