

5. Prices

The total price level increased.

The growth of consumer prices crossed the 2% level, but did not accelerate further.

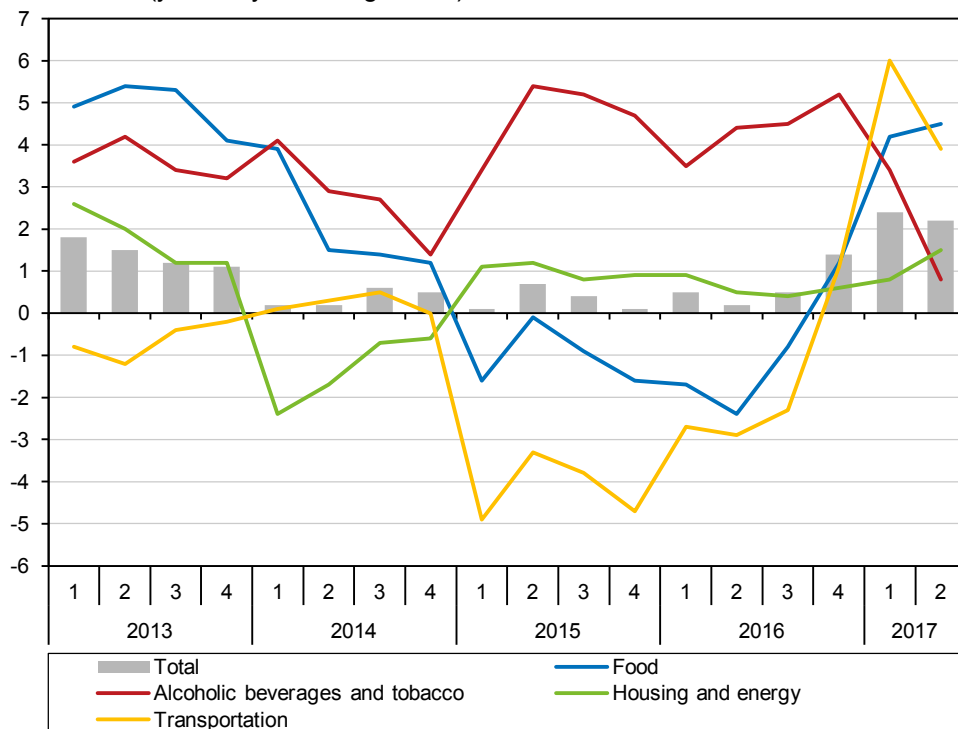
The year-on-year dynamics of the prices of oil was one of the reasons. Prices of transport did not grow as fast as in the preceding quarter in Q2.

The total price level gauged by the GDP deflator increased by 1.0% in Q2. This is by 0.5 p. p. more than in Q1, but still below the level of 2016. Mainly the negative terms of trade had an impact on the slowdown of the price growth (98.3%). Prices of goods consumed by the households increased by 2.4%, similarly to the preceding quarter. The growth of prices of the capital goods reached 1.6%.

The consumer prices increased by 2.3% year-on-year in the first half of the year 2017. The price growth experienced a more moderate dynamic in Q1, when it reached 2.4%. The year-on-year addition to consumer prices was 2.2% in Q2. The acceleration of the price growth, which was connected to the year-on-year increase of the prices of transportation, halted in Q2 and the consumer inflation only mildly exceeded the 2% inflation target. The core of the price growth shifted into the item food and non-alcoholic beverages. The stagnation of prices of alcoholic beverages also influenced the mild slowdown of the dynamics, these prices worked in the inflationary direction in the preceding two years.

