

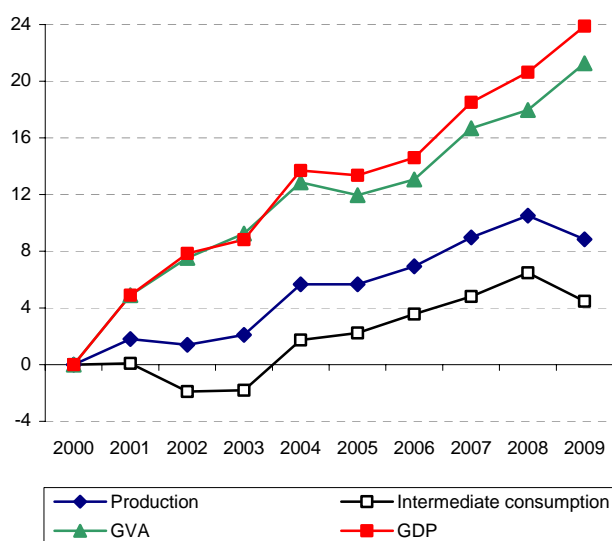
2.4. Price Development

GDP deflator

- Increase in the implicit deflator for GVA**

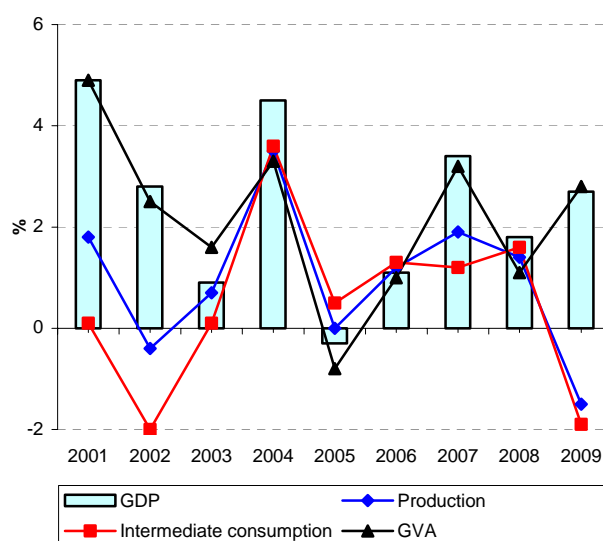
The price level of domestic production in basic prices decreased year-on-year by 1.5% in 2009, while the prices of intermediate products consumed dropped much more markedly in purchasing prices (by 3.9%), which implicitly resulted in an increase in the aggregate price level of the gross value added by 2.8%. At the same time, the prices in the various branches showed significantly different developments. Among the fundamental branches in weighting, the GVA price level fell substantially in agriculture, hunting and forestry (by 41.1%), while growing strongly in generation and distribution of electricity, gas and water (by 27.7%). Price levels in the remaining branches mostly increased depending on the changes in the output and input prices.

Graph No. 2.4.1 Implicit deflators
(change against 2000 in %)



Source: CZSO

Graph No. 2.4.2 Implicit deflators (year-on-year change in %)



Source: CZSO

- Low price growth in household consumer expenditure**

The price level of taxes on products increased slightly (by 0.8%), while the price level of product subsidies declined markedly (by 4.9%), which resulted in an increase in the implicit deflator for GDP by 2.7%. The aggregate price level showed different developments in the particular year quarters, ranging from 3.7% in the 1st quarter to 1.3% in the 4th quarter. Among the individual expenditure components, the price level of expenditure on gross capital formation increased more (by 2.2%), of which fixed capital by 1.5%, than that of final consumption expenditure (by 0.8%), of which the government institution expenditure increased by 2.0% and the household consumption expenditure by 0.4% only.

