

Prices

- After two years again growth of the price level in the whole economy**

Aggregate price level in the Czech economy expressed by the implicit deflator in 2012 following mild decreases in the previous two years year-on-year grew by 1.3 %. Lowering of GDP was thus in 2012 nearly deeper in constant prices than in current prices. Opposed to the year 2011, bringing near the import and export price dynamics weakened the negative effect of the terms of trade. Aggregate price level in the economy was thus more markedly affected by the growing producer prices in industry and agriculture. Consumer inflation was pushed up mostly by the prices of food and housing.

- Marked slow down of rate of growth of agricultural producers due to the settling of prices of plant production**

Prices of agricultural producers were in 2012 characterised by the opposite direction of development for plant and animal production with the overall gradual settling down of prices of plant production. Prices of agricultural producers thus in total increased for the whole year by 4 % (after nearly 20 % year-on-year growth in the preceding year pushed by the sharp growth of plant production prices), hiding however the imbalanced development within the last year. While in the first half of the year 2012 the prices were staying slightly below the level of the previous year thanks to the lower prices of plant production (affected by the high comparative basis), afterwards they again renewed the strong growth from the previous year. Year-on-year higher were at the end of the year mostly the prices of oleaginous crops by 20 %, grain and potatoes (by 29 %) and vegetable (by 31 %). The development of prices of animal production is compared to the plant production less volatile, last year it added 5 % and grows mildly already eleven quarters in a row. Prices of eggs grew by 55 %, pigs by 17 %, beef by 10 % and poultry by 4.5 %. Only the prices of milk decreased (-6 %). Compared to 2005 the prices in agriculture were higher by one quarter, while the prices of animal products became cheaper in six years by 3 %. For plant production however, the prices were by more than one half higher, with the prices of fruit growing by one quarter, prices of vegetable on the contrary fell by one tenth.

- Industrial prices were pressed up for the whole year by high dynamics of prices of coke, oil products and chemicals**

The rate of growth of industrial prices in 2012 from the record growth in the preceding year year-on-year decreased the pace to +2 %. For the whole year, the industry was impacted by the growing prices of coke and refined oil products (+10 %), chemicals and chemical products (+7 %) and also the development in the food segment (+3.5 %), where the manufacturers reacted to the higher prices of primary producers (including milk products, where on the contrary the manufacturers reacted by the reduction of prices due to the effect of decrease of prices of milk producers). Against the year 2011 the year-on-year rate of growth gained pace in water services (+8 %), these prices were increasing also in times of the deepest recession – compared to year 2005 they were higher last year by nearly one half, while in the whole industrial segment they increased only by 17 %. Opposed to this, the economic downturn was last year reflected in the decrease of prices in mining and quarrying and also for manufacturing of computers and electrical and optical equipment.

- Tough fight for orders pushes down the prices of construction works despite higher prices for materials**

Prices of construction works last year continued in regular mild decline (-0.6 %), despite growing prices of used construction materials and products (+1.1 %) against +2.8 % in 2011. Prices of construction works fell under high pressure due to the effect of low demand and shortage of large public orders and they have been falling year-on-year for almost three years – weakening of their dynamics however lasts already since the Q2 2008. Against the year 2005 however, the prices of construction works were higher by more than one tenth.

- Economic slowdown lead at the end of the year to the deflation development of market services**

Prices of market services have been losing dynamics already since the end of the year 2011 and due to the deflation development in the second half of 2012 they recorded a yearly decline of 0.6 %. Last year, lower were especially the prices significant by weight for advertising and market surveys (-3.1 %), architectonic and engineering services (-2.6 %) and also the telecommunication services. Prices for financial services were on the contrary increasing (+2.4 %, without insurance and

prices

pension financing). Mildly more expensive were also the services in the area of programming and advising, as well as freight transportation. In seven years the prices in the whole segment of market services increased by nearly one tenth with the highest growth of prices for advertising services and market surveys (by one third), by more than one fifth increased the prices for postal and courier services and programming and advising.

