

Industry performance

- *Decrease in year-on-year dynamics of gross value added continued in all sectors also during 2012***

The performance of all sectors of the Czech Republic economy measured by gross value added in Q2 2012 recorded a year on year decrease according to preliminary data (-0.3%). This happened for the first time since 2009, while a moderate slowdown of the pace has lasted for almost 2 years together with the overall stagnation of employment in the economy. The slowdown of year on year dynamics of gross value added was between Q1 and Q2 2012 apparent in all major industries with the exception of the finance and insurance industries (with variable development and the effect of the high comparative base of Q1 from previous year applied) and public services industry (with unchanged dynamics).
- *The manufacturing industry, despite growth slowdown, is still key to GVA dynamics; however, in Q2 it did not manage to avert a year on year drop of GVA in economy***

Due to its weight (25 %) and year on year dynamics (+4.8% in Q2 2012), the manufacturing industry remains a traditional generator of gross value added in the economy, in spite of a gradual slowdown of the dynamics. In 2010, and even in the first half of 2011, it achieved an increase of more than 10%, while in Q1 of this year it still recorded 6.5%. In Q2, the manufacturing industry was driven by the production of machinery and equipment and manufacturing of electrical equipment, but the food industry, production of rubber and plastic products and production of transport vehicles did not reach the same level as last year. The manufacturing industry did generate the growth of value added in times of long-term stagnating employment and a lower number of hours worked (in Q2 year on year by as much as 4.4%). Also professional, scientific, technical, and administrative activities and also the real estate activities achieved a moderate growth of gross value added (2–3%) after the last year drop, which was supported by better use of the workforce.
- *Deeper drop of added value in construction industry and telecommunications***

The construction industry (-12%) and information and telecommunication activities (-7%) proved in Q2 long-term tendencies, as the value added has been in real terms on decline in these sectors for six or seven consecutive quarters, and it is lower than the level from the beginning of 2008 by as much as one eighth. Even the primary sector generated year on year lower value added with long-term decreasing employment in Q2 2012 (-4%); contributing to a drop in the whole economy (as a result of its low weight) three times less than trade, transport, and the hospitality industry in which the value added dropped only by 1%.
- *Long-term moderate weakening of the growth dynamics across all manufacturing industries resulted in Q2 2012 in a 1.5% drop of industry; 2–3% growth was maintained by the manufacturing of motor vehicles and some related industries with production designated for investment***

The dynamics of the growth of industry measured by the production index has been weakening year on year since the beginning of 2011. This trend was also confirmed by Q2 2012 with a year on year drop of 1.5% (after 3% growth in the previous quarter)¹. The decrease was recorded for the first time since the last quarter of 2010. Moderate year on year 2–3% growth of production was retained by four manufacturing industries (nine in the previous quarter). These were manufacturing of electrical equipment, machinery and motor vehicles. On the other hand, the sectors of the clothing industry, manufacture of computer, electronic and optical equipment, repair of machinery and the pharmaceutical industry were confronted with a 10–15% decline in production. The year on year pace has slowed in comparison to Q1 and Q2 2012 in almost all manufacturing industries (except for the production of means of transport and the food industry); it also recorded a decline against the same period in 2011. The most dramatic growth reduction was seen in the manufacturing of motor vehicles (manufacturing in the first half of 2011 grew by one quarter) and related industries – electrical equipment and also plastic and rubber products that posted a year on year decline in Q2 2012 by 4%. Worse results can be seen with some industries where the majority of products have an investment character – production and repair of machinery but also manufacturing of computers, electrical and optical equipment, where the year on year growth of production by 35% (Q2 2010) was two years later replaced by a 15% drop.

¹ The tendency of moderate year on year weakening of production is notable this year even after adjustment for the effect of a different number of working days (from +1.5% in Q1 to +0.2% in Q2).

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- **Stagnation of industrial production designated for investment**

The growth of industrial production designated for investment slowed year on year in Q2 to +0.7% (+8% in Q1), and remained positive only thanks to moderately growing production of motor vehicles and machinery. The production for short-term and long-term consumption recorded a moderate downturn (by 4.5% and 2% respectively). Against Q2 2008 the production for long term consumption was one third lower (particularly the furniture industry and other equipment for households), but production for investment has improved by one tenth in real terms, mainly thanks to the manufacturing of an sport vehicles. In Q2, the production of the industry was positioned in real terms 3.5 % below the level reached 4 years ago. The production in the energy sector, as a result of more favourable development in this year's Q2, was lower by 2% in real terms.

