ALOIS GUGER

SHARP DROP IN RELATIVE LABOR COSTS AND UNIT LABOR COSTS IN MANUFACTURING IN 1997

The depreciation of the schilling and a weak increase in labor costs have substantially improved the international competitive position of the Austrian manufacturing sector. Relative unit labor costs (which rose by 5.7 percent in a common currency during the period of appreciation between 1992 and 1995), fell by 7 percent in 1996 and 1997; the strong upswing caused a reduction of 5 percent in 1997 alone.

In the long term, the international competitiveness of an economy depends, on the one hand, on microeconomic firm-specific factors such as product and management qualities, as well as an individual firms' potential for innovation. On the macroeconomic level, factors such as location, skill of the labor force, labor relations and the country's taxation system are of major importance. In the short term, however, exchange rate fluctuations as well as changes in labor costs and productivity are the main determinants of the international competitiveness of foreign trade sectors.

EFFECTIVE NOMINAL EXCHANGE RATE CONTINUES TO FALL IN 1997

Since the fixed exchange rate system was abandoned, exchange rate fluctuations have affected the short-term competitiveness of individual countries considerably. The depreciation of some important trading partners' currencies caused the schilling's value to rocket by 16 percent in the 1980s. The weak dollar and the turbulence within the EMS caused a further appreciation of the schilling by about 8.5 percent in the early 1990s.

Since the spring of 1995, however, the currencies affected by the turbulence have recovered: during the past two years, the Italian lira (15.5 percent), the dollar (21 percent), the British pound (25.6 percent) and the Swedish crown (12.9 percent) have all gained in value compared to the annual average of 1995. As a result, the exchange rate of the schilling weakened by 1.5 percent in 1996 and 2.0 percent in 1997 against the average of its trading partners, after having appreciated signif-

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Table 1: Movements in nominal exchange rates

Vis-à-vis the Austrian schilling[1]

	Ø 1987-1997	Ø 1990-1997	1995	1996	1997
	Year-to-year percentage changes				
Germany	± 0.0	± 0.0	± 0.0	± 0.0	± 0.0
Switzerland	– 0.1	+ 0.4	+ 2.1	+ 0.4	– 1.9
Norway	– 0.8	– 0.7	– 1.6	+ 3.1	+ 5.2
Denmark	± 0.0	+ 0.1	+ 0.2	+ 1.5	+ 1.2
Belgium	+ 0.1	± 0.0	+ 0.1	± 0.0	– 0.2
Sweden	– 2.2	– 2.6	– 4.4	+11.6	+ 1.2
Finland	– 2.0	– 3.3	+ 5.5	– 0.2	+ 2.0
Netherlands	± 0.0	± 0.0	+ 0.1	± 0.0	– 0.4
Japan	+ 1.4	+ 3.6	– 3.6	– 9.6	+ 3.8
Italy	– 3.0	– 3.9	–12.5	+10.8	+ 4.3
France	– 0.1	± 0.0	– 1.8	+ 2.4	+ 1.0
USA	– 0.4	+ 1.0	–11.7	+ 5.0	+15.3
U.K.	– 0.3	– 0.2	– 8.9	+ 4.0	+20.8
Canada	– 0.8	– 1.4	–12.3	+ 5.7	+13.6
Ireland	– 0.2	– 0.2	– 5.3	+ 4.9	+ 9.2
Spain	– 2.0	– 4.1	– 5.1	+ 3.3	– 0.3
Greece	– 7.1	– 6.5	– 8.1	+ 1.6	+ 1.6
Portugal	– 2.5	– 1.9	– 2.2	+ 2.1	+ 1.4
Trading partners[2]	– 0.4	– 0.4	– 2.5	+ 1.5	+ 2.0
EU 14[2]	– 0.5	– 0.7	– 2.3	+ 1.9	+ 1.6

Source: Austrian National Bank. – [1] A plus sign indicates a fall, a minus sign a rise in the value of the schilling. – [2] Weighted average of trading partners as per revised WIFO exchange rate index.

icantly during the first half of the decade. During the first six months of 1998, however, the schilling's effective exchange rate rose slightly again (+0.4 percent).

