

Markus Marterbauer

Clearer Signs of Cyclical Recovery

Surveys among industrial companies show a significant improvement of the business climate both in Austria and the euro area. Positive incentives are coming mainly from strong economic growth in the USA and in Asia, in spite of the strong euro exchange rate. Companies in manufacturing report a recovery in export orders and expect a noticeable revival of production. In the construction sector, the improvement in civil engineering is being followed by a pick-up of residential building. Despite an overall stable price level and higher real incomes, demand from private households was modest over the summer. No upturn is as yet visible on the labour market.

All staff members of the Austrian Institute of Economic Research contribute to the Business Cycle Report. • Cut-off date: 3 December 2003 • E-Mail Address: Markus.Marterbauer@wifo.ac.at

Starting from the USA and Asia, indications for an upswing of the global economy have become stronger in recent weeks and months. In the USA, aggregate demand rose markedly in the third quarter. China is a major growth engine in Asia, where the recovery has over the last few quarters spread even to the sluggish Japanese economy. The positive external incentives for the euro area are dampened by the marked appreciation of the euro: the latter, according to the "eurogrowth" indicator, has shaved 0.7 percentage points off GDP growth in the second semester. Still, the momentum of the world economy is strong enough to trigger a recovery also in the euro area. In the third quarter, real GDP rose by nearly ½ percent from the previous period, mainly driven by a rebound in exports. However, the persistent weakness of domestic demand remains the key problem for the euro area. Investment in machinery and equipment, which plays a pivotal role in the business cycle, has so far shown no signs of recovery.

Indications for a pick-up in activity are becoming more frequent also in Austria. While no recent data are available for manufacturing output, exports or wholesale trade that could confirm an increase in demand and production, the WIFO business survey since September suggests a marked improvement in business confidence in the export-oriented sector. Companies on balance see a clear improvement of incoming orders from abroad and report an increase in production. Greater optimism in the corporate sector is confirmed also by a further rise in expectations for the next six months.

In the construction sector, the recovery has come underway earlier than in manufacturing industry. Activity in civil engineering has picked up since early 2002, mainly due to an increase in public orders for infrastructure investment. Since the beginning of 2003, demand and output in residential construction is also gaining momentum. However, private consumption and retail sales were lacklustre during last summer. While stable prices allow real gross incomes to rise significantly for the first time in two years (January to October +1¼ percent year-on-year), savings with financial institutions are also going up (September +3.8 percent year-on-year). Volume retail sales in summer were slightly down from last year, with the exception of motor car sales, with new car registrations exceeding the year-earlier level by 6 percent in the first ten months.

Rising business confidence is not yet feeding through to the labour market. In November, 11,000 more people were registered as unemployed than one year ago; the seasonally-adjusted rate of unemployment stood at 7.2 percent of the depend-

ent labour force and 4.5 percent of the total labour force according to Eurostat definitions. The number of actively employed rose by 14,800 from the year-earlier level in November (January to November +7,000). However, that number also includes a couple of thousands recipients of partial retirement benefits ("Altersteilzeitgeld") who have lumped and back-loaded their time off work. While the number of domestic employees continues to decline, that of foreigners is firmly heading up.