3. Branches Performance

Manufacturing was a key factor of the year-on-year growth of GVA in economy.

Performance of the domestic economy still teetered on the brink of recession[1]. While the total gross value added (GVA)[2] increased by 0.5% quarter-on-quarter at the beginning of this year (and thus grew swifter compared to any of the last year's quarters), it declined by 0.2% in Q2. Weight-significant branches of services (incl. public) mostly participated on this slowdown, easing of performance in otherwise long-term dynamic branch of information and communication also played a role here. The total GVA grew by 0.8% year-on-year for the whole H1 2023. Manufacturing, whose performance strengthened by 3.8% and contributed +0.9 p. p. to the total GVA, had a significant impact here. Mainly mining and energetics (−0.4 p. p.), construction (−0.2 p. p.) and also trade, transportation, accommodation and food service (−0.3 p. p.) worked in the opposite direction.

Mainly pork stood behind the decrease of production of meat in H1, similarly to the last year. Mild growth of milk production continued.

Difficult situation of some primary producers associated with the considerable rise of prices of inputs (feed, energy), fluctuating development of prices paid to producers for meat as well as its declining domestic consumption persisted in the animal production. Decrease of the physical production of meat, perceptible on the domestic slaughterhouses throughout the whole last year, continued. In H1 2023 2.5% the total meat production declined by 2.5% year-on-year. Recovery of production of beef (+2.0%) and stagnation of output of poultry could not offset the deeper slump of pork output (–5.8%)[3]. Decrease of the overall domestic output of pork was in fact nearly double (–11.2%), since the export of live pigs for slaughter abroad dived (by more than 50%) compared to the last year. Dairy farming remained a stabilizing segment for the whole animal production in the CR. The long-term trend of milk production growth, also supported by high milk yield continued this year. Domestic producers sold by 1.6% litres of milk more year-on-year in H1.

Based on the August estimation of harvest, crop slightly exceeding the average of the last five-year period can be expected for both cereals and oilseed rape.

According to the progress of harvests so far, a stabilised situation can also be expected in the domestic plant production. Based on the third estimation of harvests (CZSO, as of 15.8.) the cereal crop (also calculating the grain maize) is expected in the size of 7.905 million tonnes, for rape then 1.274 million tonnes[4] so far this year. Harvest of cereals is lower year-on-year (by 3.7%), however it still exceeds the level from the last five-year period (+1.0%) and only minimally lags behind the average from the period of years 2013–2022 (–0.8%, solely due to the reduction of sowing area). Similar is also valid for rape, whose harvest however exceeded the five-year average more distinctly (by 6.1%) and also grew faster year-on-year (+9.2%, exclusively due to the enlarged area under crop). However, current estimations of harvest are less favourable for some other plants[5].

Quarter-on-quarter growth of the industrial output renewed following the shallow recession from the turn of years 2022 and 2023.

The domestic industry thanks to the sound investment activity in the CR[6] as well as branch diversification has fairly well coped with the challenging internal and external economic and political conditions so far. Equally to the Czech economy its industry also found itself in a shallow recession at the turn of years 2022 and 2023, which is also confirmed by the fact, that unlike number of other branches it was simultaneously afflicted by the reduction of

[1] Performance of all branches of the economy corresponded to the peak of the boom from the past decade (Q4 2019) this year.
[2] Figures related to GVA are expressed in constant prices and adjusted for seasonal and calendar effects.
[3] It was connected to the low prices of slaughter pigs in 2021 and subsequent reduction of pig holdings. Even despite strong year-on-year growth of import of animals for slaughter (not however of significant volume), the amount of produced pork meat in slaughter houses in the CR in Q2 2023 fell below 50 thousand tonnes for the first time in history. Under the influence of raised prices paid to producers for slaughter pigs since last year's spring, numbers of sows gradually steadied and the export of piglets cut down as well, which indicates a stabilisation of the level of domestic production of pork in the near future.
[4] Against the 1st CZSO estimation (as of 10.6), a mild increase of expected harvest arose for the overwhelming majority of basic cereals (in total by 415 thousand tonnes or by 6.0%).
[5] Expected harvest of other oil plants (except for rape) is lower year-on-year. Sunflower harvest will be 50 thousand tonnes (−16.2%) and soya 60 thousand tonnes (−8.0%). Expected harvest of root crop is mainly as a result of declined per hectare yields weaker year-on-year. Potatoes harvest is to be 522 thousand tonnes, by one fifth less in the year-on-year (−20.3%) as well as the comparison with the average of harvest for the last five years (−19.2%). Harvest of sugar beet could be 3.635 million tonnes (−10.4% year-on-year; compared to five-year average −5.6%). Harvest of fodder crops is also estimated to be lower year-on-year, harvest of green maize should be 6.308 million tonnes (−17.2%) and lucerne 395 thousand tonnes (−24.7%).
[6] The volume of fixed investment expanded by 0.8% year-on-year in Q1 2023, in that by 2.5% in Q2 itself (by 3.4% quarter-on-quarter).

Majority of industrial activities however still struggled both with lowered demand and raised production costs.

employment as well. The quarter-on-quarter growth of the industrial production[7] renewed in Q2 2023 (+0.8%) and the industrial output thus again tightly climbed up above the level from the peak of the pre-pandemic boom. Nevertheless only its manufacturing part and there essentially only the manufacturing of motor vehicles (including some tied sub-branches) together with small, but dynamic field – pharmaceutics stood behind this year's recovery of industry. These branches thus softened the impact of the reduced output of several energy intensive activities as well as other industry segments struck by the cyclical contraction in the demand.

Without motor vehicle manufacturing the industrial output would considerably fall year-on-year, since the performance of more than two thirds of industrial branches was declining.

