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Economic Developments in Austria
May-August 1963 15 pages

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Economic Developments in Austria, May-August 1963

Summary

Economic activity in Austria quickened after a slow first quarter;^{1/} but when the effects of the rebound from last winter's reduced levels of output had worn off, the economy again settled down to a slower rate of expansion. Gross national product in real terms increased by an estimated 5 per cent in the second quarter and is expected to grow by 3 - 4 per cent in the second half of this year.

At present, consumer demand, stimulated by the continued growth in wage incomes at relatively high levels of total employment, continues to be the principal expansionary factor in the Austrian economy. Lagging investment demand is the main retarding factor, but recently export demand has also slowed down. The investment outlook continues to be uncertain. Rising costs are putting pressures on profits, but, on the other side, the bank rate reduction which became effective at the end of June and other Government measures are helping to reduce borrowing costs.

Consumer prices moved higher during 1963, though more moderately than in preceding years. Thus far, wholesale prices have been relatively stable. The consumer price increases in basic foods, however, have led to further wage demands. The authorities are concerned over inflationary price and wage pressures, and another wage-price freeze may be in the offing. The last standstill agreement on wages and prices was allowed to expire on January 24, 1963.

On the external side, an enlarged trade deficit and reduced growth in service receipts brought the balance of payments surplus for the first half of 1963 much below the comparable figure for 1962. The export outlook has been affected by the further reduction on July 1 in the internal tariffs of the

^{1/} See "Recent Economic Developments in Austria, January to April 1963," June 28, 1963.

Common Market countries, which account for half of Austria's exports. On the same date, Austria liberalized imports to help reduce domestic price pressures.

With the lower payments surplus, net gold and foreign exchange holdings of the Austrian National Bank rose by \$25 million between January and June but, with the onset of the tourist season, climbed by an additional \$97 million in July and August. Capital transactions were recently liberalized to encourage borrowing abroad to help reduce Austrian interest costs.

Economic growth slows

After rapidly recovering from the effects of the severe winter, economic activity in Austria appears again to be growing slowly.

The Gross National Product, which rose by only 1 per cent in the first quarter compared with a year earlier, increased an estimated 5 per cent in the second quarter. Much of this faster growth reflected recovery of output losses during the winter, especially in construction. The Austrian Institute for Economic Research now estimates that aggregate output in real terms will grow by between 3 to 4 per cent in 1963 as compared with a growth of 2.3 per cent in 1962. This implies a somewhat slower rate of growth in the second half of the year than during the spring, but a slightly faster rate of expansion than in 1962.

Lagging investment demand continues to be the major retarding factor in the Austrian economy. The reduction in the discount rate in June, aimed at bringing down the entire interest rate structure, appears to have had little effect on investment demand so far. As long as long-term prospects for further expansion remain doubtful, lower credit cost will evidently have little effect. The current uneasy state of the Government coalition clouds the economic outlook.

Recently export demand has also slowed down. The current virtual stagnation of industrial output reflects these lagging factors. (See Table 1, Page 4) The industrial

production index, after seasonal adjustment, remained level through the spring, registered a momentary spurt in June and seems to have fallen back again in July.

Industrial output has been sustained at a high level mainly under the stimulus of continued lively demand for consumer goods. Consumer goods output grew 7 per cent in the first seven months of 1963 as compared with the corresponding period of 1962, while total industrial production was up only 3 per cent.

However, this growth in output was accompanied by increasing productivity and declining industrial employment. Output per manhour was 7 per cent higher in the second quarter of 1963 than a year earlier, producing the first fall in unit labor costs for some time. (See Table 2, Page 4) However, this improvement may be only temporary since wage demands are currently being pressed vigorously.

Table 1. Austria: Industrial Production, 1962--July 1963
(Index numbers, 1953=100, seasonally adjusted
month or monthly average.)

