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Growth Slowing Moderately from High Levels

Business Cycle Report of June 2011

Following buoyant growth from autumn 2010 onwards, global economic activity appears to be easing somewhat. While Asia is still providing a strong impetus to growth, latest data for the USA and the euro area point to continuing expansion in the second quarter, albeit at a slower pace. Economic growth in Austria is also expected to weaken somewhat in the second quarter compared with the first quarter. Inflationary pressures as measured by core inflation (excluding energy and food) remain moderate in the euro area, but in Austria clearly exceed the euro area average.

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The global economy remains on an expansionary path, with Asia's emerging economies still providing the strongest impetus to growth. However, signs of some weakening in momentum have lately begun to emerge in the USA and the euro area.

The USA experienced subdued economic growth already in the first quarter of 2011 (+0.5 percent compared with the previous quarter). Latest data for the second quarter show a persistently restrained upswing. Notably the manufacturing Purchasing Managers' Index fell markedly in May. At the same time the recovery of the labour market remains tepid, with the unemployment rate rising again slightly since April. The debate on fiscal developments is also likely to weigh on sentiment at present.

In the euro area GDP expanded vigorously in the first quarter by +0.8 percent compared with the previous quarter (fourth quarter 2010 +0.3 percent). Developments remain uneven across regions: brisk growth in Germany (+1.5 percent) also benefited neighbouring countries. The economies in the southern euro area, troubled by sovereign debt crises and high unemployment, grew at a considerably slower pace, though. Business cycle surveys suggest that the upswing will continue also in the euro area in the second and third quarters, but may weaken somewhat: the European Commission industrial confidence indicator fell marginally in May, and German business expectations have also been declining slightly for two months, according to the ifo index.

The Austrian economy grew by 0.9 percent quarter-on-quarter in the first quarter, thanks to the strong pick-up in manufacturing activity. Leading indicators from WIFO's May 2011 business cycle survey (production expectations, business situation in six months), however, also declined slightly to the levels recorded in autumn 2010. But manufacturers continue to assess their order books positively. Activity in the civil engineering sector remains subdued, in February the production index was 10.4 percent below the year-earlier level. Tourism sales in the 2010-11 winter season were 1.0 percent lower than a year before.

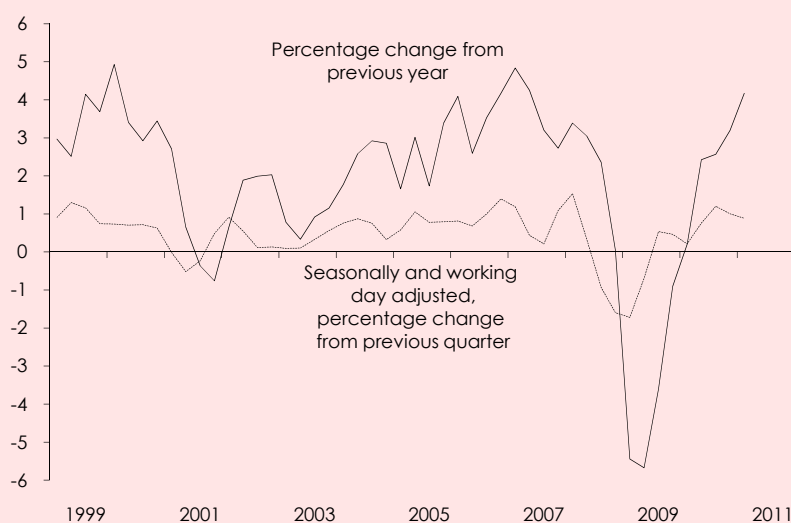
The labour market recovery continues: in April and May 2011, active employment rose by 0.1 percent and 0.2 percent, respectively, on a seasonally adjusted month-on-month basis. The seasonally adjusted unemployment rate according to the Austrian method of calculation has remained unchanged at 6.7 percent since January.

