

ANALYSIS

April 10, 2012

CONSUMER PRICE INDICES IN Q1 2012

Consumer prices increased by 2.5% in Q1 2012 compared with Q4 2011, which was the highest quarter-on-quarter growth since Q1 2008. Prices rose by 3.7% in Q1 2012, i.e. the most since Q4 2008.

In Q1, consumer prices were decisively influenced by the month of January, in which consumer prices went up by 1.8%, month-on-month, primarily due to the increase in the reduced VAT rate from 10% to 14%. The impact of this change on an overall increase of the m-o-m consumer price index in January amounted to a 1.1 percentage point growth, according to the CZSO approximate calculation. The VAT rate increase was reflected mainly in 'food and non-alcoholic beverages', 'health' and partly 'housing, water, electricity, gas and other fuels' and 'transport'. In addition, an increase occurred in January in the net actual rentals, energy prices and fuel prices. The development of prices was standard in February and March with a m-o-m increase by 0.2% in both the months and it was influenced primarily by a further growth of food and fuel prices.

The average month-on-month growth rate in Q1 2012 was 0.7%, in Q1 2011 it was only 0.3%. This was demonstrated in an acceleration of the year-on-year price increase in Q1 2012.

Consumer price indices the previous quarter = 100

| DIVISION | 2011 | | | | 2012 |
|---|-------|-------|-------|-------|-------|
| | Q1 | Q2 | Q3 | Q4 | Q1 |
| TOTAL | 101.2 | 100.6 | 100.1 | 100.5 | 102.5 |
| Food and non-alcoholic beverages | 102.9 | 101.6 | 98.5 | 102.3 | 105.1 |
| Alcoholic beverages and tobacco | 101.5 | 100.4 | 101.1 | 99.8 | 100.8 |
| Clothing and footwear | 96.3 | 102.7 | 96.8 | 103.0 | 94.5 |
| Housing, water, electricity, gas and other fuels | 101.7 | 100.3 | 100.8 | 100.6 | 103.8 |
| Furnishings, household equipment and routine maintenance of the house | 99.6 | 99.7 | 99.5 | 99.7 | 100.0 |
| Health | 100.3 | 101.1 | 100.9 | 101.4 | 106.2 |
| Transport | 102.2 | 101.1 | 100.0 | 100.5 | 102.3 |
| Communications | 100.0 | 99.9 | 99.7 | 99.6 | 99.6 |
| Recreation and culture | 100.1 | 99.5 | 102.0 | 97.0 | 101.3 |
| Education | 100.2 | 100.1 | 100.6 | 101.2 | 100.3 |
| Restaurants and hotels | 100.4 | 100.4 | 100.6 | 100.5 | 102.0 |
| Miscellaneous goods and services | 100.6 | 99.7 | 100.1 | 100.2 | 101.5 |

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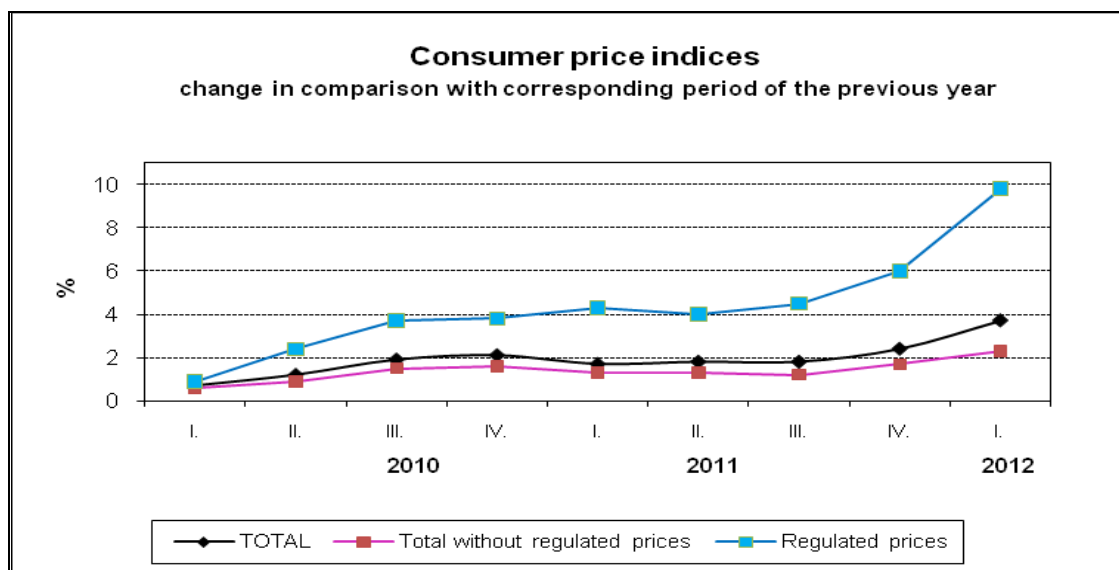
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Consumer prices rose by 3.7%, **y-o-y**, in **Q1 2012 compared with Q1 2011**, i.e. by 1.3 percentage point more than in Q4 2011. Following the q-o-q price development, the y-o-y growth of prices accelerated especially for those items of the consumer basket, which showed an increase in VAT rate and a rise in regulated prices.

