

Czech confidence slips again in September

Confidence in the Czech economy deteriorated this month, on the back of weaker confidence among businesses, especially in services, and households. And with Germany's confidence indicators reaching a 10-year low, no wonder Czech businesses aren't very optimistic



Source: Shutterstock

Confidence in the domestic Czech economy deteriorated in September compared to the previous month, owing to weaker confidence among businesses, especially in services, and households. Total confidence in the domestic economy is thus at its weakest level since the end of 2014 and below the yearly average in all segments.

Household confidence weakest since mid-2016

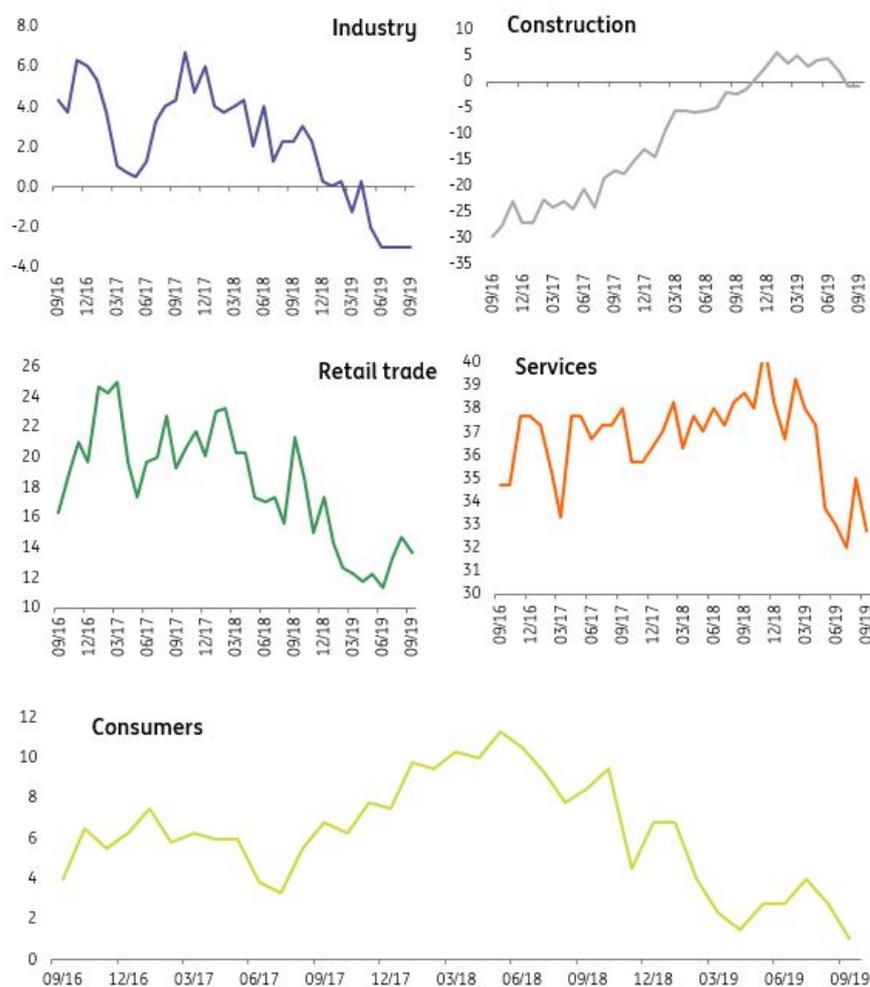
The decline in household confidence in September was due to concerns about the future economic situation. However, anxiety about household own financial situation hasn't really changed, as there are concerns around rising unemployment. However, households' intention to save have slightly decreased.

In September, household confidence thus reached its lowest level this year and at the same time the weakest since mid-2016. It is clear that the more frequent debates about the economic slowdown have had an impact on household confidence, but consumption remains at a solid level so far, being the most important growth factor this year.

Industrial confidence stagnates at six-year low

Confidence among entrepreneurs decreased again in September, mainly due to weaker confidence in services, where the surprising August growth corrected. Confidence in the industry has been stagnating for the fourth consecutive month at its weakest level since the end of 2013, which is related to the less favourable situation abroad in the manufacturing segment.

Czech confidence indicators



Source: CZSO, ING

External risks persist

The last few days have brought some relief regarding the US-China trade situation as the US postponed the planned tariff increase from 25 to 30% by two weeks, and China resumed purchases of some agricultural products from US farmers before negotiations restart.

In early October, another round of talks between the US and Chinese leaders is scheduled to take place in Washington, however, the question is whether any positive conclusions can be expected. While both parties talk about willingness to make a fair deal, each party has a slightly different idea of what fairness means. In particular, the issue of intellectual property remains a hurdle. As such, trade wars uncertainty will continue to burden the global economy not only this year but also in 2020.

We think even if President Trump made a deal with China sooner than expected, then he will probably turn his attention to the EU.

Confidence in Germany falling

In this environment, not only Czech business confidence is undermined. September's Manufacturing PMI from Germany and the euro area did not sound too good either.

Germany's went as low as 41.4 points, which is the weakest value in the last 10 years, and today's Ifo expectation components also reached a 10-year low. This only confirms fears that the German economy will contract in the third quarter and enter a technical recession, see more [Germany: Breather but no relief](#).

Not good news for the Czech economy

The global manufacturing industry has been in a complicated situation over the last year, given a combination of factors such as uncertainty about trade wars and Brexit, reducing investment, problems in the automotive sector or slowing demand from China. Unsurprisingly, that Czech economy sentiment is deteriorating and industrial confidence remains at its six-year low.

Recent figures are increasing the likelihood, that a negative scenario prepared by the central bank in its last forecast becomes gradually a baseline, see [Czech central bank preview: No change to its wait-and-see stance](#).