

5. Prices

Year-on-year growth of the price level strengthened in Q2.

Year-on-year growth of the price level¹ accelerated to 4.2% in Q2. It presents the highest addition since Q1 2009. Compared to Q1, the year-on-year dynamics strengthened. Price level for consumption goods was raised by 3.3%, which is less than in Q1. Pace of consumption of goods by both households and the government sector slowed down. Prices of capital goods grew by 1.9% year-on-year in Q2 and thus the descent of the rate of growth apparent already in the previous quarter continued. Weakening of the price growth for domestic expenditure items was offset by notable increase of the terms of trade. They amounted to 102.1% in Q2, the most since Q4 2009. The terms of trade were positive for both trade with goods (102.1%) and services (101.8%).

Year-on-year growth of consumer prices mildly slowed down in Q2.

Total year-on-year increase of consumer prices rose by 3.4% in H1. The year-on-year dynamics of the consumer price index slightly slackened in Q2 and attained 3.1%. Especially the strong January month-on-month addition (1.5%) affected the year-on-year comparison the most. The month-on-month dynamics subsequently slowed down, but year-on-year additions remained above the 3% level. March as well as April saw a mild month-on-month decrease, but May and June brought an acceleration. Food and non-alcoholic beverages and further housing and energies pushed the year-on-year growth of prices the most in Q2. Contribution of alcoholic beverages and tobacco notably strengthened (their sharp month-on-month as well as year-on-year increase occurred in May and June). On the contrary, the prices of transportation had a downward effect.

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

Food and non-alcoholic beverages the most affected the growth of the total index in Q2. Year-on-year addition to their prices further accelerated to 6.5% compared to Q1. Price of majority of types of food were raised apart from oils and fats (-2.8%). Prices of fruit achieved the highest increase (25.8%), where the pace gained speed. Addition to prices of meat (10.8%) and also other food products (10.5%) remained very strong. Prices of vegetables (6.5%), sugar, jam, honey, chocolate and sweets (5.4%) also hiked up. The year-on-year dynamics of prices of baking products and cereals (3.2%) as well as milk, cheese and eggs (2.2%) accelerated.

Growth of prices of housing and energies slowed down.

Housing and energies descended from the position of item contributing the most to the year-on-year increase of consumer prices in Q2. Prices of housing and energies increased by 3.2% year-on-year, which is the least since Q2 2018. Slowdown was observed across the whole division of the consumer basket. Rate of growth of residential rents (3.7%) as well as imputed rent (2.6%) eased its pace. Slowdown of prices for electricity and heat, gas and other fuels (3.7%) was also an important factor. Prices of regular maintenance (3.3%) and other services associated with housing (4.3%) also grew slower than in the previous quarter.

Alcoholic beverages and tobacco also relatively strongly contributed to the growth of consumer prices.

Prices of alcoholic beverages and tobacco also significantly influenced the development of consumer prices. They climbed up by 6.6% year-on-year in Q2. This division featured relatively strong growth already in Q1 (3.5%), for the reason of increase of the excise tax. It influences the alcoholic beverages as well as tobacco. While prices of alcohol went up immediately at the beginning of the year (4.5%), the development for tobacco was affected by pre-stocking with products with older tax stamps (2.6%). This effect however evaporated and sharp hike of tobacco prices occurred since May (7.5% for the whole Q2). Prices of alcoholic beverages also mildly accelerated (5.5%).

