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Eurozone Crisis Leaves Its Mark on Economic Developments in Austria

Business Cycle Report of September 2012

After unexpectedly vigorous growth at the beginning of the year, the Austrian economy expanded by a mere 0.1 percent in the second quarter of 2012. Economic activity has thus slowed noticeably, but this development can be described as relatively good, given the recession in the euro area. The outlook, however, is subdued, and dampened not only by weak global activity, but also by the crisis in the euro area. Economic output contracted by 0.2 percent on euro area average between April and June 2012.

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Following a definitely positive development of the global economy in the first half of 2012, signs are mounting that activity is slowing. This development is largely a result of the persistent crisis in the euro area. Growth appears to be decelerating notably in Asia. In Latin America and the USA, economic activity is still relatively resilient.

The Austrian economy is increasingly coming under the influence of the European sovereign debt crisis. Three of Europe's five large economies (UK, Italy and Spain) are already in recession, France's GDP is stagnant, only Germany is still providing positive stimulus to growth. Following real economic growth of 0.5 percent in the first quarter of 2012, overall economic output in Austria increased by 0.1 percent quarter-on-quarter in the second quarter (adjusted for seasonal and calendar effects). The modest growth momentum was apparent in almost all categories of demand: fixed investment was increased in a similarly cautious manner as in the first quarter. While construction investment stagnated compared with the previous quarter, business spending on machinery and equipment increased slightly. Private household consumption remained flat for the second consecutive time in the second quarter of 2012. Public consumption rose at a somewhat slower pace than in the previous period.

The situation in the Austrian labour market continues to deteriorate. The seasonally adjusted number of persons in dependent active employment increased by 0.2 percent month-on-month in August. Unemployment is rising again; 233,000 persons were registered as unemployed in August (+6.1 percent, compared with a year before). The seasonally adjusted unemployment rate was 7.1 percent in August, according to the Austrian method of calculation. The number of unemployed persons enrolled in vocational training programmes increased, that of vacancies decreased slightly.

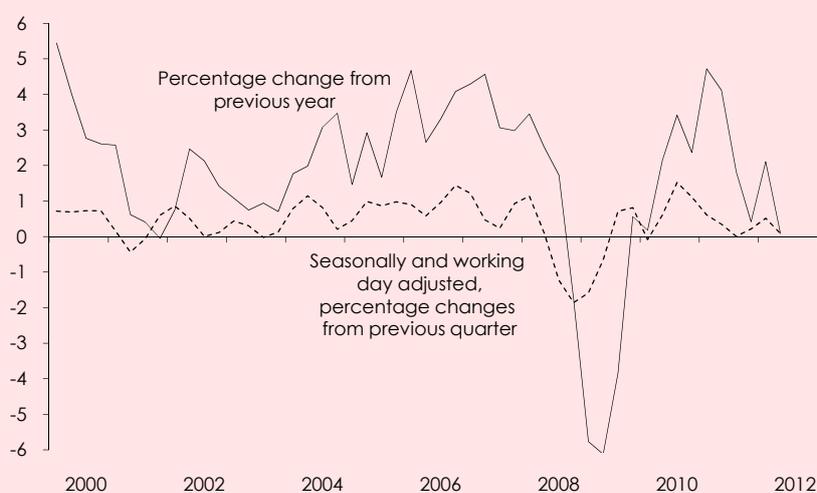
Inflation remains low: in July, the annual increase in consumer prices as measured by the HICP was 2.1 percent. Hence, the inflation rate in Austria is somewhat lower than the euro area average (2.4 percent).

