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Pick-up in Activity in Austria, Global Economy Losing Momentum

Business Cycle Report of September 2010

The Austrian economy grew at a quarter-on-quarter rate of 1.2 percent in real terms in the second quarter. In year-on-year terms, the growth rate was 2.4 percent. The global economic upswing has thus taken full hold also of the Austrian economy. Exports and investment were the main drivers of the expansion. Industrial production grew vigorously from a year before; capacity utilisation again exceeds its long-term average. Labour market conditions continue to improve. However, signs are mounting that the economic upswing may be slowing.

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Economic growth accelerated considerably in Austria in the second quarter, reflected in real GDP growth of 1.2 percent compared with the previous quarter (first quarter -0.0 percent). Production was fuelled by the strong expansion of world trade and external demand. Exports rose by 5.0 percent. This benefited notably the manufacturing industry, which recorded a 6.3 percent rise in value added. The upswing in the export sector is beginning to spread to investment: in the second quarter, business spending on machinery and equipment rose for the first time in two years in quarter-on-quarter terms (+5.3 percent in real terms). Construction investment, by contrast, fell by 2.3 percent. Consumer spending continued to post a modest, but steady increase (+0.2 percent). As the economy grew briskly, imports also rose considerably in the second quarter (+3.4 percent).

The vigorous growth of the Austrian economy seen in the second quarter was due to strong external demand. However, signs are now mounting that economic activity in the USA and in Asia is losing momentum, slowing down a further expansion of world trade. The European economy, by contrast, took part in the global upswing only with a lag and gained momentum in the second quarter. Notably Germany benefited strongly from the increase in the demand from overseas and became the driver of economic growth in the EU.

In Austria, industrial production fell again slightly month-on-month in June, after increasing steadily since the beginning of the year. It was 10.7 percent above the trough reached in May 2009. Capacity utilisation has risen markedly recently. According to the results of the European Commission's business survey for the third quarter, it reached 82.6 percent in manufacturing, a rate for the first time again above the long-term average, which, however, had been dragged down markedly by the most recent crisis. In WIFO's August business cycle survey, firms once more gave an optimistic assessment of the current situation. Manufacturers' assessment of both the business situation in the coming six months and production expectations is above the long-run average, but has not improved further since March. This suggests that the upswing, while continuing, is not picking up speed.

Consumer prices in Austria rose by 1.9 percent year-on-year in July. Hence, the inflation rate has remained steady since March. The price increases were mainly driven

by the rise in the prices of mineral oil products, which was reflected in the housing and transport categories.

