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Economic Indicators in Industry Stabilised at Low Level

Business Cycle Report of June 2009

The Austrian economy contracted sharply in the first quarter of 2009, labour market conditions deteriorated noticeably. April and May saw sentiment in industry stabilise at a low level, though; expectations for the months ahead even improved somewhat.

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Real gross domestic product declined by 2.6 percent in the first quarter of 2009 compared with the previous period (after -0.4 percent in the fourth quarter of 2008). The Austrian economy was thus caught in the global downward spiral with a lag of one quarter, but so far the economic downturn has not been as sharp as in Austria's main trading partner Germany.

The decline was concentrated in exports and investments and thus in industry and its suppliers. Small and medium-sized firms producing for the domestic market and private households have not yet been fully hit by the crisis. Private and public consumption roughly maintained the levels recorded in the previous quarter.

The Austrian economy shrank by 3.5 percent in real terms year-on-year in the first quarter of 2009. Developments were thus somewhat more favourable than anticipated in WIFO's flash estimate released in May (-3.6 percent). The downturn is particularly apparent in the cyclically sensitive manufacturing sector: value added fell by 11.7 percent year-on-year.

Following plummeting order books in the winter half-year, manufacturers' expectations have somewhat improved in recent months. This is true not only for Austria, but also for the USA and the euro area as a whole. Firms' assessments of their orders position and capacity utilisation are still at a low, though.

The crisis was triggered by a steep decline in exports followed by an investment freeze in many of the affected companies. The demand shortfall was just as severe in the new EU countries as in the EU-15 countries. Exports to the USA, Great Britain, Spain and Russia were particularly weak.

Tourism businesses registered a relatively successful winter season. Despite the crisis, overnight stays dropped only marginally, while the number of nights spent by domestic guests even increased. Overall sales rose slightly. In the second half of the winter season it became clearly apparent, though, that international tourist travel expenditures were already reacting to the economic downturn.

As in past recessions, private consumption is currently having a stabilising effect. Decelerating inflation strengthened purchasing power, and so private households spent hardly less in the first quarter of 2009 than in the previous quarter. In April and May, car purchases were stimulated by the introduction of the eco-premium; the tax reform began to take effect in May.

The inflation rate is progressively approaching zero. In April, it was 0.7 percent in Austria. The main factor behind this development was the decline in fuel prices. Crude

oil prices, while having risen vigorously, are still below their year-earlier level. Price pressures are likely to ease further: Eurostat estimates euro area inflation in May at 0.0 percent.

