

# Czech consumer confidence beats expectations

Consumer confidence gained in July, surpassing market expectations with the strongest reading since September 2021. Business confidence hovers just below its long-term average, though we expect the mood in industry to improve over the coming months. Robust recovery implies the need for a tighter monetary policy setup in the future



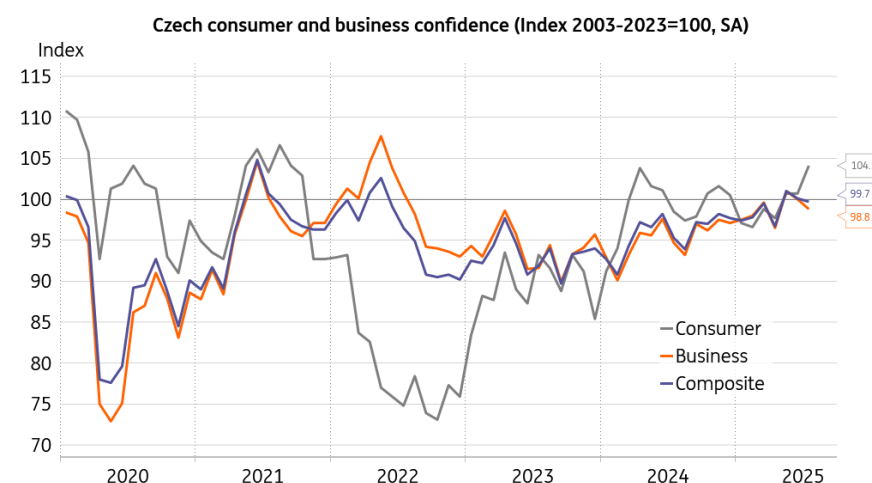
Czech consumers are becoming more optimistic

## Consumers are hopeful, business stays more grounded

Czech consumer confidence increased by 3.4 points to 104.1 in July, while business confidence shed 1.2 points to 98.8. Confidence there increased only in the trade sector (+2.6 points), while it decreased in selected service sectors (-2.1 points) and in industry (-1.0 points). Confidence in the construction sector was unchanged, although it remains at an elevated level.

Trust in the economy increased among consumers in July, with the share of those expecting a deterioration over the next year shrinking noticeably. The share of households expecting their financial situation to improve over the coming year picked up compared with June. Completing the hat-trick, the number of respondents who do not plan to make large purchases softened in the same month.

## Consumer confidence spikes



Source: CZSO, Macrobond

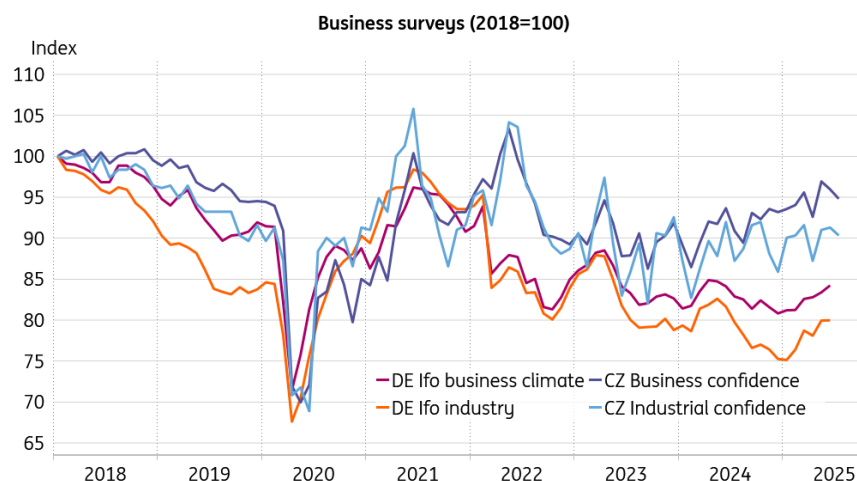
Consumer confidence reached its highest level since September 2021 in July, with households foreseeing a relatively bright future for the Czech economy and being optimistic about their financial situation outlook. We view the softer reading for business confidence as a transitory issue and believe that our hypothesis of Czech industry bottoming out remains valid. Domestic manufacturing is expected to receive a boost from the gradual rebound in Germany, which appears to have been underway since the start of this year.

## Simultaneous German and Czech recovery is an option

It remains to be seen whether such a rebound will prove a sustainable upward trend, also depending on the developments in the external environment, such as tariff negotiations with the US. On the one hand, one could be cautiously enthusiastic given the recent deal reached between the US and Japan; on the other, the EU will likely not pledge to acquire more US airliners and will be reluctant to commit to boosting agricultural imports.

So, things might be a bit more complicated compared to [Japan's position](#). Negotiation is a nuanced art. One might begin with a 20% tariff and adopt a passive stance, allowing the next round to commence at a 30% rate. However, the traditional EU strategy of waiting things out is unlikely to be effective this time, just as it has failed in the past.

## German rebound to foster Czech growth outlook

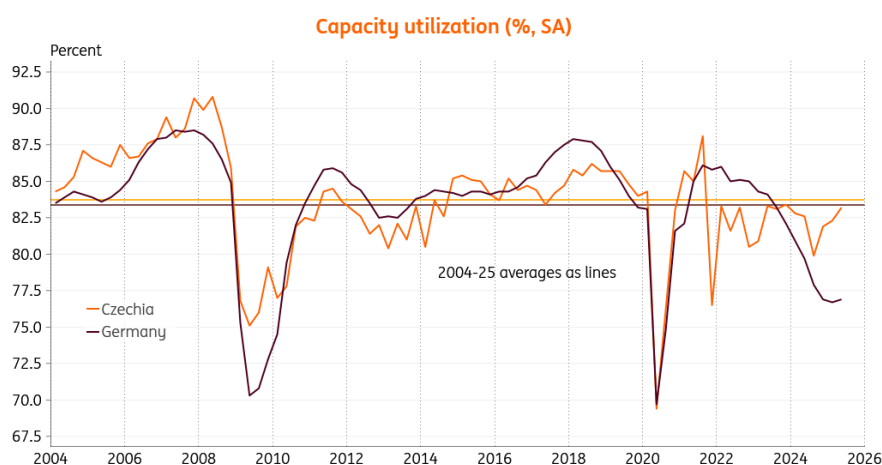


Source: Macrobond

Anyway, a simultaneous German and Czech recovery scenario cannot be excluded, which would not only propel Czech expansion further but would also exert pressure on depleting production resources, such as capital and labour. Such a development would ultimately imply a pro-inflationary environment. Capacity utilisation in Czech industry reached 83.2% in 2Q25, and there is still some space available before reaching the rates of 90% observed in early 2008.

The German economy has even more room to grow, given the disappointing economic performance over the past three years. However, the labour force could prove to be the bottleneck, especially when it comes to skilled and experienced workers. We reiterate our view that the Czech economy will expand by 2.3% this year and 2.5% over the next, with continued solid nominal wage growth of above 6% and above 5%, respectively.

## Czech capacity utilisation crawls up



Source: ING, Macrobond

Source: Macrobond

Should the simultaneous growth scenario gain traction, the tight labour market could present even

more potent upward risks to consumer inflation, and Czech policymakers may struggle to keep inflation within the tolerance band. Therefore, we see no more rate reductions as the base case scenario for the CNB. That said, things might start to evolve in the direction of a need for a tighter monetary policy setup sooner than generally expected.

## Author

### David Havrlant

Chief Economist, Czech Republic

420 770 321 486

[david.havrlant@ing.com](mailto:david.havrlant@ing.com)

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