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Recent Economic Developments in Austria:
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Summary

After hesitation in the winter months of 1962-63, the Austrian economic advance gathered momentum during the period under review, and a business survey in January indicated considerable optimism among businessmen for the months ahead. Industrial production in January and February rose 10 per cent above year-ago levels, which were depressed by the severe winter. Since capital goods production has been stagnant for the past two years, further broadening of the business expansion appears to be indicated by the increase in capital goods output in these two months.

After increases of 4.4 per cent in 1962 and 2.7 per cent in 1963, consumer prices stabilized in March, partly, however, because of unusually large declines in seasonal items. Wage rate increases also moderated in the first quarter (although the labor market is tighter than a year ago) following wage rate increases of almost 6 per cent in 1963. However, a very large expansion of commercial bank credit in March suggests accelerated expansion of demands based on monetary expansion and could portend increased strains on the economy.

The government has expressed concern about inflationary potentialities but so far has gone no further than officially endorsing policy recommendations made recently by the Advisory Council for Economic and Social Questions. The most important action to date taken on the basis of these recommendations is the stepping up of global import quota liberalization under GATT. As a whole, the recommendations do not constitute a stringent stabilization effort comparable to steps taken in other European countries; but a series of financial reforms have been proposed, aimed at reducing the economy's over-all liquidity and

improving the Austrian financial mechanism to give the authorities greater scope for monetary action. However, these reforms risk getting caught up in coalition controversies over the role and financing of nationalized industries and may, therefore, be delayed.

The trade deficit in January and February was at year-earlier levels, even though import liberalization was pushed. Unusually large reserve losses of \$103 million in April were probably due to continued capital outflows from the commercial banks and a shift of exchange holdings from the Nationalbank to the commercial banks. For the first four months of the year, reserve losses totaled \$138 million.

Economic upswing gains momentum

The pace of economic activity in Austria continues to gain momentum, after the pause during much of 1963, and a favorable business survey in January suggests that expansion may broaden in the months ahead. General business activity, boosted by good export demand, renewed stockpiling, and weather which favored winter construction, expanded in January and February. Industrial production averaged 10 per cent more than in January-February last year, when adverse weather curtailed output. (See Table 1.) The upswing in capital goods output (where production actually decreased during 1963) was especially promising. Compared with year-ago figures, capital goods as a whole rose over 8 per cent, building materials 14 per cent, metals 21 per cent, and steel 7 per cent. A concurrent unseasonal decline in industrial employment suggests continued growth in industrial productivity.

Table 1. Austria: Industrial Production^{1/}
(year-to-year percentage increases)

Period	Industrial Groups			
	Total	Mining and Primary Materials	Capital Goods	Consumer Goods
<u>1962</u>				
IV	+ 2.7	+ 2.2	-0.6	+ 4.1
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
IV	+ 7.0	+ 9.4	+4.6	+ 8.2
October	+ 5.3	+ 4.4	+2.4	+ 7.8
November	+10.3	+19.0	+5.8	+12.1
December	+ 5.4	+ 4.9	+5.5	+ 4.8
<u>1964</u>				
January	+ 9.8	+15.4	+8.8	+ 9.4
February	+11.2	+23.0	+7.8	+ 9.4
January-December 1963	+ 3.9	+ 4.5	-0.2	+ 6.7
January-December 1962	+ 3.1	+ 3.9	-0.5	+ 4.9

^{1/} Adjusted for working days.

Source: Cesterreichische Nationalbank, Mitteilungen.

Austrian businessmen apparently anticipate further economic pickup in the months ahead. Four-fifths of the firms participating in an end-of-January business survey conducted by the Austrian Institute for Economic Research considered their order backlog satisfactory to sustain output through the immediate future, while one-fourth of the firms expressed hope of being able to increase output in the next few months. Although three-quarters of the firms interviewed were holding what they considered average-sized finished-goods inventories, businesses depending on the construction industry classified their inventories

as excessive under present conditions. Most important, capital goods producers (excepting electrical engineering and the foundaries), expressed renewed confidence in the future.

