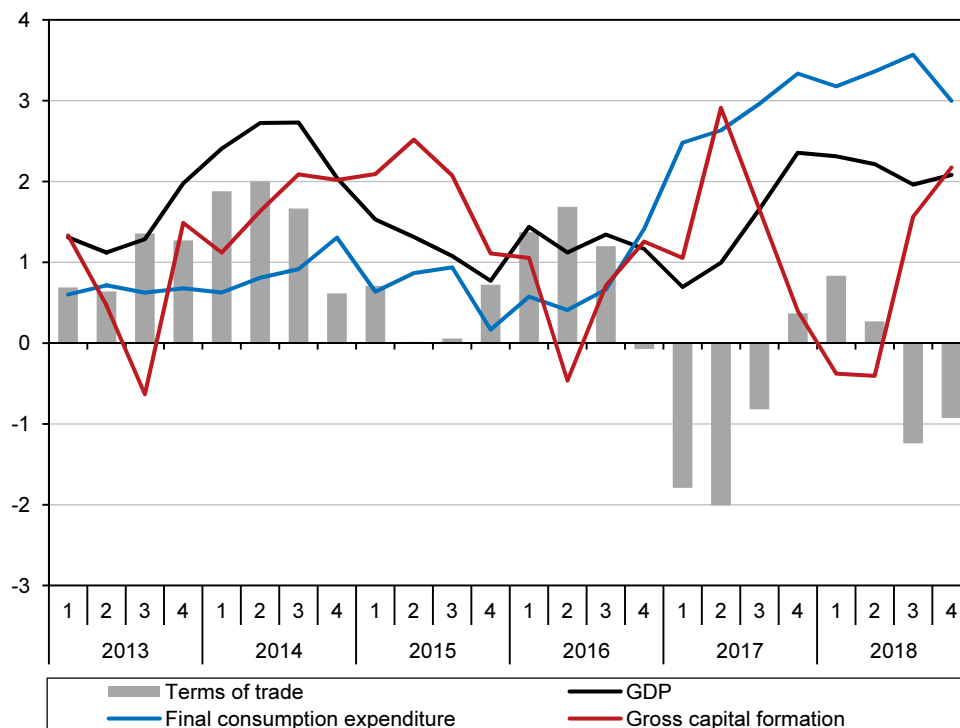


5. Prices

Total price level grew slower last year.

Total price level (gauged by the GDP deflator) grew by 2.3% last year. Especially the prices of consumption goods had a prominent effect (3.5%). In that the deflator of the household consumption expanded by 2.5% and for the sector of government institutions by 6.0%. Prices of investment goods stagnated (0.8%). Terms of trade ended negative (99.7%). The situation in Q4 copied the yearly results. Price level increased by 2.3%, in that prices of consumption goods by 3.4%. Growth of the price level of investment goods accelerated in the second half of the year and ended in 2.2% in the final quarter. Terms of trade were 99.1% at the end of the year.

Chart 10 Deflators (adjusted for seasonal and calendar effects, year-on-year in %)



Source: CZSO, national accounts

Consumer prices grew slower last year compared to year 2017.

Total year-on-year increase of the consumer price index reached 2.1% in 2018. It is by 0.4 p.p. less than in year 2017. However, in more long-term context, it represents an above average value (third highest additions in the last 10 years). The division housing, water, energies, fuels had the key influence on the raised prices last year (0.7 p.p.). Prices of transportation and alcoholic beverages and tobacco notably contributed to the rising consumer inflation (similarly by 0.3 p.p.). Food and non-alcoholic beverages, which were the main factor behind the price growth in 2017 contributed 0.3 p.p. last year. Year-on-year growth of prices hit 2.1% in Q4 only. The prices dynamics moderated compared to Q3, mostly due to the fall of prices of food as well as the slowdown of growth of prices of transportation. Prices of housing and energies had a dominant effect on the price level growth. Price development was more differentiated for various groups of population in 2018 than in other years. Consumer price index for households in Prague thus increased by 2.3%, while for the households of pensioners by 1.9%. Differences arise especially due to the varying weight structure of the consumer basket of both groups. It was likely the most apparent on the item housing and energies last year. This division contributed to the growth of the index 1.1 p.p. for households in Prague, it was 0.4 p.p. in case of pensioners. On the other hand, consumers in household of pensioners felt more strongly the effect of prices of food and non-alcoholic beverages, which contributed

0.3 p.p. to the total growth of prices for them, while they did not contribute to the year-on-year dynamics for households in Prague.