- ***Year-on-year rate of consumer prices at the highest level for past four years; high growth of the most weighted components of consumption and significant effect of administrative prices***

In spite of gradual weakening of year-on-year dynamics of consumer prices during the last year the price increase reached for the whole year 2012, according to the average rate of inflation gauged at +3.3 %, the highest level in the past four years. Price development together with the low valorisation of pensions and modest growth of wages in most industries had a common effect on the downturn of consumption behaviour of population. Three most significant components given their weight in the consumer basket have been increasing their prices for the past three years above the level of aggregate consumer inflation and were among other also reflected in the higher increase in the index of cost of living of households of pensioners (it arrived at 4.6 % in 2012). Last year the prices of food experienced the highest growth (+6.6 %, mostly fish, meat, milk products and eggs), also the prices of non-alcoholic beverages were year-on-year higher by one tenth. In the area of housing the total prices of energies rose (+8.6 %) as well as those of other services connected to housing (+8 %). In the long-term the prices of rents grow, which added last year 4.3 % (in Prague 4.1 %), they increased against the year 2005 similarly to prices of energies by two thirds (in Prague by one half). The highest growth featured in 2012 the prices for health (+9.3 %), for the third time in the last five years.

- ***Weakening of year-on-year dynamics of consumer prices during the year***

Given the most significant consumption components by weight, the growth of prices continued in 2012 in transportation (+2.8 %), where contrasted the strong growth of fuels (+6 %) and transportation services (+7 %) with the decline in the prices of motor vehicle purchases. Last year also confirmed the long-term fall in the prices of clothing and footwear, household equipment, telecommunication services and partially also the recreation and culture (apart from newspapers, books and holidays with complex services). The largest effect on the aggregate inflation had also last year the housing and food with beverages (2.5 p.p.). One third of aggregate size of inflation was due to the goods and services with administrative prices, which by themselves grew year-on-year by 8.7 %. Saving strategies of households were obvious last year even on the deepening drop of retail sales or transfers to other cheaper providers of services connected to housing.

- ***Domestic HICP was kept above the EU level for the whole year by record high growth of prices of food and beverages***

The harmonised index of consumer prices (HICP) remained in the CR above the level of euro area as well as the EU for the whole year 2012. Growth of HICP for food and beverages was last year in the CR the most dynamic in the whole EU. Consumers in the CR however as opposed to those from the EU could profit from the decrease in prices of clothing and footwear and also the housing equipment. The growth of prices of alcoholic beverages and tobacco also fell among the lowest within the EU. Prices for recreation and culture, which includes among other the weakened demand in times or recession, in the EU similarly to the CR last year stagnated, they decreased the most in Bulgaria (-4.6 %), Greece and Ireland, they recorded the highest growth in the so-far facing the crisis well – Germany (2 %).

- ***Weakening of HICP dynamics in the second half of year visible in most EU countries***

Weakening rate of growth of consumer prices was typical for the most EU countries, during the year 2012 the year-on-year price growth grew stronger only in Romania (from 2.4 % in H1 to 4.4 % in the second part of the year 2012) and Bulgaria, among other largest economies by a slower pace also in Netherlands and Spain. Last year's weakening of HICP dynamics was recorded also in the most countries of central Europe (Poland the most), Austria remained without changes (2.6 %) and Hungary, which was at front of EU countries for the year 2012 with 5.7 %.

- ***Negative effect of terms of trade as a whole weakened...***

Adverse effect of the terms of trade in the foreign trade, typical for the last three years, weakened in the last year. Terms of trade reached the value of 98.8 % and were by 1.3 p.p. more favourable compared to the previous year. Export prices increased the pace of their year-on-year growth to 2.9 % (from +1.7 % in 2011), while the import

prices grew by 4.2 % (keeping the dynamics of 2011). For exports, out of the more significant groups the prices rose last year for chemicals (+4.8 %), miscellaneous manufactured articles and food (both +4 %). Imports were dominated by higher prices of food (+6.7 %), chemicals (+3.6 %), machinery as well as transport equipment (+2.7 %) and mostly mineral fuels and grease, whose growth dynamics against the year 2011 weakened by one third, but still it did not stop last year's year-on-year growth of more than 15 %.

- ... whether it deepened for mineral fuels and grease and ceased its positive effect in foreign trade with food

Adverse effect of terms of trade on the result of foreign trade is typical for mineral fuels (last year it deepened to the worse level since 2006), it also worsened after two years of positive effect for food. On the contrary, the improvement occurred for raw materials, whose export prices last year grew by 3.5 %, while import fell year-on-year by 2.5 %.

