

### 3. Branches Performance

The GVA dynamics accelerated to the highest level since the boom year-on-year

It was confirmed during the first half of 2015, that the recovery of the Czech economy has still more solid foundations. Seasonally adjusted gross value added (GVA) continued in the quarter-on-quarter growth for already the ninth time in a row. The year-on-year GVA dynamics was continuously accelerating since the half of year 2013. While the GVA increased similarly by 3.4 % by the end of last year and in Q1 this year, it grew already by 3.8 % in Q2 2015 (the fastest growth since the first half of year 2008). The strengthening manufacturing (it contributed to the value added in the whole economy by a similar addition – nearly one half in both this year's quarters) as well as the even spreading of the year-on-year growth of GVA within other branches (all ten main groupings of economic activities recorded favourable development in both this year's quarters, which did not occur even in times of boom) stood behind the current acceleration of the GVA dynamics.

Especially the manufacturing industry keeps driving the growth of the value added in the CR, the branch grouping trade, transportation, accommodation and food service than in the whole EU

The renewal of confidence in the economy as well as the relentless inflow of orders in key branches led to the fastest growth of number of persons employed in the whole economy after year 2008 in the first half of the year

The value added was strengthening by 6.4 % year-on-year in the predominantly export oriented manufacturing in the whole H1 (even by +7 % in Q2), and rose (similarly to the previous year) by nearly double pace compared to the whole economy. The prevailing high both domestic and foreign demand is gradually reflected in the number of employees (+2.7 % in both Q1 and 2 year-on-year), when the businesses apparently started to transfer the agency workers (which covered the fluctuations in demand in „uncertain times“) among their primary employees to a larger extent.

Protracted fall of employees halted in construction in Q1, the decline of self-employed on the contrary deepened

The construction also fared well, even though the dynamics of its GVA was compared to the last year's sharp recovery one-half in H1 2015 (+1.8 %). The year-on-year fall of the number of employees halted for the first time since the end of 2009 (in the national accounts conception), the number of their hours worked (+2.5 %) grew the most in the last five years in Q2.

The highest growth of both GVA and employment in the branch grouping trade, transportation, accommodation and food service in the last five resp. six years

The branches agriculture, forestry and fishing also followed in a successful last year, which was reflected also in a mild increase of employment (it concerned workers outside the employee segment unlike the majority of other branches). The branches of trade, transportation, accommodation and food service contributed the most to the growth of total GVA in the tertiary sector thanks to its weight as well as gradually strengthening dynamics (+2.8 % in H1), benefiting from the favourable sentiment of consumers as well as growing arrivals of both domestic and foreign guests. The long-term growing professional, scientific, technical and administrative activities fared the best among services, due to the enduring demand for agency workers, but also the recent upsurge in some specialised activities (architectural and engineering activities). The financial sector also recorded more than 5% growth of GVA in H1, however the growing cost pressures left its mark on declining number of employees in the last two years. The value added increased much more modestly in the public services (+2 %), still it presented the highest rate of growth following year 2008. The slowly growing employment, as well as across-the-board raising of wage tariffs at the end of 2014, were a factor.

High demand for information and communication activities as well as professional, scientific, technical and administrative activities prevails

Industry, whose production overtook the pre-crisis level already at the end of the last year, keeps the last year's high rates of growth also during the year 2015 so far

Industry performance<sup>1</sup> (based on the industrial production index in real terms) fully followed the previous successful year, it strengthened by 5 % year-on-year in H1. It keeps stable high rates of growth thanks to the dominant manufacturing, which benefits especially from the so far strong domestic as well as foreign demand for transport equipment and its components.

Recovery also in the vast majority of smaller branches after several years, on the contrary continuing long-term downturn of mining activities

All branches within industry almost achieved year-on-year higher production this year. It was also valid for some smaller, more downturn branches in the long-term. It was mainly the manufacture of wearing apparel, with near 9 % growth experiencing the highest growth in the last ten years in H1, and also the manufacture of leather products, which achieved long-term growth record already

<sup>1</sup> Including CZ-NACE branches: B (Mining and quarrying), C (Manufacturing), D (Energy industry).



in the last quarter of 2014. The revival of manufacture of textiles or furniture lasts already for nearly two years. Production accelerated in the manufacture of paper and paper products (+ 9 %) in H1, which attained (with double digit growth of foreign orders) the highest dynamics of production in the uninterrupted ten year time series. The production was falling only in the printing or wood industry this year and especially in the mining and quarrying (year-on-year by -7 %, by nearly one quarter in seven years), mainly due to the effect of long-term reduction of the black coal mining.

