

3. Industry Performance

Recovery in the quarter-on-quarter growth of gross value added – especially due to industry and financial sector

Performance of the branches of the Czech economy, gauged by the seasonally adjusted volume of gross value added created in these branches, decreased in H1 2013 according to the preliminary data year-on-year in real terms by 1.6 % (it stagnated in the same period of the preceding year). The adverse result was affected mostly by the development at the beginning of year 2013 (Q1 -2.0 %), in Q2 2013 (-1.2 %) the year-on-year fall in the dynamics of the formation of gross value added in the whole economy did not deepened any more after more than two years. A turn in the development of the business cycle can suggest a mild quarter-on-quarter growth (+0.2 %), which occurred in Q2 for the first time after a year and a half, especially by a more favourable development in the whole industry (incl. energy industry) and also in financial activities.

For the first time after four years a more marked year-on-year growth of number of employees, which was however not yet reflected in the growth of hours worked

First half of 2013 brought for the first time since the beginning of the deep recession (2008/2009) also a visible growth of employment (year-on-year in the national accounts conception by 1.2 %, in the category of employees by 2.1 %). Lead of the dynamics of jobs of the employee character ahead of other types of employment was in the last decade in the Czech economy typical more for the expansion period. Lasting problem of the inadequate demand indicates on the contrary constant fall in the hours worked, which was in H1 2013 year-on-year even lower than in the previous year (-3.0 % vs. -1.5 %), especially due to the near 10% falls in construction and also in total in agriculture, forestry and fishing.

Deeper fall of the value added in the primary sector, lasting negative tendencies in construction...

Given the individual branches, an atypical development was recorded during the year 2013 by the financial sector, high year-on-year growth of value added (in first half year +15 %) can be explained mostly by the low comparative basis of the previous year. In the key industry (manufacturing) the gross value added decreased in H1 year-on-year by 2.8 %, in quarter-on-quarter comparison however the second quarter of 2013 experienced a renewal of a mild growth again after one year. Relatively worse year-on-year dynamics of the industry reflects the fact, that at the beginning of last year, this industry was one of the few still in the relatively good condition supported by a high growth of foreign orders. Negative tendencies are persisting for a long time in construction, where apart from falls of the value added (in H1 2013 year-on-year by -3.4 %) also continues the reduction of employment (with deeper reduction of jobs of the non-employee character). Similar situation occurs in agriculture, where in contrast to the anticipations of good harvest the value added fell in H1 the most among all branches (by one sixth). Within services the dynamics of value added did not differ significantly year-on-year apart from financial activities, more notably (as opposed to industry) grew the employment (in information and communication activities, real estate, but also in public services).

Performance in industry as well as financial sector partly affected by a higher last year comparative basis

In most services year-on-year growth of employment given a mild, little differentiated drops of gross value added

The period of recession affected the creation of gross value added in a very variable ways

With respect to the creation of gross value added in branches, the most successful were the financial activities and real estate, the worse situation was in construction and agriculture. The size of real gross value added in the manufacturing industry amounted in H1 2013 to the level of the period of boom (five years ago), in financial and insurance activities it exceeded this level by one quarter (for activities in the real estate area by one seventh), however in construction it was lower by one tenth and in the primary sector even by one quarter.

Year-on-year drop of industrial production did not deepen in Q2 anymore, however it still remained below the level of the previous year 2012

Long-time weaker domestic demand in connection with the so far weak growth of economies of our traditional business partners have a negative effect mostly on the industrial production. Industrial production index in Q2 2013 stayed still visibly below the last year's level (both in Q1 and Q2 2013 after adjusting for calendar variations similarly nearly by 3 %). Following a quarter-on-quarter growth (+1.2 %), which was recorded in Q1 2013 for the first time since 2011, the performance of industry in Q2 2013 again decreased quarter-on-quarter (-0.2 %). Near return on the growth trajectory is however for now very uncertain due to the persisting adverse development of the value of new domestic as well as foreign orders in the whole industry as well as its key branch – manufacturing of motor vehicles.



