

Marcus Scheiblecker

Lagging Business Cycle Recovery in the Euro Area

The revival of global economic activity is gaining momentum. Next to the USA, the Japanese economy is for the first time showing signs of a sustained recovery – with growth in the fourth quarter 2003 even exceeding that of the USA. The upward trend has so far hardly extended to the euro area; indeed, business expectations in German manufacturing have suffered a setback of late. Firms in Austria saw their current situation in February unchanged from the previous month, but were more upbeat on the short-term outlook.

All staff members of the Austrian Institute of Economic Research contribute to the Business Cycle Report. • Cut-off date: 5 March 2004 • E-Mail Address: Marcus.Scheiblecker@wifo.ac.at

The upturn of the global business cycle is gradually gaining strength. Activity in the USA, having jumped in the third quarter 2003, remained upward bound also in the subsequent period. Even Japan appears to have finally overcome its decade-long economic stagnation, as GDP growth in the fourth quarter clearly outpaced even that in the USA, driven by a rebound in investment and exports.

Current economic data for the euro area still point to a gradual recovery that is hardly gathering pace. Neither domestic demand nor exports are providing strong forward momentum. Industrial production has remained broadly flat since the middle of last year. Weakness remains particularly pronounced in Germany where real GDP shrunk by 0.1 percent on annual average 2003. The survey-based cyclical indicators by the ifo and ZEW institutes fell slightly in February 2004, following a steady improvement in the previous months.

In Austria too, the regular WIFO business survey of last February suggested no further improvement in manufacturers' current business conditions. Still, the proportion of firms expecting an improvement in the next few months was higher than in January. In the service sector, no signs of recovery have been identified so far. In the construction sector, the survey results are inconclusive about the current business situation, as the last observations seem to be distorted by an outlier.

Foreign trade data confirm the sluggishness of Austrian exports during 2003. With exports stagnating and imports edging up slightly, the current account on a cash basis has been close to balance for the year as a whole. Inflation has further abated both in Austria and in the euro area. The labour market, usually reacting with a lag to cyclical activity, has so far shown no signs of improvement.