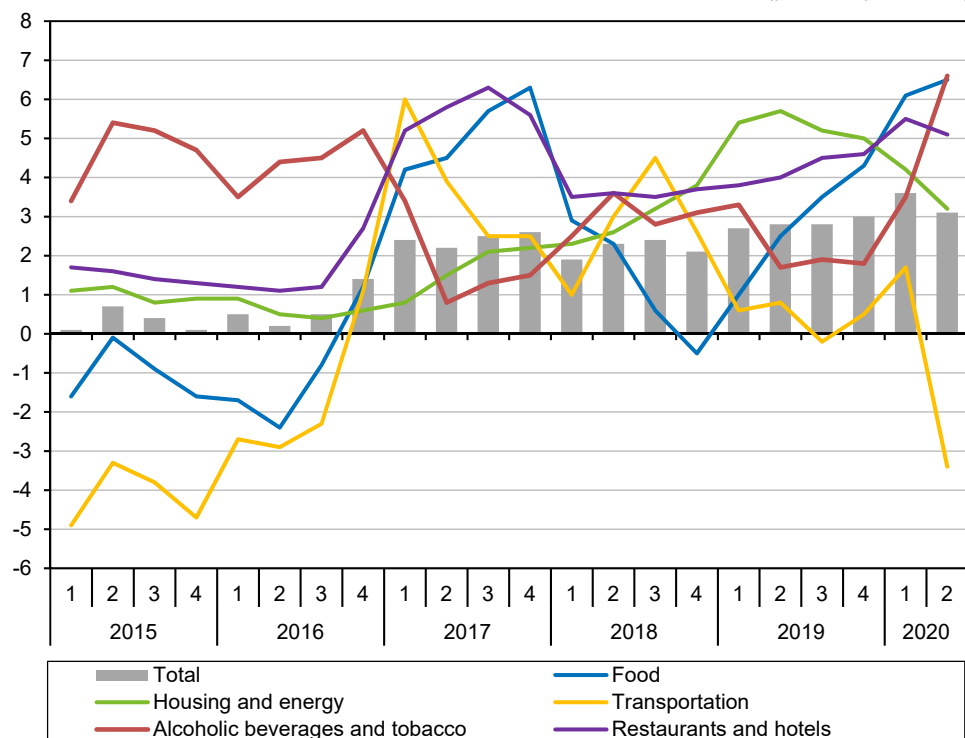
¹ Gauged by the GDP deflator.



Prices of transportation pushed the level down.

Among other divisions, which exerted significant influence on the growth of consumer prices, prices of food service and accommodation can be mentioned. They increased by 5.1% in Q2. Prices have reached relatively high year-on-year rate of growth here already since the end of year 2016 and further increase manifested since the beginning of this year. The prices of food service however grew faster (5.5%), pace of prices in accommodation notably slowed down in Q2 (2.5%). Recreation and culture also contributed to the growth of consumer prices (increase 2.0%). Mostly holidays with complex services stood behind it (5.1%), which raised prices markedly at the beginning of the year. Growth of prices of household equipment accelerated compared to Q1 (3.3%). Prices of transportation (-3.4%) had a marked counter inflationary effect. The reason was plunge of prices of passenger transport equipment operation by 11.1% (remainder of the March downturn of prices of oil to the historically low values). In contrast, the prices of purchase of motor vehicles, motorcycle and bicycles went up by 3.1%. Prices of transportation services rose by 2.0%.

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



Source: CZSO

Mainly prices of transportation subdued the year-on-year growth of consumer prices in Q2.

Year-on-year growth of consumer prices in the EU² markedly slowed down in Q2 compared to Q1 and reached 0.6%. While the total addition to prices in the EU was 1.5% in Q1 and prices rose in all countries year-on-year, prices grew only in 13 states year-on-year in Q2. Slowdown of pace concerned all Union countries compared to Q1. Plunge of prices of transportation, in connection to the record slump of prices of oil stood behind it. Total prices of housing and energies decreased in Q2 as well. The prices grew the most in Poland (3.4%), the CR (3.3%) and Hungary (2.5%) in Q2. Consumer prices in Rumania (2.1%) and in Slovakia (2.0%) also featured notable increase. It represented a group of countries, who deviated from the rest of Europe with their price dynamics. They had common especially the high growth of prices of food and non-alcoholic beverages, but also alcoholic beverages and tobacco or housing and

