

Thomas Url

Cyclical Recovery Continuing

Production expectations in Austrian manufacturing are stabilising, and cautious optimism is confirming the business cycle recovery. Construction activity has recently been lacking strength, although firms' judgements on their order levels point to a rebound in the months to come. Retail sales are still held back by weak consumer confidence, but here too a tentative pick-up has become visible at the end of the first quarter. In May, the year-on-year increase in unemployment narrowed for the first time, with the number of young and of older people out of work even declining. Since employment expanded, the rate of unemployment remained unchanged from one year ago. The rate of inflation (HICP) stayed constant at 1.5 percent in April, but higher energy prices are likely to push the index up in May.

All staff members of the Austrian Institute of Economic Research contribute to the Business Cycle Report. • Cut-off date: 9 June 2004 • E-Mail Address: Thomas.Url@wifo.ac.at

The regular WIFO business survey yielded somewhat more optimistic production expectations by Austrian firms in May. Since November 2003, the index has been declining, but the April data already suggested a bottoming-out and the results for May confirm the improving sentiment in manufacturing. The margin of 7 percentage points of firms expecting an increase in production was similar to that of the previous month (8 percentage points).

A slight majority of the firms sampled registered a continued weakening of their order levels. Since the beginning of 2002, however, the negative balance of firms with growing versus shrinking stocks of orders has diminished overall, with minor setbacks. By May the balance is only slightly undershooting the average of the last five years. A majority of firms expect an increase in business activity within the next six months, although the positive margin of optimistic responses has become squeezed to a mere 1 percentage point in May. Like in Germany and the EU as a whole, the industrial confidence indicator has resumed its upward trend after a short interruption.

The sluggish demand for credit by Austrian firms is explained by the little need for capacity-enhancing investment; additional financial resources are rather allocated to mergers and acquisitions of firms. Credit guidelines have remained stable for the first time in more than one year, but new credit liabilities have hardly increased in the first quarter 2004.

Signs of the upswing in foreign trade gaining momentum are mounting. In February, merchandise exports rose by 6.6 percent year-on-year, according to the foreign trade statistics. The increase was broadly based across intra- (+6.3 percent) and extra-EU-15 trade (+7.0 percent). Exports to industrialised countries overseas and to non-oil-exporting developing and transition economies rose particularly strongly, with demand being most lively for machinery and vehicles.

Construction output remained virtually flat in February (-0.1 percent year-on-year), as the decline in building was hardly offset by a strong pick-up in civil engineering. Since judgements on the order levels in the WIFO business survey have improved, the present stagnation at a high level should be short-lived.

The consumer confidence indicator has remained constant since autumn 2003. Against the background of households' low mood for spending, retailers suffered losses in net turnover in nominal and real terms in the first quarter 2004.

The year-on-year increase in unemployment narrowed markedly in May, to only +500 persons, bringing the jobless total to 215,500. The number of unemployed young and older people actually declined. The rise in unemployment concentrated in May on service workers and thereby primarily on women, for which the overall jobless figure increased. While the number of people in active employment went up by 0.4 percent, dependent employment according to official data edged up by only 0.2 percent. For this reason, the rate of unemployment in national definition (as a percentage of dependent labour supply according to official data) remained unchanged from last year at 6.3 percent in May.

Jumping by 38.7 percent from last year, crude oil prices (according to the HWWA index on a euro basis) reached again the peak levels recorded during the war in Kuwait. Strong demand for raw materials also pushed up the prices of industrial and agricultural commodities by double-digit rates. These price hikes are as yet hardly reflected in the harmonised consumer price index for April (+1.5 percent); the implicit cost pressures will nevertheless prevent further cuts in interest rates by the European Central Bank in the foreseeable future.