

### 3. Branches Performance

Gross value added increased by 4.5% last year mainly thanks to the acceleration in the first half of the year. All ten main branch groupings participated on the growth.

The Czech economy prospered also in the last year. The growth of the gross value added<sup>1</sup> nearly doubled compared to the rate of growth attained in 2016 (to 4.5%). The last year thus ended next to year 2015 among the most successful in the last decade. It was mostly due to the substantial acceleration of performance in the first half of the last year, nevertheless the GVA strengthened by a significant 0.6% compared to the preceding quarter (similarly to the EU) even in the last three months of 2017. Quarter-on-quarter growth of GVA persisted already for the nineteenth time in a row, in total then the performance of all branches jumped by 18.2% since the end of the last recession. In contrast to the preceding years of the current expansion, all main branch groupings contributed to the year-on-year GVA growth last year. Improvement of the performance in energetics and construction also played a part.

Contribution of manufacturing to growth of total GVA remained stable in the last seven quarters, in contrast it markedly strengthened in services sector.

Manufacturing sustained the key role it plays among branches also last year when it contributed to the year-on-year growth of total GVA from nearly one half. Favourable results of industrial exporters were reflected in the high GVA growth rate of this branch (+7.6%, the highest in the last six years). Strong growth of GVA was achieved together with weak rise of employment (+0.6%) as well as hours worked (+1.0%), which had a positive effect on the development of productivity. The performance of the services sector increased by more modest 3.5%, nevertheless it contributed to the growth of the GVA of the whole economy comparably to manufacturing in the last year. While contributions of manufacturing to growth stagnated in the last seven months, the role of the services sector on the contrary strengthened, which was accompanied by more intensive creation of new job positions. Services were driven by the most weight dominant group trade, transportation, accommodation and restaurants for the most part of the last year. However, financial and insurance services represented the most dynamic segment similarly to year 2016 (+9.3%, the most after year 2008). The professional, scientific, technical and administrative activities also benefited from the growing demand in the last years. On the contrary, the GVA in the branches with the dominant share of state<sup>2</sup> increased (together with employment) only slightly above 1%, still it was the fastest pace in the last seven years. Value added of the branch agriculture, forestry and fishing rose already fourth year in a row, it however reduced from the pace in year 2016 by one half last year (to 4.7%). The poorer harvest of majority of main types of cereals (especially of corn), oilseed rape as well as fruit stood behind the slow down. The harvest of sugar beet and legumes was above average thanks to the larger harvesting areas. Output of the animal production featured stabilisation similarly to the employment in the whole branch.

Dynamic growth of the financial sector performance as well as the weak dynamics of the branches with the dominant share of state endured.

Despite the fact, that the very good harvest from years 2014 till 2016 was not repeated last year, value added in the primary sector still kept growing.

Data from the business statistic also provide evidence of the favourable development of the industry. Its output (according to the industrial producer index<sup>3</sup>) increased despite a temporary worsening in the summer period<sup>4</sup> by 6.9% for the whole year. It thus reached the best result since 2010, when it was recovering from the consequences of a deep recession. Positive tendencies were apparent also at the end of the year – the year-on-year output hiked up to 7.6% in Q4. Not only the good economic situation in the main export territories, but also the strengthening domestic demand stood behind these results. The dominant branch – manufacturing of motor vehicles (together with its key subcontractor fields) sustained high growth rates last year. The renewal of production capacities of the chemical industry, temporarily reduced in the preceding years and energetics also aided. However, the majority of the smaller industrial activities also fared well.

Industrial output rose by the highest pace in the last seven years. Favourable tendencies pervaded the overwhelming majority of the subbranches.

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

<sup>2</sup> Includes public administration and defence, education, health and social care and it creates nearly one quarter of the GVA of the whole services sector.

<sup>3</sup> 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. Not adjusted, the year-on-year growth in industry was 6.5% last year (there were two calendar days less).

<sup>4</sup> In quarter-on-quarter expression, the industrial production temporarily slowed down in Q3 (0.0%) after the strong growths in the first half of the year (+2.9%, +2.8%). However, the growth renewed in Q4 (+1.9%).

Stably growing motor vehicle manufacturing contributed to the growth of the whole industry by one third, together with the subcontractor fields by one half.

Growth notably accelerated in machinery, manufacture of computers, electronic and optical products.

Higher production of electricity in the nuclear plants pushed the growth of energetics.

