

Christian Glocker

# Stable Development of Austrian Economy Despite Persistent Debt Crisis

## Business Cycle Report of May 2012

**Overall, the latest data on the state of the global economy suggest that the upswing will continue; they are somewhat mixed, however. Growth remains robust in the USA, Latin America and South East Asia. Developments in the euro area, by contrast, continue to be characterised by the debt crisis. Irrespective thereof, the outlook for economic activity in Austria remains stable. Inflation receded slightly in March, and the number of persons in dependent active employment rose further in April.**

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The global economy continues to recover, with value added expanding notably in the Asian and Latin American emerging economies and in the USA in spring. However, the global economic upswing is very fragile. The main risks on the one hand stem from geopolitical tensions, which could trigger yet another rise in oil prices, and, on the other hand, from the persistent sovereign debt crisis, which is weakening the recovery of the real economy especially in the euro area. The European Central Bank's provision of liquidity to banks was not sufficient to stabilise the crisis countries even for half a year. A high stock of problem loans combined with rising unemployment is dampening the outlook for several countries on the EU periphery. In addition, the strict consolidation policy pursued in the euro area contributes considerably to the subdued outlook for economic activity.

The current development of the Austrian economy differs from the euro area average. On the one hand, financial market risks have decreased especially over the last three months. On the other hand, the outlook for economic activity is more favourable. The indicator of manufacturing firms' assessments of the current situation did rise only marginally in WIFO's latest Business Cycle Survey, but nevertheless remained in the positive range. Production and selling price expectations for the coming months have also remained positive, in spite of their decline compared with the previous month. In the construction sector, the number of firms reporting their business situation to be good for the first time in more than four years exceeded that of firms reporting it to be bad.

Inflation receded slightly in March 2012 compared with the previous month, and at 2.4 percent (according to Statistics Austria) reached the lowest rate since January 2011. The highest year-on-year price increases were registered in the "Housing, Water and Energy", "Transport" and "Food and Non-Alcoholic Beverages" expenditure categories. In April, 252,000 people were registered as unemployed with the Public Employment Service. The seasonally adjusted unemployment rate stood almost unchanged at 7.0 percent in April (according to the Austrian definition).

In spring 2012, the acute risks to the global economy diminished significantly compared with last autumn. Business and household sentiment, after deteriorating sharply in the latter half of 2011, has brightened in most regions since the turn of the year. Global industrial production began to grow again in December 2011 after six

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**Global economy providing positive, albeit changeable signals**

months of stagnation, and world trade also picked up noticeably (according to CPB World Trade Monitor), with the global economy consequently gaining considerable momentum at the beginning of the year.

The slowdown of the expansion was a desired objective of economic policy in many emerging market economies, as symptoms of overheating such as briskly rising real estate prices, strong credit expansion and accelerated consumer price inflation had earlier arisen. Given the global economic slowdown at the end of 2011, monetary policy in many emerging market economies in spring 2012 introduced extensive expansionary measures to counteract a slowdown in economic activity. The OECD's Composite Leading Indicators for Brazil, China and India present a slightly positive picture. The economies of other Asian and Latin American emerging market countries are performing similarly. The outlook for eastern European countries remains subdued, given their tight trade and financial market linkages with Europe's advanced economies.

Although government consumption in the USA has been declining continuously for more than a year, the budget deficit in fiscal year 2011 was still very high at 8.7 percent of gross domestic product. Given the forthcoming presidential elections, extensive consolidation measures are not likely to be passed before 2013. According to advance estimates, the economy grew at a quarter-on-quarter rate of 0.5 percent in the first quarter of 2012, somewhat more slowly than in the previous period (+0.7 percent), in spite of the contraction of business investment and stagnating public spending. Notably personal consumption expenditure increased considerably, driven by a sharp rise in car purchases.