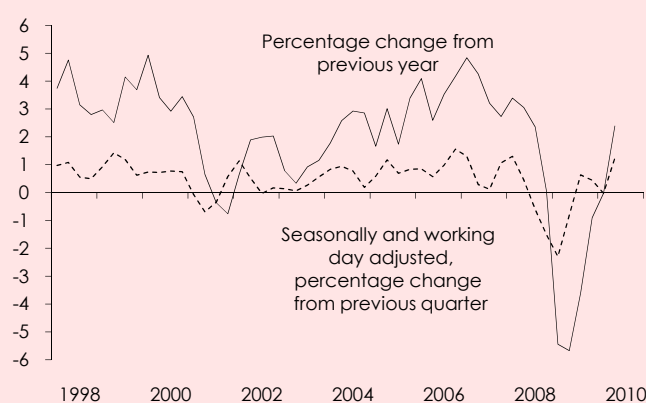
Table 1: Quarterly national accounts

	2009						2010	
	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter		
<i>Adjusted for seasonal and working day effects, volume</i>								
Final consumption expenditure	- 0.6	+ 0.4	+ 0.6	- 0.0	+ 0.2	+ 0.2		
Households ¹	+ 0.3	+ 0.4	+ 0.3	+ 0.2	+ 0.2	+ 0.2		
General government	- 1.6	+ 0.2	+ 1.3	- 0.5	+ 0.2	+ 0.2		
Cross capital formation	- 5.3	- 4.1	- 0.7	- 0.5	+ 0.4	+ 0.7		
Gross fixed capital formation	- 4.4	- 1.8	- 0.3	- 1.2	- 2.0	+ 0.5		
Machinery and equipment	- 7.1	- 3.0	- 2.2	- 2.1	- 2.3	+ 5.3		
Construction	- 1.8	- 1.2	- 0.7	- 0.7	- 0.9	- 2.3		
Exports, goods and services	- 6.5	- 3.2	+ 1.7	+ 2.1	+ 1.0	+ 5.0		
Goods	- 10.4	- 2.6	+ 3.7	+ 2.7	+ 1.1	+ 6.4		
Services	- 2.8	- 2.2	- 0.9	+ 0.3	+ 0.9	+ 2.6		
Imports, goods and services	- 5.8	- 2.7	+ 1.0	+ 0.8	+ 1.4	+ 3.4		
Goods	- 7.4	- 2.5	+ 2.5	+ 1.3	+ 0.8	+ 3.7		
Services	- 3.6	- 2.7	- 1.4	+ 0.1	+ 1.8	+ 2.6		
Gross domestic product	- 2.3	- 0.8	+ 0.6	+ 0.4	- 0.0	+ 1.2		
Manufacturing	- 7.5	- 2.5	+ 2.2	+ 0.9	+ 0.6	+ 6.3		
	2008	2009	2008	2009	2009	2010		
			Fourth quarter	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
<i>Volume, chained prices</i>								
Final consumption expenditure	+ 1.4	+ 1.1	- 0.9	+ 2.7	+ 2.3	+ 0.3	+ 2.0	- 0.2
Households ¹	+ 0.5	+ 1.3	- 1.7	+ 3.9	+ 2.7	+ 0.5	+ 2.6	- 0.4
General government	+ 4.0	+ 0.4	+ 1.4	- 0.7	+ 1.2	- 0.1	+ 0.1	+ 0.3
Cross capital formation	+ 1.0	- 12.7	- 11.2	- 18.6	- 11.8	- 8.5	- 6.6	+ 4.0
Gross fixed capital formation	+ 4.1	- 8.8	- 11.2	- 12.3	- 6.6	- 5.6	- 6.9	- 4.3
Machinery and equipment	+ 7.5	- 14.5	- 11.9	- 20.8	- 13.1	- 12.0	- 6.5	+ 0.2
Construction	+ 1.6	- 6.0	- 13.4	- 8.4	- 3.6	- 1.6	- 7.7	- 7.2
Exports, goods and services	+ 1.0	- 16.1	- 19.6	- 21.2	- 15.6	- 7.5	+ 4.1	+ 12.8
Goods	+ 0.1	- 18.6	- 23.7	- 24.5	- 17.5	- 7.6	+ 4.8	+ 14.9
Services	+ 3.3	- 9.5	- 9.4	- 10.7	- 10.6	- 7.6	+ 2.3	+ 7.3
Imports, goods and services	- 0.9	- 14.4	- 16.5	- 19.0	- 12.5	- 9.6	+ 4.0	+ 10.3
Goods	- 0.7	- 15.3	- 18.2	- 20.5	- 13.2	- 9.0	+ 4.8	+ 11.4
Services	- 2.1	- 10.7	- 8.4	- 12.6	- 10.0	- 11.6	+ 0.7	+ 6.2
Gross domestic product	+ 2.2	- 3.9	- 5.4	- 5.7	- 3.6	- 0.9	- 0.0	+ 2.4
Manufacturing	+ 3.5	- 14.3	- 17.0	- 18.9	- 14.1	- 6.8	+ 0.6	+ 9.5
Gross domestic product, value	+ 4.1	- 3.1	- 4.6	- 5.0	- 2.9	+ 0.0	+ 1.5	+ 4.0

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

Figure 1: Growth of real GDP

Percentage changes from previous year (quarter)



Source: WIFO.

