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First Quarter Sees Austrian Economy Expand – European Sovereign Debt Crisis Dampens Outlook

Business Cycle Report of June 2012

The Austrian economy expanded at a quarterly rate of 0.3 percent in the first quarter of 2012. All demand components contributed to growth. On the production side, notably trade and other economic services provided positive stimulus. The results of WIFO's latest Business Cycle Survey and the slight flattening of the global economy suggest that economic activity in Austria will slow somewhat in the coming quarters.

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The Austrian economy shifted to a growth path in the first quarter of 2012, following stagnation observed since the autumn of 2011. Real GDP increased by 0.3 percent compared with the previous quarter (+0.2 percent compared with the previous year), according to WIFO's national accounts. Trade and other economic services posted the strongest gains. GDP grew markedly on a quarter-on-quarter basis in the USA and notably also in Japan in the first quarter. The strong upturn in Germany contributed considerably to forestalling a recession in the euro area and also in the European Union as a whole. However, the outlook for the global economy has somewhat darkened of late – the picture currently presented by indicators increasingly points to growing frictions in global economic developments. The upturn is again characterised by greatly increased global risk aversion in reaction to the renewed escalation of the turmoil on Europe's financial markets due to the sovereign debt crisis.

Against this background, the outlook is darkening also for Austria, as WIFO's latest Business Cycle Survey shows. This development is particularly marked in manufacturing, where firms are assessing current order books much more pessimistically than in previous months. While Austria's construction sector has so far remained relatively unaffected by the renewed economic slowdown, the downturn is distinctly noticeable in the services sector; nevertheless, firms in the services sector are still confident on balance.

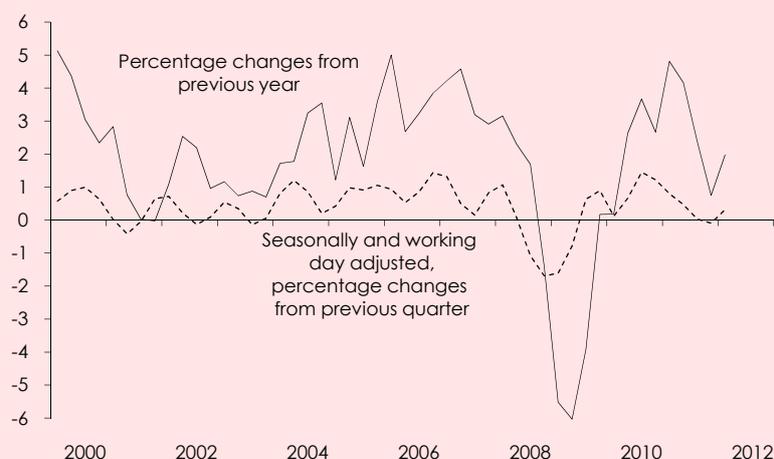
Inflation as measured by the Consumer Price Index stood at 2.3 percent in April 2012 – this was the lowest rate recorded since December 2010. Price increases were registered especially in the "housing, water and energy" expenditure category. The rate of inflation as measured by the Harmonised Index of Consumer Prices was 2.4 percent in April, which was slightly lower than the average for the countries in the euro area (2.6 percent). The number of persons in dependent active employment did rise again considerably in May, but labour market tensions are nevertheless mounting steadily. In May, 231,100 persons were registered as unemployed with the Public Employment Service, an increase by 9,700 compared with a year before (+4.4 percent). The unemployment rate remained unchanged from April to May and stood at 6.9 percent on a seasonally adjusted basis (according to the Austrian definition).

