3. Branches Performance

The quarter-on-quarter decrease of GVA ceased in Q2. Services thrived, benefiting from stronger domestic demand. On the contrary, weak external demand continued to keep industry in recession.

The total performance of the branches of the national economy captured by the created Gross value added (GVA)¹ continued to decline slightly, quarter-on-quarter, at the beginning of this year and thus followed in the last year's unfavourable development. It was only in Q2 2024 that there was a slight recovery (+0.5%²), to which, however, only the services sector contributed³. It benefited from higher consumption expenditures of both households and government institutions or from the ongoing development of inbound tourism. For the entire H1 2024, the GVA decreased by 0.3%, year-on-year (at the same time the last half-yearly decline occurred in 2020). The sectoral profile of development is again similar – industry contributed the most to the lower output (-0.7 p.p.), where the recession continued in manufacturing and in total also in mining and energy industries. The weight-dominant group of services – trade, transport, accommodation, and food service activities (+0.4 p.p.) had an opposite effect (as for most of the previous year).

This year's anticipated harvest of both basic cereals and rapeseed is lower in a year-on-year but also in the long term comparison. The decrease in sowing areas and sharp weather fluctuations at the beginning of Spring had a significant impact.

The above summary view is further developed by much more detailed business statistics. According to this year's 3rd harvest estimate (as of 15. 8.), the harvest of basic cereals is expected to be 6,835 thousand tonnes and oilseed rape 940 thousand tonnes. The estimate of the cereal harvest is by 8.6% lower, year-on-year, and lags behind the average of the last five-year period by 6.6% (it presents the second lowest harvest in the last decade). The rapeseed harvest is down by 28.3%, year-on-year, and is one fifth behind the last five-year average (the harvest is the lowest since 2006). Weaker yields per hectare play a key role in both cases this year, nevertheless the decrease in the sowing area also had a significant impact. The harvest of wheat, rye and winter barley is weaker, year-on-year. On the contrary, due to sufficient rainfall throughout the growing season, a larger harvest is expected for spring cereals (spring barley, oats, and triticale). With respect to the other crops, grain maize (+15.3%), potatoes (+11.1%, mainly thanks to the enlargement of the sowing area), soybean (+10.9%), sugar beet (+13.5%) and green maize (+16.4%) should also be harvested more, year-on-year. In contrast, a decrease is expected for instance for the sunflower for seed (-10.7%) or lucerne (-7.7%). In general, the April frosts had a considerable effect on this year's harvest. In addition to rapeseed, they also substantially afflicted the harvest of fruit and some types of vegetables.

Gross domestic meat production increased, year-on-year, mainly due to a recovery in pork production.

The two-year-long year-on-year decrease of the physical volume of meat production in slaughterhouses in the Czech Republic halted in Q4 last year and this year's development confirmed this turn so far. The mild growth of production thus continued in Q2 2024 (+1.9%). It was driven (similarly to the beginning of this year) by the recovery of the weight-dominant pork meat segment (+5.6%, nevertheless the production was almost 4% lower compared to 2021). However, there was a decrease in beef (-4.6%⁴) and its production this year is at a seven-year low so far. Poultry production stagnated but grows in the longer-term view. An even more pronounced growth trend is evident in the dairy sector. The direct milk purchases from domestic producers increased by 3.7%, year-on-year, and grew twice as

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¹ Figures related to GVA are expressed in constant prices and adjusted for seasonal and calendar effects.

² GVA increased at a slower quarter-on-quarter pace (+0.2%) in the whole EU, but unlike in the Czech Republic, weak growth persisted there throughout the last year. GVA increased by 0,9%, year-on-year, in the Union in H1 2024. Compared to the Czech Republic, the across-the-board growth of the services performance was sufficient to compensate the decrease in both industry and construction here (which, moreover, was not as deep in the EU as in the Czech Republic or Germany). The total GVA increased the most in Cyprus (+3.5%) and Croatia (+3.3%), among the larger economies then in Poland (+3.1%), Spain (+2.8%), Romania (2.0%) and France (+1.5%). GVA fell only in six countries – the most in Ireland (-4.7%, mainly due to industry and financial activities) and Estonia (-2.6%). Within the Central European region, GVA decreased only in Austria (-1.1%) and the Czech Republic (-0.3%), in Germany it grew by 0.4%, and in Slovakia by 2.4%.

³ The GVA of the total economy was thus currently 1% above the level of the peak of the last boom (Q4 2019), of which the performance of the services sector was even 7% higher in this comparison – the situation in industry was the exact opposite (–7 %), and construction (–18%) and the primary sector of the economy (–12%) featured an even deeper distance.

⁴ However, the gross domestic beef production corresponding to the total deliveries from Czech farms to slaughterhouses (both in the Czech Republic and abroad) decreased only slightly (-0.2%), as increased exports of live animals for slaughter were reflected (a quarter of domestically fattened cattle travelled abroad for slaughter). A similar phenomenon was also observed for pigmeat (exports were by a third higher, year-on-year), thanks to which its domestic production increased by 7.4%.

