

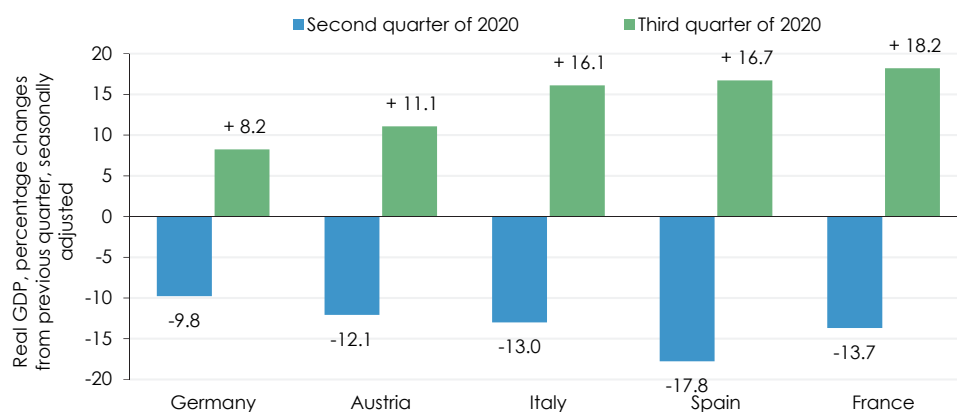
# Economic Development in the Third Quarter Marked by Catch-up Effects

## Business Cycle Report of November 2020

Sandra Bilek-Steindl

- Economic development worldwide continues to be shaped by the effects of the COVID-19 pandemic.
- In the USA, private household consumption supported GDP with catch-up purchases in the third quarter of 2020. Business and consumer sentiment improved steadily.
- GDP also rose strongly in the euro area in the third quarter of 2020. In October, the upward trend of confidence indicators was interrupted.
- In Austria, economic output grew significantly in the third quarter of 2020. With the easing of the COVID-19 measures, consumption demand of private households and value added of the service sectors picked up. The manufacturing sector and exports also grew strongly.
- According to the WIFO-Konjunkturtest (business cycle survey) of October, the economic outlook improved in the manufacturing sector, but deteriorated in the construction industry and the service sector.
- The COVID-19 measures adopted in early November impose renewed restrictions on food service, accommodation and event activities.
- Unemployment continued to rise in October, albeit at a slower pace than in September.

### The current economic development in the euro area



"With the easing of the measures taken to contain the COVID-19 pandemic, a rebound was recorded in both Austria and the euro area in the third quarter of 2020."

The slump in the second quarter of 2020 was followed by a significant increase in real GDP in the third quarter (Source: Eurostat, WDS – WIFO Data System, Macrobond).

# Economic Development in the Third Quarter Marked by Catch-up Effects

## Business Cycle Report of November 2020

Sandra Bilek-Steindl

### Economic Development in the Third Quarter Marked by Catch-up Effects. Business Cycle Report of November 2020

The dynamics of the global economy continue to be determined by the COVID-19 pandemic and the measures taken to contain it. Following the GDP slump in the USA and the euro area in the second quarter, a rebound was recorded in the third quarter. Confidence indicators are still at a low level, but signal signs of recovery in industry. Economic output in Austria also grew significantly in the third quarter 2020. Catch-up effects were reflected in particular in an increase in consumption by private households and in the value added in the service sectors. The reduction in employment slowed down, but according to preliminary figures was still 1 percent year-on-year in October. Inflation rose slightly in September.

**JEL-Codes:** E32, E66 • **Keywords:** Business cycle, economic outlook, forecast

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The global economy is still affected by the COVID-19 pandemic. In the autumn, rising infection numbers in many countries led again to restrictive measures. Against the background of the weak economy, the worldwide decline in demand for crude oil continued to depress crude oil prices, with the HWWI index of world market commodity prices falling in October compared with the previous year.

After GDP sharply declined in both the USA and the euro area in the second quarter, significant growth was recorded again in the third quarter (USA +7.4 percent, euro area +12.7 percent).

