

3. Branches Performance

The industrial output kept further growing quarter-on-quarter in spite of significant growth barriers, rising cost pressures as well as uncertainties connected to the future accessibility of gas.

Data from the business statistics confirm, that the trend of moderate recovery of the domestic industry also continued during this year's H1. Its output¹ increased by 1.2% quarter-on-quarter in Q1, by 0.8% in Q2. Even though it does not concern staggering rates of growths, it presents more favourable results than observed for the whole last year. Manufacturing of motor vehicles, where the difficulties with supplies of some production components eased somewhat this year in spring, played a large part. If in Q1 the majority of other more significant manufacturing activities prospered, the output growth generally halted in these in the subsequent time period. Additional substantial growth barriers also limited the industry already for more than two years, at the same time some of them strengthening this year. The ignition of the Russia-Ukraine war conflict also substantially contributed to the escalation of the price growth of energies as well as other material inputs, which could have already adversely affected the performance of some energy more consuming branches. Output in the whole industry was thus still below its pre-pandemic peak this year in Q2².

Industrial production stagnated in H1. Manufacturing of electrical appliances and also some smaller industries, which struggled as a consequence of involuntary shutdown of shops last year, had a pro-growth effect.

This year's industrial output in fact only stagnated in the year-on-year comparison this year in both Q1 and 2. The disruption of the global supply chains was not yet too evident in the domestic industry at the beginning of the last year and that is why especially the manufacturers of motor vehicles relatively quickly erased their losses from the previous "covid" year at that time. In total for the whole H1 2022, the performance of branches, which were deeply hit by the slump of demand related to the enforced shutdown of operations in the critical periods of the pandemics, increased the most. Manufacturers of beverages thus recorded 12% output growth this year, other smaller industries recorded even large revival – manufacturing of wearing apparel (+13%) and leather products (+23%). Pharmaceutical industry (+11%), which together with manufacturing of paper products belonged to the only industrial branches, whose output growth was not disrupted for the whole pandemic period still flourished thanks to the still strong domestic as well as foreign demand. The weight significant manufacturing of electrical equipment worked the most in the direction of growth of the whole industry in H1 (+0.3 p.p.), despite its relatively modest year-on-year addition (3.7%). Some other more significant industries also strengthened by a similar pace – chemical industry or manufacturing of construction materials (sound domestic demand also had a favourable effect here). The production of construction, which benefited from the revived investment activity both in the domestic economy and the euro area last year, only increased by 2.8% this year. In branches heavy on energy consumption of metallurgical and metalworking industry, the output even lowered (similarly around 3%).

Industry growth was the most hindered by manufacturing of motor vehicles, the situation however improved in Q2 here and the number of manufactured vehicles approached the level

The production in the key branch manufacturing of motor vehicles declined by 4.3% year-on-year in this year's half year and worked by -0.8 p.p. (the most out of all branches) against the output of the whole industry. The manufacturing of motor vehicles faced serious supply difficulties, further intensified by the freeze of production in some source components in China as well as Ukraine at the beginning of this year. The situation of supply of both chips and wire harnesses however gradually improved and thus the output was already slightly growing in this branch in Q2, specifically by 2.5%³. The utilisation of production capacities was however at the

¹ Includes branches of mining and quarrying, manufacturing and also energetics (here as activities of production and distribution of electricity, gas, heat and air conditioning supply). All year-on-year rates of growth of output (at the level of branch sections as well as divisions) are adjusted for calendar effects, quarter-on-quarter rates then also for seasonal effects.

² Industrial output was by 1.5% below the level of so far record period (Q2 2019). Full two thirds of all (nearly thirty) key industrial branches stayed behind their peak from the pre-pandemic boom era so far (years 2014 till 2019). It was mainly mining and processing of coal (by 37%), leatherworking industry (27%), manufacturing of computers, electronic and optical appliances (14%) and energetics (11%). On the contrary, manufacturers of electrical equipment (by 5%) or building materials (4%) and food (3%) already overtook the pre-crisis level. From the smaller activities mainly paper industry (15%), pharmaceutical industry (11%), manufacturing of furniture (9%) and other manufacturing industry (14%), including for instance manufacturing of medical instruments, sport equipment, games and toys belonged into this category.

