

5. Prices

Total price level grew very strongly last year.

The total price level increased by 4.1% according to the gross domestic product deflator last year, which is the most since year 2001. The price growth of both consumption (3.4%) and capital goods (2.5%) was high. Positive terms of trade (101.6%) also supported the rise of the price level. The total price level climbed up by 4.2% year-on-year in Q4 itself. Prices of consumption goods went up by 3.1%, mainly because of the government institutions consumption (5.6%). Growth of prices of consumption goods of households slowed down to 1.8%. Prices of capital goods were raised by 2.8% in Q4. The terms of trade attained 102.0%, in that terms of trade with goods were 102.3% and with services 99.9%.

Total increase of consumer prices was 3.2% last year. The year-on-year dynamics markedly slowed down in Q4.

Growth of the consumer price index markedly slowed down in Q4 2020. The consumer prices reduced by 0.4% compared to Q3, which is the first decrease since Q4 2015. The halt of sharp increases of prices of alcoholic beverages and tobacco mainly took part in the quarter-on-quarter decrease. Prices of food and non-alcoholic beverages, housing and energies and recreation and culture also reduced. At the same time the quarter-on-quarter dynamics of prices of transport and food service and accommodation slowed down. Year-on-year addition to consumer prices significantly slowed down to 2.6% in Q4, the lowest value since Q4 2018. Development of prices of food and non-alcoholic beverages and housing and energies also influenced the most the slowdown of the total year-on-year dynamics. Average inflation amounted to 3.2% in 2020 and it was the highest since year 2012. Food and non-alcoholic beverages, alcoholic beverages and tobacco and housing and energies the most supported a price growth last year.

Food and non-alcoholic beverages were the main drivers of the price growth last year. Their influence notably weakened towards the end of the year.

Food and non-alcoholic beverages were one of the main driving forces of the year-on-year growth of the consumer prices for most of the year. In H1, food and non-alcoholic beverages became more expensive by an extraordinary fast pace (by 6.1% and 6.5% year-on-year in Q1 and 2). Prices of meat, which were influenced by the lack of pork on the world markets were the main reason. The lack was linked to the spread of the African swine fever. The year-on-year addition to prices of food and non-alcoholic beverages markedly slowed down (4.0%) in Q3 and the development continued similarly in Q4 (1.7%). Sharp slowdown was affected mainly by prices of meat (year-on-year addition 2.0% in Q4) and fruit (9.1%). The growth of prices of baking products and cereals was mild (1.0%). Prices of milk, cheese and eggs went down year-on-year (-1.3%). The prices of food and non-alcoholic beverages were raised by 4.5% for the whole year 2020.

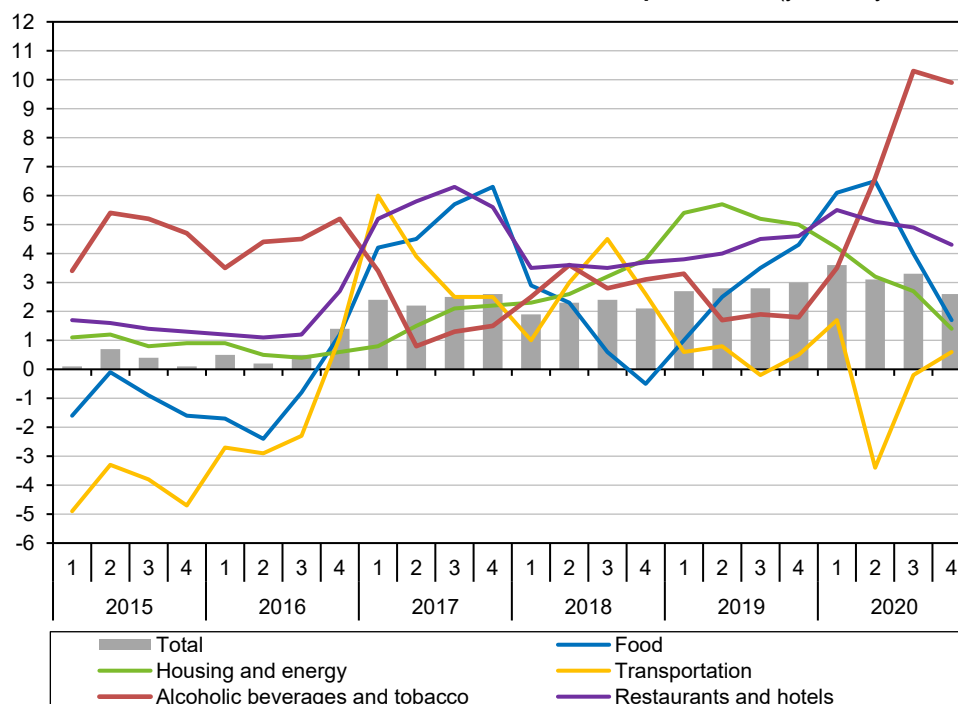
Growth of prices of housing and energies also subsided during the year.

