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Austria's Economy Still Stagnating

Business Cycle Report of June 2013

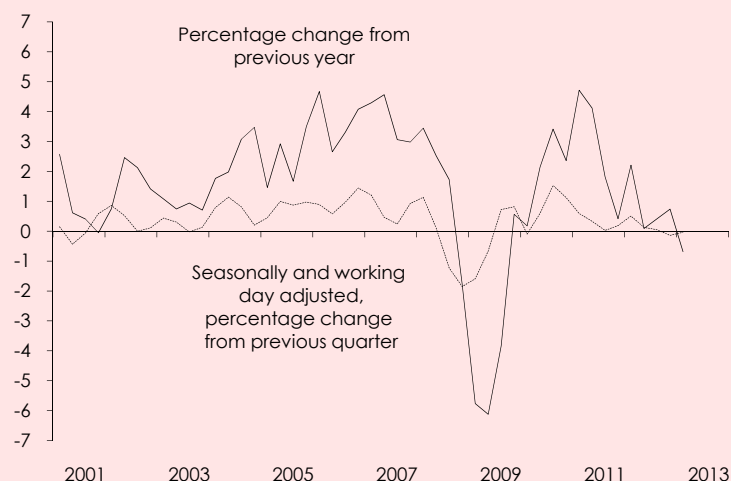
Austria's economy stagnated yet again in the first quarter of 2013, with neither external nor domestic demand providing stimulus. Inflation receded recently, while the seasonally adjusted unemployment rate remained consistently high at 7.5 percent. Global economic developments are highly uneven: Japan is implementing massive monetary and fiscal policy measures to stimulate the economy and overcome deflation. The yen depreciated sharply, and net exports increased. The recovery in the USA continues, although the drop in the unemployment rate has been accompanied by a decline in the labour force participation rate. The ongoing recession in many European countries, among them many key Austrian markets, provides negative stimulus, however.

For definitions of terms used, see "Methodological Notes and Short Glossary", in this volume and <http://www.wifo.ac.at/wwadocs/form/WIFO-BusinessCycleInformation-Glossary.pdf> • All staff members of the Austrian Institute of Economic Research contribute to the Business Cycle Report. • Data processing: Christine Kaufmann, Martha Steiner • Cut-off date: 6 June 2013. • E-mail address: Stefan.Schiman@wifo.ac.at

Global economic activity remains fragmented: In Japan it is currently accelerating at the fastest pace. The implementation of massive monetary and fiscal policy stimuli led to a considerable depreciation of the yen and a steep rise in the Nikkei stock index, although the upward trend of the latter was recently interrupted. Japan's net exports increased sharply. Whether or not this strategy will have a lasting effect remains to be seen. An important precondition for the success of the anti-deflation policy would be a pickup in wages, which is not yet in sight, however. In the USA, the recovery, which is quite sound compared with that in other countries, continues. Especially the specific measures taken by the central bank permit an expansion of credit and a recovery of the real estate market, and encourage construction activity. The euro area remains mired in recession, starting from peripheral countries such as Spain, Italy, Portugal, Greece and Cyprus. Economic developments are following different paths across Eastern Europe: while activity is shrinking in some countries (such as the Czech Republic or Slovenia), it continues to grow at a robust pace in Latvia and Lithuania. Germany saw a continuation of the weak dynamics at the start of the year.

This overall difficult environment determines economic developments in Austria. In the first quarter of 2013, GDP stagnated for the fourth consecutive time, with neither domestic nor external demand providing any stimulus. Notably the weakness in the transport sector and in goods production dampened economic activity. According to WIFO's latest Business Cycle Survey, economic slack will persist in the coming months. Price pressures remain subdued; inflation fell below the 2-percent mark in April, reflecting a decline in commodity prices (especially petroleum products) in addition to considerable under-utilisation of capacity. The situation in the labour market eased somewhat recently solely on account of seasonal factors, while the seasonally adjusted unemployment rate remained consistently high at 7.5 percent.

Figure 1: Growth of real GDP



Source: WIFO.

