

■ FIRST SIGNS OF CYCLICAL RECOVERY

Business surveys for the basic goods and the technical manufactures sector point to a cyclical recovery in Austria. This is consistent with an improvement in sentiment indicators for the USA and for the EU. No relief is yet in sight for the construction industry, although the order situation in civil engineering is markedly better than it is for the building sector. The labour market remains a cause for concern, with job losses accelerating and the number of unemployed significantly above the year-earlier level.

The WIFO business survey for the first quarter 2002 gives first hints to a recovery in manufacturing activity. Production expectations, which have steadily weakened since the second quarter 2000, are heading up for the first time, compared with the previous period. While firms in the basic goods and the technical manufactures sector have turned more confident, suppliers of construction materials and producers of traditional consumer goods do not yet see a turnaround.

The new information suggests that the export-oriented sector of the Austrian economy may pass the lower turning point of the business cycle in the current quarter, much in line with expectations embodied in the WIFO projections of last December. Actual figures for output and demand reaching until October/November of last year show declines for manufacturing production and for wholesale trade, and a marked deceleration in export growth. With the business climate in the USA and in Europe turning brighter, confidence may also grow among domestic companies.

In the USA, GDP remained broadly flat in the fourth quarter 2001 (with a seasonally-adjusted annualised rate of +0.2 percent in volume terms). Support to activity was provided mainly by car sales stimulated by major price cuts, and by public expenditure growing by 9 percent. Indicators point to a recovery of business and consumer sentiment from the low levels recorded in September and October. According to business surveys in the EU, industrial and consumer confidence strengthened in France, Sweden and Ireland to a greater extent than in other EU countries. A slump in business confidence was registered only in the U.K. In Germany, the ifo business climate index shows an improvement for the outward-oriented sector of the economy, while continued sluggish domestic demand acts as a drag on overall activity.

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

In Austria, manufacturing production and exports were marked by cyclical weakness until autumn 2001, while tourism took a good start into the winter season, following up on the gains achieved last summer: earnings rose by 7 percent year-on-year in November/December, overnight stays by 5 percent.

Domestic demand, on the other hand, remains weak. Retail sales fell by an inflation-adjusted 1½ percent in the third quarter and in November 2001; excluding the volatile component of food items, they barely increased. Demand for durable goods, especially motor cars, was lacklustre. Construction output dropped by 7 percent in nominal terms below the year-earlier level last September. This is reflected in a slump in construction employment and a sizeable increase in unemployment, that has gained momentum during the winter months. The WIFO business survey suggests that in civil engineering the situation will improve over the current year, owing to additional public expenditure on infrastructure; little relief is in sight, however, for building activity, given the saturation of demand for new homes as well as for office space. Thus, the employment situation in construction is set to deteriorate further.

The cyclical weakness of the second semester 2001 is reflected on the labour market with the usual time lag. Demand for new labour has slackened steadily over the last months, with employment (excluding people in military service and on parental leave) in January falling clearly (-11,000) below the year-earlier level. Apart from construction, job losses are particularly high in some branches of manufacturing industry (textiles, apparel, wood, furniture, paper), as well as in transport, telecommunication and in the public sector. Unemployment has been on the rise since May 2001 and reached 298,000 in January, 40,000 more than one year ago. The seasonally-adjusted rate of unemployment, on Eurostat definitions, climbed to 4.3 percent of the labour force.

Inflation decelerated markedly in December, largely on account of lower energy prices, while prices of health services, food and beverages jumped. The harmonised consumer price index was 1.8 percent up from end-2000 (+1.9 percent for the CPI). In several European countries inflation picked up from December to January; evidence for Austria in this regard will only be available towards the end of February.

Cut-off date: 5 February 2002.

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