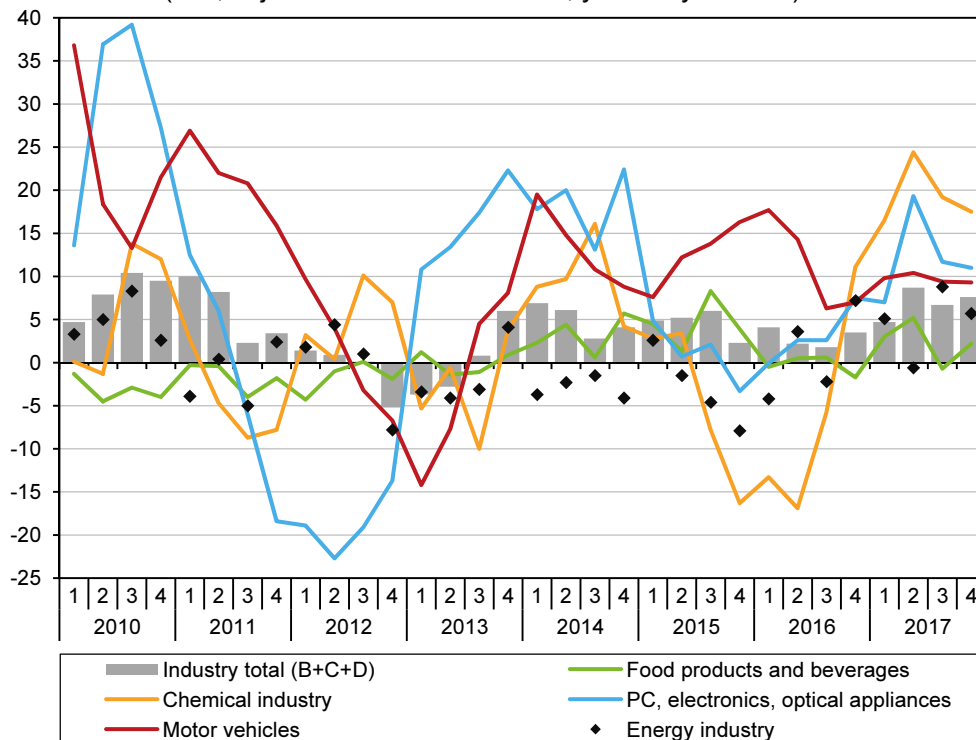
Motor vehicle manufacturers increased their output in 2017 by 9.8% and they thus provided nearly one third (together with the subcontractor fields<sup>5</sup> one half) of the growth of the total industrial production. Strong demand on both the European and Asian markets, but also at home, was mirrored in the record number of the manufactured vehicles<sup>6</sup>.

Machinery industry experienced successful year also thanks to the strong domestic demand (+9.2%, the growth oscillated between 2% and 3.5% in the previous five years) and it participated on the growth of the whole industry by one tenth. Both the second most significant by weight manufacturing activity – manufacture of metal products and the strongly export oriented manufacture of computers, electronic and optical products (with the growth of output by 12.2%, by 3.2% in 2016) contributed to a similar extent. Contribution of the chemical industry was also important, its output enlarged by nearly one fifth compared to year 2016<sup>7</sup>, the most from the individual sections of industry.

Energy industry also experienced an exceptional year, its production fastened from 0.9% in 2016 to last year 4.8% (highest pace after year)<sup>8</sup>. Gradual recovery of the demand in construction assisted the output of manufacture of other non-metal mineral products (+9.1%, -2.0% the year before).

On the contrary, the more domestic market-oriented food industry as well as the beverage industry were ascribed much more modest growth (+2.0% and +3.9%) and they thus did not breach the trends from the preceding years. Among the smaller activities, the export focussed pharmaceutical industry fared well (+10.6%, +32.1% in five years). Also, the textile, paper and furniture industries were growing continuously in the last five years.

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



Source: CZSO

<sup>5</sup>It involves the manufacture of electrical appliances (with the year-on-year growth of output of 9.1%) and manufacture of rubber and plastic products (+8.3%).

<sup>6</sup>Based on the data of the Automotive industry association, there were 1.41 mil private vehicles manufactured in the CR in 2017, by 5.2% more year-on-year. Manufacturers of other types of motor vehicles also registered a growth.