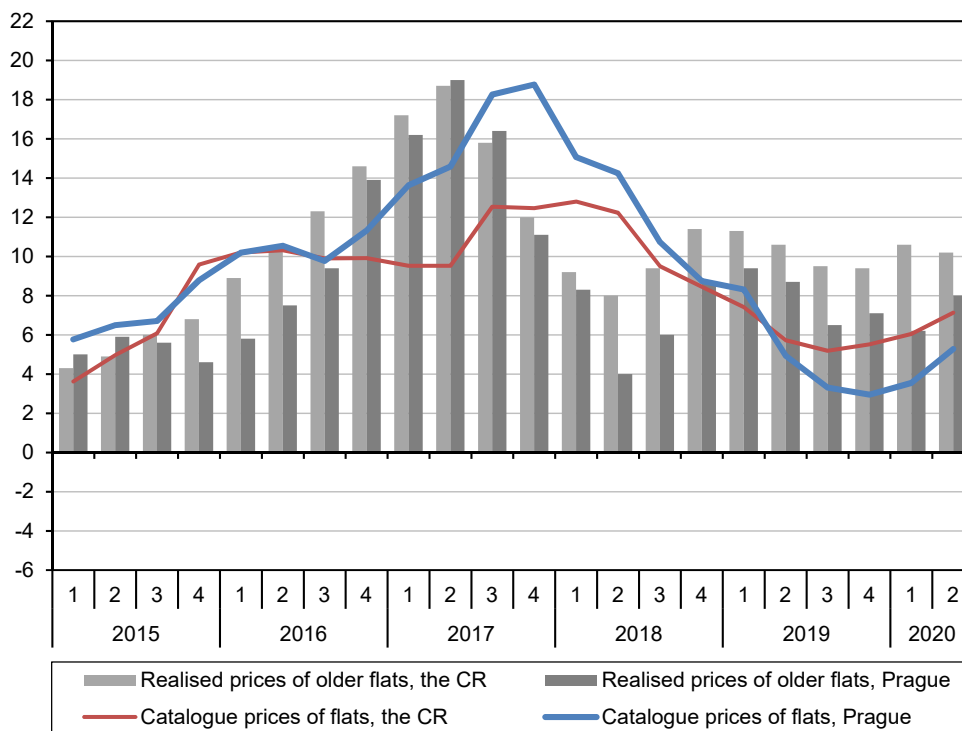
² Based on the harmonised index of consumer prices. The index can differ from the published national results in both methodology and numbers.

energies. The largest year-on-year reduction of prices was recorded in Cyprus (−1.6%), in Estonia (−1.4%) and Slovenia and Greece (similarly −1.2%) in Q2.

Prices of flats grew by strong pace in Q2.

Economic crisis did not cause any turn in the development of supply prices of flats. Prices were raised by 1.6% in comparison to the preceding quarter. Year-on-year addition to supply prices of flats achieved 7.1% in Q2. Simultaneously, the very high year-on-year rate of growth for flats outside Prague was maintained (9.7%). Supply prices of flats in Prague increased by 5.3% year-on-year, which is the most since Q1 2019. Realised prices of older flats also kept relatively fast pace. They thus increased by 2.6% compared to Q1. Year-on-year addition was again more than one tenth in the whole CR (10.2%) and mainly the development outside of Prague stood behind it (10.8%). Realized prices of older flats in Prague increased by 8.0% year-on-year in Q2 and the growth rate slightly gained pace compared to the previous three quarters. The dynamics of realised prices of new flats in Prague gained new momentum. Following a small slowdown in Q2 2019, the year-on-year additions again oscillate around 10% this year. The increase reached 9.5% in Q2.

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



Source: CZSO

Industrial producer prices fell in Q2, especially due to the plunge of prices of coke and refined oil products.

Industrial producer prices decreased by 0.6% in Q2. The price grew by 1.4% still in Q1. Turning point in the dynamics was observed already in March. The reason was especially the development for products and services of manufacturing. These recorded decrease by 2.3%, mainly because of coke and refined oil products³. Tied to the prices of oil, the prices of chemical substances and products were also falling (-14.6%). Basic metals and metal products (-1.3%) and wood, paper and printing (-2.1%) also pressed the prices down. In contrast, prices of food products, beverages and tobacco (3.0%) contributed to growth. Here however, the dynamics gradually lost pace during the quarter. Mainly the wage growth even pushed up the prices of furniture and other manufacturing products (4.8%, especially repairs, maintenance and

³ Individual data.

