

3. Branches Performance

Rate of growth of the GVA markedly accelerated in the first half of the year. All main branches prospered – agriculture, forestry and fishing the most and also manufacturing.

Favourable economic situation in the main export territories together with growing domestic demand contributed to nearly 7% growth of the industrial production in Q2.

Strong growth of the motor vehicle industry as well as its main subcontractors persisted.

Output of machinery quickened to the highest pace in the last six years. Fully renewed capacities of the chemical industry enabled to exceed the level of output before the accidents.

Gross value added (GVA)¹ strengthened by 3.8% in all economic branches year-on-year in H1. The quarter-on-quarter rates of growth illustrated the acceleration of performance. While a growth of 0.5% was registered towards the end of the last year, it was then 1.6% in Q1 2017 and already 2.3% in the following three months (the largest quarter-on-quarter addition in more than twenty years' history of monitoring). The GVA was expanding already the seventeenth quarter in a row – the performance of all branches in total thus strengthened by whole one sixth. All ten main branch groupings held a merit on the year-on-year growth of the GVA in H1. Traditionally, manufacturing contributed by the highest extent (2.0 p. p.). The GVA was increasing the most dynamically this year, similarly to the whole last year, in the branch agriculture, forestry and fishing (by +7.9% year-on-year in H1, even by 31% in total for the last four years).

More detail data from the business statistics provided evidence of a very good condition of the industry. Its performance (based on the index of the industrial production)² strengthened by further 1.8% during Q2, following the strong quarter-on-quarter growth at the beginning of the year (+3.4%, the highest since the end of year 2014). It thus grew by nearly doubled pace than in the EU and it also mildly overtook the strengthening industry in Germany (+ 1.7%). Year-on-year performance³ of industry in the CR thus climbed from 4.9% in Q1 to 6.8% in the subsequent quarter and thus achieved the best rate of growth since half of year 2011, when it was „recuperating“ from the aftermath of deep recession. Good economic situation in the main export territories, but also the strengthening domestic demand stood behind these results.

The traditional “driving branches” of the Czech industry still maintained their key role – the manufacture of motor vehicles together with the nearest associated fields. Output of the motor vehicle industry was by one tenth higher in both this year's quarters. It can be derived from the data about sales as well as orders, that the foreign demand grew faster. The growth of the physical amount of manufactured motor vehicles⁴ grew further. The manufacture of electrical appliances (+8.4%), as well as the manufacture of plastic and rubber products (+9.2%) were riding the wave of the development of the motor vehicle industry in H1. The rate of growth of output markedly increased in the manufacture of computers, electronic and optical products (from 7.5% from the beginning of the year to 18.1% in the following quarter). The revival of the domestic demand also assisted this result (the value of domestic orders increased by 22% year-on-year in Q2).

It was favourable for the whole economy, that the significant industrial branches, which are to a higher extent interconnected also to the domestic demand, revived this year. Output of machinery increased by the highest rate of growth in H1 (7.7%) in the last six years. Essential was also the full renewal of production capacities in the chemical industry, which was reflected both in orders (+25%) and in the increased output (21%), which already exceeded the level before the crashes (Q2 2015). Increase of the temporarily limited production capacities as well as the relatively colder winter were reflected in the higher output of energetics (by 2.6%). The second most significant branch with regards to the weight of the output – manufacture of metal products – grew by 5.4% this year (the output increased by more than 8% in Q2 itself). Among the smaller branches, especially the export oriented pharmaceutical industry, whose output increased by one tenth year-on-year and by more than one quarter in four

¹ Data regarding the GVA are expressed in constant prices and adjusted for seasonal and calendar effects.

² Included branches: Mining and quarrying, Manufacturing, Energetics. All year-on-year rates of growth of output (at the level of activity sections as well as divisions) are adjusted for calendar effects.

³ The calendar influences were mirrored significantly in the output of industry in both this year's quarters. There were three working days more in year-on-year in Q1, on the contrary four days less in Q2. The growth of industry was 7.5% at the beginning of the year 2017 when not adjusted for these effects, only 3.2% in the subsequent quarter. The difference between adjusted and non-adjusted output was the highest in the history of monitoring (since year 2001) in Q2 2017 (3.6 p. p.).

⁴ Based on the data of the Automotive industry association, there were 823 thousand private vehicles manufactured in the CR in the first seven months of year 2017, by 6.2% more year-on-year. Majority of manufacturers of other types of motor vehicles also registered a growth.