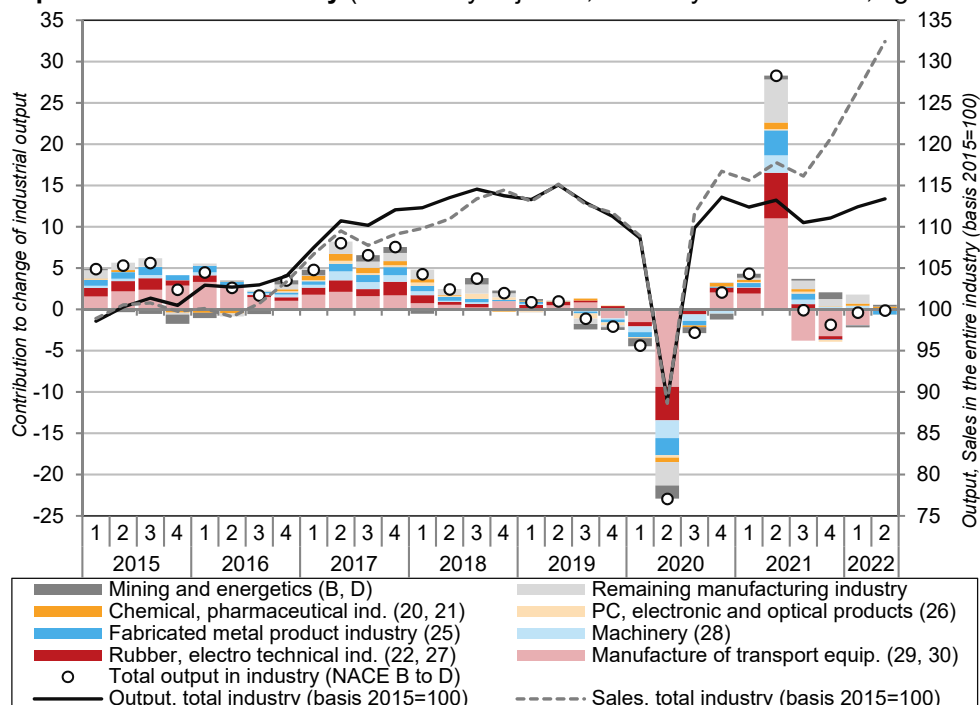
³ Data of the Automotive Industry Association also depict this. There were over 120 thousand personal vehicles manufactured in the CR both in May and June this year, which made these months approach the level from the same period of years 2017 till 2019, when the manufacturing of motor vehicles peaked locally. The manufacturing of personal vehicles reached 607 thousand in total for H1 2022 (by 8% less year-on-year, at the same time it was the third lowest value after year 2010).

from before the pandemics.

Weaker demand for gas as well as heat due to the effect of both weather and savings in households and businesses pressed down the output in energy industry.

level substantially below the long-term average here already fourth quarter in a row⁴. 86% of businesses in the branch of motor vehicle manufacturing (record 53% in the whole industry) indicated the shortage of materials and equipment this year in July⁵. Difficulties of the motor vehicle manufacturing were also reflected in the tied manufacturing of rubber and plastic products, where the output dropped by even 3% year-on-year in H1. The production of electricity outside the manufacturing branches lowered (by 1.0%), even though the marked restriction of operations of the number of retail shops and services was connected to the lower consumption of electricity last year from January till April. This year's lower production was mirrored in the decrease of consumption of both gas and distributed heat (due to the above average temperatures in the winter months as well as savings in households and businesses)⁶. The amount of the generated electricity on the contrary slightly increased⁷. The production in the long-term subdued branch of mining and quarrying grew by 5.5% (and continued in the growth from H2 2021). The revival is connected to the heightened demand for construction materials and newly also for coal.

Chart 4 Contributions of sub-branches to the year-on-year change of the total industrial output (in p.p., adjusted for calendar effects, real, in p.p.) and sales* and output in the entire industry (seasonally adjusted, level of year 2015=100, right axis)



Note: Sales are given in current prices.

Source: CZSO

Growth of sales of businesses from industrial activity strengthened mainly due to higher prices of

Nominal sales of industrial businesses⁸ exceeded the last year's level by 10.9% in H1 2022 (in that even by 12.5% in Q2 itself). The dynamics of development of sales and industrial production is more and more differentiated in the last two years impacted by rising costs,

⁴ It was slightly below 80% at the beginning of both Q2 and Q3 2022. It however slightly exceeded 90% in the last boom period.

⁵ Businesses could have indicated more barriers simultaneously.

⁶ Consumption of gas reduced by 19.7% in the CR in H1 year-on-year (after adjustment for warmer winter by 14.7%). Wholesale customers had the largest share on this result, nevertheless households also reduced their consumption considerably (by 19%). Based on the fresh data, the total gross manufacturing of heat fell by 7.7% in Q1 this year, mainly thanks to the lower utilisation of the natural gas. Similarly the quantity of consumed heat also decreased, compared with the beginning of year 2020 (when similar temperature conditions arose as this year) the decrease was 3% (in that 4% in households).

⁷ The gross domestic generated electricity totalled 42.2 TWh in H1 2022 (by 2.2% more year-on-year, but by 4.2% less compared to year 2019). The steam power plants contributed the most to the year-on-year growth of production even despite the decrease of their installed performance, specifically mainly thanks to higher utilisation of coal. The generation of electricity in nuclear power plants also mildly strengthened. In contrast the output plunged by 60% in combined gas/steam plants and by nearly one fifth also in water and pumping stations. Total gross domestic consumption of electricity mildly fell (by 1.5%, nearly solely thanks to households) to 36.8 TWh – i.e. to the lowest value in the last six years.

