3. Branches Performance

Gross value added fell during both Q2 and Q3. Economic performance still did not reach the record level from year 2019 even at the end of the last year.

Data from the supply side of the economy confirm the weak economic dynamics evident for the whole last year. In Q1 2023, when the national economy extricated itself from mild recession, the gross value added (GVA)[1] mildly rose quarter-on-quarter (+0.5%), specifically mainly thanks to public services[2], IT, but also construction, which revived due to unusually warm winter. The GVA growth halted during the two subsequent quarters. The weak both internal and external demand had still negative impact on industry and construction performance. In addition, the ongoing slump of household consumption also weakened the key branch of services. Consequently, a partial recovery occurred at the end of the year and the total GVA increased by 0.6% compared to Q3 2023. However, only manufacturing pulled by the growth of the pro-export production of motor vehicles essentially contributed to this result, since the performance in the majority of services activities rather stagnated. Also for this reason, the total economy GVA still slightly stayed behind its peak from the period of the pre-pandemic expansion (by 0.1%, compared with Q4 2019).

Manufacturing and IT contributed the most to the year-on-year GVA growth in 2023. The slump of mainly the mining and energy industry performance had the opposite effect.

Total GVA increased by 0.5% for the whole year 2023, when the year-on-year growth eased its pace for the second year in a row. Manufacturing (+0.5 p.p.), whose output increased by 2.2% last year, contributed to the growth the most for the third time in a row. Long-term developing information and communication activities (IT), where the GVA rose the most among all the main branches (6.2%), had almost the same effect. Public services also played an appreciable role (+0.2 p.p.), even though their performance increased the least in the last eight years (1.1%). On the contrary, mainly mining and quarrying, where the GVA dived by nearly one fifth year-on-year and exerted strength against the growth of the whole economy (−0.4 p.p.)[3], had a negative effect. The grouping of trade, transport, accommodation and restaurants, whose performance lowered by 1.8% for the last year, also had a comparable effect on the GVA development. The impact of the considerable drop of consumption of the domestic households (for both basic and “non-essential” goods) was to some extent softened by the rising demand of non-residents in tourism. The GVA in construction fell for the fifth year in a row, nevertheless the last year’s decrease was the least pronounced for this time period (−1.2%) and its macroeconomic impact thus remained overshadowed by other branches.

The decrease of wood logging moderated. Production of meat kept further declining. Last year’s harvest was good for most main crops.

In the primary sector, the GVA nearly did not change last year (+0.3%), following two more notable decreases in years 2021 and 2022. The decline of the bark beetle wood logging prevailed, but at a slower pace compared to the preceding two years. The volume of total logging gradually approaches the level from before the onset of the bark beetle outbreak (year 2017). Production of meat in slaughterhouses decreased last year in agriculture (−2.6%), however less than in year 2022 (−4.2%). In contrast the long-term trend of mild strengthening of the milk production persisted[4]. Even though the majority of main crops experienced year-on-year decrease of harvest[5], still the

[1] Data regarding GVA are expressed in constant prices and adjusted for both seasonal and calendar effects.
[2] Include public administration, education, health and social work.
[3] At the same time, mining and energy industry were crimping the GVA growth in the whole economy the most among all main branches already in year 2022 (−1.2 p.p.). Value added created achieved in this industry last year only one half of the level from year 2019.
[4] Direct purchase of milk from the producers expanded (in the physical quantity - litres) by 1.6% year-on-year last year. Last year’s production of meat in slaughterhouses reached 435.9 thousand tons (the least in the history of the independent CR). The decline was driven mainly by the lower production of the pork meat last year (similarly to year 2022), on the contrary a mild increase occurred for the beef meat in year 2023. Gross domestic production (i.e. the total supplies from the Czech farms to slaughterhouses - both local and abroad) plunged by 7.6% for the pork meat year-on-year last year (it fell by 5.6% in year 2022). On the contrary for the beef meat it increased by 3.2% (it however fell by 1.6% the year before last) and for the poultry it stagnated (the same in year 2022).
[5] The harvest of all cereals attained 7.996 mil tons last year (with yield per hectare 6.07 t/ha). The harvest is lower year-on-year by 2.7%, it however exceeds the 5-year average (+2.0%, in that wheat +8.4%). The year-on-year decrease of harvest was also recorded for the grain legumes (−9.9%), potatoes (−12.4%), sugar beet (−5.5%), forage crops (−6.3%), grape (−16.1%) as well as fruit (−22.7%). The harvest of oil plants (+9.4%), vegetable (+15.4%) and hops (+57.2%). In comparison to the 2018-2022 average, the last year’s harvest can be assessed good for oil plants, legumes, oilseed rape or hops. On the contrary, it was below-average for forage crops, grape and also potatoes (first of all as a result of historically the smallest area planted).

harvest in 2023 can be considered good (even above-average for some cereals or oil plants).

Industry went through a cyclical downturn. It faced high price level of inputs as well as weak internal and external demand for the whole last year.

Industry in the CR, similarly to most of the EU states, was situated in the cyclical downturn last year, whose beginning can be traced already to the half of year 2022. The cost pressures linked to the sharp hike of prices of energies and other inputs (as well as uncertainty regarding their development) were magnified by the weakening demand in the key export territories. Beside this, the slump of both household consumption and private investment activity had also negative effect. Even though the prices of energies became stable last year, they still lay significantly above the level from year 2021. It naturally affected especially the energy-intensive industrial branches. The adverse development was mitigated by the revival in the motor vehicle manufacturing, which gradually finalised larger volume of orders accumulated from the period, when the continuity of production was slackened due to the disrupted supply chains. The total industrial output[6] rather stagnated quarter-on-quarter in the first half of year 2023, it decreased by 2.3% in Q3 (the most in the last three years), mainly due to the motor vehicle manufacturing, whose continuity was disrupted by difficulties with supplies of some components shortly. Partial revival occurred in Q4, since the production increased by 1.9%, especially thanks to the manufacturing of transport equipment (which also processed some large, extraordinary orders) and their main supplier branches. Still the output of the whole industry mildly fell behind its peak from the period of the pre-pandemic expansion (Q2 2019) at the end of 2023 (by 1.1%)[7]

Adverse development of industry was mitigated by higher production of motor vehicle manufacturing. Neither this industry however avoided short-term outages.

Despite the fast growth of output in the manufacturing of motor vehicles, the performance of the whole industry slightly decreased in 2023.

