

3. Branches Performance

Quarter-on-quarter growth of total GVA halted in Q3. Lower household consumption afflicted the performance of a number of market services as well as the energy industry.

Total branch performance stays behind the peak from the pre-pandemic boom in the CR.

Despite growing challenges, the division Trade, transportation, accommodation and food service fundamentally contributed to the growth of the economy for the whole last year.

Long-term swift growth of GVA in the area of ICT eased pace at the end of the year.

GVA growth in manufacturing was maintained even at the end of year 2022 unlike the energy industry as well as construction.

Decrease of the wood logging continued for the second year in a row. The crop of cereals was above average again.

Data from the supply side of the economy confirm, that the Czech economy found itself due to the effect of external shocks in the contraction phase of the business cycle last year. Quarter-on-quarter growth of the Gross value added (GVA)¹, lasting five quarters in a row, halted in Q3 (-0.2%) and the development in the remaining part of the last year also did not bring any fundamental change (+0.3%). Distinct GVA decrease affected the weight significant segment of services in H2 last year – Trade, transportation, accommodation and food service. This was linked to the deepening slump of the household consumption. Quarter-on-quarter GVA development also adversely impacted the lower consumption expenditures of government institutions for most part of the year. Post-pandemic recovery ceased also in construction and in the number of services for businesses. Savings of households as well as businesses also reflected in the lowered performance of the energy industry at the end of the year. In contrast, manufacturing had a pro-growth effect on the whole economy in spite of fluctuating development of number of industrial branches for the most part of the last year, the similar was also valid for the public services². Performance of all branches (GVA) of the Czech economy has not exceeded its maximum so far (from the end of year 2019)³ and slightly lagged behind it in Q4 (by 0.3%).

In the year-on-year view the GVA growth subsided (down to even 1% in Q4 2022), it was 2.5% for the whole year (after 3.4% from year 2021). Even despite this slowdown, all main divisions of services contributed to the economic growth last year – the segment Trade, transportation, accommodation and food service (+0.6 p.p.) the most. The GVA however grew the most dynamically in other services activities⁴ (+9.5%), partially due to the effect of low comparative basis from the beginning of year 2021, when these services were as a result of government counter pandemic measures considerably restricted. In the long-term prospering information and communication the GVA increased by even 5% last year (the growth narrowed to 2.5% in Q4 2022 itself, which was the least since the end of year 2016). It was associated with weakening demand in the wider spectrum of services for businesses. On the contrary, the bloom of activities in the area of real estate continued despite the slump of the mortgage market throughout the whole year. The performance of this branch was however compared to year 2019 still lower at the end of the last year (by 2%). Public services registered moderate, nevertheless long-time stable GVA growth (1.2% last year).

Among the branches outside the services sector, the GVA grew the most in manufacturing last year (+2.9%, contribution to the growth of the whole economy +0.7 p.p.), which profited from the solid both domestic and foreign demand and thus maintained its growth at the end of the year as well. This is not valid for other branches – energy industry or construction. The GVA fell by 2.4% in the branch Agriculture, forestry and fishing last year and mitigated the 15% slump from year 2021. The situation in forestry, where the receding bark beetle outbreak drastically lowered the need for the wood logging for the second year in a row, was likely still essential for the development of the whole primary sector. Total last year's harvest of cereals only negligibly lagged behind the above average crop from 2021 by 0.1%⁵. Deeper slump of the harvest of grain maize was offset by the growth for wheat and barley. Oilseed rape and other industrial crops or fruit farming flourished. Moderate 2% year-on-year decrease of crops however occurred for both potatoes and sugar beet, deeper decline affected forage plants and majority of vegetable types. Hop plant recorded a slump of harvest⁶, on the

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

² For simplification, branches public administration, education, health and social work are included here.

³ Within the EU countries, it was valid only for Spain, among other European countries for instance for the Great Britain.

⁴ Includes arts, entertainment and recreational activities and further provision of personal services (e.g. hairdressing, beauty treatment services, cleaning services or repair of products for personal use and mainly for households).

⁵ Based on the final data for year 2022, it in total (incl. grain maize) attained 8.22 mil of tons. It overtook the average of harvests from previous five years by 6.9%, ten year average then by 5.2%.

⁶ Its harvest dived by 46% year-on-year. The crop from the preceding year 2021 (8.3 thousand tons) was the highest in the CR after year 1996.

Rising production costs as well as weaker consumer demand added to the decrease of the meat production.

contrary the long-term trend of harvest growth continued for vineyards. Four years lasting growth of the natural production of meat halted last year (its level returned to the extent from year 2018). Last year's decrease (4.2%) was affected the most by lower production of pork meat, the decrease however occurred for all other main types of meat. High growth of the production costs (feed, energies) as well as lower consumption in households manifested. Decline within the animal production was partially softened by mildly growing production of milk. The GVA in all main branches of the primary as well as secondary sector was in Q4 2022 below the level of year 2019 (the most in construction – by 11%).

The quarter-on-quarter growth of the industrial output continued in the period Q1 to Q3. Its volume for the first time overtook the maximum level from year 2019.

Data from the business statistics also confirm, that the domestic industry continued in mild post-pandemic revival for the most part of the last year. It managed to offset the weaker performance of the motor vehicle segment at the beginning of the year 2022 and later also of some significant businesses in other branches, which were affected by the disruption of the supply chains due to the unexpected ignition of the war in Ukraine. During Q3, when the quarter-on-quarter growth of the domestic economy stopped, the industrial output⁷ however increased by 1.9% (which was the most since the end of year 2020). The fact, that the investment activity in the economy did not weaken markedly also contributed. The same was also valid for the value of foreign industrial orders since the euro area as well as the German economy itself still resisted the threat of recession. The fact, that the situation with the supplies of the production components for the motor vehicle industry temporarily improved, played an important role. The total industrial output thus exceeded the level from the pre-pandemic boom for the first time last year in summer⁸. However, the stock prices of both electricity and gas escalated in Europe in August last year, which together with the ongoing swift growth of prices of other material inputs adversely reflected in the performance especially of more energy-intensive branches (metallurgy, metalworking industry, manufacturing of glass or extraction and manufacturing of building materials). Savings translated into falling demand (both of households and enterprises) affected the branch of energy industry. In addition the industrial businesses in the CR started still more to experience concerns associated with the worsening economic situation in the number of significant export territories, which also became apparent in the negative business cycle expectations of domestic businesses. Thus the quarter-on-quarter growth of production in industry as well as its key segment of manufacturing of motor vehicles in effect halted in Q4.