Prices of oil sharply dropped at the turn of years 2015 and 2016 (from 44.3 dollars per barrel in November 2015 to 30.7 in January 2016) and they returned back above the level of 45 dollars per barrel already in April 2016. These shifts were consequently reflected in the year-on-year dynamics of the prices of oil and transportation in the first half of year 2017. The average price of oil reached 53.7 dollars per barrel in Q1, which was by 59.3% more compared to the same period of the previous year. The crown depreciation against the dollar also affected the increase of the prices of oil. The prices of transportation thus increased by 6.0% in Q1 year-on-year (in that prices of the operation of private motor vehicles by 10.7%). It was not possible to maintain the weak price growth commenced in the autumn 2016 in the second quarter and the average price for the barrel of oil slightly lowered to 49.7 dollars, which meant the year-on-year increase of 9.1%. This was also the reason, why the growth of the prices of transportation slowed down to 3.9% (in that the growth of the cost of transport vehicle operations was 5.8%). However, despite the slowdown, the prices of transportation contributed to the total inflation of the consumer prices 0.4 p. p. in Q2.

Chart 11 Prices in the selected divisions of the consumer price index (year-on-year change, in %)



Source: CZSO

The raising of the prices of food continued strongly.

The prices of food and non-alcoholic beverages increased by 4.5% year-on-year and they mildly accelerated compared to the preceding quarter. They added 0.8 p. p. to the total growth of the consumer prices. The prices of oils and fats grew the fastest (11.0%), the butter is placed here, whose prices rose by 21.7% year-on-year and milk, cheese and eggs (9.8%). The price growth was quickening for both these items in comparison to the previous quarter. The year-on-year growth of the prices of the bakery products also gained pace (from 3.5% to 5.2%) and meat (from 2.2% to 5.1%). The vegetable was the only product, which was lowering prices year-on-year in the second quarter (by 4.8%). Non-alcoholic beverages raised prices by moderate 1.1%. The development of the price of coffee, that rose by 5.4% year-on-year (while the prices of tea were stagnating) is also worth mentioning. Here it is possible to observe an association with the reports of the shortage of coffee beans due to the poor harvest in the main plant growing destinations as well as the possible depletion of coffee as a result of the global climate change.

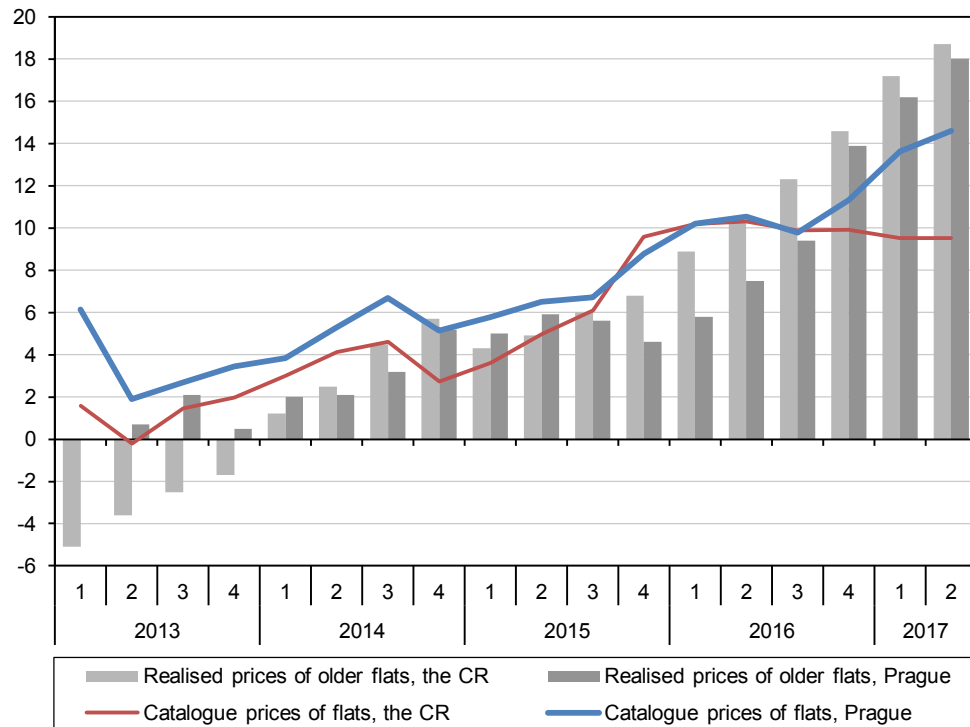
The prices of housing and energies also accelerated.

