

3. Industry Performance

Depth of the year-on-year drop of GVA for the whole year 2013 comparable to year 2012

Marked recovery of foreign demand of the manufacturing industry led in Q4 2013 to the highest quarter-on-quarter growth of GVA (+3 %) in the economy for the last three years

Year-on-year growth of GVA was in 2013 limited only to the manufacture of transport vehicles and associated industrial activities and also on some segments of the financial sector

Long-term fall of GVA continued in agriculture (also due to higher intermediate consumption) and construction (lack of large both public and private orders being at fault)

Services apart from the financial sector remained free from substantial signs of revival during 2013 due to still tightened final consumption expenditures

Shallow year-on-year drop of GVA contrasted for most services with mild growth of both employment and hours worked

Notably uneven year-on-year development of industrial production within year 2013

Improvement of year-on-year dynamics of production during 2013 nearly in all manufacturing branches

Seasonally adjusted size of the gross value added (GVA), reflecting the performance of the industries in the Czech economy, fell in real terms in 2013 (-0.8 %) similarly to the preceding year. The adverse result was affected mostly by the development in the first half of the year, when the inadequate demand curbed performances especially of the investment-oriented industrial activities. In Q3 the quarter-on-quarter growth of the GVA creation renewed after a year and a half, which turned even in the mild year-on-year growth (+0.6 %) in the last quarter after the same duration of time. The manufacturing industry participated by a decisive way on this revival. The growth of GVA however has not been reflected yet in a more significant increase of the hours worked, including the manufacturing industry itself.

Eccentric development of GVA in the financial sector (in 2013 year-on-year by +8 %) is somewhat relativized by a low comparative basis (against the year 2011 the GVA only stagnated) and a low weight of financial and insurance activities in the creation of value added of the whole economy. The manufacturing industry also had a negligible contribution to the year-on-year change of GVA, however for the reason of differentiated development within year 2013. Regardless of good harvest of grain the value added in the agriculture fell by one tenth, the volume of inputs in this economic activity grew faster than the production. The fall of value added in the agrarian sector is a more long-term phenomenon, for the last four years the GVA decreased in real terms by more than one third. Negative trends also prevail in the construction in the long term, when in 2013 the depths of year-on-year decreases of hours worked (-5.8 %) as well as aggregate employment (-2.5 %) reached four-year lows. Due to the mild recovery of new orders in the civil engineering construction accompanied by favourable climatic conditions at the end of year 2013 the depth of fall of value added was on the contrary mitigated, however still the performance of construction was weaker compared to year 2007 by one tenth in real terms.

The dynamics of value added apart from the value in the financial sector did not differ much within the services sector in 2013, in contrast to the industry there were no noticeable signs of revival during the year. The cluster of economic activities significant by weight - trade, food service activities, accommodation and transportation (with the drop of GVA in the activity by 1.6 %) contributed the most to the year-on-year fall of the total GVA among the services. Contrary to the industry, the employment in the conception of national accounts grew more significantly across the services activities in 2013 (with higher dynamics the positions of the employee nature) supported also by the growth of hours worked (except for trade, transportation, accommodation and food service activities with year-on-year fall of 2.6 %).

Marked change of the dynamics of the industrial performance (according to the index of production) during 2013 was to the major extent affected by the considerable revival of foreign demand especially for transportation vehicles, noticeable already since the beginning of summer. Industrial production (adjusted for calendar effects) similarly being situated nearly 3 % below the last year's level in both Q1 and Q2, expanded in the last quarter (+7.2 %), partially also due to the effect of low year-on-year comparative basis. In the quarter-on-quarter expression, the industry was gaining pace by 2.5 % (in Q3 +2.3 %) towards the end of the year, mild growth was apparent throughout the whole year 2013.

Revival during 2013 occurred in the form of more favourable year-on-year dynamics of production nearly in all manufacturing activities, mainly in the manufacture of motor vehicles, rubber and plastic products, basic metals, metallurgy or manufacture of other non-metallic mineral products. The exception was formed by manufacturing of food products (with long-time stagnating production), long-time dampened manufacture of leather products and also coke and refined petroleum products (hit by a long-time recession of the mining industry). In the last quarter the production increased year-on-year in ¾ of manufacturing branches.

