

3. Branches Performance

Year-on-year GVA growth eased its pace last year and it was the weakest in total for the last three years.

Slackening of the GVA growth was caused by weaker performance in weight significant groups of service activities and also the deepening of the adverse development in construction during the last year.

Very good harvest led to the highest GVA growth in agriculture, forestry and fishing since 2009, its value added increased by one quarter in the last three years.

Year-on-year growth of the industrial production slowed down due to the high comparative basis during the year 2016, weaker results of key export branches in summer period as well as unplanned restriction of production capacities of chemical industry and energetics for most of the year.

The long-term dominant position of the motor vehicle manufacturing within industry was even amplified in 2016.

Performance of all economic branches according to the gross value added (GVA)¹ was by 2.1% higher compared to 2015. The GVA growth eased its pace due to the influence of a gradual fading away of the extraordinary stimulating factors last year. It was apparent especially in the quarter-on-quarter comparison – gradually in the second half of the year +0.2%, resp. +0.3% (it represented the weakest rates of growth in both cases since Q3 2013, when the Czech economy was slowly recovering from the prolonged recession). Manufacturing managed to hold the key driving role, similarly to most periods of the economic growth. It added 1.3 p.p. to the total last year's growth of the GVA of 2.1%. Its role was even magnified in the second half of the year, when the notable growth of the GVA in the group significant by weight trade, transportation, accommodation and food service evaporated after 2.5 years. Real estate activities and especially agriculture, forestry and fishing on the contrary fully extended their successful previous years. Very good harvest of all basic agricultural crop (for cereals it was even the third highest in the history of the independent CR) contributed to the strong growth of the GVA (by 9.5%). Lowering of the extraordinary sources of public orders suppressed the performance of construction. The GVA was falling quarter-on-quarter in construction already since Q4 2015, it declined in total by 11.3% in the five quarters. The uncertain situation over a long term took its toll in the area of employment. Number of hours worked was by 4.0% lower year-on-year in the second half of the last year. Non-manufacturing industrial branches also faced obstacles. Their negative contribution to the year-on-year GVA growth significantly shrank last year (to -0,1 p.p., -0.8 p.p. a year ago), it was even already positive thanks to the development in energy industry in Q4 2016 (for the first time after nine quarters).

More detailed results of the business statistics also confirm the lasting growth tendencies of the main economic branches. Industry performance² (based on the industrial production index) strengthened by 2.9% in 2016 (resp. 2.3% after adjustment for calendar effects)³. Even though the last year's pace declined by approximately one half against the years 2014 and 2015, it still exceeded the dynamics of the whole EU (by 0.9 p.p.). Signals of slowdown in the Czech Republic were apparent already from the lower volume of new orders in the second half of year 2015 (in machinery or manufacturing of electrical appliances), resp. their dive in the chemical industry as a result of serious accidents. Volume significant energetics branch (comprising one twelfth of production of the whole industry) also faced cutback in production capacities during majority of the last year. Weaker results in summer months also left its mark on the last year whole industrial production. The production in whole industry declined by nearly 2% in this period and it thus recorded the deepest quarter-on-quarter fall since the end of the year 2012 (even by 4% in key export branch – manufacturing of motor vehicles). However, the last quarter of the past year indicated, that it represented only a one-off fluctuation. The restoration of production capacities in power stations as well as chemical industry enabled the industry to fully breathe again.

Manufacturing of motor vehicles traditionally pulled the production of the whole industry. Its dominant position was even magnified compared to the preceding period of the years 2014 and 2015, when it contributed 2.0 p.p. to the year-on-year growth last year (together with the nearest subcontractor branches 2.5 p.p.). It is also evidenced by the fact, that it did not reduce its double-digit growths from the previous years as the only industrial branch (its production expanded by 41% in the last three years, growth in the whole industry arrived at 13%). Rising demand on European as well as Asian markets stimulated production, which was also reflected in the repeated conquest of the record of manufactured motor

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

² Including branches based on the CZ-NACE: B (Mining and quarrying), C (Manufacturing), D (Energetics).

