

Stefan Ederer

## Cautious Signs of Economic Stabilisation

### Business Cycle Report of December 2019

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The global cool-down is likely to bottom out gradually. In the USA and the euro area, economic growth in the third quarter was similarly strong as in the previous quarter. Sentiment did not deteriorate further in these countries recently. Economic momentum in Austria has also remained intact to date, with the business activity continuing to grow by 0.2 percent in the third quarter. In the manufacturing sector, however, value added declined. Companies' assessments of the economy have recently stabilised somewhat, although expectations remain sceptical in the manufacturing sector. The recovery on the labour market has slowed since the beginning of the year. Inflation continues to ease.

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The global economy appears to be stabilising somewhat at present. In the third quarter, besides industrial production decreasing following a stagnation in the second quarter, world trade rose again for the first time, after having declined in the previous three quarters. In some industrialised and emerging countries, economic assessments have recently continued to improve.

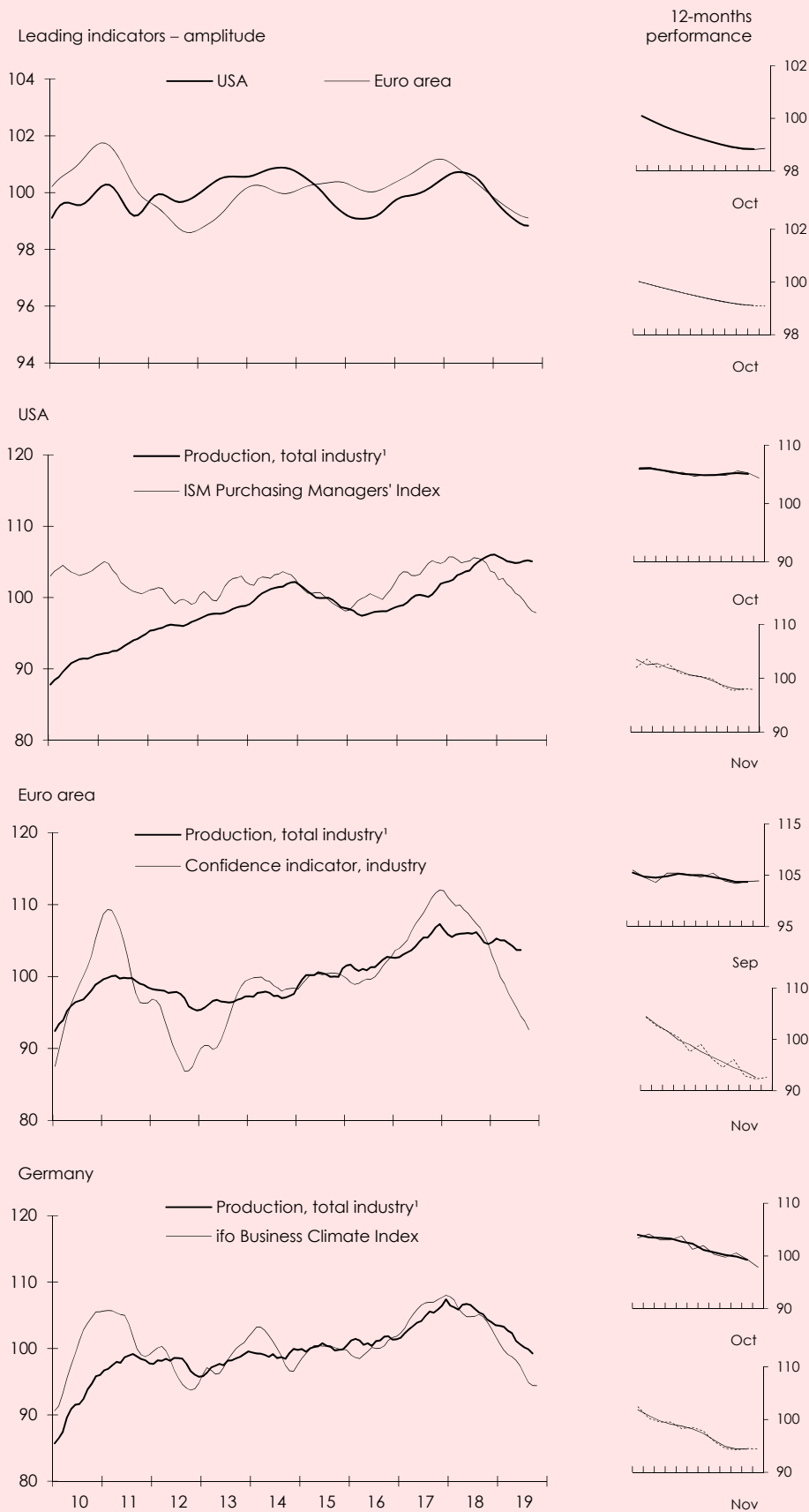
In the USA, GDP in the third quarter rose by an unchanged 0.5 percent compared to the previous period. Private consumption continued to grow strongly and supported the economy. Consumer confidence is still optimistic, whereas the ISM Purchasing Managers' Index in industry remained below the growth threshold in November.