Table 1: Quarterly national accounts

	2007		2008				2009
	Fourth quarter	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	
Percentage changes from previous quarter							
<i>Adjusted for seasonal and working day effects, volume</i>							
Final consumption expenditure	+ 0.5	- 0.3	+ 0.7	- 0.2	+ 0.2	- 0.1	
Households ¹	+ 0.5	+ 0.3	+ 0.2	+ 0.1	- 0.3	- 0.4	
General government	+ 1.2	- 1.6	+ 2.8	- 1.0	+ 1.1	+ 0.4	
Cross capital formation	+ 0.4	+ 0.4	+ 0.3	+ 0.0	- 0.2	- 3.6	
Gross fixed capital formation	+ 0.6	+ 0.4	+ 0.1	- 0.6	- 1.2	- 3.3	
Machinery and equipment	+ 0.5	+ 0.3	- 0.0	- 1.3	- 3.5	- 3.4	
Construction	+ 0.5	+ 0.4	- 0.0	- 0.6	- 1.0	- 3.2	
Exports, goods and services	+ 1.5	+ 1.0	+ 0.1	+ 0.4	- 4.1	- 8.1	
Goods	+ 1.9	+ 1.4	- 0.0	+ 0.4	- 5.4	- 9.0	
Services	+ 1.5	+ 1.0	+ 0.7	+ 0.6	- 0.0	- 0.5	
Imports, goods and services	+ 1.5	- 0.2	+ 0.0	- 0.4	- 3.7	- 4.9	
Goods	+ 1.3	+ 0.1	+ 0.9	- 0.9	- 4.6	- 6.6	
Services	+ 0.9	+ 0.5	+ 0.2	- 0.0	- 1.9	- 1.8	
Gross domestic product	+ 0.8	+ 0.6	+ 0.2	+ 0.0	- 0.4	- 2.6	
Manufacturing	+ 1.7	+ 1.5	+ 0.0	- 0.3	- 2.5	- 7.4	
	2007	2008	2008				2009
	Fourth quarter	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	
Percentage changes from previous year							
<i>Volume, chained prices</i>							
Final consumption expenditure	+ 1.2	+ 1.1	+ 1.4	+ 1.2	+ 1.6	+ 0.3	
Households ¹	+ 1.0	+ 0.8	+ 1.0	+ 1.0	+ 1.6	- 0.0	
General government	+ 1.8	+ 2.1	+ 2.6	+ 1.7	+ 3.5	+ 1.2	
Cross capital formation	+ 3.6	+ 3.3	- 0.8	- 2.2	+ 9.4	+ 6.1	
Gross fixed capital formation	+ 4.7	+ 1.8	+ 3.1	+ 1.7	+ 5.5	+ 0.5	
Machinery and equipment	+ 5.9	+ 1.1	+ 7.9	- 1.7	+ 8.6	- 1.6	
Construction	+ 2.8	+ 1.7	- 1.2	+ 4.0	+ 2.6	+ 1.3	
Exports, goods and services	+ 8.8	+ 1.7	+ 8.5	+ 7.4	+ 5.0	+ 2.7	
Goods	+ 9.1	+ 0.9	+ 6.9	+ 7.4	+ 5.4	+ 3.1	
Services	+ 7.9	+ 3.8	+ 13.1	+ 7.4	+ 4.1	+ 1.5	
Imports, goods and services	+ 7.5	+ 1.4	+ 6.0	+ 3.9	+ 6.8	- 0.2	
Goods	+ 8.4	+ 1.8	+ 5.8	+ 3.8	+ 7.6	- 0.4	
Services	+ 4.0	+ 0.1	+ 6.6	+ 4.6	+ 3.6	+ 0.1	
Gross domestic product	+ 3.1	+ 1.8	+ 2.6	+ 2.9	+ 2.6	+ 1.7	
Manufacturing	+ 5.5	+ 3.4	+ 4.5	+ 5.2	+ 5.6	+ 4.0	
Gross domestic product, value	+ 5.3	+ 4.2	+ 5.1	+ 5.5	+ 5.6	+ 4.7	

Source: WIFO. – ¹ Including private non-profit institutions serving households.

The economic downturn is increasingly affecting the labour market. The introduction of short-time working schemes has slowed down job losses and the rise in unemployment, though. In May, 57,000 employed persons were registered for short-time work – predominantly in large industrial firms. Despite these measures, around 53,000 jobs were lost over the year. The number of jobless people was up by 55,000 compared with the same month a year earlier. Unemployment growth has accelerated only little on a year-on-year basis in recent months. The unemployment rate, at 6.6 percent exceeded the year-earlier level by 1½ percentage points.

US real GDP contracted by 1½ percent quarter-on-quarter in the first quarter. The shrinking process thus continued unabated. Available indicators point to a further decline also in the second quarter. However, leading indicators (e.g., the ISM Purchasing Managers' Index) suggest a recovery may set in during the second half of 2009. Notably the inventory cycle is expected to turn¹. The Council of Economic Advisers advocates the thesis that the economic cycle will be V-shaped: the deeper the recession, the steeper the subsequent recovery ("Zarnowitz Rule"). Facts speaking against that are that banks will be more cautious in their lending, many apart-

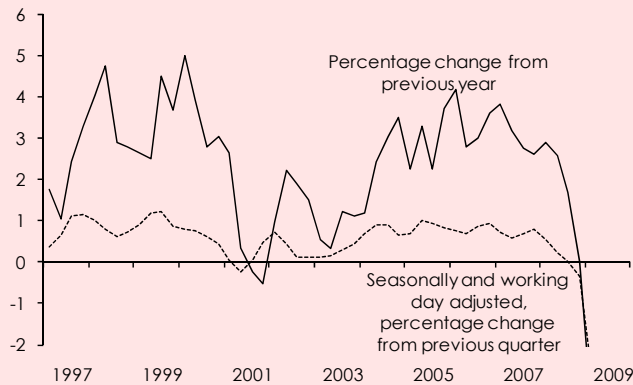
USA: Contraction in GDP, but hoping for recovery in second half of the year

¹ Goldman Sachs, "US Recovery: Why V is unlikely", Economist Analyst, 2009, (09/19), 15 May 2009.

ments are vacant, and the household saving ratio is likely to rise further. Besides, the effects of the insolvencies in the car industry have yet to be felt. Labour market conditions deteriorated further in spring. In May, the unemployment rate rose to 9.4 percent, the highest level since 1983. It has almost doubled in the course of one year.