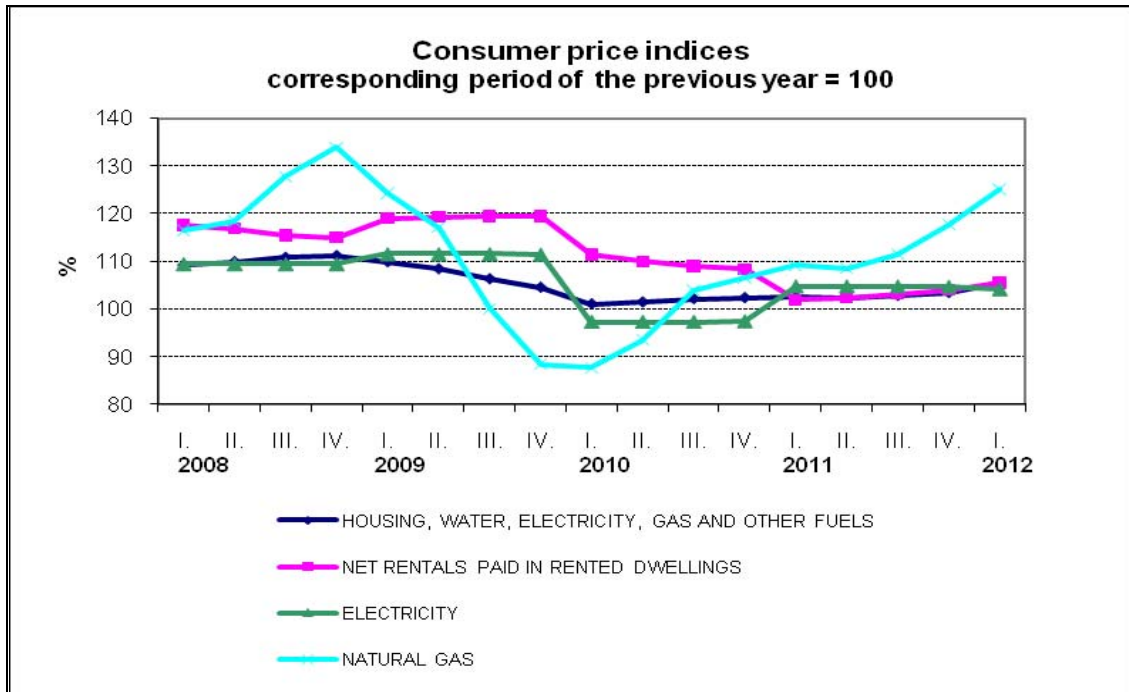
The growth in market prices accelerated to 2.3% (from 1.7% in Q4 2011) and that of regulated¹⁾ prices speeded up to 9.8% (from 6.0% in Q4 2011).



The trend in regulated prices was affected by prices in **'housing, water, electricity, gas and other fuels'**, where natural gas prices increased by 25.1% (17.7% in Q4 2011). The net actual rentals went up by 5.5%, of which that for dwellings with regulated rentals rose by 14.0% (from 10.4% in Q4 2011) and that for dwellings with market rentals by 1.7% (from 1.2% in Q4 2011). The price of electricity was higher by 4.2%, i.e. 0.5 percentage point down on Q4 2011. It was due to a more moderate m-o-m growth of prices electricity in January 2012 (4.2%) than in January 2011 (4.8%). In the items subjected to lower VAT rate, prices of water supply rose by 11.9% in particular, sewerage collection by 10.4%, heat and hot water by 7.4%.