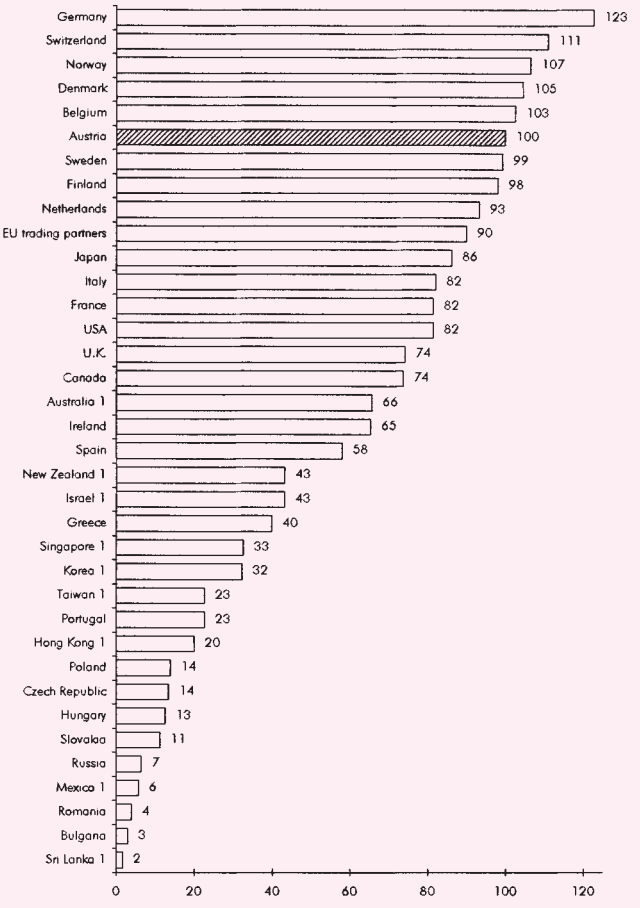
LABOR COSTS IN MANUFACTURING EXCEED EU AVERAGE BY 11 PERCENT

In 1997, hourly compensation in Austria's manufacturing sector attained 274.1 ATS, 11 percent higher than the EU average; in 1992 the divergence was only about 5 percent. Hourly labor costs consists of direct labor costs (138.6 ATS) and indirect labor costs (135.5 ATS) in almost equal proportions. Though direct labor costs (hourly earnings without bonuses) increased by 2.5 percent, hourly labor costs rose by only 1.9 percent; largely because of a decrease in sick days taken, payments for time not worked fell.

Indirect labor costs consist mainly of social security contributions, voluntary welfare payments, pay for time not worked (holidays, sick days, public holidays, etc.), as well as bonuses (e.g., 13th and 14th monthly wage payments, severance pay); in 1997 these costs rose by only 0.8 percent, and their proportion of direct labor costs fell from 98.7 percent in 1996 to 97.7 percent. Only Italy, with 103 percent, posts a higher rate. In France and Belgium, the percentage of indirect labor costs is 92.8 percent and 91.0 percent, respectively; Spain, Finland and Germany run at about 82 percent.

Figure 1: Hourly compensation costs in manufacturing in 1997

On a schilling basis, Austria = 100



The figures for Hungary, Poland, the Czech Republic and Slovakia were extrapolated from the estimates of the Institute of the German Economy for 1993 (see *Guger,* 1995) using data for macroeconomic wage trends from WIIW.

In 1997, hourly labor compensation costs in manufacturing in Austria were 274 ATS, making Austria one of the countries with the highest labor costs in the world. Only Germany, Norway and Switzerland have higher labor costs. Manufacturing paid 10 percent less in the EU on average, in Italy, France and the USA 18 percent less and around one fourth less in the U.K. The newly industrialized countries of the Far East have labor costs of one quarter to 30 percent of Austria's, our neighbors to the East around one seventh. – [1] 1996.