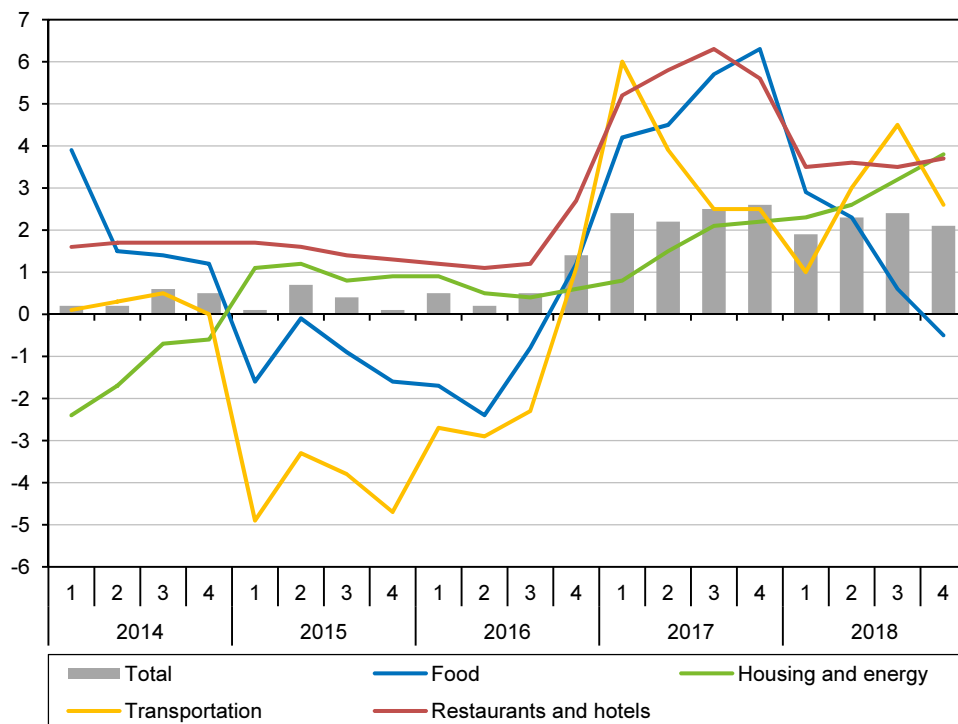
Prices of housing and energies were accelerating their year-on-year growth during the year.

Prices of housing, water, energies and fuels rose by 3.0% in 2018. The year-on-year dynamics gained intensity during the year (2.3%, 2.6%, 3.2% and 3.8% in individual quarters). The imputed rent for housing (cost of ownership living) added the strongest to the growth of prices. It grew by 4.3% last year and added one half to the growth of prices in the whole division. Renting for flats also notably increased last year (3.0%). Prices of electricity and heating, gas and other fuels also joined the rising cost of housing after a longer period of stagnation in 2018. They increased by 2.1%, the most since year 2012. The prices of common maintenance and repair of household goods also grew relatively strongly (3.7%). In Q4, the year-on-year growth of imputed rents (5.4%), electricity, gas and energies (2.8%) as well as common maintenance and repairs (4.1%) strengthened. The year-on-year addition to the prices of rents from flats remained on the strong level (3.3%).

Year-on-year increase of the oil prices affected the cost of transportation for consumers.

Prices of transportation increased by 2.8% last year, which is less than in year 2017. While the cost of operating transport vehicles, which are dependent on the oil prices, kept the dynamics from the preceding year (5.3%), prices of purchases of motor vehicles, motorcycles and bicycles grew slower (1.9%). The average price of oil Brent was rising till October¹. However, it sank notably in the last two months of the year. It was reflected also in the dynamics of prices of transportation in Q4. It weakened to 2.6%. Apart from the smaller growth of prices of operating the transport vehicles (7.6%), the addition to prices of their purchase considerably decreased (0.8%). Cost of transportation services fell markedly year-on-year towards the end of the year (-7.6%). Discounts for students and seniors were mostly reflected here.