Table 1: Quarterly national accounts

			2011	2012				2013
			Fourth quarter	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
			Percentage changes from previous quarter					
<i>Adjusted for seasonal and working day effects, volume</i>								
Final consumption expenditure			+ 0.1	+ 0.1	+ 0.0	- 0.0	+ 0.0	+ 0.1
Households ¹			+ 0.1	+ 0.0	- 0.0	- 0.1	- 0.1	- 0.0
General government			+ 0.3	+ 0.3	+ 0.1	+ 0.1	+ 0.2	+ 0.3
Cross capital formation			+ 0.0	+ 0.2	- 0.0	- 0.3	- 0.2	- 0.1
Gross fixed capital formation			+ 0.7	+ 0.2	- 0.1	- 0.2	- 0.3	- 0.4
Machinery and equipment			+ 0.7	+ 0.1	- 0.7	- 0.9	- 0.6	- 0.3
Construction			+ 0.3	+ 0.2	+ 0.4	+ 0.5	- 0.0	- 0.3
Exports, goods and services			+ 0.4	+ 0.3	+ 0.3	+ 0.6	+ 0.2	+ 0.2
Goods			- 0.3	- 0.2	+ 0.1	+ 0.4	- 0.6	- 0.0
Services			+ 1.3	+ 1.3	+ 1.5	+ 1.5	+ 1.3	+ 0.9
Imports, goods and services			- 0.1	+ 0.2	+ 0.5	+ 0.3	- 0.2	+ 0.1
Goods			- 0.5	- 0.5	+ 0.1	- 0.1	- 0.6	+ 0.1
Services			+ 2.5	+ 2.3	+ 1.8	+ 1.2	+ 1.0	+ 0.4
Gross domestic product			+ 0.2	+ 0.5	+ 0.1	+ 0.0	- 0.1	- 0.0
Manufacturing			+ 0.2	+ 0.8	+ 0.3	- 0.5	- 0.9	- 0.1
	2011	2012	2011	2012				2013
			Fourth quarter	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
			Percentage changes from previous year					
<i>Volume, chained prices</i>								
Final consumption expenditure	+ 0.5	+ 0.4	- 0.0	+ 2.4	+ 0.3	- 0.8	- 0.3	- 0.7
Households ¹	+ 0.7	+ 0.4	+ 0.5	+ 2.0	+ 0.1	+ 0.0	- 0.5	- 1.3
General government	+ 0.1	+ 0.4	- 1.6	+ 3.7	+ 0.9	- 3.2	+ 0.4	+ 1.0
Cross capital formation	+ 9.6	+ 0.2	+ 2.9	+ 1.7	+ 0.6	- 1.6	+ 0.6	- 5.7
Gross fixed capital formation	+ 7.3	+ 1.2	+ 5.1	+ 3.6	+ 0.9	+ 0.4	+ 0.1	- 2.7
Machinery and equipment	+ 12.1	+ 0.3	+ 4.6	+ 5.2	+ 1.7	- 3.9	- 1.4	- 6.9
Construction	+ 4.4	+ 1.2	+ 5.9	+ 2.0	- 0.1	+ 2.8	+ 0.4	+ 0.0
Exports, goods and services	+ 7.2	+ 1.5	+ 3.7	+ 1.9	+ 0.6	+ 2.3	+ 1.3	+ 1.0
Goods	+ 8.5	+ 0.1	+ 2.0	+ 1.2	- 1.2	+ 0.9	- 0.6	- 0.4
Services	+ 4.0	+ 5.4	+ 8.2	+ 3.4	+ 6.3	+ 6.0	+ 6.0	+ 4.2
Imports, goods and services	+ 7.2	+ 1.0	+ 4.0	+ 2.0	+ 1.6	+ 0.0	+ 0.6	- 2.0
Goods	+ 8.1	- 0.6	+ 3.2	+ 0.7	- 0.4	- 1.6	- 0.8	- 3.7
Services	+ 3.6	+ 7.9	+ 7.3	+ 8.2	+ 10.5	+ 6.5	+ 6.9	+ 5.9
Gross domestic product	+ 2.7	+ 0.8	+ 0.4	+ 2.2	+ 0.1	+ 0.4	+ 0.7	- 0.7
Manufacturing	+ 8.5	+ 1.3	+ 1.6	+ 3.6	+ 0.7	+ 1.5	- 0.4	- 1.7
Gross domestic product, value	+ 5.0	+ 3.4	+ 1.8	+ 4.2	+ 2.8	+ 2.4	+ 4.2	+ 1.8

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

The vigorous trade dynamics seen in Asia, while weakening recently according to CPB's latest world trade data, remain strong compared with other regions. The Ifo World Economic Climate Indicator shows a marked improvement for Asia, largely due to the upward trend observed in Japan. Expectations are particularly favourable for emerging market economies in Southeast Asia. In South America, by contrast, the expansion is likely to slow, for instance in Argentina, Columbia or Venezuela. Exports there declined further while the volume of imports continued to increase slightly.