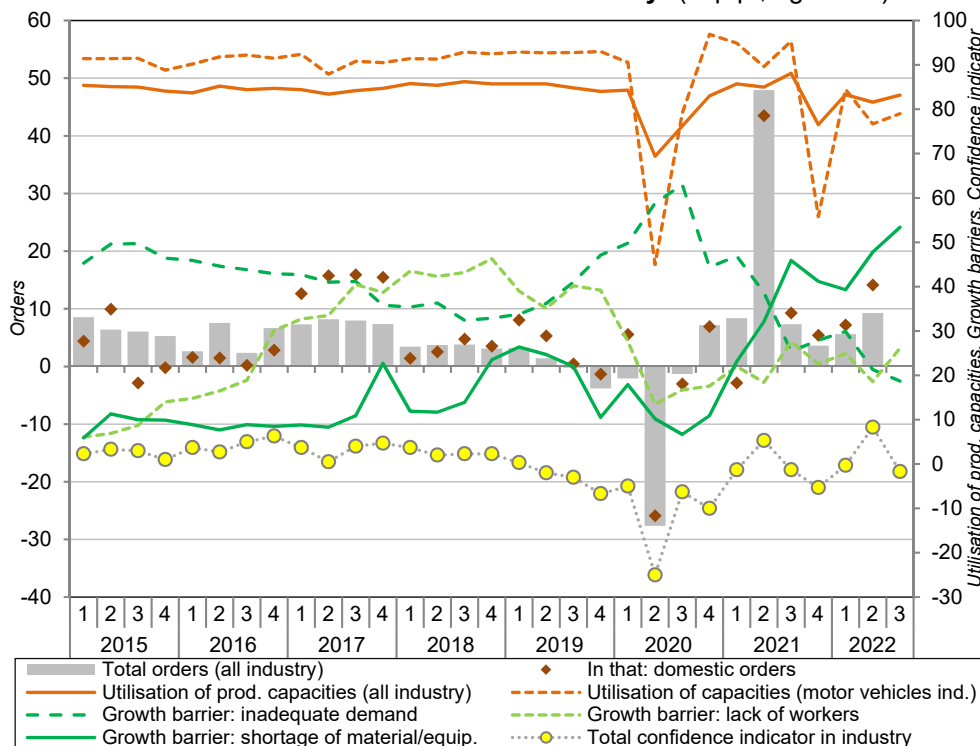
⁸ Year-on-year rates of sales are adjusted for calendar effects.



energies, materials and other semi-finished products. Only manufacturers of motor vehicles earned less year-on-year.

which businesses reflect in their final products⁹. Domestic sales (including also indirect export¹⁰) expanded by 17.9%, by nearly triple pace compared to sales from direct export. It can be explained by strong price growth in branches producing products for the domestic market mainly (mining and quarrying, wood, paper and print industry, metalworking or food industry) and at the same time still relatively low price shift of some traditional export articles (motor vehicles, computers, electronic and optical appliances). The total sales boosted the most to businesses in coal mining (by 43%) and metallurgy and foundry industry or chemical industry (similarly by 35%) this year compared to the last year's first half year. More than two thirds of main branches however recorded double digit growth of sales. Only manufacturers of motor vehicles – for both domestic sales (by 1%) and direct export (6%) - experienced a mild decrease.

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

Growth of the volume of new orders reflected mainly the effect of strengthening prices of production costs in the majority of industrial branches.

Although the growth of the value of new orders in selected industrial branches¹¹ gained pace to 9.3% year-on-year in Q2, it lagged behind this year's dynamics of both sales and growth of prices of industrial producers. Manufacturing of metal structures and fabricated metal products, where the value of contracted works was raised by nearly one fifth, contributed the most to the larger volume of orders. Still no real growth of demand can be reported since the high price growth of inputs in this branch significantly enters into the value of orders. With respect to the dynamics of the production costs as well as the last year basis, the current growth of orders in manufacturing of electrical appliances (11%), pharmacy (15%), textile industry (18%) and clothing (14%, mainly domestic demand here)

⁹ While the sales from industrial activity in current prices exceeded the highest level from the pre-pandemic period already in Q4 2020, it has not manifested in case of industrial production (which is standardly adjusted for price effects) so far.

¹⁰ It concerns export via businesses classified in other branches than industry.

¹¹ Survey on 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.

