

Trend of Prices

- **Increase in differences in price move**

Inflation development in the course of 2005 was uneven and bigger or smaller deviations from the average within particular months are hidden behind the total y-o-y increase of the consumer price level as well as the whole year decrease. The 2005 increase of consumer price level by 1.9% was compared to 2004 lower by 0.9 p. p. In the same way as in 2004, prices of market services (3.7%) grew faster than prices of goods (0.8%), however their difference was a bit smaller. In the course of 2005 the speed of total price level increased and in 4Q the growth reached already 2.4%, which was however by 0.7 p. p. less than a year ago. The biggest slow down occurred in 3Q /by 1.3%). The price level increased most in October (by 2.6%) and at least in May (by 1.3%). For the whole 2005 it was characteristic that the price differences were increasing (from the price decrease by 5.3% in clothing and shoes to the price increase by 7.6% in postal services and telecommunications). The price development in the main groupings and sections was considerably diverse so prices on y-o-y base increased by 2% (seasonal goods excluded) and seasonal goods price decreased by 2.6%. The total index (goods with administrative prices excluded) showed the growth of 0.7%, while the goods with administrative prices cost more by 5.8%. Totally prices increased by 1.7% excluding prices of fuel oil, propellant and oil, which grew by 6.8%.
- **Striking growth of natural gas prices**

Out of particular sections, the biggest changes occurred in the section of postal services and telecommunications, where prices increased by 14.7%, however, the whole year growth was substantially lower compared to 2004. Housing, water, energy and fuel prices influenced at most the y-o-y consumer price increase; these prices increased by 4.1%, namely natural gas prices (by 12.9%). Postal service and telecommunication prices and transport prices namely in 4Q belonged to further meaningful impacts.
- **Inflation differential changed**

The 2004 inflation differential (0.6 p. p.), when the average annual rate of HICP amounted to 2.0% in EU-15 and 2.6% in CR, reversed to 0.5 p. p. on the consumer price increase by 2.1% and 1.6% respectively, so the EU and CR price levels moved away.
- **Decrease of price parity between vegetal and animal products**

The 2005 agriculture producer prices decreased by 9.2% and the difference in comparison to 2004 represented 17.3 p. p. The vegetal product prices (decreased by 25.0%) had the exclusive influence on this decrease, for the animal product prices grew subtly only. In the product composition, cereal and potato prices had the biggest influence on vegetal product prices decrease and in case of animal prices increase it was the fat stock prices. Price parity between the development of animal and vegetal product was gradually decreasing from 1.824 in 1Q to 1.073 in 4Q.
- **Stable high price growth of electricity and gas**

The 2005 industrial producer prices were higher by 3.0% and their annual growth slowed down by 2.7 p. p. The prices of mineral resources, electricity, gas and water considerably grew and were on y-o-y base higher by 13.4%. Price growth of processing industry was smaller (annually by 2.0 %), gradually slowed down and decreased already in 4Q by 1.3%. Changes in prices of some products were stable and tiny (for example machinery and equipment), however, huge fluctuations occurred in particular quarters by many other products. In the composition according the main industrial groups, energy prices increased at most (by 10.5%), so the total price level excluding energy increased only by 1.2%. In the year course, price of intermediate products considerably slowed down the price increase.
- **Price levels move away**

Price differential between the growth of industrial producer prices in CR and EU-15 turned once more, as 2005 prices in EU-15 grew faster than in CR by 3.3 p. p. and the annual growth substantially accelerated. Price levels of EU and CR moved away again.
- **Industrial producer prices influence on input prices in construction**

The 2005 construction work prices increased annually by 3.0%, out of which in 4Q by 2.6%, and their annual growth was lower by 0.7 p. p. in comparison to 2004. The growth slowed down especially in the second half of the year, which was the result of decreasing industrial producer prices. The growth withal sped up in 1Q. The differences in particular types of construction works were infinitesimal; price grew

faster by new construction and re-construction than by repair and maintenance and only slightly more in building construction than in structural engineering. For the whole year, price growth of materials and products used in construction was almost identical to prices of construction works, however, as a consequence of decrease of related price spheres prices of material inputs for construction decreased slightly already in 4Q.

- **Market service prices grew faster**

The 2005 market service prices for the entrepreneurship sector increased annually by 1.9%, in the 4Q by 2.3%; this growth was also slower than in the previous year. In the year course, the growth, however, gradually sped up exhibited so reversed development than in industry and construction. The market service move was frequently counter and highly various; e. g. state postal services showed a considerable growth while price of mobile telephone services decreased. Prices grew also in finances (by 2.8%) and entrepreneurship services and services in real estate area (by 1.9%).

- **Adverse effect of terms of trade**

External economic relations representing the key factor of the Czech economy were in 2005 extraordinary influenced by the move of good prices in foreign trade and by changes in terms of trade. Prices in foreign trade in the year course (in Czech crowns) developed in accordance with the deterioration of the comparative position of CR in the developed European markets, the growth of export prices gradually slowed down up to the decline and the decline of import prices slowed down up to rise. The difference in price moves accomplished in exports 4.3 p. p. (from 1.1% to -3.2%) and in imports 4.8% (from -1.9% to 2.9%). In the whole year, exports cheapened and imports went up in prices in the situation of whole CZK appreciation against traded currencies. In 2005, export prices decreased inter-annually by 1.4 %, which means after their 2004 rise considerable change (5.1 p. p.) and import prices slightly increased (by 0.3%), the growth slowed down by 1.3 p. p. As a consequence, terms of trade were adverse (98.3%) and worse than a year ago by 3.8%). Cheaper machinery and transport means by 4.0% had the biggest influence on import price decrease, though the decline slowed down. Prices of mineral resources and oil went considerably up (by 16.5%), though their price growth slowed down in 4Q to 8.4%. The price move of imports was similar; especially prices of machinery and transport means went down in the same way (by 4.0%), however, price of mineral resources and fuel grew up more (by 29.2%), this development resulted in deteriorated terms of trade (90.2%) by considerable 22.6 p. p. compared to 2004.

- **Advance of world prices growth against import prices grew**

2005 world prices of selected commodities of industrial raw materials and foodstuff grew inter-annually by 38.3%, it is by 19.4% more than in the previous year. As a consequence, the ratio of world prices growth to Czech import prices increased from 1.170 in 2004 to 1.379 in 2005. Increase of oil price (by 45.1%) and of natural gas (by 47.9%) influenced mostly the increase of world prices.