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Recent Economic Developments in Austria:
December 1963-February 1964

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Summary

The Austrian economy, still buoyed primarily by vigorous consumer demand, advanced further in the final months of 1963, and GNP growth for the year--at 4 per cent--was double the gain in the previous two years. ^{1/} Investment demand continued to lag, though currently not exerting a depressive influence, and a year-end survey of business intentions by the Austrian Institute for Economic Research indicated some cutback in capital investment in 1964. However, the Institute predicted a somewhat higher over-all growth rate in 1964, chiefly on the assumption of sustained strong consumption demand and continued export growth.

Despite continued uncertainty on the price-wage front, developments in 1963 appear to have brought the labor market into better balance. Industrial wage rates rose by about 6 per cent last year, but industrial productivity gains appear to have matched this increase (by contrast with 1962, when wages also rose but productivity increased very much less) primarily because of shifts of labor, through dishoarding, from industries faced with declining demand to more buoyant sectors. In addition, last year's productivity gains served to restrain upward price pressures and consumer prices rose only moderately. Finally, toward the end of the year the conclusion of some wage agreements for major industries for relatively long periods--18 and 20 months--suggests that there will be no renewed wage push in the period immediately ahead.

Despite an improvement in the fourth quarter, Austria's foreign trade deficit for 1963--at \$350 million--was one-fifth above 1962, and the balance of

^{1/} Earlier Austrian developments are discussed in "Recent Economic Developments in Austria, August-November 1963," dated December 27, 1963.

payments surplus declined by one-third. Even so, official reserves rose \$136 million or 13 per cent during 1963 and the Nationalbank continued to buy gold in order to raise the proportion of gold in total reserve holdings.

Austrian growth rate up in 1963

Austria's Gross National Product, in real terms, increased 4 per cent in 1963--double the 2 per cent growth rate of 1962 and 1961--as continued expansion from spring onward more than compensated for the effects of the very harsh winter on output in the first quarter. Industrial production was up 4 per cent over the previous year. Building volume grew 7 per cent, on a year-to-year basis, during the second and third quarters, and mild weather allowed it to continue strong into the winter season. Gross agricultural receipts, in constant prices, are expected to exceed 1962 by roughly 6 per cent.

Heavy consumer demand, supported by continuous full-employment and high incomes, and a high rate of building starts were the predominant expansionary factors throughout the year. Consumer goods production in January-November was 7.6 per cent above a year earlier, and in November alone it increased 12 per cent above the November 1962 level. (See Table 1.) Also in November, a sharp rise in purchases to replenish depleted inventories drove the production of primary materials up 19 per cent above a year earlier. Capital goods demand, however, failed to keep pace with the year's increased economic activity; in January-November production of producers' goods about equalled that of the same period in both 1962 and 1961. Machinery and rolled steel production, suffering from shrinking profits and reduced foreign demand, managed to hold its own during the year, but crude steel and pig iron production were down slightly from 1962.

Table 1. Austria: Industrial Production
(year-to-year percentage increases)

| <u>Period</u> | <u>Total</u> | <u>Industrial Groups</u> | | |
|-----------------------|--------------|---|--------------------------|---------------------------|
| | | <u>Mining and Primary Materials</u> | <u>Capital Goods</u> | <u>Consumer Goods</u> |
| <u>1962</u> | | | | |
| IV | +2.7 | +2.2 | -0.6 | +4.1 |
| October | +3.5 | +1.4 | +0.3 | +4.3 |
| November | +4.1 | +5.3 | +2.9 | +3.2 |
| December | +0.9 | -0.7 | -5.2 | +5.2 |
| <u>1963</u> | | | | |
| I | +1.6 | +1.3 | -5.8 | +6.1 |
| II | +5.2 | +2.1 | +0.8 | +10.5 |
| III | +4.4 | +4.8 | 0.0 | +9.0 |
| July | +3.5 | +4.3 | -2.3 | +10.1 |
| August | +5.0 | +6.1 | +2.2 | +8.9 |
| September | +4.8 | +4.1 | +0.1 | +8.0 |
| October | +5.3 | +4.4 | +2.4 | +7.8 |
| November | +10.3 | +19.0 | +5.8 | +12.1 |
| January-November 1963 | +4.1 | +4.3 | 0.0 | +7.6 |
| January-November 1962 | +3.0 | +2.6 | 0.0 | +4.0 |

1/ Adjusted for working days.

