

Prices

- **Only mild increase of consumer prices**

The inflation development in Q1 2007 did not differ much from the development in the preceding quarter. Consumer prices increased in year-on-year terms increased in average by 1.5%, during the first months of 2007 they grew slightly to 1.9% recorded in March 2007. Main features of the pricing movements included acceleration of the year-on-year increase in food prices from 1.6% in December 2006 to 3.3% in March 2007. The price increase for other goods was very moderate. The year-on-year increase of merchandise prices slowed down to 0.5% (from 0.6% in 4Q) and the price increase of services accelerated to 3.2% (from 3% in 4Q). Highest pricing fluctuations were shown by fuel prices, which reflected changes of oil prices in foreign markets with a little delay. Compared to the preceding development the year-on-year increase of regulated prices slowed down due to decrease of natural gas prices and slower increase of electricity prices. The growth of consumer prices in the Czech Republic almost did not differ from the development in EU states, where inflation measured by HICP reached 2.2%, in the Czech Republic 2.1%.

- **High increase of agricultural producers' prices**

In Q1 2007 the growth of prices of agricultural producers in most sectors accelerated. The agricultural products prices had been increasing for four quarters already and in Q1 2007 the prices increased by 13.3%. Similarly as in the preceding quarters their increase was influenced by the growth of prices of vegetal products, which in March 2007 grew by more than third in year-on-year comparison. The highest growth rates were recorded by prices of cereals and potatoes, provided that also prices of oil plants, fruit and vegetables showed higher dynamics. The price movements were influenced by lower yields in the preceding year. On the other hand, prices of animal products continued their decline, particularly due to increasing imports from the European Union, influenced not only by the decreasing prices in certain EU countries but also by the appreciation of the *koruna*, which reduced competitiveness of Czech products.

- **Continued increase of industrial producers' prices**

Industrial producers' prices continued to accelerate gradually in Q1 2007, in March they recorded a year-on-year increase by 3.6%. This dynamics derived mostly from prices of metals and metalworking products, which in March recorded a year-on-year increase by almost 9%. Other market segments with rapidly growing prices included distribution of electricity, water and gas, with a year-on-year price increase of 7.5% in March, 7.7% in timber processing. The development of industrial producers' prices indicated growing cost pressure on price increase in corporate sector.

- **Favourable development of exchange relations**

Import prices in Q1 2007 decreased in average by 1.7%, which was the most significant decrease since 2004. This result derived particularly from mineral fuels prices, which in year-on-year terms dropped almost by one tenth. This development combined with a continued appreciation of *koruna* against USD created conditions for reduction of pro-inflation pressures, however, these were partially compensated by antagonistic pressures of prices for other raw materials, namely metals. Export prices in Q1 grew in average by 1.9%. Exchange relations in year-on-year terms reached a positive value of 103.7. The exchange relations values had been increasing since 2 Q 2006.