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## Business Cycle Upturn Interrupted

### Economic Outlook for 2011 and 2012

**Since the middle of 2011, the international economic environment has deteriorated markedly. In view of rising uncertainty about how to definitively resolve the sovereign debt crisis, investment decisions are being deferred. After a strong expansion by 2.9 percent in 2011, the Austrian economy will grow by a modest 0.8 percent in 2012.**

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The recovery of the Austrian economy from the recession of 2008-09 has been lively also in the current year. Overall demand and output grew strongly until mid-year, reaching their pre-crisis levels. For some time, however, business surveys in Austria and abroad point to an imminent deceleration of the growth momentum.

Moreover, since mid-2011, uncertainty among economic agents has mounted sharply, and policy has not been able to dissipate doubts about some countries' ability to service their debt. As a result, interest rates for new issues of government debt drifted up in the countries concerned, thereby adding to the fiscal imbalances. The loss of confidence triggered sharp falls on stock markets which mainly concerned bank titles. Within two months, major European banks lost around half of their stock market value.

The present WIFO forecast for Austria reflects these latest developments only to the extent that they reduce the appetite for corporate investment. For 2011, GDP growth is expected at 2.9 percent, slowing down to 0.8 percent in 2012. Explicitly, no unilateral government default of Greece or any other euro area country is assumed. The forecast takes as given that the euro area continues to exist in its current composition, that interest rates on government debt of euro area countries will not increase substantially further and that stock market values suffer no further fall.

Under these assumptions, domestic economic activity will remain broadly flat around the turn of the year, in line with the overall cyclical profile for the EU. A temporary decline of real GDP in one quarter cannot be excluded. According to the conventional business cycle pattern, economic growth should gradually rebound in the course of 2012.

Labour market developments have been positive so far in 2011. Employment gains continued until August. While the seasonally-adjusted unemployment rate has been heading up for several months, this is partly due to major cuts in government-sponsored job training programmes. The number of persons in dependent active employment, after a projected increase by 1.8 percent in 2011, will likely gain a modest 0.4 percent in 2012, taking the unemployment rate from 6.7 percent to 7.0 percent.

The marked upward drift of consumer prices since the beginning of this year will abate over the next months. Oil prices have been falling for several months which in due course will show up also in the annual increase in the overall price level. Headline inflation is projected at 3.1 percent for 2011, followed by 2.1 percent in 2012.

If the cyclical slowdown does not prove significantly stronger than projected in the present context, a departure from the course of fiscal consolidation in Austria would not be warranted. Slower GDP growth will weigh on both public revenue and expenditure. While the structural budget deficit should be reduced as planned, automatic cyclical stabilisers should not be prevented from operating.

Table 1: Main results

		2007	2008	2009	2010	2011	2012
		Percentage changes from previous year					
GDP							
Volume		+ 3.7	+ 1.4	- 3.8	+ 2.3	+ 2.9	+ 0.8
Value		+ 5.8	+ 3.2	- 2.8	+ 4.1	+ 4.9	+ 2.9
Manufacturing <sup>1</sup> , volume		+ 8.1	+ 1.3	- 15.0	+ 7.2	+ 8.0	+ 1.0
Wholesale and retail trade, volume		+ 1.9	- 3.0	+ 0.7	+ 3.1	+ 0.9	+ 0.4
Private consumption expenditure, volume		+ 0.9	+ 0.8	- 0.3	+ 2.2	+ 0.9	+ 0.8
Gross fixed investment, volume		+ 3.6	+ 0.7	- 8.3	+ 0.1	+ 4.0	+ 1.1
Machinery and equipment		+ 6.6	- 0.7	- 9.7	+ 4.3	+ 8.0	+ 1.5
Construction		+ 1.8	+ 1.0	- 7.6	- 2.9	+ 0.7	+ 0.7
Exports of goods <sup>2</sup>							
Volume		+ 9.0	+ 0.5	- 16.8	+ 12.8	+ 8.5	+ 4.5
Value		+ 10.5	+ 2.5	- 20.2	+ 16.7	+ 11.5	+ 4.5
Imports of goods <sup>2</sup>							
Volume		+ 7.6	+ 0.6	- 14.3	+ 10.3	+ 7.0	+ 4.5
Value		+ 9.6	+ 4.7	- 18.4	+ 16.5	+ 11.5	+ 4.0
Current balance	billion €	+ 9.62	+ 13.76	+ 8.53	+ 7.76	+ 8.27	+ 8.54
As a percentage of GDP		+ 3.5	+ 4.9	+ 3.1	+ 2.7	+ 2.8	+ 2.8
Long-term interest rate <sup>3</sup>	in percent	4.3	4.4	3.9	3.2	3.3	3.2
Consumer prices		+ 2.2	+ 3.2	+ 0.5	+ 1.9	+ 3.1	+ 2.1
Unemployment rate							
Eurostat definition <sup>4</sup>	in percent	4.4	3.8	4.8	4.4	4.2	4.4
National definition <sup>5</sup>	in percent	6.2	5.9	7.2	6.9	6.7	7.0
Persons in active dependent employment <sup>6</sup>		+ 2.1	+ 1.7	- 1.5	+ 0.8	+ 1.8	+ 0.4
General government financial balance according to Maastricht definition							
As a percentage of GDP		- 0.9	- 0.9	- 4.1	- 4.6	- 3.1	- 3.1