¹⁾ Prices, which are fully or partly regulated

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The most marked acceleration of the y-o-y growth was shown in Q1 2012 in 'food and non-alcoholic beverages' and 'health' due mainly to an increase in VAT rate.

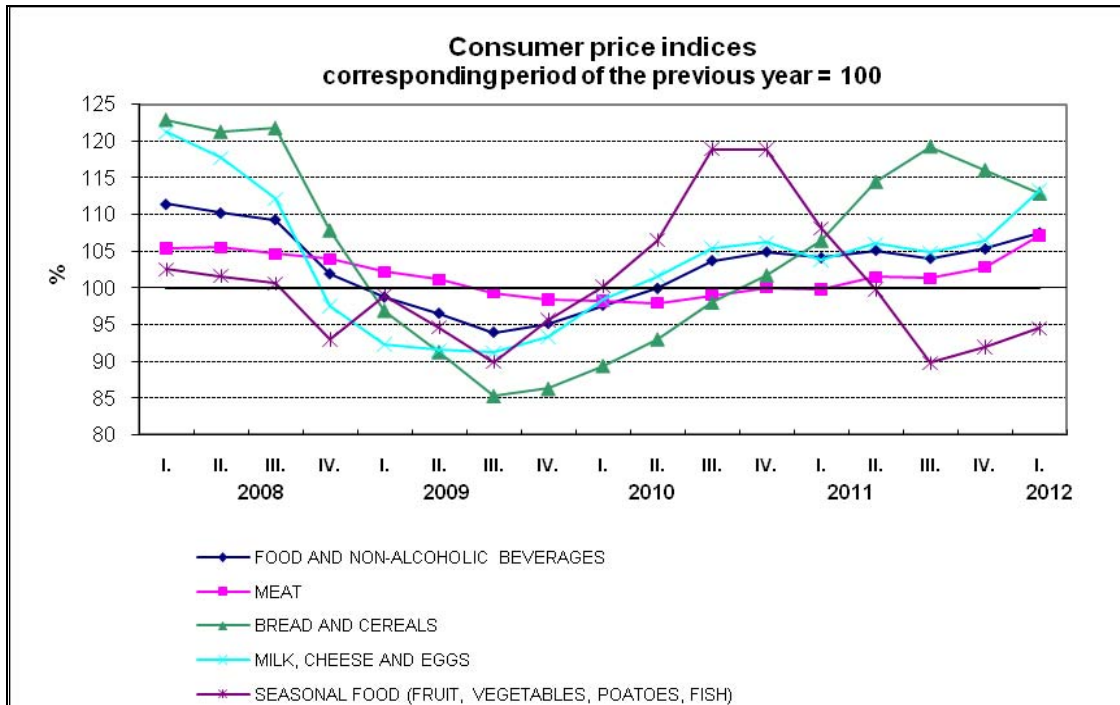
In **'food and non-alcoholic beverages'**, an acceleration of the price growth was recorded for most kinds of food in a different rate. An exception was made by prices of bread and cereals, oils and fats, in which a slowdown of y-o-y rise continued (that started already in Q4 2011). Prices of bread were higher by 17.5% (19.2% in Q4) and prices of rolls and baguettes by 19.1% (26.8% in Q4). Similarly, prices of sugar increased by 28.6% (33.4% in Q4). A further slowdown of the price drop was recorded for seasonal goods, which started already in Q4 2011.

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A marked price rise in **'health'** was due to both the increase in the VAT rate of the majority of items and the growth of regulatory fee for a stay at hospitals from CZK 60 per day to CZK 100 per day since December 2011, which was reflected in all three months in Q1 2012.

In **'restaurants and hotels'**, prices of catering services rose by 3.8%, of which prices in school canteens by 6.9%.

