

Czech recovery bolstered by consumer spending

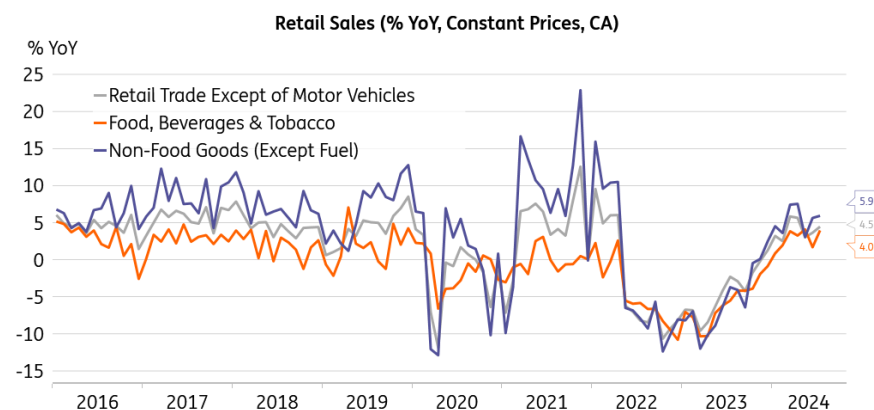
Czech consumers entered the third quarter in a confident mood, with real retail sales adding 4.5% in July from a year earlier. This reading beats market expectations and shows households are still keen to spend and drive the economic rebound



Good start to the second half

Czech real retail sales, excluding motor vehicles, increased by 4.5% in July from a year earlier, coming in above expectations. Sales of non-food goods added 5.9% year-on-year, and food sales picked up by 4.0% in annual terms. Overall, we see a continued upward trend in household spending, following a hiccup in May. The strongest channels for the gains were seen online and in non-specialised stores with food dominating. In seasonally adjusted terms, retail sales added a solid 0.7% in July on a monthly basis, with a 1.3% month-on-month increase in food and a 0.4% gain in non-food goods from the previous month.

Robust retail sales indicate the recovery goes on

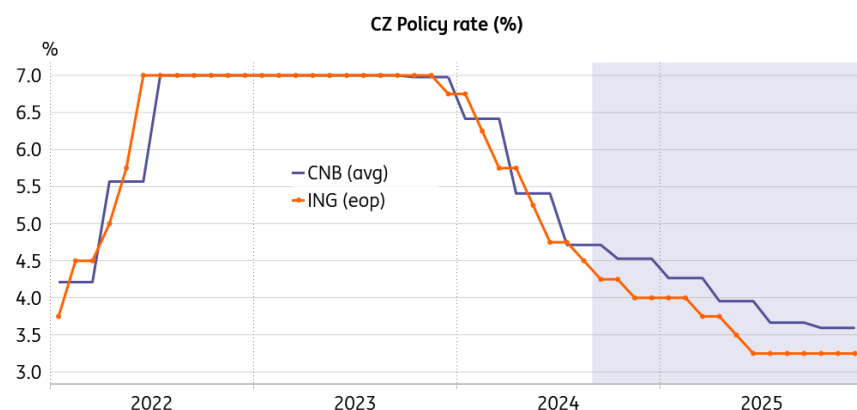


CZSO, Macrobond

Consumer demand is strong while manufacturing lags

Consumers entered the third quarter on a solid footing, benefiting from continued real wage growth against a backdrop of tame inflation. Despite softer household expenditures in the 2Q GDP reading, consumers did not seem to lose their appetite to spend, which is good news for the economic rebound. Meanwhile, we would like to see a bottoming out of the Czech supply side, which has been deferred by stalling foreign demand, especially from Europe's main trading partners. A protracted stagnation in Germany, including the disappointing GDP performance in the second quarter, has turned the former engine of Czech exports into a dead weight. We will see how far and for how long the Czech rebound can be serviced by consumers alone.

Policy rates set to decline rather gradually



CNB, ING, Macrobond

July's solid retail sales reading will likely support the hawkish stance of the Czech National Bank. Its summer forecast of average rates indicates potentially no more rate reduction for this year or a late-year soft cut, while our take counts on two more soft rate cuts, bringing the policy rate to 4% at the end of the year. That said, the real retail sales dynamic of 4.5% is just below the historical average of 4.7% recorded during times of robust economic expansion between 2016 and 2019 when the economy added some 3.5% on average to its size in annual terms.

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