The industrial production was adversely affected by the impacts of sharp hike of prices of inputs, rising difficulties with the supplies of production components as well as worsened performance of the euro area economy in Q4.

Last year's growth of industrial output was driven mainly by the manufacturing of motor vehicles. It however also faced difficulties.

Even though the output dropped in approximately one third of industrial activities for the last year, it went slightly up in total for the whole industry (+2.5%). It was mainly thanks to the manufacturing of motor vehicles, which even despite weaker basis (because of forced shutdowns of operations in Q3 2021) increased by 11.8% and contributed even 2 p.p. to the growth of the whole industry. It was assisted by the strong demand connected to the renewal of the company vehicle fleet (interrupted during the pandemics) as well as the gradually developing segment of electrical vehicles – as also evident from the data regarding the physical production⁹. Still the situation in the manufacturing of motor vehicles remains complicated. Utilisation of production capacities was around 80% here nearly for the whole

⁷ 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 (at the level of branch sections as well as divisions) are adjusted for calendar effects, quarter-on-quarter rates then also for seasonal effects.

⁸ The industrial output was closely (by 0.1%) above the level of the previously record period (Q2 2019) in Q4 2022. However three fifths (out of nearly thirty) of main industrial branches stayed behind their peak from the pre-pandemic boom era (years 2014 till 2019). It was mainly mining and quarrying of coal (by 39%), leatherworking and footwear industries (28%), metallurgy (22%), wood industry (20%), textile industry (15%) and among the more significant branches e.g. the energy industry (14%), chemical industry (10%) or manufacturing of computers, electronic and optical appliances (7%), fabricated metal product industry and also rubber and plastic industries (similarly 5%). On the contrary, especially manufacturers of electrical equipment (by 12%) and manufacturers of motor vehicles (by 7%), from the smaller activities then e.g. pharmaceutical, paper and wearing apparel industries already overtook the pre-crisis level.

⁹ Based on the Automotive Industry Association data, monthly production usually exceeded the boundary of 100 thousand personal vehicles from May till September last year. As a result these months approached the level from the same period of years 2017 till 2019, when the motor vehicle manufacturing peaked locally. The manufacturing of motor vehicles reached 1.218 mil in total for year 2022 (by 10% more year-on-year, but by 15% less compared to both years 2018 and 2019). Already more than one tenth of the manufactured personal vehicles concerned electrical vehicles (incl. vehicles hybrid cars). Producers of other motor vehicles (motorcycles, buses) also registered an increase of output compared to year 2021, simultaneously their output was exceeding the pre-crisis level.

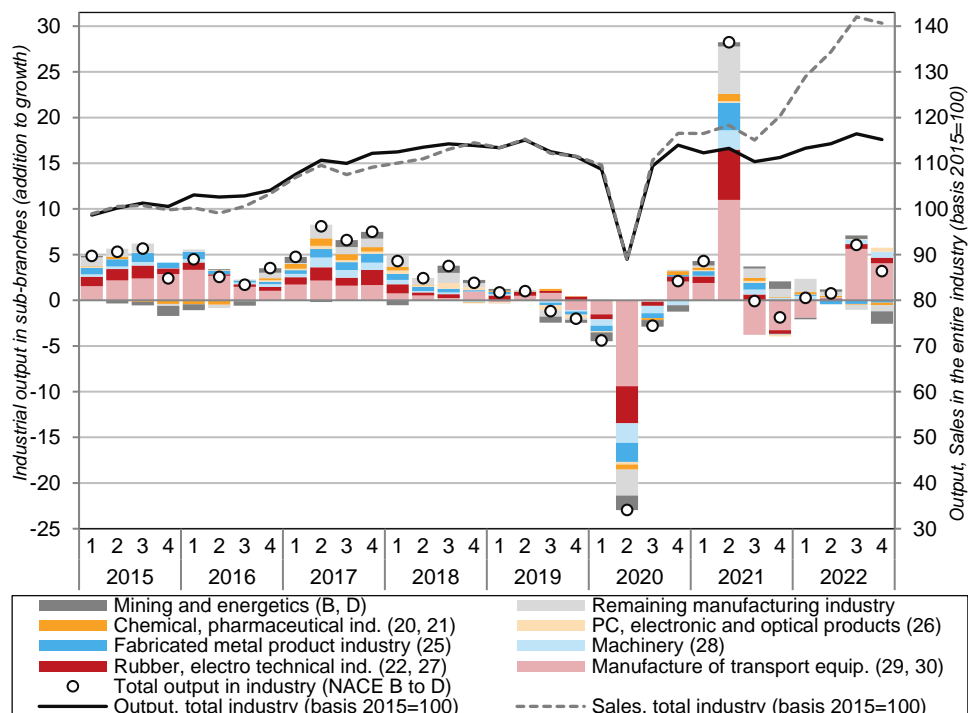


last year (while the long-term average slightly exceeds 90%). In addition, 85%¹⁰ of businesses in the manufacturing of motor vehicles declared a shortage of material or equipment in January 2023 (their share did not lower as opposed to other industrial branches in the last half-year).

Manufacturing of electrical equipment, computers or machinery also thrived. Some smaller branches strongly hit by the slump of demand during the pandemics markedly revived.