Table No. 2.4.1 Implicit deflators for GDP, domestic final expenditure, exports and imports

in %

	Previous year = 100								
	2001	2002	2003	2004	2005	2006	2007	2008	2009
GDP	104.9	102.8	100.9	104.5	99.7	101.1	103.4	101.8	102.7
Final consumption	104.0	102.0	100.5	104.3	101.5	101.9	103.2	104.6	100.8
Gross capital formation	100.9	96.9	100.9	101.4	99.8	102.8	101.1	100.6	102.2
Exports	99.7	94.5	100.1	102.7	97.8	98.7	99.9	94.8	98.8
Imports	97.4	91.6	99.6	101.3	99.5	99.9	98.8	96.3	96.3
Terms of trade	102.4	103.2	100.5	101.4	98.3	98.8	101.2	98.4	102.5

Source: CZSO

- **Aggregate price level of domestic final expenditure increased, while that of imports and exports decreased**

The aggregate price level of gross domestic final expenditure went up by 1.2% and had a smaller effect on the implicit deflator for GDP than the terms of trade. The prices of imported goods and services decreased more (by 3.7%) than the prices of total exports (by 1.2%), which resulted in positive terms of trade (102.5%) that brought a profit of 61.8 billion CZK from foreign trade activities and had a positive influence on GDNI.

Producer prices

- **Different development of producer prices**

While in 2008, the producer prices rose in all price areas, in 2009 price growth in construction and market services slowed down and prices of industrial producers, and particularly agricultural producers, declined compared to 2008.

- **Prices increased less than in previous years or declined**

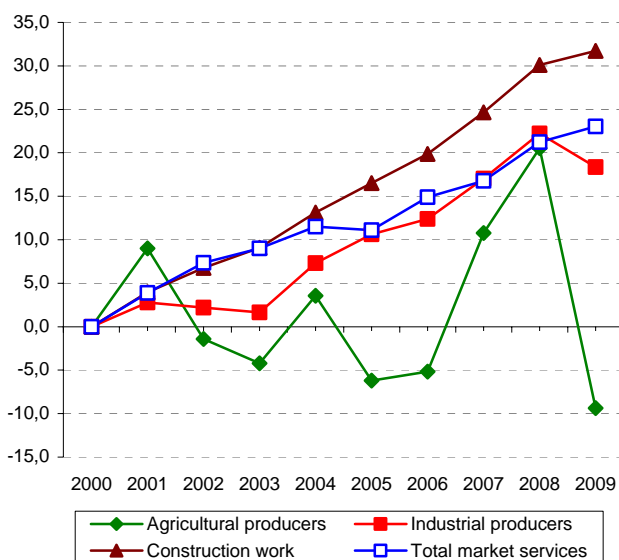
It is interesting to compare the year-on-year increase in prices in 2009 and the average price change in the period 2001–2008. The **prices of agricultural producers** increased by 2.4% on the average during the previous eight years, particularly due to the influence of positive price jumps in 2001, 2004, 2007 and 2008. In 2008 they were more than one-fifth higher than in 2000. A strong fall in prices in 2009 (by 24.8%) caused that the prices were nearly one-tenth lower in that year than in the base year of 2000.

Also the **prices of industrial producers** declined year-on-year in 2009; the price decrease was more moderate in 2002 and 2003. In the period 2001–2008, the average annual increase in prices of industrial producers was 2.5%.

The price increase in construction work was also lower compared to the 2001–2008 average (3.3%). **Prices of construction work** in 2009 grew more than twice as fast than prices of materials and products consumed in construction.

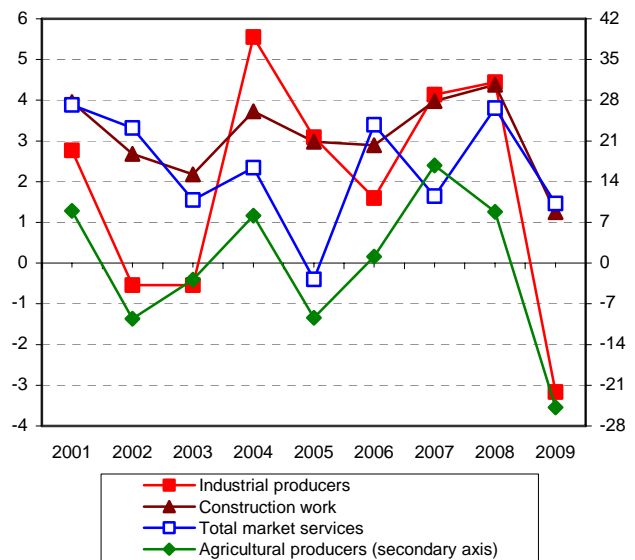
Prices of market services grew slower than in the previous eight years; their growth was the lowest of the positive price increases, the only year-on-year decrease in prices was recorded in 2005. The lower price growth was particularly influenced by the decreasing prices of freight transport and telecommunication services.