In the year-on-year view the moderate growth of industrial production continued (+1.1% in H1 2023). Manufacturers of motor vehicles (contribution +4.5 p. p.), whose sales swiftly grew both abroad and locally played a key role here. In contrast, the output of more than two thirds of industrial branches remained below the last year's level. Production in the manufacturing of motor vehicles was on the other hand nearly by one quarter higher, specifically thanks to the manufacturers of motor vehicles as well as parts and accessories. For the most part it however represented a compensation of lower production from the period at the beginning of last year (when the difficulties in the supplier chains escalated due to frozen production of some source components in China as well as Ukraine). Data related to the physical production[8] also substantiate the expansion of motor vehicle manufacturing. The improvement of the formerly stranded supplies of some production components was reflected in the considerably heightened utilisation of the production capacities of the motor vehicle industry. It exceeded 92% at the beginning of both Q2 and Q3 2023 (together with petrochemicals it was the highest among all main manufacturing branches) and returned to its pre-crisis level. Mainly due to the effect of domestic demand the activity of manufacturing of other (mainly rail) transport vehicles also thrived, the production increased nearly by one fifth thanks to the completion of significant long-term production orders year-on-year in H1 here (it added "only" 0.4 p. p. to the growth of the total industry).

Swift growth of manufacturing of other transport vehicles was mainly stimulated by the domestic demand.

Output slightly grew in machinery or electrical engineering, among small branches then especially in the field of pharmacy.

Development of motor vehicle manufacturing also supported the attached branch of the electrical engineering, where mainly the foreign demand assisted the mild growth of output in H1 2023 (+5.1% year-on-year). On the contrary larger domestic sales stood primarily behind the strengthened production in other weight significant activities – machinery (+4.2%) as well as manufacturing of computers, electronic and optical appliances (+3.5%), where the effect of dynamically growing market in the area of photovoltaics was also felt positively. Among smaller branches the long-term growing and considerably pro-export pharmaceutical industry thrived (+11.7%, +31.5% against H1 2019). Foreign sales greatly assisted the revival of leather manufacturing and footwear industry (+7.4% year-on-year). All above-mentioned activities contributed even +1 p. p. to the industry performance growth this year.

Output of the most energy intensive manufacturing branches was still subdued. Output plunged by nearly one fifth in metallurgy.

Significant and energy-intensive branches of chemical and metallurgical industry or manufacturing of construction materials (non-metallic mineral products) encountered persisting serious difficulties. Sharp hike of prices of inputs in the last year together with the ongoing weak domestic as well as foreign demand resulted in double digit year-on-year output downturn in H1 2023, which e.g. in metallurgy (including foundry industry) arrived at 18% (the output of this branch also lagged similarly behind the pre-crisis year 2019). Above stated activities also considerably marked the performance of the whole industry (contribution −1.9 p. p.). Diversified branch of the fabricated metal products, where the decrease was much smaller (–2.4%) fared notably better. Downturn of the energy intensive segments could have

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

[8] According to the Automotive Industry Association, there were 738 thousand personal vehicles manufactured in the CR in H1 2023 (the most in this time period for the last four years and only by 3% less compared to the record H1 2018). Production strengthened by 22% year-on-year. Production in March (139 thousand cars) as well as in June (143 thousand) was the largest in history (within the same months). Already more than one eighth of all locally manufactured motor vehicles were electrical vehicles (including electric-hybrid vehicles) in H1 this year. On the contrary manufacturers of other types of motor vehicles (buses and motorcycles) recorded lower production year-on-year.

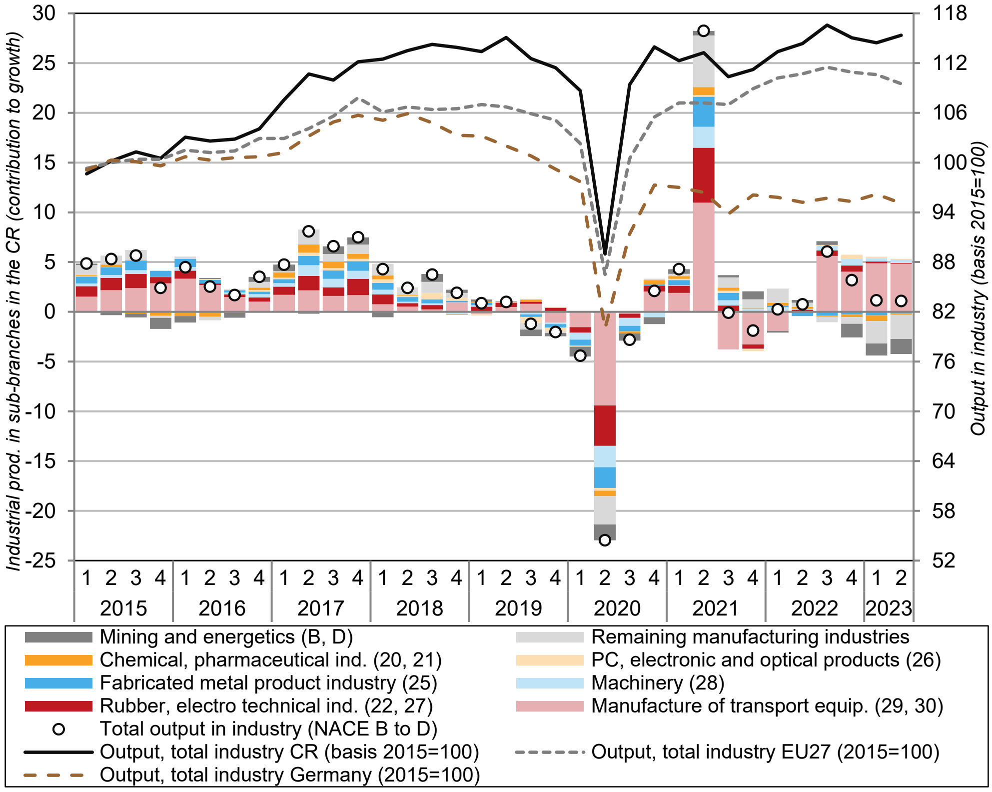
been partially offset by the development of production of military equipment here. Manufacture of rubber and plastic products (–3.7%), which partially benefited from demand in the associated manufacturing of motor vehicles also attained a milder slump of production.

Double-digit decrease of production afflicted printing industry, manufacture of textiles or furniture.

