

Snap | 1 June 2026

CZECH REPUBLIC

Czech industry shows resilience

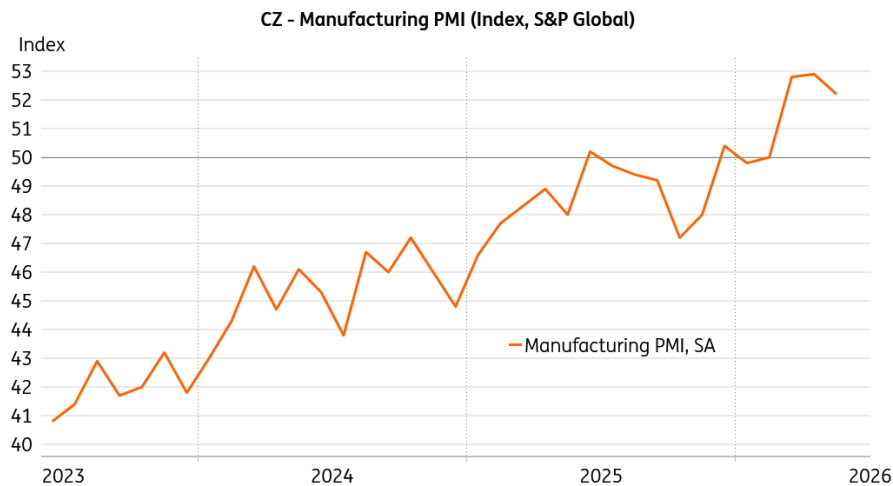
Manufacturing PMI softened in May but remained firmly in expansion territory, outperforming expectations. Higher energy costs and supply constraints are pushing up output prices, with strong demand enabling pass-through to consumers. Still, the link between producer and consumer prices seems rather indirect



Maintaining expansionary appetite

Czech PMI softened a bit in May but remained well above the expansion threshold. The reading was more robust than the markets had expected. Indeed, Czech manufacturing continues to show resilience and is in line with our recent marginal improvement in the growth outlook. Overall, May's PMI outcome is not a significant surprise.

Holding the line in expansion zone



Rising energy and other input costs have pushed up intermediate goods prices, and with demand holding up, producers are increasingly able to pass these on to final prices. That follows more than two years of pricing pressure in manufacturing, with PPI broadly stagnant since mid-2023.

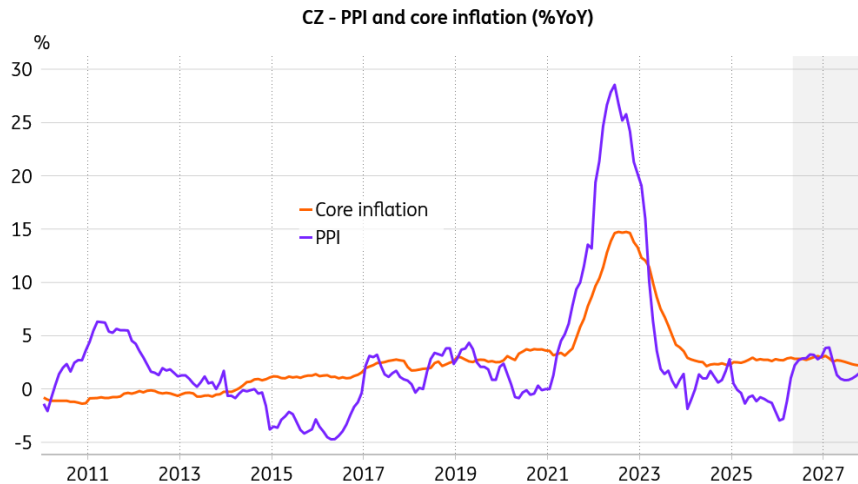
Competitive pressures at the global level have exerted long-term pressure on margins, resulting in cost-cutting measures that have manifested in more than three years of continuous layoffs in industry.

No wonder then that producers pass the costs on to customers whenever possible. And yes, this will reach consumers' wallets and lift inflation if consumer spending remains strong. PPI is one of the exogenous variables in our core inflation equation, so the producer price impact on the consumer price level is implicitly included in our econometric model.

Producer and consumer prices co-move in a rather loose way

Producer and consumer prices are clearly linked, with a correlation coefficient of around 0.4 based on monthly growth rates. This suggests that PPI and core inflation tend to move in the same direction over time. The two series are also cointegrated, pointing to a long-term equilibrium relationship when the two variables never drift apart for too long. However, the Granger causality test does not show a clear one-way influence from one series to the other, pointing to a more general connection via other forces that affect both measures.

Producer and consumer prices are not always friends

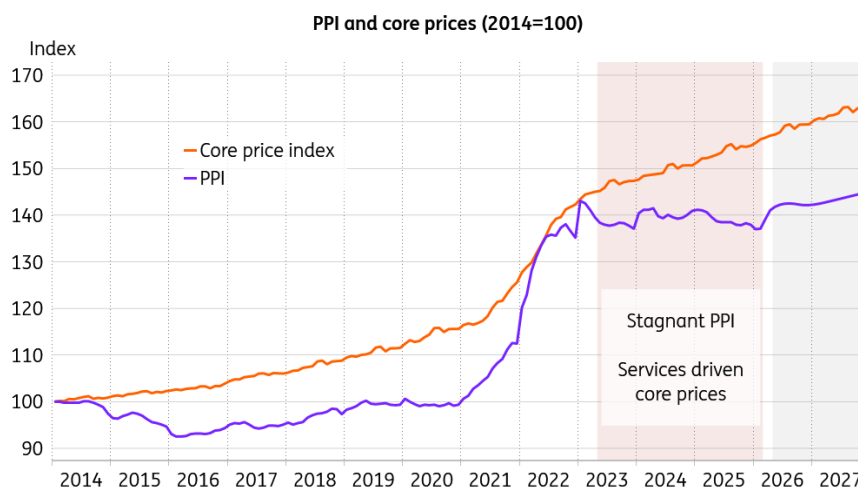


Source: CZSO, ING, Macrobond

The ambiguous result of the Granger test is also illustrated by a long-term view graph. When measured in annual dynamics, producer prices move in the opposite direction compared to core inflation over many periods.

The two time series have similar long-term development when looking at levels, which is confirmed by the co-integration test: they're both tracking prices after all. However, my interpretation is that the two series are rather loosely connected, driven mainly by wider economic forces that tend to affect producers and consumers at different times and to varying degrees.

PPI may start closing the gap



Source: CZSO, ING, Macrobond

And still, looking at levels should always be the start of any serious time series analysis, with some things being simply revealed at first glance. For instance, we see clearly that producer prices remained broadly stagnant between mid-2023 and the onset of the recent energy shock. Meanwhile, core consumer prices crawled up, driven by price increases in the services segment.

Sure, we all know this is the case, yet seeing the disparity directly is a different experience. Indeed, it will take time for producer prices to catch up and close the gap. Whether we will see a strong effect on core consumer prices soon enough is another question. And I believe the answer is not as straightforward as it seems, as this rather boils down to factors such as the structure of domestic demand, the fitness of the global economy, and cross-border competition. In any case, time will tell. Stay tuned.

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.