Source: Oesterreichische Nationalbank, Mitteilungen.

Some commentators have doubted that the increased economic activity in late 1963 is the forerunner of a longer-term upswing, arguing that it resulted from a combination of special and seasonal factors. This skepticism, rooted in the economy's lagging investment, is supported by the findings of the annual year-end survey of the Austrian Institute for Economic Research, which covers 1,500 firms with total employment of about one-half million, or roughly one-fifth of Austria's labor force. Only one quarter of the firms surveyed indicated any plans to increase expenditures on plant and equipment in 1964, one-half planned to spend less, and the other fourth planned to keep capital expenditures at their 1963 level. Most of the new investment will be for rationalization purposes; only about 27 per cent will go to increase capacity.

However, the Institute itself takes a rather optimistic view of 1964 and predicts a rate of growth between 4 and 5 per cent, somewhat higher than in 1963. Its prediction depends heavily on continuing strong private and public consumer demand and on an increased level of exports, which assumes that continued expansion elsewhere in Europe will spill over into the Austrian economy.

Labor market moves into improved balance

Although labor was scarce in 1963, the labor market was relatively less strained than in the previous year. The jobless rate rose slightly from 2.9 per cent of the labor force in 1962 to 3.2 per cent in 1963, as employment remained constant while the labor force expanded a little. (See Table 2.) In recent months, widespread labor hoarding declined as industries facing declines in demand reduced output and released manpower to the market. Vacancies were up for the year, but not enough to keep their ratio to unemployment from falling. Fourth-quarter employment was down seasonally from its summer peak, although not as much as in

1962. As the year closed, the economy's increased vigor and the milder weather combined to push employment up by some 16,000 over the previous year-end.

Table 2. Austria: Labor Market, 1962-1963
(end-of-month figures)

| | 1 9 6 2 | | 1 9 6 3 | | | Monthly Averages | |
|---|---------|------|---------|------|------|------------------|------|
| | June | Dec. | June | Nov. | Dec. | 1962 | 1963 |
| Labor force (millions) | 2.40 | 2.42 | 2.42 | 2.44 | 2.44 | 2.41 | 2.42 |
| Employment (millions) | 2.35 | 2.31 | 2.36 | 2.38 | 2.33 | 2.34 | 2.34 |
| Unemployment (thousands) | 50 | 109 | 65 | 61 | 106 | 71 | 79 |
| Unemployment as per cent of labor force | 2.1 | 4.5 | 2.6 | 2.4 | 4.3 | 2.9 | 3.2 |
| Vacancies (thousands) | 76 | 47 | 81 | 60 | 49 | 64 | 66 |
| Vacancies as per cent of unemployed | 152 | 43 | 125 | 98 | 46 | 90 | 84 |

Sources: Oesterreichische Nationalbank, Mitteilungen.

Austria's labor force has stayed relatively stable for the past few years and the labor needs of the expanding sectors of the economy have been met by shifting labor between and within the sectors of the economy. As in previous years, agriculture released 6 per cent of its labor force during 1963, mostly to the service sector. Industrial employment, which has posted annual increases since 1959, declined by 1.5 per cent during the first eleven months of 1963 even though industrial production went up by 4 per cent. This resulted primarily from industrial labor dishoarding, which was one of the causes of the sharp increase of between 5 and 5-1/2 per cent in industrial productivity in 1963. (See Table 3.)

