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Upswing Continues

Business Cycle Report of February 2011

Following a slight moderation in the third quarter, the global economy gathered speed again at the end of 2010. The strongest impetus is still being provided by the brisk expansion observed in Southeast Asia. The latest data are signalling that the recovery has continued in early 2011. Commodity prices have been rising sharply recently. The WIFO business cycle survey points to an ongoing upswing also in Austria.

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Economic surveys are suggesting that the momentum is likely to continue also in the first few months of 2011. The strongest impetus is still being provided by Southeast Asia. Asia's higher import demand and the depreciation of the dollar following another round of monetary easing has led to a pick-up in US exports and a marked improvement in business confidence. The euro area also saw manufacturing expand strongly at the end of 2010. Consumer confidence, by contrast, has been improving more slowly and more unevenly across the euro area. It has been stagnant notably in countries facing macroeconomic imbalances and problems in the banking sector.

The pick-up in global economic activity has been accompanied by growing demand for raw materials; as a consequence, prices have risen markedly in recent months. The price of crude oil (Brent) topped $ 100 per barrel in February, while the prices of industrial raw materials were up by around 35 percent from a year earlier (according to the HWWI Index of World Market Prices of Commodities in dollar terms). The high food prices are increasingly weighing on the cost of living, especially in the developing countries.

In the industrialised countries, rising commodity and food prices are fuelling inflation. According to the preliminary estimate, euro area inflation stood at 2.4 percent in January 2011, an increase by ½ percentage point from November 2010. With core inflation remaining low (inflation excluding energy and unprocessed food stood at 1.1 percent in December 2010), however, the ECB sees no need currently to raise key interest rates.

Following the slight moderation in the pace of growth in the third quarter, manufacturing (production index excluding construction) rebounded also in Austria towards the end of the year. The WIFO business cycle survey of January 2011 provides an optimistic outlook for the coming months, showing a further improvement in order books and ongoing favourable business expectations in industry. Construction activity remains weak. The production index, in the period from January to November 2010, was 4.4 percent below its year-earlier level, and has been stagnant of late. Tourism sales declined by 2.9 percent in the first two months of the winter season, compared with the same period a year earlier. While this can partly be attributed to calendar effects, moderate declines have to be expected also for the entire season.

Due to changes to the statistics of the Federation of Austrian Social Security Institutions only preliminary employment data are available for January 2011. The figures for the years 2008 to 2010 will also be revised in February. First estimates point to an ongoing recovery in the labour market: on a month-on-month seasonally adjusted basis, employment rose at a rate of 0.1 percent and 0.2 percent, respectively, in November and December 2010. The seasonally adjusted unemployment rate according to the Austrian method of calculation was 6.8 percent in December 2010.

In December, the inflation rate as measured by the consumer price index stood at 2.3 percent, while CPI inflation excluding energy and unprocessed food was 1.6 percent.

Table 1: Flash estimates of quarterly national accounts

	2009		2010			
	Third quarter	Fourth quarter	First quarter	Second quarter	Third quarter	Fourth quarter
	Adjusted for seasonal and working day effects, percentage changes from previous quarter, volume					
GDP, expenditure approach						
Final consumption expenditure						
Households[1]	+ 0.3	+ 0.3	+ 0.3	+ 0.3	+ 0.3	+ 0.3
General government	+ 1.3	– 0.7	– 0.2	– 0.1	+ 0.1	+ 0.1
Gross capital formation	– 0.7	– 0.7	+ 0.0	+ 2.5	+ 2.8	+ 1.2
Gross fixed capital formation	– 0.2	– 0.8	– 1.1	+ 0.3	+ 1.2	+ 1.4
Exports	+ 1.7	+ 2.7	+ 1.7	+ 4.2	+ 2.9	+ 1.4
Imports	+ 0.8	+ 1.1	+ 2.4	+ 3.7	+ 2.9	+ 0.8
Gross domestic product	+ 0.7	+ 0.4	– 0.0	+ 1.2	+ 0.9	+ 0.6
GDP, output approach						
Agriculture, forestry	+ 0.4	+ 1.1	+ 0.0	– 0.7	– 0.7	+ 0.0
Industry, including energy	+ 0.9	+ 1.2	+ 0.5	+ 3.4	+ 2.5	+ 1.6
Manufacturing	+ 2.2	+ 0.7	+ 0.6	+ 4.7	+ 3.6	+ 1.5
Construction	– 1.2	– 1.4	– 1.6	– 1.3	– 0.9	– 0.9
Wholesale and retail trade; repairs; hotels and restaurants; transport, communication	– 0.1	+ 0.1	– 0.0	+ 0.3	+ 0.4	+ 0.3
Financial intermediation; real estate, renting and business activities	+ 0.4	+ 0.8	+ 0.8	+ 0.8	+ 0.8	+ 0.8
Other service activities	+ 0.3	+ 0.4	+ 0.5	+ 0.5	+ 0.4	+ 0.4
Taxes on products	+ 0.8	+ 0.5	– 0.3	– 0.1	+ 0.5	+ 0.6
Subsidies on products	+ 0.8	+ 1.1	+ 1.4	+ 1.1	+ 0.9	+ 0.7
	Percentage change from previous year					
Gross domestic product, volume	– 3.6	– 0.9	+ 0.1	+ 2.4	+ 2.5	+ 2.4

