

3. Branches Performance

Dynamics of the gross value added eased pace in the CR economy during year 2019.

Performance of all branches of the economy captured by the created gross value added (GVA)¹ increased by 2.4% for the whole last year 2019 – pace weakened for the second year in a row. Last year’s slow down mirrored mostly the development in the second half of the year, when the domestic economy was gradually losing resilience towards the persisting adverse external factors². In Q3, the quarter-on-quarter GVA growth reduced to 0.3% (minimum since half of year 2016) and the end of year did not bring a more significant shift either (+0.4%). Nevertheless, the pace still remained in the CR higher than in the neighbouring states (apart from Poland) as well as the whole EU for the most part of the year.

The services sector ensured four fifths of the growth of value added last year. All its main branches contributed to this result.

All primary eleven branch groupings contributed to the year-on-year GVA growth last year. The services sector was the key driver of the whole economy (similarly to year 2018), since it ensured four fifths of the total GVA growth. Within this sector, a long-term dynamic growth of information and communication continued (+7.6%, +54% in the last six years since the end of recession), which benefited from the development of digitization in the business sphere as well as the public sector. The professional, scientific, technical and administrative activities also recorded a smaller but more long-term growth (4.0% last year) thanks to the growing demand for support service activities for businesses (incl. labour force hiring). Real estate activities also prospered; their growth accelerated for the second year in a row (to 3.3%). In contrast, after the dynamic period of years 2015 till 2017, GVA kept losing pace in the financial sector (to 2.8%). Weight-significant grouping trade, transportation, accommodation and food service did not fully build on the strong year 2018 (+2.6%) – since the GVA pace was easing during the last year (+4.0% in Q1, +1.1% in Q4). Both slower dynamics of the arrival tourism and weakening growth of household consumption in the CR (both from Q1 to Q3) had an effect. Among other factors, the slowdown in the transportation branch connected to the development of foreign trade as well as industry (especially in the second half of the year) played a role. With respect to services, the GVA grew by the slowest pace in the grouping public administration, health and social care (by 1.7%), its dynamics however did not defy trends from the last four years.

Information and communication benefited from the development of digitization; support service activities also fared well.

Public services belong to the least dynamic branches of the tertiary sphere from the view of the GVA in the long term.

GVA growth slowed down in industry during the year and it hit the minimum since last recession in Q4.

In alignment with the economic development of Germany as well as the euro area³, the slowdown of the domestic industry continued. Its year-on-year GVA shrank to 0.7% (six year minimum) in 2019. Quarter-on-quarter GVA dropped already in Q2 2019 (-0.2%) and following a stagnation in the next quarter it sank deeper by the end of the year (-0.5%, the deepest fall since the end of the last recession in year 2013). Performance of the non-manufacturing industrial branches stagnated from the annual point of view, mainly due to the weaker results in Q3 itself. The value added increased by 3.4% (also thanks to strengthening inflow of funds from the EU budget) in construction, the branch thus built on the more visible recovery from year 2018 (+4.0%). Still the performance of construction as one of the few main branches further lagged behind its business cycle peak from year 2007 (by 2%)⁴. In the primary sector, the GVA increased by 1.5% last year. In plant production a shift in the volume of total harvests nearing the ten-year average occurred (mainly due to the impact of year-on-

Construction continued in the recover from year 2018 last year. Primary sector profited from larger harvest of cereals, moderate strengthening of animal production and intensive wood logging.

¹ GVA data are expressed in constant prices and adjusted for seasonal and calendar effects.

² It concerned especially the notable slowdown of economic growth in key export territories, further strengthened by piling regulatory measures in the international trade as well as persisting uncertainty regarding the future organisation of relations between Great Britain and the EU.

³ Year-on-year growth of the total value added in these territorial units markedly slowed down already during the whole year 2018. Its level was low 1.2% in the euro area countries in its last quarter, even only 0.5% in Germany. The similar rates of growth dropped to 1.0% and 0.3% resp. in Q4 2019, worse results were last observed in year 2013.

⁴ It was also valid for non-manufacturing industrial fields, where the GVA reached only three fifths of the 2008 level last year (mainly due to the slump of work in the coal mining).

