

Czech households become less optimistic in January

Confidence in the Czech economy decreased in January, mainly due to weaker confidence among consumers, where concerns about future economic growth significantly increased. Business confidence broadly stagnated



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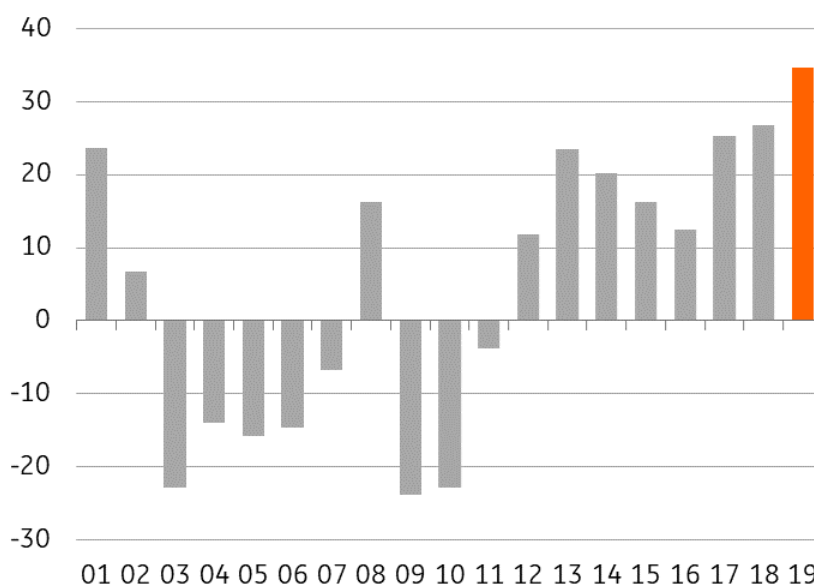
Household confidence has gradually declined over the past year due to negative news coming from abroad, reaching the same level last year as the average rate in 2015. Despite this, household spending remained favourable and was one of the main drivers of domestic economic growth. The decline in household confidence in January is somewhat surprising given that concerns about the world economy began to dissipate at the turn of the year. However, it is possible that there is a delay between better global sentiment and the perception of Czech households.

The decline in confidence was driven mainly by concerns about a worsening economic situation but household concerns about their own financial situation or rising unemployment remained unchanged. This suggests that consumer demand could hold up and household consumption should continue to support the domestic economy, albeit slightly less than last year.

Fears about price growth are mounting among consumers

Concerns about price growth remained at the same level as in December. Interestingly, consumer concerns related to price growth, which the Czech Statistical Office monitors as a part of its confidence indicators, reached the highest level last year in the series history, i.e. almost 20 years. And considering the forthcoming tax rises and the potential for higher food/housing prices, this indicator might not fall anytime soon. This could become an argument for some CNB board members to support one prudent rate hike in coming quarters to signal that the CNB has not given up on its price stability objective.

Consumers' concern about inflation (year average)



Source: CZSO, ING

Business confidence broadly stagnated in January

Confidence among entrepreneurs decreased slightly in January. The slight improvement in confidence in industry in December was corrected this month, but confidence in services and trade increased, offsetting the decline in industrial confidence. The overall confidence of entrepreneurs is at the weakest level since the beginning of 2014. In services, the decline in confidence is mainly due to concerns about the future, while the assessment of the current situation remains relatively positive.