The comparatively high level of construction activity during the winter months kept unemployment unseasonally low. Average monthly unemployment during January-March 1964 was 15,000 below first quarter 1963 with 124,000 jobseekers registered, and total employment has averaged 23,000 workers per month more in 1964 than 1963. (See Table 2.) The ratio of unemployed to total labor force was down in February, unlike last year, while the ratio of registered vacancies to unemployed showed decided improvement in both February and March over January and year-ago figures. Only in the distributive trades and among office workers was unemployment actually up during the winter.

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

	1963			1964			Jan.-March	
	Jan.	Feb.	March	Jan.	Feb.	March	1963	1964
Labor force (millions)	2.41	2.40	2.39	2.42	2.41	2.40	2.40	2.41
Employment (millions)	2.26	2.25	2.28	2.27	2.28	2.31	2.26	2.29
Unemployment (thousands)	151	159	107	146	133	94	139	124
Unemployment as per cent of labor force	6.3	6.6	4.5	6.0	5.5	3.9	5.8	5.1
Vacancies (thousands)	37	42	44	41	49	59	41	50
Vacancies as per cent of unemployed	25	26	41	28	37	63	31	43

Source: Oesterreichische Nationalbank, Mitteilungen.

Prices stabilize in February but wage pressures build up

In spite of increased momentum in the current upswing, prices have steadied. Consumer prices were stable in March after recording rises of 1.0 per cent in January and 0.3 per cent in February, compared with rises of about

3 per cent during the first quarter last year. (See Table 3.) But this stability was mainly due to unusually large seasonal declines in certain food prices which offset increases in other goods categories. If the seasonal items are excluded from the consumer price index, at mid-March it would have been 6.4 per cent above a year earlier as compared with the 2.9 per cent of the index including the seasonal declines. The nonseasonal increases reflected certain of last year's cost increases (increases in imported foodstuff prices, certain regulated prices and indirect taxes, and the late-year round of wage rate rises). Wholesale prices have not increased since the end of December at which time they stood about 5 per cent above their year-ago level.

Table 3. Austria: Selected Wages and Price Indices
(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
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	139.3
Nov.	115.3	108.4	139.3
Dec.	115.6	111.5	139.3
1964 I	117.0	111.4	139.1
Jan.	116.8	111.6	139.1
Feb.	117.1	110.9	139.1
March	117.0	111.8	139.1

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

Source: Oesterreichische Nationalbank, Mitteilungen.

Wage increases have been moderate so far this year, but wage pressures appear to be building up and could produce wage-rate increases equal to last year's magnitude of roughly 6 per cent. (See Table 3.) Recent minimum wage-rate increases, although not far reaching, have ranged from 4 to 30 per cent, and the Wage-Price Commission has given the "go-ahead" for new wage negotiations in the paper industry, which will have important ramifications throughout the economy. Government employees, also, are already demanding an adjustment in the salary increases they received at the beginning of the year.

Official concern with the factors that could continue to produce price increases of the 1962 and 1963 levels (4.4 per cent and 2.7 per cent, respectively) led the newly created Advisory Council for Economic and Social Questions^{1/} to undertake a study of these as its first project. Its recommendations, presented to the government in March, have been relatively well received by the authorities. Several minor recommendations have already been acted on; prices of consumer durables have been standardized and lowered by eliminating the practice of giving negotiated rebates on purchases, and import quota liberalization has been stepped up. Government labor authorities also have expressed a willingness to consider increased quotas for foreign labor. However, proposals made to reduce the economy's high degree of monetary liquidity have aroused lively discussion and are liable to considerable delay as they get caught up in coalition controversy over the role and financing of nationalized industry. Among the recommendations was a further

^{1/} Established in October 1963, as a working committee of the Price-Wage Commission to consider special problem areas.

reduction in interest rates to discourage the influx of foreign private capital, the temporary discontinuation of official foreign borrowing, commercial bank-central bank swaps along the line of the Swiss to counteract the influx of foreign funds, and the adoption of selective quantitative credit restrictions as soon as individual sectors of the economy become overheated.

Credit expansion and outflow of funds reduce bank liquidity

The high level of bank liquidity, which is considered by some commentators to be dangerous, was somewhat reduced in the first quarter by renewed credit expansion and increased foreign holdings by the banks. Reflecting the pick-up in business activity, extensions of commercial credit in March alone were S 1.0 billion, the largest for that month since the boom year of 1960: new credit extended for the quarter rose 14 per cent above 1963.