Next to the manufacturing of motor vehicles, the diversified branch of manufacturing of electrical equipment also more notably added to the industry growth (+0.5 p.p., given the branch growth of 6.7%), since it was supported by a solid demand both locally and abroad. The output in the significant branch of machinery increased by 5%, its output thus evened up the level from the peak of the pre-pandemic boom in Q4 2022. The last year's growth of output was supported by the growing domestic demand in the manufacturing of computers, electronic and optical products (+4%). Among smaller branches, mainly leatherworking and footwear industries (output growth by record 20.7%) or wearing apparel industry (+13.0%), which were also assisted by the domestic demand, prospered. The gradually expanding numbers of foreign tourists in the CR fuelled the manufacturing of beverages, whose output increased by 7.8% last year (the most after year 2006). Long-time developing and substantially export oriented pharmaceutical industry fared well (+8.0%).

Chart 4 Contributions of sub-branches to the year-on-year change of the total industrial output (adjusted for calendar effects, real, in p.p.) and sales and output in the entire industry (seasonally adjusted, level of year 2015=100, right axis)



Note: Sales are given in current prices, Output in constant prices.

Source: CZSO

The fall of output deepened in the majority of high energy-intensive industrial branches in H2 2022.

High energy-intensive branches of chemical, metallurgical and metalworking industries or manufacturing of glass and building materials on the contrary sank into still more complicated situation. Following the fast recovery in year 2021, when the performance of these branches climbed up above the level from the pre-crisis year 2019 (thanks to the swift demand both locally and abroad), a slump occurred due to the sharp jump of prices of inputs, which deepened during H2 2022. At the same time, the largest slump afflicted metallurgy, where the output fell by 8.3% due to the weakening of the foreign demand last year (it last recorded a deeper slump during recession in year 2009). Milder, however still significant in the view of the whole industry was the output decrease, which affected the chemical and also the

¹⁰ Businesses could have indicated more main growth barriers simultaneously.

<p>Decline of the household consumption as well as the rising production costs led to the decreased output in the long-term growing food industry.</p>	<p>fabricated metal product industry, which was not aided much even by the growing demand in the small segment of the arms production. The food industry also struggled with high growth of production costs together with the weakening consumer demand, whose output lowered for the first time after year 2013 (by 1.5%). In contrast the slump in the wood industry, which manifested for the second year in a row (last year by 7%) had a different background. The performance of the follow-up branches (paper and furniture industries) stagnated; the weaker demand started to be evident also here in H2 2022. The output in the manufacturing of other (especially rail) transport equipment features traditionally fluctuating character. It dived mainly due to the high comparative basis by 7.5%¹¹ last year.</p>
<p>Output growth in the coal mining reached record level last year, the quarrying of building materials on the other hand decreased.</p>	<p>The energy shock, which shook the so far relatively stable energy mix in the number of European economies and interrupted long-term trends in the demand for important commodities substantially influenced the situation in the non-manufacturing industrial branches last year. Output in the mining and quarrying went mildly up for the second year in a row. In that the output in the segment of coal mining increased in 2022 by nearly one tenth year-on-year, when it grew for the first time since year 2011 and its pace was the highest in the comparable time series (since year 2000). On the contrary the output slightly decreased in the extraction of building materials (by 1.6%), which was related to the weakening of demand on the part of builders as well as the high energy intensity of this branch. The output decreased also in the energy industry last year (by 2.9%), primarily due to the development in Q4, when the marked cut down of consumption as a result of warmer weather as well as expected operating savings in business and households was felt. Consumption of the natural gas dived by record 20% in the CR last year and its volume was the lowest in the last eight years¹². Decline also occurred for the manufactured heat¹³. The amount of manufactured electricity lowered by negligible 0.4%¹⁴ year-on-year (it was however by 2.9% lower compared to year 2019). Since the domestic consumption of electricity dropped faster last year (by 3.9%), the long-time surplus of the CR foreign trade with this commodity further widened¹⁵.</p>
<p>Warmer weather as well as savings of customers stood behind the decrease of output of the energy industry, especially at the end of the last year.</p>	<p>Nominal sales of industrial businesses¹⁶ increased by 16.1% in year 2022, when they grew in all its main branches. Domestic sales strengthened by more than one fifth year-on-year, by more than double the pace of sales from direct export. Number of branches traditionally oriented on the domestic market faced strong cost pressures, which were reflected in the realised sales – that is why these e.g. in coal mining or energy industry rose in total by nearly one third, in food industry by nearly one fifth. On the contrary the sales were only by 5.4% higher in the significantly pro-export manufacturing of computers, electronic and optical products and the price growth was out of the more moderate here. In Q4 2022 however, the quarter-on-quarter growth of sales halted in the whole industry (for the first time since summer 2021), which was connected to the weakening of the economy as well as the fact, that the</p>
<p>Domestic sales grew more swiftly than sales from direct export to the industrial businesses year-on-year.</p>	<p>Nominal sales of industrial businesses¹⁶ increased by 16.1% in year 2022, when they grew in all its main branches. Domestic sales strengthened by more than one fifth year-on-year, by more than double the pace of sales from direct export. Number of branches traditionally oriented on the domestic market faced strong cost pressures, which were reflected in the realised sales – that is why these e.g. in coal mining or energy industry rose in total by nearly one third, in food industry by nearly one fifth. On the contrary the sales were only by 5.4% higher in the significantly pro-export manufacturing of computers, electronic and optical products and the price growth was out of the more moderate here. In Q4 2022 however, the quarter-on-quarter growth of sales halted in the whole industry (for the first time since summer 2021), which was connected to the weakening of the economy as well as the fact, that the</p>

¹¹ It however worked in the direction of the decrease of the whole industry only marginally (-0.2 p.p.).

¹² According to the data of the Energy Regulatory Office of the CR (ERO), the total consumption of natural gas after adjustment for long-term thermal standard plummeted by 16.5% last year. The absolute size of such expressed consumption reached a minimum in the comparative time series since year 2001. The non-adjusted consumption was falling in all months of the year (mainly in May by 33%). For the whole year, the consumption decreased the most for wholesale customers – e.g. the largest businesses (by 22%) and households (21%), the least for businesses in the retail (small) customer category (14%).

¹³ According to the up to date ERO data, the total gross production of heat dropped by 6.6% for Q1 to Q3 2022, mainly due to the lower utilisation of natural gas and black coal (in contrast the weight of the brown coal and heating oils grew). The amount of consumed heat decreased faster (by 10.3%), in that by 12% in households, decrease also occurred across the business sphere (4% in industry, 24% in energy industry).