Graph No. 2.4.3 Producer prices (change against 2000 in %)



Source: CZSO

Graph No. 2.4.4 Producer prices (year-on-year change in %)



Source: CZSO

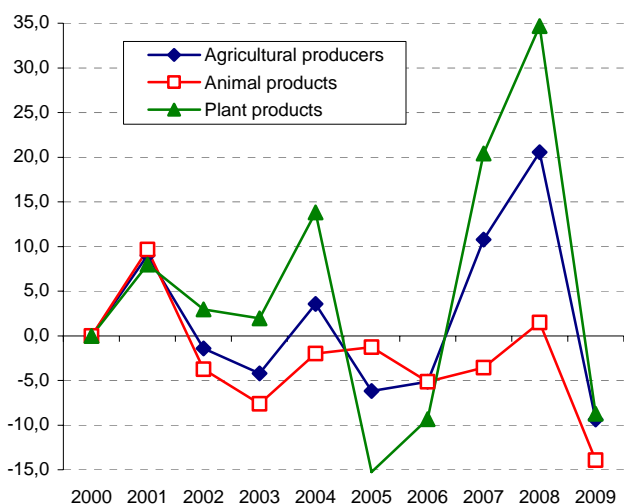
- **A record decrease in prices of agricultural producers**

In 2009, the prices of agricultural producers were at the lowest level since 2000. This was primarily caused by the year-on-year price fall in 2009, which was the highest ever in the entire period of monitoring and which was especially influenced by the prices of plant products. The decline in prices came after a good harvest and a decreased demand for food products in the world. Not even the growing consumption of

agricultural commodities used to produce bio fuels was able to prevent the price fall. Prices for crop products fell by nearly one-third in 2009; particularly the prices for cereals, oil-bearing crops and fruits were hit the most, decreasing by 41.0%, 35.3% and 24.4%, respectively. The prices for potatoes and vegetables decreased as well, by 4.6% and 8.1%, respectively.

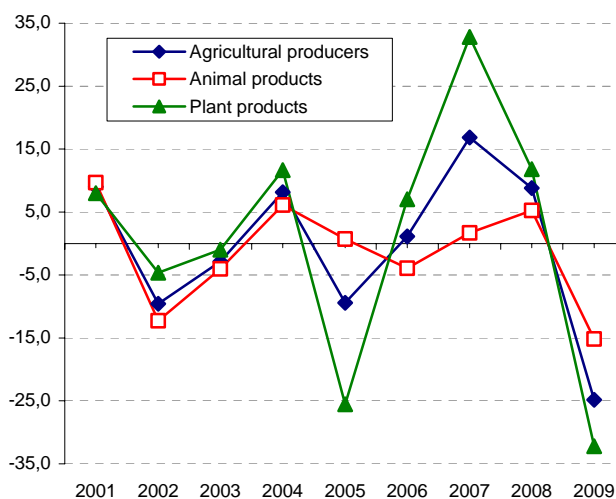
The prices of animal products dropped by 15.2% in 2009 on a year-to-year basis, and reached approximately the price level of 1994. This implies that they have always been higher throughout the eight-year period. In 2009, the prices of milk, poultry, eggs and pigs decreased year-on-year by 29.3%, 9.0%, 1.3% and 0.4%, respectively. The prices of slaughter cattle increased by as little as 0.3%.

