

Austria: Economic Activity Picks Up at the Turn of the Year

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Austrian Economy Grows 0.4% in 2013, with Activity Quickening at Year-End

Austria's economy performed fairly well in 2012 and 2013, considering that the euro area was in recession. Real GDP growth was admittedly very subdued in Austria, but nevertheless positive, whereas output declined in ten euro area countries at least in one of the two years. However, the recovery is increasingly gaining a foothold across the globe. In the second quarter of 2013, the euro area also emerged from recession.

The Austrian economy remained sluggish throughout the first half of 2013. Declining net real wages and flat consumer confidence dampened consumer spending. Despite excellent financing conditions, gross fixed capital formation contracted at the beginning of 2013, as sales prospects were poor. Moreover, companies reduced stocks, which stifled growth additionally. Net export expanded at a lackluster pace.

In the second half of 2013, Austria's economy overcame stagnation and slowly began to recover moderately in the wake of the revival of global activity. Following an increase by 0.2% in the third quarter of 2013, Austrian output grew by 0.3% in the fourth quarter against the previous quarter (national accounts data; in real terms, seasonally and working-day adjusted).

All demand components – now including private consumption – posted positive growth in the fourth quarter of 2013 for the first time in that year. Exports increased all four quarters of the year and gained momentum quarter on quarter. Gross fixed capital consumption growth had already returned to positive territory in the second quarter of 2013. Changes in inventories have come to zero since mid-2013, appearing to signal the end of destocking for the time being.

Real GDP growth ran to 0.4% in 2013 (in real terms, seasonally adjusted;

Table 1

National Accounts

	GDP	Private consumption	Government consumption	Gross fixed capital formation	Exports	Imports	Domestic demand (excluding inventories)	Net exports	Changes in inventories	Statistical differences	
	Annual and/or quarterly changes in %						Contribution to GDP growth in percentage points				
Q3 12	+0.1	-0.1	-0.3	-0.3	+0.8	-0.2	-0.1	0.6	-0.0	-0.4	
Q4 12	+0.1	-0.0	-0.1	-0.5	+0.1	-0.3	-0.1	0.2	-0.0	0.0	
Q1 13	+0.1	+0.0	+0.1	-0.3	+0.4	+0.2	-0.0	0.1	-0.1	0.1	
Q2 13	+0.0	+0.0	+0.3	+0.2	+0.8	+0.7	0.1	0.1	-0.2	-0.1	
Q3 13	+0.2	+0.0	+0.3	+0.0	+1.0	+0.9	0.1	0.1	0.0	-0.0	
Q4 13	+0.3	+0.1	+0.3	+0.2	+1.1	+0.6	0.1	0.4	-0.0	-0.2	
2011	+2.9	+1.1	+0.4	+7.3	+6.8	+7.5	2.1	0.1	-0.4	1.1	
2012	+0.7	+0.4	-0.3	+1.9	+1.6	-0.0	0.5	1.0	-0.5	-0.3	
2013	+0.4	+0.0	+0.3	-0.6	+2.4	+0.9	-0.0	0.9	-0.3	-0.2	

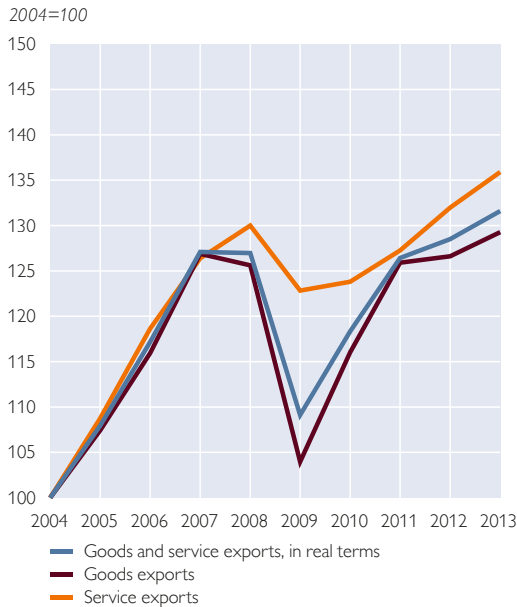
Source: Austrian Institute of Economic Research (WIFO). National accounts Q4 14.

