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Export and Industrial Activity in Austria Remains Lively

Business Cycle Report of November 2010

The global economic recovery continues, although the pace of growth has recently moderated in Asia and the USA. Austria's export sector and industry are benefiting to a particular extent from the strong performance in Germany. While construction and tourism are only slowly finding a way out of the crisis, trade is providing a positive stimulus. The labour market is also strengthening further, especially in industry-related sectors.

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Notwithstanding the economic recovery, global economic growth has weakened of late. Notably Asia has seen the expansion of foreign trade and industrial production loses momentum. While year-on-year nominal export growth has been decelerating since March 2010 in Japan, it still remained strong in China also in the third quarter.

The US economy once more expanded only moderately in the third quarter, growing by +0.5 percent compared with the previous quarter. After the economy had recovered quickly from the crisis, the rate of growth had declined already in the second quarter of 2010. While consumer and investment demand stimulated growth, the development of foreign trade exerted a dampening effect. Leading indicators are providing contradictory signals for the months to come. The job market has so far reacted only very slowly to the pick-up in economic activity.

The recovery continues in the EU, although the recovery process remains uneven across countries. Economic activity is particularly lively in Germany. After the dynamic second quarter, leading indicators point to an ongoing revival in the third quarter. Industrial production, which is supported by exports, continues to drive growth.

Owing to the positive global environment, Austria's industrial and export activity also remains lively. The most recent results of the WIFO business cycle survey point to continued expansion in the manufacturing sector. The share of companies that have recently been able to increase production remains high, though it has not risen further for a few months now. Moreover, the number of companies creating new jobs recently again exceeded that of companies forced to reduce staff.

Activity in the construction sector, notably in civil engineering, by contrast, remains weak. Tourism, too, is also only beginning to recover from the crisis. Guests are spending less on extras and are staying for shorter periods of time; some room prices are falling. This is depressing sales.

The trade sector has been faring better: new car registrations have risen markedly in recent months, and the wholesale trade has been benefiting from lively export and industrial activity.

The inflation rate rose to 1.9 percent in September (after 1.7 percent in August), with price pressures largely due to price rises for mineral oil products. The inflation rate excluding energy was 1.5 percent in September.

The pick-up in activity is also reflected in a further strengthening of the labour market. Compared with a year earlier, the number of people employed rose in October (notably in industry), whereas that of persons registered as unemployed fell further. For the first time in more than two years the number of persons enrolled in AMS (Public Employment Service) training programmes, which are not included in the unemployment statistics, also declined.

Table 1: Flash estimates of quarterly national accounts

	Second quarter	2009 Third quarter	Fourth quarter	First quarter	2010 Second quarter	Third quarter
Adjusted for seasonal and working day effects, percentage changes from previous quarter, volume						
<i>GDP, expenditure approach</i>						
Final consumption expenditure						
Households ¹	+ 0.4	+ 0.3	+ 0.2	+ 0.2	+ 0.2	+ 0.2
General government	+ 0.3	+ 1.3	- 0.7	- 0.2	- 0.1	+ 0.1
Gross capital formation	- 4.1	- 0.6	- 0.7	+ 0.4	+ 0.7	+ 0.9
Gross fixed capital formation	- 2.3	- 0.2	- 1.1	- 1.8	- 0.6	+ 0.6
Exports	- 3.3	+ 1.9	+ 2.5	+ 2.0	+ 5.2	+ 3.4
Imports	- 2.8	+ 0.8	+ 1.0	+ 2.2	+ 3.3	+ 2.6
Gross domestic product	- 0.8	+ 0.6	+ 0.4	+ 0.0	+ 1.2	+ 0.9
<i>GDP, output approach</i>						
Agriculture, forestry	- 1.9	+ 0.4	+ 1.1	+ 0.1	- 0.7	- 0.9
Industry, including energy	- 2.7	+ 1.6	+ 1.5	+ 1.2	+ 4.1	+ 2.3
Manufacturing	- 2.5	+ 2.1	+ 0.9	+ 0.6	+ 5.1	+ 3.8
Construction	- 1.2	- 1.2	- 1.4	- 1.3	- 0.9	- 0.3
Wholesale and retail trade; repairs; hotels and restaurants; transport, communication	- 0.5	- 0.0	+ 0.1	- 0.0	- 0.1	- 0.2
Financial intermediation; real es- tate, renting and business activities	- 0.1	+ 0.4	+ 0.8	+ 0.8	+ 0.8	+ 0.7
Other service activities	- 0.1	+ 0.3	+ 0.5	+ 0.5	+ 0.5	+ 0.4
Taxes on products	+ 0.2	+ 0.8	+ 0.5	- 0.3	- 0.1	+ 0.4
Subsidies on products	+ 0.4	+ 0.8	+ 1.1	+ 1.4	+ 1.1	+ 0.9
Percentage change from previous year						
Gross domestic product, volume	- 5.7	- 3.6	- 0.9	+ 0.1	+ 2.4	+ 2.4

