3. Branches Performance

The quarter-on-quarter growth of GVA gradually increased slightly during the last year and it permeated almost all key branches in Q3 2024.

The economy gradually recovered from the previous mild recession in the course of the last year. While the performance of all branches of the national economy captured by the gross value added (GVA)[1] indicator decreased still more slightly, quarter-on-quarter (−0.1%), in Q1 2024, a slight growth was evident in the following part of the year, driven by most of the main branches of services. The total performance of the branch was less than 2% above the same period of the expansion year 2019 in Q4, however exclusively due to services (especially ICT and finance)[2].

The year-on-year GVA growth narrowed to 0.3% last year. The recession continued in industry. The construction industry has revived slightly. Services – especially finance, trade and tourism-related activities – fared well.

In total for the whole year 2024, GVA increased only by 0.3%[3] (the least in the last four years). The recession in industry, which thus significantly counteracted economic growth last year (−0.5 p. p.), continued for the second year in a row. Weaker external demand dampened the output of manufacturing, which fell by 1.3%. Apart from the pandemic year of 2020, it represented the worst result since 2012. Other parts of industry (i.e. mainly mining and energy) did not fare well either, the GVA decreased for the third year in a row (by more than 4% last year) there. The primary sector of the economy was also in a slight downturn, reflecting last year's weaker harvest of key crops[4] as well as the lingering decline of wood logging. Animal production faced price fluctuations, nevertheless the situation in terms of production was stabilized here last year[5]. The GVA thanks to favourable weather conditions and solid demand from public contracting authorities increased for the first time after 2018 (+0.4%) in construction. The output increased by 1.2% in the tertiary sector (i.e. services) last year and contributed 0.8 p. p. to the GVA growth in the economy as a whole. Although almost all major tertiary activities benefited from the growth of demand, the performance hiked up significantly only in financial and insurance activities (+4.7%).

The industry went through a recession last year. Weak external demand and the fading effect of heightened production costs from the energy crisis were reflected.

The domestic industry has been hit by recession since the beginning of the last year, which stemmed primarily from persisting weak external demand. Not only Germany, but also several other key trading partners of the Czech Republic in the euro area have been struggling with current cyclical or longer-term structural problems. Their traces are also evident in the Czech Republic. Particularly the energy-intensive industries still had difficulty coping with the effects of raised input prices. In addition, the development of a number of other key export sectors was limited by continued weaker investment activity in the economy

[1] Data regarding GVA are expressed in constant prices and adjusted for both seasonal and calendar effects.
[2] GVA exceeded the pre-crisis level by 29% in information and communication, by 15% in financial and insurance activities, and by 6% in business services (professional, scientific, technical and administrative activities). On the contrary, the performance of industry lagged behind Q4 2019 by 6%, the primary sector of the economy by 11% and the construction sector by 16%.
[3] The GVA increased by 1% in the EU last year (the aggregate output of the branch grew more dynamically than in the Czech Republic for the fourth year in a row). In both the EU and the euro area, only services contributed to growth (public services were the most important last year), while performance declined in the entire primary and secondary sectors. The total GVA increased the most in Denmark (+3.9%), Malta (3.8%) and Spain (+3.6%), and within Central Europe in Poland (+2.1%) – the performance of the economy was also supported by industry in these countries. In contrast, the total GVA decreased in five countries – Germany (−0.3%), Latvia (−0.6%) and also in Finland (−0.2%), Estonia (−1.1%) and Austria (−1.4%), where the downturn occurred also in 2023.
[4] Last year's cereal harvest of 7 521 thousand tons was lower in a year-on-year comparison (−5.9%) and against the five-year average (−6.5%) as well. It presents the lowest cereal harvest in the last five years. Spring cereals were more successful, with the exception of spring wheat, while the harvest of winter cereals was significantly lower. The oilseed rape harvest fell by more than a quarter, year-on-year to 947 thousand tons in 2024. Compared to the five-year average, it was 20% lower. The oilseed rape harvest droped below one million tons for the first time since 2007. On the contrary, the harvest of root crops was higher, year-on-year, last year, mainly due to the expansion of the sowing area and favourable yields per hectare. The harvest was also higher in relation to the five-year average, by 2% for potatoes and by 18% for sugar beet. Most other industrial crops also fared well. Mainly due to the expansion of sowing, the poppy crop (+51%) as well as soybean (+16%) increased, year-on-year. Sufficient rainfall for most of the growing season was positively reflected in a solid harvest of most forage crops (grain maize, clover). The hop harvest decreased compared to the above-average year 2023 (by 7%), and the harvest of both grapes and vegetable production also decreased by a tenth. The frosts in April 2024 affected the fruit harvest. It plummeted by 58%, year-on-year (and was 63% lower than the five-year average). With the exception of peaches and apricots, the year-on-year drop of the harvest concerned all the main types of fruit.
[5] 450 thousand tons of meat were produced in slaughterhouses in the Czech Republic for the whole year 2024. Production increased for the first time in the last three years, by 3.3%, year-on-year. The production volume was comparable to year 2020. Last year's increase was largely due to pork (with a growth by 6.9%), poultry production also strengthened more moderately (+1.1%), while 2% less beef (including veal) was produced. Direct milk purchases from producers increased by 1.7%, thus continuing a similar long-term trend.

related to subdued business as well as consumer confidence, exacerbated by persisting difficulties in the possibilities of credit financing of investments. After a short-term recovery at the end of 2023, which was mainly driven by manufacturers of transport equipment (including their subcontractors), the total industrial production[6] in Czechia decreased again, quarter-on-quarter, in Q1 2024 (−0.5%) and continued in similar tendencies throughout the following part of the last year, as key investment-oriented sectors (especially manufacturing of motor vehicles and engineering) did not provide the necessary growth impulse to industry. Thus the total industrial production lagged slightly behind its peak from the pre-pandemic expansion period (Q2 2019) at the end of the last year (by 2.9%)[7].

The year-on-year decline of industrial production deepened slightly last year. The entire industry was dragged down the most by engineering, whose output fell by almost a tenth.

The industrial production decreased by 2.2%, year-on-year, in Q4 2024, primarily due to the downturn in sectors focused on capital production. The output of industry decreased by 0.9% for the whole last year and the recession commenced in 2023 thus slightly deepened. The decrease occurred despite the fact that production increased at least mildly in little more than half of all industrial fields (sectors). However, a deeper slump in some export sectors important by weight played a dominant role. This was mainly the case of engineering, whose output fell by 8.4% last year, the most of all manufacturing sectors, and it contributed 0.7 p. p. to the decline of the total industry[8]. Weak demand, especially domestic, manifested here. The slump concerned, for example, the production of pumps, agricultural or metalworking machinery, however lower production in this otherwise quite diversified field could be traced basically across its entire spectrum during the year.

The dynamic development of motor vehicle manufacturing halted last year. Weaker domestic as well as external demand contributed to a downturn of output of its direct subcontractors in the automotive sector.

The key branch manufacturing of motor vehicles, whose production decreased by 1.3% after double-digit growth in 2022 and 2023, also contributed to last year's industry downturn (−0.3 p.p.). This result was likely influenced by the deteriorated position of some direct domestic subcontractors (within the automotive industry), as the final physical production of vehicles itself grew[9]. The current dynamics of this branch in the Czech Republic, as in most of the newer EU Member States, is relatively more favourable[10] compared to the core EU countries. In addition to lower labour costs, the still lower proportion of electric and hybrid cars (their sales are facing difficulties caused by growing Asian competition as well as lower subsidy support in the EU countries) in total car production in newer EU also plays a role. In addition to the automotive industry, the production slump also affected manufacturers of other (mainly rail) transport equipment (−4.6%) last year in the Czechia, mainly due to weaker performance in Q4 2024. Nevertheless, the production has traditionally been volatile in this relatively small sector. It can be assumed based on leading indicators (especially the rapid growth of new domestic orders), that this sector's immediate outlooks are not unfavourable. Sales difficulties in the automotive industry also led to a decline of production in the related sector of manufacture of electrical equipment (−2.1%)

The weakening of demand from motor vehicle manufacturers was also felt by some related industries, especially electrical engineering.

