

# Business Cycle Indicators Reveal Hardly Any Effects of the Global Coronavirus Spread So Far

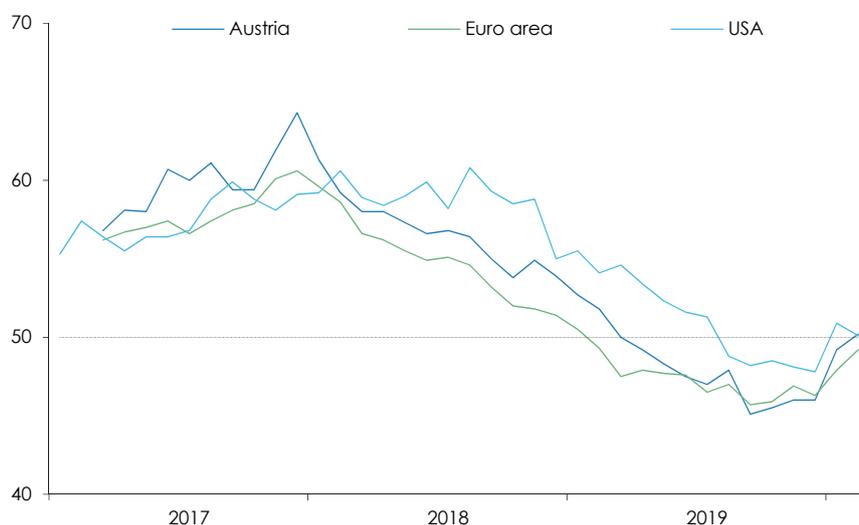
## Business Cycle Report of March 2020

Stefan Ederer

- The global economy cooled off in the fourth quarter.
- At the beginning of the year, international economic indicators showed an improvement.
- Austrian economic activity remained stable at the end of 2019.
- According to the WIFO-Konjunkturttest (business cycle survey), optimism is back in the manufacturing sector.
- The Austrian labour market continues to develop favourably.
- Inflation rose noticeably at the beginning of the year.

### Business sentiment in USA, Euro area and Austria

Manufacturing Purchasing Managers' Index, seasonally adjusted



Business sentiment improved noticeably at the beginning of the year. The effects of the coronavirus spread are not yet reflected. (Source: Institute for Supply Management (ISM), IHS Markit business surveys, Macrobond; values over 50 indicate growth).

**"Just as the global economy is stabilising somewhat, the coronavirus epidemic is hitting it. However, the effects will only be reflected in the economic indicators in the coming weeks and months."**

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The trade conflict between China and the USA and the crisis in the automotive industry are having a negative impact on industrial activity worldwide. New strict EU emission regulations will continue to create a difficult environment in the future. However, the service sector is proving to be a strong pillar of the economy. In Austria, tourism in particular continues to expand unabated.

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All staff members of the Austrian Institute of Economic Research contribute to the Business Cycle Report. For definitions used see "Methodological Notes and Short Glossary", <https://www.wifo.ac.at/wwadocs/form/WIFO-BusinessCycleInformation-Glossary.pdf>

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The effects of the coronavirus epidemic are currently affecting the global economy. The virus first appeared in China at the end of 2019 and has since been detected in many other countries. However, the outbreak is too recent to be able to reliably assess its impact on the global economy, as it has hardly been reflected in the economic indicators to date.

The outbreak of the coronavirus is hitting the global economy in a weak phase. Economic activity cooled down significantly at the end of 2019, and global trade declined in the fourth quarter. World industrial production, in turn, stabilised somewhat. Growth in the USA has also remained robust to date. However, the expansion of private household consumption decelerated markedly.

In the euro area, growth in the fourth quarter was noticeably weaker than in the previous quarters. The main reasons for this were stagnating output in Germany and a decline in GDP compared with the previous quarter in France and Italy. Among the four largest countries in the euro area, only Spain experienced a strong expansion. Overall, industrial

production in the euro area continued to contract in December.