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

The recovery of the global economy continues, but at a slowing pace¹. According to the Centraal Planbureau (CPB), world trade expanded by 3.3 percent in the second quarter (after +5.2 percent in the first quarter and +6.1 percent in the fourth quarter of 2009). Preliminary figures for July and August indicate a further slowdown in growth, notably in Asia.

In Japan, nominal export growth weakened already for the seventh consecutive time on a year-on-year basis in September. Notably the appreciation of the yen has dampened the expansion. As domestic demand is little dynamic, GDP growth is likely to remain subdued also in the third quarter (second quarter +0.4 percent compared with the previous quarter). Economic growth in China, by contrast, remained buoyant in the third quarter, accompanied by yet another pick-up in inflation.

Global economic growth losing momentum

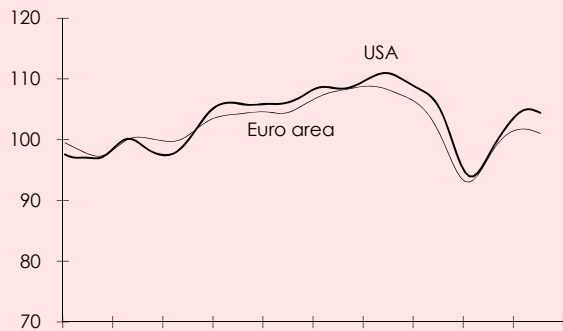
The recovery of the global economy continues, although its pace has recently moderated: the growth rates of world trade and industrial production have weakened.

¹ Also see Ederer, St., Marterbauer, M., Schulmeister, St., "Verhaltene Konjunktur in den Industrieländern: Staatsverschuldung und Arbeitslosigkeit bleiben hoch", WIFO-Monatsberichte, 2010, 83(11).

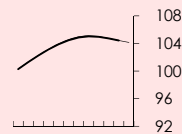
Figure 1: International business climate

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

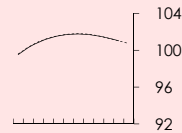
Leading indicators



12-months performance

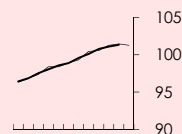
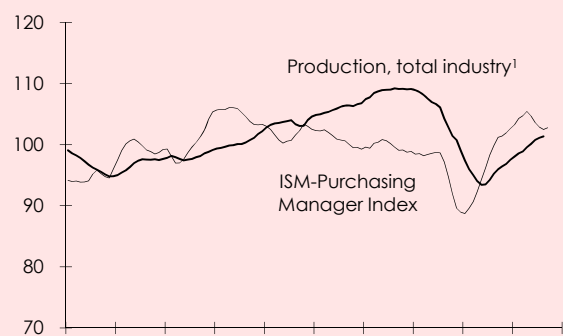


Aug

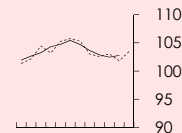


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USA

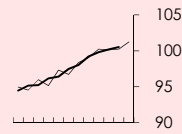
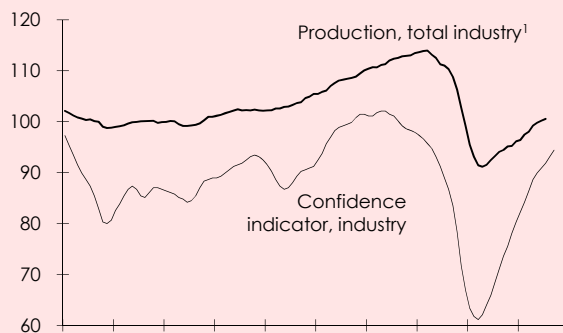


