

3. Branches Performance

Quarter-on-quarter decrease of GVA deepened down to 9.4% in the whole economy in Q2.

If the restrictive pandemic measures severely hit primarily the branches closely tied to tourism in Q1 2020, it already managed to paralyse a large part of the economy during the subsequent quarter. The gross value added (GVA)¹ thus dived by record 9.4% quarter-on-quarter and markedly deepened its descend from Q1 (–2.4%). In year-on-year expression, the GVA decreased by 6.1% in the whole H1 and slightly overtook the intensity of similar downturn from the first half of the crisis year 2009. Half-yearly performance of the Czech Republic ranked more to the average among the EU states (to the 12th place out of 23 states with available data²). Mainly the countries of the southern wing of the euro area registered the deepest downturn (for instance Spain 12.9%, Italy 11.8%, Portugal 8.7%) and also France (12.1%). By contrast, mainly the northern states and also the majority of newer EU members (with accession after year 2000) have so far enjoyed a relatively favourable position, for example Lithuania (–0.8%), Bulgaria (–2.7%), Poland (–3.5%). Differences between the states primarily reflect the outbreak of the coronavirus infection across the EU, speed and intensity of the government measures and partially also the varying branch structure of economies (larger proportion of branches tied to tourism had an adverse effect, the role of public services or agriculture then a positive effect).

The highest year-on-year economic performance downturn afflicted mainly the states of the euro area southern wing in H1. The CR belonged to the average.

Manufacturing dragged the economic performance down the most.

Year-on-year decline of the value added in the domestic economy was from nearly one half the result of considerable slump of manufacturing in H1 2020 (contribution 2.7 p.p., decline of the branch itself by 10.6%). This branch simultaneously due to the influence of its weight dragged down the whole economy the most both in Q1 and Q2 of this year. Non-manufacturing industrial branches also recorded weaker performance by more than one tenth in H1. The effect of several weeks' disruption of production stemming from the sanitary measures, but also lowered demand were evident here as well³. Construction was progressing substantially better, the impacts of the onset of economic recession were not apparent at the beginning there. Its performance even slightly improved thanks to the large stock of orders as well as favourable weather in Q1. The GVA already decreased in Q2 (by 6.2%). The already demanding administrative process of structures preparation became complicated further due to the declared state of emergency, number of projects was suspended. The branch was limited by the lack of labour force, many workers returned only slowly after reopening of the borders to the CR. This factor was also valid for branches of the primary sector, which manifested in the reduction of the hours worked (by more than 5% in H1). Despite this development, the GVA grew here already third year in a row (+4.1%, the most out of 11 main branches). It was thanks to the stabilised situation in the agriculture primary production, which was not negatively affected by the regulatory influences except for stricter sanitary measures. Meat production stagnated in H1; the domestic producers sold naturally by 5% milk more. The continuing natural wood industry also supported the growth of the whole primary sector.

The negative impacts started to manifest with a slight lag in construction.

Both animal production and forestry assisted the output growth in the primary sector.

Value added was decreasing the most in branch trade, transportation, accommodation and restaurants.

The segment trade, transportation, accommodation and restaurants also experienced strong macroeconomic impact (contribution –2.2 p.p.). The GVA sank by one eighth among other things due to the radical restriction of the international movement of people⁴ here – that is the most among the main branches. The influence of other branches of the tertiary sphere was of a lower order. Still, some of them were hit strongly – especially so-called other services⁵, where the GVA dropped by one tenth (in that by more than one fifth in Q2). Smaller

¹ Data regarding the GVA are expressed in constant prices and adjusted for seasonal and calendar effects.

² Fresh data regarding the GVA for H1 were not available for Ireland, Luxembourg, Croatia and Romania.

³ Planned technological shutdowns of production facilities stood behind the decrease of output in energetics (coincidentally also especially during March and April 2020).

⁴ Final consumption expenditures of non-residents in the CR decreased by more than one third year-on-year, in Q2 2020 itself even by unprecedented 62%. Non-residents share in the total household final consumption expenditures in the CR in the long-term roughly 6%.

⁵ Include cultural, amusement and recreation activities or personal services for household (among other hairdressing, cleaning services or repairs of products and equipment).



Pandemic measures strengthened the role of public services and information and communication.

