

■ AUSTRIA'S RECOVERY SUPPORTED BY DOMESTIC DEMAND

Manufacturing posted strong gains in Austria, but the WIFO business survey indicated a slight cooling of the business climate. Unemployment continues to rise despite substantial employment expansion. The deficit in the current account is shrinking markedly.

In the first quarter of 1998, real GDP rose by 4.2 percent on a year-on-year basis. This favorable development was mainly due to the expansion in the manufacturing sector as well as to the rise in construction activity, owing to clement weather at the beginning of the year.

Manufacturing activity continues at a lively pace. The results from the most recent business survey signal, however, that growth rates will decline somewhat. A high level of output is expected over the next few months, but compared to the survey from April there are signs of a slight restraint. The growth in demand and in output is shifting markedly from the basic-goods industry, which expanded significantly at the beginning of the recovery, to those sectors which are more dependent on domestic demand.

So far, foreign demand has also held up. The expansionary effects of the upturn in the economies of Austria's west and east European trading partners, as well as the improvement in the competitive position of Austria's export sector still outweigh the negative effects of the economic crisis in the Far East. Merchandise exports post high growth rates, markedly above those recorded for imports. According to the foreign trade statistics, exports rose by 9 percent from January to April, on a year-on-year basis. The balance of payments statistics record a surge in exports of 12 percent for the first five months of the year, resulting in a reduction of the trade deficit by ATS 3 billion, compared to 1997. This development and the turnaround in the tourism balance contributed to a narrowing of the deficit in the current account by ATS 5½ billion.

The economic recovery is spreading to domestic demand. With the rise in per-capita income remaining rather modest, the rise in disposable income can be largely attributed to sizable employment gains. With a real growth rate of 1¼ percent in the first quarter, private consumption has become an important element of aggregate demand. During the first four months, retail sales exceeded last year's level by 2 percent in real terms, partly as a result of the upswing in tourism. Construction activity, which was buoyed by special factors in

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the first quarter of 1998, remains flat, however: demand for new housing is weak, but civil engineering is booming.

The expansion of demand and production has had a positive impact on the labor market. In July, dependent employment (excluding persons in military service and on parental leave) exceeded the level in the corresponding period of 1997 by 39,000 (by 30,000 on average during the first seven months). The service sector posted the highest increase (33,000 in the second quarter); even the manufacturing industry created 2,000 additional jobs. Nonetheless, unemployment continued to

rise as a result of demographic and institutional factors, as well as of the heavy inflow of labor from hidden unemployment (July +4,500). The unemployment rate (seasonally adjusted) was 4.6 percent of the total labor force according to the definitions of the EU Labour Force Survey, and 7.3 percent of the dependent labor force according to the traditional Austrian method of calculation. There were 8 unemployed persons for every vacant job registered with the employment placement service. The number of vacancies is on the increase, however.

Cut-off date: August 5, 1998.