

3. Branches Performance

Year-on-year dynamics of GVA was the highest in the last eight year in 2015

Manufacturing pulled the GVA growth in the CR, however the cluster of branches “trade, transportation, accommodation and food service activities” fulfils this role in the EU

Value added grew compared to the whole economy by a nearly double pace in the mostly export-oriented manufacturing (similarly to last year)

Among services, GVA grew the most in information and communication activities

Cost pressures due to strong competition most likely prevent creation of new job vacancies in the financial sector

Industrial production maintained the high growth rates thanks to the dominant manufacturing benefiting especially from the so far strong domestic as well as foreign demand for the transportation vehicles and their components

Manufacturing of motor vehicles returned into the position of the strongest growing manufacturing activity. Manufacture of plastic and rubber products also drove on the wave of strong foreign as well as domestic demand, its production increased year-on-year the most since 2007

Very good condition of the CR was permeating into all key branches in 2015. Gross value added (GVA)¹ continued in its quarter-on-quarter growth already eleven quarters in a row (longer than in the period of short-term revival following the deep recession in 2009). Year-on-year GVA dynamics (+3.8%) was the highest since 2007. Manufacturing kept the key role similarly to the preceding year, contributing one half to the total GVA growth, all main groups of services then contributed quite equally (with a mild dominance of the branch trade, transportation, accommodation and food service activities).

The value added further accelerated up to 8.9% in the manufacturing in the first three quarters of the year, it grew by 6.6% at the end of the year (against a high last year’s basis). Total employment was by nearly 2% higher in 2015, similar dynamics occurred in the previous year. However, the rate of growth of the hours worked doubled – to 4% (in addition there was worked even by 8.2% hours more year-on-year in Q4 itself). Construction also continued in the success from the previous year, its GVA accelerated during 2015 (up to 4.7% in Q4), similarly to the hours worked of its employees. The GVA in fact stagnated after the high last year’s growth (+5.9%) in the grouping of agriculture, forestry and fishing. The long lasting droughts lowered especially the harvest of fodder crops, potatoes or vegetables.

The GVA increased by a more modest 2.5% in the branch trade, transportation, accommodation and food service activities in 2015, still it represented the best result in the last five years. The branch profited from the positive sentiments of the consumers supported by the growth of employment as well as real wages, more frequent arrivals of both domestic and foreign guests as well as higher demand for freight transportation. On the contrary, the growth of the professional, scientific, technical and administrative activities (lastly by 4.3%) already lasted for five years, supported by higher performance of job agencies as well as rising demand for the project activities (in relation to construction). Information and communication activities also prosper in the long-term, the GVA jumped to the highest rate of growth since 2007 here. The GVA increased by 4% in the financial sector, the total employment however fell already second year in a row. The GVA increased its pace after three years of stagnation in the public services² to 2.6%, the most since 2002 (the gradually growing employment across all branches together with the increase of the wage tariffs at the end of 2014 contributed to this development).

Industry performance (measured by the industrial producer index)³ continued in the successful preceding year in 2015, when it strengthened by 4.6%. Nevertheless, its year-on-year growth already slumped 2.7% (after calendar adjustment) in Q4 itself and it stagnated in the quarter-on-quarter measurement already second time in a row. Manufacturing exclusively pushed the whole industry similarly to the two preceding years. The production kept further falling in mining and quarrying marked by the long-term decline of especially the black coal mining, even though by a slower pace (by 1.7%, compared by an average of more than 6% for the 2012–14 period). The unexpected lowering of production capacities in the nuclear plants was considerably reflected in the lower production in energetics (weaker by nearly 6% year-on-year), however this branch deals with mild falls of production in the long run.

Manufacturing of motor vehicles played a dominant role (similarly to years of the strongest business cycle peak) when it contributed by nearly one half to the year-on-year growth in the whole industry in 2015 (main sub-supplier activities then added a quarter in the sum – manufacturing of electrical appliances and manufacturing of rubber and plastic products). The production of motor vehicle manufacturers grew the most dynamically (+11.5%) among specialized manufacturing branches. The record of the number of manufactured passenger vehicles was exceeded, but manufacturers of buses and trucks also fared well. On the contrary, the production of computers,

¹ Unless stated otherwise, data are in real terms and seasonally adjusted.

