

3. Branches Performance

Rate of growth of gross value added (GVA) slowed down year-on-year in comparison to the extraordinary year 2015, the quarter-on-quarter growth however continued and it was even enhanced in Q2 itself

Performance of all branches of economy, captured by the gross value added in these branches (GVA)¹, expanded by 2.7% year-on-year – by the same pace both in Q1 and Q2 of this year. These rates represented milder paces compared to the strong last year's growth (always exceeding 4% in all first three quarters) in connection to a gradual dissipation of the extraordinary growth factors. The GVA growth slowed down already towards the end of the last year (to 0.3% – as compared to previous quarter). The development during the H1 2016 however gradually signalled a sign of a positive turn, since the GVA increased by a notable 0.9% in Q2 (the quarter-on-quarter growth of GVA was evident already a thirteenth quarter in a row).

Manufacturing sustained a dominant position thanks to strong foreign demand, without this industry, the GVA would grow by only a halved rate in the whole economy

Manufacturing traditionally contributed the most to the growth of the total value added. It shared from one half on (the more favourable) year-on-year result of all branches this year (it has held a similarly dominant role since the half of 2014). The GVA was (against the exceptionally high last year's basis) by 4.8% higher in manufacturing in both this year's quarters, overtaking markedly the dynamics of most other branches. A strong demand (in traditional export branches) became evident in a higher employment² (which grew slightly above 3% this year similarly to the last year's H1, by a double pace in comparison to the whole economy in both cases). The businesses tried to cover the growth of new orders also by a more intensive utilisation of the existing labour force. The number of hours worked increased against the last year's level by the unprecedented 6.1% in H1.

Good harvest of basic cereals and oil plants also contributed to the higher value added in agriculture this year

Agriculture, forestry and fishing also thrived, driven especially by the plant production. The good harvest of basic cereals and oil plants made a major impact here this year. GVA in the whole branch strengthened by 5.1% in H1 year-on-year and recorded a growth for a third year in a row.

Value added was falling in construction already a third time in a row (quarter-on-quarter), the branch faced a lack of more significant public orders after the dissipation of the "doping effect" of the European subsidies

Construction was the only more significant branch, which did not contribute to the growth of value added this year. The GVA decreased in the quarter-on-quarter comparison already at the end of the last year, the slumps deepened – down to -4.7% in Q2 2016 (which was also reflected in the year-on-year comparison, where the GVA fell for the first time after twelve months) since then. The relatively favourable development in the intermediate consumption prevented an even weaker result, since the production itself underwent in comparison to the GVA deeper declines in construction. The performance in construction adversely affected the area of employment.

Tertiary sector contributed to the higher GVA year-on-year 1.6 p.p. this year, the branch presenting a significant weight trade, transportation, accommodation and food service assisted by a whole one third to this contribution

Value added increased by 2.6% in the whole services sector year-on-year in H1 (the growth amounted to 3.6% in the same period of the last year). The rates of growth were on the whole quite equal within the main branches of services. Only the professional, scientific, technical and administrative activities deviated somewhat, when it reached 3.5% growth of the GVA despite the year-on-year decline of production (since the intermediate consumption in this branch was falling by even a higher rate). The financial and insurance activities also reached more than 3% increase of GVA and thus indicated, that the last year's fall of GVA (accompanied by a more substantial reduction of employment) was only a temporary fluctuation³. Information and communication activities are also developing in the long-term, which is reflected in the above average creation of new job positions (not only for employees) in the last four years.

The GVA was strengthening a bit more modestly in the branches with a significant weight proportion with the state domination⁴ (+1.9%) this year. The low growth of the volume of paid out wages stood behind this occurrence in the

¹ Data related to the GVA expressed in constant prices and adjusted for seasonal and calendar effects.

² Unless stated otherwise, data are in the conception of the national accounts adjusted for seasonal effects.

³ It is also evident from the fact, that this year's value added in financial and insurance activities was by one quarter higher in comparison to the H1 of the boom year 2008. Only agriculture, forestry and fishing also reached a similar result within the ten main branches of economy. On the contrary, constructions still lagged 5 % behind this mark. The growth of GVA totalled 7.3 % in the whole economy in the last eight years.

⁴ Consists of branches: public administration and defence; education; health and social work.

educational system. The branch trade, transportation, accommodation and food service activities could have capitalised on the positive consumer sentiment (supported by a large growth of both employment and real wages), on the growth of demand for freight transport, as well as more frequent arrivals of both domestic and foreign guests. Its this year's results were near to the growth rates of both GVA and employment in the whole economy.