Sept

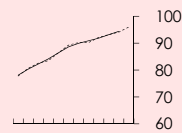


Oct

Euro area

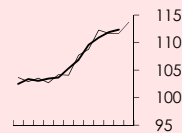
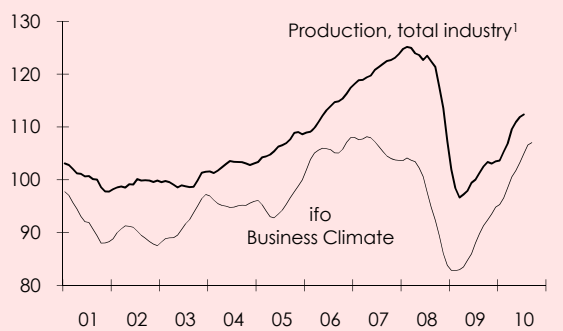


Aug

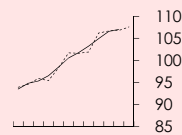


Oct

Germany



Aug



Oct

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

Given Asia's high demand for raw materials, crude oil and other commodity prices rose again after falling last year, although here, too, the momentum has moderated in recent months. In October, the price of Brent crude oil averaged \$ 82.7 per barrel. The HWWI Index of World Market Prices of Commodities, which comprises food, beverages and tobacco as well as energy and industrial commodities, in dollar terms rose by 18.3 percent on average in the third quarter compared with the same period a year before. In addition to supply and demand, commodity market developments are influenced by speculation.

Following the quick recovery from the crisis, growth in the USA slowed in the second quarter of 2010. In the third quarter the economy expanded by 0.5 percent quarter-on-quarter (second quarter +0.4 percent, first quarter +0.9 percent). Private consumption made the largest contribution to growth. At +0.6 percent, it grew more strongly than in the preceding quarters, but at a slower pace than in the years prior to the crisis. While incomes grew modestly in the third quarter, the savings ratio fell from 5.9 percent to 5.5 percent. The stabilisation of the savings ratio may be an indication of strengthening consumer confidence. At the same time firms expanded their investment activity. In the third quarter they increased not only their equipment investment, but for the first time in this upswing also their investment in business construction.

A dampening effect was exerted by the unfavourable development of foreign trade. While imports grew vigorously, exports lost momentum in the third quarter, also reflecting the most recent slowdown in global economic growth.

Industrial production, which had risen steadily over the year, stagnated in September compared with August. Capacity utilisation also declined slightly in September. At 74.7 percent it did surpass the year-earlier level by 4.2 percentage points, but remained 5.9 percentage points below its long-run average.

Leading indicators are providing contrasting signals regarding future economic developments: while the Conference Board Consumer Confidence Index, which had fallen in September, increased again slightly in October, survey results of the Thomson Reuters/University of Michigan Survey of Consumers declined yet again. The ISM Purchasing Managers' Index, after following a downward trend in the past five months, rose again in October.

Sustainable growth in the USA will get going only once the labour market strengthens. So far, the latter has reacted only slowly to the economic recovery. The seasonally adjusted unemployment rate stood at 9.6 percent in September, only 0.5 percentage points below the peak in October 2009.

Industrial production continues to expand in both the euro area and the entire EU. In August, production and the New Orders Index increased in the euro area. Leading indicators such as the Economic Sentiment Indicator released by the European Commission suggest continued growth in the third quarter; developments in the southern EU countries are, however, much less favourable. Spain, for instance, recently experienced a further deterioration in the confidence indicator.

Germany's economy continues to perform strongly. Following dynamic growth in the second quarter (+2.2 percent compared with the previous quarter), the pace of expansion is likely to moderate only little in the third quarter. The Ifo Business Climate Index rose for the fifth consecutive time in October. The boom continues to be supported by the export sector, which, due to its competitive advantages, profits from the global upswing. In August, Germany's exports surpassed the year-earlier level by one-fourth (+26.8 percent); however, a month-on-month comparison of the seasonally adjusted figures for July and August shows that the upward trend is slowing.

