

5. Prices

Total price level increased by 1.1%.

Total price level gauged by the implicit GDP deflator increased by 1.1% in 2016. The impact of final consumption expenditure was growing during the year. The prices of goods and services consumed by households started to rise especially in the second half of the year (0.9% in Q3, 1.4% in Q4).

Development of consumer prices in Q1 to Q3 2016 did not differ from the previous two years. Break occurred in November, when the consumer prices approached the inflation target after nearly three years.

The first three quarters of the year 2016 did not differ much with respect to the consumer price development from the previous two years. The year-on-year growth of prices did not cross 0.5% and remained below the target band of the CNB. A break occurred in November, when the year-on-year price increase crossed the 1% boundary for the first time since December 2013 and hiked up to 1.5%. The growth of consumer prices touched 2% in December and the average price growth thus came to 1.4% in Q4. The inflation rate¹ equalled 0.4% from January to May, it lowered to 0.3% from June to September and it reached 0.4%, 0.5% and 0.7% during October to December.

Negative effect of the oil prices on the consumer prices, apparent especially in the first half of the year, ceased at the end of the year.

The growth of the consumer price index was considerably slowed down by the development of prices of automotive fuels in combination with the drop of the food prices at the beginning of the year. The oil prices started to rise slightly after the deep slump at the turn of the years 2015 and 2016 and their effect on the price level decline weakened during the year. The year-on-year growth of the price index excluding fuel oils and automotive fuels thus exceeded the total price level growth by several tenths of percentage points during the first three quarters of the year. Both indices evened out only in the last quarter and the prices of automotive fuels even mildly contributed to the growth of the total price level in December.

The fall of prices of food halted after nearly two years, which had a notable effect on the total price level.

Prices of food and non-alcoholic beverages were falling year-on-year since December 2014 (with the exceptions of June 2015). They hold the second highest weight in the consumer price index, it is thus not surprising, that their November and December growth (1.6% and 3.3%) significantly influenced the total price level. Until then, they were reduced by an average year-on-year rate of growth of 1.6%. While the prices of food thus on average reduced the total growth of prices by more than 0.2 p.p. in January till October, they added 0.3 p.p. to the growth in November and even 0.6 p.p. in December. The autumn increase of prices caused especially the raised prices of vegetables and dairy products year-on-year.

Increase of the prices of rent and imputed rent did not show much in the cost of housing and energies thanks to the fall of prices of energies.

Prices of housing, water, energies and heating fuels, which present the most significant items in the consumer basket for the Czech consumers, grew by average year-on-year pace of 0.6% and average month-on-month pace of 0.1% in 2016. It is not surprising with respect to the fast-growing prices of real estate in 2016, that the growth of the imputed rent fastened its pace from the year-on-year increase of 1% in Q1 and Q2 to 2.6% in Q4. Prices of rent accelerated its growth even one quarter sooner. Total growth of prices of housing and energies dampened only the notably falling prices of gas, which exceeded even the mild growth of prices of electricity and heat. Development of costs of transport was in fact identical to the prices of food. Prices of transport were falling by an average year-on-year rate of -2.4% until October and they increased by 1% and 2.5% in November and December.

Rise of realised prices of older dwellings gained pace during the year and reflected thus the excess demand on the market.

Development on the real estate market mirrored the good shape of the economy in 2016 and the positive outlooks of consumers. Increase of real income, low unemployment and positive expectations heightened the demand for real estate. The supply side of the market however did not manage to react in the needed time and the stock of flats shrank very soon. The year-on-year growth of realised prices of older flats reflected this fact, accelerating during the year 2016 and reaching 14.5% in Q4. Realised prices of new flats² grew by 5.5% quarter-on-quarter at the end of the year and by 9.3% year-on-year (year-on-year growth arrived at 3.8% in

¹ Expressed by the addition to the average consumer price index for the last twelve months against the average of the preceding 12 months.