Consumption of all major types of meat grew, mainly due to a strengthened import.

fast as in the same period of the last year. Including the balance of meat imports and exports, the preliminarily calculated meat consumption expanded, year-on-year, for all three types in the CR in Q2 2024: beef (+2.5%), pork (+2.0%) and poultry (+5.2%). It was also affected by more than one tenth higher imports – both of beef and poultry. Meat consumption is also influenced by the long-term preferences of domestic consumers as well as shorter-term fluctuations due to, for instance, reaction of households on the development of consumer prices of these goods.

Industrial production has been falling, quarter-onquarter, this year. Weak demand and the subsiding effect of heightened production costs from the energy crisis are evident. The domestic industry was in recession in H1 2024, weighed down mainly by the persisting weak external demand. The economies of the Czech Republic's key trading partners in the euro area (especially Germany, France, Italy, the Netherlands, or Austria) faced cyclical as well as structural difficulties. These are also reflected in the Czech Republic. Most energy-intensive industries are still facing the effects of raised input prices. A reduction in the total investment activity related to the continued weakened business as well as consumer confidence in the economy or the worsened possibilities of credit financing of investments is also having a negative effect. After a short-term revival at the end of 2023, which was primarily driven by the production of transport equipment, the industrial production decreased by 0.7%, quarter-on-quarter, in Czechia in Q1 2024. Its decrease deepened (to -1.0%) in the subsequent period, since the downturn affected the key investment-oriented branches (engineering, manufacture of motor vehicles) and also a part of areas specialised in the manufacturing of intermediate products (electrical engineering, metallurgy and foundry). The above-mentioned factors led to the production of total industry lagging slightly behind its peak from the pre-pandemic boom (Q2 2019) in Q2 this year (by 2.7%)⁶.

The year-on-year decline in industry was mainly due to engineering, where the problem of weak demand deepened.

The manufacturing of motor vehicles did not maintain the high pace of production from previous years, which also had an impact on the nearest subcontractors.

The industrial production has been slightly decreasing, year-on-year, already since the middle of the last year. It thus fell by 1.6% in H1 2024⁷. This was mainly due to a deepening output decrease of the important engineering sector (a decrease of production by 12.9%, a contribution to the development of the entire industry of -1.1 p.p.) caused by weak demand, especially from abroad. The downturn concerns, for instance, the production of pumps, agricultural or metalworking machinery here, nevertheless lower production can be traced across the entire branch. The manufacturing of motor vehicles also had a considerable effect on the recession of the total industry this year (contribution -0.3 p. p., a decrease by 1.6%). It no longer maintained the very high production pace of the previous two years, which stemmed in part from the finalization of a larger volume of orders accumulated from a period affected by the supply chain disruptions. This was also reflected in the subdued results of the closest related industries this year – especially manufacturing of electrical equipment (-0.9%). The production capacity utilisation fell below 90% in the motor vehicle manufacturing alone at the beginning of Q3 2024 (the lowest for the last year and a half). However, it was still relatively high compared to the majority of industrial branches8. Manufacturers of motor vehicles still benefited from the robust growth of

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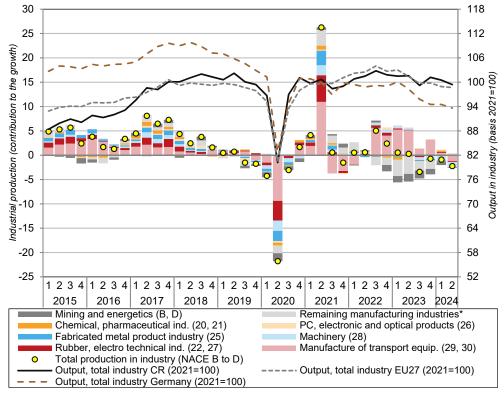
⁵ Includes branches of mining and quarrying, manufacturing and also energetics (here as activities of production and distribution of electricity, gas, heat and air conditioning supply). All year-on-year rates of growth of output are adjusted for calendar effects, quarter-on-quarter rates as well for the seasonal effects.

⁶ 17 out of 25 main industrial branches lagged behind their peak from years 2015 to 2019 this year in Q2 – coal mining (by 53%), manufacturing of basic metals, metallurgical processing and foundry (–33%), leather manufacturing (–22%), textile industry (–21%), energy and mining of building materials (both –20%) the most. Among larger branches further engineering (–14%), chemistry (–13%), production of building materials (–12%), rubber and plastic industries (–7%) and metalworking industry (–5%). On the contrary, especially the manufacturing of other transport equipment (+25%), pharmaceutical industry (22%), paper industry and manufacturing of motor vehicles (similarly +13%), other manufacturing (+12%), electrical engineering (+9%) and further for instance food industry (+4%) were currently situated above the pre-crisis level of output. ⁷ Industry experienced a downturn also in the EU since Spring in 2023. In H1 2024, its production decreased by 3.4% in the Union (in that by 5.3% in Germany). The performance of economic activities focused on the production of investment products (by 5.7%) and durable goods (by 4.6%) decreased the most.