Drop in the production of motor vehicle industry and its associated productions and also metallurgy...

Within the branches of the manufacturing industry, one quarter of branches kept in H1 2013 mild year-on-year growth, except for manufacturing of metal constructions and pharmaceutical industry (profiting from the growth of foreign orders), however these were peripheral branches by performance. On the contrary, the largest drop of production eventuated for the manufacturers of computers, electronic and optical appliances (-15 %), for the past two years even by a whole one third. Long-term weakening of the dynamics of industrial production remained notable in metallurgy, manufacture of plastic and rubber products and manufacture of other non-metallic mineral products (influenced by a prolonged recession in construction), among small branches then in printing or furniture industries.

Substantial fall (-7 %) affected in H1 also from the view of export the key branch of the motor vehicle production, whose growth in the same period of the previous year (+7 %) was in contrast to the majority of other manufacturing branches still sustained by more than 10% growth of new foreign orders.

Among the more significant branches, keeping growth still at the end of the last year, the chemical industry production fell in H1 (-3 %) and also the manufacturing of electrical equipment (- 2 %), flourished only the smaller branches within other manufacturing industries (e.g. the manufacturing of toys or sport equipment). The production in the mining industry keeps falling for nearly two years in a row and it deepened in Q2 2013 (year-on-year weaker by one fifth). On a relatively successful year 2012 built the energy industry in H1 of the following year by 4% decrease in production. In contrast to the preceding years, the aggregate dynamics of the industrial production did not differ in the branches oriented on the short-term, long-term consumption or investment.

...value of new industrial orders with a moderated year-on-year fall compared to a year-on-year fall in the quarter

Dynamics of sales of the industrial firms is closely related to the development of their production. Also in Q1 2013 continued the long-term tendency (interrupted only in years 2005 and 2008) of advance of the dynamics of sales from direct export over domestic sales. In Q2 the sales "from exports" even year-on-year grew in current prices by 3 %, while on the "domestic market" they fell by 5 %. The adverse development proceeded in 2013 also for new industrial orders (Q1 -6 %, Q2 -1 %), without more significant differences between domestic and foreign orders. The dynamics of all new orders also notably weakened in the motor vehicle and chemical industries, further the drop of orders deepened for manufacturers of computers and electronic and optical appliances. Year-on-year larger value of foreign orders had on their disposal at the beginning of this year manufacturers of metal constructions, machinery and also clothes, traditionally also textile and pharmaceutical industry. In case of domestic orders it was valid for manufacturers of computers and electronic and optical appliances and electrical equipment.

Drop of construction production in H1 2013 year-on-year by 13 %, in Q2 the manufacturing neared the real level reached twelve years ago

Construction carried the adverse tendencies over also into the year 2013. Construction production year-on-year falls already 15 quarters in a row (disregarding Q1 2011, when the mild growth of production was the result of a very low comparative basis of the previous year), last whole year growth was in the branch recorded in 2007. Construction production in H1 2013 decreased by 13 %, given the comparable fall in both quarters (affected by the adversity of weather). Even though both the building and civil engineering construction reached a comparable depth of slump, the result of the whole industry was due to a larger weight nearly by three quarters affected by the building construction. Compared to the period of boom (Q2 2008) the production was in Q2 2013 for civil engineering construction by nearly one fifth lower, for building construction by nearly one third. Real production in Q2 2013 in the whole construction neared the level achieved twelve years ago.

Record low values of new construction orders due to the effect of lack of funds for their financing

Long-lasting negative mood in the enterprise sector with connection to the restriction of government investment project into a record low values of new construction orders. These in H1 2013 (for businesses with 50 and more employees) year-on-year decreased by one sixth, in building construction even by one quarter (in absolute terms down to the lowest value in the modern history), in civil engineering by 7 % (absolutely the lowest since year 2001). This year's value of new orders was in both two main branches of construction compared to boom lower by one half. Further continued the trend of shrinking of the average size of order, which fell for the new closed orders in H1 2013 to 3.1 mil crowns, year-on-year by one tenth.

