EWALD WALTERSKIRCHEN

UNEMPLOYMENT TO DECLINE AS ECONOMIC ACTIVITY PICKS UP

ECONOMIC OUTLOOK FOR 1999 AND 2000

The present business cycle picture is closely in line with the last WIFO short-term projections. Industrial output has been recovering from its trough early this year. The forecast for overall GDP growth remains unchanged. Developments on the labour market have been better than expected. For the first time in five years, unemployment will recede markedly in 1999, due in particular to strong domestic demand, but also to a reinforcement of employment policy measures.

The Austrian economy is projected to grow by 2.2 percent in 1999 and by 2.6 percent in 2000, unchanged from the last revision in March. Exports and industrial output fell to a low at the beginning of this year, but business confidence has improved since. The WIFO business survey in June confirms the pick-up in industrial activity and the growing optimism among entrepreneurs for the second half of the year.

In the EU also, and notably in Germany, business sentiment has strengthened in recent months. A major factor has been the gradual stabilisation of the economies in South-East Asia. The weakening of the Euro is also supportive to a better export outlook. Yet, risks for a renewed outbreak of financial crises remain.

Signs of an upturn have been observed in Austria as well as in the Euro zone as a whole in the 1st quarter, with GDP rising 0.4 percent (from the previous period, seasonally adjusted), respectively. The year-on-year advance was 1.8 percent for the Euro zone and 1.1 percent for Austria where it was depressed by a weather-induced fall in construction output.

Slower export growth this year will be offset by lively domestic demand. Net real disposable income of households is projected to gain strongly, nearly 3 percent, due to stable import prices and higher employment. Next year, the effects of the tax reform will further add to purchasing power and give strong momentum to private consumption. Business investment does not appear to be severely affected either by the temporary slowdown in exports, judging from recent survey data and from imports of capital goods. These trends confirm earlier expectations for the Austrian economy and, thus, the WIFO projections of last March for GDP growth remain unchanged.

All staff members of the Austrian Institute of Economic Research contribute to the Economic Outlook.

Main results

		1996	1997	1998	1999	2000
		Percentage changes from previous year				
GDP						
Volume		+ 2.0	+ 2.5	+ 3.3	+ 2.2	+ 2.6
Value		+ 3.7	+ 4.1	+ 4.3	+ 3.1	+ 3.6
Manufacturing[1]), volume		+ 1.2	+ 5.0	+ 4.4	+ 2.0	+ 3.8
Private consumption, volume		+ 2.0	+ 0.7	+ 1.7	+ 2.0	+ 2.4
Gross fixed investment, volume		+ 2.5	+ 2.8	+ 4.7	+ 3.8	+ 3.6
Machinery and equipment		+ 3.3	+ 5.0	+ 7.8	+ 6.5	+ 6.5
Construction		+ 2.4	+ 1.3	+ 2.6	+ 1.5	+ 1.0
Exports of goods[2])						
Volume		+ 5.4	+15.6	+ 8.4	+ 4.5	+ 7.0
Value		+ 5.5	+16.8	+ 8.4	+ 4.5	+ 8.0
Imports of goods[2])						
Volume		+ 6.1	+ 9.4	+ 8.2	+ 5.0	+ 6.7
Value		+ 6.7	+10.9	+ 6.6	+ 5.0	+ 7.7
Trade balance[2])	(billion ATS)	–100.6	–75.2	–67.4	–74.6	–77.9
	(billion Euro)				– 5.4	– 5.7
Current balance	(billion ATS)	– 50.8	–61.4	–54.5	–60.0	–60.1
	(billion Euro)				– 4.4	– 4.4
As a percentage of GDP	(%)	– 2.2	– 2.4	– 2.1	– 2.2	– 2.1
Yield of long-term government bonds[3])	(%)	6.3	5.7	4.7	4.1	4.4
Consumer prices		+ 1.9	+ 1.3	+ 0.9	+ 0.6	+ 1.0
Unemployment rate						
Percent of total labour force[4])	(%)	4.3	4.4	4.7	4.4	4.2
Percent of dependent labour force[5])	(%)	7.0	7.1	7.2	6.8	6.6
Dependent employment[6])		– 0.6	+ 0.4	+ 1.0	+ 1.0	+ 0.8

[1]) Value added, including mining and quarrying. – [2]) According to Central Statistical Office. – [3]) 10-year central government bonds (benchmark). – [4]) According to Eurostat. – [5]) According to Labor Market Service. – [6]) Excluding parental leave and military service.

Meanwhile, the labour market outlook has turned more positive: employment is set to increase by around 30,000 this year, and unemployment to fall by 10,000. Two-fifths of this drop is explained by temporary measures of labour market policy ("job coaching"), the larger part by more jobs being offered in services due to the strength of domestic demand. With the recovery gaining ground, unemployment should decline further next year, to a rate of 4.2 percent of the labour force.

Under the impact of falling import prices and stable unit labour costs, inflation has further decelerated. In 1999, consumer prices may edge up by an annual rate of 0.6 percent, followed by 1 percent next year, assuming an upturn in world market commodity prices. Not only firms, but also households are benefiting from the liberalisation of telecommunication and electricity networks. Wages are expected to advance at a very moderate pace, given the heightened competitive pressure within the EU and an earnings squeeze in manufacturing industry, where wage settlements usually provide the yardstick for other sectors of the economy. Both in industry and construction, profit as well as labour market conditions have turned less favourable in 1999.

The slack in export demand will push up the trade deficit in 1999, while a higher net surplus on tourism services should act as a partial offset. A further drag on the current external account is exerted by the strongly negative balance of factor incomes. The latter is not a sign of insufficient international competitiveness, but rather a result of the attractiveness of domestic fixed-term assets (bonds) for foreign investors.

Federal government finances in 1999 will, as in the past years, strictly adhere to the budget draft. The general government net borrowing will slightly exceed 2 percent of GDP, broadly unchanged from 1998. In 2000, the budgetary situation will become considerably tighter, as a consequence of the large-scale tax reform. The targeted deficit ratio of 2.5 percent will be attained only under the assumption of authorities keeping spending firmly under control. Given the sizeable tax cuts and additional family benefits provided for, a better budget outturn may be achieved only if general business activity were to be markedly stronger than anticipated. In order to avoid another recourse to more drastic consolidation "packages", fiscal policy will have to maintain a stance of pronounced expenditure restraint over several years to come.

Cut-off date: 30 June 1999.