Table 1: Quarterly national accounts

	Percentage changes from previous quarter							
	2011				2012			
	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter		
<i>Adjusted for seasonal and working day effects, volume</i>								
Final consumption expenditure	- 0.1	+ 0.4	+ 0.3	+ 0.1	+ 0.1	+ 0.1		
Households ¹	+ 0.2	+ 0.1	+ 0.1	+ 0.1	+ 0.0	+ 0.0		
General government	+ 0.1	+ 0.4	+ 0.4	+ 0.3	+ 0.4	+ 0.2		
Cross capital formation	+ 2.3	+ 1.2	+ 0.4	+ 0.4	+ 0.5	+ 0.2		
Gross fixed capital formation	+ 1.8	+ 1.5	+ 1.1	+ 0.6	+ 0.3	+ 0.2		
Machinery and equipment	+ 2.8	+ 1.9	+ 1.3	+ 0.6	+ 0.3	+ 0.3		
Construction	+ 1.6	+ 1.4	+ 0.7	+ 0.4	+ 0.2	+ 0.0		
Exports, goods and services	+ 2.3	+ 1.6	+ 0.4	+ 0.0	+ 0.4	+ 0.4		
Goods	+ 2.2	+ 1.9	+ 0.2	- 0.5	+ 0.2	+ 0.3		
Services	+ 1.0	+ 1.3	+ 1.2	+ 1.0	+ 0.8	+ 0.7		
Imports, goods and services	+ 2.0	+ 1.5	+ 0.4	- 0.4	+ 0.1	+ 0.3		
Goods	+ 1.9	+ 1.7	+ 0.6	- 0.6	- 0.2	+ 0.2		
Services	+ 0.3	+ 1.0	+ 1.5	+ 2.1	+ 1.4	+ 0.5		
Gross domestic product	+ 0.6	+ 0.4	+ 0.0	+ 0.2	+ 0.5	+ 0.1		
Manufacturing	+ 2.2	+ 0.9	+ 0.1	+ 0.5	+ 1.2	+ 0.2		
	2010	2011	2011				2012	
			First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter
<i>Volume, chained prices</i>								
Final consumption expenditure	+ 1.3	+ 0.5	- 0.1	+ 1.2	+ 1.0	- 0.0	+ 2.1	+ 0.0
Households ¹	+ 1.7	+ 0.7	+ 0.4	+ 1.8	+ 0.1	+ 0.5	+ 1.4	- 0.3
General government	+ 0.2	+ 0.1	- 1.4	- 0.3	+ 3.6	- 1.6	+ 3.9	+ 0.8
Cross capital formation	+ 3.8	+ 9.6	+ 26.1	+ 9.6	+ 5.9	+ 2.9	+ 0.1	- 0.6
Gross fixed capital formation	+ 0.8	+ 7.3	+ 8.9	+ 7.9	+ 7.6	+ 5.1	+ 2.6	+ 2.0
Machinery and equipment	+ 6.0	+ 12.1	+ 17.4	+ 13.4	+ 14.5	+ 4.6	+ 2.1	+ 3.1
Construction	- 2.7	+ 4.4	+ 3.1	+ 4.9	+ 3.5	+ 5.9	+ 2.7	+ 0.9
Exports, goods and services	+ 8.7	+ 7.2	+ 12.7	+ 7.2	+ 5.8	+ 3.7	+ 2.0	+ 0.3
Goods	+ 11.4	+ 8.5	+ 18.3	+ 8.0	+ 7.2	+ 2.0	+ 1.0	- 0.6
Services	+ 2.4	+ 4.0	+ 1.4	+ 4.9	+ 2.2	+ 8.2	+ 4.2	+ 3.3
Imports, goods and services	+ 8.8	+ 7.2	+ 13.6	+ 6.3	+ 5.8	+ 4.0	+ 1.2	- 0.1
Goods	+ 9.4	+ 8.1	+ 15.4	+ 7.2	+ 7.6	+ 3.2	- 0.2	- 1.5
Services	+ 6.2	+ 3.6	+ 5.5	+ 2.7	- 0.1	+ 7.3	+ 7.9	+ 5.8
Gross domestic product	+ 2.1	+ 2.7	+ 4.7	+ 4.1	+ 1.8	+ 0.4	+ 2.1	+ 0.1
Manufacturing	+ 7.2	+ 8.5	+ 18.5	+ 8.7	+ 7.1	+ 1.6	+ 4.2	+ 0.2
Gross domestic product, value	+ 3.7	+ 5.0	+ 7.7	+ 7.0	+ 4.0	+ 1.8	+ 4.0	+ 1.9

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

Figure 1: Growth of real GDP



Source: WIFO.

