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Rebound in Industrial Activity, Unemployment Rising Further

Business Cycle Report of December 2009

Underpinned by expansionary economic policy, global economic activity has stabilised, with world trade expanding vigorously since the summer. In Austria, real GDP grew at a seasonally adjusted quarter-on-quarter rate of 0.9 percent in the third quarter, according to provisional calculations. Notably industrial activity has recovered. Construction production has only recently followed a slight upward trend. The retail sector has remained stable, thanks to strong wage increases and low inflation. Unemployment continues to rise, albeit at a slower pace than of late.

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The value added by manufacturing operations in Austria declined at a seasonally adjusted rate of 15 percent between the second quarter of 2008 and the second quarter of 2009, according to provisional calculations. Since spring 2009 and, to an increased extent since autumn 2009, evidence presented in WIFO's business cycle survey has been indicating a trend reversal. The balance of optimistic and pessimistic production expectations was flat in November, after hitting a record low of -13 percentage points in February 2009. The recovery has been particularly marked in the motor vehicle industry, albeit from a very low level.

Notably this branch of industry, but also the industrial sector in general is assumed to owe the stabilisation in activity primarily to the expansionary monetary and fiscal policies adopted worldwide. The stabilisation of the financial system and of banks, the expansion of government spending, and tax reductions have led to improvements in economic conditions and corporate and household expectations. Following sharp de-stocking in previous quarters, firms worldwide have begun to rebuild their inventories. Global trade has been expanding noticeably in real terms since June 2009: In September, it was 8 percent above its record low (in seasonally adjusted terms), but 11 percent below the year-earlier level, according to Centraal Planbureau. The economy's persistent dependence on government stimulus programmes makes the transition to a lasting upturn appear uncertain. This is also suggested by the assessment of order books in Austria's industrial sector, which continues to be well below its long-term average and has improved only tentatively.

Austria's construction sector has also recently seen a slight improvement in corporate sentiment; value added grew in seasonally adjusted terms in the third quarter compared with the previous quarter. Yet production remained noticeably below the level prevailing one year earlier. So far, the government's stimulus programmes appear to have been more effective in the building construction sector, whereas notably privately financed residential construction has fared unfavourably. In WIFO's November business cycle survey, civil engineering firms did not report an upward trend in the weak construction activity.

The performance of the individual branches of trade has been quite heterogeneous. Wholesale sales volumes reflect the low level of exports. Motor vehicle dealers report sustained declines despite an increase in the number of new cars registered

(November +29 percent, year-on-year). Real retail sales rose by 0.8 percent from January till August, compared with the same period a year before. The retail sector has been benefiting from the increase in disposable income owing to strong real wage growth, higher social transfers and a reduction in the tax burden. In October, collectively agreed wages were 3.4 percent higher than a year earlier, and inflation was a mere 0.3 percent. The decline in fuel prices and the abolition of tuition fees, in addition to weak aggregate demand, still exert a dampening pressure on prices, whereas rents and housing maintenance costs are rising.