In the USA, industrial sentiment improved in October according to the purchasing managers' index (ISM) and consumer confidence (according to the Conference Board and University of Michigan). In the euro area and in Germany, however, the picture is less clear: While the leading indicators for industry are pointing upwards, those for private consumption and services reflect a restrained development.

In Austria too, economic output increased with the rebound in the third quarter, with GDP rising by 11.1 percent quarter on quarter according to first estimates. With the easing of the measures taken to contain the COVID-19 pandemic, an increase was recorded in particular in consumer demand from private households and in the value added in the service sectors. However, total industry and exports also rose sharply.

Following the massive rise in unemployment in spring, the situation stabilised further. According to preliminary figures, the unemployment rate (national definition, seasonally adjusted) was 9.4 percent at the end of October. The reduction in employment also slowed down, but according to preliminary estimates still amounted to 1 percent year-on-year in October.

Despite the decline in fuel prices, inflation in Austria rose slightly in September. According to the Consumer Price Index (CPI), inflation amounted to 1.5 percent, and according to

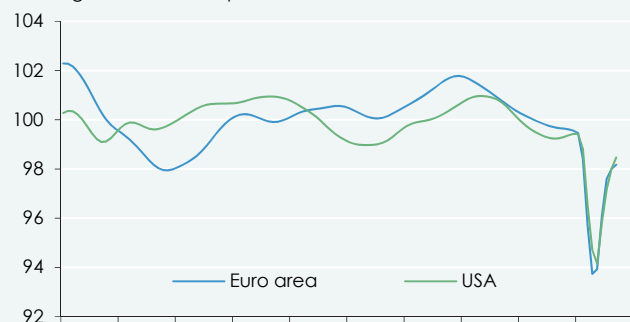
the Harmonized Index of Consumer Prices (HICP) to 1.3 percent. This means that inflation in Austria was once again higher than

the average for the euro area (-0.3 percent).

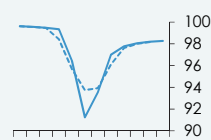
Figure 1: **International Business Climate**

Seasonally adjusted, 2015 = 100, 3-month moving average

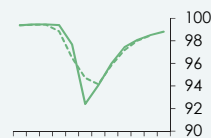
Leading indicators – amplitude



12-month performance

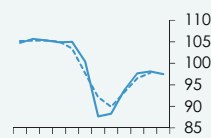
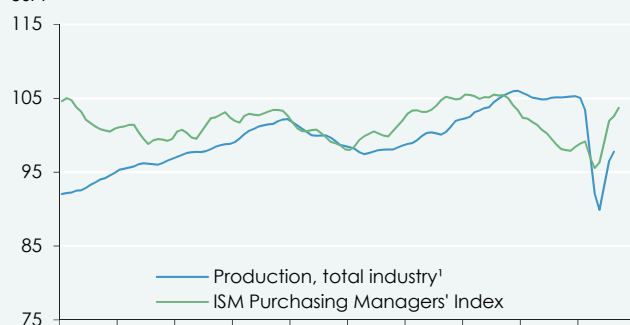


Oct

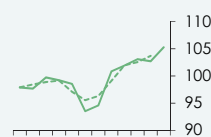


Oct

USA

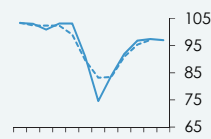
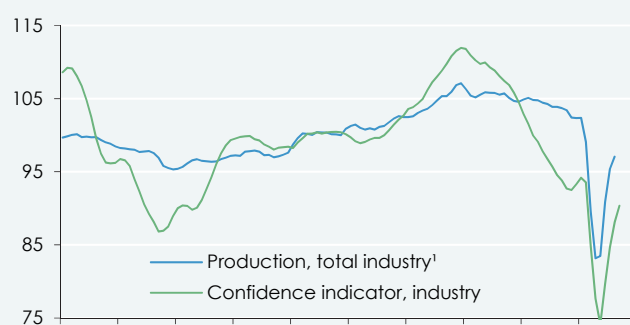


