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Employment on a Falling Trend

While industrial output continues to post strong year-to-year gains for semi-manufactures and equipment, seasonally adjusted monthly data of production and orders suggest an imminent downturn. Weak demand for new labor in the construction and the services sector (particularly in public services) is making for an overall decline in employment.

The outstanding feature of the present business cycle situation is the fall in total employment. In October, the number of workers and employees amounted to 3,078,000, 13,500 or 0 4 percent less than a year ago. This decline has several reasons, all mirroring current economic developments. From its last peak in 1990, industrial employment has fallen to a level of about 470,000. However, since the 1993 recession, the annual rate of decline has abated to some 2,000 or 0 4 percent in July 1995. At the same time, industrial output continues rising strongly, by 8 percent year-on-year in the first eight months.

Investment goods and intermediate inputs posted above-average gains. In both commodity brackets, Austrian suppliers are highly competitive on foreign markets, they also represent the mainstay of demand from neighboring eastern countries in transition. In Austria, too, investment keeps expanding at a strong pace, as higher competitive pressure calls for widespread rationalization efforts. However, given a slight fall in industrial orders since the 2nd quarter 1995, some slowdown in industrial output growth should be expected in the near term.

Construction employment has also fallen below the year-earlier level since the beginning of the year. This is due mainly to weak output in civil engineering while housing construction has stayed lively. Labor demand from the service industries is failing to offset declines elsewhere. In tourism, overnight stays of visitors in the summer season continued to undershoot the corresponding figure one year ago. An even stronger negative impact on the external balance on tourism services — whose net surplus shrunk by almost Sch 10 billion year-on-year to Sch 27 7 billion between January and August — was exerted by the strong propensity by Austrians to travel abroad and the rise in consumer purchases beyond the national borders. These developments, together with the rise in the effective Schilling exchange rate and the abolition of import restrictions from EU countries, weakened sales and job opportunities in retail trade. Due to budgetary restrictions, the public sector also contributes to labor market stagnation. In the first eight months, the number of employees in the general public and the social security administration fell by 8,000, in the education sector by 2,000.

The decline in employment has so far hardly been accompanied by a rise in unemployment, owing to frequent resort to early retirement. The seasonally adjusted rate of unemployment stood at 4 7 percent in October — lower than in any other EU country except Luxembourg.

Indicators from abroad give mixed signals on the international business cycle. In the U.S., policy appears to have been successful in steering a "soft landing". The timely turnaround of monetary policy towards lower interest rates has largely contributed towards preventing activity from sliding into recession. De-stocking, which had dampened output growth in the first half of 1995, may now have been completed. In the third quarter, GDP rose at a surprisingly strong 4.2 percent seasonally adjusted annual rate, mainly driven by exports and business investment in machinery and equipment. Unemployment has fallen to a low 5½ percent rate; still, inflation has remained under firm control.

In western Europe, the pace of demand and output expansion is generally moderate. Countries whose currencies have been devalued receive stimulus from higher exports benefiting in particular manufacturing industry. However, despite domestic demand remaining subdued nearly everywhere as a consequence of policy restriction, the rise in costs and prices is unabated, thereby partly offsetting the exchange rate advantage. In hardcurrency countries, the growth contributions of external and internal demand components appear more balanced, but the bulk of the exchange rate effect is still to come. In Germany, industrial output has declined on a seasonally adjusted basis in August and September, and business confidence has weakened. In almost all countries, the fall in unemployment has come to a halt.

Current economic indicators

	Last available month	Percentage change per year	Trend
Industrial production	August	+7 9	=
New orders in manufacturing (excluding machinery)			
Export	August	+0 2	=
Domestic	August	−7 2	=
Leading Indicators	July	—	—
Employees	October	−0 3	—
Unemployment rate (seasonally adjusted) (%)	October	4 7	=
Consumer prices	September	+2 1	—
Retail sales (volume)	July	+0 6	=
Durable goods	July	+5 7	+
Merchandise payments credit	August	+9 9	+
Merchandise payments debit	August	+2 7	+