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STRONG GROWTH IN MANUFACTURING AND SIZABLE EMPLOYMENT GAINS

ECONOMIC OUTLOOK FOR 1998 AND 1999

Driven by strong exports of goods and lively industrial activity and investment, the Austrian economy is set to grow by 3 percent in volume this year. In 1999, with private consumption becoming a major force of expansion, GDP growth should accelerate further, to an average rate of 3.2 percent. Output strength will stimulate demand for labor and push employment to a new high, while allowing unemployment to recede in 1999 for the first time since 1994.

In 1998, growth of the Austrian economy is being supported mainly by merchandise exports and investment in machinery and equipment. The noticeable cyclical recovery in the EU, by now extending also to the German and the Italian economy, and the continued strong pace of expansion in East-Central Europe translate into a substantial increase in Austria's foreign markets. These favorable prospects should leave overall exports largely unaffected by repercussions of the severe crisis in Asia. Stable exchange rates and high productivity gains make for a significant improvement in the price competitiveness of Austrian goods: relative unit labor costs in manufacturing by 1999 are estimated at being more than 10 percent below their level in 1995. Austria can therefore expect to gain foreign market shares, and volume exports may rise by around 10 percent, both this year and next. Imports will trail exports by some margin, particularly when measured in current values, due to the slump in oil prices. Both the trade and the current account deficit will thereby narrow, the latter by ATS 10 billion in 1998 to a ratio of 1.4 percent of GDP. Moreover, developments in tourism signal a turnaround: in 1999, for the first time in years, receipts from foreign visitors will grow faster than spending of Austrian travelers abroad.

Stimulated by lively demand, external as well as domestic, manufacturing output is rising strongly, by a projected 6 percent this year. This is more than what may be accommodated with the present workforce, despite the important productivity gains

All staff members of the Austrian Institute of Economic Research contribute to the Economic Outlook.

