

3. Industry Performance

Performance of all activities viewed through the GVA dynamics improved for the fifth time in a row quarter-on-quarter

Gradual revival of the Czech economy performance continued in the first half of 2014, when the gross value added (GVA) sustained quarter-on-quarter growths already five quarters in a row. The performance of all activities hiked up by 3.2 % year-on-year for the whole first half-year (without significant dynamics differences between Q1 and Q2), and it thus reached its fastest rate of growth since the beginning of year 2011 (rate of growth close to those in 2010, when the economy was recovering from a strong recession).

Growth of GVA was pushed from more than two thirds by the dynamically growing manufacturing industry year-on-year...

Mainly the dynamically growing manufacturing industry played a major role in the higher GVA for a third quarter in a row year-on-year (growth of this industry by more than 8 % in both Q1 and Q2). While the manufacturing industry represented one of the few growing activities still at the end of 2013 (+4 %), nearly all the main groups of activities (incl. agriculture and construction) already positively impacted the higher aggregate GVA during this year, except for the financial sector, where the very high comparative basis knocked down their results, given their more volatile character in the long-term.

...GVA nevertheless higher in all main activities (except for financial sector)

This year's growth of GVA overtook the dynamics of aggregate employment as well as hours worked, which strengthened especially in services sector year-on-year

Significant recovery of the GVA dynamics occurred in H1, accompanied by a more modest growth of the employment (+0.3 %, in the national accounts conception), which however have lasted for more than two years. The total hours worked also increased slightly year-o-year (+0.8 %) with higher dynamics concentrated (similarly to employment) mainly to the services sector (mostly in the IT activities and real estate or professional, scientific, technical and administrative activities). On the contrary, the manufacturing industry had to handle a marked increase of orders with nearly unchanged employment as well as hours worked. Also due to the effect of expectations of favourable harvest, the eleven quarters in a row lasting year-on-year decline of GVA halted in the agriculture, forestry and fishing, nearly the same can be said also with respect to construction (simultaneous effect of "launch" of larger orders and favourable climatic conditions) and in the aggregate also with respect to public services (where the long-term fall of employment ceased also thanks to the recovery in community service activities already last year).

Halting of long-term adverse development in agriculture and construction

Industrial production kept a high year-on-year dynamics from the end of the last year, however the rates of growth slightly weakened in the quarter-on-quarter comparison during 2014

Industrial performance¹ (gauged by the index of production) also continued in its tendencies initiated in the second half of the last year during the year 2014. The recovery of foreign demand, at the beginning especially for transportation vehicles, gradually leaked not only by sub-supplier relations to majority of other manufacturing activities, including in case of the domestic demand. Industrial production (adjusted for calendar effects) kept a high dynamics from the end of the last year, when it increased similarly by 6.2 % in both Q1 and Q2. Expressed quarter-on-quarter, the slight growth of activities from the beginning of the last year lasts, nevertheless the growth dynamics of total output gradually slightly weakens (1.2 % and 0.6 % in Q1 and Q2 resp.) compared to the end of the year 2013 (+2.4 %).

Manufacture of motor vehicles contributed to growth of output in the whole industry from two fifths in H1, together with its main associated sub-supplier activities then from nearly two thirds

The manufacture of motor vehicles contributed to the current this year's growth of output from two fifths year-on-year (with the growth of the industry itself by one sixth), one tenth was similarly added by the associated activities of manufacture of rubber and plastic products, manufacture of electrical equipment and also manufacture of metal structures. Dynamic growth experienced also the output in strongly export oriented (however less significant by weight) activities of manufacturing of computer, electronic and optical products (nearly by one fifth in H1), the (petro-) chemical and pharmaceutical industry also to a lesser extent. The higher output of manufacturing of other non-metal mineral products (by one tenth) also reflects the gradual recovery of the construction orders.