Global economic developments are determined by the European sovereign debt crisis. Numerous economies in Asia and Latin America are to a considerable extent dependent on the demand from Europe. Emerging market economies have seen their growth momentum dampened since activity in Europe began to slacken. Notably Southeast Asia has registered a sharp fall in the demand from Europe. These countries are not able to offset the demand gap from the West, despite their growing inter-linkages and stable private consumption.

The negative effects from Europe are not only due to trade relations; a much more important factor is the passing on by globally active "too big to fail" European banks of frictions on Europe's financial markets. The central banks in many emerging economies responded with relevant policy interventions¹. Leading indicators, especially the OECD's Composite Leading Indicator, point to downward trends notably for China and India. The outlook for Brazil, by contrast, is more favourable. China recorded its weakest growth in three years in the first half of the year. While at +7.8 percent, the expansion was still much more vigorous than in the advanced economies, it remained far below expectations.

The frictions in the world market are currently very clearly visible in the Baltic Dry Index: after falling again sharply since the beginning of July, the index has now reached a similar level as during the 2008-09 financial market crises. This development reflects the overcapacities in the production of dry bulk goods, but also the considerable weakness of the economy in parts of the world.

The US economy grew at a modest, albeit robust pace in the second quarter (+0.4 percent). Despite the favourable development, economic activity has lost some momentum since the beginning of the year: in the first quarter, the growth rate had still been 0.5 percent. The structure of growth was quite balanced: except for business inventories and government expenditure, all demand components contributed to growth. Personal consumption expenditure, though growing at a noticeably slower pace, accounted for a large part of overall growth. Business investment followed a similar pattern. Exports picked up markedly compared with the first quarter.

Private consumption is set to weaken further in the latter half of this year. Incomes did rise, but the outlook is dimming, given the increase in the savings ratio and the unexpectedly sharp decline in consumer sentiment in August.

The US economy created more jobs in July than in any one of the previous five months. The number of persons employed rose by 163,000. Nevertheless, the seasonally adjusted unemployment rate edged up from 8.2 percent to 8.3 percent. As more persons seeking a job are currently returning to the labour market, this development may very well be described as favourable.

An increasing number of positive signals are coming from the real estate market. This is suggested not least by the S&P's Case-Shiller Home Price Index, according to which the prices for single-family houses were up by 1.2 percent compared with a year before in the second quarter. This was the first rise since the summer of 2010. At that time the increase had been achieved solely through tax credits – in other words, public subsidies – with which the government had tried to boost the purchase of real estate. Once this incentive had gone, prices had dropped again. The current increase appears to be better supported, given that it is not the result of government intervention, but has been caused by market developments. Nevertheless, home ownership in the big agglomerations is still around 30 percent cheaper than it was in the summer of 2006. Overall, real estate prices are back at the levels recorded at the beginning of 2003.

Growth momentum in global economy is fading

Signs of a further weakening of global economic activity are mounting – the sovereign debt crisis in the euro area dampens global growth prospects. Notably numerous emerging economies are experiencing a slowdown in economic activity.

