

5. Prices

Price level increased only by 0.8% in the year-on-year comparison in Q2 2016

The price level based on the implicit GDP deflator¹ increased by 0.8% year-on-year in Q2 2016, which was less than the value for the previous quarter (+1.3%). Prices of goods and services consumed by households practically stagnated year-on-year in both quarters of 2016 (the same values of +0.1%). The growth of prices of products purchased by the government institutions (+1.6%) was mildly higher in Q2 2016 year-on-year. On the contrary, the prices of investment (resp. gross fixed capital formation) stagnated year-on-year in the same period. The terms of trade in the foreign trade were thus the only more significant contribution to the growth of the implicit deflator, reached the same value of 101.4% in both quarters so far in 2016, especially thanks to the terms of trade with goods, where there was a value of 101.5% reached in Q2 2016.

Year-on-year growth of consumer prices remained weak also in Q2 2016, ...

Consumer prices increased by mere 0.2% in the year-on-year comparison in Q2 2016, which was even less than 0.5% in the preceding quarter. Their year-on-year dynamics thus have not overtaken the 1% boundary already ten quarters and it remained below the goal set by the CNB at the level of 2% even fourteenth quarter. Changes in Q2 2016 were reflected in the mild slowdown of the year-on-year growth of the market prices to 0.3% (from 0.4% in Q1 2016) and regulated prices to 0.2% (from 0.7% in Q1 2016). The inflation rate expressed as the addition to the average consumer price index for the last twelve months against the previous twelve months was equal to 0.4% from January to May and it lowered to 0.3% from June to August.

...when the price of oil was the lowest since the beginning of the year 2004 on the world market and deflation of manufacturers in the euro area and falling prices of agricultural producers also contributed to the dampened development in the CR

The low prices of oil are among the sources of the lasting indistinctive growth of consumer prices in the Czech Republic. Barrel of the Brent oil was traded on the world markets in Q2 2016 on average for 45.5 American dollars, which was by 26.2% less compared to the same quarter of the year 2015. Price of oil, which is seasonal, was lower in each of the first seven months of the year 2016, than was its lowest value attained in the given month since year 2004. Expressed in CZK given the year-on-year mild appreciation of the exchange rate of Koruna against dollar in Q2 2016, the prices of Brent oil were by 28.7% lower (by 37.5% in the first quarter of 2016). Deflationary tendencies linked to the low prices of oil in manufacturing in the euro area and the long-term decline of agricultural producer prices projected via the production chain into the prices of food as well also contributed to the dampened price development in the domestic economy for the whole H1.

Excluding food and non-alcoholic beverages, the year-on-year dynamics of consumer prices would be by 0.4 p.p. stronger

Prices of food and non-alcoholic beverages exerted a significant effect on the lowering of the composite consumer price index in the CR in H1 2016 (-0.2 p.p.), which deepened to -0.4 p.p. in Q2. The year-on-year growth of the composite index excluding prices of food and non-alcoholic beverages attained 0.8% in Q2. Low prices of oil were projected into the transport price index, which pushed down the composite index by 0.3 p.p. in both quarters of 2016. Division alcoholic beverages and tobacco with the positive contribution to the total in the amount of 0.3 p.p. in Q1 and 0.4 p.p. in Q2 2016 was the only division, which had a bit more significant effect on the growth of the composite index.

Only prices of alcoholic beverages and tobacco shared more significantly on the consumer prices growth

Prices in the division food and non-alcoholic beverages were falling year-on-year in all quarters of the year 2015 and this development also continued in 2016. The most substantial drop occurred in the group milk, cheeses, eggs, which arrived at 10.4% in Q2. In that prices of milk fell by 14.0% and cheeses by 10.3%. Also the majority of other basic food continued experiencing a year-on-year fall of prices in Q2 (e.g. bread by 1.7%, flour by 16.6%, meat by 2.0%, butter by 9.8% and sugar by 10.2%). On the contrary, the vegetable price index recorded a growth, which slowed down to 4.9% in Q2 from 16.9% in Q1. Prices of fuels have been decreasing continuously year-on-year since December 2014 and their fall hit the furthest value -17.6% in November 2015. It already moderated to -12.5% in Q1 2016 and to -12.3% in Q2. Prices of alcoholic beverages were by 4.3% higher in

¹ Deflator is not adjusted for seasonal and calendar effects.