US international trade in goods has stagnated of late, but the outlook is assessed positively, according to the Ifo indicator. By contrast, the assessment for Western Europe has deteriorated further; the weak demand in the euro area is reflected in a shrinking volume of imports, among other things. The outlook for Eastern Europe is subdued overall, according to the Ifo indicator; according to CBP, international trade in goods there is stagnant.

Key stock exchange indices reflect the global disparities: the strongest year-on-year increase was recorded for Japan's Nikkei Index, which in May was more than 60 percent higher on average than a year before. The Dow Jones exceeded its year-earlier reading by almost one fifth, and the Euro Stoxx 50 was up by one fourth or more. While the Dow Jones has been steadily trending upward since the beginning of 2013, the European index has flattened this year; it had risen especially in the latter half of 2012, after the ECB had announced its programme of unlimited interventions in sovereign debt markets.

While growth decelerated slightly in China in the first few months of 2013 (fourth quarter of 2012 +2.0 percent, first quarter of 2013 +1.6 percent), it accelerated briskly in Japan: in the first quarter, the economy expanded by 0.9 percent compared with the previous quarter, according to first estimates; this was the highest growth rate in a year. Following +1.3 percent in the first quarter of 2012, real GDP had contracted (second quarter -0.2 percent, third quarter -0.9 percent), and had increased only moderately in the fourth quarter (+0.3 percent). While at the beginning of 2012 stimulus had been provided by – among other things – reconstruction work in the regions destroyed by natural and environmental disasters, demand this year is likely to be stimulated by the concerted fiscal and monetary policy measures: the strongest increase in the wake of the massive depreciation of the yen¹ was recorded in exports, but the biggest contribution to growth came from private consumption, as already in the previous quarter. Investment, by contrast, remained stagnant.

While economic activity picked up in the USA (first quarter +0.6 percent) and in Japan in the first few months of 2013, the euro area and the EU as a whole remain mired in recession: In the first quarter of 2013, GDP contracted by 0.1 percent in the EU, and by 0.2 percent in the euro area. The southern EU countries continue to provide negative stimulus: GDP contracted in Spain (-0.5 percent), Italy (-0.5 percent), Portugal (-0.4 percent) and Cyprus (-1.3 percent), but also in France (-0.2 percent). In addition, real GDP declined noticeably in the Czech Republic (-1.1 percent) and Slovenia (-0.7 percent). The downward trend thus continued in both countries, a similar development as the one seen in Cyprus, Spain and Italy since the latter half of 2011 (in Portugal already since the end of 2010). At the beginning of the year, GDP also contracted for the first time since the third quarter of 2009 in Estonia (-1.0 percent); developments there had fallen behind those in neighbouring Baltic countries already since mid-2011. At +1.2 percent (Latvia), and +1.3 percent (Lithuania), the latter posted the highest growth rates recorded in the EU in the first quarter

¹ The yen to dollar exchange rate rose from October 2012 (less than 80 yen per dollar) to more than 100 yen in May. This massive depreciation had been preceded by appreciation since mid-2007 (120 yen per dollar). Two episodes of such a strong and lasting depreciation vis-à-vis the dollar (i.e., without subsequent correction) had been recorded since 1990: April to December 1995 +20 yen per dollar (followed by another continuous depreciation until mid-1998), and August 2000 to April 2001 +15 yen per dollar.

Global economic West-East divide

Global economic activity remains fragmented. Positive stimulus is provided by some Asian economies, whereas negative impetus comes especially from the euro area.

Weak yen supports Japan's economy

Japan's expansionary economic policy is yielding first results: the yen depreciated sharply, and net exports and private consumption contributed significantly to growth at the start of this year.