² Consisting of constituent branches: Public administration, education, health and social care.

³ Including branches according to CZ-NACE: B (Mining and quarrying), C (Manufacturing), D (Energetics).



<p>The yearly production was falling only in metallurgy (due to the surplus of steel on the European markets) and the chemical industry (because of the accidents in the production facilities)</p>	<p>electronic and optical appliances, which represented the most dynamic industrial activity in the two preceding years, slowed down during the year (from 8.4% in Q1 to stagnation at the end of the year). Metallurgy and especially the chemical industry also faced adverse tendencies during 2015, when their production weakened by more than 4% and 13% resp. year-on-year in H2. The production grew by mild but stable pace in the branches significant by weight and internally diversified – machinery and also the food industry (where the growth of 4.6% presented the highest dynamics after year 2001).</p>
<p>Higher demand from abroad assisted the first recovery of the clothing industry after ten years</p>	<p>The majority of smaller, mostly branches in decline in the long-run also achieved a higher production in 2015. And it was the first growth (by 10.7%) after ten years for the producers of clothing, who benefited from the foreign demand. The development of some specialised segments of this activity could contribute to this turn (e.g. the work or sport clothing). The recovery in the textile, paper or furniture industry lasts for nearly three years. On the contrary, the production did not increase in the printing and wood industry as the only manufacturing activities since the end of the last recession in the economy (it was similarly by nearly 5% lower compared to year 2013). Even though the production of the whole industry exceeded the level reached seven years ago by nearly 8% in 2015, almost one half of manufacturing activities have not reached the level of the business cycle peak yet (manufacturing of beverages, clothing and printing industry were one quarter below this level, among the larger activities it was the chemical industry, metallurgy and manufacturing of other non-metal minerals products).</p>
<p>Nearly half of manufacturing activities still did not reach the level of real production from the peak of the business cycle, however it was already by nearly two thirds higher for motor vehicle producers</p>	<p>A stable growth of the foreign orders as well as the results of the business cycle surveys suggest a continuing favourable outlook of the industry in the short-term horizon at least. The value of new orders was year-on-year higher in all months of the year, in spite of their rates of growth not usually reaching the last year's double digit values. The dynamics did not abate in case of the foreign orders even in Q4 (+9.2% for whole industry, it strengthened even to 21.5% for the manufacturers of motor vehicles). The value of domestic orders was on the contrary mildly falling due to the development in metallurgy, machinery and especially the sharp slumps in the chemical industry in H2. A mildly positive entrepreneur confidence prevails in the industry, the seasonally adjusted balances of the confidence indicator reach stable values already for two years (following a slight decrease in Q4 2015, they again returned to the level typical for the previous year at the beginning of 2016). The significant effect of the inadequate demand falls somewhat with respect to the barriers of growth, the role of lack of material or equipment and especially of employees grows (already 15.4% for businesses at the beginning of 2016, only 6.7% a year ago). However, the favourable development of foreign demand in industry spills into the strengthening rates of growth of both employment and wages. The average number of registered employees in industry (for businesses with 50 and more employees) increased already by 3% year-on-year in Q4 itself (with the highest dynamics in the manufacture of rubber and plastic products, manufacture of computers as well as motor vehicle industry). Businesses were transferring the "proven" agency workers into the category of primary employees to a higher extent.</p>
<p>High year-on-year dynamics of foreign industrial orders prevailed also towards the end of the year, especially for the manufacturers of motor vehicles</p>	<p>The CR belongs to countries with the above average dynamics of the industrial production within EU in the long-term. It was growing by the fifth fastest rate among all EU countries in 2015 (the fourth the year ago). For example Hungary (+7.3%) and Slovakia (+5.9%) reached even a higher dynamics. Ireland (with the less significant and much specialised industry regarding the activities) recorded a considerable growth (in the range of 18 to 21%) already second year in a row, on the contrary it oscillated only around 1% in Germany in the same time period. The activities focused on the production of capital goods strengthened the most in the EU (2.2%) similarly to the CR (6.7%). The CR belongs to the group of twelve countries, which already exceeded the pre-crisis level (year 2008) of the industrial production. These are mostly the converging economies (incl. the CR), Ireland (by 40%) also passed this mark and Austria or Germany also tightly. Italy, Contrary to it, Spain or Finland still remained one quarter below this level.</p>
<p>The proportion of businesses, which stated the lack of employees as the barrier to growth (15.4%) was the highest in the last 4.5 years towards the end of 2015</p>	<p>The acceleration of public investment into the civil engineering works (driven by the finalisation of drawing of resources from the EU budget) was a key factor</p>
<p>The highest of growth of the industrial production is concentrated in the strategically placed converging (mostly Central European) economies in the EU in the long-term, mainly thanks to the activities producing capital goods</p>	<p>The construction was in the major part determined by the</p>

