

## Prices

- **Marked change of price parity of agricultural products**

Agricultural producer prices in 2008 increased by 8.8%, y-o-y, and grew more slowly than a year ago while prices of plant products increased by 11.8% and prices of animal products by 5.2%. From the aspect of time the agricultural producer prices showed a different growth, in Q2 they increased markedly (by 27.3%) and in Q4 they dropped notably (by 18.5%) while the differentiation rate was substantially bigger for plant compared to animal products. Relation between the plant product prices and animal product prices ranged from 1.228 (Q2) to 0.827 (Q4).
- **Strong influence of price growth in food products on price increase in manufacturing industry**

Industrial producer prices increased, y-o-y, by 4.5% showing a little faster growth than a year ago, however, the biggest growth for the last four years. Prices increased most in Q1 (5.6%) and the smallest growth was reported for Q4 (1.6%). The smallest growth on average was reported for prices of manufacturing industry products (3.2%), nevertheless, they markedly influenced the aggregate price level growth (2.7 p.p.). The price growth in crude materials was the biggest (14.4%) contributing to the total increase by 0.5 p.p. Increase in prices of electricity, gas and water supply was also far above the average (9.3%) and contributed by 1.3 p.p. to the total growth. From the aspect of time the smoothest development showed prices of electricity, gas and water while prices in the manufacturing industry products ranged from a 4.6% growth (Q1) to a slight drop in Q4 (0.1%) coming mainly from prices of coke and petroleum products ranging from 45.9 p.p. by individual quarters. The growing difference between bigger growth of consumer prices of electricity and lower price growth of industrial producer prices of electricity shows that the growing revenues of companies involved in the production and supply of electricity are relatively more contributed to by households than the remaining institutional sectors.
- **Ratio between price growth of inputs and outputs in construction increased**

Prices of construction works increased, y-o-y, by 4.5% showing faster growth than a year ago and, concurrently, the biggest growth for the last eight years. Much smaller increases were recorded in prices of materials and products used in construction (by 2.2%). Ratio between the prices development of outputs and inputs in construction was 0.988 for 2007 and changed to 1.023 for 2008 testifying the success of construction enterprises in the market; part of revenues results from the increased "terms of trade" level.
- **Escalating prices of advertising services**

Prices of market services increased by 3.8%, y-o-y, and they grew faster than a year ago. Prices of business services and real estate services increased by 5.4%, of which mainly prices of advertising services by 10.3%. Price increase in freight transport by 2.9% was affected mainly by price growth in road transport by 3.7%. Prices in post and telecommunications were higher by only 1.9% and prices in postal services increased markedly by 25.5%. Price growth in financial intermediation by 2.1% came from financial leasing. Price drop was recorded in insurance (-1.8%) when the prices of motor vehicles insurance dropped by 2.5%.
- **The highest inflation rate for the last 10 years**

Consumer prices for 2008 increased y-o-y by 6.3% on average, the biggest increase was recorded in Q1 (by 7.4%) and the smallest in Q4 (by 4.7%), with the annual inflation rate increasing constantly over the year – from 3.4% in January to 6.3% in December) to reach its biggest growth over the last 10 years. In 2008, the prices of services increased markedly, in total by 7.9% compared to prices of goods (+5.4%). In households broken by social groups the biggest consumer price growth in 2008 was recorded for pensioners (8.2%) followed by family households with minimum income (7.7%).
- **Negative impacts of growing consumer prices on purchase power of the population**

The increase of aggregate level of consumer prices and devaluation of purchase power of money by 5.9% in 2008 resulted in a marked slowdown of disposable household income growth in real terms and also in increase of final consumption expenses when for the same amount of goods and services households paid by CZK 94 billion more than a year ago. Big growth of consumer prices caused devaluation of non-realized purchase power of households. Annual inflation rate was by 4.8 p.p. higher than the average interest rates on households deposits in commercial banks.

- Price growth in housing contributed by more than 2/5 to the increase of aggregate price level**

The y-o-y increase of aggregate consumer price level in 2008 was most contributed to (2.7 p.p.) by price increase in housing, water, electricity and fuels (by 10.3%). Prices of net rentals paid by tenants recorded a marked increase (16.2%). Adjusted for influence of housing prices the aggregate price level would increase by 5.0%, i.e. by 1.6 p.p. less than was the total growth of consumer prices. Big influence on the aggregate level came from prices of food and non-alcoholic beverages (1.4 p.p.) with a 8.1% growth and prices of alcoholic beverages and tobacco (0.9 p.p.) with a 9.9% growth. Households of consumers paid more for health care (by 31.4%), which contributed by 0.6 p. p. to the aggregate price level growth.
- Inflation differential between EU27 and the Czech Republic increased**

Consumer prices in member EU27 countries (according to HICP) in 2008 increased by 3.7%, y-o-y, of which the biggest growth was recorded in Q3 (4.3%) and the smallest in Q4 (2.9%). Inflation differential between the consumer price growth in EU27 (slower growth) and the Czech Republic (faster growth) during the year squeezed from 3.9 p.p. in Q1 to 1.5 p.p. in Q4 and the difference 2.6 p.p. in 2008 was significantly bigger (2.0 p.p.), y-o-y.
- Difference between the drop of terms of trade in 2008 and their growth in 2007 reached 3.6 p.p.**

Prices of external trade in Czech crown in 2008 decreased; in the year on year comparison prices of exported goods dropped more (4.6%) than prices of imported goods (3.3%) and the terms of trade showed negative figures (98.7%). Over the year 2008 the acceleration of the export price drop exceeded that of import prices especially in Q2 and Q3 when the y-o-y difference between the terms of trade was significant (5.0 p. p.). In Q4 the process of acceleration stopped and the terms of trade was only a little favourable. The biggest conflicting movements of price levels took place in Q2 and mainly in export prices where their level in 2008 was lower by 6.2% and in 2007 it was 2.7% up; in Q4 the difference was hardly noticeable.
- Different impact of partial price changes on aggregate price indices**

In 2008 the y-o-y drop of aggregate level of export prices (-3.7 p. p. on average) was most contributed to by a price drop in machinery and transport equipment (-7.2%). The export price growth in mineral fuel, lubricants and related materials by 15.6% had a positive effect on total export price index (0.6 p. p.). The y-o-y drop of aggregate import price level (-2.5 p.p.) was most contributed to by price drop in machinery and transport equipment by 8.2%. The growth of import prices in mineral fuels, lubricants and related materials by 17.3% affected positively the total import price index (1.8 p.p.). Unfavourable terms of trade were negatively affected by the development between export and import prices in mineral fuels, lubricants and related materials (98.6%), which had a positive effect on terms of trade in machinery and transport equipment (101.0%).
- Export and import prices adjusted for the CZK exchange rate grew by 2.8% and 5.3%, respectively**

Prices of exported and imported goods in CZK were largely affected by wobbles of the CZK exchange rates. According to the CZSO calculations the exchange rate adjusted price index in 2008 increased in exports by 2.8% and in imports by 5.3% due to which the trade relations from adjusted price indices (97.6%) were more unfavourable than those from price terms expressed in Czech crowns.