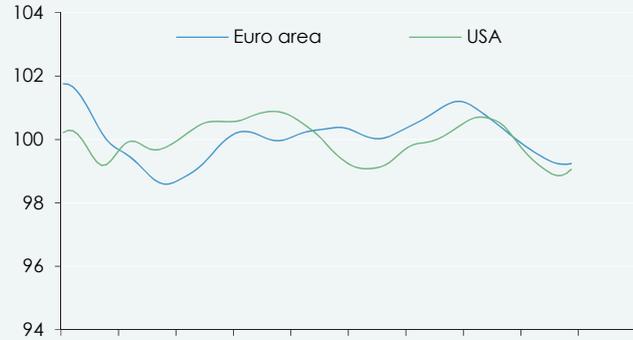
At the beginning of the year some indicators pointed to a cautious stabilisation of the world economy. This included a marked rise in the ISM Purchasing Managers' Index in the USA in January, which exceeded the 50-point mark for the first time since summer 2019, although it fell again slightly in February. The Economic Sentiment Indicator (ESI) published by the European Commission saw a significant increase in January and February. Sentiment brightened in Germany and France. Industrial confidence improved considerably, and consumer confidence remained largely unchanged. The growing uncertainty caused by the global coronavirus epidemic, however, led to a sharp decline in stock prices.

In Austria, GDP posted an increase of 0.3 percent in the fourth quarter of 2019. Export growth moderated and investments in machinery and equipment declined. By contrast, private household consumption once again expanded strongly. Value added in the manufacturing sector continued to shrink.

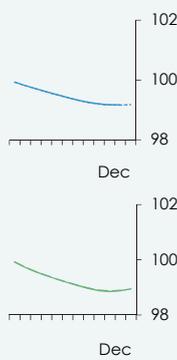
Figure 1: **International Business Climate**

Seasonally adjusted, 2015 = 100, 3-month moving average

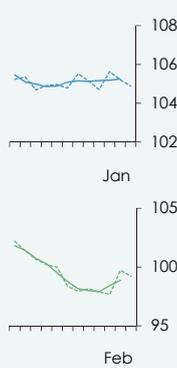
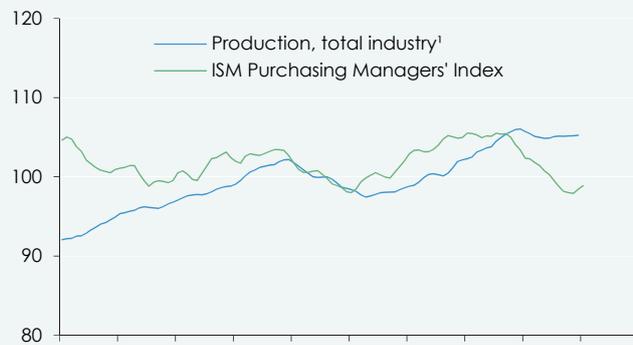
Leading indicators – amplitude



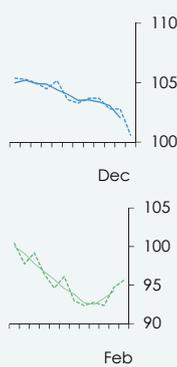
12-month performance



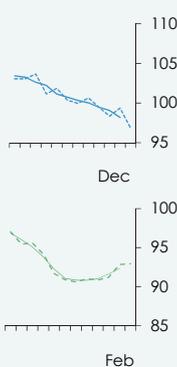
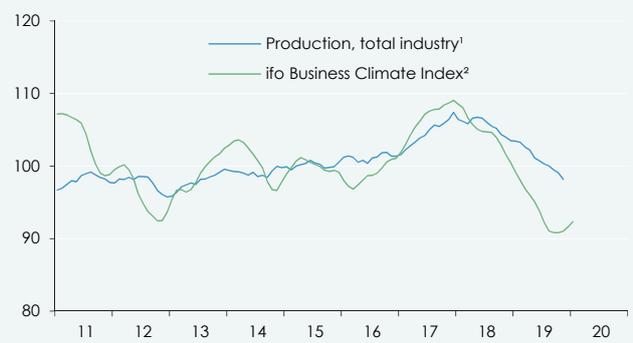
USA



Euro area



Germany



Source: European Commission, Deutsche Bundesbank, ISM (Institute for Supply Management™), ifo (Institute for Economic Research, Munich), OECD. – <sup>1</sup> Excluding construction. – <sup>2</sup> Manufacturing.

In January and February, the results of the WIFO-Konjunkturtest (business cycle survey) showed a slight improvement in the sentiment among Austrian companies. For the first time, assessments in the manufacturing sector were predominantly optimistic again. Business expectations, however, declined slightly overall, although they improved in the manufacturing sector. The WIFO-Konjunkturtest (business cycle survey) has so far also not shown any effects of the coronavirus epidemic.

