

Christian Glocker

# Recovery Subject to Lasting Uncertainty

## Economic Outlook for 2013 and 2014

**Short-term prospects for the Austrian economy have hardly changed since the revision of the WIFO forecast of last December. As expected, demand and output edged down slightly in the fourth quarter 2012, but leading indicators kept heading up during the first three months of 2013. Having moderated to an average 0.8 percent in 2012, GDP growth is projected to pick up to 1.0 percent in 2013 and 1.8 percent in 2014.**

For definitions of terms used, see "Methodological Notes and Short Glossary", in this volume and <http://www.wifo.ac.at/wwwdocs/form/WIFO-BusinessCycleInformation-Glossary.pdf> • All staff members of the Austrian Institute of Economic Research contribute to the Economic Outlook. Data processing: Nora Popp • Cut-off date: 21 March 2013. • E-mail address: [Christian.Glocker@wifo.ac.at](mailto:Christian.Glocker@wifo.ac.at)

The Austrian economy, although virtually stagnating in the second half of 2012, was nevertheless spared the stronger setback of activity observed in most other euro area countries in the fourth quarter. Many considerations speak in favour of a return of the economy to an upward path, albeit flat for the time being, in the first quarter 2013. Thus, the bulk of leading indicators have signalled an end to the downward trend already last November and have steadily improved since. It is likely that the cycle has passed the trough early this year. Domestic conditions for a self-sustained and broad-based upturn are still in place. The external environment, however, holds important risks. In particular, uncertainty surrounding the future political course in several southern and eastern neighbour countries weighs on the outlook for the export sector.

After a modest rate of 0.8 percent in 2012, GDP growth in Austria is projected to pick up gradually to 1.0 percent in 2013 and 1.8 percent in 2014. This expectation rests notably on the assumption of a further dwindling of uncertainty for investors and consumers. This presupposes that, on the one hand, the government debt crisis in the euro area remains under control, and that, on the other, the political uncertainty about fiscal management in the USA subsides.

Despite the slight acceleration of GDP growth over the forecast period, inflationary pressure is set to abate, given the current poor capacity utilisation and the prospect of a negative output gap prevailing until the end of 2014. International demand conditions should allow only limited increases in energy and other commodity prices. Consumer prices, having gone up by an average 2.4 percent in 2012, are expected to rise by 2.2 percent in 2013 and 2.0 percent in 2014. Along with a moderate, but steady increase in private consumption, investment is projected to rebound markedly. While labour supply is further growing rapidly, dependent employment may edge up only marginally, keeping unemployment high. The external sector will provide a positive contribution to GDP growth over the entire forecast horizon. The outlook for Austrian exports has improved over the last months, even if a firm recovery may only be expected towards the end of the forecast horizon, in view of sluggish demand from the euro area where almost 52 percent of Austria's exports go to.

Despite the subdued business conditions, the state of public finances is likely to improve. The general government deficit for 2013 is expected at 2.6 percent of GDP, edging down to 2.0 percent of GDP in 2014. The fiscal forecast hinges on the assumption that the consolidation course will not be interrupted in 2013 for the sake of

discretionary cyclical stimulus, while automatic stabilisers would be allowed to operate. Although some short-term dampening effect on activity may result from fiscal consolidation, the reduction of budget deficits is a meaningful medium-term strategy from an overall economic point of view.

