Snap | 16 October 2026

Czech producer prices spell pain for consumers

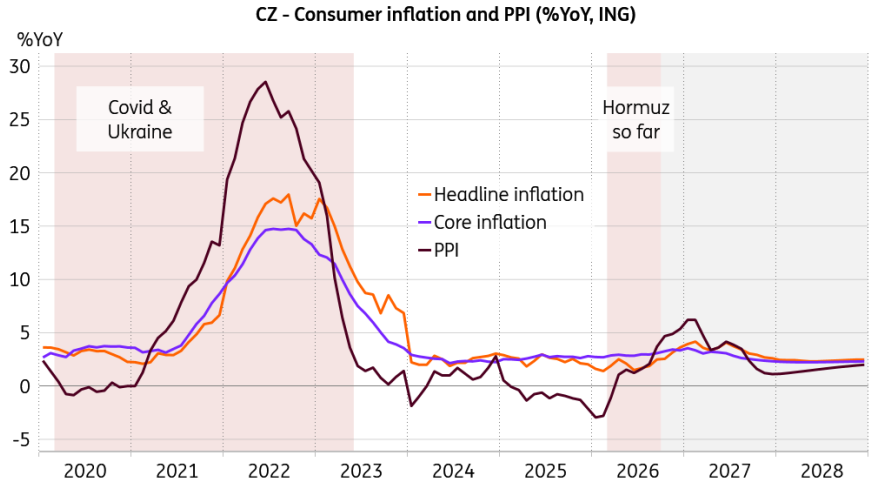
Producer prices in both industry and agriculture surprised on the upside in September, and their annual growth rates are not expected to peak until 2027. Pricing in these underlying segments will eventually filter through to consumer prices. Higher policy rates are therefore to be expected, though softening economic output will limit how high they go



Producer prices set to accelerate

Czech industrial producer prices surged 3.7% year-on-year in September and gained 1.2% month-on-month, with both figures coming in above market expectations. Agricultural producer prices remained in an annual decline, down 7.2% YoY but up 3.2% on the month. Construction prices were 3.9% higher than a year earlier, and increased 0.3% MoM. Prices of market services for businesses rose 3.1% YoY, and jumped 1.7% MoM in September.

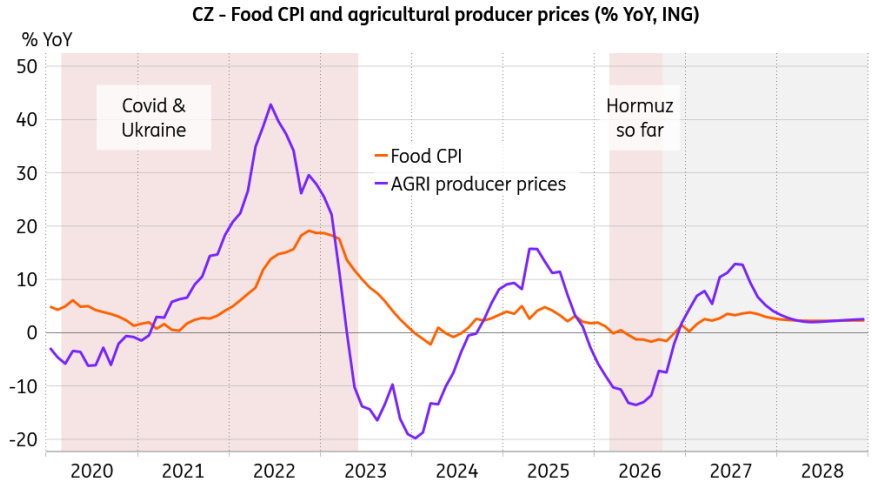
Protracted conflicts make production pricier



Source: CZSO, ING, Macrobond

The strong price increase in both industry and agriculture came as an upward surprise to our relatively upbeat expectations. Taking the latest data into account, we expect annual industrial producer price growth to peak above 6% in January, while agricultural producer price growth is set to climb above 12% by the middle of next year. And yes, with these underlying price pressures set to filter through to CPI sooner or later, consumers may soon have to dig a little deeper into their pockets.

Rising input costs put pressure on food prices



Source: CZSO, ING, Macrobond

Taking all this on board, our forecast of headline inflation averaging 3.4% next year and peaking at around 4% in February looks about right. With second-round effects starting to materialise as businesses find it increasingly difficult to absorb cost pressures in their margins, we also expect core inflation to average just below 3% in 2027, after peaking at around 3.5%

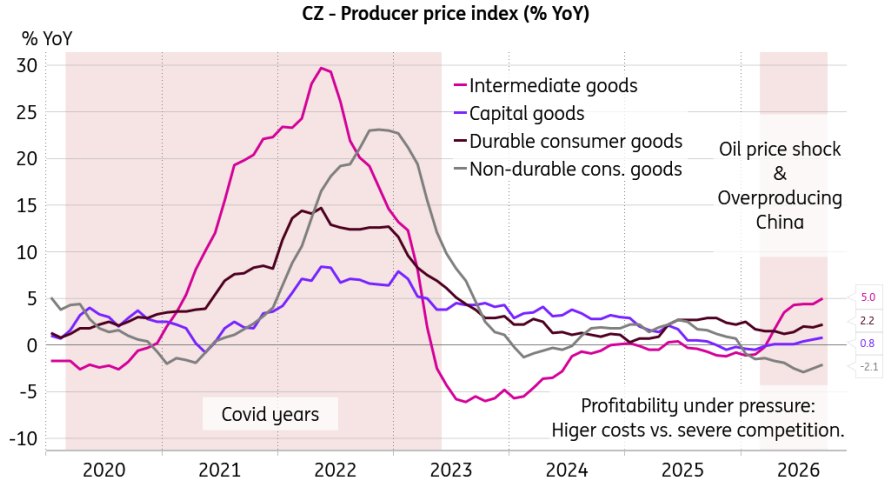
early next year. Regarding the core rate, we are about to see two opposing forces at work: the upward effect of the weaker koruna and surging import prices will be somewhat mitigated by softening house price growth. However, we expect the dampening effect of the housing market to come through with a longer lag than the impact of more expensive imported goods.

Policy rates in search of new equilibrium

So, the policy rate is set to rise to counter the acceleration in consumer price growth. However, don't get too carried away: the sky is not the limit for rates, given the already weakening economic performance. To put it bluntly: real purchasing power, profitability, and economic activity will take a beating, which will not allow for as many hikes as the markets are pricing right now. Indeed, a negative supply shock takes its toll on both inflation and economic output. The former comes first, and the latter follows suit, especially if the shock morphs into something much more persistent. Yes, even ugly scenarios can become reality, and not just in the realm of Morpheus. What do they call it: the new normal? Welcome to a world where policy rates are searching for a fresh equilibrium.

Inter arma silent musae (and so do profit margins)

In times of war, the Muses fall silent. For businesses, conflict is also taking a toll on profitability.



Source: CZSO, Macrobond

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