

Czech: Consumer confidence falls to one-year low

Total confidence in the economy declined slightly in November. While business confidence improved a touch, consumer confidence fell to a one-year low, driven by concerns about a possible economic slowdown ahead



Source: Shutterstock

Consumer confidence deteriorated

November confidence deteriorated slightly, mainly due to sharply decreasing household confidence, which fell to the lowest level since mid-2017. While this wasn't bad in terms of the total level of confidence, the intensity of the decline was relatively steep and such a fall hasn't been seen since November 2011. This was due to rising concerns about the overall economic situation in one-year's time (contributing around 60% to the overall decline in confidence) but also a result of concerns about higher unemployment (25% impact to monthly decline) and worsening expectations about households' financial situation.

Subindicators of households confidence



Source: CZSO, ING Bank

Business confidence slightly better

Business confidence improved slightly in November mainly due to growing optimism in the construction and service sectors. In contrast, confidence in industry and retail trade has fallen and is below both the three-month and one-year average. This is a trend seen more generally in recent months. Confidence in services and construction is improving and near 10-year highs while industry and retail trade have been on the softer side and weaker than in the previous year. This underlines the fact that the growth of the domestic economy this year has shifted from industry to services.

Weaker household confidence mirrors slowdown expectations

The November fall in household confidence was surprising, particularly the intensity of the month-on-month decline, which was the steepest in years. In contrast to business indicators, however, the consumer confidence indicator is mainly based on household expectations over a one-year horizon. The indicator thus responds more to the moods of households than to the current situation. Households could be responding to concerns about an economic slowdown ahead as data in recent months has disappointed.

Households' current situation remains favourable due to low unemployment and rising wages. But if negative sentiment persists, it will undermine so-far strong household consumption and contribute to a further deceleration of economic activity, as household spending is supposed to be the main driver of economic growth both this and next year.