The industrial output decreased by 0.8% for the whole last year, it thus fell after two years of post-crisis recovery. Manufacturing of transport equipment, where the production growth accelerated to 16.6% last year (the most in the last 12 years) considerably influenced the development of industry[8]. Both manufacturing of personal transport equipment[9] (benefiting from the growing of both internal as well as external demand[10]) and other transport equipment (driven by significant domestic orders for the army and also the railway) thrived. In spite of occasional partial outage in supplies of some production components, the utilisation of the production capacities in the motor vehicle manufacturing remained above 92% throughout a major part of the last year and belonged to the highest within the industry[11].

The largest slump afflicted the manufacturing of construction materials. The output fell in the majority of energy-intensive manufacturing activities in both years 2022 and 2023.

The sub-branch of the electrotechnical industry profited from the development of motor vehicle manufacturing. It however grew slower (+4.2%) and contributed to the growth of the whole industry only by 0.3 p.p. Output in the next sub-branch – rubber and plastic industries – even slightly decreased (−4.5%), partially likely also for the reason, that compared to the above mentioned this features higher energy-intensity. This intensity, together with the decreased demand on the part of construction, markedly affected the branch of other non-metal mineral product, where the output plunged by 17.1% last year (the most after year 2009), the most among all industrial branches. The drop in demand for technical textiles is

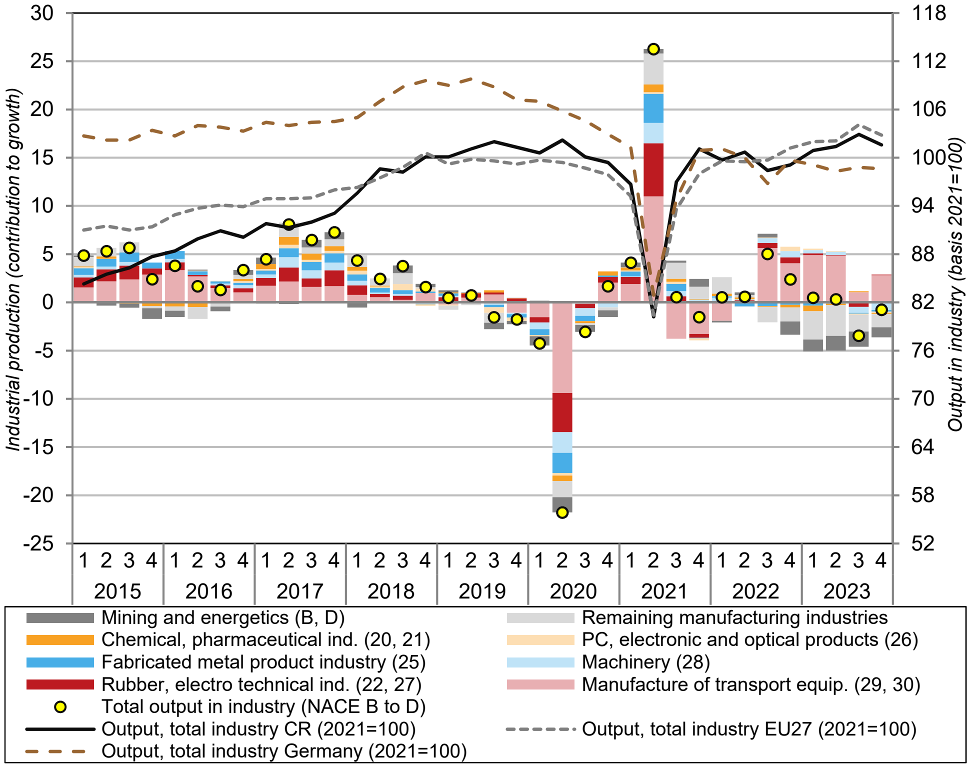
[6] Includes branches of mining and quarrying, manufacturing and also energetics (here as activities of production and distribution of electricity, gas, heat and air conditioning supply). All year-on-year rates of growth of output are adjusted for calendar effects, quarter-on-quarter rates then also for seasonal effects.
[7] Two thirds of industrial branches stayed behind their peak from the period of years 2015–2019 in Q4 last year – coal mining (by 59%), leatherworking (–29%), metallurgy (–28%), textile industry (–24%), printing industry (–22%) and energy industry (–19%) the most.
[8] Excluding contribution of this branch, the year-on-year industry decline in 2023 would approach 4%.
[9] Based on the Automotive Industry Association, there were 1.398 mil personal vehicles manufactured in the CR in 2023 (the most in the last four years and only by near 3% less than in the record year 2018). Production increased by 14.8% year-on-year. The March, June, July and October production were within the same months even the largest in history. Electrical vehicles (incl. vehicles hybrid cars) constituted so far already 12.9% of all domestically manufactured personal vehicles last year. Producers of most other types of road motor vehicles on the contrary recorded lower output year-on-year.
[10] According to the European Automobile Manufacturers's Association, the numbers of registrations of new personal vehicles increased year-on-year by 13.9% in the EU in year 2023. They were growing continually 16 months in a row until the last year's December, when a mild year-on-year decrease occurred mainly as a result of weaker demand on the German market. Also thanks to the growing imports of more affordable models form Asia, the demand for electrical vehicles (incl. vehicles hybrid cars) was swiftly expanding, these thus comprised already 48% of all new motor vehicle registrations in the EU last year.
[11] Manufacturing of other transport equipment, petrochemical, pharmaceutical, textile, leatherworking, footwear industries and repairs of machinery and equipment also recorded high utilisation of capacities (above 85%) last year.

also associated with weaker performance of construction, which was reflected in the 11% decrease of production in the whole textile industry. Weak internal and external demand led to the more than 14% downturn in metallurgy and foundry industry (where production decreased for the second year in a row, nearly by one quarter in the last five years). Similarly, also the chemical industry struggled with the sharp growth of prices of inputs for the second year in a row and at the same time with the decrease of demand for output. It decreased by 9.4% last year. Some smaller branches with energy-intensive production also suffered, in case of wood and paper industries it was however also considerably aided by lower wood logging.

Among branches producing investment products, the output decreased the most in machinery. The weaker external demand had the most adverse effect.

Persisting weaker business confidence in the economy together with deteriorated accessibility of credit financing (due to high interest rates) inhibits the growth of private investment activity. It negatively impacts most industrial branches oriented on the production of investment products. The output in machinery belonged to the fastest growing within industry in years 2021 as well as 2022, it however lowered by 1.6% last year, first of all due to the weaker external demand. It also stood behind the mild last year's decrease of the fabricated metal product industry (−1.1%), where the internal demand prevented larger downturn (state orders in defence and security). Domestic demand (among other things in the form of photovoltaics) development also supported the electronic industry, where the output slightly increased for the third year in a row (+1.3% last year).