Figure 1: Growth of real GDP

Percentage changes from previous period



Source: WIFO.

Export-oriented economies – such as Japan and Germany – are particularly affected by the recession, given that exports react to a more-than-proportional degree to a shortfall in the domestic demand of trading partners: If it declines by 1 percent in real terms, exports will as a rule slump by almost 2 percent. Economic output in Japan fell by 4 percent quarter-on-quarter in the first quarter. This was the second consecutive decline of this magnitude. At –9 percent, real gross domestic product contracted much more strongly year-on-year in the first quarter in Japan than it did in the USA (–2.5 percent). Japan's exports declined by more than a third; major contributing factors were the high exchange rate of the Yen and the concentration of exports on vehicles. The Chinese economy, by contrast, still recorded substantial year-on-year growth. Extensive stimulus programmes provided strong impetus reportedly accounting for 7 percent of GDP.

Real euro area GDP contracted by 2.5 percent in the first quarter compared with the previous quarter. The year-on-year decline was –4.8 percent, somewhat stronger than anticipated in the flash estimate released in May. The GDP contraction in Europe has thus been sharper than in the USA, but weaker than in Japan.

The contraction in economic activity has been particularly sharp in countries whose industry is geared to the export of vehicles and machinery (Germany, Slovakia, Sweden), given that these sectors experienced the biggest demand shortfall. In addition, economic conditions have deteriorated notably in those European countries whose economies during the last decade benefited from booming real estate prices and are now suffering from their decline (UK, Ireland, Spain, Baltic countries). Due to the great importance of its finance industry, UK was caught up in the crisis already at an earlier stage than continental Europe. The recession has been particularly pronounced in Italy, a result of the marked decline in competitiveness suffered by its industry since Italy's accession to the Monetary Union. Of the big European countries, France has so far been least affected by the crisis, as here consumption has been supporting economic performance.

The shortfall in exports and investment has been decisive for the extent of the contraction. In the first quarter, euro area exports fell by 15 percent, and gross fixed investment by 10 percent year-on-year. While private households reduced their consumption moderately (–1 percent), public consumption was increased.

The global economy is likely to shrink by more than 1 percent this year. The economic downturn has been particularly pronounced in countries with strongly export-oriented economies or primarily affected by the real estate crisis.

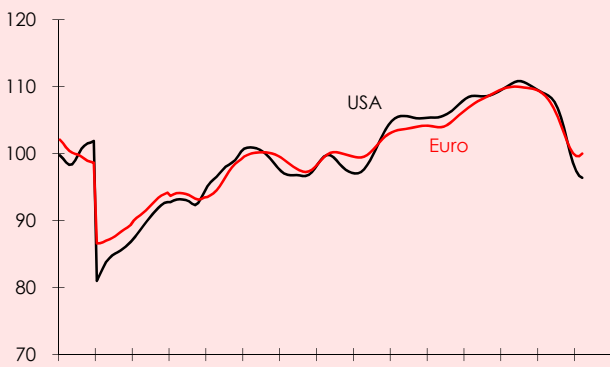
Euro area recession deeper than anticipated

While euro area exports and investments have plummeted at an unprecedented pace in recent months, purchasing managers' indices have been pointing upwards for a few months now.

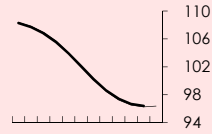
Figure 2: International business climate

Seasonally adjusted, 2000 = 100, 3-month moving average

Leading indicators



12-month performance

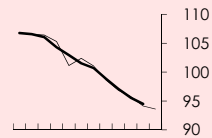
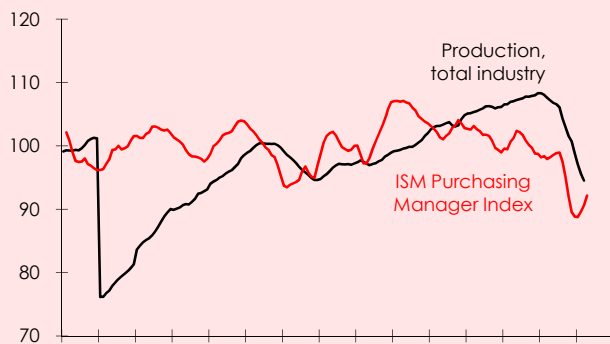


