

## Prices

- **Considerable acceleration of the growth of consumer prices**

Between 2005 and 2007, a tendency for a low and relatively stable inflation was established in the ČR. Its average year on year growth rate reached 2.1% and did not differ much from development in the Eurozone. Significant changes in price development occurred in the 1<sup>st</sup> quarter of 2008, when consumer prices grew by 7.4% year on year, which was the largest year on year growth in the past 10 years. Especially the prices of food, whose growth was double digit, contributed to the acceleration of the price movement. Significant was also the growth acceleration of the prices of fuels. Consumer prices grew mainly as a result of the changes in external conditions related to the high growth of world prices of energy and food. Their impact on consumer prices was only partially compensated by the strengthening of the Crown. International comparisons showed that in the ČR, the year on year growth of the harmonized index of consumer prices in the 1<sup>st</sup> quarter was 7.5%, which was roughly double in comparison to the average in the EU. Given that the main sources of the growth of inflation are food and energy resources, it is possible to explain the above average growth of consumer prices in the ČR by a high share of food in the consumer basket.

- **The prices of industrial producers continued their rise**

The prices of industrial producers continued in high growth and were 5.6% higher year on year. The last time that prices grew faster was in the 1<sup>st</sup> quarter of 2005. To the speeding up of the price growth contributed mainly the growth of import prices of oil; prices in the coal sector and refined oil products grew year on year by more than a quarter. Similarly, the growth of prices of the agricultural-food products on world markets was reflected in the prices of food industry producers by 11.0%. Prices in the production of electricity, gas and water also came close to a 10% growth.

- **Very dynamic growth of the prices of agricultural producers**

In the 1<sup>st</sup> quarter, the Czech Republic experienced a significant price jump in the year on year development of the prices of agricultural producers, which grew by more than a quarter. The biggest share of this was mainly the prices of vegetable produce, and out of them especially the prices of cereals, which grew by 70%. The price development for animal produce also mainly showed a tendency towards acceleration, as the prices for most products exceeded 20% growth year on year. Among the main causes of this significant increase of agricultural product prices were not only the growth of demand for food in the world, especially in Asia, but also poor harvests connected to the outages of vegetable production mainly by world exporters, such as the USA, EU, Australia and the Ukraine.

- **Negative value of terms of trade**

On average, export prices of goods decreased in the 1<sup>st</sup> quarter of 2008 by 4.3% year on year, and import prices of goods by 3.0%. The terms of trade reached a value of 98.7%, which meant a reversal in comparison to the previous five quarters, when they were above 100%. The impact of the changes of the Crown exchange rate on the development of export and import prices deepened.

- **Change of the influence of partial price changes on the implicit deflator**

In the 1<sup>st</sup> quarter of 2008, the considerably differing development of domestic prices and foreign trade prices continued, which was reflected in the lower implicit deflator of GDP than a year before. The combination of the influence of partial deflators (spending on end consumption, spending on the creation of gross capital, export and imports of goods and services) was, however, completely different than last year. In the 1<sup>st</sup> quarter of 2008, the year on year growth of prices of end consumption accelerated by 3.0 percentage points, of this especially household consumption by 5.3 percentage points and growth of the prices of gross capital by 1.8 percentage points, of this fixed capital by 2.3 percentage points. The terms of trade significantly declined by 3.2 percentage points. This influenced the movement of the aggregate price level the most. The year on year decline of export prices by 4.8% was greater than the decline in import prices by 3.7%.