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Ambiguous Economic Prospects

Business Cycle Report of November 2019

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The global economy appears to be stabilising somewhat at present. In the USA and the euro area, GDP continues to expand strongly, and indicators in Germany are also pointing to a gradual end to the slowdown. In Austria, the economy grew moderately in the third quarter, but economic momentum remained constant. However, the prospects for the economy are mixed and the recovery on the labour market is already coming to an end. Inflation continued to slow.

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The global economy is in a phase of weakness that began last year. At present, however, the economy appears to be stabilising somewhat. Economic assessments have recently improved in some industrialised and emerging countries.

In the USA, GDP grew by 0.5 percent in the third quarter, quarter-on-quarter, unchanged from the previous quarter. Private consumption continues to develop robustly and is supporting the economy. The economic outlook has strengthened somewhat recently, although industry surveys continue to be pessimistic.

In the euro area, too, the economy also expanded unchanged in the third quarter (+0.2 percent compared to the previous quarter). In France, Italy and Spain, growth has so far been stable. However, the economic sentiment varies from country to country. In Germany, the economy is likely to have contracted further slightly in the third quarter. However, the first signs of a gradual end of this development are also becoming apparent there.

In Austria, growth continues to be weak, but has remained stable to date. In the third quarter, the economy expanded by 0.2 percent (trend-cycle data) compared to the previous quarter (second quarter +0.2 percent). Unadjusted, GDP was thus 1.5 percent above the level of the previous year. Growth was driven by exports and private consumption expenditure, which continued to increase. The expansion of gross fixed capital formation lost momentum. The weakness of the economy was particularly reflected in industry, whose value added fell markedly compared with the previous quarter.

The outlook for the Austrian economy recently deteriorated again. According to the WIFO-Konjunkturtest (business cycle survey) of October, the assessments of the current situation by companies deteriorated further. Particularly in the manufacturing sector, the assessments were again much more pessimistic than before. Business expecta-

tions, on the other hand, were stable. According to the European Commission, consumer confidence remained largely robust in recent months.

The economic upswing of recent years continues to have an impact on the Austrian labour market. According to preliminary estimates, the number of persons in active dependent employment in October was still significantly higher than in the previous year, and the number of unemployed registered with the Public Employment Service Austria (AMS) fell. Seasonally adjusted, the effects of the slowdown in growth are evident, with the unemployment rate remaining unchanged at 7.4 percent in October. Inflation fell again in September (to 1.2 percent).

1. Outlook for the international economy subdued, but stable

The international economy is in a phase of weakness that began last year. Nevertheless, the slowdown appears to have come to a standstill at present. According to the CPB, world trade stabilised somewhat in July and August and has largely stagnated since the beginning of the year. Global industrial production also remained virtually unchanged during this period. According to the Purchasing Managers' Indices for manufacturing published by Markit, economic assessments in some industrialised and emerging countries outside the euro area have recently strengthened again.

According to preliminary estimates, the US economy grew by +0.5 percent in the third quarter compared with the previous quarter, just as strongly as in the second quarter. Compared to the previous year, growth was 2 percent. The economy was driven by the continued robust development of private consumption (+0.7 percent compared to the previous quarter). Gross fixed capital formation, on the other hand, declined. Exports, which had fallen significantly in the second quarter, rose slightly again in the third quarter. Compared with the previous year, however, this meant that exports stagnated.

The economic outlook in the USA is intact. The ISM Purchasing Managers' Index strengthened somewhat in October following a marked decline in the preceding months. However, it remained below the expansion threshold. According to the Conference Board, consumer confidence remained stable at a high level. This is attributable to the fact that the unemployment rate remained very low at 3.6 percent in October and the activity rate is gradually rising again. Real wages rose much more strongly in recent months than in the previous year. Inflation, on the other hand, remained subdued at 1.7 percent in September, which prompted the central bank to lower the key interest rate again at the end of October.

The international economy is weak, but has stabilised somewhat. The US economy continues to grow strongly.

