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## First-Quarter GDP Contracting

**In the first quarter of 2009, the Austrian economy shrank at a seasonally and working day adjusted rate of 2.8 percent in real terms compared with the previous quarter (after –0.4 percent in the fourth quarter of the previous year). Hence, GDP was 3.6 percent below the year-earlier level (+0.0 percent in the fourth quarter). The situation on the labour market has worsened further as the downturn continues. However, confidence indicators and some special factors point to an easing of the downward trend in the second quarter. Firms' expectations regarding their future business situation, for instance, have recently improved marginally worldwide, but this trend needs yet to be confirmed in further surveys.**

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According to WIFO's flash estimate for the quarterly national accounts, Austria's seasonally and working day adjusted GDP fell by 2.8 percent in the first quarter of 2009 compared with the previous quarter, following a contraction of 0.4 percent in the fourth quarter of 2008. Hence, economic output in the first quarter was 3.6 percent below the level one year ago (fourth quarter +0.0 percent). The severity of this development can be clearly seen in comparison with past recessions: in 1993 and 2001 GDP was at most 0.6 percent below the previous year's level.

In year-on-year terms, Austria's GDP contracted much less than Germany's. In quarter-on-quarter terms, GDP is estimated to have fallen at about the same rate as on euro area average and in Germany. Hence the impact of the global economic downturn on Austria was clearly stronger in the first quarter of 2009 than in the fourth quarter of the previous year. A few special factors may have further affected developments in the first quarter (announcement of the car-scrapping premium, stronger seasonal factors).

The decisive factor in the first quarter downturn was a further decline in Austrian exports of goods and services, which at –4.4 percent was even steeper than in the fourth quarter of 2008 (–2.3 percent). The contraction in global trade continued unabated during the first quarter. In the last two quarters, world trade volume fell by around 5 to 6 percent each, according to estimates by the OECD. The USA saw real economic output drop by yet another 1.6 percent in the first quarter of 2009. In the euro area, real GDP appears to have shrunk more strongly than in the fourth quarter of 2008 (–1.6 percent).

The Austrian economy has reacted to these developments by a significant reduction in investment demand. Seasonally and working day adjusted gross fixed capital formation fell by 4.4 percent in the first quarter (fourth quarter 2008 –1.7 percent).

Household consumption expenditure stagnated in the first quarter of 2009 as in the fourth quarter of 2008 (–0.1 percent), thereby stabilising economic conditions. However, as labour market conditions worsen, private households begin to feel the impact of the economic downturn. In April the number of persons in dependent active employment was down 1.2 percent from a year before (–38,300). The seasonally adjusted unemployment rate according to the Austrian definition rose to 7.2 percent in April (March 7.0 percent), and hence exceeded the average for 2008's fourth quarter by 1 percentage point.

Business in the motor vehicle trade in the first quarter was impaired by the announcement of the introduction of a car-scrapping premium as of April 2009 as con-

sumers postponed new car purchases. Tourism weakened increasingly towards the end of the 2008-09 winter season. From November 2008 to March 2009, real tourism sales fell by around 5 percent, according to preliminary calculations.

The tax reform and the car-scrapping premium became effective in April and should provide support to private consumption over the remainder of this year. There are also first signs of a stabilisation of the global economy. Sentiment has brightened somewhat lately in the USA and the entire euro area. In April, the European Commission's confidence indicator rose slightly for the first time since May 2007. Both firms' expectations regarding their future business situation and consumer confidence have improved marginally from their very low levels.