Table 1: Quarterly national accounts

	2010 Fourth quarter	2011 First quarter	2011 Second quarter	2011 Third quarter	2011 Fourth quarter	2012 First quarter		
<i>Adjusted for seasonal and working day effects, volume</i>								
Final consumption expenditure	+ 0.1	- 0.1	+ 0.3	+ 0.3	+ 0.1	+ 0.2		
Households ¹	+ 0.2	- 0.1	+ 0.1	+ 0.2	+ 0.3	+ 0.1		
General government	- 0.0	+ 0.2	+ 0.4	+ 0.3	+ 0.0	+ 0.1		
Cross capital formation	+ 4.6	+ 3.6	+ 1.1	- 0.1	+ 0.2	+ 0.3		
Gross fixed capital formation	+ 1.7	+ 1.3	+ 0.9	+ 1.0	+ 0.9	+ 0.6		
Machinery and equipment	+ 3.6	+ 2.4	+ 1.4	+ 1.3	+ 1.2	+ 1.2		
Construction	+ 0.1	+ 0.7	+ 0.8	+ 0.8	+ 0.7	+ 0.4		
Exports, goods and services	+ 1.5	+ 2.4	+ 1.3	+ 0.3	+ 0.1	+ 0.4		
Goods	+ 1.4	+ 2.5	+ 1.4	- 0.0	- 0.3	+ 0.2		
Services	+ 0.5	+ 1.7	+ 2.2	+ 1.9	+ 1.6	+ 1.2		
Imports, goods and services	+ 1.9	+ 2.2	+ 1.2	+ 0.5	+ 0.3	+ 0.1		
Goods	+ 2.0	+ 2.0	+ 1.3	+ 0.6	+ 0.0	+ 0.0		
Services	+ 1.7	+ 2.0	+ 1.7	+ 1.5	+ 1.4	+ 0.7		
Gross domestic product	+ 1.2	+ 0.8	+ 0.5	+ 0.0	- 0.1	+ 0.3		
Manufacturing	+ 3.9	+ 3.2	+ 0.8	- 0.5	- 0.1	+ 0.2		
	2010	2011	2010 Fourth quarter	2011 First quarter	2011 Second quarter	2011 Third quarter	2011 Fourth quarter	2012 First quarter
<i>Volume, chained prices</i>								
Final consumption expenditure	+ 1.5	+ 0.5	+ 1.7	- 0.4	+ 1.2	+ 0.8	+ 0.3	+ 1.3
Households ¹	+ 2.2	+ 0.5	+ 2.5	- 0.1	+ 1.7	- 0.2	+ 0.6	+ 1.4
General government	- 0.2	+ 0.3	- 0.5	- 1.4	- 0.3	+ 3.7	- 0.8	+ 1.2
Cross capital formation	+ 3.6	+ 13.6	+ 6.2	+ 36.8	+ 8.2	+ 12.9	+ 4.1	+ 3.8
Gross fixed capital formation	+ 0.1	+ 5.4	+ 4.2	+ 7.7	+ 5.2	+ 5.3	+ 3.5	+ 3.5
Machinery and equipment	+ 4.3	+ 10.5	+ 15.2	+ 18.2	+ 10.5	+ 12.1	+ 2.9	+ 4.6
Construction	- 2.9	+ 2.4	- 3.0	+ 1.3	+ 2.2	+ 1.4	+ 4.4	+ 3.1
Exports, goods and services	+ 8.3	+ 7.5	+ 8.8	+ 13.0	+ 7.0	+ 5.6	+ 4.7	+ 1.4
Goods	+ 10.9	+ 7.9	+ 12.2	+ 17.9	+ 7.0	+ 6.2	+ 2.1	- 0.0
Services	+ 2.2	+ 6.4	+ 0.3	+ 3.2	+ 7.0	+ 4.0	+ 12.1	+ 4.9
Imports, goods and services	+ 8.0	+ 7.9	+ 8.8	+ 15.8	+ 6.1	+ 5.8	+ 5.1	+ 0.9
Goods	+ 9.1	+ 8.0	+ 9.7	+ 16.8	+ 6.0	+ 6.7	+ 3.6	+ 0.1
Services	+ 3.7	+ 7.6	+ 5.5	+ 10.6	+ 6.5	+ 3.2	+ 11.7	+ 4.9
Gross domestic product	+ 2.3	+ 3.0	+ 2.7	+ 4.8	+ 4.2	+ 2.4	+ 0.7	+ 2.0
Manufacturing	+ 7.4	+ 10.2	+ 9.9	+ 21.0	+ 10.9	+ 8.8	+ 2.2	+ 2.1
Gross domestic product, value	+ 4.1	+ 4.9	+ 4.5	+ 7.5	+ 6.5	+ 4.3	+ 1.8	+ 3.8

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

Figure 1: Growth of real GDP



Source: WIFO.