Sep

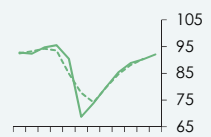


Oct

Euro area

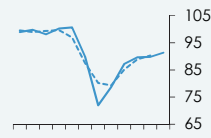
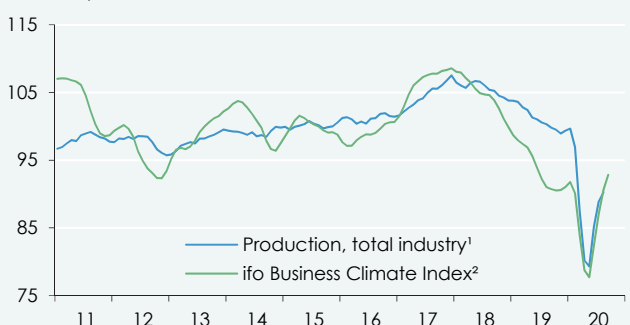


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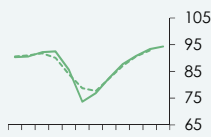


Oct

Germany



Sep



Oct

Source: European Commission, Deutsche Bundesbank, ISM (Institute for Supply Management™), ifo (Institute for Economic Research, Munich), OECD. – <sup>1</sup> Excluding construction. – <sup>2</sup> Manufacturing.

## 1. Global economy still in the grip of the COVID-19 pandemic

After a stabilisation in the summer, uncertainty increased again at rising infection numbers and the reintroduction of restrictive measures.

Since the beginning of 2020, global economic momentum has been massively influenced by the COVID-19 pandemic and the measures put in place to contain it. After a trough in April and May, global trade according to the CPB grew by 6.8 percent on average over the summer months (June to August) compared to the average of the previous three months. During the same period, global industrial production increased by 4.6 percent.

The Chinese economy had already slumped in the first quarter. After the rebound in the second quarter (+11.7 percent), moderate growth was observed in the third quarter (+2.7 percent). The level of economic output is already back above the pre-crisis value. Industry continues to show a slightly positive economic trend. At the end of October, the PMI, at 51.4 percent, was above the 50 percent mark, which signals an expansion of industrial production, for the eighth consecutive month.

The global recovery trends eased again with the renewed rise in infection figures in autumn. At the end of October and beginning

of November, rising infection numbers in many countries again required a tightening of measures to contain the risk of infection.

With the abrupt onset of the global downturn in the spring and the drop in demand, commodity prices fell significantly. The HWWI index of world market commodity prices, which includes food and beverages as well as energy and industrial raw materials, was again below the previous year's value in October, averaging -18.2 percent (-23.2 percent on a euro basis). Compared to the previous month, however, it rose by 3.1 percent. The year-on-year decline was mainly determined by the continued downward trend in the energy commodities sub-index. Against the backdrop of the decline in production, the global decrease in petroleum demand depressed crude oil prices. A barrel of Brent crude oil traded at 40 \$ in October, down 32.7 percent from a year earlier. Prices of industrial and agricultural commodities, on the other hand, were above the previous year's level on a dollar basis (+22.2 percent and +37.9 percent respectively).

## 2. Moderately positive household and industrial sentiment in the USA

Private household consumption supported economic growth in the USA in the third quarter.

After GDP in the USA slumped by 9.0 percent in the second quarter, a rebound of +7.4 percent followed in the third quarter. The largest contribution to growth came from private consumption. After the restrictions in the second quarter, catch-up purchases were made. In addition to private consumption, investment and export demand also rose quarter-on-quarter. However, the positive momentum did not compensate for the losses in value added since the outbreak of the COVID-19 pandemic; GDP in the third quarter was still 3.5 percent lower than in the fourth quarter of 2019.