Labour market conditions continue to improve. In August, the number of persons registered as unemployed was down by 20,400 compared with a year earlier. The seasonally adjusted unemployment rate stood at 6.8 percent, unchanged from the previous month, according to the traditional Austrian method of calculation. Seasonally adjusted active dependent employment did not increase from the previous month in August, but exceeded the year-earlier level by 51,500 (+1.6 percent).

So far, the Asian economies have been providing the main stimulus to global economic activity. Industrial production has experienced vigorous growth since the economic crisis and already clearly exceeds the pre-crisis level. The following brisk demand for imports has spurred the upswing at the global level. This momentum has moderated recently. China's economy expanded considerably also in the second quarter (real GDP first quarter +11.9 percent year-on-year, second quarter +11.1 percent), with industrial production in June exceeding the year-earlier level by 13.4 percent. However, industrial production growth slowed in emerging Asia overall in May and June, according to Centraal Planbureau (CPB) data. Latin America has also seen the expansion lose some of its vigour. These developments have recently been reflected in a marked slowdown in the pace of the region's import growth, which has been dampening the expansion of global trade noticeably.

In Japan, economic growth stagnated (first quarter +1.1 percent in real terms, compared with the previous quarter, second quarter +0.1 percent). In July, industrial production was only slightly higher than the level recorded in January 2010. Japan's import growth, on the other hand, accelerated noticeably again in June, according to CPB.

The US economy grew by 0.4 percent quarter-on-quarter in the second quarter of 2010. Hence the expansion was smaller than expected and clearly smaller than the increase recorded in the first quarter (+0.9 percent). The year-on-year growth rate was rather high, however, coming in at +3 percent. The slower pace of expansion was mainly accounted for by the strong increase in imports (second quarter +7.3 percent in real terms, quarter-on-quarter, first quarter +2.7 percent) following the pick-up in domestic demand: at +0.5 percent in real terms compared with the previous period, private consumption growth remained stable (first quarter +0.5 percent), while private investment demand rose by 5.7 percent (equipment investment +5.7 percent, residential investment +6.2 percent). This was already the third consecutive quarter of investment growth of around 6 percent. Export activity, by contrast, lost some momentum (second quarter +2.2 percent, first quarter +2.7 percent). The contribution of net trade to growth was therefore clearly negative.

The indicators provide a heterogeneous picture for future developments. Labour market conditions in the USA remain unfavourable: in August, the unemployment rate was 9.6 percent, somewhat higher than in July, and only 0.5 percentage points lower than its peak of October 2009 (10.1 percent). Consumer expectations remain subdued, the Conference Board Consumer Confidence Index and the University of Michigan Consumer Sentiment Index, which had declined in July, improved again moderately in August. Hence both indicators are more or less in line with their levels at the end of 2009. The ISM Purchasing Managers' Index dropped markedly from April to July. Industrial production rose again moderately in July, after contracting in June; incoming orders declined in June.

The European economy is gaining momentum. In the second quarter, real GDP expanded at a quarterly rate of 1.0 percent both on EU average and in the euro area (first quarter +0.3 percent). In the euro area, a particularly strong rise was recorded in exports (+4.4 percent, first quarter +2.4 percent) and gross fixed capital formation (+1.8 percent, first quarter -0.4 percent). Household consumption expenditure rose moderately (+0.5 percent, first quarter +0.2 percent). Real value added in the production sector increased by 1.9 percent from the previous quarter.

USA and Asia see slowdown in pace of economic activity

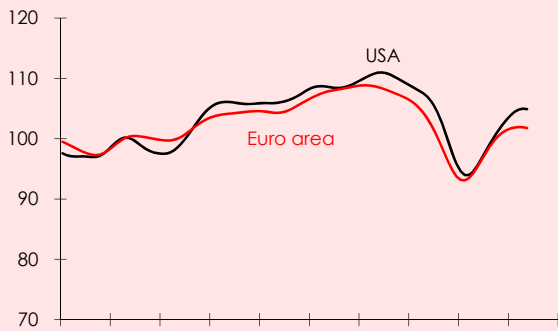
The pace of expansion has recently slowed in Asia and the USA. As a result, imports in these regions are increasing at a slower pace than previously, which is dampening global trade growth.

