

5. Prices

Growth of total price level accelerated in Q2.

Total year-on-year increase of total price level in the economy (gauged by the GDP deflator) arrived at 3.5% in Q2 2019, the most since Q1 2009. Domestic demand mostly shared in the growth of the price level. Prices of consumption goods grew by 3.8%, in that it was 3.0% for household consumption and goods and services consumed by the government sector featured prices higher by 5.6%. Prices of capital goods rose by 2.6% year-on-year. Terms of trade move close around the level of 100% since the beginning of year 2019. They amounted to 100.3%¹ in Q2.

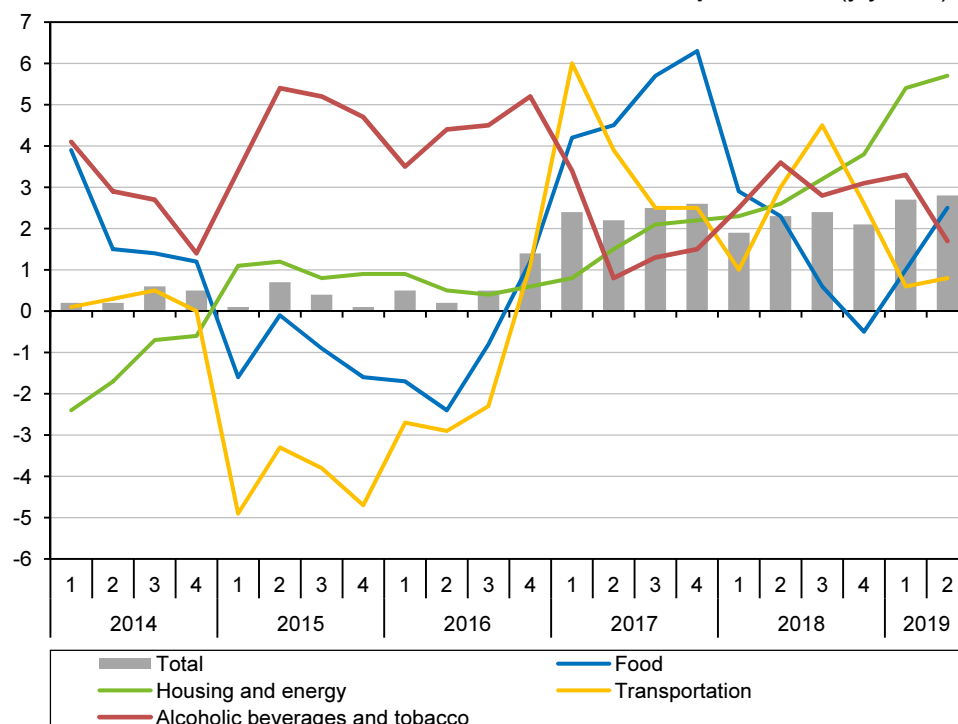
Consumer prices grew by more than 2% pace in the whole H1.

Year-on-year growth of the consumer price index balanced markedly above the two percent level in H1 2019. Compared to the same period of the last year, the consumer prices climbed by 2.8%. The division housing, water, energies, fuels maintained the largest influence over the price dynamics throughout the whole H1. Prices of food and non-alcoholic beverages and also the division other goods and services contributed to the growth more significantly. Divisions alcoholic beverages and tobacco and accommodation and restaurants also exerted a smaller contribution. Consumer prices rose by 2.8% in Q2 itself. Effect of prices of housing, water, energies and fuels and also food strengthened in Q2.

Housing maintained a dominant influence on the total growth.

Prices of housing, water, energies and fuels grew by 5.6% year-on-year in H1. Year-on-year dynamics sharply accelerated since the beginning of the year and peaked in March. In Q2, however, it still maintained a high level. Year-on-year growth of the rents from flats mildly strengthened (3.6%) in H1 compared to last year. The imputed rent for housing (5.7%) as well as prices of common maintenance and repair of household goods (4.9%) hiked up. Acceleration of prices of the whole division can be ascribed to the dynamics of prices of electricity and heat, gas and other fuels. These have picked up steam since the beginning of the year and grew by 6.9% for the whole half-year. Growth of housing and energies was 5.7% year-on-year in Q2.

