

3. Branches Performance

Quarter-on-quarter growth of the gross value added (GVA) in the economy was the weakest in the last seven quarters.

Gross value added (GVA)¹ expressing the total performance of all branches of the economy signalled a slowdown. The quarter-on-quarter growth of GVA moderated already for the second time in row in Q2. Its attained pace (+0.5%) was simultaneously the weakest in the last seven quarters. Still, the Czech economy features higher growth than the EU (+0.4%) or the neighbouring Germany (+0.3%). Easing of the pace was apparent also in the year-on-year comparison in the CR (+4.2% in Q1, +2.4% in Q2). It cannot be omitted, that the economy thrived exceptionally in the first half of the last year, when all significant resources were activated both on supply and demand side.

Services ensured more than half of the GVA growth in H1. Performance of industry perceptibly slackened, construction substantially revived.

Core of the GVA growth shifted from manufacturing to the tertiary sector. Performance of services rose by 3.0% year-on-year in H1 and it contributed 1.8 p.p. to the increase of the total value added. Information and communication and also the financial sector prospered – these are also dynamic branches in the long term in both cases. The growth rate year-on-year more than doubled (to 4.5%) in the weight-dominant grouping of trade, transportation, accommodation and food service. On the contrary the real estate activities as well as the significant segment of services with the predominance of the public sector continued to experience (similarly to the last year) a negligible growth. Manufacturing deducted more than one half from the last year's pace, still the value added rose by nearly 5% here, i.e. more briskly compared to the total economy. Construction enjoyed a notable positive turn, when the year-on-year GVA growth of 5.3% presented the best half-yearly result since year 2007. In contrast the mild last year's drop of performance in agriculture, forestry and fishing deepened this year (to -3.9%).

Year-on-year growth of the industrial production diminished to 2.3%, quarter-on-quarter development however sent a more positive signal.

Business statistics also confirm the loosening of the rate of growth of industry. Industrial production index² went up by 3.2%³ year-on-year in H1 (even only by 2.3% in Q2 itself). The fact, that following a weaker entry into this year (+0.2%) the quarter-on-quarter rate of growth of production increased in Q2 (to +1.1%) can draw a more favourable sign. Not only manufacturing, but also energetics or mining and quarrying contributed to this result.

Production in motor vehicle industry as well as manufacture of rubber and plastic products ended in the weakest rates of growth since the end of recession in Q2....

Short-term slowdown of growth of industry is not in the current expansion phase by far an isolated occurrence. During both years 2014 and 2016, when the similar situations also happened, the key branch manufacturing of motor vehicles held its substantial pro-growth role. However, the current slowdown is connected from a large part just to this branch. While the year-on-year growth of production of manufacturers of motor vehicles oscillated around 10% in 2016, it fell below 3% at the beginning of this year and shrank to 1.5% in Q2 (the weakest rate of growth since the end of the last recession). New orders also provided signs of unsustainability of the high production dynamics in this branch, with their volume stagnating already since Q2 2017. Manufacture of rubber and plastic products also experienced similar development in the last months. In contrast another branch linked to the manufacture of motor vehicles – manufacture of electrical equipment – had success this year similar to the last year (growth between 7 and 8% in H1).

... manufacture of electrical equipment as well as production of

Manufacturers of motor vehicles together with the nearest associated branches thus participated on the growth of the industrial production in nearly one third this year.

¹ Data regarding the GVA are expressed in constant prices and adjusted for seasonal and calendar effects.

² Included branches: Mining and quarrying, Manufacturing, Energetics. All year-on-year rates of growth of output (at the level of CZ-NACE sections as well as divisions) are adjusted for calendar effects. Quarter-on-quarter rates are then also seasonally adjusted.