(See Table 4.) Demand deposits at the commercial banks were down in February as the circulation of currency increased, and savings deposits were up S 1.58 billion in February-March, reflecting the relatively higher employment level for the quarter.

In February, Austrian credit institutions built up the position they assumed last October as a net lender of short-and medium-term funds abroad. They increased their net foreign holdings by S 1.10 billion on top of the S 1.19 billion reversal of year-end window-dressing operations executed in January. This accounted for the greatest part of the unusually large S 2.15 billion decrease in cash reserves (cash on hand plus deposits at the Austrian Nationalbank and the Postal Savings Bank) in February. (See Table 4.)

Table 4. Austria: Selected Monetary Statistics
(billion Austrian schillings)

<u>End of Period</u>	<u>Cash Reserves of Credit Insts^{1/}</u>	<u>Note and Coin Circulation^{2/}</u>	<u>Net fgn Assets of Credit Insts^{3/}</u>	<u>Net Official Gold & Fgn Exch Holdings^{4/}</u>	<u>Total Deposits of Nonbanks</u>	<u>Commercial Credit Out-standing</u>
<u>1963</u>						
January	10.30	22.84	-.46	26.78	70.75	60.85
February	10.35	23.38	-.38	27.04	71.38	61.29
March	10.25	23.40	-.12	26.96	71.82	61.82
- - -						
October	11.64	25.30	.92	29.96	76.64	65.30
November	9.96	26.44	.89	29.40	76.11	66.70
December	12.73	25.72	-.44	30.71	79.22	66.97
<u>1964</u>						
January	11.82	24.89	.75	29.66	79.33	67.45
February	9.67	25.33	1.85	29.00	80.06	68.02
March	10.56	24.71	1.20	29.82	81.92	69.00

1/ Cash in schillings plus deposits with the Austrian Nationalbank and the Postal Savings Bank.

2/ Banknotes and coins outside Austrian Nationalbank.

3/ Credit institutions' holdings of liquid foreign assets minus liquid foreign claims against them.

4/ Austrian Nationalbank holdings of gold, foreign exchange and foreign notes less liabilities to foreign credit institutions.

Source: Oesterreichische Nationalbank, Mitteilungen.

The high level of liquidity in Austrian financial markets has given rise to pressures for lower coupon rates on new issues for sometime. Even though the success of the Federal Government 6 per cent, S 1.0 billion issue of early March has pretty much determined the rate to be fixed on all major new issues, controversy continues. (At that coupon rate, the demand for the Federal issue was so great that the total of bonds was increased by S 300 million.) Certain market observers contend that with interest rates in

Europe at their current levels, a 6 per cent coupon is not tenable in the Austrian market. Shortly before the March Federal issue, the Lower Austrian Power Company (NEWAG) announced that its next bonds would sell for 98 with a 6-1/4 per cent coupon, directly challenging the consortium of large banks underwriting the pending Federal issue. The large banks (which are nationalized) hold that a 6 per cent coupon is more nearly reflective of the "market rate." However, most recent new issues (which are currently running S 700 million ahead of last year) carry a 6 per cent coupon. Now pressures have arisen for lower deposit rates with the prospect of lower market rates on new bond issues.

A proposal for taking up some of the liquidity in the financial market that has gained both official and unofficial support is to discontinue foreign borrowing. Only recently the Finance Minister (People's Party) cautioned rather strongly against foreign loans in view of the latent inflationary pressures exerted by the external payments surplus and called for channeling some of the domestic liquidity to meet long-term official needs. (This was also one of the recent recommendations of the Advisory Council report.)

The S 650 million equivalent, 15-year bank loan of U. S. dollars that Dr. Bruno Pitterman, the Socialist Vice-Chancellor, negotiated with a consortium of London merchant banks has created much controversy, since it supports a policy of continued foreign borrowing. The loan will be one of Austria's major foreign borrowings this year, and was approved in principle by the coalition government in April, although the finance ministry announced soon thereafter that it would be postponed for a while. This approval, however, raises doubts whether the government can refrain from foreign borrowing in view of the deficit budget and the insistence of Dr. Pitterman and the Socialists

that capital be raised by the government for expansion and modernization of the nationalized industries.^{1/}

Stock prices on the Vienna exchange firmed moderately on lower turnover during the January-May period but the averages remained close to the depressed level reached at the end of 1963. Bond prices were irregular but generally higher on larger turnover as investors with funds in Germany reportedly showed increased interest in Austrian bonds following the German announcement of a withholding tax on earnings of foreign-held bonds.