Year-on-year dynamics of the industrial production was significantly influenced by higher number of working days in Q2

The performance of industry (gauged by the index of industrial production)⁵ strengthened by 4.3% year-on-year in H1 (resp. 2.9% after adjustment for calendar effects). Calendar effects impacted especially the production in Q2, which had compared to the same period of the last year by three working days more this year. The difference between the adjusted (+2.3%) and non-adjusted production (+5.7%) was significant and lastly seen in such extent in Q3 2008. The higher last year's basis, when the industrial production successfully headed for 5% rates of growth, also had an effect. More essentially, the quarter-on-quarter rates of growth have not indicated a more notable slowdown of growth so far. Manufacturing exclusively contributed to the higher industrial production year-on-year (growth of the branch itself attained 5.4%). Energy production, which still struggled with the impacts of the long-term unplanned shutdowns of production facilities in fact stagnated (similarly to last year's H1). Controlled reduction of the currently little profitable mining of black coal manifested in the production of the whole mining industry – it was reduced by nearly one tenth against the level from the first three months of 2016 in Q2. The production slumped by 31% in the coal mining in the last five years (resp. against the H1 2011), which corresponded to the context of the EU countries.⁶

Production stagnation in the energy industry, as well as the long-term slump in the mining and quarrying continued in the first half of 2016

Year-on-year growth of both production and sales reached double digit values in the motor vehicle manufacturing...

Manufacturing of motor vehicles (comprising nearly one quarter of production of the whole industry) increased by 16% year-on-year in H1 2016, already by 53% since the end of the last recession (Q1 2013)⁷. Sales (in current prices) were by 13% higher year-on-year, both the domestic as well as those from the direct exports. The physical number of manufactured personal motor vehicles also attained a record value.⁸ The manufacturers of other (especially rail) transport vehicles also recorded an above average rate of production (+5.4%), mostly due to the rising the domestic demand. The main support activities of the motor vehicle industry did not fully take up in the successful last year (e.g. the year-on-year growth slackened to 2.7% in the manufacturing of electrical equipment and the sales from both exports and the domestic market even slightly decreased).

... ..the long-term dominant position of this branch within industry was even enhanced this year, the industrial production would grow by 3 p.p. less without it

On the contrary, the development of production in the proportionally strong branches of manufacture of basic metals (+7.2%) and machinery (+2.3%) remained stable. The manufacturers of furniture (their production increased by one fifth in three years) or printing (benefiting from the higher domestic demand) prospered out of the smaller branches. The mild revival continued for the long-term subdued clothing industry. Production in the textile industry already neared the level of H1 of the boom year 2008 (one half of manufacturing activities still has not reached this “mark”).

Among more significant manufacturing activities, the production was declining only in metallurgy (due to the surplus of steel on the European markets), chemical industry (caused by breakdowns of the production facilities) and for the first time

Despite the overall favourable development, manufacturing activities still existed, that were facing obstacles. Shutdowns of some operations have been limiting the production capacities in the chemical industry for already one year, its production slumped by one seventh this year. It presented (together with wood industry holding a smaller weight) the only manufacturing activity, whose production has not overtaken the level of its production from the beginning of the year 2013 (the trough of the last economic recession). Production also fell in metallurgy and

⁵ Including branches according to CZ-NACE: B (Mining and quarrying), C (Manufacturing), D (Energy).

⁶ The decline was 34 % in the whole EU, 42 % in Germany, 22 % in Poland in the last five years. Spain and the Great Britain recorded even deeper downfalls of production. The decline was related mainly to the black coal production (by nearly 60 % in the EU15), the reductions were milder for the brown coal (by 8 %).

⁷ It represented the fifth highest rate of growth within the assessed EU countries (without Slovakia, Slovenia). Only Hungary achieved a better result among the countries, that are significant producers of motor vehicles (56 %). The production was higher only by 12 % in the main manufacturing country - Germany, by 23 % in the whole EU.

⁸ Based on the data from the Automotive Industry Association, nearly 720 thous. personal vehicles were manufactured in the CR during the first six months of this year, by one eighth more year-on-year. Producers of other types of motor vehicles also thrived.



after eight quarters also in the food industry

foundry industry this year. Even the majority of significant European manufacturers have been confronted with the negative consequences of the excess supply of steel on the European markets in the recent months. The mild growth of production halted in the (volume significant) food industry for the first time after eight quarters. Even a shallow year-on-year reduction (by 2.2%) signified in this stable (mostly on the domestic market oriented branch) the worse result since the end of the year 2011.