The level of indirect labor costs depends mainly on the extent to which the welfare state is funded. In countries with high indirect labor costs, the social security system is funded via employers' and employees' contributions, while in other countries general tax revenues make a greater contribution (*Beirat,* 1994). In the Anglo-Saxon countries, indirect labor costs therefore reach a level of barely 40 percent of direct labor costs, in Denmark only 25 percent.

Austria's high indirect labor costs are also the result of the high level of bonus payments which are subject to preferential tax treatment (13th and 14th monthly wage payments). If these bonuses were reclassified as direct labor costs, indirect labor costs would total just 68.5 percent.

Table 2: Hourly compensation costs in manufacturing

	1997	Ø 1987-1997	Ø 1990-1997	1995	1996	1997
	ATS	Year-to-year percentage changes				
Germany	336.7	+ 4.0	+ 4.1	+ 3.5	+ 3.9	+ 1.2
Switzerland	304.6	+ 3.0	+ 3.1	+ 3.5	+ 1.9	– 0.9
Norway	292.4	+ 3.0	+ 2.3	+ 2.3	+ 7.7	+ 8.6
Denmark	287.1	+ 4.1	+ 4.6	+ 4.7	+ 6.2	+ 5.2
Belgium	281.2	+ 3.4	+ 2.9	+ 2.2	+ 2.0	+ 2.3
Austria	274.1	+ 4.7	+ 4.7	+ 5.1	+ 3.5	+ 1.9
Sweden	272.4	+ 3.5	+ 1.6	+ 0.1	+19.9	+ 5.5
Finland	269.2	+ 4.7	+ 1.7	+13.8	+ 3.4	+ 4.4
Netherlands	256.1	+ 2.6	+ 2.8	+ 1.2	+ 1.6	+ 2.1
Japan	236.5	+ 5.6	+ 7.1	– 0.5	– 7.3	+ 6.6
Italy	224.9	+ 2.7	+ 1.2	– 7.0	+16.2	+ 9.1
France	223.4	+ 3.4	+ 3.3	+ 0.9	+ 5.1	+ 4.2
USA	223.3	+ 2.7	+ 4.0	–10.0	+ 8.5	+18.7
U.K.	203.0	+ 5.9	+ 5.0	– 5.1	+ 8.7	+26.5
Canada	201.7	+ 2.9	+ 1.6	–11.0	+ 9.0	+14.6
Ireland	179.4	+ 4.6	+ 4.6	– 2.0	+ 9.0	+13.8
Spain	159.3	+ 4.5	+ 2.4	– 0.6	+ 8.0	+ 4.2
Greece	109.9	+ 6.4	+ 5.3	+ 5.1	+ 9.8	+10.7
Portugal	62.6	+ 7.0	+ 6.7	+ 3.8	+ 7.5	+ 7.3
Trading partners[1]	236.9	+ 3.9	+ 3.7	+ 0.9	+ 5.2	+ 4.4
EU 14[1]	247.1	+ 3.9	+ 3.6	+ 1.4	+ 5.9	+ 3.9
G 7[1]	242.4	+ 3.9	+ 3.8	+ 0.5	+ 5.3	+ 4.8
Austria						
Trading partners = 100	115.7	+ 0.8	+ 1.0	+ 4.1	– 1.7	– 2.3
EU trading partners = 100	110.9	+ 0.8	+ 1.1	+ 3.6	– 2.3	– 1.9
Germany = 100	81.4	+ 0.6	+ 0.6	+ 1.5	– 0.4	+ 0.7

Source: Eurostat, Austrian Economic Chamber, Swedish Employers' Association, U.S. Department of Labor. – [1] The weights in the computation of the average level of compensation costs (in schillings) across countries are the number of employees in manufacturing. The basis for percentage changes is the weighted average of trading partners, with weights according to the revised WIFO exchange rate index (*Mooslechner,* 1995).

