

## BUSINESS CYCLE TURNAROUND NOT YET IN SIGHT

*The dampening impact on exports and investment from the international business cycle slowdown is being exacerbated in Austria by a fall in construction output. As a result, the labour market situation has deteriorated significantly.*

The regular WIFO business surveys do not as yet give rise to hopes for an imminent business cycle turnaround. Industrial confidence has weakened further until November. Incoming orders, current activity and production expectations are all being seen less favourable by firms than in the previous months. The terrorist attacks have come as a shock to the world economy, and their consequences will further delay the recovery.

Exports until last summer held up relatively well against the global downturn. Latest available data for July and August show a nominal advance by 4½ percent year-on-year. A further weakening should, however, be expected for the fourth quarter, due to the 11 September events.

Manufacturing net output in the second and third quarter was barely higher than a year ago. Still more unfavourable is the situation in the construction industry: in July and August, building and civil engineering output fell by an average 3 percent in value year-on-year, and by over 4 percent in volume. Particularly sharp was the fall by a nominal 10 percent in residential construction, while publicly-ordered construction also declined.

The cyclical weakness has led to a significant deterioration on the labour market. The year-on-year gain in employment has narrowed to a meagre 3,000 or 0.1 percent by November. The rate of unemployment as measured by the labour exchange rose by 0.9 percentage points from the year-earlier level; the seasonally adjusted figure stood at 6.3 percent in November.

The deceleration of inflation should be facilitated by weaker activity. Yet, in October, the rate of inflation remained unchanged at 2.6 percent, as the effect of lower energy prices was offset by price increases for food and various other items, such as the newly-introduced student fees in higher education.

Cut-off date: 7 December 2001.