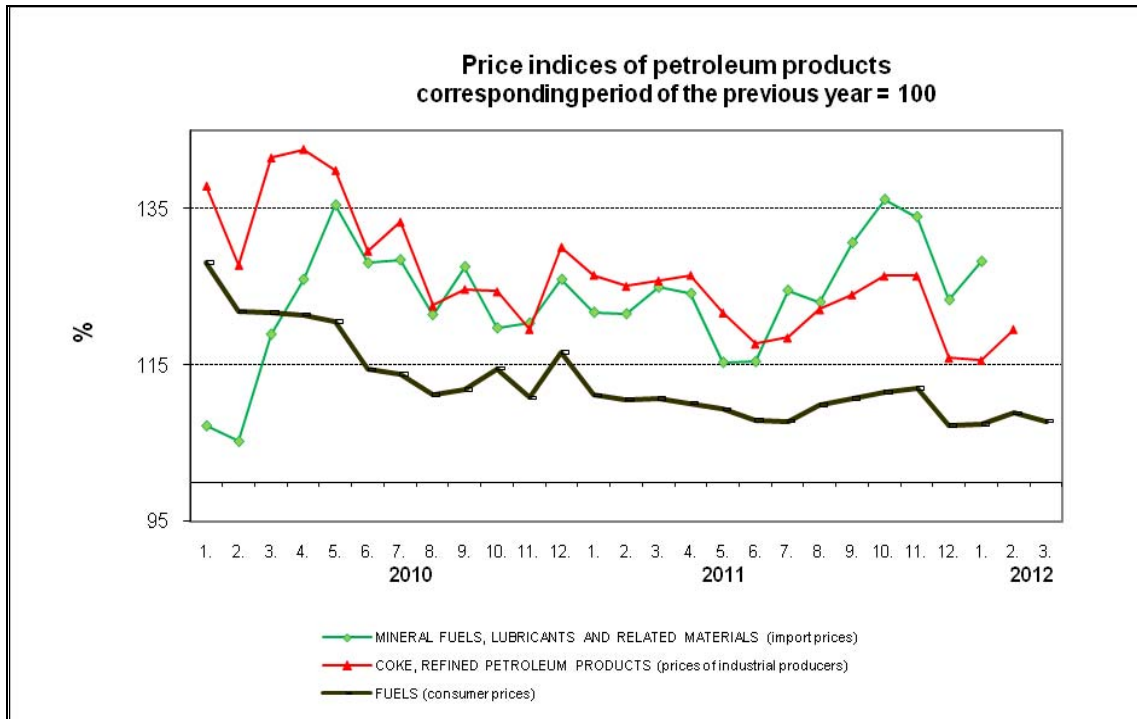
In **'transport'**, the development in prices was influenced primarily by two opposing phenomena. Prices of transport services rose by 6.7% (2.5% in Q4 2011) due particularly to the increase in VAT rate. In addition, the price of motorway tax disc for the year 2012 increased by 25.1%. On the other hand, the y-o-y growth of fuel prices slowed down in Q1 (a rise in fuel prices continued for more than 6 months) to 8.0% (10.2% in Q4 2011). This slowdown was due to the fact, that the price level in fuel prices in Q1 2011 increased. The development of consumer prices for fuel in relation to the prices of industrial producers and the import prices of oil products is shown in the following chart.

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The **y-o-y drop in prices**, which deepened in Q1, continued at clothing; on the contrary, the decline in the prices of household appliances, mobile phones, audio-visual, photographic and information processing equipment mitigated.