¹⁴ Combined gas/steam plants contributed mainly to the decrease of the total gross generated electricity according to the ERO data in year 2022 (their production sank by one half year-on-year), water stations were also less utilised. Thermal (steam) power plants on the contrary contributed positively (output growth of 6.3%), specifically mainly due to the higher utilisation of coal. Production in nuclear power plants also mildly strengthened (+0.9%), its size totalled record 31 TWh (37% of all electricity generated in the CR). Total gross domestic consumption of electricity was slightly falling year-on-year for the whole last year, however the most in Q4 (-6.6%). Mainly households participated on the yearly savings (they decreased their consumption by 9%, the most in the last 20 years). Savings in the business sphere were in much lower range – for wholesale customers (-2.5%), for retail customers - e.g. small entrepreneurs (-0.1%). The electricity consumption was higher only for households last year (+2.9%) compared to year 2019, it lagged behind the pre-crisis level in the business sphere (5.6% for wholesale customers, by 3.5% for retail customers).

¹⁵ According to the ERO data, the value of difference between export and import increased by 22%, to total +13.5 TWh in year 2022.

¹⁶ It concerns sales from the industrial activity only. The year-on-year rates of growth are adjusted for calendar effects.



Quarter-on-quarter growth of sales ceased at the end of the year.

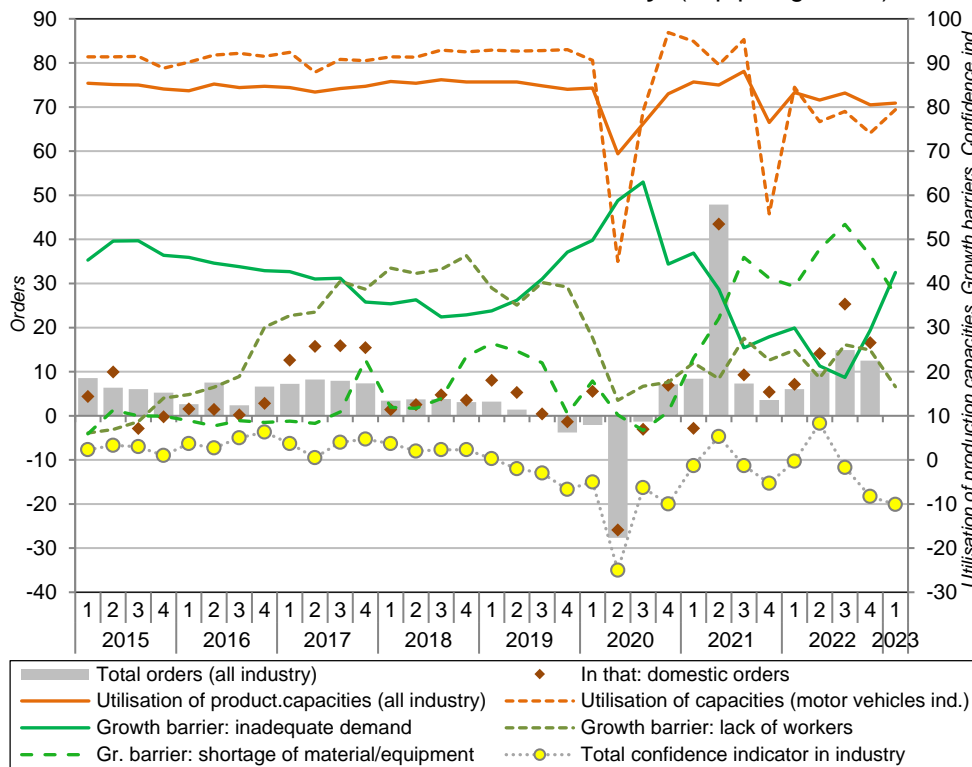
price growth of the number of inputs had been weakening already since the last summer. The sales were thus shrinking especially in the energy industry (by 19%), a milder decrease was observed in metallurgy or manufacturing of chemical and paper products in comparison to Q3 2022.

Growth of the value of new industrial orders lagged behind the sales dynamics since the beginning of the year.

The growth of the nominal value of new orders (in selected industrial branches¹⁷) was also markedly impacted by the price effects for the whole last year. In addition it still lagged behind the dynamics of both sales and growth of industrial producer prices. The orders grew by 12.5% year-on-year in Q4, from more than two thirds aided by the demand in the manufacturing of motor vehicles. It was partially affected by the lower comparative basis. It is encouraging, that the size of these orders expanded also compared to Q3 2022. It cannot be claimed regarding the most energy-intensive industrial branches (metallurgy, chemical industry), where the demand was falling quarter-on-quarter already in Summer 2022. With regard to the growth of prices of intermediate inputs, the dynamics of orders can be assessed favourably in manufacturing of wearing apparel, pharmaceutical industry and (thanks to strengthening domestic demand) also in the manufacturing of computers, electronic and optical appliances.

Demand in the most energy-intensive branches was decreasing.

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 perceptibly dropped since the last Spring.

Business confidence in industry was after a short growth in Q2 2022 (associated with the moderation of pressures in the supplier chains at the motor vehicle manufacturers) gradually decreasing in the subsequent months. The largest pessimism since June 2020 thus set in February 2023. Unfavourable assessment of the current demand prevailed; the inventory stock

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.

