

Performance of the sectors

- Industrial output according to the gross value added in real terms considerably lost in rate of change and in nominal terms nearly stagnated**

Dynamics of real industry performance of the Czech economy, measured by the seasonally adjusted volume created gross value added by them, in 2011 diminished. Year-on-year increment of 1.5 % was the lowest in the time series since 1995, when ignoring the drops in recession from the second half of nineties and the year 2009. In 2010 the gross value added increased by 3.2 %, in 2011 due to the adverse effect of the price development it practically stagnated in nominal terms (+0.4 %) and in 4th quarter its growth ceased year-on-year even in real terms.

More sources were compared to 2010 created only by agriculture (+6.5 %), industry (+5.1 %), financial intermediation and insurance industry (+5.6 %), real estate activities (+3.9 %) and seemingly paradoxically also public sector. Here the growth of value added of 2.8 % was however affected by weak comparative basis of 2010, when this branch as the only one decreased year-on-year. The highest growth was in 2011 achieved by the manufacturing industry, whose output according to the value of larger gross value added leapt nearly by one tenth (+9.8 %).

Deceleration of gross value added creation in the economy makes sense as a consequence of weak mostly domestic demand, which is not able to absorb the larger resources. It brings the risk of further loss of working positions.
- After crisis real growth of industrial production culminated in 1st quarter of 2011, subsequently weakening of demand slowed down the performance**

Solid growth of Czech industry in 2011 (year-on-year +6.9 % in real terms) was accompanied by varied performance in individual quarters.

In 1st quarter the positive after-crisis development of industrial production reached its top with the second largest year-on-year growth (+12.3 %) in the time row since 2001 (after +13.4 % from 2nd quarter of 2004). Consequently the rate of growth was gradually slowing down to +3.1 % in the last quarter, when from the main branches of industry notably decreased year-on-year mining by 9.4 % (coal -12.4 %), the electricity, gas, steam and air conditioning supply (+0.3 %) after previous continuous decreases and the manufacturing industry grew (+4.2 %).
- Over half of the growth of industrial production in 2011 belonged to motor vehicle manufacturing...**

Production of manufacturers increased by 8.3 % in 2011 driven by manufacture of motor vehicles, whose export together with spare parts further strengthen its weight on the total value of export¹ from the Czech republic. If it was not for the contribution of motor vehicle industry – in case its production hypothetically stagnated -, the industrial production would increase in 2011 only by 3.2 %, not by 6.9 % and production of the manufacturing industry by 4 % and not by mentioned 8.3 %.
- ... even with lower dynamics in the last quarter; the rest of industry as well as manufacturing industry slowed down even more markedly**

Even in the 4th quarter the motor vehicle manufacturing industry (+15.5 % year-on-year) kept its significant distance from the dynamics of other manufacturers, even though it did not grow by one fifth as in the previous quarters. The most successful was the manufacture of other transport vehicles (+27.4 %) due to the effect of finalised large orders. On the contrary, after previous increases the textile, manufacture of paper and paper products and manufacture of basic metals decreased. In the whole second half of the year, the slump of printing and reproduction of recorded media, manufacture of coke and refined petroleum products, chemical as well as pharmaceutical industry continued. Manufacture of wood and of products of wood, manufacture of food products remained in continuous falls in each quarter and manufacture of computer, electronic and optical products experienced a sharp fall in the 4th quarter (-21.8).

Lower compared to 2010 were in 2011 also the manufacturers in manufacture of furniture (-0.5 %), manufacture of wood and products of wood (-5 %) and manufacture of food products (-4.6 %). Manufacture of coke and refined petroleum products weakened the most (-9.3 %), further manufacture of computer, electronic and optical

¹ Across the border concept.

products (-9.8 %). Strong throughout the year was the manufacture of transport vehicles (motor vehicles +21.2 %, other +22.1 %), repairs and installations of machines and equipment (+15.1 %) and manufacture of leather and related products (+13.3 %).