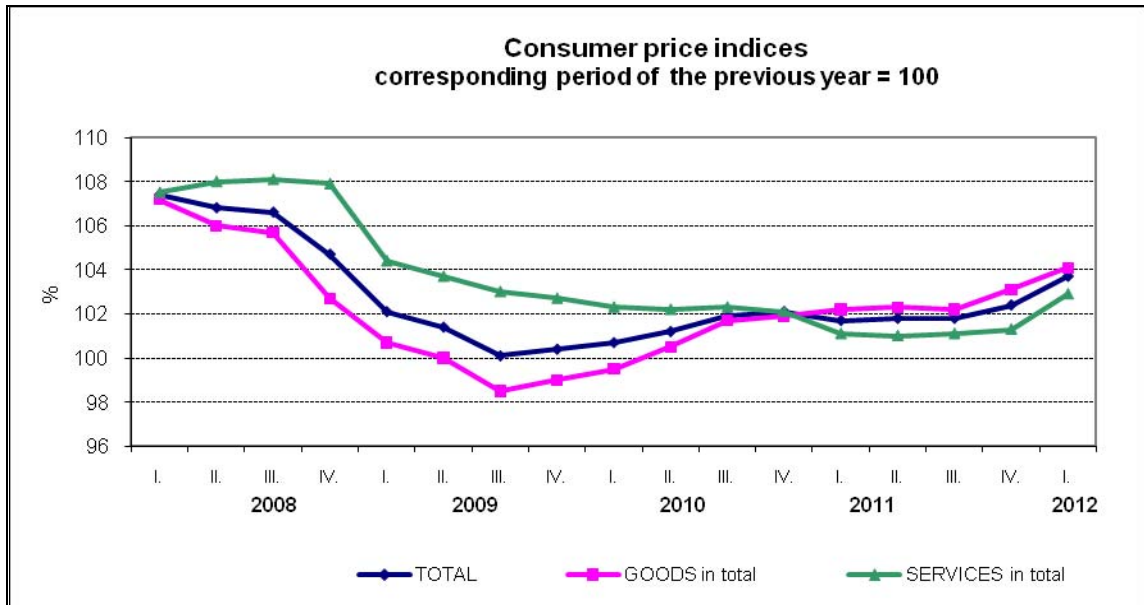
Prices of **goods in total** rose by 4.1% (3.1% in Q4 2011) and prices of **services** by 2.9% (1.3% in Q4 2011). From the chart, it is apparent that the prices of services grew in 2011 more slowly than the prices of goods after four years.

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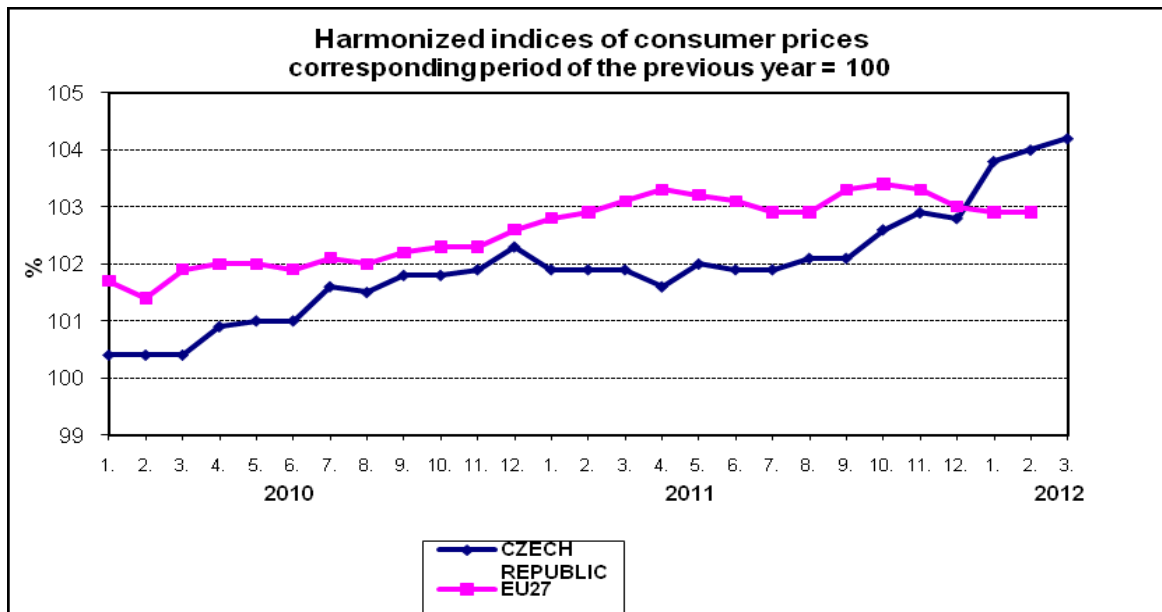
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Harmonized index of consumer prices in the EU27

According to Eurostat preliminary data, the **y-o-y increase** in the average **harmonized index of consumer prices** (HICP) in the EU27 was in January and in February 2.9%. In the Czech Republic (CR) the y-o-y change of the HICP was 3.8% and 4.0% in the same months. According to preliminary data, the HICP growth in the CR amounted to 4.2% in March. It can be seen in the chart below that the y-o-y HICP in the CR was lower than the average HICP in the EU27 member states over a long term, but after the January jump in consumer prices, they got about 1 percentage point above the average level in the EU.