Chart 11 Prices in the selected divisions of the consumer price index (y/y in %)



Source: CZSO

¹ Based on the data from the U.S. Energy Information Administration, it reached a maximum of 81.03 USD a barrel at that time.



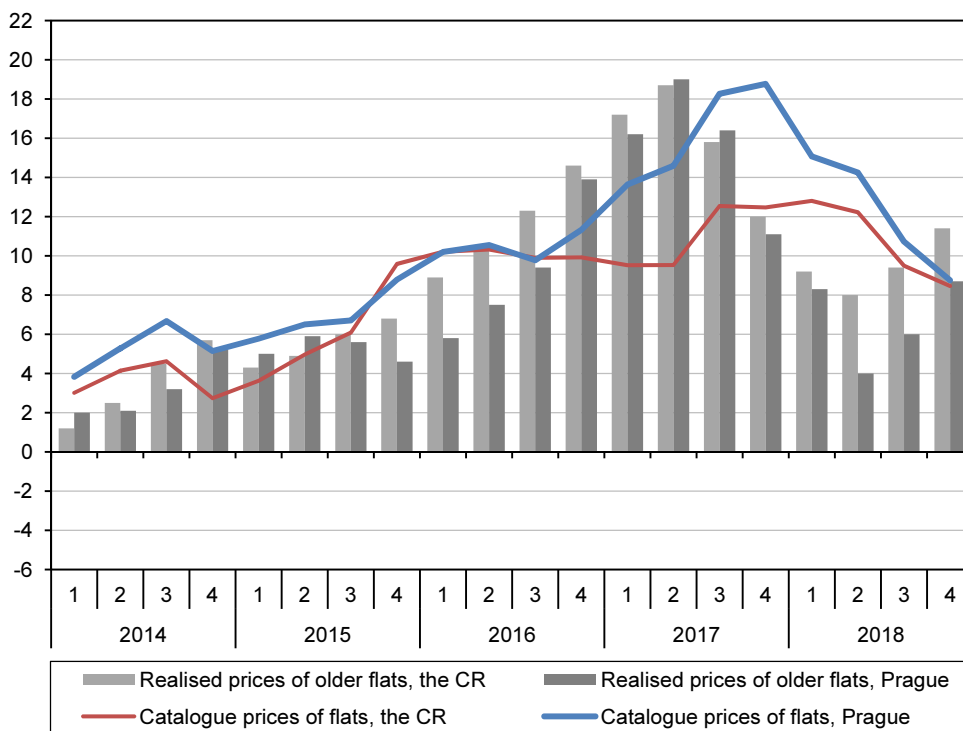
Prices of food and non-alcoholic product grew milder last year compared to 2017. They recorded year-on-year decrease at the end of the year.

Prices of food and non-alcoholic beverages grew by 1.3% in 2018. It comprises a significantly lower level compared to year 2017 (5.2%). Prices of baking products and cereals remained nearly the same in comparison to year 2017 (0.3%), increase of prices of meat notably mitigated (1.2%). Prices of milk, cheese and eggs had stronger dynamics (3.8%, however much less compared to year 2017) and also prices of oils and fats (4.0%). Year-on-year dynamics of prices of food and non-alcoholic beverages featured a downward tendency during the year. Thus the prices of this division fell for the first time since Q3 2016 in Q4 (-0.5%). All classes of consumption classification shared the decrease apart for the vegetables and other food products. Prices of alcoholic beverages and tobacco increased by 3.0% last year. Prices of food service activities and accommodation increased by 3.6%. Raised prices of household equipment and (1.5%) and costs of health (3.7%) also contributed to the growth of the total index. Prices of wearing apparel and footwear in contrast fell last year (-1.1%).

Consumer prices in the EU maintained a stable growth around 2.0%.