¹ Including the CZ-NACE activities: B (Mining and quarrying), C (Manufacturing industry), D (Energy industry)

Year-on-year growth of industrial output expanded into all significant activities apart from the energy industry at the beginning of the year	In H1 2014, the output of nearly all partial industrial activities grew year-on-year (a year ago only one third), except for some smaller activities marked by a long-term fall of mainly the domestic demand (manufacture of textiles and printing – also due to the drop of expenditure on advertising services) and also the energy industry (whose output dynamics has lagged behind the manufacturing industry for a long-term). Protracted fall stopped in mining and quarrying (due to higher performance in mining of building matter), when this year's output exceeded the very low basis from the beginning of the last year by 1 %. In H1, the output of activities oriented on investment increased in total by one tenth year-on-year (machinery, vehicles), accompanied by contrasting rates of growth of outputs for consumption long-term (+8%) and short-term (+2 %) - including e.g. food, beverages, tobacco, wearing apparel.
One tenth growth of output of industrial activities focussed on investment contrasted with a weak dynamics of output for short-term consumption	In spite of the current growth, the output in the whole of industry has not so far reached the level of top of boom (H1 2008), when it still lagged behind this goal in real terms by 2 % in H1 2014. It was higher in one third of activities, especially in the manufacture of motor vehicles (by one third) and related activity of manufacture of electrical equipment (by one quarter) and manufacture of computers, electronic and optical products (by one eighth).
This year's output of manufacturing industry close to the level of top of boom, by more than one fifth below in mining, metallurgy, furniture, wearing apparel or leather working activities	Turn in the industry dynamics was allowed by a marked recovery of foreign demand during 2013. Year-on-year growth of the nominal value of foreign orders already four quarters without larger fluctuations stays within double-digit values (16.5 % n Q2) and it is driven especially by the manufacture of motor vehicles (35 % and 27 % in Q1 and Q2 resp.). The manufacturers of computers, electronic and optical products and also the metallurgy industry also recorded by one fifth higher orders from abroad throughout the whole half-year. At least a low growth has been however apparent this year across all observed industrial activities (with longer-term production cycle and larger stock of orders). The rate of growth of foreign orders slightly decreased in majority of activity during H1 (especially due to a higher last year's basis) ² apart from manufacturers of other transportation vehicles – mostly for the railway transport, which in addition managed to access the foreign markets also for the whole previous year.
Rate of growth of foreign orders stable lasting already one year, foreign orders higher across all main activities year-on-year	Domestic industrial orders reached compared to the foreign ones only a one half dynamics in the last four quarters. In both this year's quarters, they grew only for manufacturing of transportation vehicles and main associated sub-supplier activities and also for manufacturers of computers, metalworking and textile industry (where they halted drop of demand lasting nearly two years). Exceeding dynamics of value of new orders from abroad above the domestic has been a long-term phenomenon for the CR industry (except for years 2006 and 2008). Direct export sales were higher in nominal terms (thanks to both exchange rate effects and growth of foreign demand) by 17 % in H1, domestic sales added less than 2.5 % year-on-year.
High growth of foreign orders for manufacture of rail transportation	The industrial businesses reacted to a relatively stable growth of demand by only a very slight growth of employment so far. This was expected by only every seventh company in the manufacturing industry in July 2014 (77 % managed with the current state). Similar proportion of businesses anticipated a growth of the production activity in the coming three months (at the beginning of this year however, nearly one quarter). Aggregate seasonally adjusted balance of the confidence indicator in industry oscillates in the positive values (+1 to 3p.) already since November 2013, still the level from the turn of 2010 and 2011, when the economy was recovering from a deep recession, has not been reached yet. Seasonally adjusted confidence indicator in industry lowered from 1 p. (end of 2013) to -2.7 p. (in August 2014) in Germany.
Rate of growth of domestic industrial orders lags behind the foreign in the long-term also due to the clothing, textile or pharmaceutical industry	Industrial production increased by 1.4 % (in Germany by 1.9 %) n the EU28 in this year's H1 year-on-year. The CR (+6.2 %) belonged (also due to the effect of lower last year's basis) together with Hungary or Romania to a group of five countries with the highest growth. Seven union members have so far overtaken the level of output reached six years ago (Poland and Romania by one sixth, Slovakia nearly by one tenth), the CR together with Germany and Hungary fell closely below it (most of south-European countries even by a whole quarter). Both central European and
Growth of demand for industrial products has not so far led to a more significant growth of employment in this activity	
The mild fall of the confidence indicator (industrial) in Germany is also a risk for keeping the current growth rates of industry in the CR	
Current rate of growth of industrial output in the CR belongs to the fastest in the EU, in the long-term the most dynamic central European and Baltic countries	

² Nevertheless, the double digit growth was also achieved according to preliminary data in July (14 %, despite high last year basis - the value of orders was by 9 % higher year-on-year in July 2013).

Baltic countries have a higher dynamics of output in the long-term.