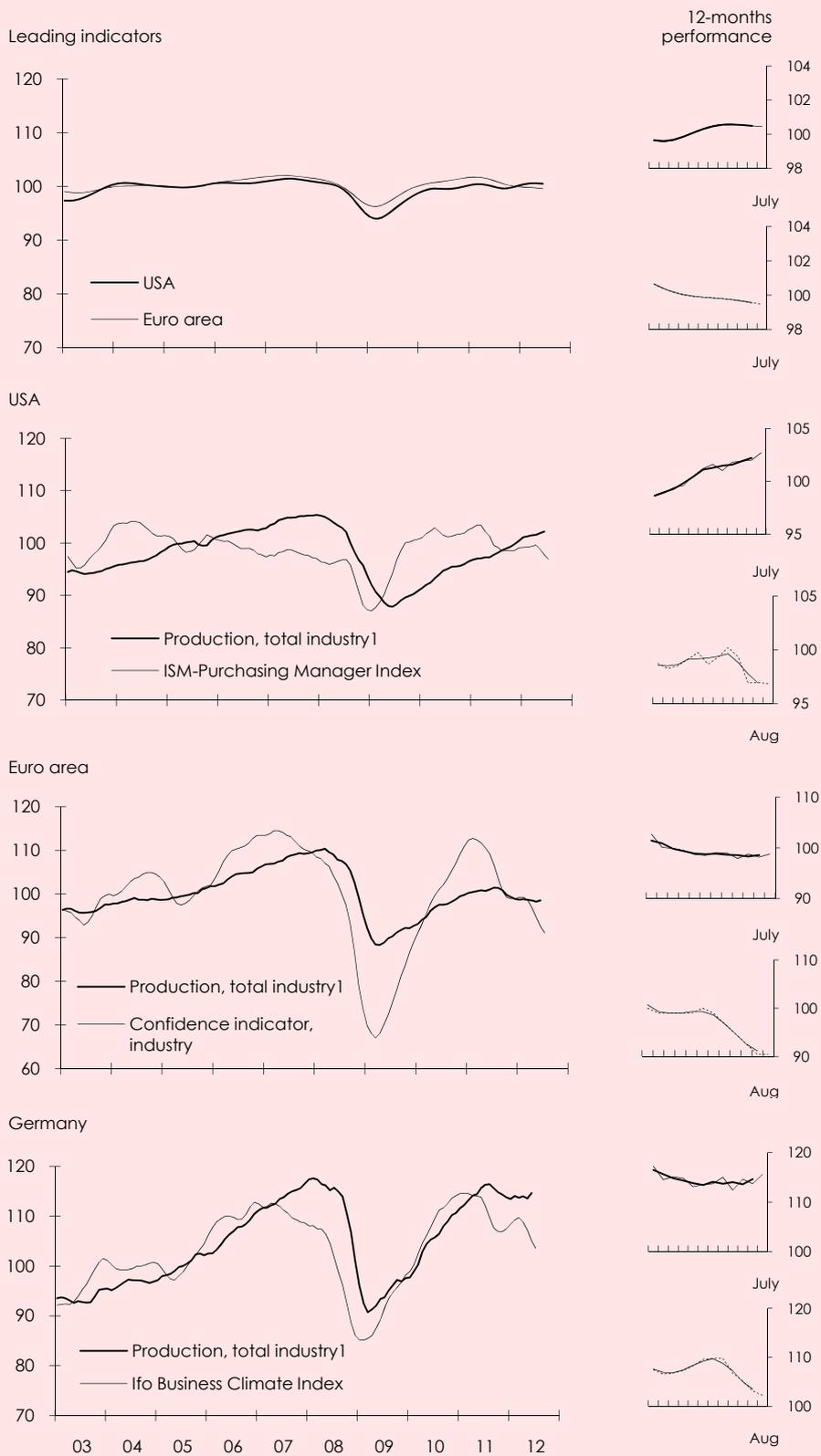
USA: basic trend taking hold over course of this year

Unemployment in the USA edged up to 8.3 percent in July, despite a sharp rise in employment. The real estate market is stabilising.

¹ Notably emerging economies in Southeast Asia and Latin America reacted with monetary policy easing and a tightening of various macro-prudential policy instruments to promote financial market stability.

Figure 2: International business climate

Seasonally adjusted, 2005 = 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.

The EU economy remains mired in recession. Gross domestic product contracted by 0.2 percent in the second quarter of 2012, compared with the first quarter, when

Crisis in Europe persists

economic output had stagnated. The expansion in Germany (+0.3 percent) prevented a sharper contraction – without Germany, the decline even averaged 0.4 percent in the euro area. The downward momentum comes mainly from the southern countries: in Italy, gross domestic product again contracted by 0.7 percent quarter-on-quarter, while it declined by 0.4 percent in Spain, and 1.2 percent in Portugal. The most recent production data confirm this trend: in June, industrial production in the euro area was 0.6 percent below its level a month earlier; in May it had still posted a 0.9 percent growth. A sharp decline was registered in June in Italy (–1.4 percent), Spain (–0.6 percent) and Portugal (–0.9 percent). By contrast, production expanded vigorously in Ireland (+2.7 percent) and Slovenia (+2.9 percent). It remained broadly flat in Greece, and shrank in Germany.