Total increase of consumer prices in the EU attained 1.9% last year. The year-on-year dynamics accelerated during the first three quarters and mildly slowed down towards the end of the year (2.0% in Q4). Growth of prices was relatively even among individual divisions of the consumption classification. Mainly the increase of prices of energies and fuels led to the acceleration of dynamics for prices of housing and energies (2.5% for the whole year, 3.2% in Q4). Prices of transportation grew by 3.5% last year (3.8% in Q4). Larger decrease of prices was recorded only for the prices of postal services and telecommunications (-0.8% for the whole year, -1.4% in Q4). Especially the considerable slump of prices of phones and fax equipment had a large effect. Level of consumer prices grew across all EU member states last year. Prices increased the most in Romania (4.1%), Estonia (3.4%) and Hungary (2.9%). Growth was less than 1.0% in Denmark (0.7%), Ireland (0.7%), Greece (0.8%) and Cyprus (0.8%). The trio of countries, which dominated the prices growth in Q4, is the same as for the results of the whole year (Estonia 3.7%, Romania 3.5%, Hungary 3.3%). Prices grew negligibly at the end of the year in Denmark (0.7%), Portugal (0.9%) and Ireland (0.9%).

Chart 12 Prices of real estate (year-on-year change, in %)



Source: CZSO

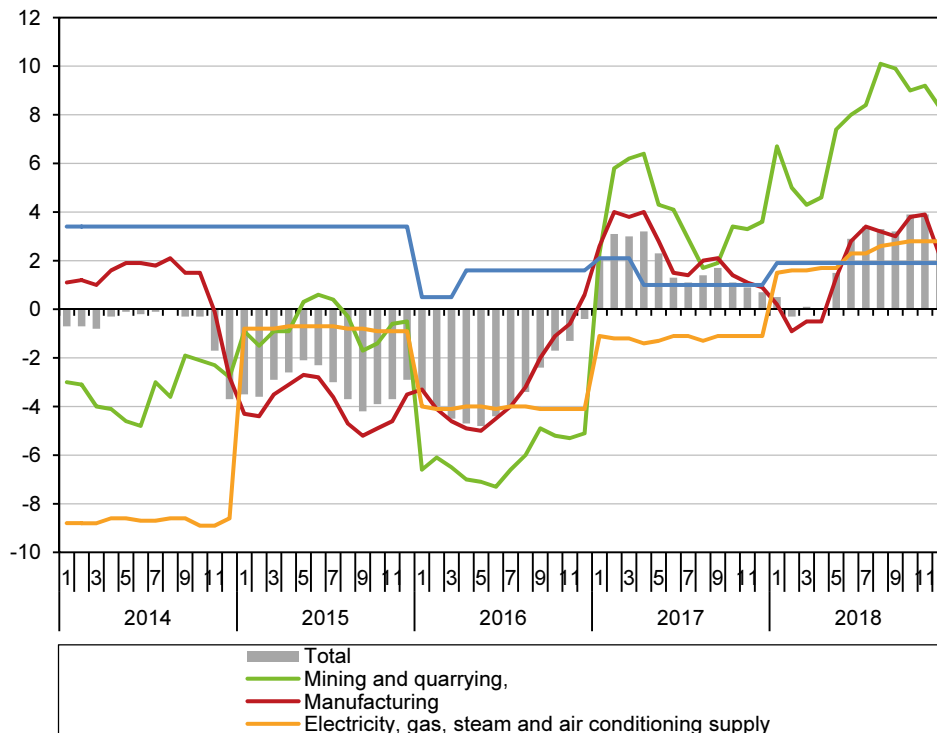
Prices of flats continued in the relative strong growth.

The dynamics of prices of flats started losing strength at the turn of years 2017 and 2018 and it seemed, that its peak already passed. It was valid for supply prices of flats, whose year-on-year growth was continually slackening, still it kept a fast pace. The supply prices of flats in the CR increased in total by 10.7% last year compared to year 2017, it was 12.1% in Prague (16.4% for year 2017). In contrast, the growth of the supply prices of flats outside of Prague considerably increased pace last year (from 4.7% in 2017 to 8.8%), which was likely the consequence of the situation in other large cities (mainly Brno). Supply prices increased year-on-year by 8.5% in the CR in Q4 and by 8.8% in Prague. Year-on-year dynamics of realised prices of second hand flats on the contrary started to accelerate again in H2. Prices increased by 9.5% in the whole CR last year (by 11.4% in Q4 itself). Total growth was 6.7% in Prague last year, which can be linked to a certain ceiling, that the demand can still bear (total level of prices of flats in Prague is considerably higher compared to the rest of the CR, high relative increase thus hit the interested parties more strongly). Realised prices of second hand flats outside Prague were also rising more strongly compared to the previous (10.4% for the whole year, by 12.2% in Q4).