Construction output has bounced off the last year's bottom, strong growth year-on-year also due to the impact of favourable climatic conditions in Q1

It can be assumed based on results of various output indicators as well as qualitative data from business cycle surveys in this industry, that the construction has most likely already hit its bottom in the CR during the last year. Construction output recorded the first growth after 11 quarters at the beginning of 2014, when it added 8.3 % year-on-year (3.9 % in Q2). Repeated year-on-year growth in two successive quarters occurred for the first time since the turn of years 2007 and 2008. The fall in the quarter-on-quarter expression stopped already in the autumn of the last year, it however recurred in Q2 2014.

Still the construction output remains in real terms by nearly 28 % below the level of top of boom in H1, as well as below the level of the year before last

Both building construction and civil engineering construction expanded by a similar rate of growth in total for the H1 2014 year-on-year. Favourable climatic conditions as well as low comparative basis (especially from the beginning of last year) also contributed next to the demand recovery to a higher output. This year's construction output corresponded in real terms to the level reached in H1 2003 and it was lower by 30 % (in building construction) and by 20 % (civil engineering construction) compared to the top of boom (H1 2008). The value of new orders increased (for the businesses with 50 employees and more) year-on-year by one third in the whole construction in the CR in the context of last year's historical lows in H1 (even by more than 60 % in the civil engineering construction). The value of new orders was (81 bn crowns in H1 2014) the third lowest since 2004 (in the civil engineering construction since 2007). The drop of the average value per 1 new order (due to both a legislative change and a factual lack of large orders) halted (the average value constituted 3.7 mil crowns in H1, by one fifth more year-on-year), similarly to the average value of issued construction permits. In August 2014, three quarters of construction businesses considered the inadequate demand to be the barrier of the growth of whole industry despite the overall recovery (less than in December 2013 – i.e. 83 %, but also still the most out of all EU countries), nearly one half than in the industry.

Value of new orders higher year-on-year already third quarter in a row, fall of average size of order also halted...

...inadequate demand however remains the main barrier to further growth of the whole industry according to construction managers

Both domestic public and private orders contributed to the renewed growth of total stock of construction orders by a similar part, the foreign demand however contributed the most

The growth of demand in construction also rebound in the total stock of not yet realised orders in the last three quarters. This was by nearly one quarter higher at the end of both Q1 and Q2. The stock of public orders ceased its year-on-year fall after 18 quarters at the beginning of 2014. The volume of private orders also increased by one tenth year-on-year (following nearly two years of continuous falls). However, the orders from abroad, whose stock doubled at the end of Q2 year-on-year (and it consisted of a whole one fifth in the total portfolio of orders of construction firms with 50 and more employees), contributed to a major extent to the rise of the value of orders this year. The value of foreign orders has already been rising eight quarters in a row. Especially some large construction companies thus most likely managed to partially compensate the deep slump of the value of orders on the domestic market.

Only a narrow range of construction companies however most likely benefits from the dynamic growth of foreign orders

Recovery of new orders has not yet stopped the fall of registered number of employees in construction, less than one tenth of construction firms considers the growth of employment in the short-term

Despite recent demand recovery, the long-term decrease of the registered number of employees continued, not yielding much even in H1 (-5 % in Q2, -7.6 % last year). The industry thus lost over 50 thousand of „root“ job positions in the last four years only. The share of companies expecting employment stabilisation increased in the last year (already 75 % in August), but only every twelfth construction company planned to hire new employees in the upcoming three months. The balance of the aggregate confidence indicator in construction has been slightly rising since last year's August, still it remains in deeply negative values and has not even exceeded the level of most of the year 2010 so far.

Mild recovery of started dwelling construction due to extremely low year-on-year basis and favourable weather conditions at the beginning of the year

Construction activity on the flat market reflects the economic situation of households with a higher persistence. It is also majorly affected by the market saturation resulting from the intensive construction in the boom years also supported by the demographic changes. The number of dwellings started increased year-on-year in H1 (+11 %), still it was in absolute terms the 2nd lowest value since the half of 90s. The more intensive dwelling construction in Prague, which was higher for all types of buildings year-on-year (apart from dwellings for seniors), stands behind the growth of more than one half. On the contrary, only the construction of flat houses revived more significantly in the whole CR (reaching 5-year maximum, but only near one half of the level of top of boom). The number of completed dwellings (10.6 thousand) was the lowest during the past decade in the CR in H1 2014, given the simultaneous drop of both flat houses (-14 % year-on-year) and family houses (-10 %).

