

MARCUS SCHEIBLECKER
EWALD WALTERSKIRCHEN

■ SUSTAINED UPSWING DRIVES DOWN UNEMPLOYMENT

The economy continued on its road to recovery at the start of the year. Manufacturing expanded by 8 percent over the previous year, and retail trade sales (excluding cars) grew by 4 percent in real terms. According to the results of the WIFO business survey, Austrian companies expect the economic situation to be further stimulated. Expanded production is increasingly impacting on the labour market. The brisk demand for labour is reflected in a perceptible decline of unemployment.

The WIFO business survey highlights the excellent economic situation and prospects for the immediate future envisaged by Austrian companies. Production expectations have once again improved, reaching their highest level in ten years. The scope of domestic and export orders is substantially above the average in the long term. The future business indicator has similarly reached a new record high.

The accelerating economic growth rests on a sound base. Thus, there has been a strong revival of both exports and domestic demand. Demand for capital goods and durable consumer goods is particularly lively. The only sector to voice slightly less optimism is the construction industry. Civil engineering firms are affected by spending cuts made by the government, and the construction industry is restrained by the ongoing weakness in residential building.

The Austrian business situation matches that in the European Union. The recovery in Germany specifically has an invigorating effect on Austria. The industrial confidence indicator has been steadily improving since the late summer of 1999, for the EU as much as for Austria. The EU leading indicator for the euro area, which is calculated with contributions from WIFO, points at a growth rate of 4 percent for the second quarter of 2000. Unemployment is declining in the EU, but at a much lower extent than in Austria.

The tourism industry enjoyed a good winter season, due to much snow and good weather. According to preliminary calculations, tourism revenues between November 1999 and March 2000 rose by 3¾ percent over the same period in the previous year. Possible boycotting reactions in the wake of the EU sanctions imposed against Austria would have an effect only on city tourism in the summer season, so that at present no comments can be made on the situation.

All staff members of the Austrian
Institute of Economic Research contribute to the Business Cycle Report.

Inflationary pressure caused by the rapid rise in oil prices was slightly relieved in March. Although the consumer price index rose by 1.9 percent over the previous year (+1.7 percent in February), its rise over the previous month was just 0.2 percent, after an increase of 0.7 percent from January to February.

The Austrian labour market reported excellent results. In April the number of jobs increased by 48,300, a plus of 1.6 percent generated by the good economic situation. As computed by the traditional Austrian method, the un-

employment rate dropped from 6.2 percent to 6.1 percent, seasonally adjusted; recently the rate according to Eurostat has been revised, hence it even declined to 3.3 percent, thus falling below the limit of 3.5 percent specified in the National Action Plan for Employment. A new revision in 2001 could, however, once again change the result. If the labour market trend should continue, the unemployment projection for Austria could be found to be too high.

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