³ The calendar effects influenced production mainly in Q2. That quarter had three working days more compared to the same period in 2015. The difference between adjusted (+2.2%) and not adjusted production (+5.7%) was significant and last recorded in a similar extent in Q3 2008.



vehicles in the Czech Republic⁴. Manufacturers of corresponding intermediate products also benefited from this development – especially manufacture of rubber products fared well (however the growth of production was only 0.7% in the manufacture of electrical appliances). Manufacturers of other (mainly rail) transportation equipment also reached similarly modest result last year, the weaker domestic demand stood in the background (compared to the strong year 2015).

Production growth continued in the weight significant manufacture of metal products as well as machinery, manufacturers of computer, electronic and optical products also thrived

Within the other more significant manufacturing activities, the manufacture of metal products recorded an above average growth last year (by 4.5%) and its production overtook the level of the peak year 2007 for the first time⁵. Strongly export oriented manufacture of computer, electronic and optical products accelerated its growth as one of the few activities year-on-year (to 5.6% from 2.8% in 2015). In machinery, the higher foreign demand managed to compensate the less favourable development at home and it resulted in higher production (by 1%). Larger diversification of this branch made it more resilient with respect to the fluctuations in demand. The production in machinery thus increased already seventh year in a row and it was by nearly one tenth higher last year compared to the year 2007 (similarly as in the whole industry).

Dynamic growth of production continued among the smaller manufacturing activities in furniture industry, as well as also a mild recovery in the textile industry.

Among the smaller branches, the furniture industry continued thriving, with the production rising by more than one quarter in the last four years (even though it still lagged behind its latest peak from the year 2007-by 6 %). Both the textile and leather industry recorded slightly higher pace than the whole manufacturing (+3.7%) last year. The clothing industry (subdued in the long term) stagnated after its recovery in 2015 (driven by the higher foreign demand) last year, when the increased domestic demand only compensated for the mild year-on-year decline in the foreign demand, holding higher weight. Printing industry achieved a swift growth also due to the lower comparative basis, being traditionally focussed predominantly on the domestic market.

The production was within the more important manufacturing activities falling only in metallurgy, chemical industry and manufacturing of food products.

The chemical industry put the brakes the most on the growth of the whole industry in 2016, since its performance has been restricted due to accident for more than one year⁶. In spite of a gradual renewal of capacities in the second half of the last year, the year-on-year production was still placed by 7% lower compared to the year 2015⁷. The unplanned shutdowns in energetics did not have such a high impact on this industry, since the production rose by 0.5% for the whole year and at the same time it grew for the first time since the year 2010. On the contrary, the external influence (commodities prices on the world markets) were adversely reflected in mining and quarrying, when the guided slow-down of mining (mostly the black coal) showed in the sharp falls of production (by 9% in 2016, by 27% then in the last five years). The excess of supply of steel on the European markets led to a mild lowering of production in metallurgy and foundry industry (by 0.5%, similarly as in Germany or the whole EU)⁸. The manufacturing of food products (stable branch, oriented mostly on the domestic market), achieved in the CR the weakest result in the past five years in the last year (-2.5%, +1.0% in Germany, +6.4% in Poland). Lowering of the volume of public orders in the civil engineering construction as well as a weaker intensity of the commenced residential construction had an effect on the production of other non-metal mineral products, where the production following the revival in the years 2014 and 2015

Impact of unplanned shutdowns on the annual production was deeper in chemical industry than in energetics.

⁴ According to the data of the Automotive industry association 1.351 mil motor vehicles were manufactured in the Czech Republic last year, by 8.2% more year-on-year.