Table 3: Non-wage labor costs

	Blue collar workers	
	1988	1997
	As a percentage of direct remuneration	
Italy	98.0	103.0
Austria	94.4	97.7
France	86.0	92.8
Belgium	81.0	91.0
Spain	58.0	82.5
Finland	65.6	82.4
Western Germany	85.1	81.8
Portugal	71.1	77.8
Netherlands	79.0	77.5
Eastern Germany	.	77.5
Japan	68.9	71.2
Sweden	70.1	69.9
Greece	62.6	67.0
Switzerland	49.5	52.5
Norway	48.7	49.0
U.K.	42.5	40.1
Ireland	41.6	39.7
USA	36.5	39.3
Canada	29.7	38.4
Australia	44.0	38.0
Denmark	20.0	24.9

Source: Institute of the German Economy, Swedish Employers' Association, Austrian Economic Chamber, WIFO.

In an international comparison among the OECD countries, labor costs in Austria's manufacturing sector ranked sixth highest, following Germany, Switzerland, Norway, Denmark and Belgium; in Germany, Switzerland and Norway, hourly labor costs are substantially higher than in Austria. In 1997, hourly labor costs in Austria's manufacturing sector attained 274 ATS.

In 1997, Austrian labor costs are among the highest in the world. At the start of the decade, Austria took tenth place in an international ranking of labor costs (which can frequently change due to short-term exchange rate movements). Today, it ranks sixth highest in labor costs following Germany, Switzerland, Norway, Denmark and Belgium. Only Germany, Switzerland and Norway pay substantially higher hourly wages in manufacturing; in Belgium, Sweden and Finland, labor costs are almost identical to Austria's. For those industrial countries covered by the survey, average hourly labor costs were still 20 percent lower than in Austria's manufacturing sector in 1995 and 1996; in 1997, exchange rate movements reduced this difference to 14 percent.

Since the end of the 1980s, Germany has posted the highest labor costs by far. In 1997, the working hour in West German manufacturing cost 336.7 ATS, exceeding that of Austria by 23 percent; in Switzerland, labor was 11 percent more expensive. With the recovery of the dollar, the British pound and the lira, U.S. and Italian labor costs were 18 percent lower (1996 –30 percent, –25 percent, respectively) and British labor costs 25 percent (1996 –40 percent) lower than in Austria.

Labor costs in the recently industrialized nations in the Far East reached 20 to 30 percent, and those in neighboring eastern European countries about 15 percent of their Austrian equivalents. So far, the enormous wage differences between western and eastern Europe have been offset by the uncertainties of the transformation process and low endowments with capital and infrastructure. However, as the reform countries come to grips with the transformation process and their free market institutions stabilize, the increasing inflow of international capital will soon make good their considerable lag in productivity.

MARKED SLOW-DOWN IN GROWTH OF DIRECT AND INDIRECT LABOR COSTS

In the early 1990s, Austrian labor costs rose more quickly than the average of its trading partners; the last two years, however, saw a marked slowdown of labor cost growth.

In the 1980s, Austria posted one of the lowest price and wage inflation rates in the OECD. In the early 1990s,

however, soft-currency countries managed to keep the lid on price and wage inflation, and Austria's consumer prices[1] and labor costs grew more strongly than those of its competitors: while the growth of labor costs in Austria between 1990 and 1995 equaled that of the 1980s (+5.5 percent), the average wage gains of its major trading partners fell from almost 6 to 4.5 percent. In schilling terms, labor costs in Austria rose almost 1 percent annually relative to its trading partners. The last two years, however, saw a fall in relative Austrian labor costs: while labor costs in Austria's trading partners rose by 3.7 percent in 1996 and 2.2 percent in 1997, Austrian manufacturing saw a growth rate of 3.5 and 1.9 percent, respectively.

In addition to this divergence in labor cost growth in schilling terms, there were shifts in the exchange rates: As the currencies of Austria's most important trading partners recovered, the schilling depreciated by 1.5 and 2.0 percent during the last two years, having gained 8.5 percent in value between 1992 and 1995.