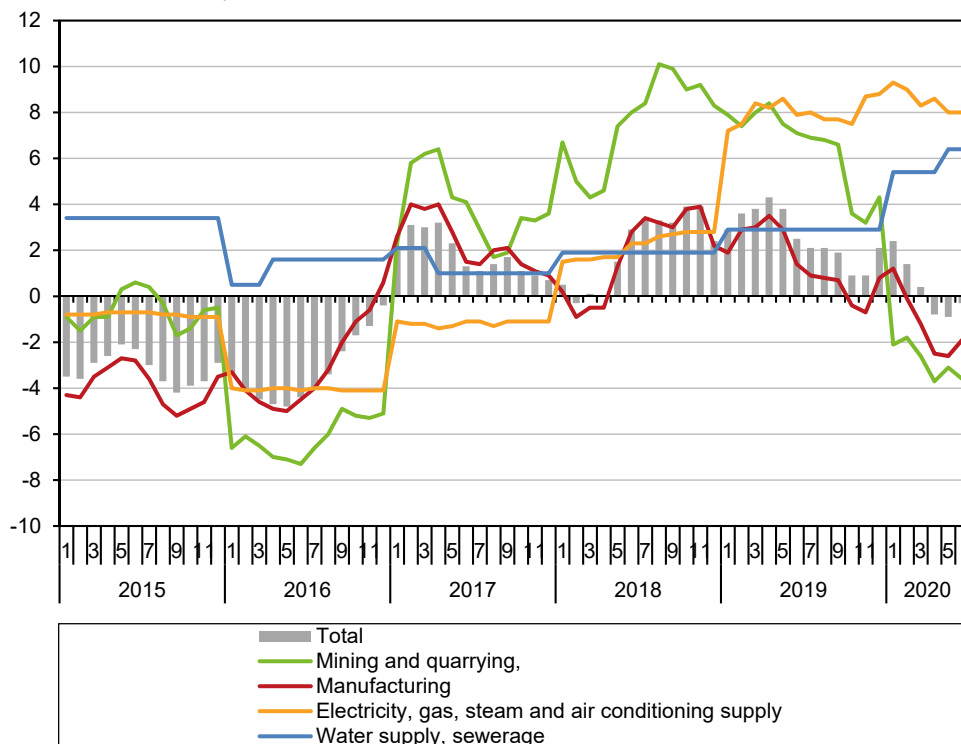


installation of machinery and equipment). Prices of computers, electronic and optical equipment notably increased (3.7%). Transportation equipment also recorded a relatively strong addition (3.5%). Growth of prices of machinery and equipment (2.6%) and electrical equipment (1.7%) accelerated.

Plunge of prices in mining and quarrying continued.

Fall lasting from the beginning of year deepened in case of mining and quarrying (-3.5%). Prices of oil and natural gas plunged, and the decrease continued for black and brown coal and lignite. On the contrary, year-on-year growth of prices of electricity, gas, steam and air conditioning remains at high level (8.2%). Growth accelerated for water supply and wastewater management services (6.1%).

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



Source: CZSO

Industrial producer prices were notably falling in the EU in Q2.

Industrial producer prices were falling in the EU in both Q1 and Q2. In Q2 nevertheless, the year-on-year decrease jumped to 4.1%. Strong slump of prices of oil, which was felt globally, was the reason similarly as in the CR. Notable fall of prices of mining and quarrying (-13.2%, mainly due to oil production) continued in the Union in Q2, but decrease of prices also deepened in manufacturing (-2.8%). Prices of electricity, gas, steam and air conditioning dropped by 9.1% year-on-year. Industrial producer prices increased only in Malta (1.4%), in Slovenia (0.3%) and in Slovakia (0.1%) year-on-year in Q2. The deepest fall was on the contrary in Lithuania (-9.6%), Spain (-7.7%) and Belgium (-7.5%).

Growth of prices of market services slackened in Q2.

