

■ MANUFACTURING SHOWING CLEAR SIGNS OF CYCLICAL WEAKENING

The pronounced slowdown in the international business cycle is tightening its grip on the domestic export industries. The WIFO business survey for the third quarter confirms the downward trend in firms' assessment of their current situation and production expectations. The adverse trend is particularly visible in the basic goods and the technical manufactures sectors. The rise in employment has clearly lost momentum and can no longer prevent unemployment from heading up. Consumer price inflation remains relatively high. Despite employees' net real incomes shrinking, retail trade is reporting gains in volume sales.

The WIFO business survey for the third quarter suggests a further weakening of the business climate in manufacturing, in line with what had been assumed in the latest WIFO short-term projections in June. The balance of positive over negative responses sampled for production expectations fell to a mere 2½ percentage points, down from +16 points in the second quarter 2000. The sentiment among firms has thus deteriorated more sharply than during the last cyclical downturn in 1999. The situation appears particularly depressed in the basic goods sector, where firms judged current conditions as unsatisfactory by a margin of 34 percentage points. Pessimism is spreading also among suppliers of technical manufactures, notably in the motor vehicles industry.

The unfavourable survey results suggest that the sharp international downturn is now taking its toll on the domestic economy. Growth of real GDP in the USA has virtually come to a standstill; only the advances in public consumption, private household demand and residential construction are preventing the economy from sliding into recession. Still, leading indicators hold out the possibility of a recovery around the turn of the year. In Europe, all business cycle indicators are pointing down. The regular opinion survey conducted by the European Commission shows a further decline in business confidence, and consumer confidence is also becoming clouded. According to the Eurogrowth Indicator, GDP may still expand by 2 percent in the second quarter, but only 1½ percent in the third.

Austrian exports kept rising at a healthy pace over the first few months this year. Yet, there is a sizeable discrepancy between the data for merchandise exports as

reported by Statistics Austria (January to April +7¾ per cent year-on-year) and the export payments statistics of the Austrian National Bank (January to May +11¾ per cent). Manufacturing output, adjusted for the number of working days, slackened markedly in spring. While still rising by 2¼ per cent year-on-year for the first five months 2001 as a whole, monthly figures for April and May show declines of ¾ and 5 per cent, respectively. Weaker activity in the export-oriented sector is spilling over to wholesale trade, where turnover in the first quarter fell by 1 per cent in volume from the year-earlier level.

Demand for construction is low, because of excess supply of new homes and, as regards civil engineering, investment restraint by public authorities, notably at the local level. Production output fell by 3½ per cent in March and 7 per cent in April from the year-earlier level. This is reflected by a significant fall in employment (-12,000 year-on-year in the first semester). The WIFO business survey among construction firms and their suppliers suggests the negative trend may continue.

Growth of overall employment has decelerated markedly since mid-year 2000. Latest figures show a modest gain of 0.5 per cent (excluding people on

parental leave and in statutory military service), too small as to prevent unemployment from rising, as it has done since May. The seasonally adjusted rate of unemployment last stood at 5.8 per cent of the dependent labour force, or 3.8 per cent of the total labour force as measured by Eurostat.

Consumer price inflation remained high in June, at a 2.8 per cent rate, although the annual figure was no longer boosted by last year's raise in indirect taxes and public charges. Prices of energy and meat continue to exert upward pressure. Quotations for crude oil on international markets are heading down, as major oil consumers in the industrialised world have now largely replenished their stocks. Inflation is still outpacing gains in employees' per-capita earnings. In the first half of this year, the rise in the contractual wage index of 2.6 per cent trailed that of the consumer price index by 0.3 percentage points. In addition sizeable tax increases are contributing to the squeeze in employees' net real incomes; yet private consumption is still proving robust. Retail sales from January to April (excluding motor cars and sales at petrol stations) rose by an inflation-adjusted 1¼ per cent above the year-earlier level.

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