Table 1: Quarterly national accounts

			2009	2010				2011
			Fourth quarter	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
<i>Adjusted for seasonal and working day effects, volume</i>								
Final consumption expenditure			- 0.0	+ 0.2	+ 0.2	+ 0.2	+ 0.1	+ 0.1
Households ¹			+ 0.3	+ 0.2	+ 0.2	+ 0.2	+ 0.2	+ 0.2
General government			- 0.3	- 0.9	+ 0.1	- 0.1	- 0.1	- 0.0
Cross capital formation			- 0.4	- 0.9	+ 2.1	+ 3.4	+ 4.2	+ 2.0
Gross fixed capital formation			- 0.9	- 1.2	+ 0.5	+ 1.6	+ 1.3	+ 0.8
Machinery and equipment			- 1.1	- 0.1	+ 2.0	+ 3.2	+ 3.0	+ 2.4
Construction			- 0.6	- 0.8	- 0.7	- 0.5	- 0.3	- 0.1
Exports, goods and services			+ 2.8	+ 2.6	+ 4.2	+ 3.2	+ 1.6	+ 2.6
Goods			+ 1.8	+ 3.0	+ 6.4	+ 4.5	+ 1.8	+ 2.5
Services			+ 1.1	+ 2.0	+ 2.1	+ 1.5	+ 1.2	+ 1.2
Imports, goods and services			+ 1.1	+ 2.5	+ 3.9	+ 3.1	+ 1.6	+ 1.7
Goods			+ 1.7	+ 2.6	+ 4.2	+ 3.6	+ 1.7	+ 1.8
Services			+ 0.0	+ 2.0	+ 2.4	+ 1.3	+ 0.3	+ 0.1
Gross domestic product			+ 0.5	+ 0.2	+ 0.8	+ 1.2	+ 1.0	+ 0.9
Manufacturing			+ 0.6	+ 0.3	+ 4.0	+ 3.8	+ 2.0	+ 1.9
	2009	2010	2009	2010				2011
			Fourth quarter	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
<i>Percentage changes from previous year</i>								
<i>Volume, chained prices</i>								
Final consumption expenditure	+ 1.1	+ 0.7	+ 0.3	+ 2.4	- 0.7	+ 0.6	+ 0.4	+ 0.0
Households ¹	+ 1.3	+ 1.1	+ 0.5	+ 3.3	- 1.1	+ 1.4	+ 1.0	+ 0.1
General government	+ 0.4	- 0.5	- 0.1	+ 0.1	+ 0.4	- 1.3	- 1.1	- 0.3
Cross capital formation	- 12.7	+ 3.4	- 8.5	- 8.5	+ 2.8	+ 3.8	+ 12.6	+ 21.4
Gross fixed capital formation	- 8.8	- 1.0	- 5.6	- 5.8	- 1.3	- 0.4	+ 2.2	+ 6.4
Machinery and equipment	- 14.5	+ 2.1	- 12.0	- 6.2	+ 1.0	+ 3.6	+ 9.4	+ 16.9
Construction	- 6.0	- 3.0	- 1.6	- 5.5	- 2.5	- 2.8	- 2.2	- 1.9
Exports, goods and services	- 16.1	+ 10.6	- 7.5	+ 4.3	+ 13.6	+ 14.2	+ 10.6	+ 12.9
Goods	- 18.6	+ 12.6	- 7.6	+ 5.0	+ 16.1	+ 16.5	+ 12.8	+ 16.5
Services	- 9.5	+ 5.9	- 7.6	+ 2.6	+ 7.4	+ 8.8	+ 5.4	+ 5.2
Imports, goods and services	- 14.4	+ 9.4	- 9.6	+ 3.3	+ 11.0	+ 12.7	+ 10.4	+ 13.0
Goods	- 15.3	+ 10.7	- 9.0	+ 4.5	+ 12.9	+ 14.0	+ 11.3	+ 15.2
Services	- 10.7	+ 4.8	- 11.6	- 1.2	+ 4.1	+ 7.9	+ 7.5	+ 3.4
Gross domestic product	- 3.9	+ 2.1	- 0.9	+ 0.2	+ 2.4	+ 2.6	+ 3.2	+ 4.2
Manufacturing	- 14.3	+ 6.9	- 6.8	- 0.1	+ 9.3	+ 8.2	+ 9.7	+ 14.2
Gross domestic product, value	- 3.1	+ 3.7	+ 0.0	+ 1.5	+ 3.7	+ 4.4	+ 4.9	+ 6.4

