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Further Improvement in Business Expectations

Exports of goods regained momentum in the third quarter. As expected, private consumption in the last months reacted with a lag to the positive effects of the tax reform on household incomes. The decline in the euro exchange rate is brightening the outlook for exports and the softening of oil prices is boosting real incomes. Business surveys over the last few months signal a revival of activity in the euro area. Also the results for Austria of November point to a further slight improvement of order levels and the business situation.

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Business activity in the euro area is currently following an upward trend. The strong expansion of the world economy, coupled with a declining euro exchange rate, is giving stimulus to exports. The latter are setting the pace of the recovery, while domestic demand is picking up only gradually. Lately however, with oil prices heading down, consumers seem to regain confidence in the economic outlook.

In Austria, the regular survey regarding industrial confidence suggests an upward trend since last summer. Companies expect an increase in output and have turned more upbeat on their order and business situation than in the months before. This greater optimism is mainly driven by the increase in foreign orders. Exports, after a weak start into the year, have gained considerable momentum, although year-on-year growth rates, unlike in 2004, remained in the single-digit range.

Construction firms are particularly optimistic as regards their business situation. This holds notably for civil engineering where orders are posting strong gains, increasingly translating into higher levels of output.

Retail sales remained below expectations in the first half of the year, but recovered markedly in the third quarter, rising by 2 percent in volume from last year (+1 percent in the first semester). Only purchases of motor cars remained sluggish, obviously as a consequence of high oil prices.

Headline inflation accelerated to a rate of 2.4 percent in September, but abated to 2 percent in October as the upward pressure from energy prices slackened. The marked fall of phone charges also slowed the pace of inflation.

The cyclical recovery and in particular the higher flexibility of the labour market have led to a substantial increase in the number of persons in active employment (+35,800 from last year in November). Sectors with a high and rising share of part-time employment posted the strongest gains: commercial services, trade, tourism and health services. Nevertheless, the number of unemployed increased further, by 10,500, as new part-time workers are often recruited from the "hidden" reserve of new entrants to the labour force. Young people and women are more than other groups affected by the rise in unemployment.