- ***The development of sales confirmed the two-tracked nature of industry***

Industry received from sales on the Czech market in 2011 year-on-year less (-0.4 %) than in 2010, for the second time since 2002 (deeper was only the slump during the crisis in 2008). Sales from direct export (not the total export²) year-on-year rose. While for the period of running out boom – according to the graph 6 from the half of year 2007 till half of 2008 – domestic sales grew faster than sales from direct export, from the half of 2009 the rate of growth of sales from direct export started to overtake the domestic sales. In the last quarter of 2011 the trend of gradual slump of domestic sales stopped and the fall started diminishing. Total sales in industry in 2011 grew year-on-year by 7.2 %.

- ***Dependency on foreign demand further strengthened***

Last quarter brought a positive turnaround in the orders. Foreign demand grew year-on-year by more than in the 3rd quarter, the fall of domestic market orders slightly diminished.

From the long-term point of view was not the year 2011 in industry the most successful with respect to orders. Annually their value compared to 2010 increased by 5.4 %, but it was still less than the average rate of growth of the last decade (+6.9 %). However, it was not valid for foreign orders, which slowed down (+12.1 %), but still they exceeded the average rate of growth of the preceding ten years (+8.6 %) influenced by the sharp fall in 2008 and mostly in 2009. On the contrary very weak domestic demand caused the domestic orders in industry in 2011 to fall year-on-year for the first time since the beginning of its monitoring (-5.1 %). Their average dynamics in the last ten years (+4.5 %) was compared to the average rate of growth of orders from abroad one half. Future growth of industry will thus be in the nearest period affected more by the demand on foreign markets.

- ***Operating profit in industry grew faster than production and sales***

Despite weakening output of industry evidenced by the development of production and sales, its financial position improved – profits at the operating level increasing by one tenth, in that in manufacturing by 7 %. It can be explained probably also by the lowering of costs in reaction to the economic slowdown and anxiety related to the development of future demand. This phenomenon, while the fall in output is accompanied by considerably lower negative change in profits and wages was in the Czech economy notable also during the 2009 crisis.

- ***Crisis created mostly by the lack of large constructions***

Construction output dropped in real terms for the third year in a row. However in 2011 (-3.5 %) the fall from 2010 did not enlarge further (-7.1 %). It was valid also for building construction (-0.4 %, resp. -7.1 %), which has been falling fourth year in a row. On the contrary, large civil engineering constructions further enhanced (-8.7 %) their considerable year-on-year dive from year 2010 (-9.2 %). While it is just development in civil engineering construction standing behind the crisis in this industry.

- ***Significant losses of job vacancies***

Varying dynamics in individual quarters was influenced by the comparison basis, weather as well as mild revival of building constructions in the last quarter, caused mostly by the reconstruction works. Efforts to gain orders by the way of price competitiveness led to current prices of construction works decreasing also in 4th quarter (-1.3 %). It also dropped in real terms (-0.8 %). At the same time it can be assumed that the very favourable December results related to large constructions could have been caused apart from the weather also by the finishing of remaining invoicing or invoicing ahead accompanying the increase of VAT beginning 2012.

Unfavourable is the loss of jobs in the industry – compared to levels ten years ago, there were 10 thousand people less working in construction in the 3rd quarter 2011, compared to the top of the boom in 2008 even by more than 23 thousand persons

² Sales from direct export relate to the sales on foreign markets, arranged directly by the companies not by the exporting agency.

less.

- **Profitability in construction declined, in industry rose**

Financial results in construction were not favourable in 2011 and even worse than the achieved performance – profit at the operating level was in comparison to 2010 by nearly 30 % lower (10.2 bn crowns), the addition to long-term fixed and intangible assets was roughly one half.

Profitability in the industry is falling – one hundred crowns of sales generated in construction only 1.42 crowns in profit (1.89 crowns in 2010), on the contrary noticeably more in the industry (4.58 crowns compared to 4.55 crowns in 2010). It confirms that when competing for orders the construction companies can also find themselves giving price offers below the level of costs for the given action.