Graph No. 2.4.5 Prices of agricultural producers
(change against 2000 in %)



Source: CZSO

Graph No. 2.4.6 Prices of agricultural producers
(year-on-year change in %)



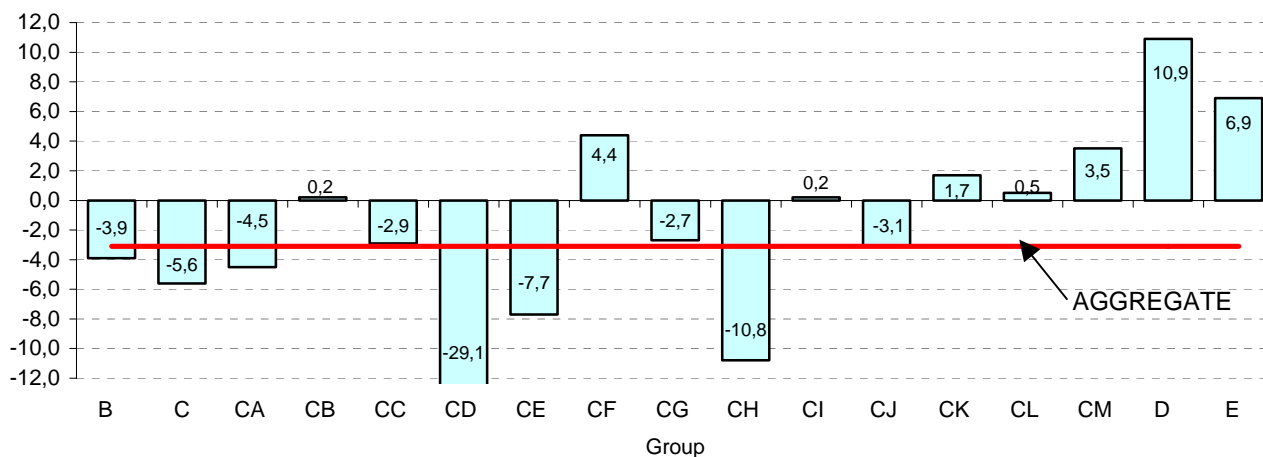
Source: CZSO

• **Prices of industrial producers experienced a record fall as well**

Prices of industrial producers decreased by 3.1% in 2009, which was also the highest fall in prices since the beginning of monitoring in 1991. The price fall was influenced, in particular, by the prices of coke and refinery oil products, prices of base metals, fabricated metal products, and prices of chemical substances and products. In aggregate, the prices were lower in all quarters of 2009; the largest decrease was recorded in the 3rd quarter.

Among the branches referred to above, the largest price fall was recorded for prices of coke and refinery oil products (nearly by 30%), prices of pig iron, steel and ferroalloys (by 23.3%), precious and other non-ferrous metals in general (by 16.3%) and basic chemical substances, fertilizers (by 9.8%). The falling prices of some food products are also worth mentioning; for instance, the prices of flour-milling and starch products dropped by more than one-fifth, the prices of industrial fodders by 17.2%, and the prices of plant and animal oils and fats by 15.5%. On contrary, the prices for electricity, gas and steam rose sharply by 10.9% (the prices of power electricity for households by 14.2%), prices for water, its treatment and distribution by 6.9%, and prices of pharmaceutical products by 4.4%.

Graph No. 2.4.7 Prices of industrial producers in particular branches (change against 2008 in %)



Source: CZSO

Difference between decrease in prices of industrial producers in EU-27 and in the Czech Republic