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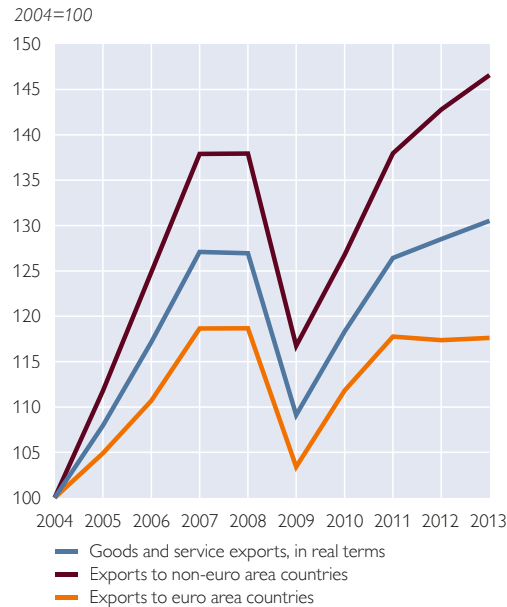
Chart 1

Exports Gain Momentum

Real Exports Surpass Precrisis Level as Late as 2012



Euro Area Crisis Slows Total Real Exports



Source: Total exports, exports of goods and services: Eurostat. Breakdown of exports to euro area and to non-euro area countries: OeNB calculations. Annual data on the basis of seasonally adjusted quarterly data.

unadjusted also 0.4%), which is in line with the OeNB's December 2013 outlook. Austria's growth differential to the euro area contracted visibly in 2013, but still came to +0.8 percentage points.

Signs of a Moderate Revival of Goods Exports

Before the economic and financial crisis, goods and service export growth was nearly synchronous. During the crisis, the setback to service trading abroad was far less pronounced than the slump in goods exports, and after the crisis, sales of services abroad developed much more dynamically than goods exports. In 2012, real exports of services surpassed the level they had reached in 2007 before the outbreak of the crisis, but it took until 2013 for real goods exports to recuperate to slightly above

the 2007 level. In a nutshell, in recent years, Austrian exports were dampened above all by very weak demand for goods exports especially as a result of the impact of the crisis in the euro area, which had led to a stagnation of exports to the region in recent years.

Numerous leading indicators have for some time signaled a pickup in (goods) export growth, and now goods exports finally appear to have started expanding at least moderately. The March 2014 results of the OeNB's export indicator, which is based on truck mileage data collected by the Austrian highway authority ASFINAG, show that Austria's exporters boosted goods deliveries abroad by 2,7% in January and 4,0% in February (year on year, at current prices, seasonally and working day adjusted; December 2013: 1,6%).

Leading Indicators Point to Accelerating Economic Activity in 2014

With the exception of a few short-term dips, the established leading indicators have been showing a clear uptrend in the economy since mid-2013. Order books are filling up, and business confidence has rallied. Some of the indicators, like the BA Purchasing Managers' Index and Ifo's business expectations indicator, have reclaimed the ground lost after 2008 or have even surpassed the 2008 level. The increase in the European Commission's Economic Sentiment Indicator (ESI) was interrupted only briefly, when the ESI fell below its long-term average in December 2013 and again in January 2014. In February 2014, at 100.4, it was again above its long-term average. Confidence improved across the board in all ESI subcomponents. In February, the BA Purchasing Manag-

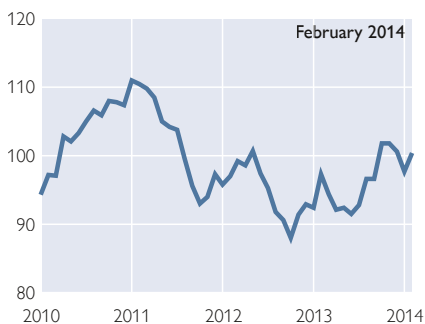
ers' Index slipped to 53 from 54.1 in January 2014, a value that still signals growth.

After a protracted stagnation phase, the economy is now gaining momentum on the back of the global recovery, as presaged by the leading indicators. This improvement is expected to last throughout the first half of 2014. The OeNB's Economic Indicator of March 2014, which is calculated also using information provided by national accounts data and leading indicators, calls for real, seasonally adjusted growth of 0.4% quarter on quarter for the first quarter of 2014 and 0.5% growth for the second quarter of 2014. This figure corresponds to the long-term average quarterly growth rate. Given the anemic performance of the past two years and the significant catching-up effects that this should entail, the pace of recovery still appears to be very sluggish, though.

