

3. Branches Performance

Year-on-year growth of the gross value added stayed mildly below the 3% level during H1. The economy has not slowed down also in the quarter-on-quarter expression so far.

Performance of all branches of the economy captured via the created gross value added (GVA)¹ rose by 2.8% year-on-year in H1 and thus repeated the result from the second half of the last year. Rate of growth was practically the same in this year's Q1 and Q2. The quarter-on-quarter dynamics of GVA also remains stable, specifically already since the half of year 2017 (on average it was 0.7%, similarly to Q2 2019). Mainly this year's result sounded positive for the domestic economy, especially in the context of less favourable external factors (notable slowdown of the economic growth in key export territories, further strengthened by the growing regulative measures in the international trade as well as the persisting uncertainty regarding the future organisation of relations between the Great Britain and the EU).

The focal point of the GVA growth was located in services already second year in a row. Here, the dynamical development of information and communication continued. Trade also prospered.

All eleven main branch groupings contributed to the year-on-year GVA growth this year. The tertiary sector presented the focal point of the growth similarly to the whole last year. Its performance strengthened by significant 3.7% in H1 2019 and managed to secure four fifth of the GVA growth of the whole economy on its own. Within the services primarily the information and communication grew (+8.7%), it increased its GVA by more than one half since the end of the last recession (year 2013). Weight significant group trade, transportation, accommodation and food service (+3.9%) also built on the strong last year, profiting from the growing purchasing power of households, expansion of the foreign trade with goods as well as the tourism. All other branches of services also fared well, especially the professional, scientific and technical and administrative activities (+4.4%, the strongest half-yearly pace since the first half of year 2016). Within services the group public administration and defence, education, health and social work featured the slowest growth of GVA (by 1.7%), its dynamics however did not defy the trends of the three preceding years.

GVA growth in manufacturing diminished to 1%. Together with H2 2018, it recorded the weakest rate of growth since the end of the last recession.

Connected to the development in Germany as well as the whole euro area², the slowdown of performance of the domestic manufacturing continued. GVA fell here by 0.1% in H2 2018 and was thus assigned the weakest year-on-year performance since the end of the last recession. It achieved only 1% growth in the subsequent half-year and quarter-on-quarter it on average only stagnated. Non-manufacturing industrial activities fared slightly better this year, specifically thanks to the development in energetics. Growth in construction continued in H1 following the last year's turnaround (+3.1%), the branch performance however still mildly lagged behind the level from the business cycle peak in the last decade (by 2%). GVA grew by moderate 0.6% in the primary sector in H1. Higher volume of logging of bark beetle wood, mild increase of the production of meat as well as milk and further also the year-on-year growth of the sowing area as well as yields of the first harvested winter cereals³ could have worked here in the direction of real output growth.

Domestic industry recorded repeated quarter-on-quarter drop

Business statistics proved a more detailed view of the constituent branches. It is not surprising with respect to the marked export orientation of the domestic industry⁴ as well as the strong interconnection especially with the development in Germany⁵, that its growth halted towards the

¹ GVA data are expressed in constant prices and adjusted for seasonal and calendar effects.

² Growth of total value added in these groupings notably slowed already during the whole last year. It achieved weak 1.2% in the euro area countries in its last quarter, even 0.5% only in Germany. The similar rates fell to 1.1%, resp. 0.3% in Q2 2019, worse results were reached lastly in year 2013.

³ According to the July CZSO harvest estimates, the production of the first harvested cereal (winter barley) increased by 21% year-on-year this year. The sowing area expanded by 5%, estimate of the per hectare yield was 5.74 t/ha (year-on-year +15%, +13% against the ten year average). Winter barely comprised below 8% of the total harvest of basic cereals in the CR last year. According to the operative report of the Ministry of Agriculture, 36% of this crop was harvested at the end of the first July week. Harvests started slightly later this year in comparison to the last year.