2. Economic downswing in the euro area decelerates

According to preliminary estimates, GDP in the euro area grew by 0.2 percent in the third quarter compared with the previous quarter (+0.2 percent in the second quarter). The economy has thus remained broadly stable so far, even if growth was significantly weaker than during the upswing of recent years. In the big countries of the euro area, growth has barely slowed recently. GDP in France, for example, increased by an unchanged 0.3 percent in the third quarter compared with the previous quarter, while the economy grew by 0.4 percent in Spain and by 0.1 percent in Italy. In France and Spain, not just consumption expenditure contributed to a stabilisation of the economy; gross fixed capital formation and exports were also noticeably higher than in the previous year.

However, the economic outlook recently deteriorated further. The Economic Sentiment Indicator (ESI) published by the European Commission fell markedly in October in the euro area. In Germany, France and Italy, the mood was virtually unchanged compared with the previous month, while it fell sharply in Spain. The heterogeneity of assessments was primarily due to changes in industry; consumer sentiment, on the other hand, deteriorated in all major countries and in the euro area as a whole.

The euro area economy continued to grow weakly in the third quarter. However, there are occasional signs that the economy is stabilising.

Figure 1: International business climate

Seasonally adjusted, 2015 = 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.

In Germany (no GDP figures published yet for the third quarter), the economy is currently weak, but should stabilise somewhat. The Ifo Business Climate Index for the economy as a whole no longer fell in October. The business expectations of firms even brightened somewhat. Assessments also improved somewhat in industry, whose mood remains predominantly pessimistic. Although DIW Berlin estimates that GDP in Germany fell again slightly in the third quarter compared with the previous quarter, it expects the economy to stabilise in the fourth quarter.

The labour market recovery of the recent years in the euro area is likely to be largely over as a result of the economic slowdown. The unemployment rate remained unchanged at 7.5 percent in September. According to preliminary estimates, inflation again weakened in October to 0.7 percent. In Italy and Spain, inflation was only just positive at 0.2 percent. Core inflation (HICP excluding energy and unprocessed food) remained stable at 1.2 percent in the euro area.

3. Moderate growth of the Austrian economy in the third quarter

According to preliminary estimates, the Austrian economy grew by 0.2 percent in the third quarter compared to the previous quarter (trend-cycle data, second quarter +0.2 percent). Economic momentum thus remained weak after the noticeable slowdown in the spring. Unadjusted, GDP was 1.5 percent above the level of the previous year in the third quarter.

The growth of Austrian exports slowed noticeably from mid-2018 onwards and was almost unchanged in the third quarter (+0.7 percent compared to the previous quarter, second quarter +0.6 percent). The expansion of gross fixed capital formation, on the other hand, lost some of its momentum, with the slight decline in investments in machinery and equipment (−0.1 percent) being the main factor here. In the construction sector, however, investments remained quite robust, especially in residential construction. Private consumption expenditure grew somewhat weaker than in the second quarter, but was also an important pillar of the economy in the third quarter (+0.2 percent compared to the previous quarter, second quarter +0.3 percent). The current economic weakness particularly affects the manufacturing sector, where value added fell again in the third quarter (−0.4 percent, second quarter −0.1 percent).

3.1 Continued gloomy economic assessments in industry

The outlook for the Austrian economy has recently deteriorated again. According to the WIFO-Konjunkturtest (business cycle survey) of October, the assessments of the current situation by firms have deteriorated again. Expectations, on the other hand, were stable. The differences between the sectors remained: while the economic assessments in the service sectors and in construction continued to be predominantly confident, those in the manufacturing sector were pessimistic and fell noticeably in October. Orders on hand at home and abroad are now estimated to be lower than before. Economic assessments were particularly negative for intermediate products, while manufacturers of investment goods and consumer goods are still largely optimistic despite the slowdown.

The UniCredit Bank Austria Purchasing Managers' Index stabilised in October, after having declined significantly before. However, it was still below the growth threshold. The UniCredit Bank Austria's Business Indicator remained constant in September and signalled continued moderate growth. According to the European Commission, consumer confidence was also largely stable in recent months.