Table 3. Austria: Industrial Production, Employment and Productivity

(percentage change from previous year or like period of previous year)

| | <u>1961</u> | <u>1962</u> | <u>1963</u> | | | |
|--------------|-------------|-------------|-------------|-----------|------------|-----------------|
| | | | <u>I</u> | <u>II</u> | <u>III</u> | <u>Jan-Nov.</u> |
| Production | +4.6 | +2.3 | +0.9 | +4.7 | +3.8 | +4.0 |
| Employment | +2.7 | +1.1 | -0.4 | -1.5 | -1.9 | -1.5 |
| Productivity | +1.9 | +1.3 | +1.3 | +6.3 | +5.8 | +5.5 |

Source: Monatsberichte des Oesterreichische Institutes Fuer Wirtschaftsforschung and Oesterreichische Nationalbank, Mitteilungen.

Prices and wages continue upward

The increase in industrial productivity during 1963 helped to relieve pressures on prices in Austria's full-employment economy. Average consumer goods prices for the year rose 2.7 per cent above 1962 levels, compared with increases of 4.4 per cent in 1962 (a recent high) and of 3.6 per cent in 1961. (See Table 4.) During the fourth quarter of 1963, however, consumer prices advanced to a level about 4 per cent above the previous year, partly because of increases in certain regulated retail prices. The average monthly index of wholesale prices dropped by 1.6 per cent in 1963. The index was below 1962 throughout the first three quarters of the year but it rose by 2 per cent in the fourth quarter, probably because of sharply increased demand for basic materials as inventories were restocked.

Table 4. Austria: Selected Wages and Price Indices, 1962-1963
(1958 = 100, month or monthly averages)

| <u>Date</u> | | <u>Consumer Prices</u> | <u>Wholesale Prices</u> | <u>Net wage rates</u> ^{1/} |
|-------------|------|------------------------|-------------------------|-------------------------------------|
| 1962 | Year | 111.4 | 109.7 | 125.5 |
| | I | 109.6 | 107.2 | 122.6 |
| | II | 113.2 | 111.4 | 125.6 |
| | III | 111.9 | 111.7 | 127.3 |
| | IV | 110.8 | 107.2 | 127.3 |
| 1963 | Year | 114.4 | 107.9 | 132.9 |
| | I | 113.0 | 106.9 | 127.3 |
| | II | 115.2 | 109.4 | 130.4 |
| | III | 114.3 | 105.6 | 134.1 |
| | IV | 114.9 | 109.5 | 139.9 |
| | Nov. | 115.3 | 108.4 | 139.9 |
| | Dec. | 115.6 | 111.5 | 139.9 |

^{1/} Male workers, industry and handicraft in Viennese region only.

Source: Oesterreichische Nationalbank, Mitteilungen.

For the first time in recent years, wage increases in 1963 were held about even with the increase in labor productivity. The monthly average of the index of wages for male workers in industry and handicrafts in the Viennese region ended 1963 some 6 per cent above 1962; this matched the increase in industrial productivity and was about the same as in 1962, when productivity rose very little. A rush of wage increases in the fourth quarter pushed the year-end wage index to a level about 10 per cent above the previous year-end. (See Table 4.) Following gains made by the Metal and Mine Workers' Union in a labor contract effective in October, manual workers in the chemical, wood processing, textile and clothing, as well as in the brewing and baking industries obtained wage increases. White collar workers in many industries and trades and sales clerks gained raises of about 7 per cent, while

federal, provincial, and municipal employees received wage increases of about 9 per cent. Approximately three-fourths of Austria's employed labor force received wage and salary increases during 1963, most of them in the latter half of the year.