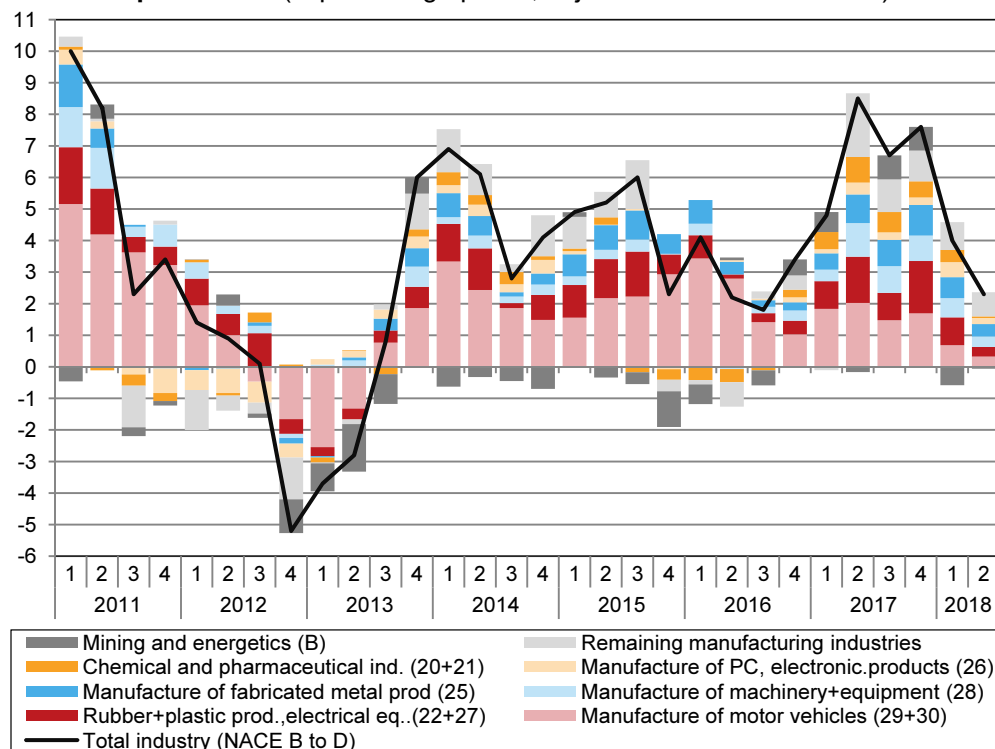
³ There was one working day less in H1 2018 compared to the same period of year 2017. Not adjusted for this effect, the year-on-year growth was only 2.4%.

computers and optical products continued to thrive.

Position of metallurgy and foundry industry or mining industry improved Most smaller industrial branches kept doing well.

Markedly export oriented manufacture of computers and electronic and optical products became the most dynamic industrial branch, the output increased by 10.8% in H1 (by nearly one quarter in two years). Weight significant branches machinery and manufacture of metal products also prospered. Manufacturers of other non-metal mineral products benefited from the strong domestic demand for building materials already second year in a row. Position of metallurgy and foundry industry, similarly to manufacture of other (mainly rail) transport vehicles improved compared to the last year. The strong growth impulse connected to the end of the forced shutdown on the contrary faded away in the chemical industry (still the production here grew by nearly 5% this year). The majority of smaller manufacturing branches also kept getting ascribed positive results (manufacture of wearing apparel, wood products as well as furniture). The manufacture of leather goods, whose performance sank deep this year following a short-term recovery in years 2016 as well as 2017 (-25%)⁴ represented the exception. Among non-manufacturing activities, the position of the mining industry improved. It was thanks to the higher demand for building materials (stone, sand), but newly also halting of the production fall in the weight dominant mining of brown coal. This year's drop of output in energetics (-2.5%) was associated with the mild winter temperatures as well as the short-term fluctuations of the production in the nuclear power plants.

Chart 5 Contributions of sub-branches to the year-on-year change of the total industrial production (in percentage points, adjusted for calendar effects)



Source: CZSO

Growth of sales of industrial businesses almost ceased. They increased the most in metallurgy and foundry industry.