But the heterogeneous development in the euro area becomes apparent not only in real quantities but notably in financial market indicators. The current economic situation is determined in particular by the high interest rates on government bonds, for instance of Italy and Spain. The high interest surcharges, but especially the heterogeneous interest dynamics in the markets for government and corporate bonds as well as for bank loans observed in several countries of the euro area give the impression as if these countries already had their own currency without having the necessary monetary policy sovereignty. Concerns about the common currency are further intensified by weak growth prospects in the wake of bank de-leveraging, fiscal consolidation and the negative feedback effects between financial market and fiscal policy frictions. What is increasingly worrying, apart from the high level of interest rates in some countries, are the increasingly divergent dynamics of financing conditions across the euro countries. This greatly impairs the effectiveness of a common monetary policy in the entire euro area. Due to the heterogeneous development of interests in the euro countries, a pass-through of the decline in ECB short-term interest rates to long-term interest rates would no longer be possible. Consequently, this not only endangers the credit supply and thus economic growth and employment as such, but also the common price dynamics of the eurozone countries. However, the increasing fragmentation in the European financial markets becomes apparent not only in the market for government bonds, but the money market has also seen interest rates drift apart at an accelerating pace lately. The downward trend of the volume of overnight loans observed since mid-2011 has gathered speed of late. In June, the total loan volume in the interbank market already reached the lowest level recorded since the beginning of the financial market crisis in 2007. In addition, the massive capital flight from southern European countries contributes considerably to the acceleration of the debt crisis. Investors have withdrawn almost € 220 billion from Spain alone since the beginning of the year (2011: € 68.3 billion).

German gross domestic product expanded at a quarterly rate of 0.3 percent in the second quarter of 2012 (first quarter +0.5 percent). Notably net trade provided a stimulus – exports increased somewhat more briskly than imports, thereby driving economic activity. Domestic demand provided mixed signals: while private consumption rose slightly despite the debt crisis, companies already for the third straight time invested less in machinery and equipment, owing to the prevailing uncertainty. Construction investment also fell compared with the previous quarter.

Sentiment in the German economy deteriorated more markedly than expected in August, notwithstanding the favourable developments observed of late. In August, the Ifo Index fell already for the fourth consecutive time amid the unfavourable global economic outlook and the still-unresolved debt crisis. While the surveyed companies gave only a slightly worse assessment of their current situation than in July, they are much less optimistic regarding the outlook for the coming months. The business climate deteriorated considerably especially in retailing and in wholesaling. By contrast, the business climate index for the manufacturing sector increased again after three months of negative results. The index for the construction industry fell slightly. Expectations in industry were also clearly less positive in August. For the first time in almost three years, firms' expectations regarding their export business were for the most part also slightly negative.

In the EU, loss of confidence in public finances and the financial system as well as the drastic consolidation programmes launched in many countries continue to weigh on the economy. The yields on government bonds of Ireland and most southern European countries are still so high that a long-term stabilisation of government debt appears difficult to achieve. Persistent uncertainty among private households and businesses acts as a further drag on demand.

Households' undiminished consumption propensity and the expansion of exports kept the German economy on a growth path in the second quarter. In the first half of the year, the public sector posted a considerable budget surplus. However, the Ifo Index fell for the fourth consecutive time in August.

