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## Exports and Manufacturing Output Lively

**Economic activity in Austria ended the year 2004 on an upbeat note, with exports, industrial output and employment all heading up. For January and February, however, business surveys point to a slowing of the recovery. Unemployment at the beginning of the year rose again above the level of one year ago.**

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Business activity in Austria continued its recovery towards the end of last year. Exports in the fourth quarter exceeded the year-earlier level by 11½ percent. Domestic firms benefited in particular from booming demand outside the EU, boosting sales notably in the USA, Asia and Southeast Europe.

The strong flow of foreign orders translated into a jump in manufacturing output which exceeded the year-earlier level by 9½ percent in the fourth quarter. The motor car industry and manufacturers of investment goods posted massive gains, whereas the production of consumer goods lagged behind, in line with the sluggish pace of private consumption in the euro area. In the construction sector, the order situation has improved since last summer, and production seems to be reversing the negative trend of the first half of 2004.

In the monthly WIFO business survey, manufacturers still gave overall positive judgments on their order and business situation in January and February, though by a somewhat smaller margin than in the previous months. Fewer companies than last autumn envisage an increase in output levels. Unlike business sentiment, consumer confidence has not improved in 2004. Nevertheless, consumer spending picked up in the second semester, with retail sales rising by about 2½ percent in volume from the (low) level one year ago, and with new car registrations also up. For the year as a whole, volume retail sales gained 1½ percent. As from the middle of the year, the imminent phasing-out of the investment premium (Investitionszuwachsprämie) stimulated spending also on capital goods, as witnessed by the year-on-year increase by some 25 percent in new truck registrations.

The upward drift in housing and energy costs accelerated consumer price inflation to a rate of 2.9 percent in December and January, with energy prices accounting for 0.4 percentage point of the increase. The latest hike in crude oil prices suggests a further rise in March. The most striking increases are currently registered for rents (+9.4 percent) and other housing costs. The stronger price pressure has been reflected in a fall in real terms in employees' per-capita gross earnings: contractual wages exceeded the year-earlier level by 2.1 percent in January, compared with an inflation rate of 2.9 percent.

The cyclical recovery has led to an increase in both employment and job vacancies. The number of economically active employees rose significantly, by around 1 percent, with the gains also extending to full-time jobs. Nevertheless, the jobless figure went up, despite more people being enrolled in training activities. A major reason for the disappointing trend in unemployment is a strong increase in the labour force. The number of foreign workers was up by 14,500 from last year in January, with more and more German nationals (+9,000) escaping from the poor domestic employment prospects to the Austrian job market. Domestic labour supply is also growing, for demographic reasons and as a consequence of the pension reform.