Table 1: Main results

		2009	2010	2011	2012	2013	2014
		Percentage changes from previous year					
<b>GDP</b>							
Volume		- 3.8	+ 2.1	+ 2.7	+ 0.8	+ 1.0	+ 1.8
Value		- 2.3	+ 3.7	+ 5.0	+ 3.1	+ 3.0	+ 3.6
<b>Manufacturing<sup>1</sup>, volume</b>							
		- 12.7	+ 7.0	+ 8.2	+ 1.1	+ 2.5	+ 4.0
<b>Wholesale and retail trade, volume</b>							
		- 0.3	+ 1.4	+ 1.3	- 1.4	± 0.0	+ 1.0
<b>Private consumption expenditure, volume</b>							
		+ 1.1	+ 1.7	+ 0.7	+ 0.4	+ 0.6	+ 0.9
<b>Gross fixed investment, volume</b>							
Machinery and equipment		- 10.6	+ 6.0	+ 12.1	+ 0.3	+ 2.5	+ 3.0
Construction		- 7.1	- 2.7	+ 4.4	+ 1.5	+ 0.6	+ 1.1
<b>Exports of goods<sup>2</sup></b>							
Volume		- 18.3	+ 13.0	+ 7.9	+ 0.2	+ 3.8	+ 6.0
Value		- 20.2	+ 16.7	+ 11.3	+ 1.4	+ 4.3	+ 7.1
<b>Imports of goods<sup>2</sup></b>							
Volume		- 14.1	+ 10.9	+ 8.5	- 0.4	+ 3.5	+ 5.5
Value		- 18.4	+ 16.5	+ 15.3	+ 0.7	+ 3.7	+ 6.6
<b>Current balance</b>		billion €	+ 7.49	+ 9.74	+ 1.74	+ 6.35	+ 8.34
As a percentage of GDP			+ 2.7	+ 3.4	+ 0.6	+ 2.1	+ 2.6
<b>Long-term interest rate<sup>3</sup></b>		percent	3.9	3.2	3.3	2.4	2.0
<b>Consumer prices</b>			+ 0.5	+ 1.9	+ 3.3	+ 2.4	+ 2.2
<b>Unemployment rate</b>							
Eurostat definition <sup>4</sup>	percent	4.8	4.4	4.2	4.4	4.8	4.8
National definition <sup>5</sup>	percent	7.2	6.9	6.7	7.0	7.4	7.4
<b>Persons in active dependent employment<sup>6</sup></b>			- 1.5	+ 0.8	+ 1.9	+ 1.4	+ 0.7
<b>General government financial balance according to Maastricht definition</b>							
As a percentage of GDP			- 4.1	- 4.5	- 2.5	- 3.1	- 2.6

Source: WIFO. 2013, 2014: forecast. – <sup>1</sup> Value added, including mining and quarrying. – <sup>2</sup> According to Statistics Austria. – <sup>3</sup> 10-year central government bonds (benchmark). – <sup>4</sup> According to Eurostat Labour Force Survey. – <sup>5</sup> According to Public Employment Service Austria, as a percentage of total labour force excluding self employed. – <sup>6</sup> Excluding parental leave, military service.

Five years after the outbreak of the global financial market crisis, the world economy has still not fully recovered from this setback, notably in the industrialised world where activity slackened markedly in 2012 from the previous year. Many advanced economies find themselves in a tenuous situation. In countries struggling with a sovereign debt crisis the recession is more stubborn now than five years ago as it follows a downward spiral driven by negative feedback loops of high unemployment, falling aggregate demand, fiscal retrenchment and fragile financial markets. The southern periphery of the euro area in particular has suffered from receding demand and output over the last 1½ years.

Yet, forward-looking indicators hint towards stabilisation that should improve conditions for global growth. The cyclical recovery is expected to gradually gain strength, even if remaining uneven across world regions and subject to lasting uncertainty. Besides, growth continues to be held back by structural problems; this goes mainly for the industrialised countries, whereas activity in the emerging market economies should prove more robust.

Signs of strengthening global activity became more frequent as from the third quarter 2012 and have been confirmed since. The revival has been most pronounced in

## Positive signals for the world economy increasing

*In spring 2013, economic activity should recover on a global scale, and particularly in the emerging markets. Already in the fourth quarter 2012, the overall picture conveyed by indicators for the world economy has become somewhat brighter.*

the manufacturing sector of emerging Asian markets, but also for the industrialised economies do leading indicators suggest a cautious improvement. The OECD Composite Leading Indicators which allow the forecast of cyclical turning points around the trend headed up further in January and suggest a stabilisation of growth for the OECD area as a whole. Indicators for individual countries point to continued divergence across the major economies. The JPMorgan Global Manufacturing & Services Purchasing Managers' Index (PMI), though edging down in February 2013, remained with a reading of 53 points firmly above the critical 50-point threshold. Both services and the manufacturing sector kept the index in positive territory.

Monetary policy is strongly expansionary in almost all industrial economies. Its impact should, however, not be overstated: in the recovery phase following a financial market crisis, monetary policy in particular is characterised by a low degree of efficiency (Bank for International Settlements, Annual Report, 2011-12). This is mainly the result of deleveraging by economic agents which dampens the demand for credit despite low credit cost. Thus, the monetary stimulus of low policy-controlled interest rates and, as a consequence, low credit rates have no substantial real impact. In addition, supply-side factors deriving from tighter macro-prudential policy currently undermine credit growth.

As from spring 2013, demand and output should gradually pick up, notably in the emerging market economies. The world economy is projected to expand by 3.3 per cent in 2013 and by 4 per cent in 2014. Business activity in Austria's southern and eastern trading partner countries will be more depressed and will be lagging the recovery as compared with most other industrialised economies.