Indicators point to a strengthening of this positive development. Nevertheless, the recovery in the job market has unexpectedly lost momentum. In April, 115,000 new jobs were created, only half as many as in February. The unemployment rate for April was 8.1 percent. Labour market data confirmed the Central Bank's admonitions against too much optimism. The government reacted by passing a severely criticised act in mid-April: the "Jobs Act" aims to generate more jobs by decreasing the burden on newly founded companies. Accounting rules and disclosure requirements are made easier for them<sup>1</sup>. While this act is expected to provide positive stimulus in the short run, it is highly disputed whether or not it will have a lasting effect. If it stays in force for an extended period of time it could already now sow the seeds of future financial market crises as it partly revokes the rules introduced for business start-ups in the Sarbanes-Oxley Act following the Enron and WorldCom accounting scandals. The increased financial market stress after the collapse of Enron and WorldCom in the course of the accounting scandals in 2002 had very far-reaching negative real consequences for the US economy and the global financial markets<sup>2</sup>.

The global economic upswing is still very fragile. The chief risks on the one hand stem from geopolitical tensions which could trigger another rise in oil prices, and, on the other hand, from the sovereign debt crisis in the euro area.

The price of crude oil, after peaking at \$ 128 in mid-March, has now stabilised at around \$ 110 per barrel (Brent); the repercussions of a potential or actual disruption of oil supplies from Iran – the world's third-largest exporter of crude oil – on the supply and price of crude oil would nevertheless be great unless this were offset by increasing supplies from other countries. According to estimates by the International Mone-

*Activity in emerging market economies remains subdued.*

*US economic activity strengthened over the course of 2011.*

## Global risk factors

*The persistently high level of commodity prices and geopolitical tensions are increasing the pressure on crude oil prices.*

<sup>1</sup> Business start-ups with up to \$ 1 million in annual revenue are, among other things, exempt for up to five years from the obligation to engage an auditing firm to opine as to the adequacy of internal financial controls. With a special form of financing ("crowd funding"), companies may raise up to \$ 1 million annually from small investors without being required to register the shares for public trading. Banks may to a limited extent give analyses on companies whose public offerings they are underwriting.

<sup>2</sup> Hakkio, S.C., Keeton, W.R., "Financial Stress: What Is It, How Can It be Measured, and Why Does It Matter?", Federal Reserve Bank of Kansas City, Economic Review, Second Quarter, 2009, pp. 5-50; Van Roye, B., "Financial Stress and Economic Activity in Germany and the Euro Area", Kiel Working Paper, 2011, (1743).

tary Fund (World Economic Outlook, April 2012), a disruption of Iranian exports would cause the crude oil price to rise by around 20 to 30 percent. The increase of exports by other crude oil producers, or the release of crude oil reserves could counteract this development only for a short period of time.

The currently high level of commodity prices is not only a consequence of crude oil prices; the prices of industrial raw materials, food, tobacco and alcohol also remain at very high levels. This development is mainly attributable to special effects: the prices of food, tobacco and alcohol, for instance, rose after crop failures due to drought in parts of Argentina, Brazil and Paraguay ("La Niña" climate phenomenon). As for industrial goods, a high price pressure results from China's export restrictions on rare earths.

The higher prices of crude oil and other commodities further dampen the already slow growth of real household incomes and increase production costs, which in turn causes a decline in profitability. These factors hamper the recovery of private consumption and investment in all economic areas, with the exception of the net exporters of commodities. The repercussions may become more severe in the short run if the negative price shocks dampen general consumer confidence, or, via negative feedback effects, cause further distortions in the financial markets.

