

Czech retail sales rebound but external headwinds persist

Retail sales added 3.5% annually when adjusted for price effects, coming in above market expectations. Households have enough resources from solid wage growth in the first half of the year. Nonetheless, sentiment will be the key when looking ahead, as the external environment becomes wobblier

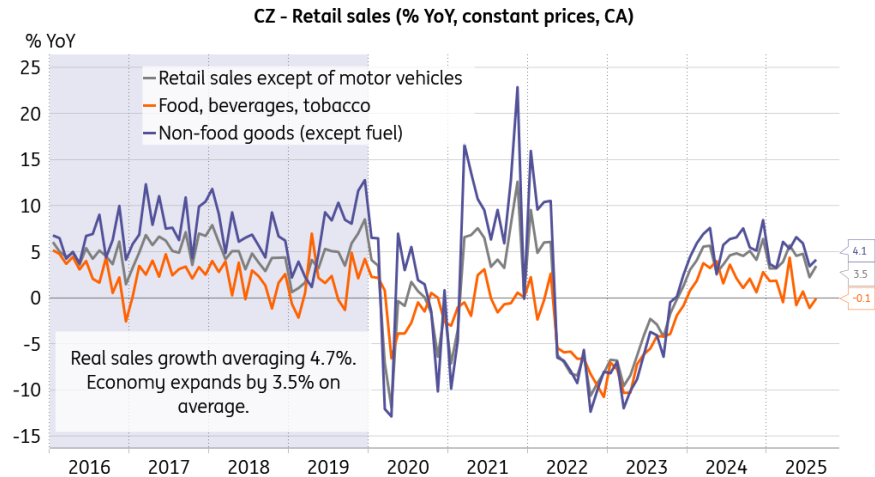


Prague, Czech Republic

Retails sales not too bad

Czech real retail sales added 3.5% year-on-year and 0.6% month-on-month in August, with the annual dynamics stronger than market participants had expected. Sales of motor vehicles gained 8.1% YoY and 0.2% MoM. Real sales of fuel increased by 10.9% YoY and of non-food goods by 4.1% YoY, while food sales declined by 0.1% YoY. Sales grew in all product groups in non-food stores, except for stores selling computer and communication equipment.

Resources for spending are available, but sentiment will matter



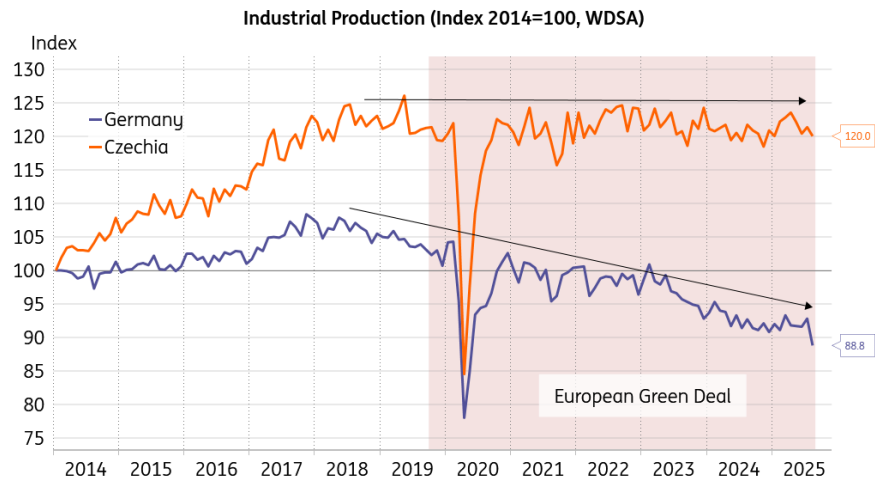
Source: CZSO, Macrobond

Real retail sales have historically grown at an average pace of 4.7% when consumers are confident and willing to spend freely, as seen during the 2016–2019 period when the economy expanded by an average of 3.5% annually. So, a 3.5% annual growth rate in real retail sales is respectable, but the current level has remained stagnant since April. Given the robust nominal and real wage increases throughout the first half of the year, we maintain our hypothesis that this is merely a *largo intermezzo* - a pause before a *molto vivace* resurgence in spending towards year-end.

The foreign environment is wobbly

In the medium term, however, this also comes down to the overall European economic performance, particularly the main trading partners of the Czech exporting base within the eurozone. We saw a sharp decline in German industrial production in August, accompanied by deteriorating business climate indicators for September.

German recovery is not in sight



Source: Macrobond

Add the political turmoil in France right now, and it inevitably raises questions about how all of this might ripple through to Czech exporters and the overall industrial performance. Indeed, the Czech economy is not immune to significant underperformance in the eurozone, and this poses a substantial risk to a fully-fledged expansion when looking ahead. Downward risks stemming predominantly from the external environment and potentially weak foreign demand will also be reflected in the CNB's decision function, confirming rate stability as the optimal answer for now.

Author

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.