

■ ECONOMIC UPSWING IS GAINING MOMENTUM

Economic activity in Austria continues to pick up speed. After a sluggish first half of 1999 (+1.2 percent), the Austrian economy grew by 3 percent in the third quarter. Business surveys around the turn of the year continue to reflect a highly positive atmosphere. In the first quarter, the assessment of business prospects has been the most favourable ever since 1994.

The domestic economy was fast gaining momentum in the autumn of 1999. Real GDP grew by 3 percent over the year before, which is well above the EU average (+2.3 percent). The rate of capital spending and exports increased most strongly. As of the beginning of 2000, the tax reform has had an added impact on purchasing power and consumption.

According to the WIFO Cyclical Business, the upward trend is continuing in the first quarter of 2000. The enterprises questioned are optimistic as regards the general business situation and future production. In fact, only twice during the past decade, i.e., in 1990 and 1994, had the business situation been assessed as favourably as in the first quarter of 2000.

Despite growing exports and lively activities in tourism, the Austrian balance on current account deteriorated in the first three quarters of 1999. This was due, above all, to the balance of payment moving into deficit.

The winter season started well for tourism, with sales increasing by 3 percent during the last two months of 1999. Further developments will depend not only on the amount of snow, but also on possible reactions of foreign tourists to the political situation in Austria.

Consumer prices increased noticeably in recent months, with the rate of inflation reaching 1.4 percent in December (up from 0.5 percent over the year). More than half of the increase over the year before was accounted for by rising oil prices.

To a growing extent, the cyclical upswing is being felt on the labour market. Around the turn of the year, unemployment continued to decline despite the fact that fewer people were undergoing training. In January the total number of jobs exceeded the previous year's level by 34,000, while the number of registered unemployed fell by 22,000.

In connection with the formation of the new Federal government and the Lisbon decision of the 14 EU member states, calls for a boycott of the Austrian econ-

omy were voiced by some quarters. It appears that to date this concerns mainly travel to Austria and, in some instances, products from Austria, especially consumer goods. At the same time, the share prices of some Austrian companies dropped sharply. However, this may also be due to uncertainty regarding the practical implementation of the Coalition Agreement as far as budget consolidation is concerned. The actual impact of these reactions on the macro-economic development will depend, above all, on whether the situation remains tense or begins to relax within the foreseeable future. Accordingly, the economic climate will either stay favourable or, possibly, start to deteriorate. WIFO intends to assess the evolving situation in its revised cyclical forecast at the beginning of April.

ACCELERATING ECONOMIC ACTIVITY IN EUROPE

The mood of the European economy improved noticeably towards the end of the year. Industrial confidence rose substantially above the long-term average. An increase in consumer confidence was also noticeable. While consumers tend to be quite optimistic in

France, they are showing a more reserved attitude in Germany.

In the third quarter, the GDP of the European Union increased by 1 percent over the previous three-month period, which corresponds to a considerable acceleration of seasonally adjusted growth (second quarter: +0.6 percent). The previous year's level was exceeded by 2.3 percent.

In the USA economic growth picked up even more strongly than in Europe, up by 1.4 percent from the previous quarter, whereas Japan reported a seasonally adjusted drop by 1 percent.

In view of the strong economic expansion and an increasingly tight labour market in the USA, the Federal Reserve Board has to adopt a more restrictive monetary-policy course. Rising interest rates in the USA strengthen the dollar, unless the European Central Bank also decides in favour of higher interest rates. In February the ECB followed the Fed's course and increased interest rates by 0.25 percent. European monetary policy is faced with a dilemma, given the fact that the cyclical upswing has only just begun in the majority of European countries and the economy is far from overheating.

Cut-off date: 7 February 1999.