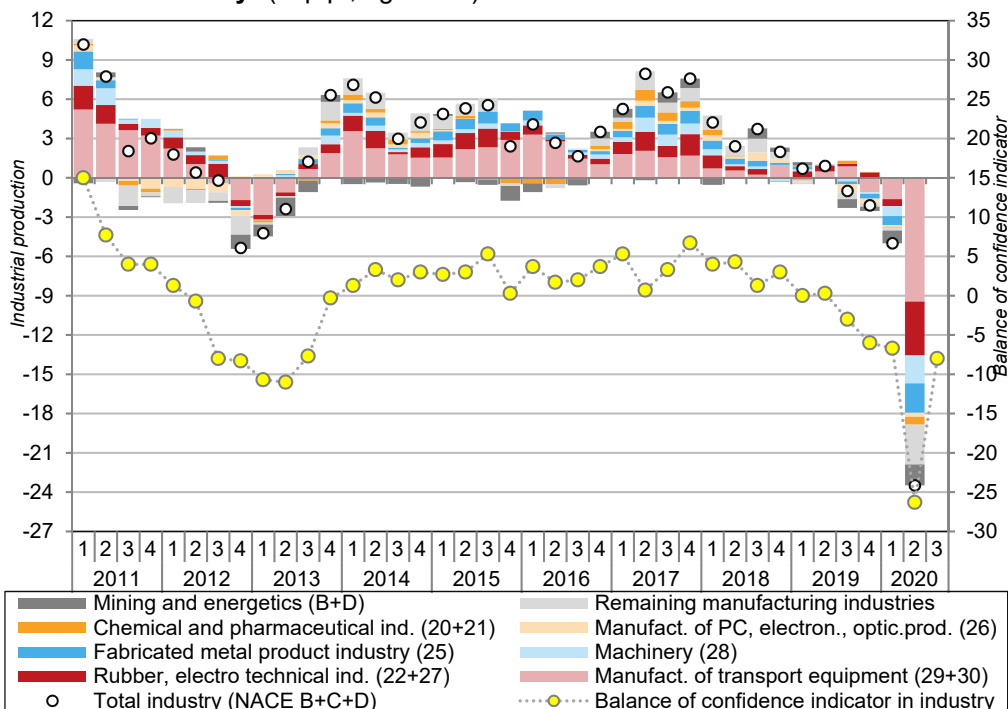
decrease in the size of 2 to 3% was similarly apparent in professional, scientific and technical activities, further then in financial or real estate activities. On the contrary, the GVA stagnated in public services⁶ ensuring the basic operations of society. The role of information and communication also gained in relevance in the pandemic time period. Still the value added increased in this dynamic branch the least in the last eight years (+1.3%).

March and April freeze of activity of key export businesses led to record slump of industrial production.

More detailed data from the business statistics also prove an unparalleled strong and fast impact of counter pandemic measures on the output of domestic industry. If the industrial production⁷ fell quarter-on-quarter „only“ by 3.7% in the first quarter of this year, second quarter saw deepening to yet unseen 18.3%. The record this year’s downturn was fundamentally affected by the development at the turn of both quarters – the production lowered by more than one tenth in March, by nearly one quarter in April. The measures against spreading of the coronavirus gradually led to the disruption or complete breaking of supply chains. Number of businesses started to limit production during the second half of March, many practically suspended it (it concerned especially the key companies of the motor vehicle industry and their domestic subcontractors). Many suspended branches recovered relatively fast in the subsequent months, regardless of this however this year’s July output in the whole industry still slightly lagged behind the “pre-pandemic” (February) level (by 4%).

July production still slightly lagged behind the pre-pandemic period.

Chart 4 Contributions of sub-branches to the year-on-year change of the industrial production (in percentage points, adjusted for calendar effects), **balance of confidence indicator in industry*** (in p.p., right axis)



*Balance of confidence is seasonally adjusted and expresses the situation in the first month of the given quarter.
Source: CZSO

More than one half of year-on-year industry fall was attributed to manufacturing of motor vehicles and their

Industrial production slumped by 23.6% year-on-year in Q2 2020. Apart from the pandemic supply shock the effect of the previous cyclical industry slowdown also accumulated (interconnected with the former decrease in the euro area), already apparent for the most part of the last year⁸. The downturn amounted to 14.4% for the

⁶ Contain public administration, education, health and social work.