The manufacturing of motor vehicles contributed to the year-on-year growth of the whole industry by nearly one third, together with the closest associated economic activities by more than one half

The manufacturing of motor vehicles still remains the most significant contributor to the year-on-year growth of the entire industry, even though its dominant role weakened somewhat in comparison to the last year (it was responsible for the production growth from roughly one third in H1 2015). Main individual sub-contractor fields also contributed similarly one eighth – manufacture of rubber and plastic products as well as the manufacture of electrical equipment. The contribution of significant by weight manufacture of machinery was also important despite relatively mild growth (+3.9 %). The metallurgy and also the chemical industry recorded even more modest dynamics of production, which was held back by a lack of orders, especially domestic orders. The markedly pro-cycle oriented branch of manufacturing of computer, electronic and optical products keeps growing faster than most manufacturing activities, which also still benefits from a large stock of orders from the last year.

The value of new orders was still higher year-on-year despite stronger last year basis, the manufacturers of railway vehicles had the highest dynamics of new orders especially thanks to domestic orders in H1

The continuing year-on-year growth of foreign orders (+9.8 % and +4.8 % in Q1 and Q2 resp.) illustrates the favourable short-term outlook of industry, the demand decreased (within the more significant economic branches) only in metallurgy and also in the chemical industry. The mildly positive sentiment of entrepreneurs in industry prevails (the balances of confidence indicators were below the level of turn of years 2010 and 2011 in August 2015, however they were stable positive for more than twenty months in a row). Nearly 58 % of industrial businesses (based on seasonally adjusted data) stated insufficient demand as a barrier to growth at the beginning of year 2014, one year and half later already only 49 %. At the same time, the share of businesses mildly increases, which are blocked in further growth by a lack of labour force. The mild drop of new foreign orders for manufacturers of motor vehicles (-0.3 % in Q2, following 15% growth in Q1) could bring up questions regarding the sustainability of high rates of growth of the industrial production. Nevertheless, the most up-to-date July data do not support this hypothesis (+11 %, against strong last year's basis). The favourable development of both foreign and domestic demand is reflected in the strengthening growth rates of employment as well as wages in the whole industry (number of employees fell year-on-year only in energy industry, mining and wood processing branches in Q2).

The CR belongs to countries with the highest industrial production growth in the EU in the long-term, mostly due to the branches producing capital goods

The industry in the CR, similarly to most Central European countries, overtakes with its growth rates the euro area as well as the whole EU in the long term. It grew the most in Ireland in H1 2015 (+17 %), then only Hungary, Slovenia and Malta (+5 to +7 %) mildly exceeded the dynamics in the CR. The branches focussed on the production of products of investment nature (capital goods) strengthened the most in the EU (+2.4 %) similarly to the CR (+7.5 %). Eleven EU countries exceeded the level of industrial production from H1 2008 so far – Ireland (by one third) and also Austria and Belgium next to the majority of the converging economies (incl. the CR). While the production stagnated in Germany, Italy, Spain, Greece but also Finland reached in real terms only three quarters of the boom level this year.

Abundant construction production despite last year's high basis

Construction capitalizes not only from the overall recovery of the economy and above average winter periods (with respect to the temperature) in the last two years, but mostly from the acceleration of the public investment into the transport infrastructure. Construction production was accelerating year-on-year this year (from +7.7 % in Q1 to straight +10 % in Q2). The construction reached the second best result for the entire half-year since the beginning of year 2007. The civil engineering participated the most on this result, when it reached the best dynamics of production since the half of year 2009 in Q1 and subsequently also

Production of civil engineering construction added nearly 24 % year-on-year in Q2, fuelled by the pressure to complete

constructions in connection to the finishing EU program period

in Q2. The building construction, dominant by the weight share, was thus slightly overshadowed (it strengthened by 5 % in H1), being blocked in a larger expansion also by the so far modest upsurge of the residential construction. The construction production however remains in Q2 one eighth below the level on the same period in 2008 despite the recent recovery.

