

### 3. Branches Performance

Growth of GVA regularly accelerated during 2014, despite gradual transfer to higher last year's basis

Manufacturing industry secured three fifths of GVA growth, construction also contributed positively for the first time since 2010

GVA growth exceeded the dynamics of both aggregate employment and hours worked, which strengthened mostly in selected services year-on-year

Very good harvest (cereals, sugar beet and oilseed rape) pulled up the GVA in agriculture to the highest level since 2009

Public orders as well as mild winter revived construction, where the number of self-employed also grew

Public services participated on the GVA growth of the whole tertiary sector from 40 %, most of other activities however also thrived except for finance and insurance activities, where the GVA exceptionally fell – the most since 2002

Production increased across nearly all manufacturing activities, apart from „small“ activities – printing, wood industry and manufacture of wearing apparel

The mining industry continued in the sharp slump of production from 2013 by further year-on-year fall (-2.8 %), milder slump further persists also in the energy activities (nevertheless without

Year 2014 brought a confirmation as well as stronger anchoring of growth tendencies in key branches of the Czech economy. Seasonally adjusted aggregate size of gross value added (GVA) carried on in the continued growth initiated in Q4 2013 (in the year-on-year expression), respectively already in Q2 2013 (in the quarter-on-quarter expression). It swayed over the pre-crisis level during Q3 2014 (similar quarter of 2008) and mildly accelerated during the last quarter (by +2.9 % year-on-year, by +2.6 % for the whole year). The GVA growth was driven in three fifths by the export oriented manufacturing industry in 2014. Construction as well as the majority of significant groupings of services (apart from the financial sector and the real estate activities, which did not follow up on the previous successful years) contributed positively (similarly to years of strong boom).

Year-on-year GVA growth was accompanied by a milder growth of employment in 2014 (0.4 %, in the national accounts conception), which however persisted with a similar intensity also in the recent period of a slight recession. The growth of total hours worked (1.0 %) was also only moderate, with higher dynamics focussed (similarly to the employment) mainly in the services sector – in the professional, scientific, technical and administrative activities (5.8 %) or real estate activities (3.9 %). The manufacturing industry reacted to a stable increase of new orders only with a certain delay (the number of employees grew only by 0.3 % year-on-year in the H1 2014, in H2 already by 1.6 %, the fastest since the end of 2011). The agriculture also fared well (especially thanks to the plant production), with its GVA growing by a similar rate to the manufacturing industry (6 %) in 2014. Revival of the new public orders mainly in the area of civil engineering construction was reflected in the growth of the whole construction (2.6 %), which however kept losing the job positions, the number of self-employed however increased in contrast to the previous years (by 7 % year-on-year). Similar situation arose in construction even in the period closely after the deep recession of the economy.

The GVA within the bounds of services increased the most in the long-time growing professional, scientific, technical and administrative activities (+ 4.2 %) and in the information and communication activities (+ 3.5 %). The growing demand in these activities converted also into higher numbers of self-employed persons. Public services helped the most within the tertiary sector to the growth of value added in the whole economy thanks to their weight as well as dynamics (+ 2.4 %). The gradual departure from tighter saving measures contributed to this growth, supported also by a more intensive activity of the state in the area of active employment policy. Finance and insurance activities experienced a worse year, with the GVA falling by whole 3 % year-on-year (however it stays by nearly one third higher compared to year 2008, while „only“ by one tenth in the manufacturing industry), which was also reflected in the decrease in the number of jobs. On the contrary the GVA keeps falling in the mining, quarrying and energy activities already six years in a row, affected by adverse prices of commodities on the world market, also by weather fluctuations in the last two years.

Industry performance<sup>1</sup> (gauged by the industrial production index in real terms) added nearly 5 % for the whole year 2014 year-on-year (following stagnation in the previous year). While it grew similarly by more than 6 % in the first two quarters (adjusted for calendar effects), it hit the strong last year's basis in H2 and strengthened by 3.5 %. The revival of foreign demand stood behind the growth, at the beginning especially for transportation vehicles, which gradually spread out (not only by the direct sub supplier relationships) also to a majority of other manufacturing activities, even in case of the domestic demand. Only the marginal activities by production – printing and wood industry, but mainly the manufacture of wearing apparel, whose production was by one third weaker compared to year 2008, remained below the level of year 2013. Outside the manufacturing segment, mining industry continued in the long-term falls (by -2.8 % year-on-year, by whole one fifth compared to 2007), also energy industry with a similar intensity (and already four years in a row), where however the

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



deeper impact on employment)

reduction of the production was not accompanied by a resolute decline of job positions.