The rising economies in southern and eastern Asia as well as in Latin America which over the last years have significantly gained importance for Austrian exporters had largely overcome the latest growth slowdown by the fourth quarter of 2012. Indeed, GDP growth in China accelerated markedly in the last three months of 2012 on a year-on-year basis. The stronger momentum appears to continue, as suggested by the majority of leading indicators.

*Demand from emerging Asian markets is expected to act as a major driver of global economic recovery in spring 2013.*

Table 2: World economy

	2009	2010	2011	2012	2013	2014
	Percentage changes from previous year					
<i>Real GDP</i>						
World	- 0.6	+ 5.1	+ 3.9	+ 3.1	+ 3.3	+ 4.0
USA	- 3.1	+ 2.4	+ 1.8	+ 2.2	+ 1.8	+ 2.4
Japan	- 5.5	+ 4.7	- 0.6	+ 1.3	+ 0.8	+ 1.3
EU 27	- 4.3	+ 2.1	+ 1.5	- 0.3	+ 0.4	+ 1.6
Euro area 16	- 4.4	+ 2.0	+ 1.4	- 0.6	± 0.0	+ 1.4
Germany	- 5.1	+ 4.2	+ 3.0	+ 0.7	+ 0.8	+ 2.0
New EU countries <sup>1</sup>	- 3.2	+ 2.2	+ 3.2	+ 1.0	+ 1.5	+ 2.5
China	+ 9.2	+ 10.4	+ 9.3	+ 7.8	+ 7.5	+ 8.0
World trade, volume	- 12.6	+ 15.1	+ 5.8	+ 2.2	+ 3.8	+ 6.0
Market growth <sup>2</sup>	- 10.8	+ 11.4	+ 6.2	+ 2.2	+ 3.8	+ 6.0
<i>Primary commodity prices</i>						
HWI index, total	- 34.7	+ 28.9	+ 28.6	- 2.8	- 5	+ 4
Excluding energy	- 28.4	+ 31.9	+ 19.2	- 14.4	± 0	+ 10
<i>Crude oil prices</i>						
Brent, \$ per barrel	61.5	79.5	111.3	111.6	105	108
<i>Exchange rate</i>						
\$ per euro	1.393	1.327	1.392	1.286	1.30	1.30

Source: WIFO. 2013, 2014: forecast. – <sup>1</sup> Bulgaria, Czech Republic, Hungary, Latvia, Lithuania, Poland, Romania. – <sup>2</sup> Real import growth of trading partners weighted by Austrian export shares.

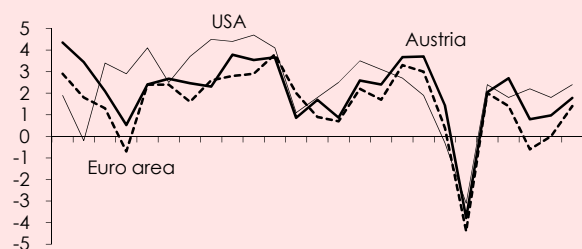
The US economy looks set to expand more slowly in the current year than in the past, although outpacing Europe. A retarding element is the partial expiry of fiscal stimulus measures. Leading indicators give a positive impression across the board. The improving labour market prospect is being reflected in growing business and consumer confidence. Uncertainty currently centers around the future course of fiscal policy.

For the US economy, the short-term outlook appears to be stable. The labour market is improving in a sustained way; in February, unemployment fell to its lowest rate since the end of 2008.

