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Weak Momentum of Aggregate Demand

Opinion surveys for the manufacturing sector suggest no significant improvement of the business climate since the end of 2003, neither for Austria nor for the euro area at large. Positive incentives from the boom in Asia and North America have to be set against the dampening impact of euro strength, high raw materials prices and the persistent weakness of internal demand in the euro area. For the Austrian construction sector, firms report continued comfortable order levels in civil engineering, but some slackening for building construction. Consumer confidence and retail sales were moderate early this year. The trend in unemployment remains upward bound.

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Results from the regular WIFO business survey suggest but modest gains in Austrian manufacturing output for the first four months of this year, with no strong upswing being in sight. A majority of firms sampled in April expected production to increase, the margin of 8 percentage points being somewhat higher than in March. Yet, the cyclical recovery observed from mid-year to end-2003 did not continue at the same pace. Most recently, expectations for the medium-term business situation have been revised downwards markedly. Industrial firms are still faced with a lack of demand.

Statistics on foreign trade do not show a revival, with nominal exports rising by 2 percent year-to-year in the fourth quarter 2003, but receding by 1.5 percent in January 2004. Exports to the USA rose faster than the average, with the positive impact of booming demand outweighing the negative exchange rate effect, as did those to south-eastern Europe. Deliveries to the new EU countries and to Germany also increased, as Austria benefits from the liveliness of German exports while being less affected by the sustained weakness of construction and retail trade. By contrast, exports to Italy and other euro-area countries were particularly weak. In a favourable environment of a global economy in strong expansion, demand in the euro-area is nevertheless sluggish, as stimulus from internal demand is lacking.

Good snow conditions and a successful strategy targeting supply quality made for a good winter season in tourism, despite the strength of the euro and incomes quasi-stagnating in many customers' countries. According to preliminary data, earnings in tourism from November 2003 to March 2004 went up by 3.6 percent year-on-year, significantly more than the number of overnight stays (+1.7 percent). The construction sector is giving mixed signals: whereas civil engineering firms benefit from lively demand for new road and railroad infrastructure, building companies are more cautious in view of weaker orders for industrial buildings, excess office space capacity and a decline in permits granted for subsidised housing construction.

Merchandise trade in early 2004 suffered from weak demand. Wholesale trade and automobile sales saw a marked decline in turnover compared with last year. Retail sales edged up by ½ percent in nominal terms, implying virtual stagnation in volume. Bank statistics show a strong increase in private savings.

Driven by buoyant demand in Asia, and particularly from China, price hikes on international commodity markets are gathering pace. On a dollar basis, prices exceeded their year-earlier level by an overall 35 percent of late. Despite the strength of the euro, the price increases for industrial commodities and for crude oil are now being clearly felt also in the euro area, accompanied in some instances by supply bottlenecks. So far, the upward pressure has not yet reached consumers, with costs of housing and transport rising below the average in the first quarter. Prices of food and beverages, for their part, went up strongly, notably for consumption in restaurants. Nevertheless, the Harmonised Consumer Price Index for the first quarter was only 1.4 percent higher than last year.

The situation on the labour market remains highly unsatisfactory. In April 2004, seasonally-adjusted registered unemployment of a total 248,000 was up by 12,000 from one year ago, and by 62,000 from the trough recorded in January 2001. The number of economically active persons employed was somewhat higher than last year without leading to a fall in unemployment, because of labour supply being boosted by a strong inflow of foreign workers.