European economy gains momentum

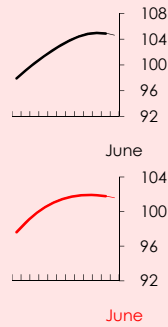
Figure 2: International business climate

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

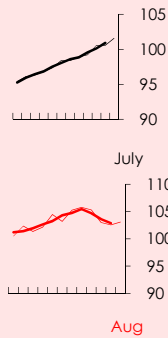
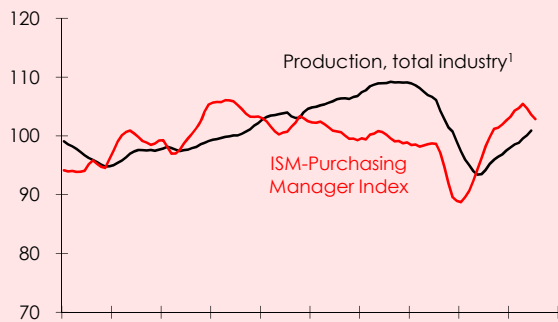
Leading indicators



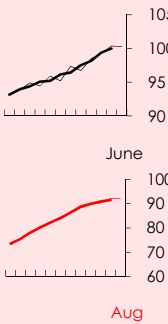
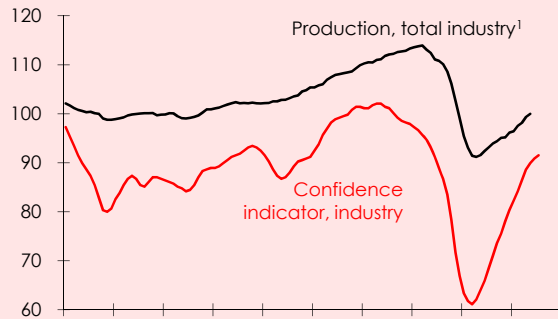
12-months performance



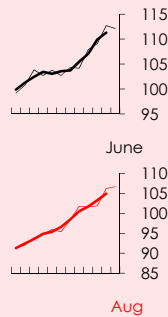
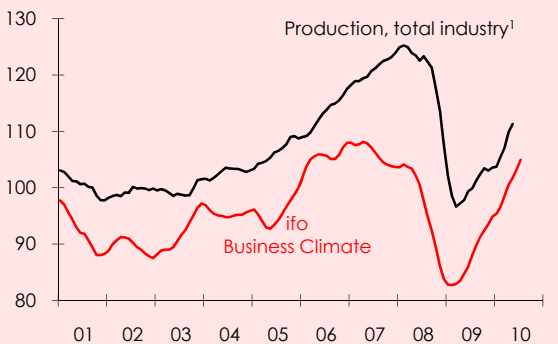
USA



Euro area



Germany



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

The most recent industrial data for the EU suggests that economic activity might slow down. Production output, which had risen in April and May, stagnated in June compared with the previous month both on EU average and in the euro area. Compared with a year before, it grew by 8 percent in June. The New Orders Index rose by 2.5 percent month-on-month in June, exceeding the year-earlier reading by more than 20 percent. The unemployment rate remained stable in July. In the euro area it has remained unchanged at 10.0 percent, seasonally adjusted, since March, while in the EU it has averaged 9.6 percent.

The leading economic indicators show a positive trend, however: the Economic Sentiment Indicator for the EU 27 and the euro area published by the European Commission continued to rise in August and has been above its long-term average already since June. Both manufacturers' expectations and consumer confidence have improved. Firms in the construction sector, by contrast, remain pessimistic, with the respective indicators now well below their averages.

The German economy continues to be the key driver of growth in the EU. It expanded by 2.2 percent quarter-on-quarter in the second quarter (first quarter +0.5 percent). However, the pace of activity in the production sector moderated somewhat also in Germany; the production index even fell slightly month-on-month in June (-0.5 percent). The seasonally adjusted unemployment rate stood unchanged from June at 7 percent in July.