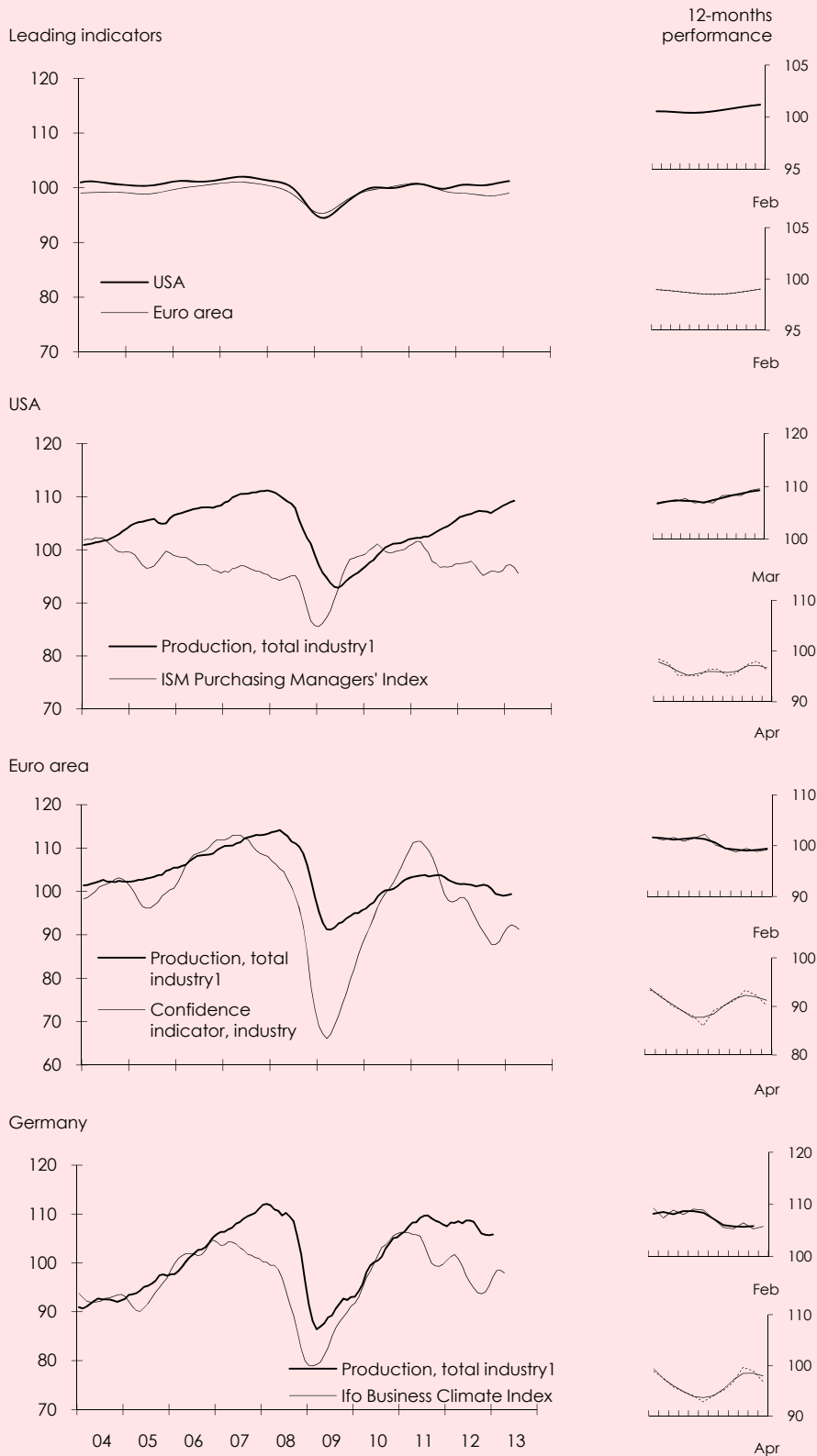
Euro area and EU overall remain mired in recession

Southern Europe continues to provide negative stimulus. Only a few countries outside the euro area are recording noticeable GDP growth.

of 2013. Value added growth was also registered in Sweden in the first quarter of 2013 (+0.6 percent).

Figure 2: International business climate

Seasonally adjusted, 2010 = 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.

Economic developments in Eastern Europe have been mixed: while GDP continued to shrink in the Czech Republic and in Slovenia, it increased markedly for the first time in two years in Hungary, by +0.7 percent in the first quarter. At the beginning of 2013, the economy expanded as well in Slovakia (+0.2 percent) and Romania (+0.7 percent), also important export markets for Austria, albeit at a slowing pace in Slovakia.