⁷ 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, both quarter-on-quarter and month-on-month rates then also for seasonal effects.

⁸ Shallow quarter-on-quarter decrease of industrial production in the CR occurred already in Q3 and Q4 2019 (-1.6% and -0.6%). Since it was accompanied by the reduction of employment, the domestic industry fell into technical recession at the end of last year.

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| <p>closest subcontractors in H1.</p> | <p>whole H1. Manufacture of motor vehicles participated in it by more than one third, together with the immediate associated branches (electrical equipment, manufacture of rubber and plastic products) then by more than one half. Consequently, both machinery and metalworking industry contributed similarly by approximately one tenth.</p> |
| <p>Industrial production fell by more than one fifth in the motor vehicle, mining as well as leather manufacturing in H1. Slump of machinery was also significant.</p> | <p>Not surprisingly, the deepest downturn affected manufacturing of motor vehicles in H1 (–27.8 % year-on-year), since the utilisation of production capacities was only 50% at the beginning of Q2. The output in coal mining and leather manufacturing also dived approximately by one quarter, it however depicted a long-term trend. The fall of the machinery output by more than 17% was much more substantial, which mirrored the significant decrease of private investment in the whole economy.⁹ The weight significant manufacture of metal products, metallurgy, but also for example manufacturing of beverages decreased their output by one seventh. In contrast, the food industry achieved only mild decrease (–2.4%), since the volume of household expenditure on items of short-term consumption was by the restrictive measures affected only marginally in H1 (–0.5%). The relatively diversified branch other manufacturing was in a similar situation supported by growing demand for medical supplies. This was partially also linked to the higher output of the pharmaceutical industry (+4.9%), where the growth of output is however a longer-term phenomenon. Wood and paper industry were also mildly growing branches this year, here it is likely the consequence of the increasing natural wood logging in the recent years. The three growing branches above however assisted the growth of the total industrial production only by 0.2 p.p. in H1.</p> |
| <p>The specific structure of demand on the contrary aided some especially smaller fields during the coronavirus crisis.</p> | <p>The relatively diversified branch other manufacturing was in a similar situation supported by growing demand for medical supplies. This was partially also linked to the higher output of the pharmaceutical industry (+4.9%), where the growth of output is however a longer-term phenomenon. Wood and paper industry were also mildly growing branches this year, here it is likely the consequence of the increasing natural wood logging in the recent years. The three growing branches above however assisted the growth of the total industrial production only by 0.2 p.p. in H1.</p> |
| <p>Sales from industrial activities strengthened year-on-year only in energetics, pharmaceutical and food industries.</p> | <p>Nominal sales of businesses from industrial activity recorded similar development as the industrial production this year. Following mild year-on-year decrease in Q1 (–3.1%) they plunged in the subsequent quarter (–23.8%). Only companies in energetics (+6%), pharmaceutical industry (+6%) and food industry (+2%) earned more for the whole H1. Price growth partially aided in offsetting the decrease of real production to manufacturers of wearing apparel and leathers, in contrast the mild growth of output was not a guarantee of sales strengthening in wood and paper industry. Larger plunge of prices in the chemical industry or metallurgy adversely affected the sales of businesses and further amplified the adverse development of output in these branches. Total sales of industrial businesses from direct export declined by 15% compared to H1 of the last year, domestic sales only by 10%. Faster pace of domestic sales compared to foreign in essence endured also in the period 2017 to 2019.</p> |
| <p>Domestic sales still kept showing higher pace than sales from direct export.</p> | <p>Faster pace of domestic sales compared to foreign in essence endured also in the period 2017 to 2019.</p> |
| <p>Decrease of new orders moderated in the summer period. Utilisation of production capacities still did not reach the pre pandemics level.</p> | <p>Short term industry outlook still remained unfavourable in the summer period. The value of industrial orders¹⁰ was by more than one quarter lower in Q2 2020 (without substantial differences in rates of growth between domestic and foreign demand). Only small branches signalled low growth – pharmacy and also the manufacturing of other (mainly rail) transport equipment, where the development is traditionally strongly volatile. Orders in the manufacture of motor vehicles were lower by 44%, which can be understood as a sequel of the April suspension of production. July data brought more favourable indications, when the orders grew by one tenth (in the manufacture of motor vehicles), resp. moderated the fall to 4% (in the whole industry). Still below average utilisation of production capacities (both in the whole industry and motor vehicle segment) proved, that the situation in industry was still far from stabilized after the spring shock. The large share of businesses considering the inadequate demand as a growth barrier was also unfavourable¹¹ (63% at the beginning of Q3, the most in the last seven years). Only 15% weight of the lack of workers signals considerable cooling of the labour market (the least since the end of year 2015). At the</p> |
| <p>Inadequate demand troubled nearly two thirds of industrial businesses.</p> | <p>the large share of businesses considering the inadequate demand as a growth barrier was also unfavourable¹¹ (63% at the beginning of Q3, the most in the last seven years). Only 15% weight of the lack of workers signals considerable cooling of the labour market (the least since the end of year 2015). At the</p> |