completion of drawing on the European funds, especially on transport infrastructure in 2015

behind the results in construction in 2015. The impact of the notable economic revival still on the contrary manifests less clearly (e.g. the production of the building construction increased only by 6% compared to its bottom from year 2013). The construction firms also generate new job positions carefully, due to the experience from the pro-longed recession of the branch and remaining uncertainty linked to the subsiding of the “doping” effect of the strong drawing on the European subsidies.

Mounting pressure on the completion of drawing on funds from the EU budget allocated to the development of the transport infrastructure led to sharp year-on-year growth of the civil engineering construction production, the highest in the last twelve years

Year-on-year rate of growth of the construction production mildly accelerated to 7.1% (from 4.3% from year 2014) in 2015. Civil engineering construction (less significant by weight) contributed to the growth of the whole branch from three quarters (its performance was by one sixth higher year-on-year). The whole construction however started to lose the dynamics in the second half of the year, when it rose by 1.1% year-on-year (after calendar adjustment) in Q4 (and simultaneously recorded already second quarter-on-quarter decrease in a row). Even though the construction production for the whole year increased the most since year 2007, it was still by nearly 15% lower in comparison to the level of the business cycle peak in 2008.

The stock of all not yet realised construction orders narrowed down by a whole one quarter during 2015

Good results in construction throughout most of year 2015 were partially the reflection of implementation of a high stock of last year’s new orders for civil engineering works (in the value of 117 CZK bn, the highest since 2008). The value of new orders (in businesses with 50 and more employees) fell by 1.7% year-on-year in H2. The heightened pressure to complete especially the transport constructions transferred into a considerable drop of the stock of all not yet finished orders (by 38.3 CZK bn) year-on-year at the end of the year, mainly due to the effect of drawing of domestic public orders and also orders from abroad. At the same time, the estimated value of issued construction permits was increasing (by 14.9% year-on-year in Q4), however not for new construction, but for renovations of existing structures. The floor area within new buildings (permitted in 2015) enlarged for the first time since 2008 year-on-year, especially thanks to the non-residential structures. It can present a signal that the fastened growth of the economy starts to lead businesses (in industry or services) to expand their capacities.

Marked growth of the floor area within new permitted non-residential buildings

The number of commenced flats in the residential buildings grew already three years in a row, it was however by 55% weaker relative to the “peak year” 2007

The residential construction bounces from its bottom (year 2013) only slowly despite the growth of the disposable income of households and prevailing historically low interest rates (mortgages). The number of commenced dwellings increased by 8.3% in 2015 (by a similar pace as in the previous year), there were more flats in all forms of construction year-on-year except for the retirement homes, where the mere 476 flats represented the lowest value in the modern history. Almost 58% of the number of commenced dwellings in the residential buildings across the country belonged to Prague (under 40%, however, in the period of the business cycle peak).

The territorial disproportion in the commenced residential construction deepens

Improvement of the confidence indicators in construction, short-term outlook more favourable especially for the largest firms, who carried the decisive part of the responsibility to realise the investment into the transport infrastructure

The total balance of the entrepreneur confidence in construction improves already since the beginning of year 2014 and it was the highest in November 2015 since January 2009. The proportion of businesses considering inadequate demand as the barrier to higher output lowered by more than 10 p.p. within year 2015 (to 56%), still it represented a high value within the European context (EU 35%, Germany 17%). The share of businesses in the CR, who are prevented in further growth by the lack of labour force on the contrary increased during the H1 (up to 8.5% in June 2015, which was the most since December 2008). The construction businesses reacted to the higher demand by a more intensive utilisation of the current labour force this year (e.g. in the form of an overtime work). The average wage thus increased by high 5.3% (given the still lower number of registered employees), which was considerably more than in the manufacturing (3.7%) or the whole economy (3.8%).