Significant acceleration of the rate of growth of new orders in motor vehicle manufacturing in Q2, however the dynamics was weak in other branches (machinery), alternatively the value of orders was even falling (chemical industry, metallurgy)

The development of new orders indicates a positive short-term outlook for the industry. The rate of growth of their value considerably slackened at the beginning of the year (to 0.9% year-on-year, i.e. the slowest pace since the end of recession), however it tightly breached the 10% boundary in Q2. Manufacturing of motor vehicles contributed in a decisive way (the growth arrived at 11% in Q1, 30% in Q2).

Industrial businesses experience the lack of labour force as a growth barrier more and more frequently since the half of the year 2015

A mildly positive entrepreneur sentiment prevailed in industry during H1. Seasonally adjusted balances of business confidence indicator have kept attaining stable values for already two and a half years. 22% of industrial businesses anticipated a growth of the production activity in the upcoming three months in August 2016, 16% for employment. The values were mildly higher in both cases compared to August 2015. On the contrary, the share of businesses, that consider the lack of labour force as a barrier to growth, notably quickened. It was already 19% of companies at the beginning of Q3 2016, but only 8% the year ago.

The dynamics of both employment and wages slightly strengthened. The average registered number of employees enlarged (based on statistics of businesses) in industrial businesses in the CR by 2.7% year-on-year at the beginning of the year, in that by more than 6.5% in the manufacture of motor vehicles. Metallurgy, mining and energy reduced the number of job positions. Average wages (in connection to the shift of the minimal wage boundary) were raised relatively the most in branches with low level of earnings (clothing, leatherworking, wood industry, furniture industry), but despite the cut of capacities also in the chemical industry.

Decline of public expenditure on transport structures, but also the slow development of housing construction impacted negatively on the construction production

Construction production again returned to deeper year-on-year drops this year following the strong growth from the preceding two years⁹. It fell by 7.7% in the first three months of the year, the fall even deepened to 12.2% in Q2. The performance in construction in quarter-on-quarter expression has been declining continuously already four quarters in a row. Both the civil engineering construction (-13.2%) and the more weight significant building construction (-9.4%) lagged behind the last year's level in H1 of this year. While the result of the civil engineering construction was (with the view to the intensive realisation of the transport constructions bound to the EU programming period finishing last year) expected to a large extent, the deep decline of the building construction was a surprise finding.

Performance of construction was situated on the level of two years ago, however it was still by one quarter lower compared to H1 2008

Total stock of work (at the end of Q2) in the form of all not yet completed construction orders reduced by one tenth year-on-year (to 147 CZK bn) exclusively due to the impact of the domestic public orders (-18.4%). The value of new orders (in construction businesses with 50 and more employees) fell by 4% year-on-year in H1, which resulted from the one sixth lower orders for the engineering constructions. Higher inflow of new orders in the building construction represented a positive signal in Q2 (+28%). Their value for the whole H1 was (within this time period) the highest in the last five years. Nonetheless, the whole industry lacks larger constructions this year. The average value of newly closed order fell below 3 CZK mil in H1 (it oscillated around 4 CZK mil in years 2014 and 2015). According to another leading indicator – building permits – the prospects of construction were somewhat more favourable. The approximate value of one granted building permit increased to 3.7 CZK in Q2 (from 3.2 mil recorded in Q1 2016) and simultaneously it was the highest since Q3 2012.

Value of new orders stagnated year-on-year already four quarters in a row

Construction has been lacking larger projects so far this year, average value of new closed order fell below 3 CZK mil – to the lowest level in last twelve quarters

The number of all commenced flats fell by 3.4% year-on-year in H1 – together

Lower frequency of construction of housing flats

⁹ All data related to the construction production are adjusted for calendar effects.

in Prague this year slashed the number of all commenced flats in the CR to the third lowest value after year 2000

with years 2013 and 2014 it ranked among the lowest in this millennium. The construction of flats in residential buildings slumped considerably – as a result of a situation in Prague, where there was only 522 flats commenced this way. Partially, it can be caused by the heightened activity in Prague in H1 of the last year, when this number (2614) on the contrary belonged to the highest in the long-term context in the capital. The number of completed flats increased by 4.1% in the CR, especially due to the higher construction of family houses.

Negative balance of confidence of businesses in construction farther deepened

The confidence of businesses in construction worsened during H1. Seasonally adjusted balance of the business confidence in construction, positioned in the negative zone in the long-term, fell lower during this year and its July value was the lowest in the last 21 months. The construction businesses state as a barrier to growth more frequently the inadequate demand (53% based on seasonally adjusted data in January, 61% in May). In August, 17% of construction businesses (23% a year ago) anticipated a growth of the production activity in the three upcoming months, for employment 11% (resp. 16%).