Marked revival of foreign demand for transport vehicles and machinery assisted in the second half of the year to the export-oriented industry of the CR to lift the industrial production in 2013 to a mild growth

Production of the manufacturing industry following the actual stagnation in 2012 returned a year later to a mild growth (year-on-year by +1.5 %), especially thanks to the manufacture of basic metals, motor vehicles and machinery. Deep fall of the foreign demand on the contrary takes its toll on the manufacturers of computer, electronic and optical products, whose production has been falling for already ten quarters in a row (it weakened by one quarter in the last two years). The chemical industry did not in 2013 continue (-2 %) in the successful previous year (+5 %). Real production in the manufacturing industry attained the level of boom from year 2007 in 2013 (exceeded the level however only in one third of manufacturing activities: apart from the manufacture of motor vehicles with some subcontractor branches also in the chemical and pharmaceutical industry), it was lower by one eighth in the energy industry, even by one sixth in mining and quarrying.

The dynamics of industrial production of activities oriented on short-term, long-term consumption or investment (year-on-year +1.3 %) did not differ in total in 2013 opposed to the previous years. The production of activities focused predominantly on the manufacture of intermediate products increased the most (+2.0 %), e.g. manufacture of rubber products, basic metals or electrical appliances. Mild decreases from the previous two years deepened (-4 %) in the branches focused on manufacture of energies in 2013.

In H2 2013 record value of new foreign orders in manufacture of transport vehicles, but also a notable revival of domestic demand in key manufacturing activities

Important point of turn in the demand for industrial products is evident from the sharp growth of nominal value of foreign orders during the year 2013. This value increased year-on-year for motor vehicles as well as other transportation vehicles (manufacture of railway locomotives and rolling stock) by whole one third in the second half of the year and reached the highest rate of growth for the last decade. After five quarters of stagnation the manufacturing of machinery and equipment also fared well (H2 +11 %), as well as the metallic constructions (+17 %), where the foreign demand have grown already 16 months in a row. Branches mentioned above also revived also due to the growth of the domestic demand at the same time (+15 % for manufacturers of motor vehicles), which also proves the strong interconnectedness of subcontractor relations.

Long-term trend of faster dynamics of sales on direct exports continued

In total for 2013 only the manufacturers of computers, electronic and optical appliances faced the falling demand to a larger extent. The long-term growth of new foreign orders compensates the larger fluctuations of the domestic demand in the textile and pharmaceutical industry. The advance of the dynamics of the value of new orders from abroad over the domestic orders represents for the CR industry a long-term phenomenon, which is also apparent from the development of nominal sales. These in 2013 for the direct exports accelerated the year-on-year growth to 5.1 % (from last year's +2.9 %), while the domestic sales fell by 2.3 % (after last year's stagnation).

CR belonged to one third of the EU countries with the fastest growth of industrial production in 2013

Real value of industrial production in the CR was even in spite of a slight growth (+0.7 %) the eight highest in the EU28 in 2013. We can find higher year-on-year dynamics in the newer countries of the Union, next to Romania (+7.3 %) also in Poland (+5.2 %) and Slovakia (+2.4 %), it stagnated in Austria and Germany, weakened by 0.5 % in the whole EU. Compared to year 2007 the industry in Slovakia and Poland strengthened the most (by one quarter, resp. one fifth), it was lower by 3 % in the CR and it stagnated in Germany. It was lower by one tenth in the whole EU, mostly because of South European countries – it fell by one quarter in Italy, nearly by one third in Greece and Spain.

Deep downswings of production also continued in both building construction and civil engineering construction to the lowest level in the last decade in 2013

Adverse tendencies in the construction prevailed as a result of long-term fall of investment activities in the economy also in year 2013. Construction production year-on-year dropped by 6.7 % in real terms (comparable rate of fall as in 2012), without larger differences between (more significant by weight) building construction (-5.6 %) and civil engineering construction (-9.3 %). Yearly development was affected by deep falls of production in H1 (in both quarters it was year-on-year by near one eighth lower). On the contrary in H2 the revival of new orders in the civil engineering construction as well as the favourable climatic conditions helped and the production in the whole construction did not fall quarter-on-quarter anymore.