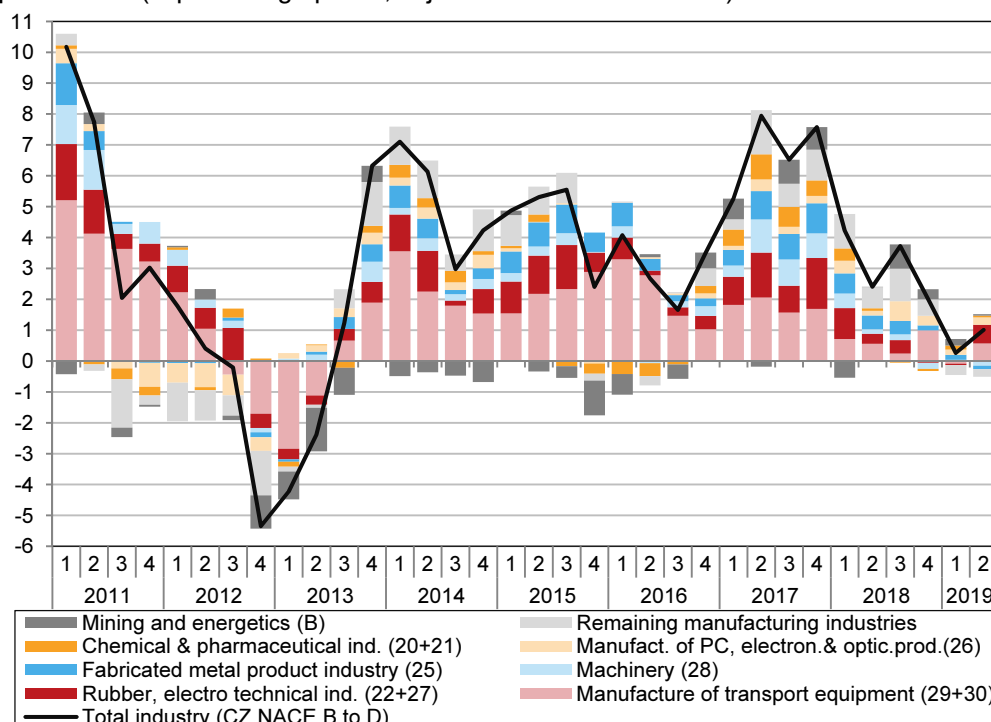
⁴ Industrial businesses realised nearly 60% of their sales through direct export in the CR in H1 2019 (for some branches – manufacture of transport vehicles, electrical equipment or manufacturing of computers, electronic and optical equipment – it was three quarters, even over 80% in pharmaceutical or leather manufacturing). Further part of sales was also associated with the foreign demand and realised in the form of indirect exports.

⁵ According to the national conception of the foreign trade, 31.4% of the whole goods export (comprised in overwhelming majority by industrial products) was directed to Germany in H1 2019, even 65.7% to euro area countries. Both shares remain relatively stable in the current decade.

of output on the turn of years 2018 and 2019. It thus with a lag reacted to the development in the euro area.

end of the last year. Industrial production index⁶ fell by 0.1% quarter-on-quarter in Q4 2018 and its fall further deepened to 1.0%⁷ in the subsequent period. Industry thus recorded the weakest result since the end of year 2012. This development was gradually imprinted into the year-on-year dynamics – output grew only by 0.3% in Q1 2019, by 1.0% in Q2. Some domestic factors also did not ease the situation for the industrial businesses in the CR (lack of qualified workers and associated higher wage costs, rising prices of energies).

Chart 5 Contributions of sub-branches to the year-on-year change of the industrial production (in percentage points, adjusted for calendar effects)



Source: CZSO

Manufacture of electrical equipment and also energetics contributed the most to the growth of the total industrial production.

Long-term expansion of manufacture of computers, electronic and optical products continued.