Source: WIFO Economic Outlook. – <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.

According to the index of the Dutch Centraal Planbureau (CPB), world trade growth has levelled off already since the beginning of 2011. In July, it virtually stagnated at the previous month's level. Since April, the slowdown has been felt also in the emerging markets. Among the latter, only the Latin American countries have enjoyed solid gains until now.

In the USA, developments in 2011 have been disappointing so far. In the first and second quarter, real GDP edged up by only 0.1 percent and 0.2 percent respectively, from the previous period. WIFO therefore has to revise down its projection for US growth for 2011 to +1.8 percent. The Federal Reserve maintains its stance of monetary expansion, leaving its key interest rate close to zero for more than two and a half years by now. The adverse trend on the labour market undermines private households' appetite for higher consumption, with spending virtually stagnating in real terms in the second quarter. Unemployment reached a peak in October 2009 at a rate of 10.1 percent and has eased little since then, to 9.1 percent in August 2011. Public discussion about a reduction of the high government debt and developments on stock markets are a further drag on consumer confidence. From July to

**World economy  
expanding more  
slowly**

August, the Standard-&-Poors-500 index dropped by more than 15 percent; since then, share prices have moved sideways, subject to strong volatility. Over the entire forecast period, private consumption is therefore unlikely to provide major incentives to US growth.

Japanese output has been severely hit by the natural disaster and the ensuing damage to the nuclear reactor in March 2011. Recovering from the slump in the first two quarters, reconstruction work should add to demand and output later this year, with GDP nevertheless falling below last year's on annual average. Growth should resume in 2012, albeit at a moderate pace due to the weak global environment.

*Spreading uncertainty on global financial markets is weighing on economic growth not only in the euro area, but also in other major economic zones. In the USA, labour market developments keep undermining private consumption, and excessive public debt requires fiscal restraint. At the same time, Chinese export growth is decelerating while monetary restriction aims at dampening domestic demand.*

Table 2: World economy

	2007	2008	2009	2010	2011	2012
	Percentage changes from previous year					
<i>Real GDP</i>						
World	+ 5.4	+ 2.8	- 0.7	+ 5.1	+ 3.8	+ 3.1
USA	+ 1.9	- 0.3	- 3.5	+ 3.0	+ 1.8	+ 1.0
Japan	+ 2.4	- 1.2	- 6.3	+ 4.0	- 0.5	+ 1.5
EU 27	+ 3.1	+ 0.5	- 4.3	+ 1.8	+ 1.7	+ 0.7
Euro area 17	+ 3.0	+ 0.4	- 4.3	+ 1.8	+ 1.6	+ 0.5
Germany	+ 3.3	+ 1.1	- 5.1	+ 3.7	+ 2.9	+ 0.7
New EU countries <sup>1</sup>	+ 5.9	+ 4.1	- 3.2	+ 2.2	+ 3.0	+ 1.8
China	+14.2	+ 9.6	+ 9.2	+10.4	+ 9.5	+ 8.5
World trade, volume	+ 7.0	+ 2.5	-12.7	+15.3	+ 6.0	+ 5.0
Market growth <sup>2</sup>	+ 7.5	+ 2.9	-11.5	+11.5	+ 8.0	+ 4.0
<i>Primary commodity prices</i>						
HWI index, total	+12.4	+31.7	-34.4	+29.0	+35	- 6
Excluding energy	+17.8	+18.3	-28.0	+31.5	+25	+ 5
<i>Crude oil prices</i>						
Brent, \$ per barrel	72.5	97.0	61.5	79.5	110	100
<i>Exchange rate</i>						
\$ per euro	1.371	1.471	1.393	1.327	1.40	1.40

Source: WIFO Economic Outlook. – <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 slackening of global growth is also felt in China, weighing via exports on domestic activity. For some time, policy has been trying to rein back inflation and prevent overheating of the economy by restricting credit, thereby further dampening internal demand. WIFO expects real GDP growth to slow from 9½ percent in 2011 to 8½ percent in 2012.