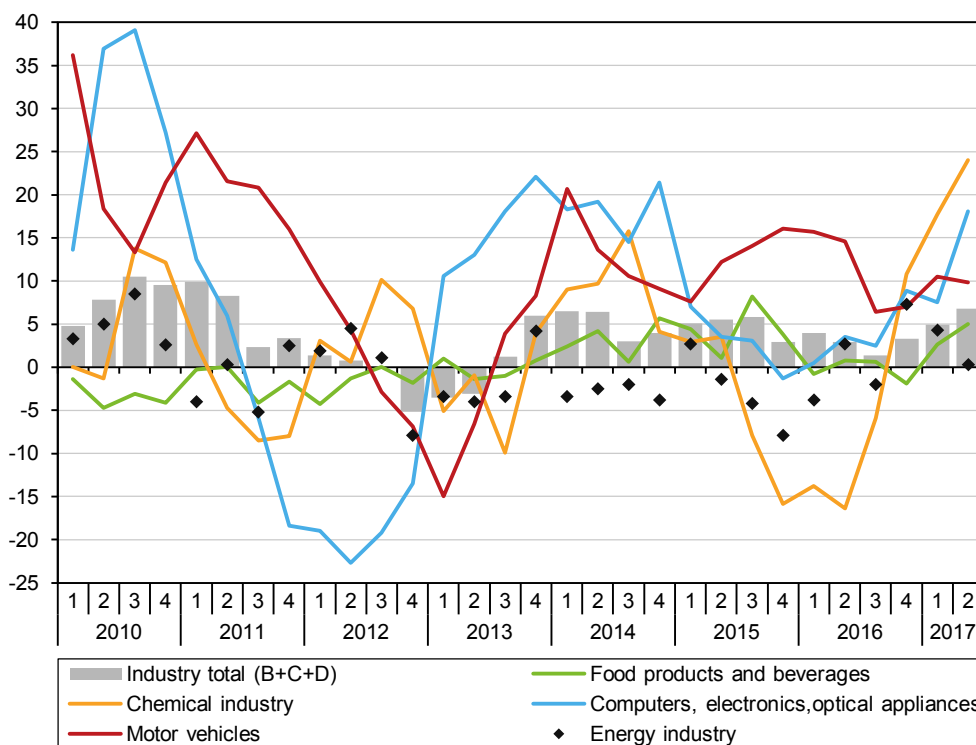
years, fared well. The paper, furniture and textile industries also continuously grow since the last recession.

Output in the mining industry fell quarter-on-quarter already for the seventh time in a row, the performance decreased in metallurgy and foundry industry after the last year's mild revival.

The drop of the volume of domestic orders mirrored the lower performance of manufacturers of other (mostly rail) transport vehicles.

Despite favourable development of industry as a whole, branches which showed negative tendencies still existed. The output was decreasing quarter-on-quarter in the mining industry, impacted by the slump of the mining of the black coal, already for the seventh time in a row. It thus reduced in total by nearly 20% under two years. Partial stabilisation occurred in metallurgy and foundry industry during the last year (also due to the introduction of the anti-dumping duty on the import of some products from steel from China into the EU). The output was however again decreasing quarter-on-quarter in the CR this year (in contrast to the EU), the employment also kept slightly declining. Following a short recovery in years 2015 and 2016, the output again fell in the manufacture of clothes this year (by 4.5% year-on-year). While the domestic demand still kept growing, the volume of foreign orders as well as the sales from the direct exports to clothing business was falling. The repair and installation of machinery and equipment recorded by 7% lower output. At the same time, it represented the only manufacturing activity, whose output was compared to the end of the last recession (H1 2013) lower. The output of manufacturers of other (mostly rail) transportation vehicles also decreased by one tenth this year. It is however traditionally given the character of the orders considerably volatile. The lower volume of domestic orders affected the result.

Chart 5 **Production in industry and selected manufacturing branches**
(real, adjusted for calendar effects, in %)



Source: CZSO

The growth of volume of new orders continued in most monitored industrial branches. The renewal of production capacities manifested in the chemical industry.