The majority of smaller manufacturing activities also faced the reduced demand in H1. The output thus plummeted by 18.4% year-on-year in the printing industry, by 11.7% in manufacturing of textile products. Approximately 10% production slump (commenced last year) continued in the wood industry. The effect of the lower wood logging due to gradual decline of the bark beetle calamity outweighed the impact of the rising demand for wood ignited by the energy crisis. Also in the attached manufacturing of paper products the performance dived by nearly one tenth year-on-year this year, in manufacturing of furniture hit mainly by weak sales abroad then by entire one sixth. High growth of production costs together with falling consumption of domestic households led to lower production of both beverages (–2.7%) or food industry (–3.6%, the worst half-yearly result since the end of year 2011).

Falling purchasing power of domestic households led to lower production in both food and beverage industry.

Chart 4 Contributions of sub-branches to the year-on-year change of the industrial production (adjusted for calendar effects, real, in p.p.), **production in the whole industry of CR, Germany and EU27** (seasonally adjusted, base of 2015=100)



Note: Sales are given in current prices
Source: CZSO, Eurostat

Output downturn in mining of coals as well as construction materials, similarly to the energetics branch deepened in H1.

Output in the non-manufacturing segment of the industry, which consists of largely only energy highly intensive fields, continued in downturn, whose indications were already apparent towards the end of the last year. Year-on-year plunge of production attained double-digit figures here in H1 2023 and thus reduced the output growth in the whole industry in total by 1.4 p. p. Weight significant branch of energetics played a key part here, with the output falling by 9.3% in Q1 this year and by 14.1% in Q2. Deeper slump at the steam power plants and combined gas/steam plants stood for the major part behind the lower electricity generation (on the contrary the production of the nuclear power plants moderately grew). Next to regular shutdowns of the production facilities, the output of the whole energy industry was connected to the anticipated decrease of the domestic demand (impact of savings in the consumption of

Weaker demand of both households and businesses, which reacted to the turbulent price development in this area stood behind it.

electricity, natural gas as well as heat in both households and businesses[9] was amplified by the above-average temperatures of the winter season). Downturn of production was also deepening in the mining industry during H1 this year. It was especially apparent in the mining of coal, where the performance slumped by nearly 23.3%[10] in Q2, in lesser extent also in the mining of construction materials (–16.3%), which was associated with weakening of the demand on the part of builders as well as higher energy intensity of this branch.

Industrial businesses recorded higher growth of domestic sales than sales from direct export. Sales swiftly grew in mining or food industry, in spite of the decline of real demand.

Nominal sales of the industrial businesses[11] increased by 8.2% year-on-year in H1 2023 (in that already only by 5.4% in Q2). Weakening pace of sales can be for the large part attributed to the gradually subsiding price growth on the side of producers, especially in manufacturing itself. Domestic sales strengthened by 9.9% and thus grew more dynamically compared to sales from direct export for already two years[12]. Total sales increased the most to the manufacturers of motor vehicles (+27.5%) and manufacturers of other transport vehicles (31.2%). On the other hand, they fell in one half of the main industrial branches (even by 22.6% in metallurgy). Sales however briskly grew in some branches affected by the decline of real demand thanks to prevailing price influences (in mining of coal and construction materials, in food or beverage industry). By contrast the sales slightly stayed behind the level from H1 2022 in the manufacturing of computers and electronic and optical appliances (–1.3%), even despite the output growing in this branch this year.

Value of new industrial orders decreased year-on-year in Q2 2023.

Only the pharmaceutical industry was sending clear positive signals of expected higher demand.

The dynamics of new industrial orders featured signs of weakening demand. While in Q1 2023 the nominal value of orders (in the monitored industrial branches)[13] rose by 2.1% year-on-year, it already recorded a decrease of 2.6%[14] in Q2 (the first since the pandemic shutdowns of production in year 2020). The foreign demand signalled faster cooling. Orders from abroad dropped by 3.5% for the whole H1 2023, while the domestic ones increased by 6.9% year-on-year. Total volume of orders sank by approximately one fifth in the chemical industry and metallurgy. They however grew (also due to the weaker last year's basis) in the motor vehicle manufacturing (+6.5%, in that domestic by 26.9%). The growth was just below 3% in machinery as well as electrical engineering. If we take into account the last year's basis as well as the growth of prices of intermediate inputs, only the increase of orders in the pharmaceutical industry (+16.9%) can be assessed as a clear positive signal.

Pessimism of businesses in industry grew to the three-year minimum during Q2 this year.

Business confidence in industry was gradually rising (after subsiding of the "hot phase" of the energy crisis) during this year's Spring (it was the highest since the last summer). The trend however turned around later on and also under the influence of deteriorating economic outlooks in key export destinations the confidence in the domestic industry descended down to three-year minimum. Rising pessimism was closely connected to the worsened assessment of demand, short-term anticipations of own production or economic situation of the company, but also employment[15]. Mild pessimism regarding current demand prevails in industry for already virtually whole year, which already nearly 45% of businesses[16] perceived

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[9] The gross domestic electricity consumption shrank by 6.4% year-on-year in H1 2023 and deepened its fall from the previous year (−1.5%). All main categories recorded a saving this year – the most at retail customers (e.g. small businesses), specifically by 5.6%, the least at the most significant wholesale customers (−2.2%). Consumption dropped by 4.4% at households (the decrease was however deeper in H1 2022 – 10.3%). The total consumption of gas also fell appreciably (even though less than last year) in the CR in H1 2023 – by 12.3% year-on-year (after adjustment to long-term temperature norm by 11.7%). The decrease of consumption was comparable for all main types of consumers. Households took by 12.9% gas less, their decrease was however 19.2% in H1 2022.

[10] Due to the effect of the temporary period of coal mining revival in the preceding two years, the output fell "only" by 11.2% compared to H1 2020 this year.

[11] It concerns sales from industrial activity. Year-on-year rates of growth of sales are adjusted for calendar effects.

[12] This discrepancy is connected to the sharp price hike in branches, whose production is traditionally directed to the domestic market (energetics, mining and quarrying or food industry).

