

## Falling Czech producer prices will shape CPI

Producer prices in industry came in below expectations in December, dragged down by falling energy prices. We see lower energy prices as having a disinflationary effect across the economy, setting the stage for a more relaxed monetary policy stance. Both a spring or summer rate cut is a viable option in light of the low-inflation environment



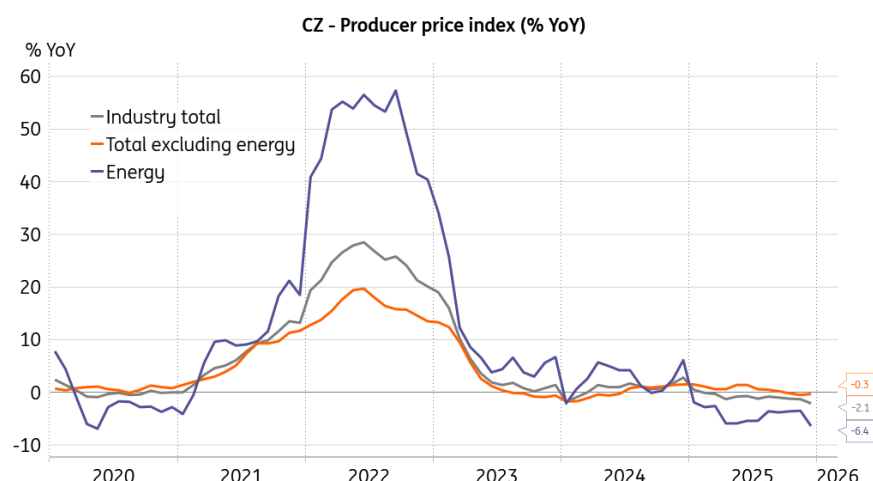
Producer prices in industry fell in December, driven by a sharp drop in energy costs

### Falling energy prices will trickle down through all price domains

Czech industrial producer prices fell by 2.1% YoY and 0.2% MoM in December, slightly below market expectations. Agricultural producer prices in December fell by 2.7% in both annual and monthly terms at year-end, marking the first annual decline since October 2024 and setting the stage for a profound impact on consumer food prices over the coming months.

In contrast, construction prices were up 3.0% YoY and remained unchanged from the previous month. Prices of market services for businesses decelerated to 4.0% YoY and shed 0.1% MoM, posing the softest annual increase since April last year.

## Falling energy prices continue to dominate

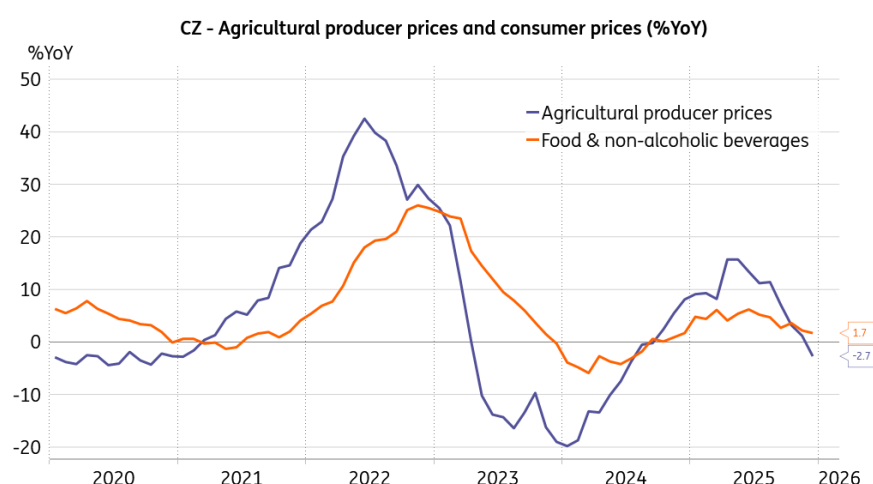


Source: CZSO, Macrobond

In manufacturing, the 6.4% annual drop in energy prices is particularly shaping overall pricing weakness, with the most pronounced annual decline since 2020, marked as the first pandemic year. In this respect, more is expected to be recorded in January, as the government has subsidised electricity prices across all industrial sectors.

Declining energy prices in an expanding economy constitute a clear positive supply shock, so we expect a positive impact on production and further downward pressure across all price domains, eventually trickling down to consumer price tags.

## Weak pricing in agriculture will shape food costs



Source: CZSO, Macrobond

Such hefty declines in energy prices and the subsequent fall in fertiliser and transport costs will further push down agricultural production costs and result in moderate food prices for consumers. We see this year as the year of low inflation, driven by sluggish food price growth and pronounced declines in regulated and fuel prices. We take the stance that low energy prices will trickle down

through all price circuits and will eventually have disinflationary consequences for core inflation, despite ample spending on the back of more relaxed household budgets.

Overall, a more relaxed monetary policy setup is likely to be the outcome in the low-inflation environment this year, with inflation expected to be close to the target over the next year. The timing of the cut could be spring or summer, depending on whether the Czech National Bank is satisfied with the low January headline inflation print or is willing to wait and see the decelerating core inflation in August.

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