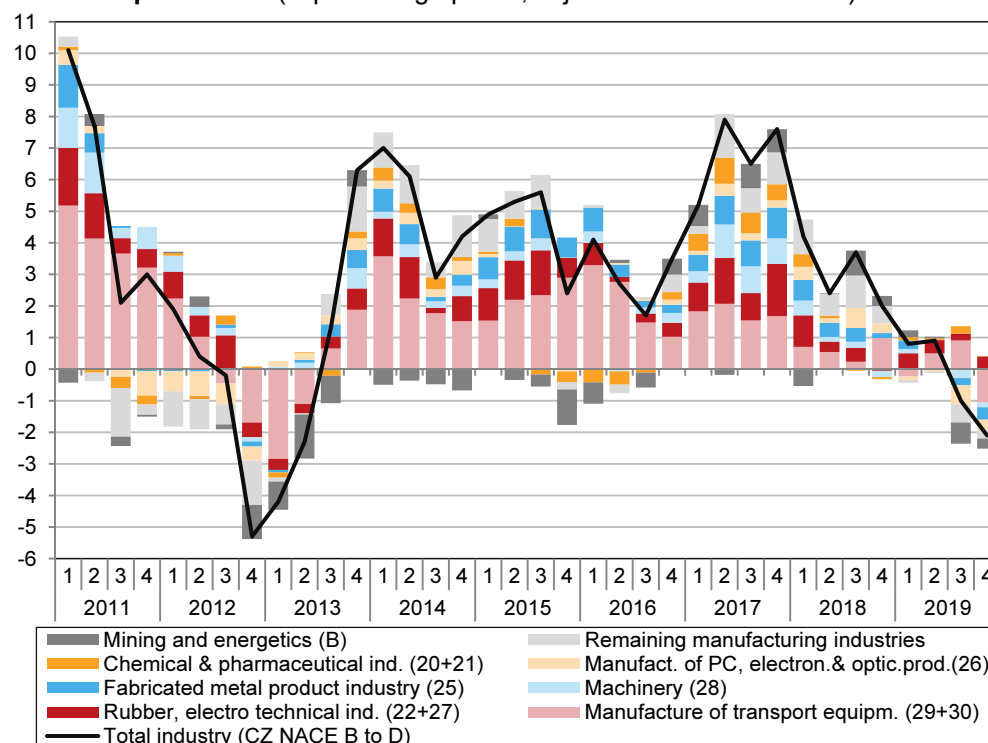


year growth of the per hectare yields nearing the ten-year average). This was the case of cereals and forage crops, on the contrary situation was less favourable for technical crop). Larger volume of logging of bark beetle wood as well as moderate growth of meat production (+0.8%) and volume of milk purchased from domestic producers (+1.3%) also had a favourable effect.

Industrial production fell by 0.4% due to adverse development in main export territories last year. It presented the weakest result since year 2012.

More detailed data from business statistics also provide evidence of considerable cooling of outputs of the domestic industry in 2019. While the value of industrial production⁵ grew by 3.1% in year 2018, it decreased by 0.4% last year. Last year-on-year decrease dates back to year 2012 (-0.9%). Even though the industry growth in the quarter-on-quarter comparison halted already at turn of years 2018 and 2019⁶, this branch sector fell into the technical recession only at the end of the last year (production dropped by 1.6% in H2 2019). Exporters were negatively affected by weaker demand dynamics in Asian countries as well as a stronger recession of the German industry, which overtook the length (however not intensity) of the slump from the turn of years 2008 and 2009⁷. Difficulties of the domestic industry intensified during the year, the production output decreased by 2.2% in Q4 2019, because the key branch manufacturing of motor vehicles ceased to contribute to the growth of the whole industry.

Chart 4 Contributions of sub-branches to the year-on-year change of the industrial production (in percentage points, adjusted for calendar effects)



Source: CZSO

Manufacture of electrical equipment and

Results of the manufacture of electrical equipment worked the most in the direction of

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 (at the level of branch sections as well as divisions) are adjusted for calendar effects, quarter-on-quarter rates then also for seasonal effects.

