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Following Slowdown in Growth, Sentiment Brightens in Austria

Business Cycle Report of March 2013

Austrian economic output contracted moderately in the fourth quarter of 2012. The slower pace of growth was mainly attributable to the weak global economy and the associated decline in international capital and trade flows. At the beginning of 2013, global economic activity picked up again. Emerging market economies are the main drivers of this stabilisation. However, global growth prospects remain surrounded by downside risks stemming from the sovereign debt crisis in Europe and uncertainties about fiscal developments in the USA.

For definitions of terms used, see "Methodological Notes and Short Glossary", in this volume and http://www.wifo.ac.at/wwadocs/form/WIFO-BusinessCycleInformation-Glossary.pdf • All staff members of the Austrian Institute of Economic Research contribute to the Business Cycle Report. • Data processing: Christine Kaufmann, Martha Steiner • Cut-off date: 7 March 2013. • E-mail address: Christian.Glocker@wifo.ac.at

Following a slowdown at the end of 2012, the global economy has been picking up some speed again since the beginning of 2013. But the recovery is highly fragile. The outlook is dampened by the continued unfavourable development in the euro area. While many leading indicators point to increased momentum, uncertainty prevailing among private households and businesses is dampening the growth prospects.

Austria's real GDP declined at a quarter-on-quarter rate of 0.1 percent in the fourth quarter of 2012. Growth of almost all components of demand was subdued. Looking at the supply side, especially manufacturing contributed negatively. For the year 2012 as a whole, the economy grew by 0.8 percent.

Despite the deceleration in growth towards the end of the year, overall sentiment in Austria brightened already in November 2012. The economy appears to have bottomed out at the beginning of the year. Austrian industrial companies anticipate an upward trend, according to WIFO's Business Cycle Survey of February 2013. Leading indicators also show an improving trend for important export markets, especially Germany.

The inflation rate was 2.6 percent in January, somewhat lower than in the preceding months. Upward price pressures were once again driven by price increases in the housing, water and energy, and food categories.

The number of persons in dependent active employment exceeded the year-earlier level by 27,000 in February, according to preliminary data. This represents an increase of 0.8 percent. At the same time the number of unemployed persons continued to rise: in February, about 326,000 persons were registered as unemployed, an increase by 16,000 from February of last year. The seasonally adjusted unemployment rate according to the Austrian method of calculation remained unchanged at 7.2 percent.

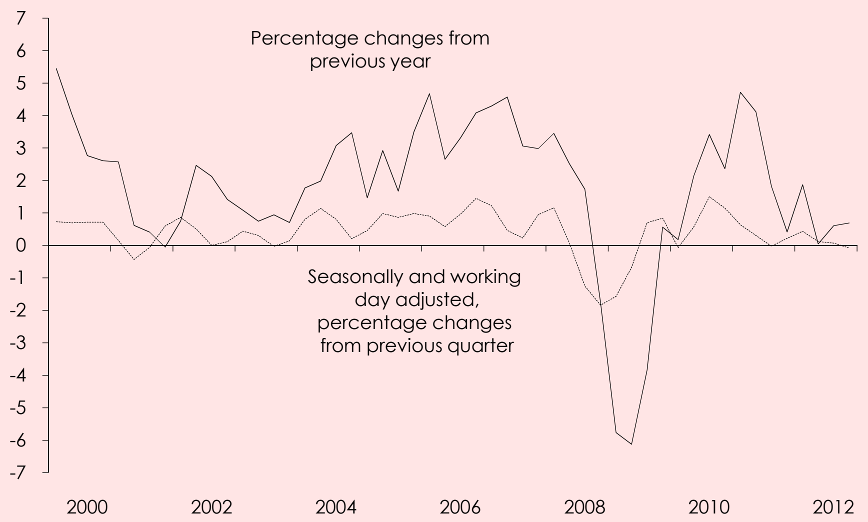
Global economic activity stabilising

Global economic activity is gaining momentum, while remaining uneven across regions. Financial market conditions have again improved and several survey indicators suggest a brightening-up of the business climate. JPMorgan's global Purchasing

Managers' Index (PMI) stood well above the critical 50-points mark also in February. The general improvement of the business climate as signalled by some leading indicators since the fourth quarter 2012 largely continued into early 2013 and points to an imminent, albeit gradual pick-up of world economic growth.

