

5. Prices

Total price level went up.

Growth of the total price level gauged by the GDP deflator attained 1.3% in year 2017. Growth of the total price level thus did not reflect the increase of prices of goods consumed by households (2.5%) and the government sector (3.3%). Prices of the investment products also increased slightly (1.1%). Total growth of the price level was however softened by the negative terms of trade (99.0%).

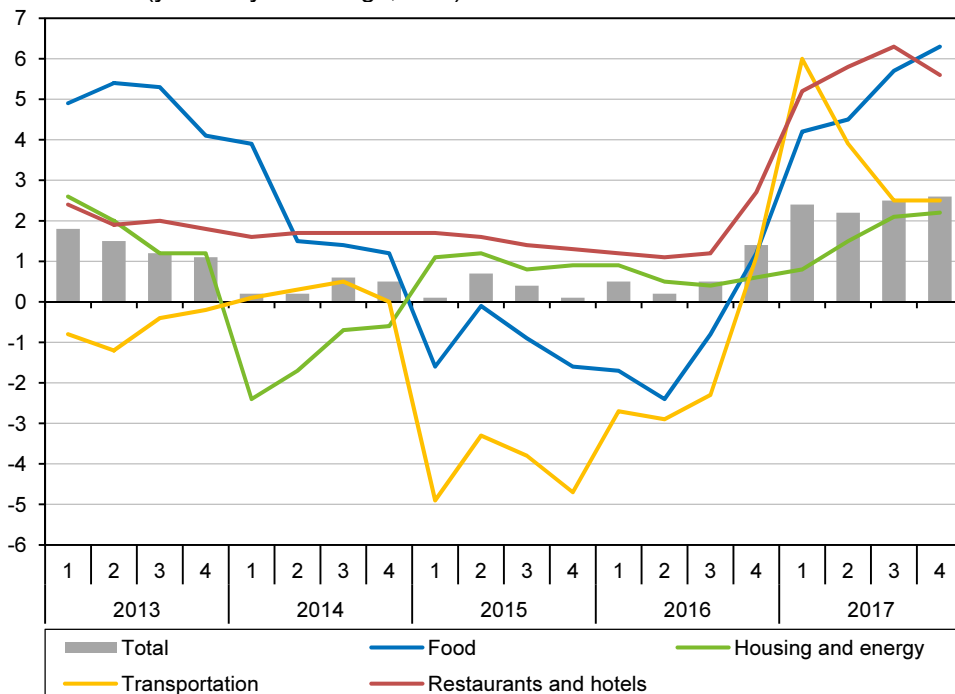
Growth of consumer prices was the highest since 2012.

Year 2017 significantly differed with respect to the development of the consumer prices from the preceding three years. The consumer price index rose by 2.5% compared to year 2016. That is the most since year 2012 (3.3%). Viewed in the individual quarters, the year-on-year rate of growth of prices gradually accelerated (with the exception of Q2). Already in Q1, the sharp acceleration was impacted by the marked increase of the prices of transport, in the rest of the year the main determinants of the dynamics of the consumer price index was the food. Food and non-alcoholic beverages added to the yearly increase of prices 0.9 p.p. Items housing, water, energies and fuels and transport in the order of the size of their addition ranked behind them (0.4 p.p.). Influence of costs of housing however strengthened during the year, mainly due to the accelerating growth of the imputed rent.

The effect of the low comparative basis of year 2016 was evaporating at the end of the year and the year-on-year pace of growth of prices weakened.

Year-on-year increase of prices was 2.6% in Q4. At the same time the year-on-year rate of growth was weakening during the last three months. Because the effect of the low basis of year 2016 was evaporating. In October, the year-on-year addition thus neared the 3% boundary, in December it fell below 2.5%. The impact of food and non-alcoholic beverages (contribution 1.1 p.p.) even more than in the preceding quarters strengthened in the last quarter of 2017. Growing of prices of housing and energies also continued, at the end they contributed to the growth of the total index by 0.6 p.p. Transportation, as well as food service and accommodation added to the growth 0.3 p.p.

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



Source: CZSO

Food and non-alcoholic beverages contributed the most to the growth of consumer prices.

Prices of food and non-alcoholic beverages were raised by 5.2% in 2017. It is the most since year 2012. Prices grew relatively significantly for most of the divisions of the classification, however the raising of prices of baking products and cereals by 5.1%, milk, cheese and eggs by 10.8% and meat by 4.4% played a key role. These three items together comprise more than 10% of the consumer basket weight.



Increased prices of oils and fats (mostly butter) by 14.2% presented a somewhat lesser burden on consumers. Development in Q4 did not differ much from the rest of the year. The prices of food and non-alcoholic beverages rose by 6.3% year-on-year towards the end of the year and especially the above-mentioned groups of goods participated.