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[6] Includes branches of mining and quarrying, manufacturing and also energetics (here as activities of generation and distribution of electricity, gas, heat and air conditioning supply). All year-on-year rates of growth of output are adjusted for calendar effects, quarter-on-quarter rates then also for seasonal effects.

[7] Two-thirds of the main industries lagged behind their peak from time period 2015 to 2019 in Q4 last year – especially those linked to the energy sector (-24%) and those focused on durable consumption production (-19%). At the level of individual sectors, it represented mainly coal mining (by 59%), metal manufacturing, metallurgy and foundry (−32%), textile industry (−23%), footwear and leatherworking industries (−22%), printing (−20%) and energy industry (−20%). Among larger sectors further engineering (−15%), chemical industry (−14%), manfuacturing of building materials (−12%) and the rubber and plastic industry (−9%) were also included. On the contrary, production of capital goods (+6%) and non-durable goods (+5%) were currently situated above the pre-crisis level of output. Specifically the individual sectors were primarily the manufacturing of motor vehicles (+15%), pharmaceutical industry (+13%) and other manufacturing industry (+12%), paper (+11%) and food industries (+6%).

[8] It was only the second time in the modern history of the Czech Republic last year, that engineering contributed to the decline of the total industrial production the most of all its fields. The first time this happened was during the global financial crisis in 2009.

[9] According to the Czech Automobile Industry Association, 1.453 mil personal vehicles were manufactured locally in year 2024, by 4% more, year-on-year (and at the same time by 1% more than in the so far record year 2018). This was due to the brisk pace of production at the very beginning of the year and at the end of Q3, while the pace of production weakened in November and December. A year-on-year decline was recorded in the segment of manfuacturing of electric vehicles (including hybrid vehicles), which accounted for 10.4% of the total manfuacturing of passenger cars last year (12.9% a year earlier). In contrast, the production of most producers of other types of road motor vehicles strenghtened (motorcycles, commercial vehicles).

[10] Produciotn in manufacturing of motor vehicles fell by 8.2%, year-on-year, in the whole EU last year (9.1% in the euro area). It fell by about a fifth in Belgium, the Netherlands and Italy, and it also decreased significantly in France (−14%) or Germany (−7%).

last year, which was limited mainly by weaker external demand. On the contrary, the rubber and plastics industries, which are among the more energy-intensive sectors, were already affected by the downturn in years 2022 and 2023, and their performance increased slightly (+0.6%) last year thanks to a slight recovery of demand from the Czech Republic.

The most energy-intensive sectors of metallurgy or mining and quarrying continued in deep decline last year.

The most energy-intensive industries continued to be in deep downturn. The production fell by 7.0% in metallurgy and foundry last year (even by 26.7% in the last three years). Weak both domestic and external demand for steel persisted (mainly in construction, motor vehicle manufacturing or engineering) and the main leading indicators also did not yet indicate a positive turnaround. The pace of dive slowed down compared to 2023 in the long-term declining mining and quarrying last year, nevertheless it still reached 7.4%. The so far key segment of coal mining played a major role in these developments, with production falling by 11.8% (the most of all industries). On the contrary, the mining of building materials revived (+0.4%), thanks to growing demand in the domestic construction industry[11]. The decline of production moderated in the energy industry, reaching 1.5% for the whole of last year (however it was 14.5% in total for the last three years). There was a slight decrease of the electricity generation related to the ongoing decline of the use of coal in steam power plants[12]. At the same time, however, the decline of electricity[13] and gas[14] consumption has effectively ceased as a result of relatively colder weather in the last third of the year[15]. The effect of austerity measures on the consumption side both in businesses and households was also not nearly as significant as in the previous two years, which was also caused by the fact that energy prices had stabilised.

The slump of energy industry performance moderated dramatically last year. The decrease of total consumption of both electricity and gas nearly ceased, in that it has even increased slightly in companies.

Mainly the food industry and most other sectors producing non-durable products counteracted a deeper downturn in industry.

Mainly the sectors focused on the production of non-durable goods counteracted a deeper downturn of the total industrial performance last year. The output increased, year-on-year, in the food industry for the first time in the last three years (+4.0%, contribution to the growth of the whole industry +0.2 p.p. [16]). The beverages manufacturers also benefited from the renewed growth of the purchasing power of domestic households as well as the developing tourism (+4.0%), however unlike the food industry, their production has not yet surpassed the peak of the last pre-pandemic expansion. This also applies to the manufacturing of wearing apparel, whose output growth narrowed due to the weakening domestic demand (especially in H2 2024) for the whole year (+0.6%). On the contrary, the smallest manufacturing sector, leatherworking and footwear industries, thrived, with their output

[11] The output increased by almost a tenth, quarter-on-quarter, in the mining of building materials in Q4 2024 and grew similarly also in the year-on-year comparison (growing for the first time in the last eleven quarters).

[12] According to preliminary data from the Energy Regulatory Office, the total net electricity production (i.e. apart from intermediate consumption, including production losses) reached 69.0 TWh in the Czech Republic last year (the lowest since 2001) and decreased by 3.9%, year-on-year (half less than in 2023). The decrease of the production of steam power plants (−9.8%) was the most noticeable, while a more moderate decline also manifested due to outages at nuclear power plants (−2.4%), which still produced the most of all types of facilities (28 TWh). On the contrary, the development of photovoltaic power plants accelerated, their last year's increase of production (+24%, to 3.6 TWh) can be explained by the increase in their installed capacity. The rainier year 2024 was mirrored in higher hydroelectric power plants production (+12%, to 2.7 TWh).

[13] Net electricity consumption arrived at 58 TWh in the Czech Republic last year (the lowest level since 2009). Its negligible year-on-year decrease in 2024 (−0.6%) was almost exclusively caused by the smaller segment of local consumption (i.e. entities directly connected to the plant) of several larger businesses that suspended operations last year. On the contrary, there was an increase of 1.4% in the category of wholesale customers (of which consumption grew by 5.6% for customers at the very high voltage level – i.e. basically the largest enterprises). Small customers (+0.2%) and households (+1.1%) also consumed slightly more electricity last year. Compared to 2019, when the total net electricity consumption approached the long-term maximum, consumption was lower by 6.9% last year, mainly due to a decrease for wholesale customers (-7.7%), while only households (+2.5%) increased their consumption, which is related to the growth of their number (population growth) as well as wider spread of home office work.

[14] Total gas consumption in the Czech Republic stagnated last year and was 28% lower than its 2021 peak (however, consumption converted to the long-term thermal standard increased, year-on-year, for the first time in three years /by 1.8%/ last year, in that by 7.1% in Q4 2024). A slight increase in consumption (up to 2%) was recorded by all key customers last year except households, which consumed 1.7% less gas (31% less compared to 2021).