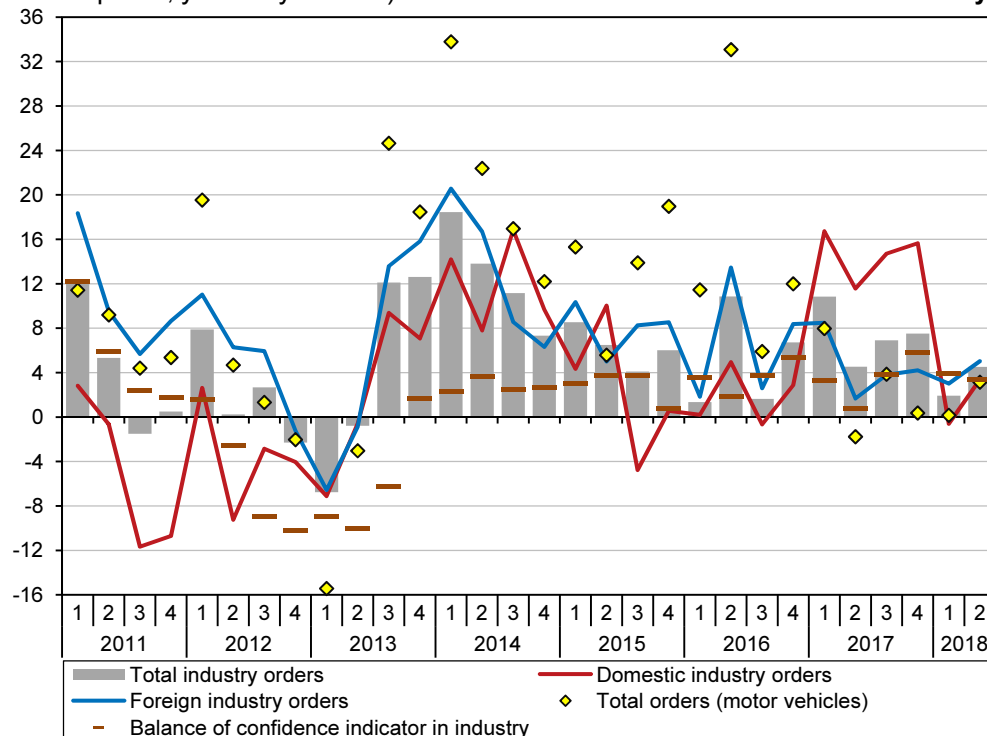
Growth of the nominal sales of industrial businesses halted this year. They stagnated year-on-year in Q1 and increased by moderate 2.1% in the following quarter. While the domestic sales of businesses grew faster than the sales from the direct export for the whole last year, their growths practically aligned in Q2. Sales grew the most – by one tenth – in metallurgy and foundry industry in H1, by half-pace then in manufacture of metal products, wood industry and also in other manufacturing activities (which include e.g. sport equipment, toys, musical instruments or bijouterie). Domestic sales as well as

⁴ Together with the repair of machines and equipment however these were the only manufacturing branches, whose production fell year-on-year in this year's H1.



sales from direct export of manufacturers of motor vehicles mildly fell (by 2.5% in total). This year's development of new orders suggested sound outlook for the industrial businesses. Even though they increased only by just under 2%, the pace already fastened to 4.5% in Q2 and the newest data confirm this trend⁵. Metallurgy and foundry industry and also manufacture of metal products signalled the highest demand. Three quarters of the monitored branches had at least a moderate growth of orders.

Chart 6 New orders in manufacture of motor vehicles, in industry in total (in current prices, year-on-year in %) and balance of confidence indicator in industry



Source: CZSO

Balance of the confidence indicator in industry was mildly falling this year, however it still remained in the positive band. Lack of employees still remains the main barrier to growth in industry. Role of the inadequate demand was the weakest since the end of the expansion phase of the past decade.

