

Bank Austria Purchasing Managers' Index

October
2009

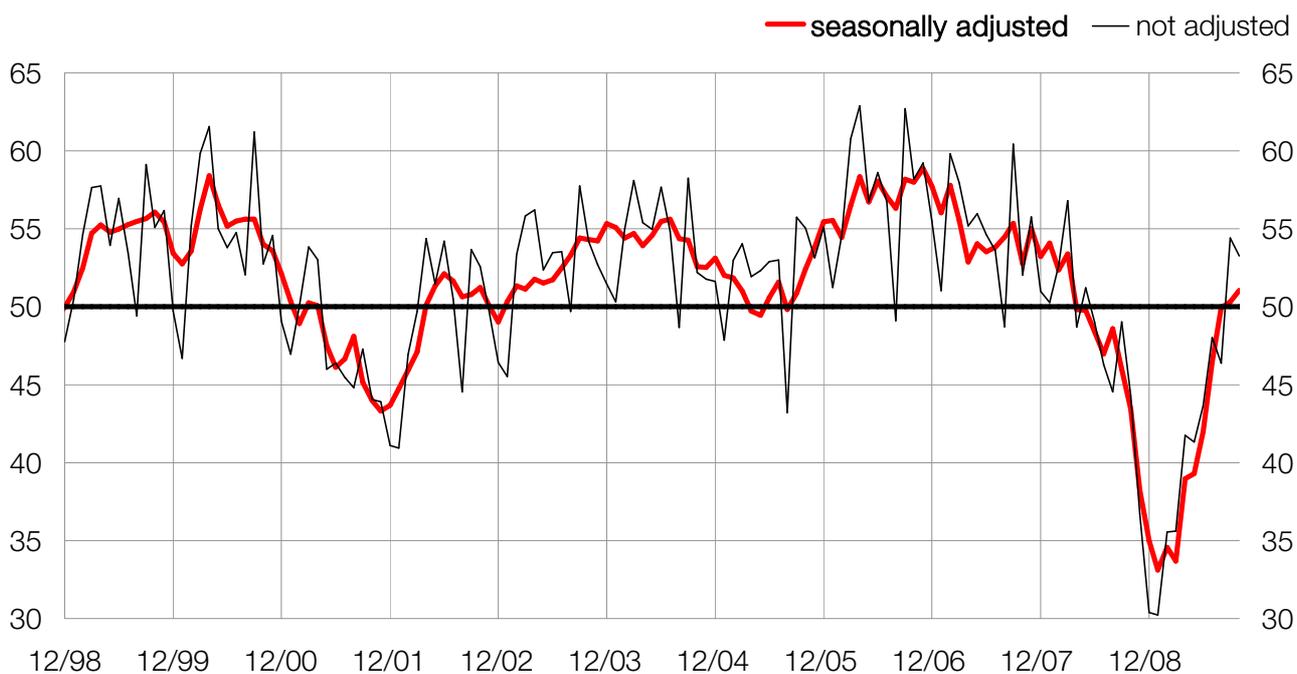
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Highlights

Faster growth for Austrian industry

- Bank Austria Purchasing Managers' Index keeps rising in October, hitting 51.1 points
- International demand generates momentum for Austrian industry,
- Slower pace expected in H1 2010, but industry will continue to grow

Bank Austria Purchasing Managers' Index



Source: Markit Economics, Bank Austria Economics & Market Analysis Austria

Bank Austria Purchasing Managers' Index 10/2009

The most recent results of the latest Bank Austria Purchasing Managers' Index indicate that strong increases in orders, especially from abroad, are driving the recovery in Austrian industry. The orders books are growing, purchasing volumes are increasing and delivery times are falling due to the rise in capacity utilisation. Only employment continues to decline. Despite the less favourable trends in prices, the pace of activity in Austrian industry is picking up right now.

The seasonally adjusted Bank Austria Purchasing Managers' Index rose to 51.1 points in October, after having broken through the growth threshold in the previous month, for the first time since March 2008. The rebound in Austrian industry is continuing and is even gaining momentum this autumn.

The impetus behind this upswing in industrial activity is coming from abroad. The leading indicators point to a recovery in the global economy, led by China and the Asian region in general. This upward trend is also being felt in the USA, the euro area and Central and Eastern Europe. The global rebound is driving a surge in demand for Austrian industrial products. In October, new orders rose for the fourth month in a row, and this increase was particularly strong, as export orders advanced to 57.3 points, the highest level since the turn of 2006/2007. Thanks to the rising amount of new orders, the backlog of orders at Austrian industrial firms increased again in October, with the pace of growth returning to pre-crisis levels for the first time.

Bank Austria Purchasing Managers' Index and components

	Bank Austria PMI	New orders	Output	Employ- ment	Suppliers' delivery times	Stocks of purchases	Input Prices 1)	Backlog of work 1)
Jun-09	42.0	45.8	45.2	33.7	56.1	36.2	40.4	47.0
Jul-09	46.5	52.1	50.4	36.8	51.6	36.1	43.2	49.0
Aug-09	49.9	55.2	53.8	39.6	47.1	40.9	47.5	49.5
Sep-09	50.3	53.8	52.9	41.5	45.7	44.8	53.0	51.9
Oct-09	51.1	54.2	54.3	42.3	43.2	42.4	53.1	53.6

Source: Bank Austria Economics & Market Analysis Austria, Markit Economics 1) not in the overall index

The improvement in orders is now being clearly felt in production as well. While cost are still being kept firmly under control in inventories and stock levels are being cut back, the volume of purchases increased substantially for the first time in 1.5 years. In order to satisfy the increased demand, output expanded strongly again in October. At 54.3, the index for output reflects significant growth, the likes of which has not been seen since January 2008.

In our view, the short-term outlook for Austrian industry is positive. The ratio between the index for new orders and inventory levels has been above 1 since May, and in the past this ratio has been a very good indicator for estimating industrial activity. In the months ahead, companies will keep adjusting their production to the rising demand and will have to replenish their empty inventories. As a result, the signs currently point to a continuation of the export-driven uptrend in industrial activity, which should lead to quite strong growth in output in month-on-month terms for now.

Nevertheless, the current environment also suggests that conditions for Austria's industrial firms will become increasingly difficult in the spring. The current recovery in global industrial demand is starting from a very low level. In Austria, for example, industrial output for the first eight months of 2009 is down by more than 15% on the previous year's level, on average. Furthermore, the upturn is being strongly supported by temporary factors. The global fiscal stimulus programmes and momentum from the inventory cycle will gradually fade in 2010. Growth in industry will taper off considerably as next year progresses, in particular as additional threats to economic activity will emerge due to developments in commodity prices and the exchange rate versus the US dollar, along with the increasingly difficult situation on the labour market. In our opinion, however, the EUR/USD exchange rate will only pose a real threat to growth if it moves higher than 1.70. Following a double-digit drop in industrial production in 2009, the rate of growth for 2010 should be around

5 per cent due to the lower basis for comparison from the previous year. Accordingly, at the end of 2010 Austrian industrial output will still be well lower than the level from before the economic crisis.

Note: PMI figures above the 50.0 mark indicate growth, readings below the 50.0 mark indicate contraction in the manufacturing sector compared to the previous month. The greater the divergence from 50.0, the greater the change signalled. This report contains the original data from the monthly survey among purchasing managers of industrial companies in Austria. The survey is sponsored by Bank Austria and has been carried out by Markit Economics under the patronage of ÖPWZ, the Austrian Productivity and Efficiency Centre, since October 1998.

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