⁹ In 2009 even more significant downturn occurred, when the volume of fixed investment fell by 9.2% year-on-year and machinery output slumped by 28%.

¹⁰ 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.

¹¹ Businesses could have stated more main barriers simultaneously. All data from business cycle surveys are seasonally adjusted.



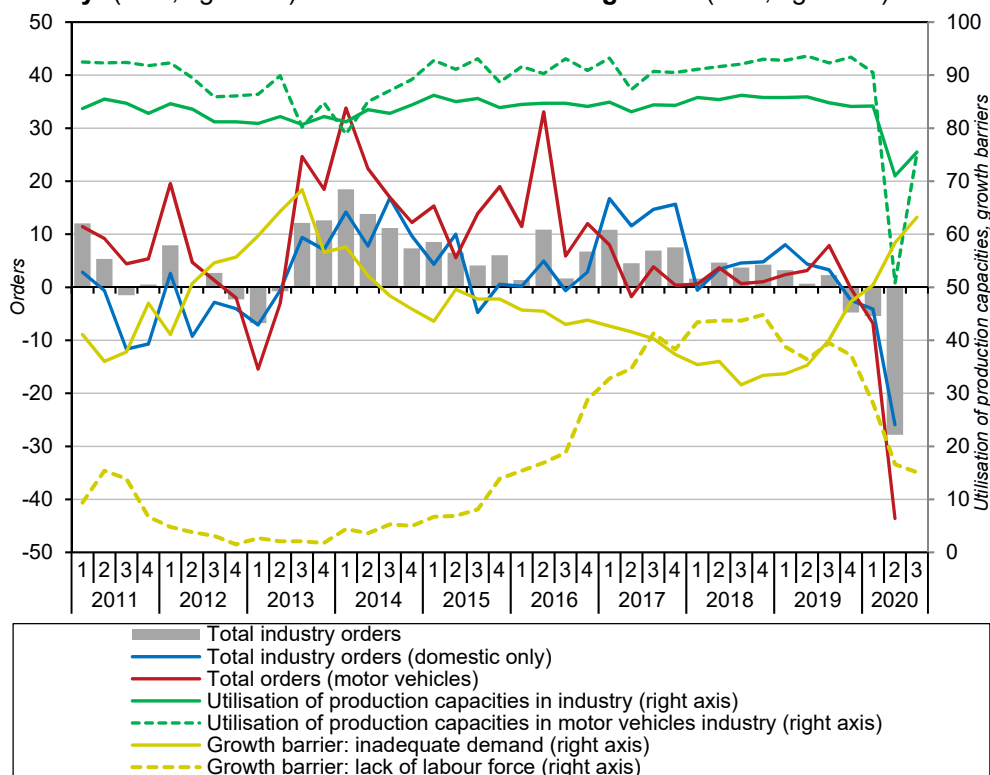
Markedly negative balance of confidence persisted in machinery.

same time the expectations of businesses in the area of employment remained negative (at the level of recession – 2012). Balance of entrepreneur confidence indicator in industry improved during the summer, it ended on –6 points in August and thus reached the level from the beginning of this year. Among the individual branches, the largest pessimism persisted in machinery (–31 points), manufacture of furniture (–27) and manufacture of wearing apparel (–26). The sentiment was more favourable in the manufacture of motor vehicles and achieved the same value as at the end of last year (–2 points).

Year-on-year slump of industrial production in the CR was the eighth largest among the EU states in H1.