⁵ One half of manufacturing activities still lagged behind this level in 2016. It included especially the manufacture of clothes and manufacture of leather products or manufacture of beverages (by one quarter in all cases). Among the activities more significant by weight, the same was valid in metallurgy and foundry industry (89% of the production level of year 2007), manufacture of food products (91%) and chemical industry (92%). Manufacturers of motor vehicles surpassed this level already in 2010 and they exceeded it by 81% last year.

⁶ Production in the chemical industry lowered (by 16% in total) during four quarters (i.e. from Q3 2015 to Q2 2016).

⁷ The level of production of this branch from the end of the last economic recession (Q1 2013) was exceeded thanks to the strong quarter-on-quarter growth in the last three months of 2016 (+7.9%). The manufacture of paper and paper products was the only manufacturing activity that lagged behind this level also at the end of 2016 (by 4%). From the non-manufacturing activities, it was further the mining and quarrying (by 21%) and energetics (by 3%).

⁸ The position of the branch partially improved also in connection to the introduction of anti-dumping customs duty on the import of pipes from the stainless steel from China to the EU in the second half of the year. The production of metallurgy and foundry industry increased year-on-year in Q4 (by 3.2% in the CR, by 0.9% in the EU).

stagnated last year.

The long-term more favourable development of industrial sales from direct exports over domestic sales continued.

Trends in the industrial production are closely connected to the development of sales. These grew by 1% in nominal terms compared to the year 2015, since the more favourable development of sales from direct exports (+2.7%) managed to offset the mild slump of the domestic sales (-1.3%). The domestic sales however revived in the last quarter of the past year (+2.3%), when they profited from the year-on-year strengthening both in the chemical industry and energetics.

Entrepreneur confidence strengthened in industry at the end of the year and reached the highest values for the last 5.5 years.

This year's trends in the value of new orders⁹ signal the outlooks of industry. They increased by 5.9% year-on-year in Q4 2016 – the most in the motor vehicle manufacturing (+11.3%), all main branches however indicated favourable tendencies (apart from the manufacturing of electrical appliances). It is also important to stress, that the domestic orders also mildly grew (+1.7%) apart from the foreign demand (+8.1%). The positive mood of entrepreneurs lasted in industry throughout the whole year, in addition it even mildly grew at the end of the year. According to the fresh data (from January 2017), 22% of industrial businesses expected the increase of the production activity in the next three months (similarly as a year ago). 19% of businesses planned to increase employment (13% the year ago). Expectations improved significantly in energetics, negative outlooks deepened in the mining industry. The share of businesses, that consider the lack of labour force as a barrier to growth markedly accelerated in the last quarter of the past year (to 29%) and it already achieved 33% at the beginning of 2017. Still, the inadequate demand remains the main barrier to growth (43%), facing for example the food industry.

The ratio of businesses that face a lack of labour force grows already since the beginning of the year 2015, it accelerated in Q4 and reached the level of the peak years 2007-2008.

Civil engineering construction struggled with the impacts of the very uneven drawing of public investment due to the setup of EU programme periods, lower production of building construction was also affected by the administrative demands of construction proceedings.

Construction production again returned to deeper declines last year after the growth from the years 2014–2015. It decreased by 6.1% compared to the year 2015¹⁰, even by 16% in civil engineering construction (the deepest fall after the year 2000). Effect of high comparative basis (due to the fastened realisation of public orders for infrastructural projects during 2015) and the slow onset of investment in the new programme period were manifested during the whole year. The construction however already extricated from the declines in the quarter-on-quarter expression in the second half of the year, even though only thanks to the building construction so far. The production in whole construction still lagged behind the peak year 2008 by one fifth last year. On the other hand, it was by 0.6% higher (due the influence of the building construction) in comparison to the year 2014 (in which the effect of strengthening completion of drawing of European subsidies was already partially felt) last year (the decline in civil engineering construction amounted to 1.6%).

Year-on-year fall of the value of new construction orders (lasting five quarters in a row) halted at the end of the year (+10%) exclusively thanks to the building construction, ...