The extensive use of short-time working schemes may also play a role in the pick-up in industrial activity in Germany: as firms kept on most of their staff during the crisis they are able in the current upturn to quickly adjust production to the rising global demand.

Contrasting signals from USA

While firms' buoyant investment demand and the increase in household spending supported the US economy in the third quarter, foreign trade developments dampened growth. Leading indicators are providing contrasting signals for the coming months.

Solid, but uneven upturn in the EU

The economic recovery remains uneven across EU countries. Germany is seeing buoyant industrial activity, supported by exports, but the latest export data reflect a slowdown in the brisk pace of global economic growth.

Household spending, unlike industrial activity and exports, continues to rise at only a modest pace. The seasonally adjusted value of retail sales declined month-on-month in August and September.

Surprisingly brisk economic growth was registered in the UK in the third quarter (+0.8 percent, after 1.2 percent in the second quarter), supported by industrial production and good order books in construction and the services sector. Inflation accelerated to 3.1 percent in September.

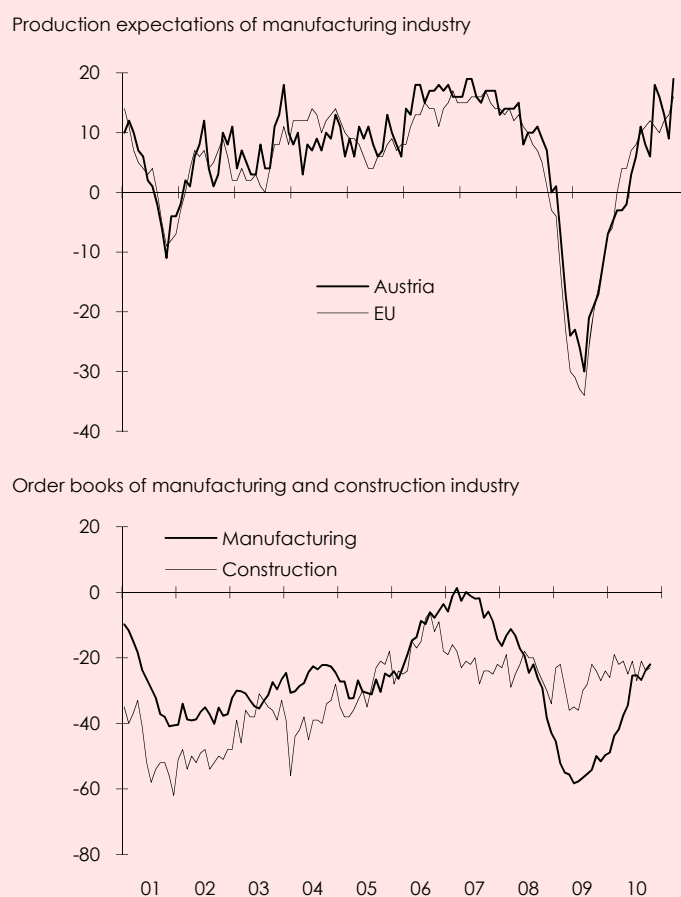
In most EU countries, the cyclically driven part of inflation (HICP) remains small. Inflation accelerated slightly in the euro area overall (from 1.6 percent in August to 1.8 percent in September), with diverging trends being registered across countries: while prices fell in Ireland (-1 percent), and remained almost flat in Latvia (+0.3 percent), they recently rose briskly in Greece (+5.7 percent) – influenced by the raising of indirect taxes.

With global economic activity improving, Austria's foreign trade is gaining strength. According to foreign trade statistics, cumulative nominal exports from January to July rose by 13.6 percent compared with the same period a year before, with particularly high rates being recorded in May and June. While cumulative exports to Germany from January to July rose by 16.1 percent, those to Italy, Austria's second most important trading partner, increased by a mere 8.9 percent from a year before. Cumulative imports from January to July rose by 12.5 percent.

Pick-up in export and industrial activity continues in Austria

Figure 2: 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.

Following the dynamic second quarter, the results of the latest WIFO business cycle survey point to a further expansion in the manufacturing sector in the third quarter.

