

Austria Withstands Recession: Return to Positive Growth in Early 2013

Klaus Vondra¹ Austria's economy expanded by 0.8% in 2012, whereas the euro area slipped into recession again. Growth in Austria was driven both by domestic demand and net exports. While the economic outlook for the euro area remains clouded for 2013 as well, Austrian economic growth is likely to accelerate in the first half of 2013, as forecast by the OeNB. However, the continued weakness of order books and uncertainty surrounding the formation of a government in Italy as well as the latest developments in Cyprus represent potential hurdles for the recovery. HICP inflation decreased in January and February after a period of rising and stagnant inflation rates in the second half of 2012 and is expected to ease further in the course of the year. The economic sluggishness has had repercussions on the labor market – unemployment is on the rise.

Austria's Economy Contracts Only Marginally in Q4 2012 Despite Global Weakness

The first full set of national accounts data for the fourth quarter of 2012 indicates that Austrian GDP shrank by just 0.1% against the third quarter (in real terms, seasonally and working-day adjusted). Thus, output contracted perceptibly less in Austria than in Austria's main European trading partners (Germany: -0.6%; Italy: -0.9%).

Whole-year growth for 2012 amounted to +0.8% in Austria (in real terms, both seasonally and not seasonally adjusted). Growth was fueled not only by net exports, but also by domestic demand. The negative contribution to growth of inventory changes corroborates the general picture of uncertainty among economic agents.

Table 1

Results of the National Accounts

	GDP	Private consumption	Government consumption	Gross fixed capital formation	Exports	Imports	Domestic demand (excluding inventories)	Net exports	Changes in inventories	Statistical discrepancy	
	Change on previous period in %						Contributions to GDP growth in percentage points				
Q3 11	-0.0	+0.1	+0.1	+1.1	+0.2	+0.5	0.3	-0.1	-0.1	-0.1	
Q4 11	+0.2	+0.1	+0.2	+0.7	+0.1	-0.1	0.2	0.1	-0.0	-0.1	
Q1 12	+0.4	+0.1	+0.2	+0.2	+0.3	+0.1	0.2	0.1	0.0	0.1	
Q2 12	+0.1	+0.1	-0.0	+0.0	+0.7	+0.6	0.0	0.1	-0.1	0.1	
Q3 12	+0.1	-0.0	-0.1	+0.1	+0.9	+0.3	-0.0	0.4	-0.2	-0.1	
Q4 12	-0.1	-0.1	+0.1	+0.1	-0.3	-0.2	-0.0	-0.1	-0.2	0.2	
2009	-3.5	+1.1	+0.9	-6.4	-15.3	-11.8	-0.6	-2.9	-0.6	0.6	
2010	+2.2	+1.6	+0.0	+0.7	+8.9	+8.0	1.1	0.8	0.5	-0.1	
2011	+2.7	+0.9	-0.4	+6.3	+7.1	+7.0	1.7	0.4	0.5	0.1	
2012	+0.8	+0.4	+0.4	+1.8	+1.8	+1.2	0.6	0.4	-0.3	0.0	

Source: Austrian Institute of Economic Research (WIFO).

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The OeNB's Economic Indicator Heralds Positive GDP Growth in Austria in Early 2013

The OeNB's Economic Indicator of March 2013 shows that Austria is rebounding from the sluggish performance during the fourth quarter of 2012. Specifically, the OeNB forecasts real GDP to edge up in the first quarter of 2013 (+0.1% against the previous quarter) and to quicken a bit more in the second quarter of 2013 (+0.3%). This represents an upward revision of 0.1 percentage points in the second quarter of 2013 against the forecast in the OeNB December 2012 Economic Outlook for Austria.

The OeNB's Economic Indicator of March 2013 reflects the most recent developments of hard and soft facts. For instance, industrial output as defined by Eurostat² rose astonishingly forcefully in December (month on month) but nonetheless fell slightly for the fourth quarter as a whole (table 2). At the same time, the decline in construction output (NACE Section F) intensified in the course of the fourth quarter. Hence, industrial output as a whole (NACE Sections B through F³) dimin-

ished in the fourth quarter, notwithstanding a small increase in December.