<sup>7</sup>Output of the chemical industry exceeded the level before the emergencies (Q2 2015) already at the beginning of year 2017.

<sup>8</sup>Especially the high last year growth of electricity production participated on this (+4.5%, to 87 TWh), in that by 17.6% in nuclear power plants.



Adverse tendencies from the view of output as well as employment continued in the mining industry or metallurgy and foundry industry.

The long term structural problems persisted in some industrial activities. Output in mining and quarrying has been declining due to the controlled reduction of the black coal mining already sixth year in a row (by 1.7%<sup>9</sup>, in total by more than one quarter). Nominal sales of the mining businesses however increased after five years last year (by 8.7%), since they absorbed the prices of materials. Output was mildly falling (similarly to the previous two years) in metallurgy and foundry industry. Not even the Q4 2017 brought some more favourable results despite the growth of orders as well as import of basic metals. Output in the manufacture of leather again mildly dropped last year after the short revival, it was by nearly 30% weaker compared to the expansion year of 2007<sup>10</sup>. On the contrary, the small but growing in the long-term activity – manufacture of other (mostly rail) transportation equipment had the last year fall (by 9.1%, the deepest from all sections of industry) more as a one-off deviation due to the volatile nature of orders, which also the favourable development of employment confirmed.

Growth of the sales of industrial businesses from direct export mildly lagged behind the pace of domestic sales. Rate of growth of new orders did not ease up significantly during 2017, entrepreneur confidence also remained in the positive band.

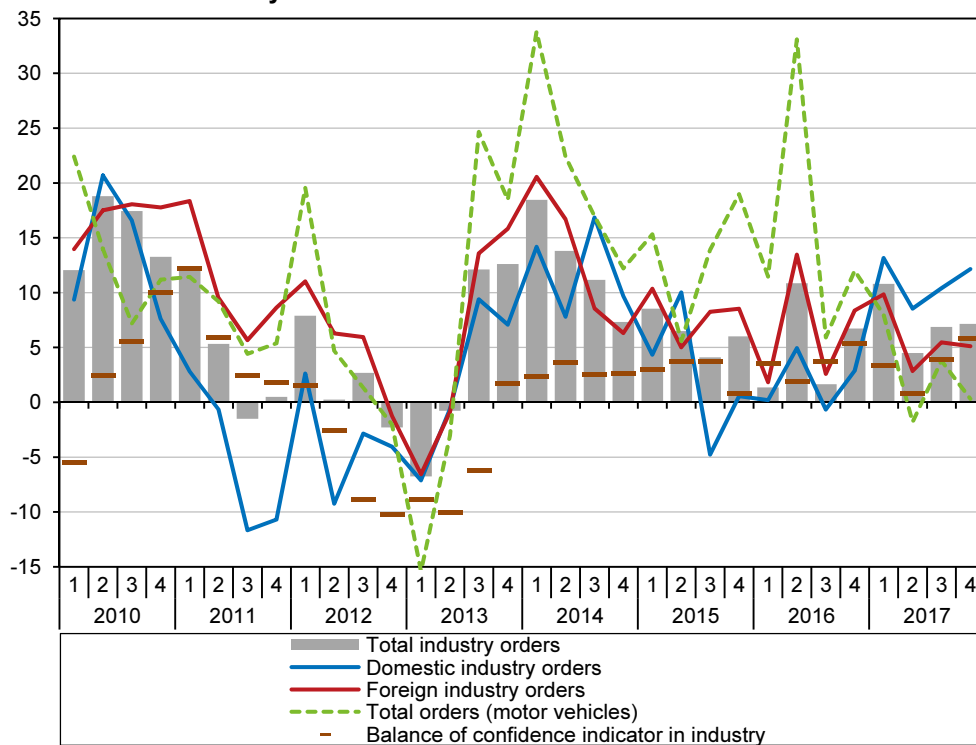
The nominal sales of businesses from the industrial activity rose by 7.2% during the year 2017. They increased in all more significant industrial branches. Growth of sales from direct export (+6.5%) mildly lagged behind the pace of the domestic sales (+8.1%), which last manifested in year 2008. Recovery in the chemical industry, but also good results of machinery and subcontractors for the motor vehicle manufacturing stood behind the growth of the domestic sales last year. Rate of growth of new industrial orders did not slacken much during the year. Their value was by 7.1% higher year-on-year in Q4. Stock of work expanded in all twelve monitored branches. Only manufacturers of motor vehicles signalled only a mild growth at the end of the year (+0.3%), partially due to the higher comparative basis. Seasonally adjusted balance of the confidence indicator in industry mildly fell in H1, this development was compensated in the next part of the year. The value of the balance was (+6 p.p.) in December 2017 similar to the situation twelve months ago. In December, 24% of industrial businesses expected the growth of the production activity in the next three months (20% the year before). One seventh of businesses also considered the increase of employment (one fifth year ago). Outlooks markedly improved in energy industry, the mining industry stabilised. Record 43% of industrial businesses stated the lack of labour force as a barrier to growth at the beginning of 2018, 35% then the inadequate demand (42% the year before).