Chart 11 Consumer prices indices, administrative prices and selected social groups of households (year-on-year development)

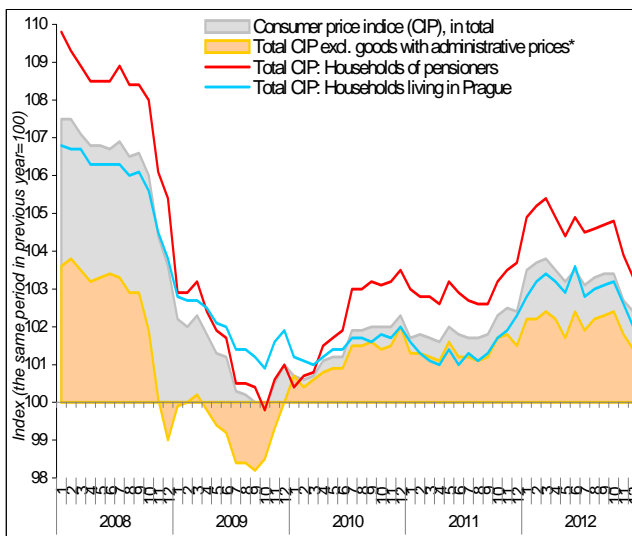


Chart 12 Consumer prices indices (year-on-year development)

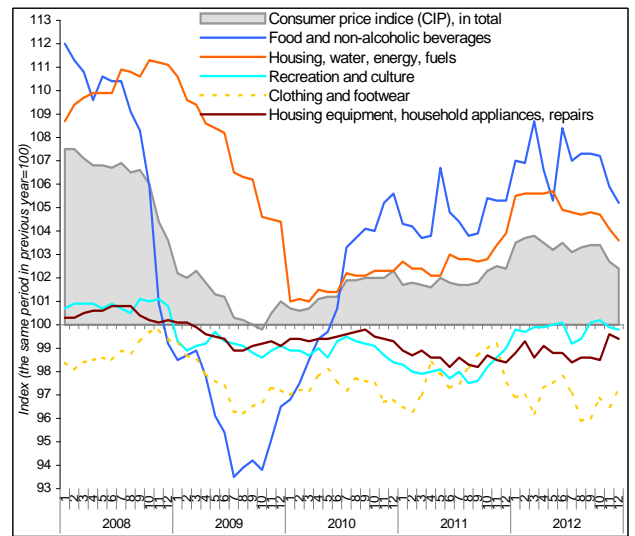


Chart 13 Producer price indices (year-on-year development)

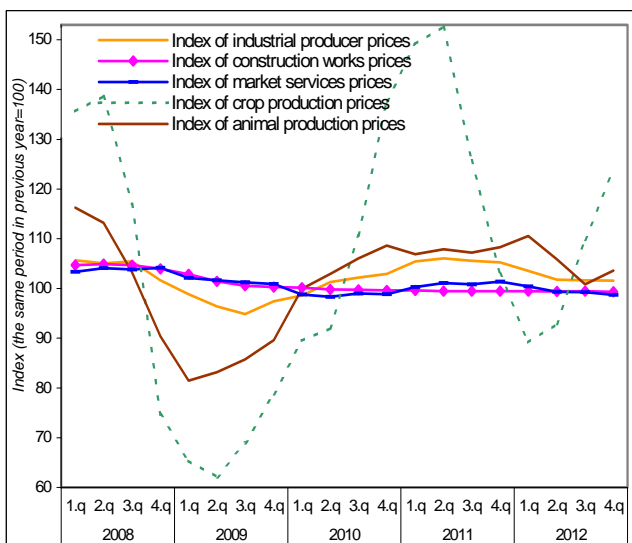
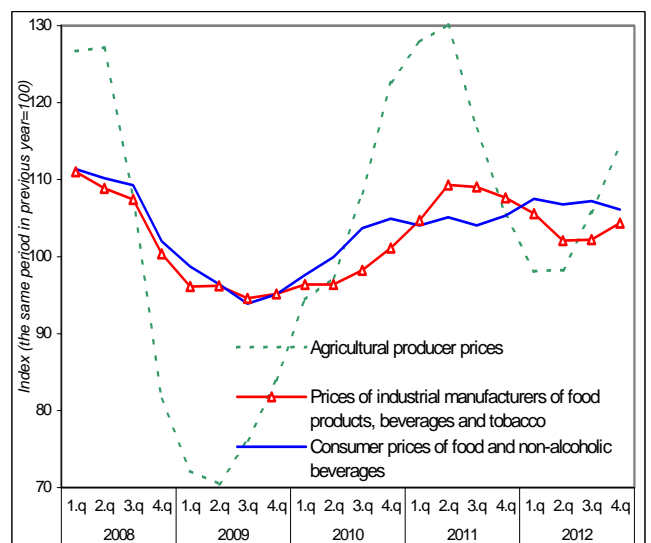


Chart 14 Price indices on various levels of food chain (year-on-year development)



Source: CZSO