Chart 4 Contributions of sub-branches to the year-on-year change of the industrial output in the CR (adjusted for calendar effects, real, in p.p.) **and output in the entire industry in the CR, Germany and EU27** (seasonally adjusted, level of year 2021=100, right axis)



Note: Sales are given in current prices.
Source: CZSO, Eurostat

The reduction the non-essential as well as common household expenditures led to the decrease of the food,

Even the majority of typically smaller manufacturing branches focused largely on non-durable products did not avoid the decrease of output last year. Output of food industry slightly lowered for the second year in a row, by 1.5% last year[12]. Manufactures of beverages also experienced similar decrease in year 2023. The production dropped even

[12] Even this shallow decrease of output in 2023 resulted in the worst performance in the last 12 years in this traditionally stable branch.

beverage or furniture industry.

more markedly in the significantly export-oriented manufacturing of clothing (−4.3%), which did not follow up on the recovery from the previous year. The reduction of "non-essential" expenditures of households in reaction to the slump of real earnings likely halted the long-term developing other manufacturing last year[13]. Its output dropped by 3.6% – the most after year 2009. Similar factors also influenced manufacturing of furniture last year, its significant downturn (by 11.1%) is however first of all the result of weak external demand. Among smaller branches the long-time growing substantially pro-export oriented pharmaceutical industry diverged, where the output increased by 6.1% last year (by 42.9% in the last five years). Next to the stable external demand, it was also assisted by the last year's growth of the domestic orders. Thanks to the external demand the leatherworking and footwear industries, which recorded higher output for the third year in a row, also prospered.

The external demand supported the ongoing growth of the pharmaceutical as well as leatherworking industries.

Energy industry mainly stood behind the lower output in industry.

Energetics the most hindered the output of the whole industry last year, its production plunged by record 11.1% ("only" by 2.3% in year 2022) and contributed 1.1 p.p. to the total industry decrease. Deeper slump at the steam power plants and combined gas/steam plants (-18%) stood for the major part behind the lower electricity generation, the impact of the weaker production of the nuclear power plants was in the smaller (−2.0%). Next to the regular temporary shutdowns of the production facilities, the output of the whole energetics was connected to the further anticipated decrease of the internal demand[14]. There the impacts of the measures aimed at savings of electricity, natural gas as well as heat in both households and firms were evident last year (similarly to year 2022). Additionally compared to year 2022, the effect of lower demand for energies in businesses due to the decrease of the production activity was more evident[15], as well as the impact of favourable climatic conditions in winter season[16]. Following the temporary recovery in both years 2021 and 2022, the output in the very energy-intensive branch of mining and quarrying plummeted by one sixth last year. The long-term controlled downturn of still less profitable coal mining, only interrupted by mild growth in year 2022, especially contributed to it. In addition, the decrease of output in the extraction of building materials deepened (to −16.4%) last year, even though it enjoyed a promising development before the onset of the energy crisis.

Decrease of the electricity, gas and heat consumption in both businesses and households continued.

Output in mining industry again slumped after two-year recovery. Less coal as well as building materials was extracted.

Value of new industrial orders was slightly falling for a major part of the last year.

The dynamics of the new industrial orders confirmed the persisting weak demand. The nominal value of orders in the monitored industrial branches[17] was falling for a major part of the last year and in total decreased by 1.3% year-on-year. Non-domestic orders (in comparison to domestic) indicated less favourable development for the second year in a row. The total orders dropped only by 1.0% in Q4 2023, the majority of branches however indicated a lower demand – metallurgy (−21%) and chemical industry (−18%) the most, but also the electronic industry (−12%), although it belongs to the less energy-intensive industrial branches. Orders fell slower in machinery (−5%) and in fabricated metal products industry (−2%). Contrary to it, orders grew throughout the whole year in manufacturing of motor vehicles, by 9% in Q4 (both internal and external demand was expanding). Mild growth of

Unfavourable outlook still concerned mainly the energy-intensive branches. Mild growth of demand prevailed in manufacturing of motor

[13] This branch consists of (next to the weight dominant group of manufacturing of medical and dental instruments and supplies) also the manufacturing of games, toys, musical instruments, sports goods or jewellery and bijouterie.

[14] According to the data of the Energy Regulatory Office, the gross domestic electricity consumption shrank by 4.2% year-on-year in 2023 (similar decline occurred in the year of 2022). Savings eventuated for all main consumption categories last year – the most in households (by 4.0%, even by 12.7% for the last two years), the least in wholesale customers with electricity consumption at the level of very high electrical voltage (–1.4%). Substantially, even though by half the pace of year 2022, the total gas consumption also fell (expressed in m^3) in the CR last year – by 12.4% year-on-year (after adjustment for long-term thermal standard by 8.1%). Considerable decrease of consumption occurred for all main categories of customers, it was the highest for households, which took by 11.6% gas less year-on-year (by even 30% less for the two years), the smallest decrease then for wholesale customers (by 9.6%).
Up-to-date data for Q1 to Q3 2023 also show the all-encompassing year-on-year decrease of heat consumption (expressed in TJ) – by even 9% (by 10.3% in 2022), in that by 4.9% in households, in trade, services, education, health care in total by 8.3%, in industry by 13.7%.

[15] The year-on-year output reduction afflicted nearly three quarters of all industrial branches in 2023.