<p>Growth of demand prevailed in the electrical engineering; improvement manifested for motor vehicle manufacturers.</p>	<p>can be assessed positively. This is in contrast with the three quarters lasting moderate decrease of orders in manufacturing of computers, electronic and optical appliances. The manufacturing of motor vehicle contented with even deeper slump of demand since half of the last year, nevertheless the situation improved in this year's Q2 and the volume of orders very mildly increased here (even despite high last year basis).</p>
<p>The spring optimism of industrial businesses cooled down in July. Both production and employment anticipations were however mildly positive.</p>	<p>Business confidence in industry more significantly declined in July following the growth in Q2 2022 and returned to the level from the beginning of this year (nevertheless the economic sentiment was slightly more favourable than before the onset of the pandemics). The evaluation of the current demand worsened, businesses indicating growth of inventory stock of finished products increased in number and the concerns regarding the overall economic situation (mainly in the nearest three months) also heightened. At the same time however, nearly every third business presumed the growth of output in this time period (only one tenth expected decrease), which also corresponded to the mild optimism in the area of hiring new workers¹². Due to more intense stage of completion of current orders the businesses' stock of work shrank at the same time¹³. The whole branch was limited by significant barriers – shortage of material and equipment afflicted already one half of businesses (mostly in larger traditional export branches¹⁴), lack of workers already more than one quarter of businesses¹⁵ and the inadequate demand then nearly one fifth¹⁶. The shortage of material together with the sharply rising prices of energies as well as other inputs were reflected in the notably high expectations of businesses in the area of raising prices of own production¹⁷.</p>
<p>Significant growth barriers remained, anticipation of growth of prices of own production moderated only slightly.</p>	<p>The industrial production has continued its insignificant growth in the EU so far this year. It strengthened by 1.1% compared to the previous quarter in Q2. Year-on-year, it was by 1.4% higher for the whole half-year, primarily thanks to the increased output of branches production both short-term consumption and durable goods and also activities associated with power. On the contrary, the output of branches aimed at products of investment nature went down (-1.9%), especially due to the persisting difficulties of the motor vehicle manufacturers (-6.3%). While the production of the whole industry in the EU exceeded its pre-pandemic level already at the beginning of this year, it was not achieved in the euro area countries even in Q2 (-1.3%). Compared to H1 2021, the output increased the most mainly in the newer member states this year (e.g. by 14.3% in Poland), the decline affected eight states – among more significant industrial countries it was apart from the CR (-0.3%) Slovakia (-3.2), Romania (-1.6%) and Germany (-1.2%). The EU industrial businesses face identical growth barriers (and with similar intensity) as those in the CR this year.</p>
<p>The EU industry continued in slow recovery. It was similarly to the local economy markedly hampered mainly by the shortage of production components</p>	<p>Following the considerable acceleration of the construction output growth¹⁸ in Q1 2022 (to 3.8% quarter-on-quarter) caused by warm winter¹⁹ and large stock of public as well as private orders, a correction occurred in the subsequent time period (especially in the civil engineering construction) and the volume of construction output thus dropped tightly below the level of Q2 2019. The construction output expanded by 5.6% year-on-year for the whole H1 this year, mainly</p>
<p>Growth of construction output markedly accelerated at the beginning of the year; however the pace did not hold in the next time period.</p>	<p>Following the considerable acceleration of the construction output growth¹⁸ in Q1 2022 (to 3.8% quarter-on-quarter) caused by warm winter¹⁹ and large stock of public as well as private orders, a correction occurred in the subsequent time period (especially in the civil engineering construction) and the volume of construction output thus dropped tightly below the level of Q2 2019. The construction output expanded by 5.6% year-on-year for the whole H1 this year, mainly</p>

¹² The average registered number of employees in industry stagnated year-on-year this year in H1 (as well as in June itself).

¹³ According to the July survey, the current stock of orders provided companies with work in average on further 8.4 months. It was the least since the end of year 2017. Still the domestic industrial businesses had at their disposal the largest stock of work among all EU states.

¹⁴ Next to the manufacturing of motor vehicles (together with the main tied sub-branches) it was mainly manufacturing of computers, electronic and optical appliances (92% of businesses indicated it as one of the barriers), chemical industry (71%) and machinery (55%) this year in July.

¹⁵ It represented the key growth barrier in manufacturing of beverages (49%), leatherworking industry (65%) and metalworking industry (43%), manufacturing of other (especially rail) transport equipment (73%) and repairs of machinery of equipment (41%). The branch manufacturing of rubber and plastic products (69%) and machinery (41%) than held an important role.

¹⁶ It formed the key barrier growth in food industry (35%), textile industry (52%), manufacturing of wearing apparel (75%), wood industry (63%) and printing industry (27%), pharmaceutical industry (74%), manufacturing of building materials (28%) and metallurgy and foundry industry (44%).

¹⁷ Compared to the record size from April 2022 it decreased only negligibly. 53% of industrial businesses planned to raise their own sale prices in the next three months in July.

¹⁸ Data related to the construction output are in constant prices, year-on-year rates are adjusted for calendar effects, quarter-on-quarter also for the seasonal effects.

¹⁹ Based on data of the Czech Hydrometeorological Institute, the average air temperature was gauged at +2.2 degree this year in Q1, i.e. by 1.7 degree more than the average from period of years 1991 till 2020. The temperature was slightly below the long-term norm (by 0.2°C) in the same period last year.



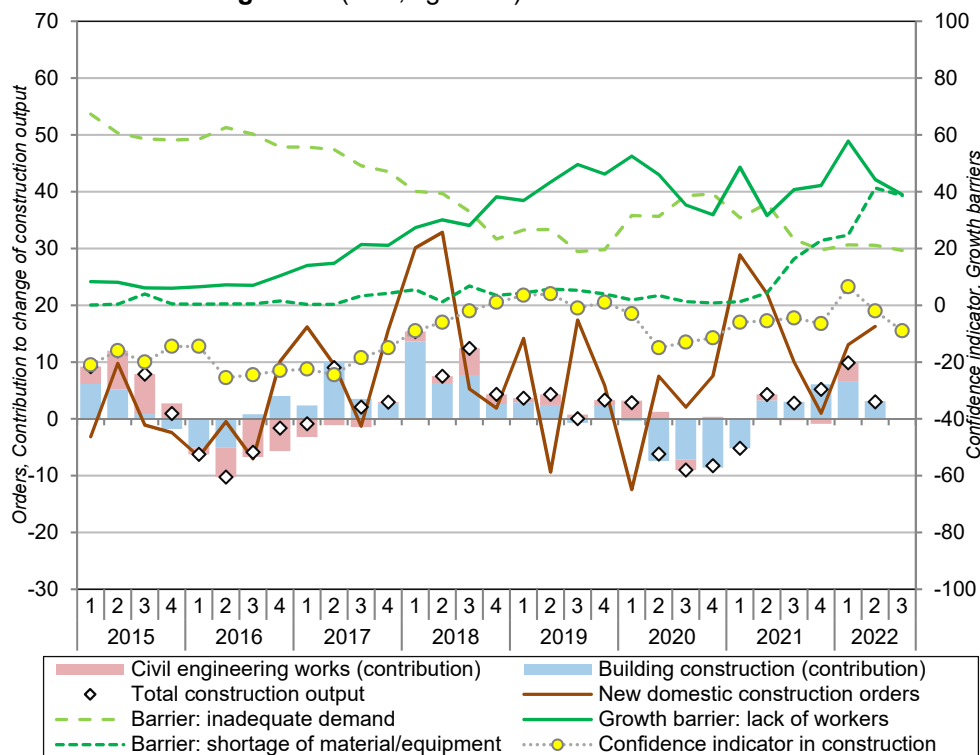
thanks to the building construction (it added 4.5 p.p. to the growth). The pace however slackened in Q2 itself (to 3.0%, to a large extent because the last year's comparative basis already had the usual level²⁰). The performance of the civil engineering construction even fell year-on-year (-0.4%). The hastened drawing of capital expenditures from the state budget (after termination of the interim budget) accompanied by the large volume of planned investment in the area of transport structures for the whole year 2022 should provide this segment of construction with growth impulses.