New orders lead industrial production by some two to three months, but are also more volatile. The slowdown of the global economy in the fourth quarter of 2012 has left its marks above all on order books. Industry will come to feel the impact of the contraction of new orders during this period with a time lag. Only a marked improvement in actual orders received in the first quarter of 2013 could offset the dampening effects of the developments in the fourth quarter.

Confidence indicators reflect the most recent economic developments in a timely manner. At the time of writing, corresponding measures were available up to and including February. However, the indicators do not present a uniform picture: After having fallen slightly in January, the Economic Sentiment Indicator (ESI) of the European Commission rose perceptibly in February; it has thus moved closer to its long-term average. With the exception of January, the indicator has been improving slowly but surely, signaling an improvement of sentiment that should

Table 2

Industrial Output and New Orders (seasonally adjusted)

	Dec. 12	Nov. 12	Oct. 12	Q4 12	Q3 12	Q2 12	Q1 12	2012	2011	2010	2009
Change on previous period in %											
Industrial output NACE B–F	+0.6	–0.5	–0.2	–1.1	+0.9	+2.0	+0.2	+1.9	+5.7	+4.5	–9.5
Construction output	–2.1	–1.2	–0.5	–3.0	+2.4	+3.1	–2.3	+1.8	–0.1	–4.3	–1.9
Industrial output as defined by Eurostat	+3.5	–1.1	–0.3	–0.6	+0.3	+1.6	+1.0	+1.8	+6.9	+6.6	–11.4
New orders NACE B–F	+0.6	–0.5	–0.2	–1.1	+0.9	+2.0	+0.2	+1.9	+5.7	+4.5	–9.5
New construction orders	–2.1	–1.2	–0.5	–3.0	+2.4	+3.1	–2.3	+1.8	–0.1	–4.3	–1.9
New orders as defined by Eurostat	+3.5	–1.1	–0.3	–0.6	+0.3	+1.6	+1.0	+1.8	+6.9	+6.6	–11.4

Source: Eurostat, OeNB calculations.

² Industrial output as defined by Eurostat comprises NACE Sections B through D excluding Group D353, notably manufacturing (Section C).

³ NACE Sections B to F comprises the following production areas: Mining, manufacturing, energy and water supply, and construction.

also translate into a recovery of various economic measures like industrial output in the first half of 2013. Bank Austria's Purchasing Managers' Index (BA EMI) dipped in February after having risen somewhat in January, but it remains below the expansion threshold. Unlike the ESI, the Purchasing Managers' Index has been moving sideways since surging in November 2012 and is not showing a clear trend.

Apart from the latter two indicators, the leading indicator of the Austrian Institute of Economic Research (WIFO) and the OECD's Composite

Leading Indicator went through a trend shift in the fourth quarter of 2012. Like the ESI, WIFO's leading indicator as well as the Ifo Business Climate Index for Germany, which works well as a proxy leading indicator for Austria, have shown a continuous improvement of the economic situation. This corroborates the assessment that the rebound will strengthen from the beginning of 2013. However, what will happen after the first quarter of 2013 is still subject to a fair amount of uncertainty. Despite the most recent upward trend, all confidence indicators remain below their

Chart 1

Leading Indicators (February 2013)

Economic Sentiment Indicator



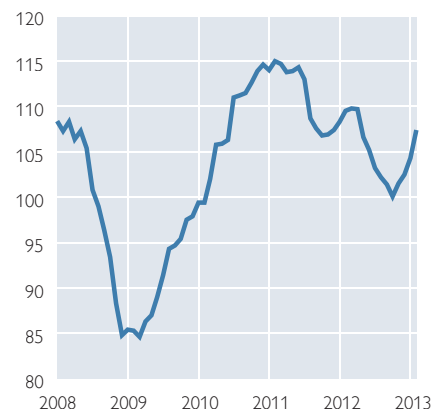
Source: European Commission.

