

Czech Republic: Confidence hits 10-year high

Economic sentiment slightly improved in February due to stronger confidence in construction and the services sector. Consumer confidence is close to a record high



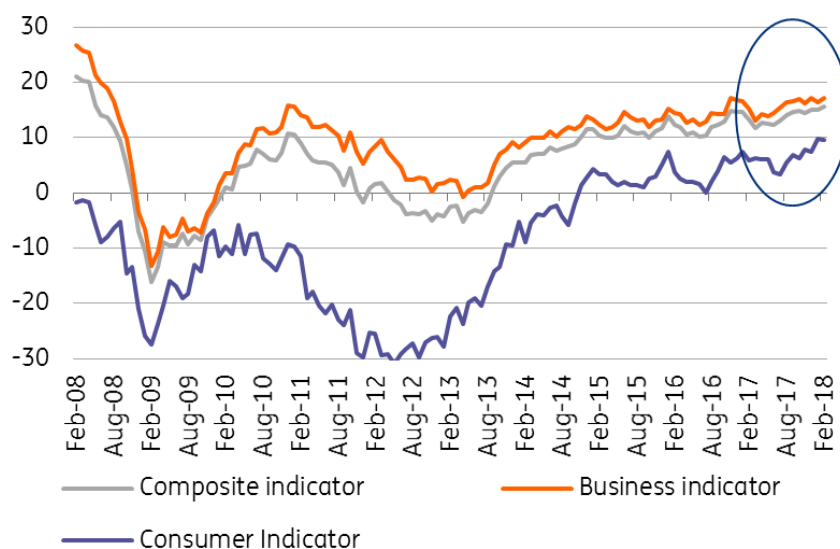
Source: Shutterstock

Consumer confidence declined slightly as expected

Total confidence in the Czech economy slightly improved in February, mainly due to increased optimism in the construction and services sectors, while consumer confidence fell slightly as expected.

Consumer confidence has been following a similar trend over the last few years, with sentiment improving in January and hitting historical highs only to pull back in February. Similar developments occurred this year, with consumer confidence declining in February due to slightly higher concern about the overall economic situation. However, this decline was only moderate compared with previous February prints, and consumer confidence remained close to a record high. This suggests that consumers are still perceiving the current economic situation very positively and household consumption should remain strong in the coming months.

Confidence Indicators (seasonally adjusted, points)



Source: CZSO, ING Bank

Business confidence gradually approaching to pre-crisis levels

While consumer confidence has surpassed its 2007/2008 historical high, the business sphere is just gradually returning to the levels of confidence seen ten years ago (see the chart). February's improvement to the highest level since mid-2008 was driven by higher confidence in the construction industry and services sector, which have both reached the best level since 2008. Confidence in industry fell slightly due to the weaker assessment of order-book levels, in YoY terms, which just stagnated.

All watched segments with confidence above-its 1-year average

All in all, February indicators surprised on the upside and signalled optimism about the economy, while confidence indicators from the Eurozone and/or Germany so far suggest more pronounced deterioration. Although a correlation between confidence and the real output of the construction sector is relatively weak, many sub-indicators in construction hit multi-year highs in February, which suggests a more optimistic outlook for this sector. Other sectors are also doing well with February confidence surpassing the one-year average for all watched segments. Given strong household confidence, we are looking for solid consumption demand in forthcoming months. This should be the main driver of Czech growth this year given a tight labour market.