Price-wage prospects for 1964 are difficult to judge, and even the Austrian Institute for Economic Research was hesitant to make any predictions in its year-end forecast. However, the Institute does not expect a major wage drive in 1964 like the one that developed in the second half of 1963, since some of the 1963 contracts were negotiated for 20 months and will not come up for renewal until 1965 or later. The slower rate of price increases evident in 1963 could indicate the economy's ability to maintain price stability even with growing production, i.e., to increase productivity at the necessary rate. On the other hand, prices tended to rise a bit faster again towards the end of 1963, and this tendency could continue into 1964, especially if it were supported by increased demand.

Demand for commercial credit above seasonal level

The faster business expansion in the fourth quarter placed heavier-than-seasonal demand on the banks for new credit and cash. Bank commercial credit was up \$78 million during the period to \$2.58 billion at year end, 12 per cent above 1962 year end. A more-than-seasonal increase of \$54 million during November alone was caused by a combination of credit demand to finance, in addition to the Christmas trade, also increased exports and new inventory build-up. Money volume (bank notes in circulation and sight deposits) for the quarter was up \$36 million to a year-end level some \$130 million over 1962. Even though consumer demand was above its seasonal level in the quarter, savings deposits increased \$38.5 million, exclusive of \$65.4 million in capitalized interest payments, to a year-end level 10 per cent greater than 1962. The banking system's liquidity, however, was maintained for the quarter as banks decreased funds held abroad by \$37 million.

In a move to stimulate business investment, the Austrian Finance Ministry and the Austrian Nationalbank agreed in January to eliminate the 60 per cent minimum liquidity ratio against new deposits in effect since August, 1962. The banks will continue to be subjected to an over-all credit ceiling of 75 per cent of their own resources and 70 per cent of deposits, and foreign deposits received after January 1 cannot be included in computing the ceiling. This relaxation of credit control is expected to increase the credit ceiling as of last September by 8.5 per cent or \$69.2 million.

The Federal Government dominated the bond market during 1963 as in past years; it went to the market for \$100 million or 73 per cent, of the market's total lending, with electric power authorities taking most of the remainder. Continuing a practice which for the year resulted in one-fourth of the bonds sold being placed directly with the credit institutions, the government again in November placed \$13 million worth of 6-1/4 per cent bonds (1/4 percentage point below the last federal loan in September) directly with institutions. This was in lieu of the dollar loan that was expected in London but cancelled because of "unfavorable" market conditions. However, an \$18 million loan was floated in London in January, \$4 million of which was offered for subscription in the Austrian market. This issue carried a 6 per cent coupon. Since long-term rates have continued to move lower in the Austrian market, the new \$385 million federal loan the government has announced for early March carries a 6 per cent coupon, also, and although it is sold at a discount of 3 per cent instead of the usual 1.5 per cent, this coupon rate will be the lowest on a government issue in the past six years.

The stock market suffered from the political indecision of the year in general and, in particular, from the failure of the Parliament to enact several

capital market promotion bills on which the market had counted. During the first eleven months of 1963, the book value of share turnover on the Vienna exchange was only one-third that of the same 1962 period. Stock prices were down 11 per cent at the year-end from 1962, and 36 per cent below the February, 1962 peak.

Foreign trade deficit up for year as imports grow

In 1963 imports rose by 8 per cent while exports increased by 4.8 per cent, resulting in a foreign trade deficit about one-fifth larger than in 1962. (See Table 5.) A fourth-quarter pick-up in exports, mainly of consumer goods, particularly to the Common Market, helped compensate for the large cumulative first-half-year deficit, which was 50 per cent above the previous year. The October through December trade deficit was 7 per cent below the comparable 1962 level.