- **In the second half of the year excluding the impact of sales and repair of motor vehicles the retail sales fell and for the whole year only stagnated**

Also in the 4th quarter the effect of sales of motor vehicles was working, affecting for the whole year to the large extent the dynamics of retail sales (in 2010 even more significantly). They grew in this quarter in real terms by 1.2 %, but in sale, repair and maintenance of motor vehicles increased four times faster (+4.9 %). Only slightly weaker mutual relationship held also for the whole year (+1.9 %, resp. +5.4 %). Statistically inseparable sale of motor vehicles in wholesale and to entrepreneurs increases the rate of growth of sales in the automotive segment and thus increases also the dynamics of the total retail sales. Excluding the effect of this segment the purchases in retail in the second half of the year decreased year-on-year and for the whole year only stagnated (+0.4 %).

- **First annual fall of the sales of food products since the beginning of monitored time series**

The sale of food products in retail further decreased in 4th quarter (-3 %) and fell also for the whole year 2011 (-1.2 %). It was the first year-on-year decrease in the time series since 2001 – the fall did not occur even in the crisis year 2009 -, which proves the seriousness of anxiety of households regarding their financial situation. Sales for non-food products in the 4th quarter revived in real terms (+2.3 %), but it can be assumed that it could be the consequence of marked pre-Christmas discounts, since in current prices these sales grew only by 0.7 %. Sales of fuel stations have been experiencing continuous fall already twelve quarters in a row and they dropped in 2011 year-on-year by 3.5 %. The price pressure significantly pushes down the real consumption in this area.

Second quarter directed to real decreases also the sales of books, restaurant menus and medicine. But even the retail sale in non-specialised stores with food, beverages or tobacco predominating, probably experiencing the effects of mentioned lower sales of food products (even though in current prices their sales increased by 3.3 %, for large business chains then by 5.5 %). Internet sales grew roughly by the same pace as in 2010 (+11.8 %), nevertheless in the second half of the year notably slower. The fastest and faster in every quarter grew in 2011 the retail sales of information and communication equipment in specialised stores (+8.1 % in real terms). Retailers sold more in quantity, however for the cost of extreme price discounts (because in nominal terms these sales in 2011 even fell).

- **Sales in services have so far not reached even the pre-crisis stagnation level**

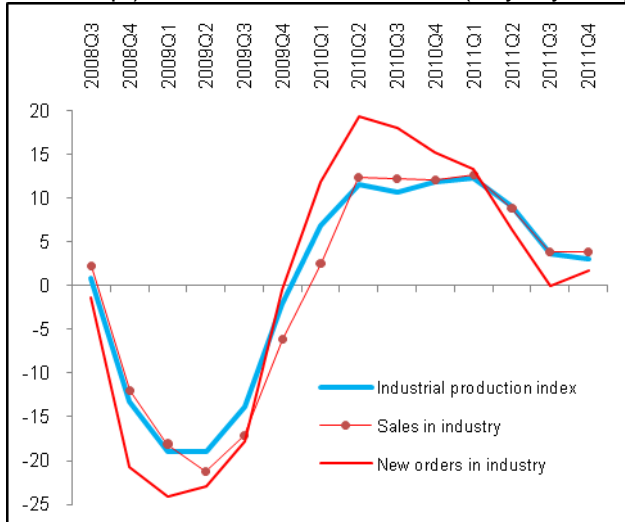
Services form after construction the most affected sphere of the Czech economy, which has so far not recovered from the year-on-year decreases launched by the crisis in 2009. Sales fell in 2011 compared to 2010 in real terms by 1.5 %. Year 2008 was the last year when the sales featured growth or rather year-on-year stagnation (+0.2 %).