Overall demand remains sluggish in the industrialised countries. Asia and Latin America are enjoying a revival of growth.

Figure 1: Growth of real GDP



Source: WIFO.

The acceleration of growth in the emerging market economies is consolidating world trade. Manufacturing output has also picked up worldwide.

World trade is increasingly strengthening, mainly thanks to expanding foreign trade of emerging markets in Asia and Latin America, while industrialised countries' external trade flows no longer weakened. Likewise, recent growth of manufacturing output has been entirely driven by the Asian emerging markets. On the basis of three-months moving averages, industrial output headed up in December from the previous month.

In keeping with first estimates, US GDP remained flat quarter-on-quarter in the last three months of 2012. For the whole year 2012, GDP grew by 2.2 percent.

US GDP remained flat in the fourth quarter 2012. Sluggish activity was mainly due to sharp cuts in government spending, notably on defence, and a relapse in private investment after a strong increase in the third quarter. Against the background of anaemic international trade, both exports and imports were receding, with a positive net contribution of the external sector to GDP growth. Private consumption increased, as did gross fixed investment. In spite of growth levelling off in late 2012, the labour market maintains its positive trend. In January, almost 157,000 new jobs were created in net terms.

From an annual rate of 1.8 percent in 2011, GDP growth accelerated to 2.2 percent in 2012, mainly driven by private consumption and investment, whereas public consumption exerted a slight dampening impact. With exports rising more strongly overall than imports, foreign trade provided a small positive contribution to GDP growth.

The Japanese economy is caught in recession, with GDP shrinking since the second quarter of 2012. Demand and output in China expanded by 7.8 percent in 2012.

In Japan, GDP fell in the fourth quarter of 2012, already for the third time in a row. The weakness of overall demand entails not only a contraction of output, but also to a fall in prices, extending the protracted deflation. Despite the adverse environment, short-term indicators have been tentatively pointing up lately. Industrial output should also have bottomed out by now, supported by a weak yen and a more lively private consumption.

Latest data for China confirm the cyclical upturn, with year-on-year GDP growth accelerating markedly. Although official data for GDP components are unavailable, private consumption and investment are believed to have provided the major contributions to growth. The lively momentums appears to be sustained, as suggested by the Purchasing Managers' Index (PMI) for the manufacturing sector which, according to HSBC, rose to a two-year high in January; although edging down in February, the Index remained above the critical 50-points mark.