Ifo's World Economic Survey does present a favourable outlook for the global economy for the latter half of the year, but current data increasingly point to growing frictions. On the one hand, world trade stagnated in real terms in March, as did industrial production, according to CPB. The "Baltic Dry" freight rates index has fallen massively since December 2011. On the other hand, the decline in commodity prices reflects sluggish global demand. In addition, the general upturn is again characterised by greatly increased global risk aversion. In unison with the stalling of world trade and industrial production in March, numerous financial market indicators have steadily deteriorated since then. Uncertainty reigning in the advanced economies appears to be increasingly spilling over to the emerging economies. Exchange rate volatility has increased significantly especially in hitherto strong emerging economies¹, in addition, stock price indices are declining globally²: while the MSCI World Index has dropped by more than 10 percent since its temporary peak in March 2012, the yields on 10-year government bonds of countries such as Germany, Switzerland, the Netherlands, Finland and Austria, which are deemed safe, have reached new record lows.

Global economic activity is moderating

According to advance estimates, China's gross domestic product rose by 1.8 percent quarter-on-quarter in the first quarter of 2012, in spite of a difficult and volatile global environment. The picture currently presented by indicators suggests that this vigorous pace of economic activity will moderate somewhat in the coming months. The Manufacturing Purchasing Managers' Index fell markedly in May from the previous month, and only just remained in positive territory³. Industrial production growth also slowed significantly in April compared with the previous month. In addition, investment declined to its lowest level in almost ten years in the first quarter.

China's foreign trade growth slowed at an unexpectedly brisk pace in April: exports grew by a mere 4.9 percent, while imports remained almost flat at +0.3 percent.

Against the backdrop of slowing activity in the real economy and the falling inflation rate, the Chinese Central Bank continued its expansionary policy also in May: banks' minimum reserve requirements were lowered yet again so as to give them more leeway in the extension of credit and in this way boost economic activity. But the effectiveness of this quantity-oriented monetary policy has already been called into question several times, in view of the shadow-banking system that is getting out of hand⁴. In the regular banking system, the government fixes interest rates. Interest rates on savings deposits are mostly lower than the rate of inflation. For this reason shadow banks appear much more attractive, they generate massive growth in customers by offering much higher interest rates. According to the state-owned investment bank China International Capital Corporation, they grant loans of around € 1 trillion – without state supervision. These loans are sometimes very expensive, given the illegality and the uncertainty that surrounds them.

Slowdown in China

The European sovereign debt crisis and sluggish global economic activity are dampening demand for goods from China.

¹ The currencies of numerous emerging economies have depreciated appreciably against the dollar since the beginning of March.

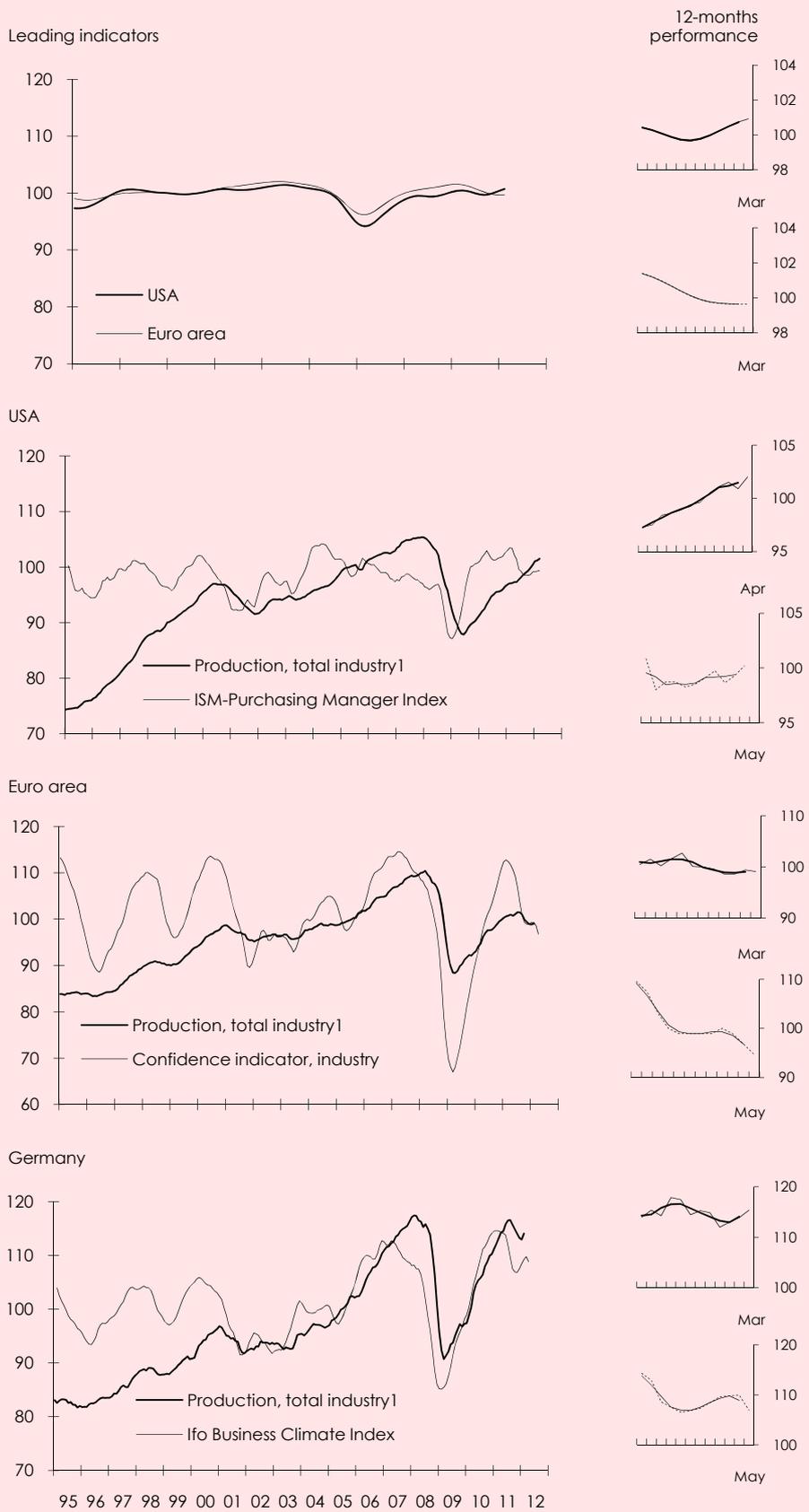
² Stock prices have been falling noticeably in many countries since the beginning of March: RTS Index (Russia) –30 percent, Bovespa (Brazil) –20 percent, IBEX (Spain) –30 percent, DAX –15 percent, ATX –15 percent, S&P500 –10 percent.