Housing, water, energies and fuels represent the most significant item in the Czech consumption basket and especially their growth quickened markedly in May and June compared to the previous period. The total cost of housing and energies went up year-on-year by 1.5% in Q2, which is by 0.7 p.p. more than in the previous quarter. The prices of imputed rent, which accelerated their growth since the beginning of the year and grew by 3.9% in Q2 influenced this movement. The prices of rents from flats mildly quickened the growth, they increased by 2.1%. On the contrary, the prices of the electrical energy and heating, gas and other fuels (by 0.7% in Q2) kept decreasing (to a lower extent than before).

The prices of real estate keep growing and the increase of their prices is accelerating.

The growth of the supply prices of real estate reached 9.5% in the CR in Q2 compared to the same period of the previous year and it did not change in comparison to the preceding quarter. The growth of the supply prices again quickened in Prague (from 13.6% to 14.6%). On the contrary, the growth of the supply prices of real estate outside Prague lowered to 3.6% in Q2. Realised prices of older flats accelerated their growth quite markedly in Q2. They increased by 18.7% in the whole CR year-on-year, by 18.0% in Prague.

Chart 12 Prices of real estate (year-on-year change, in %)



Source: CZSO



Moderation of the year-on-year growth of the consumer prices was common to the most of the EU.

Acceleration of the year-on-year price growth in the EU, which occurred in Q1 of the year (year-on-year increase of the harmonised index of consumer prices by 1.8%) did not remain and the year-on-year growth slowed down to 1.6% in Q2. The stated slowdown was common to the majority of the Union states; however, it did not cross 0.6 p. p. Consumer prices grew the fastest in Estonia (3.4%), Lithuania (3.4%) and Latvia (3.0%) in Q2. The Czech Republic in this respect also ranked among the countries with the fastest price growth. The growth of consumer prices ceased in Ireland in Q2 and it stayed below one percent in Romania (0.6%, however a slowdown occurred compared to the previous quarter), Denmark (0.7%) and Finland (0.9%).

Prices of industrial producers grew year-on-year in Q2.

Year-on-year growth of the industrial producer prices, which was renewed in Q1 (2.7%), again slowed down following the April peak. The industrial producer prices thus increased by 2.3% in Q2 compared to the same period of the past year. The described dynamics was markedly affected by the development of the prices of coke and refined oil products. These significantly grew in Q1 and the growth subsequently slowed down. Prices of mining and quarrying grew constantly since the beginning of the year (year-on-year growth was 4.9% in Q2). The year-on-year price growth slowed down in the most significant industry by weight, manufacturing, and reached 2.8% in Q2 (by 0.6 p.p. less compared to the preceding quarter). Prices of food products, beverages and tobacco were raised by 3.3% (acceleration of 2.4 p. p.). Among the other weight significant sections, the prices of rubber and plastic products and other non-metal mineral products mildly increased (0.8%) and the year-on-year increase of the prices of the general metals and metal products accelerated to 7.1%. Prices of transport equipment were slightly falling (by 1.8%). The prices of chemicals and chemical products grew markedly (5.3%, mild slowdown compared to the previous quarter). The prices of electricity, steam and air conditioning supply keep decreasing (by 1.3% in Q2), however the drop shrank compared to the previous year.