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

Global economic upswing continues

After moderating slightly in the third quarter, the global economic upturn regained traction at the end of 2010. The strongest impetus to growth still comes from the Asian region. Commodity prices have been rising sharply recently.

The upturn in world trade continued at the end of 2010 and, after slowing in the third quarter, is likely to have regained some momentum at the turn of the year. In October and November, the volume of world trade grew at a monthly rate of 1.7 percent on average. Growth was still driven mainly by the brisk expansion in Asia's emerging economies. In each of the two months, industrial production in the latter increased by around 1½ percent on average, compared with only around ¼ percent in the big industrialised countries. Hence imports in the Asian region continue to provide the main impetus to global economic growth[1].

The recovery in world trade – meanwhile it has again reached the volume recorded in spring 2008 – has been accompanied by the occurrence of commodity shortages; as a result, prices have been rising in recent months. The price of crude oil (Brent) topped $ 100 per barrel at the beginning of February. Moreover, in December 2010, the prices of industrial raw materials in dollar terms were up by around 35 percent from a year earlier (HWWI Index). Owing to crop failures, the prices of agricultural raw materials climbed by 28 percent year-on-year, and thus to a new all-time high[2]. As a result, the cost of living has been rising vigorously in non-industrialised

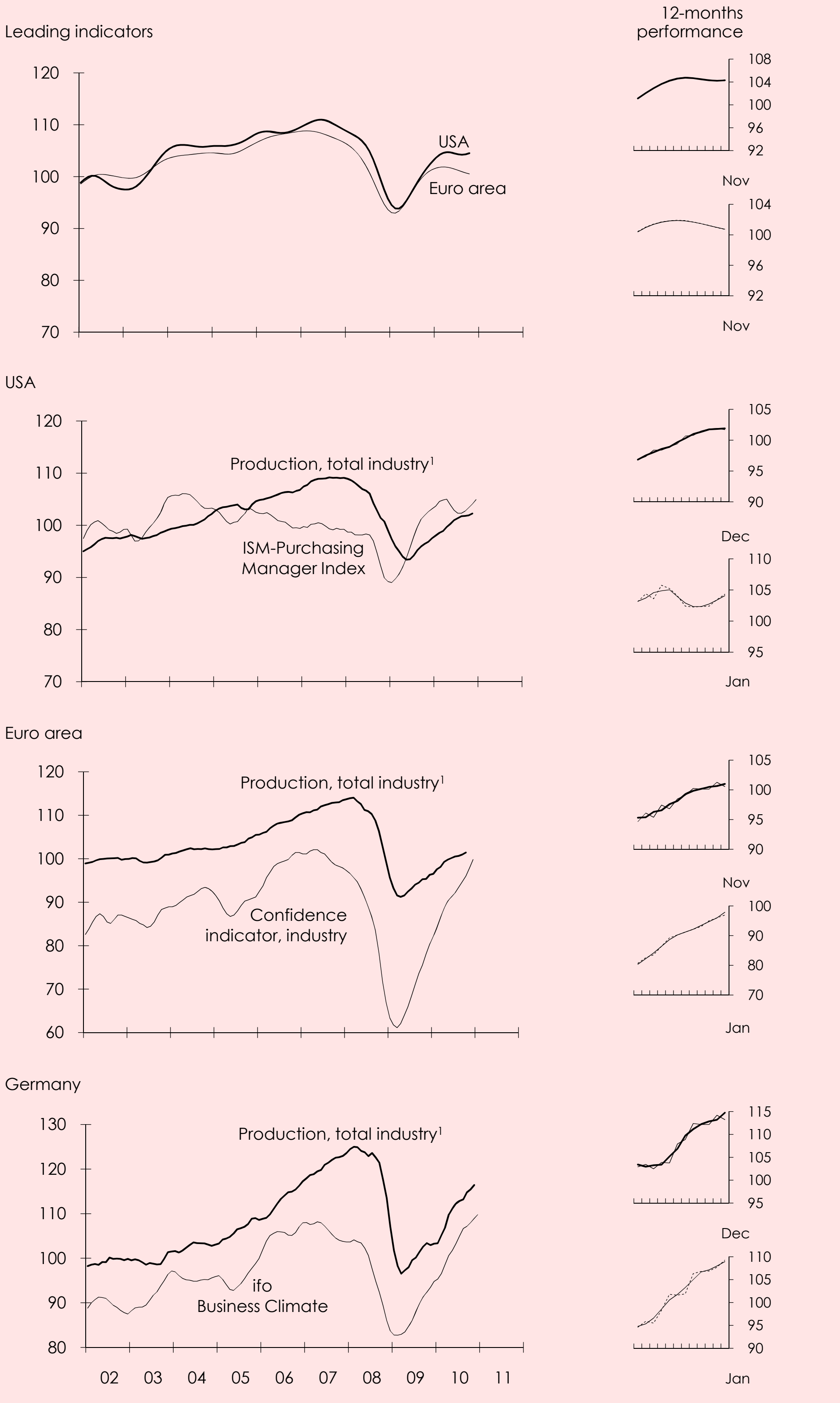
[1] According to Centraal Planbureau.