The development of the seasonally adjusted balance of the confidence indicator (according to the evaluation of the managers of industrial businesses) also corresponded with the slowing growth of the performance indicator in industry. It was mildly falling during the year 2018 and hit its lowest value in the last thirteen months in July. Still it remained in the positive band (+2.3 p. b.). The lack of employees presents the main barrier to growth in industry⁶ already since the half of the last year. 44% of businesses cited this barrier at the beginning of Q3 2018 – the most in the history of monitoring. Inadequate demand limited 32% businesses, which was the least since the expansion phase of the last decade. Current utilisation of production capacities in industry exceeded 86% (the highest value after year 2009). Short-term expectation of the development of employment stayed at the beginning of Q3 comparable to the same period of the last year. Share of businesses anticipating increase of employment was in comparison to businesses planning reduction by 8 p.p. higher.

Rate of growth of registered employees was not slowing down

Registered number of employees according to the business statistics expanded by 1.6% year-on-year in H1. Rate of growth was not slowing down significantly compared to year 2017. The motor vehicle industry contributed to the higher number of employees (+20

⁵ The year-on-year growth of orders exceeded 11% in this year's July (both domestic and foreign demand reached double digit rate of growth). Value of orders also considerably increased in the manufacture of motor vehicles (+8%).

⁶ According to the Eurostat seasonally adjusted data. Businesses could have also included more types of barriers simultaneously. 24% of industrial businesses considered the inadequate demand to depict the barrier for their growth, 20% then the lack of employees at the beginning of Q3 2018 in the whole EU.

thousand) by nearly one third. Energetics however added relatively the highest number of persons (+6.7%), chemical and pharmaceutical industries also acquired more than 5% increase. Growth of average wages in industry did not accelerate significantly in contrast to other branches this year. It ranged between 7 and 9% in the majority of industrial branches. Notable differences however prevailed in the reached level of wages. It was 2.7 times higher in energetics than in the manufacture of wearing apparel (with the gross monthly wage just below 17 thousand CZK).

Construction output increased by nearly 9% in H1. Civil engineering construction experienced a positive turn. Next to favourable weather, the accelerated drawing of funds from the EU budget also had an effect.

Construction significantly revived in H1. While the output⁷ in the weight dominant segment building construction already grew for the whole last year, the decisive turnaround in the civil engineering construction occurred only with the arrival of this year (output strengthened here year-on-year by nearly 7% in Q1). The output of the whole construction went up by 8.9% in H1, which was from nearly 90% due to the building construction. The output level from year 2015 was exceeded for the first time in Q2 (local maximum in Q2), when the whole branch received a striking impulse resulting from the completion of drawing on resources from the European funds towards the end of the programme period. Nevertheless, the construction still lagged by approximately one sixth behind in comparison with the absolute maximum from the expansion year 2008 (Q1).

Residential construction mildly revived. Number of commenced flats increased in the vast majority of regions. It however considerably lagged behind the total addition to population in Prague.

Next to the favourable weather the accelerated drawing of resources from the EU funds was also reflected in this year's performance in construction. The recovery of the residential construction also had a positive effect. Construction of 16.6 thousand flats commenced in H1 in the CZ. Their number was by one tenth higher year-on-year.⁸ More flats were commenced in all types of structures with the exception of pension homes, where however the low intensity of construction already prevails for longer than the whole decade. Construction in the Central Bohemia region and Vysocina region contributed the most to the higher number of flats. Commenced flats however increased in number in the overwhelming majority of regions (apart from Pilsen and Olomouc regions). Even though the construction was growing in Prague already second year in a row⁹, the number of commenced flats (1.8 thousand) markedly lagged behind the total addition to population (6.6 thousand) in H1. Growing tension on the residential market is reflected in the sharp hike of the realised prices of new flats in the capital city.

Inflow of new orders notably accelerated – both in building construction and civil engineering construction.