Record number of flats was commenced as well as finished within H1.

The number of started but not yet finished structures probably also increased, especially of family houses.

The building construction further also profited from the flat construction. The number of commenced flats climbed up to 22.7 thousand in H1 and it was by nearly one tenth higher year-on-year (it strengthened in all main forms of construction, the most for the family houses). Number of flats in both family houses and residential buildings slightly overtook the record level from H1 2008. Near one third of commenced flats was concentrated in the Central Bohemia region, alternatively in Prague, where however the construction lagged behind the last year's level as well as the record level from year 2006. The total number of finished flats in the CR (17.4 thousand) was also unprecedented, it however increased only slightly year-on-year (+2.6%), which was likely connected to the prolongation of the construction time (mainly of family houses) due to the high growth of the material prices and considerable utilisation of the construction companies.

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

²⁰ Construction was partially in downturn still in Q1 2021, since the pandemics culminated at that time. Heightened sickness, difficult movement of workers across the borders, domestic restriction on the total mobility of population as well as restrained performance of the construction offices substantially limited the production possibilities of construction. The economy swiftly commenced to return to normal during spring, which was also reflected in the more perceptible revival of construction.

Raising of the value of new construction orders reflected mostly the growing price of construction works. Growth of the total stock of work moderated, mainly due to the private orders.

The nominal value of newly closed domestic construction orders (in businesses with more than 50 employees) hiked up by 16.3% in Q2 year-on-year (it achieved only slightly lower pace also at the beginning of the year). Only orders of the civil engineering construction contributed to the growth. The total stock of work including all so far not yet finished construction orders was by 8.1% higher year-on-year at the end of June this year. Nevertheless growth of the stock of private orders in effect halted for the first time since year 2017, which is also associated to the lower inflow of new orders in the building construction. Businesses recorded smaller demand also for works abroad. Ongoing swift growth of the approximate value of one granted building permit (by 20.7% year-on-year for H1) satiated mainly by new construction of both residential and non-residential structures, signals more positive outlooks for the whole branch. The rate of growth of the nominal value of the permit thus still slightly exceeded the dynamics of prices of construction works²¹.

Business confidence in construction remained noticeably above the long-term average despite a mild worsening.

Favourable results of construction at the beginning of this year boosted the optimism of entrepreneurs in this branch and the February balance of the business confidence indicator thus evened out with the absolute maximum (from January 2019). The sentiment slightly subsided in the branch later on, however it was still at the level of the period shortly before the onset of pandemics (and simultaneously notably above the long-term average) in July. Businesses perceived their current economic situation favourably, however worsened the outlooks for the upcoming half-year (into a slightly negative band). Still they planned recruitment of new workers (the registered number of employees rose by 1% year-on-year in H1). Just under one fifth of companies anticipated growth and similarly decline of the construction activity in the nearest quarter. Slowing down of the price growth of construction materials was expressed only negligibly in the inflationary expectations of businesses so far²². Businesses are still significantly limited by the barriers to growth. The lack of workers remains the main limit for already nearly four years (even though it seems that the war in Ukraine did not deteriorate this issue significantly). In addition, the proportion of businesses troubled by the shortage of materials was rising (nearly four out of ten businesses claimed it as one of the barriers, it afflicted more companies in the area of building of structures). One fifth of the businesses responded sensitively to the inadequate demand (more often in the area of engineering structures).

The businesses planned to continue in recruitment of employees in spite of mounting concerns about worsening of own economic situation.

Sales in services strengthened and overtook the level from year 2019. The growth of demand afflicted all main branches in Q2 this year

Demand for services kept rising. The quarter-on-quarter sales in services²³ grew continuously since the beginning of the last year and they hiked up to the level of the peak of the pre-pandemic boom for the first time in Q1 2022. They strengthened by 2.6% in the subsequent quarters. The positive fact was, that all main branches participated on this growth. The last counter pandemic restriction (consisting mainly in regulating the number of visitors from some mass indoor activities²⁴) were abolished during this year's Q1 and households thus could have continued in the realization of their "postponed consumption". Sales in services expanded year-on-year for the whole H1 (by 12.6%), specifically thanks to all main branches. The transportation and warehousing, which played the main role in the revival of services last year, contributed the most (+4.8 p.p.).