<p>Inadequate demand again became the key barrier to growth following a two-year pause.</p>	<p>of finished products remained above the long-term average. With the rising number of businesses anticipating a decline in production in the short-term horizon (as far as 15%) the negative outlooks for the employment were deepening¹⁸. With the length of the outlook nevertheless, the expectations of the total economic situation were improving¹⁹. Inadequate demand represented the key barrier to growth²⁰ (for 42% of businesses), shortage of material or labour force played a smaller role since the last year's Autumn (it still stayed essential for businesses in some branches).</p>
<p>Output mildly increased in construction for the last year, specifically thanks to its both main branches.</p>	<p>Construction performance displayed a fluctuating nature in the CR during the last year. In Q1, 2022 the growth of its output²¹ accelerated (due to the effect of warm winter as well as large stock of both public and private orders) to quarter-on-quarter 4.3% (mainly thanks to the civil engineering construction) and with its size overtook the pre-crisis year 2019 for the first time. The output lowered quarter-on-quarter (in total by 6.1%) during both Q2 and Q3. The adverse impact of the strong price growth (energies, fuels as well as material inputs), worse accessibility of materials, equipment but also the labour force (partially as a result of the war in Ukraine) became more evident. This often led to the extension of completion of existing projects or to the postponement of commencement, or alternatively the revision of planned investment actions. A mild recovery occurred during the last quarter (both building construction and civil engineering construction equally participated on the total 2.2% output growth). The output increased by 2.6% for the whole year 2022 and continued in the similar growth from the preceding year. Unlike the year 2021 however, both main disciplines contributed to its growth last year – weight more significant building construction by 1.7 p.p., civil engineering construction by 0.9 p.p.</p>
<p>Number of finished dwellings significantly expanded last year. Large number of unfinished works from the past manifested here.</p>	<p>The building construction profited from the development of housing construction. There were 13.9% more dwellings completed year-on-year last year. Their number (39.4 thousand) represented the second largest volume of construction in the history of the independent CR²². Units in the residential buildings formed two thirds of the last year increase, more flats were however created in all other construction categories. Different situation was in the area of commenced flats, whose number compared to the record construction form year 2021 (45 thousand) shrank by 6.1% last year, mainly due to the development in H2 2022²³. Weakening of the demand due to the perceptible cooling of the mortgage market, but also high and still growing costs of construction firms stood in the background. The civil engineering discipline, which consists of higher number of larger businesses (compared to the building construction area), could have profited from the solid pace of public expenditure in the area of transport infrastructure, especially in the second half of the last year²⁴ primarily linked to the drawing on European subsidies.</p>
<p>Pace of the commenced construction subsided in H2.</p>	<p>The year-on-year rate of growth of the nominal value of new local construction orders (in businesses with more than 50 employees) grew by double digit pace throughout the whole last year (by 13.0% in Q4). However, when considering the growth of the price of construction works²⁵, it can be more assessed as stagnation of the real construction demand in the CR (this</p>
<p>Growth of the value of new construction orders as well as their total stock did not exceed the dynamics of the</p>	<p>The year-on-year rate of growth of the nominal value of new local construction orders (in businesses with more than 50 employees) grew by double digit pace throughout the whole last year (by 13.0% in Q4). However, when considering the growth of the price of construction works²⁵, it can be more assessed as stagnation of the real construction demand in the CR (this</p>

¹⁸ They were the lowest in the last two and a half years. They can also be compared to year 2013, when both the domestic economy and industry were in the clutches of a mild recession. Number of registered employees fell by 0.4% year-on-year in Q4 2022.

¹⁹ In the time horizon from March till May 2023, 10% of businesses anticipated worsening of their own economic situation (improvement 8%), for the period of Q3 2023 9% assumed worsening, but already 29% of businesses improvement.

²⁰ Businesses could have stated more main barriers simultaneously. Barriers are adjusted for the seasonality effect.

²¹ 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.

²² The highest number of dwellings has been completed in the boom year 2007 so far (41.6 thousand).

²³ The decrease of the number of all commenced dwellings was more than 30% in Prague year-on-year last year, still the construction of 6.5 thousand flats was started there (the second highest number after year 2008). In the segment of family houses (FH) in contrast more-or less across-the-board decrease occurred across the CR regions. The number of commenced flats in all regions in new FH reached only 8.6 thousand in H2 2022 (it represented a six-year minimum within all H2).

²⁴ 78 CZK bn was paid out on investment from the CR state budget into the State Fund for Transport Infrastructure (SFDI) last year, by one sixth more year-on-year. The annual size of the investment subsidies approached the budget anticipations.

²⁵ It attained 12.0% year-on-year in Q4 2022 and 12.3% in total from the beginning of the year. Price effects were also substantially mirrored in the average value of the newly concluded construction orders – it arrived at 4.2 CZK mil for the whole last year and increased by 0.5 CZK mil year-on-year.

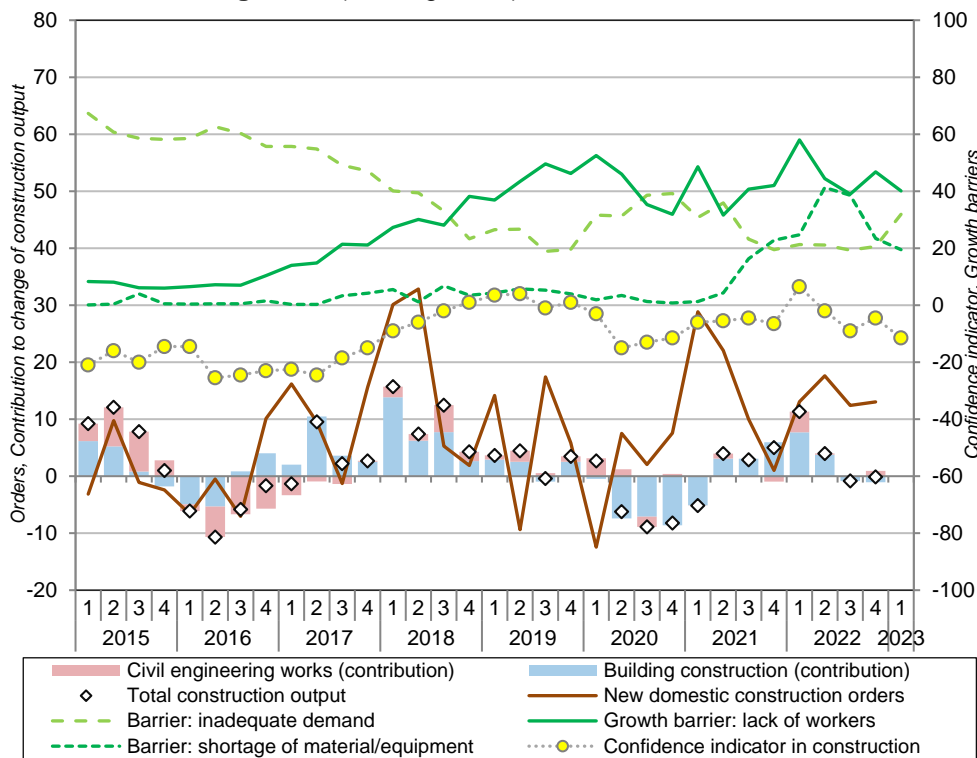


construction works last year.

