

■ SHARP FALL IN BUSINESS CONFIDENCE, STRONG RISE IN UNEMPLOYMENT

The business cycle slowdown has gained momentum in recent months. In Austria, survey data show a marked decline in manufacturing and construction output as well as in wholesale trade. Somewhat better are developments in tourism and of retail sales. After Japan, also the U.S. economy is now in recession, and for Europe all short-term indicators are heading downwards.

The WIFO business survey for the fourth quarter shows a further deterioration of the business climate in manufacturing. For the first time since the 1995-96 cyclical low, the seasonally adjusted balance of optimistic versus pessimistic responses has turned negative, now being 20 percentage points down from the peak in the second quarter 2000. Business sentiment is particularly low in the technical manufactures branches supplying mainly investment goods to the domestic as well as foreign markets, where firms on balance judge the current situation unsatisfactory by a margin of 23 percentage points.

The unfavourable results from the business survey for the heavily export-oriented manufacturing sector confirm that the domestic economy is being directly affected by the global cyclical downturn. The U.S. economy has dipped into recession, with the continued fall in exports and machinery and equipment investment leading to a drop in real GDP by 0.4 percent in the third quarter, the first decline since 1991. Leading indicators signal a further fall for the year-end quarter. There is considerable uncertainty about the duration of the U.S. recession. Confidence indicators point to a slump in both consumer and business sentiment; to what extent this will translate into actual spending cuts remains to be seen. In Japan, activity has fallen drastically, with industrial production in September down by more than 12 percent year-on-year and even undershooting the level of the early 1990s. According to the regular survey carried out by the European Commission, business and consumer confidence in the Community have weakened further, as all leading indicators are heading down. Growth of GDP in the EU is likely to fall below 1 percent in the second semester 2001.

Merchandise exports, as recorded by Statistics Austria, rose by a nominal 7 percent year-on-year over the period from January to July, but edged down 0.6 percent from May to July. The manufacturing production index, adjusted for the number of working days, exceeded the year-earlier level by 2 percent in the

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first seven months, but dropped 0.8 percent between May and July. The weaker business activity is also visible in wholesale trade, where turnover declined by an inflation-adjusted 2 percent year-on-year over the first seven months.

Retail sales are also sluggish, barely exceeding the year-earlier level (+0.1 percent in volume until August). The overall figure is dragged down by an apparent 5.2 percent volume decline in food sales which is difficult to interpret. The tourism industry has benefited from a good summer season; according to preliminary figures, earnings rose 4 percent above the year-earlier level, despite a slight decline in overnight stays. Advance bookings for the coming winter season are lively, but travel agencies feel the shortfall in demand for long-distance travel. The situation in the construction sector remains critical. Substantial excess capacity is bearing down on building of new structures, and activity in civil engineering (road and railroad construction) has also been falling since March. Overall construction output declined by a nominal ½ percent year-on-year until July, corresponding to a fall by around 1 ½ percent in real terms.

The marked slowdown in economic growth has put a brake on the creation of new jobs. By October, the year-

on-year gain in the number of workers and employees (excluding people in statutory military service and on parental leave) has come down to 10,200. Job losses have been important in the construction sector (-10,200 according to the latest monthly figures), but also in transport and telecommunication (-5,200) and in the public sector (-4,400), where efforts at trimming personnel cost are bearing fruit. While in other service sector areas employment keeps rising, such gains cannot prevent unemployment from going up. In October, almost 24,800 more people were out of work than a year ago, and job vacancies were down by 8,300. In view of the negative trend reflected by short-term indicators, a further weakening of the labour market should be expected.

The upward drift in consumer prices has hardly abated in recent months. Headline inflation stood at 2.6 percent in September (2.5 percent according to the Harmonised Index), no longer undershooting the EU average. While energy prices are now having a dampening impact on inflation, health costs, prices of food and beverages, and housing costs are all exerting upward pressure.

Cut-off date: 7 November 2001.