1962	I	192	1963	Jan.	193
	II	189		Feb.	197
	III	193		March	196
	IV	193		April	196
1963	I	195		May	196
	II	199		June	206
				July	197 E

E - estimated

Source: OECD

Table 2. Austria: Change in Unit Labor Costs 1962--June 1963
(Percentage change over corresponding period preceding year)

	<u>1962</u>				<u>1963</u>	
	<u>I</u>	<u>II</u>	<u>III</u>	<u>IV</u>	<u>I</u>	<u>II</u>
Hourly earnings ^{1/}	+9	+9	+9	+7	+5	+6
Output per hour	+5	+4	+4	+5	+3	+7
Wage costs	+4	+6	+5	+2	+2	-1

1/ Male workers, industry and handicraft, Viennese region only.

Source: Oesterreichische Nationalbank, Mitteilungen

Labor market tightens, wages and prices trend upward

With the increase in economic activity during the summer months, the labor market situation tightened again. Workers released by industry and agriculture were readily absorbed by the services sector, and by August, unemployment was reduced to 2 per cent of the labor force, about the same as a year ago level. (See Table 3, Page 6.) At the same time job vacancies increased; in August there were 1.6 vacancies for each person unemployed.

With the tighter labor situation, wage demands are currently being pressed vigorously. With the threat of rising wage costs putting pressure on prices, the Federal Chamber of Commerce has proposed a wage and price freeze until mid-1964. This proposal has been supported by the Minister of Commerce; the unions appear to believe that it will be implemented shortly. Price increases recently announced for major food items, 1/ have increased labor's feeling that higher wages are justified.

The index of minimum wage rates paid in the Viennese region, (stable through March of this year while the wage-price freeze was in effect) rose by 2 per cent in the second quarter and by a further 3 per cent in July. (See Table 4, Page 6.) The main increases were a 10-14 per cent rise in construction workers' minimum wages and an 8 per cent raise for dairy workers. In September metal workers' minimum wages were increased between 8 - 12 per cent, and further wage demands are pending.

Consumer prices rose 1.6 per cent in the second quarter primarily because of higher prices for certain basic foods such as sugar, milk and milk

1/ The latest increase in bread and flour prices alone has raised living costs by 1 per cent.

Table 3. Austria: Labor Market, 1962 - Aug. 1963

	1962		1963			Averages Jan. - Aug.	
	Jan.	Aug.	Jan.	Apr.	Aug.	1962	1963
Labor force (millions)	2.40	2.44	2.41	2.38	2.45	2.40	2.41
Employment (millions)	2.27	2.39	2.26	2.33	2.40	2.33	2.33
Unemployment (thousands)	136	47	151	57	49	75	86
Unemployment as per cent of labor force	5.6	1.9	6.2	2.4	2.0	3.1	3.6
Vacancies (thousands)	50	74	46	71	76	67	67
Vacancies as per cent of unemployed	37	157	30	125	155	89	78

Source: Oesterreichische Nationalbank, Mitteilungen.

Table 4. Austria: Selected Wage and Price Indices, 1962 - August 1963
(1953=100, month or monthly averages)

	1962				1963			
	I	II	III	IV	I	II	July	August
Consumer prices	124	128	127	125	128	130	130	128
Wholesale prices	120	123	124	119	118	121	118	117
Net wage rates <u>1/</u>	148	152	154	154	154	157	162	162

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

Source: Oesterreichische Nationalbank, Mitteilungen.

products. In August, prices fell back seasonally to the first quarter level. For the first eight months of the year consumer prices were up 2.4 per cent on a year-to-year basis, somewhat less than half the rate of increase registered in 1962.

Wholesale prices have been relatively stable so far in 1963. Prices for foodstuffs increased in the second quarter, but fell back again in July and August. Prices for industrial materials showed a continuing slight upward tendency. For the first eight months of 1963 they were less than 1 per cent above the corresponding 1962 level.