The sovereign debt crisis in the euro area remains the biggest downside risk to the global economy. For a short time the fact that the Greek debt haircut, though judged a "credit event", did not shake financial markets gave grounds for confidence. The feared negative effects of the connected payout of credit default swaps (CDS) on the stability of financial markets did not materialise. However, the euro crisis flared up in Spain and Italy, with interest rates on Spanish and Italian government bonds rising since the beginning of March. They have again reached similar levels as those recorded in November, when extensive stabilisation measures were implemented. Hence the European Central Bank's (ECB) liquidity boost for European banks was not sufficient to stabilise the crisis countries even for half a year. Even though many crisis countries are undertaking consolidation efforts, it is uncertain whether or not this will restore financial market confidence in a sustainable refinancing of government debt. In addition, current developments in financial markets appear inconsistent in themselves: on the one hand there is a call for budget consolidation, while, on the other hand, distrust grows when consolidation acts as a drag on growth. Attempting to restore financial market confidence is nevertheless essential, as financial market crises can intensify one another<sup>3</sup>. Neither by constantly enlarged firewalls (ESM, EFSF) nor by liquidity-providing measures by the ECB has it been possible so far to stabilise the ensuing downward spiral.

In the euro area, notably Spain is under heightened financial market stress. The economy re-entered recession – GDP contracted by 0.4 percent in quarter-on-quarter terms in the first quarter. In addition, the credit rating of Spanish government bonds was downgraded by two levels at the end of April. The already high level of credit defaults will increase further as unemployment continues to rise. This will require ever-higher reserves for problem loans<sup>4</sup>, which will further dampen credit growth and consequently also real economic growth. This development holds great dangers for the entire euro area. Especially economies having strong linkages with Spain's financial markets such as France, for instance, could for their part enter recession as a result of adverse macro-financial developments.

*The sovereign debt crisis is flaring up again in the euro area; tensions in government bond markets are increasing.*

*The recovery of the economy in the euro area is held back by negative developments in financial markets.*

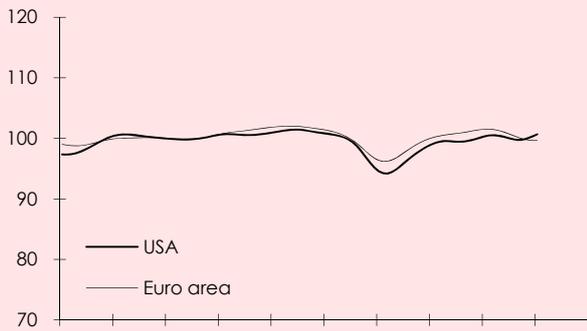
<sup>3</sup> The re-intensification of undesired feedback effects between the quality of financial assets held by banks and the country risk of different countries constitutes a major downside risk in the euro area. When banks tighten lending standards and thus limit credit growth to build up capital buffers, concern over fiscal sustainability of government debt may grow amid dampened growth prospects; government bond yields will rise further. The countries affected will react by stepping up consolidation measures, which will further dampen real growth. This will cause yet another deterioration in the quality of financial assets held by banks due to higher losses from participation in government debt and an increase in distressed private sector loans, which will require additional tightening of credit standards. Such a downward spiral dampens growth in the real economy for a long time.

<sup>4</sup> In 2006, problem loans in Spain made up 0.7 percent of the entire loan stock, as compared to 8.3 percent in February 2012.

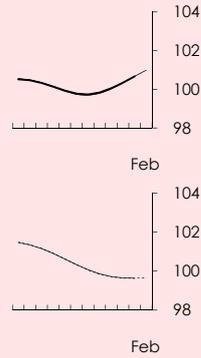
Figure 1: International business climate

