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Cyclical Stimulus from Exports

The business cycle recovery in the EU is continuing, driven by the strong expansion of economic activity in the USA and Asia. In Austria, too, merchandise exports are increasing markedly, while the pace of domestic demand is still lagging. The labour market shows little reaction at the moment. Price developments are dominated by the rise in energy costs.

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The WIFO business survey of last August points to a further recovery of business sentiment in the manufacturing sector. The seasonally adjusted balance between positive and negative output expectations for the next few months has improved by 4 percentage points from July to +11 points. Notably foreign orders are now judged more favourably than at the beginning of the year. In particular large companies benefit from the booming world economy and the strengthening of external demand.

The strong stimulus from abroad is reflected by current account and the foreign trade statistics. In the period from January to May, merchandise exports, as reported by Statistics Austria, were up by a nominal 9 percent year-on-year; since March, the momentum has increased significantly, with annual gains regularly exceeding 10 percent. Demand is most lively from Germany, the new EU member states, south-eastern Europe and North America. Exports of machinery and vehicles have unfolded particularly strong gains, rising by 14.5 percent from the year-earlier level in the first five months. On the back of the export rise, the index of industrial output, adjusted for calendar effects, went up by 5 percent in the first half of the year, in the motor vehicles industry it jumped by 28 percent.

To what extent the external stimulus will translate into higher domestic demand is yet unclear, as the latter is markedly lagging behind. The latest survey of consumer confidence among Austrian households indicates a tentative recovery, although from a level that remains well below the average for the last years. For the first half year, Statistics Austria reports a year-on-year gain in retail sales by just over ½ percent in volume, although the figure may be biased by deflating problems.

After having been accelerated by the jump in oil prices, inflation abated in July. The annual increase in the consumer prices remained unchanged at 2.3 percent, with a slight month-on-month decline.

The labour market usually reacts with a time lag to the cyclical recovery, showing no sign of improvement so far. While the number of people in active employment was higher by 22,000 in August than last year, the number of unemployed also increased further, by 1,600.