⁶ Industry in the CR reacted with a delay to the cooling of demand in the euro area, where the industrial production in the quarter-on-quarter expression fell already at the beginning of year 2018 (-1.3%) and revival did not manifest even during the year (e.g. it was -0.8% in Q4).

⁷ Quarter-on-quarter decrease of the industrial production of Germany, commenced in the second half of year 2018, lasted already sixth quarter in a row. The industry output shrank by 7.8% in this period (cumulative decrease was however 20.7% in the period of years 2008 and 2009). The industrial production fell in eleven EU states for the whole year 2019 (by 0.9% in the whole Union). The deepest dive was recorded in Germany (-4.7%). Mild growth was maintained especially in the newer member states of Central and Eastern Europe (Hungary +5.4%, Poland +4.4%) with the exception of Romania (-3.2%) and Estonia (-1.9%).

pharmaceutical industry worked the most in the direction of growth of total industrial production last year.

Performance of manufacturers of transport equipment stagnated.

Branch manufacture of computers, electronic and optical products added the most to the lower total industry performance. Metallurgy and mining industry also had a negative effect.

Thanks to continuing growth of the domestic demand the output of manufacture of metal products and machinery declined only moderately.

While the sales of industrial businesses were moderately but stably growing in Q1 to Q3, they were affected by considerable decline of the foreign demand at the end of the year.

industrial production growth in 2019 (contribution +0.32 p.p.). Higher output in this branch (+4.8%) was supported especially by the strengthened domestic demand. Among other branches, only pharmaceutical industry recorded more significant contribution (+0.20 p.p.), output of this marginal in terms of share, but growing in the long-term field increased by 18%⁸. In the principal branch – manufacturing of motor vehicles – output only stagnated last year, as also evident from data regarding the physical production⁹. It was also valid regarding the associated branches – manufacture of rubber as well as plastic products, and also for manufacture of other transport equipment (rail, but also air or army equipment) where the growth impulse induced by the heightened domestic demand in year 2018 already evaporated. Food industry affirmed its higher resistance towards the cyclical demand fluctuations last year (+1.0%), benefiting from the still positive total confidence of domestic consumers.

Branch manufacture of computers, electronic and optical products pulled down the industrial production the most last year (industry drop of 7.9%, contribution -0.28 p.p.), strong growth of foreign demand from both years 2017 and 2018 did not repeat here anymore¹⁰. Reduction of foreign, but also domestic demand adversely affected the output of metallurgy (-5.8%, -0.17 p.p.), one of the few industrial branches, whose output was below the level of the last recession last year¹¹. Mining industry faced prolonged structural difficulties (-6.2%, -0.13 p.p.). Output of the weight-dominant coal mining dropped to a six-year minimum (-8.1%), simultaneously however the mining of building materials strengthened (stone, sand and clay +1.8%, in the last three years +17.6%). Some small export-oriented activities, e.g. manufacture of textiles (-3.5%) and leather manufacturing (-9.8%) also showed weaker output. Development in significant branches of manufacture of metal products (-0.8%) and machinery (-1.0%, first decline since year 2009) affected the performance of the whole industry more. These branches owe for only a shallow decrease to the continuing growth of the domestic demand (in machinery prevailing also in Q4 2019). Chemical industry decreased output nearly by 3%, manufacture of other non-metal mineral products also signalled similar pace (despite still growing domestic demand, especially in construction). Output of energetics fell by 0.4% last year after three last growth years, which was aligned with the dynamics of the domestic manufacture of both electricity and heat¹². Larger annual consumption of gas prevented deeper fall of energetics year-on-year (+4.7%, in spite of higher temperatures in the winter period of year 2019), since the fall for households (-4.5%) was offset by growth in companies.

Nominal sales of businesses also prove a major change in the demand for industrial products during the year 2019. While they grew within the range of 2 to 3% year-on-year during Q1 to Q3, a downturn appeared (-3.6%) at the end of the year, which was especially apparent in metallurgy, manufacture of computers, electronic and optical products, in chemical industry and also mining and quarrying (where, however, it was a frequent occurrence in the last years). Mainly the lower sales from direct exports stood behind the negative development in Q4 (-5.6%), weakening of the domestic

⁸ Exceptionally fast pace (second highest after year 2000) also reflected the organizational changes on the enterprise level, which strengthened the segment of production of generic medicinal products. Higher demand for freely available medicines (thanks to growing incomes of households in developed economies) as well as higher consumption in health care facilities (due to the impact of aging of population and development of modern forms of treatment) had on the contrary more long-term effect.