Seasonally adjusted, 2005 = 100, 3-month moving average

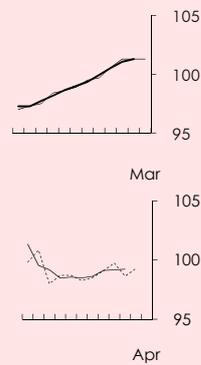
Leading indicators



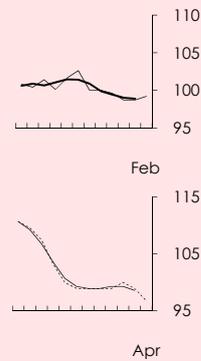
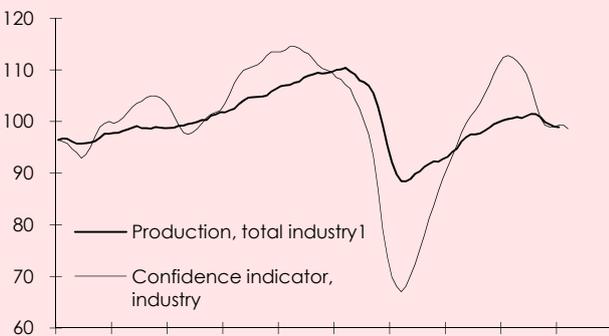
12-months performance



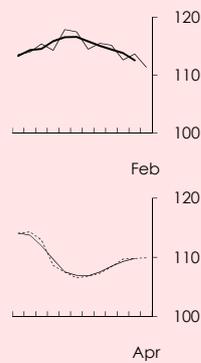
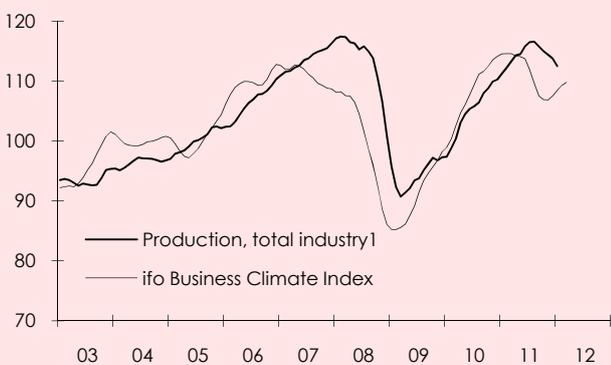
USA



Euro area



Germany



Source: European Commission, Deutsche Bundesbank, ISM (Institute for Supply Management™), Ifo (Institute for Economic Research, Munich), OECD. - 1 Excluding construction.

The enormous disparities between the countries of the euro area are reflected not only in statistical financial market data, the increasing heterogeneity becomes apparent in many areas. According to Eurostat, the seasonally adjusted unemployment rate in March stood at 10.9 percent in the euro area, and averaged 10.2 percent in the EU. The rate was highest in Spain, at 24.1 percent, and lowest in Austria at 4.0 percent. There is also considerable divergence in the change of the unemployment rate across EU countries: while in February and March the rate according to the EU definition fell for instance in Austria, Ireland and Slovenia, it increased further in Spain<sup>5</sup>, Portugal and Italy.

*Unemployment remains high in the EU periphery countries.*

Inflationary pressures have remained moderate, despite the expansionary monetary policy measures. In March 2012, inflation stood at 2.7 percent in the euro area (January and February 2.7 percent each), and at 2.9 percent in the EU overall (January and February 2.9 percent each). Against this background and in the face of the resurgence of the debt crisis, monetary policy in the euro area is likely to remain very loose.

The European Commission's Economic Sentiment Indicator (ESI) remained stable in the EU overall in April. In the euro area it decreased noticeably, thereby offsetting the gains registered over the first quarter of 2012. The decline was largely a result of weakening confidence about the outlook for the industry and services sectors. While confidence in industry worsened slightly in the EU overall, it dropped sharply in the euro area. Production expectations fell both on EU average and in the euro area; order books were assessed more negatively, especially in the euro countries.

*The picture currently presented by indicators is dominated by the resurgence of the sovereign debt crisis.*

Confidence in the services sector remained broadly unchanged in the EU overall, but deteriorated considerably on euro area average. While demand expectations improved considerably in the non-euro countries, both expectations regarding demand developments and the assessment of the business situation contributed to the negative picture in the euro area.