Rise of the value of new domestic construction orders¹⁰, which was apparent for the most part of the last year this year accelerated. It was year-on-year higher by 26.5% in the building construction, by 34.0% then in the civil engineering construction. It also benefited the construction businesses, that gradually also the realisations of larger projects started up. It is also proved by the increase of the average value of the newly closed order (to 4.3 CZK mil, year-on-year addition by more than 1 mil). Development of orders could have featured even higher dynamics, if it was not for the fact, that many construction businesses are currently situated on the limit of their production capabilities. The lack of both non-qualified workers and technical and expert employees or specialists contribute to this situation. Already more than 30% of construction businesses (only 18% one year earlier) considered the lack of employees to present a barrier of growth already at the beginning of Q3 2018. In parallel, the influence of inadequate demand was falling considerably. While in October 2017, 51% of businesses stated it as a barrier to growth, it was already only 35% this year in July. The development of seasonally adjusted balance of confidence indicator corresponded to these data. Its value climbed up the highest in

Performance of construction businesses is more and more limited by the lack of workers.

⁷ All year-on-year data related to the construction output are adjusted for calendar effects, quarter-on-quarter rates of growth then also for the seasonal effects.

⁸ The number of commenced flats moved just below 11 thousand in H1 2013, when the recession was subsiding in the whole economy as well as the construction itself. It was double in the same expansion period of year 2008.

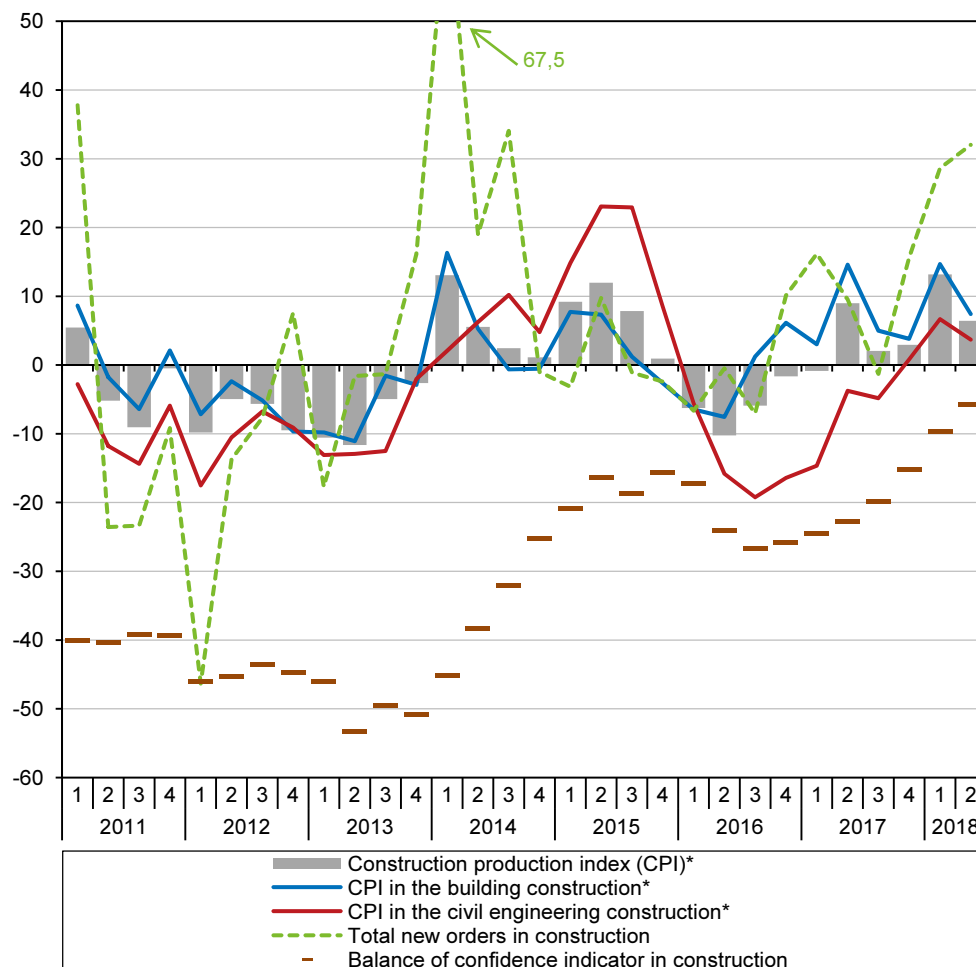
⁹ The frequency of commenced flats sank to the lowest value since half of the 90s (1037) in the capital in H1 2016.