⁹ Based on the data from the Automotive Industry Association, there was 1.434 mil passenger cars manufactured in the CR in 2019.

¹⁰ Nominal sales from direct export declined by 15% in this branch in 2019, the most among all manufacturing activities.

¹¹ Production was by 3% lower here compared to year 2013. Manufacture of wood and wood products (given the strongly growing logging, but also export of raw timber) was in a similar situation. Manufacture of leather products (-28%) and coal mining (-24%) then recorded deeper slump in the last six years.

¹² According to the preliminary data of the Energy Regulatory Office of the CR, the total gross electricity production reached 86 981 GWh in 2019. Weaker outputs of steam power stations (with decrease of 8.2%) nearly exclusively shared in its year-on-year decrease (by 1.2%). Mainly the production in the combined cycle power stations (+49.5%), water (+23.3%) and nuclear power stations (+1.1%) worked in the opposite direction. Production of heat decreased by 0.5% year-on-year last year (to 160 708 TJ) and moderated its decline from year 2018 (-4.7%).



demand was less striking (-1.0%). Businesses received in sales by 1% more for the whole year 2019. At the same time the domestic sales featured higher dynamics than the sales from direct export already third year in a row. The sales growth mirrored the gradual raising of prices in the economy due to higher prices of energies as well as human capital. It was apparent especially in energetics (growth of sales by nearly 9%), manufacturing of leather products and wearing apparel, manufacture of buildings materials, food industry, repair of machinery and equipment or manufacture of motor vehicles last year. On the contrary, lower output prices adversely impacted the finances of businesses e.g. in mining of coal, manufacture of wood and chemical industry and metallurgy.

Value of new industrial orders from abroad as well as domestic decreased in Q4.

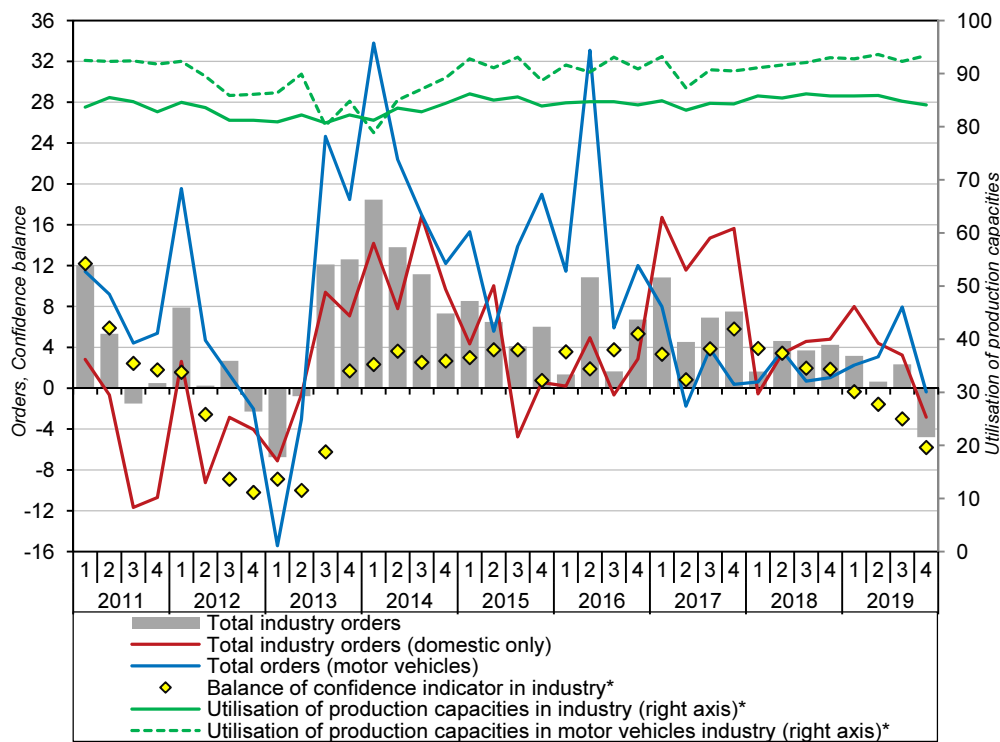
Entrepreneur confidence was weakening in industry during the year. It descended to the lowest level after August 2013 in November.