Table 1: Quarterly national accounts

	Percentage changes from previous quarter							
	Second quarter	2008 Third quarter	Fourth quarter	First quarter	2009 Second quarter	Third quarter		
<i>Adjusted for seasonal and working day effects, volume</i>								
Final consumption expenditure	+ 0.7	- 0.2	+ 0.5	- 0.3	+ 0.3	+ 0.6		
Households ¹	+ 0.1	+ 0.1	+ 0.1	+ 0.1	+ 0.1	+ 0.1		
General government	+ 2.6	- 0.8	+ 1.6	- 1.6	+ 0.2	+ 1.2		
Cross capital formation	+ 1.5	- 2.2	- 4.3	- 6.3	- 0.7	- 0.5		
Gross fixed capital formation	+ 0.8	- 1.5	- 2.9	- 3.5	- 0.5	- 0.9		
Machinery and equipment	- 0.3	- 1.8	- 2.7	- 3.1	- 2.3	- 1.8		
Construction	- 0.2	- 1.0	- 1.3	- 1.7	- 0.5	+ 0.2		
Exports, goods and services	- 1.1	- 3.2	- 5.5	- 6.7	- 2.7	+ 1.4		
Goods	- 0.9	- 3.8	- 7.1	- 9.0	- 2.3	+ 1.9		
Services	- 0.6	- 2.2	- 2.1	- 2.4	- 2.1	- 0.7		
Imports, goods and services	- 0.4	- 3.0	- 3.9	- 5.3	- 2.3	+ 0.9		
Goods	- 0.3	- 3.3	- 3.9	- 5.7	- 2.2	+ 1.1		
Services	- 1.3	- 2.6	- 3.0	- 2.6	- 1.7	- 0.8		
Gross domestic product	+ 0.4	- 0.7	- 1.3	- 2.5	- 0.4	+ 0.5		
Manufacturing	+ 1.1	- 2.2	- 4.8	- 7.8	- 1.8	+ 1.8		
	2007	2008	Percentage changes from previous year					
			Second quarter	2008 Third quarter	Fourth quarter	First quarter	2009 Second quarter	Third quarter
<i>Volume, chained prices</i>								
Final consumption expenditure	+ 1.0	+ 1.4	+ 1.5	+ 1.6	+ 0.8	- 0.9	+ 1.4	+ 0.7
Households ¹	+ 0.8	+ 0.8	+ 0.4	+ 1.4	+ 0.2	- 2.5	+ 2.2	+ 0.4
General government	+ 1.7	+ 3.2	+ 4.6	+ 2.2	+ 2.7	+ 3.4	- 0.6	+ 1.5
Cross capital formation	+ 3.9	+ 0.3	+ 9.5	- 1.9	- 4.9	- 18.1	- 22.4	- 15.5
Gross fixed capital formation	+ 3.8	+ 1.0	+ 4.2	- 0.1	- 0.7	- 9.3	- 10.0	- 4.0
Machinery and equipment	+ 5.0	- 0.0	+ 7.3	- 1.8	- 3.0	- 9.6	- 17.1	- 11.3
Construction	+ 2.9	+ 1.8	+ 2.2	+ 0.9	+ 0.9	- 10.8	- 6.8	- 0.5
Exports, goods and services	+ 9.4	+ 0.8	+ 3.9	+ 1.6	- 8.5	- 18.7	- 20.8	- 14.3
Goods	+ 9.9	+ 0.2	+ 4.3	+ 2.0	- 11.1	- 21.9	- 23.8	- 16.9
Services	+ 8.0	+ 2.3	+ 2.4	+ 0.4	- 1.3	- 10.9	- 10.6	- 7.0
Imports, goods and services	+ 7.3	- 0.7	+ 4.2	- 2.8	- 5.8	- 14.8	- 17.0	- 9.9
Goods	+ 8.3	- 0.5	+ 4.9	- 3.0	- 5.3	- 15.6	- 17.9	- 11.0
Services	+ 3.3	- 1.8	+ 1.3	- 2.0	- 7.7	- 10.8	- 12.9	- 5.6
Gross domestic product	+ 3.5	+ 2.0	+ 3.0	+ 2.3	- 0.3	- 5.0	- 5.3	- 2.9
Manufacturing	+ 7.5	+ 3.9	+ 6.4	+ 6.0	- 1.4	- 14.2	- 15.9	- 10.8
Gross domestic product, value	+ 5.7	+ 4.1	+ 6.0	+ 4.6	+ 0.3	- 4.2	- 5.0	- 2.8

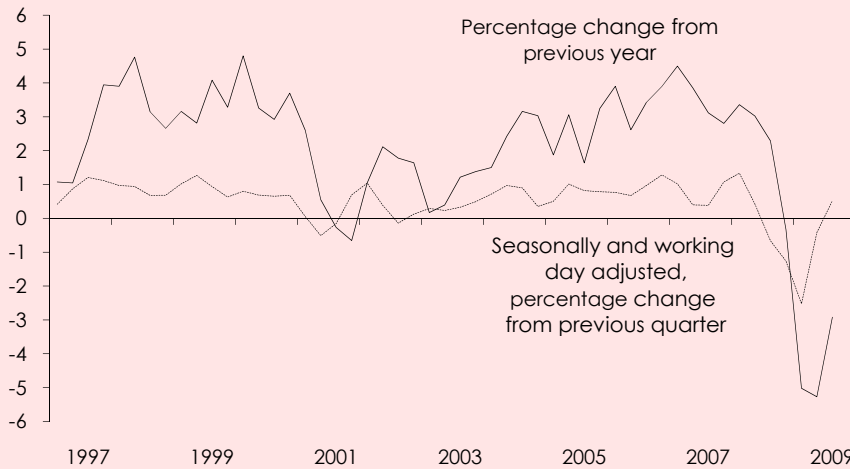
Source: WIFO. – ¹ Including private non-profit institutions serving households.