Table 1: Flash estimates of quarterly national accounts

	2007		2008			2009
	Fourth quarter	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
Adjusted for seasonal and working day effects, percentage changes from previous quarter, volume						
<i>GDP, expenditure approach</i>						
Final consumption expenditure						
Households <sup>1</sup>	+ 0.5	+ 0.3	+ 0.2	+ 0.1	- 0.1	- 0.1
General government	+ 1.2	- 1.6	+ 2.8	- 1.0	+ 1.1	+ 0.4
Gross capital formation	+ 0.4	+ 0.5	+ 0.1	- 0.9	- 1.7	- 5.1
Gross fixed capital formation	+ 0.7	+ 0.5	+ 0.1	- 0.9	- 1.7	- 4.4
Exports	+ 1.5	+ 1.0	- 0.1	- 0.8	- 2.3	- 4.4
Imports	+ 1.5	- 0.2	+ 0.7	- 1.8	- 2.0	- 2.3
Gross domestic product	+ 0.8	+ 0.6	+ 0.2	+ 0.0	- 0.4	- 2.8
<i>GDP, output approach</i>						
Agriculture, forestry	+ 1.3	- 0.1	- 0.8	- 1.6	+ 0.5	+ 1.0
Industry, including energy	+ 1.8	+ 1.1	- 0.1	+ 0.2	- 1.4	- 6.5
Manufacturing	+ 1.8	+ 1.5	+ 0.0	- 0.3	- 2.4	- 8.8
Construction	+ 0.1	- 0.0	- 0.3	- 0.0	- 1.1	- 2.8
Wholesale and retail trade; repairs; hotels and restaurants; transport, communication	+ 0.6	+ 0.4	+ 0.1	- 0.1	- 0.4	- 3.6
Financial intermediation; real es- tate, renting and business activities	+ 0.6	+ 0.3	+ 0.3	+ 0.0	+ 0.4	- 2.0
Other service activities	+ 0.4	+ 0.3	+ 0.3	+ 0.4	+ 0.6	+ 0.5
Taxes on products	+ 0.4	+ 0.4	+ 0.3	+ 0.2	- 0.2	- 0.6
Subsidies on products	+ 0.8	+ 0.6	+ 0.7	+ 0.8	+ 0.8	+ 0.9
Percentage changes from previous year						
Gross domestic product, volume	+ 2.6	+ 2.9	+ 2.6	+ 1.7	+ 0.0	- 3.6

Source: WIFO. – <sup>1</sup> Including private non-profit institutions serving households.

WIFO's latest business cycle survey paints a similar picture for Austria. While Austria's industry posted yet another decline in order books in April, production expectations turned out to be more positive. However, firms anticipating a need for further production cuts in the months ahead are still in a clear majority in the surveys. It remains to be seen whether expectations will further improve in the coming months and will thus initiate a lasting economic recovery.