3.2 Past upswing continues to have an impact on the labour market

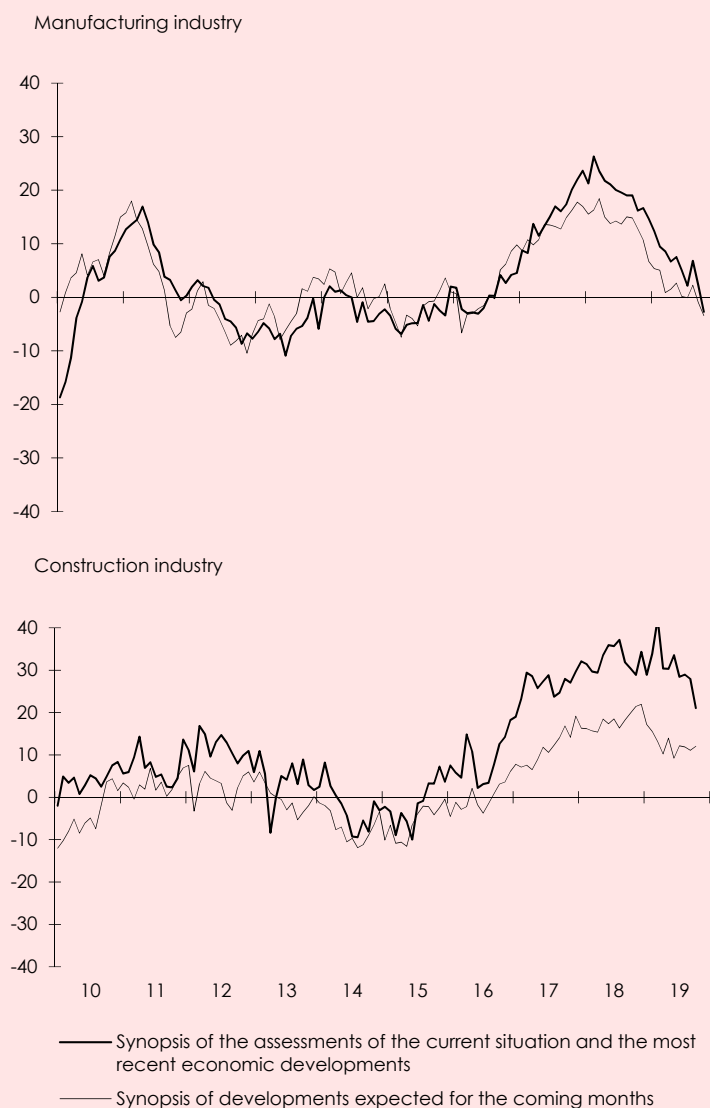
The economic upswing of recent years continues to have an effect on the Austrian labour market. According to preliminary estimates, the number of persons in active dependent employment exceeded the previous year's level by 54,000 (+1.5 percent) in October. The number of unemployed registered with the Public Employment Service Austria (AMS) was 8,200 lower than in the previous year (−2.8 percent), including persons in training by 11,500 (−3.2 percent).

Austria's GDP continued to grow weakly in the third quarter of 2019 (+0.2 percent). Private consumption expenditure supported the economy and exports rose significantly. Value added of industry declined.

According to the WIFO-Konjunkturtest (business cycle survey), the assessments of the current situation by firms are worsening. The mood is pessimistic, especially in the manufacturing sector.

Figure 2: Results from the WIFO-Konjunkturtest

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.

However, the slowdown in growth is also gradually having an impact on the labour market. Seasonally adjusted, the number of persons in active dependent employment still increased by 0.2 percent in October compared to the previous month. The seasonally adjusted unemployment rate thus remained unchanged at 7.4 percent.

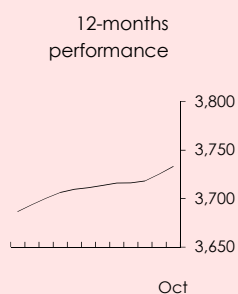
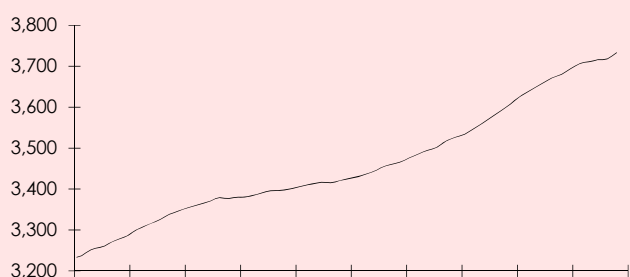
On the basis of provisional figures, the unemployment rate, according to national definition, fell by 0.3 percentage points in October compared with the previous year. According to Eurostat, the unemployment rate of 4.5 percent in September was 0.4 percentage points lower than in the previous year.