Gauged year-on-year however, the construction production has been falling already seventeen quarters in a row (if we do not take into account the Q1 2011, when the

Lasting low investment activity in the economy pushes the value of new orders to historical lows	mild growth of production was the result of very low comparative basis of the preceding year). The whole year growth in production was last recorded in 2007. The current year's performance of construction corresponded to the level in real terms of year 2003, it was lower by 27 % against the boom year (2007) (in building construction), resp. by 14 % (in civil engineering construction).
The average size of orders keeps declining, as well as their total stock negatively marked mostly by the lack of large public orders	The value of new construction orders (for businesses with 50 and more employees) remained practically on the last year's (historically the lowest) level mainly because of continued downturn of building construction in 2013. The new orders in the civil engineering construction did increase year-on-year by one sixth, nevertheless their nominal value was still the third lowest for the last decade. The value of new orders decreased nearly by one half in five years (for building constructions), resp. by near 40 % (for civil engineering constructions). The average value of newly closed order still displays a slow rate of fall (in 2013 it amounted to 3.6 mil crowns) as well as the approximate value of one issued construction permit (mostly for non-housing constructions).
Number of started dwellings attained after continuous falls the level of middle 90s in 2013	Lack of new orders towards the end of 2013 transferred also to a low value of all construction orders (141 bn crowns). Notable slump of the value of total public orders (by one tenth) was also accompanied by year-on-year slower downswing (-2.6 %) of private orders. Lower volume of these orders could not be compensated by a dynamic boost of by weight so far marginal orders from abroad (+58 %), these shared in nearly 17 % on the value of all orders of construction businesses towards the end of 2013. On the contrary, the stock of public construction orders was compared to year 2008 lower by more than one half and their proportion on all orders of construction businesses fell below the 50% boundary for the first time in history.
More than third of completed dwellings in the CR is located in Prague and Central Bohemia in the long term	Saturation of the market with dwellings due to intensive housing construction from boom years in combination with the drop of real household incomes is reflected in the current low frequency of both started and completed construction. The number of started dwellings has been declining already sixth year in a row, its size was one half compared to the top of boom (for housing constructions only one third). In 2013 only dwellings in multi-dwelling buildings increased year-on-year (because of extremely low comparative basis) and among regions significantly only dwellings started in Prague (+19 %).
The depth of construction production slump in the CR in 2013 the fifth highest in the whole EU	Number of completed dwellings fell by one seventh year-on-year (to 15-year minimum) without significant differences in types of buildings. More than third of completed dwellings was located in Prague and the Central Bohemia in 2013. Protracted lack of orders led to further deepening of the registered number of employees in 2013 („core“ labour force in this economic activity), the construction thus lost in physical persons over 50 thousand employees for five years of continuous decreases.
Mild year-on-year drop of sales in services lasted also during 2013	The depth of year-on-year slumps of construction production was deeper in the CR compared to the EU28 in the last four years. Against the top of boom the production cut in real terms a whole quarter in the CR, comparably to Slovakia or the whole EU. This level exceeded only in five member countries (in Germany by 5 %, in Poland by 17 %) in 2013.
	Sales in selected services ¹ in the aggregate continued in tendencies of the last four years and mildly weakened in real terms in 2013 (year-on-year by -0.9 %). The growth of sales in transportation and storage already continues for nearly four years (+4.2 %), mostly thanks to the warehousing and support activities for transportation (+7.9 %), however all main types of transportation generated higher sales year-on-year, except for the postal and courier activities (-8.5 %), which fell already for second year. The rate of growth of sales of the most significant activities by weight - land transport and transport via pipelines (similarly to warehousing) was strengthening in connection with the revival in industry and foreign trade during the year 2013.

¹ Do not contain the activities of trade, financial and insurance activities, science and research and also the public services.