ESI: New Orders from Abroad



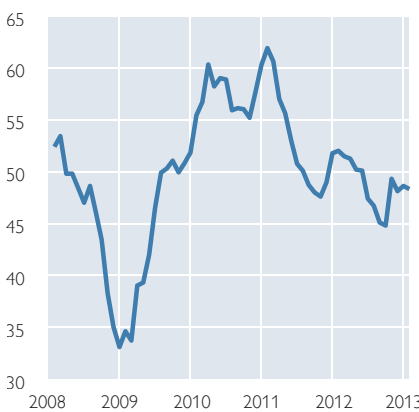
Source: European Commission.

Ifo Business Climate Index



Source: Ifo.

BA Purchasing Managers' Index



Source: Bank Austria.

BA EMI: New Orders



Source: Bank Austria.

ATX



Source: Wiener Börse.

long-term average. In addition, the confidence surveys show little signs of a pronounced improvement of order books (chart 1).

The result of the Italian parliamentary elections could put a renewed strain on economic developments beyond the first quarter of 2013. Protracted uncertainty about the political developments in Italy, which is after all the euro area's third-largest economy, could engender a reassessment of the reform process in Europe in tandem with a fresh loss of confidence on the part of investors. The results of the elections and the events in the subsequent days already triggered first negative reactions in the financial markets. Chart 2 shows yields on Italian ten-year government bonds resuming their upward movement and a decline in yields on German and Austrian government bonds, apparently a sign of investors' quest to find safe havens.

The intensification of the debt crisis in Italy in the second half of 2011 had a distinctly negative impact on Austria,

given the close links between the Austrian and the Italian economies.⁴ The yield spread between Austrian and German government bonds widened noticeably temporarily. Such contagion effects may well occur in the future, too.

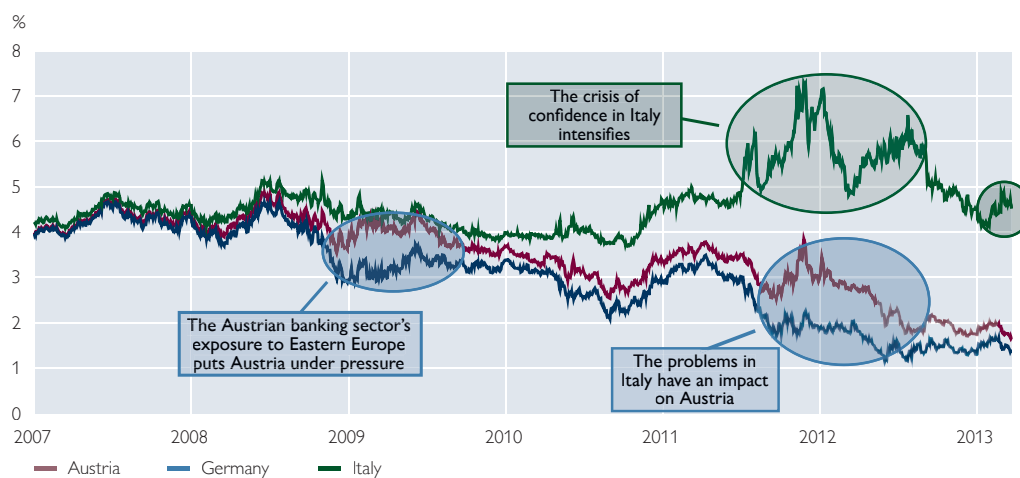
The latest developments in Cyprus – staving off national insolvency with a last-minute solution, putting together an EU-ECB-IMF rescue package, involving private savings above EUR 100,000 – will not have a direct impact on the Austrian economy. As the economy of Cyprus is small (0.2% of euro area GDP in 2012), these measures are not expected to have a direct impact on the euro area either. However, the dramatic negotiations within Cyprus and with the EU and the ECB up to late Sunday night on March 24 could have negative repercussions on sentiment in Europe.