Total stock of so far not realised orders again lower (following six quarterly growths) year-on-year in Q2 2015

Construction benefited mostly from the large stock of last year's new orders for the civil engineering constructions in H1 (in the value of 117 bn crowns, the highest after year 2008). New orders of the construction businesses (with 50 and more employees) were higher only by 2.8 % year-on-year this year, thanks only to the building construction (+11 %), they already somewhat decreased for the civil engineering constructions. This led together with the effect of intensive realization of large volume of last year's orders to the drop of the value of all not yet realised orders (year-on-year by -7.7 %) already at the end of Q2 2015. The total stock of public sector orders also decreased after five quarters (-1.4 %), deeper reduction occurred for the private domestic demand (-5.3 %), as well as the stock of work from abroad (which managed to partially compensate the fall of the domestic orders at the turn of years 2012 and 2013). The average value of one new closed order stagnated year-on-year (it arrived at 4 mil crowns in H1 2015). The approximate value of one granted building permit slightly decreased, it was nevertheless higher for modifications to completed buildings (3.2 mil crowns, 2.4 mil crowns 2 years ago), where the effect of larger projects funded from the EU played a role.

Improvement of business cycle indicators in construction, stabilization of employment

The overall balance of entrepreneur confidence in construction keeps improving already since the end of 2013 (and was the highest in Q2 2015 since the beginning of 2009). Negative short-term expectations decreased for demand as well as construction activity against August 2014, simultaneously the positive anticipations improved for the employment, especially for large businesses (a quarter of businesses with more than one thousand employees expects the growth of the number of employees in the next three months, none of these businesses in August 2014). The stabilization of employment thus appeared in construction in 2015 after six adverse years, when the average registered number of employees was reduced only negligibly (in the order of per mils year-on-year). Registered number of employees shrank by 60 thousand in total for the last seven years. Still 59 % of businesses in the CR (41 % in the whole EU) considered the insufficient demand as a barrier to higher production in August 2015, but more than three quarters a year ago. The share of businesses, which are prevented in growth by inadequate labour force, increased to 8.5 % during June 2015, which was the most since 2008.

Mild recovery of commenced as well as finished residential buildings

Current trends of the residential market occur in the context of the growing purchasing power as well as predominating positive mood of households, improving labour market, turn in the historically low interest rates of the mortgages, gradual growth of the prices of dwellings both in Prague and other regions, but also the persisting high number of vacant flats built in times of boom. The number of commenced dwellings in H1 (12.9 thousand) increased by 7 % year-on-year (by one sixth against the extremely low value in H1 2013). The growth appeared in all types of buildings except for the additional extensions of s to family houses, which there were commenced the least since half of the nineties. 42 % of commenced dwellings were located in Prague or the Central Bohemia region, the highest share since 2005. The number of finished dwellings „bounced from the bottom“ (+11 % year-on-year), nearly exclusively thanks to the multi-dwelling buildings, which there were completed the most in the last five years (within H1) this year.

There were nearly 30 % less finished dwellings this year against H1 2008, 40 % less than of the commenced dwellings (by more than one half even for the multi-dwelling buildings)

Sales in services accelerated their dynamics (given the simultaneous fall of prices), they grew the most in the last seven years year-on-year

The recovery took effect with a certain delay in services due to their notable internal diversity. Sales in selected services<sup>2</sup> recorded key turn only at the beginning of 2015. While they still slightly weakened year-on-year in the last quarter of the last year (by -0.7 %), the rate of growth of sales sharply accelerated

<sup>2</sup> Do not include the branches of trade, finance and insurance, science and research and also the public services.



at the beginning of this year (to +3 %, the most since the end of 2007), the sales kept a similar rate of growth also in the following quarter (Q2). Significant recovery of services occurred uncharacteristically with simultaneous fall of prices, mainly in the air transport or warehousing (as a result of deep decrease of prices of oil on the world markets), but also in the telecommunications (where the fall of prices is a longer-term phenomenon) and also for the job agencies (here though the prices were growing noticeably in the previous two years).