Table 1: Quarterly national accounts

	2011	2012	2011 Third quarter	2011 Fourth quarter	2012 First quarter	2012 Second quarter	2012 Third quarter	2012 Fourth quarter
			Percentage changes from previous quarter					
Adjusted for seasonal and working day effects, volume								
Final consumption expenditure			+ 0.2	+ 0.1	+ 0.1	+ 0.1	– 0.0	– 0.1
Households[1]			+ 0.1	+ 0.1	+ 0.1	+ 0.1	– 0.0	– 0.1
General government			+ 0.1	+ 0.2	+ 0.2	– 0.0	– 0.1	+ 0.1
Cross capital formation			+ 0.6	+ 0.5	+ 0.3	– 0.5	– 0.9	– 0.6
Gross fixed capital formation			+ 1.1	+ 0.7	+ 0.2	+ 0.0	+ 0.1	+ 0.1
Machinery and equipment			+ 1.4	+ 0.7	+ 0.1	– 0.5	– 0.6	– 0.1
Construction			+ 0.6	+ 0.3	+ 0.1	+ 0.5	+ 0.9	+ 0.6
Exports, goods and services			+ 0.2	+ 0.1	+ 0.3	+ 0.7	+ 0.9	– 0.3
Goods			– 0.1	– 1.1	+ 0.0	+ 0.6	+ 0.6	– 0.7
Services			+ 1.2	+ 1.2	+ 1.3	+ 1.4	+ 1.5	+ 1.5
Imports, goods and services			+ 0.5	– 0.1	+ 0.1	+ 0.6	+ 0.3	– 0.2
Goods			+ 0.7	– 0.5	– 0.6	+ 0.3	+ 0.6	– 0.1
Services			+ 1.8	+ 2.9	+ 2.2	+ 1.2	+ 0.1	– 0.5
Gross domestic product			– 0.0	+ 0.2	+ 0.4	+ 0.1	+ 0.1	– 0.1
Manufacturing			– 0.1	+ 0.6	+ 1.0	+ 0.0	– 0.7	– 1.3
			Percentage changes from previous year					
Volume, chained prices								
Final consumption expenditure	+ 0.5	+ 0.2	+ 1.0	– 0.0	+ 2.2	+ 0.1	– 0.8	– 0.5
Households[1]	+ 0.7	+ 0.4	+ 0.1	+ 0.5	+ 2.0	+ 0.1	+ 0.3	– 0.7
General government	+ 0.1	– 0.2	+ 3.6	– 1.6	+ 3.0	+ 0.1	– 3.9	+ 0.1
Cross capital formation	+ 9.6	– 0.4	+ 5.9	+ 2.9	+ 1.7	+ 0.6	– 1.6	– 1.8
Gross fixed capital formation	+ 7.3	+ 1.3	+ 7.6	+ 5.1	+ 3.6	+ 0.9	+ 0.4	+ 0.6
Machinery and equipment	+ 12.1	+ 0.3	+ 14.5	+ 4.6	+ 5.2	+ 1.7	– 3.9	– 1.2
Construction	+ 4.4	+ 1.5	+ 3.5	+ 5.9	+ 2.0	– 0.1	+ 2.8	+ 1.3
Exports, goods and services	+ 7.2	+ 1.7	+ 5.8	+ 3.7	+ 1.7	+ 0.5	+ 2.4	+ 2.2
Goods	+ 8.5	+ 0.4	+ 7.2	+ 2.0	+ 0.9	– 1.4	+ 1.5	+ 0.6
Services	+ 4.0	+ 5.2	+ 2.2	+ 8.2	+ 3.4	+ 6.3	+ 4.9	+ 6.4
Imports, goods and services	+ 7.2	+ 0.8	+ 5.8	+ 4.0	+ 2.0	+ 1.2	– 0.4	+ 0.5
Goods	+ 8.1	– 0.5	+ 7.6	+ 3.2	+ 0.7	– 1.0	– 2.1	+ 0.2
Services	+ 3.6	+ 6.6	– 0.1	+ 7.3	+ 8.2	+ 10.5	+ 6.5	+ 1.5
Gross domestic product	+ 2.7	+ 0.8	+ 1.8	+ 0.4	+ 1.9	+ 0.0	+ 0.6	+ 0.7
Manufacturing	+ 8.5	+ 1.3	+ 7.1	+ 1.6	+ 3.6	+ 0.7	+ 1.5	– 0.4
Gross domestic product, value	*+ 5.0*	*+ 3.1*	*+ 4.0*	*+ 1.8*	*+ 3.7*	+ 2.2	+ 2.8	+ 3.5

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

Euro area stuck in recession

While leading indicators for the euro area on the whole suggest a tentative improvement, the short-term outlook is still subject to high uncertainty. Rising unemployment and difficult financing conditions bode ill for an early recovery.