Motor vehicle

Despite less favourable development of the foreign demand, the majority of industrial sub-branches also experienced at least a mild year-on-year growth of output in H1. Manufacture of electrical equipment (by 0.3 p.p., growth of the branch by 4.4%) contributed the most to the increase of the total industrial output (by 0.6%), mainly due to the acceleration driven by the domestic demand in Q2. Contribution of the long-term growing but by weight peripheral pharmaceutical industry was also significant (0.2 p.p.), since its output enlarged by more than one sixth this year. Similarly the energetics and also manufacture of computer, electronic and optical products supported the whole industry, with the brisk growth (+6.2%) mirroring mostly the growing domestic demand. This branch also belongs to the fastest growing industrial fields since the end of the last recession⁸. Output in the weight dominant branch of manufacturing of motor vehicles went up only by 0.7%, the least since year 2013. It was also evident from the data regarding the physical output⁹. New orders signalled a perceptible weakening of dynamics

⁶ Includes branches of Mining and quarrying, Manufacturing and also Energetics (here assumed as a branch of manufacturing and distribution of electricity, gas, heat and air conditioning). All year-on-year rates of growth of output (at the level of both the branch sections and divisions) are adjusted for calendar effects, quarter-on-quarter rates are then also seasonally adjusted.

⁷ Businesses thus reacted with a lag on the situation in the euro area, where the industrial production index in the quarter-on-quarter expression halted already at the beginning of year 2018 and also did not revive as the year progressed. On the contrary, the output decrease deepened in Q4 (to 1.1%) and featured a year-on-year fall as well for the first time since last recession period (by 1.9%). Lowering of output occurred simultaneously also in all five largest EU economies (year-on-year as well as quarter-on-quarter).

⁸ In the last six years (resp. against H1 2013), the production here increased in total by 61%, only manufacture of motor vehicles recorded a faster pace (+70%). Growth arrived at 28% in total industry. Only energetics (-1%), wood industry (-4%), mining and quarrying (-18%) and manufacture of leather products (-23%) stayed below the level of year 2013.

⁹ Based on data from the Automotive Industry Association, there was 747 thousand passenger cars manufactured in the CR in H1 2019, and the production by 1.5% lagged behind the last year's record number. Manufacture of other parts and accessories for other types of motor vehicles (eg. busses) on the contrary mildly increased.



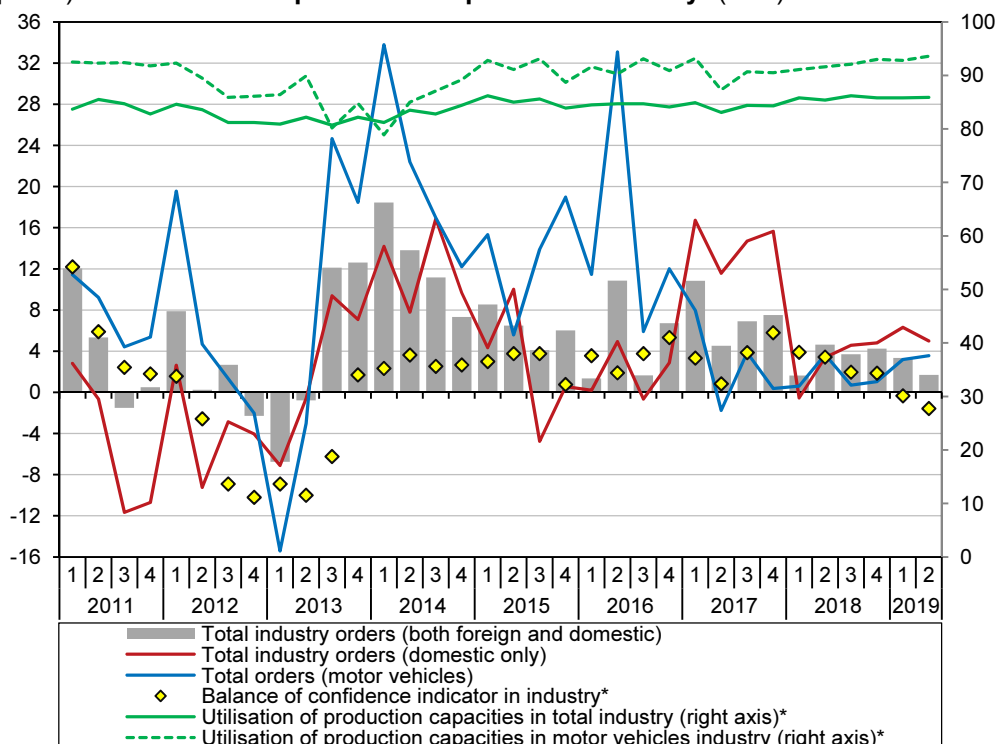
manufacturers recorded the weakest growth since H1 2013.

