

Soft Czech pricing signals imminent CNB rate cuts

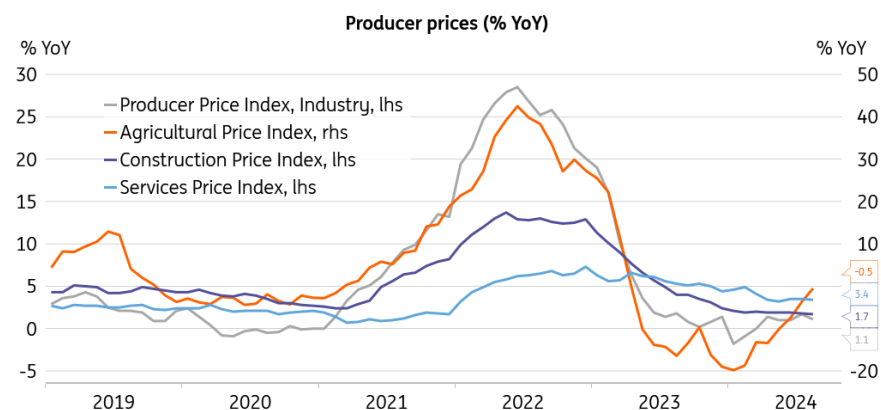
Czech producer prices added 1.1% from a year earlier, coming in below market expectations. The tepid pricing in industry suggests no inflationary pressures from the supply side, pointing in the direction of less restrictive monetary policy



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

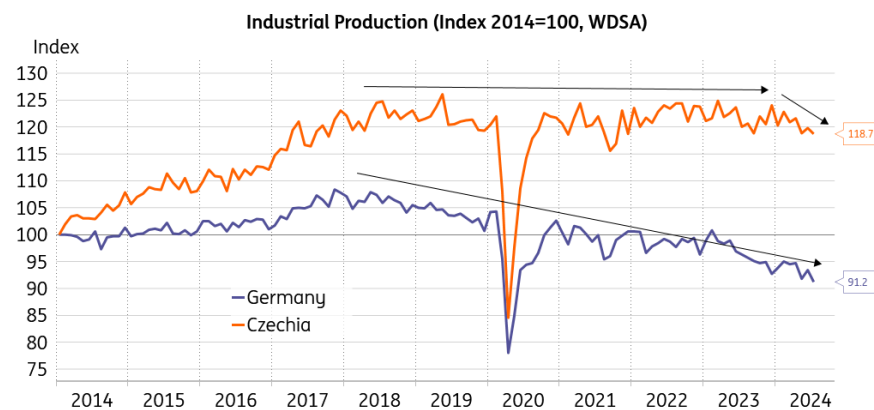
The monthly decline in industrial prices was mainly driven by lower prices in the coke and refined petroleum products sectors, reflecting dropping Brent crude prices and lower USD/CZK. Prices of chemical and basic pharmaceutical products were down by 0.9% MoM. Lower electricity prices also represented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

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 www.ing.com.