Stock of work in the form of new industrial orders⁵ kept growing. Its year-on-year dynamics was for the whole half-year comparable with the pace reached in the first half of year 2016. While the number of orders increased by one tenth at the beginning of this year, it was by 3.6% in the subsequent quarter. The majority of the twelve monitored branches recorded year-on-year growth in both quarters. Manufacture of textiles as well as the manufacturers of transportation vehicles experienced worse results. Mild decrease in the manufacture of motor vehicle in Q2 (by 2%) was connected to the very high last year's basis (growth by 32%). The rate of growth of the domestic orders exceeded similar rates for the foreign demand in both this year's

⁵ Industrial orders are monitored only in the selected CZ-NACE divisions (13, 14, 17, 20 to 21, 24 to 30), which manufacture mostly to contracts, with longer term production cycle and larger stocks of orders.

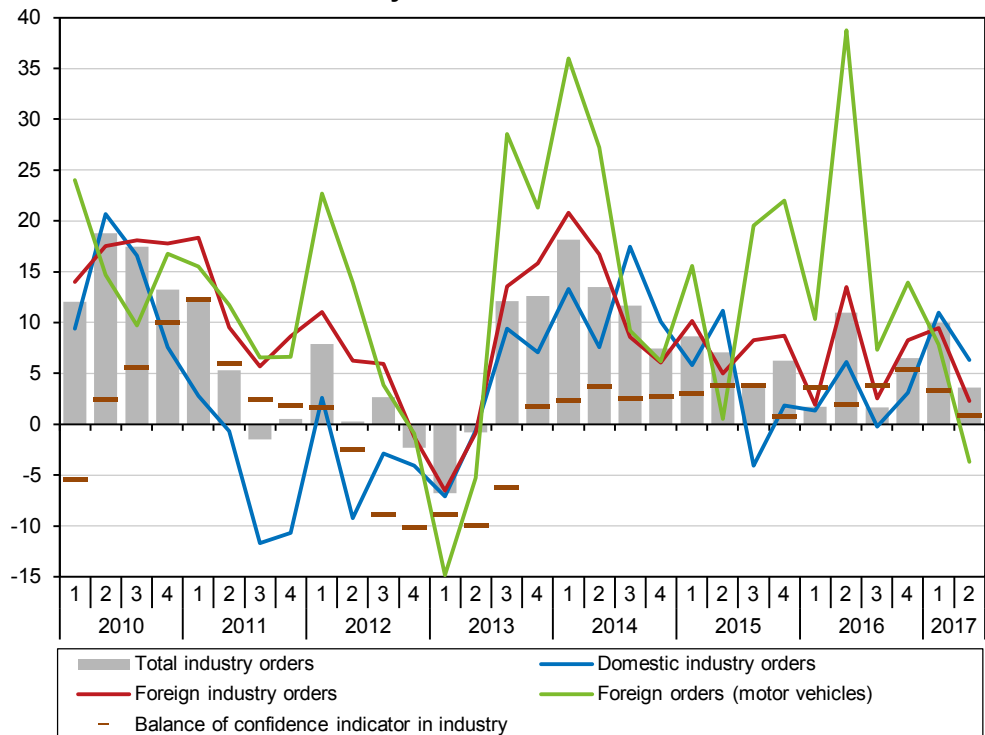


quarters. The full renewal of the production capacities of the chemical industry manifested here, as the industry could again accept the growing demand of the domestic businesses to higher extent.

Business confidence in industry remained despite slight worsening still positive in the last six months.

Business confidence in industry (according to the seasonally adjusted balance of the confidence indicator) still remained slightly positive. However, it mildly dropped during the year 2017 and it reached the lowest value for the past nineteen months in May. The growth of the production activity within the upcoming three months anticipated 24% of industrial businesses during August (40% in energetics itself). The proportion of businesses contemplating the increase of employment within the same time horizon slightly rose year-on-year (from 16% to 20%), specifically mostly in manufacturing. Businesses in the mining industry signalled possible higher stabilization of employment. The share of businesses considering the lack of labour force to be the barrier to their growth climbed to record 41% at the beginning of Q3. It overtook the impact of the inadequate demand for the first time since Q1 2008 and thus it became the most significant limiting factor of further development of industrial businesses.

Chart 6 **New orders in manufacture of motor vehicles, in industry in total (in current prices, year-on-year in %) and balance of confidence indicator in industry**



Source: CZSO

Construction production revived in Q2. It strengthened quarter-on-quarter the most since the beginning of year 2015.