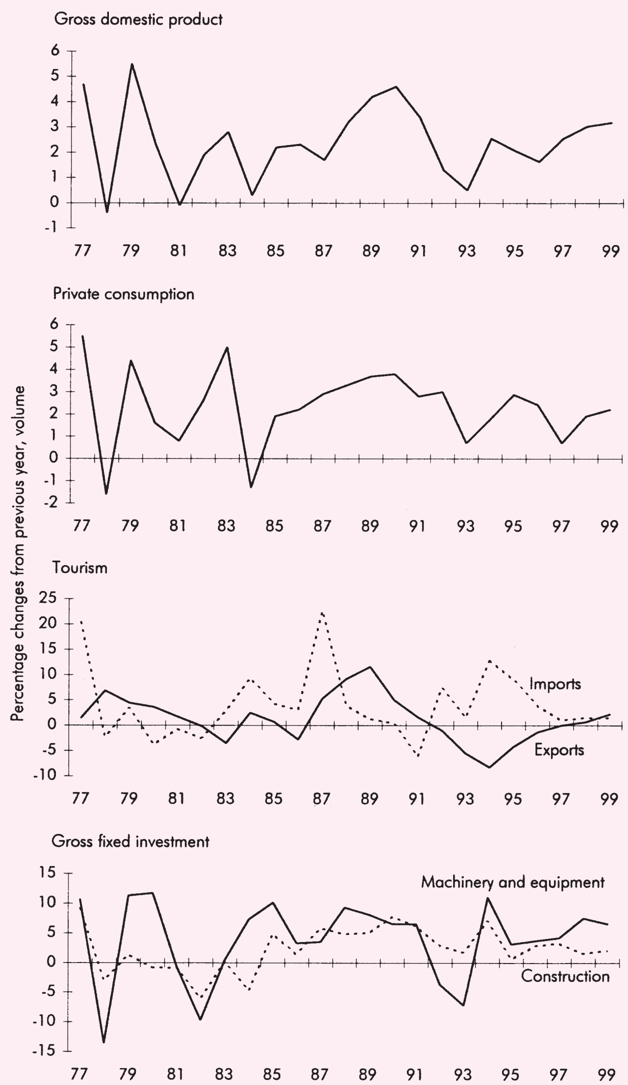
Table 1: Main results

		1995	1996	1997	1998	1999
		Percentage changes from previous year				
GDP						
Volume		+ 2.1	+ 1.6	+ 2.5	+ 3.0	+ 3.2
Value		+ 4.2	+ 3.7	+ 3.9	+ 4.4	+ 4.7
Manufacturing[1], volume		+ 1.0	+ 1.2	+ 4.3	+ 6.0	+ 5.0
Private consumption, volume		+ 2.9	+ 2.4	+ 0.7	+ 1.9	+ 2.2
Gross fixed investment, volume		+ 1.9	+ 2.4	+ 3.6	+ 4.2	+ 4.1
Machinery and equipment		+ 3.1	+ 3.7	+ 4.2	+ 7.5	+ 6.5
Construction		+ 0.6	+ 2.8	+ 3.2	+ 1.5	+ 2.0
Exports of goods[2]						
Volume		+12.1	+ 5.3	+14.9	+10.0	+ 9.5
Value		+13.2	+ 5.5	+16.4	+11.7	+10.9
Imports of goods[2]						
Volume		+ 5.7	+ 6.1	+ 7.9	+ 8.3	+ 8.5
Value		+ 6.2	+ 6.7	+ 9.5	+ 8.6	+10.5
Trade balance[2]	billion ATS	–88.0	–100.6	–68.1	–52.5	–54.2
Current balance	billion ATS	–47.0	– 43.4	–47.7	–35.8	–38.3
As a percentage of GDP	in percent	– 2.0	– 1.8	– 1.9	– 1.4	– 1.4
Long-term interest rate[3]	in percent	7.1	6.3	5.7	5.0	5.5
Consumer prices		+ 2.2	+ 1.9	+ 1.3	+ 1.2	+ 1.5
Unemployment rate						
Percent of total labor force[4]	in percent	3.9	4.3	4.4	4.5	4.3
Percent of dependent labor force[5]	in percent	6.6	7.0	7.1	7.3	7.0
Dependent employment[6]		+ 0.0	– 0.6	+ 0.4	+ 1.1	+ 1.1

[1] Value added, including mining and quarrying. – [2] According to Austrian Central Statistical Office. – [3] 10-year central government bonds (benchmark). – [4] According to Eurostat. – [5] According to labor exchange statistics. – [6] Excluding parental leave and military service.

Figure 1: Demand and output

Percentage changes from previous year, volume



being achieved. The optimistic sales outlook and the generally favorable financial situation of firms augur well for business fixed investment. Purchases of machinery and vehicles could grow by 7½ percent in volume this year. Given such strong advances in both investment and labor productivity, capacity constraints are unlikely to occur at the overall level.

Construction activity is set to grow moderately throughout the projection period, in the order of 1½ to 2 percent annually. While being strong as far as renovation and civil engineering are concerned (owing to tax incentives in the first, and to new ways of project financing in the latter case), residential building is leveling off as expected. Still in 1996, nearly 60,000 dwellings had been completed, 15,000 more than corresponding to the long-term average; but demand has since been slackening quickly.

Business activity in 1999 will be increasingly supported by domestic demand forces. With disposable income expected to post sizable gains, private consumption should rise markedly (2¼ percent in real terms), in particular purchases of durables. Wages and salaries, currently lagging somewhat behind, mirroring the effects of various measures to make labor markets more flexible, are likely to catch up as the recovery gains momentum. Inflation will remain subdued. For this year, the average rate is projected at 1.2 percent, held down also by low energy prices; in 1999, with the cyclical strengthening of activity, it may edge up to 1½ percent.

Strong growth of output also brightens the outlook for the labor market. In the current year, 32,000 (+1.1 percent) new jobs are likely to be created, more than half of which, however, on a part-time basis. Labor supply is being boosted by women seeking service jobs, the shortening of paid maternity leave, and other cuts in social benefits. Registered unemployment may thus rise by an average 7,000 persons. The projection for the rate of unemployment remains unchanged, at 7.3 percent of the dependent labor force (according to the conventional national method of calculation), or 4.5 percent on standard EU definitions. In 1999, with the recovery continuing at a strong pace, employment will rise unabated, allowing the jobless rate to moderate to 7.0 and 4.3 percent, respectively.

By way of a positive fallout from rising employment and incomes, government revenues will be boosted, notably wage taxes and social contributions. However, yields from value added tax appear to remain below expectations. More generous family benefits, favoring in particular the low-income brackets, will add to transfer obligations. General government net borrowing will change little, projected at 2.4 percent of GDP both in 1998 and 1999. This ratio is relatively high, considering the possibility of a cyclical slowdown beyond the projection period.

GROWTH IN THE EU ACCELERATING

The business cycle recovery in the EU has been spreading to investment demand and, in the majority of countries, also to private consumption. It has thereby become self-sustained. The recession in Asia should therefore not seriously undermine the upturn in Europe. GDP growth is set to accelerate to 2¾ percent in 1998 and 3 percent in 1999.