Developments in the UK and Denmark fluctuate from one quarter to the next: following a decline by 0.3 percent and 0.9 percent respectively in the fourth quarter of 2012, GDP rose by 0.3 percent and 0.2 percent respectively in the first quarter of 2013.

In seven other EU countries, GDP remained constantly flat or barely changed. In Belgium (+0.1 percent), Bulgaria (+0.1 percent), Austria (−0.0 percent) and Finland (−0.1 percent), dynamics were just as weak as in the preceding quarters. In Germany (+0.1 percent), domestic demand and foreign trade provided hardly any stimulus to growth at the start of the year. The slowdown of activity observed in Poland since the beginning of 2012, at year-end turned into stagnation. In the Netherlands, the price collapse following the bursting of the real estate bubble sapped households' purchasing power; the economy shrank markedly in the third and fourth quarters of 2012².

World market prices of crude oil and coal declined further in May; food prices (excluding tobacco and alcohol), which had risen sharply in the latter half of 2012, barely changed compared with a year before. Against this background, the euro area saw a striking drop in inflation to 1.2 percent in April (March 1.7 percent). It was not least because of this slowdown in inflation that the ECB cut the key interest rate from 0.75 percent to 0.50 percent.

The price of crude has fallen recently. In combination with the high under-utilisation of capacity, euro area inflation dropped to 1.2 percent in April.

Economic output in Austria has been stagnating for a year now: GDP barely changed for the fourth consecutive time in the first quarter of 2013 (−0.0 percent, compared with the previous quarter, adjusted for seasonal and working-day effects; second quarter of 2012 +0.1 percent, third quarter +0.0 percent, fourth quarter −0.1 percent). The annual decline of 0.7 percent based on unadjusted figures can be attributed to the higher number of working days in the leap year 2012.

Austria's economy stagnant for 12 months

Neither domestic demand nor net trade have lately provided any stimulus worth mentioning.

Neither domestic demand nor net trade have lately provided any stimulus worth mentioning. Private consumption has been stagnant since mid-2011. However, consumer sentiment is gradually recovering from its low level in September 2012, according to the European Commission Consumer Confidence Indicator. Businesses remain cautious about investing. Gross fixed capital formation has been progressively declining for a year now (third quarter of 2012 −0.2 percent, fourth quarter of 2012 −0.3 percent, first quarter of 2013 −0.4 percent).

At +0.2 percent, export growth was even more tepid in the first quarter than already since mid-2011. Import demand also barely increased (+0.1 percent). The weak international environment continued to hold back goods production in Austria, albeit to a lesser degree than in the autumn and winter of 2012. Construction once more was little dynamic. In the services sector, output contracted especially in the transport industry. Tourism benefited from the early timing of Easter, and the other sectors posted a slight increase in real value added.