The construction output mildly improved following the last year's strong slump, caused by the drop out of the extraordinary growth factors mildly improved in the first half of 2017. The construction output stagnated in the quarter-on-quarter expression at the beginning of the year, however it already strengthened by 3.6% in Q2 (the most since the beginning of year 2015). The year-on-year fall of the production halted after five quarters, with its pace increasing by 7.7%⁶ in Q2. However, it was the result of contribution by only the more significant by weight building construction (with growth by 13.4%), since the performance of civil engineering construction kept further falling (-4.5%). Compared to Q2 2013, when the whole construction accomplished the lowest performance since the accession of the CR into the EU, this year's production was by 14.1% higher. It still lagged behind the absolute peak (Q4 2007) by nearly one fifth. The recovery of the residential buildings construction also assisted the more favourable results of building construction in the first half of the year. The number of

Civil engineering construction has not contributed to the revival of construction so far. Its output is limited by the low volume of public investment.

⁶ The year-on-year data related to the construction output are corrected for the calendar effects. Without this adjustment, the production would grow only by 5.4% in Q2 2017.

Mild revival of the commenced residential building construction at the turn of years 2016 and 2017 however has not affected the growing tension between supply and demand much so far.

The value of new domestic orders strengthened year-on-year for already third quarter in a row. The civil engineering construction also contributed.

However, construction still lacked larger orders. Business confidence in construction has been mildly increasing since the end of year 2016, it still however moved in the deeply negative range.

Perception of the lack of demand as a barrier to growth decreased for the last year. The factor of the lack of employees on the contrary strengthened threefold.

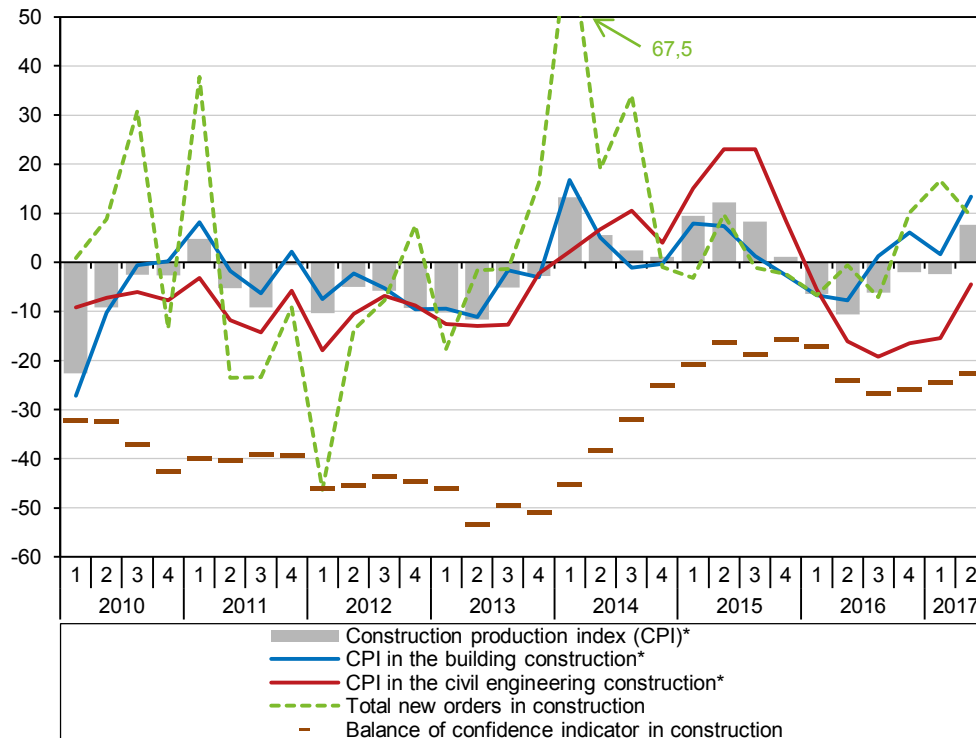
commenced flats increased by one fifth year-on-year, with the highest share of family houses (+1.3 thousand). The number of flats in the residential buildings (RB) increased more notably against the very low last year basis. Their number (3.6 thousand) however did not significantly differ against H1 of both years 2014 and 2015 and did not reach even one half in relation to the record level (H1 2008) so far. Mostly the construction in the Olomouc region and also in Prague participated on the higher number of RB year-on-year, when the number of RB grew from 522 to 1022 in Prague (it still represented the second lowest number of commenced flats after year 2001 in this period). The prevailing low volume of construction further escalated the tension between the supply and demand (strengthened by the growing incomes of households as well as the still low interest rates on mortgages) and contributed to the strong growth of the prices of residential real estate in Prague, but also in other regions.