Output mildly declined in machinery, deeper than in metallurgy, chemical and wood industry.

Long-term slump of the mining of coal lasted.

here already last year (the value of foreign orders increased by 2.5% for the whole last year, it fell by 1.2% for the domestic orders). Situation of manufacturers of other (especially rail) transport equipment improved this as well as last year. Output increased here (6.3%) mainly thanks to the foreign demand in H1 2019. Within the more significant branches by weight, the output moderately increased in repair and installation of machinery and equipment and also in the food industry – i.e. in activities primarily focused on the domestic market. Output stagnated in manufacture of rubber and plastic products or fabricated metals, despite lasting growth of the domestic demand it was slightly falling in machinery (–0.7%). Performance fell deeper in metallurgy and foundry industry (–2.8%), because the strong domestic demand from years 2017 and 2018 ceased. Manufacturing of other non-metal mineral products, where the strong growth impulse connected to the domestic demand for construction materials likely already evaporated, was in similar situation. Output also dropped in the chemical industry this year (–2.8%), mainly due to the irregularities in the usage of production capacities, which are typical for this field. Long-term downturn in mining and quarrying (by 4.4% this year, by 42% for the last fifteen years) concerned primarily coal¹⁰. Output in the wood industry decreased by one tenth this year and thus returned to the level of the first half of year 2016. In spite of its low weight, this field worked against the growth of the whole industry the most in H1 2019 (addition – 0.2 p.p.).

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



Source: CZSO

*Data are seasonally adjusted

Rate of growth of domestic sales of industrial businesses exceeded the sales from direct export already third year in a row.

Despite weakening dynamics of production, the nominal sales of industrial businesses rose by 3.1% year-on-year in H1 2019 (nearly by 2 p.p. more than in the same period of the last year, when there was even one working day more). They thus clearly pointed to the upward movement of prices in the economy. Similarly to years 2017 and 2018, domestic sales grew faster (+3.8%) than sales from direct export this year. Total sales fell only in four industrial fields, given the more significant, it was the chemical industry (by 1.9%) and metallurgy (by 1.4%). On the other hand, they increased by more than one tenth e.g. in manufacture of leather or

¹⁰ In contrast in other, so far by weight peripheral segment of mining and quarrying activities – quarrying of building materials (especially stone, sand and clay) – production have grown briskly already third year in a row.

pharmaceutical industry and in energetics.

Value of new domestic orders year-on-year rose in Q2. It stagnated for foreign orders.

Prospects of the industry in the CR towards the second half of year 2019 remain full of contradictions. On one hand, the moderate growth of the value of new orders persists¹¹. It reached 1.7%¹² year-on-year in Q2, if only thanks to the domestic orders (+5.0%). Further motor vehicle industry, incl. its closest sub-suppliers signalled a mild growth of demand. Significant branches – machinery, manufacture of metal products or chemical industry - were however in the opposite situation. Utilisation of current production capacities in whole industry remained high (86%). Seasonally adjusted balance of the confidence indicator in industry descended into the negative band after more than five years at the beginning of year 2019 and the subtle pessimism further deepened in Q2 (to –3.0 points in June). Given the main barriers to growth, weight increased for inadequate demand (from 33% in Q4 2018 to 40% at the beginning of Q3 2019) and the role of labour force shortage diminished (from 45% to 39%)¹³. Businesses also face more the lack of material since half of year 2018. One fifth of businesses on the other hand did not identify any significant barriers.

Balance of confidence indicator dropped to nearly six-year minimum, inadequate demand presented the again main barrier to growth after two years.

Growth of construction output grew already third year in a row. The warm weather had an effect as well as strengthening of public investment on infrastructure projects.

