

Industry Performance

- **Visible weakening of the year-on-year dynamics of gross value added in majority of industries during 2012**

The dynamics of real performance of the Czech economy industries, measured by seasonally adjusted volume of gross value added created by them, fell in 2012 based on the preliminary data year-on-year by 1.1 %. If we skip the crisis year 2009 (-5 %), it is an exceptional phenomenon during the past decade. Mild weakening of the rate of growth of created value added lasts given the negligible changes in employment in the economy for almost two years. While in Q1 the value added still stagnated, throughout the year it lowered to -1.5 % in Q3, respectively -1.7 % in the last quarter. Slowing down of its year-on-year dynamics during the year 2012 was visible in majority of key industries – in industry (mostly manufacturing), construction, real estate activities and also the primary sector.

- **Significant year-on-year drop of value added in agriculture, construction and financial services; stagnation in industry and public services**

Long-time declines also continued in 2012 in agriculture, where the gross value added year-on-year dived by one eighth, which was the effect of worsened climatic conditions a weaker harvest (contrary to the record harvest in 2011), but also more long-term troubles of the animal production. Prolonged problems due to the lack of orders of the private as well as public character are faced also by construction (-6 %). In the most significant industry with respect to volume on the contrary the gross value added in 2012 for the whole year stagnated in real terms, in Q1 it still grew by 3.5 %. At the year's end, however, it with the same intensity declined due to the weakening of the key export-oriented fields. Different from construction, this industry coped with the drop in demand more by the reduction of working hours rather than dismissing of employees. Following the preceding favourable years, last year the gross value added in financial services lowered by one twelfth. Still, it was by one fifth higher compared to the boom year 2007, which is a sign of good long-term situation in the industry (growing employment as well as gross value added). Also other services fared well – mostly professional, scientific, technical and administrative activities (+4.9 %). Real estate industry displayed throughout the year a contrast of worsening value added (compared to 2011 by -1 %) and still strong employment (+6 %). Value added in public services stagnates in the long time period, accompanied opposite from the other services by a long-term reduction of both employment and working hours.

- **In 2011, the motor vehicle industry still managed to slow down the weakening of the year-on-year industrial production dynamics, not anymore in 2012**

Long-time weaker domestic demand in connection with gradually slackening economy of our traditional export destinations had an adverse effect on the production of the whole industry. Its dynamics has been weakening year-on-year already since the beginning of 2011. Despite marked weakening of year-on-year dynamics of industrial production (+11 % in Q1 2011), the whole industry mostly thanks to the strong rates of growth of motor vehicle industry (+15 % at the end of 2011) still kept a mild growth. In the last three months of 2011 the industrial production rose year-on-year by 2.6 %. Relatively favourable situation lasted also in Q1 2012, subsequently was the industrial production year-on-year only weakening (-0.8 % in Q2 and Q3) down to 4 % decline in Q4, which was the deepest since the half of 2009. Worsening tendency was more obvious following the adjustment for calendar days, when the aggregate industrial production after stagnation in Q3 2012 in the consequent quarter year-on-year fell by whole 5 %.

- **Motor vehicle production fell year-on-year at the end of last year below the level of whole industry**

Even though the biggest success within the framework of the whole industry enjoys in the long-term the manufacturers, last year was especially due to the development in Q2 and Q3 more successful the energetics. Less favourable development is in the long-term on the contrary experienced by the mining industry, when last year the production year-on-year fell by 4% and compared to the top of the 2007 boom weakened by one eighth. Gradual weakening of the dynamics of production was during the year 2012 obvious in majority of manufacturing industries, despite the fact, that at the beginning as well as end of the last year the year-on-year growth was still sustained by one third of manufacturing industries. Switch from growth to decreases or even deepening of decreases of production was linked mainly to industries, whose weight on the total production was the largest, i.e. motor vehicle industry,

manufacturing of machinery, metallurgy, manufacturing of plastics and rubber. The largest drop was just related to the key industry of motor vehicle production, which still at the beginning of last year generated year-on-year by one eighth higher production and at the end faced already a 5 % drop. Year-on-year dynamics of production in this industry was both in Q3 and Q4 weaker than the performance of the whole industry, which happened for such a long time period since the year 2000 only for the second time (the first case was the period of deep recession between years 2008 and 2009).