[13] Survey or orders is ongoing 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 the seasonal effects.

[14] In the quarter-on-quarter comparison orders stagnated in Q2, decrease was however registered in the first this year's quarter (by 3.8%).

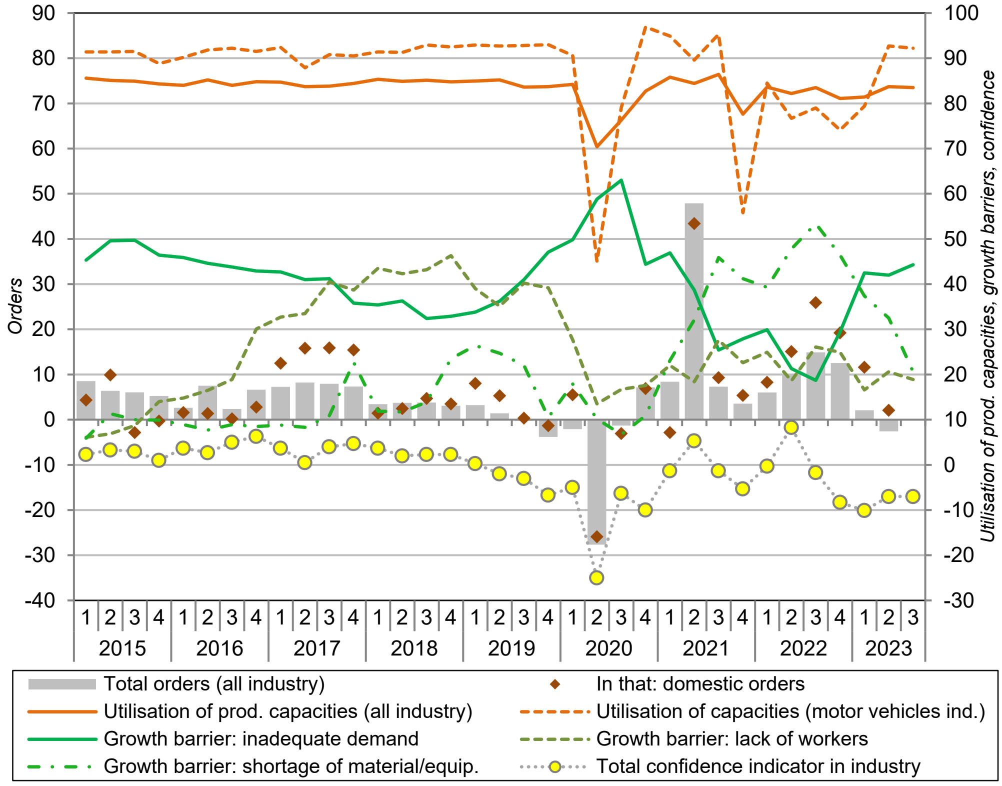
[15] These prevailed since the end of the last October. That already started to permeate the "hard" data – the number of registered employees in industry fell by 0.7% year-on-year in Q1 2023, already by 1.3% in the subsequent quarter.

[16] Businesses could have stated more barriers simultaneously. Barriers are adjusted for the seasonality effect. Weak demand presented the major growth limit mainly for the majority of energy intensive industrial branches (metallurgy, production of construction materials,

Inadequate demand has been the key growth barrier since the beginning of the year.

as a significant growth barrier in July this year. Sluggish sales are mirrored in higher level of inventory stock. Shortage of labour, similarly to material and equipment limited already "only" one fifth of businesses. Nevertheless, in some industrial branches it still presented a key growth barrier[17].

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



*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

Performance of construction was still affected by significant cost pressures as well as weakening private investment activity.

Construction was still influenced by the rising cost pressures as well as weakening investment activity in the business sphere in H1 2023. Even though the year-on-year growth of prices of construction materials mitigated (it was already even falling month-on-month during Q2), swift growth of labour cost (affected by long-term shortage of qualitied labour force) prevented larger decrease of realised as well as expected prices of construction production[18]. Weakening of the investment activity was related to the shallow recession or stagnation of the total economic performance. Deteriorated financial situation of households together with notably sunken accessibility of mortgages fundamentally cooled last year's boom of the real estate market. Intensified flow of funds from the EU budget intended for the construction as well as upgrade of the transport infrastructure or reduction of the energy performance of buildings (in the area of housing) on the contrary operated against deeper slump of the construction performance.

manufacturing of rubber and plastic products, wood and paper industries), further for textiles or beverage industry. High proportion of businesses in the manufacturing of electrical appliances also stated this barrier.

[17] For shortage of labour force it concerned machinery, manufacture of both leather products and footwear or manufacturing of transport equipment (except for motor vehicles).

[18] Based on the business cycle surveys from this year's August, more than 40% of domestic construction businesses expected rise of prices of own production (in the three-month horizon). Despite gradual decrease (which is nevertheless milder than in industry or retail trade) it represented by far the largest share among all main branches in the CR.

Construction output dropped both year-on-year and quarter-on-quarter in Q2. The reduction of demand was distinctly imprinted in the commenced residential construction, namely across the regions.

Total construction output[19] has fluctuated this year since the beginning of this year. It expanded by 2.2% quarter-on-quarter in Q1 (partially thanks to the very mild winter). In the subsequent period, it nevertheless fell by entire 3%, when both the building and civil engineering construction recorded a weaker performance. Construction output mildly decreased year-on-year in H1 (by 2.3%, for the major part under the influence of the civil engineering construction, where the output plunged by 7.2%). The effect of higher last year's basis was also evident here (the output of the whole industry was at the highest level since the end of year 2009). In building construction, the current cooling of demand is the most realistically captured in the area of commenced residential construction. Number of flats dropped by one fifth[20] year-on-year in H1 2023 (to 18.1 thousand, it constituted the lowest level within this part of the year in the last five-year period). The decrease was widespread (also in the regional glance), growth trend prevailed only in the peripheral segments (additional storeys of residential buildings, reconstructions of non-residential buildings). Number of completed flats owing to high quantity of started constructions from the preceding years still continued to slightly grow by means of inertia (+2.9%, to 17.9 thousand).