In October, business cycle indicators pointed to a continued stabilisation of overall economic momentum. Both consumer confidence (according to the Conference

Board and the University of Michigan) and business surveys in industry showed positive signals. The national Purchasing Managers' Index (ISM) for the manufacturing sector rose significantly in October from 55.4 to 59.3 points and has thus been above the expansion mark of 50 points since June.

After the jump in April (to 14.7 percent), the unemployment rate is steadily declining; in October it fell further to 6.9 percent (after 7.9 percent in September). Values of this magnitude were last observed in 2012. The labour force participation rate rose again, real hourly wages remained unchanged. Inflation, which had slowed down at the beginning of the crisis, accelerated again from early summer and stood at 1.4 percent in September.

## 3. Surge in GDP growth in the euro area

The massive economic slump in the second quarter was followed by a rebound in the third quarter.

After a broad-based contraction in economic output in the euro area in the second quarter, the expected rebound followed in the third quarter. According to flash estimates, GDP rose by 12.7 percent in the third quarter compared to the previous period (second quarter -11.8 percent). Data already available for the four largest economies for the third quarter show a significant increase (Germany +8.2 percent, Italy +16.1 percent, Spain +16.7 percent, France +18.2 percent). Despite the strong growth, the decline from the first and second

quarter was not made up for in any of the four countries.

In addition to private household consumption, industrial activity also showed signs of recovery in the summer months. The production index for the euro area rose by 5 percent month-on-month in July and by 0.7 percent in August, but still remains 7.2 percent below the August 2019 value.

In view of the renewed increase in the number of COVID-19 infections, many European

countries took further restrictive measures in autumn. Restrictions or a partial lockdown of economic activity took place in Germany, Italy, France, Spain, the Czech Republic and Slovakia.

The rise in infection figures also dampened confidence indicators. In part, companies were already more pessimistic in surveys before the announcement of new restrictive measures.

In October, the recovery in the Economic Sentiment Indicator (ESI) published by the European Commission, which had been observed since May, came to a halt both in the euro area and in the EU as a whole. In particular, the confidence indicator for consumers and services weakened. However, this was offset by a continued recovery in the industrial, retail and construction sectors.

The Purchasing Managers' Index (IHS Markit) for the euro area developed similarly: it fell to 50 points in October and was thus at the expansion threshold. In particular the service

sectors determined this slump, while the sub-indicator for industry improved.

The seasonally adjusted unemployment rate remained unchanged at 8.3 percent in the euro area in September. This was the first time since the outbreak of the crisis that the increase was halted.

Overall inflation in the euro area was still negative. According to the flash estimate for October, the inflation rate remained at -0.3 percent. The decline in both energy prices and prices of industrial goods had a negative effect.

In Germany, restrictive measures were adopted again at the beginning of November, mainly affecting food service, cultural and entertainment activities. Survey indicators showed a mixed picture at the end of October: while the Purchasing Managers' Index indicated a further revival in industry, business expectations according to the Ifo Business Climate Index declined significantly in October for the first time in five months.

## 4. Austria: rebound in the third quarter

As expected, economic output in Austria also increased significantly in the third quarter compared to the previous quarter following the slump in the second quarter: according to WIFO flash estimates (based on Eurostat standards), GDP rose by 11.1 percent. Both domestic and export demand contributed to this. Nevertheless, the decline since the outbreak of the COVID-19 crisis has not yet been fully compensated.

Catch-up effects in private household consumption were reflected in a recovery in real retail sales (third quarter average +4.1 percent year-on-year, September: provisional). After declining since the beginning of 2020, new car registrations picked up in September (+5.3 percent).

Industrial activity and the construction industry also showed signs of recovery in the third quarter. After the production shortfall in manufacturing in the second quarter (average -18.0 percent year-on-year), the development measured by the production index stabilised in July and August (average -4.6 percent) and similarly in the construction industry (second quarter -10.3 percent, average July, August -3.3 percent).

