

## Development in Main Branches

- ***Sluggish growth of sales in branches***

The 2004 tendencies when the growth starts to sag continued affecting development of production of main market branches. Production growth was sluggish differed across branches; there were distinct reasons. One less working day had an influence on reported drop. Plummet in construction had the most negative impact on dynamics; attenuation in investments activities on the demand side in spite of gross domestic savings rate increased. Both unfavourable weather conditions and less working hours of manual workers negatively affected progress in construction on the supply side. A weak economy performance in highly developed EU-member countries evinced in a sluggish enlargement of new orders from abroad as well as in decrease of volume of external demand on industrial products. This resulted in a negative impact on economic activity of industrial enterprises. Transport cramped the growth of services sales resulted from termination of customs regime for imports from EU-member states and exports to EU-member states.

- ***Downgrade of external conditions had negative impact on development in industry***

In Q1 2005 the y-o-y economic performance in industry measured by industrial production index (IPI) enlarged by 4.0% and expressed by sales in industry went up by 6.0% in real terms, which caused deceleration of growth by 5.0% or 2.8 p. p. , respectively. Unfavourable external conditions, start of production of new products in some enterprises, decreases in boom at world steel and iron markets and drop in demand on textile and clothing affected this negative development. Among main industrial groupings manufacture of intermediate products rose markedly by 9.7% and affected IPI increase by almost one fourth. Manufacture of consumer durables dropped sharply by 7.5%, other industrial manufacturers swung slightly above the last year level. Growth in machinery slackened up, however was higher (by 5%) than in industry owing to manufacture of means of transport. Increase in direct export sales (jump by 10.7%) was faster than this in total sales in the same proportion like a year ago. This implicates remarkable low growth in domestic sales (only by 1.3%). While prices of industrial products realized at external markets plummeted by 2.4%, prices of goods imported to the domestic market went up by considerable 8.2%.

- ***Drop in unit wage costs***

Primary incomes of workers lessened and gross operating costs boosted in proportion to total sales in industry. Labour productivity grew faster (by 5.2%) and outstripped increase of average wages (by 3.7%). As a result unit wage costs lessened.

- ***Lower demand led to drop in construction output***

The Q1 2005 y-o-y volume of construction work was lower by 3.2% in real terms; construction work in accordance with supplier contracts ("S") went up less (by 2.0%) and production in smaller enterprises dropped more (by 5.2%). As against the Q1 2004 construction output boom a decisive slowdown especially in building construction enterprises came up. Volume of work in civil engineering construction dwindled imperceptibly, in the process it was at standstill in new constructions, reconstructions and modernizations. Volume of construction work carried out by own employees enlarged by 3.3% in real terms as against drop in "S" seems to be very positive. As a result balance of sub-supplies reduced.

- ***Increase in wages followed by drop of productivity***

Proportion of wages to construction work (at current prices) increased at share in primary incomes of construction enterprises with total sales. However, growth of average monthly wages was slower than last year, but drop of labour productivity by 5.8% resulted in substantial augment of unit wage costs.

- ***Drop in supplies of construction work***

The y-o-y-volume of new signed construction orders amounted to CZK 43.9 was by 9.9% lower; which means concurrently at prices increase much deeper descent in real terms. Its structure considerably altered; volume of orders of non-residential industrial buildings enlarged (by 29.2%), on the other hand it went down in all other constructions, mainly in housing constructions (by 30.5%). Public orders volume shared almost an aliquot proportion with private ones to all newly signed construction orders.

- ***Consonant***

Extent of work on dwelling construction gradually increased; its growth rate was the

**continuity  
coefficient of  
dwelling  
constructions**

fastest of all realized construction work as favourable phenomenon of all flattering economic conditions (increase in construction savings as well as mortgage credits). In Q1 2005 new construction of 8 645 dwellings started; of them 6 452 were finished; at the end of given period 148 885 dwellings have not been completed yet. The y-o-y gain paces were almost identical (from 6.1% to 5.5%) and informs on rare proportional continuity coefficient of dwelling constructions.

• **Sales growth in  
services was  
different**

The Q1 2005 y-o-y total sales of enterprises providing selected services increased by 2.6% in real terms and its gain compared to last year was more than two thirds as against the last year gain. Sales in retail incl. automotive sector increased most (3.9%) having been supported by extremely large Easter shopping of food in March (6.0% in real terms). Sale of motor vehicles and automotive fuels contributed to significant acceleration of retail sales 2.7 p. p.). Sales in hotels, restaurants and accommodation services were lower (by 4.7% in real terms) than a year ago, change of VAT taxes in May 2004 is considered to be a crucial point of extremely difference (13.4 p. p.) the last year. Sales in transport inconsiderably decreased (by 0.8% in real terms) but the development distinguished markedly across individual transportation branches. Sales in telecommunication services rose (by 3.9% in total) however leisurely than a year ago as a result of reduced use of postal services. Prices in postal services went up in February 2005, which defied basic economy principles leading to a fall of postal services performance by 3.8% in real terms.

• **Production of  
meat shrunk as  
against last year  
level**

As a result of economic changes in agriculture after the accession of the CR to the EU in Q1 2005 animal production, especially production of meat dived deeply under the last year level. Total production of meat (excl. poultry) lessened by one fifth, beef and veal by 23.9%; inconsiderably less milk (by 1.3%) has been delivered. Breeding of cattle and pigs was reduced what caused for one thing decrease in supply of fat stock at the domestic market, for another growing exports of living animals abroad. Concurrently the y-o-y moderate decrease of average slaughter weight of cattle and pigs happened. Domestic consumer demand was supported by imports of meat from abroad.