Austria's tourism sector has so far been little affected by the economic crisis. In the summer season, sales and the number of overnight stays remained somewhat more than 1 percent below the levels recorded a year earlier.

In November, 258,000 persons were registered as unemployed with the AMS (Public Employment Service); the seasonally adjusted unemployment rate according to the traditional Austrian definition was 7.4 percent of the dependent labour force. Since its record low in spring 2008, the number of unemployed persons has risen by 61,000 (seasonally adjusted). The pace of labour market deterioration has eased lately. Unemployment has been rising at a slower pace, while the number of employed persons has been increasing marginally in seasonally adjusted terms.

Figure 1: Growth of real GDP

Percentage changes from previous period



Source: WIFO.

The global economy is slowly recovering from the crisis. This can be primarily attributed to the highly expansionary monetary and fiscal policy. The upward tendency is reflected notably in developments in the world trade volume, which has been expanding again since the summer of 2009, following its sharp contraction in the autumn of 2008: According to Centraal Planbureau, world trade in the third quarter registered the first quarterly growth again at +4.3 percent compared with the second quarter, and first available indicators point to a similar increase in the fourth quarter. However, in September 2009 the world trade volume was still 11 percent below the level prevailing one year earlier. Global industrial production has also been rising steadily since April 2009, albeit at a slower pace than global trade.

Commodity prices are rising, a result of the pick-up in demand. The price of crude oil currently stands at around \$ 75 per barrel and is thus almost twice as high as at the end of 2008. Industrial commodity prices are also increasing – since the beginning of this year the HWWI Index of World Market Prices of Commodities has risen by 55 percent in dollar terms, and by 37 percent in euro terms. Currently the price level is about as high as that seen in mid-2007.

The Asian countries are major contributors to the global economic recovery. China is implementing an extensive economic programme aimed at stimulating infrastructure investments and consumer demand. Similar fiscal packages were also passed in Japan and Korea. China's economy consequently grew by 9 percent in real terms in the third quarter, compared with the same quarter a year before. This has had an influence on other Asian countries, given their tight trade interdependence. Japan, for instance, saw real GDP expand at a seasonally adjusted rate of 1.2 percent quarter-on-quarter in the third quarter, despite aggravated deflation.

US economic output in the third quarter grew again for the first time since mid-2008 (+0.7 percent in real terms, quarter-on-quarter). A large part of this rise can be attributed to the expansionary economic policy, for instance the expansion of expenditure on cars within the framework of the "Cash for Clunkers" programme. After the programme expired at the end of August, sales figures fell briskly in September before stabilising again in October. The inventory cycle also contributed to growth: Following the dampening of GDP growth by the inventory rundown since the autumn of 2008, firms have been rebuilding inventories again since the summer of 2009. Imports also increased, reflecting the rebound in domestic demand.

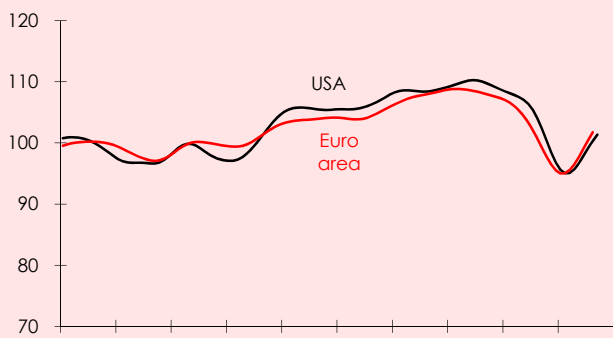
Rebound in global economy

The massive economic stimulus packages implemented in the USA, China and the EU are the key drivers of the global economic recovery. World trade and industrial production have substantially grown of late.