Growth of construction output¹⁴ slackened this year following the strong last year, nevertheless it continued for the third year in a row. It attained 3.4%¹⁵ year-on-year in H1, also assisted by a swift entrance into this year – output increased nearly by 4% quarter-on-quarter for the first three months, when the warmer weather also fuelled the faster take-off of construction works. Further positive effect also originated from higher public investments connected to the faster drawing on funds from the EU budget, as well as a gradual expansion of residential construction. Despite weaker dynamics (+2.6%), weight dominant building construction added to growth of total construction production approximately by one half more than civil engineering construction (+6.2%) in H1.

Brisk growth of volume of started residential construction continued already third year in a row. Number of flats in multi-dwelling buildings hit the highest value since the end of year 2008.

It is also evident from the building construction performance, that the residential construction is gaining strength, thus gradually reacting to the longstanding strong demand in this area. Number of started dwellings was by 15.4% year-on-year higher in H1. It recorded a notable growth for the same time period already third year in a row. This year's construction volume (19.1 thousand flats) thus already notably approached the so far record value for the same part of the year 2008 (21.9 thousand). Year-on-year expansion of started dwellings manifested in all main types of construction apart from the peripheral segments of non-residential buildings and reconstructed non-residential premises¹⁶. The largest increase of flats occurred in multi-dwelling buildings (+59%), construction reached the eleven year maximum here (6.0 thousand flats). Even though in the regional view, Prague contributed the most to the year-on-year growth in H1 and volume of commenced construction hit the four-year maximum here (2.5 thousand.), it still lagged behind the increase in population as well as job opportunities in Prague.

Growth of new construction orders due to the high last year's

Short-term prospects of construction remain positive, despite the fact, that the value of new domestic orders (for businesses with 50 employees and more) fell by one tenth year-on-year in Q2 2019 (by similar pace in both building and civil engineering construction). This development

¹¹ New orders are surveyed only in selected CZ-NACE sections (13, 14, 17, 20, 21, 24, 25, 26, 27, 28, 29, 30), which manufacture mostly custom-made products, with longer production cycle and larger stocks of orders.

¹² July 2019 showed more favourable outlook, when new orders strengthened in total by one tenth year-on-year and by one sixth in the motor vehicle industry.

¹³ Growth of registered number of employees of industrial businesses halted this year. It was by 0.5% lower year-on-year in Q2.

¹⁴ All year-on-year data regarding the construction output are adjusted for calendar effects, quarter-on-quarter rates of growth also for the seasonality effect.

¹⁵ Output growth followed a similar pace also in the whole EU. There, construction boom was under way in Romania (+23%) and especially in Hungary (+35%), where the steep growth lasted already three years in a row. Nearly all Union countries registered growth in H1, construction growth supported some economies balancing on the edge of recession, e.g. Germany (+3.8%) or Italy (+4.0%).

¹⁶ „Popularity“ of dwellings originating from reconstructed non-residential premises however grows in the last five years. 1 140 dwellings were created here for the whole last year, the most after year 2005. More than one half of these were located in Central Bohemia and Ustecky region in year 2018. Frequency of dwellings completed in the extensions to residential buildings also grows – 1 025 dwellings were completed this way in H1 2019, which presented the largest half-yearly sum after year 2006. It can constitute an interesting alternative with respect to time and finances to significantly predominating construction of new residential buildings especially in the largest cities.