² Data surveyed only for Prague.

Q3). The year-on-year growth of prices of offered flats attained 9.6% already in the last quarter of the year 2015 and it mildly crossed the 10% in the first two quarters of 2016. The growth of supply prices then hovered closely below the 10% level in Q3 and Q4 of the year.

Similarly to the Czech Republic, the EU also experienced a more pronounced change in the price development in the last quarter of the year.

Price development in the Czech Republic fits into the European context. Year-on-year growth of the price level in the European twenty-eight did not digress much from zero during the first two quarters (+0.1% and -0.1%). It reached 0.3% in the third quarter and it definitely moved away from zero in the last quarter of the year, when the prices increased by 0.8% year-on-year. The December inflation even crossed 1% for the first time since September 2013 (it was 1.2%). The prices rose by 0.2% in Slovakia year-on-year in December, which ended the more than two years' period of deflation. A similar turn occurred in Cyprus, despite the deflation reaching two percent in Q2 2016 there. The rate of growth of prices in Germany grew quite steadily, when the price level stagnated in the first half of the year, but it reached 1% growth in the final quarter.

Long term reduction of prices of industrial producers moderated in the second half of the year 2016.

Industrial producer prices were falling year-on-year already since January 2014 and they were falling also during the year 2016. The situation on the world markets with oil as well as the falling prices of raw materials were closely reflected in the development of the index. Combination with the fall of food prices led to a relatively atypical situation, when the growing demand was not followed the increase of prices. However, the pressure, which was put by the oil prices on the industrial producer price index loosened in 2016, and the index started to slightly grow at least in the month-on-month expression. Year-on-year fall shrank in the second half of the year (from 4% and 4.6% in the first two quarters to 3.2% in the third and 1.1% in the final quarter). Raised prices in the division of coke and refined oil products as well as the moderation of the fall of prices of food products assisted this development. Marked drop of the prices in the category of mining and quarrying prevailed, reflecting a higher supply of materials from China as well as the deflection of developed countries from using solid fossil fuels. Prices of construction works grew by an average year pace of 1.1%. Prices of buildings and engineering structures recorded the same growth.

Industrial producer prices were falling in the EU year-on-year in the first three quarters, but the increase of oil prices manifested towards the end of the year and the development at least partially turned to growth.

EU industrial producer prices featured similar dynamics as in the Czech Republic during the year 2016. Year-on-year changes of prices were negative in the EU-28 in Q1 to Q3 (-3.7%, -3.6% and -1.6%) and they rose by 1.1% in the final quarter. The group of countries where the industrial producer prices again grow year-on-year thus significantly enlarged in Q4. Prices were notably raised in Great Britain (+5.6%), in Belgium (+4.8%) or in Sweden (+3.2%). The Czech Republic still remains among countries, where the industrial producers experience deflation. Only Luxembourg (-6.7%), Slovakia (-2.4%), Latvia (-2.2%) and Croatia (-1.5%) overtook it in the fall.

Agricultural producer prices were falling. The fall of the prices of animal production slowed down during the year.

Prices of agricultural production were falling year-on-year for the whole year. They thus continued in the trend from the previous two years (with the short exception of autumn 2015). In contrast to other monitored price indices, their development did not signal much the change of this trend during the year. Year-on-year declines reached 2.9%, 6.9%, 5.7% and 4% during Q1 till Q4 2016. In total the prices of both plant and animal production were also falling. The prices of plant production increased by 3.9% in Q1 of the year, but they fell by 3.2%, 5.3% and 5.7% in the following quarters of the year. The slump of prices of plant production excluding fruits and vegetables was even higher. On the contrary, the year-on-year fall of the prices of animal production was slowing down during the year. The year-on-year increase of prices of farm animals by 2% and 3.5% in the second half of the year had an effect here. The slowdown of the fall of the prices of milk from 15.9% in Q1 to 6.5% in the last quarter of 2016 as well.