- ***Long-term mild decrease of production in the food industry; growth of chemical industry also due to low comparable base***

On the contrary a strong growth of production is still displayed by the chemical industry (in both Q3 and Q4 of the last year nearly by 10 %), its results are however affected by the bad year 2011, when as one of the few industries experienced the drop in production (similarly to computer manufacturers). The effect of lower comparative basis year was in the last past year quarter behind the mild year-on-year growths of production of some "smaller" industries (paper, clothing, textile industry). Thanks to the persistency of household demand, the food industry avoided larger fluctuations in production (Q4 +0.8 %, whole past year -1%), limited decline in production here however lasts already for seven quarters.

- ***Also last year motor vehicle manufacturers contributed the most to the performance of the whole industry***

Following the strong years 2010 and 2011 (+8.6 %, +5.9 %), in 2012, for the third time in the last decade, the industrial production year-on-year weakened (-0.7 %). Significant growth prevailed only in the manufacturing of electrical equipment (+10.2 %) – as the only industrial field featuring continuous year-on-year growth for the past twelve quarters. Chemical industry was also successful as well as the related manufacturing of coke and also the motor vehicle industry, whose growth (+1 %) was however compared to the year-on-year dynamics from the period 2010-2011 (21 % to 23 %) modest. Even then it thanks to its weight contributed last year to the growth of the whole industry (+0.2 p.p., the year before however nearly 4.5 p.p.). The largest contribution however recorded in 2012 the manufacturers of electrical equipment (+0.6 p.p.).

- ***Deep declines in metallurgical industry and computer manufacturing***

On the contrary due to the sales troubles, the manufacturing of computers (-18.8 %) fell markedly – nearly by one fifth – compared to year 2011. By one tenth lower was also the production of metallurgical factories and iron foundries. Weakening motor vehicle manufacturing negatively affected the production of plastics and rubber (-2.1 %), recession in construction then on the manufacturing of other non-metal mineral products (-4.2 %). Deeper falls did not avoid last year also the manufacturing of furniture (-4 %), wood (-7.9 %), clothing (-5.1 %) or pharmaceutical and typography industry.

- ***Last year slump of Czech GVA weaker than in the whole EU; better results of our neighbours***

The depth of year-on-year decline of industrial production in 2012 in the CR did not reach the level of the EU (-2.1 %) and was placed near Germany or Hungary (-0.8 %). At other neighbours however the industry grew, mostly in Slovakia (+10 %), which still takes advantage from the completing expansion of the motor vehicle industry. Last year production of the Czech industry was in real terms at the level of year 2007, similarly to Germany. In Austria it was 5 % higher, in Poland then by one fifth and in Slovakia it exceeded the level from before the recession by one quarter.

- ***At the end of last year 2 % year-on-year fall of industrial companies sales both home and abroad, similar development also for orders***

The rate of growth of sales of industrial companies is closely related to the development of production. Sales from direct exports fare in the long-term better than domestic sales, in Q3 2012 however fell to the lowest level for the past three years (year-on-year +0.5 %) and declined with its rates of growth to the level of domestic sales. Domestic sales include also indirect exports via non-industrial firms. Gradual weakening of sales in industry peaked at the end of last year, when domestic sales as well as sales from direct exports year-on-year fell in consensus by 2 %. Still, for the whole past year the industrial companies received more, especially via the direct exports (+3 %), domestic sales stagnated.

- ***Sharp worsening of the value of new foreign orders in***

Gradual weakening of the year-on-year rates of growth during the 2012 affected also the new industrial orders, the total fall in dynamics was however due to the slower development for the domestic orders smaller than during the year 2011. Last year's development of orders copied the situation for sales, in Q4 their value year-on-year

the motor vehicle manufacturing during the past year

weakened by 2 % without larger differences between the domestic and foreign as well as the industry as a total and motor vehicle manufacturing. Parallel drop of both domestic and foreign orders in the whole industry occurred for the first time since the half of the year 2009, for motor vehicles for the first time since the beginning of year 2009. The development of industrial orders for manufacturers of motor vehicles was on the foreign markets at the beginning of last year still promising (Q1 +23 %, Q2 +14 %). On the stable growth of orders on the domestic as well as foreign markets could in the whole past year rely the chemical industry, continuous growth of foreign orders was kept also in the textile and pharmaceutical industry as well as electrical equipment manufacturing and manufacturing of metal constructions.