 Source: WIFO. – ¹ Including private non-profit institutions serving households.

Figure 1: Growth of real GDP



Source: WIFO.

Inflation in the industrialised economies is accelerating, reflecting surging commodity prices. In the euro area, HICP inflation reached 2.8 percent in April 2011. But inflation excluding energy and unprocessed food remains moderate (April 1.8 percent). In Austria, the inflation rate as measured by the national CPI was 3.3 percent in April, while the core inflation rate (excluding energy and unprocessed food) stood at 2.6 percent. The core inflation rate as measured by the HICP was 2.9 percent, 1.1 percentage points higher than the euro area average.

The upswing in world trade continued unabated until March 2011. In the first quarter, world trade volumes expanded by 3.6 percent compared with the previous quarter (fourth quarter 2010 +2.1 percent, according to Centraal Planbureau). Asia's emerging economies continue to provide the strongest impetus to growth. In the first quarter of 2011, as at the end of 2010, their industrial production expanded at a quarter-on-quarter rate of 4 percent or more. The emerging economies of Latin America and Africa also recorded stable growth in the first quarter of 2011 (+1½ percent and +2½ percent, respectively).

Commodity markets remain fragile. Commodity prices (excluding energy) rose by 10 percent in dollar terms in the first quarter compared with the previous quarter, after +10 percent and +6½ percent, respectively, in the third and fourth quarters of the previous year. They are now at their highest level ever. This is not only a drag on economic activity; the high food prices also cause a considerable increase in the cost of living notably outside the industrialised countries. Brent crude oil prices stood at about \$ 115 per barrel at the beginning of June.

In the USA, the latest indicators signal a slowdown in the upswing in the second quarter. At +0.5 percent, economic growth in the first quarter was already slower than in the fourth quarter of 2010 (+0.8 percent). Almost all of the components of demand were affected by the slowdown. In May, the manufacturing Purchasing Managers' Index (PMI) fell markedly to a level only marginally exceeding its long-term average. At the same time consumer confidence for the first time in three months declined again slightly.

Developments in the critical sectors of the US economy remain restrained: employment growth has slowed down, and the unemployment rate has been rising again slightly since April (May 9.1 percent, -0.5 percentage point compared with a year before). House prices, after experiencing a slight recovery, have been falling again since mid-2010 according to the Case-Shiller Index, and in the first quarter of 2011 even sank below the lows reached in the first quarter of 2009. A reason for the somewhat less optimistic sentiment at present may be the discussions about the US federal budget. The legal national debt ceiling of currently \$ 14.3 billion will likely be exceeded in August. This requires a new scheme, which is likely to entail a savings package.

In the euro area, GDP expanded at a quarter-on-quarter rate of 0.8 percent in the first quarter (fourth quarter 2010 +0.3 percent). Compared with the same period a year before, the increase was 2.5 percent. Developments continue to be uneven. Germany recorded growth of 1.5 percent, which benefited the neighbouring countries (France +1.0 percent, Netherlands +0.9 percent, Belgium +1.0 percent). The extremely high rate registered in Germany is likely to partly offset the below-average rate of 0.4 percent recorded in the fourth quarter of 2010. The economies of the southern euro area, by contrast, expanded at a markedly slower pace: Italy (+0.1 percent) and Spain (+0.3 percent) posted only a modest increase, while Portugal (-0.7 percent) registered yet another decline. The relatively high rate in Greece (+0.8 percent) came as a surprise. Unemployment rates are equally uneven: The euro area average was 9.9 percent in April. Germany registered a rate of 6.1 percent, while rates exceeding 12 percent were recorded in the southern countries (in Spain even 20.7 percent) and in Ireland. A source of concern is the extremely high unemployment among people younger than 25 in Spain (44 percent) and Greece (fourth quarter of 2010: 36 percent). In May, the euro countries approved a rescue package totalling € 78 billion for Portugal, about half of which is to be paid out this year.