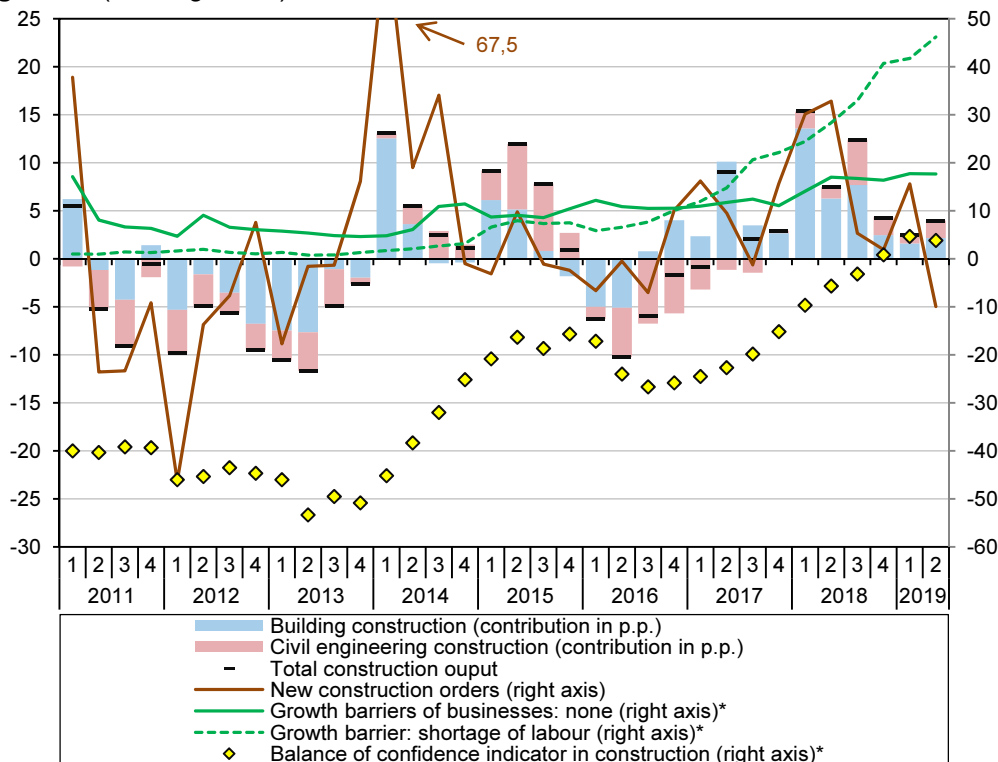


basis halted in Q2. Total stock of work however expanded, mostly thanks to public orders.

Entrepreneur sentiment in construction stayed mildly positive. Highly busy construction firms were however considerably troubled by a shortage of labour force.

was however primarily affected by high comparative basis¹⁷. The volume of new construction orders stagnated during the whole half-year (given a mild growth in the civil engineering construction). Development and modernisations of transport infrastructure were also the cause for larger projects to eventuate, average size of new order grew third year in a row (to half-year 4.3 CZK mil¹⁸). Total stock of construction work also strengthened year-on-year (not yet realised orders) – by 7% to 184 CZK bn (according to the figure at the end of June). This was a result of the growth in public orders – they already comprised three fifths of the construction work reservoir (it had higher weight last in the first half of year 2010). Given the intense utilisation of construction firms¹⁹ the role of foreign orders was on the other side falling, its stock failed to reach even one third of their level in year 2014. Value of confidence indicator in construction left the negative band in November 2018 (for the first time since September 2008) and it tightly exceeded the so far record optimism from year 2005 at the beginning of year 2019 (+5.5 points). The confidence did not grow in the further part of the year any more, but still remained mildly positive. The steep growth of businesses, whose development was limited by a shortage of labour force²⁰ on the other hand continued.

Chart 7 Contributions of branches to year-on-year change of construction output (in p.p.), total construction output and new orders (year-on-year in %), balance of confidence indicator in construction* (in points, right axis) and selected barriers to growth* (in %, right axis)



Note. Data Related to construction output are adjusted for calendar effects.

*Data are seasonally adjusted.

Source: CZSO

¹⁷ New orders hiked up to 71.3 CZK bn in Q2 2018. Their size as well as year-on-year pace (+33%) counted among the highest in the CR era.

¹⁸ The approximate value per one building permit also increased (it was 4.7 CZK mil in H1 2019, 4.2 mil a year ago). It grew the fastest for new construction year-on-year (both residential and non-residential buildings). Total value of buildings permits strengthened by 19% year-on-year.