April

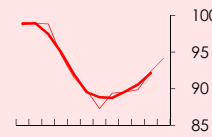


April

USA

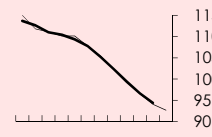
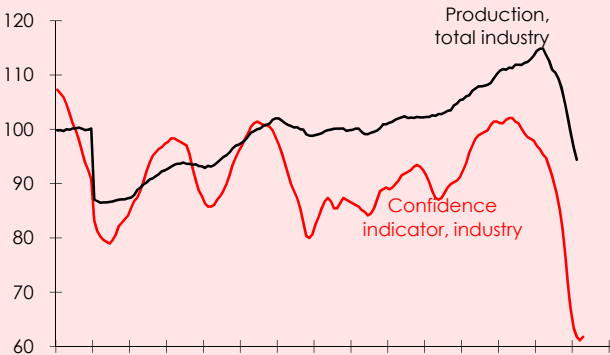


April

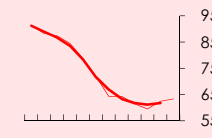


May

Euro area

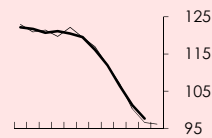
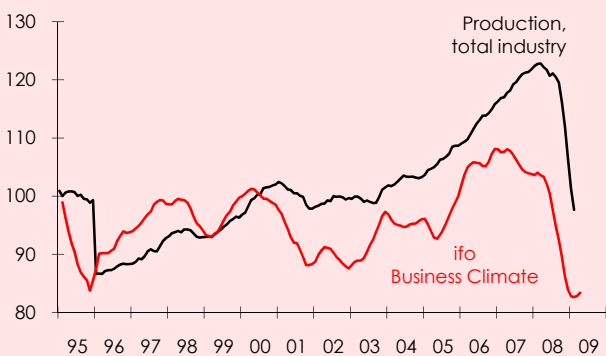


March

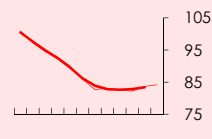


May

Germany



March



May

Source: European Commission, Deutsche Bundesbank, ISM (Institute for Supply Management™), ifo (Institute for Economic Research, Munich), OECD.

Leading indicators (in particular business surveys) suggest that the steep downward trend of Europe's economy may be flattening off. Production and business expectations have been improving for several months, but indicators remain at very low levels. Purchasing managers' indices have been pointing upward since March – more strongly so in UK and France than in Germany. It remains to be seen to what degree the brightening of sentiment is attributable to the temporary effects of the introduction of a car-scrapping premium in many European countries. This aid has come as a relief not only to the motor vehicle, but also to other industries (e.g., the steel industry, plastics chemistry). It will expire at year-end in most countries, though, with car sales set to drop sharply thereafter.

The financial and economic crisis has taken its worst toll on the labour market and the national budget. In April, the unemployment rate climbed to 9.2 percent on average in the euro area, an increase by 2 percentage points compared with the same month a year before. Unemployment is highest in Spain, the Baltic countries and Slovakia.

Economic output in Germany declined for the fourth consecutive time in the first quarter of 2009. Real gross domestic product fell by 3.8 percent quarter-on-quarter (after –2.2 percent in the fourth quarter of 2008). Investment in machinery and vehicles declined even more sharply than exports. The only stimulus to growth was provided by public consumption expenditure. On a year-on-year basis, Germany's economy contracted by 6.9 percent in the first quarter. The impact on the labour market was absorbed by the extensive use of short-time work.

Germany saw economic sentiment brighten further in May. The Ifo Business Climate Index rose for the second consecutive time. Hence, economic performance in Germany is also beginning to stabilise at a low level.

Lagging behind one quarter, the Austrian economy was hit with full force by the global downturn in the first quarter of 2009. Gross domestic production shrank by 2.6 percent compared with the previous quarter – somewhat less than projected by WIFO in its May flash estimate (–2.8 percent). Compared with a year earlier, the unadjusted decline was 3.5 percent. The international comparison is based on seasonally and working day adjusted data. According to that, the decline in Austria was –2.7 percent, much lower than the euro area average (–4.8 percent).

Export and investment developments were major factors in the deterioration in the economy in the first quarter: Goods exports fell by 9 percent quarter-on-quarter, while equipment investment declined by 3½ percent. Private consumption, by contrast, remained almost unchanged, and government consumption rose slightly.

The fact that exports and investment have fallen markedly already for the second quarter in a row is reflected in the year-on-year comparison: Goods exports in the first quarter remained 22 percent, vehicle investment 17 percent below their year-earlier levels. As a consequence, manufacturers curbed production by 11½ percent.