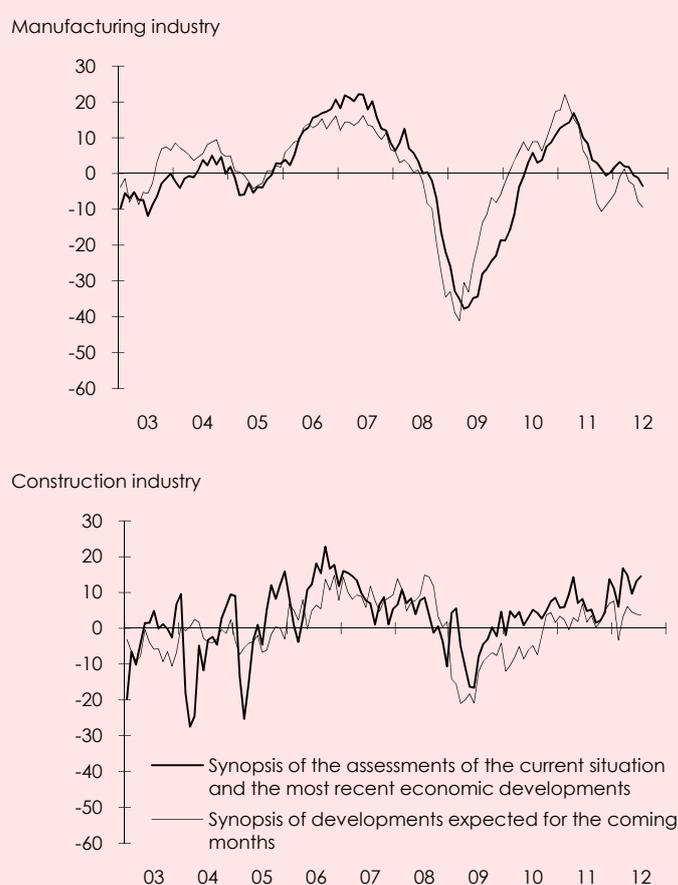
The Austrian economy is increasingly coming under the influence of the European sovereign debt crisis. Following real economic growth of 0.5 percent in the first quarter of 2012, overall economic output increased by 0.1 percent quarter-on-quarter in the second quarter (adjusted for seasonal and calendar effects). Economic activity has thus slowed considerably, but must nevertheless be described as relatively favourable, given the recession in the euro area. Developments of almost all demand components were modest in the second quarter: fixed investment was expanded in a similarly cautious manner as in the first quarter. While construction investment did not exceed the level recorded in the previous period, business spending on machinery and equipment increased slightly. Consumption expenditure of private households stagnated for the second consecutive time in the second quarter of 2012. Government consumption rose at a somewhat slower pace than in the previous period.

Activity moderating in Austria

In spite of a marked deceleration of seasonally adjusted growth in the second quarter, developments in the Austrian economy must be described as relatively favourable in the presence of the crisis in the euro area. Uncertainty caused by the crisis of the Monetary Union, and the consistent consolidation measures of governments act as a drag on Austrian exports to the EU. The pace of expansion is likely to moderate especially in the manufacturing sector, according to WIFO's Business Cycle Survey.

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.

Economic output still grew slightly in the second quarter, yet is set to slow in the future. On the one hand, the economy in the euro area, the destination of a major part of Austrian exports, is deteriorating more dramatically than hitherto expected. Three of the five large economies (UK, Italy and Spain) have already slipped into recession, France's GDP is stagnant, only Germany is still providing positive stimulus to growth. On the other hand, the psychological aspects of the crisis become increasingly noticeable: uncertainty regarding the continued existence of the monetary union in its present form is growing, the economic costs of a possible Greek withdrawal from the monetary union are stated to be very high by some, and there is growing doubt about the creditworthiness of the donor countries. These factors

cause a high degree of uncertainty and, consequently, increased investment and consumption restraint. Up to now, buoyant exports to third countries and the robust consumption behaviour of private households have more than offset the negative effects of the European sovereign debt crisis. However, these components are likely to lose influence as first frictions in the global economy become noticeable and first negative developments occur in the Austrian labour market.

The general picture presented by the leading indicators has for some months now been dominated by a significant downward trend. In almost all sectors, firms' assessments of the current situation and business expectations are clearly negative, according to WIFO's Business Cycle Survey. Only construction companies still assess the current situation positively, and their expectations, though also having deteriorated somewhat for several months now, still remain slightly above their long-term average. The course of the leading indicators may also become noticeable in economic data, thereby reinforcing the prevailing pessimism. There is a risk of negative feedback loops: a decline in real economic activity worsens the picture presented by leading indicators; this fosters uncertainty among households and companies and consequently dampens consumption and investment, thereby further accelerating the negative demand trend. It is unclear how long this downward movement will continue and whether or not it will possibly end in recession. At present, the fundamental data of the Austrian economy are robust: employment and wage level remain high. This has a stabilising effect on private consumption as well as on public finances. Order books of Austrian companies are still sufficient, despite the euro crisis. The 2008-09 financial market crisis showed, however, that a small exogenous shock can very quickly reverse the investment climate. At present, the most important stabilisation mechanism is the export industry, which as a consequence of the euro crisis is currently undergoing restructuring. Growth of exports to the other EU-27 countries has been slowing since 2011. Exports to third countries are still performing strongly. Export shares are changing on account of this geographical reorientation: since the beginning of 2011, the share of Austrian exports to the EU 27 has decreased by 2 percentage points to 69 percent. This share is still very high. The marked decline in demand in the crisis-hit EU countries, through its trade linkages also has negative effects on the Austrian economy and can be cushioned only to a limited extent, given its still highly one-sided export-orientation².