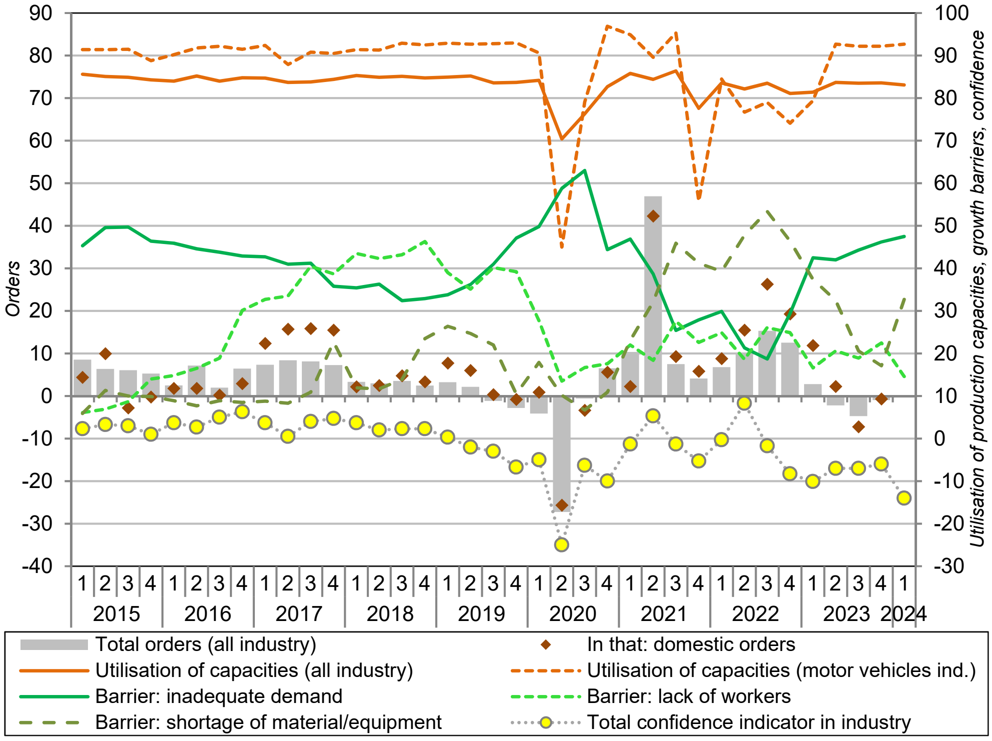
[16] The average air temperature in the CR climbed up above the long-term thermal standard by 3.4 degrees Celsius in both January and September last year, by 2.9 degrees in October, by 2.6 degrees in December, in February and March by 1.5 degrees. In contrast, only April with temperature by two degrees below the standard can be considered colder. The average air temperature attained 9.9 degrees in the CR for the whole last year, 9.4 degrees in the previous year.

[17] Survey of orders is performed only in twelve manufacturing branches producing mostly custom-made products, with longer production cycle and larger stocks of orders. Year-on-year growth rates of orders are adjusted for calendar effects, quarter-on-quarter rates also for seasonal effects.

vehicles and electrical engineering.

the total demand also occurred the manufacturing of electrical appliances, among the small branches then in manufacturing of clothing.

Chart 5 New orders in industry (nominal, year-on-year change in %), **utilisation of production capacities in industry, selected growth barriers*** (in %, right axis) **and balance of business confidence indicator in industry*** (in p.p., right axis)



*Both utilisation of production capacities and growth barriers express the level in the first month of the given quarter, business confidence balance relates to the second month in the quarter. Orders are adjusted for calendar effects; other indicators are seasonally adjusted. Businesses could have indicated more key growth barriers simultaneously.
Source: CZSO, Eurostat

Business confidence in industry remained in slightly negative band for the whole year 2023. It even deteriorated at the beginning of 2024.

Business confidence in industry remained in the mildly negative band for the whole last year. It was falling due to the deteriorating economic outlooks in the key export territories mainly in H1 2023. It hit the three-year minimum in September. More favourable development (supported by the strengthening of optimism of motor vehicle manufacturers) evident in Q4 2023 ceased with the arrival of 2024. Growing pessimism at the beginning of this year is connected to the worse assessment of demand (mainly external), short-term expectations of own production, economic situation of businesses as well as the mild growth of inventories of finished products. Already nearly one half of businesses (the most in the last three and a half years) stated inadequate demand as one of the growth barriers in February 2024[18]. In contrast, the shortage of labour limited less than 15% of businesses[19]. Following the favourable development in H2 2023 the inaccessibility of material and equipment again becomes more acute currently, which restricts nearly one third of businesses[20]. That is however still less than at the beginning of the year 2023.

Current assessment of the present demand is the worst in the last three and a half years.

Construction output was still affected by significant cost pressures as well as

Persisting cost pressures as well as weak demand activity in the private sphere affected construction last year. Even though the year-on-year growth of prices of building materials slowed down (the prices went even slightly down in September after more than three years),

[18] Businesses could have indicated more barriers simultaneously. Barriers are adjusted for the seasonality effects. Weak demand represented a substantial growth limit especially for most energy-intensive industrial branches (metallurgy, manufacturing of building materials, rubber and plastic industry, wood and paper industry), further for print, textile or beverage industry. Surprising high proportion of businesses in manufacturing of electrical appliances (above 70%) also mentioned this barrier. The inadequate demand represented main growth barrier for two thirds of all manufacturing branches.
[19] It substantiated bigger problem especially in rubber and plastic industry, in transport equipment manufacturing (except for motor vehicles), in manufacturing of electrical appliances and then in clothing and leather industry.
[20] This barrier limited especially businesses in motor vehicle and electronic industry.

weakening private investment activity.

brisk growth of labour costs influenced by chronic shortage of (especially qualified) labour force prevented more pronounced decrease of both realised and expected prices of construction output[21]. Deteriorated financial situation of households together with decreased accessibility of mortgages[22] essentially cooled down the last year's boom of the real estate market. Public investment[23], i.e. strengthening inflow of funds from the EU budget designed on the construction as well as upgrading of the transport infrastructure or reduction of the energy-intensity in the area of housing on the other hand worked against the deeper downturn of the construction output.

Construction output lowered last year after mild recovery in years 2021 and 2022, both building construction and civil engineering construction decreased.

Construction output[24] increased by 1.8% quarter-on-quarter at the beginning of year 2023 (partially thanks to very mild winter, which mainly assisted the building construction), however it decreased more significantly in the subsequent quarter (by 2.8%). The downward trend of production continued in H2, although at slower pace. Thus, the output of the whole branch lagged behind the peak of the last expansion (Q3 2019) by nearly 6% towards the end of the year (in that building construction by 8.3%). In comparison to the same period of the preceding year, the construction output fell in all last year's quarters and by 2.4% then for the whole year 2023, with contribution mainly from the building construction (−0.9 p.p.).

Decrease of demand was distinctly imprinted in the started residential construction, where the number of dwellings in the family houses considerably slumped.