Economic activity in Southern Europe remains weak. In Greece, real GDP declined in the second quarter – the seventh consecutive decline – compared with the previous quarter (-1.5 percent, first quarter -0.8 percent). A moderate expansion was registered in Italy (+0.4 percent), Portugal and Spain (+0.2 percent). In June, production output contracted month-on-month in Greece, Spain and Portugal. In Italy, by contrast, output has expanded markedly since the beginning of the year, and in June already exceeded its year-earlier level by 8 percent. The unemployment rate was in excess of 20 percent in Spain in July and continues to show a rising trend there, while it fell marginally in Italy and Portugal.

In Austria, real GDP rose by 1.2 percent in the second quarter of 2010 compared with the previous quarter (following stagnation in the first quarter). This expansion was mainly driven by exports: exports of goods and services increased by 5.0 percent in real terms from the previous quarter, with Austria benefiting mainly from strong demand from Asia, Latin America, and the USA and within the EU (January to June goods exports to China +42.4 percent in nominal terms, year-on-year, EU +12.7 percent, USA +11.9 percent). On the back of brisk economic growth, imports also rose (second quarter +3.4 percent in real terms, compared with the previous quarter, first quarter +1.4 percent). The increase in external demand benefited notably the manufacturing industry: in the second quarter it posted an increase in real value added of 6.3 percent quarter-on-quarter (first quarter +0.6 percent). Industrial production, which had risen steadily since the beginning of the year, contracted moderately in seasonally adjusted month-on-month terms in June, but remained 10.7 percent above its trough in May 2009.

Evidence presented in WIFO's August business cycle survey conducted in co-operation with the EU point to continued optimism among firms regarding their assessment of current developments. The assessment of the business situation in the coming six months as well as production expectations among manufacturers surpassed their long-run averages, but have not improved further since March. The assessment of order books, while clearly more optimistic than in spring, has also stagnated recently. The picture is the same for all branches of the manufacturing sector (intermediate products, motor vehicles, capital goods, consumer goods) and suggests that the upswing will continue but will not accelerate further.

The upturn in exports is beginning to spread to investment. In the second quarter of 2010, business spending on machinery and equipment rose by 5.3 percent in real terms compared with the previous period (first quarter -2.3 percent). This was the first

The global economic recovery reached Europe with a lag. The second quarter saw brisk economic expansion, mainly owing to favourable developments in Germany. In Southern Europe, by contrast, growth remains weak.

Exports driver of growth in Austria

Austrian exports rose briskly in the second quarter, with the economy benefiting from strong demand from Asia, Latin America, the USA and the other EU countries. This expansion was reflected in a vigorous increase in manufacturing value added.