The lack of new orders at the end of Q2 2013 was perceptible also on the total value of all construction orders (in the total amount of 135 bn crowns, year-on-year nearly by one seventh lower). In contrast to the previous years, the deep downswing of the value of public orders (by one fifth) was joined with the year-on-year depth nearly comparable drop of private orders. Lower volume of these orders could not be compensated by a dynamic growth of by weight so far peripheral orders from abroad (+19 %). One half of stock of all orders still represents the public sector, foreign orders form one eighth (four years ago their share was 5.5 %). The lack of large orders transforms since year 2009 into the reduction of average number of employees (year-on-year it was in Q2 2013 lower by 7 %, in five years nearly by one fifth).

Construction of commenced flats at the level of middle 90s

In H1 2013 the number of commenced flats (11 thousand) year-on-year lowered by one eighth and amounted to a level of middle 90s. Less flats was year-on-year commenced in all main types of buildings, the depth of fall was comparable for family and flat houses. The number of completed flats also decreased year-on-year by one tenth (to total 11.8 thousand), in all main categories apart from flats in flat houses, whose numbers year-on-year stagnated.

Sales in services in H1 year-on-year lower by two percent, mild growth in transportation and some services for entrepreneurs

Similarly to construction also services has not so far extricated themselves from the year-on-year falls caused by the deep recession (2008/2009). In H1 2013 they continued in the moderate year-on-year decrease of the real sales (-1.9 %). After 12 quarters ceased the continuous growth of sales of job agencies (-0.3 %, in four years they increased by two thirds). Differentiated development continued in the sector of accommodations, food service activities and restaurants, where the growth of sales for accommodation lasts for three years (In H1 +1.6 %). Restaurants and food service activities face long-term difficulties, in spite of the depth of decreases of real sales grew milder (to -1.5 %), for the last six years the sales were lower by more than one quarter.

Among the major branches the sales grew somewhat only in transportation (especially thanks to the warehousing and support activities for transportation), in business services then for activities of head office and management consultancy activities. Businesses on the contrary save on the costs for advertisement and market surveys (sales in this segment year-on-year lowered by one tenth, since the beginning of deep recession they decreased by two fifths).

Sales in retail in Q2 increased year-on-year by 0.3 % due to the higher sales in the motoristic segment and also non-food products

Four quarters in a row lasting year-on-year decrease of retail sales was in Q2 2013 halted. In H1 the sales weakened in real terms by 1.3 %. To a more favourable result contributed also the somewhat higher sales of non-food products, partially also in Q2 higher sales in the motoristic segment (both for repair and maintenance). Sales of food (-2.2 %) as well as fuels (-2.7 %) continued falling. The strong long-term growth of sales of internet sellers continued.

Out of specialised shops the internet and delivery sellers fared traditionally the best also in H1, with sales growing year-on-year nearly by one quarter, which represented a return to a high growth dynamics from year 2008. Sales strategies assisted also to computer and communication equipment (+10 %) as well as to sales of clothing and shoes (+4 %). For other types of shops the sales only stagnated (textile, books) or mildly weakened (products predominantly for household; culture and recreation, pharmaceutical and health products, furniture, electrical appliances and electronics).



Chart 5 Production in industry and selected branches of manufacturing (y/y, in %)