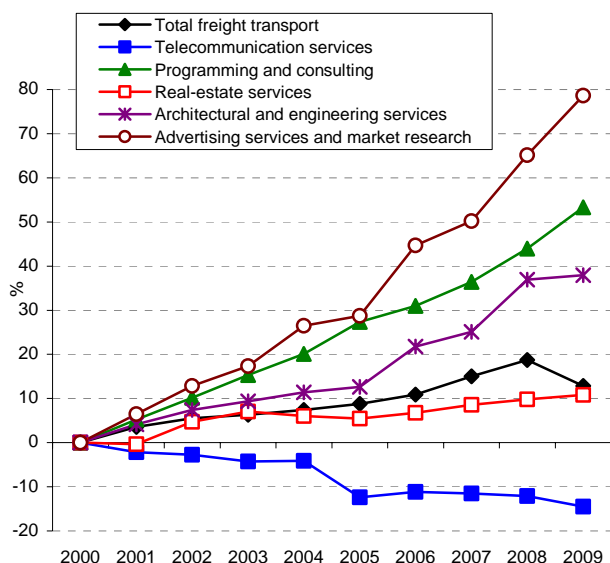
For 2009, the prices of industrial producers decreased year-on-year by 4.7% and 4.3% in EU-15 and EU-27, respectively, and their decrease was 1.6 percentage points and 1.2 percentage points, respectively, faster than in the Czech Republic. Among the individual EU countries, prices of industrial producers increased only in Poland, Romania, Hungary and Malta. Substantial decrease in prices was recorded in the Netherlands and Luxembourg where the fall was close to 10%, as well as in Belgium, Denmark and France.

Sharp price growth of advertising services continued

The prices of market services increased by 1.5% in 2009 on a year-to-year basis in the Czech Republic, particularly due to the higher increase in prices for advertising services and market research by 8.2%, for programming and consulting by 6.5%, and for administration services by 5.6%. The price increase was counteracted by prices of freight transport (decline by 5.0%), telecommunication services (decline by 2.7%) and information services (by 2.0%). The year-on-year increase in prices was reducing continuously during 2009, from 2.1% in the 1st quarter to 0.9% in the 4th quarter.

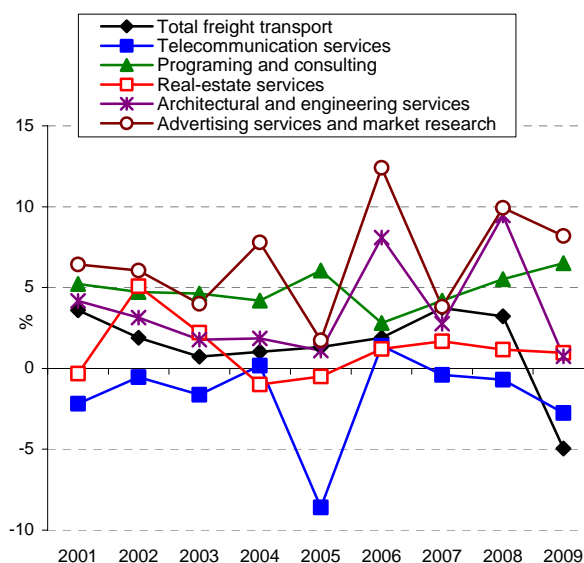
During the past nine years, the strongest price increase was recorded in advertising services and market research, followed by postal and courier services, and programming and consulting. Prices for architectural and engineering services, financial services, and legal and accounting services were also growing at an above-average rate. Prices of business services went up by more than one-fifth in nine years. The only areas where the prices in 2009 were below the 2000 price level were telecommunication services and services related to buildings, landscaping. The graphs below show the selected branches with the largest share in market services.

Graph No. 2.4.8 Prices of market services
(change against 2000 in %)



Source: CZSO

Graph No. 2.4.9 Prices of market services
(year-on-year change in %)



Source: CZSO

Consumer prices

- **The second lowest growth of consumer prices**

The consumer price growth rate slowed down significantly in 2009 compared to the previous year; the inflation rate was only 1.0%. A lower inflation rate was for the last recorded in 2003 (0.1%). As regards the increase, housing prices contributed with 1.9 percentage points and prices of alcoholic beverages and tobacco with 0.6 percentage points. The price increase was counteracted by prices for food products and non-alcoholic beverages (impact of -0.7 percentage points) and transport prices (-0.6 percentage points). The influence of changes in the price level in other sub-sections was negligible. The year-on-year increase of consumer prices was decreasing in the particular year quarters, to a minimum in the 3rd quarter (0.1%), to increase again in the 4th quarter by 0.4%.