Financial markets continue easy

The relatively high degree of bank liquidity which characterized the early part of the year continued throughout the summer, when the general credit ease was reinforced by seasonal factors. Credit expansion was relatively moderate, although commercial loans extended by credit institutions increased somewhat faster than earlier this year; they rose by AS 2.7 billion between April and August, 1963 as compared with an increase of AS 2.1 billion registered from the beginning of the year to April. More importantly, the recent increase in credit expansion occurred almost entirely in the commercial banking sector, which supplies the bulk of investment credits, a development which may suggest an improved investment picture.

Despite the quickening economic activity during the summer and the slight increase in credit expansion, lending institutions continued to gain excess reserves as their lending activity remained well below the credit ceiling. In August loans outstanding were 9 per cent, or AS 4.2 billion, below the ceiling.

Interest rates lower

The reduction from 5 to 4-1/2 per cent in the discount rate on June 27 was followed by comparable reductions in interest rates on credits extended

under existing credit control agreements, as well as for other credits which are linked to the discount rate, such as export promotion credits. In addition, credit institutions agreed to reduce the costs of commercial credits for business purposes to a maximum of 9 per cent per annum.

The liberalization of foreign exchange controls, which accompanied the bank rate reduction, may also help to lower the interest rate structure. Under the new measures, Austrian credit institutions can place short and medium-term funds abroad; in the fall, after the heavy influx of foreign exchange connected with the tourist season has abated, they will also be able to raise such funds abroad. In addition, facilities for lending to and borrowing of commercial, investment and mortgage funds from non-residents have also been made easier. However, three of the five Capital Market draft laws, which would mainly have provided certain tax incentives for capital formation by private businesses, have been rejected by the Parliamentary Budget and Finance Committee, after having been approved by the Cabinet. Of the laws that were enacted, one provided for a reduction in current depreciation rates, which may have a further dampening effect on investment activity.

Efforts to reduce the high interest rate structure appear to be a basic policy of the Austrian authorities. To this end, they appear to be willing to permit an influx of foreign funds at a time of domestic inflationary pressures.

Lower yields in bond market

The bond market continues to be dominated by public issues. In line with the bank rate reduction, the Federal Government offered an AS 1.0 billion issue in September with a 6.5 per cent coupon, compared with a 6.75 per cent coupon on an AS 0.75 billion loan floated in the spring. In addition, the Government is raising AS 0.25 billion in a bond issue which will be sold to the savings banks.

The Government originally intended to raise only AS 1.5 billion in the domestic market, and to borrow AS 1.0 billion abroad, in order to meet its 1963 financing requirements. But rising borrowing costs abroad, the lowering of domestic costs, the ready availability of funds at home and, possibly, the announcement of the proposed U. S. interest equalization tax, have induced them to raise a larger proportion of the requirement domestically.

When the financial requirements of the other public bodies are also taken into account, domestic long-term public bond issues contemplated for the second half of 1963 are estimated at about AS 2.0 billion. This compares with AS 1.45 billion in public issues marketed during the first half of the year. Foreign participation, which was heavy in earlier issues, is expected to continue into the fall. The Austrian stock market, reflecting the economic uncertainties prevailing throughout the year, has been rather depressed and values have consistently treaded downward. However, in August there appears to have been some improvement.

Trade deficit widens; export demand slows

After rising vigorously in the spring, exports stayed at a high level through June, fell back in July, and do not appear to have picked up since. (See Table 5, Page 10) Austrian exports (half of which go to Common Market countries) were made less competitive in the EEC when internal tariffs were reduced on July 1. In addition, Austria is only a marginal supplier for some important exports, such as steel, and therefore particularly sensitive to changes in its competitive position in world markets.