The downturn has not accelerated further in Austria's manufacturing sector in recent weeks, according to evidence presented in the WIFO business cycle survey². For instance, the proportion of firms forced to curb production in recent months did not rise further in the latest survey. At 44 percent it is still very high, though, and more than four times the proportion of firms saying they were able to increase their production. Firms' orders position, while also not deteriorating further month-on-month, nevertheless remained very weak: Around three fifths of the firms judge their order books to be "insufficient". This trend is also reflected in employment figures. According to the Federation of Austrian Social Insurance Institutions, the number of persons employed in manufacturing in April 2009 was 5 percent lower than a year earlier, despite a sizeable expansion of short-time working schemes.

Export-induced crisis hitting Germany

Apart from Japan, Germany has been hit especially hard by the economic crisis, which caused the demand for vehicles and machinery to plummet globally.

First quarter sees marked decline in Austrian GDP

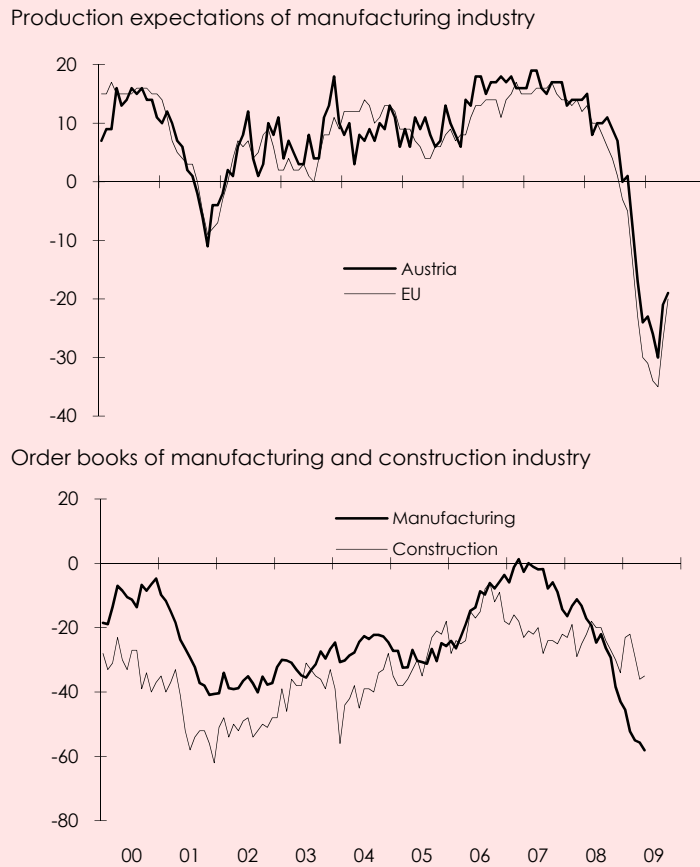
The Austrian economy shrank at a quarter-on-quarter rate of 2.6 percent in the first quarter. Developments were somewhat more favourable than anticipated by WIFO in its flash estimate.

Moderate recovery of business expectations

² On WIFO-Konjunkturtest (WIFO Business Cycle Survey), see <http://www.iikt.at/>.

Figure 3: WIFO business cycle survey

Differences between the percentage shares of correspondents giving positive and negative replies, seasonally adjusted



Source: European Commission, WIFO business cycle survey.

Firms' expectations regarding the outlook for production and the business situation have been somewhat less pessimistic lately than they were in the first months of this year. Nevertheless, firms anticipating production cuts and a deteriorating business situation still clearly outnumber those expecting an expansion of production and a favourable business situation in the months ahead.

Construction order books, while no longer reaching the levels seen in previous years, appear to have stabilised. 54 percent of the firms said in the WIFO business cycle survey that their order book levels were sufficient or more than sufficient. The number of persons in dependent employment in the construction sector in April 2009 was down 3 percent from a year before. Business expectations suggest developments will remain subdued in the period ahead, with both a high proportion of businesses anticipating a need for layoffs and a high proportion of firms expecting a decline in building prices.

Exports have had the strongest negative impact on the economy in recent months. In the first quarter, nominal goods exports remained around one fourth below the year-earlier level. Many sectors experienced a collapse of prices on top of plummeting foreign orders. Vehicle and machinery exports dropped by almost a third; developments were somewhat better for chemical products and manufactured articles (around -10 percent).

