

SIGNS OF STABILISATION IN MANUFACTURING, DECLINE IN UNEMPLOYMENT

The most recent WIFO business survey indicates that the downturn in manufacturing is coming to an end. With exports remaining weak, domestic demand continues to be the engine of economic activity in Austria. The main factors are the persistent price stability, the rise in employment, and the favourable performance of tourism. In March and April, unemployment declined compared to one year earlier.

The April WIFO business survey recorded more favourable responses from manufacturing enterprises than earlier surveys. The cyclical position of manufacturing has worsened since spring of 1998 as a result of the economic and financial crises in Asia, Russia, and Latin America. Prices collapsed in several branches; exports declined markedly, and investors became nervous. In the second quarter of 1999, however, the business climate in the basic-goods sector, technical manufacturing, and consumer-goods sector ceased deteriorating. The outlook for prices improved somewhat, and production and sales expectations for the next few months remained stable. New export orders are still rather low. This is reflected in the foreign trade data, which record stagnating exports in the fourth quarter of 1998 and the beginning of 1999. On the other hand, there were also positive signals from abroad: the persistently strong economic activity in the USA, the improvement in the Ifo business climate index for Germany, and the ECB's interest rate cut.

Robust domestic demand has helped to stabilise economic activity in Austria. As a result of a rise in employment, higher wage settlements, and price stability – the inflation rate was only 0.1 percent according to the EU's Harmonised Index of Consumer Prices, 0.4 percent according to the national Consumer Price Index – the consumers' purchasing power rose significantly. In the fourth quarter of 1998, the net household income (including social transfers) exceeded the level of the corresponding period in 1997 by 2½ percent in real terms. The increase in disposable income induced a marked expansion of retail sales (adjusted for price changes +2 percent). The strength of the retail sector is also due to tourism, which recorded an excellent winter season: the number of overnight stays from November to March was about 7 percent higher than in the same period one year earlier; turnover rose by almost 8 percent. The improvement in the tourism balance (ATS +10 billion) together with the fall in prices of merchandise

All staff members of the Austrian Institute of Economic Research contribute to the Business Cycle Report.

imports made an important contribution towards lowering the deficit in the current account to ATS 54½ billion (–2 percent of GDP).

In the spring, unemployment declined slightly on a year-on-year basis. This was the result of two factors. The first factor is the hefty expansion in employment; in the first four months of the current year, dependent employment (excluding persons on parental leave and in military service) exceeded the level of the same period last year by 34,000. The employment losses in the construction industry and the stagnation in manufacturing were more than offset by the steep increase in the number of jobs in the service sector; most of the jobs created were part-

time jobs with below-average earnings, however. The second factor contributing to the improvement in the labour market is the intensification of training activities within the framework of the National Action Plan.

In April, the seasonally adjusted unemployment rate was 4.5 percent of the total labour force according to the EU Labour Force Survey, and 7.0 percent of the dependent labour force according to the traditional Austrian method of calculation. There were 8 persons looking for a job per each vacancy registered by the Labour Market Service.

Cut-off date: 5 May 1999.