The differing development of both main fields of construction was apparent to a great extent in new orders last year¹¹. While those in building construction enlarged by more than one fifth year-on-year (to 86 CZK bn, the highest volume after 2008), they were decreasing for the civil engineering construction for the whole year. Decline of the whole branch was connected to the absence of larger number of more significant structures. The average size of the newly closed domestic order oscillated around 3 mil crowns during the year and it was thus the lowest since Q1 2013. The drop of the total stock of orders (in the form of all so far not realised construction orders) halted after six preceding quarters at the very end of the last year (due to the lower comparative basis, since the completion of public orders was culminating during Q4 2015). Despite this development, the last year's volume of orders was the second lowest since 2001. Another flash indicator – approximate value of granted building permits – gives more favourable impression for construction. It increased by 11.5% compared to the year 2015, in large part due to the swift growth of non-residential buildings (by 39%). On the contrary, the negative balance of confidence indicator in construction kept further deepening especially in the first half of the year and even its end did not bring a turn. The development of confidence was however more favourable in the vast

...total stock of orders however stayed the second lowest after the year 2001 at the end of the year.

Balance of entrepreneur confidence in construction fell to a two-year minimum in September 2016 and it still perseveres in the markedly negative range.

⁹ Industrial orders are monitored only in the selected CZ-NACE sections (13, 14, 17, 20 till 21, 24 till 30), which produce mostly to order, with a longer production cycle and larger stocks of orders.

¹⁰ All data relating to the construction production are adjusted for calendar effects.

¹¹ Statistical surveys cover only orders of construction businesses with 50 and more employees.



majority of states, which are significant receivers of support from the EU funds in the last year. One third of businesses in the CR (one quarter a year ago) expected a decreasing of construction activity in the next three months in January 2017, one quarter anticipated a decreasing of the employee levels (resp. 18%) and only 3.5% of them expected rise. Slightly above half majority of businesses considered, similarly like a year ago, the inadequate demand to present a barrier of growth (only 11% of businesses stated the lack of employees).

Revival of commenced residential construction was only mild in 2016.

Number of completed flats was by more than one third lower compared to the record year 2007.

The residential construction did not contribute much to revival of construction despite frequent assumptions of the opposite (growing household incomes, low interest rates) either. Even though the number of commenced flats rose for the third year in a row, it exceeded the long-term minimum from the year 2013 (22.1 thousand) not even by one quarter last year. Especially the frequency of multi-dwelling buildings (5.9 thousand, due to the slump of construction in Prague) and the construction of flats in community care homes was low. The low volume of new construction accompanied by strengthening purchasing power of households was reflected in the accelerated growth of both supply and realised prices of residential real estate not only in Prague.

Sales in services slowed down its growth to 1.2% year-on-year (from 3% in the year before last), ...

...the deeper fall in professional, scientific and technical activities (bound partially to the development in construction –i.e. architectural and engineering activities) and also the mild drop in land and pipe transport stood in the background.

The last year sales in services lagged by nearly 9% behind the level achieved in the peak year 2008 mainly due to the effect of the downturn in professional, scientific and technical activities.

The sales increased by 1.2% in real terms in the selected services¹² (by 3.0% in 2015). Vast majority of partial branches shared in this growth apart from the professional, scientific and technical activities (-2.3%), whose 3% growth in 2015 was one-off in the long period since the end of the strong boom in the preceding decade. It was partially also associated to the development of the project activities linked to the completion of drawing on the EU funds – mostly the sales in architectural and engineering activities (in 2015: +2.8%, last year -7.3%). On the contrary, the legal and accounting activities or advertising and market research continued in the mild growth. The weight-significant branches of transportation and storage profited from the robustly growing industry as well as the foreign trade only to a limited extent, since its sales enlarged by 1.1% (by 0.4% in 2015). Moderate decrease in land and pipe transport (-0.3%) and postal and courier services (-1.0%) was offset by the more favourable development in warehousing (+3.7%) and also other types of transport. Food service activities and restaurants fared well, with the high increase in the year 2015 (+5.0%) grew even faster to 5.7% in the following year (the fastest pace after the year 2001). Continuing growth of the number of overnight stays of both foreign (+3.8%) and domestic (+7.0%) guests also supported the sales in accommodation (+4.4%). Sales in administrative and support activities were also strengthening by a similar pace, pushed by fast developing job agencies, whose sales more than doubled against the year 2010. Vast majority of other activities within this branch however also thrived. Travel agencies and offices (incl. reservation activities) represented an exception, the reduction of sales continued already for the fourth year in a row in these activities¹³.

