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Weak Activity Persisting, but Corporate Confidence Clearly Heading up

While the business cycle recovery is progressing in the USA and Japan, growth in the euro area shows few signs of heading up. Nevertheless, business surveys in Germany point to a tentative strengthening towards the end of this year. In Austria, pessimism among firms appears to be in retreat, too.

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As in the euro area as a whole, economic activity in Austria remains weak. The US economy, by contrast, has rebounded on the back of demand-stimulating measures, and also in Japan, the recent upward trend has been confirmed. In the USA, the upswing is becoming self-sustained as investment gains momentum. Stock market values have bounced back vigorously, already possibly exaggerating the improving sentiment.

The pick-up in confidence in the euro area since last summer is reflected by the industrial confidence indicator which in October rose for the third consecutive month. The optimism is mainly based on export prospects and may therefore be vulnerable to adverse exchange rate movements. Yet, neither the index of consumer confidence nor retail sales volumes suggest an early revival of private consumption in the euro area.

Business surveys in Germany and Austria also show that optimism is growing. With the exception of the Austrian basic goods sector, firms' judgements on the short-term business outlook have improved across the board from the previous months, even if this trend is not yet confirmed by the latest export data. The construction industry reports satisfactory order levels, and the trend of responses on current output remains upward bound. Tourism is suffering from weak economic conditions in customers' countries of origin and from the strong euro, while still faring relatively well in an international comparison. Overnight stays in the period from May to September were 1.6 percent above the year-earlier level, the September results having been satisfactory.

Inflation grew in August and September; nevertheless, Austria remains among the countries with the highest price stability in the euro area.

Given the continued weakness of economic activity, the situation on the labour market remains critical. The number of long-term unemployed rose considerably in October.