The orders position of industrial firms has not deteriorated further in recent months; production and business expectations have been showing first signs of a slight improvement. The introduction of a car-scraping premium and the impact of the economic stimulus programmes implemented in Europe are likely to have contributed to this brightening in sentiment.

Export shortfall triggering GDP decline

The lack of demand in Germany and Italy, the destinations of two fifths of Austrian goods exports, contributed substantially to the decline. Exports to the new EU countries in East Central Europe fell at approximately the same pace as did those to the EU 15. A particularly weak demand for imports from Austria was registered in the USA, UK, Spain, Romania and Hungary.

In the first quarter, private consumption remained almost unchanged from the previous quarter. With decelerating inflation strengthening household purchasing power, and labour market problems largely absorbed by short-time working schemes, private households have to date been little affected by the economic downturn. The year-on-year comparison (-1.2 percent) is not very informative here as the statistical results for the first quarter are distorted downwards by Easter falling on different dates. Including the preliminary figures for April, consumption reached last year's level. The tax reform and the family package are set to provide stimulus to private consumption and counteract the deterioration to be expected in the labour market over the remainder of the year.

Car sales have been particularly affected by the downturn. The number of new passenger cars registered in the first quarter fell markedly compared with a year before – in part owing to the fact, however, that consumers delayed the purchase until after the "eco-premium" entered into force. The number of new registrations began to rise in April. In Austria, this car-scrapping premium is well-devised: It is granted for scrapping cars older than 13 years (required minimum age in Germany: 9 years), thereby leading to a moderate increase in car sales while avoiding the scrapping of well-functioning cars. Germany's policy, by contrast, produces a bubble that will burst once the premium expires in 2010.

Austria's tourism sector withstood the crisis relatively well during the 2008-09 winter season: According to provisional calculations, total sales from November 2008 until April 2009 reached € 12.2 billion, an increase by 0.6 percent compared with the year before. The number of overnight stays was slightly lower than in the 2007-08 winter season (-0.7 percent). At +1.9 percent, the demand of domestic travellers moved in opposite direction from that of foreign guests (-1.5 percent).

The number of overnight stays, having still risen by around 5 percent in the first half of the season (November 2008 until January 2009), fell to the same extent in the second half (February until April 2009). As expected, beginning with late winter, Austria's tourism industry thus was not able to evade the impact of the financial and economic crisis. The decline becomes even more evident when looking at the developments in foreign demand: In March and April, the number of overnight stays by foreigners was down 8 percent compared with a year earlier. The falling trend is likely to persist over the remainder of the year.

Tourism sales developed quite differently across regions during the winter season: While rising vigorously in Burgenland and Styria, they fell sharply in Vienna. In the other federal provinces tourism sales essentially stagnated at last year's levels.

International crude oil markets have witnessed sharp price increases in recent months as market participants have been staking on a recovery of the global economy. At the beginning of June, one barrel of crude oil (Brent) traded at \$ 68, more than double its low at the end of December 2008. Oil prices were nevertheless far below the levels recorded a year earlier and thus suppressed inflation at the consumer level.

Inflation receded to 0.7 percent in Austria in April. This development was mainly driven by the decline in fuel and heating oil prices: The prices of the expenditure group "Transport" in April were down more than 5 percent compared with their year-earlier levels. With world market prices for agricultural commodities also falling, price pressures on food have eased noticeably.

Foreign orders have been falling sharply since last autumn, triggering an investment freeze in many businesses.

Private consumption steady

To date, private consumption has withstood the crisis well. Private household spending on consumer goods in the first quarter of 2009 was almost as high as in the fourth quarter of 2008. As in past recessions, consumption thus fulfils its stabilising function.

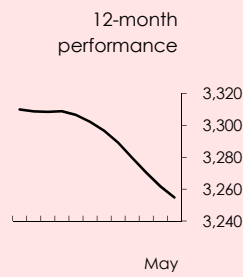
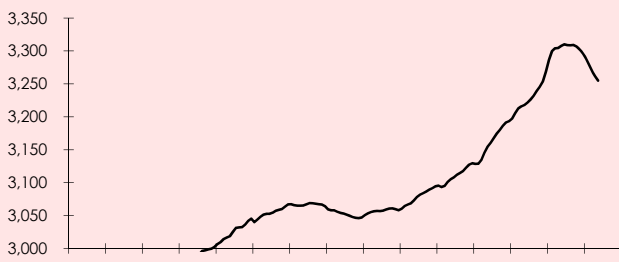
Satisfactory winter tourist season

Winter tourism was relatively lively against the background of the global economic crisis. Clear signs of moderation already began to show in the second half of the winter season, though. The number of overnight stays during the entire winter season remained 0.7 percent below the year-earlier level; by contrast, overnight stays by domestic guests reached a new peak.