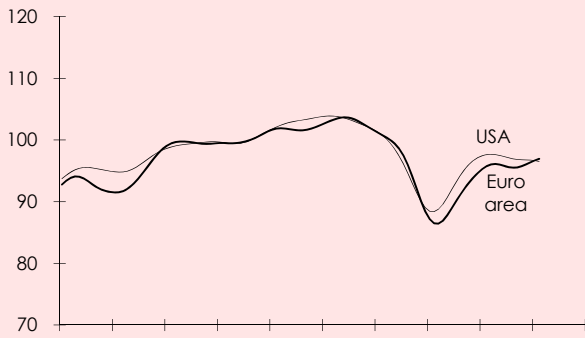
Pace of global economic activity moderating

After exhibiting strong momentum at the beginning of 2011, economic activity appears to be heading for the anticipated slowdown.

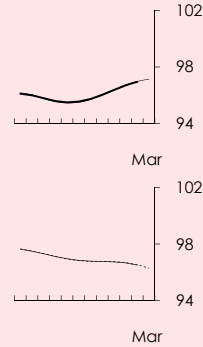
Figure 2: International business climate

Seasonally adjusted, 2005 = 100, 3-month moving average

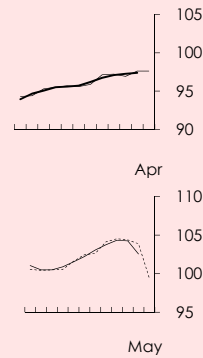
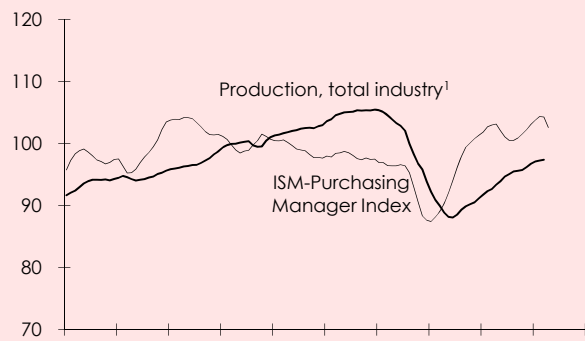
Leading indicators



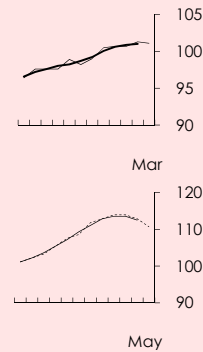
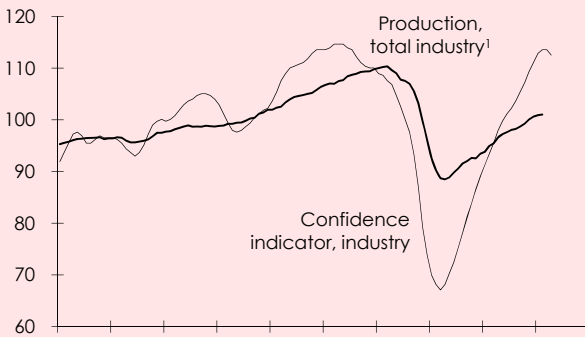
12-months performance



