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## ■ AUSTRIA'S ECONOMY GAINING MOMENTUM

*During the last few months, output in Austria's manufacturing industry expanded vigorously; in April, for the first time in many years, the number of jobs in manufacturing increased. The Asian crisis has barely impaired the business climate. At the beginning of the year, output in the construction industry was also significantly higher than in the previous year, but this gain was mainly due to clement weather.*

The pace of Austria's economy is picking up. In 1997, manufacturing posted output gains of 6.1 percent (after a meager 2.1 percent in 1996), which was based mainly on the expansion in the intermediary and investment goods sectors. The upturn continued into January and February, with the manufacturing industry expanding output (adjusted for the number of working days) by 8.0 percent and 5.3 percent, respectively, on a year-on-year basis. According to the WIFO business survey, this boom is likely to continue during the rest of the year: all business cycle indicators are above the long-term average. In the second quarter of 1998, production expectations were already more optimistic than in the recovery year of 1994.

The vigorous revival of the business cycle in manufacturing is reminiscent in many ways (export boom, declining oil prices, etc.) of the recovery of 1988. The marked pick-up in the investment goods industry points to a self-sustained upswing.

Producers of food and beverages as well as of durable consumer goods are much less optimistic than producers in other branches. In the consumer goods industries, output at the beginning of the year fell short of the output achieved at the beginning of 1997. The construction sector was also rather pessimistic, despite the high growth rate achieved in January (+16 percent compared to the previous year).

With the exception of the U.K., the economic situation has improved in most European countries. In the EU, the assessment of the economic situation by entrepreneurs was even better than in the record year of 1989. In its spring forecast, the EU Commission therefore predicts that economic growth will reach 2.8 percent in 1998 and 3.0 percent in 1999.

Lively import demand from the European economies and the improvement in the price-determined competitiveness of Austria's economy have boosted ex-

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ports. According to the statistics of the Central Statistical Office, the value of exports in January exceeded the level of January 1997 by almost 9 percent; the National Bank statistics indicate an increase in merchandise export payments by 10 percent in the first three months of 1998. Tourism has emerged from the trough and recorded a turnover increase of 2½ percent in the winter season.

The recovery of domestic demand is also accelerating. The pick-up in economic growth is raising personal disposable income; the restrictive effects of the austerity policy of the previous two years have faded. In January and February, retail sales rose by about 2 percent in real terms on a year-on-year basis.

The labor market is experiencing sharp employment gains. The number of jobs rose from May 1997 to May 1998 by 35,000, or 1.2 percent. Unemployment increased, however, as the additional demand for labor was satisfied from the „hidden labor market reserve“.

### INVESTMENT ACTIVITY IS PICKING UP IN EUROPE

The global economy is moving in a clear upward trend. Expectations of a pick-up in economic growth in the EU were realized during the last few months, even though the international economic conditions worsened. The negative effects of the Asian crisis were limited to a few countries, and the economies of the EU appeared to have profited from the drop in interest rates (flight into safer assets).

If exports were indeed the engine of growth in 1997, investment activity, given the high and rising profitability, is providing an imprint impetus to economic growth in 1998.

According to the projections of the EU Commission, 2.8 million jobs will be created in the EU in 1998 and 1999; as a result, the unemployment rate will decline from 10.7 to 9.8 percent.

The German economy is less buoyant than those of the other EU economies. It is true that real GDP rose by 3.8 percent in the first quarter of 1998 on a year-on-year basis (clement weather and preemptive purchases triggered by the increase in the value-added tax), but the German Research Institutes reckon with economic growth of only 2.6 percent in 1998 and 2.7 percent in 1999. At the turn of 1997-98, the long-awaited revival of investment activity in Germany was realized.

### EXPORTS REMAIN THE MOST BUOYANT COMPONENT OF AGGREGATE DEMAND

The monthly balance of payments statistics of the Austrian National Bank indicate a gain in merchandise export payments of 10 percent on a year-on-year basis for the first three months of the year. The increase is somewhat lower than the rate recorded in 1997, but the stimulus imparted to the economy is nonetheless considerable. This factor, as well as the rise in export orders in manufacturing and the sustained high price-determined competitiveness of Austria's export sector, suggest that the favorable development of exports will continue.

Payments for merchandise imports also grew at a rate of 10 percent in the first three months; as a result, the balance of merchandise payments remained almost unchanged in comparison to the same period of last year. This surge in imports is not based on higher import prices but rather on larger volumes: prices for raw materials are markedly lower than during the first quarter of 1997. Moreover, import price statistics for Germany record a drop in import prices by 0.5 percent – a similar development is likely to hold for Austria. The rise in domestic demand follows the usual cyclical pattern.

The foreign trade statistics compiled by the Statistical Office show results similar to those derived from the balance of payments statistics: in January, exports rose by 8.9 percent and imports by 6.4 percent, on a year-on-year basis.

Despite an unchanged balance in merchandise payments and an improvement in the service and tourism balances, the current account deficit in the first three months of 1998 was ATS 2.1 billion higher than in the same period of 1997. The rise in the deficit is due to the worsening of the transfer balance (from ATS –4.7 billion in the first three months of 1997 to ATS 7.3 billion in 1998) and to a higher deficit in the factor income account. According to the balance of payments statistics, service exports (excluding tourism) rose from ATS 31.8 billion (January to March of 1997) to ATS 36.8 billion, while service imports increased by only ATS 3.6 billion. In tourism, the increase in receipts in the first quarter (buoyed by Easter vacations) was matched by the increase in payments; as a result, the balance remained almost unchanged.

Cut-off date: June 8, 1998.