Figure 1: Indicators of economic performance

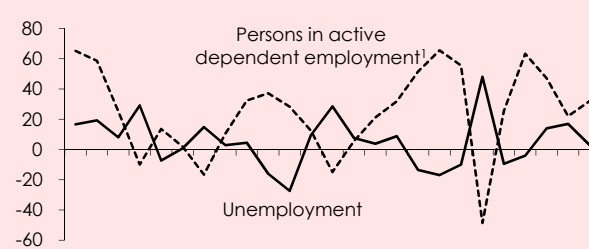
Growth of real GDP

Percent



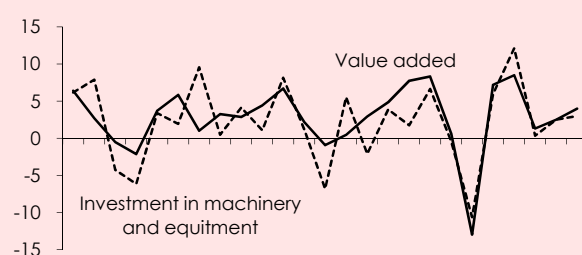
Employment and unemployment

1,000 from previous year



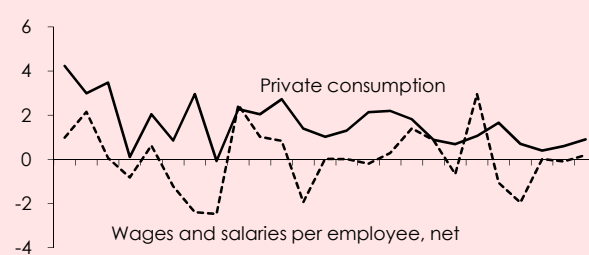
Manufacturing and investment

Percentage changes from previous year, volume



Consumption and income

Percentage changes from previous year, volume



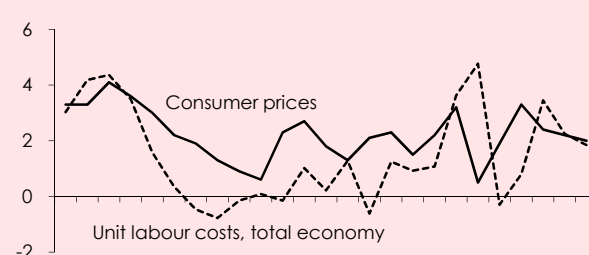
Short-term and long-term interest rates

Percent



Inflation and unit labour costs

Percentage changes from previous year



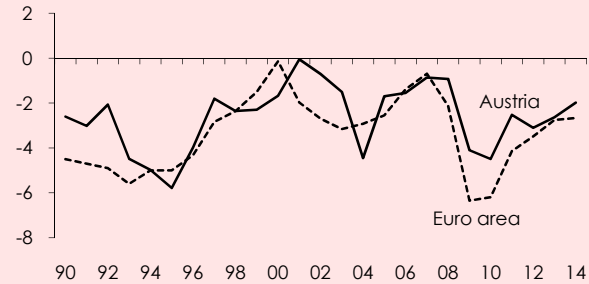
Trade

Percentage changes from previous year, volume



General government financial balance

As a percentage of GDP



Source: WIFO, 2013, 2014: forecast. – <sup>1</sup> Excluding parental leave, military service, and unemployed persons in training. – <sup>2</sup> 10-year central government bonds (benchmark).

The gentle deceleration of economic activity observed in the euro area since autumn 2011 markedly gathered momentum in the fourth quarter 2012. WIFO nevertheless expects a cyclical recovery to take hold over the forecast period. The slight downward revision of GDP for the euro area as well as for the entire EU is due to the lower carry-over implied by the weak result for the fourth quarter 2012.

Survey-based indicators for the first quarter 2013 point to a slight cyclical easing in the euro area. While the Purchasing Managers' Index (PMI) for the manufacturing sector has been tentatively heading up since last August, it still stood in January clearly below the threshold signalling expansion. Industrial confidence strengthened during the last months, even extending to some of the countries in crisis. In general, the revival of confidence in the euro area is largely driven by an increase in output expectations. The more upbeat assessment of incoming foreign orders in the PMI also bodes well for an early pick-up in exports. Consumer sentiment has also improved. The overall picture conveyed by the indicators suggests a stabilisation of activity in the first half of 2013. During the rest of the year, a gradual recovery should take hold, as exports benefit from a pick-up in global demand and domestic demand is supported by rising consumer confidence<sup>1</sup>. The improvement of financial market conditions since July 2012 and the implementation of structural reforms should provide further positive incentives. On the other hand, the necessary balance sheet adjustments in the public as well as the private sector and the implicit restraint to credit growth will further act as a drag on aggregate demand.

Due to their close ties with the euro area, some trading partners in East-central Europe will also be affected by the growth setback. Economies enjoying strong trade links with the German manufacturing sector should rebound more quickly than the southern countries burdened by high external debt. For the seven EU member countries in East-central Europe (Bulgaria, Latvia, Lithuania, Poland, Romania, Czech Republic, Hungary), WIFO projects an aggregate GDP growth of 1.5 percent in 2013 and of 2.5 percent in 2014. The Polish economy weathers relatively best the current crisis and should be able to maintain its upward momentum. In countries where private households struggle with high foreign debt, domestic demand may remain subdued throughout 2013 and bottom out only in the course of 2014.

External conditions have provided little stimulus for the Austrian economy during the last few months. Demand from the euro area slackened, and domestic orders reflect companies' current low appetite for investment. Thus, overall demand and output edged down slightly in the fourth quarter 2012. Odds are in favour of a resumption of growth during spring 2013, albeit at a modest rate. Framework conditions for the short-term outlook have hardly changed since the WIFO forecast of December 2012.

Despite the slight decline in GDP by 0.1 percent from the previous period in the fourth quarter 2012, there is no negative carry-over for the current year: growth conditions for Austria for 2013 are therefore markedly more favourable than for Germany and for the euro area<sup>2</sup>.