Prices of housing, water, energies, and fuels were rising fast (5.3%) especially in year 2019, because simultaneously the prices of rent, costs of home ownership as well as prices of electricity were also growing. The year-on-year dynamics of prices of housing and energies moderated during the year (year-on-year additions 4.2%, 3.2%, 2.7% and 1.4% in individual quarters) last year. The additions to prices of rents were gradually falling (4.3% at the beginning of the year, 2.0% in Q4), the prices of imputed rent, which captures the costs of home ownership as well (from 3.7% in Q1 to 1.5% in Q4). Growth of prices of electrical energy and heating, gas and other fuels was relatively strong in Q1 to Q3 (4.7%, 3.7% and 3.5%), but it rapidly decreased in Q4 (0.4%). Prices of housing and energies rose by 2.9% compared to year 2019. Prices of rents were raised by 3.1%, imputed rents by 2.4% and energies by 3.1%. The year-on-year growth of prices of regular maintenance and small repairs (3.2%) and other services associated with housing (4.3%) remained relatively significant during the year.

By contrast the prices of alcohol and tobacco contributed the most to the year-on-year growth of consumer prices in Q4.

The increase of the consumption tax was evident for the dynamics of the prices of alcoholic beverages and tobacco immediately at the beginning of the year (acceleration of the year-on-year price increase by 3.5%), especially for the alcoholic beverages. However, due to pre-stocking the increase of the tax on tobacco manifested only in Q2 and prices in the division received another impulse (6.6%). During H2, the dynamics of the prices of alcoholic beverages and tobacco further strengthened to 10.3% in Q3 and 9.9% in Q4. Especially the year-on-year dynamics for tobacco was strengthening (2.6%, 7.5%, 14.0% and 15.1% in individual quarters). Prices of alcoholic beverages and tobacco rose by 7.6% for the whole year 2020 (the most since year 2008), in that prices of alcoholic beverages by 4.8% and tobacco by 9.8%.

Chart 9 Prices in the selected divisions of the consumer price index (year-on-year in %)



Source: CZSO

Prices of transport were affected by the slump of oil prices, but also by the increase of prices of motor vehicles.

Division transport observed price turbulences connected first to the record spring slump of prices of oil and subsequently to the raised prices of motor vehicles¹ during the last year. Both influences worked in the opposite direction, thus the resulting decrease of prices of transport was only mild in 2020 (-0.4%). In that, prices of transport vehicles went up by 4.6% and on the contrary, prices of their operation dived by 5.7%. In Q4 itself prices of transport slightly increased year-on-year (0.6%), price of transport equipment hiked up by 8.3% and prices of transport vehicle operation remained in deep descend (-6.7%).

While the prices of food service maintained strong year-on-year growth, dynamics of the prices of accommodation weakened.

Food service and accommodation also relatively significantly added to the growth of consumer prices throughout the whole year. Year-on-year additions were stable at around 5% here throughout the most part of the year and weakened only at its end (4.3% in Q4). Prices rose by 4.9% for the whole year 2020. Large increases eventuated for prices of food service (year-on-year growth did not drop below 5.0%), while the growth of the price of accommodation services markedly slowed down from 4.9% in Q1 to 0.1% in Q4. Prices of wearing apparel and footwear climbed by 3.7% in year 2020 (in that by 3.4% in Q4). Increase of the prices of household equipment and appliances

¹ Reasons for raised prices were more. On one hand the spring suspension of production in the motor vehicle manufacturers resulted in shortage of new vehicles but import of used vehicles was also disrupted. Pricing also reflected the marked depreciation of koruna against euro. Tightening emission requirements are also a factor, which leads to raised prices in the longer term view.