Following a positive development in the first few months of 2012, consumer confidence has deteriorated considerably lately both in the euro area and the EU overall, mainly owing to the pessimistic expectations about the general economic situation and to households' own financial situation. By contrast, confidence in the retail sector has improved markedly in the EU overall and somewhat in the euro countries.

The current development of the Austrian economy is different from the euro area average: On the one hand, financial market risks have diminished considerably in Austria especially over the last three months, and, on the other hand, the outlook for economic activity is more favourable.

### **Stable outlook for Austrian economy**

The considerable intensification of the financial market stress observed in some euro countries – paradoxically – has definitely had positive consequences for Austria's financial market. Due to the sovereign debt crisis the number of sovereign debtors whose bonds are regarded as safe is decreasing continuously. At the same time, however, there is a disproportionately large increase in the demand for investments regarded as safe, owing on the one hand to the liquidity glut fed by the ECB and the Federal Reserve Bank, and, on the other hand, to increasing risk aversion by financial investors. The associated imbalance in the market for investments regarded as safe considerably dampens the yields on these investments. Austrian bonds are ever more often among these investments, together with German and US government bonds. The secondary market yield on Austrian 10-year government bonds, after falling significantly since March, has held steady at around 2.6 percent since the beginning of May. This favourable development for Austria is in strong contrast with that in Italy or Spain. The associated stabilisation of the financial sector be-

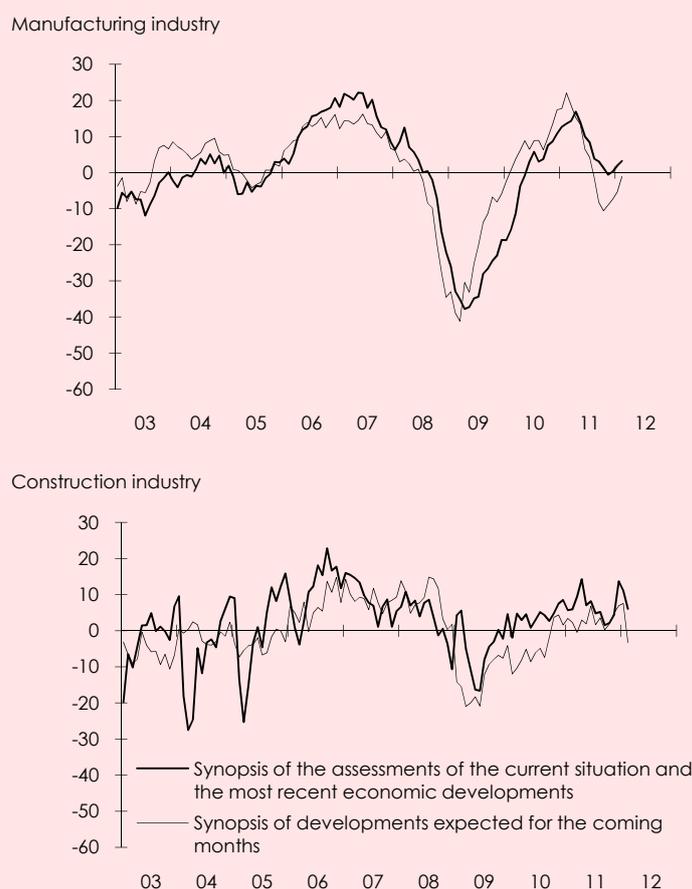
*The Austrian economy is performing well, despite the resurgence of the sovereign debt crisis. The macro-financial risks are diminishing, the economic outlook is stable.*

<sup>5</sup> Spain's unemployment rate currently stands at 24.4 percent (March 2012), according to INE (Instituto Nacional de Estadística), just slightly below its historical peak of 24.5 percent (1994).

comes apparent in two ways: on the one hand, banks' surplus reserves once more declined sharply in month-on-month terms in April (€ -54 million). On the other hand, both the interest rates for government bonds and those for corporate loans fell markedly in March compared with the previous month (by around -0.3 percentage point, to 2.7 percent). Both developments have strengthened the expansion of credit growth in Austria, thereby supporting the upturn of the real economy.