In spite of the "soft patch" at the end of 2012, the general pattern of sentiment brightened up already in November. The downturn should have bottomed out by early 2013. According to the latest WIFO Business Survey of February, an upturn in Austria's manufacturing sector is imminent, with business expectations turning increasingly positive and the assessment of current business conditions heading up since November 2012 on a seasonally-adjusted basis. Likewise, the index of output

## Euro area: downturn gaining momentum towards end-2012

## Performance of East-central european economies uneven

## Austria: merchandise exports paving the way for recovery

*Business activity in Austria can further rely on sound fundamentals. As a small open economy, the country is largely exposed to external conditions. The risk environment has barely changed since the forecast of last December.*

<sup>1</sup> Huber, P., Aiginger, K., "Griechenland, Spanien, Portugal: Konsolidierung ohne aktiven Wachstumsschub unrealistisch. Ein Policy Brief zu Entwicklungsoptionen der peripheren EU-Länder", WIFO press release, 12 December 2012, <http://www.wifo.ac.at/wwa/pubid/45982>.

<sup>2</sup> For Germany, the negative carry-over for 2013 is 0.3 percent at the beginning of the year; it has to be made up before growth on a year-on-year basis can be achieved.

expectations signals an upward trend for the months to come, as does the assessment of order levels and of incoming foreign orders. The WIFO Composite Leading Indicator, after a first uptick last November, resumed an upward trend in February. The Ifo Business Climate Index for the German economy, traditionally an excellent predictor for business activity in Austria, rose in February for the fourth consecutive month.

Current developments are largely shaped by sluggish activity in key trading partner countries. Indeed, in 2012, many of Austria's export markets in the euro area contracted. Merchandise exports nevertheless edged up by 0.2 percent in volume for the whole of 2012, with a trough having been reached in the fourth quarter.

As an export-oriented economy, Austria should increasingly benefit from the expected improvement in international business conditions over the forecast period. As of early 2013, export growth should gradually pick up (for the whole year 2013 +3.8 percent in volume). By 2014, on the back of the international upswing and improved price competitiveness (constant terms-of-trade and declining relative unit labour cost in manufacturing), merchandise export growth is expected to accelerate to 6 percent in real terms, thereby catching up to its long-term trend. Deliveries to third (i.e. non-EU) countries are set to gain importance over the entire forecast period.

With domestic exports having a high import content, they will fuel import growth, next to the robustness of internal demand. The lively foreign commercial trade flows will on balance result in positive net exports and make a substantial contribution to GDP growth in 2014. The trade balance is set to improve over the entire forecast period.

Business sentiment in the investment goods industries as well as with the capital-intensive producers of semi-manufactures has been improving continuously since November 2012. According to the latest WIFO Investment Survey, manufacturers envisage stepping up their investments decisively in 2013. Against this background, WIFO expects for 2013 a moderate expansion of gross fixed capital formation by 1.5 percent, accelerating to 2.0 percent in 2014.

Table 3: Productivity

	2009	2010	2011	2012	2013	2014
	Percentage changes from previous year					
<i>Total economy</i>						
Real GDP	- 3.8	+ 2.1	+ 2.7	+ 0.8	+ 1.0	+ 1.8
Employment <sup>1</sup>	- 0.9	+ 0.7	+ 1.8	+ 1.3	+ 0.9	+ 1.1
Productivity (GDP per employment)	- 2.9	+ 1.4	+ 0.9	- 0.5	+ 0.1	+ 0.7
<i>Manufacturing</i>						
Production <sup>2</sup>	-13.0	+ 7.2	+ 8.5	+ 1.3	+ 2.5	+ 4.0
Employees <sup>3</sup>	- 5.3	- 1.3	+ 1.9	+ 1.7	+ 0.3	+ 0.5
Productivity per hour	- 4.7	+ 5.4	+ 6.6	- 0.1	+ 2.6	+ 3.3
Working hours per day per employee <sup>4</sup>	- 3.5	+ 3.0	- 0.1	- 0.3	- 0.4	+ 0.2

Source: WIFO. 2013, 2014: forecast. – <sup>1</sup> Dependent and self-employed according to National Accounts definition. – <sup>2</sup> Value added, volume. – <sup>3</sup> According to Federation of Austrian Social Security Institutions. – <sup>4</sup> According to "Konjunkturerhebung" of Statistics Austria.