Favourable conditions prevailed for swift growth of retail sales, sales were driven mostly by the sale of non-food goods.

Year-on-year growth of food sellers' sales weakened during the year, it diminished completely in Q4 (-0.2%).

Increasing disposable income of households, fed by the growth of volume of paid out salaries and wages in the whole economy (+5.5% in 2016, +4.4% the year ago), combined with a very optimistic sentiment of consumers throughout the whole last year led into a swift hike of the retail (+5.1% year-on-year)¹⁴. While the sales growth oscillated around 5.5% in the first three quarters, the pace moderated to 4.2% at the end of the year – primarily as a result of development of sales for food. These grew by 5% in Q1 2016, however already only stagnated towards the end of the year. This development concerned in the first place the non-specialised (mostly large) shops¹⁵. Sales for food in specialised shops grew by 2.9% in Q4, by 3.1% for the whole year – i.e. a higher rate of growth compared to the non-specialised sellers of food, which occurred last in the year 2005.

¹² Data are not adjusted and do not include trade, financial and insurance activities, scientific research and development and also the public services.

¹³ Sales however increased by 4.7% year-on-year in the Q4 2016 itself. It occurred for the first time after sixteen quarters of adverse development. Halting of decline of arrivals of Russian tourists into the Czech Republic in part contributed to this turn. Their numbers fell by 15% year-on-year in the period from Q1 to Q3 2016, however they already rose by 23% in the remaining part of the year.

¹⁴ All data related to retail sales are adjusted for calendar effects in constant prices.

¹⁵ A considerable slump of sales for services occurred in these in H2 2016 (comprising however only a marginal share of all sales of sellers of food).

Retail sales growth in the CR was the seventh highest among the EU countries last year, it grew faster only in Poland within the neighbouring countries.

Weight-dominant retail segment – sale of non-food goods – grew without any large fluctuations (by 6.3% for the whole year). It was driven especially by the internet sales and further by the sale of goods for culture as well as recreation and goods predominantly for households. The growth of the economy as well as the favourable prices of automotive fuels were reflected in the strong increase of sales at petrol stations, which lasted already eight quarters in a row (by 6.8% for the whole year). Pro-cycle developing sales in trade (inc. repairs and maintenance) of motor vehicles strengthened by 7.6% for the whole year, nevertheless the growth weakened in H2 and it was the weakest since the end of the last recession in Q4 2016 (+4.2%).

Chart 5 Production in industry and selected manufacturing branches
(real, y/y, adjusted for calendar effects, in %)

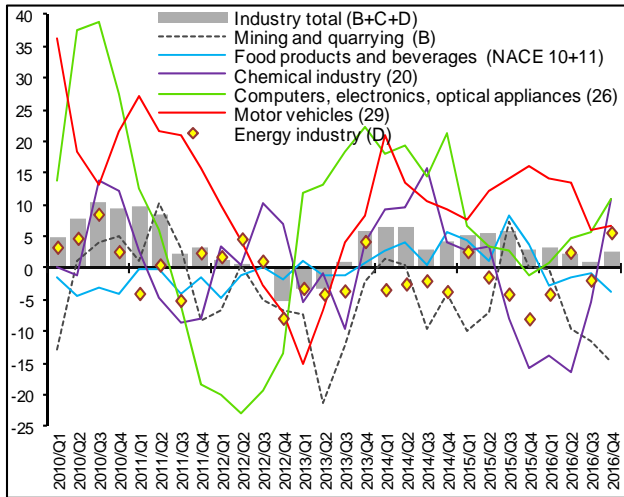


Chart 6 New orders in manufacture of motor vehicles, industry in total (cur.p, y/y in %) and balance of confidence indicator in industry (right axis)

