

Czech confidence uptick suggests recovery remains on track

Czech consumer and business confidence improved in November, exceeding market expectations. The mood picked up in the services sector and construction but deteriorated in industry. Households' willingness to spend on services and propel the residential market adds to potential upward risks to inflation

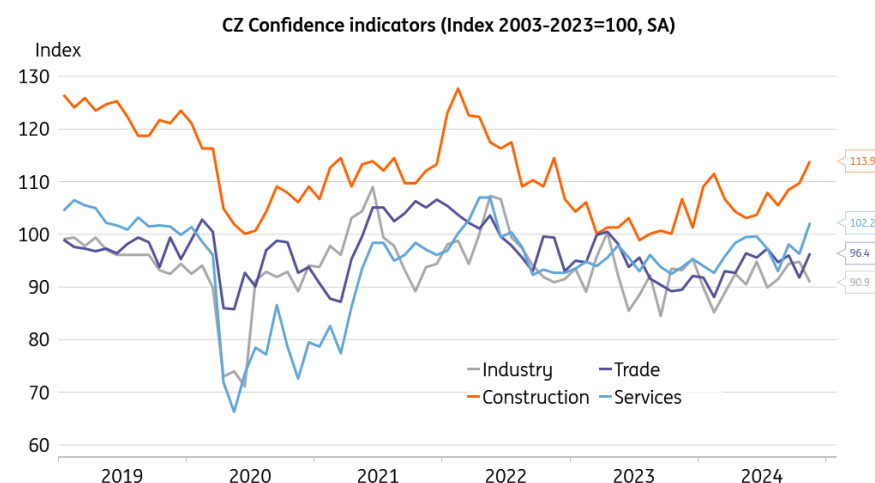


Source: Shutterstock

Consumer, construction, and services above 100

Czech consumer confidence rose to 101.6 in November, adding 0.9 points from the preceding month. Business confidence jumped to 97.3, up 1.3 points from the previous reading. The aggregate indicator improved to 98, allowing all three indicators to exceed market expectations. Business confidence in selected service sectors has risen above the long-term average for the first time since July 2022, mainly reflecting the significantly higher demand expectations in the financial sector. November's confidence in trade also improved, reaching the highest level in four months. Economic sentiment is also gradually improving in the construction sector. Meanwhile, confidence in industry deteriorated from October.

Services and construction take the lead



Source: CZSO, Macrobond

November's survey confirmed the continued improvement in consumer sentiment, which picked up for the third consecutive month and remained above its long-term average. The improvement reflects a noticeable shift in the proportion of consumers who believe the current period is unsuitable for making large purchases, which has significantly eased. Still, the respondents remain cautious, as can be seen in increased concerns about further price increases.

Service price momentum and increasing rents are risks to inflation

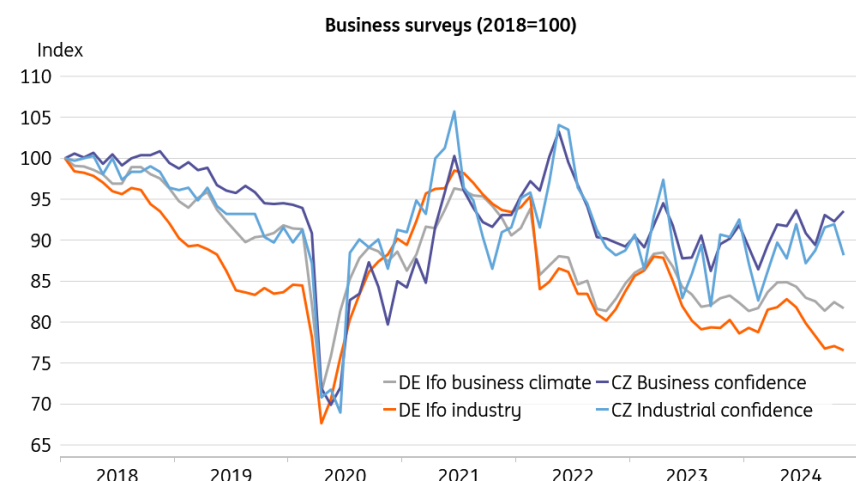
We see the consumer remaining in good shape and benefiting from real wage increases, which will provide enough fuel for further spending. The rebound in residential property purchases and an acceleration in credit make the resurgence in construction broad-based and supportive of economic expansion. The upward pressure on property prices is set to gain traction over the coming quarters, with demand significantly exceeding supply in this segment. This increase in property prices should put upward pressure on both market and imputed rents, which will likely foster core inflation in the coming months.

Service sector confidence above its long-term average suggests that spending in this sector remains robust, indicating persistent price growth momentum. Policymakers' hope that continued disinflation in services would bring annual prices back to some 3.5% seems to be fleeting. Indeed, services inflation picked up to 5.3% in October. At the same time, the surveyed consumers still seem to worry about inflation running high, providing food for thought for the Czech National Bank and a non-negligible view to enter the decision function.

Medium-term expansion requires industry to bottom out

Sentiment in industry deteriorated, failing to establish an upward trend. The November dip likely reflects the elevated uncertainty linked to potential tariffs from the new US administration and deepening worries about the structural fitness of the German economy. The consumer may still be solely responsible for supporting the Czech recovery, which is not enough in the medium term.

Both Czech and German industry remain under pressure



Source: Macrobond

Nevertheless, the CNB faces a continued rebound in household spending and a pickup in the construction sector, for now, in conditions of a still-tight labour market, which will exert upward pressure on consumer prices and rents in the coming months and quarters. We see inflation peaking at 3.4% in December and remaining above the CNB's target for the rest of the year. The elevated consumer price dynamics, combined with the heightened sensitivity of Czech households to inflation, will likely skew the CNB's approach towards more caution in the coming meetings.

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 www.ing.com.