³ In contrast to the official Manufacturing Purchasing Managers' Index, the same indicator issued by the HSBC Bank fell only marginally in May, but has been in negative territory for several months already. While from the beginning of 2009 the official Purchasing Managers' Index and the one issued by the HSBC Bank always followed the same trend, the two indices have been moving into opposite directions especially since the beginning of 2012.

⁴ It is not possible even from a purely theoretical point of view to clearly determine the real effect of a discretionary change of the minimum reserve ratio in a monetary environment of a fixed-interest-rate policy due to opposite effects on consumption and investment (change of differential between interest rates on savings deposits and on loans).

Figure 2: International business climate

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



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

Japan's economy is recovering faster than expected from the impacts of the natural disaster more than a year ago. Gross domestic product expanded at a surprisingly brisk pace in the first quarter of 2012 (+1.0 percent from the previous quarter). Growing domestic demand driven by high public investment in the reconstruction of the disaster areas⁵ contributed to the recovery. Positive stimulus was also provided by private consumption, which in Japan contributes around 60 percent to demand. Businesses, by contrast, curbed their investments. Even though Japan's exports picked up in the first quarter, not least owing to buoyant economic activity in the USA at the beginning of the year, a slight slowdown must be expected, in particular as a result of adverse foreign trade developments. Both the persistent sovereign debt crisis in the euro area and the strong yen entail risks that may dampen especially exports in the short term.

The Tankan Index of the Japanese Central Bank for the business climate among large enterprises was in negative territory in the first quarter of 2012, pessimistic assessments outnumbered optimistic appraisals. This reflects the increasingly unfavourable prospects especially for small and medium-sized enterprises in Japan. Besides, firms anticipate only a modest improvement over the next three months.

US labour market conditions improved only little in May compared with March and April. On a seasonally adjusted basis, only 77,000 and 69,000 new jobs were created in April and May, respectively. By contrast, in the first three months of the year employment had increased by 225,000 on average. The pace of the recovery in the manufacturing sector moderated, according to the survey conducted by the Institute for Supply Management among purchasing managers. The seasonally adjusted unemployment rate remained almost unchanged (May 8.2 percent). As currently more job seekers are returning to the job market, this development can very well be interpreted as a positive sign.