Especially the architectural and engineering activities were pulling the professional, scientific and technical branch up

Sales stagnated in transportation and warehousing, the branches which react quite flexibly to the economic cycle in the conditions of the CR, in real terms in H1 2015. The land transport and transport via pipelines, significant by weight, (+4.1 %) managed to compensate the lower sales in the air transport (-2.1 %) and especially the warehousing (-4.8 %), whose development was significantly affected by high year-on-year basis. The professional, scientific and technical activities markedly contributed to the turn in services, where the sales increased for the first time after eleven quarters at the beginning of the year and added 3.6 % for the whole H1 (the most since 2007). Especially the activities of the development of building projects fared well on the wave of the strong growth in construction. Sales of administrative and support service activities (+6.3 %) were traditionally pulled by the job agencies (+ 19.3 %, continuous growth for 21 quarters in a row), travel agencies carried on in the long-term downturn (-6.6 %), with part of customers being also possibly discouraged from their services by the raised prices of foreign vacations. On the contrary, the sales of the accommodation grew already twenty quarters in a row, accelerating year-on-year by one tenth in Q2. Food and beverage service activities also experienced record sales in the same period (+5.2 %, the most since Q4 2005). Information and communication activities also achieved the fastest growth since the boom in H1 (+5.1 %).

The sport as well as cultural events assisted the record results of accommodation and food service in Q2

Retail sales (excl. motoristic segment) increased year-on-year the most in the last seven years

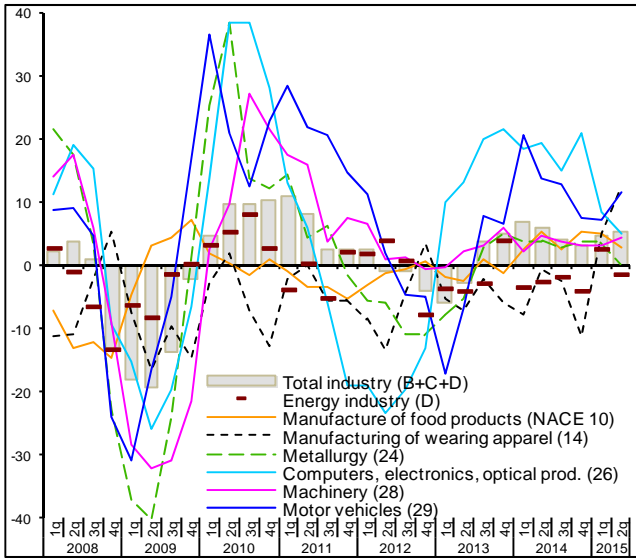
The renewal of the economic growth slowly followed by the gradual improvement on the labour market (with the impact on the disposable income of the households) was reflected in the consumer confidence indicator (it was placed the highest since March 2007 at the beginning of year 2015). The growth of the retail sales (CZ-NACE 47) gained speed to 6.4 % at the beginning of the year (it was +3.5 % in the last quarter of 2014), it also kept a strong year-on-year dynamics in Q2 (+5.7 %). It represented the fifth highest value in both cases in the EU, Poland (+8.1 %) reached the best results in H1, Hungary or Ireland was placed around the CR level, the United Kingdom were near (+4.5 %), the sales grew more modestly in Germany (+2.7 %) or Slovakia (+1 %). Sales of maintenance and repair of motor vehicle (CZ-NACE 45) reacted faster to the economic recovery, it grew by one eighth in H1 (similarly to the last year). The most significant by weight sale of non-food goods (+8.1 % in Q2) pulled the whole retail itself (CZ-NACE 47), where the drop of prices assisted especially to the sellers of computer and communication equipment (+8.2 %) in the long-term. The sales however climbed up in all other specialized stores, especially for cultural and recreational goods (from +7.3 % in Q1 to +13.1 % in Q2). Growth of sales for food products was despite the more „modest“ dynamics (by +3.4 % in H1) also the highest in the „post-crisis“ period (and similarly to the year 2014 also higher compared to the EU). The sellers of food in specialised shops also managed to maintain this pace of the sales dynamics apart from the previous years. Sales of petrol stations accelerated since the last year's December, they increased by nearly 8% year-on-year for H1. Especially the very favourable price development of the automotive fuels stimulated the higher demand (also in the context of the neighbouring countries).

