

INDUSTRIAL PRODUCTION AND EXPORTS ON THE UPTURN

According to WIFO's fourth quarter business survey, enterprises in manufacturing industry view their order situation with growing optimism and expect production to pick up in the coming months. During the summer months, the industrial upswing was also reflected in a substantial growth of exports to the internal market of the European Union. Driven by strong employment growth and considerable real income gains, private consumption remains an important factor of economic growth.

After the cyclical slump at the turn of 1998-99, industrial production and exports continue to recover at a fast pace. The enterprises in manufacturing questioned for the WIFO business survey are quite optimistic as regards the development of demand and production. The overhang of those expecting production to expand in the coming months has risen from 3 percentage points in the first quarter to 8¼ percentage points in the fourth quarter (corrected for seasonal fluctuations). The commodities industry benefits from the substantial recovery of prices, while the chemical industry reports a fast increase in the number of incoming orders. The enterprises of the technical processing industry report a strong demand for capital goods from Austria and abroad and are expecting production growth to accelerate further in the coming months.

The results of the WIFO business survey are in agreement with those reported by the European Commission for Europe. The confidence indicator in the industrial sector is pointing upwards in almost all EU countries. This trend is based on the improvement of framework conditions for external economic relations: the crisis in South-East Asia and Russia appears to have been overcome, at least for the time being, and the competitiveness of European exporters benefits from the weakness of the euro. There is, however, a certain risk of renewed turmoil and instability in the international financial markets, above all in Latin America. The expansion of private consumption provides a sound basis for the upward development of the European economy. Satisfactory employment growth and noticeable real income gains help to boost consumer confidence. Germany and Italy are the only countries in which consumer mood remained gloomy well into the summer of 1999.

The cyclical recovery in Europe is also reflected in the development of Austrian exports. According to the preliminary figures available to date, exports to other EU countries grew by more than 10 percent in June and July. Import growth also

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

remained strong as a result of lively demand for consumer and capital goods in Austria. The trade deficit amounted to ATS 48 billion between January and August. The surplus on the balance of tourist travel continues to grow – with summer tourism in 1999 matching the excellent result of the year before. According to cash data provided by the Austrian National Bank, the balance on current account showed a deficit of ATS 29 billion until August, which is almost the same as the year before.

In the consumer price index, higher petrol and fuel oil prices are offset by lower food prices and reduced telephone and electricity rates. Prices remain stable, with the September consumer price index – up by 0.5 percent over the year before – corresponding to the average of previous months. Given an increase of employment income per head by 1.5 percent in real terms in the first half of the year and of net household income (including social transfers) by approximately 2.5 percent, the purchasing power of consumers increased substantially.

The favourable development of domestic demand is one of the major factors underlying the strong growth of employment. The majority of jobs have been created in the service sector, but the recovery of exports and industrial production has also resulted in an improvement of the labour market situation in the core areas of manufacturing (mechanical engineering, car manufacturing, etc.). In October, the number of persons in employment exceeded the previous year's level by 40,000 (average for January to October +36,000). Owing to the higher number of persons in employment and those undergoing training, the number of registered unemployed fell clearly below the previous year's level, the seasonally adjusted unemployment rate standing at 6.5 percent in October (calculated by the traditional Austrian method). According to the EU Labour Force Survey, 4.1 percent of the employable population are unemployed. Nevertheless, the ratio of registered vacancies to persons unemployed still stands at 1 to 6.

Cut-off date: 5 November 1999.