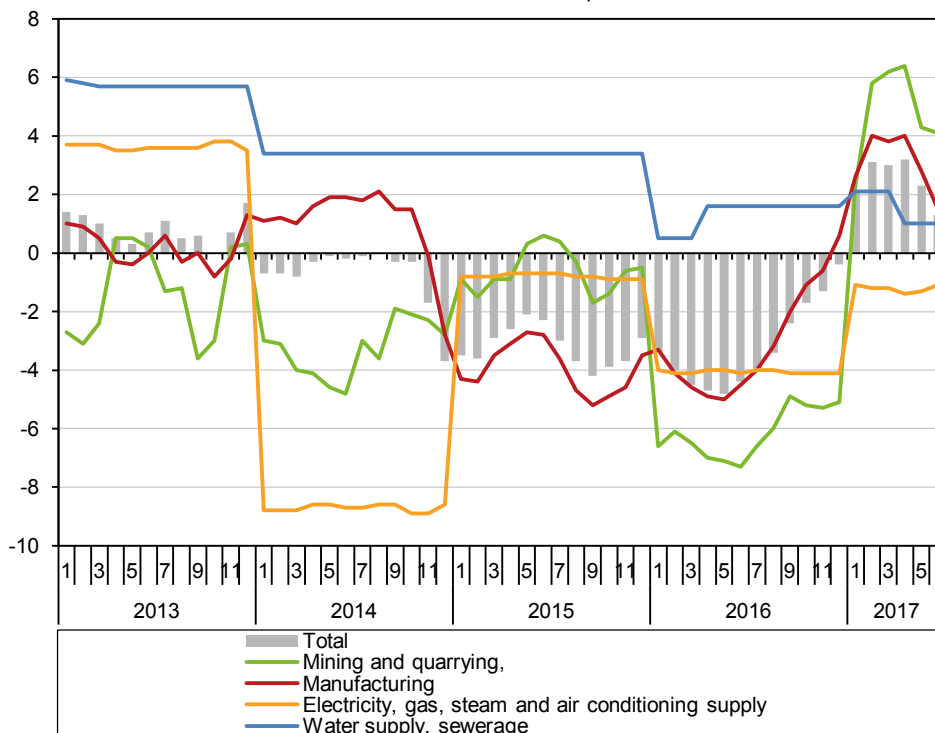
Growth of prices of producers in the EU was faster than in the CR.

Prices of industrial producers in the EU rose faster in the EU year-on-year than in the CR (3.7%), however the slowdown by 1.0 p. p. compared to the preceding quarter manifested also here. Apart from Luxembourg, where the industrial producer prices fell by 2.9% year-on-year in Q2, the prices at least slightly rose in the individual EU countries. The CR ranked in this respect within the range of a more moderate dynamics. Prices grew slower than in our country only in Austria (1.9%), Croatia (1.9%), Slovenia (1.4%) and Malta (0.8%). Very strong growth of the industrial producer prices continued in Belgium (9.3%), placed behind was the Great Britain (6.0%) and the Netherlands (5.5%).

The agricultural producer prices increased year-on-year for the first time since 2013.

Agricultural producer prices (incl. fish) were raised year-on-year in Q2 for the first time since Q3 2013 (except for Q4 2015) and specifically by 11.3%. Mostly the animal production contributed to the growth of the total index, whose prices grew by 16.9%, the prices of the plant production however also increased after more than one year (6.7%). The raised prices of cereals (2.6%, first growth since Q4 2015), especially wheat (5.3%) was reflected here. The estimated lowering of yields compared to the above average year 2016 can also be one of the reasons. Industrial plants were another significant group of plants, whose prices rose (7.2%), especially oil plants, where the oilseed rape holds the largest share (year-on-year growth of 10.2%). The year-on-year increase of the prices of vegetables and garden products by 23.7% also had a notable share. The prices of animal production grew already second quarter in a row (16.9%). The prices of live animals were raised (10.5%, the prices of pigs, whose growth is accelerating already one year and reached 27.6% in Q2, had the main impact). The poultry offset the mentioned growth, its prices fell by 5.1%. The growth of the prices of milk also gained pace (26.1%), it has the highest weight among the animal products, whose prices went up by 24.5%.

Chart 13 **Prices of main groups of industrial producers** (year-on-year change, in %, based on CZ-CPA classification)



Source: CZSO

The growth of prices of market services, stagnating in the long-term, gained pace.