Chart 2

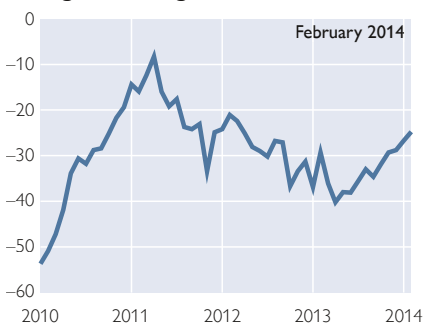
Leading Indicators

Economic Sentiment Indicator



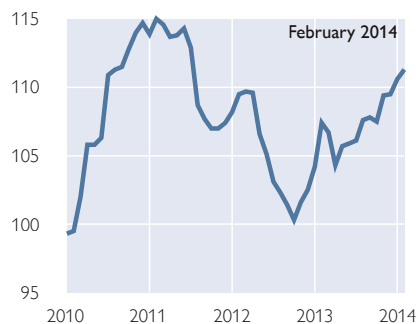
Source: European Commission.

Foreign Incoming Orders



Source: European Commission.

Ifo Business Climate Index



Source: Ifo.

BA Purchasing Managers' Index



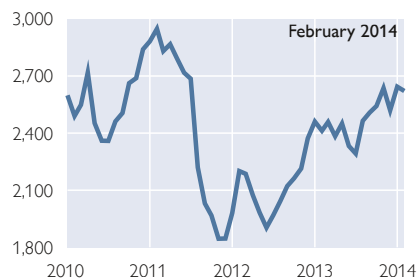
Source: Bank Austria.

BA PMI: Incoming Orders



Source: Bank Austria.

ATX



Source: Wiener Börse.

The OeNB's economic outlook of December 2013 had already assumed that the upturn would be very subdued; annual growth was expected to run to 1.6% in 2014.

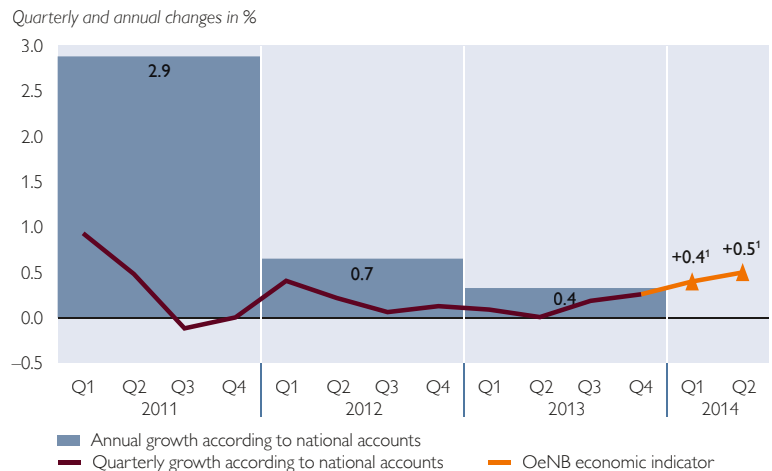
Unemployment and Employment at Record Highs

Labor market conditions were ambivalent in 2013. Economic activity was weak, but employment augmented markedly – as did unemployment. Whereas payroll employment enlarged from 3.47 million to 3.48 million persons in 2013 (+0.5%), unemployment surged from just under 261,000 to about 287,000 (+10.2%). This development can be explained by the increase in labor supply, in particular of labor from abroad. Although unemployment clearly expanded, the unemployment rate as measured by Eurostat increased by only 0.6 percentage points (from 4.3% in 2012 to just 4.9% in 2013).

Since the beginning of 2014, both employment and unemployment have continued to rise. In February, payroll

Outlook for Austrian Real GDP for the First and Second Quarter of 2014 (Seasonally and Working-Day Adjusted)

Chart 3



Source: The OeNB's Economic Indicator of March 2014, Eurostat.

¹ Outlook.

employment increased to 3,444,000 people (+29,049 or +0.9% year on year). Registered unemployment including persons in training programs increased further to 440,843 (+36,837 or +9.1% year on year). 356,745 persons in this group were registered as unemployed

Table 2

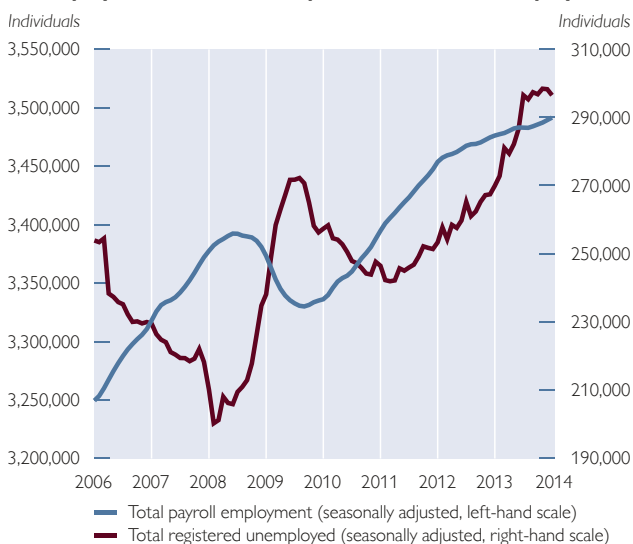
Key Indicators for the Austrian Labor Market