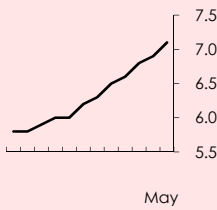
Inflation rate approaching zero

Figure 4: Key economic indicators

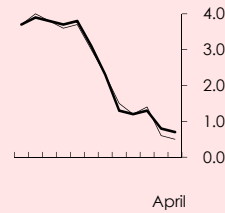
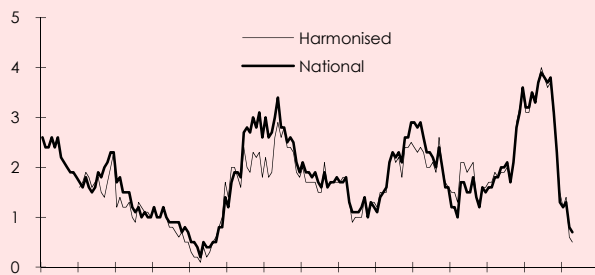
Persons in active dependent employment¹, (1,000), seasonally adjusted



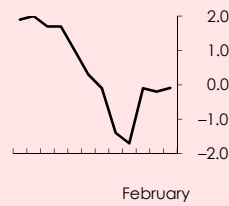
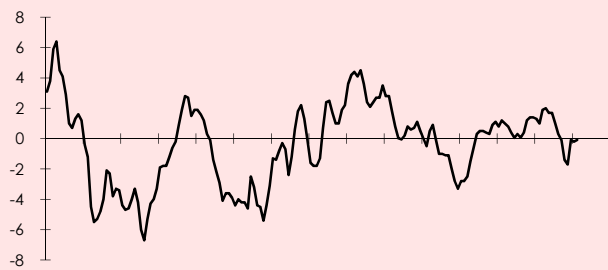
Unemployment rate, traditional Austrian method², seasonally adjusted



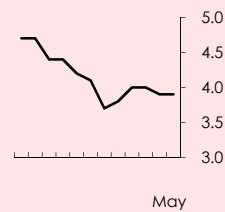
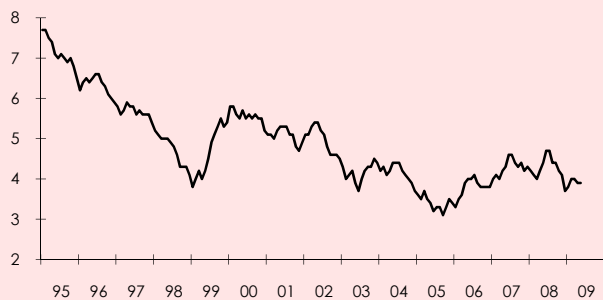
Consumer prices, year-to-year percentage changes



Real effective exchange rate, year-to-year percentage changes



10-year central government bonds (benchmark), percent



Source: Public Employment Service Austria, Federation of Austrian Social Security Institutions, Oesterreichische Nationalbank, Statistics Austria, WIFO calculations. – ¹ Excluding parental leave, military service, and unemployed persons in training. – ² As a percentage of total labour force excluding self employed, according to Public Employment Service.

Methodological Notes and Short Glossary

Period comparisons

Time-series comparisons with the previous period, e.g., the previous quarter, are adjusted for seasonal effects. They also include effects that result from a different number of working days in the period (e.g., Easter). In the text, this is referred to as "seasonally and working day adjusted changes".

The phrase "changed compared with a year before . . .", on the other hand, describes a relative change compared with the same period a year before and refers to unadjusted time series.

The analysis of the seasonally and working day adjusted development provides more precise information about the actual course of economic activity and shows turning points sooner. However, the data are subject to additional revisions as seasonal adjustment is based on statistical methods.

Real and nominal values

In principle, the values shown must be understood as real values, i.e., adjusted for price effects. Whenever values are shown as nominal values (e.g., foreign trade statistics), this is specifically mentioned.

Inflation, CPI und HICP

The inflation rate measures changes in consumer prices compared with a year before. The Consumer Price Index (CPI) is a measure of national inflation. The Harmonised Index of Consumer Prices (HICP) is the basis for comparable measurement of inflation in the EU and for the evaluation of price stability in the euro area (<http://www.statistik.at/>).

