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Business Cycle is Waning

Business Cycle Report of September 2019

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The weakness of the global economy is dampening the Austrian business cycle. Export growth slowed noticeably in the second quarter, and GDP growth eased to +0.3 percent compared to the previous quarter. Private household consumption, however, continued to increase and supported overall growth. The prospects for the Austrian economy stabilised recently. According to the WIFO-Konjunkturtest (business cycle survey), company assessments brightened somewhat in August, especially in the manufacturing sector. The recovery on the labour market is coming to a halt, the seasonally adjusted unemployment rate stagnated in August. The inflation rate fell slightly to 1.4 percent in July.

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Global economic growth slowed noticeably in spring. In the USA and the euro area, overall economic production increased less strongly in the second quarter than in the first. The business cycle also weakened in Japan and some Central and Eastern European countries. In Germany and the UK, GDP even declined. In France and Italy, by contrast, there was no further economic slowdown.

The perspectives for the international economy are mixed but have recently stabilised somewhat. Consumer confidence remains high in the USA, with private consumption benefitting from the low unemployment rate and wage developments. The sentiment of companies and consumers also stabilised in the euro area. Even in Germany, where the climate in the first half of the year had deteriorated significantly, the situation was assessed somewhat better again in August according to the European Commission's business survey.

In the second quarter of 2019, the Austrian economy grew by 0.3 percent compared to the previous quarter (trend-cycle data). Expansion thus continued, but moderated in line with the international business cycle. Export growth slowed significantly, while private household consumption continued to expand at a strong pace. The weakness of the international economy particularly affected the Austrian industry, whose gross value added even declined slightly in the second quarter. Correspondingly, companies stepped up their investments less strongly than in previous quarters.

The prospects for the Austrian economy, however, remain largely stable, the economic assessment by Austrian companies has hardly changed recently: according to the WIFO-Konjunkturtest (business cycle survey) of August, companies assessed their current situation and future development slightly more favourably than before. In particular, sentiment in the manufacturing sector brightened noticeably. It clouded over

in the services sector, though. Consumer confidence improved in August according to the European Commission's business survey.

The recovery on the labour market has slowed considerably in recent months. At the preliminary estimate, in August the number of persons in active dependent employment was 56,000 (+1.5 percent) higher than in the previous year, and the seasonally adjusted unemployment rate according to national definition remained unchanged at 7.4 percent. Inflation lowered; in July the consumer price index was 1.4 percent higher than in the previous year.

1. Expansion in the USA slows down

The global economy has flattened out in recent months. According to the CPB, global trade has been trending downward since September 2018, and global industrial production has largely stagnated. In the USA, growth weakened somewhat in the second quarter, with GDP rising by 0.5 percent compared with the previous quarter (after +0.8 percent in the first quarter). Growth also declined markedly year-on-year, but remains relatively robust (+2.3 percent).

Economic activity is supported by private household consumer spending, which rose strongly in the second quarter. Exports, however, declined significantly, reflecting the global slowdown in production and trade. Private investment also lost considerable momentum, but still significantly exceeded the previous year's level.

In the USA, the economic outlook recently deteriorated. In August, the ISM Purchasing Managers' Index fell below the expansion mark for the first time in a while. Consumer confidence fell slightly in August according to both the Conference Board and the University of Michigan. However, both indicators have been moving sideways at a high level for some months now.

The favourable conditions on the labour market supported consumption. The unemployment rate remained exceptionally low at 3.7 percent in July. Its sharp decline in recent years, though, seems to have come to a standstill. However, there are still reserves on the labour market. The activity rate remains at a low level and hourly wages are rising moderately, although at a somewhat accelerated pace in recent months. Inflation remains low at 1.8 percent (July 2019), while core inflation was +2.2 percent.

In the USA, growth slowed somewhat in the second quarter. However, consumption is supporting economic activity. The persistently good situation on the labour market favours this.