The Austrian labour market continues to develop favourably. According to preliminary

estimates, the number of dependent active employees in February was 41,000 higher than in the previous year (+1.1 percent). The unemployment rate according to the national definition was 8.1 percent.

Inflation in Austria accelerated markedly at the beginning of the year. According to the consumer price index, the inflation rate in January was 2 percent, according to the harmonised consumer price index (HICP) 2.2 percent. In contrast, core inflation (HICP excluding energy and unprocessed food) remained constant at +2.1 percent.

## 1. Coronavirus epidemic hits global economy in a cooling phase

**The global economy weakened further in the fourth quarter of 2019, but signs of stabilisation were evident at the beginning of 2020. The outbreak of the coronavirus has so far hardly been reflected in the latest survey data, though. On the stock markets, however, the uncertainty is already making itself felt.**

The effects of the coronavirus epidemic are currently affecting the global economy. The virus first appeared in the Chinese province of Hubei at the end of December 2019 and is currently concentrated in China, accounting for more than 95 percent of all cases worldwide (as at the end of February 2020). However, it has now also been detected in many other countries, particularly in Korea, Japan, Italy and Iran.

The effects of the coronavirus epidemic cannot yet be estimated. The disruption of trade and production chains is too recent to be reflected in the current indicators. Even the latest economic surveys do not yet show a noticeable deterioration in sentiment in most countries. In China and other Asian countries, however, the purchasing managers' index fell sharply in February. In addition, data on coal consumption, property sales and passenger car sales point to a drastic decline in economic activity in China in February 2020. Preliminary visitor figures for February suggest that tourism in Asia is suffering particularly from the effects of the wave of disease.

The coronavirus epidemic is affecting parts of the global economy in a cooling phase. According to the CPB, following the onset of expansion in the third quarter, world trade fell again in the fourth quarter of 2019. Overall, global trade in 2019 thus shrank by 0.4 percent year-on-year. By contrast, world industrial production stabilised and increased again in the fourth quarter, after having contracted in the two previous quarters. However, year-on-year growth in 2019 (+0.8 percent) was much weaker than in previous years.

In the USA, economic activity continued to grow strongly in the fourth quarter at +0.5 percent compared with the previous quarter. Consumer spending by private

households rose noticeably more slowly than in the two preceding quarters, however. Investments in machinery and equipment declined for the second time in a row compared to the previous quarter and were below the previous year's level in the fourth quarter. Exports of goods also fell in the fourth quarter compared with the previous quarter; they stagnated year-on-year. This was more than offset by a sharp decline in imports of goods, so that overall foreign trade made a strong contribution to growth in the fourth quarter.

Business cycle indicators at the beginning of 2020 are signalling a slight brightening of sentiment in the USA, though. Consumer confidence has tended to improve in recent months and, according to the Conference Board, remained at a high level in February. The ISM Purchasing Managers' Index also rose noticeably in January, exceeding the 50 point mark for the first time since summer 2019. In February, however, it fell slightly again. The situation on the labour market is still extremely favourable, even if the unemployment rate has not decreased further recently. In January it was 3.6 percent, slightly higher than in the previous month. The employment rate has recently tended to rise again somewhat, but the increase in real hourly wages remained moderate. Inflation, which accelerated somewhat in January, also remained moderate at +2.5 percent. Nevertheless, the Fed lowered its key interest rate by 0.5 percentage points to a range of 1 to 1.25 percent at the beginning of March.

The outbreak of the coronavirus created great uncertainty on the financial markets. In the second half of February, stock market indices worldwide fell by up to 15 percent and volatility indices rose sharply. As a result, by the end of February, the S&P 500, FTSE 100 and DAX 30 were trading at roughly the same level as in the previous year.

## 2. Euro area economy shows virtually no growth in the fourth quarter

In the euro area, the economy weakened noticeably at the end of 2019. GDP rose by only 0.1 percent in the fourth quarter compared to the previous quarter (third quarter +0.3 percent). This was mainly due to a stagnation of economic activity in Germany as well as the decline in France (-0.1 percent) and Italy (-0.3 percent). Among the four large countries in the euro area, only Spain recorded strong economic growth (+0.5 percent). Industrial production in the euro area also declined significantly in December.