Along with industrial activity, export demand also strengthened in the summer. Between June and August, the year-on-year decline in goods exports flattened (average June to August -5.9 percent, April, May -24.5 percent).

### 4.1 Reintroduction of restrictive measures in the fourth quarter

Due to the renewed increase in the number of infections, pandemic containment measures were adopted again at the beginning of November, primarily affecting accommodation and food service as well as arts, entertainment and recreation activities. The measures are less restrictive than in the spring, as trade and personal services activities are not directly affected.

The WIFO-Konjunkturtest (business cycle survey) of October (prior to the decision of the second lockdown) shows hardly any change from the previous month for the overall economy, both in terms of the current situation assessment and expectations, with the indicators thus remaining in negative range. An improvement was observed in the manufacturing sector, with the situation indices developing more favourably than the expectations indices in most industries. In the construction and services sectors, however, the assessment of the current situation deteriorated, although construction remained in positive range.

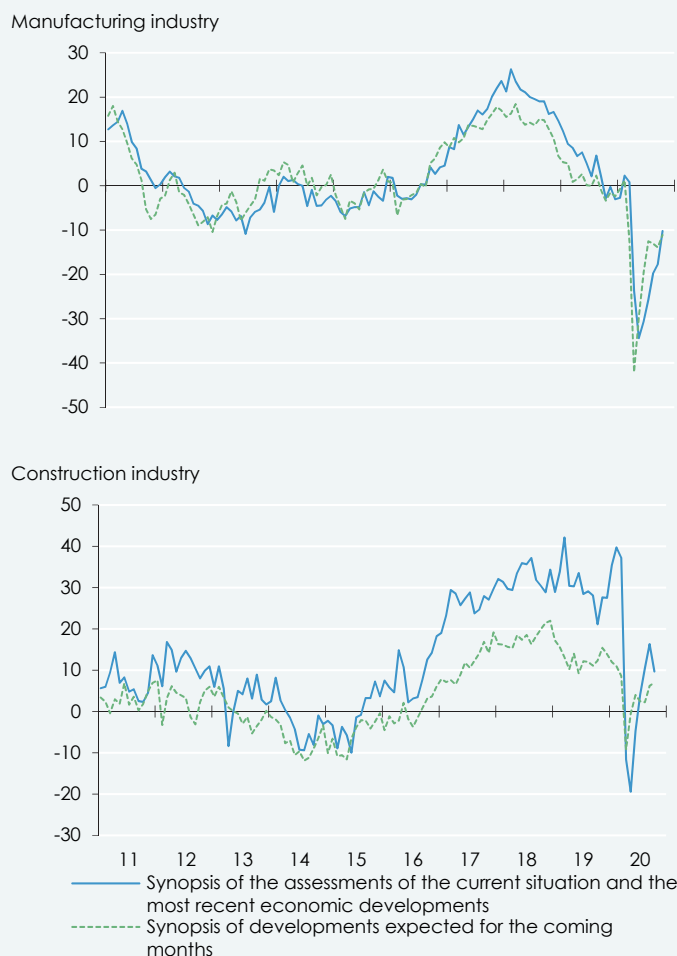
This development is also reflected in the downward trend of the Weekly WIFO Economic Index (WWWI). In October it deteriorated for the first time since May compared to the previous month. In calendar weeks 42 and 43 (12 to 25 October) it was 3.5 percent and 3.9 percent below the previous year's value, seasonally adjusted.

With the easing of the measures set to contain the COVID-19 pandemic, Austria saw an upturn in the third quarter, especially in private household consumption demand and value added of the service sectors.

The renewed increase in COVID-19 infection figures ended the upward trend in leading indicators in the autumn and again required restrictive measures in November.

Figure 2: **Results from the WIFO-Konjunkturtest (business cycle survey)**

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.

The decline in fuel prices continued to have a dampening effect on inflation in September.