2. Heterogeneous development in the euro area

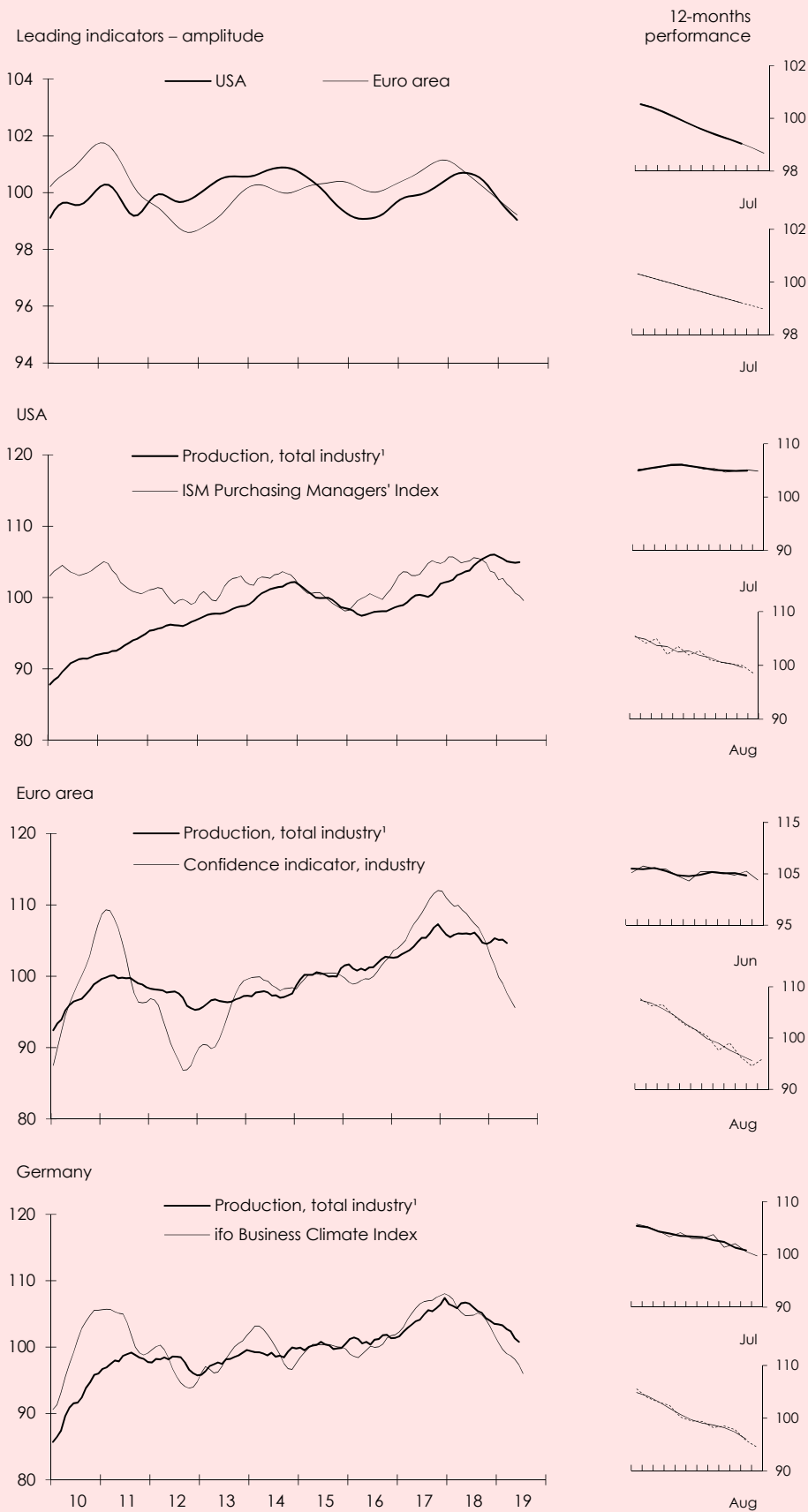
After +0.4 percent compared to the previous period in the first quarter, GDP in the euro area rose by only 0.2 percent in the second quarter. The slowdown in growth was primarily attributable to Germany, whose overall economic production declined slightly in the second quarter (−0.1 percent after +0.4 percent in the first quarter). The slowdown was less pronounced in most other euro area countries. Economic activity in France remained unchanged at +0.3 percent in the second quarter, in Spain it rose by 0.5 percent (after +0.7 percent in the first quarter), and in Italy it has been stagnating for more than a year.