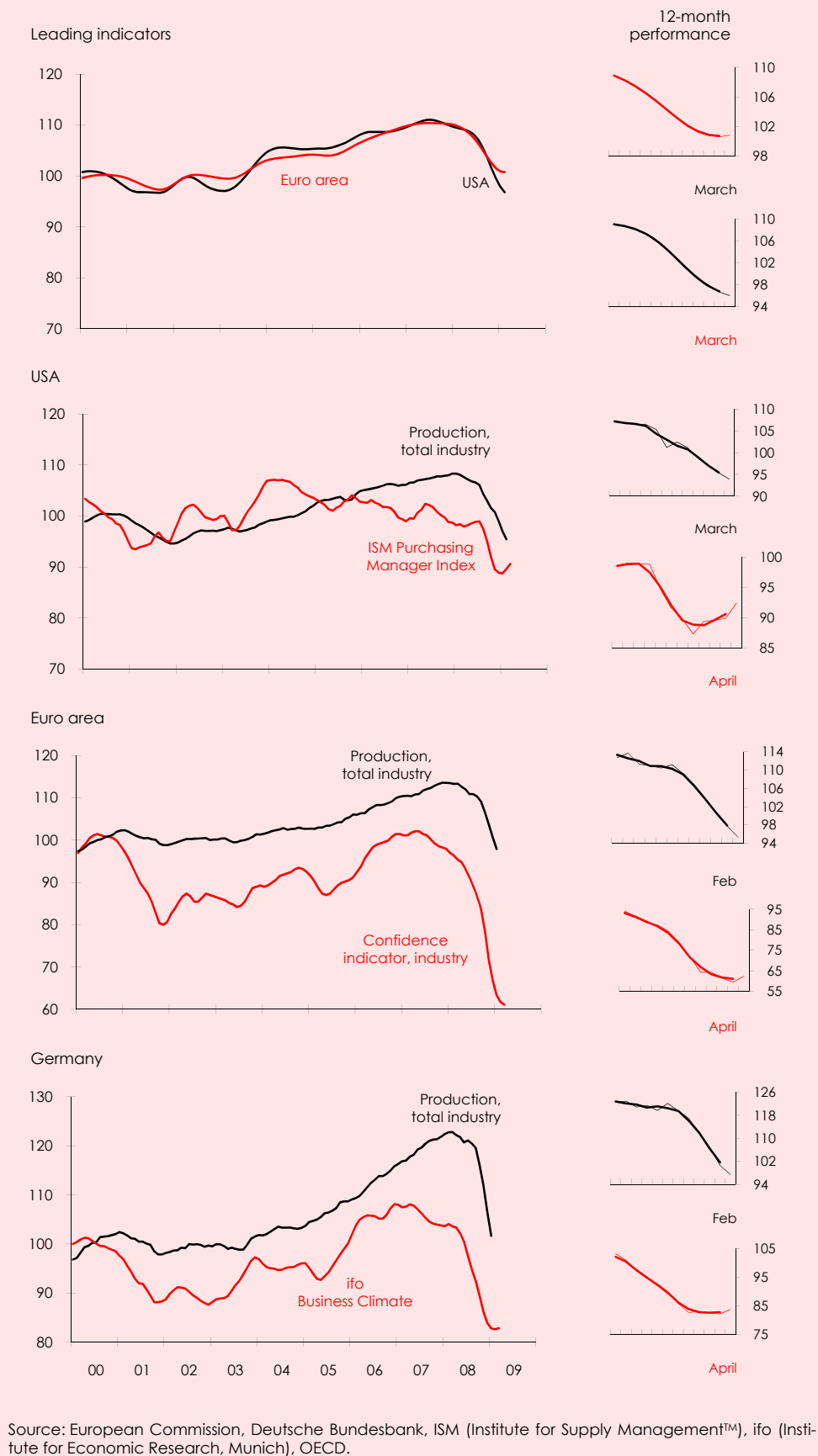
Global inflation is easing as a result of declining commodity prices. In the first quarter, the HWWI Index of World Market Prices of Commodities, which comprises food as well as energy and industrial raw materials, was 40 percent below the year-earlier level in euro terms. In Austria, HICP inflation was 0.7 percent in March, slightly higher than the euro area average (0.6 percent). These low levels mainly reflect special effects in fuel prices. By contrast, the rate of inflation excluding food and energy stood at 2.1 percent in March.

The global economic downturn continued in the first quarter. According to estimates by the OECD, world trade volume fell by around 5 to 6 percent in each of the last two quarters. International institutions agree that this decline is unprecedented in economic history since 1950 both in terms of depth and the degree of synchronicity with which it has affected all world regions.

**Global recession, but  
firms' expectations less  
negative recently**

Figure 1: International business climate

Seasonally adjusted, 2000 = 100, 3-month moving average



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

In the USA, real economic output contracted by yet another 1.6 percent on a quarter-on-quarter, seasonally adjusted basis in the first quarter of 2009 (fourth quarter 2008 –1.6 percent). However, compared with the fourth quarter, a shift occurred in the contribution of the individual demand components: private consumption rose by 0.5 percent in the first quarter, despite increasing unemployment, after a decline in the two preceding quarters (fourth quarter 2008 –1.1 percent). This was made possible by the massive fiscal package, which prompted a 1.3 percent increase in personal disposable income, following a 0.6 percent decline still in the fourth quarter of 2008. Gross private fixed investment plummeted by 10 percent quarter-on-quarter (fourth quarter 2008 –6 percent). US foreign trade also continued to shrink significantly, with real exports and imports declining by 8½ and 10 percent respectively (fourth quarter 2008 exports –6½ percent, imports –5 percent). From the beginning of the year until April, the seasonally adjusted unemployment rate rose by 1.2 percentage points to 8.9 percent, nearly double its low in 2007.