In Germany and France, declines in exports of goods and in investments in machinery and equipment dampened economic activity in the fourth quarter. In both countries, however, growth of private consumer spending also slowed down noticeably; in Germany it even stagnated compared with the previous quarter. Also in Spain growth in private consumption and investments lost considerable momentum, while exports of goods rose strongly.

At the beginning of 2020, however, economic sentiment in the euro area improved noticeably. The Economic Sentiment Indicator (ESI) published by the European Commission rose significantly in January and

February. Sentiment brightened in Germany and France in particular, while it remained largely unchanged in Italy and Spain. In all four countries, industrial confidence picked up considerably, while consumer confidence remained largely stable. Production expectations and order-book levels improved significantly in the euro area at the beginning of the year.

The Ifo Business Climate Index for the German economy was virtually unchanged in February. Business expectations improved somewhat, while the current situation was assessed as worse. Business expectations brightened in the manufacturing sector in particular. According to the DIW Economic Barometer, the German economy is nevertheless unlikely to grow much in the first quarter of 2020.

In January, the seasonally adjusted unemployment rate in the euro area remained unchanged at 7.4 percent, its lowest level since 2008. According to preliminary estimates, the inflation rate fell to 1.2 percent in February. In contrast, core inflation (HICP excluding energy and unprocessed food) rose slightly to 1.4 percent.

**In the euro area, the economy weakened noticeably in the fourth quarter of 2019. However, company assessments and consumer confidence stabilised somewhat in January and February.**

## 3. Economic activity in Austria stable in the fourth quarter of 2019

The Austrian economy grew by 0.3 percent quarter-on-quarter in the fourth quarter of 2019 (trend-cycle data). The economy thus remained weak but stable until the end of 2019 (second and third quarter +0.2 percent). Unadjusted GDP in the fourth quarter was 1.0 percent above the previous year's level.

However, the manufacturing sector is still in recession. In the fourth quarter of 2019, gross value added in this sector fell by 0.6 percent, after having already declined in the two preceding quarters. The expansion of goods exports again slowed down somewhat and was low in the fourth quarter (+0.1 percent compared to the previous quarter). Investment in machinery and equipment fell slightly (-0.1 percent), but the decline was much weaker than in the

previous quarters. Private consumption, on the other hand, continued to expand by 0.3 percent compared to the previous quarter. Construction investments also continued to grow strongly at +0.5 percent.

Overall, the economy grew by 1.6 percent in 2019 compared to the previous year. Despite the economic slowdown in the following months, the favourable development until spring 2019 is reflected in significant annual increases in gross fixed capital formation (+2.9 percent) and goods exports (+2.1 percent). However, the growth rates of these aggregates are nowhere near those of previous years. Household consumption expenditure, on the other hand, expanded by +1.4 percent year-on-year, even somewhat more strongly than in 2018.

**Austria's economy grew by 0.3 percent in the fourth quarter of 2019. However, industry remained in recession. Export growth slowed down and investments in machinery and equipment declined. Private consumer spending continued to expand significantly.**

## 4. Economic assessments improve slightly

The results of the WIFO-Konjunkturtest (business cycle survey) of February show an improvement in economic assessments by Austrian companies. The index of current business assessments for the overall economy rose in seasonally adjusted terms and thus remained in the optimistic range. The mood in the construction industry and in the manufacturing sector brightened noticeably,

while it deteriorated slightly in the service sector. For the first time since September 2019, the optimistic assessments thus also prevailed in the manufacturing sector. Production activity and order-book levels were assessed noticeably more favourably than in previous months. The mood in the construction and service sectors remained clearly

In February 2020, Austrian companies assessed the business situation somewhat more favourably than recently. The mood in the manufacturing sector was also optimistic for the first time again. So far, the surveys do not indicate any effects of the spread of the coronavirus.

positive; in the construction industry this reflects the mild weather in particular.