While the industrial output in the EU went down by similar pace as in the CR in H1 year-on-year (–5.3%), the Union decrease was milder in Q2 (–19.2%). Luxembourg and Italy registered the biggest downturn in the whole H1 (similarly –18%) in the whole H1, followed by strongly industrial economies of Slovakia (–18%) and Romania (–17%). Decrease in the CR was the eight highest within the Union (–14%), Hungary or Germany also recorded a similar pace. Poland, where the distinct structure of industry also had an effect (for example higher proportion of branches linked to agriculture), fared better (–7%). Output of industry increased only in Ireland (+3%) – due to higher share of high-tech branches – and also in Malta (+2%). In the CR (–20.0%) similarly to the whole EU (–18.5%), the production shrank the most in branches manufacturing products of investment nature (e.g. machines, transport equipment).

Chart 5 New orders in manufacture of motor vehicles, in industry in total (in current prices, year-on-year change in %) and utilisation of production capacities in industry* (in %, right axis) and selected barriers to growth* (in %, right axis)



*Both utilisation of production capacities and growth barriers are seasonally adjusted and express the level in the first month of the given quarter.
Source: CZSO

Following the favourable development at the beginning of the year, construction experienced downturn in

Construction entered the year 2020 resolutely. Large stock of public, but also private orders together with very favourable weather were reflected in the continuing growth of the construction output¹². It increased by 1.1% quarter-on-quarter in Q1. This branch however started to gradually face difficulties in the subsequent period. The introduced

¹² All year-on-year data regarding the construction output are adjusted for calendar effects, quarter-on-quarter as well as month-on-month rates of growth then also for seasonality effect.

Q2. The downturn was evident primarily in the building construction and affected rather small and medium businesses.

government restriction measures hindered the administrative process of construction preparation, various competitive tenders were interrupted, which disrupted the continuity of construction. It also further deepened the already pressing difficulty with the availability of labour force in construction. Construction output thus slumped by 7.0% quarter-on-quarter, which represented a stronger shock than a short-term fallout of public infrastructure investment at the beginning of year 2016 (due to the transition to the new EU programme period). The construction output decreased year-on-year by nearly 9% in Q2. More than three years lasting growth period thus ceased. In contrast to year 2016, when the whole branch was dragged down by the civil engineering construction, the building construction had a negative impact this year. Mostly small and medium businesses were struck by the fallout here, it can be assumed that these companies had at their disposal less sufficient reservoir of orders from the recent expansion period. In contrast the output of civil engineering construction grew also thanks to the accelerating stage of drawing on the EU funds in both this year's quarters (+15.5 resp. +1.7%).

Several years lasting growth of commenced as well as completed flats halted this year.

Volume of residential construction mildly shrank in H1 2020. Completed flats recorded faster decrease, their number (15.3 thousand) decreased by 7% year-on-year. Less flats were built in new residential buildings (-1.1 thousand), number of flats in non-residential buildings or family houses went on the contrary slightly up. Number of all commenced flats lowered only negligibly (by 2.4%), again mostly due to lower construction of residential buildings. By contrast the number of flats in family houses has been expanding for already the sixth year, when it exceeded 10 thousand and its size was already approaching the highest half yearly totals from the expansion period 2006 to 2008.

Approximate value per one building permit stagnated, new orders slightly increased in Q2.

The approximate value per one building permit remained nearly the same (-0.6%) for the first seven months of year 2020 in comparison to the last year's value. Low growth of both residential (+4.6%) and non-residential buildings (+3.9%) was compensated by deeper decrease for civil engineering structures (-9.1%, partially due to high last year's basis). The approximate average value per one building permit amounted to 4.6 CZK mil in the same period and stagnated year-on-year. Favourable fact was, that the value of newly concluded domestic orders (in firms with 50 and more employees) slightly increased in Q2 (by 6.9% year-on-year), thanks to both building and civil engineering construction. The total stock of work in the form of not yet realised construction orders was also strengthening. It was by one tenth higher year-on-year at the end of Q2, due to both public and private orders¹³. The peripheral segment of foreign orders also strengthened after more than five years. More than three fifths of stock of work still belonged to domestic public orders.

Entrepreneur confidence descended to 2.5 years minimum in construction. The main growth barrier of the branch slowly shifts from lack of human resources to lack of work contracts.

