

5. Prices

The price level grew the most since year 2004 last year.

Total price level increased by 3.5%¹ in year 2019. It is the most since year 2004 (the additions were the same in year 2007). Prices of consumer goods grew the most (3.7%), those acquired by households by 2.9%, government institutions faced more than 5% growth already for the second year (5.4% in year 2019, consumption of the government institutions for the larger part consists of services, whose prices are more affected by growth of wages). Prices of capital goods were raised by 2.6% last year. Terms of trade were positive last year (100.4%), both for goods (100.2%) as well as services (101.4%). Export prices of services grew the most in the last five years. The price level went up by 3.7% year-on-year in Q4, in that by 3.7% for consumption expenditure – 3.0% for households, the price level increased by 5.5% for government institutions. Growth of prices of capital goods reached 2.3% Terms of trade were positive (100.8%).

Year-on-year dynamics of consumer prices accelerated by the end of the year.

End of the year brought acceleration of the year-on-year dynamics of consumer prices. They increased by 3.0% in Q4, which was the largest increase since Q3 2012. Prices of food contributed the most to the strengthening of the overall pace. Halting of the slumping prices of transportation also had an effect. The key impact of housing and energies persisted in the year-on-year growth of prices also in Q4. Year-on-year dynamics of consumer prices has been strengthening in the course of the whole year and the final increase for year 2019 was 2.8%, which represented the highest value in the last seven years. Approximately one half of the last year's increase belonged to the prices of housing and energies. Following the weak contribution in 2018, the influence of food and non-alcoholic beverages again strengthened. Division other goods and services held the third largest addition to growth. Minor contributions of prices of alcoholic beverages and tobacco, food service and accommodation, recreation and culture, health, home equipment and household appliances also shifted the dynamics near the 3% boundary. Prices of wearing apparel and footwear had anti-inflationary effect.

Housing retained the position of main driver of year-on-year growth of prices.

Year-on-year growth of prices of housing and energies slightly weakened to 5.0% in Q4. Despite mild slowdown, the relatively high growth of prices of rents (3.8%) and imputed rents (4.0%) prevailed. Prices of electrical energy and heating, gas and water hiked by 7.2%. Individual quarters did not differ much from the view of development of prices of housing and energies and only small adjustments manifested. The prices of housing and energies were raised in total by 5.3% last year. The very category of energies grew the most significantly – prices of electrical energy and heating, gas and water jumped by 7.0% and their acceleration represented the main impulse, which caused the strengthening of the total dynamics. Rents increased by 3.7% and imputed rents by 5.1%. Dynamics of both items was however already relatively strong in year 2018, consequently the cost of housing alone markedly jumped for households in the last two years. Prices of common maintenance and repair of household goods also grew strongly (4.9%). Prices of other services grew slower (2.0%).

Growth of prices of food gained pace by the end of the year, mainly due to the prices of meat.

Year conclusion delivered the acceleration of the year-on-year growth of prices of food and non-alcoholic beverages. These increased by 4.3% in Q4, mainly because of strengthened year-on-year growth of prices of meat (7.6%) and fruit (10.7%). Contrastingly the so far very strong growth of prices of vegetables weakened in Q4 (from 26.1% in Q3 to 6.0%), mainly because of high comparative basis. The year-on-year growth of prices of food and non-alcoholic beverages gradually accelerated