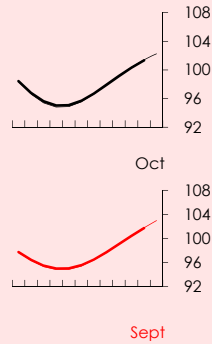
Figure 2: International business climate

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

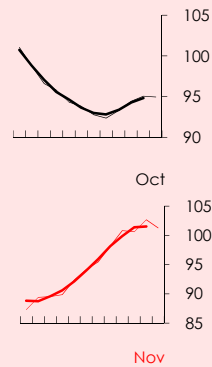
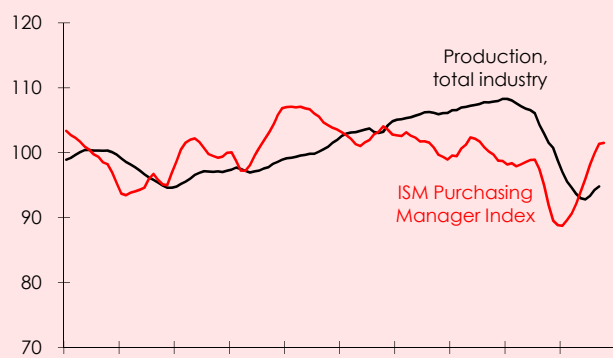
Leading indicators



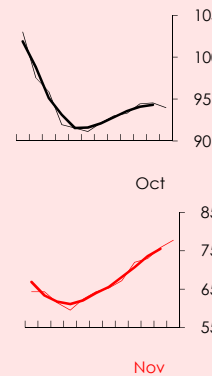
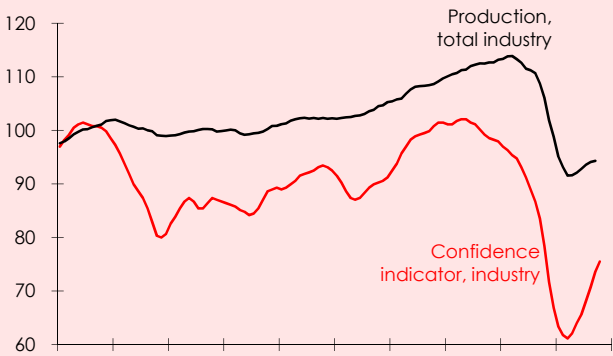
12-month performance



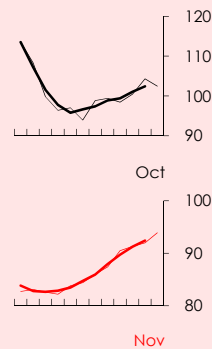
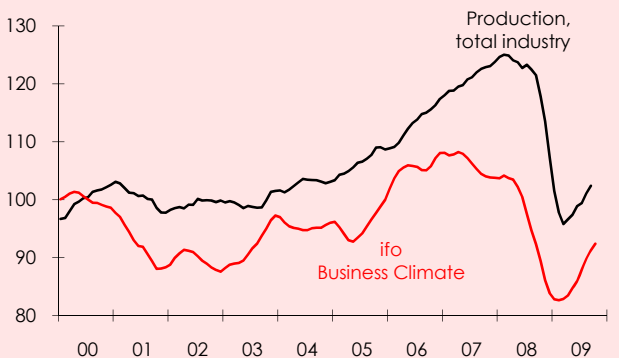
USA



Euro area



Germany



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

Industrial production, after falling since January 2008, has been growing again since July 2009; this is also reflected in a pick-up in new orders received. The downturn in the real estate market that had lasted for 14 months came to a halt in the third quarter: The Case-Shiller Home Price Index has been rising since April 2009; however, it was still 11 percent below the year-earlier reading in the third quarter. Construction investment expanded quarter-on-quarter for the first time since the end of 2005. Consumer confidence has been stagnating at a low level since April 2009, however, and retreated again marginally in September.

The recession that lasted from the end of 2007 until mid-2009 has left deep marks on the US labour market. In October, unemployment reached 10.2 percent of the labour force, the highest rate since 1983. Persistently weak capacity utilisation, rising unemployment and the sharp decline in commodity and energy prices until the end of 2008 are weighing on price developments. The inflation rate has been negative since March 2009 (October -0.2 percent).