- **Decrease in market prices**

The price growth in 2009 was primarily attributed to administratively influenced prices, which increased by 8.1%. Their growth throughout the year was gradually slowing down from 10.7% in the 1st quarter to 5.1% in the 4th quarter as the effects of the 2008 deregulations were fading away. On contrary, market prices had counter-inflationary effects as they were, except for the 1st quarter, lower than a year ago, by 0.7% on the average for the entire year. The factors that contributed the most to this development were, in particular, the decline in prices of raw materials and food products on the world markets and the decreasing demand.

- **Negative impact of consumer price growth on the purchasing power of households**

A slight increase in the aggregate level of consumer prices and depreciation of the purchasing power of money by 1.0% for 2009 was reflected in the slowing growth of disposable income of households in real terms as well as in final consumption expenditure. The strongest increase was recorded in expenditure on consumer non-durables, the strongest decrease in expenditure on services.

- **More than a half of the increase in prices against 2000 caused by prices for housing, electricity, gas and water**

The consumer price growth in 2009 was substantially lower than the average price growth in the previous eight years. In 2009, consumer prices were more than one-quarter higher than in 2000. Nearly three-fifths of the price level increase was caused by the growing prices in the sub-section housing, water, energy and fuels. Prices in the sub-section of alcoholic beverages and tobacco contributed to the increase with more than 3 percentage points, followed by the prices for food products and non-alcoholic beverages and prices for hotels and restaurants, each contributing approximately with 2 percentage points. In the relevant period, decreasing prices were recorded in the sub-sections of clothing and footwear (by more than one-quarter) and housing furnishings, household equipment, repairs.

Table No. 2.4.2 Consumer price indices (previous year = 100)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2009/ 2000
Aggregate	104.7	101.8	100.1	102.8	101.9	102.5	102.8	106.3	101.0	126.7
of which:										
Food products and non-alcoholic beverages	105.1	98.1	97.8	103.4	99.7	100.8	104.7	108.1	96.1	114.0
Alcoholic beverages and tobacco	103.2	101.9	100.9	102.9	101.4	101.2	110.2	109.9	106.5	144.4
Housing, water, energy, fuels	109.9	106.1	102.0	103.5	104.1	106.3	103.4	110.3	107.2	166.3
Health	103.1	104.7	104.0	103.1	107.5	104.8	103.6	131.5	96.8	172.0
Transport	100.3	98.1	100.1	102.2	101.4	101.6	100.4	102.4	94.2	100.4
Communications	105.0	103.3	98.0	112.9	107.6	106.8	100.0	97.3	95.4	127.7
Holiday and culture	105.1	102.0	99.7	101.0	101.8	101.4	100.0	100.8	99.1	111.3

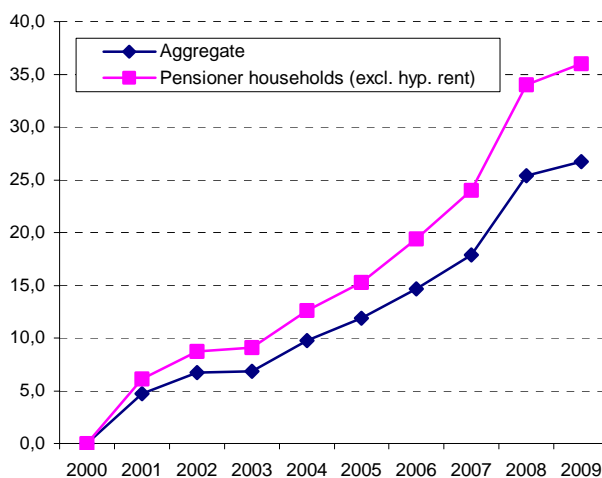
Source: CZSO

• **A faster growth of the consumer price index in pensioner households**

Just like every year, also in 2009 the consumer prices in pensioner households grew faster than in the households as a whole. This traditional phenomenon is caused by a different internal structure of consumption in the pensioner households, which includes particularly goods and services with higher price increases. Aggregate consumer prices without hypothetical rent increased by 0.9%, while the consumer price index for pensioners increased by 1.5%.