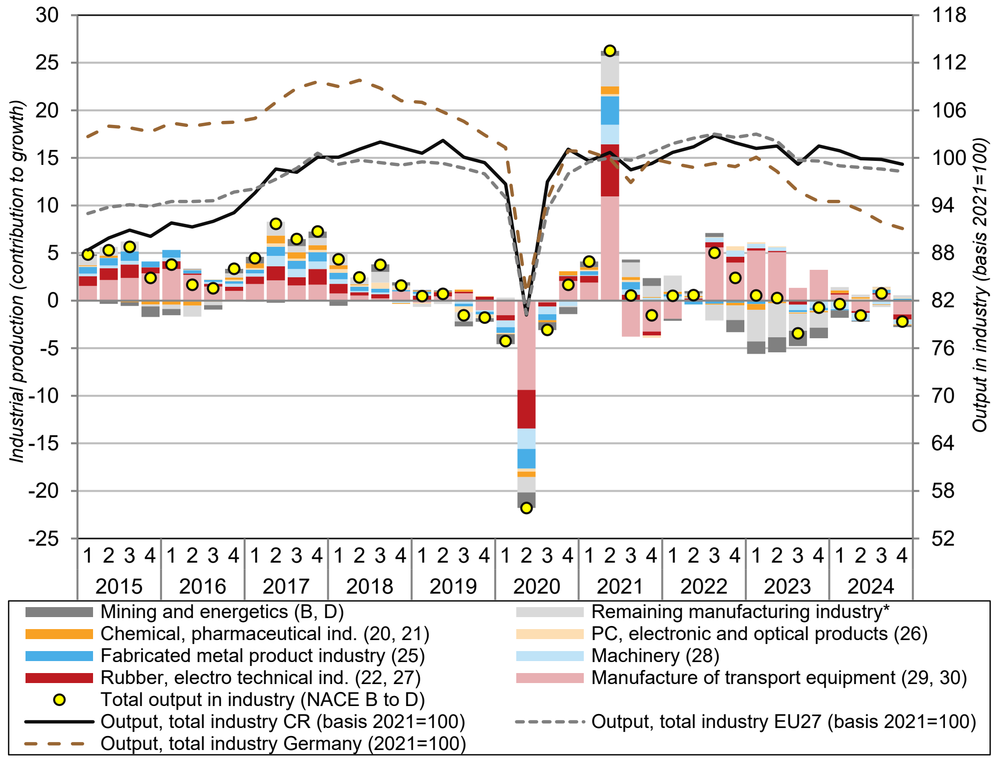
[15] According to the Czech Hydrometeorological Institute, the average air temperature attained 10.5 degrees Celsius in the Czech Republic last year and was higher, year-on-year (+0.6 degrees) even compared to the long-term standard (+1.9). Nevertheless, it was lower last January (by 2.5 degrees) compared to the very warm year of 2023 and throughout the period from September to December (by an average of 1.3 degrees).

[16] The food industry had the highest growth impact on the total industry of all industry sectors last year, which occurred for the first time in a comparable time series after year 2000.

Households rather continued to postpone purchases of some items of medium and long-term consumption. .

increasing for the fourth year in a row. It increased by 8.4% last year (the most of all industries), mainly due to the recovery of domestic demand. Production increased only by 2.5% in the long-term developing and significantly pro-export pharmaceutical industry last year (the lowest rate in the last ten years), despite solid demand. The prosperous industries, which did not decline even during the pandemic, also consist of other manufacturing activities (including also, among other things, manufacturing of sports equipment, games and toys). Its performance increased by 5.7%, year-on-year, due to higher demand both from home and abroad. In contrast, households continued to rather postpone purchases of some semi-durable products (e.g. furniture)[17].

Chart 4 Contributions of sub-branches to the year-on-year change of the industrial output in the CR (adjusted for calendar effects, real, in p.p.) **and output in the entire industry in the CR, Germany and EU27** (seasonally adjusted, level of year 2021=100, right axis)



*Contribution of the remaining manufacturing industry also includes the effect of the overall methodological discrepancy stemming from the change of weights.
Source: CZSO, Eurostat

Some more energy-intensive industries focused on the production of intermediate products revived last year.

The modest but steady growth of the electronics industry continued thanks to both domestic and external demand.

After a slump in 2023, some of the more energy-intensive industries focused on the manufacturing of intermediate products recovered last year. Output of the chemical industry increased for the first time in the last three years (+1.0%), solely due to the recovery of domestic demand. An even more significant shift occurred in the manufacturing of non-metal mineral products, where after a 17% drop in 2023 (the deepest slump after 2009), the output fell by less than 1%, year-on-year, as a result of improving demand in the domestic construction industry. Output of the important sector of the fabricated metal products grew at a moderate 1% rate last year. The strengthening of external demand had a favourable effect, while the domestic demand was aided by the strengthening of arms production. Sectors that are relatively more dependant on the domestic demand were also successful – the output of the wood processing industry went up by 3.1% (the highest pace in the last six years), and by 4.2% in the paper industry. Among the sectors aimed at manufacturing mostly the investment products, only manufacturing of computers, electronic

[17] Output of furniture manufacturing decreased by 2% last year, and even by 12.6% in the last two years. While in 2023 mainly the sales abroad were slow, domestic weaker demand manifested adversely in 2024.

and optical appliances and equipment strengthened last year (+4.7%), where a slight increase of output persisted for the fourth year in a row. This import-intensive and at the same time also strongly export-oriented high-tech sector has been supported by strengthening domestic demand associated with the development of photovoltaics in the recent years as well.

Decrease of the industrial output deepened slightly in the EU last year. The recession thus affected two-thirds of the member states in this branch. The industrial output downturn continued in Germany for the third year in a row and it was the third deepest among member states last year.

The current difficulties of industry in the Czech Republic are largely related to the adverse development of this branch in the majority of EU countries. In the euro area alone, the industrial production fell by 0.3%, quarter-on-quarter, in Q4 2024 and fell already for the seventh consecutive quarter. The year-on-year slump in performance has persisted for the same period of time. Industrial production decreased by 2.4% in the EU for the whole last year and its volume was comparable to year 2019. The performance of investment-oriented sectors (−4.5%, mainly manufacturing of motor vehicles and engineering) stood mainly behind the lower performance last year, similarly to the Czech Republic. A noticeable downturn also afflicted the sectors manufacturing intermediate goods (−3.4%, mainly electrical engineering, textile industry and metalworking) or durable goods (−3.3%, primarily the manufacturing of furniture), while the recession in contrast avoided the sectors aimed at short-term consumption (+1.8%, especially food industry, pharmaceuticals and tobacco industry), where production strengthened for the fourth year in a row and was 15% higher than the pre-pandemic peak. From the point of view of the member states, the total industrial output decreased the most in Austria (−5.1%) and Ireland (−5.0%) last year, and among the key producers then in Germany (−4.6%, by 6.7% in totoal for the last three years) and Italy (−4.0%). With the exception of Poland (+0.5%) and Slovakia (+0.3%), industrial performance declined in all Central European countries. Its growth occurred only in less than a one third of the Union member states – mainly in Denmark (+8.3%) and Greece (+5.2%), but among the key economies only in Spain (+0.5%).

The growth of the value of new orders gradually weakened in industry during last year and almost ceased in Q4.

The dynamics of new industrial orders indicated a slight recovery at the beginning of the last year, nevertheless it gradually faded. The year-on-year growth of the nominal value of orders almost halted in the selected industrial activities[18] in Q4 2024 (+1.2%), which essentially applied to both domestic and external demand. Even the quarter-on-quarter rates in the second half of the last year did not suggest an imminent positive turnaround. At the level of individual industries, the only exceptions were the electronics industry, where the year-on-year growth of orders reached 13.2% in Q4 (9.9% for the whole year), and the manufacturing of other transport equipment, where demand grew by a third in Q4 (by a quarter for the whole year 2024). The favourable prospects are based on strong domestic demand associated with the development of transport infrastructure as well as the modernization of the army here. The manufacturing of motor vehicles also maintained a slight growth (+6.1%) in the yearly perspective, however the volume of orders decreased (by 1.5%), year-on-year in Q4 (for the first time in almost last three years). The related field of electrical engineering was in a similar situation. On the contrary, the decrease continued in engineering for the second year in a row, amounting to 1.3% for the whole year 2024. Similar trends prevail laso in the metallurgical industry, where the demand took a deeper dive. On the positive side, the demand recovered slightly in some important sectors of the chemical as well as metalworking industries, both in Q4 and in the full-year perspective.