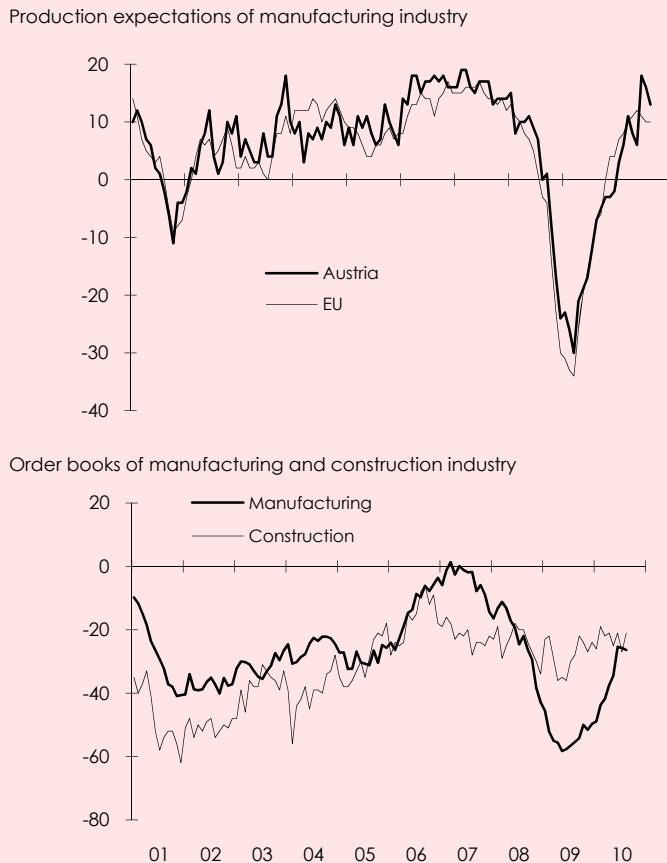
Investment on the rise again

increase since the second quarter of 2008. Gross fixed capital investment expanded by 0.5 percent. Capacity utilisation has also risen markedly recently: in manufacturing, it reached 82.6 percent in the third quarter, a rate for the first time again above the long-term average of around 82 percent, the latter having been dragged down by the most recent crisis, however. Capacity utilisation thus rose significantly from its trough of 73.2 percent in the second quarter of 2009, but has not yet reached its peak of 85.5 percent recorded in the second quarter of 2007.

The upturn in exports is beginning to spread to investment, with business spending on machinery and equipment growing again for the first time in the second quarter. Capacity utilisation has risen appreciably. Construction firms expect the decline in the sector to continue.

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. Following the change to NACE rev. 2 data classification in May 2010, caution should be exercised for comparison with earlier data.

Construction investment remained weak in the second quarter of 2010 (–2.3 percent in real terms, compared with the previous period, first quarter –0.9 percent). Construction value added has been declining already for three years. Firms' assessment of the situation in the construction sector is currently clouded: since the end of 2009, the assessment of construction activity given by firms in the WIFO business cycle survey has stagnated at a slightly below-average level. The assessment of order books has even worsened again recently. While the assessments given by civil engineering firms remain pessimistic, those given by residential construction companies improved somewhat in July and August. Residential building permits are expected to decline further, however.

Household spending rose modestly, but steadily during the recession, thereby stabilising the course of the economy. But the rate of increase remained subdued also in the second quarter (+0.2 percent in real terms, compared with the previous period, first quarter +0.2 percent). Developments varied across the trade sector: from April

Construction sector in crisis

Modest, albeit steady rise in household spending

to June, real retail sales increased by 0.3 percent on a cumulative basis, year-on-year, owing to the calendar effect of the Easter holiday; motor vehicle dealers registered a decline by 1.3 percent, not least because of the expiry of the car-scrappage premium. The wholesale trade (+6.4 percent) benefited from favourable developments of external trade and in manufacturing. Total trade sector value added stagnated in the second quarter compared with the previous quarter (+0.1 percent in real terms, first quarter +0.2 percent).

The modest pick-up in household consumption expenditure stabilised the economy during the recession, but has hardly accelerated since then.

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/>).

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").

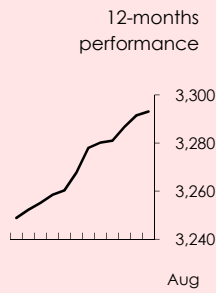
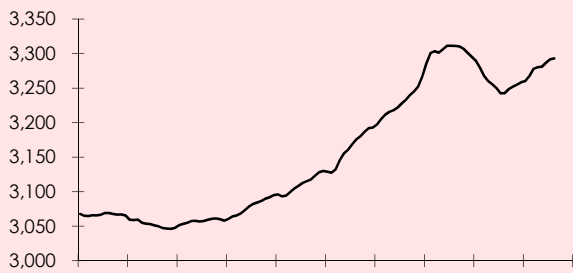
Terms used in connection with the national definition of the unemployment rate

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.