Chart 10 Prices in the selected divisions of the consumer price index (y/y in %)



Source: CZSO

¹ According to the national accounts data

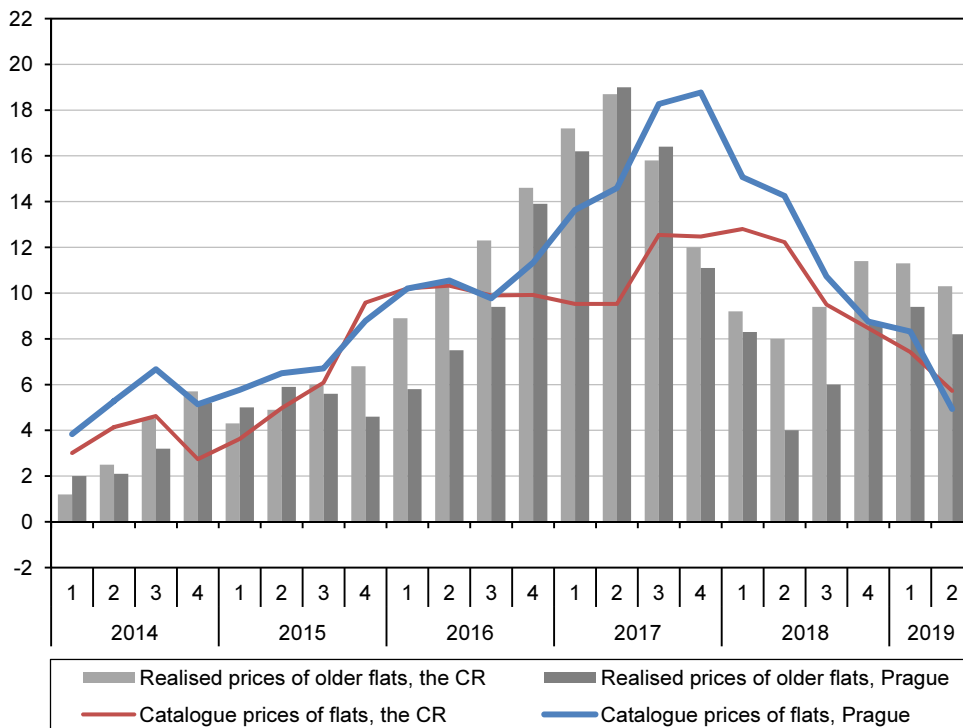
Other items of the consumer basket contributed to the growth less.

Prices of food and non-alcoholic beverages were raised by 1.7% year-on-year in H1. The dynamics between Q1 and Q2 showed a very large difference. Year-on-year growth gained pace in Q2 and reached 2.5% in total. Vegetables, which share only small proportion in the basket, pulled the price growth in this division throughout the whole half-year, but its prices went up by 23.7% in H1. Prices of baking products and cereals also increased (2.7%). In the opposite direction, fruit pushed the prices down (drop by 9.2% in H1) and also sugar, jam, honey, chocolate and sweets (-4.6%). Prices of alcoholic beverages and tobacco rose by 2.5% year-on-year in H1. Growth however slowed to 1.7% during Q2. Prices of household equipment, appliances and their repairs were raised by 1.3%, also mildly contributing to the total growth of consumer prices in H1. Prices of transport stagnated during the whole H1 (0.7%), especially due to the drop of prices of transportation service activities by 7.9%. Prices of wearing apparel and footwear pressed the consumer prices in the downward direction (prices dropped by 1.5%).

Growth of consumer prices mildly increased in the EU in Q2.

Year-on-year growth of the consumer prices reached 1.6% in the EU in H1. In Q2 itself however it slightly speeded up against Q1 to 1.7%. Year-on-year growth dynamics pointed to brisk growth in most EU countries in Q2. It was the most in Poland (from 1.2% to 2.2%), Estonia (from 2.3% to 3.0%) and Hungary (from 3.2% to 3.8%). Growth of prices of food accelerated in case of Poland and Estonia (both countries were struck by African swine fever), transportation price growth had an effect in Hungary. Romania (4.3%), Hungary (3.8%) and Latvia (3.3%) experienced the highest price growth in Q2. Cyprus, Portugal and Greece (similarly by 0.6%) recorded on the contrary only slow price growth.

Chart 11 Prices of real estate (year-on-year change, in %)



Source: CZSO

Growth of the supply prices of flats weakened.

