

Moderate producer prices in Czech Republic pose no risk to consumer inflation, yet

Overall, producer price growth remained moderate in April and did not signal a build-up of consumer inflation pressures. The double-digit fall in agricultural prices continued, while price increases in construction and business services reflected the economic recovery picking up steam

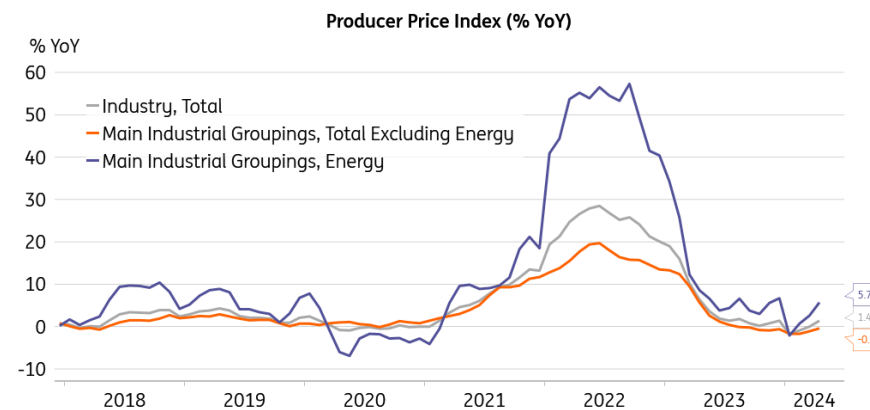


Car workers in Mlada Boleslav, Czech Republic

Economic recovery starts to make its way into industrial prices

Producer price growth remained moderate in April and did not signal a build-up of consumer inflation pressures, with prices in industry coming in slightly below market expectations. Industrial prices increased by 1.4% year-on-year, predominantly due to higher energy costs. The double-digit fall in agricultural prices continued, while price increases in construction and business services reflected the economic recovery picking up steam amid relatively tight labour market conditions.

Energy prices in industry accelerated in April



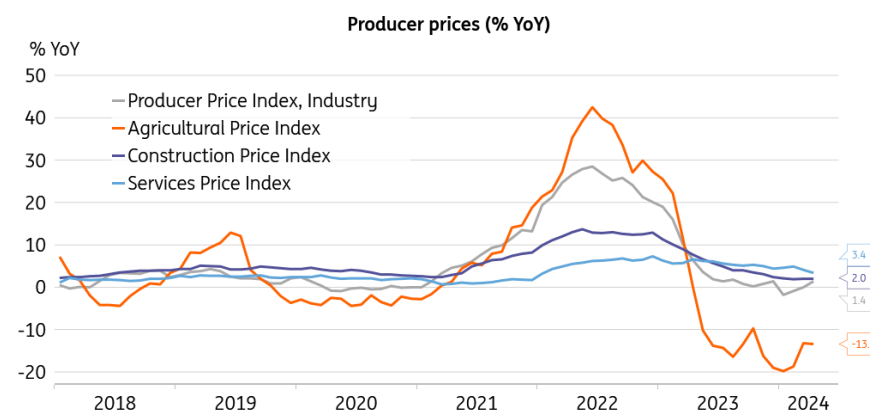
Source: Macrobond, ING

Year-on-year growth in overall industrial prices was still driven by energy and water costs. However, the month-on-month dynamics already reflected price increases in core manufacturing, going hand in hand with the ongoing economic recovery. Recent strong retail sales and a solid export performance, according to the balance of payments, are thus putting some pressure on the supply side, for now at the front of the production chain. Further acceleration in energy prices would put pressure throughout the production chain at a time when energy costs denote a pressing issue for the competitiveness of European goods in global markets.

Will falling agricultural producer prices translate into lower consumer prices?

Prices in agricultural production fell by a significant 13.4% year-on-year, declining for 12 months in a row. Compared to the high value of the index recorded in January 2023, agricultural producer prices slipped by about 20% cumulatively. However, this had hardly been the case for consumer food prices, which have remained almost unchanged over the same period. Whether falling producer prices eventually make their way to the consumer or remain hanging in retailers' margins should become apparent by the second half of the year at the latest.

Agricultural producer prices fall further



Source: Macrobond, ING

We do not alter our projection for headline consumer inflation on the back of the steep decline in agricultural prices so far. The timing and magnitude of the producer price pass-through to the consumer basket are uncertain. That said, we perceive the cumulative drop in agricultural prices as a downside risk to consumer food prices once the need for competition kicks in. However, this might take some time, given the lofty consumer confidence and elevated appetite for spending, with consumers likely doing what they do best in the coming quarters.

Prices in construction and services are propelled by the economic recovery

Construction price growth held at 2% and probably bottomed out in April, especially as consumer sentiment continues to improve. The currently high savings level likely reflects deferred property purchases due to increased uncertainty during the recent period of high inflation and anaemic economic performance. In contrast, the current economic upswing and boost to household real income will induce a lift-off in the real estate sector, lending support to prices in construction.

Elevated price dynamics were still evident in the business services sector, driven predominantly by continued nominal wage growth amid low unemployment. Producer prices in this area rose by 3.4% from a year earlier, while providing a reasonably good proxy for price developments in services purchased by households. Overall, the service sector remains a focal point for price pressures in the entire economy, representing a driver for consumer inflation to remain in the upper bound of the central bank's tolerance band over the second half of the year.

This is the main reason why the central bank board has become more cautious and will think twice before going ahead with monetary easing that imitates previous actions. We still see a 25bp cut as the most likely outcome of the June meeting, but talk of a break will also be on the table.

Author

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom

this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.