Lack of employees as a barrier to growth increased in industry last year, role of the inadequate demand slightly weakened.

<sup>9</sup> Last year's fall was however the mildest in the last six years.

<sup>10</sup> Last year, 10 out of 24 manufacturing branches lagged behind its output level of year 2007. Among the more weight significant activities, it was food industry (-5%), metallurgy and foundry industry (-12%) and manufacture of other non-metal mineral products (-13%).

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 output mildly increased exclusively thanks to the building construction last year. Output of the civil engineering construction was limited by the low volume of completed projects supported from public investment sources for the whole last year.

Construction output was similarly to year 2016 limited by a low volume of public investment last year. Quarter-on-quarter growth of the construction output<sup>11</sup> commenced in the second half of year 2016 was halted in Q1 2017 (-0.2%) and not even the second half of the year changed that. Year-on-year growth achieved 3.6% last year, compared to year 2016 however (-5.8%) it presented at least a partial recovery for the whole branch. It was however only thanks to the more significant by weight building construction (+6.6% last year), since the adverse development of the civil engineering construction prevailed for the whole year (-3.9%, +0.7% in Q4 – mild growth was especially the reflection of a very low comparative basis).

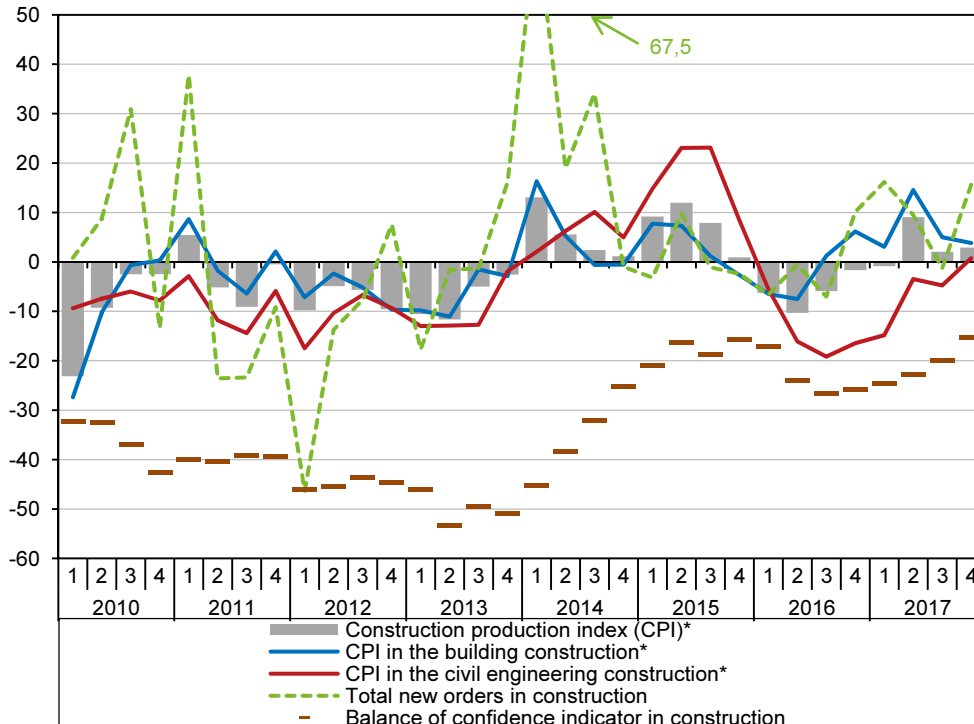
Building construction was assisted by the gradual development of the residential construction. Number of commenced residential dwellings was rising already fourth year in a row (to last year's 31.5 thousand). Family houses added the most to the growth, other forms of construction also experienced higher growth – except for flats in the non-residential buildings and also in community care homes and boarding houses, where the volume of construction was record low. The number of flats commenced in the multi-dwelling buildings was the highest in last eight years (7 244), still it did not represent even one half of the volume for the record year 2007.

