

## Czech consumers remain upbeat amid gloomy industrial outlook

Czech business confidence dropped in December, with the mood in industry turning dark. Still, consumer confidence remained relatively bright, dropping only slightly. The question is how long the economy can sustain its growth pace if the recent stabilisation in industry proves a false dawn. We're cautiously optimistic, but doubts persist



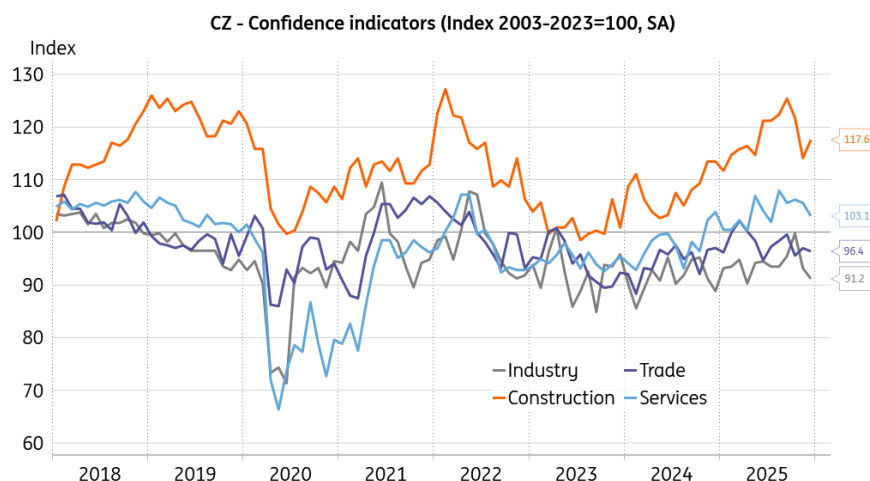
The old Vyšehrad train bridge in the early sunrise fog, Prague

### Industry's mood hammered back to Hades

Czech business confidence indicator shed 1.9 points in December, declining below the long-term average to 98.0, with services and industry being the main drags. That said, the mood in the service sector remained relatively upbeat at 103.1 points. Meanwhile, confidence in manufacturing dropped back to the cold swamps of 2023-24, calling into question whether the recent stabilisation of the Czech industry will endure. European industry has offered many such mirages in recent years – *vanitas vanitatum*, as the saying goes.

The only gain in business confidence in December was recorded in construction.

## Confidence in manufacturing slides

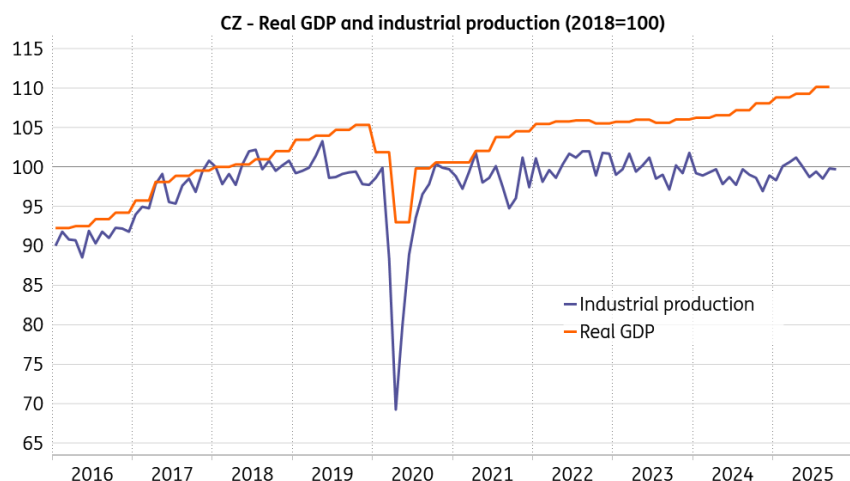


Source: CZSO, Macrobond

Looking on the brighter side, the consumer confidence indicator corrected slightly after three consecutive strong gains, remaining upbeat at 111.1 points. The question we have been asking for quite some time is: how long can this carry on without the industry rising from the ashes decisively?

So far, the consumer has been more resilient than we have expected. We suspect that, without improvements in the industrial base, pressure here will inevitably build. With Czech industrial production stagnant since 2018, and real GDP gaining 10% since then, we must consider that something has been changing.

## Real GDP decoupled from industrial output



Source: CZSO, Macrobond

We will soon determine whether there is sufficient room for the economy to continue its shift toward services, and when this potential will eventually be exhausted. With this in mind, it would be beneficial to create conditions that enable the industry to thrive again.

We see the industrial heavyweight among EU member states moving in the right direction, with the German and Czech governments taking their first steps to make life easier for their industrial base, no longer paying much attention to the European Commission sitting on its hands. How this will all play out remains uncertain, even given the tough and, in many respects, unfair Chinese competition. We are still cautiously optimistic about the outlook.

Stay tuned, have a Merry Christmas, and all the best for the upcoming year.

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