

Snap | 16 June 2025

CZECH REPUBLIC

Czech industry prices buck the broader trend

Czech industrial producer prices continued to decline on both an annual and monthly basis in May, keeping the outlook for industry rather calm. Meanwhile, pricing in the construction and service sectors has become more potent, which will keep consumer inflation above the central bank's target



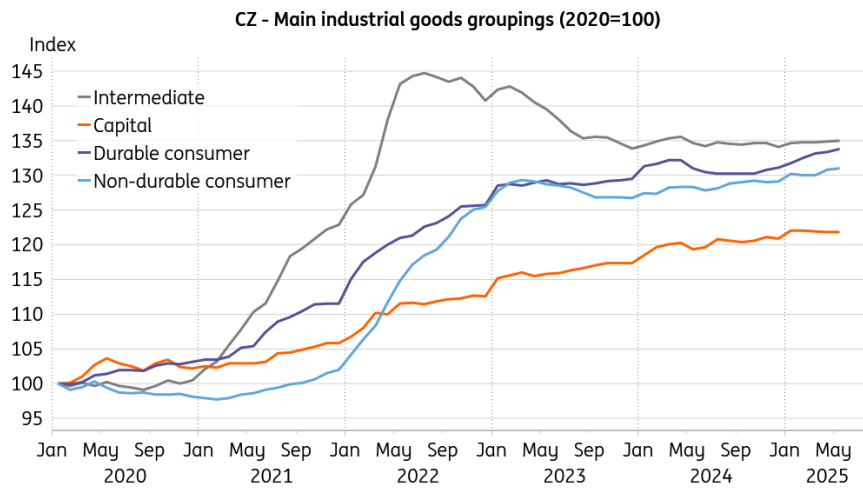
Czech industrial producer prices came in slightly softer than markets expected in May, with the decline driven mainly by reduced energy prices

Prices in the industry fall but gain in other segments

Czech industrial producer prices dropped 0.6% month-on-month and 0.8% year-on-year in May, coming in slightly softer than markets expected, with the decline driven mainly by reduced energy prices. Agricultural producer prices lost 1.5% MoM but were 15.7% higher YoY, with the monthly decline solely driven by a drop in volatile vegetable prices.

Construction prices gained 0.4% MoM and 3.9% YoY, with the upward trend gaining strength since mid-2024. Prices of services for businesses added 0.2% MoM and 4.4% YoY, with the annual growth strengthening for the fourth consecutive month.

PPI of consumer goods trend upward

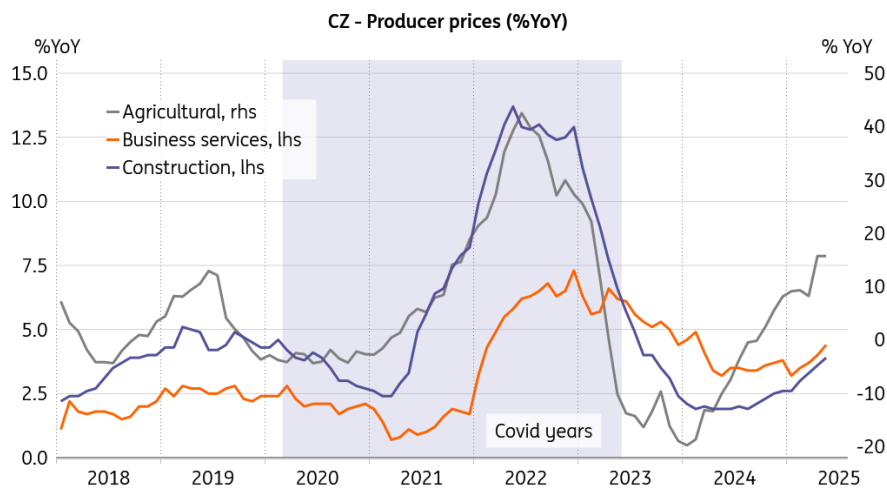


Source: CZSO, Macrobond

Prices in Czech industry had fallen for four consecutive months by May, both in monthly and annual dynamics. Meanwhile, producer prices in other segments continued their yearly gains. Prices in manufacturing were dragged down mainly by lower energy prices, which shed 5.9% from the previous year, while the annual dynamics of producer prices excluding energy picked up to 1.4% in May from 0.6% previously.

When looking at industry prices in levels, those of capital and intermediate goods have remained broadly flat from the year's start, while both durable and non-durable consumer goods are trending upward. Such a development suggests that industry remains dormant while consumer activity is continuing on a more vibrant path.

Other production segments show potent pricing



Source: CZSO, Macrobond

The price dynamics in construction and agriculture have the potential to foster consumer prices over the coming months. The boom in construction will propel household incomes, laying the groundwork for the spending spree to continue. Elevated prices in agriculture are still expected to trickle down to consumer food prices over the next few months, despite some relief provided by seasonal items in May.

In any case, manufacturing prices of foodstuffs continued to pick up in May. The boom in the property market and the associated increases in residential prices present an upward risk to core inflation via imputed rents over the coming quarters, which will likely foster a more hawkish attitude from the Czech National Bank.

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