A slight recovery occurred in the chemical and metalworking industries. However, weak demand persisted in both metallurgy and engineering.

Business confidence in industry remained low. Around 60% of companies already suffered from insufficient

Business confidence in industry remained slightly in the negative band. It improved mildly during H1 2024, then rather fluctuated. A fifth of companies rated their current demand unfavourably, and more than 60% of companies have already identified it as one of the growth barriers in February 2025 (the same share was evident also in the pandemic year

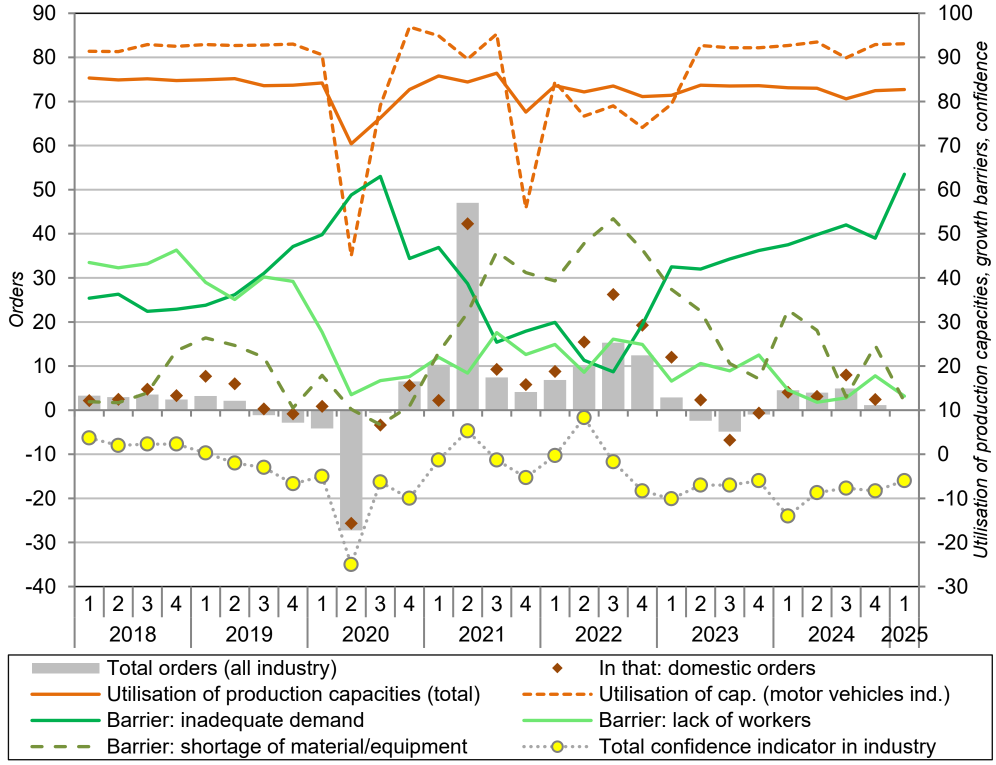
[18] New orders are monitored only in twelve manufacturing branches producing mostly custom-made products, with longer production cycle and larger stocks of orders. Year-on-year growth rates of orders are adjusted for calendar effects, quarter-on-quarter rates also for seasonal effects.

demand. Current and expected employment developments stay unfavourable.

of 2020 or in year 2013). In contrast, the shortage of labour[19] or materials and equipment[20]. plagued only a tenth of companies. Stabilisation of cost pressures[21] and slightly optimistic production outlooks[22] can be described as positive. Still, the employment expectations are negative[23] and have in addition deteriorated slightly compared to last year. This is also in line with the real development in recent months (the registered number of employees in industry decreased by 1.6%, year-on-year, in Q1 to Q3 2024, while the pace of decline was more than double in mining, electrical engineering or machinery. The utilisation of production capacities attained 82.7% in the whole industry (it decreased slightly, year-on-year, and was 2 p. p. lower than the average for the expansion period 2015 to 2019). The situation was, nevertheless, quite favourable in the motor vehicle manufacturing itself (93.1%), the current utilisation even exceeded the level of the last expansion here.

The utilisation of industrial production capacities decreased mildly, year-on-year, and lagged slightly also behind the level of the period 2015–2019.

Chart 5 New orders in industry (nominal, year-on-year change in %), **utilisation of production capacities in industry, selected growth barriers*** (in %, right axis) **and balance of business confidence indicator in industry*** (in p.p., right axis)



* Both utilisation of production capacities and growth barriers express the level in the first month of the given quarter, business confidence balance relates to the second month in the quarter. Orders are adjusted for calendar effects; other indicators are seasonally adjusted. Businesses could have indicated more key growth barriers simultaneously. Source: CZSO, Eurostat

Significant cost pressures as well as weaker investment activity in both the private and public spheres continued to affect

The construction industry was plagued by a continuing recession for part of last year. Persisting weak demand as well as price pressures had an adverse effect. Although prices of building materials started to fall slightly, year-on-year, from Autumn 2023 after a three-year increase, the reduction of both realized and expected prices of construction output was hindered by rapid growth of labour costs affected by a chronic shortage mainly of skilled

[19] However, it still represented a significant barrier, exceptionally it comprised a dominant growth restriction (leatherworking, manufacturing of other transport equipment, repair and installation of machinery and equipment) in some sectors (food, beverage and metalworking industry or subcontractor branches of motor vehicle manufacturing).
[20] This barrier has been most evident in the chemical and petrochemical industries in recent months, and motor vehicle manufacturers have also still struggled with occasional outages of production components.
[21] According to the survey from February 2025, 21% of industrail enterprises planned to raise prices of their production in the short term outlook, while only 2% planned to reduce prices.
[22] In the three-month horizon, 22% of businesses expected its increase, while 16% expected a downturn (February survey)
[23] According to a survey from February 2025, only 5% of businesses planned to hire workers in the three-month horizon, and 17% planned to lay off workers.

the construction performance.

labour. Subdued investment activity in the business sphere connected to the weaker business and consumer confidence in the economy and worsened possibilities for financing investment was also still evident. This was compounded by an anticipated decrease of public investment associated with the transition to the new EU programming period[24].

The year-on-year drop of construction output continued for the second year in a row last year. However, the output increased in Q4, mainly due to a recovery in building construction.

Construction output[25] increased by 0.6%, quarter-on-quarter, at the beginning of 2024, primarily due to favourable weather (and halted the adverse development that filled most of the year 2023), but fell by 1.6% during Q2, mainly due to the influence of the civil engineering construction. However, there was a recovery in the remaining part of the last year, which was the most apparent in the last quarter (+2.8%, the most in the last eleven quarters). The performance of construction industry decreased by 1.4%, year-on-year, for the whole last year (and slightly mitigated the downturn from year 2023). Nevertheless, the production increased in Q4 2024 (+3.2%, partially due to a weaker comparative basis). The recovery was particularly evident in the construction of buildings (+6.6%) and, to a lesser extent, in civil engineering as well. On the contrary, there was no significant revival in the segment of specialised construction activities (a decrease of 1.6% for the whole of last year).[26]

Total residential construction was still subdued, however there was a recovery in Prague.

There was a partial recovery of housing construction last year, after a two-year suspension. The number of started dwellings was 2.5% higher, year-on-year (but lagged by almost a fifth behind the 2021 peak). However, only the construction in segment of multi-dwelling buildings contributed to the growth, especially in Prague (it reached 17.1 thousand dwellings nationwide, together with 2021 it was the highest in the modern history of the Czech Republic), while only 13.1 thousand dwellings in family houses were built in the Czech Republic (10-year minimum). The decrease of the number of all completed dwellings deepened last year (to −20.5%, together with year 2011 this is the most significant drop in the current millennium). Considerable downturn occurred in all forms of this construction. Only 30.3 thousand dwellings were completed in total in 2024, the least in the last seven years. A decrease was recorded in all regions apart from Prague, where construction moderately increased.