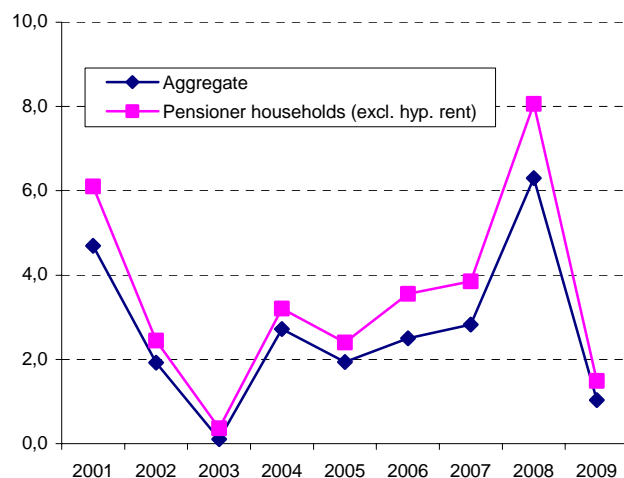
The same situation occurred in each of the past nine years. For the entire period, the consumer prices in pensioner households grew one-third faster than the average in the households as a whole. In 2009, the consumer prices in pensioner households were 36.0% higher than in 2000, while the consumer prices in households as a whole increased by 26.7%.

Graph No. 2.4.10 Consumer prices (change against 2000 in %)



Source: CZSO

Graph No. 2.4.11 Consumer prices (year-on-year change in %)



Source: CZSO

• **Inflation differential between EU-27 and the Czech Republic increased**

Consumer prices in the EU-27 member states (according to HICP) increased in 2009 by 1.0% on a year-to-year basis, of which the most in the 1st quarter (1.6%) and the least in the 3rd quarter (0.4%). The inflation differential between the (faster) growth of consumer prices in the EU-27 countries and the (slower) growth in the Czech Republic was gradually increasing throughout the year to record a year-on-year increase for 2009 (0.4 percentage points). The 2009 level of consumer prices in the Czech Republic was (according to preliminary calculations by CZSO) approximately at two-thirds of the average of developed EU member states.

• **The same average price growth in the Czech Republic and EU-27 since 2000**

In the past nine years, the price level in the Czech Republic was fluctuating more than the average price level in all 27 member states of the European Union. In the period 2001–2009, however, the average annual increase in prices was identical in both the Czech Republic and EU-27 (2.41% and 2.42%, respectively). On average, the prices in the Czech Republic grew as fast as in EU-27. The ability to curb the

inflation tendencies in the Czech economy was supported, to a fundamental extent, by the level of appreciation of the Czech crown. The convergence of price levels in the Czech Republic and the euro area was largely secured by the appreciation of the Czech crown against euro. In spite of the year-on-year depreciation of the Czech crown in 2009, the currency was 34.7% stronger than in 2000; this means that it appreciated, on average, by 3.4% per year.

Foreign trade prices

- ***The difference between the increase in terms of trade in 2009 and their fall in 2008 reached 5.1 percentage points***

In 2009, the foreign trade prices, in crown terms, increased on the side of export goods by 0.2%, while decreasing by 3.5% for import goods. Terms of trade reached an aggregate level of 103.8%. Compared to the year-to-year development for 2008 when the export prices decreased significantly and the import prices decline more slightly, there was a substantially larger change in export prices (+4.8 percentage points) than in import prices (-0.2 percentage points), with a favourable impact on the difference in terms of trade (+5.1 percentage points). The difference from the movement of price levels between the profit from realized foreign trade in goods in 2009 and the profit in 2008 had a positive influence on the development of gross national income, which decreased less than GDP.