- **New industrial orders abroad, despite slowdown of dynamics, grew by 6% in Q2, and both the automotive and chemical industries fared well**

The pace of sales of industrial companies is closely related to the development of production. A moderate advantage of the growth of sales over dynamics of production has already existed for 2 years, and therefore the sales managed to maintain year on year growth in Q2 (+0.7%). In the long run, the sales from direct export have done better (in Q2 +2.3%) than domestic sales (-0.9%). The insignificant year on year growth was maintained by the value of new contracts across the whole industry in Q2 (+0.5%), despite the fact that a notable slowdown occurred here during 2012 (in Q1 +8%).² The disproportion between the dynamics at home (in Q2 -9%) and abroad (+6%) was larger for orders than for domestic sales and sales from direct export. The value of new orders grew year on year in Q2 only in the automotive (+8.5%, in the previous quarter by 22%), chemical (+5%, and +24%) and textile industries. Apart from these sectors, the foreign orders were also stimulated by the manufacturing of electrical equipment, and the demand for pharmaceutical products was also higher compared to local demand.

- **The long-term downturn in construction production continued, but year on year decreases were more moderate against Q1**

The long-term negative development in the construction industry has not been reversed in Q2 2012 despite the fact that year on year declines in building production did not reach the dramatic figures from Q1. The building construction even reached the level of the previous year. Civil engineering, having less volume-related weighting, the real production of which has been dropping for ten consecutive quarters, recorded a 15% drop. The last more significant year on year increase was posted by the construction building industry (with concurrent growth of building construction and civil engineering) in Q3 2008. As opposed to the boom period, production is one sixth lower, with no significant differences between building construction and civil engineering construction.

- **Slump of civil engineering, low drop in the value of public orders and a trend towards smaller orders; the value of new local orders concluded was the lowest in the past decade**

The value of new construction orders concluded domestically in Q1 and Q2 (27 billion and 35 billion respectively) was among the lowest in the past decade. In Q2, the value of orders was in a year on year comparison lower by one fifth (for civil engineering by one third) and compared to the period of economic boom almost by half. The average value of newly concluded orders was CZK 3.5 million in Q2 and has decreased by one third over the last two years. The trend towards smaller contracts during recession is confirmed in the same period by the decline in the average value per building permit issued (from CZK 4 to 2.8 million), apparent mostly with the new housing projects and non-residential buildings. The total number of contracts representing the stock of construction works that have not been carried out in a total value of CZK 146 billion dropped in Q2 year on year by one sixth. For the slump of demand, particularly civil engineering, one can point particularly to civil engineering, to a dramatic decline in the value of public orders (against the period of prosperity by more than 40%) and in the last two years, orders from abroad. The permanent year on year decrease of the average registered number of employees has continued for the fourth consecutive year³, which stood at -4% in Q2 against the same period four years ago when it was lower by one seventh.

² As yet, the highest year on year growth with regard to industrial orders occurred in July 2012 (+16%), when there was concurrent growth of value of orders both at home (+4%) and abroad (+23%).

³ In building enterprises with 50 employees or more. The total employment in the building industry (including small enterprises) according to the statistics of national accounting in Q2 2012 stagnated year on year, and against the end of the period of prosperity it dropped by 1.5%.

- **The record low number of flats started in the first half of the year recalled the situation of the middle 1990s**

The low number of flats started in the first half of 2012 (12.5 thousand) is on the level of the middle 1990s and reflects the current low demand connected with the saturation of the market by a higher number of flats completed in the times of boom (annually at around forty thousand) and by the lower number of persons who do not purchase flats for their own housing needs. In Q2 2012 the number of flats started dropped year on year by one fifth, and continued to fall in comparison with the previous quarter, which happened for the first time in this millennium. Fewer flats were started year on year in all types of buildings, except for non-residential buildings. The number of completed flats for the first half of the year increased by one eighth, but it was still the lowest since 2006. Flats in housing buildings were responsible for growth (by one third), but the number of completed flats in family houses has not changed.

- **A drop in retail sales for the first time in recent years with the negative influence of the sale of food and the sales of motor vehicles**

As a result of long-term weakening of consumer demand, retail sales (including the motor segment) recorded a year on year drop for the first time in the last two years (-2.4%) in Q2 2012. The lower number of working days was partly behind a significant slowdown against Q1 (+1.2%), but retail sales have been on the decline for the first half of this year (-0.7%), while in the same period of the previous year they maintained 3% real growth. In line with consumer confidence indicators, sales of foodstuffs (already for five consecutive quarters, the last time at 2.9%) have been falling irrespective of the type of shop. The performance of the entire industry could not be improved even by stagnating sales for non-food items that interrupted growth after seven consecutive quarters. Among specialised shops, computer and communication equipment were able to retain growth through sales, followed by shops with clothing, shoes and leather goods, particularly internet vendors and mail order services (+7%). In Q2, the long-term drop of real sales at petrol stations continued as a result of falling consumption in Q2; against the same period four years ago, the sales were 14% lower. After nine months of growth, sales of the motor vehicles decreased in real terms as well (-4%).

- **Year on year slowdown of services across all main industries**

The sales in the service industry (adjusted for the number of working days), after the year on year growth in Q1 (+0.6%), again dropped (-1.1%). The slowdown during 2012 occurred across all major sectors. Higher sales were in real terms maintained in a year on year comparison only by administrative and supporting activities (+2.6%), where employment agencies (+14%) and partially travel agencies recorded stable good results. As a result of the increasing number of visits by local and foreign guests, the accommodation segment, transport and warehousing services posted growth.