As in the USA, the data for the euro area indicate a further steep decline in real economic output in the first quarter. Industrial production fell by 7.9 percent quarter-on-quarter in the first quarter, and in March was thus 20.2 percent below the year-earlier level. In May, manufacturing capacity utilisation dropped to a new record low of 70.5 percent, after 74.7 in January. In addition, the investment survey conducted by the European Commission points to a sharp reduction in investment activity in the euro area in 2009. In view of this development, the European Central Bank cut its refinancing rate in May by yet another 25 basis points to 1 percent.

Recent surveys point to slight improvements in private household and business sentiment. In particular the European Commission's sentiment indicator for the euro area rose again for the first time since May 2007, albeit only moderately. Industrial new orders stabilised on a month-on-month basis, and firms' production expectations rebounded somewhat in almost all European countries. Some improvement of production expectations can also be observed in some Asian countries. In the USA, the Purchasing Managers' Index rose for the fourth consecutive month.

The brightening of sentiment is in part attributable to the fact that by now businesses have adjusted their inventory levels somewhat better to the crisis. Generally, companies align their production plans only gradually with demand fluctuations and use their inventories as a buffer. The last two quarters saw a global destocking of inventories that had accumulated in the autumn of 2008 as a result of the surprising fall in demand. However, very likely this process is not yet finished. Besides, sentiment indicators are still at a very low level. In the USA and some of those European countries that have been severely affected by the financial and real estate crisis (UK, Spain), consumer confidence has also been rising for two consecutive months. The stabilisation of incomes through fiscal packages and the efforts to consolidate the banking sector appear to show first positive effects here. In Germany, by contrast, consumer confidence weakened further in the course of the first quarter.

The extremely low inflation rate in March (USA –0.4 percent, euro area +0.6 percent) primarily reflects the fall in energy prices from their high levels a year before. Excluding food and energy, inflation was 1.7 percent in the USA and 1.5 percent in the euro area in March.

According to WIFO's latest flash estimate, the Austrian economy shrank at a seasonally and working day adjusted rate of 2.8 percent in real terms in the first quarter of 2009 (after –0.4 percent in the fourth quarter of 2008). Hence, GDP was 3.6 percent below its level of a year earlier. The contraction was especially pronounced in sectors that are strongly export-oriented. Manufacturing output fell by 8.8 percent compared with the previous quarter – in the fourth quarter of 2008 it had declined by only 2.4 percent. Value added also slowed in the construction sector and in the services sub-sectors that are reliant on domestic demand, and by now is well below last year's level. The trade, hotel and transport sectors saw value added fall by 3.6 percent overall in the first quarter (fourth quarter 2008 –0.4 percent). The construction and tourism sectors were adversely affected by seasonal factors (date of Easter, weather conditions) in the first quarter, the magnitude of which is difficult to

*The global recession continued throughout the first quarter, despite a stabilisation of private consumption in the USA. April saw a slight improvement in consumer confidence and business expectations in the major world economies.*

## **Downturn Spreading to Domestic Demand**

*The contraction in global industrial activity has also hit domestic demand in Austria with full force in the first quarter. GDP shrank by 2.8 percent compared with the previous quarter.*

identify in the flash estimates of the national accounts. Retail trade activity remained steady in the first quarter, whereas wholesale and motor vehicle sales dropped.

The global economic downturn has led to a sharp contraction in external trade: goods and services exports fell by 4.4 percent quarter-on-quarter, noticeably more steeply than in the fourth quarter of 2008 (-2.3 percent). The particularly weak demand for intermediates and motor vehicle parts, which make up a large proportion of Austrian exports, may also have played a role here. At -2.3 percent, goods and services imports fell at a lower rate than exports (fourth quarter 2008 -2.0 percent).

However, the drop in GDP also reflects a contraction in domestic investment demand. As the downturn continued, businesses reacted by sharply trimming investment plans. Fixed capital formation declined by 4.4 percent quarter-on-quarter (fourth quarter 2008 -1.7 percent), with business spending on equipment and construction investment equally affected.

Private consumption remained steady at -0.1 percent compared with the previous quarter (fourth quarter 2008 -0.2 percent). While household wealth is not directly affected by the global financial crisis, employment policy has so far been able to absorb most of the repercussions of the slump in demand on employment. The tight labour market appears to be weighing on consumer confidence. However, income gains resulting from the income tax reform and the introduction of the car-scraping premium, which subsidises purchases of new cars, are likely to provide an important stimulus to consumer spending in the course of this year.