Recovering industry contributed to higher sales in transportation and storage, foreign tourism to accommodation activities, shifts in the labour market then to job agencies and management consultancy activities

The differentiated development continued in the area of accommodation, restaurants and food service activities, where the sales in real terms for accommodation have been growing for more than four years (+2.1 %), which was the result both of the discount strategies of accommodators and the rising frequency of overnight stays of non-residents. Restaurants and food service activities on the contrary face long-term difficulties, despite the depth of falls of sales in real terms slowing down this year (to -0.8 %) and recorded growth in Q3 for the first time since 2007. However, for the last six years the sales in this branche slumped by 30 %. The growth dynamics of sales of job agencies mildly weakened (+6 %, still in four years the sales were raised by two thirds). The demand for management consultancy activities and telecommunication activities or security and investigative activities increased. The market research and public opinion polling still experience a mild growth. A larger reduction of sales occurred in majority of information and communication activities, real estate activities, architectural and engineering activities, travel agencies and especially advertising activities (year-on-year by one eighth, since the beginning of deep recession by two fifths).

Deep slump of sales in advertising activities, long-term reduction for real estate activities

Since Q2 a mild growth of retail sales renewed due to marked revival in the motoristic segment and internet sales

The development of real retail sales (incl. the motoristic segment) was uneven during the year 2013. A year lasting year-on-year slump in sales halted in Q2, the dynamics of sales growth strengthened for the remaining part of the year up to 3.6 % in Q4 (after adjusting for calendar variations by 4.2 %). The motoristic segment gaining strength contributed to a more favourable result during the year (Q2 +3.6 %, Q4 +10.3 %), both in case of trades and maintenance of motor vehicles. The dynamics was also strengthening for sales of non-food products, which were boosted also due to the pre-stocking (because of fears from price rises) towards the end of the year, mainly in specialised shops with computer and communication equipment and products predominantly for households. On the contrary the mild decrease of sales in businesses predominantly with food has continued for already ten quarters (for the whole year 2013 year-on-year by 1.1 %), the long-term weakening of real sales at petrol stations also lasted (-3 %), not even the mild reduction of prices did improve the results.

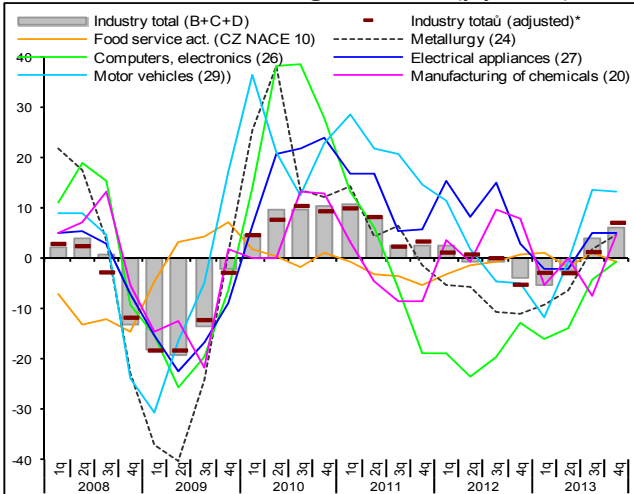
The decreasing retail sales on automotive fuels continued to display stronger rates of fall, in five years the sales were in real terms lower by one sixth

In the whole retail the sales strengthened by 1 % in 2013, stagnating against the year 2011. Internet sellers returned to high rises from times of top of boom (+27 %) during 2013, their sales more than doubled in real terms compared to 2007. Discount strategies assist also the information and communication equipment (+9 %), clothes and footwear (+3 %) in the long term. In other specialized stores the sales stagnated in 2013 (books, paper products, furniture, electrical appliances and electronics, cultural and recreational goods) or slightly weakened (pharmaceutical, medical, cosmetic and chemist articles).