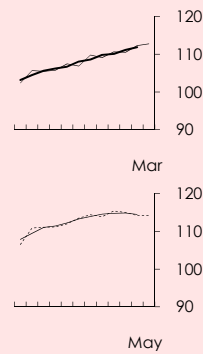
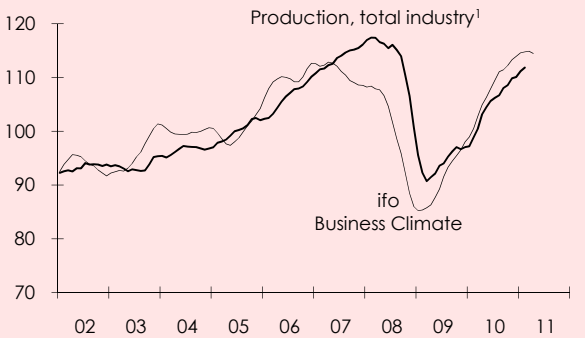
USA



Euro area



Germany



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

The latest data show that the upturn is slowing also in the euro area. Following its steady increase since the second quarter of 2009, the most important indicator of the EU business cycle surveys, the industrial confidence indicator, for the first time fell again in May, reflecting the deterioration in the assessment of the current situation and in the leading indicators (incoming orders and production expectations). The Ifo Business Climate Index for Germany has been stagnant at a high level since the beginning of 2011; here, too, expectations have weakened somewhat in the last two months. Nevertheless, the industrial confidence indicator is still in line with the peak levels recorded in earlier boom episodes.

Inflation continues to be largely dominated by developments in commodity prices. In April, CPI inflation in the USA was 3.2 percent, while HICP inflation in the euro area stood at 2.8 percent. The core inflation rate (excluding food and energy), by contrast, was 1.3 percent in the USA and 1.8 percent in the euro area. The euro area HICP flash estimate for May shows a slight decline to 2.7 percent.

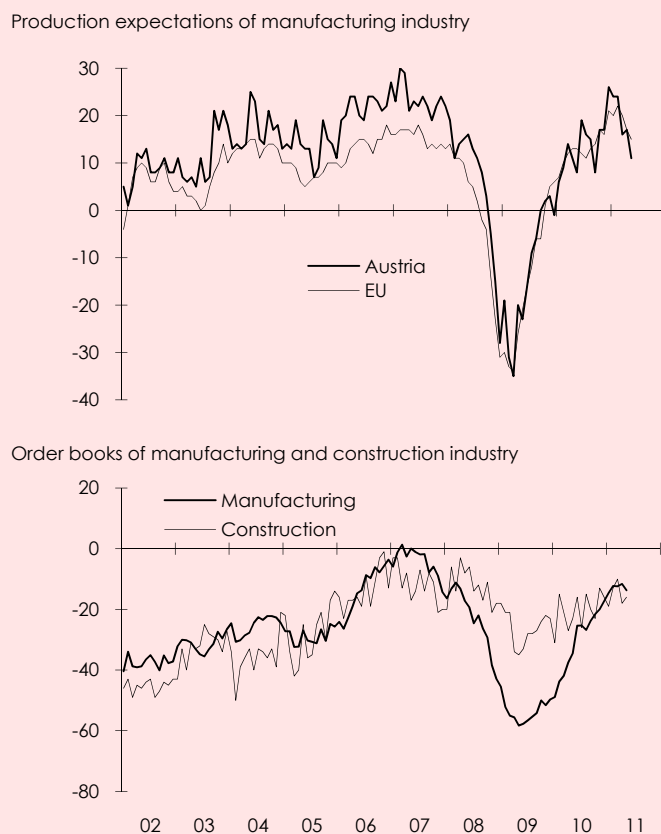
In the first quarter, the Austrian economy grew at a markedly vigorous pace compared with the previous quarter (+0.9 percent). According to WIFO's business cycle survey, the upturn will continue, but it will lose some momentum in the coming months. Order books continue to be assessed as high by manufacturers; the leading indicators (production expectations, business situation in six months' time), while having fallen back to the levels recorded in autumn 2010, still remain above their long-time averages. In February and March, the monthly growth rates of industrial production sank to 0.4 percent and 0.2 percent, respectively, following +1½ percent on average in the months from October to January.