Investment will primarily be supported by firms' spending on machinery and business equipment which exhibits above-average cyclical volatility being primarily determined by firms' sales expectations in relation to their spare productive capacities. In 2011, machinery investment jumped by 12.1 percent in volume, followed by a mere +0.3 percent in 2012. The sudden slackening is explained by sluggish exports, uncertainty relating to the euro area sovereign debt crisis, but also by a "normalisation" of public investment as the impact of the cyclical stimulus programmes taken in response to the financial market crisis of 2008-09 fades out. As the business outlook brightens up, equipment investment should strengthen further, by 2.5 percent in volume in 2013 and 3.0 percent in 2014.

*With exports of goods rising faster than imports, both in nominal and in real terms, Austria's commercial trade balance will improve over the forecast horizon. Positive stimulus from foreign trade, together with robust final domestic demand, will lead to a rebound in investment.*

### Livelier investment in machinery and equipment

*With the cyclical recovery, investment is set to rebound. Rising exports will in particular stimulate corporate spending on machinery and equipment, pushing the already high ratio of such spending of over 8 percent of GDP further up. Growth of construction investment is expected to remain modest over the forecast period.*

Depressed sentiment in the construction sector is likely to allow an increase in investment of no more than 0.6 percent in 2013, slightly picking up to +1.1 percent in 2014.

Private consumption was dull in 2012 (+0.4 percent), although employment rose to a new high. However, lively job creation was accompanied by only small real wage gains and thus by an only moderate increase in real household income.

Over the forecast period, private consumption will increasingly follow an upward path. Main drivers are a slight decline in inflation (CPI 2013 +2.2 percent, 2014 +2.0 percent), the sizeable nominal wage gains of 2012 and the continuing job growth. Against this background, WIFO projects private consumption growth at 0.6 percent for 2013 and 0.9 percent for 2014. The private household saving ratio<sup>3</sup> will head up from 7.1 percent last year to 7.3 percent and 7.6 percent in 2013 and 2014, respectively.

### Private consumption strengthening somewhat as headline inflation slackens

*Despite a favourable employment outlook, private real disposable income will post only small gains in 2013 and 2014. As a result, private consumption is expected to remain broadly flat. With little upward drift in commodity prices and but moderate increases in unit labour cost, inflation in Austria should remain firmly under control. Supply-side factors are not expected to exert significant upward pressure either.*

Table 4: Private consumption, income and prices

	2009	2010	2011	2012	2013	2014
	Percentage changes from previous year					
Private consumption expenditure	+ 1.1	+ 1.7	+ 0.7	+ 0.4	+ 0.6	+ 0.9
Durables	+ 4.8	+ 2.3	+ 1.8	- 4.7	- 2.4	+ 0.2
Non-durables and services	+ 0.6	+ 1.6	+ 0.6	+ 1.0	+ 0.9	+ 1.0
Household disposable income	+ 0.3	- 0.6	- 0.9	+ 0.4	+ 0.9	+ 1.2
	As a percentage of disposable income					
Household saving ratio <sup>1</sup>	11.2	9.1	7.4	7.6	7.8	8.1
Household saving ratio <sup>2</sup>	10.6	8.6	7.1	7.1	7.3	7.6
	Percentage changes from previous year					
Direct lending to domestic non-banks <sup>3</sup>	- 1.3	+ 2.9	+ 2.6	+ 0.0	+ 1.6	+ 2.9
	Percentage changes from previous year					
Inflation rate						
National	0.5	1.9	3.3	2.4	2.2	2.0
Harmonised	0.4	1.7	3.6	2.6	2.3	2.0
Core inflation <sup>4</sup>	1.5	1.2	2.8	2.3	2.1	1.9

Source: WIFO. 2013, 2014: forecast. – <sup>1</sup> Including adjustment for the change in net equity of households in pension fund reserves. – <sup>2</sup> Excluding adjustment for the change in net equity of households in pension fund reserves. – <sup>3</sup> End of period. – <sup>4</sup> Excluding unprocessed food (meat, fish, fruits, vegetables) and energy items.

Table 5: Earnings and international competitiveness

	2009	2010	2011	2012	2013	2014
	Percentage changes from previous year					
Gross earnings per employee <sup>1</sup>	+ 1.7	+ 1.0	+ 1.7	+ 2.9	+ 2.4	+ 2.6
Gross real earnings per employee <sup>2</sup>	+ 1.2	- 0.8	- 1.5	+ 0.5	+ 0.2	+ 0.6
Net real earnings per employee <sup>2</sup>	+ 3.0	- 1.1	- 2.0	+ 0.0	- 0.1	+ 0.2
Unit labour costs						
Total economy	+ 4.8	- 0.3	+ 0.8	+ 3.4	+ 2.2	+ 1.8
Manufacturing	+11.5	- 6.1	- 3.9	+ 3.1	+ 0.6	- 0.6
Effective exchange rate, manufactures						
Nominal	+ 0.7	- 2.6	+ 0.0	- 1.5	+ 0.9	+ 0.1
Real	+ 0.4	- 2.6	+ 1.1	- 1.4	+ 1.1	+ 0.1

Source: WIFO. 2013, 2014: forecast. – <sup>1</sup> Employees according to National Accounts definition. – <sup>2</sup> Deflated by CPI.