Euro area gross national product increased by 0.4 percent in real terms in the third quarter, compared with the previous quarter (after -0.2 percent in the second quarter). GDP expanded in Germany, France, Italy, Belgium, the Netherlands and Austria – together they contribute around 80 percent to euro area GDP. A few other countries – for instance Spain and Greece – are still in recession, however.

Industrial production in the euro area has been rising since May (September +0.3 percent month-on-month). It is still around 13 percent below the year-earlier level, though. Industrial new orders have also recovered from their record low in spring. In September, they rose by 1.5 percent month-on-month, but still remained 16 percent below the level recorded a year before. Business confidence indicators point to a continuation of the rebound in industrial activity. A large part of the increase may be attributable to fiscal policy measures and in particular to the car-scrappping premiums. In the euro area, too, important economic statistical data are under the spell of the recession: The seasonally adjusted unemployment rate reached 9.8 percent of the labour force in October; inflation turned slightly positive again in November (+0.6 percent), following five months in negative territory.

Developments in the new EU countries are highly heterogeneous. The downward trend continues in Bulgaria, Estonia, Hungary and Romania, albeit at a slightly slower pace. The Czech Republic and Slovakia saw economic output grow for the second consecutive time in the third quarter; here the car industry benefited from the introduction of car-scrappping schemes in other European countries. In Poland, GDP grew slightly, as in the two previous quarters.

Manufacturing value added declined by 15 percent from its peak in autumn 2008 to its record low in summer 2009. It rose again for the first time in the third quarter (at a seasonally adjusted quarter-on-quarter rate of +4 percent in real terms, according to provisional calculations).

The WIFO business cycle survey shows that this recovery continued in late autumn. The balance of optimistic and pessimistic production expectations improved from -8 percentage points in August to ± 0 percentage point in November. The upward trend was particularly pronounced – albeit from a very low level – in the production of motor vehicles and the industry supplying the automotive sector. Capital goods manufacturers assess developments much more pessimistically.

The rebound in industrial activity is making only slow headway, as firms' assessment of order books shows. The balance of positive and negative replies was -50 percentage points in November (-55 percentage points in August), thus still far below the medium-term average.

The assessment of export order books is also recovering only tentatively. This is confirmed by foreign trade figures (they are available only until August, however). Nominal goods exports from January to August declined by 23.8 percent year-on-

Sizeable differences in economic activity across the EU

Economic output has been growing in the euro area since the summer of 2009, but a few countries are still in recession. The new EU countries also display a heterogeneous picture.

Austria: industry picking up from low level

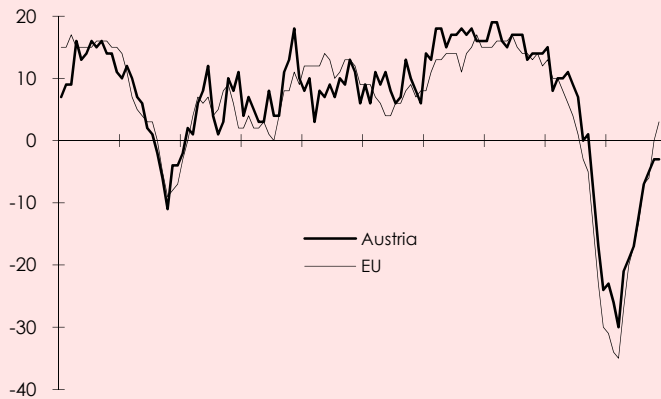
Activity in Austria's manufacturing sector has picked up noticeably since August, according to evidence presented in WIFO's business cycle survey. The production level is still clearly lower than last year's, though.

year (August -20.2 percent). A particularly sharp decline was registered in exports to CIS countries and to the new EU countries (Baltic countries -50.2 percent).