⁶ Data from the Automotive Industry Association of the Czech Republic also prove the still good current condition of the entire branch. According to them, there were 774 thousand personal vehicles manufactured locally for the whole half of this year (5% more, year-on-year, and 2% more than in the record year 2018). In contrast to previous years, the current production was characterised by unprecedented uniformity (production exceeded 120,000 vehicles in all months), which indicates a significant calming in the area of the supply chains. Manufacturing of electric vehicles (including electric-hybrid vehicles), which accounted for flat 8% of the total production of personal vehicles

domestic as well as external demand⁹. The production of other (especially rail) transport equipment was also in good condition despite the current lowered performance. The output dropped due to the high comparative basis here, year-on-year, this year (-4.6%), nevertheless it has traditionally featured quite a volatile character. The positive outlooks of this branch stemms from the strong domestic demand associated with the development of transport infrastructure as well as the upgrade of the army.

Chart 4 Contributions of sub-branches to the year-on-year growth of the industrial production in the CR (adjusted for calendar effects, real, in p.p.), production (output) in the whole industry of CR, Germany and EU27 (seasonally adj., real, base of 2021=100)



*Contribution of the remaining manufacturing industry also includes the effect of the total methodical discrepancy stemming from the change of the weights in 2023

Source: CZSO. Eurostat

Deep slump of production continued in metallurgy. Difficulties persisted in most other energyintensive industries as well. However, the chemical industry recorded a positive turnaround, caused by a recovery in domestic demand.

Most energy-intensive industries faced weak demand and still raised production costs (in relation to both 2020 and 2021) also at the beginning of this year. In basic metal production, metallurgy and foundry, the output decreased for the third year in a row, year-on-year, falling by 8.5% in H1 2024¹⁰. Even the development of new orders in this field does not yet indicate any sign of a positive turnaround. Companies lack the external demand the most, which is related to the unfavourable development of metallurgy throughout the EU¹¹. There has been a decline in demand for steel in the long term, especially from construction, manufacturing of motor vehicles or engineering. The persistent, but orders of magnitude smaller decline in production also afflicted the metalworking industry and the production of building materials. In both cases, it is currently mainly due to weaker domestic demand. On

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so far this year (12.4% a year earlier) on the contrary recorded a year-on-year decrease. In contrast, most manufacturers of other types of road motor vehicles have strengthened their production this year.

⁹ According to the European Automobile Manufacturers' Association, the number of registrations of new personal vehicles increased by 4.5%, year-on-year, in the EU in H1 2024 (to 5.7 million). The market growth was driven mainly by the electric-hybrid vehicles, which already accounted for nearly 30% of total sales. Except for the Benelux and Scandinavian countries, the total demand expanded in all major countries. Even though the number of registrations has been increasing, year-on-year, already for nearly two years in a row, they still lagged behind the

peak of the pre-pandemic period about approximately one fifth in H1 2024.

10 The output was by more than a quarter lower in this branch compared to H1 2021 this year.

¹¹ The production has been falling in this field in the EU states, year-on-year, already for two and a half years in a row (by 2% in H1 this year).

the contrary, in the energy-intensive chemical industry, the production strengthened by 3.7%, year-on-year (after last year's slump) thanks to the recovery on the domestic market in H1 2024. Chemistry together with the food industry, dampened the decline in the performance of the total industry the most of all its branches (both branches in total +0.4 p.p.).

The food and beverage industries benefited from the revived household consumption. However, for some items, people still tended to postpone consumption, which was reflected in the performance of the furniture industry.

Majority of the smaller manufacturing branches revived this year following the last year's downturn. The output of paper industry strengthened by almost 8% in H1 2024, and the diverse field of other manufacturing¹² also achieved a similar growth. The recovery of consumption of the domestic households as well as the development of inbound tourism resulted in higher production of both the food industry (+4.6%) and manufacturing of beverages (+6.0%). The strengthening external demand contributed to the growth of the clothing industry (+5.3%). In contrast, thanks to the development of the domestic market, the long-term growth of the footwear and pharmaceutical industries continued this year. However, the textile industry (-2.0%) and manufacturing of furniture (-3.9%) still did not prosper, the year-on-year decline of production persisted for the eighth quarter in a row here. These branches are plagued by weak domestic demand – in the case of textile production, especially from the related construction industry (technical textiles), and in the furniture industry then a persisting lower willingness of households to buy "non-essential" goods.

The continuing downturn of demand in the energy sector was mainly related to the very warm winter, and to a lesser extent also to austerity measures by households and firms, as well as to weaker economic activity in both industry and construction.

The decrease of coal and building materials mining continued.

Value of new orders in the manufacturing of transport equipment grew rapidly.

Similarly to the whole last year, the performance of industry was significantly hampered by its non-manufacturing branches (-0.4 p.p.) also in H1 2024. Output fell by 3.1%, year-onyear, in the energy sector this year (it plunged by a record 11.1% for the whole last year). All key sources were responsible for lower electricity production this year¹³. Electricity¹⁴ and natural gas¹⁵ consumption also continued to decline, but unlike in the past, this was primarily caused by warmer weather during the heating season¹⁶. The fact that households and companies continued with their austerity measures was also evident. Slowed economic activity in industry and construction also contributed to the lower consumption. The development in the energy sector is connected to the ongoing controlled downturn in the mining industry. The deep decline of production continued for the second year in a row here, amounting to 9.6%, year-on-year, in H1 2024. Mainly the slump in the increasingly unprofitable coal mining (-14.7%) has had a negative effect, but weak domestic demand has also limited the output in the mining of building materials (-4.0%) for more than two years.