The value of industrial orders¹³ from abroad fell by 5.7% year-on-year in Q4, value of domestic orders by 2.8%. Only manufacturing of electronic equipment, pharmaceutical industry and manufacturing of wearing apparel signalled growth of total orders among the monitored economic activities. Weaker demand was reflected in the mild decrease of utilisation of production capacities in the whole industry (by 2 p.p. for H2), it still remained high also at the end of the year (84%, after seasonal adjustment), mainly thanks to the motor vehicle (93%), chemical, wood processing and paper industries. Seasonally adjusted balance of the confidence indicator in industry descended into the negative band after more than five years in March 2019 and the light pessimism further deepened at the beginning of Q4 (to -6.7 p. p. in November, minimum after August 2013). Inadequate demand again became the most significant barrier to growth of industrial businesses since the half of year 2019 – 50% signalled it at the beginning of Q1 2020, the most since half of year 2014. In contrast the role of the lack of labour force shrank year-on-year from 39% to 28% – to the lowest level in the last three and a half years. Expectations of businesses regarding the short-term employment development remained at the turn of years 2019 and 2020 mildly negative¹⁴.

Chart 5 New orders in manufacture of motor vehicles, in whole industry (in current prices, year-on-year change in %), balance of confidence indicator in industry* (in points) and utilisation of production capacities in industry* (in %)

¹³ Surveying of orders is ongoing only in selected CZ-NACE sections (13, 14, 17, 20, 21, 24, 25, 26, 27, 28, 29, 30), which manufacture mostly custom-made products, with longer production cycle and larger stocks of orders.

¹⁴ According to the business statistics, the total employment was falling in almost two thirds of industrial sub-branches year-on-year in Q4 2019. Among those holding larger weight, the growth was recorded only in manufacture of electrical equipment, metalworking, energetics and food industry.



* Data are seasonally adjusted
Source: CZSO

Construction production growth continued already third year in a row. It was driven especially by the building construction.

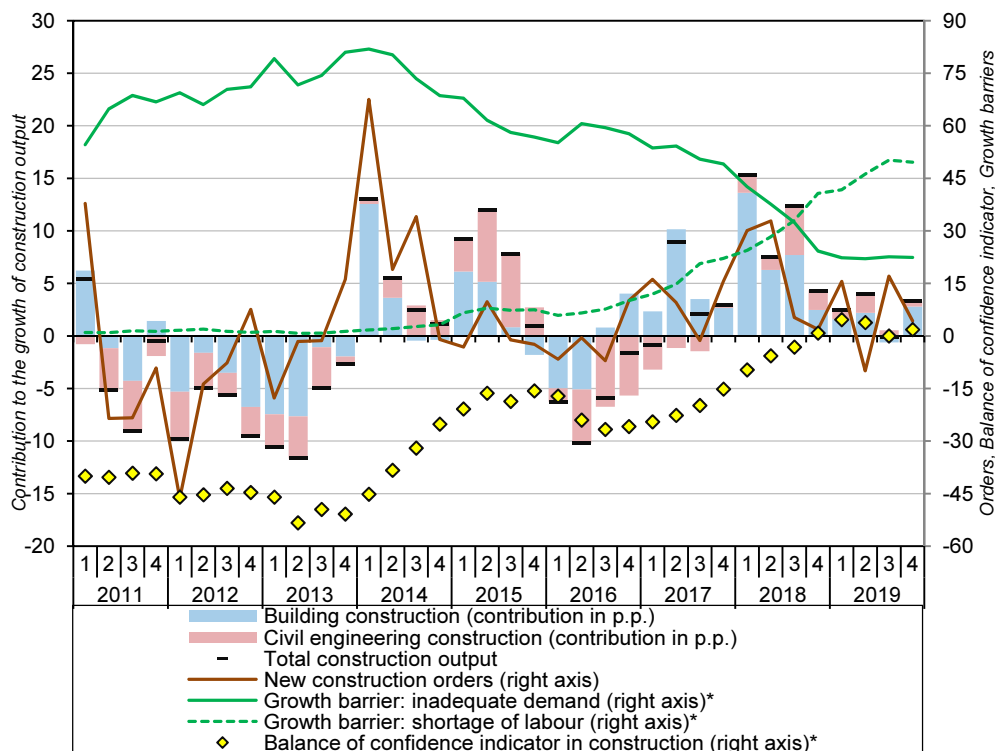
Construction output¹⁵ increased by 2.6%¹⁶ year-on-year last year, it was strengthening for a third year in a row. Compared to the pace from year 2018 (+9.1%) it represented however a notable slow down. Construction was supported by a marked acceleration of drawing of European funds at that time, this factor was evident to a smaller extent last year. Unlike the industry, the situation in construction was stable throughout the whole year 2019 – from the point of view of both performance and anticipated demand. Civil engineering construction grew by 4.0%, the whole branch was however driven similarly to the year 2018 mainly by the building construction (+2.1%, contribution +1.5 p.p.).

