

■ VIGOROUS UPSWING WITH GROWING INFLATIONARY RISK

The cyclical trend continues to be extremely favourable: during the first two months of 2000, goods production and exports were increasing at double-digit rates over the comparable period of the year before. WIFO's business surveys as well as the May 2000 labour market data point to an uninterrupted continuation of the upward movement. However, the risk of inflation is gradually increasing: petrol prices rose by about 6 percent in May, and the increase of indirect taxes and charges will add ½ percent to the consumer price index.

Economic activity has been gaining considerable momentum in the course of this year. During the first two months of 2000, goods production and exports exceeded the previous year's level by more than 10 percent. The expansion was strongest in capital goods production and exports.

Under the impact of the income effects of the tax reform and the package of family-policy measures, private consumption has also taken a very favourable development: according to preliminary estimates, first-quarter retail sales (excluding passenger cars) went up by almost 5 percent in real terms. Tourism industry also looks back on a successful winter season, though with some losses of market shares.

All the indicators of WIFO's May business survey confirm the upward trend. 24 percent of manufacturers expect to increase their production volumes in the coming months, compared with 9 percent who reckon with production cuts.

The current labour market trends of May 2000 are also highly satisfactory, employment has been boosted by the favourable development of economic activity, the number of persons in employment exceeding the previous year's figure by 37,000. The rate of unemployment fell by 0.75 percentage point to 5.3 percent.

About one third of the increase in employment was accounted for by foreign workers (+15,600 in April), the majority of them having lived in Austria for longer periods of time. Relative to the growth of employment, the decline of unemployment is substantial.

However, the stability risks for the economic upswing are gradually increasing. Important factors to be considered in this context are the increasing crude oil and petrol prices and the rising burden of indirect taxation in Austria.

The inflation rate persisted at 1.9 percent in April. Measured by the Harmonised Consumer Price Index (HCPI), the price increase in Austria was

All staff members of the Austrian
Institute of Economic Research
contribute to the Business Cycle
Report.

slightly above the EU average. About one third of the price rise is due to the direct influence of higher energy prices. In the course of May, petrol prices went up almost by another 6 percent over the month before. Moreover, the increase of indirect taxes and charges will drive the consumer price index up by 0.6 percent in June.

The future development of the inflation rate will depend on the extent to which higher energy prices and rising indirect taxes and charges are reflected in the wages to be negotiated in the next collective bargaining round and, thus, generate further price increases.

Cut-off date: 9 June 2000.