The value of newly concluded orders grew rapidly for most of last year. Due to the higher number of projects under construction, the total supply of work from both private and public clients was also maintained.

Of the various leading indicators, the new domestic orders (concluded by enterprises with more than 50 employees) currently features the best results for the construction industry. Their nominal value increased by 17.2%, year-on-year, in Q4 2024 (it similarly increased for the whole last year), exclusively thanks to civil engineering construction, in which the value of new contracts climbed up to 60 bn CZK (the highest in history within the same period of the year). The total stock of work, captured by the volume of all pending orders, expanded by 25.9%, year-on-year, at the end of 2024. Mostly the public procurement contributed (which have comprised for about two-thirds of the total stock of works in the last two years). However, the private domestic demand also grew throughout the last year (it was by 31.6% higher, year-on-year, at the end of the year). The volume of foreign orders in contrast decreased for the third year in a row, nevertheless they play a marginal role in the total stock of work in the construction industry.

The value of permitted constructions was decreasing, especially in transport infrastructure. On the contrary, there was a

The approximate value of granted buildings indicates less favourable outlooks for the domestic construction industry. Its year-on-year growth, lasting five quarters in a row, stopped in Q2 2024, when mainly the number of large buildings shrank (over 1 bn CZK). There was no improvement in the following period either. It thus decreased by 3.5% for the whole year, primarily due to transport

[24] However, this effect was not nearly as pronounced as in year 2016 (i.e. the previous transition to the new funding period). The total capital outlays of the state budget of the Czech Republic fell by only 0.2%, year-on-year, due to intensive drawing at the very end of the year in 2024. The State Fund for Transport Infrastructure anticipated expenditures in the amount of 150 bn CZK for the whole last year (with the continuation of the multi-source financing model), which is only slightly less compared to the record year 2023 (151 bn CZK). In the future, the construction industry should also benefit more and more from funds from the National Recovery Plan intended for instance to reduce the energy intensity of buildings.

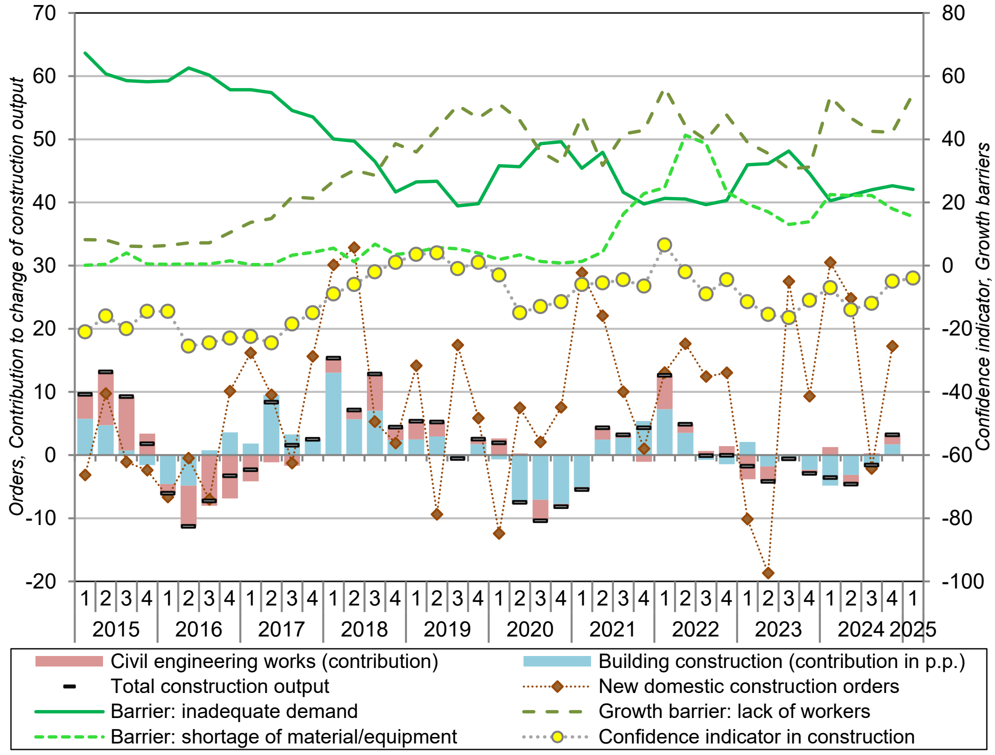
[25] Data regarding the construction output are in constant prices, year-on-year rates of growth are adjusted for calendar effects, quarter-on-quarter rates also for seasonality effects.

[26] These activities include, for example, compilation, finishing electrical, plumbing and other construction installation activities and are more the domain of smaller construction companies. They benefited from a slight increase of demand in year 2023.

revival in new residential construction.

infrastructure (both new construction and reconstruction or modernization) and as a result of decrease for non-residential buildings. On the contrary, the volume of permits for new construction of residential buildings slightly increased (+6.7%) and it accounted for a quarter of the total value of permits (580 bn CZK) last year.

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



Note: Data related to construction output are adjusted for calendar effects.
* Balance of business confidence as well as barriers to growth are seasonally adjusted and express the level in the second month of the given quarter. Businesses could have indicated more main barriers simultaneously.
Source: CZSO, Eurostat

In February 2025, the business confidence in construction climbed up the highest in the last two and a half years.

The pessimism of entrepreneurs in the construction industry has moderated since the end of last summer. Their confidence soared to the highest level in the last two and a half years in February 2025 (the confidence balance was currently -4 points). An improvement of employment expectations (fewer firms planning layoffs[27]) enabled by slightly positive expectations of demand and production (even after taking into account seasonality) stood mainly behind it. This is also reflected in the expectations of the overall economic situation of businesses, which is currently more favourable in the construction[28] than in industry. The assessment of current demand (with regard to seasonality) was the best in the last twenty months in February 2025. Despite this, 23% of companies still perceived it as insufficient (on the contrary, only 11% perceived it positively, which was nevertheless more than in previous months). However, the lack of (especially qualified) workers remains a key barrier to the growth of the branch with a considerable margin (54% of businesses cited it as one

The development of half of the construction companies is limited by a lack of workers.

[27] According to the survey from February 2025, 11% of construction companies planned to hire workers within a three-month horizon and 6% then to lay off. Businesses in the building construction segment were the most optimistic in this respect.
[28] 17% of businesses expected an improvement in the six-month outlook in February this year, while 7% expected a deterioration.

of the barriers, it created difficulties mostly in the building construction segment). The role of this barrier, as well as others, has not changed substantially, year-on-year[29].

The recession afflicted the construction industry in most EU countries last year. The year-on-year dynamics of construction output in the Czech Republic was similar to that in the Union.

Construction output in the EU fell by 1.4%[30] for the last year (after three years of growth). The construction of buildings, in which output decreased for the second time in a row (by 3.2% last year) was the main contributor to the decline, but at the same time the recovery of civil engineering construction continued (+0.4%), even though slower than in the previous three years. Last year's downturn of domestic construction was similar to that in the EU, with the Czech Republic being average in the ranking of Member States. Since the construction sector was in a deeper recession in the major economies: Germany (−3.1%), France (−3.4%), Poland (−7.7%). The biggest drop afflicted Slovenia (−9.3%) and also a number of newer Member States (Romania, Slovakia, Hungary), which experienced the impact of the euro funds drawing cycle on transport infrastructure (slowdown during the transition to the new programming period). On the contrary, some Southern European countries experienced the largest recovery, where the effect of solid growth of the entire economy was felt. Construction output thus increased by 3.9% in Italy, by 3.6% in Spain and by 3.1% in Portugal.