Q2 (by 3.2% in Q1 2016) and prices of tobacco products by 4.4% (by 3.8% in Q1), while the increase of the consumer tax since January 2016 manifested in the growth of the cigarette prices. The price growth slowed down by 4.7% in the division housing due to the year-on-year fall of the natural gas prices (fall of 0.5% in Q1). Prices of electricity were similarly higher by 1.2% in both quarters. Prices of water and sewer rates increased by 1.6%, resp. 5.3% (by 0.5% resp. 3.3% in Q1). Net rental prices were raised by 1.3% and heating by 1.0%. A more significant year-on-year growth was also registered for the prices of footwear (by 5.4%) and prices of recreation with complex services (by 3.2%) in Q2 2016).

Year-on-year development of both the offered and realised prices of flats is strong. It signals, that the growth of real estate prices gains pace in the CR

Lasting low interest rates on mortgages, low unemployment rate, continuing growth of the average wage and high consumer confidence are the cause of the accelerating growth of prices of housing real estate. Indicative offer prices of flats increased by 10.2% year-on-year in Q1 2016 and by 10.3% in Q2. It represented the strongest growth of prices since the end of 2008. The offer prices were increasing more substantially in Prague as opposed to regions outside the capital approximately till the half of the year 2015, the price development is already similar since Q3. The year-on-year development of the realised prices of flats also signals a long-term tendency of the accelerated growth. Prices of older flats increased by 5.8% in Prague in Q1, by 7.4% in Q2 and even by 10.0%, resp. 9.6% in the regions outside the capital city. Realised prices of new flats, which are monitored only for Prague, were by 3.7% higher year-on-year in Q1 and by 3.8% in Q2 2016.

Romania, Bulgaria and Cyprus recorded a more substantial deflation among the European Union countries in H1

The prices in the Czech Republic increased by 0.1% according to the harmonised index of consumer prices in Q2 2016 compared to the same period of the last year (by 0.4% in the preceding quarter). 12 countries of the twenty-eight EU countries faced deflation in Q1, even 15 in Q2. The Czech Republic thus remained in the first third of countries according to the size of the annual inflation rate in both quarters, still it moved into the negative numbers (-0.1%) in June 2016 for one month. The inflation rate in the euro area was lower than in the CR (0.0% in Q1 and -0.1% in Q2 2016).

Prices of industrial producers have been falling in the CR in the year-on-year comparison for already ten quarters. Intensity of their decline kept growing in the first half of 2016

Apart from the low prices of oil, the deepening year-on-year price decreases in energy and mining and quarrying started to become substantially evident in the prices of industrial producers since the beginning of this year. Prices in manufacturing fell by 4.0%, resp. by 4.8% in the first two quarters. Except for the significant drop of the prices in the division coke and refined petroleum products, the prices of chemicals and chemical products were lower year-on-year in Q2 (by 11.2%), prices of metals and metalworking products (by 5.3%) and prices of food products, beverages and tobacco (by 3.1%). Supplies of electricity, gas, steam and air conditioning were lower by 4.1% year-on-year in both quarters and prices in mining and quarrying fell by 6.4% in Q1 and by 7.1% in Q2. In case of mining and quarrying, it presented a similarly deep slump of prices as in the crisis year 2009. Prices of water, its treatment and supply, which grow regularly and permanently, increased by 0.5% year-on-year in Q1 and by 1.6% in Q2.

Prices in manufacturing fall in the whole EU28

Falling prices of manufacturers present a characteristic feature practically for the whole European Union. The deflationary development in this part of economy spread into all countries of the European economic unit during the years 2013 to 2015, and it kept further deepening in the first half of 2016. Prices in manufacturing fell year-on-year on average by 3.7% both in the euro area and in the EU28 in the first three months of this year. By 3.6% in the Union in Q2, in that by 3.8% in the euro area.

