

■ ECONOMY ON THE UPSWING

After a phase of below-average economic growth, which lasted well into the second quarter, the cyclical upswing in Austria is gaining momentum. Payments received for exports of goods rose sharply in June 1999; employment also grew noticeably, and surveys conducted among Austrian enterprises signal the onset of an economic recovery. The slow-down of economic growth triggered by last year's financial crises has been overcome and economic developments have stabilised also at the European level. Domestic demand is picking up under the favourable impact of the monetary environment and export-oriented businesses again look to the future with greater optimism.

The WIFO Business Survey of July showed that Austrian industrial enterprises are assessing their short-term production prospects much more favourably than in the recent past. These results confirm the indicators established by the European Commission for the euro zone. Since May, the confidence indicator of industry has improved by 7 percentage points. This trend can also be observed, though to a lesser extent, in the European Union. The confidence indicator of European consumers also improved in July.

In Austria, the change of trend appears to have occurred already and the economy is picking up speed. According to the cash-based monthly balance of payments statistics, payments received for exports of goods in the second quarter of 1999 increased by 4.8 percent over the previous year (June +16.5 percent), compared with a 1.6 percent decline in the first quarter.

The employment situation is also recovering noticeably, with increases over the previous period of 0.2 percent each in June and July, however, in August it remained unchanged on seasonally adjusted basis. The number of employees (excluding military service and parental leave) in August 1999 exceeded the previous year's level by 39,000. At the same time, unemployment continues to decline – which is due partly to measures taken to reduce unemployment and partly to the economic upswing. According to Eurostat, the seasonally adjusted unemployment rate levelled off at 4.3 percent in August.

Price increases continue to be low in Austria. In July, the inflation rate remained constant at 0.4 percent. While fuel prices went up, prices for seasonal goods and telephone charges were declining.

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Report.

The growing optimism expressed by enterprises in Austria is founded in improving export opportunities and the expected growth of domestic demand. Since its introduction at the beginning of the year, the euro has lost considerably in external value against the dollar. The drop against the yen was even greater. Hence, the price-based competitiveness of European exports improved to a large extent. Moreover, the downward trend of exports under the impact of the financial crises has been stopped, with some of the countries concerned already on their way to economic recovery.

Several reasons speak in favour of a further acceleration of domestic demand growth in Europe. Through its decision to lower the key lending rate by 0.5 percentage points in early April 1999, the European Central Bank

In the euro zone, both company surveys and improving consumption trends point to an upswing in the second half of 1999.

created the monetary framework for less expensive consumer credit and a more favourable environment for investors. Given the fact that the impact of monetary policy decisions on the development of the economy occurs with a considerable time lag, further positive effects are

to be expected. In many countries, collective bargaining has resulted in a considerable increase of private household incomes, with its real-term effect being enhanced through the low level of inflation. The slight rise in the number of persons in employment in Europe also has a favourable influence on private consumer spending.

However, the current economic situation does not fully reflect these expectations in Europe. The quarterly survey of the European Commission still shows a low level of capacity utilisation in the third quarter – down by 0.2 percentage points from the period before in the euro zone (in the second quarter the level was unchanged). Nevertheless, after the decline in the first quarter of 1999, this can be taken as a sign of stabilisation.

The industrial production data published by Eurostat, however, already point to a beginning recovery – the sliding three-month average for the April to June period exceeded the previous three-month period's value by 0.3 percent in the euro zone and by 0.4 percent in the EU as a whole. Industrial production was higher than in the comparable period before in Finland, Spain, France and the Netherlands, and lower in Belgium, Germany and Italy (comparable figures for Austria are not yet available).

Cut-off date: 9 September 1999.