The motor vehicle industry remained the key growth generator throughout the whole year, participating together with the closest follow-up activities on the growth of production of the whole industry in two thirds

The manufacture of motor vehicles together with other transportation vehicles contributed nearly by one half to the higher productions in the whole industry in 2014, individual sub supplier activities identically also added one tenth – manufacture of rubber (incl. plastic) products as well as manufacture of electrical equipment. The output grew dynamically also in the procyclical strongly and export oriented manufacture of computers, electronic and optical products (by one sixths year-on-year, by 37 % in two last years) and also the petrochemical as well as chemical industry (partly also due to the impact of production limitation in the preceding year due to the floods). The significant industries of manufacture of food products and also metallurgy or manufacture of machinery strengthened on the contrary only mildly (1.5 to 2.5 %), where the weaker domestic new orders (year-on-year) stood in the way of their larger recovery. Manufacture of machinery together with the manufacture of electrical equipment belonged to the only industrial activities, whose production was increasing continuously in the last five years.

Industry as a whole surpassed the production level from the top of boom for the first time in Q4, most activities however still lagged behind this level

The industry in the aggregate surpassed the production level from the top of boom (beginning of year 2008) in real terms for the first time towards the end of 2014. The manufacture of motor vehicles resp. other transportation vehicles (they overtook the level from year 2007 by 45 %, resp. 54 %) and also associated activities of manufacture of electrical equipment (by one third) were the most instrumental in this. The production was by one quarter higher even in the predominantly investment specialized activities – manufacture of computers, electronic and optical products, resp. repair and installation of machinery and equipment. Majority of industrial activities however did not reach the pre-crisis production level – next to the mining especially some smaller manufacturing activities (manufacture of beverages, textile, wearing apparel, leather products, printing, manufacture of furniture), manufacture of glass, ceramic, porcelain products and construction products (-23 %), manufacture of food products (-13 %) among the more significant activities, metallurgy, manufacture of metal products and energy industry then also by one tenth.

Investment oriented activities mostly drove the industry, the fall of production halted in activities focussed on short-term consumption

Similarly to most boom years, especially the activities oriented on investment drove the industrial production also in 2014 (+8.5 %), followed by activities manufacturing products for long-term consumption (+6.2 %) or intermediate products. After six years of continuous declines, the activities focused on short-term consumption (involving e.g. food, textile, wearing apparel, medicine, toys), also slightly strengthened (1.8 %). The production increased only for investment oriented activities (by one quarter) compared to the boom year of 2007, it decreased by one sixth for products of short-term consumption.

Dynamics of new industrial orders returned to double-digit values, even on the domestic market

The new orders also prove the favourable outlook of industry. They accelerated by one eighth year-on-year in 2014 (the most since 2010). In contrast to the preceding years, the dynamics of domestic orders (+10.5 %,) less significant by weight, did not lag behind the foreign ones. Manufacturing of wearing apparel (with a decreasing value of orders twelve years in a row) and pharmacy (where a mild growth of orders from abroad just managed to compensate the traditional deeper slumps of domestic demand) remained the only activities without more significant near future growth „order“ impulses. The motor vehicle manufacturing and also the computer manufacturers had the highest dynamics of orders. The rate of growth of orders weakened due to the gradual transit to the last year's high basis during 2014 (from 20.3 % in Q1 to 6.5 % in the last quarter), only the chemical, machinery industries as well as computer manufacturers preserved a stable growth dynamics.