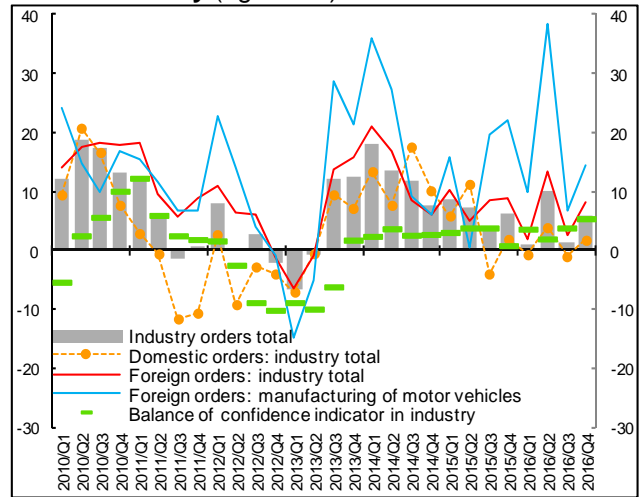


Chart 7 Construction production*, value of new orders (y/y in %) and balance of confidence indicator in construction (right axis)

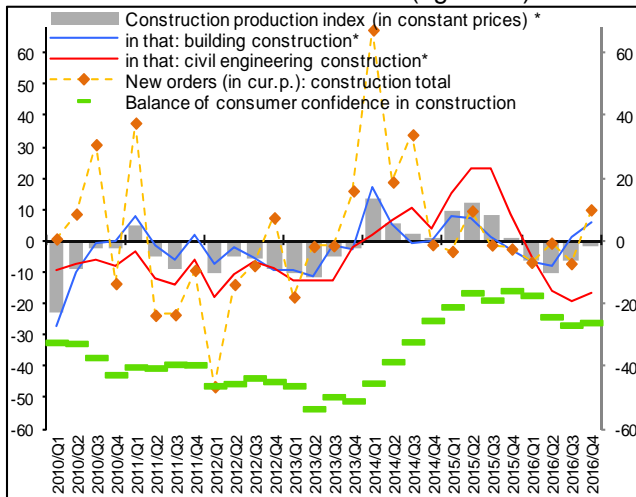
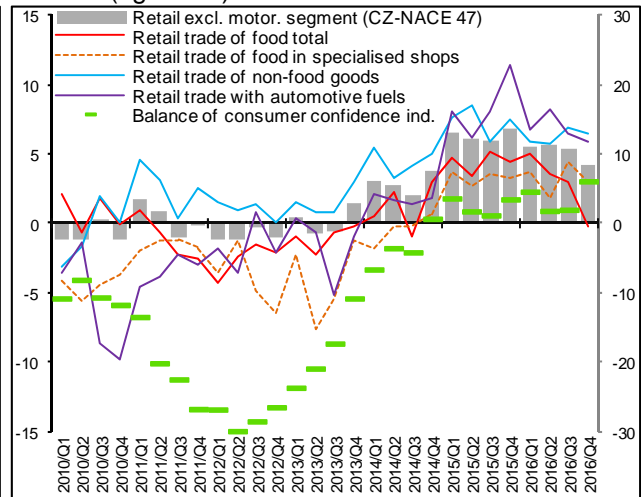


Chart 8 Retail sales* (in real terms, y/y in %), balance of consumer confidence indicator (right axis)



*adjusted for calendar effects

Source: CZSO