In the European Union, the cyclical recovery has increasingly extended to the domestic demand components during the second half of 1997, gaining further strength around the turn of the year. Broadly stable exchange rates within the EU area, and continued lively demand from North America and East-Central Europe offer favorable conditions for further solid export growth, while import values are being held down by low oil prices. Firms are strongly motivated to reinforce investment, notably by a considerable improvement in the business outlook as well as the generally good profit situation. The remarkable fall in long-term interest rates reduces the debt service burden for general government in particular, but should also facilitate a recovery of construction activity through lower financing costs. Private consumption, at present still growing at modest rates, should accelerate with the fiscal stance becoming less restrictive and wages and employment reacting to stronger output growth.

In Germany and Italy, Austria's most important trading partners, growth of GDP remained distinctly below the EU average over the last years. Notably domestic demand was sluggish, due to a restrictive fiscal stance and adverse labor market developments. A recovery started relatively late and took a long time to gain momentum. The decline in Italian long-term interest rates by over 2 percentage points within one year reduces considerably the debt service burden of both the public and the corporate sector. Better financing conditions and tax incentives are now giving stimulus to construction activity, while recent business surveys point to a rebound in machinery and equipment investment. Private consumption, however, is not expected to pick up: fiscal policy, while generally turning less restrictive, has at the same time withdrawn stimulus in the form of scrapping premia on old motor vehicles, which had caused massive pre-emptive buying of new cars. In all, Italian GDP growth may attain 2 percent or slightly more in 1998, accelerating further towards the EU average in 1999, when consumer demand is set to recover.

Table 2: World economy

		1995	1996	1997	1998	1999
		Percentage changes from previous year				
Real GDP						
Total OECD		+ 2.2	+ 2.7	+ 2.9	+ 2.3	+ 2.5
USA		+ 2.0	+ 2.8	+ 3.8	+ 2.8	+ 2.0
Japan		+ 1.5	+ 3.9	+ 0.9	− 0.5	+ 1.5
EU		+ 2.5	+ 1.8	+ 2.6	+ 2.8	+ 3.0
Germany		+ 1.8	+ 1.4	+ 2.2	+ 2.5	+ 3.0
Eastern Europe		+ 5.4	+ 4.7	+ 4.9	+ 4.5	+ 5.0
World trade, volume		+ 9.5	+ 6.8	+ 9.8	+ 7.0	+ 7.0
OECD exports		+ 8.6	+ 6.3	+11.3	+ 7.5	+ 7.0
Intra-OECD trade		+ 5.5	+ 6.0	+11.7	+ 9.5	+ 7.5
Market growth[1]		+ 6.1	+ 6.2	+ 9.4	+ 8.0	+ 7.5
Primary commodity prices, in US$						
HWWA index, total		+10.0	+ 3.0	− 2.0	−16.0	+ 5.0
Excluding energy		+11.0	− 9.0	+ 0.0	− 9.0	+ 1.0
Crude oil prices						
Average import price (cif) for OECD countries	US$/barrel	17.2	20.6	19.1	14.5	16.0
Exchange rate	ATS/US$	10.08	10.59	12.20	12.70	12.50

[1] Real import growth of trading partners weighted by Austrian export shares.

The strong advance of GDP in Germany in the first quarter 1998 (+3¾ percent year-on-year, in volume) has exceeded many observers' expectations. It is, however, to some degree due to one-time factors: clement weather conditions benefited construction in the seasonal trough, and tax code changes (cut in the "solidarity" income tax surcharge, raise in the income tax basic allowance, raise in the V.A.T. standard rate to 16 percent) boosted disposable income markedly or gave rise to advance purchases. Adjusted for such effects, private consumption has so far not been heading up. This should come as no surprise, given the adverse labor market situation and the sluggish advance of wages and salaries: since 1993, the number of employees has fallen by 4½ percent (1997 –1.1 percent), and labor demand has so far hardly reacted to the cyclical recovery. Yet, machinery and equipment investment actually staged the long-awaited rebound in the first quarter (+10.7 percent) and should be the major driving force this year, markedly outstripping expectations expressed by the leading German economic research institutes.

With the gradual pick-up in employment and incomes, private consumption should provide a substantial contribution to GDP growth in 1999. In the construction sector, the recession of the past three years is now petering out, and a tentative upturn may be expected during the next year. These two components, household consumption and construction investment, act as retarding factors in the current cyclical upturn, such that growth of GDP may both in 1998 and 1999 (2½ and 3 percent, respectively) remain below the rates projected for Austria.