Prices of housing accelerated during the year.

Prices of housing, water, energies and fuels in total grew by 1.7% for year 2017, but the growth accelerated during the year. Especially imputed rents increased (4.2%), however the conditions on the real estate market affected the prices of rents from flats as well (2.2%). The prices of electricity, heat, gas and also other fuels mildly decreased during the whole year (-0.7%). In Q4 itself, the prices of housing and energies rose by 2.2% year-on-year (in that imputed rent by 5.1%). Prices of transport increased by 3.7% in 2017. In the first half of the year, their growth was driven by the year-on-year increase of the prices of fuels, heightened by the extraordinarily low comparative basis of year 2016. In H2, the prices of personal transportation vehicles grew faster.

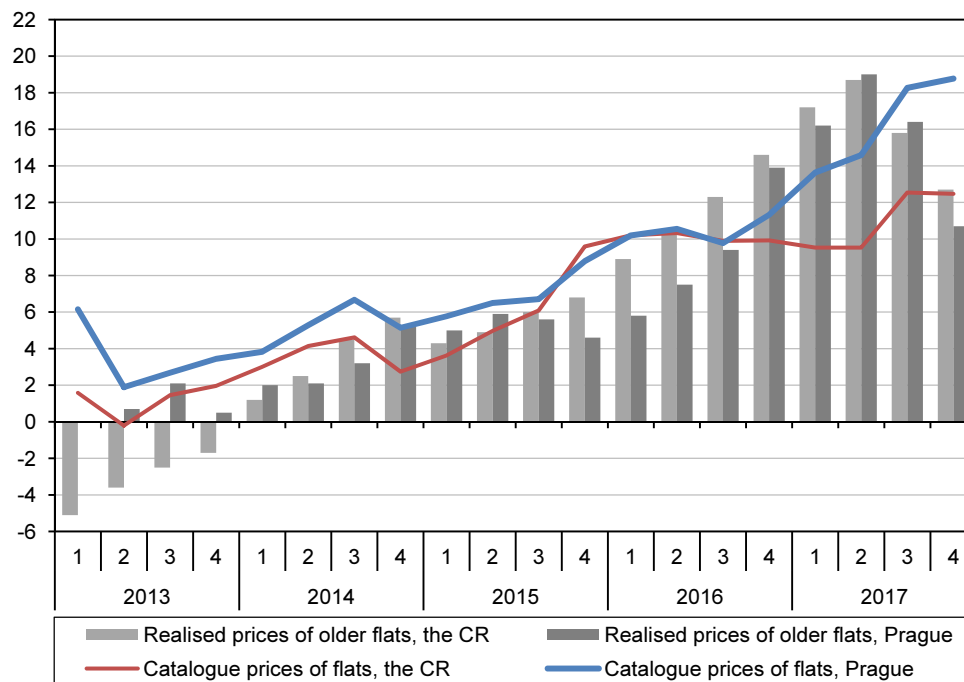
Prices in restaurants markedly increased.

The fourth item, which considerably affected the growth of the consumer price index throughout the whole year, was restaurants and hotels. Prices increased by 5.7% here for the whole year 2017. The relatively high increase of wages in food service and accommodation, which also transferred into the final prices, can be seen behind this development.

Growth of prices for sales of older flats slowed down in H2 2017.

The question of housing availability became even more acute in year 2017. Year-on-year growth of the index of supply prices of flats in the CR moved around 10% already since the end of year 2015 and it accelerated to 12.5% in Q3 and Q4 2017. Even though the supply prices of flats outside Prague grew only on average by 4.7% year-on-year during the last year. But supply prices of flats in Prague grew by staggering pace (on average 16.4%). Their growth accelerated during the year and it reached 18.8% in Q4. Year-on-year growth of prices of the completed sales of second-hand flats in the CR peaked (18.7%) in Q2 2017 and it subsequently slowed down. It was however still higher than 10%. Prices of completed sales of second-hand flats grew in Prague on average slightly slower than in the rest of the CR last year. Viewed from the quarter-on-quarter development, there is a turn apparent in the prices of completed sales of second-hand flats. Index considerably slowed down its growth in H2, the prices fell in Prague in Q4 for the first time since the end of year 2013. Completed prices of new flats in Prague reflected the sharp rise of prices of flats in new construction projects and they grew on average by 13.6%. Towards the end of the year however the year-on-year increase markedly slowed down and the quarter-on-quarter growth was negative in Q7 2017 for the first time since Q2 2014.

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



Source: CZSO

Consumer prices grew faster also in Europe.