¹⁹ Total stock of orders provided construction businesses with work for on average further 10.5 months in Q2 („only“ for 9.2 months in the same period of year 2018). Capacity of construction businesses in the CR is thus very stretched not only historically, but also in the international view. Within EU members, only businesses in Spain (16.8 months) and Italy (12.8) were busier this year. Slovakia (9.8) and Poland (9.6) also recorded high values.

²⁰ If the inadequate demand troubled one half of construction businesses and shortage of workers one fifth of them in Q3 2017, these relations nearly turned two years later. Construction thus experienced a similar situation (in slightly accentuated form), which occurred in industry during years 2016 and 2017.

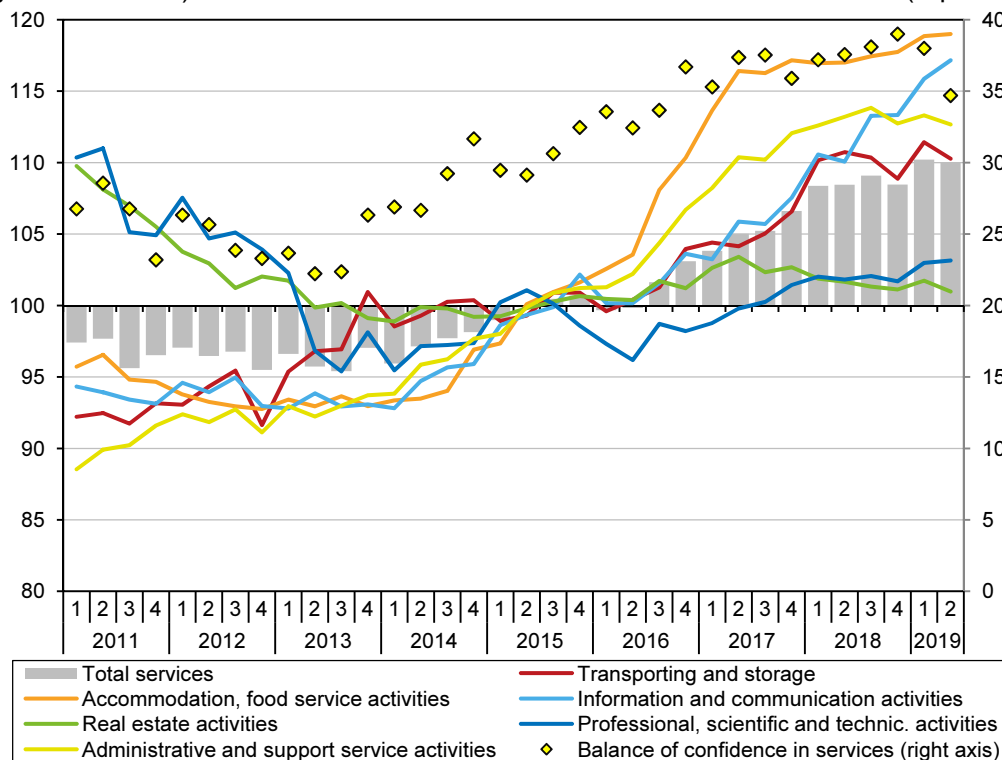
Sales growth in selected services moderated compared to last year, especially due to the effect of marked slowdown in transporting and storage.

Sales in selected services²¹ rose by 2.0% year-on-year in H1 2019, the slowest pace after year 2016. Effect of the weaker Q2 was also felt this year, when the sales slightly dropped quarter-on-quarter (by 0.2%, mostly due to the slowed output in transporting and storage). All branch sections contributed at least to some extent to the year-on-year growth apart from the real estate activities, which lower sales in the segment of real estate agencies and real estate management²² curbed.

Long-term strong demand for information and communication persisted.

Sales grew the most in the long-term dynamic branch of information and communication (+5.7%) this year. This branch added to the growth of all services sections from more than one half. Except for telecommunications (+2.6%), all sub-branches recorded a dynamic growth – the most the rather marginal segment by weight motion picture and music industry (+13.0%)²³. Branch transporting and storage did not build on the strong output from the beginning of the last year, it showed only 0.5% sales growth in H1 of this year. Mainly weaker output in storage had an effect. Slowdown however occurred also in weight dominant land transport (to +1.7%), despite higher mobility of population supported by recorded employment as well as broader discounts in the public transport (for students as well as seniors aged 65 and more).