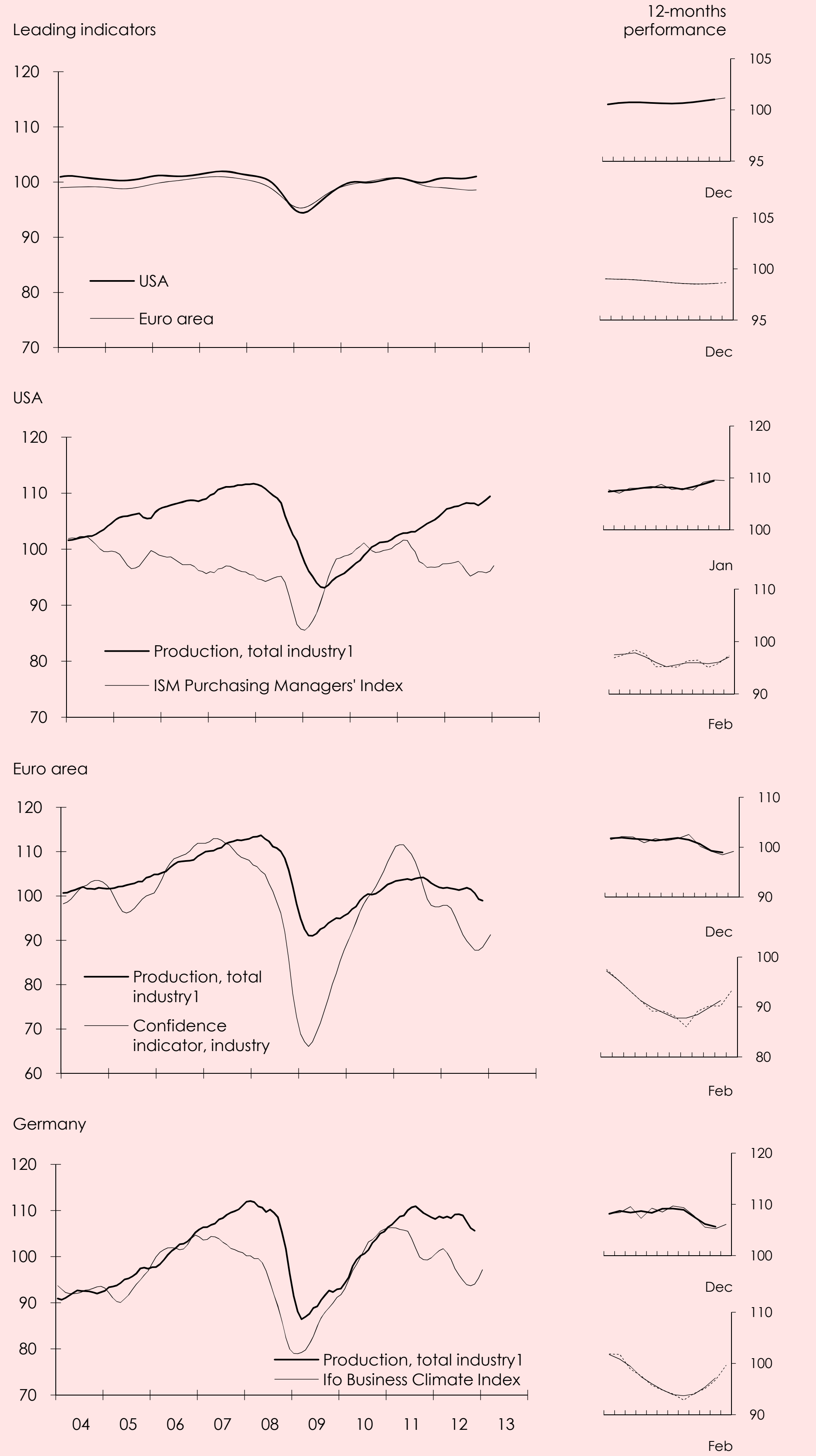
The euro area economy contracted in the fourth quarter of 2012, by 0.6 percent from the previous three months' period. The downward trend thus accelerated towards the end of last year. The overall trend masks a clear North-vs-South differential: GDP in France declined by 0.3 percent in the fourth quarter, but also for Germany the fall by 0.6 percent was the strongest setback since the first quarter of 2009, mainly caused by weak exports and lacklustre investment. Developments were more adverse in Italy and Spain: with GDP falling by 0.9 percent, the Italian recession deepened in the fourth quarter of last year, and Spain (–0.8 percent) fared hardly better. Portugal suffered the sharpest fall in economic activity, by 1.8 percent. Against this background, the unemployment rate in Portugal rose to 17.6 percent in January 2013 and stood at over 26 percent in Spain.

The situation on bond markets stabilised in January.