The weakness of the global economy and world trade had a noticeable impact on Germany in the second quarter and contributed significantly to the decline in economic output. Exports shrank by 1.3 percent compared with the previous quarter (−0.8 percent compared with the previous year). Gross fixed capital formation also fell slightly compared to the previous quarter, mainly because construction investments were noticeably curtailed. Private household consumer spending barely supported the economy, increasing by only 0.1 percent in the second quarter compared with the previous quarter. Industry was particularly affected by the economic weakness, with gross value added in the second quarter remaining 4.7 percent below the previous year's figure.

The economic situation in the euro area is mixed. While GDP in Germany declined in the second quarter, growth in many other countries weakened only slightly. The economic outlook stabilised recently.

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. – ¹ Excluding construction.

Current economic surveys reflect the heterogeneous situation in the euro area: the Economic Sentiment Indicator (ESI) published by the European Commission stabilised somewhat in the euro area in August, after having previously tended clearly downwards. Especially in the industrial sector, assessments improved in August after the downward trend of recent months, while consumer confidence declined. The deterioration in sentiment was more pronounced in Germany than in most other euro area countries. After a marked deterioration since the beginning of the year, consumer and corporate sentiment stabilised in August. In France, Italy, Spain and a number of other euro area countries, however, the ESI was largely stable in recent months.

The outlook for the German economy is currently unfavourable: the Economic Barometer of the German Institute for Economic Research (DIW Berlin), for example, continues to fall and was as low in August as it was at the end of 2012. Other economic indicators are also still pointing downwards: in August, the ifo Business Climate Index fell to its lowest level since November 2012. Both the assessment of the business situation and expectations continued to deteriorate. According to DIW Berlin, GDP is likely to decline again in the third quarter. This would put the German economy in a technical recession.

Although the recovery on the labour market in the euro area slowed significantly, the unemployment rate continued to fall in recent months and amounted to 7.5 percent in July. According to preliminary estimates, inflation remained very low at 1 percent in August (core inflation +1.1 percent). In some countries, such as Italy and Spain, the inflation rate in recent months was well below 1 percent.

3. Economy loses momentum in Austria

In the second quarter of 2019, the Austrian economy grew by 0.3 percent compared to the previous quarter (trend-cycle data). GDP thus rose slightly less than in the two preceding quarters (fourth quarter of 2018 +0.5 percent, first quarter of 2019 +0.4 percent). Unadjusted, it was 1.7 percent above the level of the previous year.

The economic slowdown was caused by foreign trade, export growth lost noticeable momentum in the second quarter (+0.5 percent after +0.9 percent in the first quarter). Private consumer spending, by contrast, continued to increase significantly (+0.5 percent, first quarter +0.5 percent), currently supporting the economy. Gross fixed capital formation also increased at a slower pace (+0.5 percent, first quarter +0.8 percent). The weakness in exports is particularly affecting industry, whose gross value added fell slightly in the second quarter compared with the previous quarter.

3.1 Prospects for the Austrian economy stable

The prospects for the Austrian economy remain largely stable, and the economic assessments of companies have hardly changed recently. According to the WIFO-Konjunkturtest (business cycle survey), the seasonally adjusted index of the current business situation even rose slightly in August; it thus remains at a confident level. The index of business expectations also rose slightly. Particularly in the manufacturing sector, assessments of the current business situation improved markedly after the significant decline of the previous months. Not only is the current situation being assessed somewhat better again, expectations have also brightened. In the construction industry, estimates remained largely stable; in the services sector, on the other hand, they clouded over.