Value of construction permits fell year-on-year in Q4 2022.

is also supported by the fact, that the number of new orders did not change compared to year 2021). Demand in the segment of the civil engineering construction gives a more positive impression (the value of new orders went up by nearly one fifth here year-on-year in Q4 2022). Total stock of work (in the form of value of the orders to be realised) was by 8.6% higher year-on-year last year at the end of December 2022, for the most part however thanks to the public investors locally (they covered over 60% of all stock of orders in the portfolio of the construction firms). The stock of private orders was only by 2.4% higher in the CR year-on-year (after taking into account the prices, it can thus be talked about the decrease of the demand from this segment of the economy). Indications regarding the cooling of demand were apparent also for the granted building permits, which signal investment activity in the medium-term horizon. Their approximate value slightly decreased last year in Q4 (by 1.3% year-on-year). Except for the transportation structures (for both construction and reconstruction) all more important categories of structures experienced a decline²⁶.

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

Business confidence in construction was deteriorating since the last year's Spring. Negative expectations were also apparent in the

Positive results of construction supported the optimism of businesses in this branch at the beginning of the last year and the February balance of confidence indicator thus balanced out with the absolute maximum (from January 2019). The economic sentiment in construction however worsened later on, especially at the turn of years 2022 and 2023, when it slid the lowest in the last two and a half years (it was, however still placed above the long-time average).

²⁶The value of the permit also mildly fell for the whole year 2022 (by 1.2%). Authorisation of the construction of new Prague subway line (D), which occurred in July 2021 played an important role here. In the area of new construction of residential as well as non-residential buildings the value of permit was growing – by 6 %, 12% resp.. After the deduction of all other large structures (with the approximate value above 1 CZK bn) the permit value would increase by more than 9% year-on-year for the last year (i.e. still less than was the growth of prices of construction works for the same time period). In the environment of strengthening cost prices (material, energy, wage) it is not possible to exclude, that the invoice prices can substantially depart from the prices anticipated at the construction authorization.

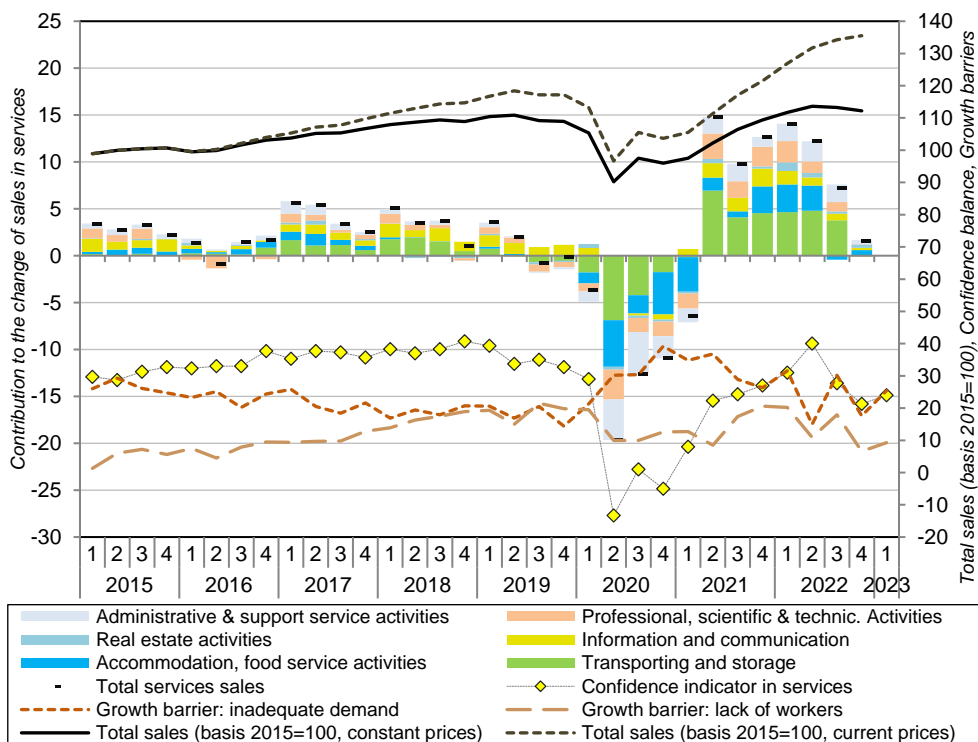
outlook to the whole H1 2023.

The fast growing cost pressures showed in the negative assessment of the current as well as expected demand, employment outlooks or future economic situation of businesses (pessimism persists here - in contrast to the industrial businesses - also in the outlook to the whole H1 2023). In spite of the role of inadequate demand as a barrier to growth for the construction firms notably expanded at the beginning of this year (in February 2022 to 32%, the most since May 2021), key restriction still lies in the shortage of the labour force (for 40% of businesses)²⁷.

Sales in services grew quarter-on-quarter only in the first half of the last year. Later they were influenced by the falling demand on the part of both households and businesses.

Demand for services developed unevenly during the last year. Sales in selected services²⁸ increased quarter-on-quarter by 2.1% at the beginning of the year and climbed above the level of the boom year 2019 for the first time. Services thrived also in Q2, when mainly the branches with tight link to tourism markedly revived. The growth of sales however ceased in the remaining part of the year. The key branch of transportation and warehousing registered signs of the demand weakening (for the first time since half of year 2020). In addition the deteriorating economic situation of the domestic households was reflected in the area of food service and restaurants. Further, the businesses started to restrict their demand for some activities (of administrative and support service character, but also more sophisticated services). The decrease of sales deepened in warehousing (to 8.2% quarter-on-quarter) in Q3 2022, which was connected to the deteriorated performance of industry as well as the decrease of the turnover of the foreign trade of the CR with goods²⁹.