Surplus of production of pigs and milk drives the prices of these commodities in Europe down in the long-term

Agricultural prices again started to fall following a mild year-on-year growth of prices of agricultural producers (including fish) towards the end of the last year, which occurred for the first time after eight quarters. They dropped by 2.9% in Q1 2016 and already by 6.9% in the subsequent three months. Prices of plant production held a positive year-on-year pace of 3.9% at first, however they fell by 3.2% in Q2. Prices of animal production were lower by 9.5% in comparison to the same period of the previous year in Q1, and even by 11.3% in Q2. Mainly the lower prices of milk (by 19.4%) and slaughter pigs (by 8.5%) had the most



significant effect. The average price of one litre of milk dropped to 7.30 CZK in Q1 and even to 6.56 CZK in Q2. Compared to the average price of the year 2014 (9.50 CZK), it was thus by 30.9% lower.

Growth of prices of construction works slows down and simultaneously the costs of construction production keep decreasing

Prices of construction works extended the year-on-year growth from year 2015 in Q1 of this year and increased by 1.3%. The pace already started to slacken somewhat in Q2 and the year-on-year growth attained a value of 1.1%. Prices of residential buildings increased (by 1.0%) in Q2, prices of non-residential buildings (by 1.1%) and engineering works (by 1.1%). Similarly to the last year, the lowering of costs of the construction production occurred simultaneously with the growth of the construction works (by 1.4% in the first quarter of 2016, by 1.0% in Q2, in the prices of material inputs by 1.4% in Q1 2016 and even by 2.0% in Q2).

Prices of market services for the business sector stagnate in the long-term

Prices of market services go through the stagnation in the business sector already since the beginning of the year 2015. They fell by 0.1% year-on-year against the same period of the previous year in Q1 2016 and stagnated in Q2 (excluding the very seasonal prices of advertising services). Prices were higher for postal and courier services (by 3.7%), for advertising services and market research (by 2.0%) and for architectural and engineering services (by 1.7% however by 3.3% in Q1) in Q2. The prices for non-life insurance lowered (by 4.4%), for services in the area of rental and operative leasing (by 2.0%) and in the land transport (by 0.8%) due to the decrease of the rail freight transport by 9.1%.

Year-on-year exchange rate development of the Czech Koruna worked in the first half of 2016 in the direction of decreasing prices of foreign trade

The Czech Koruna appreciated against euro by 2.2% year-on-year in Q1 2016, by 1.3% in the second. It remained on average at the same level against the American dollar in Q1, however the Koruna strengthened by 3.6% in Q2. The exchange rate development thus contributed to the significant import of the deflation trends into the Czech economy.

Prices of exports of goods were lower by 4.3%, ...

Prices of exports of goods fell by 4.2% year-on-year in Q1 2016, by 4.3% in Q2, the most noticeably since the first three months of the year 2010. Among the more significant groups, the prices of mineral fuels (by 17.3%, even by 19% in Q1), other raw materials (by 12.2%), semi-finished products (by 5.5%) and machinery and transport vehicles (by 2.5%) were falling the most in Q2. Especially the prices of beverages and tobacco (by 2.4%) recorded growth.

... import prices slumped even by 6.3%. It presented the strongest price fall in the last six years in the first case, six and a half years in the second

Prices of imports of goods slumped by 5.6% based on the data from the first three months of the year 2016 compared to the same period of the last year, even by 6.3% in the subsequent second quarter. It presented the deepest slump of import prices since Q3 2009. Mineral fuels (their prices sank by nearly one third year-on-year in both quarters) and also all other commodities classified according to the SITC nomenclature (apart from animal and plant oils in Q1) were imported for lower prices into the Czech Republic. The decrease of the year-on-year index of prices of machinery and transport vehicles also significantly contributed to the slump of the year-on-year import price index in Q2.

Terms of trade in the foreign trade with goods remained positive in the first half of the year 2016

Stronger year-on-year reduction of prices of imported goods compared to the lowering of the export prices was reflected in the positive terms of trade. These attained the value of 101.5% in Q1, increased to 102.1% in the second and moved in the positive band already a third quarter in a row. The trade with the mineral fuels especially affected the positive terms of trade. In case of year-on-year stable exchange rate of the Czech Koruna, the terms of trade would be slightly higher (101.8%) in Q1, the year-on-year exchange rate changes did not impact the size of the terms of trade in Q2 (102.1%).