The dynamics of new industrial orders have confirmed this year's slight recovery so far. While the nominal value of orders in the monitored industrial branches¹⁷ was decreasing, year-on-year, for most of the last year, it increased by 3.4% in H1 2024 (it increased similarly in both quarters of this year). It can be seen with respect to the stagnation of industrial producer prices as an indication of a future moderate economic recovery in the entire sector. Both domestic orders (+2.6%) and foreign orders (+3.8%) signalled growth.

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¹² It consists of mainly the manufacturing of medical instruments and supplies, but also, for instance, the manufacturing of games, toys, sports

goods or jewellery and bijouterie.

13 According to the data of the Energy Regulatory Office, the gross domestic electricity production amounted to 36.1 TWh (by 5.6%, year-onyear, less) in H1 2024. Mostly steam power plants (with output lower by 10.8%) and nuclear power sources (-4.6%) were behind the decrease. In contrast mainly the developing renewable sources dampened the total output decrease - photovoltaic power stations generated by 28% more (to a vast part due to the rapid growth of the installed capacity of the smallest sources – up to 10 kW), wind power plants (+9%), and pumping stations also supplied more electricity (+15%).

14 The domestic consumption of electricity arrived at 34.0 TWh in H1 2024, by 2.1% less, year-on-year. Of the key consumer categories,

households contributed the most to the decrease (their consumption decreased by 2.3%), and to a lesser extent also entrepreneurs and majority of companies. Only the consumption of the largest enterprises within the group of wholesale customers increased slightly (+1.8%). Compared to H1 2019, the consumption of wholesale customers (-8.5%) and small entrepreneurs (-7.7%) was the lowest this year, while the decrease in households was only 0.8%, also due to the spread of working from home.

¹⁵ It was -7.9%, year-on-year, for H1 2024. Similarly to electricity, households saved the most gas (-12.6%) and wholesale customers the least (-4.9%). However, converted to the thermal standard, the total consumption fell only by 0.7%, year-on-year, but by 25% in three last years (real consumption even by 35%).

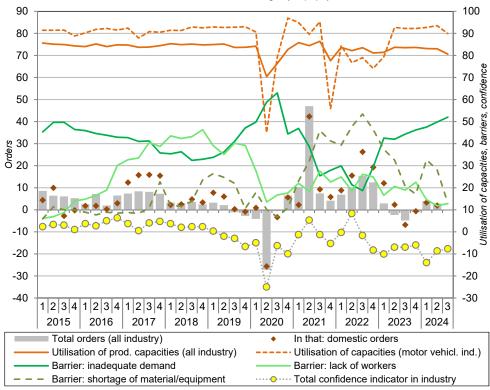
16 Based on the Czech Hydrometeorological Institute, the average air temperature in the Czech Republic was 9.3 degrees Celsius in H1 this

year (it was 2.5 degrees higher than the long-term average from years 1991-2020), "only" 7.6 degrees at the same time last year. Abovenormal temperatures have occurred in all months so far this year – especially in February (with a deviation of +6.0 degrees) and March (+3.7).

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

Weak demand however persisted in metallurgy, engineering and metalworking industry. The growth of total orders was mainly caused (similarly to the whole last year) by higher demand for motor vehicles (+10%), followed by near sub-branch of the manufacturing of electrical equipment (+5%). Thanks to the domestic demand, positive prospects were also evident in manufacturing of other transport vehicles or electronics. A further revival of some smaller branches is heralded by higher contracted orders in the clothing and paper industries. However, a number of key manufacturing branches were still limited by weak demand. It fell by 15%, year-on-year, in metallurgy, by 6% in engineering, and the number of total orders only stagnated due to the still weak domestic demand in the metalworking industry.

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



^{*} 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 stayed low. Growing number of companies suffer from insufficient demand. Current as well as expected employment development remains unfavourable.

Cautious optimism prevailed in terms of expectations in the area Business confidence in industry has remained in the negative band for nearly two years already. In February this year, it dropped almost to the lowest level since the antipandemic shutdowns of production (in the Spring of 2020). There was a slight recovery subsequently, nevertheless the confidence remained notably below its long-term average (by 8.5 percentage points) still in August and remained virtually unchanged in the year-on-year view. Even though the cost pressures have stabilised (already only a sixth of companies plan to raise the prices of their production in the short-term horizon) and the volume of inventories has also returned to normal, companies across most branches are still limited by insufficient demand. Its role as a key growth barrier has been rising since the middle of last year (it currently limits already 52% of companies 18). On the contrary, a lack of employees troubled one eighth of companies (the least in the last four years 19). In addition, companies plan to lay off people (16%) rather than hire (6%) in the nearest quarter, which also corresponds to the real development in recent months (the registered

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¹⁸ Businesses could have indicated more barriers simultaneously. Apart from a short period at the onset of the covid-19 pandemics, the current urgency of the insufficient demand in industry is the highest in the last 10 years.

¹⁹ However, it still represented a significant barrier in some, especially smaller, branches (food, beverage and leatherworking industries), exceptionally also a dominant growth restraint (manufacture of other transport equipment, repair and installation of machinery and equipment).

of production and own economic situation of companies in August 2024. number of employees in industry decreased by 2%, year-on-year, in H1 2024). Nevertheless, a very slight optimism in the short-term expectations of production as well as own overall economic situation set in among companies in August (unlike at the beginning of the year).