If labor costs are measured in common currency terms, which is the appropriate method of analyzing international competitiveness, relative labor costs in Austrian manufacturing (compared to the average of its major trading partners) fell by 1.7 percent in 1996 and 2.3 percent in 1997; during the period of appreciation between 1992 and 1995, relative labor costs had risen by 10.8 percent. However, compared to the average of its major competitors, relative labor costs in Austrian manufacturing in 1997 still exceeded those of 1991 by 6.5 percent.

7.3 PERCENT PRODUCTIVITY GROWTH IN 1997

The competitiveness of an economy on the world market is not only governed by factors such as labor costs and exchange rates, but also by the productivity of labor, i.e., output per hour.

In recent decades, productivity in the Austrian manufacturing sector has increased at an above-average rate. This may partly be due to a certain catching-up effect, but more likely was caused by relatively high capacity utilization rates and comparably high investment rates. In addition, the liberalization of markets as well as the quickly growing globalization of production through European integration and the opening of the former East-block's economies, have increased pressure for rationalization, manifesting itself in increased employment losses.

Table 4: Hourly productivity trends in manufacturing

	Ø 1987-1997	Ø 1990-1997	1995	1996	1997
	Year-to-year percentage changes				
Germany	+3.8	+4.0	+3.9	+4.3	+5.9
Switzerland	+2.3	+2.2	+2.6	+3.3	+2.0
Norway	+0.9	+0.6	+1.2	+0.8	+0.6
Denmark	+2.2	+3.0	+3.9	+2.4	+1.3
Belgium	+2.3	+2.2	+2.2	+2.2	+2.2
Austria	+5.7	+5.3	+5.7	+4.5	+7.3
Sweden	+4.1	+4.8	+5.3	+3.0	+5.3
Finland	+6.0	+6.3	+4.1	+2.3	+3.2
Netherlands	+2.3	+2.0	+1.8	+1.6	+1.7
Japan	+4.7	+3.4	+4.5	+4.9	+6.2
Italy	+3.4	+4.1	+7.2	+8.0	+1.5
France	+3.0	+2.8	+2.3	+0.8	+5.2
USA	+2.5	+2.9	+2.3	+3.7	+3.4
U.K.	+2.9	+1.7	+1.0	+0.4	+2.0
Canada	+1.5	+2.3	+1.8	–0.3	–0.3
Ireland	+6.2	+5.4	+7.3	+7.1	+4.7
Spain	+2.8	+3.9	+2.8	+2.5	+1.2
Greece	+2.5	+3.4	+4.6	+1.2	+2.8
Portugal	+1.3	+2.1	+2.8	+2.1	+3.0
Trading partners[1]	+3.4	+3.6	+3.8	+3.9	+4.4
EU 14[1]	+3.5	+3.7	+3.9	+4.0	+4.6
G 7[1]	+3.6	+3.7	+4.0	+4.2	+4.9
Austria					
Trading partners = 100	+2.2	+1.6	+1.8	+0.6	+2.7
EU trading partners = 100	+2.1	+1.5	+1.7	+0.5	+2.6
Germany = 100	+1.8	+1.2	+1.7	+0.2	+1.3

Source: OECD, Main Economic Indicators; National Institute of Economic Research, London. – [1] Weighted average of trading partners as per revised WIFO exchange rate index.

During the 1980s, output per hour in Austrian manufacturing increased by 4.8 percent annually; among the other OECD countries used for comparison, only Ireland, starting from a substantially lower position, was able to post higher gains in productivity (+6.6 percent). Austria further improved its productivity growth during the first half of the 1990s (+5.0 percent annually), overtaken only by Finland (+7.8 percent), which reached markedly higher efficiency gains than the Austrian manufacturing sector during this time period. Compared to the EU average and that of other trading partners between 1990 and 1995, Austrian output per hour rose annually by 3.5 and 3.3 percent, respectively.

In the course of the 1990s, increased labor-shedding in Austria's manufacturing sector resulted in further productivity growth (+5.3 percent). In the 1980s, the rate of growth reached only 4.8 percent. In the course of the economic upswing, 1997 alone saw a rise in output per hour of 7.3 percent.