Number of registered employees continued declining, construction lost more than 60 thous. employee job positions in the last eight years

Growth of sales notably slackened in services compared to the last year

Sales in selected services¹⁰ grew by 1.1% in H1 (only by 0.1% following the adjustment for the number of working days). The slowdown of the sales growth compared to the whole year 2015 (+3%) followed especially from the professional, scientific and technical activities, whose last year's also 3% yearly growth presented only an extraordinary deviation in the whole period since the boom. They fell by 4.1% in this year's first half, mostly due to the architectural and engineering activities (as a consequence of a higher number of semi-finished not yet billed orders). Sales were however declining throughout the whole division, apart from the legal and accounting activities.

Sales fell for the first time after twelve quarters in the land and pipe transportation year-on-year at the beginning of the year

Sales of travel agencies and tour operators slumped by 23% in total in the last four years, in contrast they strengthened by 60% to the job agencies

Transportation and storage also recorded a mild growth (+1.3%), especially thanks to the storage, since the sales in the weight dominant land and pipe transport (given the high last year's basis) slightly lowered. Administrative and support service activities continued in the last successful year also this year (4.9%), driven by the fast developing job agencies. Nevertheless, all activities throughout the whole division fared well, apart from the activities of travel agencies and offices. Sales were growing fast (similarly to the last year) in food service activities and restaurants in H1 (+4.6%). Sales in accommodation mildly lowered in Q2 year-on-year (for the first time since Q2 2010). A high tourism in the CR in spring last year was affected by the organisation of a significant sport event.

Total sales in the services sector have not exceeded the level of the peak of the cycle yet, they were still by 7.1% lower compared to H1 2008

Year-on-year growth of the retail sales (adjusted for calendar effects) have oscillated around 6% already six quarters in a row

Retail sales (without the motoristic segment) grew by 6.7% in H1 (by 5.6% after adjustment for calendar effects). They were reflecting the growing incomes of households associated with their still improving position on the labour market. Simultaneously, the optimistic consumer confidence was strengthening. The seasonally adjusted balance of confidence attained the highest value in the history of monitoring at the beginning of the year (+7.5 points), it was staying in the positive values even in the following months.

Among the specialised shops the sales increased the most for the products for cultural and recreational goods as well as for the products predominantly for household in H1

The sale of non-food goods traditionally contributed the most to the growth of the whole retail (with sales growth of 7%, resp. 5.8% after adjustment). The sales of food, beverages and tobacco products also expanded by a strong pace (by 5.4%, resp. 4.2%). Among the specialised shops of the non-food goods, the sales increased the most for the products for cultural and recreational goods in H1 (by 7.7% year- on-year), by a similar pace then also for the products predominantly for household (including e.g. electrical appliances, electronics, furniture, carpets, textile). All other segments of the specialised sales could also profit from the higher sales, including the shops with the computer and communication equipment (1.4%), which belonged traditionally to the most dynamic in the preceding years.

Favourable prices of automotive fuels are mirrored in growing sales at

Retail sales of the automotive fuels strengthened by nearly one tenth in H1. Demand was stimulated by a low prices of fuels (favourable when compared with

¹⁰ Do not include either trade, financial and insurance activities, science and research or public services.



petrol stations

the neighbouring states as well), partially also by the higher transportation requirements connected to the growth of the economy and expanding foreign trade.

Year-on-year growth of the retail sales in the CR was the highest among the central European countries in H1

Retail sales¹¹ grew by double pace in the CR as opposed to the EU (+2.7%), the fastest from the countries of central Europe. Romania recorded a double digit growth, the year-on-year. On the contrary, decline occurred only in Belgium (-2.4%) and Greece (-3.7%). The growth rates of sales from the sale of food as well as automotive fuels placed the Czech Republic similarly to the sixth best position in EU, in case of non-food goods outside the first ten (mainly the majority of newer member states of the EU achieved a stronger growth – including Slovenia, Poland or Hungary).