	Payroll employment		Unemployed persons		Unemployment rate in %		Registered job vacancies	
	Thousands	Annual change in %	Thousands	Annual change in %	AMS definition (seasonally adjusted)	EU definition (seasonally adjusted)	Thousands	Annual change in %
2011	3,422	+1.8	246.7	-1.6	6.7	4.2	32.3	+4.2
2012	3,465	+1.3	260.6	+5.7	7.0	4.3	29.4	-8.9
2013	3,483	+0.5	287.2	+10.2	7.6	4.9	26.4	-10.3
Q1 13	3,423	+0.6	318.3	+7.1	7.3	4.9	24.7	-10.5
Q2 13	3,482	+0.6	255.8	+9.1	7.5	4.7	28.1	-12.7
Q3 13	3,553	+0.4	260.3	+13.2	7.8	5.0	28.2	-10.9
Q4 13	3,474	+0.4	314.5	+11.9	7.9	5.0	24.5	-6.5
Sep. 13	3,533	+0.7	261.3	+14.1	7.9	5.0	28.7	-9.3
Oct. 13	3,503	+0.5	280.3	+12.2	7.9	5.0	25.6	-10.4
Nov. 13	3,471	+0.1	301.9	+11.6	7.9	5.0	24.7	-2.8
Dec. 13	3,449	+0.6	361.3	+11.9	7.9	5.0	23.2	-5.8
Jan. 14	3,427	+0.7	369.8	+9.3	7.9	4.9	21.8	-4.4
Feb. 14	3,444	+0.9	356.7	+9.3	7.9	x	24.6	-0.8

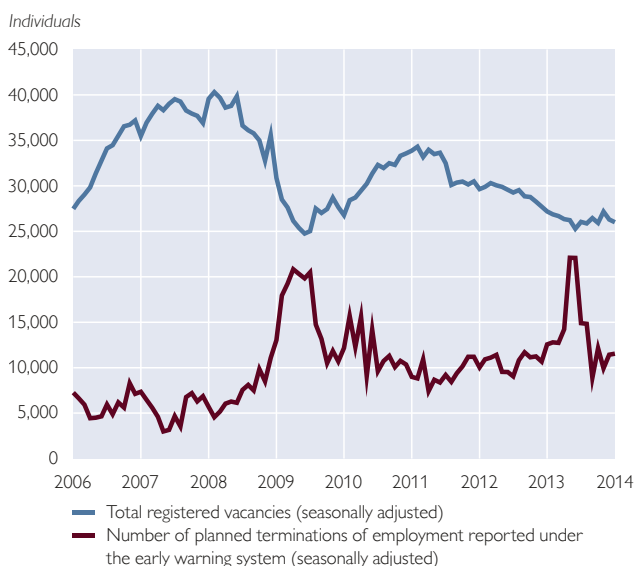
Source: Eurostat, Austrian Association of Social Insurance Providers, Austrian Public Employment Service (AMS). February 2014: Austrian Federal Ministry of Labour, Social Affairs and Consumer Protection, preliminary figures.

Labor Market Remains Subdued

Unemployment Increases despite Robust Rise in Employment



Vacancies Bottom Out



Source: AMS, Main Association of Austrian Social Security Institutions. Seasonal adjustment: OeNB calculations.

(+30,344 or +9.3%). At 4.9% in January 2014 (most recent figure available), the seasonally adjusted unemployment rate according to Eurostat was marginally lower than the rate in December 2013 (5.0%). It remains the lowest jobless rate among EU member countries. However, youth unemployment rose quite sharply to 10.5% in January 2014 from 10.1% in December 2013. Nevertheless, the rate remained the second-lowest in the EU; only Germany posted a lower youth unemployment rate.

Once the upswing stabilizes as anticipated, employment growth should also gain a firmer foothold. Seasonally adjusted registered vacancies have bottomed out, signaling that more jobs should become available in the future. Seasonally adjusted registered unemployment has grown more slowly since mid-2013 and even declined slightly in January 2014. The number of terminations of employment reported to the Austrian Public Employment Service (AMS) jumped in mid-2013 as a result

of the insolvencies of the building contractor Alpine Bau GmbH and the drugstore chain Dayli, but declined to the earlier level after that and has not shown any major change since. As in the past, the labor market will react to the recovery with a delay, so that unemployment is not likely to subside noticeably in 2014 and 2015. According to the OeNB's economic outlook of December 2013, the rate of unemployment will come to 5.0% in both 2014 and 2015.