Balance of entrepreneur confidence indicator in construction worsened since the beginning of this year and dropped to 2.5 years minimum (-16 points) at the beginning of summer. 38% of construction firms considered the inadequate demand a significant barrier to growth, the same proportion then also the lack of employees in August 2020. The two-year period, when construction was primarily limited by labour force likely ended. The trend of growing inadequate demand is apparent since the beginning of this year.

Construction output fell in the CR less than in the EU, especially thanks to the improved output of civil engineering construction.

Construction output decreased by 7.8% in the EU in H1 – that is by nearly doubled pace compared to the CR. The largest fall from the monitored countries¹⁴ affected France (-23.5%) and Spain (-16.0%). This contrasted with nearly 20% growth in Romania. Increase occurred in further eight countries, among others in Germany (+3.6%) and in Poland (+0.1%). All newer member states from central and eastern

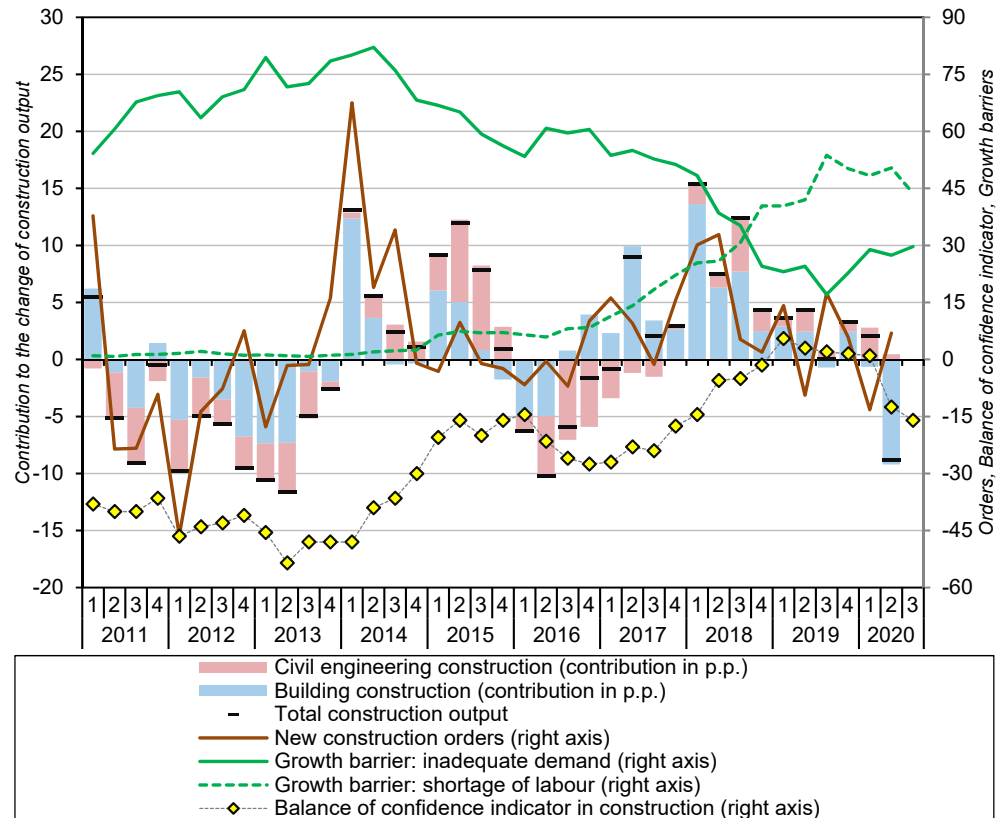
¹³ Construction firms that have work ensured on average for the ten months ahead.

¹⁴ Greece, Italy and Cyprus were not assessed for the reason of absence of current figures.



Europe attained better result than the EU, in many places also contributed by the swift growth of the civil engineering construction.

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



Data Related to construction output are adjusted for calendar effects.
 *Balance of confidence and growth barriers are seasonally adjusted and express the situation in the first month of the given quarter.
 Source: CZSO

Sales in services dived approximately by one tenth month-on-month in March as well as April.