Net sales in trade declined in the first quarter of 2009. In January, price-adjusted sales were down 6.7 percent from a year before (fourth quarter -0.7 percent). The motor vehicle trade was particularly affected in the first quarter, with price-adjusted sales falling by 18.8 percent compared with January 2008. In the first quarter of 2009, the number of new motor vehicles registered dropped by 12.9 percent compared with a year before; the rise in April (+8.8 percent year-on-year) shows, however, that the announcement of the introduction of a car-scraping premium noticeably dampened the demand for motor vehicles in the first quarter, and improves the outlook for the remainder of the year.

The wholesale sector also saw sales drop briskly in January 2009 compared with a year before (-7.3 percent, fourth quarter +0.3 percent), a consequence of the sharp fall in exports and investment. Retail sales, on the other hand, were largely unchanged from a year before (January 2009 -0.1 percent), as consumer demand remained steady.

Tourism sales in the 2008-09 winter season were 4 percent lower than a year before, according to preliminary calculations and the data available to date. In real (price-adjusted) terms, this corresponds to a decline of 5.3 percent. However, these figures comprise only the period from November 2008 to March 2009. As Easter fell in April this year, the April 2009 figures should somewhat improve the overall result for the winter season. A major part of the negative development is probably attributable to the repercussions of the economic crisis. Hence the downward trend observed in Austria's tourism is likely to persist over the remainder of the year.

The number of overnight stays declined by 5.3 percent overall from November 2008 to March 2009, with overnight stays by domestic guests largely unchanged (+0.6 percent) and foreign demand down (-6.9 percent).

Among the countries of origin of importance to Austria, the number of overnight stays rose only for guests from the Czech Republic (+16.7 percent), Poland (+15.6 percent), Russia (+1.5 percent) and the Netherlands (+0.5 percent), whereas a decline was registered in all other markets (Germany -10.4 percent, Belgium -16.2 percent, Italy -8.9 percent, UK -17.6 percent, USA -19.5 percent).

Only Burgenland and Lower Austria recorded an increase in income from domestic and foreign guests between November 2008 and March 2009. Tourism sales

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## Trade contracting

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## Weaker winter tourism

*The decline in international consumer demand hit tourism towards the end of the winter season.*

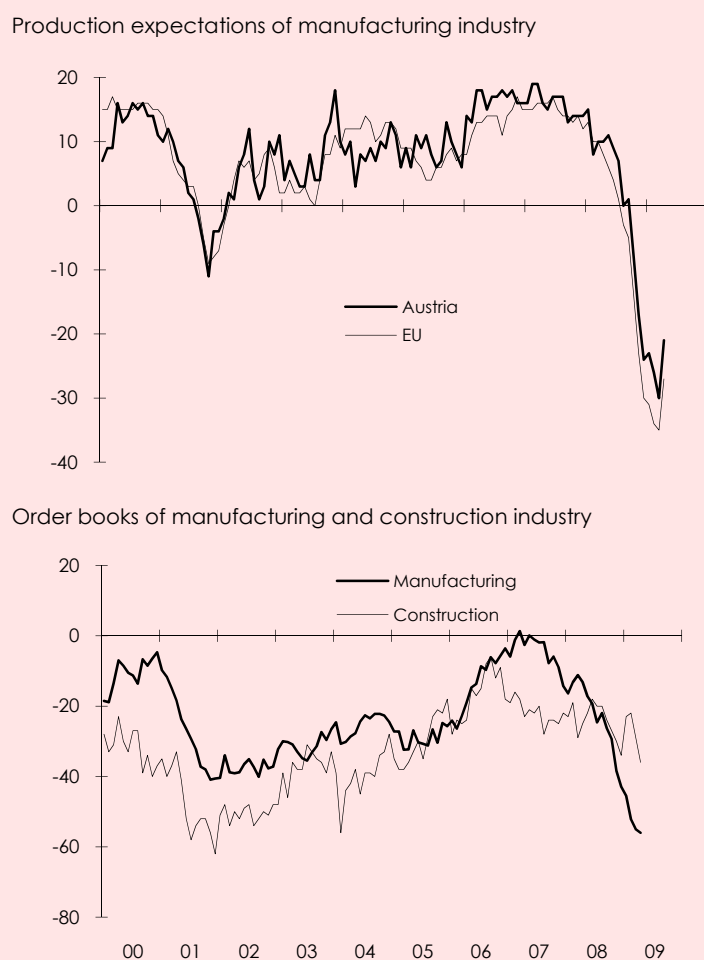
reached about last year's levels in Upper Austria and Styria, whereas they fell in all other federal provinces.