WIFO Business Cycle Survey and WIFO Investment Survey

The WIFO business cycle survey is a monthly survey in which around 1,100 Austrian firms are asked to assess their current and future economic situation. The WIFO investment survey is conducted twice a year, asking companies about their investment activity (<http://www.ikt.at/>). The indicators are balances between the positive and negative answers expressed as a percentage of the total number of firms polled.

Unemployment rate

Austrian definition: The number of persons registered as job seekers with the Public Employment Service expressed as a percentage of the dependent labour force. Labour force is the sum of the unemployed and the persons in dependent employment (measured in standard employment relationships). Database: Registrations with the Public Employment Service (AMS) and Federation of Austrian Social Insurance Institutions.

Definition according to ILO and EUROSTAT: Any person who is not gainfully employed and is actively seeking work is considered unemployed. Gainfully employed persons comprise all persons who during the reference week worked for at least one hour in a self-employed capacity or in paid employment. Persons receiving child-care benefit and apprentices are classified as gainfully employed, whereas persons in military service or persons carrying out alternative service are not. The unemployment rate is the number of unemployed persons expressed as a percentage of the total labour force (unemployed persons plus gainfully employed persons). Database: Data from household surveys (microcensus).

Terms used in connection with the Austrian definition of the unemployment rate

Persons in training: Persons who at a set date are enrolled in AMS (Public Employment Service) training programmes. When calculating the unemployment rate, their number is not taken into account either in the denominator or in the numerator.

Persons in dependent active employment: "Persons in dependent employment" include persons receiving child-care benefit, as well as persons in military service or persons carrying out alternative service with a valid employment contract. By deducting their number one arrives at the number of "persons in dependent active employment".

The Harmonised Index of Consumer Prices, at +0.5 percent in April rose slightly less than the national consumer price index – due to different weighting. Inflation in Austria was nearly as high as the euro area average (0.6 percent). For May, Eurostat estimates inflation at 0.0 percent; these estimates have been highly reliable in the past (maximum deviation 0.1 percentage point). Austria should also see an inflation rate of close to 0 percent in the months ahead.

The inflation rate fell to 0.7 percent in April as price pressures on food and energy moderated year-on-year. Inflation is set to peter out in the months ahead.

The decline in the rate of inflation contributed to an increase in purchasing power as most industries had already concluded their wage negotiations in fall. Recent months have seen the disputes over wage rises become tougher. The increases demanded most recently are about as high as last year's, however now the economy is in crisis.

Many industrial firms initially reacted to the massive deterioration in order book levels by reducing time balances, holidays and overtime. Subsequently many big firms registered staff for short-time work, laid off temporary workers and did not replace retiring personnel.

In May, 3,370,900 persons were in dependent employment in Austria, a decline by 55,000 from a year earlier. The negative year-on-year gap grew in March and April. 239,800 persons were registered as unemployed with the Public Employment Service in May, 53,200 more than a year before. The number of persons enrolled in training programmes was up by 12,000 or more compared with a year before. The unemployment rate, at 6.6 percent rose by 1½ percentage points year-on-year (according to the Austrian definition). The lack of orders has had the greatest adverse impact on the number of job vacancies: In May, it fell by more than a third from the year-earlier level.

For the future development of unemployment figures – and thus also consumer sentiment – it will be crucial whether short-time working schemes will be expanded further or will lead to unemployment. The Minister for Social Affairs has announced his intention to extend the maximum admissible duration of short-time work from 18 to 24 months. In addition, the industrial sector – following the German example – is demanding a reduction in ancillary wage costs (social security contributions), a rise in AMS (Public Employment Service) subsidies and the abolition of all obligatory employee retention periods. Due to the high administrative costs, predominantly well-paid employees in large enterprises benefit from short-time working arrangements. One disadvantage is that the scheme can hardly be used for persons working for lower wages in small firms and in the services sector.

In addition, letting firms share the cost of short-time work is to prevent this measure from delaying necessary structural adjustments: Retaining employees in a company is only meaningful if they have a realistic chance of employment there after the crisis. It will therefore become increasingly necessary, in addition to short-time working schemes, to establish longer-term working-time models in firms and to expand measures for employees threatened with unemployment and for unemployed persons.

Short-time work holding down rise in unemployment

The labour market is increasingly showing signs of the downturn. Short-time working schemes are keeping the rise in unemployment within bounds, though.