

## Trend of Prices

- ***Slow down in the growth of consumer prices***

Year-on-year growth of consumer prices of 1.6 % in H1 2005 was by 0.9 p. p. slower on a year ago, which was mostly caused by a mild decrease in the prices of food and non-alcoholic beverages, while the prices of meat went up by 2.3 %. On the other hand, among groups with significant weight, the prices of housing increased their pace somewhat, with the prices of electricity rising by 3.1 % and prices of gas rising markedly (7.5 %). Year-on-year changes in the price level and especially the differences in the slowdown or acceleration of growth in individual divisions of final consumption were dramatic; they ranged from –12.8 p. p. (postal services and telecommunications) to 4.9 p. p. (health). Prices of seasonal goods went in opposing directions, having dropped by 5.6 % and prices of goods excluding seasonal increased by 1.9 %. Given the market and non-market influence over the price level change, the prices of goods and services with administrated prices grew markedly faster (4.6 %) than prices of the remaining goods (0.6 %). Large opposing fluctuations in the price level movement in individual groups of goods and services occurred in Q2, even though the overall level of consumer prices increased the same way in both quarters.

- ***Dominating influence of the growth of housing prices***

Year-on-year growth of the overall consumer price level in H1 2005 was mostly affected (by nearly two thirds) by the growth of prices of housing of 3.6 %, followed by nearly one third impact of the growth of prices of hospitality and accommodation 6.4 % and more than one tenth effect of the growth of prices of alcoholic beverages and tobacco by 2.6 %. On the contrary, the growth of total price level was decelerated by more than one tenth by the drop of prices of clothing and footwear of 4.6 %. Average month-on-month growth of consumer prices of 0.28 % during H1 2005 was notably higher compared to H2 2004 and the rate of growth was slightly more affected by the change of regulated prices, tax amendments and other administrative measures rather than core inflation before seasonal adjustment. Crucial and much larger was the seasonal effect to the effect of core inflation after seasonal adjustment.

- ***Markedly differentiated development of producer prices***

Characteristic of the price movement accompanying the production of goods and services in H1 2005 was year-on-year the faster growth of industrial producer prices as well as construction works and on the other hand, the price development in market services slowed down and the prices of plant products sunk considerably. Relationship between the development of agricultural and industrial prices thus shifted markedly (from coefficient 1.106 in H1 2004 to 0.829 in H1 2005), which however did not have large impact on the production results of these branches. Higher prices of industrial producers led to higher revenues of industrial firms, while given notable decrease of agricultural producer prices revenues for sale of own products and services of agricultural businesses grew mildly, as a consequence of the increase in the physical volume of realised production.

- ***Sinking of the agricultural prices***

Slowdown of the growth of agricultural prices from the second half of 2004 turned during H1 2005 into an accelerated price decreases with completely different development of prices of plant and animal products. Behind overall year-on-year drop of agricultural producer prices in H1 2005 by 12.5 % and notable differential to their last year's growth (26.8 p. p.) hides the cut in the plant products prices by 37.8 % and the increase in the animal products by 6.7 % with a marked change compared to the development of price levels in H1 2004 (growth of 34.7 % and 2.7 % respectively). Ratio between two basic price circuits in agriculture in the two half-years differs dramatically; while year-on-year changes in the price levels of plant products are large, fluctuations in the animal products prices have been minimal.

- ***High prices of basic metals and oil products***

After acceleration of industrial producer prices in the second half of 2004 came subsequently their slowdown in H1 2005; half-yearly price growth of 5.5 % was by 2.2 p. p. higher on a previous year, however only due to the increase in Q1 2005 by 6.9 % and acceleration of 5.2 p. p. Prices of mineral resources, mainly coal, lignite and peat went up markedly, the growth of prices of electricity, water and gas was also

above average. However, the biggest effect on the increase of the overall price level in H1 2005 had the prices of products in manufacturing industry, in that especially of basic metals, metallurgical and metalworking products with the price growth of 18.4 %. The prices of coke and oil products grew even more (by 24.6 %), however exerted smaller effect on the overall price level movement. Growth of prices of electricity, gas and water by 7.0 % had one-sixth impact on the overall price level change. Given individual HPS, prices of electricity grew at an above average pace; the growth of prices of intermediate products in Q2 slowed down.

- **Price differential has shrunk**

The difference between faster growth of industrial producer prices in the CR and a slower growth in the EU-15 countries and the euroarea kept continually shrinking in the course of H1 2005 (from 2.4 p. p. in January to 0.4 p. p. in May, resp. from 3.3 p. p. to 0.4 p. p.).

- **Markedly faster growth of the prices of inputs than outputs**

Year-on-year growth of prices of construction works in Q1 2005 by 4.2 % followed their similar increase in the second half of 2004, which in Q2 2005 slowed down to 2.9 % and for the whole half-year amounted to 3.5 %. Prices of materials and products used in construction grew considerably faster (6.3 %) and their growth accelerated, which led to the drop in the implicit value added deflator and at the same time to the cut in the business result of construction firms. Ratio of input to output price growth of 1.003 from H1 2004 was enlarged to 1.028 in H1 2005. The prices of new construction, reconstructions and renovations grew faster than the prices of repair and maintenance.

**Prices of market services have grown slower**

Prices of market services in the business sector went up year-on-year in H1 2005 by 1.5 %, in that by 1.8 % in Q2, which in both periods meant less by 0.4 p. p. on a previous year. The growth of business services and real estate services by 1.8 % a 2.0 % respectively played a crucial role in the movement of this price level, with the prices of advertising services and IT growing the most. In Q2 the prices of state postal services shot up (15.6 %) and those for operations of fixed telephone lines increased by 4.2 %.

- **Worsening of terms of trade in Q2**

Prices of foreign trade in terms of local currency mildly dropped, supported also by the CZK appreciation against currencies of foreign trade realisation. In H1 2005, export prices went down by 0.3 % year-on-year and import prices by 0.5 %, thus the differential compared to their last year's growth was 3.7 p. p. and 1.6 p. p. respectively. Mild improvement in the terms of trade (100.2) was achieved thanks to the development in Q1, since in Q2 the prices of export already decreased by 0.7 % and the prices of imports increased by 0.2 %. Consequently, the improvement of terms of trade in Q1 (101.3) switched to their worsening in Q2 (99.1). Year-on-year decrease of export prices in Q2 was crucially affected by lower prices of machinery and transport vehicles by 4.5 %, while the increase of the prices of mineral fuels, grease and related materials (0.9 p. p.) had the opposite effect of more than one fifth. Increase of these prices on the side of imports in Q2 by more than one quarter considerably influenced the mild growth of import prices, with the decrease of prices of machinery and transport vehicles by 4.4 % and various industrial products by 7.1 % having the opposite effect. Positive and negative effects of remaining SITC groups on increase or decrease of the export and import prices were negligible.

- **Marked change of price parities**

World prices of selected commodities of industrial raw materials and food (on the world markets in relevant currencies) in H1 2005 rose year-on-year by 38.5 %, which represented growth acceleration by 28.0 p. p. Largest increase experienced the prices of oil (by 52.0 %) and gas (by 45.2 %), with contribution from the USD depreciation on the world money markets. Ratio between the growth of world prices and the movement of imported goods prices thus year-on-year changed profoundly (from 1.093 in H1 2004 to 1.392 in H1 2005). Similarly, the ratio between the growth of industrial producer prices and the movement of exported goods prices was higher

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(0.999 and 1.058). Year-on-year changes of both price parities were also affected by larger CZK appreciation against currencies of trade (98.3 % a 107.1 %).