Sentiment in Austrian industry and services sector remains positive

According to WIFO's business cycle survey, economic growth is likely to slow down also in Austria.

Figure 3: WIFO business cycle survey

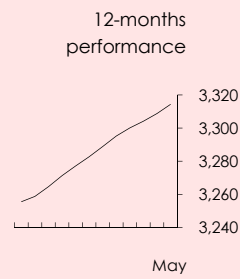
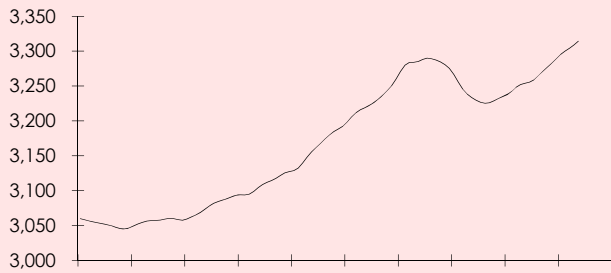
Differences between the percentage shares of correspondents giving positive and negative replies, seasonally adjusted



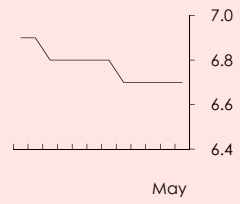
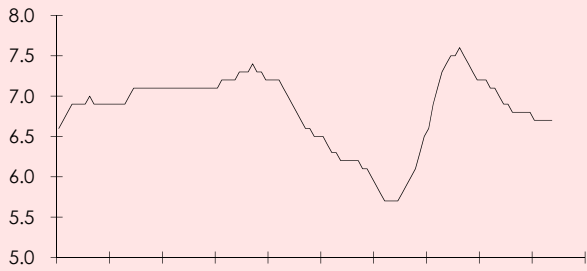
Source: European Commission, WIFO business cycle survey.

Figure 4: Key economic indicators

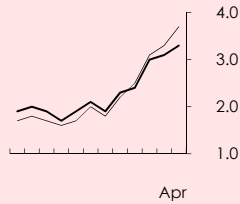
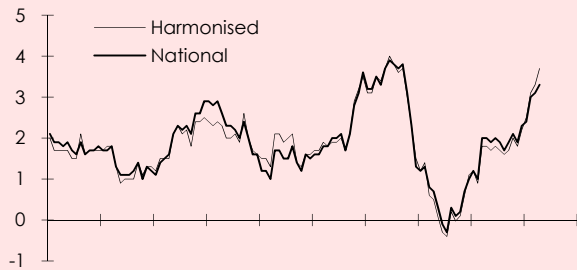
Persons in active dependent employment¹, (1,000), seasonally adjusted



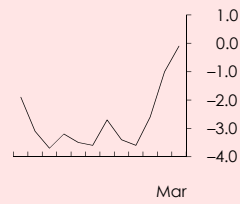
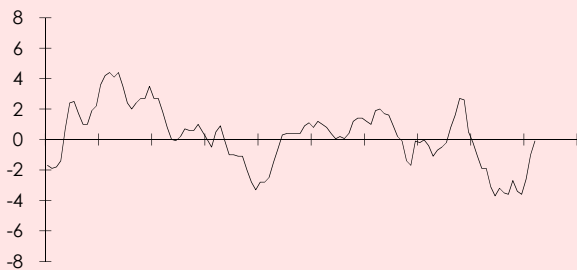
Unemployment rate, traditional Austrian method², seasonally adjusted



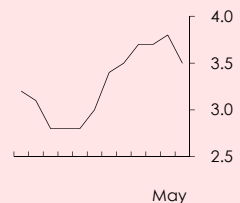
Consumer prices, year-to-year percentage changes



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



10-year central government bonds (benchmark), percent



Source: Public Employment Service Austria, Federation of Austrian Social Security Institutions, Oesterreichische Nationalbank, Statistics Austria, WIFO calculations. – ¹ Excluding parental leave, military service, and unemployed persons in training. – ² As a percentage of total labour force excluding self employed, according to Public Employment Service.