The demand for construction works revived. The value of new domestic orders⁷ increased already for the third quarter in a row. It strengthened in total by one eighth year-on-year in H1 2017. Important fact was, that both the building (+5.3%) and civil engineering (+18.9%) construction signalled positive development. Half-yearly growth was in both main construction fields last recorded in year 2014. Despite partial recovery, the construction still lacked larger constructions. The average value of newly closed orders did increase by one tenth to 3.2 mil crowns against the very low last year basis (it neared however 4 mils in 2014). The total stock of work including all so far not yet realised orders amounted to 142 CZK bn at the end of Q2. Its year-on-year fall (by 3.6%) was nearly exclusively affected by the orders abroad, whose weight in the total stock of work of construction firms dropped to lower value (12.4%) in the past four years during 2017. The growth of the indicative value of granted building permits continued already four half-years in a row – the new construction of non-residential buildings reached the highest rates of growth this year, similarly to last year. The seasonally adjusted balance of business confidence was mildly improving in construction during the first half of the year and it reached the best result since February 2016 in June, when the extraordinary influence of the finalisation of drawing on the European funds on the infrastructure projects was still felt. The confidence indicator balance still however stayed deep in the negative range. Based on the latest August data, nearly one sixth of businesses anticipated growth of the production activity in the upcoming three months and only a slightly smaller proportion predicted fall. One tenth of businesses planned to acquire employees. The anticipations of the total demand, construction activity as well as the employment did not change considerably in comparison to the last August. One half of construction businesses indicated the inadequate demand as the barrier for growth (the least since April 2009). On the other hand, the factor of the lack of employees was mentioned three times more often in August 2017 compared to the previous year (8%).

⁷ Figure includes only construction businesses with 50 and more employees.



Chart 7 **Construction output*, value of new orders (year-on-year in %) and balance of confidence indicator in construction**



*Adjusted for the effect of the number of working days.

Source: ČZSO

Growth of sales markedly accelerated in the selected services. All main activities prospered.

The growth of sales in the selected services⁸ markedly accelerated at the beginning of the year. While the year-on-year growth of sales amounted “only” to 1.6% in the last quarter of the last year, it hiked to 5.3% (the most since the end of year 2007) at the beginning of year 2017. The subsequent quarter confirmed this positive development (+5.7%). All monitored sections of services contributed to growth in both this year’s quarters. The services were driven mostly by the activities, that hold the largest weight – transportation and warehousing (with nearly one third addition to the total growth) at the beginning of the year. The role of this branch weakened to the benefit of the information and communication and also accommodation, food service activities and restaurants in Q2.

Sales markedly revived in the air transportation, they grew the fastest after year 2005.

Sales in transportation and warehousing grew by 4.6% this year compared to H1 2016. All kinds of transport reached more favourable result. The air transportation strongly hit by the prolonged recession stood out among them, when it recorded the best result (+14.9%) after year 2005. Warehousing and support activities for transportation also fared well (+5.3%), belonging thanks to the narrow connection to industry to the most dynamic area of services in the long term. Accommodation also experienced strong growth (+11.9%) together with food service activities and restaurants (13.2%). Both branches benefited from the growing consumption of households complemented by the development of the arrival tourism. The number of overnight stays of non-residents in the mass accommodation facilities increased by 15.6% in Q2 itself. The information and communication also strengthened by 4.4% in H1, where the demand especially for the processing of data, web portals and hosting, programming and advisory in the IT area grows in the long-term. The film and music industry, where the sales decreased by one eighth this year, was in the opposite situation. Sales in the professional, scientific and technical activities strengthened by 3.2% and also recorded only their second year-on-year growth within the frame of the first half years after year 2008. Architectural and engineering activities strongly interconnected with construction contributed to this year’s growth in this branch, they revived after six quarters of adverse development. The demand for photographic, design, translation and interpretation activities (+8.5%) also notably increased in H1.

Development of tourism was also reflected in the high growth of sales in accommodation, food service activities and restaurants. Demand for information and communication was growing. Job agencies also fared well in the long term.