The construction sector is being increasingly affected by the crisis. In the first quarter of 2009, seasonally and working day adjusted value added fell by 2.8 percent, the fifth consecutive quarter-on-quarter decline (fourth quarter 2008 -1.1 percent). The beginning of 2009 saw cutbacks both in residential investment and in commercial construction and civil engineering. While the unfavourable weather compared to last year may have impaired construction activities, it cannot fully explain the decline.

## Construction investment in decline

Figure 2: 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.

A further slowdown may be expected in the second quarter. In WIFO's latest business cycle survey, 45 percent of the construction firms reported insufficient order book levels. The majority of firms also anticipate a softening of building prices and intend to reduce their workforce. The expansion of public investment should support the construction sector in the second half of the year.

In line with the surveys for the US and the euro area, WIFO's April business cycle survey suggests a moderate easing of the situation: firms' production expectations turned out somewhat less pessimistic than in the preceding months.

## Industry and services sector somewhat less pessimistic in April

Figure 3: Key economic indicators

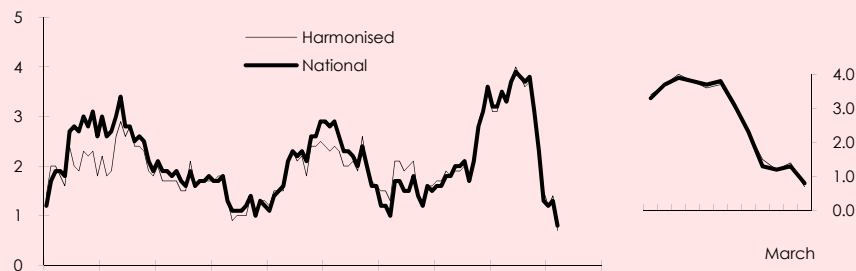
Persons in active dependent employment<sup>1</sup>, (1,000<sup>3</sup>), seasonally adjusted



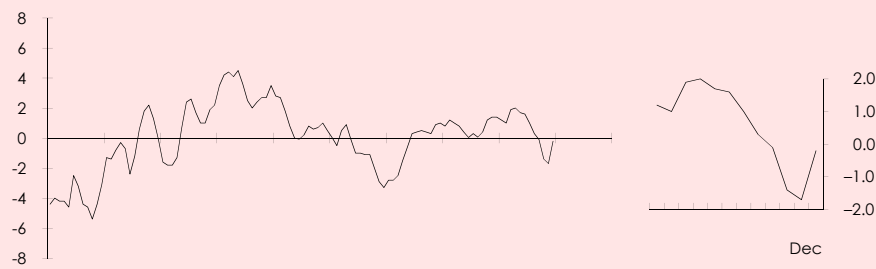
Unemployment rate, traditional Austrian method<sup>2</sup>, seasonally adjusted



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

The present situation in the manufacturing sector deteriorated further in April. 60 percent of the firms declared their order book levels to be "insufficient". The situation is dramatic in the motor vehicle industry, where more than 80 percent of the firms report a lack of orders. The average rate of capacity utilisation dropped to 73 percent, its lowest level since WIFO surveys began in 1964.

Regarding the outlook for the months ahead, the firms anticipating production cuts still outnumber those expecting an increase. Hence a quick return to positive rates of growth is not to be expected. One-third of the firms surveyed find themselves forced to reduce their workforce in the coming months.