In the USA, activity, which appears unabated even after seven years of expansion, is propelled by domestic demand. In the first quarter of 1998, GDP at constant prices rose 5½ percent above the level a year ago. Private consumption is being underpinned by continued strong employment gains and by advances in real hourly wages, rising since last year. Vigorous demand encourages firms to step up investment, particularly in telecommunication technology. Imports are gaining momentum, and the deficit on current account is widening rapidly. In the current year, the U.S. economy is expected to grow at a similar or somewhat faster pace than the EU, while in 1999 it should slow down (+2 percent) under the impact of exchange rate developments.

In South-East Asia, the financial and economic crisis, and subsequent policy reactions have led to a slump in domestic demand. Positive stimulus is confined to exports which are benefiting from enhanced price competitiveness following currency devaluation. Japan is doubly hit, first by its close trade and financial relations with the countries in the region most affected by the crisis, and second by late repercussions of the asset crisis of the early 1990s, when "speculative bubbles" on financial and real estate markets had burst. In present circumstances, with many "bad" loans outstanding and symptoms of a "liquidity trap" (despite very low nominal interest rates, a recovery of business investment is blocked by negative expectations), an expansionary fiscal policy may be the appropriate instrument for stimulating the economy; yet, high public sector indebtedness leaves little room for maneuver. Thus, the Japanese economy is expected to stay in recession this year.

The recovery in the EU eases somewhat the balance of payments constraint of the East-Central European countries, leaving scope for faster growth. In Russia, however, the situation is highly critical.

In East-Central Europe, demand and output, while keeping strong upward momentum, has still not returned to 1990 levels everywhere. Fragile current account positions act as the major constraint. However, exports are benefiting from the recovery in western Europe, thereby adding to the potential for much-needed imports. Hungary, by now Austria's third most important trading partner, has now overcome the stabilization crisis of 1995; demand and imports are rising fast. In the Czech Republic, the upturn is slow in getting under way, but should pick up speed in 1999. Demand continues to be buoyant in Slovakia and in Poland; however, their respective external account positions are swiftly deteriorating.

The situation is still very critical in Russia. Although the fall in output bottomed out in 1997 (at around 60 percent of the 1990 level), this should not be taken as a turnaround. Institutional and political problems remain unsolved. A major source of uncertainty is the instability of capital markets. Low crude oil prices are squeezing export revenues, and the real appreciation of the rouble holds down exports of manufactured goods. An economic recovery is also blocked by the very restrictive stance of monetary policy.

Prices on oil markets have fallen dramatically since end-1997. On annual average 1998, they may go down by more than 25 percent from last year. This seriously weakens the economies of oil-producing developing countries, and in particular the Russian economy. At the same time, imports of industrialized countries become much cheaper, keeping inflationary pressure on producer and consumer prices at bay, and boosting real incomes. Prices for internationally traded raw materials are expected to remain broadly stable in 1999.

LIVELY EXPORTS EXONERATE THE CURRENT ACCOUNT

Goods exports are drifting strongly upwards, due to important market share gains and high price-competitiveness. Low oil prices improve the trade balance from the import side. The deficit on current account should narrow to a total ATS 36 billion in 1998.

The cyclical recovery of major trading partners in the EU and continued strong expansion of demand and output in eastern Europe translate into high rates of foreign market growth for Austrian exporters, calculated at 8 percent for 1998 and 7½ percent for 1999. At the same time, export manufacturers see their price competitiveness boosted significantly – by favorable exchange rate developments, and by wages lagging markedly behind the strong advances in productivity. Relative unit labor costs in manufacturing fell by 5 percent last year, a further fall by the same amount is projected for 1998 and 1999 combined. The favorable trend in costs and prices warrants the assumption of sizable market share gains. Merchandise exports are expected to move up by 10 percent in volume this year, and by almost as much in 1999.

Merchandise imports are also set to rise markedly, by an estimated 8 percent or more p.a., at constant prices. This is partly a consequence of booming exports, which require more inputs of commodities and other supplies from abroad. Moreover, domestic demand is projected to rise faster than in some of the main trading partner countries. In nominal terms, imports will rise distinctly less in 1998 than exports, as the slump in oil prices will make for broadly unchanged import prices overall. The trade deficit will thereby be reduced to some ATS 50 billion (according to foreign trade statistics), including the non-classified items (balance of payments data) to ATS 80 billion, lower by 10 billion than last year.