Chart 11 Consumer prices for individual types of households (y/y in %)

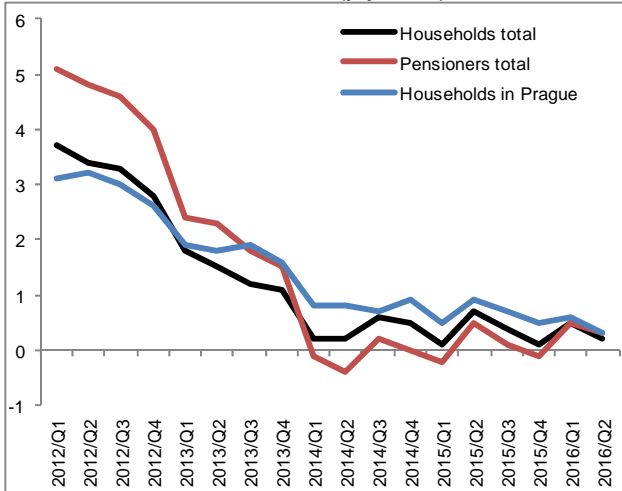
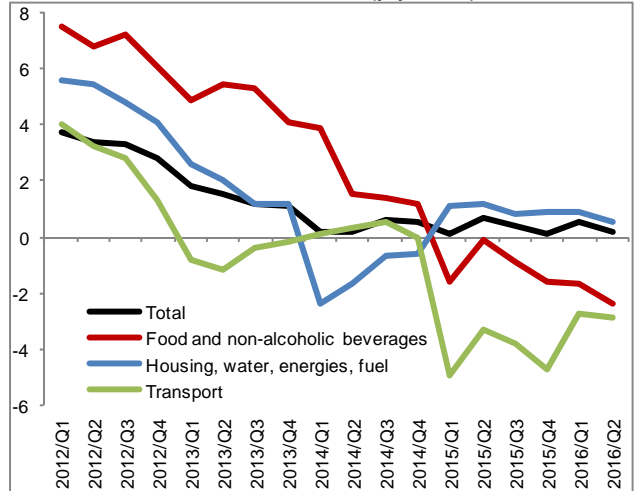


Chart 12 Prices in selected Consumer Price Index divisions (y/y in %)



Source: CZSO

Chart 13 Deflators (not adjusted for seasonal and calendar effects, y/y in %)

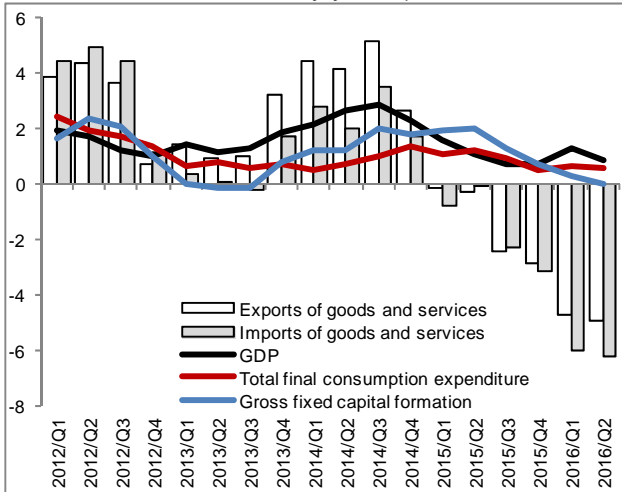
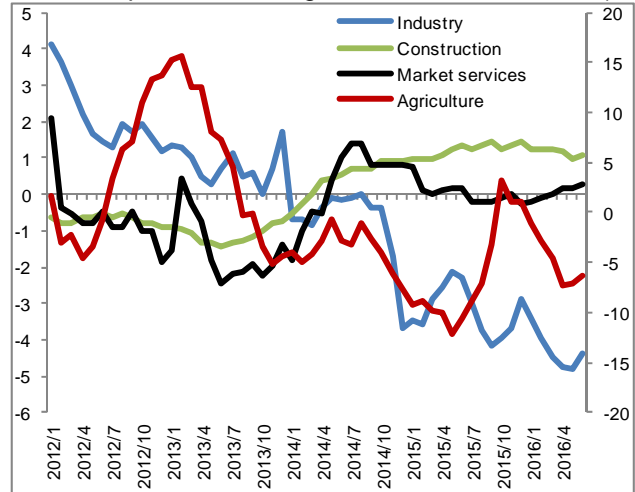


Chart 14 Producer prices (y/y in %, agricultural prices on the right axis, other on left axis)



Source: CZSO