Export growth accelerates, import liberalization pushed

The strength of export demand has been one of the most important factors behind the economic advance in Austria. January-February seasonally-adjusted exports were 6.6 per cent above comparable 1963 levels and imports 5.2 per cent, leaving the two-month trade deficit almost 3 per cent lower than in 1963. (See Table 5.) Foreign demand for finished goods, particularly consumer goods, continued to spark the accelerated export pace although raw material exports also showed strength.

^{1/} The loan also became embroiled in the controversy raging over what to do with nationalized industry. The Socialists want to expand and modernize through government guaranteed loans; the People's Party, however, favor raising funds in the domestic market through bonds and rights issues and selling out many of the companies or, at least, reducing the government to a minority shareholder in them.

Table 5. Austria: Foreign Trade
(seasonally adjusted, in million of U.S. dollars, month or monthly average)

	1963						1964	
	<u>I</u>	<u>II</u>	<u>III</u>	<u>Oct.</u>	<u>Nov.</u>	<u>Dec.</u>	<u>Jan.</u>	<u>Feb.</u>
Imports	135	141	140	139	148	135	136	148
Exports	<u>106</u>	<u>110</u>	<u>111</u>	<u>117</u>	<u>120</u>	<u>109</u>	<u>107</u>	<u>120</u>
Balance	-29	-31	-29	-22	-28	-26	-29	-28

Exports, f.o.b.; Imports, c.i.f.
Source: OECD, Main Economic Indicators

Following the Advisory Council's advice that import liberalization be stepped up as a means of containing the balance of payments surplus, the Trade Ministry set forward by one month, to June 1, 1964, the effective date of its next quota liberalization step, when global quotas applicable to imports of nonliberalized goods from GATT countries were increased another 20 per cent. Included among the liberalized items are a series of consumer goods, the increased importation of which should help to dampen price pressures in certain commodity sectors. Trade Minister Block recently announced that complete import liberalization will be reached on January 1, 1965, and stressed that after this date import quotas will remain only on a very short list of "hard core" items.

Austrian Nationalbank increases gold holdings

The Austrian Nationalbank bought over \$48 million equivalent of monetary gold during the January-April period to raise its ratio of gold to international reserves from 45 per cent at the first of the year to 55 per cent on April 30. (See Table 6.) Total reserves fell \$138 million from December 1963 and at the end of April stood only \$8 million higher than a year ago. January's reserve decline was produced by the unwinding of the

commercial banks' year-end window dressing operations; subsequent declines resulted from a larger than usual outflow of short- and medium-term funds.

Table 6. Austria: Official Gold and Foreign Exchange Reserves
(end of month, million U.S. dollars)

	1963				1964			
	<u>March</u>	<u>June</u>	<u>Sept.</u>	<u>Dec.</u>	<u>Jan.</u>	<u>Feb.</u>	<u>March</u>	<u>April</u>
Gold	484	504	504	536	542	553	563	574
Foreign Exchange	<u>564</u>	<u>576</u>	<u>679</u>	<u>655</u>	<u>604</u>	<u>572</u>	<u>593</u>	<u>479</u>
Total	1,045	1,080	1,183	1,191	1,146	1,125	1,156	1,053
Change	-10	+35	+103	+8	-45	-21	+31	-103
Gold as % of Reserves	46	47	43	45	47	49	49	55
Exchange rate (Par value: U.S. 3.846¢/schilling)	3.864	3.868	3.867	3.865	3.864	3.861	3.864	3,883

Source: Oesterreichische Nationalbank, Wochenausweise.

Gross foreign currency receipts on tourist account during January-February (although 24 per cent higher than a year ago) rose at rates comparable to previous years. The January and February increases in tourist receipts had been expected, however, to be quite higher than last year due to the 1964 Winter Olympics held at Innsbruck, but large advance payments for accommodations in late 1963 cut into the expected increase. Net travel receipts, however, were actually down from year-ago levels as Austrians abroad increased their expenditures markedly.