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PRIVATE CONSUMPTION CONTINUOUS AS MAINSTAY OF ECONOMIC ACTIVITY IN AUSTRIA

The growth in exports and manufacturing output markedly levelled off in the late fall of 1998. A more sanguine picture was presented by the strong real income and employment gains and the stabilisation of unemployment. In the EU, the business climate in the manufacturing sector stabilised. The situation in the crisis regions of the global economy, however, remains tenuous.

Economic activity in Austria slowed down considerably in the second half of 1998, but the downswing did not turn into a recession at the end of the year, as had been feared by some observers. The WIFO business survey in manufacturing has shown a deterioration in the business climate since the spring of 1998; in the first quarter of the current year the assessment of entrepreneurs stabilised, however. This stance corresponds to the European Commission's business climate surveys in manufacturing, which showed no further worsening in December and January. At the same time, consumer confidence in the EU attained a record high.

The deceleration in economic growth of Austria's major trade partners is reflected in Austria's exports, which declined in October and November on a year-on-year basis in nominal terms according to preliminary estimates by the Central Statistical Office (data collected by the National Bank, however, record an increase). The decrease was particularly pronounced for exports to countries outside the EU; sales to the EU stagnated. The sluggish performance of exports dampened industrial output, which rose by only 1 percent (adjusted for the number of working days) in October/November, compared with the same period of the previous year. Employment in manufacturing stagnated in December and January compared with one year earlier; this suggests that manufacturing production did not suffer a major setback at the end of the year.

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

Austria's tourism industry recovered significantly from the slump of recent years. Preliminary reports on the performance of the winter season painted an optimistic picture; overnight stays and turnover increased steeply. It is still too early to assess the long-term effects of the avalanches in February. The turnaround in tourism in tandem with the employment gains and the rise in real income have provided a strong boost to consumer spending. In the fourth quarter of 1998, retail sales expanded by some 2 percent in real terms.

The development of real income is likely to remain strong and to buoy private consumption. In January, the index of contractual wage rates was up 2.4 percent from 12 months earlier. Inflation has vanished, with the consumer price index practically unchanged since April 1998. In January of 1999, the year-on-year change was only 0.5 percent (0.3 percent for the EU's Harmonised Index of Consumer Prices).

Developments on the labour market give cause for optimism. In February, dependent employment (excluding persons in military service and on parental leave) exceeded the level of the same month of last year by 26,000 or 0.9 percent; the rise in unemployment by 1,400 persons can be attributed to bad weather. In the private service sectors, the expansion in employment continued unabated, but remains concentrated in low-wage branches where part-time work is significant. The number of jobs is stagnating in manufacturing, while construction records marked employment losses, owing to the weak demand in structural engineering and inclement weather. In February, the (seasonally adjusted) unemployment rate was 7.1 percent of the dependent labour force according to the traditional Austrian method of calculation, and 4.4 percent of the total labour force according to the EU Labour Force Survey.

Cut-off date: 5 March 1999.