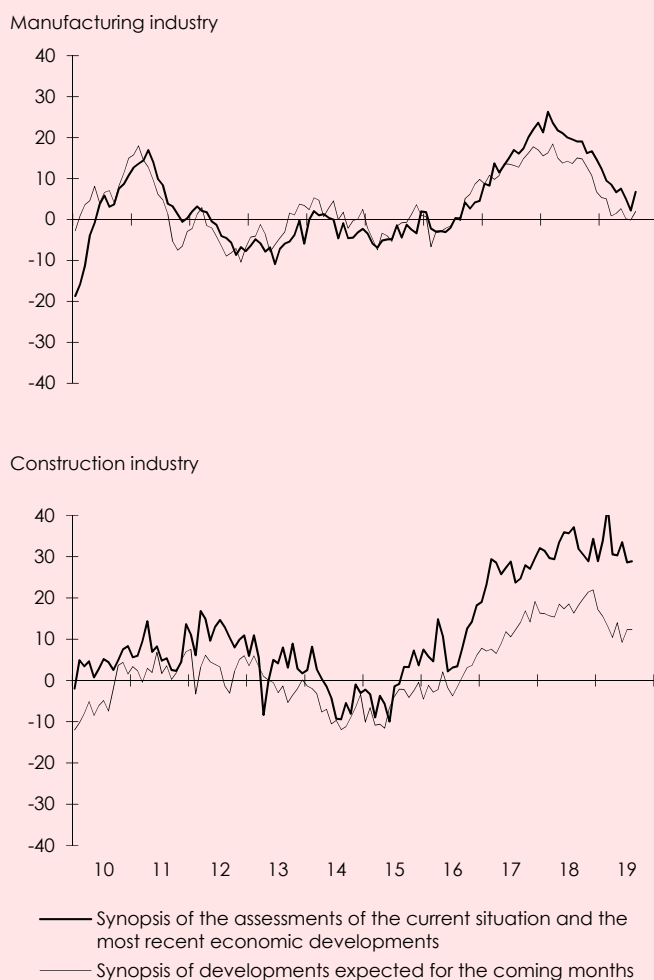
The Purchasing Managers' Index of UniCredit Bank Austria also rose slightly in August compared with the previous month, but remained below the growth threshold. While the companies surveyed assessed new orders and employment more favourably, they were less optimistic about the current and future development of production. The UniCredit Bank Austria business cycle indicator stabilised in July after a marked decline. Consumer confidence improved markedly in August, according to the consumer survey conducted by the European Commission.

In the second quarter of 2019, Austrian GDP grew at a slower pace than most recently. While export growth is clearly moderating, consumption is supporting the economy.

The economic assessments of Austrian companies remain largely stable. Consumer confidence has even improved somewhat recently.

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.

3.2 No turnaround on the labour market yet

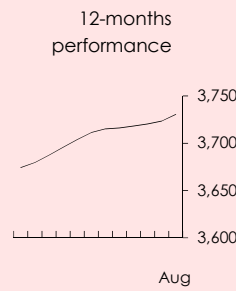
The Austrian labour market continued to develop positively. According to preliminary estimates, the number of persons in active dependent employment in August was 56,000 higher than in the previous year (+1.5 percent). Seasonally adjusted, this represents an increase of 0.2 percent over the previous month. The number of unemployed registered with the Austrian Labour Market Service (AMS) in August was 9,000 lower than in the previous year (-3.1 percent), including persons in training by 14,000 (-4.1 percent). The seasonally adjusted unemployment rate according to the national definition was unchanged at 7.4 percent in August. Compared to the previous year, the decline amounted to 0.3 percentage points. According to Eurostat, the seasonally adjusted unemployment rate of 4.4 percent in July was 0.1 percentage point lower than in the previous month.

