

■ CYCLICAL PEAK HAS BEEN PASSED

The business cycle in Austria and in the Euro area reached a peak during the past summer months. Since then, signs of a deceleration of activity have become more frequent. While exports and manufacturing output have hardly lost strength until August, private consumption and investment have started slackening. Firms are no longer as optimistic as last summer, and consumer confidence has been dimmed by the rise in oil prices.

The Austrian business cycle attained its peak last summer. Since then, several factors have pointed to a slowdown: activity in the USA, so far the driving force of expansion world-wide, has lost momentum and is set to provide less stimulus for exports of U.S. trading partners. Persistent high oil prices act as a drag on industrialised countries' real income and are dampening private consumption. Rising rates of inflation have led the European Central Bank to adjust interest rates upwards, thereby giving warning signs to trade unions and the corporate sector. These uncertainties are all mirrored by a trend fall on stock markets.

Latest available data for Austrian manufacturing output and for exports do not yet reflect such potentially dampening effects. Exports in August rose 17 percent year-on-year, as much as during the months before. Sales to non-EU countries rose three times as fast as those to EU countries. Neither does the boom in manufacturing show any signs of weakening. Output rose 12 percent above the year-earlier level in August, in line with results for the first half year. Production of motor car components was particularly strong.

However, first signs of weakening have become apparent with private consumption and investment. Consumer confidence has softened since last summer both in Austria and the EU. In particular, households have turned more sceptical with regard to their future financial situation. Retail sales in the 3rd quarter remained flat in real terms year-on-year. Gains in employees' real purchasing power have probably levelled off in autumn, in spite of the impact of the tax reform. The inflation rate of nearly 3 percent has exceeded contractual wage rises by 1 percentage point. Pre-Christmas sales are not expected to rise above the year-earlier level.

Investment also appears to have lost momentum. The levelling-off of imports of machinery and vehicles suggests that investors too have turned less confident as a result of the oil price hike. The imminent abolition of the fiscal investment premium will, however, induce some firms to carry forward planned investment spending into 2000.

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

The indicators deemed to lead the business cycle suggest a deceleration of activity: business expectations in the 3rd and 4th quarter were less upbeat than before; while the order situation was judged unchanged overall in the 4th quarter, the business situation and the outlook for production were rated lower.

The Financial-Times Indicator developed by the „Euroframe“ network of leading European economic research institutes¹⁾ suggests a slowdown of growth in the Euro area from 3.7 percent in the 2nd to 3.2 percent in the 3rd quarter 2000. The German economy expanded by only 2.8 percent in the 3rd quarter, according to preliminary figures.

Crude oil on spot markets continued to be quoted at well above 30 \$ per barrel in recent weeks, defying hopes for an early decline. The high oil prices thus represent the major risk for the further course of the business cycle.

¹⁾WIFO is a member of the „Euroframe“ network which includes seven research institutes, and which, by mandate from the European Parliament, is preparing an economic forecast for the Euro area. Other members are: NIESR (London), OFCE (Paris), DIW (Berlin), IfW (Kiel), Prometeia (Bologna), ETLA (Helsinki) and CPB (The Hague).

Inflation in Austria, while slightly easing in October, still remains rather high at an annual rate of 2.8 percent. The higher energy costs compel firms to either accept lower profit margins or shift them forward onto sales prices. Such a gradual shift is suggested by the latest rise by 6 percent in the wholesale price index. Prices of manufactures, which had remained stable during 1999, exceeded the year-earlier level by 1 percent in October.

Employment growth in Austria has lost momentum in autumn, with the year-to-year gain diminishing from 33,000 in the 2nd quarter to 19,000 between July and November. This can hardly be explained by cyclical factors, as the cyclically sensitive component of manufacturing employment has been rising since last summer (October +3,700 from a year earlier), and overall employment usually reacts to changes in activity with a certain time lag (of around six months). The major reason for slower employment growth should rather be seen in a „wave“ of early retirement ahead of changes in entitlement regulations taking effect. Unemployment continued to fall significantly in autumn. Roughly half of the decline concerns older workers (over the age of 50), where increasing demand for early retirement also plays an important role.

Cut-off date: 5 December 2000.

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■ EINFLUSS DES WIRTSCHAFTS- WACHSTUMS AUF DIE ARBEITSLOSIGKEIT

Zwischen der BIP-Wachstumsrate und der Veränderung der Arbeitslosenquote besteht in der EU ein enger Zusammenhang. In Ländern mit höherem Wirtschaftswachstum steigt die Beschäftigung rascher und geht die Arbeitslosenquote stärker zurück als in den Vergleichsländern. In jenen Jahren, in denen sich das Wachstum über die Schwelle von 2½% beschleunigt, sinkt die Arbeitslosigkeit in den untersuchten EU-Ländern.

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- *Beschäftigung und Arbeitslosigkeit in der EU*

Arbeitslosigkeit im internationalen Vergleich – Beschäftigung im internationalen Vergleich
- *Starker Einfluss des Wirtschaftswachstums auf die Beschäftigung*

Internationale Querschnittsanalyse – Wirtschaftswachstum und Beschäftigung im Zeitverlauf – Beschäftigungsschwelle in der EU bei einem Wirtschaftswachstum von 1¾%
- *Signifikante Auswirkung des Wirtschaftswachstums auf die Arbeitslosigkeit*

Internationale Querschnittsanalyse – Wirtschaftswachstum und Arbeitslosigkeit in ausgewählten Ländern – Arbeitslosigkeitsschwelle in der EU bei einem Wirtschaftswachstum von 2½%
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