The long term downturn of building construction as well as civil engineering construction still lasts

Not even the development in 2012 did bring any signs of change for the better in the construction. Construction production has been in real terms year-on-year falling for fourteen quarters in a row (except for Q1 2011, when the mild growth of production was the result of very low comparative basis of the previous year), last yearly growth was in the industry recorded in 2007. The falls in production were within the year of 2012 relatively evenly dispersed, both in building construction and civil engineering construction (apart from deeper year-on-year fall at the beginning of the year of -18 % due to the adverse climatic conditions). More affected was last year (the weaker with respect to volume) civil engineering construction (-11 %), whose downturn is compared to the building construction (-6.5 %) deeper continuously since the half of 2010. Last parallel year-on-year growth of both building construction and civil engineering dates to the end of Q3 2008 boom. Compared to the period of peak boom (2007), last year the production of the civil engineering construction was in real terms lower by 5 %, for building construction then nearly by one quarter.

Deep fall in value of new orders in civil engineering construction also continued last year; the average value of order keeps falling

Construction companies faced for the whole last year a large shortage of new orders. For the whole year, their value fell¹ year-on-year nearly by one fifth, to the lowest level since year 2001. Only in the last past year's quarter the value of orders stagnated, as a result of very low comparative basis. In the civil engineering construction the value of new orders fell last year year-on-year nearly by one third, compared to the peak of boom by one fifth. Building construction then the value of new orders in comparison to year 2007 lowered by more than one third, despite the fact, that for the whole last year it stayed at the level of year 2011. Even in the last year continued, if by the lower pace, the decreasing of the size of construction orders. The average value of one new closed order amounted to 3.8 mil crowns (it fell by one third in three years). The trend towards smaller orders in time of recession in the industry confirms also the decline in the average value of one granted building permit, mostly for new construction and non-housing buildings.

Total value of all not yet realised public construction orders lowest since 2000

Also in 2012 the continuous decrease of value of all construction orders continued (year-on-year by 2 %, compared to year 2007 by one quarter). As opposed to the preceding years, the deep reduction of domestic public orders (whose volume arrived at the end of last year to 73 bn crowns and was the lowest since 2000) was last year accompanied also by mild 1 % fall of total volume of private orders (even these were in comparison to the peak boom by one tenth lower). Domestic construction firms managed in the latest years gain orders from abroad (their share in total orders is only one tenth), one half of the stock of all orders still represents the public sector. The lack of large orders takes its tax since the beginning of 2009 in the form of reduction of registered members of employees² (in companies above 50 employees), whose numbers were year-on-year by 4 % lower, during four years even by 14 %.

Record low number of started dwellings, mostly in multi-dwelling

Last year's number of started dwellings (23.9 thousand) reached the low level of half of 90s and reacts thus to the lowered demand connected to the oversaturated market with a higher number of dwellings completed in times of boom (yearly around 40 thousand) as well as lower number of clients, who do not acquire dwellings for their

¹ Orders are monitored for construction businesses with 50 and more employees.

² Does not include neither persons working on contract on work and on work activity nor working business owners. Employees of agencies, which are in employment, however not in the construction field are also not included.

buildings

own housing need. Less dwellings were year-on-year started in all types of buildings except for non-residential buildings and community care service homes (there were started the most dwellings since the year 2007). The number of completed dwellings thus following the deep fall in 2011 last year increased year-on-year by 3 %, still it was the second lowest since the year 2004. To the growth contributed mainly the flats in multi-dwellings buildings (more by one tenth), community care service homes and converted non-residential rooms, the number of flats in family houses stagnated. A one third of flats were completed on the territory of Prague or Central Bohemian region.

- ***Last year Czech construction production year-on-year below the level of most surrounding countries as well as EU average***

The depth of year-on-year fall of construction production in 2012 in the CR slightly exceeded the EU level (-5.3 %) and was comparable to Hungary (-6 %) or Spain. Deeper falls were recorded in Slovakia (-12 %) or Netherlands (-9 %). However, other neighbours achieved in construction industry better results (Germany -1.8 %, Poland -0.3 %, Austria +1.5 %). Similarly to the CR, in most countries was more affected the civil engineering construction. Last year's production of domestic construction industry was in real terms by one fifth below the 2007 level, similarly to Slovakia or the whole EU. German construction however produced by one eighth more, Polish by one third. On the contrary, in Hungary the production fell for the last five years by one third and in Slovenia or Spain by more than one half.

- ***Weakening demand of households in the long term slows down the retail sales of food***

Last year was in sign of gradual decline of retail sales in real terms and lowering of formerly significant differences between the year-on-year dynamics of its various segments. Retail sales (incl. automotive segment) last year in real terms weakened by 0.9 % following the growth of 1.7 % in the previous year. With the exception of Q1 they were for the remaining part of 2012 slightly decreasing. In line with the consumer confidence indicators in the CR, they are decreasing by a stable rate regardless of the type of shop the sales for food (already six quarters in a row, in Q4 2012 by -1.7 %, for the whole year by -2.4 %). The performance of the whole industry was not much improved even by the more than two years lasting slight growth of sales for non-food products (+0,8 %, stagnating in the last quarter).