Year-on-year growth maintained in 2011 mainly the services directly supporting the industrial production, which managed to balance the fall from the 3rd quarter (transportation and storage +1.2 % thanks to transportation activities, sales from warehousing and support activities for transportation on the contrary fell by 0.6 %). Further also the sales for accommodation and food service activities (0.6 % due to the strong growth in accommodation services), but mostly administrative and support service activities (+4.3 %). These were dominated with extremes additions by employment placement agencies, whose sales were compared to 2010 higher by one fifth. The growth in 2010 made sense following the crisis and continuing even more intensively in 2011 shows for once the delay of the labour market behind the

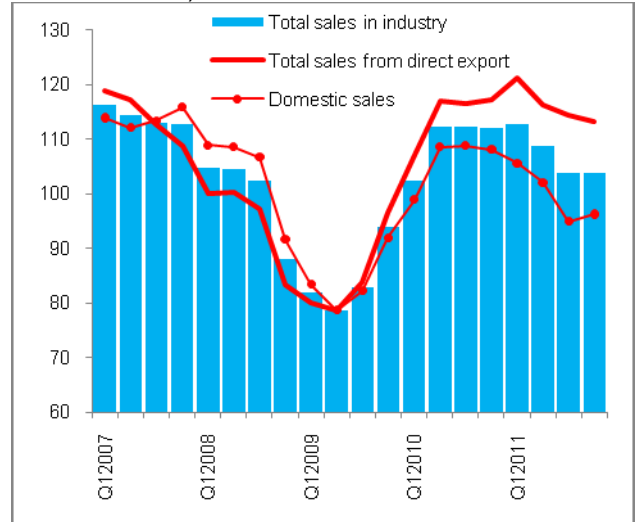
economic development and for the second the behaviour of employers preferring in the uncertain times hiring employees from these agencies.

Most services were characterised by notable worsening of sales in the 3rd quarter, the results in the 4th quarter mildly improved.

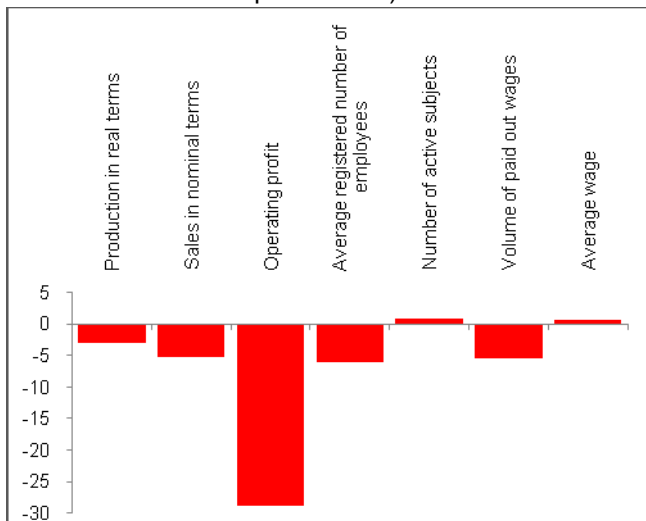
Graf 5 Industrial production (in real terms), sales (in c.p.) and value of new orders (all y-o-y in %)



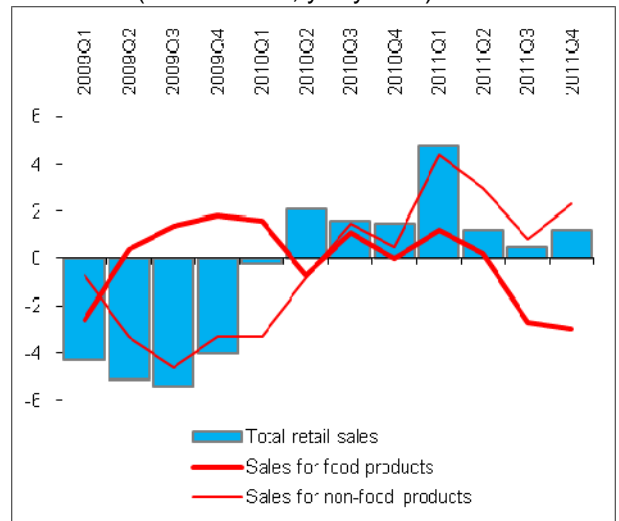
Graf 6 Sales in industry (in current prices, y-o-y in %)



Graf č. 7 Construction in 2011 (y-o-y in %, selected parameters)



Graf č. 8 Sales in retail incl. automotive segment (in real terms, y-o-y in %)



Source: CZSO