Growth of sales in land transport also due to weaker dynamics of export of goods eased

The sales in the branch transport and storage surpassed the last year's level by 15.7% in Q2 2022. Mainly the growth of sales for land and pipe transportation had a positive

²¹ It cannot be ruled out, that in the environment of strengthening cost prices (material, energy, wage) the invoice prices after the structure completion can significantly diverge from the prices anticipated at permitting the constructions. It can happen, that businesses or capital weaker public investors terminate the construction work contract in the end and postpone the realisation of the order to times, when the price development is more stable and predictable.

²² 56% of construction firms planned to raise their sale prices in July (higher share was in the long-term time series dating back to 2003 observed only in the previous this year's months).

²³ 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).

²⁴ E.g. restrictions on the number of visitors per cinema show ended as of 1st March 2022, duty to wear respirator during shows as of 14th March.



its pace in Q2. Demand remained high in storage.

Demand for accommodation on the part of domestic visitors slightly exceeded the level from year 2019, for foreign visitors it lagged behind it by more than one third.

Demand for administrative and support service activities more strongly recovered, mainly thanks to travel agencies.

Growth of sales in information and communication slowed down.

Demand for activities in the real estate area was growing, mainly in the segment of real estate offices.

effect here (11.5%)²⁵, its pace nevertheless slowed down compared to the beginning of the year, which was also impacted by weaker results of domestic importers of goods. Demand for storage however remained strong and it was by more than one quarter higher in comparison to the same period of year 2019. Both air and water transportation markedly revived this year, their sales however were far from reaching their pre-crisis level. The year-on-year decrease of sales of postal and courier activities deepened this year (down to 6.6%), which was also linked to the weaker performance of the internet sellers. Branch accommodation, food service and restaurants recorded the anticipated recovery in this year's Q2 and its sales were by more than one half higher year-on-year²⁶. While the number of overnight stays of domestic guests in mass accommodation facilities mildly exceeded the level from the "regular" year 2019 already fourth quarter in a row, for foreign clientele it still substantially lagged behind (by 36)²⁷. The formerly significant clientele from Russia or Asians states (except for Israel) was still practically absent. More than 30% slump of demand however also persisted for visitors from Italy, France, Spain, the USA or the Latin America states. Non-residents from the Central European states were partially saving the situation – number of overnight stays of Slovaks overtook the height from the pre-crisis year 2019 by 20% and the demand of weight dominant German clientele was lower already only by 15%.

Boost of tourism fundamentally improved the situation also for travel agencies and offices, which showed to be pivotal for the year-on-year growth of the whole branch of administrative and support services activities (21.4%). Other activities also signal higher demand here, except for the job agencies. Sales in the whole branch however stayed below the level from year 2019 so far (by 8%). This is not valid for the branch professional, scientific and technical activities (+2%), which generally provides more sophisticated services for business and demand for many of them was not overly disrupted during the pandemic period (legal and accounting activities, management consultancy activities). Architectural and engineering activities capitalising on the development in construction contributed the most to the year-on-year growth of the whole above mention branch in Q2 (7.0%). Advertising and market research (where sales fell behind by 5.4% and by 12% compared to year 2019) had an opposite effect. Growth of sales in the long time strengthening branch information and communication slowed down to 2.5% in Q2. The high demand especially for activities in the area of information technologies (e.g. programming, computer facilities management activities) still drove the performance of the branch. The growth of demand in information activities nevertheless halted after the strong last year²⁸. In addition the decrease of sales for radio and television programming and broadcasting activities deepened when it perceptibly fell also behind year 2019. Brisk recovery of the motion picture and musical industry braked slightly in this year's Q2²⁹. Demand in the real estate area, which was not significantly disrupted during the pandemic period, strengthened by 2.8% year-on-year in Q2. Demand for intermediary activities of real estate agencies kept swiftly rising, while the sales for buying and selling of own real estate or their renting as well as operating were increasing by lower pace.

²⁵ Rail transportation, where the transport of persons plays a large part, thrived more than the road transport (the development of the domestic tourism had also likely a favourable effect here).