Sales in services accelerated the dynamics (given the current decrease of prices), they grew the most year-on-year since 2007

Sales in selected services⁴ increased in 2015 in the second time in a row, when they accelerated year-on-year up to 2.6%. The sales in fact stagnated in transportation and warehousing, when the land and pipe transport dominant by weight (+3.9%) only managed to compensate the notable fall of the real sales in the air transport (-3.6%) and warehousing (whose result was also influenced by high year-on-year basis).

⁴ Do not include the branches trade, financial and insurance activities, research and development and also all public services.



Strong growth of industry as well as foreign trade well reflected also in the higher sales of the land transport

The slump of sales in the travel agencies continued already thirteen quarters in a row

Stable consumer confidence supported by a very favourable development on the labour market led to the highest growth of retail sales after 2007

Favourable price development stimulated the demand especially for automotive fuels and also the computer as well as communication appliances, it assisted the internet sellers in keeping the high rate of sales growth

Growth of retail sales in the CR was the fourth highest among the EU countries in 2015, the CR exceeded the EU dynamics in the long term (except for 2010)

Professional, scientific and technical activities enjoyed a first growth (by 2.1%) after six years, with the turn occurring in all constituent activities in 2015 (a mild growth already even two years in a row lasted only in advertising). The accelerated growth of the economy was reflected also in information and communication (+5.5%). The sales were also increasing by the same rate in administrative and support service activities, whose development was to a large extent influenced by job agencies (where the growth of sales fastened by one fifth). All activities across the whole branch in fact prospered, apart from the travel agencies (-7.9%), whose sales were already declining the third year in a row. More frequent arrivals of both domestic and foreign guests (especially in the summer period) catapulted the sales in accommodation (+7.5%) to the highest year-on-year growth after year 2005. The sales were record also in restaurants and food service activities (+4.1%), these however have not yet exceeded the level from the business cycle peak of 2008 (in contrast to the accommodation).

The year-on-year growth of sales⁵ accelerated up to 5.9% even in the retail trade itself in line with the trends in other services and thus moved closer to the values from the business cycle peak in years 2005–2007. The sales dynamics did not feature any significant changes during 2015, similarly to the favourable sentiment of the consumers. The sale of non-food products traditionally drove the whole branch (+6.8%). The sale of food however also fared well (3.9%), even in specialised stores (+3.0%, which thus halted the nine years lasting drop of real sales). Within other specialised stores, the strong development of sales of computer and communication appliances continued (+10%), the rate of growth of sales of products for culture and recreation nearly doubled compared to year 2014. The dynamic growth of sales at petrol stations lasted already thirteen months, they were by 10.6% higher year-on-year in Q4 2015 (still they remained in real terms 5% below the level of the end of year 2008). The demand was stimulated by low prices of automotive fuel (also when compared to the neighbouring states), partially also by the higher transport demands connected to the growth of the economy as well as the foreign trade. Sales of motor vehicles increased by one eighth (similarly to the preceding year).

Retail sales dynamics⁶ was double in the CR compared to the EU in 2015. Only Romania (+8.8%), Poland (+6.6%) and Ireland (+6.3%) achieved better results. Sixteen member states overtook the pre-crisis level of sales (year 2008), Poland (by one fifth) the most significantly among the larger economies, the Great Britain and France (similarly by one tenth), also the CR (6.3%), Germany (4.1%), Austria (3.7%).