Considerable cost pressures as well as weaker private investment activity still affected the construction output. The construction industry was affected by weak demand as well as persistent price pressures at the beginning of this year. Although the prices of building materials have started to fall slightly, year-on-year, after a three-year increase since last autumn, the reduction of both realised and expected prices of construction production²⁰ was hindered by rapid growth in labour costs influenced by a chronic shortage mainly of skilled labour force. Subdued investment activity in the private sector was also still reflected owing to weaker confidence of firms and households in the economy and worsened access to credit financing of investments. This was compounded by an expected decrease of public investment related to the transition to the new EU programming period²¹.

The year-on-year decline in construction output deepened this year. The biggest decrease affected the specialized construction activities.

Construction output²² increased by 0.8%, quarter-on-quarter, at the beginning of 2024 and thus halted the decline that filled most of the last year. This recovery was largely a consequence of the unusually warm winter period, which led to a sharp increase in civil engineering construction (and to a lesser extent in other segments of the total industry), especially in February. However, the performance of the construction decreased by 3.3% during Q2, when a notable slump occurred with comparable intensity in all its main segments. In Q2 2024, the performance of the total construction thus lagged behind the peak of the last boom (Q3 2019) by 8.4%. The year-on-year fall of production deepened this year and reached 5.3% for the whole H1. Construction of buildings and also specialised construction activities (in which the output fell the most – by 8.1%) contributed the most. These activities include, for example, assembling, finishing electrical installation or plumbing work and are more the domain of smaller construction companies. A more moderate decrease was recorded in civil engineering construction (-1.1%).

The number of started dwellings continued to decrease, the volume of construction was the lowest in the last six years. A partial recovery occurred in the category of residential buildings.

The subdued housing construction was adversely reflected in the performance of building construction in H1 2024 as well as throughout the whole last year. The number of dwellings started decreased by 4.9%, year-on-year, when it only amounted to 17.2 thousand dwellings (the lowest for the first half-year in the last six years). This year's decrease was mainly caused by the dwellings created by modifications of existing residential buildings and also by category of apartments in family houses. However, the construction of new residential buildings revived significantly, especially in the Spring (with almost one quarter more commenced, year-on-year, in H1 2024). The volume of total construction decreased in the majority of regions, absolutely the most in the *Jihomoravský* Region, while it grew especially in *Prague* and the *Plzeňský* Region. The number of all completed dwellings in the Czech Republic also decreased. However, due to the higher number of ongoing construction activities from previous years, the decrease was relatively insignificant so far compared to the construction started (–1.9%).

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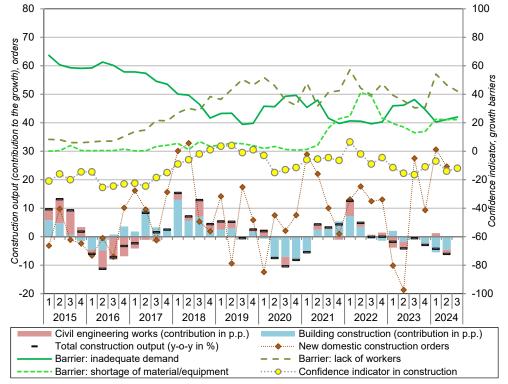
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²⁰ According to business cycle surveys from August 2024, still nearly a third of domestic construction companies anticipated the growth of prices of own production (within three months horizon). It unequivocally presented the largest share among all major industries. While inflation pressures have largely evaporated in other branches, higher inertia is manifested in the construction sector due to a longer production cycle. ²¹ However, this effect is not nearly as pronounced as in 2016. In H1 2024, capital expenditure of the state budget of the Czech Republic fell by 3.3%, year-on-year. The State Fund for Transport Infrastructure expects total expenditure of 150 bn CZK for the whole this year (given the model of multi-source financing continues), which is only slightly less than in the record last year (151 bn CZK). In the future, the construction industry should also benefit still more intensively from the funds of the National Recovery Plan intended for example to reduce the energy performance of buildings.

performance of buildings.

22 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.

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



Note: Data related to construction output are adjusted for calendar effects.

Growth of the value of permitted buildings ceased in Q2. A decrease was recorded for transport constructions.

The growth of new construction orders on the contrary continued, specifically across the main segments of the total industry.

The pessimism of entrepreneurs in the construction industry persists. It is also reflected in the area of employment.

The year-on-year growth of the nominal value of permitted buildings, lasting five quarters in a row, ceased in Q2 this year, when mainly the number of large constructions (over 1 bn CZK) shrank. This total value decreased by 2.5% for the whole H1 2024, primarily due to trafficengineering constructions (new construction as well as reconstructions). In contrast, slight revival occurred for permitted buildings of new residential construction. The development of new domestic construction orders (for companies with more than 50 employees) was still favourable. They grew briskly, year-on-year, for the fourth quarter in a row – being nominally higher by 25% in Q2 2024, both building construction (+27%) and civil engineering construction (+22%) signalled larger demand. Also the total stock of work (orders to be realised) was significantly higher (by 21%), year-on-year, at the end of Q2. The domestic private orders also contributed notably to the growth after two years (they currently accounted for one third of the total stock of work of medium and larger construction companies). On the contrary, the continuous decline of foreign orders has lasted for nearly three years already.