Chart No. 5 Industrial production index and its selected manufacturing industries
(in real terms, y/y, in %)

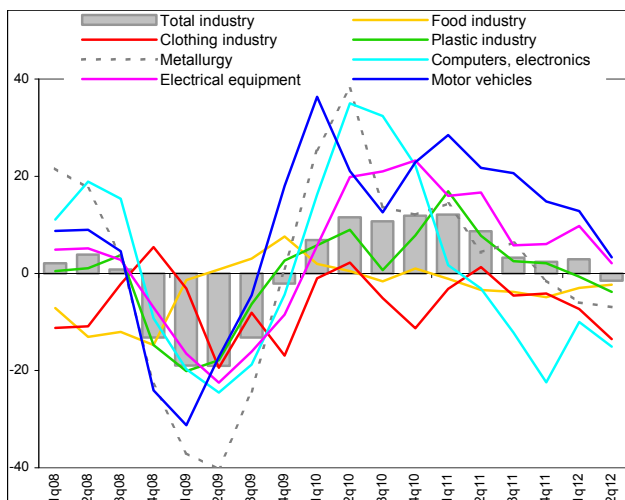
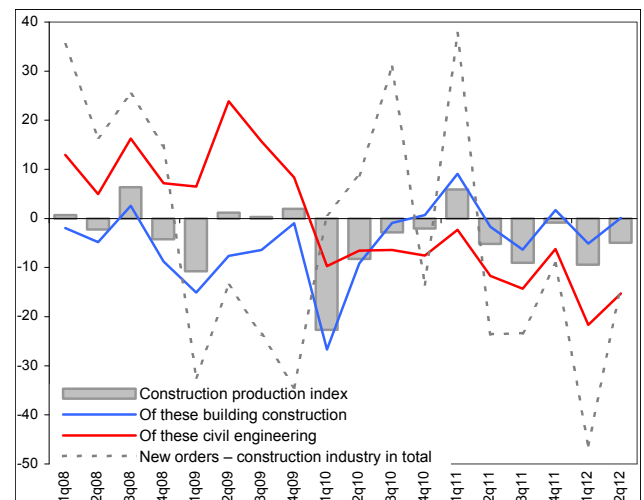


Chart No. 6 Construction and its major fields and nominal value of new construction orders
(y/y, in %)



Note: building contracts only for enterprises with more than 50 employees

Chart No. 7 Retail sales, including motor segment (in real terms, y/y, in %)

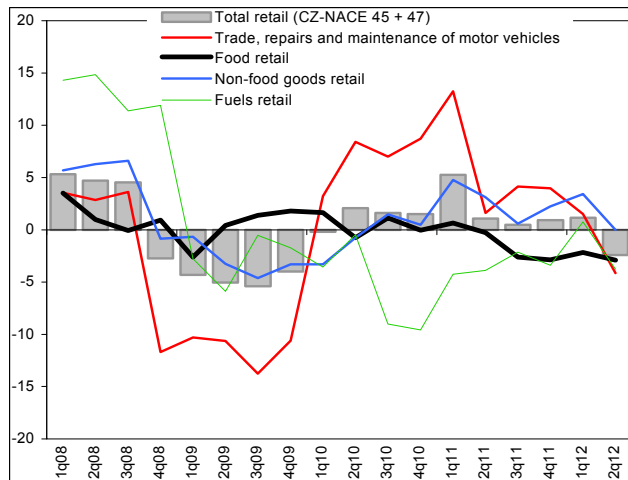
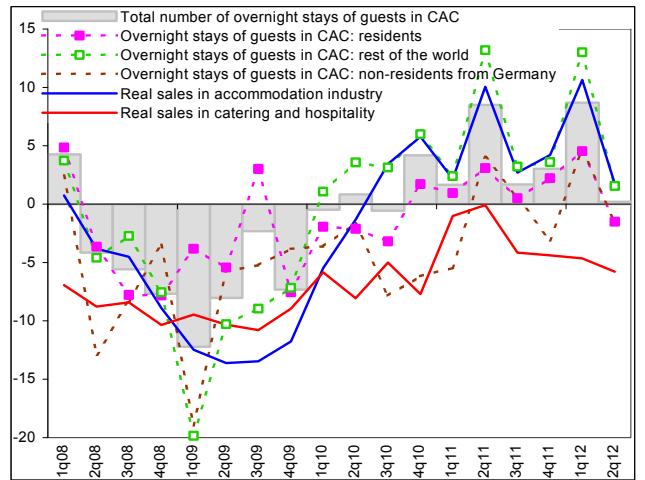


Chart No. 8 Overnight stays of guests in collective accommodation facilities and real sales in accom., lodging and hospitality (y/y, in %)



CAC = collective accommodation facility
Source: CZSO