The protracted decline in demand persisted in wearing apparel manufacturing, the orders on the opposite grew by one sixth to the manufacturers of computers year-on-year practically throughout the whole year

The year-on-year dynamics of the industrial production (in EU countries) was the fourth highest in the CR in 2014, the strongest long-term growth in the EU appeared in the Central European region and the Baltic region

Only Hungary (+7 %), Luxembourg and fast recovering Ireland (+20 %) overtook the dynamics of the industrial production in the CR (+4.9 % year-on-year) out of the EU28 countries in 2014. The industry of the CR surpasses with its rates of growth the euro area countries as well as the whole EU in the long-term (except for year 2008). Industry already exceeded the production level from 2007 in eleven EU countries, the most in Slovakia (+29 %) and Poland (by one quarter) and Ireland (by one sixth). In Germany, similarly to the CR or Hungary, it tightly exceeded this mark just in 2014. In

<p>First growth of construction output after six years, it sank by 27 % in the building and by 16 % in the civil engineering construction between years 2007 and 2013</p>	<p>the whole EU, it was lower nearly by one tenth, mainly due to the South European countries – it fell by one quarter in Italy, nearly by one third then in Greece and Spain.</p> <p>Year 2014 can be termed as a period of turn from the point of view of the construction industry. Construction production strengthened by 4.3 % year-on-year for the first time after six adverse years in a row (when it shrank in total nearly by one quarter especially due to the impact of the building construction). Both main construction fields thrived for the first time since 2006, when the more significant by weight building construction (+3.4 %) lagged somewhat behind the civil engineering (+6.4 %), whose growth filled by the large transport construction orders was more even throughout the year. The milder winter assisted both construction fields, even though occurring already for the second time in a row.</p>
<p>High year-on-year growth of new orders is connected to the realisation of significant transport routes in civil engineering construction</p>	<p>Substantial revival of construction orders, apparent in the civil engineering already since half of 2013 (value of new orders for businesses with 50 and more employees increased by high 41 % in this field year-on-year, while it practically only stagnated in building construction) however played a more essential role. A larger boom of the building construction was for now prevented by a very prudent „take-off“ of new dwelling construction. Number of dwellings started did rise by one tenth against the extremely low last year's basis (the lowest since 1996), however it was lower by 45 % against the top of „construction“ boom (2006-2008). A more visible shift in number of dwellings started eventuated only for flat houses year-on-year in 2014 (+1.8 thousand, to the highest level for the past five years), partially also for non-residential buildings and from regions then in Prague and South Moravia. Number of completed dwellings kept inertially falling in the CR (-5 %) down to the lowest level since 1999. Great 37 % (of completed dwellings in the whole CR in 2014) were concentrated in Prague and Central Bohemia.</p>
<p>Number of completed dwellings fell to the level of 1999, new construction revives despite favourable situation on the mortgage market as well as lower prices of construction works only cautiously so far</p>	<p>Recovery of construction of larger (mainly transportation) projects shows also in the gradual climb of the average value of one newly closed order (from 3.6 mil. CZK in 2013 to 4.0 mil. CZK a year later), similarly to the approximate value of one granted building permit (especially for residential buildings). Total stock of so far not realized construction orders was also higher year-on-year, mostly due to the larger number of orders from the public sector (+23 %), partially also thanks to the dynamically growing value of orders abroad in the last three years (foreign orders formed already one fifth in the portfolio of construction companies orders at the end of 2014). Nominal value of all public construction orders was however by 43 % lower compared to the end of year 2006, by 22 % for the all private orders.</p>
<p>The five years lasting decline of the average value of one new construction order halted in 2014</p>	<p>Protracted „recession“ in construction is being inertially reflected in the continuing reduction of the registered number of employees (by 5 % in 2014), incl. medium and larger companies. Construction in total lost (in physical persons) over 60 thousand of employees against the year 2008. Despite the significant shift, inadequate demand remains the main factor limiting the construction activity according to the business cycle surveys (in 83 % of cases in December 2013, in 68 % a year later). A one third of construction companies expected (at the end of the year 2014) a drop in the number of employees within the upcoming three months (8.5 % expected growth), even 45 % a year ago.</p>
<p>Renewal of growth of construction orders contributes to the employment stabilization in construction so far only slowly, the wage dynamics in construction lagged behind the rates of growth in the whole business sector in the last five years</p>	<p>The dynamics of the construction production (+4.3 %) was more favourable compared to the whole EU (+3 %) in the CR (in contrast to the previous four years). EU construction was being driven up especially by the Great Britain and Spain in the in 2014. The production cut one fifth in real terms compared to the boom top (year 2007) in the CR, identically to the whole EU. Only five member countries exceeded this level in 2014 (Germany by 8 %, Poland by 22 %), it was significantly deeper in Slovakia (-26 %) and especially the South European states (Spain -46 %, Italy - 38 %) and Ireland.</p>
<p>Year-on-year dynamics of the construction production again more favourable compared to the whole EU in the CR after four years</p>	<p>Real sales in the selected services<sup>2</sup> recorded their first growth (0.6 %) since the outbreak of the deep recession year-on-year in 2014. Especially the activities, whose sales grow in the long-term and mostly already overtook the „pre-crisis level“,</p>
<p>Higher sales in services (due to the long-term growth of transportation and warehousing - significant by</p>	