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

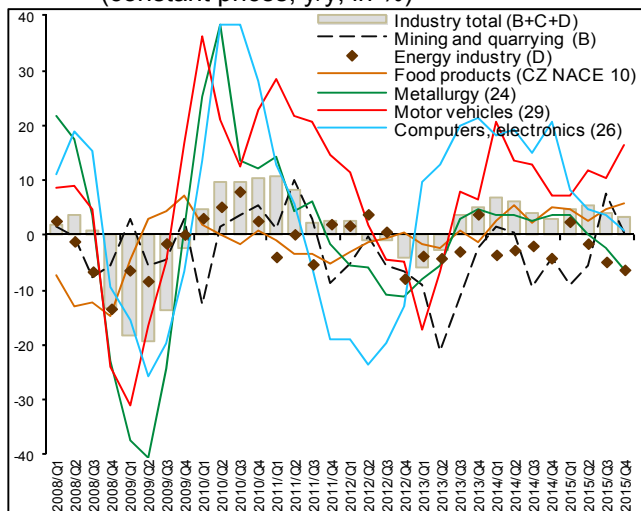
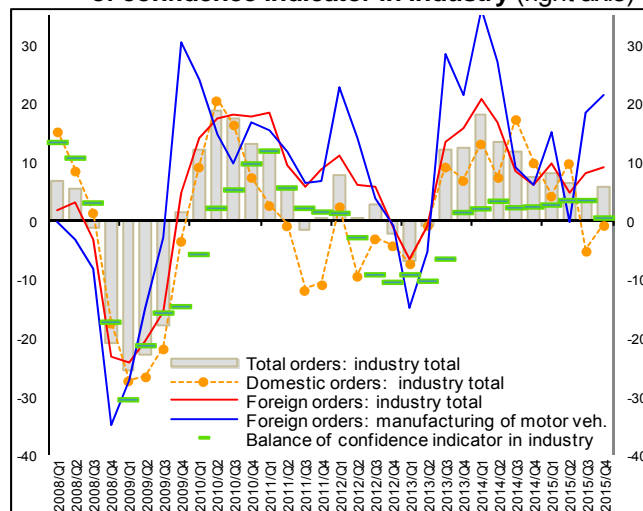


Chart 6 New orders in manufacture of motor vehicles, industry in total (cur.p., y/y, in %) and balance of confidence indicator in industry (right axis)



Source: CZSO

⁵ Retail excluding Sale, maintenance & repair of motor vehicles (CZ-NACE 45), data adjusted for calendar effects.

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

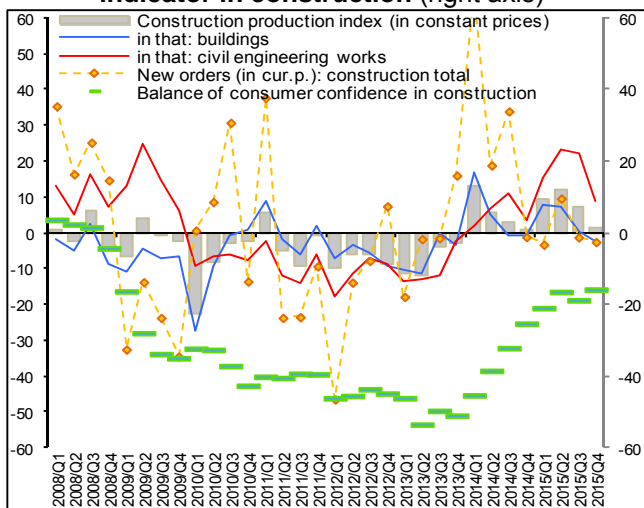
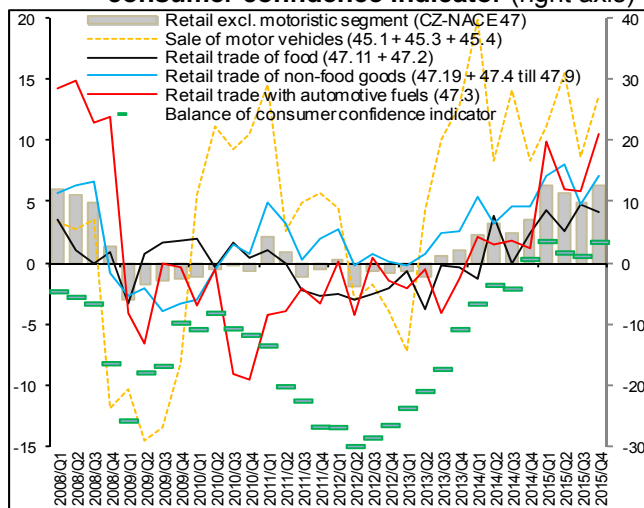


Chart 8 Retail sales incl. motorist segment (constant prices, y/y in %) %, balance of consumer confidence indicator (right axis)



Source: CZSO