The high level of Austrian productivity growth during the 1990s was related to above-average employment losses, however: while employment in manufacturing fell by an average of 1.4 percent annually between 1980 and 1990, the first half of the 1990s recorded losses more than twice

[1] On Austrian inflation trends in an international comparison, see *Pollan – Schnitzer* (1994).

Table 5: Unit labor costs trends in manufacturing

On a schilling basis

	Ø 1987-1997	Ø 1990-1997	1995	1996	1997
	Year-to-year percentage changes				
Germany	+ 0.2	+ 0.1	– 0.4	– 0.4	– 4.4
Switzerland	+ 0.7	+ 0.9	+ 0.8	– 1.4	– 2.9
Belgium	+ 1.0	+ 0.7	– 0.1	– 0.2	+ 0.1
Denmark	+ 1.9	+ 1.6	+ 0.7	+ 3.8	+ 3.9
Norway	+ 2.1	+ 1.8	+ 1.0	+ 6.8	+ 7.9
Austria	– 0.9	– 0.5	– 0.6	– 1.0	– 5.0
Finland	– 1.3	– 4.4	+ 9.4	+ 1.1	+ 1.2
Sweden	– 0.6	– 3.0	– 4.9	+16.4	+ 0.2
Netherlands	+ 0.3	+ 0.8	– 0.6	± 0.0	+ 0.4
Japan	+ 1.0	+ 3.6	– 4.8	–11.6	+ 0.4
France	+ 0.4	+ 0.5	– 1.4	+ 4.3	– 1.0
Italy	– 0.7	– 2.8	–13.2	+ 7.6	+ 7.6
USA	+ 0.2	+ 1.1	–12.0	+ 4.6	+14.8
Canada	+ 1.4	– 0.6	–12.5	+ 9.3	+14.9
U.K.	+ 2.9	+ 3.2	– 6.1	+ 8.3	+24.0
Ireland	– 1.6	– 0.7	– 8.7	+ 1.7	+ 8.6
Spain	+ 1.7	– 1.4	– 3.4	+ 5.4	+ 3.0
Greece	+ 3.9	+ 1.8	+ 0.5	+ 8.6	+ 7.7
Portugal	+ 5.6	+ 4.5	+ 1.0	+ 5.3	+ 4.2
Trading partners[1]	+ 0.4	+ 0.1	– 2.8	+ 1.3	– 0.1
EU 14[1]	+ 0.4	– 0.1	– 2.4	+ 1.9	– 0.7
G 7[1]	+ 0.3	+ 0.1	– 3.3	+ 1.0	– 0.2
Austria					
Trading partners = 100	– 1.3	– 0.6	+ 2.2	– 2.2	– 4.9
EU trading partners = 100	– 1.3	– 0.4	+ 1.9	– 2.8	– 4.4
Germany = 100	– 1.2	– 0.6	– 0.2	– 0.6	– 0.6

Source: See Table 2 and 3. – [1] Weighted average of trading partners as per revised WIFO exchange rate index.

as high (–3.1 percent annually). Similarly, other hard-currency countries accelerated labor-shedding in the manufacturing sector; the resulting pressures for rationalization, as well as the currency turbulence which has characterized the financial markets since fall 1992, have had a significant influence on labor cost developments in Austria.