Sales in selected services¹⁵ were considerably hit by the restrictive measures of the government. They fell by 8.9% month-on-month already in March 2020. They nearly halved in the sub-branches associated with tourism, since these businesses were practically able to operate only in the first half of the month. The decrease of total sales mildly deepened in April (-10.4%). Gradual revival in the subsequent months in reaction to loosened restrictions took place very slowly. Quarter-on-quarter decrease thus reached deep 14.4% in Q2, which was double the so far record downturn from the beginning of year 2009.

Mainly weaker output in transporting and storage, and also downturn in accommodation, food service and restaurants stood behind the decline of sales in services.

Sales in services decreased by 12.0% year-on-year in H1 2020. It was mainly result of development in transporting and storage (contribution - 4.5 p.p.) and branch accommodation, food service and restaurants (-3.0 p.p.). Other branch sections were however hit as well - information and communication then the least (contribution +0.3 p.p., branch growth 1.7%). While some divisions of this branch benefited from the heightened demand during the corona crisis (telecommunication activities, ICT areas), others were affected to a varying degree (publishing activities, programme production and broadcasting activities and especially so called motion picture and musical industry, where the sales

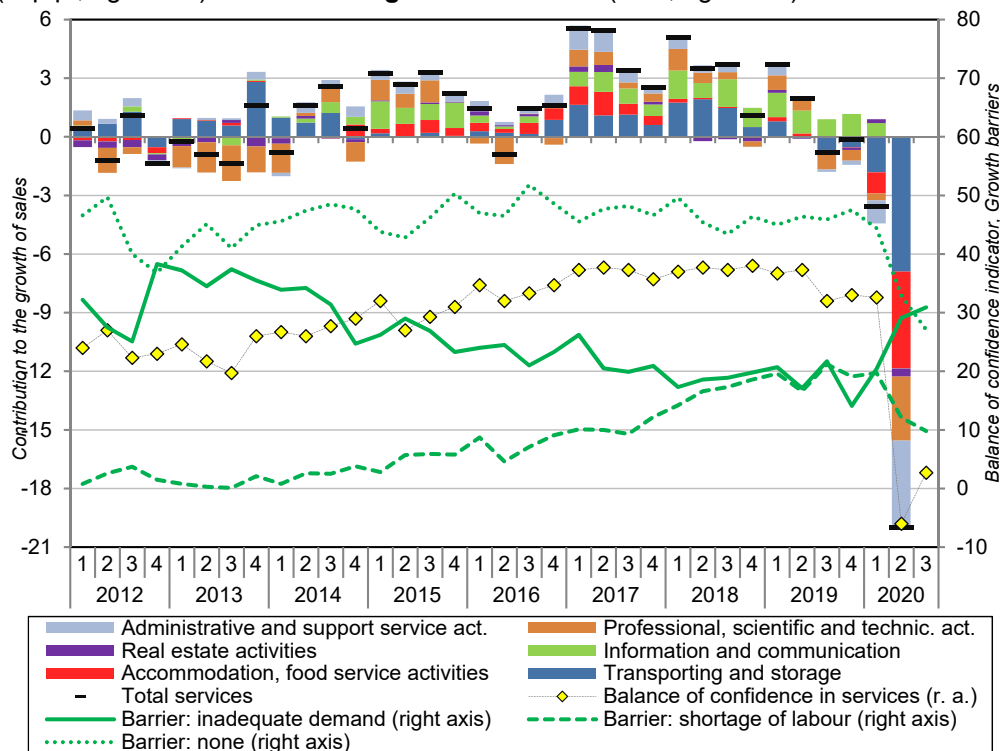
¹⁵ Without branches trade, financial activities, insurance activities, science, research and public services. All data for services are in constant prices, year-on-year data are adjusted for calendar effects, quarter-on-quarter and month-on-month data are adjusted for seasonal effects (including the number of working days).

Only telecommunications, ICT areas and postal and courier services continued to grow.

Four years lasting rise of sales for market research and public opinion polling halted.

dropped by more than one third¹⁶). The branch transporting and storage also featured diverse development. Deep drop of the air transport (-63.9%) as well as significant decline in key division of land and pipe transport (-15.0%) contrasted with the growing demand for postal and courier services (+8.8%). The sales fell by nearly two fifths in accommodation, food service and restaurants. In accommodation itself, the slump reached 53.4%¹⁷. Branch administrative and support service activities recorded nearly one quarter plunge of sales. Expected deep decrease of performance of travel agencies emerged (-63.9%), sales of job agencies also lowered by nearly one quarter. Drop of nearly one tenth also affected the branch professional, scientific and technical activities. Mainly lower output of other processional and scientific activities had an adverse effect (-13.0%) and also both architectural and engineering activities (-8.1%), demand was however falling in all sub-branches, including long-term growing market research and public opinion polling. Legal and accounting activities remained affected the least. Moderate decline was also registered in the real estate activities (-1.3%).