Development of prices of oil was the main factor affecting the prices of industrial producers.

Prices of industrial producers increased by 2.0% last year. The main factor behind their year-on-year dynamics was then the development of the oil prices. Prices in manufacturing grew by 1.8%. It was mostly due to the contribution of prices of coke and refined oil products. Prices of basic metals and metal products also significantly grew (3.4%). Prices of chemical products (1.5%), basic pharmaceutical products (2.7%) or furniture (2.3%) also mildly grew. Drop for transportation vehicles of 1.7% had a negative impact on the size of index of industrial producer prices. Strong year-on-year growth occurred for the prices of mining and quarrying (7.6%) for the whole year. Growth of prices of electricity, gas, steam and air conditioning supply (2.2%) also accelerated during the whole year. Prices of water supply and sewerage increased by 1.9%.

Chart 13 Prices of main groups of industrial producers (year-on-year change, in %, based on CZ-CPA classification)



Source: CZSO



Growth of the industrial producer prices peaked in Q4.

The growth of industrial producer prices peaked in Q4 (3.4%). Impact of the raised oil prices year-on-year again played a key role (the year-end slump was apparent only in the December result and did not manage to affect the whole quarter markedly). Prices increased by 3.3% in manufacturing at the end of the year, they were mostly impacted by the prices of coke and refined oil products and metals and metal product (4.0%). Also in Q4, the 14 quarters lasting series of year-on-year falls of prices of transportation vehicles was interrupted (0.5%). Prices of mining and quarrying rose by 8.8%. Acceleration of the dynamics of prices of electricity, gas, steam and air conditioning supply continued also in the monitored period (2.8%).

Prices of oil and electricity significantly impacted the development of producer prices in the EU.

Global influence of the prices of oil was also apparent in the dynamics of prices of industrial producers in the EU. The index grew by 3.5% in total last year, by 4.2% in Q4. Similarly to the CR, prices of mining and quarrying grew by a very strong rate of growth in the EU (14.4% for the whole year, 10.6% in Q4). Prices in manufacturing increased by 2.7% in the Union last year (by the same pace as in Q4). Year-on-year dynamics of prices of electricity, gas, steam and air conditioning supply were accelerating during the whole year (6.7% for the whole year, 10.6% in Q4). Producer prices grew the most in 2018 in Estonia (7.1%) and Belgium (7.1%). Both countries featured a large increase of prices in the section of electricity, gas, steam and air-conditioning supply. In Belgium, prices of manufacturing also displayed a strong growth. Producer prices recorded 6.4% growth in Denmark. The addition to prices of mining and quarrying (especially energies) was significant here. Producer prices experienced a fall only in Ireland last year (-1.9%, prices in mining and quarrying were sinking here). Producer prices reached a weak growth in Luxembourg (0.6%) and in Malta (0.9%). In both countries, the prices of electricity, gas, steam and air conditioning supply stagnated in contrast to the European trend.

Index of prices of construction works went up the most in the last 10 years last year.

Index of construction work prices grew by 3.2% in 2018, which is the most since year 2008. Prices of materials and products used in construction went up by 3.5% The year-on-year dynamics of construction work prices accelerated in the course of the year. The year-on-year addition thus reached 4.0% in Q4. For the prices of materials and products used in construction it comprised of 4.8%. Prices of buildings increased by 3.3%, prices of engineering works grew by 3.1%. In Q4, the growth for both categories of construction works aligned on 4.0%.

Year-on-year dynamics of prices of market services strengthened towards the end of last year.