Prices of market services remained at nearly constant level during 2016.

Prices of market services stagnated in 2016 and continued thus in the trend from the previous year. They increased by an average year-on-year rate of growth of 0.1% since the beginning of the year. Prices remained at a constant level in majority of divisions of the classification of market services, still some exceptions



occurred. Costs for services in the area of land and pipe transportation were lowering year-on-year during the whole year. Even though their fall reduced from 1.3% in Q1 to 0.5% in Q4 during the year. Prices of advertising services and the market survey recorded already traditional growth (0.2%, 2%, 2.8% and 1% in individual quarters of the year). Prices of postal and courier services, whose growth was strengthening during the year, can also be mentioned (from 2.2% in Q1 to 5.6% similarly in Q3 and Q4 2016).

Prices of exports were falling, but the pace was slowing down.

The prices of exports were falling during the year, but the pace of the year-on-year decrease was slowing down (-4.2%, -4.3%, -2.7% and -1.3% in individual quarters). It was assisted by the development of prices of inedible materials (-13.4%, -12.2%, -7.1% and +1.1%) and mineral fuels (-19.0%, -17.3%, -13.6% and -1.3%). On the contrary, the prices of beverages and tobacco, which grew by a relatively stable pace during the year (1.5%, 2.4%, 2.6%), fell year-on-year in the last quarter (-2.4%).

Import prices, which created the deflation pressures in the Czech economy in Q1 and Q2, ceased their descend.

Prices of imports were falling in all four quarters of 2016 (-5.6%, -6.3%, -3.7% and -0.4%), and they presented a significant source of deflationary pressures in the Czech economy mostly in Q1 and Q2. The decline of prices considerably weakened in the second half of the year and the prices of imports increased for the first time after 18 months year-on-year in December. Prices of beverages and tobacco (+3.3%), food and live animals (+2.8%) and inedible materials (+3.2%) rose more notably in Q4. Prices of imports of mineral fuels and oils considerably fell in first three quarters of the year 2016 (-32.6%, -31.7% and -20.8%), and significantly thus affected the total price level. Their price movement moderated to 1.5% decrease in the last quarter, mainly thanks to the December year-on-year increase of 12.3%.

Terms of trade, which were positive in Q1 to Q3 fell below zero towards the year.

Terms of trade were positive in the first three quarters of the year (101.5, 102.1 and 101.0), they were affected the most by the positive terms of trade of the mineral fuels. However, the situation turned in Q4 and the terms of trade arrived at 99.1. Terms of trade of beverages and tobacco (94.3) or food (96.4) worked in the negative direction. The exchange rate of euro was hitting the 27 crown boundary already since the half of the year 2015 and remained the same. The crown still appreciated against euro by 2.2% and 1.3% in Q1 and Q2 2016 year-on-year, but the exchange rate practically did not change towards the previous year in the second half of the year. Exchange rate of crown fluctuated during the year, more significant movement occurred in Q2, when the crown appreciated against this currency by 3.5% and depreciated by 1.4% in Q4. Marked appreciation of crown towards the British pound was reflected unusually strongly in the deflationary pressures.

Chart 11 Consumer prices for individual types of households (y/y in %)

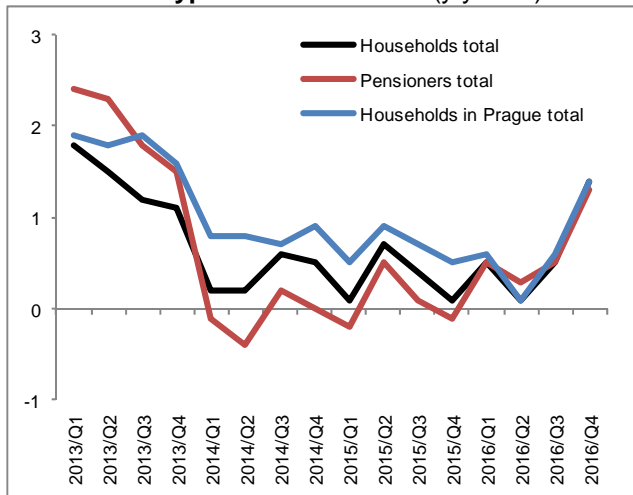


Chart 12 Prices in selected CPI divisions (y/y in %)