The German economy shifted to a brisk growth path in the first quarter; gross domestic product expanded by 0.5 percent from the previous quarter, after contracting (for the first time in almost three years) by 0.2 percent in the fourth quarter of 2011. The upturn is largely supported by lively exports. Current export developments are characterised by structural changes: owing to the sovereign debt crisis in the euro area, German companies are increasingly re-orienting themselves towards other markets; the EU countries, traditionally Germany's most important trading partners, are losing importance. In 2011, only 59.2 percent of exports were intended for other EU countries – the lowest level recorded in 20 years. In 2007, the proportion had still been 64.6 percent and had declined steadily thereafter. Apart from favourable export developments, consumption expenditure also contributed substantially to the upturn in the first quarter. Falling unemployment and growing wages bolstered household spending in Germany. Investment, by contrast, contracted slightly.

The Ifo Business Climate Index for trade and industry fell sharply in May, particularly in the manufacturing sector. Assessments of the current business situation deteriorated considerably, but the index nevertheless remains above its long-term average.

GDP stagnated during the first quarter of 2012 in both the euro area and the EU as a whole, according to the present release of the second estimate. Hence the economy escaped recession. GDP had contracted by 0.3 percent in both regions in the fourth quarter of 2011 compared with the previous quarter.

Japan's economy expands vigorously

The outlook for Japan's economy is subdued, notwithstanding lively economic activity. Japan's industry remains sceptical, and the business climate continues to be bleak.

USA: declining job growth

German economy expanding again

German GDP expanded at a quarter-on-quarter rate of 0.5 percent in the first quarter, driven by lively exports and high domestic demand.

The German economy is under the spell of growing uncertainty in the euro area.

Euro area escapes recession

⁵ Unlike the EU countries, the Japanese government is still prepared to incur debt with high investments as a means to stimulate economic expansion, despite the fact that already now the government debt is twice the size of its gross domestic product – higher than in any other advanced economy. However, in Japan the majority of the creditors of the state are resident private individuals.

Financial market distortions have increased, especially in recent weeks. The renewed widening of the interest rate differential between secondary market yields on government bonds, in particular Spanish and Italian bonds, and German federal bonds, as well as the dampened economic prospects⁶ have been reflected in a strong depreciation trend of the euro against the dollar since the beginning of May. Current developments in futures markets suggest that this trend will continue⁷.

Turmoil across euro countries also continues to mount. Capital flight from Spain is intensifying and in the period from February to March alone had to be offset in the European Central Bank's payment system (Target-2 System) by an additional debt of € 65 billion⁸. The situation in France has also clearly deteriorated in this respect: owing to the enormous capital outflow from mid-2011 until the beginning of 2012, the target debts rose by more than € 85 billion. As both countries still have high current account deficits, despite the cyclical decline in imports, and great frictions prevail in the interbank market, the imbalances in the payment system of the European Central Bank are set to increase further.

The European Commission's Economic Sentiment Indicator dropped sharply in May both for the euro area (-2.3 points) and the EU as a whole (-2.7 points) amid weakening business confidence in all sectors, but especially in industry and the retail trade. By contrast, consumer confidence improved slightly both in the EU as a whole and in the euro area.

Austria's gross domestic product rose by 0.3 percent in real terms quarter-on-quarter in the first quarter of 2012. On the production side, notably trade and other economic services were major contributors. On the demand side, all aggregates contributed positively. Household spending growth was more or less in line with overall economic growth. Government consumption remained almost flat in the first quarter (+0.1 percent). Gross fixed capital formation rose by 0.6 percent in real terms, after +1.0 percent in the third quarter and +0.8 percent in the fourth quarter of 2011. Export growth was rather subdued at +0.4 percent in real terms, but had exhibited a high degree of positive momentum last year. Much the same as in Germany, one can note a structural change in export destinations: with numerous European countries facing a recession-related decline in import demand, Austrian exporters are increasingly re-orienting themselves towards non-European markets; the proportion of exports to European countries has declined steadily since 2009. In 2011, particularly sharp increases were registered in exports to South Korea (+31.4 percent), the USA (+29.0 percent) and India (+24.9 percent). Against the background of the persistent European crisis, export diversification is set to increase further.

Austria's economy is still growing, but according to the picture currently presented by indicators it is likely to lose considerable momentum some time soon; stagnation is in sight. The Purchasing Managers' Index published by Bank Austria dropped for the third consecutive time in May; at 51.2 it remained just above the threshold that signals growth, but it is clearly trending downward.