The business confidence in the construction sector had remained (with the exception of a brief recovery at the beginning of this year) unchanged in the negative band for already one and a half year (but at the same time slightly above its long-term average). Approximately one quarter of companies steadily assess the current demand as insufficient, short-term outlooks in the area of construction activities, employment and own economic situation of companies remained slightly negative also in August this year. The registered number of employees (in construction companies with 50 and more employees) decreased by 1.5%, year-on-year, in H1. Despite a slight decrease in weight since the beginning of this year, the lack of (qualified) employees remains a key growth barrier, which has lasted with minor interruptions for already about six years.

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^{*} 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

The quarter-on-quarter decline of sales in services stopped at the end of 2023. Demand has recovered in almost all major services branches this year.

Demand for services has also thanks to the improved condition of the domestic economy gradually recovered this year. The stabilisation of the consumer price level assisted in launching the growth of the real wages of employees after longer time period, which was mirrored in a more favourable financial situation of households. Services were also positively affected by slightly growing business demand this year, which was still rather subdued for most of the last year. Sales in services²³ increased by 0.6%, quarter-on-quarter, in Q4 2023 and thus recorded the first strengthening since Q3 2022. Sales growth markedly accelerated (to 2.4%) in Q1 2024 and the revival also continued with less intensity in the subsequent quarter (+0.3%). This year's recovery in services manifested broadly across all major branches, nevertheless the recovery in transportation and warehousing has played a key role. Total sales in services were slightly above the level from the peak of the last boom in the pre-pandemic period in Q2 this year (they were by 3.3% higher compared to Q2 2019²⁴).

The growth of sales in accommodation, food service and restaurants was supported by the recovering consumption of domestic households as well as the developing inbound tourism. There a significant revival of demand of guests from Asian countries manifested.

Growth of the number of overnight stays of guests from Germany halted after

All sub-branches of transport and warehousing recorded at least a mild increase in sales this year.

nearly three years.

The positive turnaround in demand for services is also evident in the year-on-year perspective. Sales again slightly increased here after the last year's recession (by 1.8% in H1 2024), the recovery manifested across all major branches. The highest increase was in accommodation, food service and restaurants (+2.9%), where the growth of demand was driven almost exclusively by food service and restaurants. In addition to the gradually recovering consumption of domestic households, it also benefited from the rapidly developing inbound tourism. In Q2 2024, the total number of guest arrivals to collective accommodation facilities in Czechia increased by 3.3%, year-on-year, and their overnight stays grew up by 0.9%²⁵. The growth of inbound tourism continued for the fourth year in a row, however the dynamics (for both arrivals and overnight stays) were the weakest since the removal of anti-pandemic restrictions (Spring 2021). Only non-residents²⁶ supported the growth, as the number of domestic quests decreased, year-on-year, by 1.4% (the number of their overnight stays dropped by 3.5%). Foreign guests' data showed a significant recovery in the number of visitors from China²⁷ (to a lesser extent also from other Asian countries), further the organization of major sporting events in the Czech Republic (especially the Ice Hockey World Championship in Prague and Ostrava) had a positive impact²⁸. On the contrary, the number of overnight stays of guests from Germany decreased by 2.7% (it presented the first decline in the last 11 quarters). In spite of this, they still comprised more than one quarter of the accommodation demand from all nonresidents in the Czech Republic in Q2.

In transport and warehousing, the most important branch by weight, the sales increased by 2.8% in H1 2024 and contributed the most of all major branches to the year-on-year growth of the entire services sector (+0.7 p.p.). Thanks to the development of tourism, particularly the sales of air transport grew briskly (+20.6%), nevertheless they still lagged behind the maximum level of the boom period between 2015 and 2019. This also applies to water transport, which has also experienced a rapid demand growth (+8.8%) this year. The sales increased more modestly in the land transport (+2.2%), as a decline in rail transport was

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²³ 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).

²⁴ Among the main branches, the sales lagged the most behind the level of Q2 2019 in accommodation, food service and restaurants (-10.7%) and in administrative and support service activities (-6.4%) this year. Oo the other hand mainly information and communication (+12.4%) and real estate activities (+6.6%) overtook this level.

²⁵ While the number of guests was higher by 3.1% compared to Q2 2019, the number of overnight stays still slightly lagged behind (by 0.8%). ²⁶ The year-on-year increase in the number of arrivals of foreign guests to the Czech Republic was 9.3% in Q2 and their overnight stays 6.6%. All categories of accommodation facilities and at the same time all regions except for the *Ústecký* region experienced greater demand.

²⁷ The number of these guest accommodated in the Czech Republic increased by 126%, year-on-year, in Q2 and the number of their overnight stays increased by 77% (these represent the maximums among all almost 60 monitored groups of foreigners in both cases). The high growth resulted from a very low comparative base. In addition, a direct airline between Prague and Beijing was reinstated on June 25, 2024, with the aim to promote mutual trade relations (a similar step was taken in case of Seoul a year earlier).