<sup>3</sup> Excluding increases in claims from occupational pension schemes.

Job growth lost somewhat momentum over the last few months. Nevertheless, and despite the cyclical weakening, the number of persons in dependent active employment went up by 47,000 or 1.4 percent on annual average 2012. While demand and output are set to strengthen steadily over the forecast period, labour demand is likely to remain moderate for some time. Overall, WIFO expects employment to rise by 0.7 percent in 2013. Labour productivity will edge up by 0.1 percent, after having fallen by 0.5 percent in 2012. With business activity gaining strength, job growth should slightly accelerate to 0.9 percent in 2014.

## Labour supply continues to expand strongly

*Developments on the labour market remain unequal: while employment keeps on an upward trend, so does unemployment over the entire forecast horizon.*

Table 6: Labour market

		2009	2010	2011	2012	2013	2014
		Changes from previous year, in 1,000					
<i>Demand for labour</i>							
Persons in active employment <sup>1</sup>		- 44.0	+ 32.4	+ 70.4	+ 52.1	+ 26.5	+ 36.5
Employees <sup>2</sup>		- 48.5	+ 25.5	+ 63.3	+ 47.2	+ 22.0	+ 32.0
Percentage changes from previous year		- 1.5	+ 0.8	+ 1.9	+ 1.4	+ 0.7	+ 0.9
Nationals		- 43.0	+ 5.8	+ 25.7	+ 9.0	+ 3.0	+ 7.0
Foreign workers		- 5.5	+ 19.7	+ 37.7	+ 38.1	+ 19.0	+ 25.0
Self-employed <sup>3</sup>		+ 4.5	+ 6.9	+ 7.1	+ 4.9	+ 4.5	+ 4.5
<i>Labour supply</i>							
Population of working age	15 to 64 years	+ 17.3	+ 21.6	+ 37.0	+ 15.6	+ 3.0	+ 5.5
	15 to 59 years	+ 11.1	+ 8.9	+ 17.1	+ 19.5	+ 7.2	+ 5.3
Labour force <sup>4</sup>		+ 4.0	+ 22.9	+ 66.3	+ 66.0	+ 43.5	+ 39.5
<i>Surplus of labour</i>							
Registered unemployed <sup>5</sup>		+ 48.1	- 9.5	- 4.1	+ 13.9	+ 17.0	+ 3.0
In 1,000		260.3	250.8	246.7	260.6	277.6	280.6
Unemployed persons in training <sup>5</sup>		64.1	73.2	63.2	66.6	72.6	72.6
		In percent					
Unemployment rate							
Eurostat definition <sup>6</sup>		4.8	4.4	4.2	4.4	4.8	4.8
As a percentage of total labour force <sup>5</sup>		6.5	6.2	6.0	6.3	6.6	6.6
National definition <sup>5,7</sup>		7.2	6.9	6.7	7.0	7.4	7.4
<i>Employment rate</i>							
Persons in active employment <sup>1,8</sup>		64.7	65.1	65.9	66.6	67.0	67.6
Total employment <sup>6,8</sup>		71.6	71.7	72.1	72.6	72.9	73.3

Source: WIFO. 2013, 2014: forecast. – <sup>1</sup> Excluding parental leave, military service. – <sup>2</sup> According to Federation of Austrian Social Security Institutions. – <sup>3</sup> According to WIFO. – <sup>4</sup> Persons in active employment plus unemployment. – <sup>5</sup> According to Public Employment Service Austria. – <sup>6</sup> According to Eurostat Labour Force Survey. – <sup>7</sup> As a percentage of total labour force, excluding self-employed. – <sup>8</sup> As a percentage of population of working age (15 to 64 years).

Due to a strong increase in labour supply, unemployment will keep rising over the forecast horizon, in parallel with employment. Having ratcheted up by 0.3 percentage points to a rate of 7.0 percent last year, unemployment will move to 7.4 percent of the dependent labour force (national definition) in 2013 and 2014, corresponding to rates of 4.4 percent and 4.8 percent in 2013 and 2014 respectively, on Eurostat definitions.