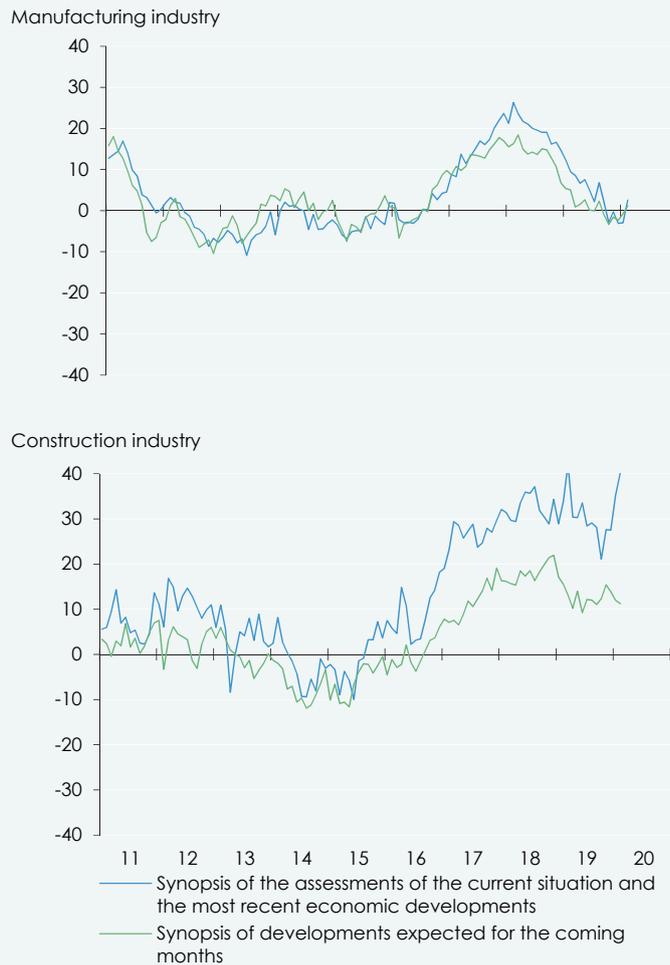
The index of companies' business expectations for the overall economy declined somewhat in February, but continued to signal predominantly optimistic assessments. Expectations clouded somewhat in the construction and service sectors, while they improved in the manufacturing sector, where optimistic assessments predominated again for the first time, although the indicator remained below its long-term average. With the exception of motor vehicle production, the improvement in sentiment spread through all areas of manufacturing, but was

particularly pronounced in consumer goods production.

Bank Austria's Purchasing Managers' Index also rose in February. For the first time in a year, it was above the growth threshold and thus signalled an end to the recession in domestic industry. While the assessment of production output improved, that of new orders clouded over. Delivery times were also assessed somewhat more pessimistically; these could already be the first signs of disruptions in global value chains as a result of the coronavirus epidemic. According to the European Commission, consumer confidence fell slightly in February, but had previously risen noticeably in January.

Figure 2: Results from the WIFO-Konjunkturtest (business cycle survey)

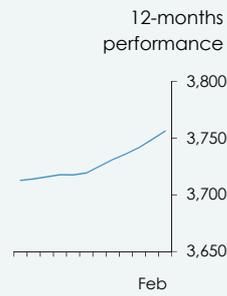
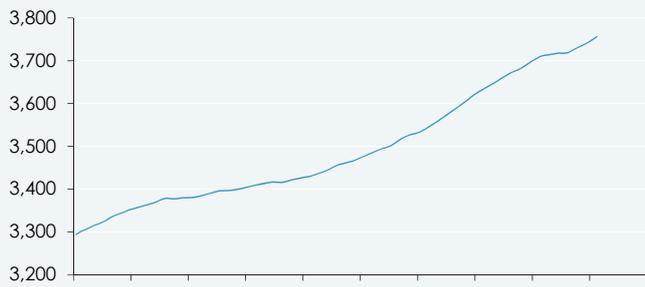
Indices of the assessment of the current economic situation and of business expectations, seasonally adjusted



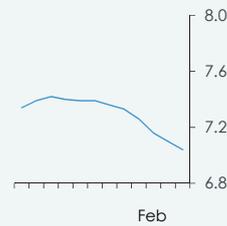
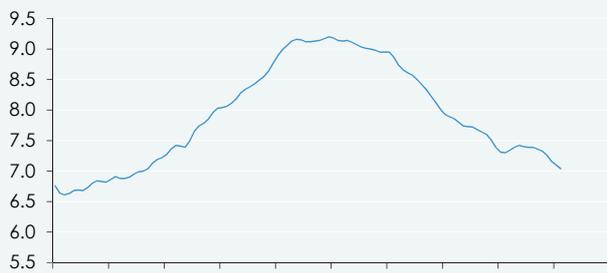
Source: WIFO-Konjunkturtest. Data refer to index points (percentage points) between +100 and -100. Values above 0 imply positive expectations, values below 0 indicate negative expectations.

