

Mood among Czech consumers and businesses bounces back

Czech business confidence climbed across all sectors in September, with finance and construction leading the crowd. The mood among consumers broke the recent downward trend with a modest improvement, which could signal a bottoming out followed by robust spending in the coming months



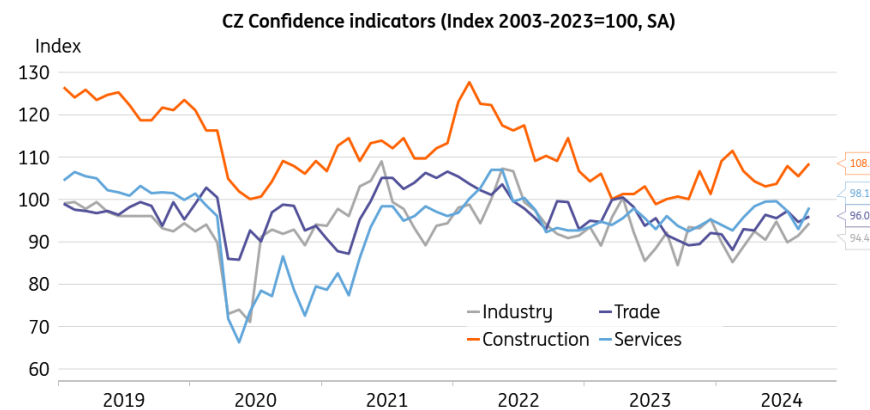
Spirits appear to be lifting for both businesses and consumers in the Czech Republic

Mood improves across sectors, with finance and construction taking the lead

Czech consumer and business confidence bounced back in September, with the consumer confidence indicator rising by 0.6 points to 97.9 and the business confidence indicator adding 3.8 points to 96.8. The reading for consumers was a tick stronger than markets had expected, while the reading for businesses was well above forecasts.

The mood among businesses improved across all sectors surveyed, adding 5.1 points in services, 3.0 points in construction, 2.9 points in industry, and 1.3 points in trade in September. Such a broad-based improvement was last recorded in April 2023. The financial sector was the most vital contributor to September's confidence increase.

Mood improves across sectors

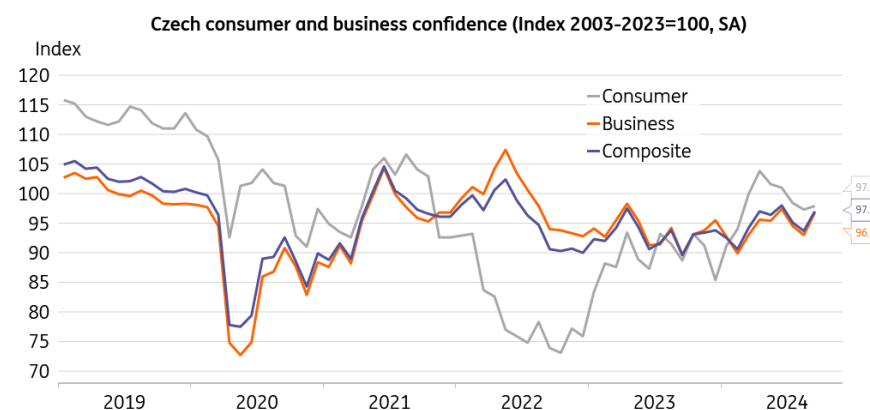


Source: CZSO, Macrobond

Consumer confidence picked up slightly in September after a four-month decline. At the same time, most of the monitored sections remained unchanged compared to the previous month, indicating a promising break in the downward trend rather than an outright improvement in spenders' mood.

The share of respondents expecting the economic situation in Czechia to worsen or their financial situation to improve over the next year remained almost unchanged in September. Even the number of households rating their current financial situations worse than in the previous 12 months hardly moved compared to August. At the same time, the proportion of consumers who see the current environment as being less than ideal for making large purchases decreased for the second month in a row.

Consumer sentiment broke the downward trend



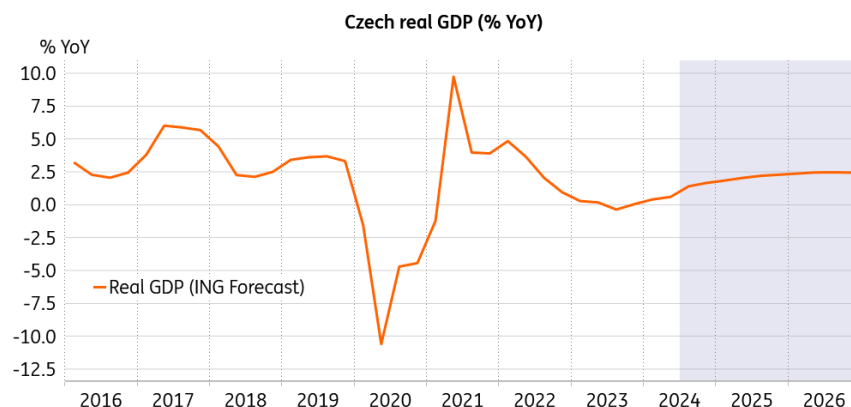
Source: CZSO, Macrobond

Real wage growth, credit growth and revived construction point to a continued rebound

We assess the nominal and real wage growth as still being bold enough to support household budgets, with demand catching up after the previous year's downfall. Consumer expenditure is

also set to foster the Czech economic rebound throughout the third quarter. The enhanced business confidence in the financial sector and construction is reflected in continued credit growth and renewed price increases in the residential sector. We will see whether the manufacturing output joins the expansion and finds its way out of the woods in the coming months, which will be key for the economic recovery to gain pace.

The gradual recovery is set to continue



Source: CZSO, ING, Macrobond

The expansion of 1% this year and an acceleration to 2.1% in 2025 is still our base case scenario for the Czech economy. At the same time, should consumer expenditure remain relatively robust or gain pace throughout the next year – and if it were coupled with increasing prices in the residential sector feeding through to the market and imputed rents – the implications would be pro-inflationary for the core rate. It would also take an extra effort to tame the still-persistent inflation in the service sector.

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