Development of real estate prices mirrors to a certain extent the situation on the residential market. Supply prices increased by 5.7% year-on-year in Q2 and the trend of the slowing dynamics thus continued (prices grew by 7.4% in Q1). Growth of the supply prices of flats slackened even more in Prague (from 8.3% in Q1 to 4.9%). On the other hand, the year-on-year rate of growth of the realised prices of older flats stays above 8% in the last three years. This index thus increased by 10.3% in total in

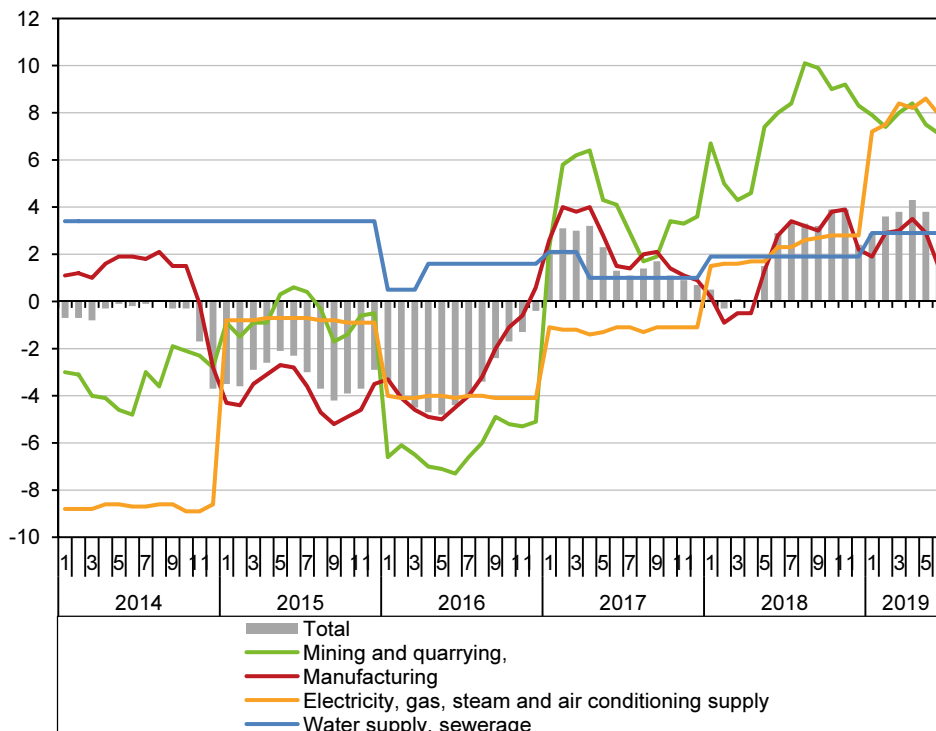


the CR in Q2 and by 8.2% in Prague. It shows, that even though certain market downturn (connected among other things to worse accessibility of mortgages) was evident in the supply, the position of buyers is still relatively weak. Shortage of suitable flats, which would satiate the demand, still does not enable more meaningful negotiation regarding the price, which could hamper the growth of the realised prices.

Industrial producer prices were rising in H1.

Prices of industrial producers rose by 3.5% year-on-year in H1. Growth attained the same values also in individual quarters. Goods and services of manufacturing, which holds the strongest weight in the Czech economy, contributed the most to the growth of prices. Their prices rose by 2.6% in H1. Prices of coke and refined oil products, but also food products, beverages, tobacco (year-on-year growth of 3.3%), rubber and plastic products (3.7%) or basic metals and metal products (2.2%) strongly contributed to this growth. Prices of electricity, gas, steam and air conditioning supply, where the strong dynamics from Q1 even strengthened in Q2 rose notably (8.0%). Prices of mining and quarrying were also growing in the first half of year (7.7%). Year-on-year growth of the prices of water supply and water waste management (2.9%) was also higher compared to the last year.

Chart 12 Prices of main groups of industrial producers (year-on-year change, in %, based on CZ-CPA classification)



Source: CZSO

Manufacturers noted a drop in the year-on-year price dynamics in the EU in Q2.