Chart 8 Sales in selected services divisions (in real terms, seasonally adjusted, level of year 2015 = 100) and balance of confidence indicator in selected services* (in points)



*Data are seasonally adjusted, include also the financial sector.
Source: CZSO

Management consultancy, legal and accounting activities as

Branch accommodation, food service and restaurants prospered (+2.3%), sales increased by 29%²⁴ here in the last five years. Sales dynamics corresponded to the development of number of overnight stays of guests in the collective tourist accommodation establishments²⁵. Sales

²¹ Excluding trade, financial and insurance activities, research and development, and also 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 different number of working days).

²² Sales in the more significant segment (by weight) “the sale and renting of real estate” remained stable year-on-year.

²³ The segment of motion picture distribution itself also thrived. According to the Union of motion picture distributors, the sales from entrance fees in cinemas in the CR increased by one quarter year-on-year and number of visitors reached 8.8 mil. in H1 2019 – the largest amount within first half-years in the history of independent CR.

²⁴ It was the most among all branch sections of services. Growth arrived at 25% in information and communication.

²⁵ It grew by 2.5% year-on-year in H1 2019, for the most part thanks to domestic visitors (+4.0%). Visitors from Germany, other neighbouring countries of the CR and also from the USA contributed the most to the slight increase of number of overnight stays of non-residents. Decrease



well as market research prospered.

Growth of sales nearly ceased in administrative and support service activities.

Brisk and relatively stable rate of growth of sales in retail trade persists already fifth year in a row.

Sales for trade of non-food goods in the CR climbed up by the fourth highest rate of growth among the EU states.

strengthened by 2.4% in branch professional, scientific and technical activities. Similarly to last year, they were pulled mainly by the legal and accounting activities and also rising demand for activities of head offices and management consultancy. Dynamic growth of sales for market research and public opinion polling continued by double-digit pace. On the other hand, sales for architectural and engineering activities grew only mildly (+1.3%) despite the expansion of construction. Branch administrative and support service activities grew by the weakest rate of growth after H1 2010 this year (+0.2%). Drop of sales of security and investigation activities, job agencies as well as travel agency activities was offset by a strong demand for office administrative and support activities and in the area of rental and operative leasing activities.

Growth of purchasing power of both wages and pensions together with the positive (even though slightly weaker) consumer confidence balance resulted in 5.2% year-on-year growth of sales in retail trade in H1²⁶. The sales have maintained similar pace already for five years. Sale of non-food goods (with the growth of 8.0%, even 9.2% in Q1 2019) traditionally contributed the most to the year-on-year strengthening of retail in the CR. Its half-year growth more than doubled the rate of growth in the EU and among the Union states, only Lithuania (9.9%), Romania (9.7%) and Hungary (8.4%) recorded higher value. All types of specialised shops prospered, especially those with computer and communication equipment (+10.6%). Retail sale of cultural and recreation goods fared even better (11.5%), especially thanks to strong sales in Q1, which were stimulated by a fast onset of the Spring season. Only specialised shops with food experienced a moderate decline (by 1.2%). Total sales for food were however growing (+2.3%), similarly to the last year. On the contrary, the decreased dynamics concerned sale of automotive fuel, which increased year-on-year only by 2.2% (the least since the half of year 2014) in Q2 itself. Sales for sale and repair of motor vehicles continued falling similarly to the last year, however their fall already halted in the quarter-on-quarter expression this year.

was on the contrary observed for visitors from Russia (visitors: -1.6%, overnight stays: -7.8%). All regions of the CR except for Zlinsky region (-1.2%) recorded an increase of overnight stays of visitors, rates of growth were weaker in Prague (+0.6%).

²⁶ All year-on-year rates of growth of retail sales are given in constant prices and adjusted for calendar effects, quarter-on-quarter rates are adjusted for seasonal effects (including the effect of different number of working days).