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

¹⁵ All year-on-year data regarding the construction output are adjusted for calendar effects, quarter-on-quarter rates of growth also for the seasonality effect.

¹⁶ The output also increased by an identical rate of growth in the EU last year (by 2.6%, by 1.7% in 2018). The construction grew the most dynamically in majority of newer EU member states drawing on the assistance from the euro funds – in Romania (+27%), Hungary (+22%, +92% in three years), it strengthened by a slower pace in other newer member states apart from Slovakia (-3.3%). The brisk growth of construction partially offset the decrease of output in industry in some older EU states (Austria, Netherlands, Germany, Portugal or Great Britain).





Data related to construction output are adjusted for calendar effects.

*Data are seasonally adjusted.

Source: CZSO

Flats in the residential buildings nearly exclusively contributed to the acceleration of the total residential construction last year.

The performance of building construction reflected the continuing development of residential construction. In 2019 38.7 thousand flats were commenced, growth of construction prevailed already sixth year in a row (yearly supply of new flats expanded by 75% in this time period, nevertheless it was still by one eighth lower compared to the business cycle peak form 2007-8). For the dominant part it was due to the higher number of flats in the residential buildings (+5.2 thousand), whose construction stagnated in 2018. More “less administratively demanding” forms of constructions also prevailed last year – reconstruction of non-residential premises started the most flats after year 2005 (1154). On the other hand, the least flats were created in the retirement homes in the contemporary history (301). Prague held the largest share in growth of all commenced flats in 2019¹⁷, Liberecky and Moravian Silesian regions also contributed significantly.

Value of new orders in the buildings as well as civil engineering construction grew. Trend of larger projects gaining weight continued.

The value of new domestic orders (for firms with 50 and more employees) was by 5.8% higher year-on-year in Q4. The demand grew by a similar pace in both building and civil engineering construction. Thanks to both the development of more complex infrastructural projects and effect of sharp growth of construction prices, the average size of new orders rose (it was 4.0 CZK mil for the whole year 2019, 3.0 mil three years ago.). The statistics of construction permits also confirmed this trend¹⁸. Total stock of work (in the form of not yet realised construction orders) amounted to 171 CZK bn at the end of Q4 and it strengthened by 11.5% year-on-year – primarily due to the growth of the domestic public orders (increase by one fifth), private orders also strengthened significantly in the CR (by one tenth). Confidence indicator of managers of construction firms stayed mildly positive for the most part of year 2019, it hit a maximum in January (+5.5 points), when it overtook the so far record optimism from year 2005. The lack of labour force remained the main growth barrier in construction

Confidence indicator in construction remained mildly positive for the majority of the year. Half of businesses were troubled by shortage of labour.