Chart 7 Contributions of sub-branches to year-on-year change of sales in services* (real, in p.p.), **total sales in services*** (basis 2015=100, right axis), **balance of business confidence indicator in services**** (in p.p., right axis), **selected growth barriers**** (in %, right axis)



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

²⁷ Businesses could have indicated more barriers simultaneously. Barriers are adjusted for the seasonality effects.
²⁸ 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).
²⁹ It was 1.5% quarter-on-quarter (expressed in current prices and after seasonal adjustment).



Reverberations of the post-pandemic recovery of demand were still reflected in the high last year's annual growth of sales in services.

Sales in services strengthened by 8.5% year-on-year for the whole last year. This pace, the fastest since year 2007, for the large part reflected the effect of the low comparative basis from the beginning of year 2021, when the strict counter-pandemic measures fundamentally restricted especially the development of tourism and number of other leisure activities of the population. As expected the sales in accommodation, food service and restaurants recovered the most last year (+27.0%), all main branches of services however felt the higher demand. At the level of sub-branches, the sales fell for the radio broadcasting and television programming (by 15.3%), job agencies (10.0%), advertising and market research (-6.7%) and postal and courier services (-3.5%). While the lower sales of couriers were more the consequences of the "post-pandemic" return to the traditional forms of trade in the brick and mortar stores, declines in the other mentioned branches reflect mainly the cyclical slump of the demand resulting from the impacts of the energy crisis.

Year-on-year growth of sales in services was only modest in Q4 since the key branch of transportation was driven down by weaker demand in warehousing and support activities for transportation.

This slump of demand is more plastically expressed in sales for services in Q4 2022. These exceeded the preceding year's level only by 1.6%. Despite modest pace, all main branches added to the growth apart from the weight dominant transportation and warehousing, where the sales mildly decreased (-0.3%). The drop of demand in the long-time developing postal and courier services, similarly, to warehousing and support activities for transportation, was not fully offset by the growth of sales in the land and pipe transportation (3.2%), which was aided by higher sales in rail as well as road transportation. The recovery continued in both air and water transportation; these branches however still have not attained the pre-crisis level of demand.

Sales in activities tied to tourism kept further recovering, they nevertheless have not reached the level from year 2019 so far.

Sales were by one tenth higher year-on-year in the branch accommodation, food service and restaurants in Q4 2022 and contributed the most to the growth of all services (+0.5 p.p.). Gradual recovery of the arrival tourism substantially assisted this result. The demand however still considerably lagged behind the level from the end of year 2019 – it was more pronounced in accommodation (by 25.4%) than in food service and restaurants (15.4%). In contrast the branch information and communication already overtook the pre-crisis level (by 6.0%), similarly to the real estate activities (+3.8%). The year-on-year growth of sales however weakened in the long-time developing ICT area last year and it arrived only at even 1% in the last quarter. The demand grew only in the information technology activities here (e.g. programming, computer facilities management activities), considerable slump manifested for radio and television broadcasting activities. Sales also fell in the so called music and motion picture industry (even though the segment of motion picture distribution activities flourished³⁰) and a mild decrease of demand non-traditionally also hit the information activities (including hosting, web portals as well as news agency activities).

Traditionally dynamic growth in the ICT area waned since the demand growth prevailed only in the area of programming.

Sales for advertising and market research went down markedly. The majority of business support services signalled lower demand.

Weakening of the demand for business support services was the most evident in the branch professional, scientific and technical activities, where the sales only stagnated year-on-year last year in Q4 2022. These were compressed mainly by the plunge of sales for advertising and market research (-9.7%), demand was also falling for other services. The legal and accounting services (sales did not decrease meaningfully here even during the peak of the pandemics) and architectural and engineering activities (+3%) comprised the exception. Higher growth of sales (5.6%) still prevailed in the branch administrative and support service activities in Q4, it was however mainly thanks to travel agency agencies, which were catching up on the deep losses from year 2020. Demand on the contrary lowered in the areas responding sensitively to the business cycle, e.g. the rental and leasing activities (especially motor vehicles and machinery) by 3.4% and further also at the job agencies (-4.6%). Demand for the vast majority of sub-branches within the administrative and support services activities remained below the pre-pandemic level even at the end of the last year (the most at the job agencies, where the sales were by more than one quarter lower compared to Q4 2019).

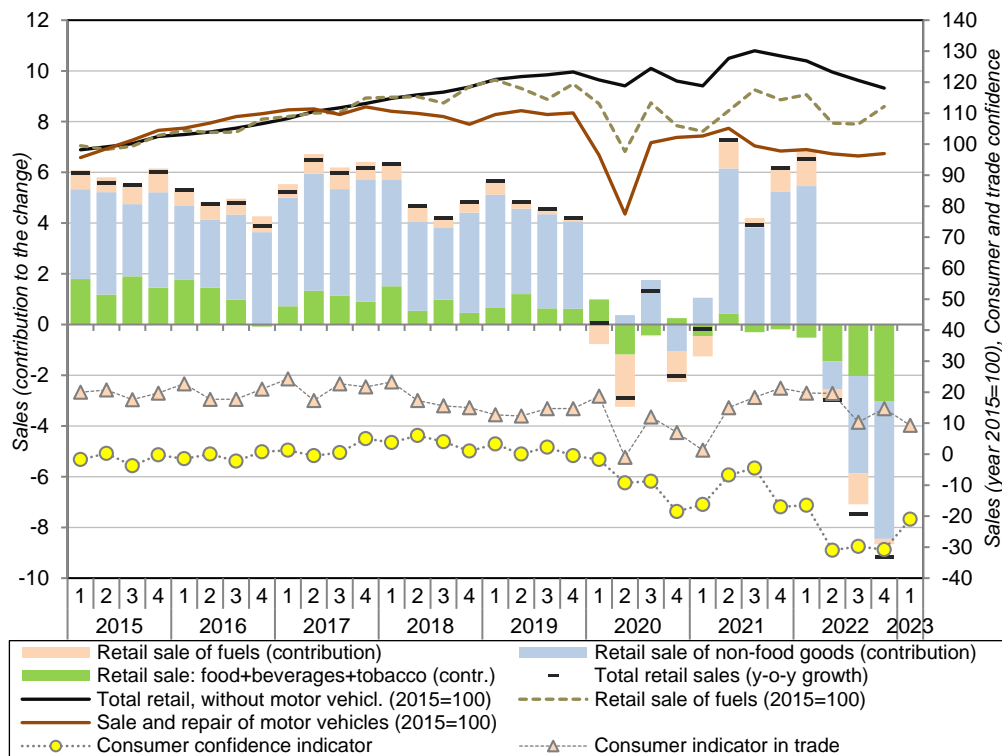
³⁰ Based on the data from the Union of Motion Picture Distributors, the sales of the domestic cinema operators increased by 10.7% year-on-year in Q4 2022. In total from the beginning of the last year, both the sales and attendance nearly doubled year-on-year (from January till May 2021 however the cinemas in fact did not operate), thus the sales lagged behind by 19% compared to year 2019 (attendance even by 26%, however the number of shows was lower only by 4%).

