

Snap | 25 November 2024

# 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

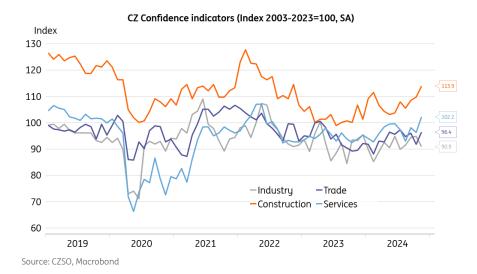


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# Consumer, construction, and services above 100

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



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.

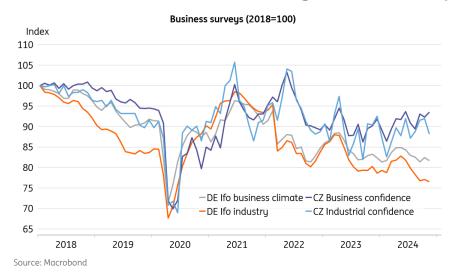
# Medium-term expansion requires industry to bottom out

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.

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### Both Czech and German industry remain under pressure



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.

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