In January 2013, returns on long-term government bonds with AAA-Rating climbed markedly, both for the euro area and the USA. Several factors played a role, among which the lively demand for new issues from heavily-indebted euro area countries and the early repayment of funds from last year's ECB long-term refinancing operations. In February, sentiment weakened somewhat as markets perceived uncertainty rising in some euro area countries, partly for political reasons in view of election results in Italy or corruption scandals and quests for regional autonomy in Spain. In addition, confidence is undermined by the critical situation of public finances in Cyprus. As a result, volatility on bond markets has lately been on the rise again.

Figure 2: International business climate

Seasonally adjusted, 2010 = 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.

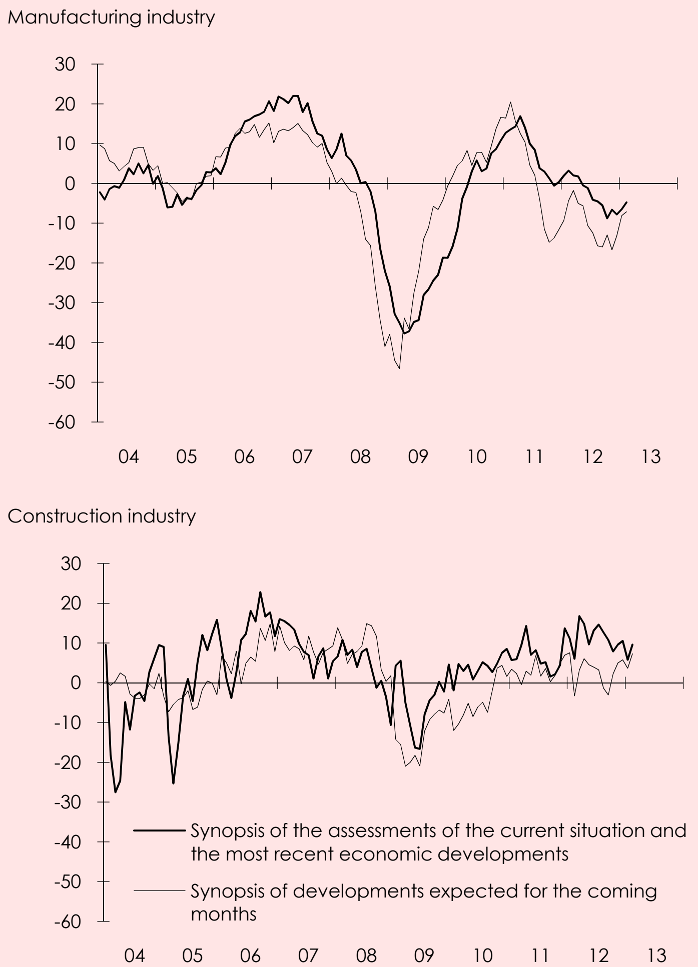
Austria: dent to growth in late 2012

The worldwide slackening of aggregate demand depressed economic activity in Austria in the fourth quarter 2012.

Economic activity in Austria slackened significantly in the second half of 2012. After a mere 0.1 percent increase from the previous period in the third quarter, real GDP edged down by 0.1 percent in the fourth quarter, mainly due to lower investment and lack of stimulus from foreign trade. The stagnation of exports is mirrored by domestic manufacturing output which declined from the previous quarter. Likewise, private and public consumption followed a negative trend. For the whole year 2012, GDP grew by a modest 0.8 percent.

Figure 3: Results from the WIFO Business Cycle Survey

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



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

Despite the slight setback to growth in late 2012, the general picture started brightening up already last November. The cyclical trough was probably reached in early 2013. Results from the WIFO Business Cycle Survey of last February signal an upturn for the domestic manufacturing industry where firms' judgements on their current business situation have been pointing up on a seasonally-adjusted basis since last November. Likewise, the index for output expectations suggests an upward trend for the months to come. Ratings for firms' order levels and export orders have also improved. The WIFO Composite Leading Indicator confirms the positive outlook: a first pick-up in November was followed by another increase in February. The latest reading shows a substantial month-to-month increase, with the bulk of components heading up.