At this time, the Austrians are seeking to obtain a settlement with the Coal and Steel Community, especially now that Germany may raise its "external" tariffs for steel to the level of the Italian tariffs. It had been thought that

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

		<u>Exports,</u> <u>f.o.b.</u>	<u>Imports,</u> <u>c.i.f.</u>	<u>Balance</u>	<u>Exports as</u> <u>% of imports</u>
1962					
	I	102	124	-22	82.3
	II	107	127	-20	84.3
	III	105	132	-27	79.5
	IV	109	137	-28	79.6
	June	106	130	-24	81.5
	July	106	130	-24	81.5
	August	99	133	-34	74.4
1963					
	I	105	135	-31	77.8
	II	111	141	-30	78.7
	May	111	136	-25	81.6
	June	111	136	-25	81.6
	July	106	136	-30	77.9
	August	<u>e/</u> 106	<u>e/</u> 136	<u>e/</u> -30	<u>e/</u> 77.9

e/ Estimate.
Source: OECD.

Austria's arrangements with the ECSC could have been part of broader discussions about association with the EEC. These talks, conducted in Brussels during the summer, have been singularly unsatisfactory. But the Austrian export difficulties following the internal tariff cuts in the Community in July may help speed up some action. However, the Austrians apparently would like to work out an association with the EEC, while continuing to remain a member of EFTA.

Austrian imports, after seasonal adjustment, have been stable since May. Since exports have fallen since then, the trade deficit has widened. On July 1 import liberalization measures affecting some 130 tariff items and an increase in global quotas for non-liberalized commodities, became effective; they were designed to help reduce domestic inflationary pressures. The recent stability in imports may reflect the slowdown in the growth in industrial output.

Balance of payments surplus smaller

The Austrian balance of payments surplus was reduced from \$97 million to \$41 million between the first half of 1962 and the first half of 1963, as the result of a growing deficit on trade balance. (See Table 6, Page 12) In addition, earnings on service account which had been growing rapidly grew more slowly. Consequently, the balance on goods and services registered a deficit of \$45 million during the first half of the year, as compared with a very slight surplus in the first six months of 1962.

The goods and services deficit was less than the inflow on capital account which mainly reflected foreign purchases of Austrian securities, particularly long-term bonds. (See Table 7, Page 13.) These purchases totalled \$30 million during the first half of the year, as compared with only \$13 million during the corresponding period of 1962. In that year loans taken up abroad had provided the largest capital inflow, but in 1963 amounts borrowed abroad were not substantial.

Table 6. Austria: Balance of Payments
1962 - Second Quarter 1963
 (in millions of U.S. dollars)

	<u>Jan. - June</u>		<u>1962</u>	<u>1963</u>	
	<u>1962</u>	<u>1963</u>	<u>IV</u>	<u>I^p</u>	<u>II^p</u>
Goods and Services					
Exports	618.5	636.9	337.0	300.8	336.2
Imports	746.5	824.2	423.6	404.0	420.2
Trade Balance	-128.0	-187.3	-86.6	-103.2	-84.0
Travel (net)	117.2	121.3	29.4	52.8	68.4
Other services net	12.4	20.9	- 3.8	8.6	12.3
Total goods & services	<u>1.6</u>	<u>- 45.1</u>	<u>-61.0</u>	<u>- 41.8</u>	<u>- 3.3</u>
Unilateral payments (net)	<u>20.2</u>	<u>6.8</u>	<u>39.2</u>	<u>2.5</u>	<u>4.4</u>
Capital Transactions					
Receipts	106.7	122.6	83.7	57.3	65.3
Payments	54.9	69.3	-60.5	-38.8	30.5
Total	<u>51.8</u>	<u>53.3</u>	<u>23.2</u>	<u>18.5</u>	<u>34.8</u>
Errors and omissions	<u>23.1</u>	<u>25.8</u>	<u>12.1</u>	<u>28.4</u>	<u>- 2.7</u>
Surplus(+) or Deficit(-)	<u>96.7</u>	<u>40.8</u>	<u>13.5</u>	<u>7.6</u>	<u>33.2</u>
Financed by (increase-):					
Drawing rights on					
IMF	--	--	--	--	--
Miscellaneous capital <u>1/</u>	-4.6	-16.2	3.9	-17.8	1.6
Austrian National Bank					
Foreign exchange	-32.3	25.5	17.2	40.3	-14.8
Gold	-59.8	-50.1	-34.6	-30.1	-20.0
Total	<u>-96.7</u>	<u>-40.8</u>	<u>-13.5</u>	<u>- 7.6</u>	<u>-33.2</u>

p=preliminary

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

Source: Oesterreichische Nationalbank, Mitteilungen; International Financial Statistics.

