

## ■ TURNAROUND ON THE LABOUR MARKET DESPITE SLUGGISH EXPORT ACTIVITY

*Austrian industry has not yet overcome the period of stagnation it experienced since last autumn as a result of falling export orders. However, the outcome of WIFO's cyclical test points to a stabilisation of production expectations. Due to growing domestic demand and a slower increase in the supply of labour, the expected turnaround on the labour market was achieved.*

Austrian industrial production and exports continued to stagnate at the beginning of 1999. According to preliminary data, exports as well as goods production declined in nominal terms from the previous year's level in January and February 1999. Assuming a price drop by approximately 2 percent, real exports exceeded the previous year's level, whereas real production remained below.

Although the business surveys carried out in spring 1998 point to some stabilisation, an improvement of the industrial business climate is not yet noticeable. Enterprises in manufacturing report a less favourable order situation; their expectations regarding future production and economic conditions in general, however, are similar to those reflected in the last two surveys.

The turnaround on the labour market was achieved despite sluggish export activities. The employment situation continued to improve throughout spring: in May the number of jobs had increased by 27,400 (+0.9 percent) and the number of vacancies by 8,000 over the year before. The number of persons registered as unemployed dropped sharply (-18,400) also as a result of intensified labour market policy measures.

The improvement of the labour market situation was due, above all, to rising domestic demand, a more moderate increase of labour supply, and the widened scope of labour market programmes. The effect of rising domestic demand on employment is about twice as strong as that of high export growth. Thus, vigorous domestic demand (a 2.5 percent increase has been forecast for 1999) creates additional employment, above all in the service sector.

Consumer confidence in the economic situation remains unshaken. It is based on growing real incomes, stable prices and rising employment. However, the high level of domestic demand also results in strong import growth, which in

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turn leads to a deterioration of the balance of trade and current account. According to preliminary information, imports in January and February 1999 exceeded the previous year's level by 8 percent.

The rate of inflation declined further to 0.3 percent in April, with price drops being due, above all, to developments at the international level. The wholesale price index, which reflects such influences more strongly, was approximately 2 percent below the previous year's level

during the first four months of 1999. Price cuts were observed in sectors directly or indirectly affected by the Asian crisis (steel, metal, oil and electronics industries). However, the downward trend of prices world-wide has been stopped at least temporarily: the April price indices for energy and agricultural products were already clearly above those reported at the beginning of the year.

Cut-off date: 9 June 1999.