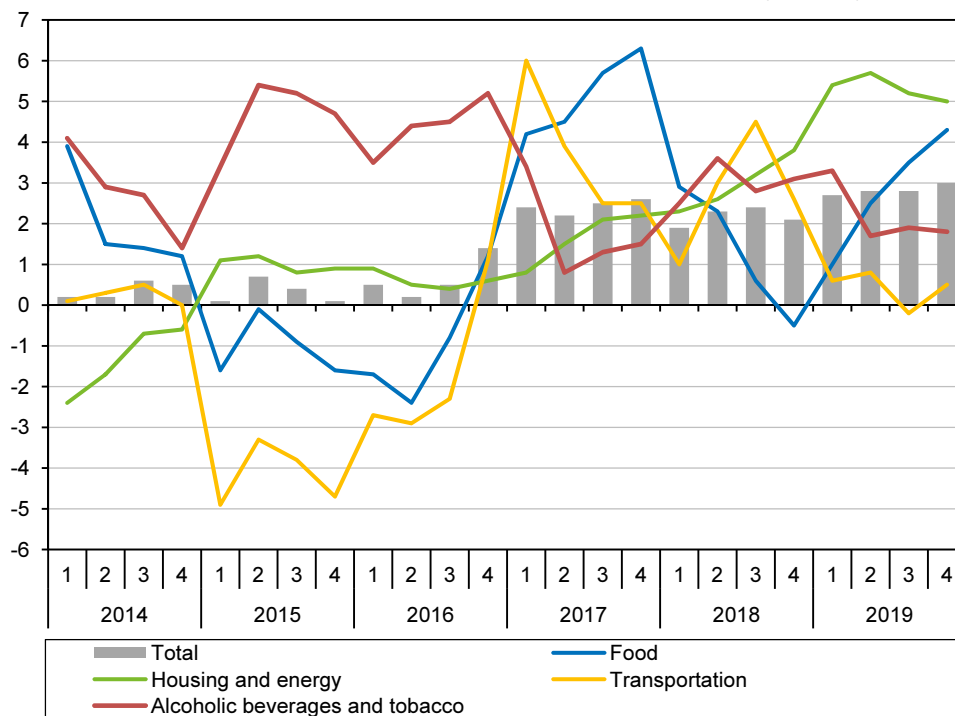
¹ Gauged by the GDP deflator.

during the year. Total increase reached 2.8% last year. Prices of vegetables (19.6%), meat (3.6%) and baking products and cereals (3.5%) hiked up the most. These three items also exerted the largest influence on the development of prices of the whole division. Oils and fats (3.2%) and fruit (3.9%) recorded decline.

The influence of the comparative basis on the prices of transportation services dissipated in Q4.

The year-on-year growth of prices of transportation was only very moderate throughout the whole year 2019 (prices even fell by 0.2% in Q3). Increase reached 0.5% in Q4, especially due to evaporation of the effect of low comparative basis of prices of transportation services, which have been negatively impacting the prices of transportation already since Autumn 2018. The dynamics of prices of purchases of motor vehicles, motorcycles and bicycles weakened during the year and the cost of operation of motor vehicles also stagnated especially in H2. Prices of transportation went up by 0.4% for the whole year 2019, in that prices of purchase of motor vehicles by 0.9%, operating the motor vehicles by 1.5% and prices of transportation services fell by 4.7%. Dynamics of prices of food service and accommodation (total increase reached 4.2% last year) and other goods and services (3.8%) was very strong year-on-year for the whole year. Generally, the prices of services grew more last year (3.7%) than prices of goods (2.3%), which is linked to the continuing above average wage dynamics. Mild strengthening of the growth of prices manifested only in Q4 (2.7% goods, 3.7% services).

Chart 9 Prices in the selected divisions of the consumer price index (year-on-year in %)



Source: CZSO

Year-on-year growth of consumer prices remained moderate in the EU in Q4.

Year-on-year growth of consumer prices weakened in majority of EU countries between Q2 and Q3 2019. The deceleration then continued further in some states in Q4. Total consumer prices were raised by 1.5% in the EU and the increase attained 1.3% in Q4. Prices increased the most in Romania (3.9%), Hungary (3.4%) and Slovakia (2.8%) in 2019. Food and non-alcoholic beverages presented the common factor, that pushed the price dynamic up. In Romania and Hungary, alcohol and tobacco also had a strong effect. Slovakia faced similarly to the Czech Republic a significant growth of prices of housing and energies (the prices of housing and energies grew the most in the whole EU in the CR last year, Slovakia was third). Consumer prices went up in all Union countries last year, by less than 1% in eight