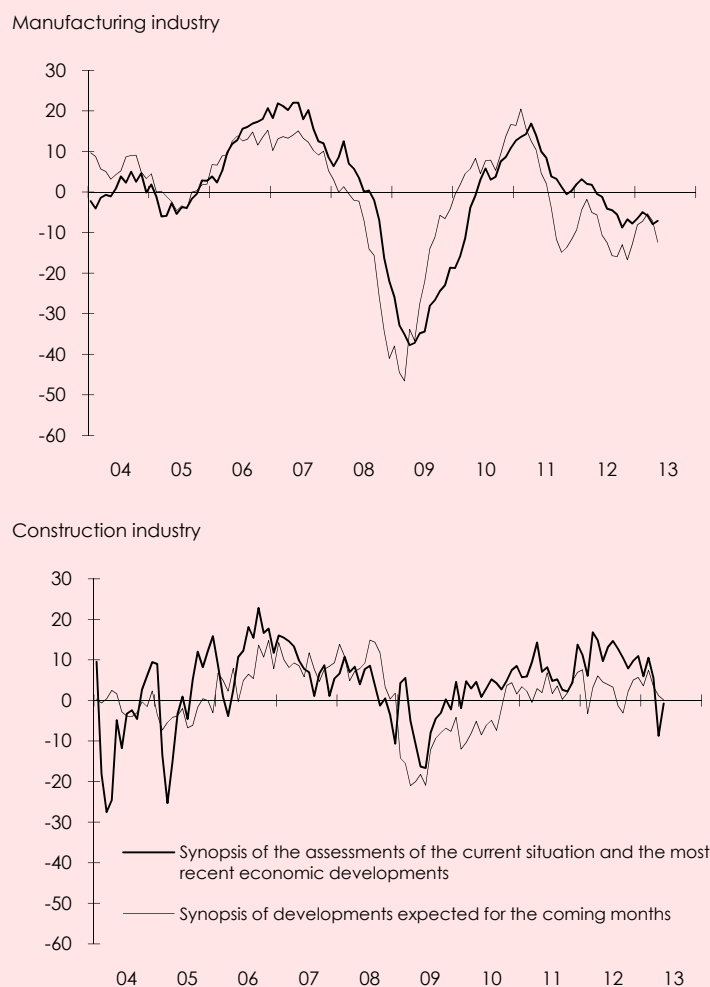
Both car dealers and wholesalers experienced a considerable decline in sales in the first quarter of 2013. Domestic firms' weak investment demand and lacking stimulus from abroad are weighing particularly on wholesaling, while the ongoing decline in the demand for new passenger cars is dragging down sales for car dealers. In April, nominal retail sales are likely to have slightly exceeded the year-earlier level, however with one additional selling day this year compared with 2012.

² As due to the deep crisis seasonal adjustment procedures do not yield robust results for Greece, quarter-on-quarter rates of change are not available. GDP has been shrinking since 2009 and in the first quarter of 2013 remained 5.3 percent below the year-earlier level. This suggests that the sharp recession is set to persist.

According to WIFO's Business Cycle Survey, the present situation index for the total economy improved moderately in May compared with a month before, but nevertheless remained below its long-term mean. The business expectations index also remained below its long-term average, notably owing to the negative appraisals in the cyclically sensitive manufacturing, construction and transport sectors (firms in other services sectors are less pessimistic). WIFO's Leading Indicator is sending out similar signals: it did rise slightly in month-on-month terms in May, but has been largely stagnant since March. Hence, the outlook for economic activity has not improved in the last two months; especially the industrial sector is sending out only weak signals.