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



weight) for the first time since 2008

Twelve quarters lasting growth interrupted in warehousing in Q4 2014, slowdown of dynamics also in land transport year-on-year

Deep falls of sales ceased in advertising after five years, strong growth continued for job agencies

Retail sales (incl. motor vehicle sales and repair) increased year-on-year the most in the past seven years and exceeded the level of boom top (r. 2008) for the first time

Higher sales for non-food goods in specialized shops for all main types of goods – except for pharmaceutical and medical goods

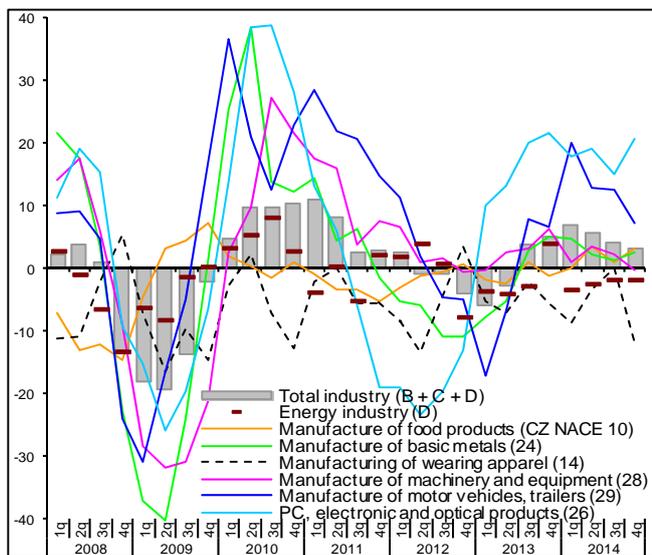
prospered. Nevertheless, the dynamics of sales in services weakened (-1.1 %) in the last quarter of 2014, as a result of the development in warehousing and support activities for transportation (where the sales hit the very high last year's basis). Mostly the transportation and warehousing fare well in the long-term, where the recovery of industry and foreign trade revived their sales in the last two years. The growth of real sales continued in accommodation already for a fifth year (also with price increases for the first since 2008), when the drop out of guests from Russia and Ukraine was abundantly compensated by tourists from more distant, especially Asian countries. Restaurants and food service activities on the contrary continued in the long-term reduction of sales (after more favourable summer period of 2013). Real estate activities as well as professional, scientific and technical activities found themselves in milder, however long-term slowdown.

On the contrary, job agencies prosper already nineteen quarters in a row and further also (even with more modest rates of growth) the administrative and office activities as well as security and investigation activities, IT activities or programming and broadcasting activities.

The renewed economic growth gradually followed by the improvement on the labour market mirrored in the consumer confidence indicator, which stayed at the highest level (since March 2007) towards the end of year 2014. Retail sales also reached record levels (CZ-NACE 45 and 47) and strengthened by 5.4 % year-on-year. The dynamic (strongly pro-cyclical) motorist segment was behind the higher sales in more than one half, its sales were aiming for the double-digit values (for sales as well as repair and maintenance of motor vehicles).