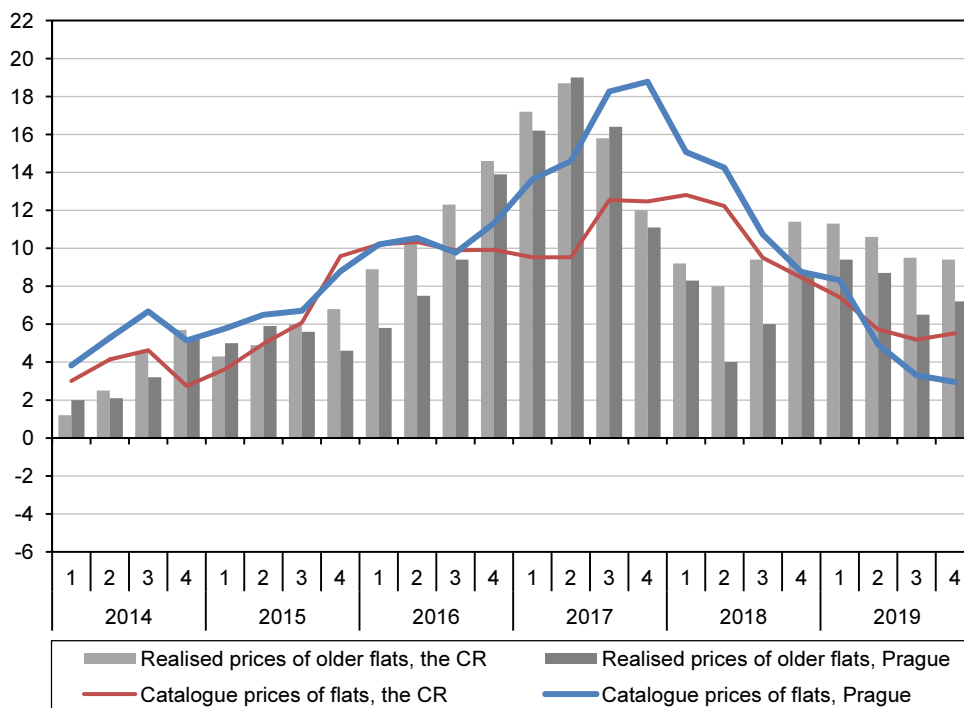


cases. The lowest increase was recorded in Portugal (0.3%), Greece (0.5%) and Cyprus (0.5%). The ranking of countries with prices growing the most year-o-year was in Q4 the same as for the annual results – Romania (3.7%), Hungary (3.5%), Slovakia (3.1%). The CR with its 3.0% increase ranked immediately behind these countries. The prices stagnated in the South Europe towards the end of the year – the growth was only 0.2% in Portugal and Cyprus, 0.3% in Italy similarly to the previous quarter. The growth reached 0.4% in Greece and 0.5% in Spain.

Catalogue prices of flats grew stronger also outside the capital city last year.

Year-on-year growth of the catalogue prices of flats weakened last year compared to the previous three years. The catalogue prices of flats were raised in total by 5.9% in the CR, in that by 4.8% in Prague. Faster pace of growth outside Prague can be explained partly by inclusion of other large cities (especially Brno, Ostrava etc.), but also by the excess demand outside of the area of the capital city. The catalogue prices of flats were raised by 5.5% year-on-year in Q4, in that by 3.0% in Prague. The growth fastened to 8.9% outside Prague. Realised prices of older flats increased by 10.1% last year and even though their year-on-year dynamics was slowing down during the year, the increase reached 9.4% in Q4. Prices thus grew faster than in year 2018, when the so far staggering year-on-year pace markedly slowed down. Dynamics of realised prices of older flats in Prague stayed below the republic average (7.9% for the whole year, 7.2% in Q4).

Chart 10 Prices of real estate (year-on-year change, in %)



Source: CZSO

Industrial producer prices grew by slower pace compared to the rest of the year in Q4.