The frequency of finished dwellings stays on the ten year minimum

Sales continued in mild year-on-year growth in market services	Sales in selected services ³ in total continued in mild growth initiated in the half of 2013. They rose „only” by 1.2% in real terms year-o-year in H1, however it represented the highest half-yearly growth since 2008. Especially the activities, whose sales grow in the long-term, fared the best and usually already exceeded the „pre-crisis level”. It is in the first place the transportation and warehousing, where the accelerated year-on-year growth is connected with the overall revival mainly in industry and foreign trade in the last four quarters. Both warehousing (+6.1% in H1) and significant by weight land transportation (+4.7%) achieved good results. Also the majority of administrative and support activities fared better. Specifically both the job agencies (+16.7 %, growth of sales already 17 quarters in a row), administrative and office activities (+7.4 %), the demand for security and detective services and hiring and leasing (vehicles and machinery) has been increasing for a shorter time. Information and communication activities have also earned more in H1 (+1.8 %), when the publishing activities and music and motion picture industry achieved better results following a longer slump. Mostly the continuously expanding foreign clients has driven up the sales in accommodation (+3.3 %) for already 16 months, while they transferred from long-term falls only to stagnation in restaurants and food service activities.
Transportation, accommodation, information technologies and some administrative as well as support activities fare the best in the long-term	
Long-term slump continued for most professional, scientific and technical activities and real estate activities	
The highest year-on-year growth of sales for advertising (since 2008) due to low comparative basis and growth of demand in connection with elections	Sales have been falling in fact continuously in professional, scientific and technical activities as well as real estate activities since 2009 (by nearly one third and one fifth resp. in real terms in six years). Only management consultancy activities and partially advertising activities halted the negative trend, the growth in market research and public opinion polling has been on the contrary exhausted after nearly three years. The air transportation has not followed up with the more hopeful last year's results (-3.3 % in H1 2014), travel agencies also continued in the long-term slump (their sales being even against a low last year basis by one tenth weaker). The sales in both economic activities were weaker by one quarter compared to the level six years ago.
Improving consumer sentiment reflected in the retail sales year-on-year accelerating dynamics	Overall revival in the economy as well as the gradual decrease of unemployment influenced the consumer's confidence indicators, which lay the highest in Q2 since the spring 2008. Retail sales rose by 5.7 % in H1 (year-on-year growth adjusted for calendar effects apparent continuously since July 2013). The strengthening motorist segment (+12.6 %) contributed to a high dynamics from one half, its sales growing in real terms already five quarters in a row (both in sale as well as repairs and maintenance).
Retail sales growth was driven by still dynamic motorist segment from one half this year	The sale of non-food products has traditionally drove the „non-motorist segment” of retail (+ 4.3 % in H1 2014), when the sale strategies aided especially the sellers of computer and communication appliances (by 18 % year-on-year). The sales for products predominantly for household equipment, culture and recreation and also clothing, footwear and leather products however also grew. Nevertheless, the sales of sellers of paper goods and books stagnated, the sales of pharmaceutical and medical products remained in long-term decrease (they decreased by 8 % in two years). The sales of food products ceased its fall after nearly three years, strengthening by 3.8 % year-on-year in Q2 (partially also due to the „shift” of the Easter holidays to the end of April). The fall of retail sales also stopped in specialised (usually smaller) shops predominantly with food due to the development in Q2 for the first time since 2005. The dynamics of growth strengthened for sales of motor fuels (by 1.6 % in Q2) as a result of lower last year's basis as well as increased sale of new vehicles. Very high dynamics of sales prevailed for internet sellers for already six quarters (by +17 % in Q2), their sales have doubled in real terms in the last five years.
Cessation of long-term decrease of sale of food, even in specialised shops	
Sales of internet sellers doubled in real terms in the last five years	
Chart 5 Production in industry and selected manufacturing activities (constant prices, y/y, in %)	Chart New orders in manufacture of motor vehicles and industry in total (l.axis, y/y, in %) and balance of confidence indicator in industry (r.axis)

³ They do not include the activities of trade, finance and insurance, science and research and also public services.