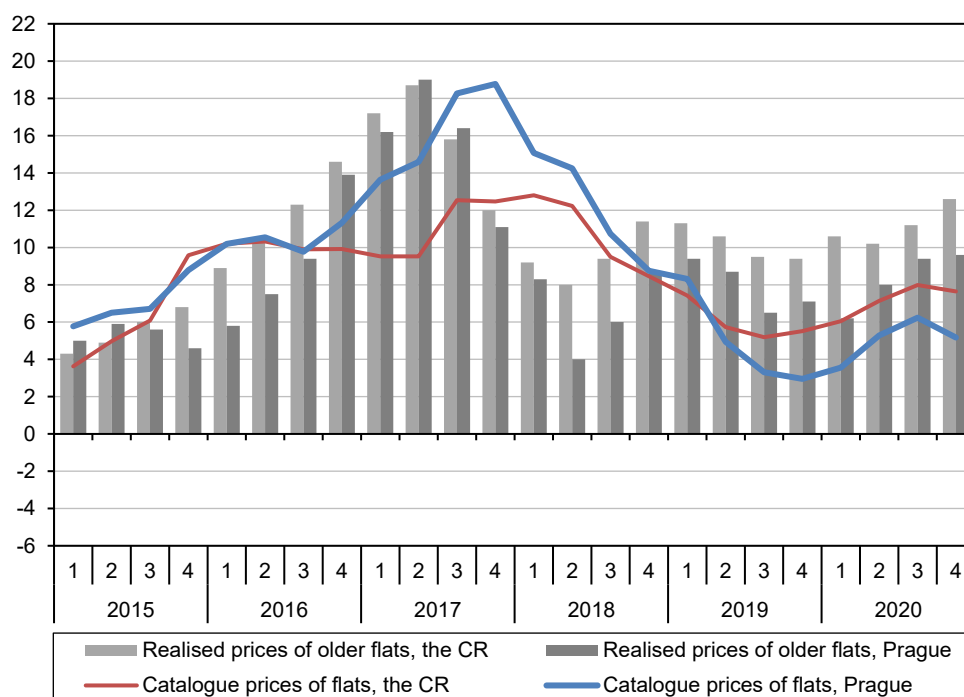


amounted to 2.9% last year (2.8% in Q4). Prices of recreation and culture were raised by 2.2% last year (2.5% in Q4). Postal services and telecommunications were the only part of the consumer basket, where the prices fell last year (-3.6%). However, the decrease has been a long-term trend here. The prices of postal services and telecommunications last increased in year 2006.

Consumer prices in the EU were raised the least since year 2016 last year.

The consumer prices increased by 0.7%² in the European Union last year, which is the least since year 2016, and their dynamics was gradually slowing down in the course of the year. Decline of transport prices (-2.2%), caused by the year-on-year slump of oil prices, but also the halt of growth of prices of housing and energies (-0.1%), which were affected by sharp hikes of electricity prices in the preceding years, drove the price dynamics down. Increase of prices of food and non-alcoholic beverages (2.5%) and alcoholic beverages and tobacco (3.9%) stayed strong. The consumer prices increased the most in Poland (3.7%), Hungary (3.4%) and the Czech Republic (3.3%) last year. Consumer prices decreased in total in eight countries, the most in Greece (-1.3%), Cyprus (-1.1%) and in Estonia (-0.6%). In Q4 itself, the consumer prices rose by 0.2% in the EU. Countries of the central Europe, especially Poland (3.6%), Hungary (2.9%) and the Czech Republic (2.7%) considerably defied the EU average. Prices fell in twelve countries, the most in Greece (-2.2%), Estonia (-1.3%) and in Ireland and Cyprus (similarly -1.1%).

