

■ CYCLICAL ACTIVITY COOLING DOWN

Latest opinion surveys among firms suggest that business activity in the euro area may weaken more significantly than assumed so far. For Austria, the WIFO business survey for the 2nd quarter also indicates that companies are turning more sceptical on the short-term outlook.

Industrial confidence in economic developments has declined further in the second quarter. Already from mid-2000 to the first quarter 2001 entrepreneurial optimism has been seen fading, a tendency which became more marked in the latest period.

Goods manufacturers are complaining about insufficient demand and by majority take a negative view on their own business situation, the level of orders and on sales prices. They have also revised downwards their (still positive) production expectations, while considering inventory levels excessive. In the EU, and in particular in Germany with its heavy reliance on exports, the industrial confidence indicator has also been pointing consistently downwards since last autumn.

While business survey results are available already for the current quarter (April), statistical data on exports and industrial output are lagging considerably behind (latest figures refer to January and February, respectively) and are frequently subject to later revision.

In January, Austrian exports still rose by a strong 13½ percent year-on-year; however, a significant deceleration should be expected for the months to come, given the slowdown of global growth and the weaker flow of export orders, as sampled in the business survey. Manufacturing output was also booming in January, exceeding the year-earlier level by 10 percent, before moderating to a rate of 7 percent in February.

Lively consumer spending provided support to business activity in early 2001. In the first two months, retail sales were almost 2 percent higher in volume than a year ago. Motor car sales, however, continued on a flat downward path. Tourism demand was lively in the past winter season, with guests' overnight stays from November to March 3 percent higher than in the year-earlier period.

The economic slowdown has already been reflected in wholesale trade, which, additionally, saw a slump in demand following advance buying of investment goods towards the end of last year. Construction firms complained about a rel-

atively low level of orders and had fewer workers on their payroll than a year ago.

The cautious assessment of current cyclical conditions is also confirmed by sluggishness on the labour market in spring. Net job creation of 21,100 in the first quarter and 12,400 in April (in an annual comparison) was markedly down from last year. The slower pace since last autumn is, however, not entirely due to weaker economic activity, but in part also to a „wave“ of early retirement, notably in the public sector. According to data collected by the Federation of Austrian Social Security Institutions, employment in the government sector fell by 12,200 year-on-year in March.

Unemployment has virtually stopped falling in recent months. After the sizeable reduction by an average 27,400 in 2000, the year-on-year decline had narrowed to a mere 2,600 by April 2001.

The cyclical slowdown facilitates the deceleration of inflation. In March, the year-on-year rise in consumer prices of 2.7 percent was close to the February figure, but significantly lower than in January (+3.0 percent). The downward trend is, however, held back by the consequences of the BSE crisis.

The present analysis of the economic situation leaves open the possibility that the sharp slowdown of growth in the USA and the oil-price-induced loss in purchasing power may have stronger adverse effects on the European economy than generally assumed.

GDP in the euro area grew by 3.0 percent year-on-year in the fourth quarter 2000. For the first three months 2001, the Financial Times indicator calculated by Euroframe mainly on the basis of survey data suggests a lower rate of around 2½ percent, and a further decline to 2.2 percent in the second quarter.

Nevertheless, the latest forecast by the EU Commission for the euro area sees economic growth at 2.8 percent on average 2001, whereas the IMF has lowered its projection for euro area GDP to 2.5 percent. Broadly in line with most economic research institutes, the German government has cut its growth assumption for Germany to 2 percent for 2001. Whether over-optimistic forecasts can have a positive influence on general economic sentiment, is questionable; but in any case, they risk providing wrong signals for monetary policy.

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