

■ MARKED SLOWDOWN IN INTERNATIONAL ACTIVITY, ROBUST PRIVATE CONSUMPTION IN AUSTRIA

The Austrian economy is feeling the impact of weakening demand from foreign trading partners. Economic growth has decelerated significantly not only in the USA, but also in Germany, dampening domestic exports. Production in manufacturing has sharply lost momentum. Although inflation stays lively and is puncturing real incomes, private household consumption keeps rising in an annual comparison. As employment growth is slowing down, the number of unemployed has risen slightly above the year-earlier level.

Current international economic developments are being shaped to a large extent by the abrupt slowdown in U.S. growth. In the EU, opinion surveys show consumer confidence unabated, although the business climate in manufacturing has deteriorated markedly. The deceleration of growth is particularly pronounced in Germany, where incoming orders and production in manufacturing industry are heading downwards, construction output has slumped, and private consumption levelled off.

In Austria, growth of exports and production has also slackened significantly. Merchandise export revenues, on a cash basis according to data from the Austrian National Bank, rose by an average 8 percent year-on-year in the first quarter 2001, but only 3 percent in March. Manufacturing output exceeded the year-earlier level by almost 5 percent in the first quarter, but recorded a decline in March. Likewise, the WIFO business survey conducted regularly among 1,000 industrial enterprises suggests a marked weakening of business sentiment for the second quarter. In particular, manufacturers of technical goods mainly for investment and exports have turned more cautious in their judgement of order flows and output developments.

Price increases are proving much more persistent than assumed so far. In the first four months, the consumer price index rose 2.8 percent above the year-earlier level. Major factors were import prices for energy which on a schilling basis were notably higher than expected, and meat prices which were driven up by the BSE crisis.

All staff members of the Austrian Institute of Economic Research contribute to the Business Cycle Report

Contractual wages followed the increase in consumer prices with a lag of around $\frac{1}{4}$ percentage point. Together with a rising tax burden this implies that net real earnings per employee are falling significantly and purchasing power is being squeezed. Consumer spending is nevertheless holding up well, supported by a fall in the household saving ratio. Retail sales in the first quarter advanced by an inflation-adjusted 2 percent year-on-year. Wholesale trade, on the other hand, being more highly dependent on foreign trade, recorded a 1 percent drop in sales. Construction activity is constrained by shrinking housing demand, and the number of employees has lately dropped far below the year-earlier level.

Growth of overall employment has greatly lost momentum over recent months. The number of employed men is lower, that of women substantially higher than one year ago. It is not so much the export-oriented industries that account for the slackening labour demand, but rather the construction industry, the transport and telecommunication sector, as well as public administration and education services. Unemployment swung to an annual increase in May (+800), yielding a seasonally adjusted unemployment rate of 5.9 percent of the dependent labour force or 3.7 percent of the workforce according to Eurostat definitions.

Cut-off date: 5 June 2001.