Chart 5 **Production in industry and selected manufacturing branches (real, y/y, adjusted for calendar effects, in %)**

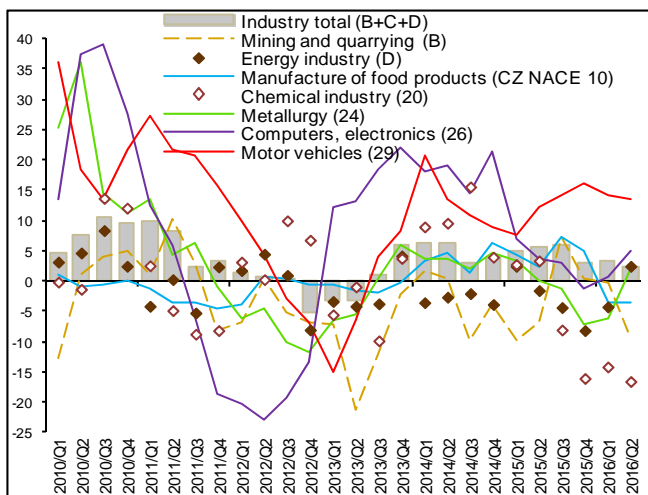


Chart 6 **New orders in manufacture of motor vehicles, industry in total (current prices., y/y in %) and balance of confidence indicator in industry (right axis)**

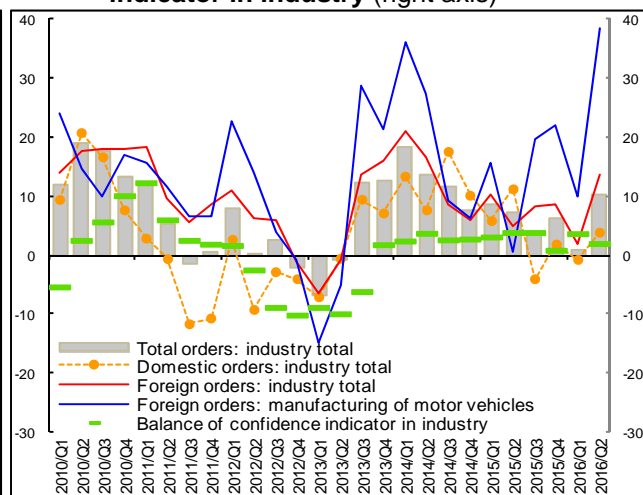


Chart 7 **Construction production*, value of new orders (y/y in %) and balance of confidence indicator in construction (right axis)**

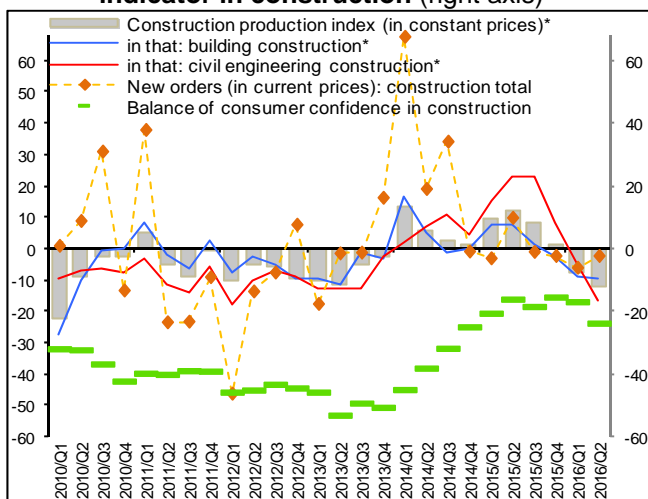
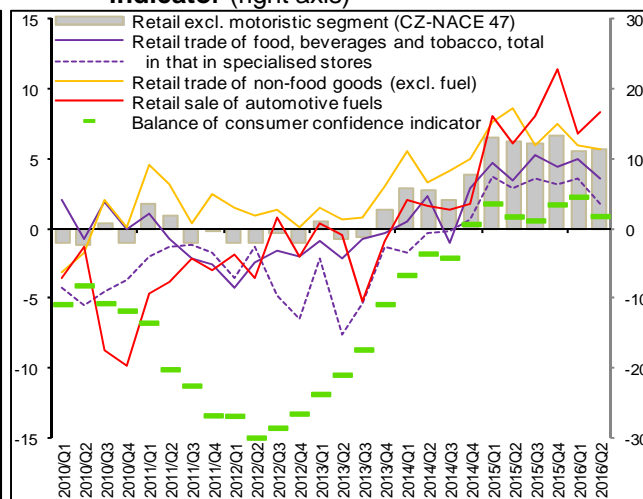


Chart 8 **Retail sales incl. motorist segment* (real, y/y in %), balance of consumer confidence indicator (right axis)**



*adjusted for calendar effects

Source: CZSO

¹¹ Includes retail without the motorist segment, data are adjusted for calendar effects.