HICP Inflation Accelerates Strongly from Mid-2012 and Begins to Ease in Early 2013

After HICP inflation had subsided in early 2012, it resumed its upward

Chart 2

Yield Spreads on Ten-Year Government Bonds



Source: Thomson Reuters.

⁴ Italy is Austria's second-most important trading partner.

course to reach nearly 3% in fall 2012. Inflation quickened above all because service prices augmented sharply. Most recently, service sector prices contributed around 1½ percentage points, or nearly half of the total increment, to HICP inflation. The price momentum was driven above all by substantial wage cost increases, robust demand for tourist services and a moderately higher rate of increase of administered service prices.⁵ Moreover, seasonal factors (industrial goods excluding energy: clothing and footwear) and weather-related factors (unprocessed food: fruit harvest losses) were implicated in the comparatively strong uptick in inflation in fall 2012. The OeNB expects these developments to be only temporary rather than presaging a revival of inflation. While inflation results were persistently high throughout the fourth quarter of 2012, inflation rates in early 2013 are nevertheless significantly lower than the peak rate of autumn 2011. The moderation of inflation by comparison to fall 2011 reflects more moderate de-

velopments above all in the energy sector, but also with regard to processed foods.

HICP inflation abated from 2.9% from October through December 2012 to 2.8% in January and 2.6% in February 2013. Core inflation (HICP excluding energy and unprocessed food) also decreased in February 2013 and stood at 2.5%. Thus, in February 2013, Austrian HICP inflation remained significantly above the euro area average of 1.8%. The inflation gap between Austria and Germany has widened markedly from August 2012 (+0.1 percentage points) to February 2013 (+0.8 percentage points). The principal reason for the widening of the inflation gap to Austria's main trading partner is the faster rise in the price of services and the underlying more pronounced increase of wages in Austria in 2012. Austrian HICP inflation exceeded the Italian counterpart rate by 0.6 percentage points in February 2013.

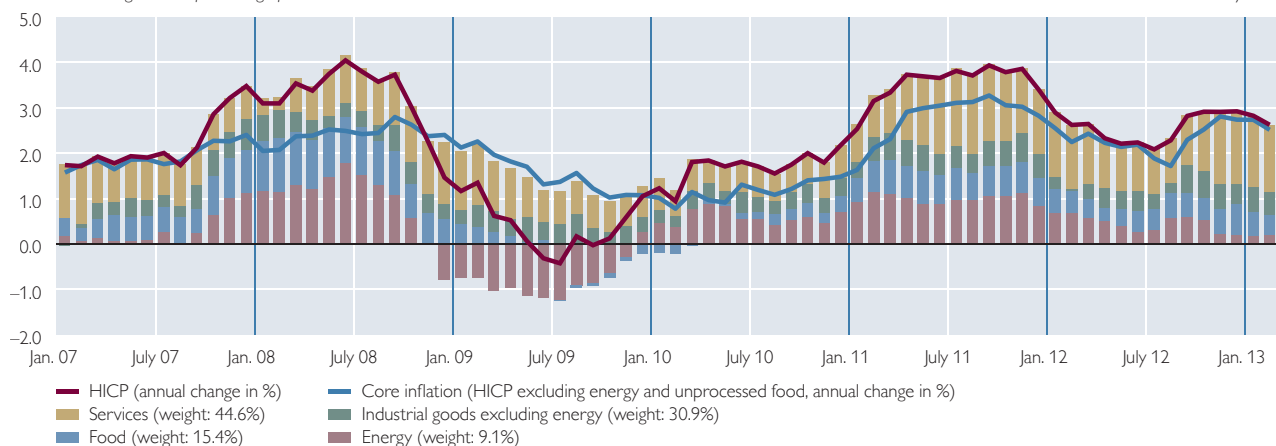
At 2.8% in February 2013 (December 2012: +4.1%), the CPI inflation rate of the micro basket – this basket

Chart 3

HICP Inflation and Contributions of Subcomponents

Contributions to growth in percentage points

Last observation: February 2013



Source: OeNB, Statistics Austria.