Demand for services recovered significantly, quarter-on-quarter, at the beginning of 2024.

At the turn of 2023 and 2024, there was a positive turnaround in demand for services. The stabilisation of the consumer price level helped to launch the growth of employees' real wages for the first time after a longer time, which was mirrored in a more favourable financial situation of households and subsequently stimulated their consumption. Services were also positively influenced by slightly growing business demand last year, which was still rather subdued for most of the previous year. Services sales[31] strengthened by 2%, quarter-on-quarter, at the beginning of year 2024, marking the strongest recovery in nearly two last years, driven mainly by transportation and storage. Overall, services maintained more modest growth for most of the remainder of the year. Thus they were slightly above the level of the peak of the last expansion in the pre-pandemic period at the last year's end (they were 2.1% higher compared to Q2 2019)[32]

A year-on-year sales increase occurred in all modes of transport last year. The rapid growth of air transport continued, with demand surpassing 2019 levels for the first time.

Total sales in services increased by 2.3%, year-on-yea in 2024 and offset the weaker performance from the previous year. Almost half of this result was due to the transporting and storage activities, where the sales rose after a significantly weak year 2023 by 4.6% last year. Despite more modest growth, primarily the land transport (+3.1%)[33] determined the dynamics of this sector. Road transport performance increased slightly, compensating for the ongoing decline in rail freight transport[34]. Demand for warehousing and support activities in transportation increased, where sales increased by 5.2% and were higher by about a seventh compared to year 2019. Postal and courier activities were in a similar situation, their sales mildly increased (+2.6%) after a drop in both years 2022 and 2023, largely due to a recovery

[29] The exception was the shortage of materials or equipment, which plagued 15% of businesses in February this year, compared to 22% a year ago.
[30] Compared to year 2019, the volume of construction output in the EU (and the euro area) was higher by 3.7% last year (all segments of the industry except for the construction of buildings were situated above the pre-crisis level). On the contrary, construction lagged behind by 6.5% in the Czech Republic (of which building construction by 16% and specialized construction activities by 5%), similar to Germany. Slovakia (-32%) and, despite the current recovery, Spain (-18%) were the most lagging behind. On the other hand, production was above the 2019 level in about one half of the Member States - the most notably in Italy (+58%), Romania (+42%) and Slovenia (+31%).
[31] Without trade, financial and 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 data are adjusted for seasonal effects (including the effect of the number of working days).
[32] Of the main economic activities, information and communication exceeded their sales level from Q4 2019 the most at the end of last year (+9.7%). On the contrary, mainly accommodation, food service and restaurants (−19.0%) and administrative and support service activities (−4.8%) lagged behind.
[33] This also includes the marginal segment in terms of weight of transport via pipeline.
[34] According to the preliminary results of the Ministry of Transport of the Czech Republic, the number of passengers carried in rail transport expanded year-on-year by 4.7%, in urban public passenger transport by 1.5% and in bus transport on the contrary fell by 2.9% in Q1 to Q3 last year. Nevertheless, the number of passengers transported and achieved transport performance (in passenger-kilometres) is still in all cases below the 2019 level. Last year's performance was favourably influenced mainly by the development of long-distance and international transport, however the growth of domestic rail freight transport was partly dampened by the impacts of the September floods (due to which the transport on the main railway corridor to Ostrava was temporarily suspended). Growth of freight transport performance was driven mainly by road transport in Q1 and Q3 2024, where the performance (in tonne-kilometres) increased by 6.9%, year-on-year.

of sales via internet. Domestic air carriers also prospered, reporting growth of 21.9% and their sales matched the pre-covid levels for the first time.

Growth of demand was very moderate in accommodation, food service and restaurants last year. Inbound tourism experienced a weaker summer season, nevertheless the end of the year improved its results.

Sales increased only by 0.7%, year-on-year, in the accommodation, food service and restaurants last year, the least in the last four years. This was partly a result of the weaker summer season[35] and especially its end, which was marked by the September floods in all segments of the branch. In addition, the effect of continued brisk price growth may have acted in this area[36] throughout the year, which, together with the deteriorated financial situation of part of households (due to weak economic growth and a decline of real wages in previous years), could have led to a partial reduction of domestic demand. Mild growth of sales occurred only in food service and restaurants for last year (+1.5%), sales decreased with a similar intensity in accommodation. Detailed ndicators in the area of inbound tourism provide slightly better results[37] for the whole of last year, the weaker summer season was compensated by a relatively strong end of the year[38].

Demand for IT activities grew, however it was still subdued in information activities.

Sales in information and communication after a short-term downturn in 2023 returned to growth (+2.2%) last year. Higher demand was evident especially in IT activities[39] (+4.5%), and it increased at the same pace also in the relatively small segment of radio and television programming and broadcasting. Last year's sales in information activities[40] and also in publishing activities were stagnating after the slump two years ago (unique in the last ten years). The decline in the so-called motion picture and music industry continued, deepening sharply to almost 25% last year[41] (similar to the crisis year of 2020). The current development in this small sector was related to irregular billing (it may also have been influenced by the indirect impacts of a longer strike in Hollywood at the end of 2023).

The rapid growth of demand for activities of head offices and management consultancy continued. On the other

Moderate growth of demand for business services continued for the fourth year in a row. Their sales increased by 1.7%, year-on-year, in the professional, scientific and technical activities last year, however the pace weakened during the year and demand was virtually stagnating at the end of the year. Annually, the sales increased the most in activities of head offices and management consultancy (+4.6%), nevertheless the higher demand in

[35] Sales in accommodation decreased by 2.5%, year-on-year, in Q3 2024 and by 1.9% in food service and restaurants. Although this does not present a significant downturn, the simultaneous decline in both of the above-mentioned segments in the summer tourist season has been unique in recent years (except for pandemic year 2020, the last time it occurred was in 2009).

[36] Prices of accommodation services were raised by 9.2% and catering services by 7.4% in 2024. Compared to 2015, they were 92.5% higher in total both segments in December last year, while prices in the total consumer basket increased by "only" 52% over the same period.

[37] For the whole year 2024, 22.8 mil guests arrived to mass accommodation facilities (MAF) in the Czech Republic, spending 57.3 mil nights here. The number of guests increased by 3.8%, year-on-year, and their overnight stays by 2.6%. According to both indicators, tourism grew continuously for the fourth year in a row. At the same time, it exceeded the record level from the pre-crisis year 2019 last year for the first time – by 3.7% for guests and by 0.5% for overnight stays. However, in that foreign guests still lagged slightly behind (by 3.7% and 6.1%, respectively), as mainly the demand from Russia and distant Asian countries was missing. Of the most numerous foreign guests, the number of overnight stays increased the most for the citizens of Israel (+48%) and Spain (+20%), the least for Germany (+3.4%) and Slovakia (+4.0%) last year. The demand of domestic guests fell, year-on-year, for the first time after three years last year (guests: -0.7%, overnight stays: -2.2%). This was mainly due to the weaker Summer season, when a larger part of Czech households likely preferred various foreign stays, often under more price attractive conditions. The number of overnight stays of domestic guests fell, year-on-year, in 12 out of 14 Czech regions last year (the most in the *Olomouc* region by 8%), while the demand of non-residents decreased only in two areas (*Ústí nad Labem* and *Zlín*) and growth between 10 and 18% was attained in four regions (*Prague*, *Central Bohemia*, *South Bohemia* and *Vysočina*), partially also due to the organisation of major sporting events in the first half of the year.