More than one fifth of the total started dwellings was located in the Central Bohemia. There were by 976 flats more commenced in Prague compared to year 2016 (with the second lowest construction since the half of 90s), still the construction (3 734) was by nearly one third weaker than in year 2015 and it did not achieve half of the average from period 2005–2007.

<sup>11</sup> All year-on-year data related to the construction output are adjusted for calendar effects.



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: CZSO

Mild year-on-year growth of new construction orders was apparent throughout the most of the year. Negative balance of entrepreneur confidence in construction improved.

Weak growth of the average size of one order signalled continuing lack of more significant number of large projects.

Sales in selected services accelerated and reached the fastest rate of growth following year 2007.

Transport and storage and branch accommodation, food service and restaurants

The value of new domestic orders (for businesses with 50 employees and more) grew year-on-year for the most part of the year 2017. It was by 15.6% higher in Q4 (without the significant difference between the building and civil engineering construction). Average value of new order increased by one tenth last year (to 3.3 CZK mil), it oscillated around 4 mils in both years 2014 and 2015. Balance of all not yet completed orders was 133 CZK bn at the end of the year 2017, it rose by mild 3.5% year-on-year. Drop of the stock of jobs from abroad was compensated by both private (+2.6%) and public orders (+9.3%). Approximate value of one granted building permit fastened growth (to 24%, from 12% in the year of 2016). It was driven predominantly by new construction similarly to year 2016. Residential as well as non-residential buildings contributed by a similar share. Seasonally adjusted balance of the entrepreneur confidence in construction remained in the negative band. However, an improvement gradually occurred during the year, this trend slowly gained strength and was also confirmed by the data from the beginning of year 2018. Proportion of businesses anticipating the reduction of the construction activity or employment fell considerably year-on-year. However, only less than one tenth of businesses expected a growth of the construction activity. Only 15% of businesses did not perceive any significant barrier to their growth. 40% signalled the inadequate demand (54% at the beginning of year 2017), 24% lack of employees (11%).

Growth of sales in selected services<sup>12</sup> accelerated to 4.2% in 2017 (from 0.8% the year before last) and achieved the best year-on-year rate of growth in the last ten years. This favourable shift was apparent across all activity sections of services (the most in professional, scientific and technical activities, the least in real estate activities). It is apparent from the quarter-on-quarter rates of growth, that the output acceleration of services started already in Q3 2016, it weakened during the year 2017 and the sales in fact already stagnated in Q4.

Branch transport and warehousing contributed to the year-on-year growth of sales in services for the most part of year 2017, only in Q2 the role of this branch temporarily weakened to the benefit of the information and communication and also

<sup>12</sup>Excluding 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).

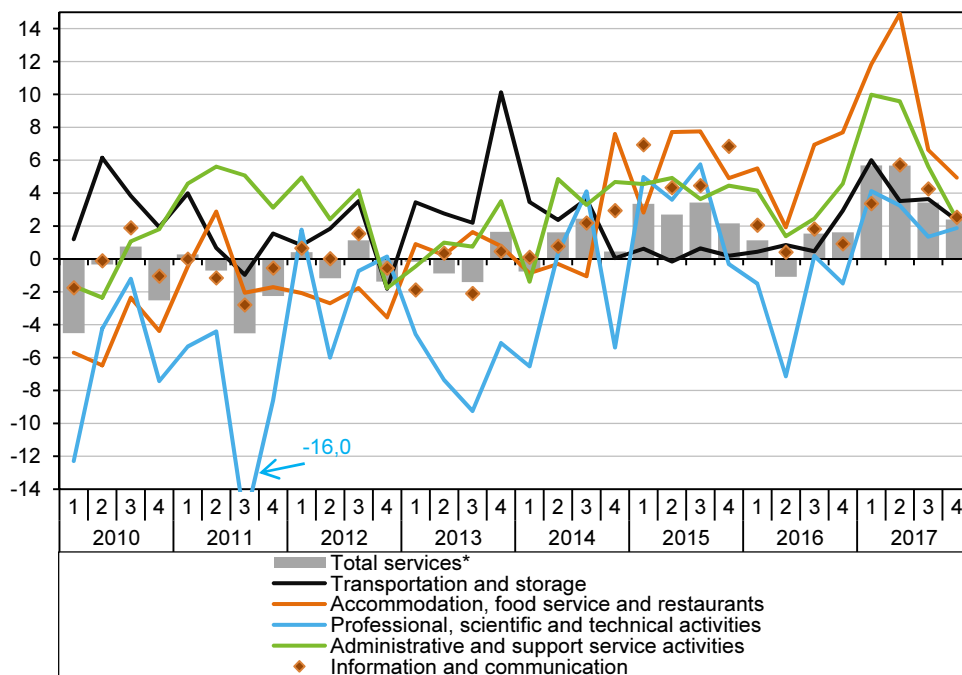
contributed the most to the growth of sales in services last year.