Industrial producer prices increased by 1.3% year-on-year in Q4. It is considerably less than in the preceding quarter (2.0%) and H1 2019 (3.5%). The year-on-year slump of the rate of growth was among other caused by year-on-year fall of prices of manufacturing (-0.1%), which especially in H1 formed the basis of the whole index. Prices of coke and refined oil products², further chemicals and chemical products (decrease by 6.0%), basic metals and metal products (-1.6%) and transport equipment (-1.0%) worked the most in the direction of decrease. On the other hand, food products, beverages and tobacco (year-on-year increase 3.7%) and further

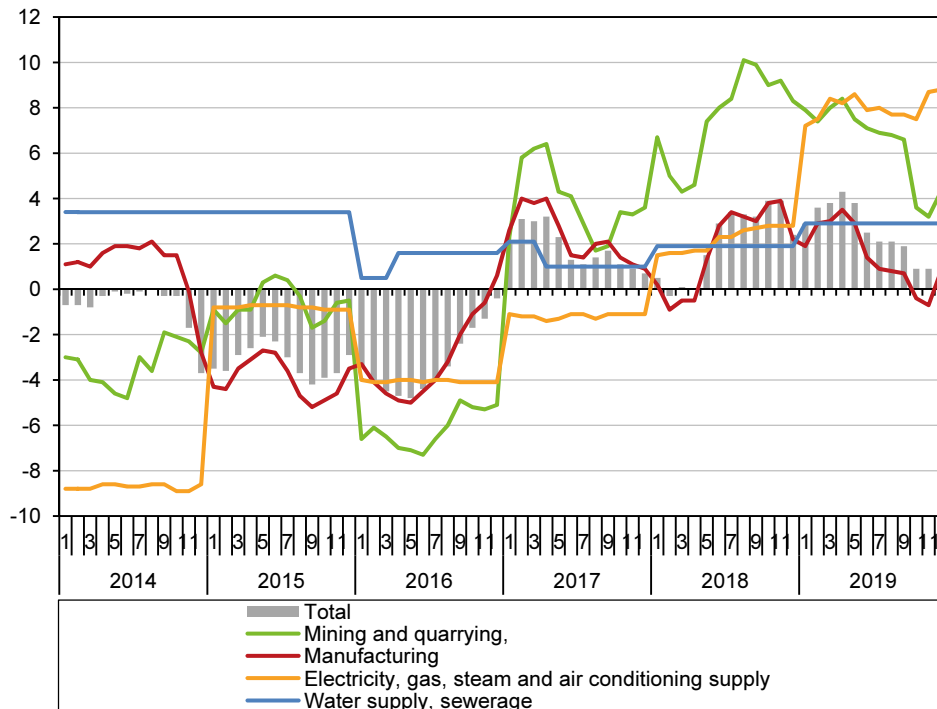
² Individual figures.

furniture and other products of manufacturing (4.6%) had a strong pro-growth effect. Growth of prices of textile, wearing apparel and leathers was also relatively strong (3.4%). Year-on-year increase of the prices of mining and quarrying also slowed down in Q4 (to 3.7%). On the contrary, the dynamics of prices of electricity, gas, steam and air conditioning supply strengthened (8.3%).

Industrial producer prices were influenced by rising prices of electricity last year.

Increase of industrial producer prices totalled 2.6% in year 2019. It was the highest value since year 2011. Two divisions added to the growth to an identical extent. The first were products and services of manufacturing, which form a large majority of domestic production. Their prices were raised by 1.5%. Prices of electricity, gas, steam and air conditioning supply were another major driver of producer price index development, their lower weight in the Czech industry being superseded by a very high growth (8.0%). Prices of mining and quarrying increased by 6.4%, mainly under the influence of black and brown coal and lignite (8.5%), but also prices of stone, sand and clay (5.1%). Prices of electricity, gas, steam and air conditioning supply were completely affected by the sharp growth for electricity (22.7%), while the cost of electricity transportation and distribution itself mildly fell (-1.1%). Prices of water supply and wastewater management increased by 2.9%.

Chart 11 Prices of main groups of industrial producers (year-on-year change, in %, based on CPA classification)



Source: CZSO

Food products were among the groups, where the prices grew the fastest.