In the euro area, the economy appears to be stabilising somewhat. In the third quarter, the economy grew by 0.2 percent compared to the previous quarter. Growth rates in France, Italy and Spain were similar to those recorded in the previous quarter. Even in Germany, where a decline had been expected, GDP rose slightly in the third quarter. However, industry there remains in recession. While companies were more pessimistic about the current situation recently, expectations brightened slightly.

In Austria, the economy is weak, but so far stable. In the third quarter, GDP grew by 0.2 percent (trend-cycle data). Unadjusted, it was 1.5 percent above the level of the previous year. While exports have not lost further momentum since the beginning of the year, investments in machinery and equipment fell in the third quarter. Value added in the manufacturing sector declined once again. Consumer spending by private households, on the other hand, continued to grow strongly.

Figure 1: International business climate

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



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

According to the WIFO-Konjunkturtest (business cycle survey) in November, Austrian companies were slightly more optimistic about the current situation than recently. Future developments continue to be assessed with confidence. However, scepticism prevails in the manufacturing sector, although the sentiment has brightened somewhat lately. According to the European Commission's economic survey, however, consumer confidence has deteriorated.

The strong upswing of recent years is continuing to have an effect on the Austrian labour market. In November, the number of persons in active dependent employment was considerably higher than in the previous year, and the number of unemployed registered with the Public Employment Service Austria (AMS) fell. Seasonally adjusted, the unemployment rate has largely stagnated since the beginning of the year and amounted to 7.3 percent in November.

Consumer price inflation moderated further in October (to +1.1 percent). While prices in restaurants and hotels as well as for housing, water and energy rose significantly, those for fuels and other petroleum products declined.

## 1. Global economic slowdown is easing

The global economic activity has been cooling down since 2018, but should stabilise somewhat at present. According to the CPB, world trade rose again for the first time in the third quarter compared with the previous quarter, after having declined in the previous three quarters. It was roughly at the level of the first quarter, but lower than in the third quarter of the previous year. Growth in world industrial production, on the other hand, continued to slow down, with CPB reporting a decline compared with the previous quarter. Compared with the first quarter, industrial production stagnated, but was higher than in the same quarter of the previous year.

In the USA, the economy grew by +0.5 percent in the third quarter compared with the previous period, the same rate as in the previous quarter. Year-on-year, growth amounted to 2.1 percent. Consumer spending by private households continued to increase strongly, while gross fixed capital formation declined. Exports increased slightly in the third quarter, after having fallen significantly in the previous quarter. Compared with the previous year, however, this implied a stagnation in exports.

The economic outlook remains stable. The ISM Purchasing Managers' Index remained virtually constant in November, but below the growth threshold. According to the Conference Board, consumer confidence maintained its high level in November. This was supported by the favourable situation on the labour market. The unemployment rate is extremely low, and the participation rate has been gradually increasing recently. Real wages improved significantly compared to the previous year, while the inflation rate remained low at 1.8 percent in October.

*The slowdown in the global economy should gradually come to an end. World trade rose again for the first time in the third quarter. In the USA, the economic outlook is stable.*

## 2. Tentative economic stabilisation in the euro area

In the euro area, GDP grew by 0.2 percent in the third quarter compared with the previous quarter (+0.2 percent in the second quarter). With +0.3 percent in France, +0.4 percent in Spain and +0.1 percent in Italy, the economy remained stable in all major euro area countries. In France and Spain, not only consumer spending contributed to this, but also gross fixed capital formation and exports increased noticeably.

In Germany, a further decline in GDP had been expected for the third quarter, but the economy grew by 0.1 percent compared to the previous quarter. Private and public consumption expanded significantly, while gross fixed capital formation again fell slightly. After the sharp decline of the previous quarter, exports returned to a marked increase and supported overall economic demand. Industry, however, remains in recession: its value added once again fell sharply in the third quarter.