¹⁷ Number of commenced flats was 6.5 thousand in Prague last year (it increased by more than one half year-on-year). Comparable volume of construction was last achieved in year 2008. Even despite a positive shift in the supply of flats, their frequency further lagged behind the increase of job opportunities as well as total number of population (the increase of inhabitants reached 15.6 thousand last year) in the metropolis.

¹⁸ The approximate value per one building permit arrived at 4.8 CZK mil in 2019 (4.4 mil the year before). It grew the fastest for new construction of residential buildings year-on-year (from 4.7 to 5.8 CZK mil).

already for five quarters. It concerned 48% of businesses at the beginning of year 2020 (so far record 55% in August 2019). 29% of firms tackled inadequate demand, its weight however grew only moderately last year.

Year-on-year rate of growth of sales in services slowed to three year minimum. The positive values lasted only thanks to the ICT last year.

Sales in selected services¹⁹ strengthened only by 1.1% last year after the brisk growth in years 2017 as well as 2018. It represented the weakest year-on-year growth in the last three years. Performance of services weakened in the course of the last year – while 3.7% growth was recorded in Q1, the pace slowed to -0.8% in Q3 and services also concluded the year in a mild decline. Development in the long-term dynamic section information and communication (ICT) sharply contrasted with other segments of services. The downward trend was not observed in ICT during the last year. Without the ICT division the sales in services would only stagnated last year. Sales in the ICT section rose by 5.9% in year 2019, primarily thanks to the activities in the field of information technologies (containing programming, computer facilities management or IT consultancy). Information activities, telecommunications and especially publishing activities also prospered, their sales shot up to record +10.0% (owing to sale of software, which offset the sales decline of publishers of newspapers and journals). Only motion picture and music industry recorded decline (by 1.6%) due to the unfavourable development at the end of the year²⁰. In the division transportation and storage, the sales fell by 0.5% last year, for the first time after the crisis year 2009.

Sales of publishers surged by record 10%.

Weaker industry was evident in lower sales of both land transport and storage. On the contrary, the postal and courier services joined on the surge of sales via internet.

The output decline in industry was especially apparent in the second half of the year accompanied by falling dynamics of the volume of foreign trade. Lower sales in storage the most contributed to the decline of the whole division (also due to a very large comparative basis of year 2018). In contrast, the postal and courier activities fared well (benefiting from fast development of sales via internet) as well as the water transport for second year in a row (resulting from the growth of output of domestic operators abroad). The sales rose only around 1% in the division accommodation, food service and restaurants, similarly to year 2018. Lower pace was associated with the weakening dynamics of the arrival tourism²¹. Sales went down only mildly (-0.2%) in the division professional, scientific and technical activities last year, equally in the real estate area. Administrative and support service activities improved, even though they recorded the weakest growth in the last nine years (+0.5%). Demand for administrative as well as office support activities grew fast (arrangement via telephone, organisation of exhibitions and conventions). On the contrary, the growth slowed down to six year minimum (+1.6%) in the area of rental and operative leasing activities due to decreased demand for machinery, equipment and trucks. The yearly drop of sales of employment placement agencies (-5.3%), which occurred for the first time after year 2009 was also linked to the industry slowdown.

Growth of arrival tourism slowed down last year.

Demand for renting of machinery and equipment fell, performance of employment placement agencies was also lower.