Figure 3: **Key economic indicators**

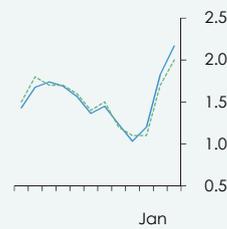
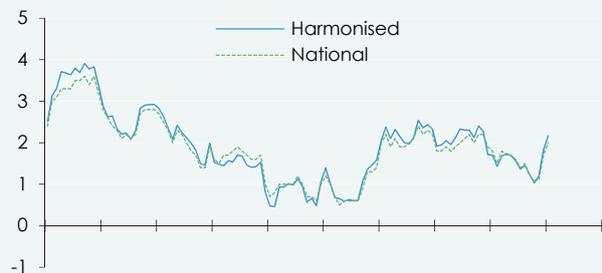
Persons in active dependent employment<sup>1</sup>, 1,000s, seasonally adjusted



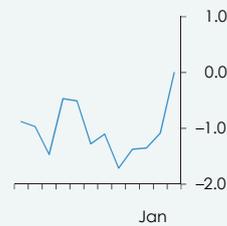
Unemployment rate, traditional Austrian method<sup>2</sup>, seasonally adjusted



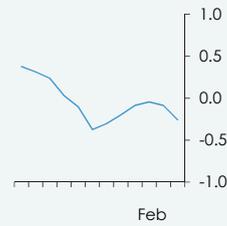
Consumer prices, year-to-year percentage changes



Real effective exchange rate, year-to-year percentage changes



10-year central government bonds (benchmark), percent



Source: Public Employment Service Austria, Federation of Social Security Institutions, Oesterreichische Nationalbank, Statistics Austria, WIFO calculations. – <sup>1</sup> Excluding persons in valid employment contract receiving child care benefit or being in military service. – <sup>2</sup> As a percentage of total labour force excluding self-employed, according to Public Employment Service.

## 5. Labour market continues to develop favourably in Austria

**Employment growth continues in Austria and unemployment is declining steadily. According to the national definition, the unemployment rate fell to 8.1 percent in February.**

The Austrian labour market continues to develop favourably. According to preliminary estimates, the number of persons in active employment in February exceeded the previous year's figure by 41,000 (+1.1 percent). The number of unemployed persons registered with the Public Employment Service Austria (AMS) was 9,400 lower than in the previous year (-2.7 percent), including persons in training courses by 11,000 (-2.7 percent). According to the national definition, the unemployment rate fell by 0.3 percentage points to 8.1 percent compared to the previous year.

Seasonally adjusted, the number of persons in active employment increased by 0.2 percent in February compared to the previous

month. Based on preliminary figures, the seasonally adjusted unemployment rate according to national definition fell slightly in February. According to Eurostat definition, it amounted to 4.3 percent in January and was thus 0.1 percentage point higher than in the previous month.

In February the number of older unemployed people aged 50 years and over including those in training was 500 higher than in the previous year (+0.4 percent). The number of unemployed and persons in training courses with health-related placement restrictions rose by 3,500 (+3.9 percent). The number of long-term unemployed was 6,000 lower than in the previous year (-5.7 percent).

## 6. Significant rise in inflation

**Inflation in Austria accelerated markedly in January. The core inflation rate remained unchanged, however.**

In January, inflation picked up considerably (+2 percent after +1.7 percent in December). In the areas "housing, water, energy", "restaurants and hotels" and "transport" a noticeable increase in prices was recorded. Catering services, maintenance and repair of dwellings, operation of private transport equipment, rentals for housing and household energy were the main contributors to the price increase. In the other groups (with the exception of communication) inflation was also mostly well above 1 percent.

The increase in the harmonised index of consumer prices even reached 2.2 percent in January (after +1.8 percent in December). Yet, the core inflation rate (HICP excluding energy and unprocessed food) remained unchanged at +2.1 percent. The consumer price indices for the micro basket (daily purchases, +1.4 percent) and the mini basket (weekly purchases, +1.8 percent) rose moderately, however.