The economic outlook has brightened somewhat recently. In November, the Economic Sentiment Indicator (ESI) published by the European Commission rose markedly in the euro area. Assessments improved in Germany, France and Spain, but remained

*Business activity grew at a similarly weak pace in the third quarter as in the previous quarter. GDP also increased in Germany. The economic outlook recently brightened somewhat.*

largely unchanged in Italy. The differences between countries and sectors persist: consumer sentiment improved in Germany and France and deteriorated in Italy and Spain. On the other hand, industry confidence continued its downward trend in Germany and Italy, while it remained stable in France and improved somewhat in Spain.

In Germany, the ifo Business Climate Index for the overall economy rose slightly in November, with the expectations of the companies surveyed improving noticeably. However, in the manufacturing sector, the assessment of the current situation worsened further. Nevertheless, the business outlook also appears to be gradually stabilising even in this sector. DIW and ifo expect GDP to grow slightly in the fourth quarter.

However, the recovery on the labour market in the euro area is likely to be over for the time being. The unemployment rate has been largely stable since spring and stood at 7.5 percent in October. According to preliminary estimates, inflation picked up somewhat in November and was at 1 percent for the first time since August. In particular, core inflation (HICP excluding energy and unprocessed food) accelerated markedly to 1.5 percent.

### 3. Stable economy in Austria, but weakness in industry

In the third quarter, the Austrian economy grew by 0.2 percent compared to the previous quarter (trend-cycle data). Growth thus continued to be significantly weaker than in the previous upswing, but did not ease further compared to spring (second quarter +0.2 percent). Unadjusted, GDP in the third quarter was 1.5 percent higher than in the previous year.

The expansion of goods exports has also not slowed further since the beginning of the year. At +0.6 percent, it was similarly strong in the third quarter as in the previous quarters (+0.5 percent in the second quarter, +0.6 percent in the first quarter). Unadjusted, Austrian exports of goods in the third quarter were 2.9 percent higher than in 2018.

The economic slowdown is now also clearly reflected in investment demand: investments in machinery and equipment fell in the third quarter (-0.4 percent compared to the previous quarter) after stagnating in the second quarter. The development of construction investments also lost noticeable momentum in the course of the year. However, due to brisk demand at the turn of the year 2018-19, investments in machinery and equipment were 5.2 percent higher in the third quarter compared to the same quarter of the previous year. Gross fixed capital formation rose by 2.7 percent year-on-year.

Consumer spending by private households lost some momentum in the third quarter, but still expanded strongly (+0.3 percent compared to the previous quarter, +0.4 percent in the second quarter). Unadjusted, it was 1.8 percent higher than in the previous year. Accordingly, value added in wholesale and retail trade and in most services sectors continued to increase significantly in the third quarter. Value added in manufacturing, however, contracted (-0.4 percent compared to the previous quarter), after having already fallen slightly in the second quarter (-0.1 percent). Unadjusted, value added in this sector in the third quarter was 0.5 percent higher than in the previous year.

#### 3.1 Economic assessments are stabilising somewhat

The results of the WIFO-Konjunkturtest (business cycle survey) of November show a cautious stabilisation of the economic assessment by Austrian companies. The index of the current situation assessments for the overall economy rose in seasonally adjusted terms and thus remained in a confident range. However, there were again large differences between the sectors: In the manufacturing sector, the index of the current situation saw a small improvement and was assessed almost in balance; this increase was primarily due to a noticeably better assessment of foreign orders, while the overall order situation was judged to be only slightly more favourable. In the construction and services sectors, companies were largely optimistic about the situation. Sentiment in the services sector deteriorated somewhat in November, however, while it improved in the construction sector.