Consumer confidence has kept improving since the beginning of the year (according to the consumer survey conducted by the European Commission: January +3.3 percentage points, February +3.5 percentage points). All components of the indicator follow an upward trend, particularly so the assessment of labour market conditions looking ahead. Judgements on the potential for private saving for the 12 months to come were only moderately better than before. New car registrations posted a first increase in January (+3.5 percent from January 2012) after the slump recorded in the previous months. It appears that the rebound in consumer confidence also translates into households' readiness to buy durable consumer goods.

Consumer confidence strengthened once again in February from the previous month. Retail sales picked up in January. The outlook remains nevertheless subdued.

After rather weak pre-Christmas sales, the retail trade sector (excluding car sales) benefited from a small year-on-year rise in nominal and real turnover (adjusted for calendar effects). The regular WIFO Business Cycle Survey for the retail sector confirms this upward tendency by a widening net balance of positive over negative responses to the enquiry about current business conditions. Expectations of future developments beyond the improvement in January are modest on the whole.

Financing conditions remain favourable

Financing conditions remain in principle favourable for the domestic economy. Yields on Austrian government bonds and for non-financial corporate bonds were very low in January. Easy financing conditions prevail also on credit markets. However, domestic financial institutions have tightened their standards for corporate credits. In a Europe-wide survey on credit market conditions in January 2013, Austrian banks cited an increase in equity capital cost and a weaker cyclical outlook as the major reasons for their persistently cautious lending behaviour.

Apart from supply-side factors, poor demand is holding back credit growth: exerting greater restraint in spending on new machinery and equipment, large enterprises systematically lowered their demand for new credit in the second half of 2012, whereas demand from small and medium-sized companies remained unchanged.