⁵ Tuition fees for students who take longer than the standard time to graduate (long-time students) and for students from non-EU countries; medical services; public transportation.

contains typical daily purchases of food only – was slightly above the HICP inflation rate. The CPI inflation rate of the basket of weekly goods (containing selected foods, services and fuel) was markedly below the HICP inflation rate (February 2013: 1.6%; December 2012: 3.1%). Annual CPI inflation ran to 2.5% in February 2013, down from 2.8% in December 2012.

The OeNB anticipates a further decline in HICP inflation in the course of 2013. Full-year HICP inflation in 2013 is forecast to come to some 2%. This value represents an upward revision from the OeNB December 2012 Economic Outlook. The key reason for the revision is the acceleration of service prices, as described above.

Unemployment (Eurostat Definition) Climbs to Highest Level since 2009

The lackluster economy in 2012 increasingly dampened developments in the labor market. Hence, in the course

of 2012 – especially in the second half – the jobless rate mounted significantly. In January 2013, the rate of unemployment as defined by Eurostat attained the highest monthly value (4.9%) since the crisis in 2009 (5.2% in September 2009). Youth unemployment (job seekers up to the age of 25) augmented to 9.9% in the course of 2012; this rate, though, is still far below the euro area average of 24.2%.

The rise in unemployment was masked by the steady rise in employment in the course of 2012, which itself came as a surprise, given the difficult economic situation. Another special factor that has had an impact on the pace of employment growth was the opening of the Austrian labor market to job seekers from the countries that joined the EU in 2004 (with the exception of Bulgaria and Romania). While these barriers had been removed already in May 2011, nonresidents accounted for some 60% of the increment in employment in 2012.⁶

Table 3

Labor Market Overview

	Payroll employment		Unemployment		Unemployment rate		Vacancies		Training	
	1,000	Annual change in %	1,000	Annual change in %	AMS (%)	Eurostat (%)	1,000	Annual change in %	1,000	Annual change in %
2010	3,360	+0.6	250.8	-3.7	6.9	4.4	31,009	+14.1	73	+14.2
2011	3,422	+1.8	246.7	-1.6	6.7	4.2	32,310	+4.2	63	-13.6
2012	3,465	+1.3	260.6	+5.7	7.0	4.4	29,422	-8.9	67	+5.3
Q1 12	3,403	+1.6	297.3	+4.4	8.0	4.1	27,586	-11.6	68	-1.5
Q2 12	3,462	+1.3	234.3	+5.6	6.3	4.3	32,219	-11.2	68	+6.3
Q3 12	3,537	+1.2	229.9	+6.5	6.1	4.5	31,689	-5.5	60	+6.6
Q4 12	3,460	+0.9	281.1	+6.3	7.5	4.6	26,195	-7.2	70	+10.7
Sep. 12	3,507	+0.7	229.0	+5.0	6.1	4.5	31,609	-3.4	66	+6.4
Oct. 12	3,486	+1.0	249.9	+6.3	6.7	4.5	28,520	-7.7	73	+11.5
Nov. 12	3,466	+0.9	270.4	+6.7	7.2	4.5	25,454	-5.9	74	+9.0
Dec. 12	3,427	+0.7	323.0	+6.0	8.6	4.7	24,610	-7.9	62	+11.9
Jan. 13	3,404	+0.6	338.4	+6.4	9.0	4.9	22,760	-9.6	72	+9.0
Feb. 13	3,415	+0.7	326.4	+5.3	8.7	x	24,757	-9.9	x	x

Source: Austrian Association of Social Insurance Providers, Austrian Public Employment Service (AMS), Eurostat (Eurostat unemployment rate: seasonally adjusted). Payroll employment data for February: preliminary data of the Austrian Federal Ministry of Labour, Social Affairs and Consumer Protection.

⁶ The calculation refers to the rise in employment from January to December 2012. In December, the share of nonresidents in total employment came to 15%.