[38] After a temporary slight year-on-year decline in the number of guests in Q3 2024 (due to weaker demand from residents), the number of guests accommodated (+7.1%, to 5.0 million) and their overnight stays (+7.0%, to 11.7 million) increased in Q4 – in both cases, the levels of guest arrivals achieved are higher than at the end of 2019 (+6.2%, +3.3%), in that foreign guests still lag slightly behind in both indicators (by 1%). There was a year-on-year increase of overnight stays for both domestic guests (+2.8%) and foreigners (+10.9%) in Q4. Of the most significantly represented foreign nationals, demand grew especially among Israelis (+216%, mainly caused by the last year's weak base due to the outbreak of the war in Gaza), Ukraine (+21%), Great Britain (+17%) and Poland (+15%). The number of overnight stays of guests from Asia, especially from China, also accelerated, however it has not yet made it into the top 10 countries with the highest demand for accommodation in the Czech Republic. Of the traditional guest groups, demand from Germans (+8%) and Slovaks (+7%) maintained a solid pace.

[39] They mainly include programming, consultancy in IT area or computer facilities management activities.

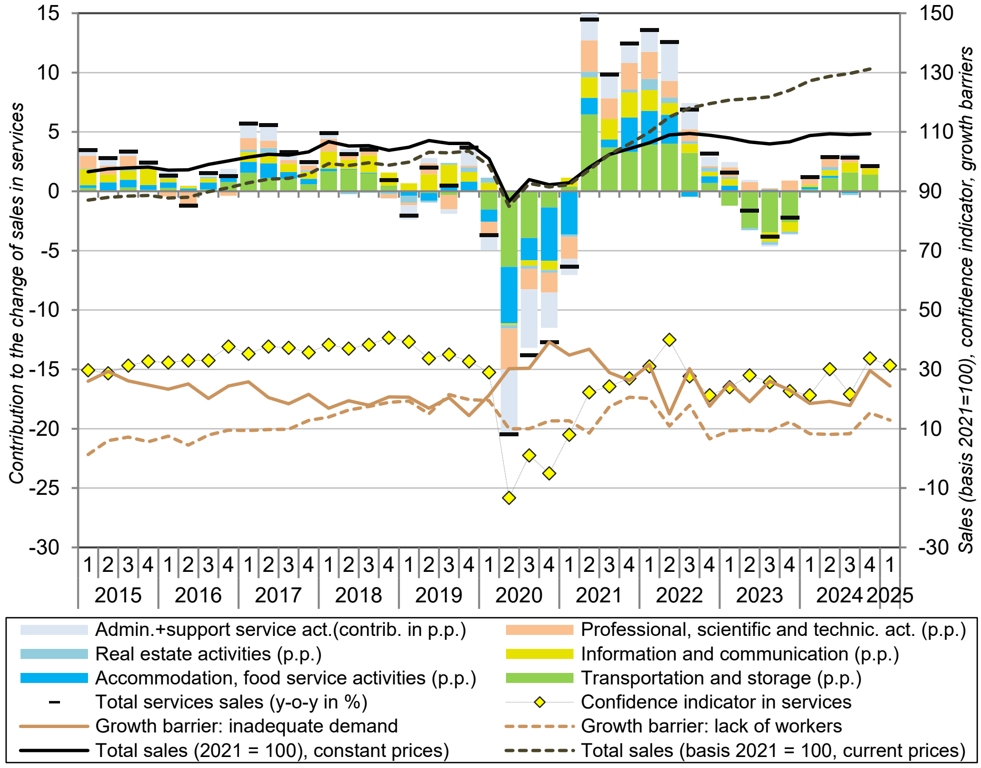
[40] They consist mainly of activities linked to the web portals, news press offices and agencies or data processing and hosting.

[41] Segment of motion picture distribution fared considerably better. According to the figures from the Union of Motion Picture Distributors the gross nominal sales of the domestic cinema operators decreased only by 0.9%, year-on-year, last year (thanks to strong performances during the summer holiday months and also at the very end of 2024). The total attendance lowered by 2.2% analogously, while the number of performances increased by 2.5%. Compared to 2019, however, the attendance of cinemas was down by 29% and sales by 14%.

hand, advertising sales diminished.

the diversified segment of other professional, scientific and technical activities[42], which has however not yet reached the 2019 level, contributed the most to the growth of the entire sector last year. Legal and accounting activities were also successful last year, where sales did not decrease significantly even during the pandemic (they thus increased by 14% in total over the last five years). The relatively high demand for architectural and engineering activities, apparent in the previous three years, gradually weakened during the last year and its growth halted in Q4 (−3.0%). Advertising and market research have struggled with weaker demand in recent years. Sales fell by almost 4% last year and in comparison with year 2019 they were weaker even by 12%.

Chart 7 Contributions of sub-branches to year-on-year change of sales in services* (real, in p. p), **total sales in services*** (2021=100, right axis), **balance of business confidence indicator in services**** (in p. p., right axis)**, barriers to growth**** (in %, right axis)



Note: All data are seasonally adjusted, only contributions of sub-branches to the growth of sales are adjusted solely for calendar effects.
*Without branches trade, financial activities, insurance activities, science, research and public services.
**Also involves the financial sector. Barrier to growth express the level in the first month of the given quarter, balance of confidence is related to the second month of the quarter. Businesses could have indicated more key barriers simultaneously.
Source: CZSO, Eurostat

The slight increase of sales in administrative and support activities was mainly due to travel agencies and also rental and operating leasing. Mainly the weaker demand for employment placement agency services had the opposite effect.

Sales increased by 1.9%, year-on-year, in the administrative and support service activities last year, driven mainly by the still rapidly growing performance of travel agencies and tour operators (+5.2%), which had already surpassed the 2019 level the year before. They mainly reflect the more frequent trips abroad by domestic households. Demand for a number of other services revived last year – especially for rental and operating leasing (+5.3%, e.g. for machinery, equipment or products for personal use and mainly for households, e.g. recreational and sports equipment[43]) or for administrative and office activities. By contrast, weaker demand persisted for a number of less sophisticated business services. The noticeable decline of employment placement agencies continued, their sales decreased at a double-digit rate for the third year in a row (by 11.6% last year,

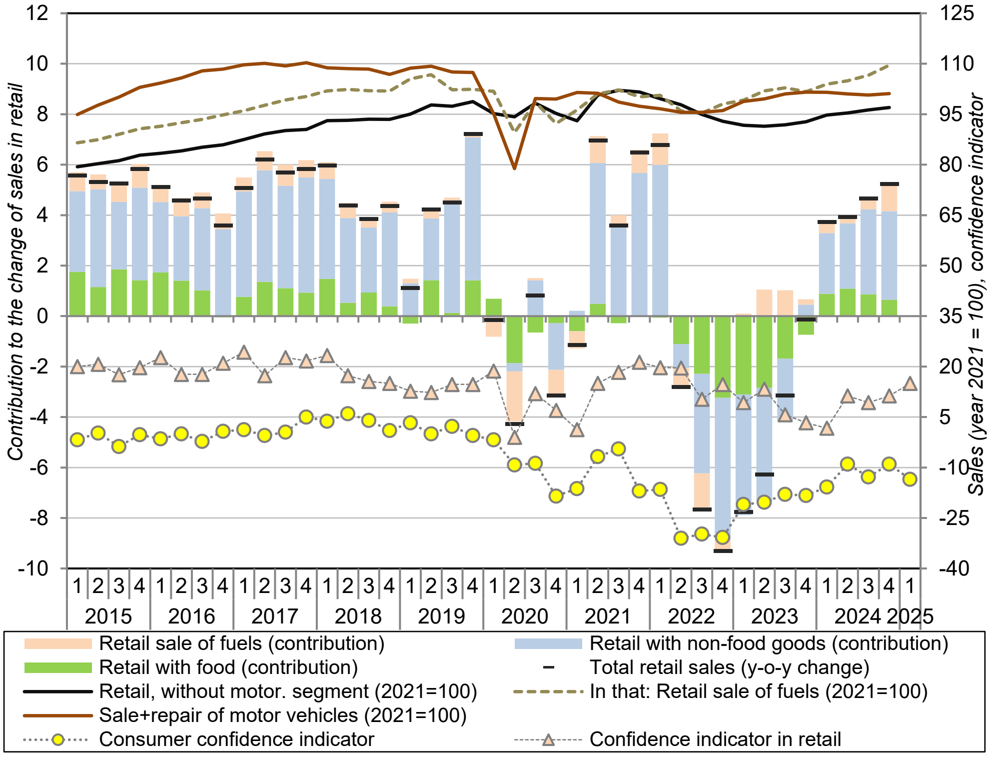
[42] This sub-branch with significant share of small businesses mainly includes brokering activities, design, translation and photographic activities or activities of construction supervision.
[43] On the contrary, the demand for the rental and leasing of cars and other light motor vehicles was rather stagnant in the last year.