Tourism earnings for the first half of the winter season slightly up

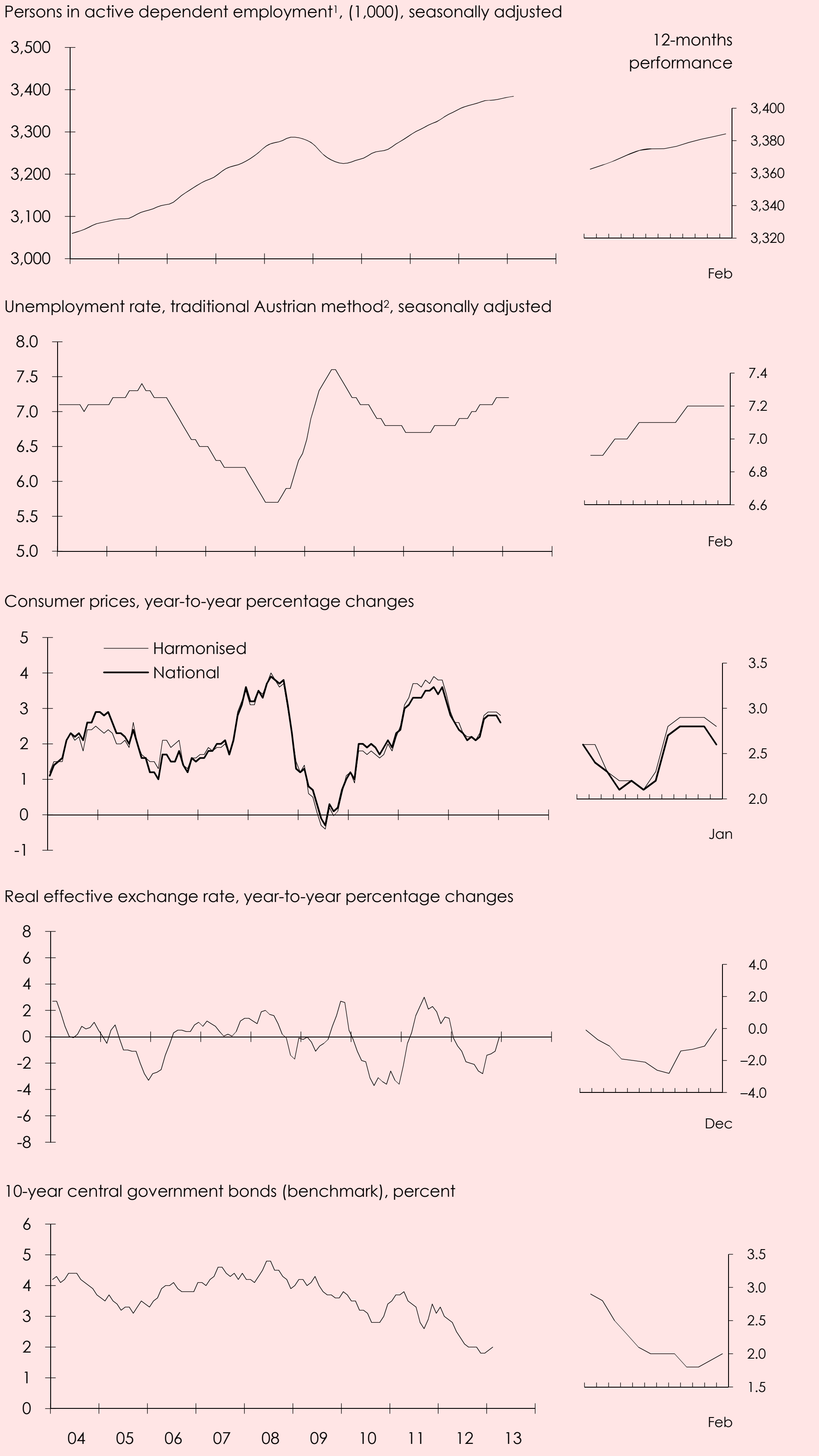
Earnings from tourism services during the first half of the 2012-13 winter season were 2.6 percent higher than in the year-earlier period, according to preliminary calculations. They rose to a total amount of € 5.85 billion. Adjusted for inflation, earning broadly stagnated (–0.2 percent), real customer spending per overnight stay declined by 2.3 percent. The number of overnight stays between November 2012 and January 2013 rose by an overall 2.1 percent, thanks to higher demand from foreign customers (+3 percent), while demand from domestic travellers edged down by 0.5 percent. The results for the first half of the winter season are largely influenced by a setback in January (all overnight stays –2.7 percent year-on-year, of which foreigners –2.1 percent, domestic customers –5.5 percent). Overnight stays by tourists from Denmark (+16.7 percent), Switzerland (+12.8 percent) and Russia (+12.6 percent) rose at double-digit rates. Small increases were recorded for guests from the USA (+1.5 percent), Belgium (+1 percent), France (+0.8 percent) and the Netherlands (+0.4 percent). Fewer stays than during the year-earlier period were observed for guests from Poland (–9.3 percent), Italy (–8.5 percent), Romania (–4.6 percent) and the Czech Republic (–1.6 percent). Earnings from tourism services during the first half of the winter 2012-13 season rose above the national average only in Vorarlberg and Vienna, they were in line with the Austrian average in Salzburg and Tyrol, while they lagged behind or stagnated in the other Länder.

Inflation rate falls slightly in January

The annual rate of consumer price inflation of 2.6 percent in January was somewhat lower than the 2.8 percent each recorded in November and December 2012. Main reason was the diminishing upward pressure from mineral oil product prices (–0.1 percent year-on-year). The strongest increases were observed for the categories "housing, water and energy supply" (+3.0 percent on average) and "food and non-alcoholic beverages (+3.9 percent). Together, they accounted for 1 percentage point of the overall inflation rate. Without food prices, headline inflation would have been at 2.1 percent. The increase in the Harmonised Index of Consumer Prices (HICP) of 2.8 percent once again exceeded the euro area average of 2.0 percent.

Headline inflation of 2.6 percent in January was slightly lower than in December, mainly due to the impact of higher oil prices fading out.

Figure 4: Key economic indicators



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.

Cyclical weakness weighing on the labour market

According to preliminary figures, the number of persons in dependent active employment rose in February by 27,000 or 0.8 percent above the year-earlier level. Compared with the previous month, employment remained flat on a seasonally-adjusted basis. The number of vacancies registered with the employment services receded once again in February, by 2,700 from one year ago. At the same time, unemployment went up: in February, around 326,000 persons were registered as jobless, up by 16,000 from February of last year. The seasonally-adjusted rate of unemployment on national definition remained unchanged at 7.2 percent of the dependent labour force.