"Freezing" of the real estate market was still more distinctly reflected in the low intensity of started construction, mainly of family houses. Decrease of construction commenced in year 2022 deepened last year (to 15.5% year-on-year). Construction of family houses decreased the most, the number of started dwellings was due to high financial costs as well as shortage of labour (mainly in smaller building companies) the lowest in the last eight years (14.6 thousand), decrease however occurred also in all other construction segments (apart from reconstructions of existing residential houses). Number of completed dwellings fell only slightly (by 3.4%) due to large number of unfinished works from the previous years, again contributed by weaker construction of family houses. On the contrary, the number of dwellings in the category of residential buildings increased year-on-year for the third time in a row and arrived at 14.2 thousand (larger construction was in the era of independent CR achieved only in year 2007, specifically 18.2 thousand). More than one third of the total number of all completed dwellings in the CR is in Prague and the Central Bohemia in the long-term.

Number of completed dwellings in residential buildings still competed with the extent of construction from the expansion years of the zero decade.

The approximate value of one granted building permit grew more notably in Q4. The volume of orders also increased more slowly, however the private demand still slackened.

Some leading indicators can evoke a mild optimism in construction. The approximate value of one granted building permit increased by 35% year-on-year in Q4, by 62% in December itself – i.e., to 84 CZK bn (the second largest value in history – behind July 2021, when the construction of the underground line D was permitted in Prague). The December growth had nearly an across-the-board character, after deduction of large structures (above 1 CZK bn) it was 20% in nominal terms (17% in real terms). Value of new orders was by 9.3% higher year-on-year in Q4 (it grew for the second quarter in a row), it reflected the revival of building construction. Total stock of work (balance of orders to be realised) was by even 7% higher year-on-year at the end of December, but only thanks to higher demand from public contracting authority for now. According to the business cycle survey (January 2024), construction businesses also anticipate a mild growth of demand, construction activity as well

Pessimism of businesses in construction lowered at the beginning of this year.

[21] Based on the business cycle surveys from last year's November, still nearly 40% of domestic construction buinesses expected the growth of prices of own production (within a period of the next three months). Even despite a gradual descend, which is however slower compared to industry, it presented the largest share among all main branches.

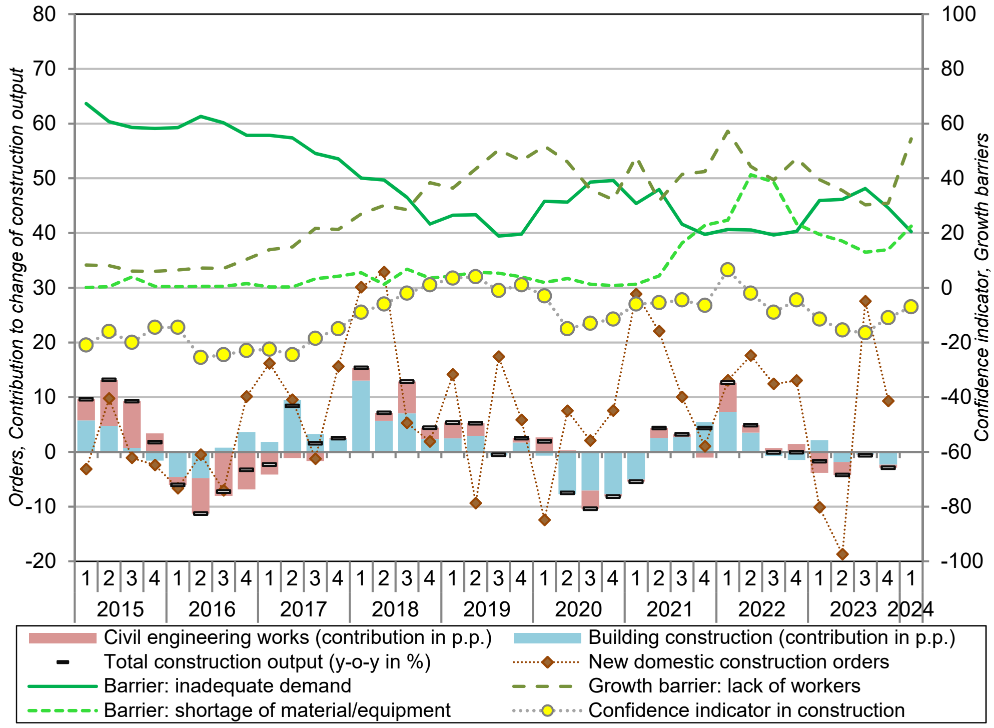
[22] It was connected to the decrease of real household incomes as well as high interest rates on mortgages (whose level did not change much during the last year). Situation could be improved by reduction of regulation in the nearest time. As of January 2024, the CNB proceeded to the deactivation of some limits for the provision of mortgages (relation of the total size of debt, i.e. the size of the debt service to the annual net household income).

[23] E.g. capital outlays of the CR state budget increased by 14% year-on-year, or 25.4 bn CZK from January till December last year.

[24] Data regarding the construction output are in constant prices, year-on-year rates of growth are adjusted for calendar effects, quarter-on-quarter rates also for seasonality effects.

as employment. Their confidence balance was the highest this year in February in the last 15 months.

Chart 6 Contributions of sub-branches to year-on-year change of the total construction output (real, in p.p.)**, new construction orders** (nominal, year-on-year in %)**, balance of business confidence indicator in construction*** (in p.p., right axis) **and selected barriers to growth*** (in %, right axis)



Note: Data related to construction output are adjusted for calendar effects.
* Balance of business confidence as well as barriers to growth are seasonally adjusted and express the level in the second month of the given quarter. Businesses could have indicated more main barriers simultaneously.
Source: CZSO, Eurostat

Quarter-on-quarter decrease of sales in services prevailed for the most part of the year. The size of sales again dropped below the pre-crisis level.

Demand for services was subdued throughout the whole last year. Although the potential of its revival after subsiding of the pandemics has not got completely exhausted in some segment of services (e.g. in tourism) yet, more significant factor was, that for a number of areas the tendency of domestic households to restrict "non-essential" expenditures became evident. Impacts of the high growth of prices as well as the economic stagnation also hit the business sphere, which led to the heightened need for production cost optimisation (e.g., at administrative and support service activities). Sales in services[25] grew by 0.3% quarter-on-quarter at the beginning of the last year, subsequently they decreased by further 1.5% in both Q2 and Q3, i.e. 1.1%. Transporting and storage had a major effect on the decrease of sales, which started already in Q4 2022 and ended in Q4 2023. Demand was however also shrinking in the majority of other services activities. Stabilisation manifested at the end of year 2023, when the quarter-on-quarter fall halted (+0.4%), nevertheless in the transportation and storage alone, the demand further weakened. Total sales in services slightly lagged behind their peak from the period of the pre-pandemic expansion (Q2 2019) for the most part of the last year, by near 1% in Q4[26].