[2] See also Food and Agriculture Organisation of the United Nations (FAO).

countries, which has already led to price controls (China) and export restrictions (Russia and India).

Figure 1: International business climate

Seasonally adjusted, 2000 = 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.

Data on GDP growth in the fourth quarter of 2010 are currently available only for the USA and UK. According to first estimates, US economic output grew by 0.8 percent in the fourth quarter of 2010 (third quarter +0.6 percent). The expansion was driven mainly by private consumption and exports, while equipment investment remained tepid. GDP growth for 2010 as a whole came in at 2.9 percent.

Business surveys suggest that US economic growth accelerated at the beginning of 2011: the Purchasing Managers' Index rose significantly in December and January, a reaction, i.a, to improved export prospects and the effective depreciation of the dollar in the second half of 2010. Consumer confidence has also improved somewhat. The job market remains strained, however. The unemployment rate did decline between November 2010 and January 2011, by 0.8 percentage point to 9.0 percent, but the decline mainly reflects a reduction in the labour force, for employment growth over this period averaged a mere 0.1 percent per month.

The UK saw economic output fall by 0.5 percent in the fourth quarter – in part owing to the weather – after strong growth in the second and third quarters.

Divergences in the euro area

Industry is recovering across the whole euro area, but developments in domestic demand show a diverse picture.

National accounts data for the fourth quarter are not yet obtainable for the euro area. Available data show that the recovery in industry is continuing. In October and November 2010, industrial production in the euro area expanded at a monthly rate of 0.7 percent and 1.2 percent respectively; it thus followed an undiminished upward trend. In November it surpassed its year-earlier level by 7.4 percent. The European Commission's economic survey conducted in January 2011 shows a further improvement in business confidence, supported by satisfactory order books. Business confidence has almost reached its historical peak. Capacity utilisation meanwhile is approaching its long-term average.

While the upswing in industry is shared across the whole euro area, consumer confidence has been improving more slowly and unevenly. In Germany, it stands well above its long-term average, whereas in countries with high government indebtedness and ongoing problems in the finance and real estate sectors (Greece, Italy, Ireland, Spain, Portugal) it is stagnant. Private consumption in the euro area is therefore likely to have remained subdued overall at the beginning of 2011. Retail sales fell moderately year-on-year in December. The divergences across the euro area are also reflected in unemployment rates: in December 2010, unemployment averaged 10.0 percent in the euro area, ranging from 4.3 percent in the Netherlands to 20.2 percent in Spain.

The turmoil surrounding the public finances of the deficit countries has eased somewhat lately. Risk premia on government bonds have fallen moderately (with the exception of Greek bonds). At the beginning of February, financial assistance amounting to € 11.7 billion was made available to Ireland within the framework of the European Financial Stability Facility. At the same time the discussions on intensified economic policy coordination within the euro area were continued.