they fell by almost half compared to 2019)[44]. The pressure to reduce costs associated also with the development of digitization was mirrored in a continued slight decrease of sales of security and investigation activities.

Stabilisation of prices in the economy led to a rapid improvement of consumer confidence at the beginning of last year. However, people's willingness to spend more still has its limits.

Retail has also experienced a positive shift in recent quarters. Its premise was the return of consumer prices into the normal growth bands. This, together with the solid condition of the Czech labour market, quickly kick-started the growth of households' purchasing power and improved their overall confidence in the economy, which therefore rose to the highest level in the last two and a half years in April 2024. Although there was a slight deterioration subsequently, consumer pessimism was still lower in February 2025 than in any month from 2022 to 2023. However, people still declare a higher intention to save and at the same time do not yet consider the current time to be very suitable for large purchases (investments or durable goods). In addition, people's concerns of rising prices and unemployment (currently slightly higher than their long-term average) began to grow again. This partly counteracts a faster recovery of demand for certain assortment groups of non-food goods. At the same time, however, retailers' optimism strengthened, with their level of confidence in the economy rising in February 2025 to the highest level in almost two last years and simultaneously being comparable to the boom year of 2019. The development of inbound tourism also contributed to the recovery of retail throughout last year.

Chart 8 Contributions of sub-branches to year-on-year change of sales in retail trade* (real, in p.p.), **sales in retail trade and motorist segment of trade**** (real, level from year 2021=100, right axis), **balance of business and consumer confidence indicator***** (in p. p, right axis.)



* Sales are adjusted for calendar effects. ** Sales are adjusted for both seasonal and calendar effects.
*** Consumer confidence indicator balance is seasonally adjusted and expresses the position in the second month of the given quarter.
Source: CZSO

[44] The decrease of sales occurred also with a high growth of the number of working foreigners in the Czech Republic here. Refugees from Ukraine have played a significant role in this growth over the past two years.Thanks to the Temporary protection status, which was granted to these persons, their employment in the CR is administratively easier (compared to other groups of migrants from the so-called third countries) and thus they can seek employment more easily "directly" (without intermediary). Apart from the above stated, the reduced demand for the agency workers on the part of key manufacturing branches undergoing recession (e.g. industry) can also play a role in the decrease of sales.

Year-on-year retail sales growth reached an almost three-year high in Q4 2024.

Retail sales[45] showed a slight quarter-on-quarter growth (+0.5%) already in Q3 2023 after seven quarters of unfavourable development[46]. The growth subsequently strengthened and exceeded 2% at the beginning of 2024 (the recovery continued in the rest of the year, albeit at a more moderate pace). Nevertheless, the current level of sales lagged 1.7% behind the pre-crisis peak (from Q4 2019)[47]. Year-on-year sales growth strengthened since the beginning of 2024 and rose to 5.2% in Q4 (the most in almost three years). The current growth was mainly driven by higher demand for non-food goods (+6.5%, contribution to growth +3.5 p.p.), in that sales via internet alone (+16.9%, +2.7 p.p.). The impetus for the development of this sale was the advancing digitization and modernization in the field of logistics. Within the specialised stores[48], demand for cosmetic and toilet products increased the most (+12.2%), sales of pharmaceutical and medical goods also increased briskly (+5.4%). However, demand has not yet recovered in a number of weight-important assortment groups of stores, which can be partially explained by the fact that part of their consumers is increasingly oriented towards sales via internet and mail order houses. Still, the fact that some purchases of "non-essential" goods were probably postponed by part of households likely plays a role. Retail sales of information and communication equipment in stores were lower by 3.3% compared to Q4 2023, retail sales of mainly household goods[49] by 1.6%, and retail sales of cultural and recreation goods dropped by 0.4% (similar rates were also evident in these categories in whole year 2024). Sales for food increased more moderately compared to non-food goods (+1.8%), in that the year-on-year decrease continued in the segment of specialised stores[50] for the eleventh quarter in a row (most recently by 2.4%). On the contrary, demand for fuels increased very dynamically, mainly due to their favourable price development[51]. The year-on-year growth for their sales accelerated last year and amounted to 10.2%[52] in Q4 and contributed 1.1 p. p. to the growth of the total retail trade (i.e. almost twice as much as total food sales). Sales at petrol stations increased by almost 5% for the whole last year and approached the pace of 2023, when they were among the fastest growing segments of the entire retail sector.

Advancing digitization and modernization in logistics led to strong growth of sales via internet. However, sales continued to decline in a number of specialized stores.

Demand for fuel grew rapidly for the second year in a row, also thanks to the favourable development of their consumer prices.

Demand in the retail sales of automotive segment increased only very slightly last year after a more significant recovery in 2023.

Retail sales in the automotive segment increased only slightly (+0.6%) for the whole of last year (after a more significant recovery in 2023). Sales increased by 1.3% (their volume was still more than 8% behind the pre-crisis peak in 2017) in the key segment of motor vehicle sales, the result of which depended mainly on corporate demand. Sales fell by 2.7% in the trade of parts and accessories last year and fell for the third time in a row.

[45] All year-on-year rates of retail sales are given at constant prices and adjusted for calendar effects, quarter-on-quarter rates are seasonally adjusted (including the effect of the number of working days). Retail trade includes only CZ-NACE 47 branches.
[46] This was the longest downturn in a comparable time series (since year 2000). Between Q3 2021 and Q2 2023, retail sales decreased by 10.5%.
[47] This is primarily related to a drop in sales for food (−10.6%), while the current demand for non-food goods is slightly above the level of Q4 2019 (+3.2%), mainly due to sales via internet (+41.6%). At the level of different specialised stores, the development varied, e.g. clothing, footwear and leather goods (−24.3%) vs. cosmetic and toilet articles (+29.6%).
[48] In addition, sales continued to grow in the marginal segment of non-specialized stores with non-food goods predominating for the fourth year in a row (Q4 2024: +14.2%). It typically focuses on offering a variety of goods at discount prices.
[49] These include mainly hardware, building materials, paints, glass, DIY supplies, electrical appliances, electronics, furniture, lighting equipment, carpets or home textiles.
[50] These include, for example stores aimed at meat products, pastries, confectionery products or beverages. However, tobacco shops have the greatest weight here.
[51] Consumer prices of petrol and diesel fuel fell uncharacteristically last year even during the main motoring season. Diesel fuel was sold at domestic filling stations for an average of about 34.2 CZK per liter and Natural 95 petrol for 35.6 CZK in October 2024. In the case of diesel, it was the lowest value since July 2023 and for Natural then even since October 2021. In addition to domestic households and companies, foreign carriers that carry out transit transport through the Czech Republic also probably reacted to this favourable price development.
[52] However, sales at current prices increased by less than 2%.