WIFO's latest Business Cycle Survey also indicates a deceleration in economic activity. This applies especially to the manufacturing sector, where, like in the EU, firms recently assessed their current level of order books much more negatively. The index of the present situation assessment has deteriorated steadily since February, albeit

Economic activity in the euro area and in the EU as a whole did not deteriorate further in the first quarter of 2012, but developments continued to be influenced by tensions stemming from the European sovereign debt crisis. Capital flight from crisis-ridden euro area countries is increasing further.

The outlook is darkening both for the euro area and the European Union as a whole.

First quarter sees noticeable expansion of Austrian economy

Austria's economy continues to grow, but activity is decelerating. Demand for credit remains stable.

⁶ It was in particular disappointing economic data from Italy that triggered a marked correction of the euro exchange rate in mid-May showing that sentiment among consumers had dropped to the lowest level since 1996.

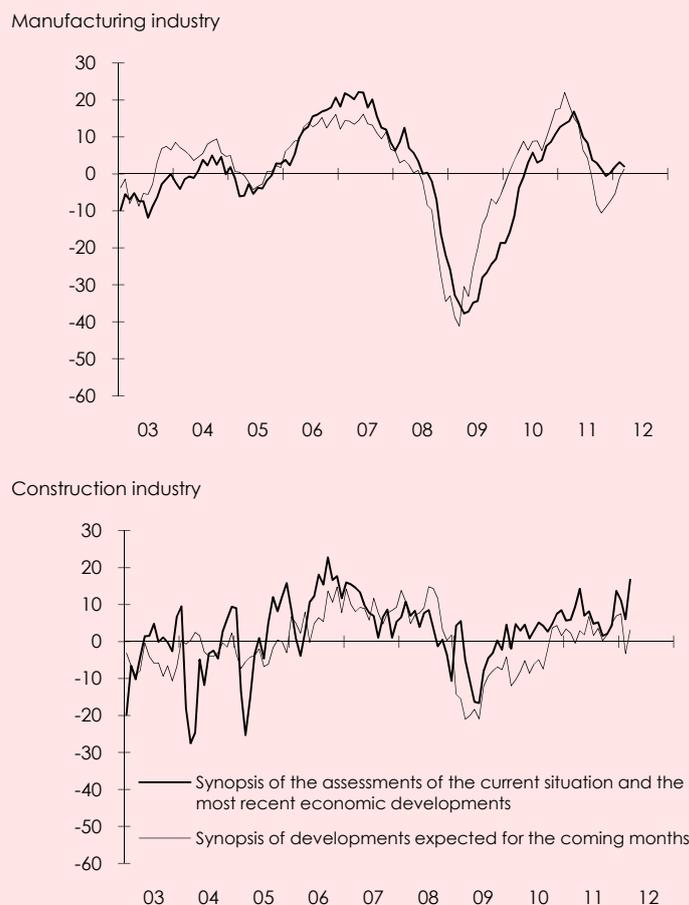
⁷ A growing number of financial market actors are protecting themselves against euro depreciation by means of euro short positions. These are finance contracts yielding profits in the event of a depreciation of the euro. In mid-May, the Chicago Mercantile Exchange – CME – recorded a surplus of more than 170,000 contracts in favour of dollar appreciation against the euro. When the euro exchange rate had dropped to \$ 1.19 at the beginning of June 2010 and the European Central Bank had for the first time begun to acquire government bonds of some euro countries, the surplus of these contracts had amounted to just over 110,000.

⁸ Sinn, H. W., "Die Target-Kredite der Deutschen Bundesbank", ifo Schnelldienst, Special Issue, 21 March 2012, and Sinn, H. W., "Alle Augen auf Spanien", Handelsblatt, 14 May 2012, 2012, (93), p. 64.

only slightly – positive and negative assessments more or less balance one another. The index of manufacturers' business expectations also dropped for the second consecutive time in May; as in April, pessimistic expectations somewhat outweighed optimistic ones. Hence the results of WIFO's Business Cycle Survey suggest only weak growth of manufacturing activity in Austria in the coming months. While the construction sector has so far remained relatively unaffected by the renewed economic slowdown, the downturn is clearly noticeable in the services sector. Nonetheless, services companies are still optimistic, in spite of the decline.