Rising commodity prices have recently fuelled inflation in the industrialised countries. In December 2010, the inflation rate reached 1.5 percent in the USA, 2.2 percent in the euro area and 3.7 percent in the UK. In January 2011, it rose to 2.4 percent in the euro area, according to preliminary estimates, thus exceeding the target set by the ECB. The ECB recently stated that, given the low rate of inflation excluding energy and food (December 2010: 1.1 percent), it saw no need at the present juncture to raise key interest rates.

Austria: sentiment in industry and the services sector remains positive

Following stagnation in the third quarter of 2010, industrial production growth accelerated again in October and November 2010 (according to the production index excluding construction +1.5 percent and 2.7 percent, respectively, month-on-month). Figures also point to a renewed revival of foreign trade, after a slowdown in the third quarter: in November, merchandise exports exceeded the year-earlier level by 19.3 percent (October +12.6 percent).

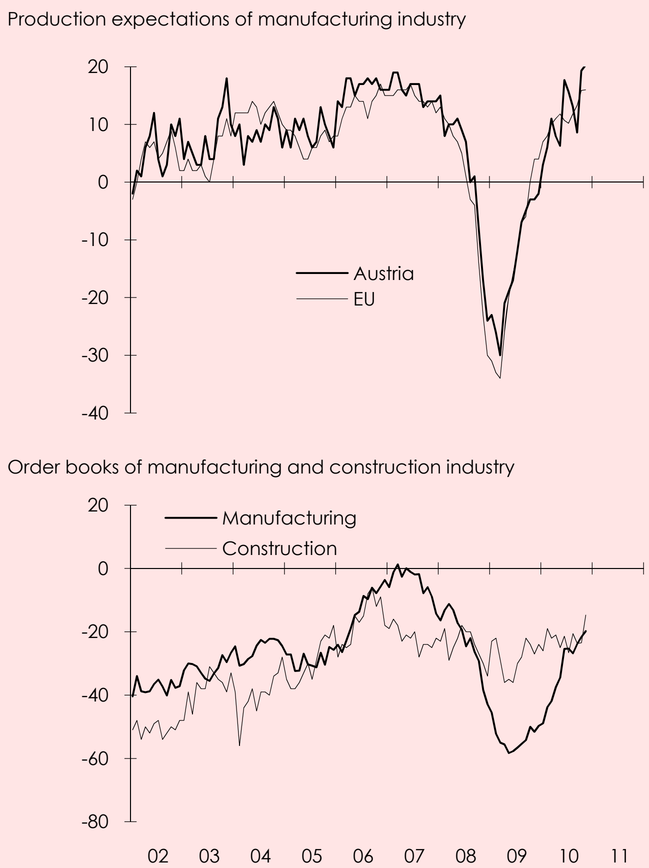
Austrian manufacturing also grew again at an accelerated pace towards the end of 2010, according to the production index. The WIFO business cycle survey provides an optimistic outlook for the coming months.

The WIFO business cycle survey of January 2011 suggests that activity in Austria's manufacturing sector is set to remain lively in the first few months of 2011. Order books improved yet again, while production expectations and expectations regarding the business outlook stabilised at a high level. Manufacturers of intermediate goods and durable consumer goods are reporting above-average order book levels; order books in the capital goods industry and in the motor vehicle sector, by contrast, have been quite volatile recently.

The business services sector shows signs of continuing its rebound; since December 2010, order book levels have again been surpassing their long-term average. Assessments suggest that the upward trend is likely to continue also in the coming months.

Figure 2: WIFO business cycle survey

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



Source: European Commission, WIFO business cycle survey. Following the change to NACE rev. 2 data classification in May 2010, caution should be exercised for comparison with earlier data.

