

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

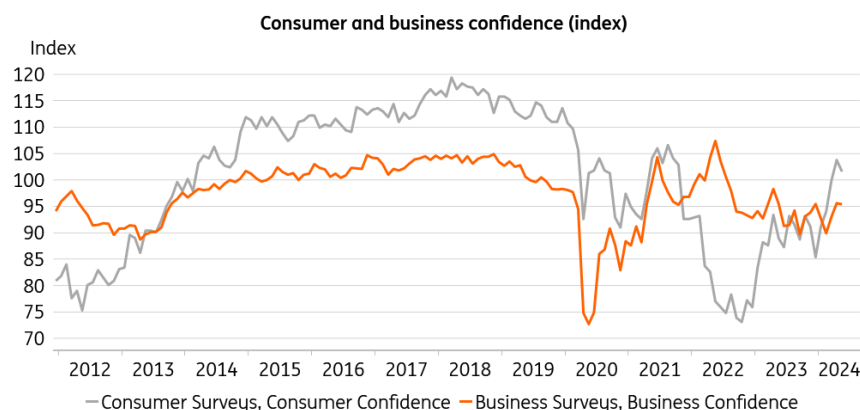


Pessimism about economic outlook bites

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.

Author

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the

Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.