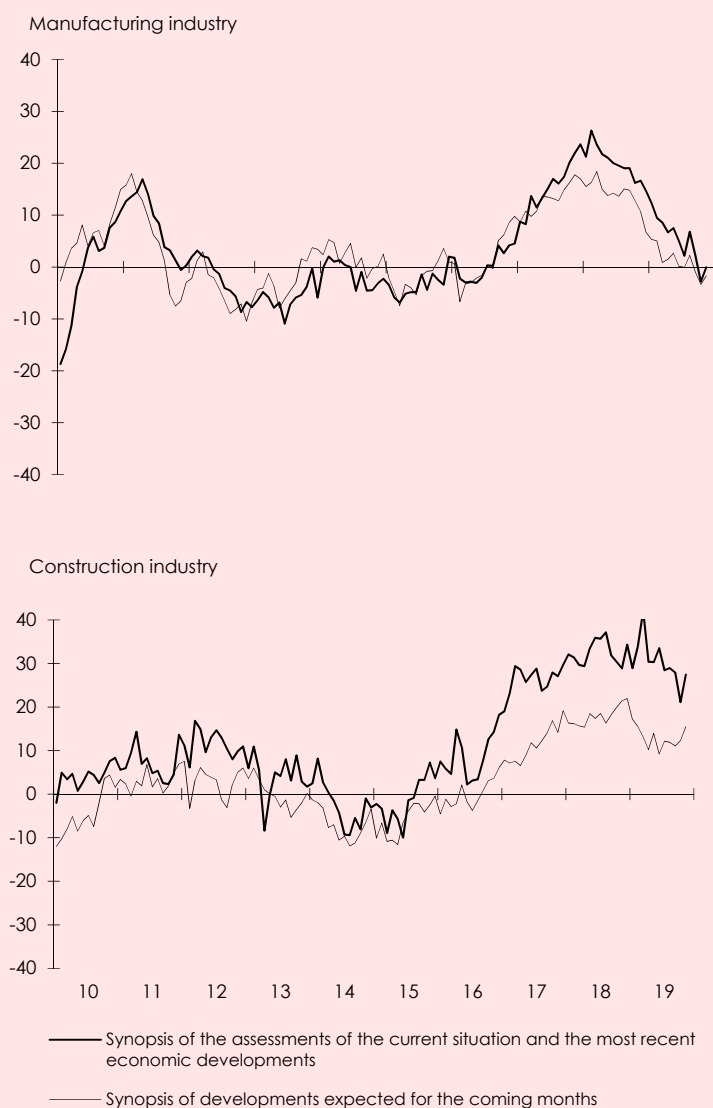
*As in the previous period, the Austrian economy grew by 0.2 percent in the third quarter. While export momentum remained stable, investment demand declined. Value added in the manufacturing sector contracted.*

*According to the WIFO-Konjunkturtest (business cycle survey), Austrian companies are slightly more optimistic about the current situation now. However, sentiment in the manufacturing sector remains pessimistic.*

The index of business expectations for the economy as a whole remained virtually unchanged in November compared with the previous month, signalling predominantly optimistic assessments by Austrian companies. However, scepticism continued to prevail in the manufacturing sector, even though expectations improved somewhat in November. In the construction industry, the index rose and remained clearly in the optimistic range. In the service sectors, on the other hand, it declined slightly, but also showed predominantly optimistic assessments.

Figure 2: Results from the WIFO-Konjunkturtest

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

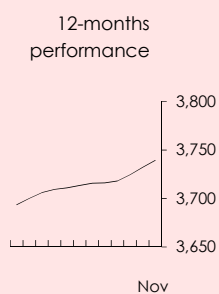
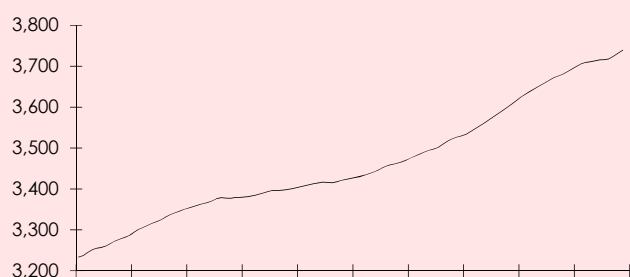


Source: WIFO-Konjunkturtest. Data refer to index points (percentage points) between +100 and -100. Values above 0 imply positive expectations, values below 0 indicate negative expectations.

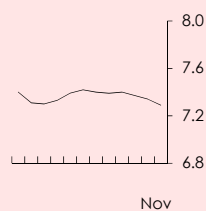
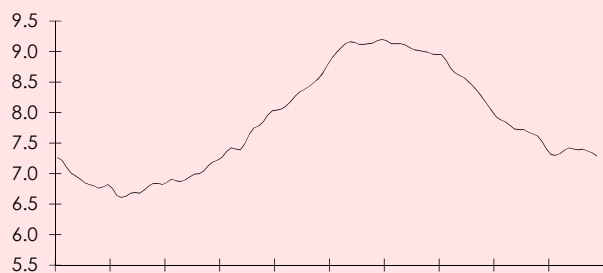
The Purchasing Managers' Index of UniCredit Bank Austria also improved in November, having already picked up again in October. It was still below the growth threshold, though. UniCredit Bank Austria's business cycle indicator was unchanged in October and continued to signal moderate growth. According to the European Commission, however, consumer confidence deteriorated somewhat in November, mainly due to more pessimistic assessments of macroeconomic developments.