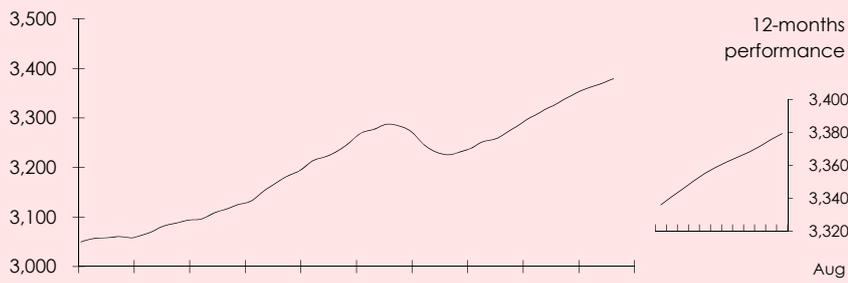
Tourism is increasingly observing similar trends to those seen in the export sector. As regards the foreign source countries of importance for Austria, an above-average increase has lately been registered in the number of nights spent by guests especially from those countries whose economies continue to perform well (May to July 2012: Russia +18.1 percent, the Netherlands +10.9 percent, USA +8.9 percent, Switzerland +5.2 percent, Sweden +4.8 percent). Overnight stays by guests from the crisis-hit countries stagnated or declined (UK -2.6 percent, Belgium -2.8 percent, France -4.5 percent, Romania -9.1 percent, Italy -9.8 percent). Overall, tourism sales from May to July 2012 exceeded the year-earlier level by 2.3 percent, according to provisional calculations, reaching a volume of € 5.34 billion. Real sales stagnated (+0.1 percent), with real expenditure per night spent consequently dropping by 2.4 percent. Hence the trend towards consumption of cheaper deal components observed since the recession of 2009 continued. In the first half of the 2012 summer season, the total number of nights spent increased by 2.5 percent. The demand of travellers from abroad was 3.9 percent above the level registered a year earlier, while that of domestic guests, at -0.3 percent, was slightly below that level.

Differentiated development of tourism

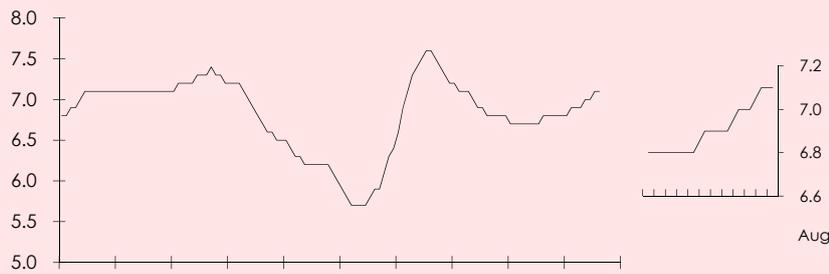
² This argument is based on considerations of portfolio theory, according to which fluctuations in export earnings are reduced by increased export diversification as long as the default risk and/or the fluctuation in the individual export flows, respectively, are not completely positively correlated. Fluctuations in export earnings inhibit growth, as various studies show (Bacchetta, M., Jansen, M., Piermartini, R., Amurgo-Pacheco, A., "Exposure to External Shocks and the Geographical Diversification of Exports", in Newfarmer, R., Shaw, W., Walkenhorst, P. (Eds.), *Breaking into Markets: Emerging Lessons for Export Diversification*, World Bank, Washington D.C., 2009, pp. 81-100).