The adjustment crisis in the tourism industry may have bottomed out by now. Export revenues, having stagnated in 1997, should edge up this year, while domestic spending on foreign travel has started decelerating. The latter is expected to increase by an annual 1½ percent in volume over the projection period, down from 6¾ percent p.a. between 1992 and 1996, while travel exports are forecast to grow faster in 1999 (+2¼ percent). A major factor contributing to a gradual recovery in the sector should be the improvement of exchange rate terms in recent years; another one is the better outlook for employment and incomes in the crucial German market. For the first time since 1990, the surplus on cross-border tourism services is seen heading up, to a total of nearly ATS 20 billion.

With the trade deficit shrinking and the decline in the tourism surplus turning around, the current account deficit will be reduced from a ratio of 2 percent (1997) of GDP to 1.4 percent. One component of the structural deficit are net transfers to the EU household, amounting to some ATS 12 billion per year.

SOLID GAINS IN MANUFACTURING OUTPUT

Since late summer of last year, manufacturing output has been heading up markedly. Austrian export industries are benefiting from the upturn in investment in the EU and from substantial gains in price competitiveness. In the latest WIFO business survey (spring 1998) firms reported another increase in foreign orders (compared with the situation three months earlier). With investment gaining momentum both domestically and abroad, driving forces are

Table 3: Productivity

	1995	1996	1997	1998	1999
	Percentage changes from previous year				
Total economy					
Real GDP	+2.1	+1.6	+2.5	+3.0	+3.2
Employment[1]	+0.2	–0.5	+0.4	+1.0	+1.0
Productivity (GDP per employment)	+1.9	+2.1	+2.2	+2.0	+2.2
Manufacturing					
Production[2]		+1.3	+4.6	+6.0	+5.0
Employees		–2.9	–1.4	+0.5	–0.3
Productivity per hour		+4.6	+5.9	+5.7	+5.3
Working hours per day for workers		–0.3	+0.2	–0.2	±0.0

[1] Dependent and self-employed according to National Accounts. – [2] Value added.

shifting from basic to more sophisticated technical manufactures. Production expectations sampled in the same survey suggest an acceleration of output growth in 1998, to an estimated average 6 percent (at constant prices).

Strengthening overall demand is giving powerful stimulus to manufacturing output, projected to rise by a price-adjusted 6 percent in 1998. Despite marked advances in productivity, industrial employment may edge up, for the first time in the current decade. Good sales prospects and favorable financial conditions encourage firms to step up investment in machinery and equipment.

Despite a further substantial increase in hourly productivity, employment in manufacturing may edge up (+3,000) for the first time in years.

INVESTMENT BOOSTED BY GOOD PROFITS AND FAVORABLE BUSINESS OUTLOOK

The rebound in overall demand, a friendlier business outlook, good profits and a generally strong self-financing capacity of firms all suggest a marked increase in machinery and equipment investment. The latest WIFO investment survey reports a sizable year-on-year rise in investment projects of industrial manufacturers (accounting for roughly one-third of total spending on capital equipment), notably for the chemical and higher technical branches. Given the rising degree of utilization of production facilities, capacity enlargement is gaining ground as an investment motive. Outlays for machinery and vehicles may go up by a price-adjusted 7 percent in 1998, losing slightly momentum thereafter, in line with exports and output of goods. In view of above-average increases in productivity and investment, manufacturers should be able to

Table 4: Private consumption

	1995	1996	1997	1998	1999
	Percentage changes from previous year, volume				
Private consumption	+2.9	+2.4	+0.7	+1.9	+2.2
Durables	+0.9	+8.0	–2.3	+3.0	+3.0
Non-durables and services	+3.2	+1.6	+1.2	+1.7	+2.1
Net wages and salaries	+1.2	–1.6	–1.8	+1.3	+1.8
Household disposable income	+2.9	+0.7	–0.1	+3.2	+2.6
	As a percentage of disposable income				
Household saving ratio	10.2	8.6	7.9	9.1	9.4

cope with lively demand without facing significant capacity constraints.

NOTABLE RECOVERY IN PRIVATE CONSUMPTION

Consumer demand has been held down by a restrictive budgetary policy, notably in 1997. Rising disposable incomes will, from now on, give households scope for higher spending. By 1999, private consumption should become a major force of overall growth.

