

RENEWED IMPROVEMENT IN PRODUCTION EXPECTATIONS IN MANUFACTURING

The WIFO business survey from April shows a further pick-up in manufacturing output. With the export boom continuing, there are signs that domestic demand is reviving. Employment has responded briskly to the economic upswing, but the strong influx of workers into the labor market has kept unemployment high. Inflation and interest rates remain at their low level.

Austrian manufacturing continues its dynamic course of expansion. The most recent WIFO business survey – 1,000 enterprises in manufacturing and small-scale industry employing 220,000 persons were surveyed – signals that output growth in manufacturing is accelerating. Foreign demand continues to provide an important stimulus to the Austrian economy. Exports to East-Central Europe are buoyant, but exports to Western Europe are posting higher and higher growth rates. According to the Austrian Central Statistical Office, the value of merchandise exports to the EU rose by 18½ percent in the fourth quarter of 1997, on a year-on-year basis. Following a long phase of sluggish development, investment and consumer demand are becoming more buoyant in Germany, France, and Italy, and the upswing in Europe is gaining a wider base. Not only are export markets expanding, but Austria's export sector is also benefiting from a marked improvement in price competitiveness. The favorable development of the exchange rates and high productivity gains have significantly lowered relative unit labor costs vis-à-vis the trading partners.

The buoyant demand has made the business sector more optimistic regarding future output. The number of enterprises expecting production increases over the coming months exceeds the number of those which are pessimistic by 11 percentage points – more than in the boom period of the second half of 1994. Especially firms in technical manufacturing (machinery and metal production industries) have an increasingly positive business outlook, as output growth has shifted markedly from the basic goods sector to the capital goods sector. But the production sectors which are more dependent on domestic demand also report a more favorable assessment of the situation than previously. The producers of traditional consumer goods, which have suffered from the restrained consumer demand in all of Europe for a longer period, now report an increase in foreign orders. In Austria, consumer expenditures are expanding as a result of the recovery in the labor market, sizable income gains, and the re-

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

bound in tourism. In retail trade, turnover in the fourth quarter of 1997 exceeded the level of the previous year by 2 percent in real terms, and, on a seasonally adjusted basis, was brisk at the beginning of 1998. The building supplies industry expects an expansion in production. The (seasonally adjusted) results of the WIFO business survey for the construction industry indicate a stabilization of current and future business activity. Because of the lively investment in the railroad system and the construction of tunnels, civil engineering has developed more favorably than structural engineering, which is being slowed down by the deterioration in residential construction.

The pick-up in economic activity is reflected in the labor market. In April, dependent employment (excluding persons in military service and on parental leave) exceeded the level in the corresponding period of 1997 by 30,000. In manufacturing, the level of employment in the first quarter was only slightly lower (by 1,000 persons) than in 1997, thanks to the vigorous expansion in output. The construction industry was able to maintain the high level of employment achieved in 1997. The number of jobs rose significantly in the service sectors, with businesses in producer-oriented services (including workers on loan to other firms), the public sector (in-

cluding the health and education sector), telecommunications, and distribution posting the highest gains. Nonetheless, as the supply of labor continues to outpace the expansion in labor demand, unemployment is still on the increase. In April, 241,000 persons were recorded as unemployed, almost 5,000 more than in April 1997. The unemployment rate (seasonally adjusted) was 4.5 percent of the total labor force according to the definitions of the EU Labour Force Survey, and 7.3 percent of the dependent labor force according to the traditional Austrian method of calculation. The number of vacancies registered with the employment placement service rose by one fourth to 24,000, another sign of the revival of economic activity. But there were still ten unemployed per vacant job.

Wage and price inflation remains quite subdued. As the new wage settlements took effect, contractual wage rates rose by less than 2½ percent at the beginning of the year on a year-on-year basis. Inflation reached only 1.1 percent in the first quarter, a result of lower unit labor costs, intense competition, and a drop in energy prices.

Cut-off date: May 7, 1998.