

ECONOMIC UPSWING BOOSTS MANUFACTURING OUTPUT AND EMPLOYMENT

ECONOMIC OUTLOOK FOR 1998 AND 1999

Economic activity in Austria will expand by 2¾ percent in 1998 and 3 percent in 1999. The main forces driving the economy are the solid expansion in merchandise exports and the revival in investment and consumer expenditures. Employment is growing rapidly and is expected to reach a new record high. Unemployment persists, however, at a high level.

In 1997, Austria's economy expanded by 2½ percent in real terms, with the main impetus stemming from the surge in merchandise exports. The framework conditions for the export sector remain favorable: stable exchange rates, low nominal interest rates, a less restrictive fiscal policy and lower oil prices suggest an acceleration in economic growth in Western Europe. Foreign demand from East-Central Europe will remain buoyant, partly because the countries in this region are relaxing import restrictions. The decrease in relative unit labor costs (in a common currency), which will total 10 percent over the period from 1995 to 1999, will improve the price-determined competitiveness of Austria's exporters and facilitate further gains in market shares. The volume of merchandise exports is projected to rise by 10 percent in 1998 and by 8½ percent in 1999.

Given the strong linkage between exports and imports and the rebound in domestic demand, the volume of imports is also projected to expand at a lively pace. As a result of the deep drop in crude oil prices, import prices will remain stable, however, providing a welcome relief to the trade account. More favorable framework conditions in the tourism sector and a slowdown in the growth of spending by Austrians abroad will help to stabilize the tourism balance; a surplus of ATS 17 billion is expected for 1998. The deficit in the current account is likely to drop by more than ATS 10 billion to some ATS 36 billion.

The surge in merchandise exports and the revival of domestic demand will boost output in manufacturing by 5 percent in 1998. Demand for products of the basic goods industry and of technical manufacturing will continue to be lively; as order stocks in the consumer goods industry also improve, the number of jobs in the whole manufacturing sector will cease to decline for the first time in many years. The rebound in manufacturing output is also expected to boost capital spending on machinery and transport equipment.

Main results

	1995	1996	1997	1998	1999
	Percentage changes from previous year				
GDP					
Volume	+ 2.1	+ 1.6	+ 2.5	+ 2.7	+ 3.0
Value	+ 4.2	+ 3.7	+ 3.9	+ 4.1	+ 4.6
Manufacturing ¹⁾ , volume	+ 1.0	+ 1.2	+ 4.3	+ 5.0	+ 4.3
Private consumption, volume	+ 2.9	+ 2.4	+ 0.7	+ 1.7	+ 2.1
Gross fixed investment, volume	+ 1.9	+ 2.4	+ 3.6	+ 3.3	+ 4.6
Machinery and equipment	+ 3.1	+ 3.7	+ 4.2	+ 6.0	+ 7.0
Construction	+ 0.6	+ 2.8	+ 3.2	+ 1.0	+ 2.5
Exports of goods²⁾					
Volume	+12.1	+ 5.3	+14.9	+10.0	+ 8.5
Value	+13.2	+ 5.5	+16.4	+11.4	+ 9.9
Imports of goods²⁾					
Volume	+ 5.7	+ 6.1	+ 7.9	+ 8.0	+ 8.0
Value	+ 6.2	+ 6.7	+ 9.5	+ 8.0	+ 9.6
Trade balance²⁾ (billion ATS)					
Current balance	-47.0	- 43.4	-47.7	-36.0	-37.2
As a percentage of GDP	(%) - 2.0	- 1.8	- 1.9	- 1.4	- 1.4
Yield of long-term government bonds³⁾ (%)					
	7.1	6.3	5.7	5.2	5.7
Consumer prices					
	+ 2.2	+ 1.9	+ 1.3	+ 1.2	+ 1.5
Unemployment rate					
Percent of dependent labor force ⁴⁾ (%)					
	3.9	4.4	4.4	4.5	4.4
Percent of total labor force ⁵⁾ (%)					
	6.6	7.0	7.1	7.3	7.1
Dependent employment ⁶⁾					
	+ 0.0	- 0.6	+ 0.4	+ 0.9	+ 1.0

¹⁾ Value added, including mining and quarrying. – ²⁾ According to Central Statistical Office. – ³⁾ 10-year central government bonds (benchmark). – ⁴⁾ According to labor exchange statistics. – ⁵⁾ According to Eurostat. – ⁶⁾ Excluding parental leave and military service.

In the construction sector, activity in the renovation and modernization business will remain brisk; the extension and improvement of the rail and road system will benefit the engineering sector. Residential construction, however, will experience a marked decline after the buoyancy of the last few years, but commercial construction, in the tourism sector for example, is likely to gain momentum. The total volume of construction put in place will expand by only 1 percent; a slight acceleration is expected for 1999.

Transfer payments as well as after-tax income of private households from wages and salaries declined considerably over the last two years. 1998 and 1999 will see a reversal of this downward trend. Compensation per employee is likely to rise more rapidly in tandem with the pick-up in economic activity; moreover, as fiscal policy turns less restrictive, transfer payments will rise at a more rapid pace, particularly because of the „family package“ taking effect in 1999. Higher disposable income of households will revive consumer spending, especially on durable goods. Consumer expenditures are forecast to

rise by 1¾ percent and well over 2 percent in real terms in 1998 and 1999.

Provided that the plunge in crude oil prices is more fully passed on to fuel prices at the consumer price level, and that the hike in the value-added tax in Germany does not spill over to Austria, price increases are expected to remain subdued. With inflation rates of 1.2 percent in 1998 and 1.5 percent in 1999, Austria will enjoy price stability.

The strong expansion of output in the goods as well as service producing sectors will boost the demand for labor. In the service sectors, employment – mainly of female workers and of persons in part-time employment – has been on the increase for some time now; in manufacturing, the demand for labor is expected to stop the long-term decline, despite high productivity gains. The number of persons in dependent employment (excluding persons in military service and on parental leave) is forecast to rise by almost 30,000 in 1998 and 1999, respectively. Many women who are currently finding employment have just entered the labor supply. There are several factors raising the labor supply: a cut in the time of eligibility for parental leave assistance, a reduction in the number of persons entering early retirement and the termination of special unemployment assistance. Thus, despite solid employment gains, unemployment is also forecast to rise slightly. In 1998, some 240,000 persons on average will be registered as unemployed with the employment placement service. This implies an unemployment rate of 4.5 percent of the total labor force according to the definitions of the EU Labour Force Survey, and 7.3 percent of the dependent labor force according to the traditional Austrian method of calculation.

Thanks to the consolidation drive of the past years, the financial balance of general government was halved to -2½ percent between 1995 and 1997. The solid income and employment gains expected over the forecasting period will strongly increase revenues from the income tax on wages and salaries and social security contributions. Given the scheduled generous increase in family support measures, the financial balance of general government is likely to improve only slightly to -2¼ percent of GDP (1999).

Cut-off date: April 1, 1998.