Austria's HICP Inflation Rate stays at 1.5% in February 2014

Austrian HICP inflation sank perceptibly in 2013 (annual average: 2.1%), declining from 2.9% in the fourth quarter of 2012 to 1.6% in the last quarter of 2013 (year on year in both instances). This drop hinged on the easing of prices in global commodity markets, the moderate development of prices for imported goods, and slightly falling wage cost growth. At 0.3 percentage points, the

public sector's contribution to inflation was unchanged from 2012.

In the same period, core inflation (the HICP excluding energy) contracted as well, falling from 2.9% in the fourth quarter of 2012 to 2.1% in the fourth quarter of 2013. The Austrian inflation rate, which came to 2.1% on balance in 2013, lay well above the euro area average of 1.3% and was also higher than the HICP inflation rate of Austria's main trading partner, Germany (1.6%). The inflation gap between Austria and Germany narrowed substantially in the course of 2013, however. Prices in the service sector were mainly responsible for the inflation differential between the two countries.

In February 2014, Austrian HICP inflation came in at 1.5% (identical to January; December 2013: 2.0%). Core inflation (excluding energy and unprocessed food) increased from January 2014 (1.9%) to February 2013 (2.0%) moderately.

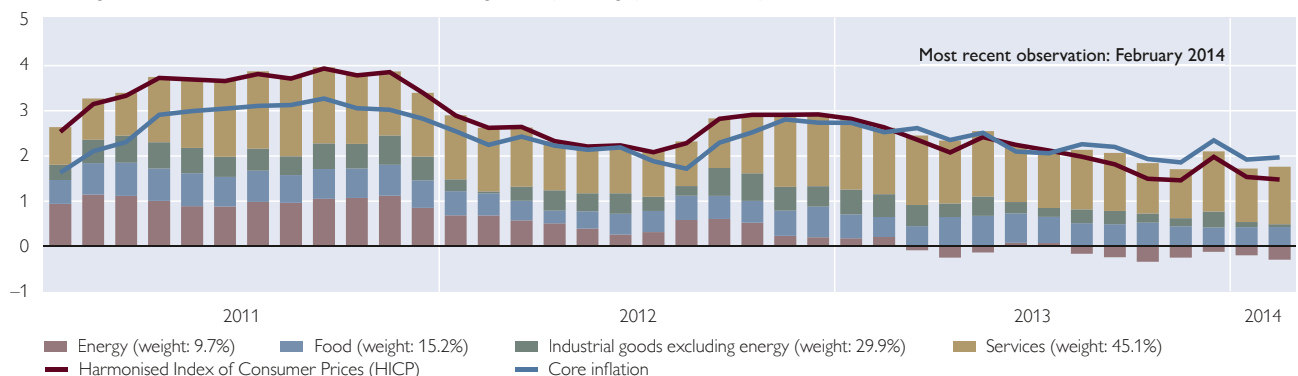
The development of inflation in February 2014 may be pinpointed above all by a decrease of inflation for industrial goods (excluding energy) and energy, and an increase for services. The rise in food prices (including alcohol and tobacco) in January 2014 was iden-

tical to that in February 2014 (2.8%). Inflation of industrial goods excluding energy came to 0.2% in February 2014 year on year, below the January 2014 figure of 0.4%. Within this category, the drop in clothing prices was almost exclusively responsible for the decline in industrial goods price inflation. The rate of inflation for service prices year on year came to 2.8% in February 2014 (January 2013: 2.6%). Services accounted for nearly 85% of the total rate of price increase. The most recent increase of service price inflation may be attributed to the higher prices of accommodation and food services. Inflation of the energy component came to -3.1% in February 2014 (January 2014: -2.1%). Energy prices shrank mostly on the back of lower fuel and heating oil prices. The inflation of food prices (including alcohol and tobacco) did not change (February and January 2014: 2.8%). Unprocessed food price inflation increased slightly (January 2014: 1.8%; February: 1.9%). In February 2014, Austrian HICP inflation of 1.5% remained above the euro area average of 0.7%. Yet, the inflation gap to Austria's largest trade partner, Germany, increased slightly (February: 0.5, January: 0.3 percentage points).

Chart 5

HICP Inflation and Contributions of Subcomponents

Annual change in % for HICP and core inflation and contributions to growth in percentage points for subcomponents



Source: Statistics Austria.