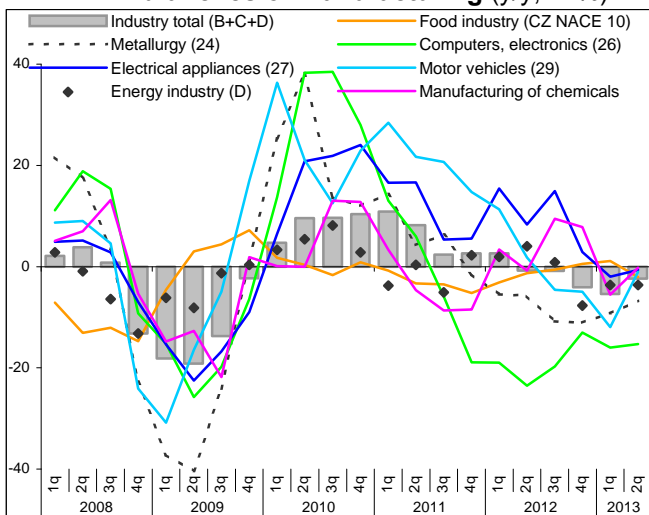
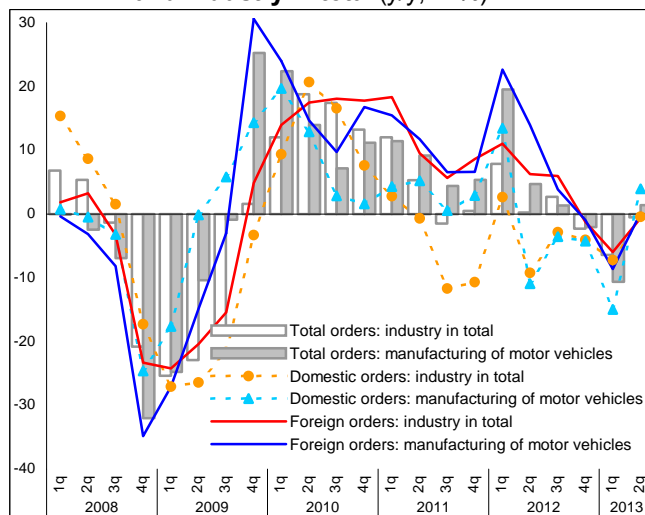


Chart 6 New orders in motor vehicle manufacturing and industry in total (y/y, in %)



Source: CZSO

Chart 7 Production in construction and value of new orders (y/y, in %)

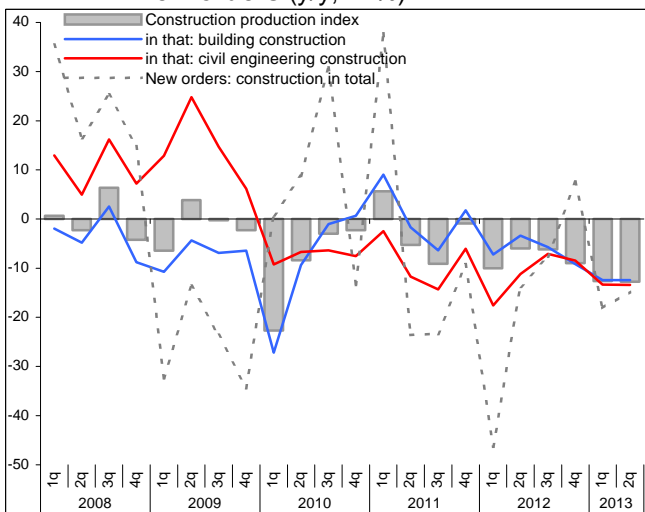
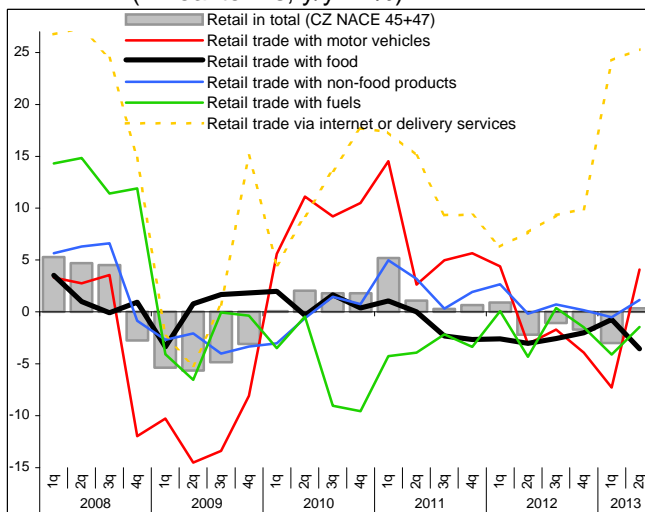


Chart 8 Retail sales incl. motor vehicle segment (in real terms, y/y in %)



Source: CZSO