Figure 2: Results from the WIFO Business Cycle Survey

Indices of the assessment of the current economic situation and of business expectations, seasonally adjusted



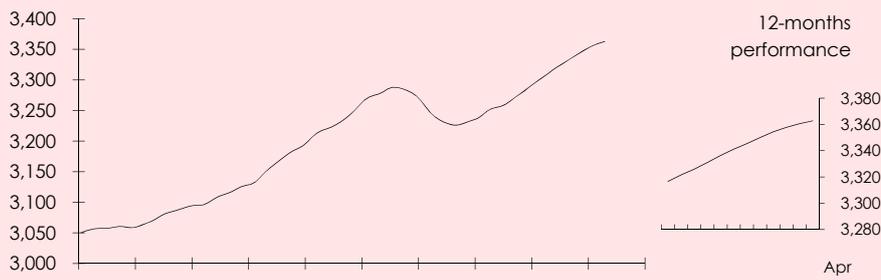
Source: WIFO Business Cycle Survey. Data refer to index points (percentage points) between +100 and -100. Values above 0 imply positive expectations, values below 0 indicate negative expectations.

The positive development in the Austrian financial market is based on solid fundamental data of the Austrian economy as well as on an ongoing stable outlook. The index of the assessment of the present situation in manufacturing, which combines the development in the preceding months and the present situation of companies, did rise only marginally according to WIFO's latest Business Cycle Survey, but thus remained in positive territory. Overall, firms reported a slight quarter-on-quarter increase in output. They also gave a slightly above-average assessment of order books: 72 percent of firms stated that their order books were sufficient or more than sufficient. Capacity utilisation was average at 83 percent; however, the percentage of companies assessing their present production capacities as being too low has been falling for a year now, and at less than 10 percent recently was very much below its long-term average.

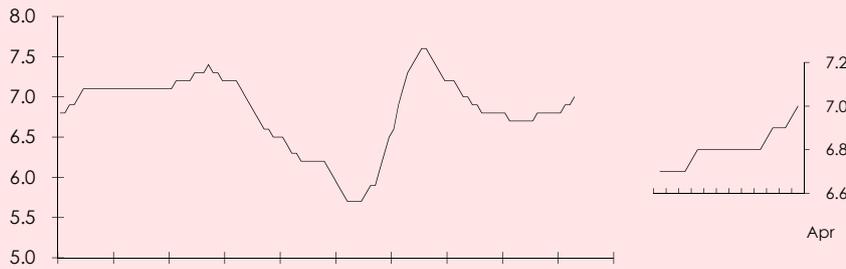
The business expectations index for the coming three months declined somewhat in April, however, and turned slightly negative again. Nevertheless, production and selling price expectations for the coming months are positive. By contrast, firms are sceptical about the outlook for employment and their own business situation.

Figure 3: Key economic indicators

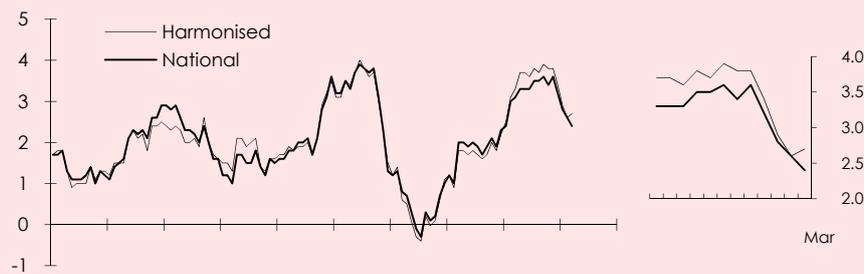
Persons in active dependent employment<sup>1</sup>, (1,000), seasonally adjusted