Government finances are still struggling with the repercussions of the financial market crisis of 2008-09. The public debt ratio, estimated at over 74 percent of GDP for 2012, is already high and likely to increase once again in 2013. Reasons, apart from current budget deficits, are the moves to fight the sovereign debt crisis in the euro area and the need for possible further financial support for Austrian banks to as yet uncertain extent. While gross debt incurred in the context of financial market stabilisation in Austria and support for euro area countries is largely covered by corresponding claims, the latter are subject to certain risks. After further increases in 2012 and 2013, the government debt ratio is expected to register a first slight decline in 2014.

Over the forecast period, government finances will be shaped by the cyclical recovery on the one hand, and the fiscal consolidation programme on the other. The general government deficit ratio is projected to decline from 3.1 percent of GDP in

## Government debt ratio heading down only in 2014



2012 to 2.6 percent in 2013 and 2.0 percent in 2014. The uncertainties surrounding the present forecast constitute a downward risk to this forecast: possible needs for further liquidity transfers to ailing Austrian nationalised banks may increase the government deficit both in 2013 and 2014. A further uncertainty relates to the actual mobilisation of additional tax revenues as planned by the consolidation programme.

The scope of uncertainty continues to be high and is partly difficult to assess. The greater calm reigning on financial markets since August 2012 has only lately been reflected by sentiment indicators, as companies have turned more upbeat about the short-term outlook. The risks to the current forecast lie in the external policy environment. Concerns relate to the handling of the euro area debt crisis and to the fiscal policy stand-off in the USA ("fiscal cliff"). Political uncertainty in several of Austria's neighbouring countries to the east and south add to these concerns. In order to counter the implicit dangers, further confidence-building decisions ought to be taken without delay. Risks for the global economy also emanate from potential geopolitical tensions.

## The risk environment

Table 7: Key policy indicators

	2009	2010	2011	2012	2013	2014
	As a percentage of GDP					
<i>Fiscal policy</i>						
General government financial balance						
According to Maastricht definition	- 4.1	- 4.5	- 2.5	- 3.1	- 2.6	- 2.0
General government primary balance	- 1.3	- 1.8	+ 0.1	- 0.5	- 0.0	+ 0.6
	In percent					
<i>Monetary policy</i>						
3-month interest rate	1.2	0.8	1.4	0.6	0.4	0.7
Long-term interest rate <sup>2</sup>	3.9	3.2	3.3	2.4	2.0	2.0
	Percentage changes from previous year					
<i>Effective exchange rate</i>						
Nominal	+ 0.9	- 2.5	+ 0.1	- 1.5	+ 0.8	+ 0.2
Real	+ 0.4	- 2.6	+ 1.2	- 1.4	+ 0.9	+ 0.1

Source: WIFO. 2013, 2014: forecast. - <sup>1</sup> 10-year central government bonds (benchmark).

In the USA, the "fiscal cliff" stand-off continues, with an agreement on a clear forward strategy having been reached neither in December 2012 nor at the end of February 2013. Until the end of the current fiscal year in September 2013, expenditure cuts to an amount of \$ 85 billion will be applied, predominantly falling on discretionary outlays. However, neither a debt ceiling nor a sequester have been provided for by this ad-hoc move. Congress will have to extend a fixed-term budgetary plan already by the end of March in order to allow current financial commitments to be honoured; and by mid-May the debt ceiling will have to be raised once again in order to avoid the risk of default.

Geo-political risks mainly derive from the territorial conflict between China and Japan. Commercial trade ties between the two countries are so close that the entire world economy may suffer from a disruption<sup>4</sup>.

In the southern periphery of the euro area, not only high government debt, but also the high stock of corporate liabilities<sup>5</sup> constitutes a risk for the fragile financial sector as well as for the cyclical recovery, since the need for de-leveraging acts as a constraint for firms' readiness to invest and hire.

<sup>4</sup> IMF, "Changing Patterns of Global Trade", IMF Departmental Paper, 2012, (12/1).

<sup>5</sup> According to the IMF Global Financial Stability Report of October 2012, Spain's non-financial corporate sector has accumulated debt equivalent to 186 percent of GDP. For Belgium, the corporate debt ratio is similarly high, for Portugal it is 158 percent, for France 134 percent and for Ireland 289 percent.

These elements imply for the Austrian economy a downward risk primarily via its foreign trade relations. Domestic demand, on the other hand, is rather subject to clear upward risks. Thus, companies may be prompted to a significantly stronger increase in investment than projected here, as sales prospects become brighter. Likewise, private households may refrain from higher saving and bring about a more buoyant upturn in consumption, if their confidence in the economic outlook picks up more strongly than assumed.