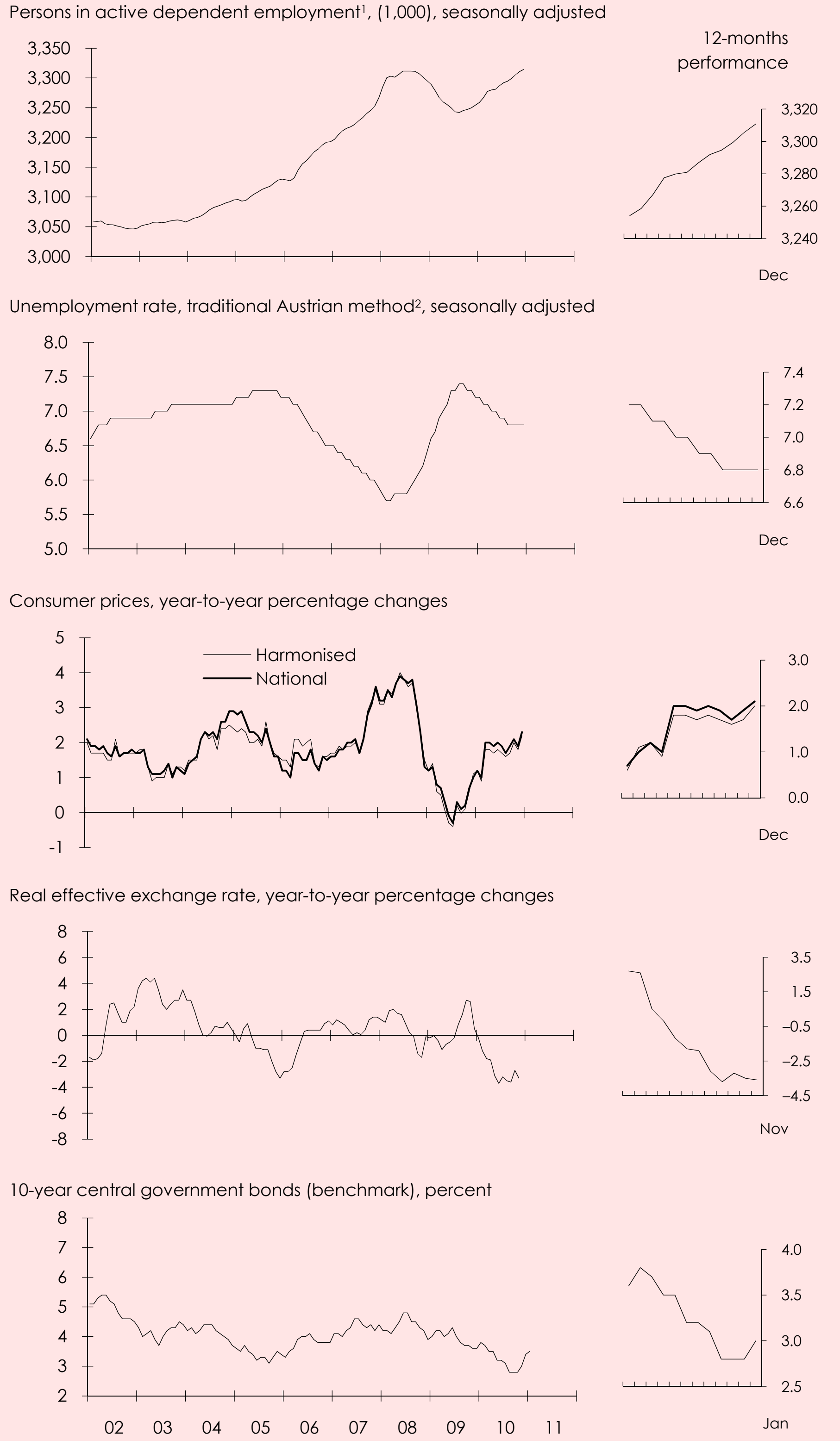
Construction activity remains weak. From January to November 2010, the production index was down 4.4 percent from its year-earlier level. While firms judge the current business situation favourably in a long-term comparison, they are quite cautious in their assessment of order books and the business outlook. Firms are anticipating price increases in the months ahead, which probably reflects higher cost pressures rather than improved order books.

Private consumption remains resilient. Retail trade (excluding cars) expanded by 2.3 percent year-on-year in real terms in 2010; in January 2011, car registrations were 22.5 percent above their year-earlier level.

Moderate decline in winter tourism

In the first two months of the 2010-11 winter season, tourism sales remained 2.9 percent below the year-earlier level, according to provisional calculations; the number of overnight stays fell by 2.5 percent.

Figure 3: Key economic indicators



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.

Carry-over (in economic growth)

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

Real and nominal values

In principle, the values shown must be understood as real values, i.e., adjusted for price effects. Whenever values are shown as nominal values (e.g., foreign trade statistics), this is specifically mentioned.

Production Sector

This term comprises the NACE-2008 sections B, C and D (Mining and Quarrying, Manufacturing, Energy Supply) and is here used in an international comparison.

Inflation, CPI und HICP

The inflation rate measures changes in consumer prices compared with a year before. The Consumer Price Index (CPI) is a measure of national inflation. The Harmonised Index of Consumer Prices (HICP) is the basis for comparable measurement of inflation in the EU and for the evaluation of price stability in the euro area (see http://www.statistik.at/).