The number of unemployed persons aged 50 and over, including those in training, was 1,700 higher in October than in the previous year (+1.7 percent). The number of unemployed and persons in training with health-related employment limitations also increased (+3,400, +4.2 percent). However, the number of long-term unoccupied persons registered as unemployed decreased significantly compared to the previous year (-6,500, 6.5 percent).

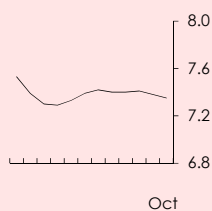
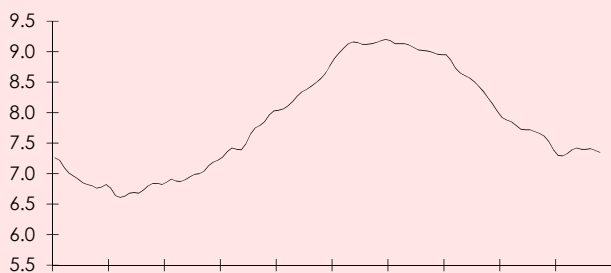
The Austrian labour market continues to benefit from the economic upswing of the last years. Seasonally adjusted, the slowdown in economic growth is reflected in a stagnation of the unemployment rate.

Figure 3: Key economic indicators

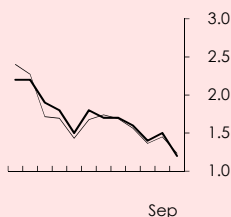
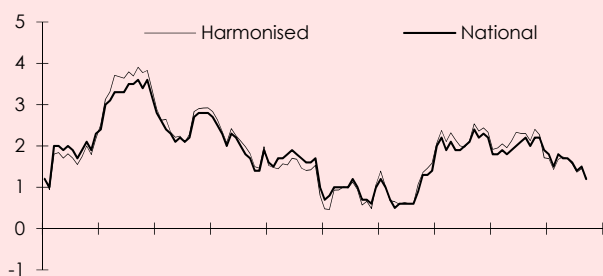
Persons in active dependent employment¹, 1,000s, seasonally adjusted



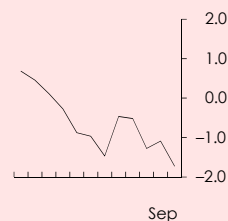
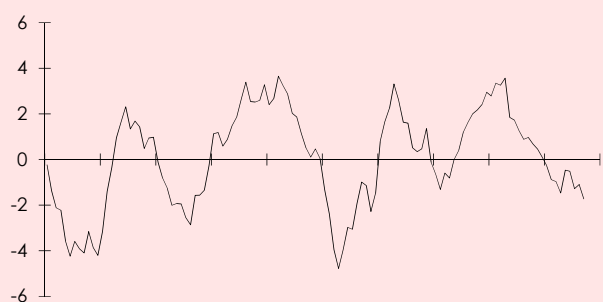
Unemployment rate, traditional Austrian method², seasonally adjusted



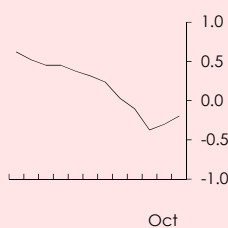
Consumer prices, year-to-year percentage changes



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



10-year central government bonds (benchmark), percent



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

3.3 Inflation continues to decline

Inflation fell significantly in September (+1.2 percent after +1.5 percent in August). Price increases were particularly strong in "restaurants and hotel services" as well as "housing, water, energy". This was mainly due to the rise in actual rentals of housing and price increases in the category of maintenance and repair. Fuel prices, on the other hand, fell significantly. Food, alcoholic beverages and tobacco, clothing and footwear, furnishing, household equipment and routine household maintenance as well as several services rose by less than 1 percent. The prices of the micro (daily shopping) and mini (weekly shopping) baskets even fell slightly.

The rise in the harmonised index of consumer prices also slowed markedly to 1.2 percent in September. Core inflation (HICP excluding energy and unprocessed food), on the other hand, fell only slightly to +1.5 percent.

Inflation fell to 1.2 percent in September. Prices in restaurants and hotel services as well as for housing, water and energy rose strongly.