Owing to the efforts at budgetary consolidation affecting public expenditure as well as revenue, net wages and salaries (at constant prices) had dropped markedly in 1996 and 1997 – together by around 3½ percent. For this year and next, a recovery may be expected, in the order of 1½ percent p.a. The stance of fiscal policy may no longer be considered restrictive: in 1998, retirement benefits were resumed (+1.3 percent), and as from 1999 newly-introduced family benefits will significantly add to social transfers, particularly for the lower income brackets. Besides, the business cycle recovery will stimulate income growth. Employment is expected to increase markedly, and gross earnings in 1999 should outpace price rises by some margin. On the other hand, measures designed to make the labor market and working time more flexible will dampen incomes: partly because of the spreading of part-time work, partly because of implicit restrictions on bonus and overtime payments. With income from property and entrepreneurship once again exceeding wage and salary increases, the wage ratio is set to decline further, to an expected 68 percent of national income in 1999.

The rise in disposable income of 3¼ percent in 1998 and 2½ percent in 1999 leaves considerable scope for higher private consumption (first quarter of 1998 +1¼ percent in volume). On annual average it may gain almost 2 percent, with the prospect of becoming a major source of overall growth in 1999 (+2¼ percent in volume). Demand for consumer durables could rise above-average in both years. Still, private consumption is projected to trail income growth, allowing the saving ratio of households to approach its long-term average (attaining 9½ percent of disposable income in 1999). Livelier consumer demand and the recovery in tourism will stimulate retail sales, which are assumed growing by a price-adjusted 2¼ percent in each year.

Table 5: Earnings and international competitiveness

	1995	1996	1997	1998	1999
	Percentage changes from previous year				
Gross earnings per employee	+3.2	+1.7	+1.6	+2.0	+2.7
Gross real earnings per employee	+1.5	–0.8	–0.4	+0.8	+1.2
Net real earnings per employee	+0.5	–2.2	–2.4	+0.4	+0.7
Net wages and salaries	+2.7	+0.9	+0.1	+2.5	+3.3
Unit labor costs					
Total economy	+1.4	–0.5	–0.5	+0.0	+0.6
Manufacturing	–0.6	–1.0	–5.2	–3.5	–2.5
Relative unit labor costs[1]					
Vis-à-vis trading partners	+2.2	–2.2	–5.1	–2.9	–2.3
Vis-à-vis Germany	–0.2	–0.6	–0.8	–1.4	–1.9
Effective exchange rate – manufactures					
Nominal	+3.0	–1.2	–1.8	±0.0	+0.4
Real	+2.6	–1.5	–2.6	–0.8	–0.3

[1] Manufacturing, in a common currency; minus sign indicates improvement of competitiveness.

CONSTRUCTION ACTIVITY TRAILING THE CYCLICAL RECOVERY

With residential building falling back to a "normal" pace, construction activity overall is expected to remain subdued. Firms engaged in renovation works or in civil engineering projects should fare better than the sector average.

Construction output has been advancing slowly since early summer 1997. While tax incentives are giving powerful stimulus to renovation works, construction of new homes has been stagnating, and demand for civil engineering remains slack. In 1998, residential building may weaken considerably, despite a comfortable amount of subsidies being made available. The excess demand of recent years has largely been satisfied, and the number of construction permits has sunk by 10,000 since 1996, to a total of around 57,000. In view of the current good supply conditions in the housing market, output may keep dwindling over the next few years (the long-term average corresponds to about 45,000 dwellings being completed per year). By contrast, demand for renovation should stay lively, as suggested also by strong sales of building materials and components in the specialized cash-and-carry markets. As for non-residential building, a number of large-scale projects are now waiting to be carried out.

According to the WIFO business survey, the order situation is relatively better for civil engineering than for residential and other building projects. Revenues from motorway tolls and new financial resources provided for by a Railroad Law allow transportation infrastructure to be expanded at a somewhat faster pace from now on. In all, construction activity should pick up gradually, with output rising by an annual 1½ to 2 percent in real terms.

MODEST INFLATION, LOW NOMINAL INTEREST RATES

In 1998, inflation is held down mainly by low energy prices. In May, the consumer price index rose by 1 percent year-on-year, the average rate of inflation for the whole year is projected at 1.2 percent. In the second semester and in the coming year, price rises may accelerate slightly, as economic activity strengthens. Still, with an expected annual inflation rate of 1½ percent, price stability may be regarded as being broadly preserved.

This climate of price stability across virtually the whole of Europe gives at present hardly any reason for raising short-term interest rates. However, with the responsibility for monetary policy being transferred to the European Central Bank at the beginning of 1999, new framework conditions will be set up, thereby complicating comparisons with present data. WIFO assumes that with the cyclical recovery making further progress, both short and long-term interest rates will edge up, attaining 4 and 5½ percent, respectively, on annual average 1999.