Figure 3: Results from the WIFO Business Cycle Survey

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



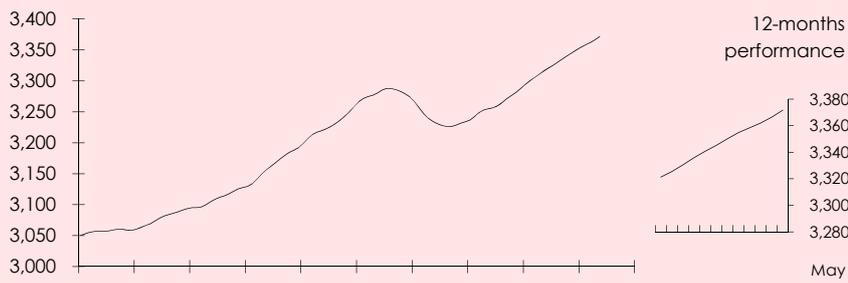
Source: WIFO Business Cycle Survey. Data refer to index points (percentage points) between +100 and -100. Values above 0 imply positive expectations, values below 0 indicate negative expectations.

While the credit demand reported by businesses has been stable for nine months by now, the results of WIFO's May 2012 Business Cycle Survey signal changes in the extension of credit. While in November 2011 as many as 55 percent of enterprises with a demand for credit had still reported to have been granted the desired amount of funding on the desired conditions, this proportion fell appreciably to 42 percent in February. Despite its most recent improvement to 50 percent it is apparent that there are substantial differences in businesses' access to loans depending on size and sector of the individual enterprise.

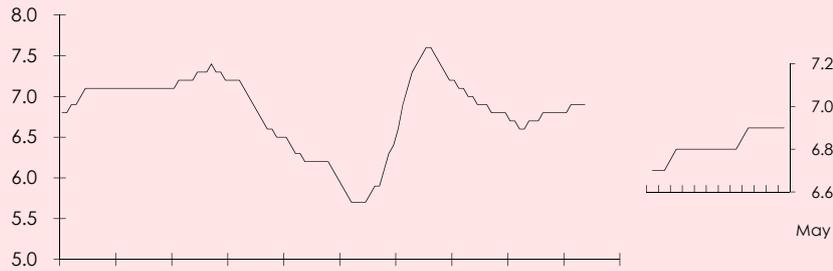
The assessment of the credit institutions' readiness to grant loans barely changed in May compared with November and February; hence a tightening of credit access constraints is not in sight.

Figure 4: Key economic indicators

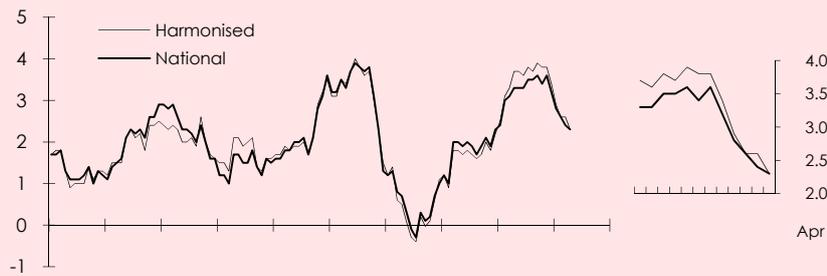
Persons in active dependent employment¹, (1,000), seasonally adjusted



Unemployment rate, traditional Austrian method², seasonally adjusted



Consumer prices, year-to-year percentage changes



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



10-year central government bonds (benchmark), percent



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

*Methodological Notes and Short Glossary**Period comparisons*

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

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

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

Average rates of change

The time given refers to the initial and the final value of the period of computation: hence the average rate 2005-2010 comprises as the first rate of change that from 2005 to 2006, and as the last that from 2009 to 2010.

Real and nominal values

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

Production Sector

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

Inflation, CPI und HICP

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

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

WIFO Business Cycle Survey and WIFO Investment Survey

The WIFO Business Cycle Survey is a monthly survey in which around 1,100 Austrian firms are asked to assess their current and future economic situation. The WIFO Investment Survey is conducted twice a year, asking companies about their investment activity (<http://www.konjunkturtest.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".

The rate of inflation as measured by the Consumer Price Index was 2.3 percent in April 2012 (March 2.4 percent, February 2.6 percent). This was the lowest rate recorded since December 2010. Compared with the high price level a year ago, fuel prices increased by 8 percent while food prices picked up by a mere 1.3 percent.