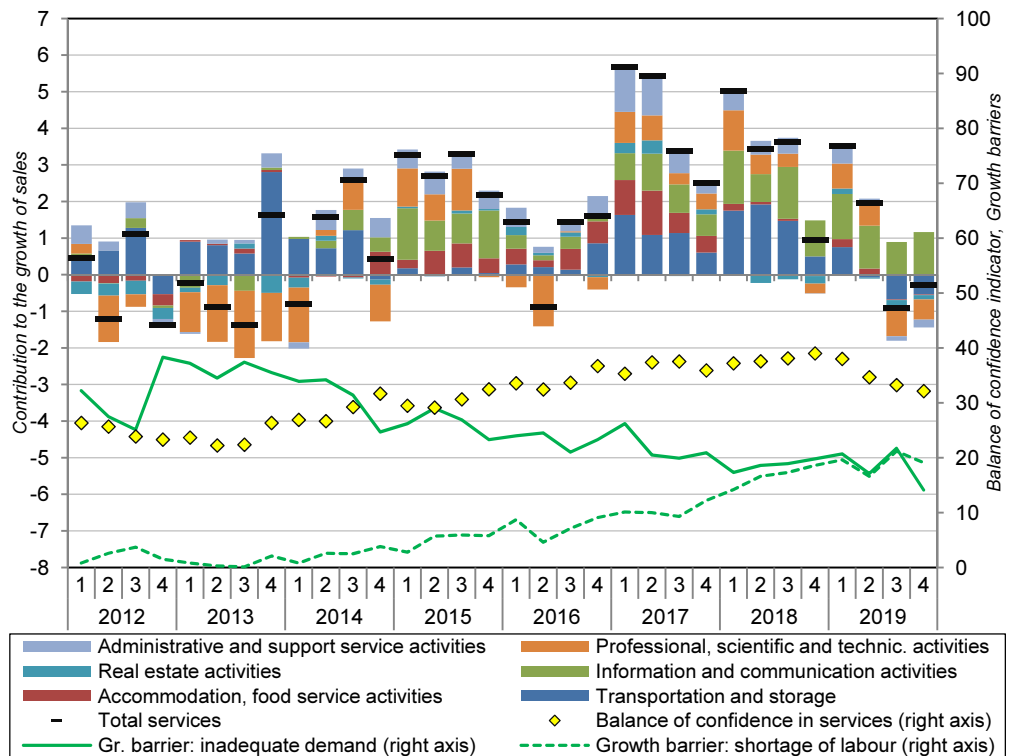
Chart 7 Contributions of branches to year-on-year change of sales in services* (in p.p., adjusted for calendar effects), balance of confidence indicator in selected services (in p.p.) and selected growth barriers** (in %)**

¹⁹ Without trade, financial industry, insurance industry, science, research and public services. All figures for services are in constant prices, year-on-year data are adjusted for calendar effects, quarter-on-quarter data are seasonally adjusted (including the effect of number of working days).

²⁰ Segment of motion picture distribution on the other hand prospered. According to the Union of motion picture distributors, the sales from entrance fees in the cinemas in the CR increased by 15.3% year-on-year in 2019. Despite lower number of performances (-1.9%) the number of visitors increased by one eighth – to 18.3 mil. – (higher value was last achieved in year 1993).

²¹ The number of overnight stays of non-residents in mass accommodation facilities increased by 1.6% in the CR in year 2019 (1.9% the year before), by 3.8% for domestic visitors (6.6% resp.). Especially visitors from Germany, Ukraine, Poland, France and the USA contributed to the growth of non-resident tourists.





* Without branches trade, financial activities, insurance activities, science, research and public services.

**Data are seasonally adjusted, includes also the financial sector.

Source: CZSO

Rate of growth of retail sales slightly weakened in alignment with the consumer confidence during the year.

Growth of sales for food or fuels shrank to five year minimum. Sharp rise of sales via internet continued.

Retail sales²² increased by 4.8% in year 2019. Even though their rate of growth was mildly slowing for the second year in a row, it was nearly double compared to the EU last year (+2.6%) and simultaneously the fifth highest among the member states. The sales dynamics weakened during the year (by +4.2% in Q4), which corresponded to the development of the consumer confidence. While the growth of retail with food slowed to five year minimum (+2.0%), the weight-dominant retail with non-food products maintained the fast growth from year 2018 last year (+7.6%). It was assisted by the sales via internet and mail order (+18.1%, sales quadrupled compared to year 2012). Among specialised stores, those with computer and communication equipment prospered the most also thanks to sales offers already third year in a row (+8.5%). Stores with products for culture and recreation followed very closely. Only sales for fuels (+2.3%, five year minimum) and food (-1.3%, first decrease after year 2014) showed weaker rates of growth among specialised shops. Sales in the motoring segment slightly revived last year (+1.2%) following the moderate downturn in 2018, which was supported as well by higher outputs of the seller of motor vehicles. Decline of sales for repair and maintenance of motor vehicles on the contrary continued.

²² 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 seasonally adjusted (including the effect of number of working days).