¹⁰ Covers only businesses with 50 employees and more.



the last ten years (-2.0 points) this year in August.

Chart 7 Construction output, value of new orders (year-on-year in %) and balance of confidence indicator in construction



Source: CZSO

Sales in selected services continued growing swiftly for more than one year. It was mainly thanks to transportation and warehousing activities.

Tertiary sector of the economy also fared well this year. Sales in selected services¹¹ continued in brisk growth for more than one year. Despite the high last year basis¹² they increased by 3.6%¹³ in H1. Positive fact was that despite a considerable variedness of the whole services segment, a vast majority of its partial branches recorded growth this year. Among the main branches, only real estate activities deviated, here however the slight fall of performance (-0.9%) was not immediately connected to the whole situation on the real estate market.

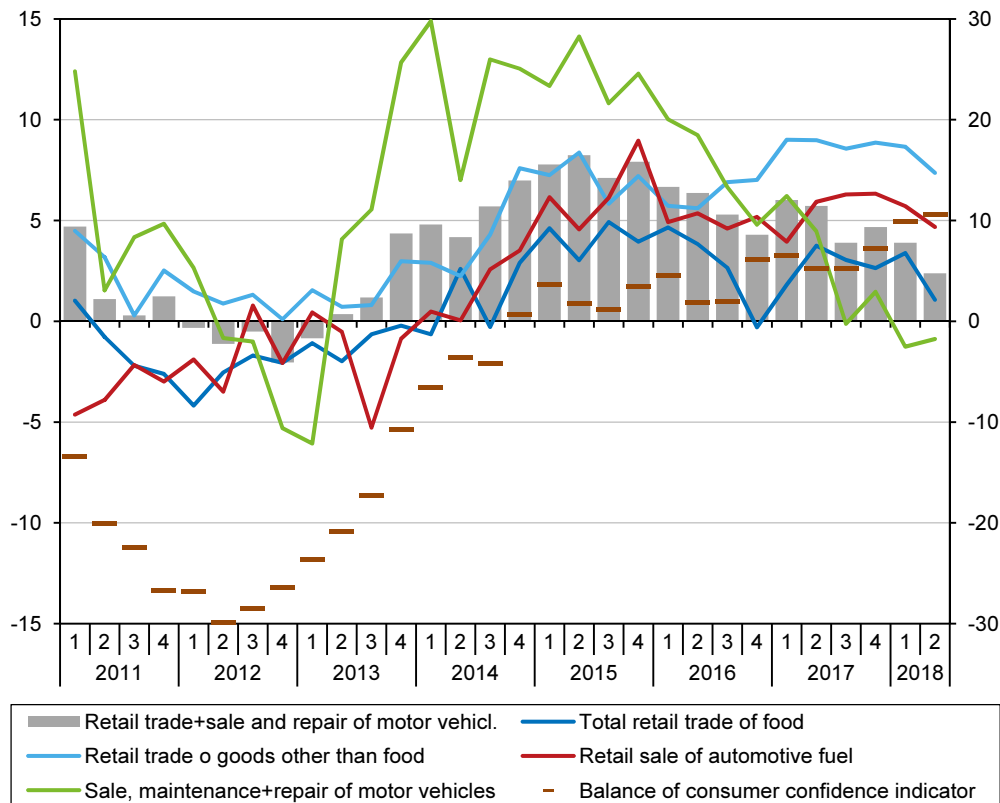
Total growth of sales in services was – similarly to the whole last year – essentially affected by the dynamic development in transportation and warehousing. Role of this branch was even more highlighted this year, it contributed to the growth of services by nearly one half in H1. Information and communication also secured a more significant contribution, other services branches contributed more marginally.

¹¹Excluding 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).

¹² The year-on-year growth of sales in services accelerated in H1 2017, when it reached 5.7% (the highest rate of growth since the end of year 2007).