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 services (in p.p., right axis) and selected growth barriers** (in %, right axis)**



* Without branches trade, financial activities, insurance activities, science, research and public services.
 **Includes also the financial sector. Balance of confidence and growth barriers are seasonally adjusted and express the situation in the first month of the given quarter.
 Source: CZSO

Retail sales growth stopped due to the impact of both restrictions

Retail sales¹⁸ fell by 2.3% during Q1 2020 (it was the first quarter-on-quarter decrease since the end of year 2013). Similar rate of growth was also repeated in the subsequent

¹⁶ According to the Union of motion picture distributors, the sales from entrance fees in the cinemas in the CR decreased by 56% year-on-year in H1 2020. It was consequence of several weeks' interruption of the cinemas operations and later also the limited offer of motion pictures. The number of visitors was lower nearly by one half - to 709 thousand year-on-year even in July (lower July figure was last recorded in 2000).

¹⁷ The number of overnight stays of non-residents in mass accommodation facilities decreased by 54% in the CR this year compared to H1 2019, for non-resident tourists even by 64%. The fallout was for the most part blanket, both from the view of the type of facility and the region of accommodation. Even after easing most of the barriers connected to the across the border movement of persons, the arrival tourism in the CR remained to a large extent paralyzed. The year-on-year decrease of all overnight stays was 60% in June, in that 90% for foreign visitors.

¹⁸ All year-on-year rates of growth of retail sales are stated in constant prices and adjusted for calendar effects (including the number of working days). Retail includes branches CZ-NACE 47.



and deteriorated consumer confidence. End of Q2 however saw a mild boost.

period. These results were fundamentally affected by the pandemic measures, which limited the purchasing ability of the population, especially in March and April¹⁹. The whole industry faced still weakened demand on the part of non-residents even later and purchasing appetite of domestic households was inhibited by the worsening consumer confidence, sharp lowering of nominal average wages as well as growing concerns of households regarding potentially rising both prices and unemployment. Despite this development, a still delicate growth of sales year-on-year renewed in both May (+0.7%) and July (+1.9%).

Retail decline was driven especially by significant reduction of sales for fuels in H1.

Retail sales declined by 1.7% year-on-year for H1 2020. Sales for fuels contributed the most to this decline. These decreased by nearly one eighth and recorded first drop in the half-yearly accumulation since the end of year 2013. Even though a considerable lowering of fuels consumer prices occurred in Q2, marked dive of the freight transport as well as weaker regular commuting to work (as a consequence of spreading work from home) proved to be a more important factor. Sales of non-food products fell only slightly (by 0.3%). Development in individual specialised shops however differed. While the sales of wearing apparel, footwear and leather goods or cultural and recreation goods registered double digit fall, demand for computer as well as communication equipment, pharmaceutical, health and cosmetic products or household goods slightly grew. Strengthening growth of sales via internet or mail order was however pivotal (+28.4%, in that by +37.8% in Q2). Sales for food dropped by 0.3% in H1. The mild decrease was particularly affected by weaker sales in specialised shops (−13.6%). Dramatic downturn, its depth exceeding the slump from year 2009, afflicted the motoring segment sales this year (−22.6%).

Growth dynamics of sales via internet was further gaining strength.

Retail sales fell by doubled pace in the EU compared to the CR in H1.

Retail sales fell by 3.5% year-on-year in the EU in H1, that is by more than double the pace in the CR. Sales dived by more than one tenth in Italy, Spain and Bulgaria, they fell strongly also for instance in Slovenia (by 9.5%). On the contrary growth was observed in ten states, the highest in Finland (+3.7%), further in Germany (+1.9%) and the Netherlands (+1.7%). Weak growth was recorded also for example in Poland or Hungary.

¹⁹ Retail sales slumped by 10.5% month-on-month in March, by further 1.8% in April. Sales already grew in the subsequent three months and they returned to the pre-pandemic level in July.