Fall of the value of new construction orders deepened during the year. The size of total stock of work narrowed year-on-year, for the first time in the last five and a half years.

Growth of the nominal value of new domestic construction orders (for construction companies with above 50 employees) following nearly three years of growth ceased this year. The orders plummeted by 15.8% year-on-year for the whole half-year (the most after the crisis year 2012). In addition the fall deepened since the beginning of this year (solely due to the civil engineering construction). The value of all orders thus returned approximately to the level of the year before the last. Total stock of work (in the form of value of not yet completed construction orders) was by 2.6% lower year-on-year at the end of Q2 2023, when it fell for the first time in the last five and a half years. Mainly the private domestic demand shrank, moreover the rather supplementary segment of foreign orders was also falling. Stock of domestic public orders did still mildly grow (+1.1%), but much less than at the end of Q1 2023 (+16.0%). The approximate value of granted building permits also recorded a fading growth during this year. They indicate investment activity in the medium time horizon. It was by 6.7% higher year-on-year for the whole half-year, thereby it slightly lagged behind the growth of prices of construction works. Higher expected activities of firms in the area of modifications to completed buildings (in all key directions of construction) and also new construction of engineering (primarily transport) structures was reflected in the growth of the value of permits. In contrast, the value of permits for new residential construction sank by nearly one quarter (to 62 CZK bn – the lowest level in the last two years).

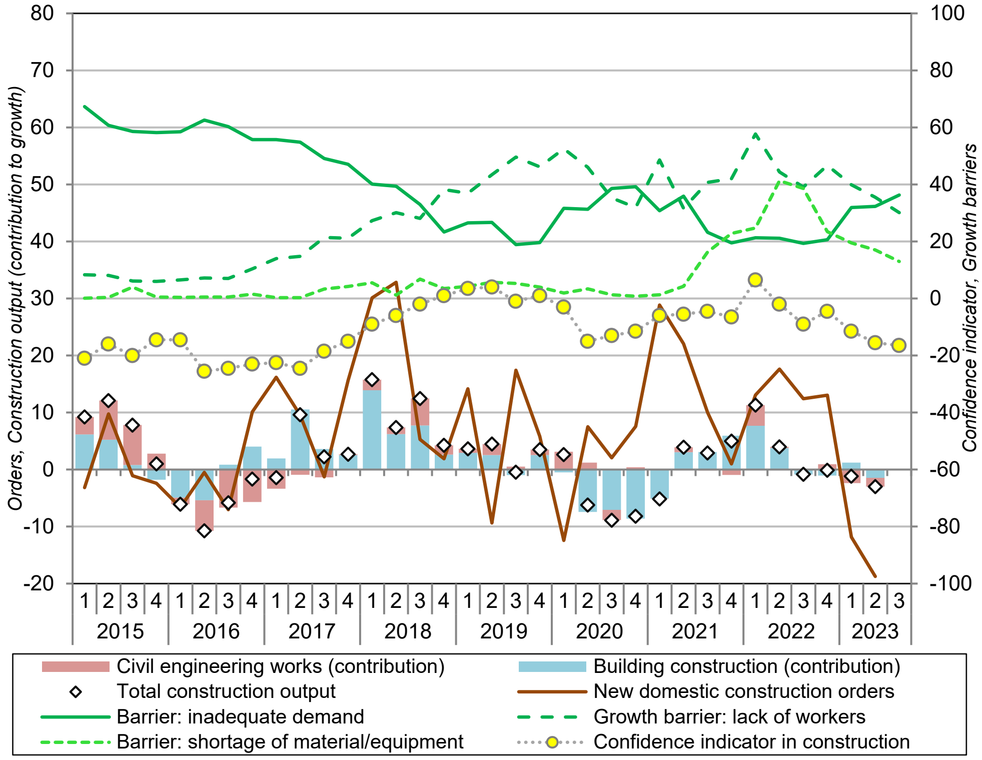
Reconstructions or modernisations mainly contributed to the growth of the value of permitted buildings.

Pessimism of businesses in construction further deepened this year. Businesses anticipated the decrease of both construction activity and employment.

Total business confidence in construction dropped below long-term average (2003–2022) and at the same time, pessimism attained nearly six-year maximum in July. Despite prevailing adverse view of the current demand, the construction businesses assessed their current economic situation still slightly positively, the half-year outlook however still brought prevalent pessimism. Negative outlooks deepened in the construction activity this year. In August more than one quarter of businesses anticipated (in the three-month outlook) a decrease of own production (on the contrary one-eighth anticipated growth) and every sixth company in addition planned to cut employment. The share of businesses, which are limited by inadequate demand grew by one half year-on-year (to 36%[21]), the weak demand thus again became the key growth barrier of the whole branch (after more than two years). The role of the shortage of material and to a lower extent also labour force by contrast decreased. Still the matter of human resources remains an important barrier (it was pressing mainly in the segment of specialised construction activities - small and medium businesses play significant role here).

[19] Figures regarding the construction output are in constant prices, year-on-year rates of growth are adjusted for calendar effects, quarter-on-quarter also for seasonal effects.
[20] Number of commenced flats was, however, relatively high in the CR in H1 2022, when it climbed up to the level comparable with the boom period 2006 till 2008.
[21] Businesses could have indicated more barriers simultaneously.

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



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.

Mildly growing segment of engineering construction saved the construction output in the EU from year-on-year decrease. This year's construction output was above the level from year 2019 already in two thirds of the Union states.