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Consumer price indices in Q1 2012 and in 2011

| COICOP | Division | Constant weights 2010 (per mille) | 2011 | | | | 2012 | | | |
|-----------|--|-----------------------------------|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | | | Corresponding period of the previous year = 100 | | | | | | | |
| | | | Q 1 | Q 2 | Q 3 | Q 4 | January | February | March | Q 1 |
| 0 | Total | 1000.0 | 101.7 | 101.8 | 101.8 | 102.4 | 103.5 | 103.7 | 103.8 | 103.7 |
| 01 | Food and non-alcoholic beverages | 149.8 | 104.1 | 105.1 | 104.0 | 105.3 | 107.0 | 106.9 | 108.7 | 107.5 |
| 01.11 | <i>Bread and cereals</i> | 23.6 | 106.4 | 114.4 | 119.2 | 116.0 | 113.1 | 112.4 | 113.0 | 112.8 |
| 01.12 | <i>Meat</i> | 35.1 | 99.8 | 101.5 | 101.3 | 102.8 | 107.3 | 107.0 | 106.9 | 107.1 |
| 02 | Alcoholic beverages and tobacco | 96.0 | 103.8 | 103.0 | 102.8 | 102.8 | 102.6 | 101.9 | 102.0 | 102.2 |
| 03 | Clothing and footwear | 35.9 | 96.6 | 97.9 | 98.2 | 98.6 | 96.9 | 97.0 | 96.2 | 96.7 |
| 04 | Housing, water, electricity, gas and other fuels | 280.3 | 102.5 | 102.4 | 102.8 | 103.4 | 105.5 | 105.6 | 105.6 | 105.6 |
| 04.111 | <i>Net rentals paid in rented dwellings</i> | 37.8 | 101.9 | 102.4 | 103.2 | 104.0 | 105.7 | 105.2 | 105.5 | 105.5 |
| 04.511 | <i>Electricity</i> | 44.0 | 104.8 | 104.8 | 104.8 | 104.7 | 104.2 | 104.2 | 104.2 | 104.2 |
| 04.521 | <i>Natural gas</i> | 28.6 | 109.2 | 108.5 | 111.5 | 117.7 | 125.1 | 125.1 | 125.1 | 125.1 |
| 05 | Furnishings, household equipment and routine maintenance of the house | 58.0 | 98.8 | 98.4 | 98.3 | 98.5 | 98.8 | 99.3 | 98.6 | 98.9 |
| 06 | Health | 23.1 | 103.8 | 102.2 | 101.9 | 103.8 | 110.2 | 110.1 | 109.2 | 109.8 |
| 07 | Transport | 105.0 | 102.6 | 102.1 | 102.9 | 103.8 | 103.8 | 104.1 | 104.0 | 104.0 |
| 07.221 | <i>Automotive fuels</i> | 33.9 | 110.8 | 109.1 | 109.4 | 110.2 | 107.4 | 108.8 | 107.8 | 108.0 |
| 08 | Communications | 36.1 | 98.7 | 99.0 | 99.5 | 99.2 | 99.0 | 99.1 | 98.1 | 98.7 |
| 09 | Recreation and culture | 90.4 | 98.1 | 97.9 | 97.7 | 98.6 | 99.8 | 99.7 | 99.9 | 99.8 |
| 09.60 | <i>Package holidays</i> | 18.8 | 98.6 | 98.6 | 98.2 | 100.8 | 103.6 | 102.8 | 101.6 | 102.7 |
| 10 | Education | 7.8 | 102.2 | 102.2 | 102.2 | 102.1 | 102.2 | 102.1 | 102.1 | 102.1 |
| 11 | Restaurants and hotels | 48.6 | 101.4 | 101.2 | 101.5 | 102.0 | 103.2 | 103.7 | 103.9 | 103.6 |
| 12 | Miscellaneous goods and services | 69.0 | 101.2 | 101.1 | 100.7 | 100.6 | 101.1 | 101.8 | 101.8 | 101.5 |

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