

Czech confidence fell in May amid higher business uncertainty

Economic confidence fell in May, close to a three-year low, mainly due to a decline in confidence in industry and services.

Household confidence increased slightly, but also remains close to mid-2016 levels



Source: iStockphoto

Household confidence slightly improved, but remains weaker

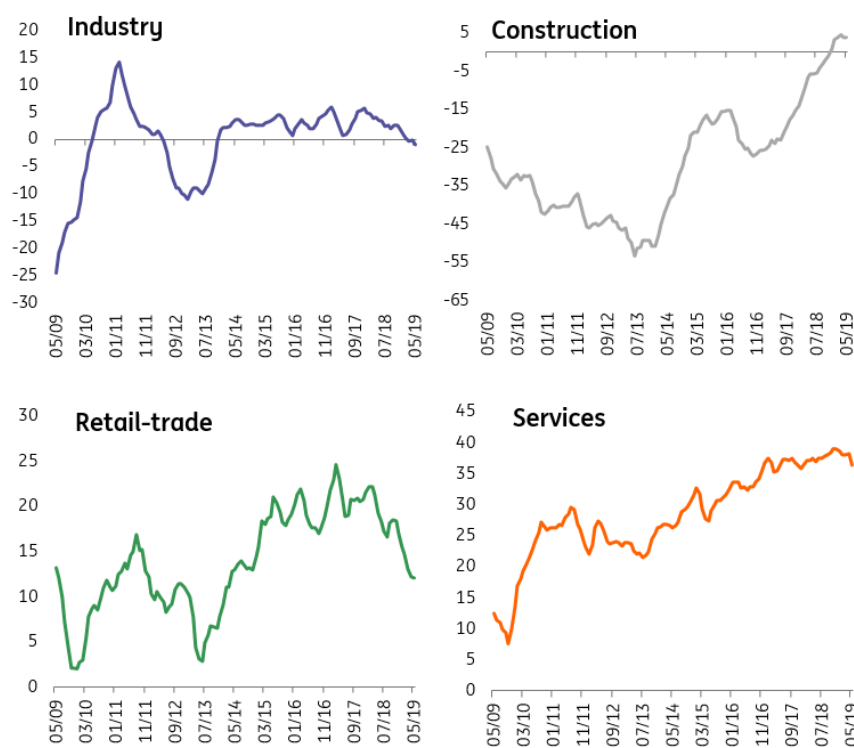
The slight increase in household confidence in May is attributable to reduced concern about rising unemployment and also to higher intentions to save. However, household concerns about future economic developments did not change in May and remain elevated, leaving household confidence near mid-2016 levels.

Industrial confidence lowest since end of 2013

Business confidence decreased in May, mainly due to declining confidence in services and industry, while confidence in the other closely-watched sectors increased slightly. In industry, the decline was driven mainly by worse expectations for the next three months, while the assessment of the current situation worsened only slightly. Though the "expectation" sub-component was

likely influenced by forthcoming summer month shutdowns, total industrial confidence dropped to the lowest level since September 2013.

Business sector confidence (3M-avg)



Source: Czech Statistical Office

Other business segments under pressure besides construction

The services sector, like construction, had maintained confidence levels this year close to historical highs. But uncertainty abroad has gradually spread to industry and retail trade-reaching levels last seen in 2014- and to services, where confidence hit a three-year low in May. As such, total business confidence declined to the lowest level since the end of 2015. Construction remains the only segment with confidence above its one-year average.

Risks stemming from abroad remain elevated

Given the re-escalation of the trade war between the United States and China, it is not surprising that confidence indicators remained on a weaker footing in May. This is in line with developments in Germany and the eurozone and points to risk ahead, especially in the manufacturing segment.

The flash manufacturing PMI in the euro area remained in contraction territory in May while Germany's PMI has been below the key 50-threshold for five months in a row. Perhaps the most watched leading indicator in Germany, the Ifo index, continued to fall in May and is at its lowest level since the end of 2014. At least there is still a relatively positive picture in services, where the purchasing PMIs continue to signal growth, though some decline was also apparent here in May, as in the Czech case. All this suggests that risks related to foreign developments remain elevated, bringing uncertainty for domestic

industry, which is highly sensitive to the performance of German industrial manufacturers.

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