

■ CYCLICAL UPTURN THROUGH ROBUST DOMESTIC DEMAND AND FAST RECOVERY OF EXPORTS

The cyclical upswing is gaining momentum. Given the strong growth of disposable income, consumer mood is favourable. Recovering exports generate higher production volumes and lively investment activities. Since the mid 1990s, enterprises have never been so optimistic as in the first quarter of 2000. The rising rate of inflation caused by high crude oil prices is assumed to be of a temporary nature. At the beginning of the year, unemployment is declining more strongly than expected. Possible dampening effects due to budget consolidation measures and international sanctions are not yet reflected in the statistics and are difficult to quantify at this point in time.

The cyclical upswing continued to gain momentum towards the end of 1999. This was due, above all, to the favourable development of exports. Demand from trading partners in Western Europe has been picking up again and Austrian exporters are well able to compete with other suppliers in terms of prices. According to the Austrian foreign trade statistics, exports in the period from July to November 1999 exceeded the previous year's level by well over 6 percent. They constitute the driving force behind the accelerating pace of industrial activity. In the third quarter of 1999, the net value added in manufacturing was 4 percent higher than in the same period of the year before; production figures now available for October and November point to a continuation of the upward trend in the fourth quarter. According to the results of the WIFO Business Survey for the first quarter of 2000, manufactures have never been so optimistic in their outlook since 1994.

The European economy recovered from the impact of the Asian crisis in the second half of 1999 and is again growing vigorously. Exports are picking up noticeably – not least on account of the strong dollar. Investment activities are thus becoming more attractive again. In the majority of EU member states, the increase of private consumption appears to be robust. As latecomers to the trend, Germany and Italy have finally caught on to the economic upswing. In German manufacturing incoming orders increase considerably (recently also from do-

mestic clients), production volumes are growing and expectations among the business community are getting more optimistic. However, the quick succession of interest rate increases by the European Central Bank might have a dampening effect on economic growth.

In Austria the economy benefits not only from growing exports, but also from a strong increase of consumer spending. A favourable employment situation, rising income levels and tax cuts effective as of the beginning of the year, as well as a further increase of family transfer payments, have a strong impact on disposable income and consumption. In combination with higher tourist spending, these developments create livelier retail demand, which from January to November 1999 increased by 3 percent over the same period of the year before. The dampening impact of the intended tax increases, expected to take effect in the middle of the year, cannot yet be quantified.

The robust growth of consumption and capital spending is also reflected in the increase of imports: from July to November, imports were more than 6 percent above the previous year's value, even though some of the rise was attributable to the weakness of the euro. As a result, the balance of trade deteriorated noticeably. However, this shift into deficit is more than compensated for by growing surpluses in the service sector. Nevertheless, the deficit on current account grew by ATS 10.5 to 52.5 billion on a cash basis. This is due, above all, to an unfavourable development of the income balance (declining interest and dividend income and lower profits from direct investments).

As far as tourism is concerned, the winter season has been satisfactory so far, benefiting from large quantities of snow and good weather conditions. First results of surveys among tourist enterprises point to a continuation of the slightly positive trend. However, a considerable el-

ement of uncertainty about future developments has recently been introduced through the announcement of boycott measures against Austria as a tourist destination.

In December and January, consumer prices increased at an accelerated pace of 1.4 percent over the year before. However, almost half of the price increase is accounted for by the high world market prices for crude oil, which are driving fuel and heating oil prices up. Although the inflationary effects generated by the international raw materials markets are expected to weaken as of the second quarter of 2000, the impact of the current price hikes on the prices of manufactured products may persist for some time. Prices in all other demand categories are largely stable. The very moderate results of the autumn wage-round also help to keep price inflation under control.

Employment continues to grow vigorously. In February 2000, the number of jobs rose by 47,000 (+1.6 percent) over the year before. Employment growth is strongest in the service sector, with most of the newly created jobs being part-time positions filled by women. In some industrial sectors demand for goods is also growing fast enough for enterprises to recruit additional labour. Combined with a growing number of persons undergoing training, this has resulted in a noticeable drop in unemployment: in February 2000, the number of registered unemployed dropped by 32,000 from the previous year's level. The seasonally adjusted unemployment rate fell to 6.4 percent of the dependent labour force according to the traditional Austrian calculation method and to 4.1 percent of the labour force according to the EU Labour Force Survey. The ratio of registered vacancies to job-seekers reported by the Labour Market Service in February 2000 was 1 to 8.

Cut-off date: 7 March 2000.

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■ DIE KAUFKRAFT DES EURO INNERHALB UND AUSSERHALB DER WÄHRUNGSUNION

Auf Basis eines gesamtwirtschaftlichen Warenkorbs (BIP) war der Euro gegenüber dem Dollar Anfang 2000 um 9,0% unterbewertet (in diesem Ausmaß lag sein Wechselkurs von 0,98 \$ unter der Kaufkraftparität des BIP von 1,08 \$). Gemessen an der Kaufkraftparität von international gehandelten Gütern und Dienstleistungen war der Euro Anfang 2000 gegenüber dem Dollar noch um 13,4% überbewertet (die Kaufkraftparität auf Basis von Tradables beträgt derzeit 0,87 \$). Zwischen 1986 und 1999 war der Euro bzw. ECU gegenüber dem Dollar um durchschnittlich 32,6% überbewertet, gleichzeitig sank der Anteil der EU an den Gesamtexporten der Triade (EU, USA, Japan) um 5 Prozentpunkte, während jener der USA um 7 Prozentpunkte stieg. Die Marktanteilsentwicklung zwischen 1973 und 1985 bestätigt, dass die Kaufkraftparität der Tradables (und nicht jene des BIP) die relevante Richtgröße für "faire" Wechselkurse ist.

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