Strong demand in the long term for information activities, programming or services of job agencies prevailed. Positive turn was apparent at travel offices and agencies.

The revival of construction was reflected in sales of the architectural and engineering activities.

accommodation, food service and restaurants. Storage and other transportation support activities added the most to the growth of sales in transportation and storage (+3.8%) last years, they profited from the dynamic development in both industry and trade. Development of tourism was reflected in more than 10% growth of sales in the air transportation (the highest after year 2005). In the section of transport, higher transport freight rates were evident (based on data for Q1 to Q3 they grew year-on-year in all main types of transport). Increased mobility was connected to tourism, but the higher commuting to work likely also had an impact (in association to the record number of employed). The dynamic growth in accommodation continued last year (+8.1%) as well as in food service and restaurants (+10.0%). Both partial branches benefited from the growing household consumption as well as the development of the incoming tourism<sup>13</sup>. Number of overnight stays of guests in the mass accommodation facilities rose by 7.3%. Strong demand after the processing of data, web portals and hosting, programming and advisory in the IT area pushed information and communication branch in the long term (+3.9%). Travel agencies, offices (+9.0%, even though sales fell in total by nearly one fifth in years 2013 to 2016) contributed to the growth of the administrative and support service activities (+6.7%). The double-digit growth of sales of the job agencies also continued. Branch professional, scientific and technical activities strengthened by 2.6% and recorded only the second year-on-year growth following year 2008. Revival in the architectural and engineering activities also manifested (+1.2%, -9.3% the year ago) and was connected with the better performance of especially the building construction. Growth of demand for legal and accounting activities continued for already third year. While sales for the market research and public opinion polling were rising, they on the contrary somewhat decreased for the advertising activities.

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



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

Source: CZSO

High rate of growth of retail sales strengthened further last year and hit the ten-year maximum.

Consumer sentiment satiated by the favourable situation on the labour market moved near the historical maximum during the year 2017. Retail sales<sup>14</sup> rose by 5.9% year-on-year, the highest pace after year 2007. While the pace of retail trade with food remained below the 3% boundary already for the second year, the sales of non-food goods – driven by the dynamical growth of the internet shops – jumped up to 8.8%. Retail with clothes, footwear and leather goods (11.5%) and with a mild distance also the goods for culture and recreation fared well among the specialised shops. The

<sup>13</sup> The transfer of some activities from the grey economy in connection with the measures introduced in the previous year on the side of tax collection could also be evident in the high pace of sales in 2017.

<sup>14</sup> Data do not include the motorist segment (CZ-NACE 45). Retail data are adjusted for calendar effects in constant prices.



Growth of retail sales placed the Czech Republic on the sixth rank among the EU states, in case of sales for non-food goods on the fifth best position.

strong demand for computer as well as communication equipment renewed with a one-year break. Sellers of fuels received by 5.8% higher sales. Sales in the motorist segment slowed down to exact 3%, signs of saturation were visible after strong years of 2014 to 2016. It concerned sales of motor vehicles, on the contrary the rates kept the same as in the previous years for repairs and maintenance of motor vehicles. The CR belongs to countries with the fastest growth of the retail sales in the EU<sup>15</sup> in the last three years. Only Romania (+11.2%), Slovenia (+8.2%) and Poland (+6.4%), Slovakia (+6.1%), Cyprus (+5.9%) showed faster pace last year. The pace was 2.5% in the EU, 1.9% in Germany, 0.8% in Spain, sales moderately fell in Italy and Belgium.

---

<sup>15</sup> International comparison draws on data published on 20<sup>th</sup> March of 2018.