

Marcus Scheiblecker

Short-term Confidence Heading up Markedly in the Euro Area

In October, both industrial output and business surveys for the euro area show a marked improvement from the first half of the year. Notably for Germany and Italy, where GDP rose below the average in the first semester, indicators point to a rebound. In Austria, growth has been above the euro-area average over the last quarters, and companies remain optimistic on business conditions.

All staff members of the Austrian Institute of Economic Research contribute to the Business Cycle Report. • Cut-off date: 10 November 2005 • E-Mail Address: Marcus.Scheiblecker@wifo.ac.at

The index of industrial output for the euro area rose by a seasonally-adjusted 0.8 percent month-on-month in September, the third increase in a row. At the same time, both business and consumer confidence strengthened. From its trough last May, the business climate index of the European Commission has moved up steadily, and most noticeably in September and October.

The German economy stagnated in the second quarter compared with the earlier period (following a 0.8 percent increase in the first quarter), whereas in Italy, after a further fall in the first quarter, real GDP headed up by 0.7 percent in volume in the period from April to June. However, in these two countries in particular, companies are taking greater confidence, according to the latest business surveys. The ifo index of business expectations in Germany rose in September and October, reaching the highest level in five years.

Preliminary estimates for the USA show continued robust growth for the third quarter. In spite of the output losses caused by the natural disasters, real GDP moved up by a seasonally-adjusted 0.9 percent from the previous period. The Conference Board Index, measuring consumer sentiment, fell nevertheless markedly in October which may signal a slackening of household spending.

In many countries there are concerns about a rekindling of inflation as a consequence of the jump in oil prices. Although world market quotations for oil products have eased over the last weeks, central banks are wary of spill-over effects from higher energy prices onto wages.

In Austria, GDP growth of 0.4 percent in the last quarters has slightly exceeded the euro area average of 0.3 percent. Forward-looking indicators suggest that the upward trend will continue. In the regular WIFO business survey, companies' optimism about output for the next three months has increased further, and expectations for the time beyond have also improved once more.

Whereas private consumption in Austria keeps rising moderately, exports are exhibiting fresh momentum. Although merchandise exports gained only 5.1 percent year-on-year in August (+0.9 percent in July), the quarterly national accounts show an acceleration already for the second quarter.

Higher oil prices led to a rise in domestic inflation in September. The national consumer price index rose by 2.4 percent year-on-year, after 2 percent in August. Price increases were also recorded for alcohol and tobacco, as well as for health care services.

Inclement weather dampened tourism demand in the summer season. While the number of guests' arrivals in the period from May to September was 1.2 percent higher than last year, the number of overnight stays dropped by 1 percent as tourists tended to shorten their holiday periods.

The domestic labour market reflects the sluggish growth of the first half of the year. As from May, year-on-year gains in the number of persons in active employment remained at +30.000, no longer accelerating until October when the upward trend resumed. With labour supply growing substantially, unemployment increased further in October to a rate of 6.8 percent.