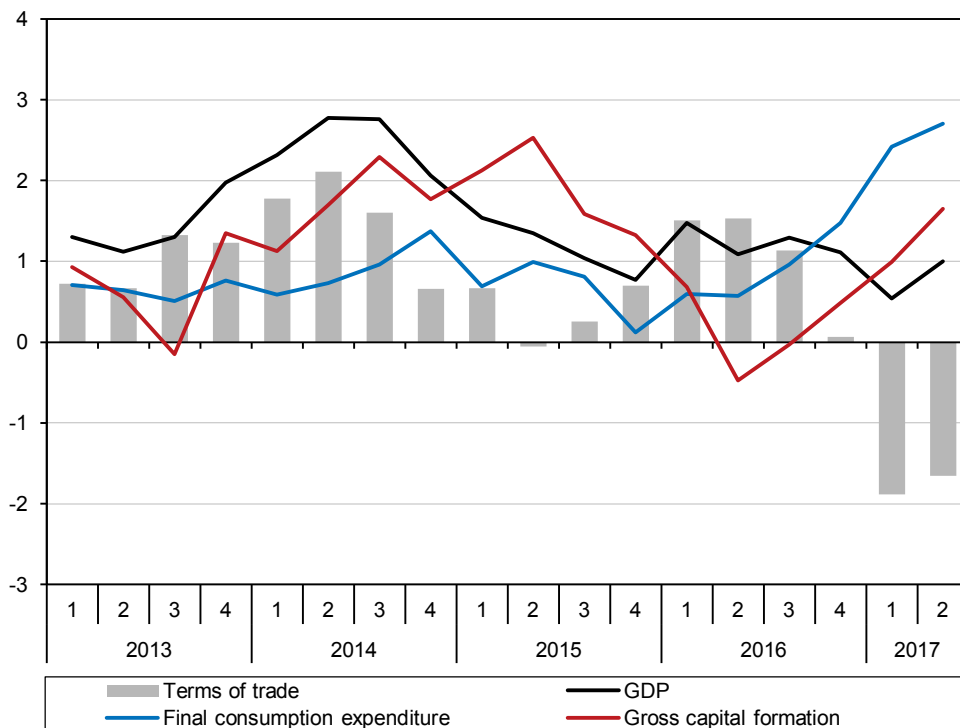
Prices of market services continued with their dynamics in the development from previous quarters and their year-on-year growth accelerated to 1.0%. The division insurance and pension financing, whose prices went up by 5.3% and further the advertising services and market research, whose prices were raised by 2.0% especially supported the growth of the total index. The strong growth of the prices of postal and courier services as well (4.5%). Even the mild growth of the two most significant components by weight, that is land and pipe transport and architectural and engineering services revived (0.4%). Both services renewed their price growth after a period of mild decreased.

Development of prices of foreign trade was markedly affected by the loosening of the exchange rate commitment and appreciation of crown towards euro.

The growth of prices of export and import again slowed down in Q2 2017, following the acceleration of the year-on-year dynamics in the first quarter of the year. The export prices increased by 1.0% during Q2 (slowdown against Q1 by 1.2 p. p.) and the import prices increased by 2.9% (slowdown of 2.2 p. p.). Mineral fuels and semi-finished products similarly added to the growth of export prices by 0.5 p. p. in Q2. The contribution of other materials of 0.3 p. p. was also not negligible. Machinery and transport vehicles had an opposite effect, their prices lowered by 1.3 Their effect on the total index reached -0.7 p.p. The growth of import prices was supported by similar factors as in export. The mineral fuels have larger weight in import than in export. That is also why their addition to the growth of import prices achieved 1.2 p. p. The addition of the semi-finished products had the same value. Other materials contributed 0.5 p. p. to the growth. Similarly, to the export prices, machinery and transport vehicles had a negative effect (-0.6 p.p.). The terms of trade were negative in Q2, however they moderated by 1.0 p. p. compared to the previous period and attained 98.2%. It was the merit of the mineral fuels, where the negative terms of trade were lessening throughout the whole quarter. The terms of trade of machinery as well as the industrial consumption goods went in the similar direction. The crown appreciated towards both euro and dollar and thus dampened the growth of the foreign trade prices. Given the territorial and type structure of the foreign trade, the crown appreciation was more manifested in export, which is dominated by machinery and transport vehicles. In their case, the crown appreciation was the reason for the decrease of their prices. The difference between the published and adjusted value of import price inflation arrived at 1.3 p. p. in Q2. The difference between published and adjusted value of the import prices was 1.0 p.p.



Chart 14 **Deflators** (adjusted for seas. and calendar effects, year-on-year change, in %)



Source: CZSO