

Czech spending bolsters sentiment in the service segment

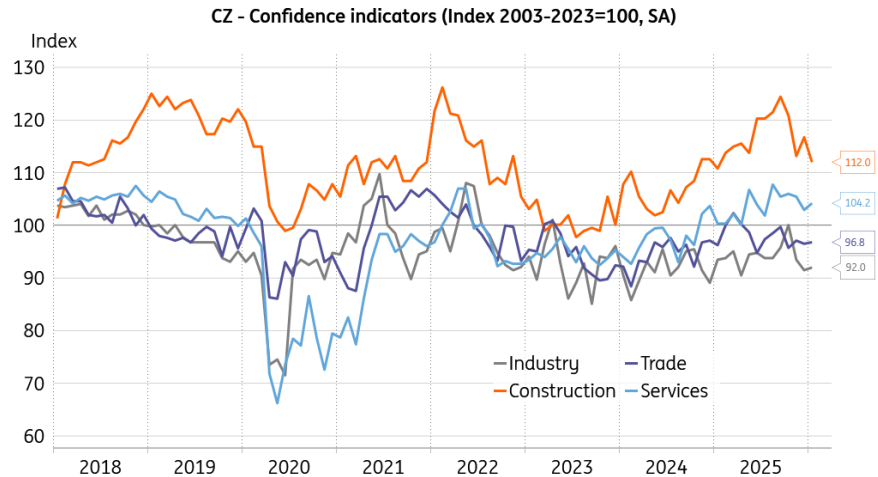
Business confidence improved in January across sectors except for construction. Services performed well, driven by demand from households with more relaxed budgets following the reduction in energy bills. Meanwhile, consumer confidence suffered amid concerns about economic prospects. Still, discretionary spending may drive core inflation



Services do well, construction under pressure

The Czech consumer confidence indicator shed 2.8 points in January, softening to a still-cheerful 108.2. Meanwhile, the business confidence indicator increased moderately by 0.6 points to 98.6. The composite confidence indicator remained unchanged at a solid 100.2 points. The drop in consumer confidence was a downward surprise vis-à-vis market expectations, while the improvement in business confidence was only marginally less pronounced than markets had foreseen.

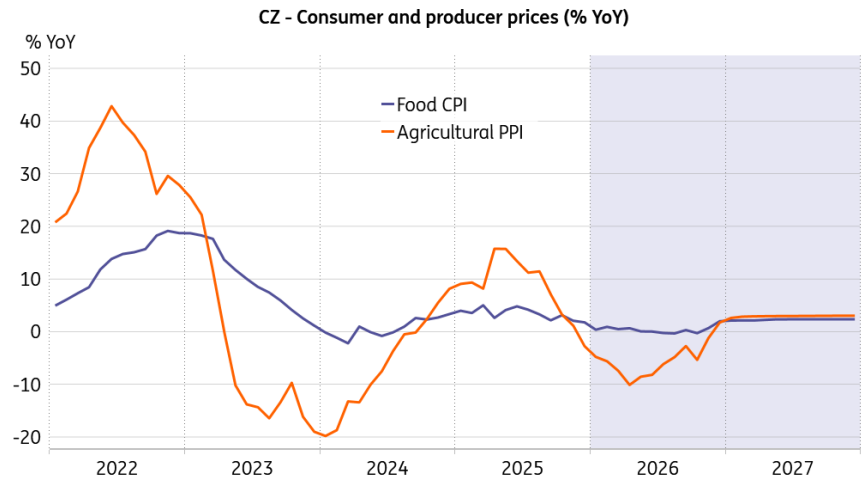
Services are set to thrive



Source: CZSO, Macrobond

At the beginning of the year, confidence in the economy increased in the service sector (+1.3 points), industry (+0.5 points), and trade (+0.3 points). The better mood in industry mainly reflected an inventory drawdown, a better assessment of the economic situation in the retail sector, and increased demand in selected services. In contrast, business confidence in the construction sector deteriorated to 112 points in January, following a downward trend from the record high observed in September. The share of consumers expecting the overall economic situation in Czechia to worsen over the year has increased compared to December. At the same time, the share of households expecting their financial situation to improve over the next year has advanced slightly. Consumer confidence suffered amid growing concerns about the economic outlook among Czech households.

Energy prices will push down food prices

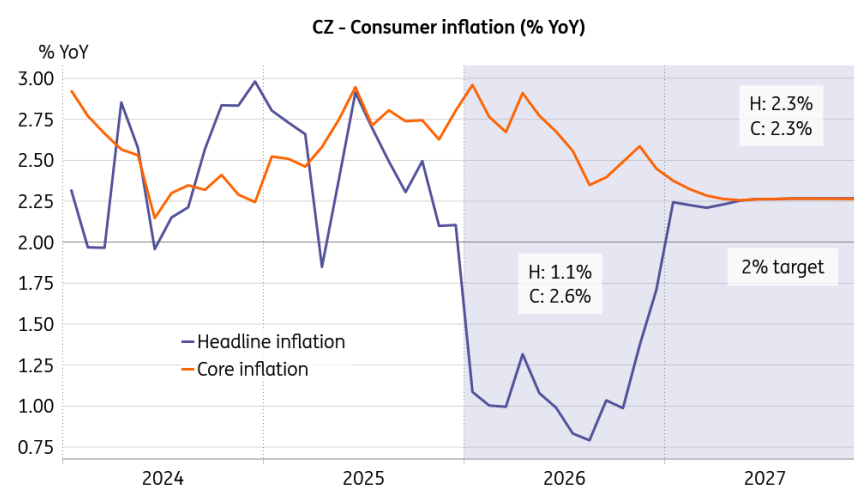


Source: CZSO, ING, Macrobond

Core inflation navigates the unfathomable interplay of colliding forces

Overall, we highlight the rising demand for services, which supports our hypothesis that households have more relaxed budgets due to lower energy bills and are boosting discretionary spending. Price dynamics in the service sector are one of the key elements for the Czech National Bank when assessing whether an easier monetary policy is warranted. There will be many antithetical forces at play with core inflation. For example, soft pricing in the agriculture and food segment could prevent restaurants from raising prices, exerting downward pressure on service-sector inflation. Nevertheless, with potentially upbeat demand, the temptation to raise margins might be too great. And with this in mind, core inflation is like a feather in the wind. We still expect it to trend lower around mid-year, opening the door to one rate reduction.

Core inflation could decelerate in 2H26



Source: CNB, ING, Macrobond

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