Prices of markets services grew by 1.8% last year, which is by 0.5 p.p. more than in the preceding year. Heightened demand connected to the economic growth as well as raised wages, which traditionally belong to the largest cost in services, were affecting the dynamics. The last year's growth of prices of market services was the most influenced by the development in services in the area of employment (10.5%), by prices of insurance, reinsurance and pension funding (4.6%) and services in the real estate area (2.8%). Additions to the prices of architectural and engineering services (2.7%) and land and pipe transportation (1.2%) were also important. Prices of security and investigation activities (8.9%), cleaning activities (7.2%) or postal and courier services (5.1%) were also raised significantly. On the contrary, the prices fell by 2.3% in warehousing and support services activities in transportation. In Q4 only, the prices of market services grew by 2.0%. Development in the last quarter did not differ much from the whole year. Prices of land and pipe transportation grew by 1.6%, prices of postal and courier services by 6.1%, services in the area of real estate by 3.1%, services in the employment area by 7.4%. Growth of prices of advertising services and market research (5.3%) as well as insurance (6.4%) strengthened at the end of the year. Prices of warehousing and support service activities in transportation continued falling (-2.3%).

Prices of agricultural producers stagnated following strong year of 2017.

Addition to prices of agricultural producers was only 0.1% in 2018. While the prices of the plant production grew by 2.5% and the growth strengthened, the animal production experienced a fall of 2.8%. Growth of prices of cereals markedly accelerated (7.4%). It was valid especially for wheat (7.1%), rye (8.8%) and barley (8.8%). It was the consequence especially of the low last year's harvest, which was common to most European producers. Prices of industrial crops were falling (-3.8%), especially of oil plants (-5.5%). Prices of vegetables and garden products considerably increased (13.0%). Prices of potatoes grew mildly (3.2%). Prices of fruit sharply decreased thanks to good harvest (-26.3%, the price level returned to the value before year 2017, when prices increased by one third). Prices of animal production were influenced by the drop of the prices of live animals by 7.5% (mainly pigs and piglets -15.8%). Animal products maintained the price level following its spike from year 2017. They grew by 1.0% last year. Prices of milk increased by 2.1% and prices of eggs dropped by 9.6%. Final quarter of the year saw the year-on-year addition to prices of agricultural producers rise by 1.6%. It was mostly thanks to the plant production (6.9%), which fully reflected the lower harvest (prices of wheat +15.7%, barley +16.0%, poppy seed +82.6%). Animal production recorded deepening fall (-6.7%).

Prices of export grew in Q4.

Export prices fell by 0.3% for the whole year 2018. The presence of foreign exchange rate differences compared to year 2017 was the factor the most affecting the year-on-year dynamics during the year. The year-on-year appreciation of koruna against euro as well as dollar thus pushed the price growth down in the first half year (-4.4% and -1.6% in Q1 and 2). Effect of the exchange rate considerably weakened in H2 and the prices of export started to grow year-on-year. Prices of exported machinery and transport equipment fell by -1.7%, prices of industrial consumption goods by -1.5% and food and live animals by -1.4% in 2018. Prices of semi-finished products (2.6%), beverages and tobacco (2.7%) and mineral fuels and grease (7.6%). Export prices rose by 3.4% in Q4. Simultaneously some items experienced a developmental turn – from year-on-year declines they got into growth. That is the case of the prices of food and live animals (2.7%), machinery and transport (1.8%, first growth from Q2 2015) as well as industrial consumption goods (3.5%).

Terms of trade were positive in 2018.

Year-on-year dynamics of the import prices resembled the case of export prices. The prices of import decreased by -0.7% in 2018, which was the consequence of especially H1, when significant year-on-year falls occurred also due to the koruna appreciation. In the second half of the year, the prices started to grow. Prices of imported machinery and transport equipment fell last year by -3.1%, industrial consumption goods by -3.3%, food and live animals by -5.2% and other materials by -5.6% fell last year. Prices of mineral fuels grew markedly (16.8%). Terms of trade arrived at 100.4% in 2018. Trade with machinery and transport equipment (101.4%), industrial consumption goods (101.9%), semi-finished products (102.4%) and other materials (106.1%) achieved positive terms of trade. On the other hand, trade with mineral fuels and grease (92.1%) and chemical products (98.4%) had negative terms of trade.