Figure 3: Key economic indicators

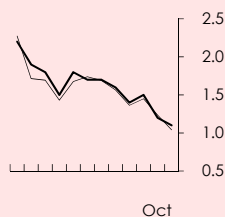
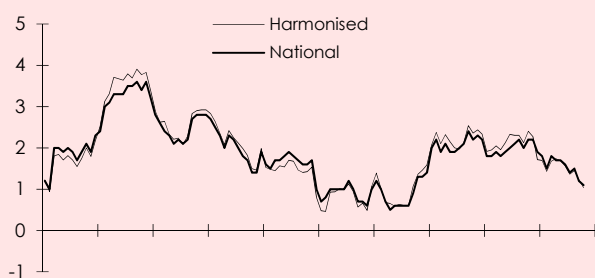
Persons in active dependent employment<sup>1</sup>, 1,000s, seasonally adjusted



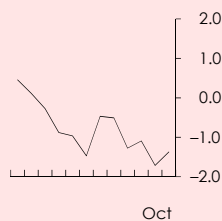
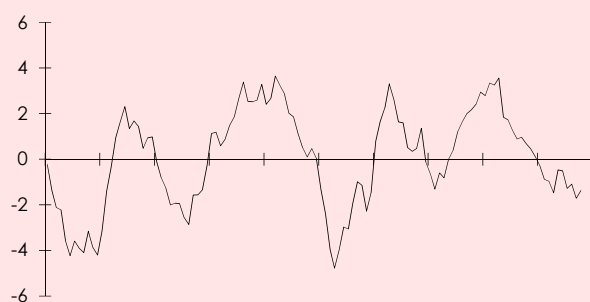
Unemployment rate, traditional Austrian method<sup>2</sup>, seasonally adjusted



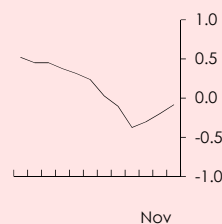
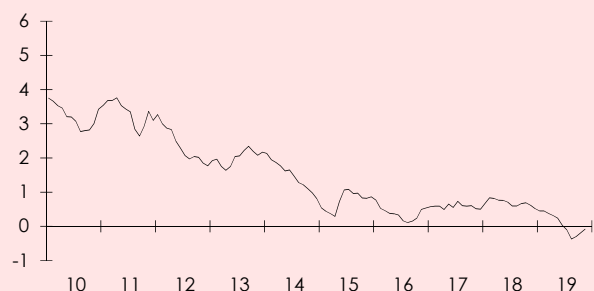
Consumer prices, year-to-year percentage changes



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



10-year central government bonds (benchmark), percent



Source: Public Employment Service Austria, Main Association of Austrian 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.

### 3.2 Labour market recovery slows down

The past economic upswing is still having an effect on the Austrian labour market, but the recovery is slowing down. According to preliminary estimates, the number of persons in active dependent employment exceeded the previous year's figure by 48,000 (+1.3 percent) in November. The number of unemployed registered with the Public Employment Service Austria (AMS) was 7,800 lower than in the previous year (-2.5 percent), including persons in training by 10,700 (-2.8 percent).

Seasonally adjusted, the number of persons in active dependent employment increased by 0.2 percent in November compared to the previous month. However, the seasonally adjusted unemployment rate has largely stagnated since the beginning of the year.

Based on provisional figures, the unemployment rate according to national definition was 0.3 percentage points lower in November than in the previous year. The seasonally adjusted unemployment rate according to Eurostat was 4.6 percent in October, 0.1 percentage point higher than in the previous month.

The number of older unemployed persons aged 50 and over, including those in training, was 1,200 higher in November than in the previous year (+1.1 percent). Also, the number of unemployed persons and persons in training with health placement restrictions increased (+3,500, +4.2 percent). However, the number of long-term unemployed was lower than in the previous year (-6,300, -6.3 percent).

### 3.3 Price rises continue to flatten out

Inflation subsided again slightly in October (+1.1 percent after +1.2 percent in September). In the categories "restaurants and hotels" and "housing, water and energy", price increases remained strong. The latter was mainly due to price surges in maintenance and repair of dwellings and the rise in rentals for housing. By contrast, the prices of fuels and other petroleum products declined significantly. The consumer price index for the micro-shopping basket (daily shopping) in October was unchanged from the previous year, while that for the mini-shopping basket (weekly shopping) declined. Food and non-alcoholic beverages were less than 1 percent more expensive.

The rise in the Harmonised Index of Consumer Prices also slowed markedly to 1 percent in October. Core inflation (HICP excluding energy and unprocessed food) remained constant at 1.5 percent in October.

*The number of persons in active dependent employment continues to rise. However, the reduction in unemployment has eased, and the seasonally adjusted unemployment rate is stagnating.*

*Inflation eased further and was 1.1 percent in October. Prices for restaurants and hotels, housing, water and energy rose significantly, while those for fuels and petroleum products declined.*