Inflation easing slightly

Both groups taken together accounted for only one fifth of the inflation rate; the upward drift in prices was largely driven by developments in the "housing, water and energy" expenditure category (housing maintenance +3.5 percent, apartment rents +4.9 percent). Household energy costs rose by 3.3 percent on average from a year before. The rate of inflation as measured by the Harmonised Index of Consumer Prices was 2.4 percent in April, slightly lower than the average for the countries in the euro area (2.6 percent).

Apart from the high increase in apartment rents one can also observe a steadily accelerating rise in real estate prices. While (according to OeNB, the Austrian National Bank) real estate prices (excluding Vienna) had risen at an annual rate of 1.7 percent in the period 2000-2009 (Vienna +3.3 percent), they increased by 5.1 percent in 2010 (Vienna +8.0 percent) and 3.1 percent in 2011 (Vienna +7.9 percent). In the first quarter of 2012, the price increase even reached 11 percent (Vienna +9.6 percent). These price dynamics are likely to persist over the medium term, given that on the one hand the distortions in financial markets raise the attractiveness of real estate investment and, on the other hand the demand for real estate is benefiting from the slight decline in interest rates on loans (owing to the still very loose monetary policy).

Tourism sales in the 2011-12 winter season amounted to € 12.17 billion, according to provisional calculations, an increase by 3.2 percent compared with a year before. The number of nights spent rose by 3.6 percent. Real sales stagnated as expenditure per night spent declined. While the external demand for overnight stays exceeded the year-earlier level by 3.8 percent, nights spent by residents increased somewhat more slowly at +3.1 percent. In the foreign source markets of importance to Austria, very favourable growth trends were recorded in the six winter months of 2011-12 for overnight stays by travellers from Russia (+18.4 percent) and Switzerland (+14.4 percent). Above-average gains were also reported from the USA (+7.3 percent), France (+5.9 percent), Sweden (+4.5 percent), Germany (+4.4 percent) and in the UK (+4.0 percent), while the demand for overnight stays from the Czech Republic (+2.8 percent) and Italy (+1.4 percent) rose at a slower pace. Overnight stays by guests from Belgium (+0.9 percent) and Romania (-0.7 percent) stagnated. Nights spent by travellers from the Netherlands (-1.1 percent) and Hungary (-1.7 percent) fell slightly, while those by guests from Denmark (-5.2 percent) and Poland (-5.3 percent) posted a marked decline. Tourism establishments particularly in Vorarlberg and Vienna, but also in Upper Austria and Burgenland registered considerable sales increases, while only those in Carinthia saw results remain below the year-earlier level.

Employment grew again vigorously in May – the number of persons in dependent active employment rose to 3,372,000, according to provisional estimates by the BMASK, an increase by 55,000 from a year before (+1.7 percent). Employment also rose on a seasonally adjusted month-on-month basis in May (+0.2 percent).

In April, the strongest year-on-year employment gains were recorded in the energy supply (+6.6 percent) as well as the information and communication (+6.3 percent) sectors. The number of additional jobs created was highest in goods manufacturing (+14,600), while the highest number of jobs were lost in the health and social services sector (-5,600).

Labour market tensions are mounting steadily, in spite of the expansion of employment. The number of persons applying for a job had fallen steadily from mid-2009 – the peak of the crisis – from 11 unemployed persons per vacancy, and had reached its record low in February 2011. It then rose steadily until May 2012, to 9 unemployed persons per vacancy. Given the rather pessimistic assessments in WIFO's latest Business Cycle Survey, labour market tensions are likely to increase further. The number of job vacancies fell again sharply in May compared with the previous year (-10.8 percent to 32,300), and also declined on a seasonally adjusted month-on-month basis. In May, 231,100 persons were registered as unemployed with the Public

The rate of inflation as measured by the Consumer Price Index was 2.4 percent in April, somewhat lower than in the two previous months. The already high inflation rate in the real estate sector continued to accelerate significantly in the first quarter of 2012. The depreciation of the euro holds considerable inflation potential.

Tourism remains stable

The increase in tourism sales in the 2011-12 winter season was largely driven by a strong pick-up in external demand.

Tensions mount in job market

Notwithstanding yet another substantial rise in the number of persons in dependent active employment in May, labour market tensions are mounting steadily: job vacancies declined noticeably, unemployment continued to rise.

Employment Service, an increase by 9,700 or 4.4 percent, respectively, from a year earlier, and by 0.1 percent from the previous month. The unemployment rate remained unchanged in May and stood at 6.9 percent on a seasonally adjusted basis (according to the Austrian definition).