Among the manufacturing products, prices of food product, beverages and tobacco (in total by 3.5%), especially processed and tinned meat and meat products (7.0%), grain mill and farinaceous products (6.4%) and bakery, pastry and other flour products (5.1%) significantly grew throughout the whole year. Prices of textile, clothing and leather (3.7%) were raised relatively strongly, mainly because of the wearing apparel (6.5%). Prices of wood, paper and print went up only by 0.7%. Prices of wood and wood products stagnated (0.4%), prices of paper and paper products decreased (-0.4%). Printing and reproduction of recorded media however experienced growth (2.8%). Under the influence of falling prices of oil, the prices of chemicals and chemical products decreased (by 1.6%). Prices of basic pharmaceutical products rose by 2.1%. Rubber and plastic products and other non-



metal materials had prices increased by 2.9%, at the same time the rubber and plastic products only recorded a decrease of 0.2%. Especially prices of other non-metal mineral products (6.7%) grew, mainly products used in construction³. Prices of basic metals and metal products (0.8%), computers, electronic and optical products (1.9%) grew only moderately and prices of electrical appliances stagnated (0.2%). Prices of machinery and equipment rose by 2.0%. Transport equipment however recorded only small increase (0.2%). Prices of furniture and other products of manufacturing were raised in total by 4.3%. Prices of furniture grew by 1.7%, but prices of repair, maintenance and installation of machinery and equipment by 4.9%.

Prices of oil had an adverse effect on the development of producer prices in the EU.

Industrial producer prices rose by 0.9% in the EU in 2019. Relatively low increase was caused by the year-on-year slump of prices in H2, especially under the influence of prices of oil, which stayed significantly below the level of the previous year in the given period. It affected the last year's dive of the prices of mining and quarrying by 2.8% and further the prices of manufacturing, which increased only by 0.9%, mainly because of stagnation in H2. Prices of electricity, gas, steam and air conditioning supply increased by 2.4%. Following the strong year-on-year increase in H1 the dynamics did not keep and prices in this section sank (unlike the CR, where a very strong growth remained). Producer prices increased the most in Romania (5.0%), Hungary (3.9%) and Bulgaria (3.8%) last year. Decrease occurred for producer prices in Portugal (-0.9%), Denmark (-0.6%) and Spain (-0.5%).

Prices of market services were affected by high dynamics of wage costs.

Prices of market services increased by 2.3% year-on-year in Q4. Their dynamics thus mildly slowed down compared to Q1 to Q3 of the year. Prices of services in the area of programming and consultancy the most contributed to the growth (year-on-year growth of 4.9%), further land transportation and transportation via pipelines (2.2%) and insurance, reinsurance and pension funding (5.6%). Total growth slowdown resulted from the pace reduction in some important services – for instance prices of advertising services and market research (from 5.5% in Q3 to 3.6% in Q4) or architectural and engineering activities (from 1.6% to -0.2%). For the whole year 2019, the prices of market services increased by 2.6%, the most since year 2008. The dynamics acceleration was linked mainly to the still strongly growing wage costs, which was reflected in the prices of services across the whole economy. It is apparent directly on the services in the area of employment, whose prices increased by 9.2% last year (slowdown compared to year 2018 was only negligible). Prices of land transportation and transportation via pipelines (increased by 2.4%, mainly because of prices of freight rail transport), further services in the area of programming (4.2%), insurance, reinsurance and pension funding (6.5%) the most contributed to the total growth last year. Advertising services and market research also featured a notable increase (4.5%). Decrease of prices happened only for storage and support service activities in transportation (-1.5%).

Agricultural producer prices fell in Q4. Growth of prices of pigs accelerated.