- ***Stably high year-on-year growth of real sales of internet shops and prolonged troubles of stall sales***

Out of the specialised shops, as a result of marketing strategies and better results in the second half of the year, high growth of sales was sustained by internet and delivery sellers (+9 % for the whole year, preceding two years +12 %). Sales strategies on the contrary started to lose their effect for computer and communication equipment, whose year-on-year growth of sales during the this year's quarters weakened from 16.5 % in Q1 to 3.2 % in H2 (when it even reached a two-year's minimum). On the other hand, in the long-term the shoe and leather industry keeps good results (last year +5.6 %) as well as culture and recreation products, pharmaceutical, health and textile goods, even though the rate of growth of their sales in real terms was compared to 2011 slightly more modest. For a long time suffers the stall sales and retail sales with food, beverages and tobacco products in specialised shops, whose sales in real terms slumped since the beginning of the economic recession in the CR by one fifth.

- ***Slowing down of rate of fall for petrol station sales***

Due to the more favourable development through the holiday period (+1.5 %) the year-on-year fall of real sales at petrol stations slowed down last year to -1.6 %, which was the lowest fall for the last four years. It occurred in a situation of long-term fall of sales for repair and maintenance of motor vehicles (-3 %) and ceased two-year growth of their sellers (-1 %).

- ***Last year's sales of Czech retail food sellers below the EU level; for non-food products and fuels the opposite***

Mild last year's year-on-year decrease of real sales in retail (excl. automotive segment) ranked the Czech Republic next to its neighbours: Germany and Austria (by -0.2 % to -0.3 %) and near Slovakia and Poland (-1 %) as well as whole EU (-0.8 %). Deeper decreases were recorded in Slovenia and Hungary (-2 %), out of the most developed countries Denmark and Netherlands (by -2.5 to -3 %). The range of EU was from the Baltics and Luxembourg (+6 % to 8 %) to Greece (-12 %). Retail sales of food fell last year in the CR below the EU level (-0.9 %) as well as most surrounding countries: Germany (+0.2 %, Austria +0.8 %), Poland and Hungary (-1

%), the fall was deeper in Slovakia or Slovenia (-5 %). The sales of non-food products and fuels reached last year better results in the CR than in the most of our neighbours or the whole EU.

Stagnating aggregate sales in services shade the notably differentiated development in partial fields

Services similarly to construction has not as yet managed to overcome the year-on-year decreases resulting from crisis in 2009. Also in 2012 they continued in mild year-on-year fall of the sales in real terms (-0.7 %). Administrative and support service activities fared the best, since the worsened situation on the labour market adds to job agencies (+15 %, for the last three years the sales grew by one half), administrative and office activities also grew slightly. Thanks to the connection to industry, the warehousing also achieved good results (+5,7 %), in the long term good results are experienced also by computer and programming activities and creation of programs and broadcasting, which together with postal and courier activities belonged to the few fields, whose sales last year exceeded in real terms the level from year 2008.

The size of real sales achieved 4 years ago exceeded last year only 5 out of 26 partial fields of services

Wakening tourism helped also by the use of discounts to increase the sales in real terms for accommodation (+4.8 %, similarly to year 2011) following consecutive growths for ten quarters in a row, which also brings profit to travel agencies (+2 %). However, in catering and hospitality the sales decreased (-5 %), they have been consecutively falling already since the beginning of year 2008. Sales for professional, scientific and technical activities fell compared to the end of boom period nearly by one third. Sales for real estate activities achieved similar results (linked also to performance in construction) and also the telecommunication industry, in both cases they weekend in four years in real terms approximately by 15 %. Despite growing arrivals of foreign tourists, the sales of heavily hit air transportation weakened last year by 7 %, since the boom they slumped by one quarter.