Figure 4: Key economic indicators

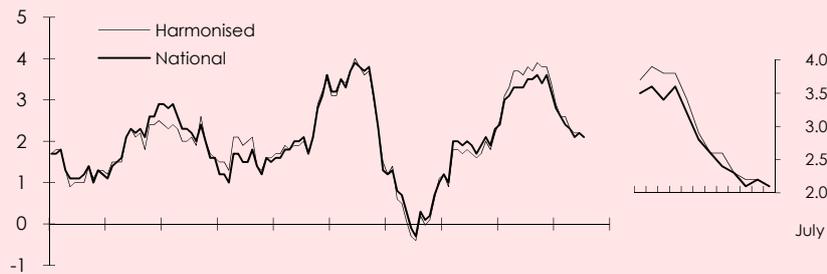
Persons in active dependent employment¹, (1,000), seasonally adjusted



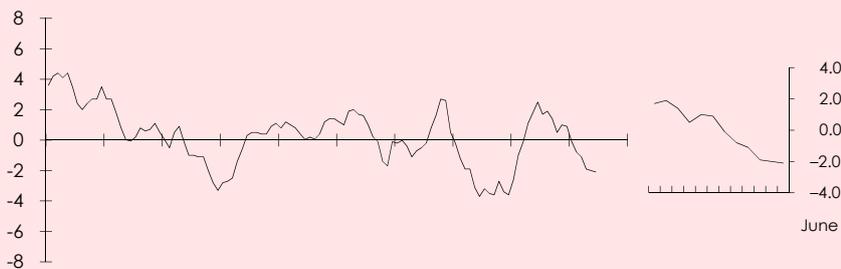
Unemployment rate, traditional Austrian method², seasonally adjusted



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".

Notwithstanding the difficult situation in European financial markets, Austrian businesses continue to benefit from an easy and above all reasonable access to credit. At +2.8 percent, loans to companies increased again in the second quarter relative to a year before. Since hitting its trough of -1.5 percent in December 2009, growth in corporate loans has picked up continuously. The business sector in Austria has thus been able to evade the negative trend in the euro area³. The low level of interest rates is likely to have had a positive effect. Thus, companies were able to get funding from Austrian banks at an average rate of 2.54 percent (loans of up to € 1 million) or 1.93 percent (loans of over € 1 million), respectively, in June 2012. The favourable development of corporate loans in Austria is mirrored also in the figures for new business: with the total volume of new business amounting to € 20.1 billion, more loans were granted than in the second quarter of last year.

The inflation rate was 2.1 percent in July 2012, according to the calculations by Statistics Austria (June 2.2 percent, May 2.1 percent). The modest price dynamics of food and fuels compared with a year before (+3.0 percent each, compared with July 2011) has been reflected for three months now in a more or less constant rate of inflation (as measured by the CPI) of just above 2 percent. The highest annual price increases were registered for the components in the "housing, water and energy" expenditure category (+3.5 percent on average), attributable to the above-average increase in the prices of household energy and apartment rents. Fuel price developments accounted for the relatively high inflation rate in the "transport" expenditure category.

The price level of the micro basket of goods, which predominantly contains food and represents goods and services purchased on a daily basis, rose by 2.7 percent in July (June +2.8 percent). The price level of the mini basket of goods, which reflects goods and services purchased on a weekly basis and, apart from food and services, also contains fuels, rose by 2.8 percent compared with a year before (June +2.8 percent).

The situation in the Austrian labour market only partly reflects the other developments in the real economy. Notably the persistent growth of employment is not in line with economic developments. In August, the number of persons in dependent active employment was up by 54,000 compared with a year before (+1.6 percent), according to an estimate by the Ministry of Social Affairs, and also rose on a seasonally adjusted month-on-month basis (+0.2 percent, seasonally adjusted). In August, 233,000 persons were registered as unemployed, an increase by 13,000 from a year before (+6.1 percent). Compared with July, the seasonally adjusted number of persons unemployed rose by 0.4 percent. The number of persons enrolled in vocational training programmes increased by just under 2,000 compared with a year before. Job vacancies declined only marginally, however. The seasonally adjusted unemployment rate rose slightly compared with the previous month and stood at 7.1 percent in August, according to the Austrian method of calculation.

Steady growth in corporate loans

Inflationary pressures remain subdued

Inflation for daily and weekly purchases remains above the CPI rate of change.

Employment growth continues amid rising unemployment

³ Owing to the difficult situation in some euro countries, the volume of business loans in the euro area as a whole declined by 0.6 percent in the second quarter (Spain -4.8 percent, Italy -1.8 percent, Greece -7.6 percent).