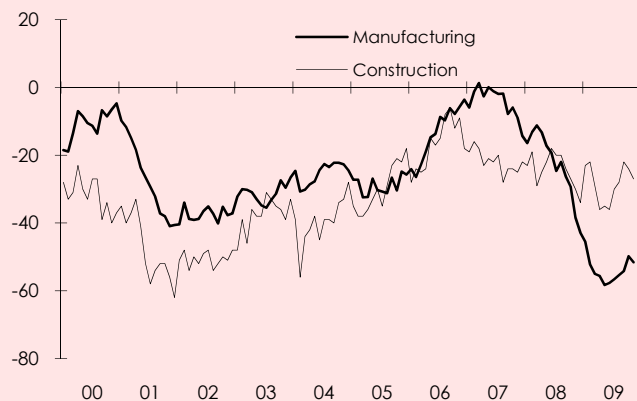
Figure 3: WIFO business cycle survey

Differences between the percentage shares of correspondents giving positive and negative replies, seasonally adjusted

Production expectations of manufacturing industry



Order books of manufacturing and construction industry



Source: European Commission, WIFO business cycle survey.

The production downturn observed in the manufacturing industry has also fed through into employment. Admittedly, many companies are keeping their qualified staff because they deem the production decline temporary; in addition, there is the positive impact of government-subsidised short-time work. Nevertheless, the number of persons employed in October was 62,000 below the record high seen in July 2008, and down by 45,000 from a year before (-7.4 percent). The decline in employment has been particularly pronounced in the motor vehicle industry and in mechanical engineering.

In the construction sector, gross output from January to July 2009 fell by 5 percent compared with the same period in the previous year. The third quarter saw real value added grow at a seasonally adjusted quarter-on-quarter rate of 2 percent, according to provisional calculations. The results from the WIFO business cycle survey show that business sentiment has somewhat brightened since the summer, with the balance of positive and negative replies regarding construction activity standing at -9 percentage points in November (July -21 percentage points). The situation is particularly unfavourable in the residential construction sector, with especially privately financed residential construction assumed to have shrunk markedly. The economic stimulus measures taken by the federal government and the provinces appear to be

So far, the government's stimulus programmes appear to have taken effect notably in the building construction sector, where order book levels have been improving since the summer. Production in the privately financed residential construction sector, by contrast, is assumed to be on a sharp decline.

Construction sector strengthening

increasingly taking effect in the other branches of building construction. The civil engineering sector, on the other hand, does not yet show any signs of a fundamental improvement.

In October, the number of persons employed in the construction industry fell by 2,000 from a year before (−0.8 percent), with the civil engineering sector suffering a particularly sharp decline. In the WIFO business cycle survey companies announced a levelling off of workforce reductions.

Wholesale trade sales are being pulled down by the slump in exports. From January to August, they declined by 4.1 percent in real terms compared with the same period in the previous year; in August they shrank by −5.1 percent. Motor vehicle dealers and repair shops suffered a year-on-year sales decline of 7.6 percent in the months till August (August ±0 percent). However, in the first eleven months of 2009 the number of newly registered cars rose by somewhat more than 8 percent compared with the same period last year. Registrations of new cars remained lively also after the expiry of the car-scrapping premium (November +29 percent year-on-year). Sales of truck dealers and repair shops, by contrast, declined sharply.

Retail sales (excluding cars) are stable (January to August +0.8 percent in real terms, year-on-year). In late summer, the retail sector even registered a pick-up in sales, which may have been due to a rebound in real wages.

So far, Austria's tourism enterprises have been only little affected by the international financial and economic crisis. In the summer season, the number of overnight stays fell by only 1.1 percent, while sales declined by 1.6 percent year-on-year. Guests from Austria's most important countries of origin appear to have replaced long-haul trips with stays in nearby Austria. Resident travellers seem to have increasingly spent their holidays in Austria. Guests have become more cautious in their spending, though.

Consumer prices are still almost stable. From January to October, the Consumer Price Index rose by 0.4 percent year-on-year (October +0.3 percent). The Harmonised Index of Consumer Prices is rising at an even slower pace (accumulated +0.3 percent, October +0.1 percent). Modest aggregate demand growth exerts a dampening effect on prices, while the decline in fuel prices, the abolition of tuition fees and the introduction of a free nursery school year also depress the price level compared with a year before. Rents, home maintenance costs and insurance costs, on the other hand, are rising markedly.

The stable prices and last year's relatively high wage settlements are reflected in a sharp increase in real wages for persons in dependent employment. Contractually agreed wages were up by 3 percent in real terms year-on-year in the period from January to October, and by 3.14 percent in October.