Chart 5 Industrial and selected manufacturing fields production (y/y, in %)

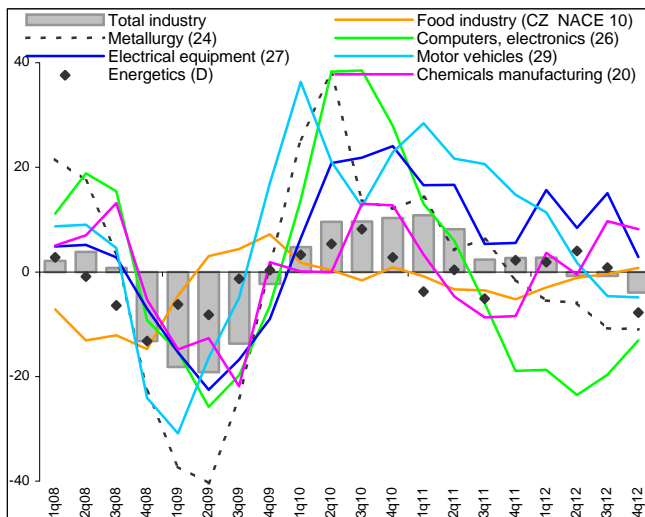


Chart 6 Value of new motor vehicle manufacturing and total industry orders (y/y, in %)

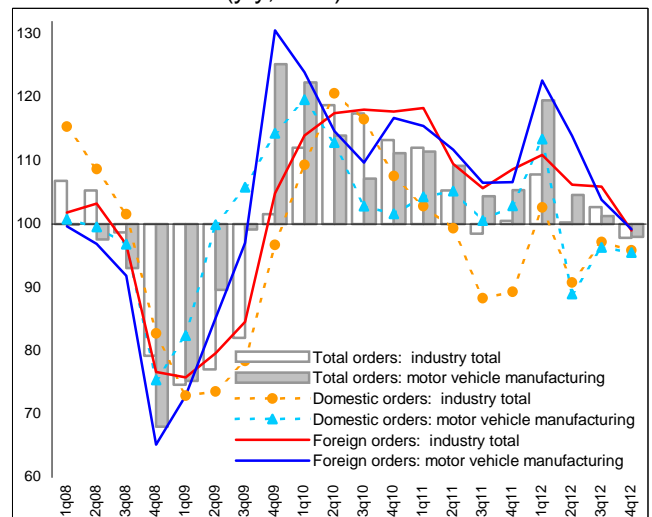


Chart 7 Construction production and value of new orders (y/y, in %)

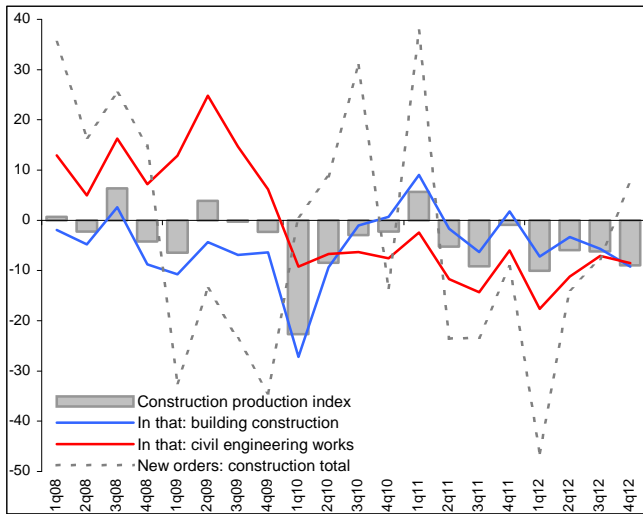
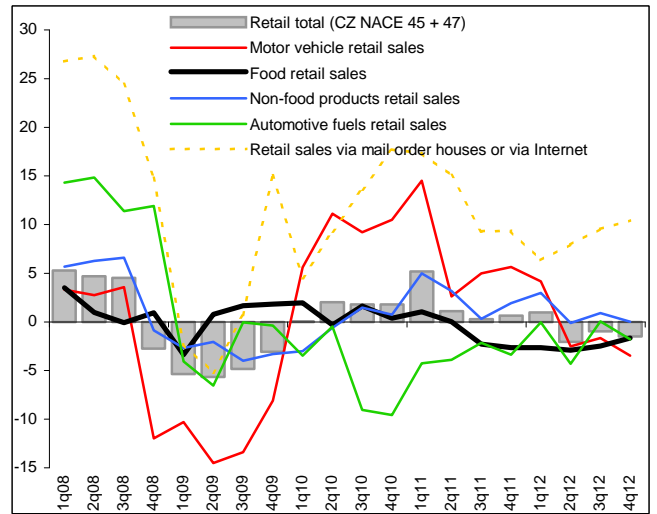


Chart 8 Retail sales incl. automotive segment (in real terms, y/y, in %)



Source: CZSO