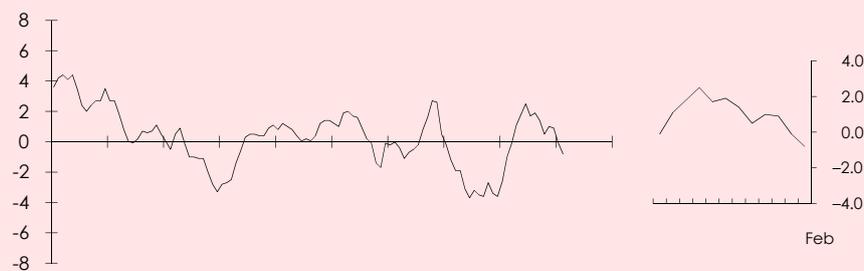
Unemployment rate, traditional Austrian method<sup>2</sup>, seasonally adjusted



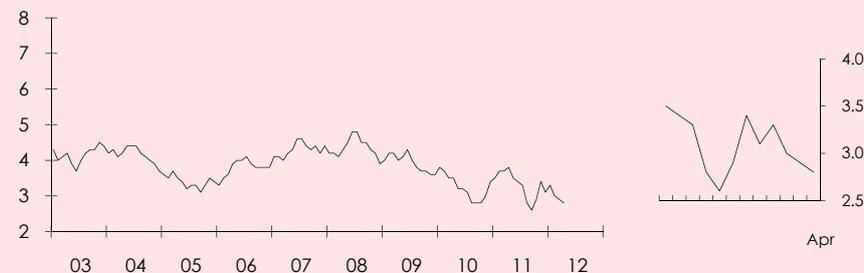
Consumer prices, year-to-year percentage changes



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



10-year central government bonds (benchmark), percent



Source: Public Employment Service Austria, Federation of Austrian Social Security Institutions, Oesterreichische Nationalbank, Statistics Austria, WIFO calculations. – <sup>1</sup> Excluding parental leave, military service, and unemployed persons in training. – <sup>2</sup> As a percentage of total labour force excluding self employed, according to Public Employment Service.

The present situation index for the construction sector held steady at a high positive level also in April, but was somewhat lower than in March. In WIFO's Business Cycle Survey, construction firms reported that activity had been stable in the preceding months, and also gave an above-average appraisal of order books: 76 percent of firms had sufficient or more-than-sufficient order books (long-run average 63 percent). They also gave a highly positive assessment of their current business situation: After the difficult situation experienced in the past few years, companies reporting their business situation to be good for the first time in four years outnumbered those reporting it to be bad.

Not only the present situation was assessed favourably in the construction sector, but also the business expectations index was clearly positive. In particular, considerably more firms expect building prices to increase than to decrease. The assessment of the outlook for employment, however, while being more favourable than the long-term average for this sector, did not suggest a pick-up in momentum.

In the services sector, the present situation index remained clearly positive in April. Companies reported a pick-up in demand in the first quarter of 2012, and assessed their current business situation mostly positively – although the difference between positive and negative appraisals was smaller than in summer 2011.

The business expectations index also shows an optimistic sentiment among firms in the services sector. The percentage of positive responses was higher with respect to all dimensions than the percentage of negative responses. By contrast, the assessment of the outlook for demand, employment and business conditions in the coming months was below the average levels for the past 15 years. In sum, this points to a continued positive, though not outstanding, performance of the branches of the services sector in the coming months.

Inflation receded slightly in month-on-month terms in March 2012, to 2.4 percent (February 2.6 percent, January 2.8 percent), its lowest level since January 2011 (2.4 percent). It was driven largely by developments in the "housing, water and energy" expenditure category (+3.4 percent on average), for the most part owing to price increases for household energy (+4.9 percent, heating oil +10 percent, gas +11 percent). Apartment rents rose by 4.4 percent, apartment maintenance costs increased by 3.0 percent on average. Clearly above-average price increases were also registered in the "transport" (+3.0 percent, fuel prices +8 percent) and "food and non-alcoholic beverages" (+2.9 percent) expenditure categories. Food prices overall increased by 2.2 percent. Price increases for meat and meat products (+6 percent), bread and cereals (+4 percent), dairy products and eggs (+4 percent) as well as vegetables (+2 percent) were counterbalanced by price declines for fruit (–21 percent).