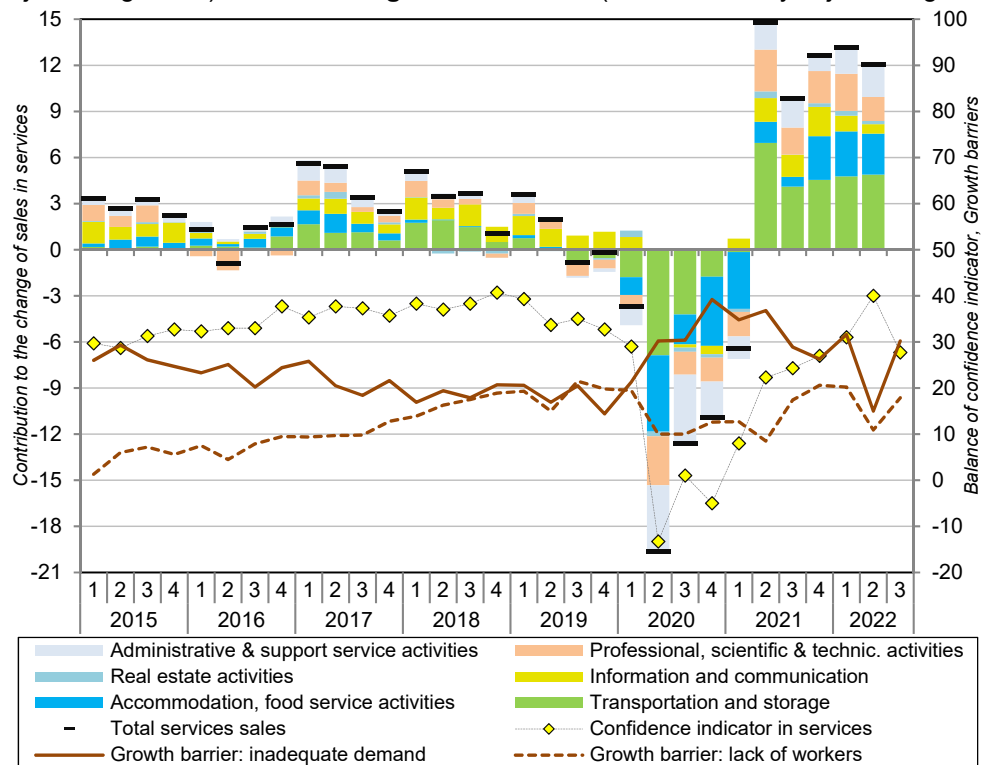
²⁶ Even though the most essential restrictive measures were not in place in Europe last year in spring any more, the across border tourism was still complicated by the inadequate vaccination coverage of population in the number of countries (together with other administrative procedures). This year's revival of tourism in the CR did not manage to offset the losses from the previous years so far. Accommodation providers earned by 31% less compared to Q2 2019, restaurant and food service operators by 9%.

²⁷ Total demand in mass accommodation facilities already in ten regions nearly restored or even mildly surpassed the level from Q2 2019. Number of overnight stays fell behind more only in Prague (by 29%), Karlovy Vary region (24%), South Bohemia region (15%) and Ústí nad Labem region (14%).

²⁸ These consist of activities linked to the data processing and hosting, area of web portals and news press offices as well as agencies.

²⁹ Segment of motion picture distribution prospered more since no restrictive measures for the cinema visitors were in place this year in spring for the first time since the commencement of pandemics. Based on data from the Union of Motion Picture Distributors, this was reflected in the April attendance (1.67 mil persons, record number in this month in the comparable time series since year 2000). 6.4 mil persons found way to the domestic cinemas for the entire H1. It represented 27% decrease compared to the record number from year 2019 (analogically, the number of shows dropped only by 5%). Higher half-yearly attendance compared to this year was observed besides other things also in years 2007 and 2010.

Chart 7 Contributions of branches to year-on-year change of sales in services* (real, in p.p.), balance of business confidence indicator in services (in p.p., seasonally adjusted, right axis) and selected growth barriers** (in %, seasonally adjusted, right axis)**



* Without branches trade, financial activities, insurance activities, science, research and public services. Sales are adjusted for calendar effects.

**Also includes the financial sector. Balance of business confidence indicator as well as the barriers to growth express the level in the first and in the second month of the given quarter (growth barriers and balance of confidence, respectively). Businesses could have indicated more key barriers simultaneously.

Source: CZSO, Eurostat

Trend of mild lowering of sales in retail lasted already nearly one year. Pessimism of consumers was at a record high in July. Business confidence was however scaled down only negligibly. Businesses maintained an optimistic outlook for H2.

Retail sales³⁰ were after the steep boost in the last year's May³¹ largely slightly falling month-on-month in the subsequent period and their volume attained a comparable level to November 2019. Sales for the whole Q2 2022 fell behind the preceding quarter by significant 2.3% since the decline manifested across virtually all areas of retail. This development was closely related to the gradual deterioration of the consumer confidence down to a historical minimum (in July 2022). The repeated year-on-year decrease of the average wages turned into the lower real disposable household income as well in Q1 2021 (-2%). The financial situation of households, as well as their outlook on the nearest 12 months worsened. Concerns of people regarding the growth of prices, which were at a record high at the beginning of spring, slightly dropped in summer. Nevertheless, the growth of consumer prices of food or fuels kept further accelerating. In these circumstances, large part of households apparently started to limit their non-essential expenditures, but also regular purchases of goods hit by high price growth. Yet the sentiment of entrepreneurs themselves stayed despite mild deterioration positive³². They relied also on certain inertia in the consumption behaviour of domestic households (including their utilisation of remaining part of "withheld" savings from years 2020 and 2021 to current purchases) and on higher

³⁰ 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.

³¹ On 11th May 2021, larger shop operations were reopened (outside of shopping centres) as well as all shops in the shopping centres (except for food services) and the last more essential regulative measure terminated in retail. Further only partial restrictions were used as needed (number of customers per shopping area, cancelling of Christmas markets), which did not have a significant effect on the performance of the whole retail.

³² Business confidence balance in the trade branch was comparable to the level from time period just before the onset of pandemics this year in July. Despite mild deterioration since the beginning of the year, businesses perceived their current economic situation still positively and the outlooks to the nearest half-year were also favourable (35% of businesses expected improvement, 13% worsening). It is also substantiated by the fact, that traders also planned the recruitment of new employees.



