

Czech confidence softens but recovery goes on

Czech confidence indicators somewhat softened in May, but we do not perceive this as a threat to the cyclical recovery so far. Households are willing to spend yet are tracking headline inflation carefully

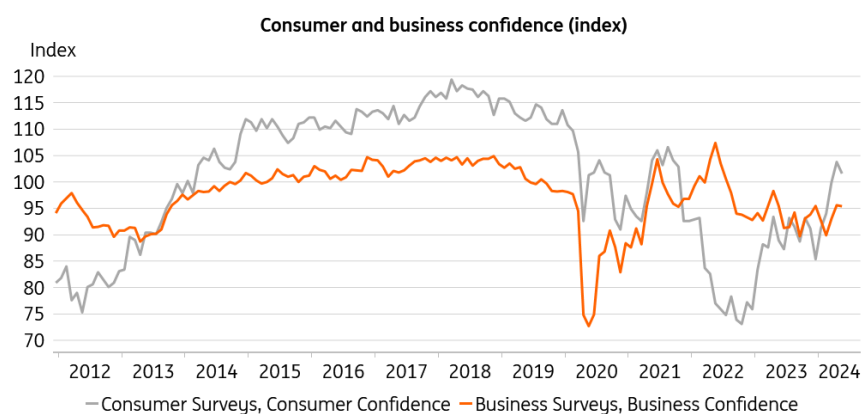


Pessimism about economic outlook bites

The consumer confidence indicator in May shed 2.2 points to 101.6, with the proportion of respondents expecting the overall economic situation in the Czech Republic to deteriorate over the next 12 months increasing noticeably. In contrast, the number of consumers rating their current financial situation worse than in the previous year remained almost unchanged, as did the number of respondents expecting their financial situation to improve over the next 12 months. The proportion of consumers who believe that the current period is not a good time to make large purchases has barely changed.

The business confidence indicator softened only slightly, by 0.2 points to 95.4, with weakness in the construction sector (-1.2 points) and in industry (-2.0 points). Meanwhile, confidence among businesses increased in the trade (+3.7 points) and service (+1.1 points) sectors. It is good news for next quarter's economic performance that the business survey confirmed a strong positioning in exports and services, which likely represent the main drivers of the current economic recovery.

Confidence deteriorated in May but not significantly



CZSO, ING

Elevated headline inflation is a threat to future growth

The Czech confidence indicators came in below market expectations, but we do not perceive this softening as a threat to the cyclical recovery so far. Still, Czech households are rather sensitive to headline inflation, which jumped to 2.9% in April. If it remains within the Czech National Bank's tolerance band over the second half of the year, we believe that real wage growth and improved household balance sheets will contribute to robust spending. However, should the overall consumer price growth crawl above the psychological 3% threshold, consumers could easily panic and start to close their wallets.

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