

Prices

- **Slowdown of the consumer prices growth**

Level of consumer prices in Q1 2005 rose year-on-year by 1.6 % and their growth slowed down by 0.7 p. p. It was also markedly slower than in Q4 2004. Breakdown of the month-on-month movement of prices in Q1 2005 suggests that the growth was in three fifths affected by changes in the regulated prices, tax adjustments and other administrative measures and the rest (two fifths) was the effect of core inflation before seasonal adjustment. Seasonal factors were crucial. Year-on-year rise in the aggregate price level was almost exclusively caused by the prices of services, having grown in Q1 2005 by 4.2 %, while the prices of goods rose only negligibly (by 0.1 %). In the same period, consumer prices apart from the prices of seasonal goods went up by 2.0 % and the prices of seasonal goods dropped considerably (by 7.4 %). The impact of the individual consumer prices groups on the year-on-year movement in the aggregate price level differed widely. Total growth of consumer prices was mostly (57.1 %) impacted by raised prices of housing, water, energy and fuels, followed by the increase in the hospitality and accommodation prices (36.8 %) and the effect of price growth of alcoholic beverages and tobacco fell short of one fifth (18.4 %). Reduced prices of clothing and footwear (12.3 %) as well as the prices of transport had the opposite effect. Other movements including counter movements had negligible effect.
- **Price level convergion halted**

Average year-on-year growth of consumer prices according to the harmonised index (HICP) was in Q1 2005 in EU-25 member states higher by 0.7 p. p. compared to the CR (2.1 % EU-25 and 1.4 % CR) with the inflation differential widening in the course of the quarter as the growth gathered pace in the most EU states. The fastest growth of consumer price level eventuated in Latvia, Estonia, Luxemburg and Spain and prices in Finland, Sweden and Denmark grew the slowest. The shift in the price relations between CR and EU-25 is one of the factors of diverging price levels.
- **Sinking prices of plant products**

The relation between two basic price areas in agriculture changed markedly as a consequence of diverging movements of plant and animal product prices. Their parity ratio 1.361 in Q1 2004 sank to 0.548 in Q1 2005. Agricultural producer prices in Q1 2005 were lowered by 10.8 % year-on-year as a result of a price dive of plant products (by 39.2 %), in that especially prices of grain following last-year's record harvest, nevertheless the prices of potatoes and vegetable were also cut down notably (by 67.5 % and 48.7 % respectively). The growth of prices of livestock products by 10.9 % was an expression of a heightened demand for these products, slaughter cattle and pigs in particular, whose prices rose by 19.0 % and 30.2 % resp. The price of milk rose relatively mildly (6.2 %), however the prices of eggs dropped by nearly one third.
- **Industrial producer prices speeded up**

Industrial producer prices in Q1 2005 increased year-on-year by 6.9 %. Their growth rather accelerated in comparison to the same period previous year (by 5.2 %), however it slowed down quarter-on-quarter by 1.3 p. p. The prices of coke and oil products (by 31.9 %) rose the most, however the growth of prices of basic metals, metallurgical and metalworking products by 26.2 % had the largest effect (nearly one half) on increase in total price level. It was a consequence of high and growing demand for these commodities on the world markets. Prices of electricity, gas and water climbed only at underaverage pace (6.6 %) and their effect on total exceeded only one tenth, however it was registered in the costs of all economic activities. Among individual main industrial groups, prices of intermediate products and energy grew at an aboveaverage pace and the prices of products of investment nature and consumer goods increased much less.
- **Growth of price differential**

Industrial producer prices in the CR surpassed year-on-year these prices in EU-25 states by 1.9 p. p. and in the euroarea by 2.8 p. p. Still, these prices increased in few EU countries faster compared to the CR (e.g. the United Kingdom by 2.1 p. p. and in Luxembourg by 1.7 p. p.).
- **Increased parity of input output prices**

Prices of construction works increased in Q1 2005 year-on-year by 4.2 % and their growth was by 1.7 p. p. faster on a year before. Prices of materials and products used in construction jumped higher (8.0 %) and their growth year-on-year speeded up

notably (by 6.2 p. p.), so the ratio of input to output prices 0,993 from Q1 2004 went up to 1,036 in Q1 2005.

- ***Slower growth of prices of services***

Prices of market services in the business sector increased year-on-year by 1.3 % and their growth was by two thirds slower on a year before. Crucial was the effect of increased prices of business and retail services by 1.6 %. In financial intermediation prices rose as a result of higher prices of financial services (8.0 %). Despite notable increase of fees for state postal services, due to the lowered prices for mobile phone operation the prices of telecommunication services slightly dropped.

- ***Moderate improvement of terms of trade***

Local currency prices of foreign trade of the CR are being impacted by the CZK exchange rate and the prices of goods on the world markets. It is not possible to isolate the effects of these two factors due to the time shifts of sales and purchases (of foreign exchange and goods) and in addition to this all transactions in the ČR economy are being realised in Czech currency. In Q1 2005 the price level of exported goods rose only negligibly (by 0.1 %) and with regards to imported goods, it decreased by 1.2 %, thus the improvement of terms of trade by 1.3 % exerted a favourable effect on the trade balance. Nevertheless, it represented only one half of last year's improvement. The difference between an increase and decrease of prices in individual SIRC groups was larger for exported goods (29.2 p. p. compared to 24.4 p. p. for imported goods). Prices of mineral fuels, grease and related materials went up the most - export by 20.9 % and import by 18.6 % - with the largest effect on the movement in total price level. Further within export prices grew the prices of market producers assorted by material (by 6.9 %) and chemicals and related products (by 6.0 %). Prices of other exported goods went down; animal and plant oils the most (by 8.3 %). Among import prices the prices of raw materials excluding fuels and beverages and tobacco also increased (by 3.0 % and 2.7 % resp.).

- ***Growth of world and import price parity***

The relation between the growth of world prices of selected commodities, industrial raw materials and foodstuff and the movement of prices of imported goods has not changed much year-on-year – from 1.055 in Q1 2004 to 1.388 in Q1 2005.