Producer prices in the European twenty-eight increased by 2.5% year-on-year in H1. A significant slump in dynamics however occurred between the Q1 and 2. While the prices rose by 3.1% in the EU year-on-year in the first quarter of the year, the addition fell to 1.9% in Q2. The described slowdown was common to the overwhelming majority of EU countries. A more detailed view then shows a sinking dynamics for mining and quarrying (from 4.3% in Q1 to -0.1% in Q2), the growth of prices in manufacturing also slightly slowed down (from 1.6% to 1.2%) and the addition in energetics decreased from 8.8% to 4.6%². The producer prices were growing the fastest in Romania (5.8%), in Latvia (5.5%) and Hungary (5.0%) in Q2. Producer

² Section D – manufacture of electricity, gas, steam and air conditioning supply

prices grew only by 0.3% in Portugal in Q2. Only moderate dynamics was also in Austria (0.7%), Greece and Denmark (similarly 0.8%).

Prices grew in the majority of market services branches.

Year-on-year growth of prices of market services hiked up to 2.6% already in Q1 and maintained this level in Q2. Prices of land and pipe transport (increase of 3.0% in Q2) comprised the largest contributors to the dynamics. Prices of freight rail transport featured the highest year-on-year growth (to 10.8%). Services in the area of programming and consultancy activities (4.4% growth in Q2) and then insurance, reinsurance and pension funding (6.5%) were further categories, which significantly added to the growth of market services prices. Advertising and market research (growth slowed to 3.9%) and activities of employment placement agencies (7.1%) exerted a moderate influence. Most types of services featured a price growth, only storage and support activities in transportation (−1.6%) worked in the direction of decrease.

Prices of agricultural production picked up steam in Q2, both in the plant and animal production.

Year-on-year growth of the agricultural producer prices markedly accelerated in Q2 and attained 11.0%. This is the most since Q3 2017. Prices of plant (16.6%) as well as animal production (5.4%) were climbing up. The adverse development of harvest in the last year fully manifested in the plant production. Large increase of prices was observed for cereals (16.4%), especially wheat (17.8%) and barley (16.4%). Prices of industrial crops increased by 15.0%, in that prices of oil plants by 15.6%. On the contrary, increase of feed crops shrank to 5.9%. Dynamics of potato prices still accelerates – after 47.9% rise in Q1 to 74.7% in Q2. In that, prices of ware potatoes went up by 104.7% year-on-year in Q2 and seed potatoes by 17.2%. In contrast, the prices of fruit fell by 21.9%. Prices of animal production climbed back after four quarters of declines, especially due to prices of pigs and piglets. These grew by 13.0%. It resulted from the veterinary situation on the large world markets³, which caused the supply of pork to be considerably limited. Among the animal products, prices of milk went up by 6.2%.

Prices of foreign trade went up.

Prices of export grew by 2.3% year-on-year in H1 2019, in that by 1.7% in Q2. Especially the price growth of other materials⁴ (from 0.8% in Q1 to −1.5% in Q2) and also mineral fuels (from 8.9% to 2.4%) slowed. Price growth of exported machinery and transport equipment (1.4%) and semi-finished products⁵ (1.4 %) was also only moderate in Q2. And vice versa, prices of food and live animals (3.5%) and industrial consumption goods (4.3%) went up relatively fast. Import prices followed a similar pattern. They increased by 2.2% year-on-year in H1 and the growth slackened to 1.5% between quarter 1 and 2, mainly due to the effect of prices of mineral fuels (8.0% and 1.0% in individual quarters). Dynamics of prices of other materials however remained very strong (8.7%). Prices of import of food and live animals (3.1%), chemicals and chemical products (1.3%) and machinery and transport equipment (2.4%) also increased year-on-year in Q2. Prices of industrial consumer goods stagnated (0.3%) and prices of beverages and tobacco considerably fell (−5.0%).

Terms of trade were positive in H1.

Terms of trade attained the value 100.2% in both quarters of 2019. Mostly beverages and tobacco (108.1%) and industrial consumption goods (104.0%) worked in the direction of positive terms of trade in Q2. Positive terms of trade of food and live animals (100.4%), mineral fuels (101.4%) and semi-finished products (101.5%) were less pronounced. Trade with other materials (90.6%), chemicals (99.1%) and machinery and transport equipment (99.0%) featured negative terms of trade in Q2.

³ African swine fever, which afflicted China, but also some European countries. According to the State Veterinary Administration, occurrence is currently reported (July 2019) from 9 EU member states: Belgium, Bulgaria, Estonia, Italy (presence only on Sardinia), Lithuania, Latvia, Hungary, Poland and Romania.

⁴ Inedible raw materials, except for fuels.

⁵ Assorted market goods mainly based on material.