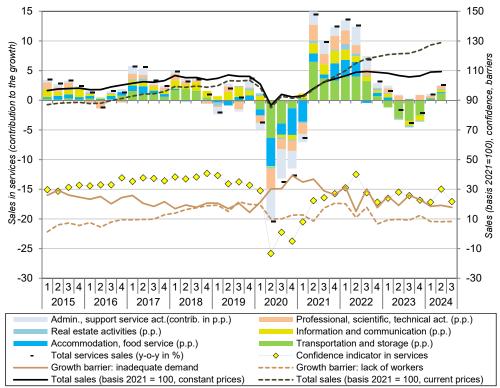
²⁸ The number of overnight stays of non-residents increased by 29.5%, year-on-year, in the *Moravskoslezský* region in Q2 2024. The number of accommodated guests also considerably increased with respect to the states, who were the participants of the Ice Hockey World Championship.

offset by higher performance in road freight as well as passenger transport. Sales increased at a similar rate also in warehousing and in postal and courier activities, which was likely related mainly to the development of trade. At the same time, they were more than one tenth higher in both cases compared to H1 2019.

Mostly the architectural and engineering activities drove the demand for more sophisticated business services.

The year-on-year sales growth slowed to one half in H1 this year (+2.0%) compared to the preceding year, but at the same time it persisted for more than three years in professional, scientific and technical activities, which typically concentrate more sophisticated services for businesses. Despite the difficulties in construction, the architectural and engineering activities contributed the most to the growth of the total branch this year (sales increased by 4.9%). Demand for management as well as legal and accounting activities continued to expand.

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



Note: All data are seasonally adjusted, only contributions of branches to the growth of sales are adjusted solely for calendar effects. *Without branches trade, financial activities, insurance activities, science, research and public services.

The longer-term decline in sales of employment placement agencies continued.

The sales exceeded the level of H1 2023 by 1.6% in administrative and support service activities this year. Further, particularly the travel agencies and offices also prospered, the sales already closely overtook the 2019 level here. In contrast, a continuous marked decline of demand for employment placement agency activities can be observed for a third year in a row (sales decreased by 10.9%, year-on-year, this year²⁹). Cost pressures as well as the development of digitization resulted in a continued slight decrease of demand for security and investigation activities. On the contrary, the sales in the rental and operating leasing

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^{**}Also involves the financial sector. Balance of business confidence express the level in the second month of the given quarter,, growth barriers then in the first month. Businesses could have indicated more key barriers simultaneously.

²⁹ The decline in sales occurred here while the number of working foreigners was rising swiftly in the Czech Republic. Refugees from Ukraine have played a significant role in this growth over the past two years. With respect to the Temporary protected status, which was granted to these persons, their employment in the CR is administratively easier (compared to other groups of migrants from the so-called third countries) and thus they can seek employment more easily "directly" (without intermediary). In addition to the above stated, the reduced demand of employment placement agencies due to manufacturing branches undergoing recession (industry and construction) can also play a role.

developing procyclically revived this year (+5.2%), higher demand manifested in all segments except for the rental of passenger vehicles and other light motor vehicles.

Demand for programming services continued to grow, sales nevertheless decreased in the motion picture and music publishing industries, as well as in information activities.

Sales increased only very slightly, year-on-year, in the traditionally dynamic sector of information and communication (+1.1%) in H1 2024 and thus followed in the insignificant results of last year. Demand increased the most in the radio and television programming and broadcasting (+8.2%) here, however specially the higher sales in the key long-term developing segment of IT activities (+4.8%, including e.g. programming or computer facilities management activities) contributed to the growth of the whole branch. Mainly the drop of sales of the so-called motion picture and music industry (-35.4%30.) had the opposite effect. It reached a comparable depth as in year 2020 and this year it was primarily related to irregular invoicing³¹. Information activities³² also coped with lower demand, sales fell for the seventh quarter in a row here (by 2.6% for the whole H1).

Price stabilisation in the economy led to a rapid improvement of consumer confidence. Retailers' confidence also strengthened.

Retail also experienced a positive turnaround in recent quarters. Its precondition was the return of consumer prices to regular growth bands coupled with likely a temporary, however relatively significant decrease of food prices. This, together with the good condition of the labour market, swiftly launched the growth of the purchasing power of households and improved their overall confidence in the economy. It consequently climbed up highest in the last two and half years in April 2024. Although there was a slight deterioration subsequently, the consumer pessimism was still lower in August than in any month from the period 2022 to 2023. However, people still declare a higher intention to save and simultaneously still do not consider the current time to be very suitable for large purchases (investments or durable goods). To a certain extent, this fact counteracts a faster recovery in demand for certain assortment groups of non-food products. At the same time, however, the traders' optimism also strengthened, the level of their confidence in the economy hiked up the highest in the last fourteen months in July this year. The development of inbound tourism also contributed to the recovery of retail. Retail sales³³ showed a slight quarter-on-quarter growth (+0.5%) already in Q3 2023 (after seven quarters of adverse development), which consequently strengthened and attained 2.0% at the beginning of this year (it then moderated to 0.6% in Q2). Nevertheless, the current level of sales still lagged behind its pre-crisis peak (from Q4 2019) by 3.4%³⁴.