Table 5. Austria: Foreign Trade, 1962-1963
(Seasonally adjusted, in millions of U. S. dollars, month or monthly average)

| Quarter | <u>Imports^{a/}</u> | | <u>Exports^{a/}</u> | | <u>Balance</u> | | <u>Exports as % of Imp</u> | |
|---------------|-----------------------------|-----------------|-----------------------------|-----------------|----------------|----------------|----------------------------|----------------|
| | <u>1962</u> | <u>1963</u> | <u>1962</u> | <u>1963</u> | <u>1962</u> | <u>1963</u> | <u>1962</u> | <u>1963</u> |
| I | 124 | 135 | 103 | 106 | -21 | -29 | 83.1 | 77.8 |
| II | 127 | 141 | 105 | 110 | -22 | -31 | 82.7 | 78.7 |
| III | 131 | 140 | 106 | 111 | -25 | -29 | 80.9 | 78.7 |
| IV | 136 | 141 | 108 | 116 | -28 | -25 | 79.4 | 81.7 |
| Annual Totals | 1,552 | <u>b/</u> 1,675 | 1,264 | <u>b/</u> 1,325 | -258 | <u>b/</u> -350 | 81.4 | <u>b/</u> 79.1 |

a/ Exports, f.o.b.; Imports, c.i.f.

b/ Preliminary figures.

Source: OECD.

Austrian exports to the Common Market seem to have remained price competitive in face of the intra-market tariff reductions effected six months ago. From July to November, 1963 exports to the Common Market were actually up more than 5 per cent over the comparable period of 1962; but exports to Germany (Austria's main trading

partner) decreased 2 per cent over the same period. The largest gain was in exports to France--38 per cent above July-November, 1962. However, the increase in the European Coal and Steel Community's external tariffs for steel, which became effective on February 15, could cut into Austrian exports to the Common Market if the current negotiations aimed at tariff quotas for Austrian steel are not successful; Austria is only a marginal supplier of steel to the Market.

Recent trade liberalization measures will put Austrian producers, still highly protected, under increased strain to maintain competitive postures; the measures are also expected to stimulate imports during 1964. On January 1 a selected list of goods entering into trade with GATT countries was freed from import quotas, raising Austria's import liberalization quota from 95 per cent to 97 per cent. All remaining quantitative restrictions are scheduled for elimination this year. In addition, another 10 per cent cut in internal EFTA duties for industrial goods became effective January 1. This cut brings duties on imports from EFTA countries to 40 per cent of their base level on January 1, 1960.

Fourth quarter balance of payments deficit reduces year's surplus

Austria's balance of payments surplus, at \$156 million for the year, was down \$80 million--about one-third--from 1962. (See Table 6.) An increase of 12 per cent in net receipts from travel and other services was more than offset by the 23 per cent increase in the trade deficit. Net unilateral receipts, a large item in the 1962 surplus, were down sharply as German indemnification payments for the year were decreased and nonresident compensation payments rose. Net capital receipts (including errors and omissions) were also down from the year earlier.

Table 6. Austria: Balance of Payments, 1962-63
(in millions of U.S. dollars)