*Methodological Notes and Short Glossary**Period comparisons*

Time-series comparisons with the previous period, e.g., the previous quarter, are adjusted for seasonal effects. They also include effects that result from a different number of working days in the period (e.g., Easter). In the text, reference is made to "seasonally and working day adjusted changes".

The phrase "changed compared with a year before . . .", on the other hand, describes a change compared with the same period a year before and refers to unadjusted time series.

The analysis of the seasonally and working day adjusted development provides more precise information about the actual course of economic activity and shows turning points sooner. However, the data are subject to additional revisions as seasonal adjustment is based on statistical methods.

Real and nominal values

In principle, the values shown must be understood as real values, i.e., adjusted for price effects. Whenever values are shown as nominal values (e.g., foreign trade statistics), this is specifically mentioned.

Production Sector

This term comprises the NACE-2008 sections B, C and D (Mining and Quarrying, Manufacturing, Energy Supply) and is here used in an international comparison.

Inflation, CPI und HICP

The inflation rate measures changes in consumer prices compared with a year before. The Consumer Price Index (CPI) is a measure of national inflation. The Harmonised Index of Consumer Prices (HICP) is the basis for comparable measurement of inflation in the EU and for the evaluation of price stability in the euro area (see <http://www.statistik.at/>).

Core inflation as a monetary policy indicator is not clearly defined. WIFO follows the common practice of using the inflation rate excluding the product categories unprocessed food and energy for core inflation. Thus just under 87 percent of the goods and services contained in the consumer price index (CPI 2010) are included in the calculation of core inflation.

WIFO Business Cycle Survey and WIFO Investment Survey

The WIFO business cycle survey is a monthly survey in which around 1,100 Austrian firms are asked to assess their current and future economic situation. The WIFO investment survey is conducted twice a year, asking companies about their investment activity (<http://www.itkt.at/>). The indicators are balances between the positive and negative responses expressed as a percentage of the total number of firms sampled.

Unemployment rate

Austrian national definition: The number of persons registered as job seekers with the Public Employment Service expressed as a percentage of the dependent labour force. Labour force is the sum of the unemployed and the persons in dependent employment (measured in standard employment relationships). Database: registrations with the Public Employment Service (AMS) and Association of Austrian social insurance agencies.

Definition according to ILO and EUROSTAT: Any person who is not gainfully employed and is actively seeking work is considered unemployed. Gainfully employed persons comprise all persons who during the reference week worked for at least one hour in a self-employed capacity or in paid employment. Persons receiving child-care benefit and apprentices are classified as gainfully employed, whereas persons in military service or persons carrying out alternative service are not. The unemployment rate is the number of unemployed persons expressed as a percentage of the total labour force (unemployed persons plus gainfully employed persons). Database: data from household surveys ("Mikrozensus").

Terms used in connection with the national definition of the unemployment rate

Persons in training: Persons who at a set date are enrolled in AMS (Public Employment Service) training programmes. When calculating the unemployment rate, their number is not taken into account either in the denominator or in the numerator.

Persons in dependent active employment: "Persons in dependent employment" include persons receiving child-care benefit, as well as persons in military service or persons carrying out alternative service with a valid employment contract. By deducting their number one arrives at the number of "persons in dependent active employment".

As for foreign trade, the momentum seen over the year also suggests a slowdown at a high level: in March, goods exports surpassed the year-earlier level by 18.0 percent (February +24.0 percent). The business services sector continues to recover at a modest pace, with the assessment of order books again above its long-term average. However, the assessments given in the WIFO business cycle survey signal a slowdown of the upturn also in this sector in the coming months.