The impacts of the total economic contraction were negatively mirrored in the construction not only in the CR, but also in the vast majority of significant European economies. The construction output in the EU and the euro area increased, year-on-year, only by negligible 0.1% and 0.2%, respectively, in H1. Accompanied by actual stagnation of the building construction the mild growth of civil engineering construction continued (3.2% and 2.4%, respectively). Total construction output increased the most in Slovenia (+24%), double-digit pace was also recorded in Greece, Romania and Latvia. On the contrary, it decreased the most in Estonia, Finland and Hungary – i.e. in states, which also experience a total economic recession. Output mildly decreased in Germany (by 1.4%), it however attained more favourable dynamics than in this country at all our neighbours (e.g. +1.3% in Poland). In comparison to H1 2019, the construction performance was in approximately two thirds of member countries higher this year – the most in Romania and Slovenia (by nearly one half), by 1.7% in the CR, by 5.2% in the EU. Spain (–22%) and Slovakia (–12%) considerably lagged behind the pre-crisis level.

Mild quarter-on-quarter decrease of sales in services started in H2 last year persisted.

Halting of the economic growth tightly accompanied by the decrease of private consumption must have been logically manifested in the performance of the services sector. Quarter-on-quarter growth of their sales[22], which lasted since the beginning of year 2021, did not continue in the second half of the last year anymore and recovery has not shown even this year so far (–0.7% in Q2, –1.3% in Q2). The dominant branch of transport and storage stood behind this development of services for this entire period. On the contrary, the stably growing demand in the area of professional, scientific and technical activities, which typically consists of more sophisticated services for businesses worked against deeper slump of services. Sales in

[22] 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).

services thus slightly fell in total this year in Q2 (by 0.9%) below the level from the peak of the last pre-crisis boom (Q2 2019). The "effect of the post-pandemic revival" of demand presumably already exhausted itself in the majority of services branches and on the contrary the fact, that part of households limited their "non-essential" expenditures started to be more evident now. Impacts of high pick-up of prices in the economy also afflicted the business sphere, among other things in the form of heightened need for the optimization of production costs.

Year-on-year decline of sales in services deepened during H1, mostly as a result of subdued demand in transport and storage.

In Q1 2023, sales in services went slightly down (by 0.3%), when they decreased for the first time in the last two years. The reduction of sales deepened in the following quarter, as gradually the majority of other branches joined the weak demand in transport and storage. Sales in services thus decreased by 1.8% in the whole H1. The deepest slump of demand affected the branch transportation and storage, where the sales dived by even 8% year-on-year (and contributed −2.5 p. p. to the decrease of all services). Downturn in the segment of warehousing and support activities for transportation (–11.5%, comparably with the whole year 2020) played an essential role here. Sales markedly fell also in the land transport and transport via pipeline (–6.9%), which was also influenced by weaker performance of transport via pipeline (after extraordinary last year affected by the energy crisis). Decrease of demand was nevertheless apparent also in the road transport (also due to lower dynamics of foreign trade, mainly import) as well as rail transport. Postal and courier activities recorded more moderate but longer-term year-on-year decrease of sales (–2.9%), which was closely linked to the deeper decrease of demand in the area of sales via internet or mail order houses. Still the sales of these activities remained by one fifth above the level from H1 2019 this year. On the contrary sales in the marginal segments of air and water transport has still stayed (despite swift this year's growth) below the pre-crisis level (by 22.5% and 18.7%, respectively).

Swift growth of sales in accommodation was associated with the ongoing revival of tourism. Food service and restaurants were more affected by the impacts of the falling purchasing power of domestic households.

Sales dynamics in the sub-branches of the division accommodation, food service and restaurants significantly differed this year. Entities earned by 13.5% more in accommodation itself year-on-year in H1, because the post crisis recovery of the arrival tourism continued[23]. Only 1.8% increase of sales was recorded in food service and restaurants. Subdued growth of demand was connected to the ongoing considerable decrease of the purchasing power of domestic households here, which led to the cut of their non-essential expenditures. Sales in food service and restaurants fell by 0.9% in the quarter-on-quarter expression in Q2. Sales still significantly lagged behind the year 2019, mainly in accommodation.

Sales in the area of ICT dropped year-on-year in Q2, nearly across all sub-branches.

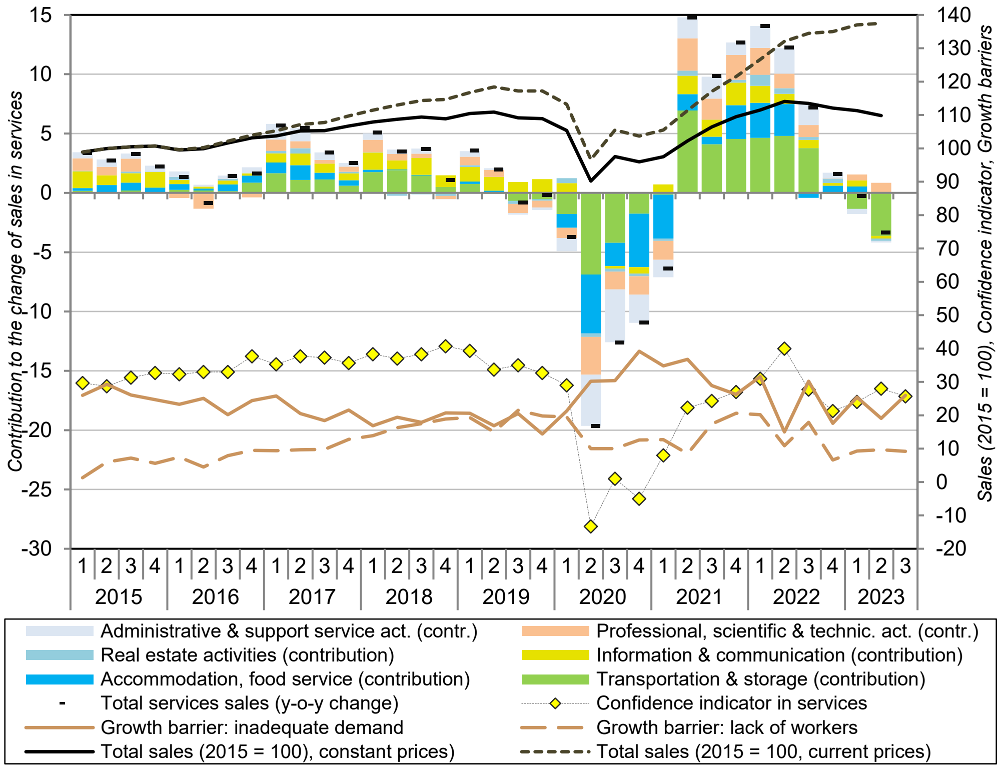
Long- term developing information and communication also felt the signals of stifled demand this year. The sales here in effect rather stagnated year-on-year in H1 (+0.6%), in that they even slightly dropped in Q2 (–1.0%), when the decrease of demand hit nearly all sub-branches. Sales mildly increased in computer programming or consultancy in IT and also in telecommunications in total for the whole H1. In contrast, the sales were by 4.8% lower in information and communication[24] and registered the deepest decrease since H2 2012. Sales for the radio and television programming and broadcasting activities dropped for the second