Year-on-year growth of prices of market services slowed down to 2.1% in Q2. Slowdown of year-on-year dynamics was apparent across all branches. Storage and support service activities in transportation contributed the most to total growth of market services (year-on-year addition 5.0%). Further, it was services in the area of programming, consultancy and related activities (3.1%) and real estate services (2.9%, one of few branches, where the price growth slightly accelerated). Land and pipeline transport (1.4%), where mild growth is compensated by the large weight of the branch in the economy, also added to the total dynamics. Prices of insurance, reinsurance and

pension funding rose by 3.1%. Services in the area of employment also increased their influence, strong year-on-year growth lasted (7.2%), even though slower compared to the previous quarter. Growth slowdown of prices of services can be linked for once to the milder growth of wages, which have great effect on the pricing, the downturn of demand is however also connected. It probably played a role in the substantial reduction of rate of growth of prices of advertising and market research (0.7%).

Prices of agricultural production decreased. Both prices of plant and animal production were falling.

Prices of agricultural output (including fish) fell by 3.2% year-on-year in Q2. Both prices of animal and plant production went down. Plant production featured moderation of decrease to -5.6%. Decrease continued for prices of cereals (-7.5%), mainly weight significant wheat (-7.3%). Prices of other cereals were however also falling (rye -11.4%, barley -8.4%). Reason can be seen mainly in the high comparative basis of the last year. Prices of industrial crop decreased by 2.6%, mostly under the influence of oil plants (-2.7%), where nevertheless the development of prices of oilseed rape seeds (growth by 5.7%) and poppy seeds (decrease by 34.2%) diverged. Prices of potatoes also dived (-19.3%), but due to the sharp increase in the past year (74.7% in Q2 2019) their prices remain at high level (30.4% above the average of year 2015). Prices of fruit also hiked up year-on-year (38.7%), especially apples (79.7%). Prices of animal production fell by 0.6%. The growth of prices of farm animals, especially pigs and piglets considerably moderated (11.2%). In case of other farm animals, the prices were falling (beef cattle -5.9%, poultry -1.5%). Price of milk were decreasing (-3.8%) and on the contrary prices of eggs went up (4.9%).

Koruna depreciation against both euro and dollar also pushed up the prices of both import and export.

Export prices went up by 2.6% year-on-year in Q2. Following two quarters of year-on-year decreases, the dynamics was again positive. It was a consequence mainly of sharp depreciation of the koruna exchange rate toward both euro and dollar. The influence of weakening played a key role, since after adjustment for exchange rate effects, the prices of export would fall year-on-year by 1.4%. Prices of food and live animals (year-on-year addition of 5.4%), beverages and tobacco (8.0%), semi-finished products⁴ (1.6%), machinery and equipment (4.9%) and industrial consumption goods (5.7%) supported the growth of export prices in Q2. On the contrary, the year-on-year plunge of export prices of mineral fuels (-26.5%) notably deepened and prices of other materials⁵ (-8.5%) was also falling. Decrease of price did not avoid also chemical substances and related products (-1.4%).

Import prices fell especially because of prices of oil.

Import prices fell by 0.5% year-on-year in Q2. Even here however strong koruna depreciation dampened the plunge of prices (after adjustment for exchange rate effects, the decrease was 4.4%). Mostly prices of mineral fuels (-40.1%), further chemical substances and related products (-2.1%) and other materials (-1.4%) were decreasing. Prices of beverages and tobacco imports were slightly cut (-0.8%). In contrast, significant increase occurred for prices of food and live animals (6.9%), machinery and equipment (4.9%) and industrial consumption goods (3.7%) in Q2. Large difference between the rates of growth of export and import prices also led to the increase of terms of trade to 103.1% in Q2. Terms of trade were positive for trade with mineral fuels (122.7%), beverages and tobacco (108.9%), industrial consumption goods (101.9%), semi-finished products (101.4%) and chemical substances and related products (100.7%). Trade with other materials (92.8%) and food and live animals (98.6%) reached negative terms of trade.

⁴ SITC 6 – manufactured goods classified chiefly by material

⁵ SITC 2 – crude materials, inedible, except fuels.