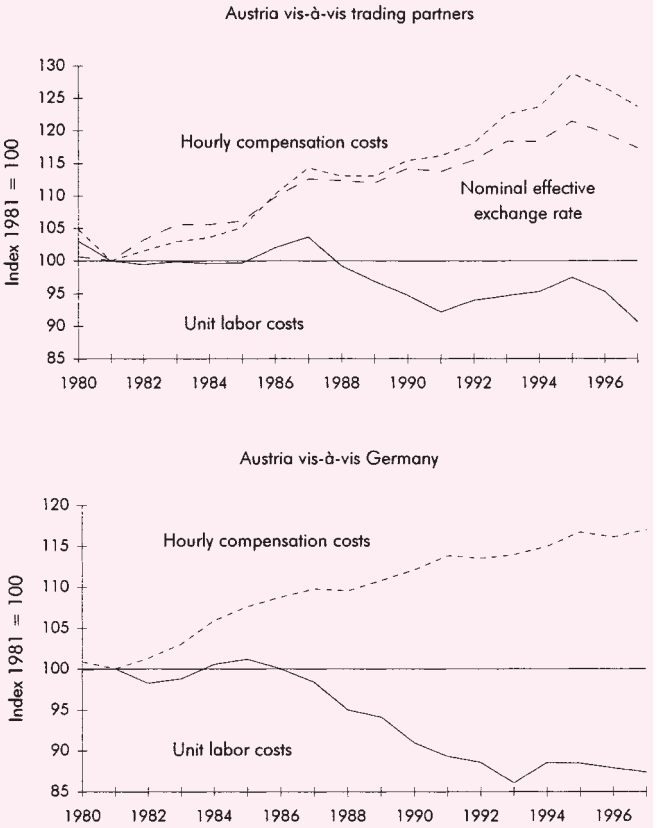
After the cyclical downswing of 1996, productivity growth accelerated once again in the wake of the 1997 economic recovery: in the course of a further reduction in employment (–2.2 percent), per hour output rose by 7.3 percent (1996 4.5 percent). In 1997, productivity growth in the Austrian manufacturing sector exceeded the average of its competitors by 2.7 percentage points; similarly, Japanese and German (+6 percent), as well as Swedish and French (+5.3 percent) manufacturing achieved above-average productivity gains in 1997.

RELATIVE UNIT LABOR COSTS IN COMMON CURRENCY DROP BY 5 PERCENT IN 1997

Labor costs per unit of production are one of the most important factors in the price formation of the manufacturing sector; constituting an important indicator of an economy's price-based competitiveness. Unit labor costs are

Figure 2: Relative labor and unit labor costs in manufacturing

On a schilling basis



Higher wage rises and the rise in the value of the schilling meant that hourly labor costs in Austrian manufacturing increased at a faster pace than in Germany or in the major trading partners on average. In the 1980s, this increase in relative labor costs was offset by greater increases in productivity and relative unit labor costs fell slightly; but in the first half of the 1990s, relative unit labor costs rose significantly, despite even greater increases in productivity. In 1996 and 1997, however, lower wage growth and the recovery of several major currencies brought about a significant drop in unit labor costs.

calculated as the ratio of hourly compensation to hourly productivity.

In the 1980s, Austria's manufacturing sector managed to substantially improve its competitive position relative to its western trading partners. Rises in labor costs, partly caused by appreciation, were accordingly compensated by higher productivity growth (Figure 2).

Though productivity growth accelerated during the first half of the 1990s, Austria's position in terms of unit labor costs worsened by about 0.5 and 1 percent annually, compared to the average of its trading partners and the EU, respectively. This was caused by the significant growth slowdown in unit labor costs in Austria's competitor countries, as well as by the annual effective appreciation of the schilling by 1.2 percent.

Since 1994, unit labor costs in Austria's manufacturing sector have been falling; 1997 saw a decrease of 5 percent (1996 –1 percent). With –0.2 percent in 1996 and

–2.1 percent in 1997, the average decline in its trading partners was markedly smaller.

The impact of exchange rates on the development of unit labor costs is of prime importance in assessing the international competitive situation. Since the spring of 1995, the currencies of major trading partners have recovered;

Compared to the average of its trading partners, unit labor costs in Austrian manufacturing grew by 0.6 percent annually, measured in common currency, during the first half of the 1990s; in 1996, they fell by 2.2 percent, in 1997, by 4.9 percent.

the effective exchange rate of the schilling has fallen by 1.5 percent in 1996, and 2 percent in 1997. On a common currency basis, relative unit labor costs in Austrian manufacturing fell by 2.2 percent in 1996 and 4.9 percent in 1997 compared to the average of all trading partners, and by 2.8 percent and 4.4 percent, respectively, compared to the average of EU trading partners.