[23] Number of guests as well as their overnight stays in mass accommodation facilities (MAF) was rising in the CR year-on-year for the ninth quarter in a row. 21.9% more guests thus arrived and there were by 19.2% more of their overnight stays in H1 2023. Foreign tourists were for the vast majority instrumental this year (the same as for the whole H2 2022) since the overnight stays of residents increased only by 3.8% (of non-residents by 47.8%). In Q2 itself this year, the performance of tourism markedly approached the level from the similar period of year 2019 for the first time – number of all overnight stays was lower only by just below 2%, for foreign guests however still by significant 15% (domestic tourism recovered from the "covid shock" already in summer 2021). Number of guests at taking up accommodation expanded in all regions against Q2 2022 – the most in Prague, Karlovy Vary region (similarly by approximately one fifth), the least in Vysocina (+5%) and the Pilsen region (+7%). Foreigners primarily contributed to the growth of number of visits in the majority of regions (apart from the Kralovehradecky, Pardubicky and Olomouc regions). Number of domestic guests even only stagnated in Prague and the Jihomoravsky region year-on-year.
Guests from Germany (+116 thousand), South Korea (+52 thousand), Poland (+47 thousand) and the USA (+37 thousand) added the most to the year-on-year growth of visits in Q2 2023. Preparations or rather opening of new direct flights to Prague (from Seoul, Taipei) assisted to the restoration of ties to the more distant states. On the contrary, only minimal relations in tourism prevailed in Russia, deteriorated geopolitical situation was presumably reflected also in the year-on-year decrease of the number of guests at accommodation from Israel (−10%). Compared to Q2 2019, notably more guests arrived in the CR from all neighbouring states (even nearly by 20% from Slovakia), among other more significant partner countries (top 30 from year 2019) nevertheless only from the Netherlands.

[24] These consist of activities linked to the data processing and hosting, area of web portals and further news press offices as well as agencies.

year in a row, the so called motion picture and music industry also experienced lower demand year-on-year (–8.7%)[25], it was particularly severely hit by the restrictions in the pandemic period (this year's sales lagged by more than one fifth here compared to year 2019).

Chart 7 Contributions of branches to year-on-year change of sales in services* (real, in p. p), **total sales in services*** (2015=100), **balance of business confidence indicator in services**** (in p. p.)**, barriers to growth in services**** (in %)



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. Balance of business confidence as well as the
Barrier to growth express the level in the first month of the given quarter, balance of business confidence than in the second month of the given quarter. Businesses could have indicated more key barriers simultaneously.
Source: CZSO, Eurostat

Majority of services within administrative and support service activities faced a cyclical downturn of demand.

The branch of administrative and support service activities also wrestled with weaker demand, where the sales dropped by 2.4% this year compared to H1 2022. Mainly employment placement agencies, where the sales slumped by 12.1% (even by 21.8% for two years) stood behind it. The demand also fell in other activities sensitively reacting to the business cycle (e.g. for lease and operative lease – mainly of machinery and equipment), firms in the area of security and investigation activities also earned less. Travel agencies and offices, where the sales (thanks to favourable development in the spring months) went mildly up for the whole half-year (+3.5%) fared better. Part of business support service activities, especially those characterised by higher requirements on qualified labour force however still enjoyed relatively stable demand. Thus the sales increased by 3.2% in the group of professional, scientific and technical activities year-on-year in H1. They were driven mainly by legal and accounting activities (+6.4%), followed in short distance then by architectural and engineering activities (+3.3%). Demand for management consultancy activities grew for the third year in a row. After the last year decrease the sales slightly strengthened in the area of advertising this year, however the demand slump continued for market research and public opinion polling.

Demand for more sophisticated business services has stayed relatively stable so far.

[25] Segment of motion picture distribution thrived slightly more. According to the figures from the Union of Motion Picture Distributors the gross nominal sales of the domestic cinema operators increased by 2% year-on-year in H1 2023. Total attendance however owing to weaker this year's results in Q2 fell by 6.1% for the entire H1. Nearly one third of audience was missing and the sales lagged by nearly one fifth this year (however the number of shows was lower only by less than 7%) in comparison to record year 2019.

Quarter-on-quarter decrease of retail sales continued for the seventh quarter in a row.

Retail sales[26] continued in the longer-term downward trend. They fell by 0.4% quarter-on-quarter at the beginning of this year, the decrease subsequently deepened to 1.1% in Q2. Quarter-on-quarter downturn of demand in retail thus continued for the seventh quarter in a row and to a large extent copied the trend of the total expenditure of households on final consumption. The only significant segment of retail, where the decrease of demand did not manifest in the last quarters was the sale of fuels. The favourable development of prices for motorists aided this result (also supported by the temporarily introduced lower rate of consumption tax on diesel fuel). The development of the whole retail was closely related to the prevailing negative sentiment of the domestic consumers. Nevertheless, partial retreat of pessimism of households can be observed in the past months[27]. Concerns of people about the price growth for the major part dissipated during the spring this year and simultaneously the fear of unemployment already did not significantly overtake the long-term average anymore. The majority of households still however expected that their financial situation, similarly to the total economic situation in the CR, will deteriorate in the upcoming twelve months. That is why people still remained rather cautions in the area of planning of large purchases (especially goods of long-term durability or investment). Business in trade also did not abound with larger optimism anymore. While their confidence was placed near the long-term average this year in Spring, their confidence markedly weakened in August[28]. Rising number of consumers (owing to the arrival of refugees from Ukraine as well as the continuing recovery of tourism) has a partial positive effect on the development of retail, in contrast the still more frequent trips of domestic households for cross border shopping likely have a negative effect.