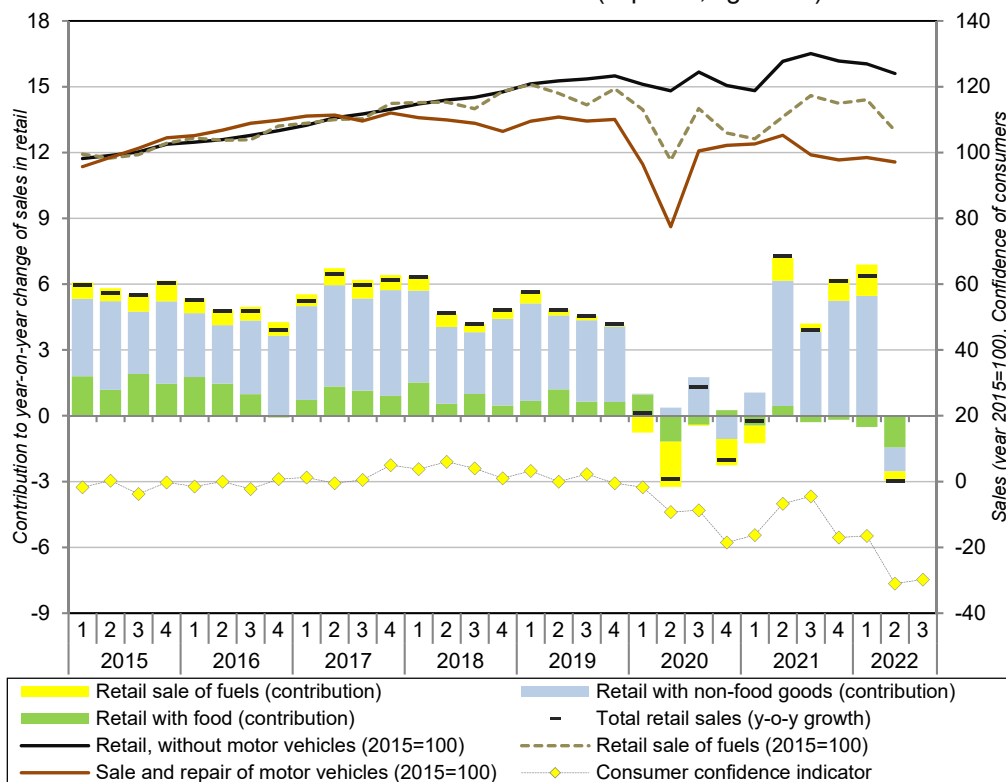
expenditures of non-residents associated with the revival of tourism as well as the refugee flow from Ukraine.

Lower sales of food were mainly behind the year-on-year drop of the retail trade in Q2. Reduction of demand occurred more or less across the board within the retail trade.

Record prices at the petrol stations likely also participated on the lower consumption of motor fuels.

The retail sales dropped by 3.0%³³ year-on-year in Q2 (even by 6.9% in June). Mostly the sales in the retail trade of food stood behind the decrease of sales and also the retail sales via internet – these were by 8.0% lower against the extraordinary last year basis, when they still partially substituted the shut brick and mortar stores. Substantial majority of other specialised shops with non-food goods was also afflicted by milder decrease. People demanded more than last year only the wearing apparel, footwear, leather goods, pharmaceutical and medical goods or cosmetics and toiletries. Decrease of sales for food deepened to 4.0% (larger downturn occurred only in Q1 2012). Large chains recorded deeper slump, real spending rather stagnated in smaller stores. Sellers of fuels experienced lower sales by even 4%³⁴. The demand shrank here by approximately one tenth compared to Q4 2019. It was also valid for the motorist segment of trade, where the decrease of sales deepened to 7.7% in Q2. Dive of demand in the area of sale of motor vehicles was more than double in comparison to the maintenance and repair of motor vehicles.

Chart 8 Contributions of sub-branches to year-on-year change of retail sales* (real, in p.p.), retail sales and sales of motor vehicles (real, level of year 2015=100, right axis) and balance of consumer confidence indicator*** (in points, right axis)**



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

³³ Retail faced weaker consumer demand also in the EU this year. Retail sales rose by 1.3% in Q2 year-on-year, the least since half of year 2020. Euro area lone was in a worse position, where mostly the newer members from Central and Eastern Europe contributed to the mild growth (0.5%). The decrease of sales afflicted 11 states of the EU – the most Denmark (-5.0%) and Finland (-4.0%), where a mild quarter-on-quarter downturn occurred already since half of the last year. Within the Central Europe, the lower output of retail in Germany (-3.7% year-on-year), the CR (-3.0%) and Austria (-2.3%) contrasted with the brisk pace of Poland (+12.7%), Hungary (+7.9%) and Slovakia (+5.4%). Sales for food went down by 2.3% in the EU, in contrast non-food products (+2.8%) and sale of motor fuels (+7.8%) recorded considerably faster rates than in the CR. It belonged together with German, Denmark and Belgium to the only Union states, where the sales fell in all the above mentioned key retail segments in this year's Q2.

³⁴ Lower consumption of motor fuels was linked to the price escalation aided by the war in Ukraine. Sales for motor fuels increased by 38.1% in current prices year-on-year.