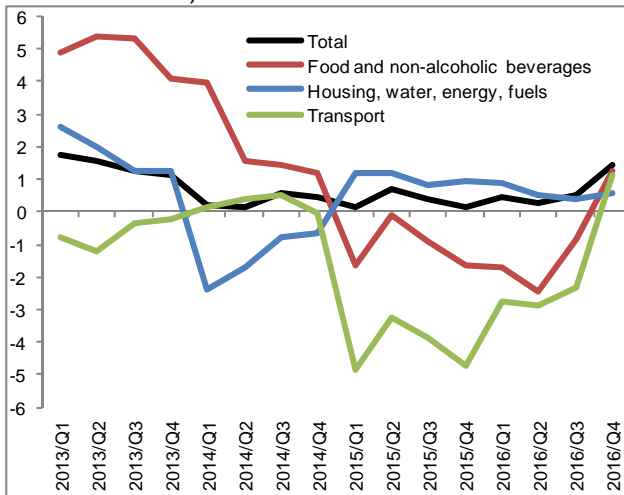


Chart 13 **Deflators** (adjusted for seasonal and calendar effects, y/y in %)

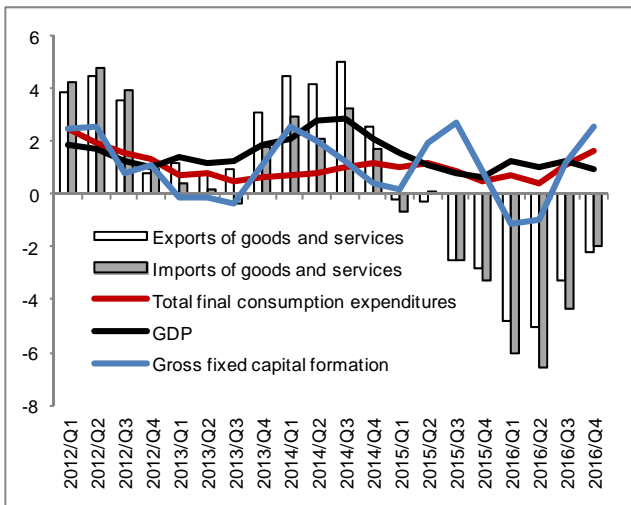
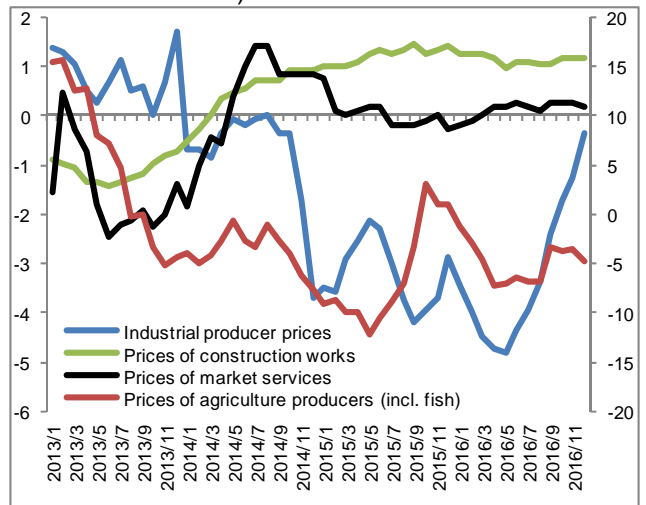


Chart 14 **Producer prices** (y/y in %, agricultural producer prices on the right axis, other on left axis)



Source: CZSO