However, the economic slowdown is gradually having an impact on the labour market as well. The number of older unemployed people aged 55 and over was higher in August than in the previous year. The number of unemployed with health-related employment limitations also increased in August compared to the previous year. However, the number of long-term unemployed continued to decline. In addition, considerably more older people aged 55 and over were employed in July than in the previous year.

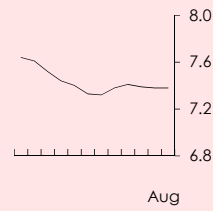
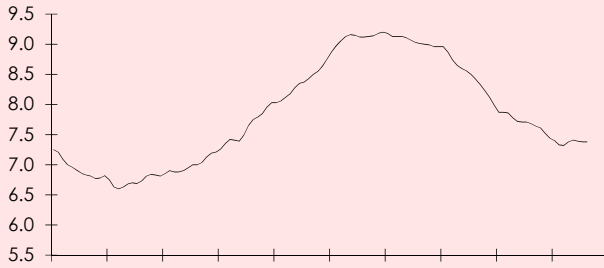
The number of employees in active dependent employment continued to rise in August, and the number of unemployed fell, whereas the seasonally adjusted unemployment rate remained stable.

Figure 3: Key economic indicators

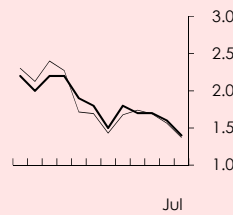
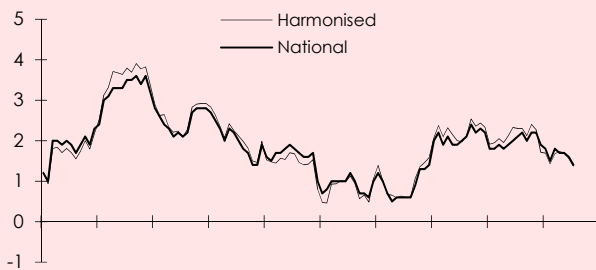
Persons in active dependent employment¹, 1,000s, seasonally adjusted



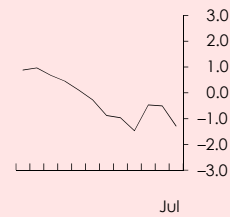
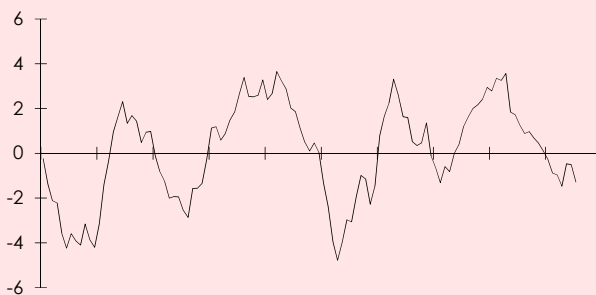
Unemployment rate, traditional Austrian method², seasonally adjusted



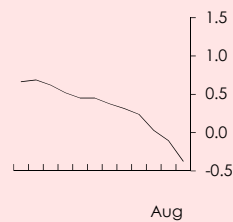
Consumer prices, year-to-year percentage changes



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



10-year central government bonds (benchmark), percent



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

3.3 Price buoyancy slows down

The rise in prices eased again in July (+1.4 percent after +1.6 percent in June). The strongest price drivers were housing, water and energy (+3.1 percent year-on-year) and restaurants and hotels (+3.2 percent). This also reflects the considerable increase in residential rents. By contrast, fuels were cheaper than in the previous year.

The rise in the harmonised consumer price index also flattened out (July +1.4 percent year-on-year), and core inflation (HICP excluding energy and unprocessed food) slowed to +1.5 percent. In July, the national price index for the micro basket for daily shopping was slightly lower than in the previous year. The price of the mini basket, which reflects weekly shopping, rose by 0.4 percent.

Inflation eased in July. While fuels became noticeably cheaper, the category housing, water and energy is driving inflation.