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Cyclical Recovery Keeping a Moderate Pace so Far

For several months, business surveys have indicated a gradual but steady improvement of firms' expectations. Opinions on the current economic situation are also somewhat more upbeat in manufacturing and substantially more so in the construction industry. A turnaround on the labour market, however, is still slow in coming.

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The business cycle upturn in the USA is having positive spill-overs also for Europe. Real GDP in the euro area rose by 0.4 percent in the third quarter from the previous period. However, the appreciation of the euro is dampening the momentum of the revival of activity. While exports are heading up, they have not sparked-off a rebound in other demand components until last autumn. Private consumption in the euro area was lacklustre and investment weakened further, despite expectations clearly pointing upwards.

In Austria, business confidence of manufacturers has continued to improve, according to the WIFO business survey of January. Export orders and business expectations have been clearly upward bound since mid-2003, while output expectations were taken down somewhat in January following their previous strong increase. Particularly striking was the improvement in sentiment in the construction sector. While public infrastructure works have stimulated activity in civil engineering since 2002, residential construction also picked up markedly in the course of 2003.

Austrian exports are recovering but slowly, exceeding the year-earlier level by a mere 1½ percent in value from July to October. However, firms' growing optimism about export orders signals a stronger momentum towards the end of 2003. While deliveries to East-central and South-east Europe are booming, those to the dollar area are dampened by the high euro exchange rate.

Consumer demand remains subdued. Volume retail sales went up by around 1 percent year-on-year in the first ten months of 2003, and consumer confidence has remained flat over the last few months. Strong sales are recorded only for motor cars, boosted by the introduction of new models. Even stronger was the rise in new registrations of lorries, on account of the fiscal investment premium.

Latest price developments mirror the cyclical weakness and the rising euro exchange rate. Headline inflation stood at 1.2 percent in December. Although prices of traditional consumer goods went up much more strongly, this was offset by price cuts for electronic and optical equipment.

A turnaround on the labour market usually follows a revival of business activity with a lag of about six months. In January, the number of economically active people fell by 4,500 year-on-year, while the number of unemployed went up by 8,800.