Chart 10 Prices of real estate (year-on-year change, in %)



Source: CZSO

Growth of prices of flats outside Prague further accelerates.

Year-on-year dynamics of the catalogue prices of flats slowed down after a longer period of time in Q4. Supply prices of flats in the CR rose in total rose by 7.6% year-on-year. At the same time, the pace slowdown only concerned prices of flats in Prague (5.2%), the increase of the supply prices increased to 11.0% in the rest of the Czech Republic. Possible reason is the extra pressure of demand, which shifted into the Prague surroundings, but also the ongoing sharp growth of prices in other large cities, which struggled with slow construction. Also for them, the growth of prices spills into

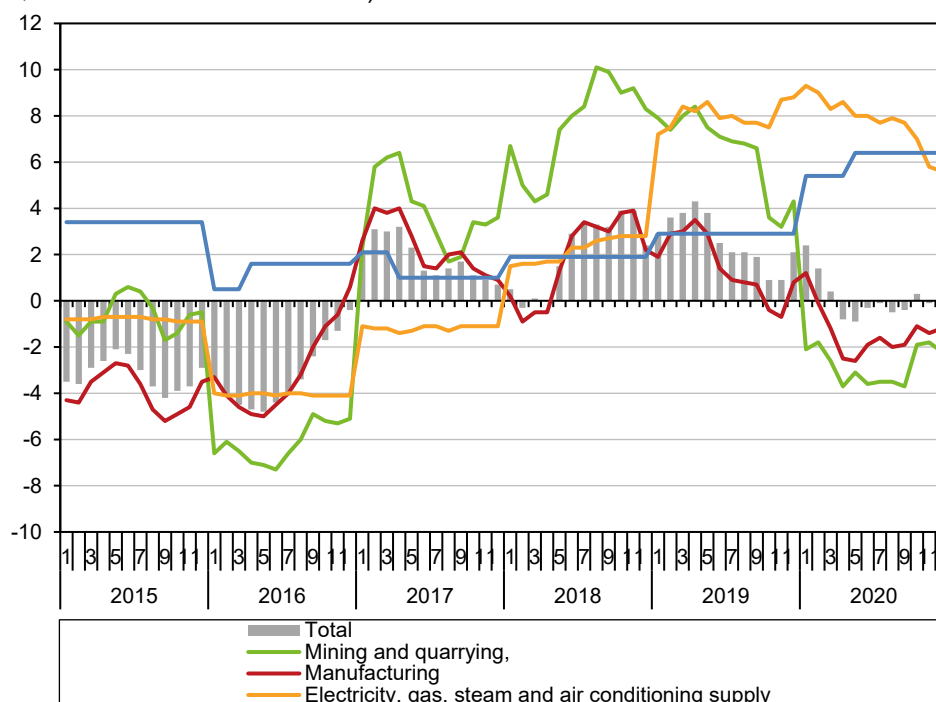
² According to the harmonised index of consumer prices. The index can methodically as well as numerically differ from published national results.

the near vicinity. Realised prices of older flats increased by 12.6% year-on-year in Q4, which is the most since Q3 2017. Prices of flats outside Prague were again the main drivers of growth (13.6%), but the addition to realised prices of older flats in Prague also slightly gained pace. The year-on-year growth of the realised prices of new flats in Prague, which attained 9.2% in Q4, was still kept at a high level.

Industrial producer prices were also impacted by the year-on-year slump of oil prices.

Year-on-year dynamics of the industrial producer prices was affected by the decrease of prices of oil for the most part of the year. The price level remained nearly the same for the whole year 2020 (0.1%) and the industrial producer prices experienced the same year-on-year development also in Q4. Prices of manufacturing products and services, which form majority of the total index, fell by 1.4% last year. Prices of coke and refined oil products³ stood behind the majority of this decrease. Last year's decrease of prices of chemicals and chemical products is also linked to the development of oil prices (-8.3%). Prices of basic metals and metal products also went down (-1.6%). Furniture and other products of manufacturing worked in the direction of industrial producer price growth (4.5%, mainly repairs, maintenance and installation of machinery and equipment), transport equipment (2.2%) and food products, beverages, and tobacco (2.1%). Prices of manufacturing goods and services fell by 1.2% year-on-year in Q4 itself, again mainly due to the development of prices of coke and refined oil products. Only prices of chemicals and chemical products exerted downward pressure on prices in Q4 (-7.3%). Prices of transport equipment (year-on-year increase by 3.3%) and furniture and other manufacturing products (4.2%) contributed the most to the growth of industrial producer prices.