Retail sales increased, quarter-on-quarter, for the fourth time in a row nevertheless have not attained the level of 2019 vet.

> Retail sales increased by 3.9%, year-on-year, in Q1 2024 and thus halted the fall lasting nearly two years. The sales increased by 4.0% for the whole H1 2024. All major retail segments contributed to the growth. Higher sales of non-food goods (+5.3%, contribution +2.6 p.p.), driven primarily by a sharp recovery of sales via internet and mail order houses (+16.9%) played a key role. It likely also absorbs a part of the demand of specialised brickand-mortar stores (e.g. sales for trade with computer and communication equipment decreased by 2.2% in these stores in H1). Sales for household equipment also fell even slightly further³⁵. Stores with products for arts, sports and recreation and also wearing

The year-on-year growth of retail sales was driven from one half by a sharp recovery of sales via internet.

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³⁰ The segment of motion picture distribution performed better. According to data from the Union of Motion Picture Distributors the gross nominal sales of the domestic cinema operators fell by 4.3%, year-on-year, from January to July this year. The total attendance decreased by 7.5% analogously, on the contrary the number of shows went up by 3.3%. The very weak demand in the Spring period was partially offset by the July attendance (1.64 million, a record figure in the comparable period after year 2000). Nevertheless, nearly one third of audience and nearly one sixth of sales were still missing this year in comparison to the first seven months of the record-breaking year 2019.

³¹ This year's development in the Czech Republic could also have been influenced by the indirect impacts of a longer strike in Hollywood at the end of last year.

³² They include, in particular, the activities of web portals, news agencies or data processing and hosting.

³³ All year-on-year rates of growth of retail sales are stated in constant prices and adjusted for calendar effects, quarter-on-quarter rates are adjusted for seasonal effects (including the number of working days). Retail includes branch CZ NACE 47.

³⁴ It primarily relates to decreased sales for food (-9.3%), while the current demand for non-food goods is slightly above the level from the end of 2019 (+0.3%), mainly due to sales via internet (+38.8%). The development rather varied at the level of different specialised stores, e.g. household equipment (-14%) vs. cosmetic and toilet articles (+26%).

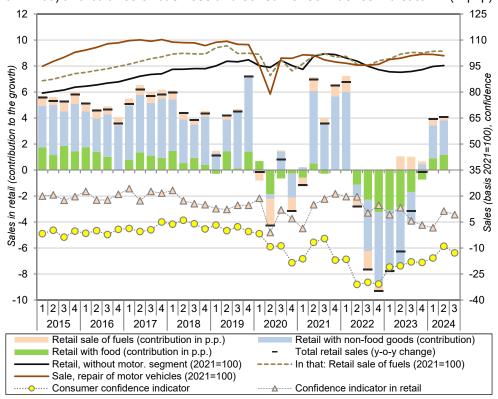
35 These contain metal hardware, building materials, paints, glass, DIY supplies, electro supplies, furniture, lighting, carpets or home textiles.

The interest for cosmetic and toilet articles grew the most within the specialised stores.

Growth of sales for food was concentrated into large retail chains.

apparel, footwear and leather goods³⁶ also registered a mild drop of demand. Within the specialised stores³⁷, sales grew the most for cosmetic and toilet articles (+18.3%) and further pharmaceutical and medical products (+6.5%), both of which represent products for which demand did not decrease significantly even during the pandemic period. Sales for food increased more modestly (+2.7%, contribution to the growth of total retail was +1.0 p.p.), nevertheless it still presented the highest pace since H2 2017. The growth of demand was concentrated in large chains here, since the sales of smaller specialised stores with food (of which tobacco products are the most important assortment group in terms of weight) decreased by 2.2% and have been declining continuously since Spring 2022. On the contrary, the demand for fuels after last year's recovery, partly stimulated by a more favourable consumer price, continued to grow (fuels – sales strengthened by 3.1% in H1 2024 here and contributed +0.4 p.p. to the growth of the total retail trade).

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



^{*} Sales are adjusted for calendar effects.

A slight increase of sales occurred in all parts of the motor vehicle segment of trade, except for the sale of parts and accessories.

Sales in the motor vehicle segment (trade, repairs and maintenance of motor vehicles) of trade increased by 1.7%, year-on-year, in H1 and, similarly to fuels continued in their last year's recovery. A slight increase in demand manifested in all parts of this segment this year (except for the sale of parts and accessories). Compared to Q4 2017, when this segment of trade was at its peak, its sales were by 8.5% lower in Q2 this year.

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^{**} Sales are adjusted for both seasonal and calendar effects.

^{****} Consumer confidence indicator balance is seasonally adjusted and expresses the position in the second month of the given quarter. Source: CZSO

³⁶ Demand in both of these categories of specialised stores was strongly impacted by the restrictions during the pandemic period. Compared to the beginning of 2019, for example, the current sales for wearing apparel, footwear and leather goods were still almost one quarter lower.

³⁷ Apart from the specialised stores, sales grew briskly in the small segment of other retail trade with a predominance of non-food goods (by one sixth this year) for the third year in a row (apart from a short-term decrease in Q2 last year). This typically includes smaller stores focused on the sale of various small goods, usually in discount events.