Higher sales for goods in specialised shops in all main ranges of products

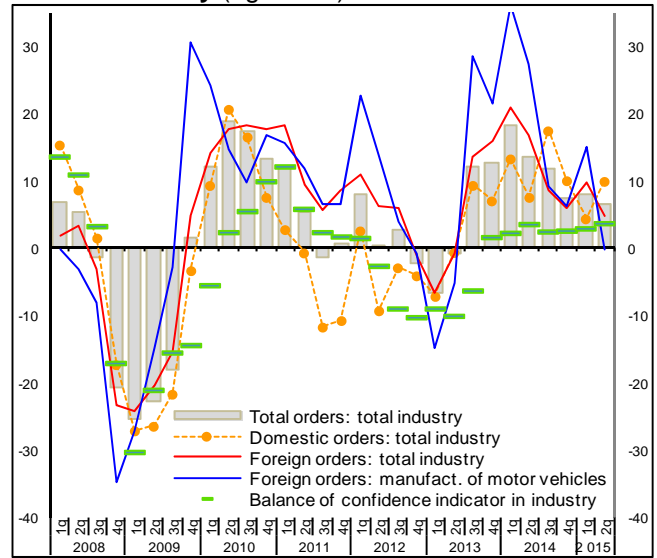
Growth of sales for food products was the fifth highest in the whole EU in the CR<sup>3</sup> in H1, the sixth highest for non-food goods, the ninth highest for the automotive fuels

<sup>3</sup> Adjusted for calendar effects.

**Chart 5 Production in industry and selected manufacturing branches (real terms, y/y, in %)**

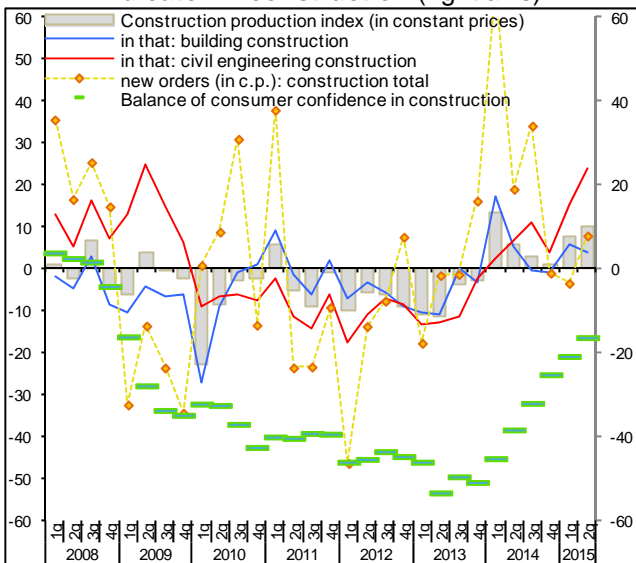


**Chart 6 New orders in manufacture of motor vehicles, industry in total (c.p., y/y, in %) and balance of confidence indicator in industry (right axis)**

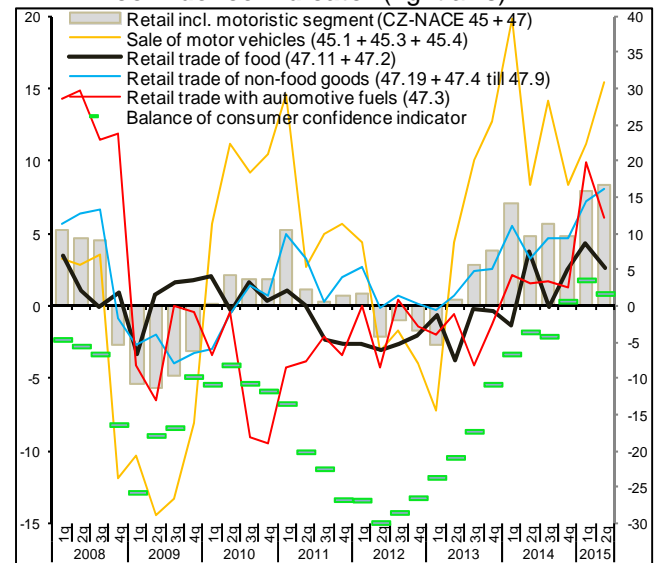


Source: CZSO

**Chart 7 Construction production, value of new orders (y/y, in %) and balance of confidence indicator in construction (right axis)**



**Chart 8 Retail sales including motoristic segment\* (in real terms, y/y in %), balance of confidence indicator (right axis)**



\*Motoristic segment includes trade repair and motor vehicle maintenance

Source: CZSO