Quarter-on-quarter decrease of retail sales persisted for the fifth quarter in a row.

Very negative consumer confidence moderated at the turn of years 2022 and 2023.

Retail sales³¹ were by even 2% lower quarter-on-quarter in Q4 2022, when they dropped in all its significant segments except of the sale of motor fuels. The slump of demand in retail continued for the fifth quarter in a row (similarly as in the case of total expenditures of domestic household on final consumption). On contrary, higher consumption expenditures of non-residents associated both with the revival of tourism and the refugee wave from Ukraine had a pro-growth effect. The month-on-month decrease of the retail sales ceased in January 2023, their size however only balanced out the level from October 2018. The slump of the consumer confidence down to the historical minimum (in October 2022)³² fully manifested here. Household confidence partially recovered at the beginning of year 2023, since the pessimism in the area of the anticipated household financial situation (for year 2023) eased up. Their concerns regarding the growth of prices as well as unemployment also lowered. It could have been connected to the relatively favourable trends in the area of the up-to-date development of prices on the market with energies and motor fuels. On the other hand, people remained fairly careful in the area of planning large purchases (mainly durable goods or investment).

Chart 8 Contributions of sub-branches to year-on-year change of retail sales* (real, in p.p.), total retail sales and sales of motor vehicles (real, level of year 2015=100, right axis), balance of consumer confidence indicator and confidence in trade*** (in points, right axis)**



*Sales are adjusted for calendar effects.
 ** Sales are adjusted for both seasonal and calendar effects.
 *** Consumer confidence indicator is seasonally adjusted and expresses the position in the second month of the given quarter
 Source: CZSO

Lower sale of food added from one half to the decrease of the retail sales for the entire last year. Demand also fell

Retail sales plunged by 9.2% year-on-year in the last year's quarter. Large slump of demand was felt across all its main segments, including the vast majority of specialised shops. Retail sales decreased by 3.8% for the entire year 2022 (the largest year-on-year decrease in the comparable time series since year 2001). One-half of the last year's decrease was associated

³¹ All year-on-year rates of growth of retail sales are stated in constant prices and adjusted for calendar effects, quarter-on-quarter as well as month-on-month rates are adjusted for seasonal effects (including the number of working days). Retail includes branch CZ NACE 47.

³² Business confidence in trade on the contrary went down only gradually and it was not much weaker at the end of the last year than in the pre-crisis year 2019. Despite deterioration during Summer, trade businesses perceived their current economic situation still positively and outlooks to the nearest half-year were also mildly positive. This is confirmed by the fact, that traders still planned to hire new employees more frequently than their layoffs.



considerably in the area of sales via internet.

Decrease of demand moderated in the motorist segment of trade, still it notably stayed behind the year 2019.

with the lower sales for food, beverages and tobacco (by 5.1%), when both large non-specialised shops (chains) and specialised shops recorded similar decrease of demand. Sales for non-food goods, which were the decisive factor in the retail slump in H2 2022 also registered a record decrease in the whole last year (by 3.1%). Weaker sales via internet or mail order houses, where sales plummeted by 10.6%³³ for the entire last year played an essential role (there were still by nearly one third higher compared to year 2019). Milder decrease of demand was however apparent also in the majority of other specialised stores with non-food goods. Mainly the shops with wearing apparel, footwear and leather goods represented the exception, with sales strengthening by more than one tenth year-on-year (but lagging by nearly one fifth behind the year 2019). Specialised stores with cosmetics and toilet articles recorded milder 4% growth. The demand for pharmaceutical and health goods, where the price growth was only mild this year in contrast to the majority of other range of products, also grew similarly. Price development also affected the demand for motor fuels last year. Sales decreased by 2.3% in this area year-on-year, they still stayed behind the year 2019 (by 7.5%)³⁴. It was also valid for the motorist segment of trade, where however the decrease of sales (lasting since the half of year 2021) moderated to 1.8% last year in Q4 2022. The only part of this segment, where the demand for the entire last year exceeded the pre-crisis year 2019 was trade, repairs and maintenance of motorcycles (+2.4%), in contrast it stayed behind by 14.1% for the trade with the motor vehicles (apart from motorcycles).

³³ These forms of sale represented the only retail segment, where the sales dropped even in current prices last year (by 1.4%). At the same time the nominal sales in the entire retail increased by 10.8%.

³⁴ Lower consumption of motor fuels was connected to the price escalation bolstered by the war in Ukraine. Sales for motor fuels in current prices increased by 36.6% year-on-year in Q2, by 19.5% in Q3. The development of prices of motor fuels was however more favourable for the motorists in Q4 2022, which was reflected in the demand revival (sales thus increased by 4.7% quarter-on-quarter).