Construction activity, especially in the civil engineering sector, remains weak. In February, the production index for building construction exceeded the year-earlier level by 4.8 percent; the assessment of the current situation was in line with the long-term average. The production index for civil engineering, however, still remained 10.4 percent below the year-earlier level; firms gave a pessimistic assessment of their business situation.

In the 2010-11 winter season, tourism sales were somewhat lower than in the same period a year before (-1.0 percent). Over this period, the number of overnight stays fell by 1.1 percent. While the number of overnight stays by foreign travellers was down by 1.4 percent from a year before, the number of nights spent by domestic guests remained unchanged.

In the foreign source markets of importance to Austria, developments were extremely satisfactory with respect to overnight stays especially by guests from Russia (+26.4 percent), the USA (+12.9 percent) and Switzerland (+12.5 percent). Nights spent by tourists from the Netherlands (-0.6 percent) and Italy (-1.8 percent) remained somewhat below the results recorded in the 2009-10 winter season, while the demand from the UK (-2.6 percent) and Germany (-5.7 percent) contracted noticeably. Tourism sales developments in the 2010-11 winter season varied across regions: Vienna, Upper and Lower Austria as well as Burgenland posted an increase overall. Styria registered a slight decline in revenue, but its rate was still above the Austrian average. The tourism sectors in Tyrol and Salzburg, but especially in Vorarlberg and Carinthia, by contrast, posted an above-average decline in sales.

Primarily estimates suggest that the recovery of the Austrian labour market is continuing: in May 2011, the number of persons in active dependent employment exceeded the year-earlier level by 1.9 percent. On a seasonally adjusted month-on-month basis, employment grew by 0.1 percent and 0.2 percent, respectively, in April and May.

The number of job vacancies was up by 9.3 percent in May compared with a year before, but on a seasonally adjusted basis it has been falling moderately since February. The number of persons registered as unemployed was down by 2.5 percent in May compared with a year earlier. But here, too, the seasonally adjusted numbers signal a turning point, they have been rising moderately since April. With the numbers of vacancies and unemployed persons stabilising, the phase of the labour market recovery following the economic crisis of 2009 is apparently coming to an end. Structural shortages may manifest themselves more strongly in the course of the cyclical normalisation. The seasonally adjusted unemployment rate according to the Austrian method of calculation has remained unchanged at 6.7 percent since the beginning of 2011.

In April 2011, consumer prices increased by 3.3 percent. The inflation rate as measured by the Harmonised Index of Consumer Prices (HICP) stood at 3.7 percent, surpassing the euro area average by 0.9 percentage point. Hence, HICP inflation in Austria rose by almost 2 percentage points since April 2010 (1.8 percent). Part of the increase stemmed from higher energy and food prices: the price index of the expenditure category "transport" was up by 6.0 percent in April compared with a year before, and food prices, at +3.7 percent, also made a higher-than-average contribution.

But the major part of the inflation differential between Austria and the euro area cannot be attributed to these components. While core inflation (excluding energy and food) picked up from 0.8 percent in April 2010 to 1.8 percent in the euro area, it rose from 1.0 percent to 2.9 percent in Austria. This deviation cannot be explained by the isolated increase in individual product groups, but it extends to all areas (industrial goods +0.9 percentage point, services +1.1 percentage points).

Moderate decline in winter tourism

Tourism suffered a slight decline in sales in the winter season.

Labour market stabilising further

The number of persons in dependent active employment has risen slightly in recent months. But the number of vacancies has declined moderately.

Inflation rate clearly above euro area average

Core inflation excluding the prices of energy and food is currently clearly above the 2-percent mark in Austria, surpassing the euro area average by about 1 percentage point. Driven by commodity price increases, the inflation rate as measured by the CPI rose further to 3.3 percent.