Figure 3: Results from the WIFO Business Cycle Survey

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



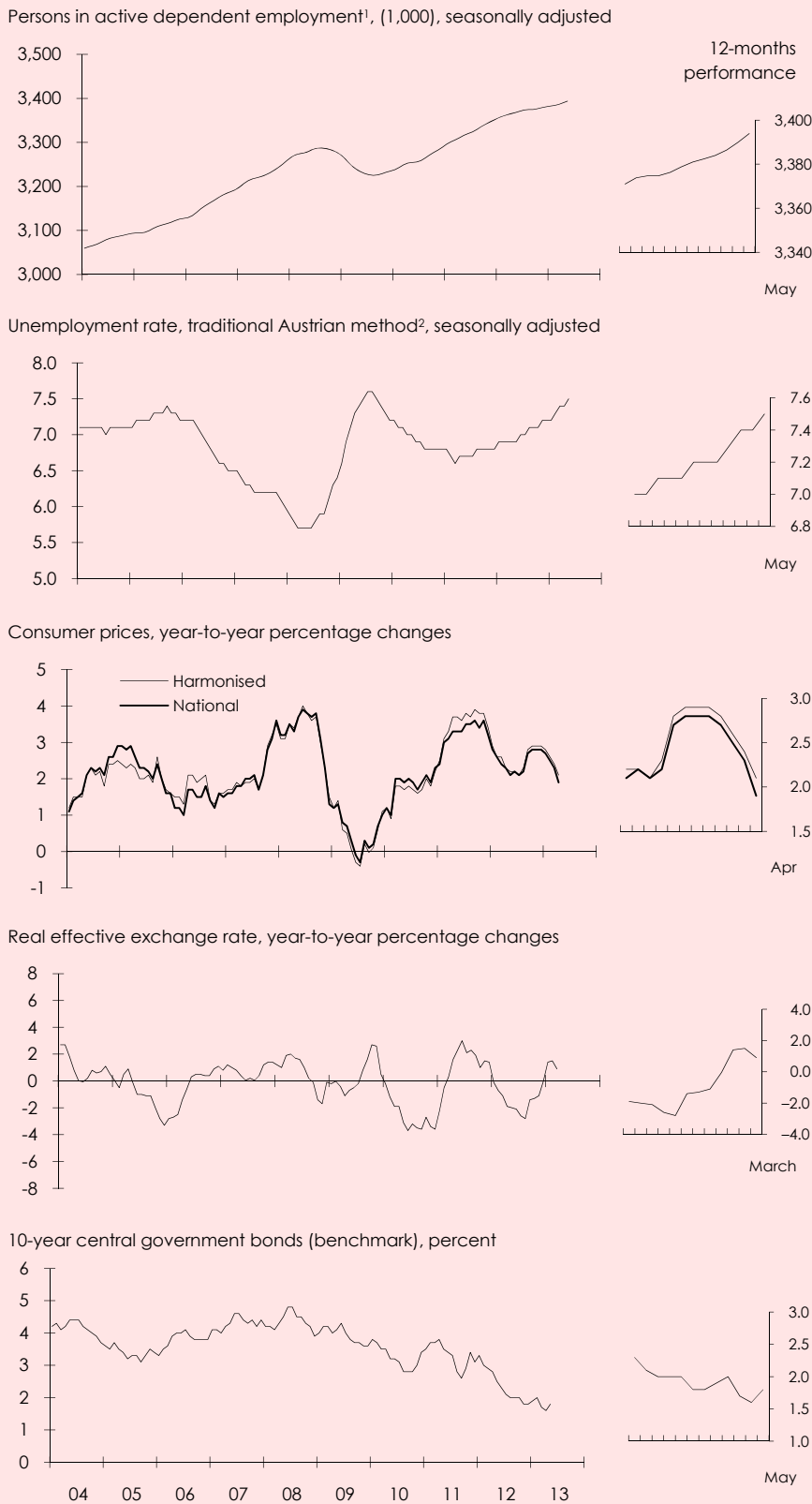
Source: WIFO Business Cycle Survey. Data refer to index points (percentage points) between +100 and -100. Values above 0 imply positive expectations, values below 0 indicate negative expectations.

The number of nights spent in the 2012-13 winter season (November 2012 until April 2013) increased by 1.9 percent overall, to 65.55 million, the highest level so far. The demand from abroad (+2.7 percent) played a decisive part in this development, whereas domestic tourism shrank by 0.7 percent. Adjusted for price changes, revenue nevertheless contracted slightly by 0.5 percent. This unsatisfactory sales development was attributable to the decline in guests' spending propensity, reflected in a 2.3-percent drop in real expenditure per night spent. One indicator of this development is the marked increase in the number of nights spent in commercial holiday apartments (+6.2 percent) and private holiday houses (+5.7 percent), which allow

Winter tourism: drop in sales despite peak in nights spent

increased self-catering. By contrast, nights spent in other types of accommodation establishments rose only marginally (+0.8 percent).

Figure 4: 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.

In April 2013, consumer prices stagnated compared with the previous month. Price increases were recorded especially in the food and beverages, clothing and shoes as well as household goods categories, while a drop in prices was registered for fuels, and in parallel with the latter, for most transport-related products, but due to seasonal effects also for package holidays.

The annual inflation rate fell again in April (to 1.9 percent, March 2013: 2.3 percent), and for the first time since November 2010 stood below the 2-percent mark. Year-on-year increases were registered in housing costs, but also in food prices. In parallel with the most recent decline in world market energy and commodity prices, prices of fuel and heating oil fell considerably compared with a year before, and consequently were largely responsible for the marked decline in the inflation rate.

The expansion of the labour supply in the first few months of 2013 (May 2013 +1.3 percent compared with a year before) was not as strong as in 2012, but still stronger than the increase in the number of persons in dependent active employment (+0.8 percent). Thus the trend of increasing unemployment along with rising employment continued. The drop in the unemployment rate from 7.3 percent in April to 6.7 percent in May was due to seasonal factors; adjusted for seasonal effects it stood at 7.5 percent, unchanged from a month before. 251,895 persons were unemployed, an increase of 9.0 percent compared with a year earlier, and the number of persons enrolled in vocational training provided by AMS (Public Employment Service) rose by 11.0 percent to 78,414.

Drop in fuel prices dampens inflation

No turnaround in labour market