| | 1962 | | 1963 | | | | |
|-------------------------------------|---------|-------|---------|--------|-------|--------|-------|
| | Year | IV | Year | 2/ I | II | III | IV 2/ |
| Goods and Services | | | | | | | |
| Exports | 1,551.8 | 337.0 | 1,334.5 | 300.8 | 336.2 | 335.5 | 362.0 |
| Imports | 1,272.8 | 423.6 | 1,676.7 | 404.0 | 420.2 | 410.5 | 442.0 |
| Trade Balance | - 279.0 | -86.6 | - 342.1 | -103.2 | -84.0 | -75.0 | -80.0 |
| Travel Balance | 280.3 | 29.4 | 313.6 | 52.8 | 68.4 | 157.9 | 34.4 |
| Other Services | | | | | | | |
| Balance | 18.8 | - 3.8 | | 8.6 | 12.3 | 9.0 | |
| Total Goods and Services Balance | 20.1 | -61.0 | | -41.8 | - 3.3 | 91.9 | |
| Unilateral payments (net) | 63.5 | 39.2 | | 2.5 | 4.4 | 2.9 | |
| Capital Transactions | | | | | | | |
| Receipts | 246.7 | 83.7 | | 57.3 | 65.3 | 102.3 | |
| Payments | - 135.0 | -60.5 | | 38.8 | 30.5 | 37.7 | |
| Capital Transactions Balance | 111.7 | 23.2 | | 18.5 | 34.8 | 64.6 | |
| Errors and Omissions | 39.8 | 12.1 | | 28.4 | - 2.7 | - 3.6 | |
| Surplus (+) or Deficit (-) | 235.1 | 13.5 | 155.6 | 7.6 | 33.2 | 155.8 | -40.0 |
| Financed by: | | | | | | | |
| Drawing rights on IMF (increase -) | - 7.5 | -- | - 11.0 | -- | -- | -- | -11.0 |
| Miscellaneous Capital (net) 1/ | - .6 | 3.9 | - 7.9 | -17.8 | 1.6 | -52.7 | 61.2 |
| Austrian National Bank (increase -) | | | | | | | |
| Foreign Exchange | - 77.6 | 17.2 | - 54.1 | 40.3 | -14.8 | -103.0 | 23.2 |
| Gold | - 149.4 | -34.6 | - 82.6 | -30.1 | -20.1 | - 0.1 | -32.4 |
| Total | - 235.1 | -13.5 | - 155.6 | - 7.6 | -33.2 | -155.8 | 41.0 |

1/ Includes sums in the process of clearing plus foreign exchange assets of Austrian credit institutions minus freely useable schilling assets of foreigners.

2/ Preliminary.

Source: Oesterrichische Nationalbank, Mitteilungen; IMF, International Financial Statistics.

The fourth quarter balance was \$41 million in deficit in contrast to the fourth quarter of 1962 which had a \$14 million surplus. This difference was largely due to the decline in net unrequited receipts; the trade deficit was down and the travel surplus was up in the 1963 October-December period from 1962.

Official reserves up for the year

Approximately 90 per cent of the year's balance of payments surplus was reflected in an increase of \$136 million (13 per cent) in Austria's official holdings of gold and foreign exchange. (See Table 7.) The Nationalbank bought \$54 million in monetary gold during the year, raising the ratio of gold to total reserves from 43 to 45 per cent. During the fourth quarter, total official holdings increased only \$8 million, and \$24 million of foreign exchange was converted into gold. The gold acquisition continued into the new year with the purchase of \$11 million in January.

Table 7. Austria: Official Gold and Foreign Exchange Reserves, 1962-63
(end of period, in millions of U. S. dollars)

| | | <u>Gold</u> | <u>Foreign Exchange</u> | <u>Total</u> | <u>Change</u> | <u>Gold as % of Reserves</u> | <u>Exchange rate Par value: 3.846</u> |
|----------|-----|-------------|-------------------------|--------------|---------------|------------------------------|---------------------------------------|
| 1962 | IV | 454 | 601 | 1,055 | + 18 | 43 | 3.865 |
| 1963 | I | 484 | 561 | 1,045 | - 10 | 46 | 3.864 |
| | II | 504 | 576 | 1,080 | + 35 | 47 | 3.868 |
| | III | 504 | 679 | 1,183 | +103 | 43 | 3.867 |
| | IV | 536 | 655 | 1,191 | + 8 | 45 | |
| October | | 515 | 649 | 1,164 | - 19 | 44 | 3.861 |
| November | | 525 | 618 | 1,143 | - 21 | 46 | 3.861 |
| December | | 536 | 655 | 1,191 | + 48 | 45 | 3.865 |

Source: IMF, International Financial Statistics.

The Austrian government recently approved Austria's accession as the eleventh member of the "Club of Ten," which agreed in December, 1961 to provide, if required, the International Monetary Fund with credit facilities up to a total of \$6,000 million over and above their regular contributions. Austria's subscription to this agreement is \$100 million. Austrian accession, however, has not yet been approved by the "Club."