UNEMPLOYMENT HEADING DOWN AS FROM 1999

Solid growth of output will enable employment to rise, by more than 30,000 persons both this year and next. However, more than half of the new jobs offered will be part-time. Labor supply is reacting strongly to the improving employment prospects. By 1999, demand for new personnel should be strong enough as to allow unemployment to recede, for the first time since 1994.

Between January and May 1998, employment rose surprisingly strongly. Demand for new labor was particularly lively in industrial and commercial services, and frequently favored temporary work arrangements. Social and personal services, often supplied by the public sector in the large sense, also considerably added to personnel, as did the trade sector. The liberalization of shop opening hours may have boosted "marginal" employment (at very short working time) not covered by social protection, and therefore not counted in official statistics. Part-time employment may account for the bulk of the new service jobs, although many of the unemployed women are really looking for full-time jobs. A smaller part (some 5,000) of the additional employment recorded is due to a higher number of people enrolled in training activities.

Table 6: Labor market

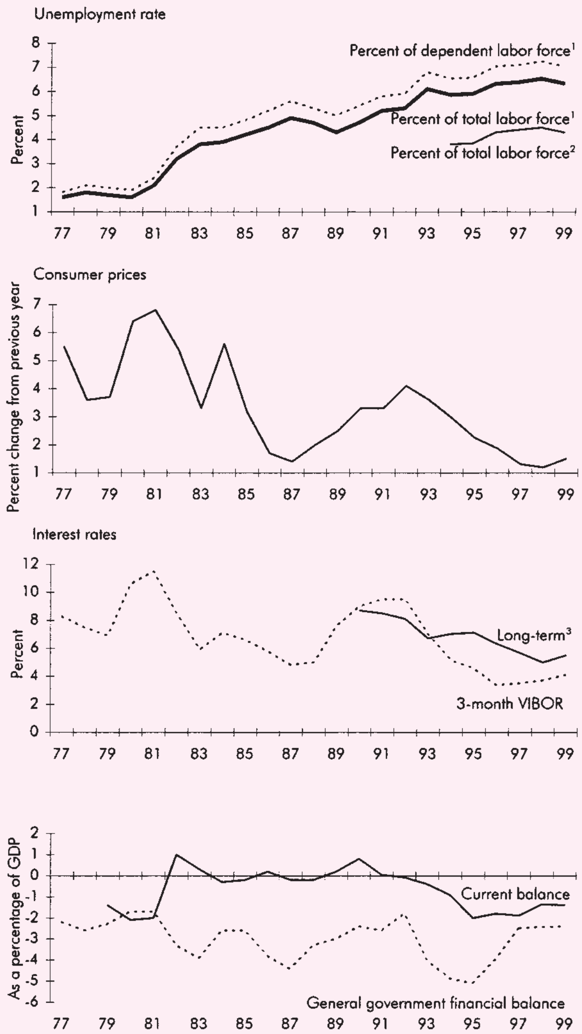
		1995	1996	1997	1998	1999
		Changes from previous year, in 1,000				
Demand for labor						
Civilian employment		– 12.3	– 23.8	+ 8.8	+ 20.0	+ 28.0
Dependent employment[1]		– 2.5	– 20.9	+ 8.3	+ 19.0	+ 27.0
Excluding parental leave and military service		+ 0.6	– 16.5	+ 12.8	+ 32.0	+ 33.0
Percentage changes from previous year		+ 0.0	– 0.6	+ 0.4	+ 1.1	+ 1.1
Parental leave and military service[1]		– 3.2	– 4.4	– 4.4	– 13.0	– 6.0
Foreign workers[2]		+ 9.3	+ 0.0	– 1.6	+ 3.0	+ 3.0
Self-employed[3]		– 9.8	– 2.9	+ 0.5	+ 1.0	+ 1.0
Labor supply						
Total labor force		– 11.6	– 9.0	+ 11.7	+ 27.2	+ 22.0
Foreign		+ 8.7	+ 2.8	– 1.7	+ 2.0	+ 3.0
Migration of nationals		+ 5.6	+ 4.9	+ 5.0	+ 3.0	± 0.0
Indigenous		– 25.9	– 16.7	+ 8.4	+ 22.2	+ 19.0
Surplus of labor						
Registered unemployed[4]		+ 0.8	+ 14.8	+ 2.8	+ 7.2	– 6.0
In 1,000		215.7	230.5	233.3	240.5	234.5
Unemployment rate						
Percent of total labor force[5]	in percent	3.9	4.3	4.4	4.5	4.3
Percent of total labor force[4]	in percent	5.9	6.3	6.4	6.5	6.3
Percent of dependent labor force[4]	in percent	6.6	7.0	7.1	7.3	7.0
Participation rate[6]		67.5	67.2	67.2	67.5	67.7
Employment rate[7]		63.5	62.9	62.9	63.1	63.4