The sharp contraction in GDP since mid-2008 has resulted in a marked deterioration in the labour market situation. Compared to the record high level of unemployment in mid-2008, almost 60,000 jobs have been lost in seasonally adjusted terms, predominantly in manufacturing and in the temporary work sector. The number of unemployed persons has risen by 61,000. The deterioration in the labour market situation has moderated somewhat lately. The number of persons employed has not fallen further in seasonally adjusted terms since September 2009, and already increased slightly in October and November. The rate of unemployment growth has slowed.

Retail trade stable

While wholesale trade and motor vehicle sales are shrinking noticeably, retail sales remain stable.

Tourism little affected by crisis

Low inflationary pressures, strong real wage increases

There is still hardly any upward drift in prices noticeable. The increase in services sector costs compared with the previous year is offset by the decline in fuel prices.

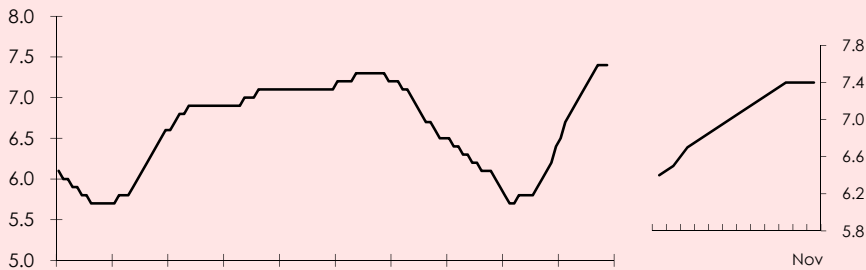
Employment stable, unemployment rising further

Figure 4: Key economic indicators

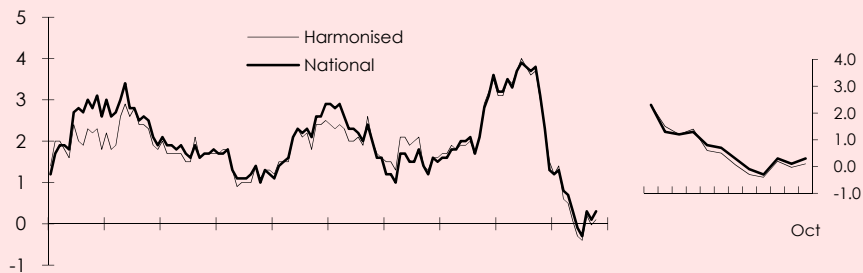
Persons in active dependent employment¹, (1,000), seasonally adjusted



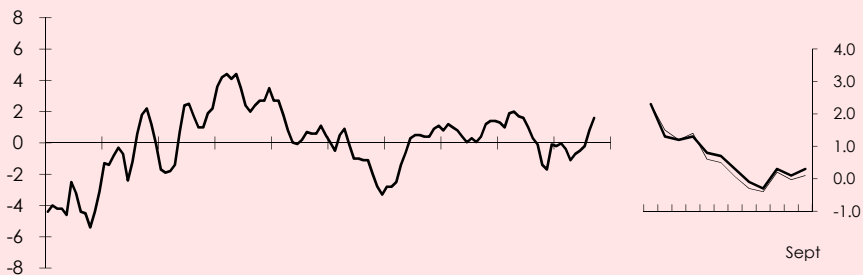
Unemployment rate, traditional Austrian method², seasonally adjusted



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.

The downturn in activity is concentrated in the manufacturing industry, whereas the services sector is stable. For that reason male employment has fallen clearly more strongly than female employment. The rise in unemployment is particularly pronounced among persons aged 20 to 25.

In November, 3,248,100 persons were in dependent active employment, a decline by 44,000 from a year before. The number of unemployed persons stood at 257,700 (+32,200 compared with a year earlier). The seasonally adjusted unemployment rate according to the traditional Austrian definition was 7.4 percent of the dependent labour force.

Employment stabilised in the autumn, following the sharp contraction observed in the labour market since mid-2008. The number of unemployed persons continues to rise, albeit at a slower pace than during the first half of 2009.

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, this is referred to as "seasonally and working day adjusted changes".

The phrase "changed compared with a year before . . .", on the other hand, describes a relative 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.

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.

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 (<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".