Table 7. Austria: Balance on Capital Account
(in millions of U.S. dollars)

	Jan. - June		1963p	
	<u>1962</u>	<u>1963</u>	<u>I</u>	<u>II</u>
Loans, net				
Loans to Austria	27.5	7.4	0.5	6.9
Austrian loans to foreigners	-3.4	-3.2	2.2	-5.4
Direct investment				
Foreign investment in Austria	6.8	11.5	6.9	4.6
Austrian investment abroad	-0.6	-1.5	-1.1	-0.4
Security transactions, net				
Foreign purchases <u>1/</u>	13.2	29.8	8.5	21.3
Austrian purchases <u>2/</u>	0.5	-0.7	-0.5	-0.2
Other capital transactions	<u>7.8</u>	<u>10.0</u>	<u>2.0</u>	<u>8.0</u>
Total capital transactions	<u>51.8</u>	<u>53.3</u>	<u>18.5</u>	<u>34.8</u>

p = Preliminary.

1/ Foreign purchases of Austrian securities.

2/ Austrian purchases of foreign securities.

Source: Österreichische Nationalbank, Mitteilungen.

Table 3. Austria: Gold and Foreign Exchange Reserves, 1962-August 1963
(in millions of U.S. dollars)

	1962		1963			
	August	December	May	June	July	August
Gold	419	454	504	504	504	504
Foreign Exchange	612	601	552	576	638	673
Total	1,031	1,055	1,056	1,080	1,142	1,177
Percentage of reserves held in gold	41		48	47	44	43
Exchange Rate par value: 3.8464	3.870	3.869	3.868	3.870	3.872	3.871

Source: International Financial Statistics; Federal Reserve Bulletin

Table 9. Austria: Long-term Dollar Indebtedness
(in millions of U.S. dollars)

	1962				1963		Outstanding June 30, 1963
	I	II	III	IV	I	II	
IBRD loans	-0.7	-0.7	4.3	-0.7	-0.8	-0.8	95.7
Export-Import Bank loans							
By Export-Import bank ^{1/}	-0.9	0.3	-0.5	-8.9	-0.2	-0.4	18.0
By Participants	0.9	0.2	--	8.9	-1.1	-0.2	10.4
Government dollar securities	--	12.0	--	--	--	--	51.4
Long-term debt to U.S. Commercial banks	7.0	11.0	2.0	8.0	1.0	-1.0	65.0
Total	6.3	22.8	5.8	7.3	-1.1	-2.4	240.5

^{1/} Including loans outstanding to Export-Import Bank agents from June 1962
Sources: IBRD, Statement of Loans; Export-Import Bank, Statement of Loans;
U.S. Department of Commerce; Federal Reserve Board.

The balance of payments surplus was reflected in an increase in the Austrian National Bank's gold and foreign exchange reserves. The Bank's total reserves increased by \$25 million during the first half of the year. Austria has been a continuing buyer of gold and its gold holdings increased by \$50 million while its foreign exchange reserves fell by \$25 million. (See Table 8, Page 14.) During July and August, with the beginning of the tourist season, the Bank's reserves increased a further \$97 million. Accordingly, the ratio of gold to total reserves fell from 47 per cent in June to 43 per cent in August.

With the inflow of funds into Austria, demand for the Austrian schilling was active and it was traded well above par. Quotations rose from 3.868 U.S. cents in May to 3.871 cents in August.

Austrian dollar indebtedness

During the second quarter, 1963 Austrian long-term dollar indebtedness was reduced by a slight \$2.4 million to \$240.5 million. (See Table 9, Page 14.) Commercial bank loans were reduced by \$1 million during the quarter and the usual payments were made on World Bank and Export-Import Bank loans.