Transportation and storage mainly stood behind the year-round

Sales in services decreased (following the swift growth in the two preceding years) by 1.6% in year 2023 (they were falling since Q2 2023 year-on-year). The weak demand in the key

[25] Without trade, financial and insurance activities, science, research and public services. All data for services are in constant prices, year-on-year data are adjusted for calendar effects, quarter-on-quarter data are adjusted for seasonal effects (including the effect of the number of working days).
[26] Among the main branches, the sales lagged behind their pre-crisis maximum the most in accommodation, food service and restaurants (–9.4%) and in administrative and support service activities (–12.3%) in Q4 2023. In contrast mainly information and communication (+5.5%) and professional, scientific and technical activities (+1.8%) exceeded this level.

decrease of sales in services.

transportation and storage played an essential role in this result (year-round decrease of 8.4%, contribution to the development of services −2.6 p.p.). In that in storage (incl. the sub activities in transportation), the sales slumped by record 11.4%[27]. Deep decrease also occurred in the land transport and transport via pipelines (−8.0%). Recession in industry, construction as well as trade accompanied by the fall of the international trade turnover[28] was reflected in lower transport work of both land and rail freight transport[29]. The mild growth of the transport works of the passenger rail transport, associated with the more pronounced strengthening of the cross-border transport, but also the development of the regional transport (upgrade of railways, including new areas into the integrated transport system) had on the contrary a positive effect on the sales in land transport. Transport works of the regular public bus transportation also increased year-on-year (the same as in other types of passenger transport they however stayed behind the “pre-covid” level). Ongoing recovery of the arrival tourism supported the sales in air transportation (+5.1%). Sales in the water transportation also slightly increased. On the contrary, the postal and courier activities earned by 3.3% less year-on-year. The output lowered here partially also due to the weaker demand for sales via internet for the second time in a year, it was however by nearly one eighth higher compared to year 2019.

Transport works of passenger transport grew; it fell in the freight transport.

Slump of sales of employment placement agencies continued, the cyclical downturn also occurred in the majority of other business services.

Sales very mildly grew in the administrative and support service activities for the last year (+0.8%). Travel agencies whose sales expanded by even 16% (and for the first time without difficulty overtook the level from year 2019) for the last year, played a key role here and thus offset the falling sales in other sub-branches (primarily tied to the demand on the part of businesses). There mainly the lower output of the employment placement agencies was evident (−13.8%, −22.4% for two years)[30]. Milder cyclical downturn of demand then occurred in the area of rental and leasing activities (−3.5%), where the sales shrank the most for machinery, equipment and trucks, but also goods for personal need and mainly for households. Pressure to reduce costs as well as the advancement of digitization resulted in weaker demand for cleaning activities or for security and investigation activities.

Sales further grew in accommodation last year; the yearly demand in the domestic tourism still has not fully attained the level from year 2019.

Developing tourism was also mirrored in the performance of accommodation, food service and restaurants, where the sales increased by 2.5% last year. Similarly, to year 2022, the demand for accommodation (+3.0%), where it benefited from the more frequent arrivals of foreign guests also grew faster last year. Mainly thanks to them, the total demand in domestic tourism dynamically grew for the second year in a row. The year-round number of all overnight stays in mass accommodation facilities in the CR however still has not fully restored the record level from year 2019 even last year (by 1.8%, in that for non-residents it lagged by even 14%)[31], partially also due to the shortening length of stays. Segment food service and restaurants was more affected by the still weakening purchasing power of domestic households and sales strengthened only by 2.3% year-on-year here last year.

[27] Sales were still considerably higher here (by 8.3%) compared to year 2019.

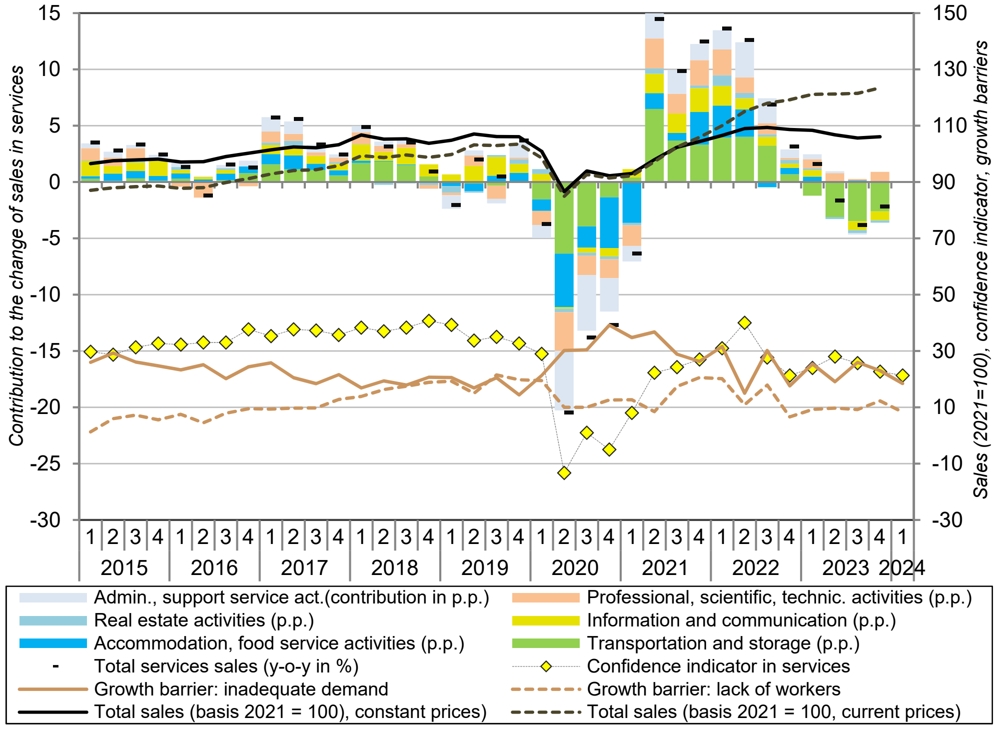
[28] The turnover of the international trade of goods in constant prices (based on the national accounts methodology) decreased by 2.3% year-on-year last year in Q3, it deepened to 2.7% in the subsequent quarter.

[29] Based on the latest data, the transport works (in tkm) decreased in the freight rail transport by 5.1%, road transport by 1.5% year-on-year in year 2023. The decrease of demand for domestic transportation proved to be key in both cases.