According to the Harmonised Index of Consumer Prices (HICP), inflation stood at 2.7 percent in March 2012, which was in line with the euro area average.

Tourism sales in the first five months of the 2011-12 winter season (November 2011 until March 2012) rose by 2.9 percent compared with the same period a year before, according to provisional calculations, reaching a volume of € 10.91 billion. The number of nights spent rose by 2.1 percent. Real sales remained flat, whereas real expenditure per night spent contracted by 2.1 percent. While the demand for overnight stays from abroad surpassed the year-earlier level by 1.8 percent, it rose by 3.1 percent on the domestic market. Greatly divergent developments in overnight stays were registered in March (domestic travellers +6.8 percent, foreign travellers –10.0 percent, in total –6.6 percent).

According to data available so far (November to March), the demand for overnight stays in the 2011-12 winter season in the foreign source markets of importance to Austria was very lively in Russia (+18.2 percent) and Switzerland (+15.7 percent), while above-average gains were also recorded in the USA (+6.8 percent), France (+5.2 percent), the UK (+4.0 percent), Sweden (+3.3 percent) and the Czech Republic (+3.2 percent). The numbers of nights spent by travellers from Germany (+1.1 per-

*The outlook for the construction sector is positive, with companies reporting their business situation to be good for the first time in four years outnumbering those reporting it to be bad.*

*Indicators point to continued stable activity in the services sector.*

## Inflation easing

*Inflation eased somewhat in March; commodity-intensive goods still have high inflationary potential.*

## Tourism remains stable

*Tourism sales rose markedly in year-on-year terms in the first five months of the 2011-12 winter season.*

cent) and Romania (+0.6 percent) also increased slightly, while the demand from Italy (-0.1 percent) remained broadly flat. By contrast, overnight stays remained below the year-earlier level for guests from the Netherlands (-1.4 percent), Belgium (-2.5 percent), Hungary (-4.1 percent), Poland (-6.1 percent) and Denmark (-6.2 percent).

### *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".

Sizeable sales increases were registered in the first five months of the 2011-12 winter season by tourism enterprises notably in Burgenland and Vienna, but also in Upper and Lower Austria. Sales increased at a slightly above-average pace in Vorarlberg and Tyrol, while the results for Styria and Salzburg remained below the Austrian average. Only Carinthia experienced a year-on-year decline in tourism sales.

The labour market is showing further signs of easing. Employment grew vigorously in April – the number of persons in dependent active employment in April was up by 54,000 from a year before (+1.6 percent), according to preliminary estimates by the Federal Ministry of Labour, Social Affairs and Consumer Protection. Compared with a month before, the seasonally adjusted number of persons employed rose by 2,200 (+0.1 percent).

A significant proportion of these additional jobs are likely to be full-time jobs, as employment gains in manufacturing and construction (March 2012 data) show. Job numbers rose at a particularly vigorous pace also in the business services, health-care and trade sectors. Only the hotel and restaurant sector experienced a month-on-month decline in March.

The number of job vacancies declined by 4,000 (–11.1 percent) from a year before in April. 252,000 people were registered as unemployed with the Public Employment Service in April, a year-on-year increase of 15,500 (+6.6 percent). From March to April, the unemployment rate (according to the Austrian definition) rose by 0.1 percentage point to 7.0 percent (seasonally adjusted).

## Unemployment edging up

*The number of persons employed continues to rise markedly; the unemployment rate stood at 7.0 percent (seasonally adjusted) in April.*