Increase of the harmonised index of the consumer prices reached 1.7% in the European Union in year 2017. Development of the consumer prices in the euro area started to lag behind the average of the whole union in Q2 of the year. The prices rose by 1.5% in the euro area for the whole year 2017. The Czech Republic was placed between the states with the highest price growth for the whole year. The consumer prices grew the fastest in 2017 in Lithuania (3.7%), Estonia (3.6%) and Latvia (2.9%), here it however slowed down at the end of the year). The price growth remained near zero for the whole year in Ireland (0.3%). Following the revival in the first half of the year, the year-on-year rate of growth of prices also dropped in Cyprus (0.7%). Consumer prices grew by less than 1% in Finland (0.8%) in 2017.

Producer prices grew the fastest in the recent years last year. Their dynamics was accelerating towards the end of the year.

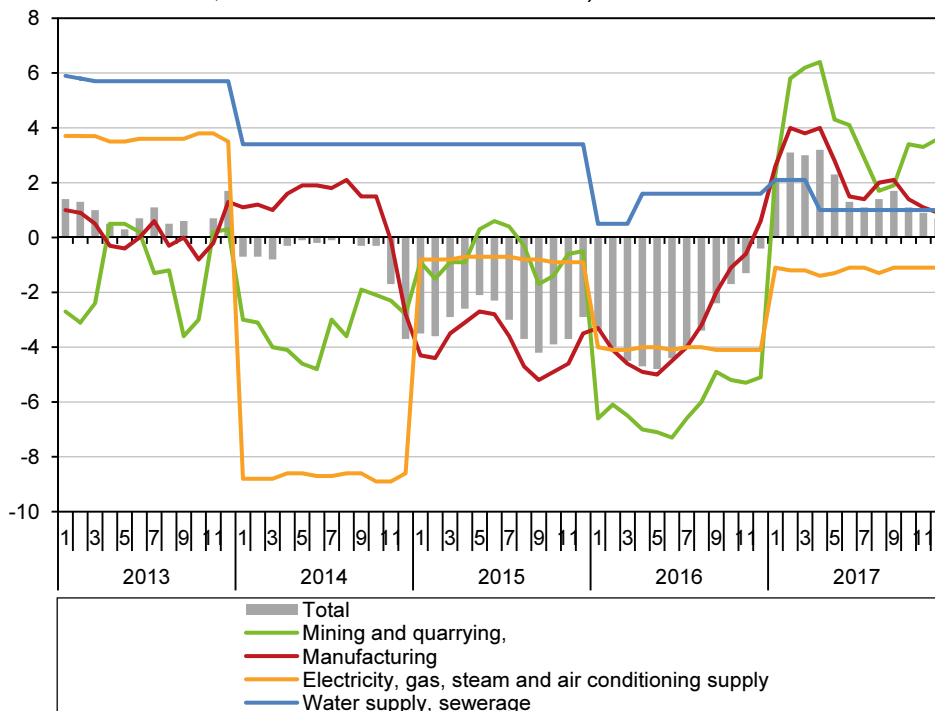
Industrial producer prices grew by 1.8% in 2017. It is the highest value since year 2012 and change compared to dynamics of years 2014–2016, when the industrial producer prices were sinking. Nevertheless, the growth of prices was slowing down during the year, year-on-year pace fell to 0.9% in Q4. Development of prices of coke and refined oil products contributed to the growth of the index in 2017, increase of the prices of food products, beverages and tobacco by 2.6% was also significant. Raised prices of general metals and metal products by 5.3% also added to the increase considerably in 2017. In contrast, the prices of transport equipment were falling, by 2.2% for the whole year. In Q4 itself, the prices of general metals and metal products were growing the most year-on-year (5.1%). Thanks to a high weight in the index, the food products, beverages and tobacco also had a more notable contribution to the total growth (year-on-year growth 2.2% in Q4, slowdown compared to the previous quarters). Prices of transport equipment worked in the direction of fall, by 3.4% in Q4 and also the prices of electricity, and gas, steam and air conditioning supply, which were falling the last four years.

Growth of producer prices reached 3.5% in the EU.

Gradual slowdown of the growth of prices of industrial producers did not avoid even the European Union (EU28). Industrial producer index here increased by 3.6% in 2017. While the growth of prices reached 5.0% in Q1, it was 2.9% year-on-year in the last quarter. The index grew the fastest in Belgium (8.9%), Great Britain (6.2%) and Poland (4.7%) in 2017. The Czech Republic belonged among countries with the lowest growth of the industrial producer prices. The prices grew slower only in Luxembourg (-1.9%), Malta (0.7%) and Slovenia (1.3%) in 2017.



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



Source: CZSO

Agriculture producer prices grew the most out of the monitored price indices.

