

## RECOVERY DELAYED

*As a result of the persistent weakness of domestic demand, manifest in the stagnation of retail trade sales and a decline in construction activity, the development in the export sector is of particular importance for the future course of the economy. According to the WIFO business survey, the assessment of export orders by enterprises in manufacturing improved slightly. The overall business climate worsened, however. Capacity utilisation remains weak, and there is no sign of a pickup in investment activity.*

During the summer, the cyclical indicators diverged greatly. The current economic situation is very fragile, and recent economic data indicate that the recovery will be somewhat delayed. Enterprises assess the current situation somewhat more favourable than in the previous survey. But the setback in the business climate in manufacturing for the third quarter came as a surprise. After having markedly improved in the first and second quarter, production expectations in manufacturing industry declined in July (balance of positive over negative responses +3 percentage points, after +7 percentage points in the second quarter). This development concerns all economic branches, especially those sectors, such as the intermediary goods producing sector (iron and steel, foundries, pulp and paper) and investment goods producing sector (machinery industry, transport equipment, electrical appliances), which react early on to cyclical swings. Since the beginning of the year capacity utilisation in manufacturing has not risen, with the utilisation rate at 2 percentage points below the long-term average. Thus, capacity expanding capital outlays remain small. The WIFO July Investment Survey suggests a marked decline in investment spending for the year 2002. A low investment propensity is also indicated by the drop in imports of capital goods by 8 percent at the beginning of the year.

The uncertainties characterising the business climate, as recorded in the WIFO surveys, are a reflection of the lability of the global economy. In the second quarter of 2002, the US economy expanded at a slower pace than had been expected by most observers. The slide on the stock markets has become steeper and might have a negative impact on the propensity to consume and invest. The decline in the purchasing manager index suggests that production growth has almost come to a halt. There are, however, also some positive signals coming from the US economy: the demand for information technologies, whose collapse was a major determinant of the recession of 2001, is starting to recover, and the negative contribution of the foreign sector to GDP indicates that aggre-

gate demand in the USA is still expanding faster than in other economies.

In Europe, in particular, the stagnation in domestic demand dampens economic growth. Consumer confidence and the business climate in retail trade are worsening. The crisis in the construction sector persists. There are still no signs of a pickup in investment in machinery and equipment. As in the first quarter, economic growth in the euro zone in the second quarter will be lower than in the USA. While inflation continues to abate, the rise in unemployment persists. Economic policy takes a wait-and-see attitude.

In Austria, too, domestic demand is very weak. In retail trade, sales in the first half of the year stagnated at the level of the first half of 2001 (+0.1 percent in real terms). The demand for durable consumer goods has been declining markedly; during the first five months of the year, new car registrations were almost 10 percent below the level reached one year earlier. Construction activity in nominal terms barely exceeded the year-earlier level (January to April +1 percent). The WIFO business survey for the construction industry indicates a slight recovery for the civil engineering sector; the outlook for residential construction remains pessimistic, however. The unfavourable development of domestic demand is also manifest in the import data. According to Statistics Austria, during the first four months merchandise imports declined by 4¼ percent in nominal

terms, compared to one year earlier; the cash data provided by the Oesterreichische Nationalbank indicate a decline of 1 percent for the period from January to May. While domestic demand remained weak, exports kept rising during recent months. The foreign trade statistics of Statistics Austria point to a rise in exports of 2¼ percent during the first four months of 2002 (April 2002 +9.6 percent); the cash data of the Oesterreichische Nationalbank indicate a rise of 5¾ percent.

Given the weakness in economic activity, there are no signs of a turnaround in the labour market. On the contrary, in July employment (excluding child-care benefit receivers and people in compulsory military service) was markedly lower than one year earlier (-20,000, January to July -10,300); at 192,000, the number of unemployed reached a four-year summer peak in July. The seasonally adjusted jobless rate was 7.0 percent of the dependent labour force (following the conventional national calculation) or 4.2 percent of the labour force (EU definition).

Inflation is levelling off, mainly as a result of lower prices of energy and telecommunication services. In June, the inflation rate was only 1.7 percent (1.5 percent according to the Harmonised Consumer Price Index). Service prices, such as prices in restaurants and insurance rates, are markedly higher than one year earlier.

Cut-off date: 7 August 2002.