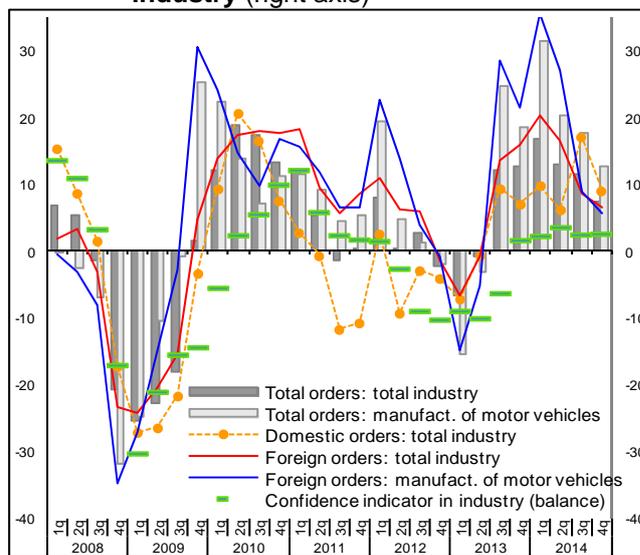
The „non-motorist“ retail segment was traditionally driven by the non-food products (+4.3 %), where the reduction of prices aided especially the sales of computer and communication equipment (+17.2 %) in the long-term. Still the sales grew also in the vast majority of other specialized shops, especially for products meant for households, culture and recreation or shops with textiles, wearing apparel and footwear. The growth of sales for food products (1.3 %) was despite its „modesty“ the highest in the last six years. It was related mostly to the larger stores, the sales continued in long-term declines in the specialized (usually smaller) shops with food. The sales increased at petrol stations after five years (1.7 %), supported also by the high year-on-year December growth (13.6 %), when the very favourable price development of automotive fuel stimulated demand (incl. transit transportation). The dynamic growth further proceeded for internet sellers (19.7 %).

Chart 5 **Production in industry and selected manufacturing activities** (constant prices, y/y, in %)



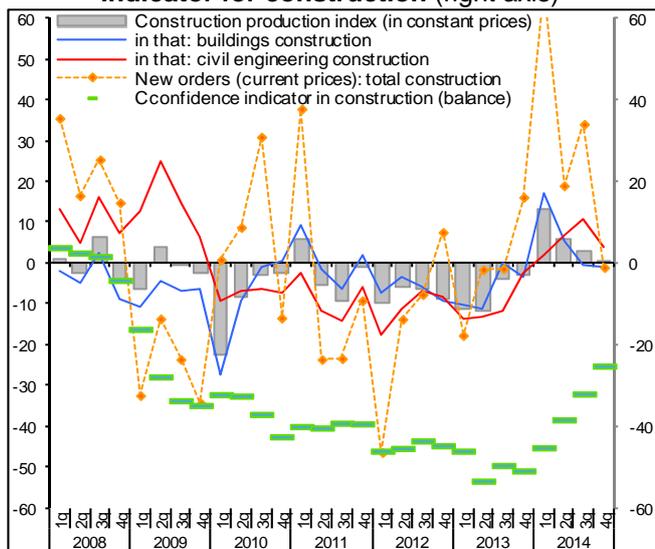
\* data adjusted for seasonal and calendar effects

Chart 6 **New orders in motor vehicle industry, in total industry (current prices, y/y, in %) and balance of confidence indicator for industry (right axis)**



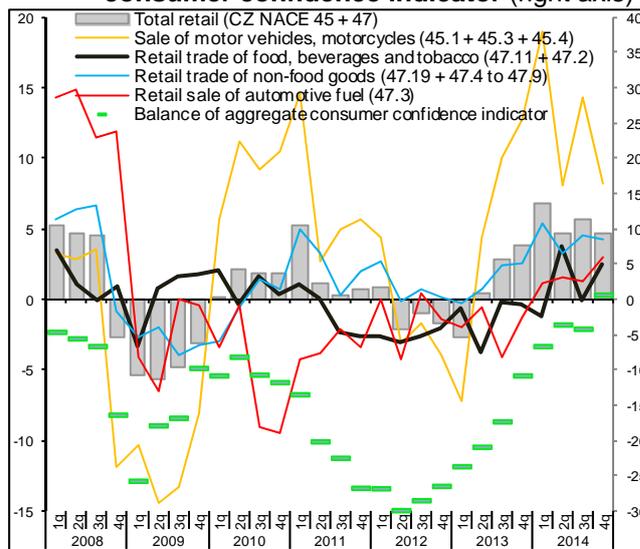
Source: CZSO

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



\* data adjusted for calendar effects

**Chart 8 Sales in retail incl. motorist segment (constant prices, y/y in %), balance of consumer confidence indicator (right axis)**



Source: CZSO