Prices of agricultural producers grew by 7.3% in 2017. It is the most since 2011. At the same time, it represents a significant change against the falls in years 2014-2016. The price dynamics reached its peak in Q3, but the year-on-year increase arrived at relatively high value of 8.0% also, in the last quarter. Prices grew in both animal and plant production. In plant production, they increased by 1.7% in 2017. Increase of the prices of fruit and vegetables by 6.3% contributed (price index excluding vegetables rose only by 1.1%). However, a turn also occurred with the development of prices of cereals (growth by 1.7%), especially wheat (3.0%) and rye (2.3%). Prices of oil plants increased after four years of declines (4.1%). The acceleration of the growth of prices of oilseed rape contributed 4.4%. Animal production added to the total growth of the agricultural products more (increase of 15.2%). Increase of prices of livestock participated by 4.9% (especially pigs and piglets by 11.2%). However, the increase of prices of animal products by 25.4% was the strongest impulse. Prices of milk rose by 25.8%, prices of eggs by 23.0%.

Market services in the price area recorded recovery. Total growth reached 1.3%.

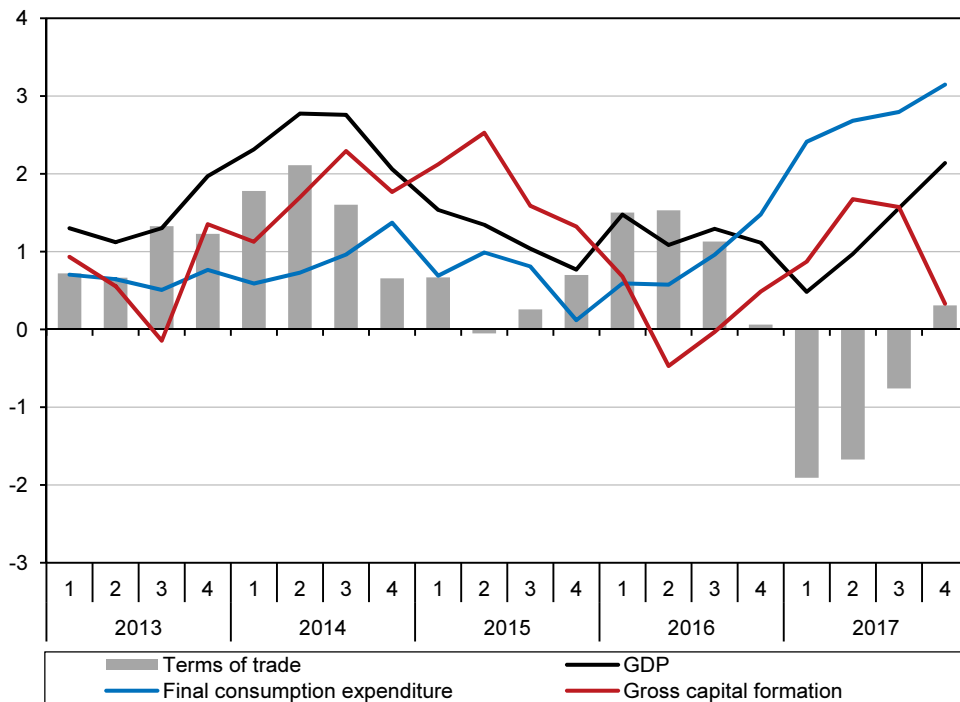
Prices of market services likely broke the stagnation lasting practically since 2010 in 2017. The prices rose by 1.3%, that is the most since year 2009. At the same time the growth was accelerating during the year – it reached 1.7% in Q4. Towards the end of the year, the year-on-year growth of prices of individual services also accelerated. Among the weight significant items, mainly the prices of advertising services and market research increased by 2.7% (by 4.1% in Q4) last year. Architectural and engineering services and technical testing and analysis in total increased prices by 1.4% (by 3.0% in Q4). Total development affected in the positive direction also the increase of prices of services in the area of programming and advisory by 1.3% in 2017 (1.8% in Q4).

Export prices grew in the first half of the year, they however sank in H2.

Export prices fell in total year-on-year by 0.1% in 2017. The year-on-year dynamics were positive in the first half of the year, the prices were falling year-in-year in H2. Especially the prices of exported machines and transport equipment (-2.2%) and industrial consumer goods (-1.0%) were sinking in 2017. In contrast, the prices of export of mineral fuels (16.3%) and other materials (10.3%) were markedly growing. Prices of imports in total increased by 0.9% year-on-year in 2017. Similarly to exports, the prices of mineral fuels (13.9%) as well as other materials (10.3%) were growing and machines and transport equipment (-2.9%), industrial consumption goods (-2.2%) and animal and plant oils (2.6%) worked in the direction of fall in 2017. The terms of

trade were 99.0% in 2017. Trade with animal and plant oils (105.6%), mineral fuels (102.1%), industrial consumption goods (101.2%) as well as machines and transport equipment (100.7%) achieved positive terms of trade. Terms of trade for semi-finished products (96.9%) and beverages and tobacco (97.5%) were significantly negative.

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



Source: CZSO

