

■ DECELERATION IN EXPORT INDUSTRY, RISING CONSUMER DEMAND

Export-dependent manufacturing firms have substantially revised downwards their assessment of the business climate, according to the surveys undertaken by the EU Commission for Europe and by WIFO for Austria. The change reflects lower foreign orders as well as the wide-spread uncertainty regarding the future development of the global economy. Those enterprises more geared to the domestic market are more optimistic. Given overall price stability, the current income and employment gains make private consumption the mainstay of the ongoing upswing.

The uncertainties about the future development of the world economy have increased markedly over the last few months. The U.S. national bank has tried to stabilize expectations on the financial markets by lowering key interest rates. In Europe, too, monetary authorities in some high-interest countries have started a process of reducing short-term interest rates, in order to create a common base in the transition phase to the Euro and to align interest rates to the slowdown in inflation. The business climate survey of the EU Commission recorded a weakening of production expectations, especially in the U.K. While Europe's export industry views the future with gloom, the responses of retail trade and the construction industry to the question about the general business situation has become more optimistic.

The assessment of the cyclical situation of Austria's economy has become more difficult because in some important fields the data do not extend beyond the summer months. Production and employment figures indicate that manufacturing remained buoyant until the summer (valued added +7½ percent in real terms in the first half of 1998). Thanks to a high level of price competitiveness, Austrian enterprises benefited from the revival of investment demand in Germany and other important trade partners.

In view of the lack of up-to-date information on output, survey data are gaining in value in business cycle monitoring, but they do reflect the wide-spread economic actors' uncertainties about the future course of the economy. The results of the WIFO business survey of October, which covered more than 1,000 firms with about 200,000 employees, suggest that the economic upswing in manu-

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facturing has already peaked. On the basis of a more pessimistic assessment of foreign orders, firms view the development of output over the next few months markedly less favorably than in the early summer. The balance of optimistic and pessimistic responses declined to +2.6 percentage points (March +10 percentage points). Production expectations (though still positive on balance) were revised downwards by the basic-goods industry and, for the first time, by the technical manufacturing sector, two sectors that are heavily dependent on foreign demand. In the consumer goods industry, sales expectations are stable and positive, despite a more cautious assessment of foreign orders.

Thus, private consumption is increasingly becoming the main support of the current upswing. In the first seven months of 1998, sales in retail trade exceeded the level of the same period of last year by 2½ percent in real terms. While demand for furniture was sluggish in the wake of the drop in residential construction activity, demand for automobiles and non-durable consumer goods improved significantly. The development is the result of a rise in income and in employment as well as the favorable performance of tourism in the summer months. The number of overnight stays rose compared to last year, but an even higher growth rate was recorded for spending per overnight stay. After the strong gains recorded in the first quarter, output growth slowed down markedly in the construction sector, despite the favorable performance of civil engineering.

The surge in the tourism surplus has lowered the deficit in the current account, which reached ATS 28 billion,

from January to August ATS 4 billion below last year's level.

During the summer months, price stability prevailed in Austria, just as in many other EU countries (on a year-on-year basis the national consumer price index recorded 0.9 percent, while inflation according to the harmonized EU consumer price index reached 0.6 percent). The main reasons for this favorable development are the plunge in world commodity prices, the drop in the value of the dollar, intense competitive pressures, and small increases in unit labor costs.

The number of employees continues to rise at a brisk pace. In October, dependent employment (excluding persons in military service and on parental leave) exceeded the level of the same month of last year by 28,000 persons. The increase was exceptionally strong in those service sectors in which part-time work plays an important role. The number of persons in precarious employment relations also rose at an above-average rate. However, the rise in employment does not yet match the increase in the labor supply, and unemployment is increasing slightly. In October, 220,100 persons were without jobs; the (seasonally adjusted) unemployment rate was 7.2 percent of the dependent labor force according to the traditional Austrian method of calculation, and 4.5 percent of the total labor force according to the EU Labour Force Survey. For every job vacancy, there were 9 persons looking for a job.

Cut-off date: November 4, 1998.