Chart 11 Prices of main groups of industrial producers (year-on-year change, in %, based on CPA classification)



Source: CZSO

Prices of mining and quarrying were falling year-on-year.

Prices of mining and quarrying dropped in total by 2.8% in 2020 and were also affected by the decreased prices of oil. Since prices of oil and natural gas extraction plunged deeply (-24.2%), coal mining also recorded notable decrease (-5.0%). On the contrary, prices of other mining and quarrying of mineral resources grew by 4.9% (it mostly

³ Individual data.



concerns building materials). In Q4 itself, the year-on-year decrease of prices of mining and quarrying moderated to 2.0%. Very strong growth of the prices of electricity continued last year (in total by 7.7%), it however slowed slightly down during the year. Still, the year-on-year addition ended marked 6.1% in Q4. Prices of water supply and wastewater management services rose by 6.1%, in that by 6.4% year-on-year in Q4.

Industrial producer prices were affected by the slump of oil prices in the whole EU.

Industrial producer prices dropped by 2.4% in the EU last year. The slump of oil prices had the main share, which influenced the prices of mining and quarrying (−8.7%), but also prices in manufacturing (−1.6%). Prices of electricity, gas, steam and air conditioning (−5.9%) were also falling. Industrial producer prices fell in the majority of EU countries last year. Ireland (−7.5%), Lithuania (−6.6%) and Denmark (−4.7%) recorded the largest decrease. Prices grew the most in Malta (1.6%), Slovakia and Hungary (similarly 0.8%). In Q4 itself, the prices of producers in the EU fell by 1.6%. Effect of the oil prices slump was evaporating only slowly, thus the decrease in the majority of the EU countries lingered on. The largest drop occurred in Lithuania (−6.7%), Cyprus (−5.9%) and Greece (−5.5%). Prices grew the most in Malta (1.7%), in Hungary (1.5%) and Ireland (1.2%) in Q4.

Year-on-year growth of prices of market services mildly weakened last year.

Dynamics of prices of market services slightly weakened last year compared to year 2019, when the marked growth was associated with the pressure on the labour market and the rise of wages. In total, the prices of market services grew by 2.1% in year 2020. Warehousing and support activities for transportation (increase by 5.2%) and services in the area of programming and consultancy (3.6%) contributed the most to the growth of prices. The effect of prices of services in real estate activities was also significant (2.9%). Addition to prices of services in the area of employment, which are to a large extent linked to the wage dynamics, weakened compared to year 2019, but still remained substantial (5.1%). Prices of advertising and market research fell last year for the first time since 2014 (−0.3 %) and prices of telecommunication services also registered a mild decrease (−0.1%).

Some services reflected the current economic situation.

Year-on-year addition to prices of market services was the highest in Q1 (2.5%), following a mild weakening, the growth kept a stable level for the rest of the year (2.1%, 2.0% and 2.0% in Q2 to 4). The structure of growth did not differ much from the numbers for the whole year. In Q4, warehousing and support activities for transportation (year-on-year addition of 4.9%), services in the area of programming and consultancy and related activities (3.6%) and services in the area of real estate (3.3%) contributed the most to the price growth. Current economic situation was likely reflected in the marked acceleration of the growth of prices for services in activities of head offices and management consultancy activities (7.9%) and on the contrary in the slowdown of services in the area of employment (1.3%). Prices of advertising and market research fell by 1.9% year-on-year in Q4.

Prices of agricultural production fell last year. However, the plunge moderated during the year.