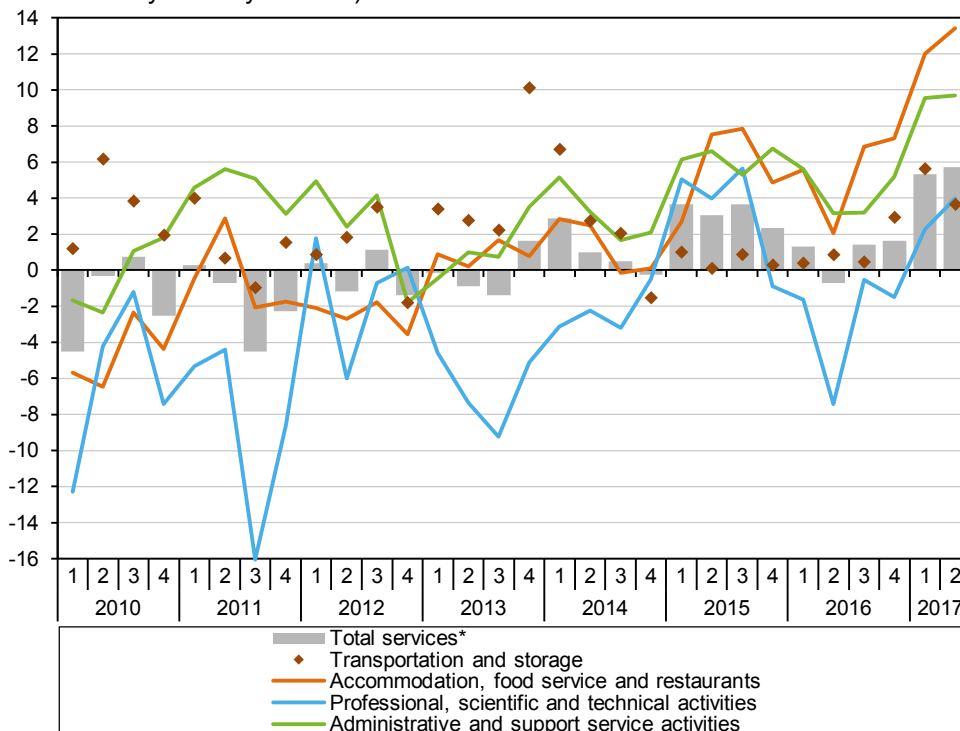
Growth of orders in construction was also mirrored in the higher demand for the project activities. Sales for the architectural and

⁸Excluding trade, financial and insurance activities, science, research and public services. All data for services are adjusted for calendar effects in constant prices.

engineering activities again increased after six quarters.

The dynamic growth of sales for market research and public opinion polling continued, on the contrary the advertising activities were rather stagnating. Sales in the administrative and support activities rose by nearly one tenth, where especially the job agencies traditionally prospered (+17.3%). The travel agencies, offices and other reservation and connected activities considerably recovered and reached the best result (13.2%) for the last ten years. However, their sales were still by more than one quarter weaker in comparison to the peak of the business cycle (H1 2008) this year.

Chart 8 Sales in services and their selected branch sections
(in real terms, adjusted for the effect of the number of working days, year-on-year in %)



*Excluding trade, financial and insurance activities, science, research and public services.

Source: CZSO

Growth of the retail sales was stable in the last two and half years, it mildly fluctuated just below the 6% level.

Rate of growth of sales for the non-food goods climbed the highest in the last ten years. The dynamic growth of the internet sale also continued.

From the viewpoint of employees, the very favourable situation on the labour market was reflected in the swift pace of growth of the disposable incomes of households. This factor together with the more than two years lasting optimistic confidence indicator of consumers led to the high rates of growth of the retail sales. They grew by 5.7% year-on-year in Q1, by 6.5%⁹ in Q2. The internet sellers earned by nearly one quarter more. The sales for the non-food goods the most significant by weight traditionally drove the retail, their growth climbed up to 9.4% (in Q2) during the year and attained the highest rate of growth since the end of year 2007. Mainly the retail sales of computer and communication equipment, cultural and recreation goods fared the best in H1. The retail with clothes, footwear and leather goods (10.6%) also considerably revived. Sales for food decreased compared to the rates of growth from the first half of the last year (to +2.4%), the same was also valid for the sellers of fuels (+4.8%, from last year's +7.2%). The total retail sales grew by more than double pace in the CR in H1 compared to the EU (+2.7%). The CR thus ranked on the sixth position among countries (fourth for the non-food goods). The core of growth was in the EU located in countries of Central and Eastern Europe. Retail grew slightly above 3% in Germany as well as France, Belgium, Denmark, Italy and Spain recorded growth below 1.5%.

⁹ Data do not include the motorist segment. Retail data are adjusted for calendar effects in constant prices.