Dynamics of retail sales in the CR (excl. motoristic segment) above the EU level in the long term, mostly for non-food goods, reversely for sellers of automotive fuels

Year-on-year dynamics of CR retail sales in real terms (excl. the motoristic segment) (apart for year 2010) already exceeded the level of the EU28 in the last decade, resp. the original member countries (EU15). In 2013 these sales rose by 0.2 % in the CR (in the whole EU they were reduced by 0.1 %), similarly to most neighbour countries, except for Poland (+4.6 %). They mildly grew among large economies in Great Britain (+1.4 %) and France (+1.2 %), long-term decreases hit the Netherlands (-3.8 %) and states of the South Europe (notably Greece -8.1 %). The CR enjoys even more favourable position towards the whole Union in the area of non-food goods in the long term, on the contrary with the depth of year-on-year falls of sales of automotive fuels (-3 %) in 2013 it strongly stayed behind the EU (-1.2 %) and all neighbours (Germany +3.5 %, Slovakia +3.2 %).

Chart 5 Production in industry and selected manufacturing activities (y/y, in %)



* data adjusted for number of working and calendar days
Source: CZSO

Chart 6 New orders in manufacture of motor vehicles and industry in total (y/y, in %)

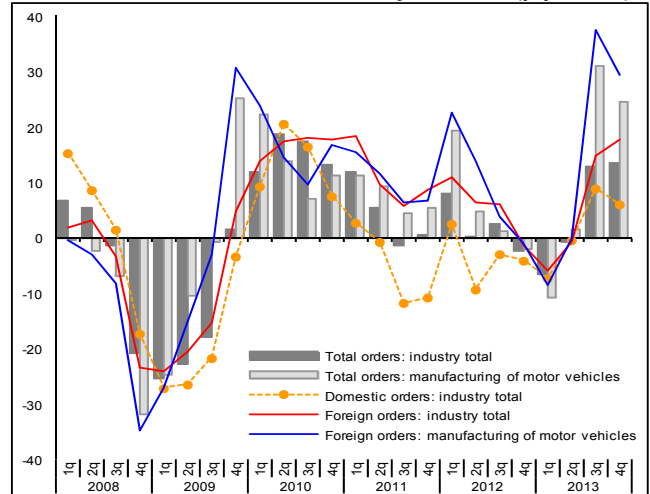
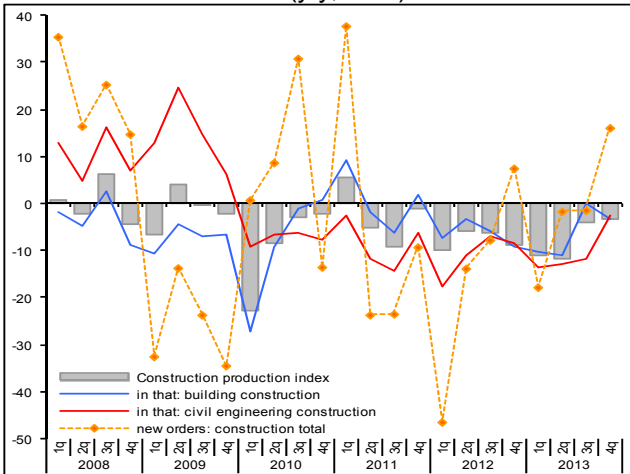
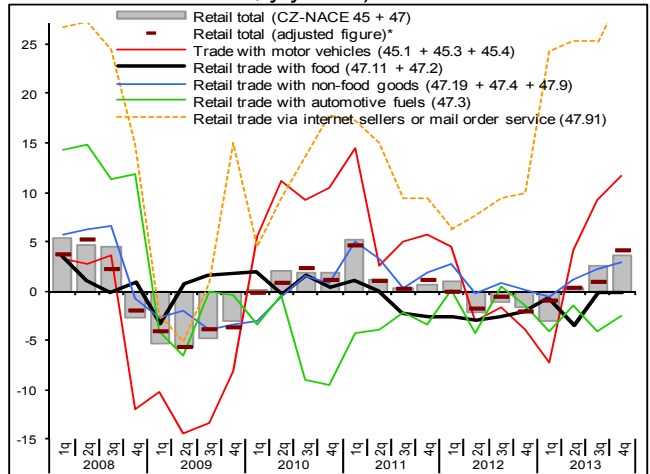


Chart 7 Construction production and value of new orders (y/y, in %)



* data adjusted for number of working and calendar days

Chart 8 Retail sales incl. motoristic segment (in real terms, y/y in %)



Source: CZSO