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Persistent Cyclical Slump

The Austrian economy continues to suffer from sluggish demand. Export growth is declining and industrial enterprises tend to remain pessimistic about their business opportunities. Consumer demand is unlikely to stimulate the economy. The construction industry, however, is on the upswing.

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Current economic indicators do not yet signal an economic upswing. According to the results of WIFO's third-quarter Business Survey, the mood in goods production has been deteriorating further since the end of 2002. Enterprises are expecting only slight production increases in the coming months (the seasonally corrected balance of optimistic and pessimistic reports dropped to +2.1 percentage points). Enterprises of the commodities sector and the processing industry are clearly more pessimistic than in the recent past. They are reporting a substantial downturn of export orders and declining prices. The only sector to voice some optimism is the automotive industry.

This general picture is being corroborated by the low level of capacity utilisation, which stood at 80.5 percent in the third quarter, i.e., unchanged from the four quarters before. Together with moderate sales expectations, this is likely to dampen investment activities. WIFO's investment survey of the early summer of 2003 shows that industrial enterprises tend to keep their investment plans on the back burner (+1.8 percent compared with the year before).

Export growth is sagging. According to the foreign trade statistics, exports of manufactured goods exceeded the previous year's level by no more than 2½ percent; statistics of payments received for manufactured goods even show a decline by 2¼ percent between January and May. Exports to the EU internal market and to Austria's trading partners in Central and Eastern Europe are developing sluggishly, the latter even remaining below the previous year's result. Exports to the promising markets of South-Eastern Europe are doing better. The growing strength of the euro against the dollar (+13 percent in July compared with the year before) may well turn out to be a source of increasing problems for Austrian exporters.

The low level of exports to Western Europe confirms the persistent stagnation of the EU economy. No indicators of an economic upturn are yet to be detected. The business climate in the good-producing industry, as reported by the European Commission, deteriorated further in July. Consumers are in a more favourable mood. In Germany and France, above all, consumer confidence has increased in recent months, presumably as a result of stable prices and the anticipation of tax relief. It remains to be seen, though, if the more optimistic mood among consumers will translate into higher consumer demand.

In Austria, consumer confidence has been declining throughout the year, with the consumer confidence indicator down by 9 percentage points since the beginning of the year. Surveys among retail enterprises point to a stagnation of sales in real terms at the previous year's level; employment in distribution is decreasing noticeably. The situation may be somewhat more favourable in car retail sector, with the number of new car registrations up by 4½ percent in the first half of the year over the year before.

The construction industry is on the upswing. The results of the WIFO Business Survey confirm the continuous improvement of production output in civil engineering since the summer of 2002, mainly as a result of more orders being placed in the rail and road sectors. An end to the multi-annual slump in new housing construction appears to be in sight: the number of building permits is increasing and building construction enterprises are much more optimistic than in the past.

Consumer prices have been largely stable. In June the rate of inflation was down to 1.1 percent. Lower import prices, the moderate rise of unit wage costs and the general sluggishness of demand are the main factors accounting for this development.

Against the background of a sagging economy, the employment market is not showing any signs of recovery. Employment in the goods producing sector is going down sharply, while the service sectors are offering additional jobs. In July 2003, the number of unemployed totalled 200,000, i.e., up by 8,300 from the year before. The number of persons undergoing training measures had increased by 5,000. The seasonally adjusted unemployment rate stood at 7.2 percent of persons in employment or 4½ percent of the working population according to Eurostat.