Manufacturers of intermediates and motor vehicle parts were somewhat more optimistic in April than of late regarding their production activity in the months ahead. The assessment of general business conditions also improved for the first time since spring 2007. The brightening of sentiment in the intermediates industry is evidence of a beginning normalisation of inventories.

The assessment given by business services firms was similar to that by companies in industry: while order book levels were slightly worse than in March, business expectations followed an upward trend.

In March the inflation rate (consumer price index), at 0.8 percent was clearly lower than in the previous month (1.3 percent). The harmonised inflation rate (HICP) stood at 0.7 percent in March (February 1.4 percent), marginally higher than the euro area average (0.6 percent).

The rapid deceleration in price pressures in March was almost exclusively attributable to special effects in the expenditure category "Transport". Here the price index fell noticeably compared with a year before (-6 percent), reflecting the strong decline in crude oil prices. This negative rate of change may be expected to keep inflation at an extremely low level until the autumn of 2009; in the short term it is expected to enter negative territory. At the same time, the upward drift in prices in the expenditure category "Food" slowed considerably (February +2.2 percent, after more than 7 percent in the first half of 2008).

Inflation has been moderating in the services sector and in a few product categories. HICP excluding energy and unprocessed food in March was up 2.1 percent compared with a year before and thus 0.3 percentage point lower than at the end of 2008. The weak demand is already reflected noticeably in wholesale prices (March 2009 -8.6 percent) and in producer price indices (February 2009 +0.7 percent), which tend to react faster and more strongly to demand fluctuations.

Reacting with a certain lag, the labour market is now increasingly affected by the downturn. In April the number of persons in dependent active employment was down 1.2 percent (-38,300) from a year before. Since December 2008, the seasonally adjusted figures have been falling at a monthly rate of 0.2 percent (February -0.3 percent). Domestic firms readily accept the possibility of short-time-work models promoted by the government. In April the number of persons registered for short-time-work rose to around 56,700. While this slows workforce reductions, it cannot offset them completely.

Unemployment continued to rise briskly. In April a total of 258,200 persons were registered as unemployed, an increase by 53,200 (25.9 percent) compared with a year before. The moderate decline compared with March is a result of seasonal factors. The seasonally adjusted unemployment rate according to the Austrian method of calculation rose to 7.2 percent in April (March 7.0 percent). At the same time, job vacancies have been on a downward path. Seasonally adjusted figures show they have been falling at a monthly rate of around 5 percent since December. As a consequence, the number of vacant jobs in April was 33.1 percent lower than a year before.

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### **Inflation remains moderate**

*The low inflation rate of 0.8 percent in March mainly reflects the decline in fuel and agricultural prices.*

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### **Short-time-work programs can only alleviate deteriorating labour market**



*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 evolve as a result of a different number of working days in the period (e.g., Easter). In the text, this is referred to as "seasonally and working day adjusted changes".

The phrase "changed in the first quarter compared with a year before . . .", on the other hand, describes a relative change compared with the same quarter of the previous year and refers to unadjusted time series.

The seasonally and working day adjusted data provide more precise information about the actual course of economic activity and give an earlier indication of turning points. 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 in the main text 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.

*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 inflation in Austria. The Harmonised Index of Consumer Prices (HICP) is the basis for comparable measurement of inflation in the EU and for the evaluation of monetary stability in the euro area (<http://www.statistik.at/>).

*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 conditions. The WIFO investment survey is conducted twice a year, asking companies about their investment activity (<http://www.itkt.at/>).

*Unemployment rate*

Austrian definition: 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 of the persons in paid employment (measured in standard employment relationships). Database: registrations with the Public Employment Service (AMS) and Federation of Austrian Social Insurance Institutions.

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 work. Persons receiving child-care benefit and apprentices are classed as gainfully employed, whereas persons in military service or persons carrying out alternative service are not. The unemployment rate is the share of unemployed persons in the total labour force (unemployed persons plus gainfully employed persons). Database: data from household surveys (microcensus).

*Terms used in connection with the Austrian definition of the unemployment rate*

Persons in training: persons who at a set date are enrolled in AMS (Public Employment Service) training programs. 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".