The dynamism of external trade is reflected in an expansion of industrial activity. Manufacturing production has developed favourably in recent months. Value added, which expanded strongly in the second quarter, is likely to have grown also in the third quarter, as is shown by the WIFO business cycle survey. The percentage of firms recently increasing production is high, even though it has not risen further for a few months now. Capacity utilisation has also improved only little of late and at 81.8 percent is more or less in line with the average of the last five years. The momentum for economic activity is therefore not likely to accelerate further.

Production expectations and the assessment of business conditions over the next six months are optimistic but also barely moving upward. Owing to the positive expectations, the number of companies planning to create new jobs is again higher than that of companies forced to reduce staff.

Unlike manufacturing, the construction industry continues to perform weakly. Value added has been falling on a year-on-year basis already since the third quarter of 2008. According to the most recent WIFO business cycle survey, construction production again has hardly increased of late, and firms' assessment of order books is rather unfavourable. While the percentage of construction firms reporting their business situation to be bad has declined in the last one and a half years, it is still higher than the percentage reporting it to be good. Activity in civil engineering is particularly sluggish, while the assessment of order books in building construction is more or less in line with its long-run average. According to Statistics Austria, order book levels in the civil engineering branch fell by 12.8 percent year-on-year in July, compared with a drop of only 1.4 percent in building construction, where building permits also continue to decline.

According to provisional calculations, tourism sales in the summer season stagnated at last year's low level. As anticipated, tourist travel is thus recovering only slowly from the crisis. Guests are spending less on extras and are staying for shorter periods of time; some room prices are falling. This is depressing sales.

In each of the months from May to September, the number of nights spent by domestic and foreign guests rose by around 1 percent year-on-year. The overall results were supported by favourable developments in city tourism (Innsbruck, Salzburg and Vienna together +11.3 percent); in the rest of Austria overnight stays declined marginally (-0.3 percent).

Among Austria's important foreign source markets a particularly high increase was seen in the months from May to August 2010 in the number of nights spent by guests from Russia (+35.7 percent), Sweden (+20.1 percent), the USA (+19.6 percent), Poland (+14.6 percent) and the UK (+11.3 percent). A higher-than-average increase was also recorded in the number of nights spent by guests from Romania (+4.5 percent), Denmark (+4.0 percent), Hungary (+3.1 percent), France (+3.1 percent), Switzerland (+2.8 percent) and the Czech Republic (+2.4 percent), while a decline was registered in the important source markets Italy (-0.9 percent), the Netherlands (-1.4 percent), Belgium (-1.8 percent) and Germany (-1.9 percent). Vienna's tourism industry once more posted vigorous gains from May to September 2010, and sales rose also in Salzburg and Burgenland.

Retail trade remained stable in the first half of 2010, according to the National Accounts. New passenger car registrations have risen at a brisk pace in recent months: in October the number of newly registered passenger cars was up by 7.8 percent from a year before; in August the increase even amounted to 10.1 percent. However, one-day registrations increased by 50.7 percent from January to September. The wholesale trade is benefiting from lively export and industrial activity.

Consumer confidence has improved steadily in recent months. Lately consumers have also been more optimistic regarding the general economic situation.

Construction activity remains sluggish

Tourism recovering only slowly

According to data available so far, tourism sales stagnated in the summer season, despite an increase in the number of overnight stays.

Demand in trade stable, modest pick-up in inflation

Figure 3: Key economic indicators

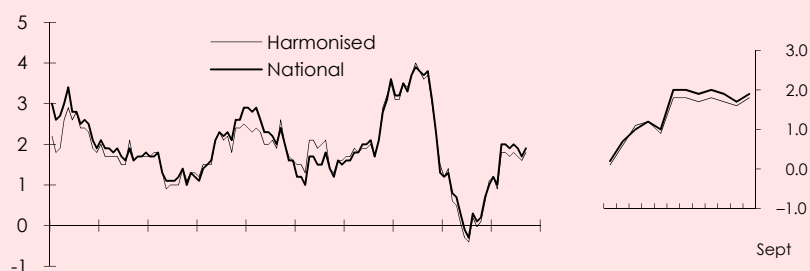
Persons in active dependent employment¹, (1,000), seasonally adjusted



