

Czech confidence stagnates to three-year low

July's confidence remains broadly unchanged compared to the previous month. The decline in confidence among entrepreneurs was offset by higher consumer confidence, but business confidence is the weakest in about the last six years



Source: Shutterstock

Consumer confidence improved in July

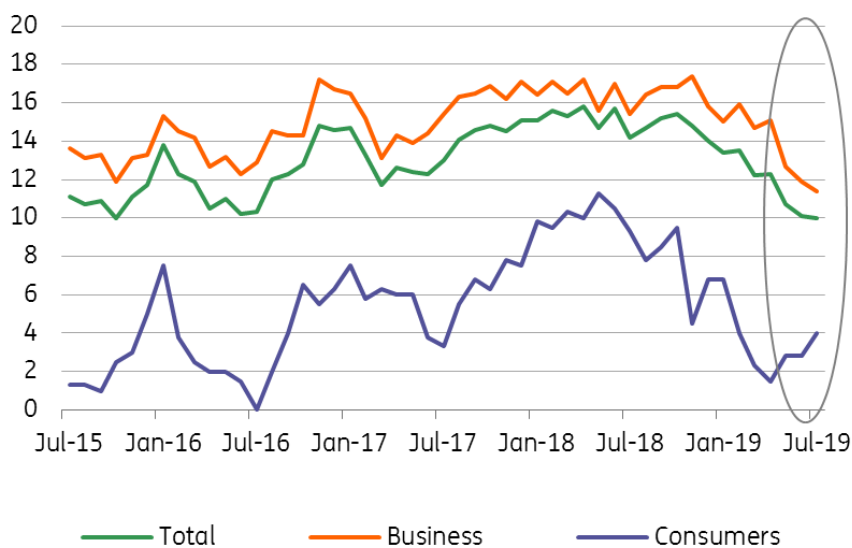
Some increase in household confidence in July was due to their lower concern about the worsening economic situation. This is probably due to the fact that, despite worse news from abroad in recent quarters, the domestic economy continues to perform well and consumers are less worried about the future. Consumer confidence thus increased in July and is at the highest since February this year. However, average consumer confidence this year is close to the 2016-average.

This is a weaker figure in the context of the last few years, but it is still a relatively positive development in the long-run perspective.

Business confidence weakest since mid-2014

Confidence among entrepreneurs declined further in July, reaching the lowest level since August 2014. The decline in July was mainly due to a decline in confidence in construction and services. Some decline in the construction sector is not so bad, as confidence is close to its historically highest level this year, but confidence has declined in services for the fifth consecutive month and dropped to its weakest level in the past three years. Confidence in the industry remained unchanged in July, but it remains at the lowest level in almost six years.

Confidence Indicators (SA, diffusion ind)



Source: CZSO, ING

Not the best year

This year, the confidence indicator started to deteriorate relatively quickly and the average level is slightly below the 2016-average figure. Confidence has declined most in industry and has reached its lowest level since September 2013, most likely driven by slowdown in the automotive industry, trade wars and uncertainty associated with Brexit. Confidence in trade has also started to decline and is currently below the 2014 average. Confidence in services remains high but has also started to decline in recent months and is the lowest in the last three years. Despite the July decline, high confidence is thus maintained only in construction.

Global situation remains fragile

As such, a relatively rapid decline in confidence indicators this year suggests that the situation in the domestic economy remains uncertain due to global developments.

Although the United States and China trade talks are due to resume again next Monday, the chances of a quick resolution are relatively low. This means that uncertainty about the future development of the world economy remains high, and it is only a matter of time before weaker confidence indicators start to reflect more in real terms due to lower household consumption or investment by firms. And July's manufacturing PMI from Germany, touching a seven-year low, underlines the fragility of the current economic

situation.