WIFO Business Cycle Survey and WIFO Investment Survey

The WIFO business cycle survey is a monthly survey in which around 1,100 Austrian firms are asked to assess their current and future economic situation. The WIFO investment survey is conducted twice a year, asking companies about their investment activity (http://www.itkt.at/). The indicators are balances between the positive and negative responses expressed as a percentage of the total number of firms sampled.

Unemployment rate

Austrian national definition: The number of persons registered as job seekers with the Public Employment Service expressed as a percentage of the dependent labour force. Labour force is the sum of the unemployed and the persons in dependent employment (measured in standard employment relationships). Database: registrations with the Public Employment Service (AMS) and Association of Austrian social insurance agencies.

Definition according to ILO and EUROSTAT: Any person who is not gainfully employed and is actively seeking work is considered unemployed. Gainfully employed persons comprise all persons who during the reference week worked for at least one hour in a self-employed capacity or in paid employment. Persons receiving child-care benefit and apprentices are classified as gainfully employed, whereas persons in military service or persons carrying out alternative service are not. The unemployment rate is the number of unemployed persons expressed as a percentage of the total labour force (unemployed persons plus gainfully employed persons). Database: data from household surveys ("Mikrozensus").

Terms used in connection with the national definition of the unemployment rate

Persons in training: Persons who at a set date are enrolled in AMS (Public Employment Service) training programmes. When calculating the unemployment rate, their number is not taken into account either in the denominator or in the numerator.

Persons in dependent active employment: "Persons in dependent employment" include persons receiving child-care benefit, as well as persons in military service or persons carrying out alternative service with a valid employment contract. By deducting their number one arrives at the number of "persons in dependent active employment".

Tourism sales are expected to moderate in the winter season.

In the 2010-11 winter season, calendar effects (Christmas holidays on a weekend, late Easter) as well as the shorter duration of stays are dampening the result in terms of overnight stays. Nonetheless, the number of overnight stays is likely to reach the year-earlier level. Sales are set to decline moderately, however, given the substantial price pressure.

While the demand by foreign travellers contracted by 3.6 percent year-on-year in November and December 2010, overnight stays by resident guests stagnated (+0.1 percent). As regards the foreign source markets of importance to Austria, the first third of the 2010-11 winter season saw an increase notably in the number of nights spent by guests from Russia (+35.7 percent). The number of overnight stays by travellers from the three most important source markets, however, fell significantly compared with a year earlier (Germany –4.8 percent, Netherlands –12.4 percent, Italy –7.9 percent).

Further stabilisation on labour market

The number of persons in dependent active employment has risen moderately in recent months. Job vacancies have also increased.

Owing to changes to the statistics compiled by the Federation of Austrian Social Security Institutions, only provisional employment data are available for January 2011. The figures for 2008-2010 will also be revised in February. First estimates suggest that the recovery of the labour market is continuing: in January 2011, the number of persons in dependent active employment exceeded the year-earlier level by 1.9 percent. In November and December 2010, employment increased at a seasonally adjusted month-on-month rate of 0.1 percent and 0.2 percent, respectively; seasonally adjusted figures for January are not yet available.

Job vacancies have also risen further in seasonally adjusted terms in recent months; since November 2010, the average monthly rate of increase has been around 0.5 percent. In January 2011, the number of jobs offered was up by around 25.2 percent from a year before.

At the same time the number of persons registered as unemployed has been falling. In January 2011, it stood at 309,600, a decline by 4.3 percent from a year before. The seasonally adjusted unemployment rate according to the Austrian method of calculation in December 2010 was 6.8 percent. It was thus 0.6 percentage point lower than its peak in late summer 2009, but still 1.0 percentage point higher than the 2008 average.

Rising commodity prices fuelling inflation

The rise in commodity prices drove inflation in Austria to 2.3 percent in December. Inflation excluding energy and food is stable.

In December 2010, the inflation rate as measured by the consumer price index stood at 2.3 percent. The harmonised inflation rate (HICP) was 2.2 percent, in line with the euro area average.

This increase in CPI inflation is mainly attributable to developments in energy prices: In December, the price index of the expenditure category "Transport" was up by 3.8 percent from its year-earlier level. Inflation excluding energy and unprocessed food stood at 1.6 percent in December 2010. Relative to the peak of 2.9 percent recorded in September 2008, it has been trending downwards.

Commodity price increases are reflected more noticeably in wholesale prices. After declining by 7.5 percent in 2009, the latter rose at an accelerating pace in 2010. In January 2011, the wholesale price index already exceeded its year-earlier level by 11.6 percent.