

Soft Czech pricing signals imminent CNB rate cuts

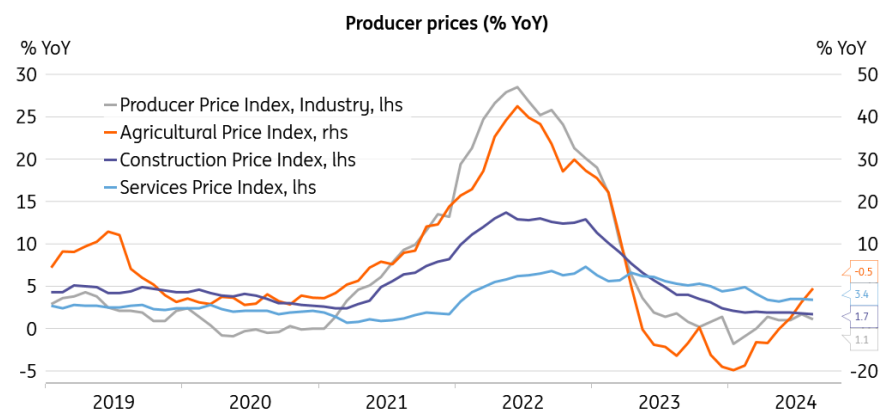
Czech producer prices added 1.1% from a year earlier, coming in below market expectations. The tepid pricing in industry suggests no inflationary pressures from the supply side, pointing in the direction of less restrictive monetary policy



Soft demand and declining energy prices outmatch rising wage costs

Czech prices in the industry rose by 1.1% year-on-year in August while shedding 0.4% from the previous month, coming in below market expectations. Agricultural producer prices declined 0.5% YoY in August and lost 1.4% in monthly terms. Prices of construction work added 1.7% from the previous year and 0.1% month-on-month. Prices of services for businesses increased by 3.4% YoY and 0.5% MoM.

Pricing was soft across sectors



Source: CZSO, Macrobond

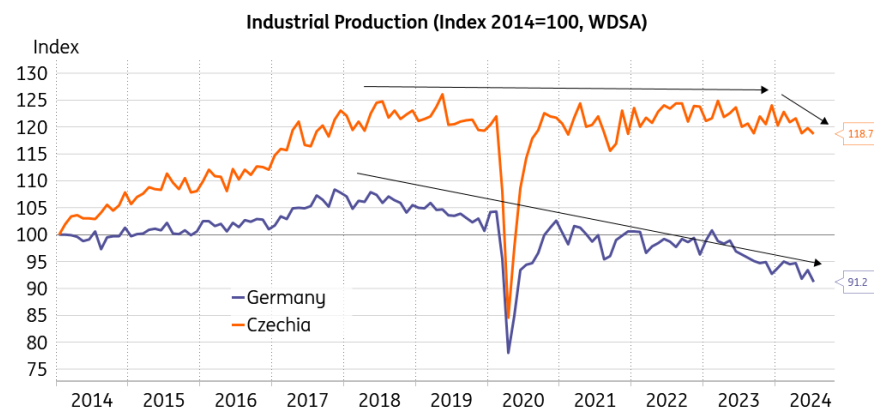
The monthly decline in industrial prices was mainly driven by lower prices in the coke and refined petroleum products sectors, reflecting dropping Brent crude prices and lower USD/CZK. Prices of chemical and basic pharmaceutical products were down by 0.9% MoM. Lower electricity prices also represented a drag on pricing in the industry.

Nonperforming European industry casts shadows over Czech recovery

The weak pricing in industry shows no inflation pressures from the supply side for the months ahead, especially as Czech and European industries still face challenges. Soft foreign and domestic demand, alongside lower energy prices, prevailed over the increasing wage costs implied by the still-tight labour supply, especially when it comes to the skilled workforce.

As the malaise in industry continues and casts a shadow over the strength of the Czech economic rebound in the year's second half, the Czech National Bank will likely be more prone to a rate cut at next week's meeting.

The Czech and German industry faces challenges



Source: Macrobond

Author

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

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