CONCLUDING REMARKS

Due to exchange rate fluctuations, Austria's international labor cost position has changed frequently in the course of this decade. In the beginning of the 1990s, Austria's manufacturing sector took tenth place in an international comparison of labor costs; by the middle of the decade, it ranked fourth, and after the recovery of some of the major currencies during the last two years, it is now again in sixth place.

In 1997, hourly labor costs in Austrian manufacturing were 274 ATS. Through a reduction in payments for time not worked (fewer sick days), indirect labor costs fell from 98.7 percent of direct labor costs in 1996, to 97.7 percent. Labor costs are significantly higher only in Germany (+23 percent), Switzerland (+11 percent) and Norway (+7 percent); Danish and Belgian wages in manufacturing are only slightly higher than in Austria, while wages in Sweden and Finland are just below.

The divergence from other European trading partners was markedly reduced in 1997 by the stabilization of the European Monetary System. Labor costs in France, Italy and the USA are 18 percent lower (1996 between –20 percent and –30 percent), in U.K. 25 percent lower than in Austria (1996 –40 percent). EU average labor costs in manufacturing are 10 percent below those in Austria (1996 –14 percent).

During the first half of the 1990s, price competitiveness of Austria's manufacturing sector deteriorated. The increase in labor costs relative to the major trading partners, which resulted from high wage gains and the rise in the value of the schilling in the wake of the currency turbulence in the fall of 1992, could not be offset by productivity gains. Dur-

Sharp Drop in Relative Labor Costs and Unit Labor Costs in Manufacturing in 1997 – Summary

The price competitiveness of Austria's manufacturing sector improved substantially over the last two years, following a marked deterioration during the first half of the 1990s. Relative unit labor costs (measured in a common currency), after having risen by 5.7 percent during the revaluation phase between 1992 and 1995, dropped by 7 percent in 1996 and 1997.

Moderate increases in labor costs (+1.9 percent) as well as high productivity gains (+7.3 percent) lowered unit labor costs in Austrian manufacturing by 5 percent in 1997, while unit labor costs in Austria's major trading partners fell by only 2 percent on average. With the British pound, the U.S. dollar and the Italian lira continuing on their steep upward path, the effective exchange rate of the schilling dropped by 2 percent, engendering improvement in the international cost position of Austria's manufacturing improved by 4.9 percent (by +4.4 percent vis-à-vis the EU).

The competitive position of Austria's economy has changed significantly several times since the beginning of the 1990s as a result of fluctuations in exchange rates. Today, Austria is one of the countries with the highest labor costs and takes sixth place in the hierarchy of labor costs; in 1991, Austria was ranked number 10.

In 1997, hourly labor costs in Austria were as high as 274 ATS. Labor is more costly only in Germany (+23 percent), Switzerland (+11 percent), and Norway (+7 percent). Denmark and Belgium pay only slightly more, and Sweden and Finland slightly less for labor than Austria. For the EU on average, labor costs were 10 percent lower than in Austria; the corresponding rate was 18 percent for Italy, France, and the USA, and 25 percent for the U.K.

A reduction in the number of hours paid but not worked (such as sick leave) reduced indirect labor costs as a percentage of direct labor costs from 98.7 percent in 1996 to 97.7 percent in 1997.

ing the last few years, however, the international cost position of Austria's manufacturing industry has improved: unit labor costs dropped by 1 percent in 1996, and 5 percent in 1997 as a result of the deceleration in wage costs and the acceleration in productivity gains. As a result of the fall of the effective exchange rate of the schilling by 1.5 and 2 percent, respectively, relative unit labor costs (measured in a common currency) vis-à-vis all western trading partners declined by 2.2 percent in 1996 and by 4.9 percent in 1997. The improvement vis-à-vis the EU amounted to 4.4 percent in 1997; the corresponding rate for Germany is 0.6 percent.

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