Agricultural producer prices decreased by 1.6% year-on-year in Q4 2019. Prices of plant production fell by 5.6%. Slump occurred for cereals (-9.5%), specifically across all types (wheat -10.9%, barley -6.0%, grain maize -9.5%). Partially it is caused by high comparative basis from year 2018, last year's better harvest also led to the decrease of prices to a lower level. Prices of industrial crops also decreased (-8.7%), in that oil plants by 4.5% (due to poppy seeds, whose prices went down by 30.9%) and sugar beet by 18.5%. Growth of prices of potatoes eased pace to 9.4%. Prices of fruit (48.3%), especially apples (49.3%) and pears (43.6%) again went up after the slump in the 2018 season. Prices of animal production increased by 5.6% year-on-year in Q4, mostly as a result of accelerating dynamics of prices of pigs (30.9% in Q4). Prices of

³ Building products from clay materials, cement, lime, plaster and their products and cut, shaped and finished stone.

milk stagnated (0.1%) and prices of eggs slightly grew (3.4%). Prices of agricultural production went up by 4.9% for the whole year 2019. Both plant (5.9%) and animal productions (3.9%) recorded increase. Effect of the harvest results from year 2018 was subsiding for the plant production, which were worse in comparison to the preceding years. Prices of majority of crops were raised – cereals by 6.4%, industrial crops by 1.7%, feed crops by 2.0%, vegetables and horticulture products by 6.8%. Prices of potatoes experienced the most striking increase (37.3%), in that prices of consumption potatoes by 51.8% and planting stock by 16.5%. Veterinary situation⁴, which was mirrored in the prices of pigs and piglets (increase by 16.2%) mainly directed the prices of animal production. Prices of milk were raised by 2.7% and prices of eggs lowered by 6.6%.

Year-on-year growth of export prices gradually slowed down during the year.

Prices of export increased by 0.9% last year. Year-on-year dynamics however gradually slowed down during the year and a slump of 1.4% manifested in Q4. Prices of export of industrial consumption goods (3.4%), beverages and tobacco (2.1%), food and live animals (1.7%), machinery and transport equipment (1.2%) and semi-finished products⁵ (0.4%) increased in 2019. Prices of materials – mineral fuels (-2.0%) as well as other materials⁶ (-5.6%) and also chemicals and chemical products (-1.0%) decreased. Prices of majority product groups were lowering year-on-year in Q4. Other materials (-13.4%), mineral fuels (-8.5%) and chemicals and chemical products (-3.5%) recorded the largest slump. Prices of beverages and tobacco (1.5%) and industrial consumption goods (1.1%) were raised the most year-on-year. Prices of machinery and transport equipment stagnated (0.1%).

Import prices grew relatively little last year and the terms of trade were thus positive.

Total import prices also increased (0.3%). Prices of import of other materials (6.9%), food and live animals (2.7%), machinery and transport equipment (1.6%) and industrial consumption goods (0.2%) went up. Prices of beverages and tobacco fell markedly last year (-5.2%) as well as prices of mineral fuels (-4.7%). Prices of chemicals and chemical products (-0.9%) and semi-finished products (-0.6%) moderately decreased. In Q4 itself, the prices of import sank by 1.8% year-on-year. Mineral fuels (-11.8%), beverages and tobacco (-7.7%) and chemicals and chemical products (-5.8%) recorded the strongest decrease. Prices of imported food and live animals grew relatively fast (5.4%). Terms of trade were in total positive in year 2019 (100.6%). Terms of trade of beverages and tobacco (107.7%), industrial consumption goods (103.2%), mineral fuels (102.8%) and semi-finished products (101.0%) had positive effect. Contrastingly, the terms of trade of other materials (88.3%), food and live animals (99.0%), machinery and transport equipment (99.6%) and chemicals and chemical products (99.9%) were negative. Terms of trade were 100.4% in Q4. Mainly beverages and tobacco (110.0%), mineral fuels (103.7%) and chemicals and chemical products (102.4%) had a positive effect. Especially terms of trade of trade with other materials (85.5%) impacted the total index negatively.

⁴ African swine fever. According to data of the State Veterinary Administration, occurrence was reported in Ukraine, Serbia and 10 EU member countries: Belgium, Bulgaria, Estonia, Italy (only in Sardinia), Lithuania, Latvia, Hungary, Poland, Romania and Slovakia as of 13.8.2019.

⁵ SITC 6 – manufactured goods classified chiefly by material.

⁶ SITC 2 – crude materials, inedible, except fuels.