[30] The decrease of sales eventuated here even despite high growth of number of working foreigners in the CR. Refugees from Ukraine significantly participated in this number in the last two years. With respect to the Temporary protected status, which was granted to these persons, their employment in the CR is administratively easier (compared to other groups of migrants from the so-called third countries) and thus they can seek employment more easily “directly” (without intermediary). Apart from the above stated, the reduced demand for the agency workers on the part of key manufacturing branches undergoing recession (e.g. industry) can also share in the decrease of sales.

[31] In that in Q4 2023, the number of overnight stays was by 3.4% lower compared to the level from year 2019 (even by 11.3% lower for foreign tourists, it was on the contrary by 6.9% higher for households). Among regions only five surpassed in the number of overnight stays this level (the most in *Vysočina* +9%), other stayed behind (the *Ústecký* by 12%, *Karlovarský* and Prague identically by 5%). The number of overnight stays fell behind the most in the CR related to guests from countries involved in war conflicts (Russia by 95%, Izrael by 63%), from distant Asian states, mainly China (–74%), Japan (–51%), South Korea (–29%) and among the EU countries the most from the Scandinavian states (e.g. Sweden –38%). On the other hand, the demand in the CR exceeded the pre-pandemic level for citizens of all neighbouring states (Slovakia +13%, Poland +12%, Austria 11% and Germany +2%), among further significant countries it grew the most for citizens of Spain (+26%), among countries outside Europe relatively the most from the United Arab Emirates and Saudi Arabia.

Chart 7 Contributions of branches to year-on-year change of sales in services* (real, in p. p), **total sales in services*** (2021=100, right axis), **balance of business confidence indicator in services**** (in p. p., right axis)**, barriers to growth**** (in %, right axis)



Note: All data are seasonally adjusted, only contributions of sub-branches to the growth of sales are adjusted solely for calendar effects.
*Without branches trade, financial activities, insurance activities, science, research and public services.
.**Also involves the financial sector. Balance of business confidence as well as the barrier to growth express the level in the first and in the second month of the given quarter (growth barriers and balance of confidence, respectively). Businesses could have indicated more key barriers simultaneously.
Source: CZSO, Eurostat

Mainly architectural and engineering services still drove the rising demand for professional, technical and scientific activities.

Even though the year-on-year growth of sales in professional, scientific and technical activities slowed down last year for the second year (to 3.1%), it worked the most against the decrease of total sales in services among all branches (+0.7 p.p.). Despite difficulties in construction, the architectural and engineering activities contributed the most to the growth of sales of the whole branch (with growth of 2.8%). Other more sophisticated services for businesses also registered a moderate growth of sales (legal and accounting activities, activities of head offices and management consultancy activities). Following weaker year 2022, demand in the area of advertising slightly revived last year (+4%), in contrast the decrease in the area of market research and public opinion polling continued (−4%). Other professional, scientific and technical activities[32] (+1.5%) recorded a very mild growth of sales last year, nevertheless they lagged behind the year 2019 by 5.8%.

Sales growth in the long time prospering information and communication halted.

Sales lowered by 1.2% year-on-year in the traditionally dynamic information and communication last year (the most since year 2009). Especially lower sales for publishing activities contributed to the growth (−5.0%), however the performance of the so-called motion picture and music industries dropped the most (−9.4%)[33]. Sales in the IT area (including e.g. programming or computer facilities management activities) unusually decreased for the last year, specifically by 0.1%, and mainly then in information and communication[34] (by 6.8%). Sales grew by mere 1% in the long-time growing

[32] This sub-branch with significant share of small businesses mainly includes brokering activities, design, translation and photographic activities or activities of construction supervision.
[33] Segment of motion picture distribution fared better. According to the figures from the Union of Motion Picture Distributors the gross nominal sales of the domestic cinema operators increased by 7.6% year-on-year last year. Total attendance, similarly, to the number of shows, decreased approximately by 1%. However, nearly one quarter of audience was still missing against the record year 2019 last year.
[34] They consist mainly of activities linked to the activities of web portals, news press offices and agencies or data processing and hosting.

telecommunications, which was the least in the last nine years. After weaker year 2022 sales recovered in programming and broadcasting activities (+4.9%) last year and were by more than one tenth higher against year 2019.

Slump of the retail sales culminated in the half of the last year. Subsequently the sales already slightly grew quarter-on-quarter.

Household consumption remained subdued and their confidence in the economy low.

Retail faced a subdued demand throughout the whole last year, which stemmed from the continuing year-on-year decrease of real household income as well as weak consumer confidence in the economy[35]. Rising number of consumers (due to the arrival of refugees from Ukraine as well as gradual recovery of tourism) had a partial positive effect; on the contrary, the more frequent purchases of the domestic households abroad influenced it negatively[36]. Retail sales[37] decreased by 0.4% quarter-on-quarter in Q2 2023 and thus continued in the decrease for the seventh time in a row (they largely copied the trend of total final consumption expenditure of households). Length as well as depth of the sales slump[38] were unprecedented in the comparable time series (after year 2000). The quarter-on-quarter fall of sales did not continue in Q2 anymore, consumers partially adjusted to the raised price level of goods, their total demand however remained weak (also as a result of persisting enhanced household saving rate). Retail sales were in real terms approximately at the level of Q4 2018 at the end of the last year (in that for food even at the level of year 2014).

Demand for food and non-food products displayed a record decline for the whole last year.

Retail sales decreased by 4.2% year-on-year for the whole last year and thus negligibly deepened the fall from the previous year. Non-food goods, where the sales shrank by unparalleled 5.1% the most participated on the demand downturn (contribution to the decrease of entire retail −2.6 p.p.). Sellers of food also experienced comparable and also deepest fall in the contemporary history (−5.8%). Among more significant retail segments, only sales for fuels were rising (+5.4%, contribution +0.6 p.p.).

Year-on-year decrease of retail sales nearly stopped in Q4. Higher demand of non-food goods, especially within the sale via internet, had a favourable effect.

Decrease of sales for food continued for the eight quarter in a row.