[1] According to Hauptverband der österreichischen Sozialversicherungsträger. – [2] Corrected for statistical breaks. – [3] According to WIFO. – [4] According to labor exchange statistics. – [5] According to Eurostat. – [6] Total labor force as a percentage of active population (aged 15 to 64). – [7] Employment as a percentage of active population (aged 15 to 64).

Apart from such effects of lower actual working time per head and of reinforced training measures, employment growth has also a significant cyclical component. For the first time in many years, manufacturing employment went up in April and May; despite continued strong productivity gains firms need to increase their workforce in order to cope with buoyant demand. Other dynamic sectors, such as telecommunication, are also hiring new personnel, while labor demand in construction remains sluggish. In all, dependent employment in 1998 is expected to exceed the year-earlier level by 32,000 or 1.1 percent.

At present, however, labor supply is outpacing demand, mainly for institutional reasons. Many women finding jobs in the service sector are recruited from the "hidden" labor

Figure 2: Main economic indicators



[1] According to labor exchange statistics. – [2] According to Eurostat. – [3] Yield of 10-year central government bonds (benchmark).

Table 7: Key policy indicators

	1995	1996	1997	1998	1999
	Billion ATS				
Fiscal policy					
Central government net balance	–117.9	– 89.4	– 67.2	– 67.3	– 70.1
	As a percentage of GDP				
Central government net balance	– 5.1	– 3.7	– 2.7	– 2.6	– 2.5
General government financial balance	– 5.1	– 4.0	– 2.5	– 2.4	– 2.4
	In percent				
Monetary policy					
3-month interest rate	4.6	3.4	3.5	3.7	4.1
Long-term interest rate[1]	7.1	6.3	5.7	5.0	5.5
Bond yield, average	6.5	5.3	4.8	4.7	5.2
	Percentage changes from previous year				
Effective exchange rate					
Nominal	+ 3.9	– 1.5	– 2.3	+ 0.2	+ 0.7
Real	+ 3.2	– 2.1	– 3.3	– 0.9	– 0.3

[1] 10-year central government bonds (benchmark).

reserve; moreover, the shortening of the paid maternity leave and the phasing out of certain social benefits have boosted labor supply. Thus, the number of jobseekers is rising along with employment. WIFO therefore maintains its projection for the unemployment rate in 1998 at 7.3 percent of the dependent labor force (according to the traditional calculation method), corresponding to a total of 240,500 persons on annual average. As in 1997, the rise is due not so much to more people becoming unemployed as to the already unemployed taking longer finding a job (in particular young women and older men). Although long-term unemployment in Austria is lower than almost anywhere in Europe, the problem is mounting also in this country. In this regard, the National Action Plan for employment adopted last April intends to make inroads: until 2002, the rate of unemployment is to be cut to 3½ percent of the total labor force, through various measures acting on both the supply and the demand side. Another focus of labor market policy is the fight against a rise in youth unemployment.

In 1999, labor market conditions should continue to improve, eventually also including a decline in unemployment. Assuming a further acceleration in demand and output growth, employment is set to rise by a substantial 33,000 or 1.1 percent, outstripping labor supply. Thus, total unemployment may fall by 6,000 to an average level of 234,500, yielding an unemployment rate of 7.0 of the dependent labor force (national definition) or 4.3 percent of total labor force (harmonized EU methodology). Yet, compared with the 1994 average, unemployment will still be higher by 20,000 persons.

BUDGETARY POSITION REMAINS FRAGILE

The cyclical upturn will exert positive effects on government balances still in 1998. Revenues from the wage tax are rising swiftly to a record high, and also those from social contributions are being boosted by favorable developments in income and employment. However, receipts from V.A.T. remain subdued, as in other countries of the European Union. On the expenditure side, a generous "family package" will take effect as from 1999. Despite the expected strong growth of GDP, the general government deficit ratio is unlikely to be brought down further – leveling off in the projection period at 2.4 percent. According to government intentions, the tax reform envisaged for 2000 will be revenue-neutral. This would not preclude a readjustment in major expenditure components, nor an exoneration of those groups of taxpayers, who had to shoulder an over-proportional burden over the last years.

Cut-off date: 1 July, 1998