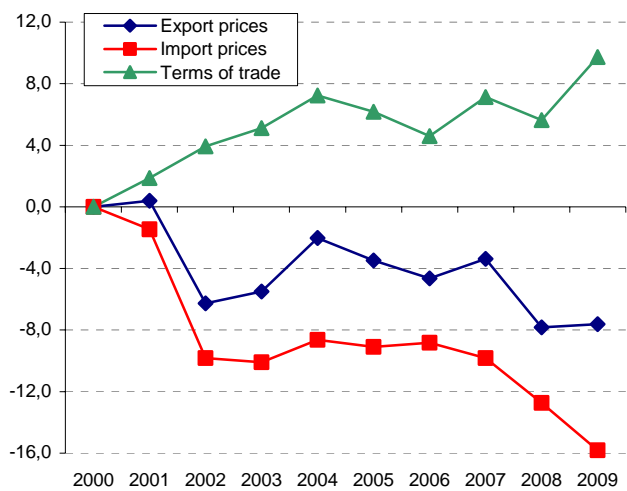
- ***Positive influence of exchange rates on the terms of trade***

The price changes in foreign trade include also the influence of the exchange rates of the Czech crown against the monitored traded currencies. With the crown weakening against both euro and dollar in 2009 (by 5.7% and 10.6%, respectively), the exchange rate influences were conducive to increase in both import and export prices. The price index "adjusted" for exchange rate influences decreased in 2009 by 3.6% for exports and by 7.7% for imports; as a result, the terms of trade from "adjusted" price indices (104.4%) were more favourable than from price ratios in crown terms; this trend started to change in the 4th quarter. According to experimental calculations, the exchange rate influences increased the terms of trade by 0.6 percentage points in 2009. In 2008, the exchange rate influences had an opposite effect, decreasing the terms of trade.

- ***Both import and export prices falling in long term***

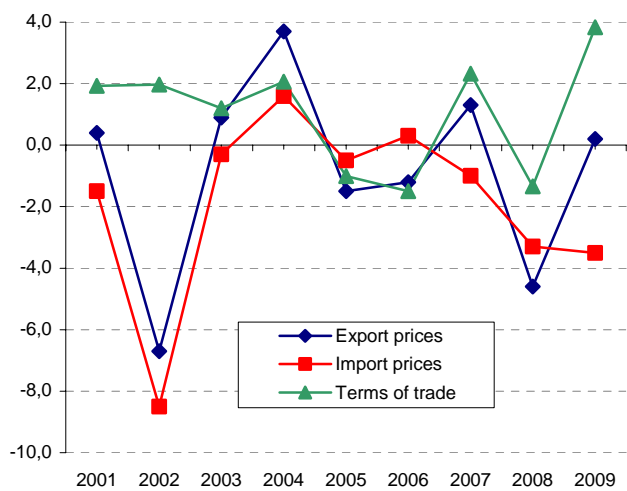
The terms of trade in 2009 were the highest in the past 9 years. During a larger part of the period, the terms of trade were positive; negative development was recorded only in years 2005, 2006 and 2008. Import prices increased only twice in the period 2001–2009, and mitigated the price growth in the economy. Their decrease was the strongest in 2002 when the prices of mineral fuels, for instance, dropped by nearly one-fifth. The decrease in prices in that year was also supported by the strong appreciation of the Czech crown against EUR and USD. The second strongest decrease in import prices was recorded in 2009, also as a result of decreased prices of mineral fuels by more than one-quarter. Compared to 2000, the export prices and import prices in 2009 were lower by 7.6% and 15.8%, respectively. This was primarily the consequence of the significant fall in export and import prices in 2002. The influence of the year-on-year decrease of export prices in 2008 and of import prices in 2008 and 2009 was also relatively strong.

Graph No. 2.4.12 Export and import prices, terms of trade (change against 2000 in %)



Source: CZSO

Graph No. 2.4.13 Export and import prices, terms of trade (year-on-year change in %)



Source: CZSO