Q4 2023, when the retail sales in fact stagnated year-on-year (−0.1%), provides more optimistic view. Growth for non-food goods was a positive factor (+0.8%), appearing for the first time in the last seven quarters. It was driven by more distinct revival of sales via internet (+6.4%)[39]. Within specialised stores[40], demand for cosmetic and toilet articles (+10.0%) and for pharmaceutical and medical products (+5.1%)[41] grew the most. Mild growth of sales also manifested in stores with computer and communication equipment (+1.9%), demand increased here year-on-year for the first time in the last seven quarters. On the contrary, people still postpone purchases of a number of “non-essential” goods. Sellers of goods mostly for households (containing mainly metal hardware, building materials, paints, glass, DIY supplies, electro supplies, furniture and lighting equipment) thus earned by 5.3% less year-on-year, clothing, footwear and leather goods recorded decrease of 4.7%[42], for products for culture and recreation the decrease was 0.3%. Retail trade of food was by 2.2% lower year-on-year (decrease lasted already

[35] Pessimisms of domestic consumers did moderate at the beginning of the last year against Autumn 2022 (when it was the highest since the end of 90s), it however fluctuated in the still considerably negative band for the most part of the year (household confidence lay approximate one tenth below the long-time average from years 2003–2023). Concerns of people regarding the price growth dissolved to a large extent last year during Spring, majority of households still however expected, that their financial situation (as the overall economic situation in the CR) will worsen in the nearest 12 months. People thus stayed cautious in the area of planning large purchases (especially long-time durable goods or investments).

[36] Last year’s spring offered particularly opportune conditions for these purchases, thanks to the concurrence of decrease of prices of fuels and very fitting koruna foreign exchange against euro as well polish zloty and also the zero VAT rate on some basic food in Poland.

[37] All year-on-year rates of growth of retail sales are stated in constant prices and adjusted for calendar effects, quarter-on-quarter rates are adjusted for seasonal effects (including the number of working days). Retail includes branch CZ-NACE 47.

[38] Against Q3 2021, when the volume of sales hit the absolute maximum, their level was by more than 10% lower in Q2 2023. Purchasing power of average wages also decreased comparably in the same period.

[39] Sales for this type of trade returned to growth in the quarter-on-quarter comparison already in Spring last year.

[40] Outside of specialised shores, the sales grew the most in the small segment of other retail with the predominance of non-food goods (+9.6%). It typically consists of smaller shops oriented at sale of miscellaneous smallware, usually as discount offers.

[41] They together with cosmetic and toilet articles represented the only area of retail, where the sales climbed up in real terms to maximum for the whole monitored time series (since year 2000) last year in Q4.

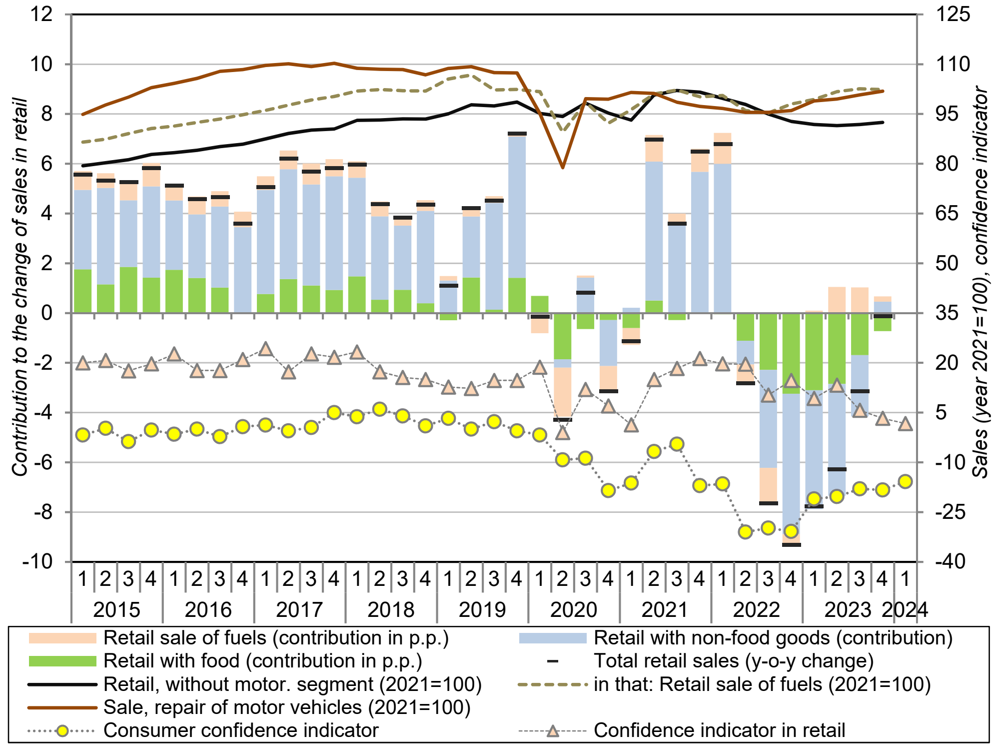
[42] The subdued consumer demand for clothing, footwear and leather goods was likely also caused by the persisting brisk price growth of this assortment of goods (it was around 7% year-on-year in Q4 and reached maximum among all monitored retail segments). Sales for this range of products were in real terms by whole one quarter lower against Q4 2019.

two years). Demand was shrinking comparably for both large chains and small specialised stores (where the largest share among the range of products is held by the tobacco products). The same as for the whole last year, sales for automotive fuel (+2.0%) contributed positively to the retail development also in its Q4. More keenly priced automotive fuels likely partially stimulated their higher consumption, their price has been falling year-on-year since March 2023.

Growth of sales in the motorist segment of trade was mainly driven by higher demand for motor vehicles.

Especially higher demand for motor vehicles, which was connected to the relatively favourable situation of the whole motor vehicle industry in the CR as well as the EU, participated on the year-on-year growth of sales in the motorist segment in Q4 by 7.4% (by 5.6% for the whole last year). Sales for trade with motor vehicle parts and accessories in contrast grew only slowly (they even lowered by 4.5% for the whole year 2023) and for trade, repair and maintenance of motorcycles dropped nearly by 7% (they were falling for the seventh quarter in a row). Sales were still by nearly one tenth lower in the whole motorist segment of trade last year against the end of year 2019 and lagged in all its sub-branches (the most in the trade with motor vehicle parts and accessories).

Chart 8 Contributions of sub-branches to year-on-year change of sales in retail trade* (real, in p.p.), **sales in retail trade and motorist segment of trade**** (real, level from year 2021=100, right axis), **balance of business and consumer confidence indicator***** (in p. p, right axis.)



Note: Motorist segment of trade include branch: Wholesale and retail trade and repair of motor vehicles (incl. motorcycles).
* Sales are adjusted for calendar effects.
** Sales are adjusted for both seasonal and calendar effects.
*** Consumer confidence indicator balance is seasonally adjusted and expresses the position in the second month of the given quarter.
Source: CZSO