¹³ Without adjustment for the differing number of working days, the growth was 3.3%.

Chart 8 Sales for retail trade and sale and repair of motor vehicles
(in real terms, adjusted for the calendar effect, year-on-year in %)



Source: CZSO

Dynamic growth in transportation and warehousing was interlinked with the favourable development of industry, trade as well as the record size of employment.

Rate of growth of sales markedly slowed down in activities associated with tourism and also in administrative and support service activities.

Sales in transportation and warehousing increased by 5.8% in H1 (the fastest pace since the end of 2013). Performance was rising in both the passenger and freight transport by road. Sales fastened to 9.5% in storage. The whole branch benefited from the favourable condition of industry as well as trade. Record number of employed also supported the growing mobility. Performance in the long-term dynamic branch information and communication gained pace (5.1%, 4.5% the year ago). Effect of activities in the IT area (computer programming, computer facilities management activities) were of importance here, however all branch divisions (except for motion picture and musical industry) recorded higher performance this year. Sales increased only by 1.4% in the branch accommodation, food service and restaurants this year. The effect of the high comparative basis¹⁴ was relevant here together with the impact of the legislative changes associated with the tax collection. In the substantially heterogeneous branch professional, scientific and technical activities, mild growth continued for the architectural and engineering activities (+1.2%) in connection to the revival in construction. Photographic, design and translation activities as well as market research and public opinion polling also prospered. Sales for the advertising activities on the contrary decreased. Notable slowdown in the administrative and support service activities (from last year's 9.8% to 3.0%) was influenced especially by the development in the employment placement agencies, where the weaker real growth of sales was connected to the price factors¹⁵. Travel agencies also did well (+5.0%). Rental and leasing activities also continued in a similar pace of the long-term growth (where

¹⁴ It was also apparent in the in-kind indicators. Number of overnight stays of guests in the collective accommodation establishments increased year-on-year already only by 2.2% in the CR in Q2 2018. Even though the growth was extraordinary 12.7% in the same period of the last year.

¹⁵ It was the consequence of the minimum wage increases. In current prices, the double-digit year-on-year growth of sales of the agencies continued.



demand was growing for example for the construction machinery).

Retail sales reflected the very optimistic sentiment of consumers.

Brisk growth of the household income (fed by the favourable constellation on the labour market) accompanied by the record consumer confidence created very positive conditions for the retail segment. Retail sales¹⁶ were further strengthening at the beginning of the year and rose year-on-year by 6.3% in Q1 2018 (the strongest following Q3 2007). Both the year-on-year and quarter-on-quarter rates of growth slightly fell in the subsequent quarter. Retail sellers received by 5.3% more this year compared to the first half of the last year. The Czech Republic thus ranked seventh among the EU countries. Retail grows traditionally the most dynamically in the countries of Central and Eastern Europe in the last quarters.

Swift growth of sales for non-food goods persisted.

The sale of non-food goods traditionally contributed the most to the growth of retail trade, its pace overtook the 7% boundary already for the seven quarter in a row. Among specialised stores, especially the retail sale of computer and communication equipment and also household equipment¹⁷ thrived in H1. The dynamic growth of retail sale via internet and via mail order houses continued also in the Czech Republic similarly to the majority of the EU countries (by one fifth year-on-year). On the contrary the growth of sales for food goods slightly slowed down (to 2.2%). In contrast the retail sellers of automotive fuels maintained a swift growth (5.2%), additionally despite the fact, that the development of prices was from the view of consumers less favourable compared to last year in the first half of the motorist season. Sales for motor vehicles and their repairs dived by more than 1% year-on-year also due to the high last year basis this year and thus recorded the weakest half-yearly result since the end of year 2012.

¹⁶ Data do not include the motorist segment. Data related to retail are expressed in constant prices and adjusted for calendar effects.

¹⁷ Includes retail with hardware goods, paints, glass, other household DIY articles, textiles, carpets, floor and wall coverings, electrical household appliances, electrical equipment, furniture or lighting equipment.