Prices of agricultural production fell by 3.4% in year 2020. In that prices of plant production dived by 4.0% and prices of animal production by 2.4%. Especially prices of potatoes (−19.8%), vegetables and garden products (−9.7%), cereals (−4.9%), and feed crops (−3.4%) were falling in the plant production. In contrast the prices of fruit climbed up (16.5%). With the animal production, prices of farm animals decreased by 2.1% (to a large extent influenced by high basis of year 2019) and animal products by 2.7% (prices of milk dropped by 3.4%, while the prices of eggs went up by 4.0%). In Q4, prices of agricultural production decreased by 3.2%. Year-on-year downswing of prices of plant production weakened during the year and attained only 0.1% in Q4. Cereals (among them especially wheat), which from significant plunge at the beginning of the year moved into the year-on-year growth of 3.1% in Q4, stood behind it. Prices of industrial crop increased by 3.6% in Q4 and fruit by 9.4%. Towards the end of the year, prices of feed crops

(-9.9%), vegetables and garden products (-7.2%) and potatoes (-25.3%) were falling. Prices of animal production decreased by 8.0% year-on-year in Q4. In that plunge of prices of farm animals reached 13.9%, mainly due to the impact of development of prices of pigs and piglets (-25.0%). Prices of milk decreased by 2.8% year-on-year in Q4 and prices of eggs by 1.5%.

Export prices increased last year. Depreciation of koruna foreign exchange also had a share in it.

Development of prices of foreign trade was strongly affected by the depreciation in the value of koruna against the euro, which considerably subdued the pressures on the decrease of prices. Export prices thus increased by 1.1% in 2020. Food and live animals (increase 3.5%), beverages and tobacco (5.4%), machinery and transport equipment (2.8%) and industrial consumption goods (2.9%) worked in the direction of increase of prices. Prices of export of mineral fuels and grease (-15.8%) and other materials⁴ (-6.4%) markedly slumped, but prices of chemicals (-2.6%) and semi-finished products⁵ (-0.5%) also fell. In Q4 itself, the year-on-year growth of prices of export strengthened to 2.5%, especially under the influence of raised addition to prices of food and live animals (4.2%), machinery and transport equipment (3.9%) and industrial consumption goods (2.8%). Prices of other materials (3.6%) as well as semi-finished products (1.4%) transferred from year-on-year decrease into a solid growth. Already strong increase of prices of beverages and tobacco mildly strengthened (5.6%). Prices of mineral fuels remained in deep plunge (-10.2%).

Import prices fell last year, mainly due to the impact of prices of mineral fuels.

Prices of import fell by 1.1% in 2020. Because the prices of mineral fuels plunged deeply (-24.6%). Prices of other materials also decreased (-3.5%). Decrease was also registered for chemicals (-2.4%), beverages and tobacco (-1.1%) and semi-finished products (-0.9%). Similarly to the export, the prices of imported food also strongly grew (3.6%), prices of machinery and transport equipment (2.2%) and industrial consumption goods (1.8%) also increased. In Q4, the prices of import lowered by 0.3% year-on-year. Further prices of mineral fuels were also falling (-18.8%) and food and live animals also moved into decrease (-1.3%). On the contrary, after longer period of decreases the price of beverages and tobacco started to grow year-on-year (2.5%). Prices of import of semi-finished products rose by 1.3%, machinery and transport equipment by 1.6% and industrial consumption goods by 2.1%.

Substantial difference between the development of prices of export and import led to positive terms of trade.

Terms of trade of the foreign trade with goods attained 102.2% last year. Terms of trade with mineral fuels (111.7%), beverages and tobacco (106.6%), industrial consumption goods (101.1%) were positive. Mildly positive were also terms of trade with machinery and transport equipment (100.6%) and semi-finished products (100.4%). Terms of trade with other materials were negative last year (97.0%) and terms were also mildly negative with chemicals (99.8%) and food (99.9%). In Q4 itself, the terms of trade of the foreign trade reached 102.8%, especially due to the trade with mineral fuels (110.6%), food (105.6%), other materials (103.2%), beverages and tobacco (103.0%) and machinery and transport equipment (102.3%). Terms of trade with chemicals were negative (98.0%).

⁴ SITC 2 – crude materials, inedible, except fuels

⁵ SITC 6 – market products classified chiefly by material