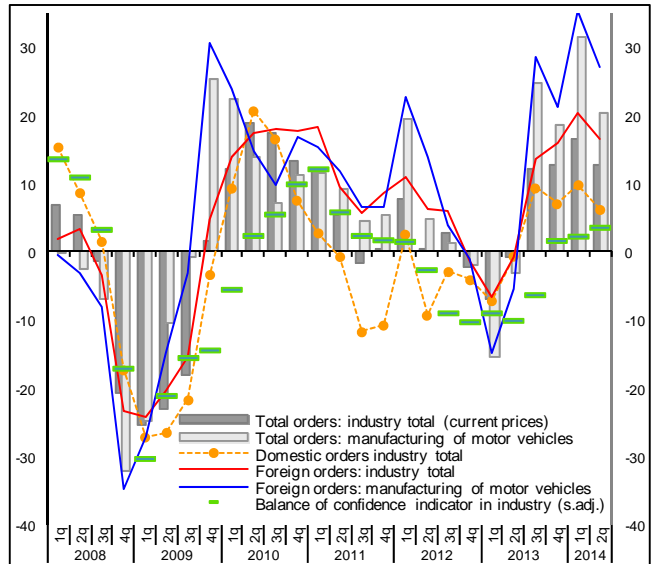
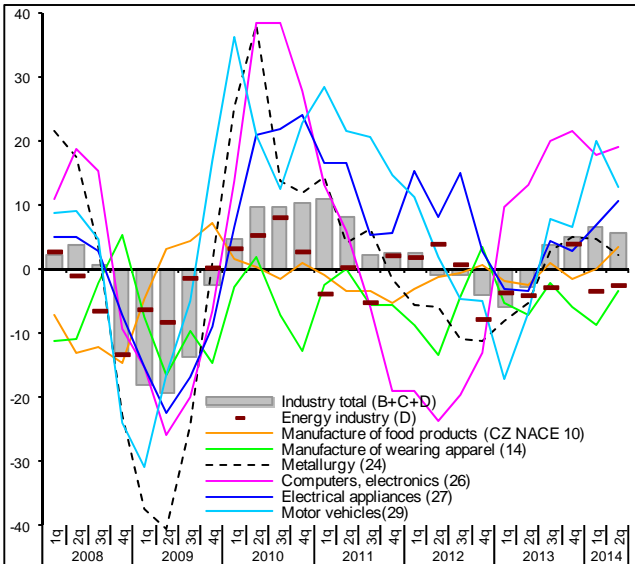


Chart 7 Construction production, value of new orders and flat construction (y/y, in %)

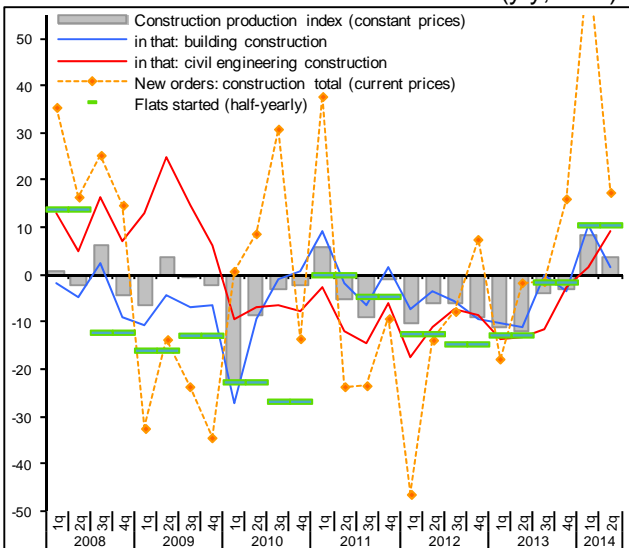
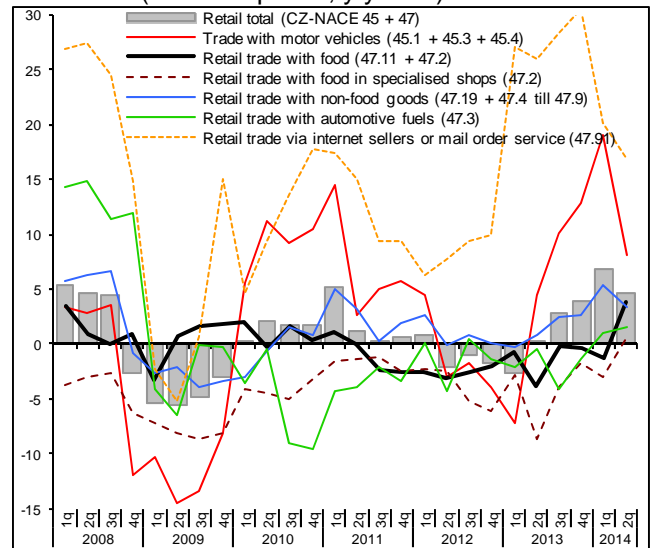


Chart 8 Retail sales incl. motorist segment (constant prices, y/y in %)



Source: CZSO