Pessimism of the domestic households decreased since last year's August, people however remained very cautious regarding planning of large purchases.

Lower sales for non-food goods stood behind the deep year-on-year decrease of the whole retail. Virtually the whole range of products experienced weaker demand.

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The retail sales plunged by even 7% year-on-year for H1 2023. Especially the segment of non-food goods (–8.8%, contribution −4.6 p. p.) pulled down the whole branch. There the more than 16% slump of sales for products mostly for households (containing mainly metal hardware, paints, glass, DIY supplies, electro supplies, furniture and lighting equipment) became the most evident. Demand, however, sank in virtually all assortment groups, except for a very small segment of other retail sale in non-specialised stores (consisting of typically smaller shops oriented at sale of miscellaneous smallware, usually as discount offers). Only minimum decrease of sales in specialised shops occurred for pharmaceutical and medical products (–0.1%), cosmetic and toilet articles (–1.8%) or computer and communication equipment (–0.8%). In these areas as the one of the few segments of retail at the same time the demand in this year's H1 exceeded the level from year 2019. This was still valid also for the sales via internet or courier activities (+34.3%), in spite of the sales continuously falling here quarter-on-quarter in the last nine quarters. The sale of food goods also records a persisting decrease of demand in the last quarters. The sales here dived by 7.9% here year-on-year in H1 (they fell by similar pace in both large chains and smaller specialised shops) and were by one tenth lower compared to the pre-crisis year 2019. On the contrary, the sales for non-food goods were still closely above the pre-crisis level this year (+1.7%).

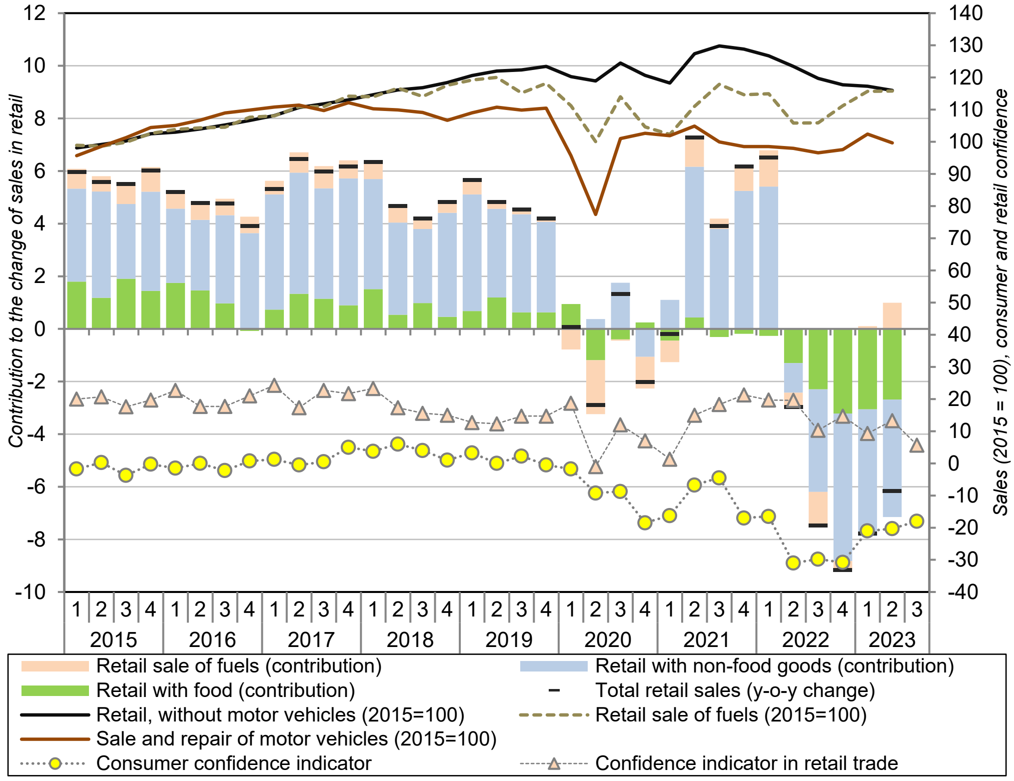
Sales in the motorist segment revived, they were driven by higher demand in the area of purchases of motor vehicles.

Sales in the motorist segment of trade went up year-on-year this year after two years. They were by 3.3% higher year-on-year in H1. Growth was driven by sale of motor vehicles, which was connected to the relatively favourable situation of the whole motor vehicle industry in the CR as well as the EU. In contrast the sales for trade with motor vehicle parts and accessories decreased, the demand for trade, repair and maintenance of motorcycles went down.

[26] All year-on-year rates of growth of retail sales are stated in constant prices and adjusted for calendar effects, quarter-on-quarter as well as month-on-month rates are adjusted for seasonal effects (including the number of working days). Retail includes branch CZ-NACE 47.
[27] It reached the highest value since the crisis year last year in October. The household confidence gradually increased in the subsequent months also in connection to the improvement of accessibility and price development of key energy commodities in Europe. The pessimism of consumers thus attained practically the lowest level since the beginning of the Russian invasion to Ukraine this year in July.
[28] If we do not regard the period of pandemic economic shutdowns, the current confidence in trade was the lowest since the half of year 2013.

Compared to H1 2019, the sales in the whole motorist segment were still slightly lower (by 6.1%) this year, at the same time they lagged approximately comparably in all its sub-branches.

Chart 8 Contributions of sub-branches to year-on-year change of sales in retail trade* (real, in p.p.), **sales in retail trade, sales for sale of automotive fuel and for sale/repair of motor vehicles**** (real, 2015=100), **balance of business confidence indicator in retail trade, consumer confidence indicator***** (in p. p.)



* 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