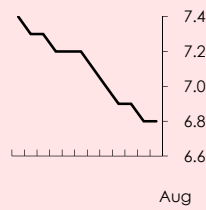
Persons in dependent active employment: "Persons in dependent employment" include persons receiving child-care benefit, as well as persons in military service or persons carrying out alternative service with a valid employment contract. By deducting their number one arrives at the number of "persons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

Figure 4: Key economic indicators

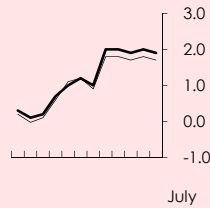
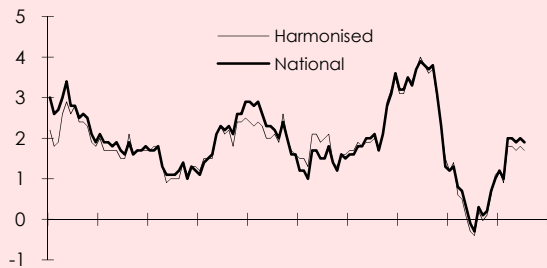
Persons in active dependent employment¹, (1,000), seasonally adjusted



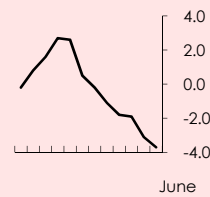
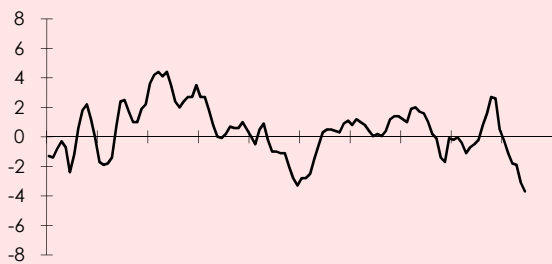
Unemployment rate, traditional Austrian method², seasonally adjusted



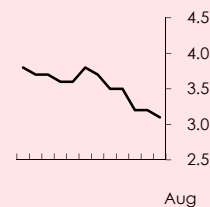
Consumer prices, year-to-year percentage changes



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.

Tourism posted yet another decline in value added in the second quarter (–0.7 percent, first quarter –0.8 percent, compared with the previous quarter). From May to July 2010, the number of overnight stays rose by 1.4 percent compared with the same period a year earlier, while tourism sales stagnated (+0.3 percent). Notably the number of overnight stays by guests from Russia, the USA, Sweden, Poland and the UK increased, while the nights spent by travellers from Italy and from Austria's most important source market Germany declined.

In July 2010, consumer prices in Austria rose by 1.9 percent from a year before. Hence the inflation rate has held steady since March 2010. The price increases were due, for the most part, to price rises for mineral oil products, the latter being reflected in the housing and transport categories. The price of energy rose by 7 percent in the year to July. The Harmonised Index of Consumer Prices exceeded the year-earlier level by 1.7 percent in July 2010. The price increase was thus in line with the euro area average. From January to July 2010, the consumer price index rose by an average 1.7 percent year-on-year, whereas the negotiated wage index increased by 1.6 percent. Gross real wages remained flat over this period.

Labour market conditions in Austria continue to recover. In August, the number of persons registered as unemployed declined by 20,400 compared with a year before, while that of persons enrolled in training programmes increased by 5,200. On a seasonally adjusted basis, the number of persons registered as unemployed fell by 0.7 percent month-on-month. The seasonally adjusted unemployment rate according to the traditional Austrian method of calculation was 6.8 percent, unchanged from the previous month. The seasonally adjusted unemployment rate according to Eurostat stood at 3.8 percent in July. In August, the seasonally adjusted number of persons registered as unemployed was down 20,000 from its peak in September of last year, but up 40,000 from its trough in March 2008. The number of vacancies increased by 4,500 (+15 percent) from a year before. Compared with July, it rose by 1.3 percent, seasonally adjusted.

The recovery in the labour market is also reflected in an increase in employment. While the seasonally adjusted number of persons in dependent active employment did not rise further from the previous month in August, it exceeded its trough in the most recent economic crisis (July 2009) by 50,600 (+1.6 percent). Compared with its peak in the last business cycle (June 2008), it fell by 18,300 until August 2010.

Inflation rate unchanged at close to 2 percent

Energy price rises have caused increases in the cost of housing and transport services. The inflation rate is unchanged and is in line with the euro area average.

Labour market recovery continues

The number of persons registered as unemployed is declining; the unemployment rate remains stable, while employment is rising.