#### 4.2 Labour market still strongly affected by the consequences of the COVID-19 pandemic

The consequences of the COVID-19 pandemic continue to affect the labour market. At the end of October, 358,400 unemployed were registered with the Public Employment Service Austria (AMS), 70,400 more than a year earlier. As before, the sectors of accommodation and food service as well as other business services (staff from temporary employment agencies) were particularly affected. After peaking in April, unemployment figures have since continued to stabilise. The unemployment rate according to the national calculation method (seasonally adjusted) was 9.4 percent at the end of October, according to preliminary figures.

Unemployment rose again in October, albeit at a slower pace than in September.

The reduction in employment slowed down, but still amounted to 1 percent year-on-year in September and October (October: preliminary estimate; March and April about -5 percent).

#### 4.3 Inflation picks up slightly in September

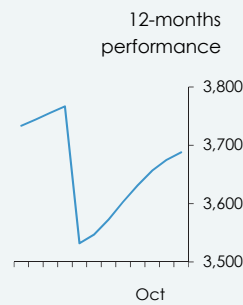
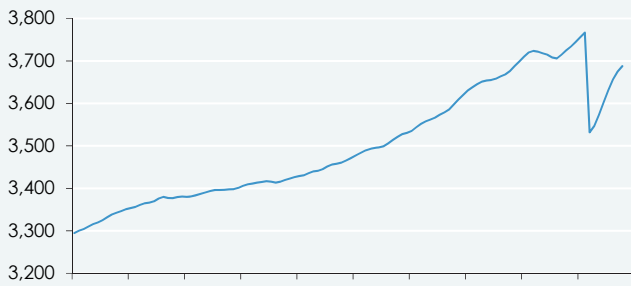
After a moderate price increase in early summer, inflation picked up slightly in summer (July 1.7 percent, August 1.4 percent according to the CPI), the inflation rate in September was 1.5 percent.

The strongest price-driving effect was seen in "housing, water and energy", followed by "restaurants and hotels". Fuel prices, on the other hand, fell in September compared to the previous year. Along with "transport", "communications" also dampened inflation.

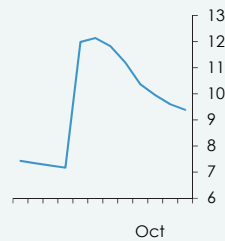
The EU-wide harmonised inflation rate (HICP) of 1.3 percent in September was once again significantly above the euro area average of -0.3 percent. The inflation differential between Austria and the euro area average remained high, as in August. It was determined by the stronger increase in the prices of services and industrial goods.

Figure 3: **Key economic indicators**

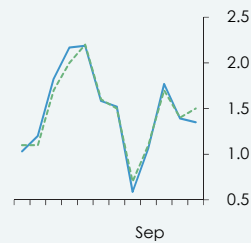
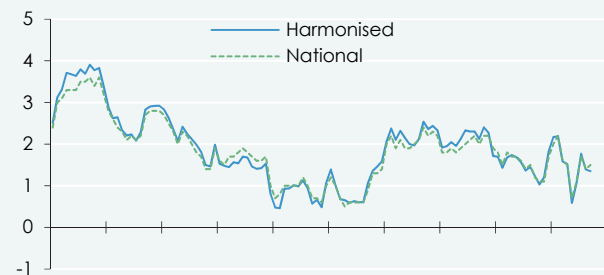
Persons in active dependent employment<sup>1</sup>, 1,000s, seasonally adjusted



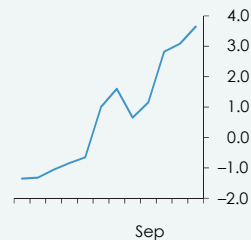
Unemployment rate, traditional Austrian method<sup>2</sup>, seasonally adjusted



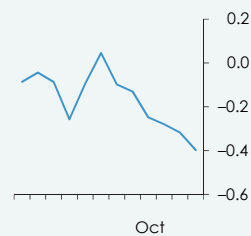
Consumer prices, year-to-year percentage changes



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



10-year central government bonds (benchmark), percent



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