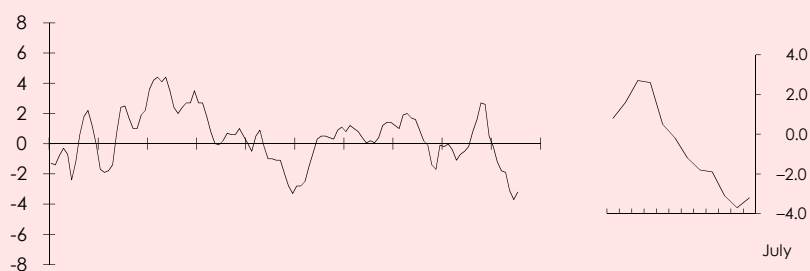
Unemployment rate, traditional Austrian method², seasonally adjusted



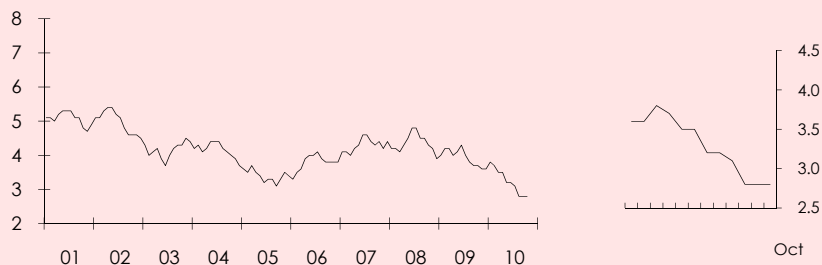
Consumer prices, year-to-year percentage changes



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.

The inflation rate stood at 1.9 percent in September (August 1.7 percent, July 1.9 percent). The Harmonised Index of Consumer Prices rose by 1.8 percent, which was in line with the euro area average. Overall, price pressures were essentially dominated by price rises for mineral oil products.

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.

Carry-over (in economic growth)

The carry-over identifies the impact of the dynamics of a series (in seasonally adjusted figures) during one year (t_0) on the annual percentage change in the following year (t_1). It is defined as the annual percentage change in year t_1 , if GDP in t_1 remains constant at the level of the fourth quarter of year t_0 (in seasonally adjusted terms).

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".

Inflation excluding energy came in at 1.5 percent in Austria in September (August 1.3 percent). Fuel prices went up by 11 percent compared with a year before. Household energy prices also rose again markedly, although the increase in the price of heating oil (+22 percent) continued to be offset by a decline in gas prices (-4 percent). Gas prices lag behind crude oil price developments by around one year. Moreover, price developments were dampened by the decline in mobile phone tariffs (-25.1 percent) and airfares (-13.9 percent).

The wholesale price index, which is generally more volatile than the CPI, rose by +7.1 percent in September, faster than in the preceding months (August +5.6 percent, July +5.0 percent).

While consumer prices rose by 1.8 percent on average, employees' negotiated wages exceeded the year-earlier level by 1.4 percent in the third quarter.

The recovery of the labour market continues, the number of persons in dependent employment rose by 59,600 (+1.8 percent) year-on-year in October. In line with economic developments, new jobs were created notably in manufacturing, in particular for temporary workers. Compared with a month before, the number of persons in dependent employment rose again marginally (+0.2 percent from September).

The number of job vacancies also increased in October, both in year-on-year and in month-on-month terms.

In October, 226,100 persons were registered as unemployed, a decline by 7.9 percent (-19,400) compared with a year before and a drop of 0.6 percent compared with September. At the same time this was the first time that fewer unemployed persons were enrolled in AMS (Austria's Public Employment Service) training programmes than last year (they are not included in the unemployment statistics; -1,970 compared with October 2009).

Owing to the pick-up in economic activity, the decline in unemployment was particularly marked in the industrial sector, a mirror image of the above-average employment growth.

The seasonally adjusted unemployment rate according to the Austrian method of calculation again stood at 6.7 percent also in October. According to the EU method of calculation it was 4.5 percent in September.

The pick-up in inflation is essentially dominated by price rises for mineral oil products. Consumer confidence is improving steadily.

Further fall in unemployment recorded in October

The number of persons registered as unemployed is falling compared with a year before, while that of persons employed continues to rise. This applies notably to people employed in the industrial sector.