The agreement on a second aid package for Greece with partial debt relief and extension of redemption periods to 30 years has calmed financial markets only momentarily. Like before, the Greek sovereign is unable to raise capital on financial markets. Persisting uncertainty about how to cope with the euro area debt crisis is putting strain on other countries, such as Portugal, Spain and Italy. In September 2011, Italy for the first time since its accession to the euro area had to pay interest rates close to 6 percent for selling new debt. If such rates were to hold or even increase over the next weeks and months, Italy would also run into financing problems soon. In this case, the other euro area members would be neither able nor willing to provide support.

Many banks in the euro area suffer already now from the sharp fall in their share values, since they hold large amounts of high-risk government bonds. Thus, both large French and German banks lost about 50 percent of their stock market value in the last two months. This not only inhibits them in raising fresh capital, but may also give rise to a new domino effect in the banking sector, similar to the one witnessed in 2008.

The room for manoeuvre of monetary policy, and even more of fiscal policy, to counter a major recession is considerably smaller at present than in 2008. The US

## Tensions in the euro area rising markedly

*The drawn-out political battle for a resolution of the Greek sovereign debt crisis is increasingly undermining the stability of the financial sector and confidence in the creditworthiness of other euro area countries.*

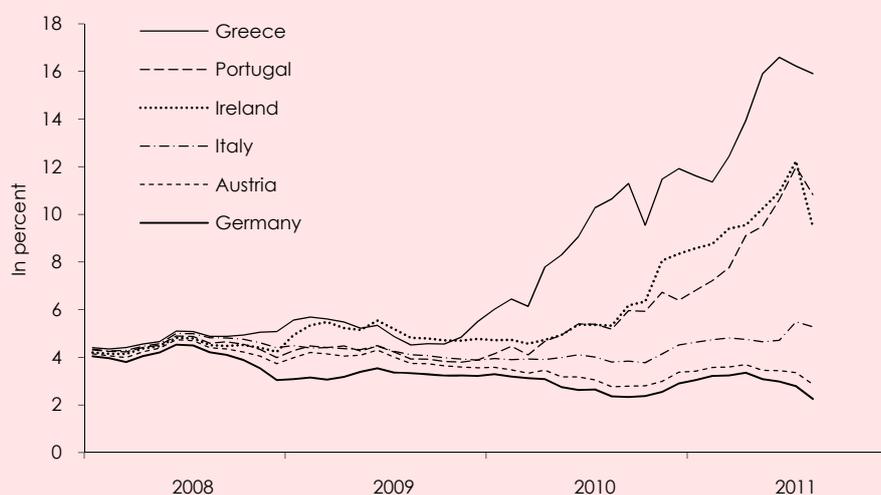
Federal Reserve has kept its key interest rate close to zero for more than two years, while in the euro area it is currently set at 1.5 percent. In both economic areas, government budgets are burdened by large deficits, leaving little scope for further cyclical stimulus measures.

Turbulences on financial markets are unpredictable. Since they are nevertheless of decisive influence for developments in the real economy, the present forecast is based on two assumptions:

- No further substantial slump in stock markets will occur over the projection period; such a slump could seriously jeopardise the viability of the European banking system, with adverse repercussions also for the real economy, like in 2008;
- Greece will be spared an unordered default and remains part of the euro area. Also for the other critical debtor countries the situation stabilises on the basis of the policy action taken at the national and the European level. As a consequence, bond yields ease gradually (as currently observed for Ireland).

Figure 1: Yields of long-term government bonds

10-year benchmark



Source: OeNB.

In early 2011, the euro area economy still grew by 0.8 percent from the last three months of 2010, the whole EU economy by 0.7 percent. In the second quarter, growth dropped sharply to 0.2 percent, driven by developments in Germany (+0.1 percent after +1.3 percent) and France ( $\pm 0.0$  percent after +0.9 percent).

Those countries that are currently struggling with excessive public debt fared unevenly in the first half of this year: in Spain, GDP growth decelerated from 0.4 percent to 0.2 percent, whereas in Italy it picked up from 0.1 percent in the first to 0.3 percent in the second quarter. In Portugal, demand and output stagnated in the second quarter, after a decline of 0.6 percent in the first three months. No results have yet been reported for Ireland and Greece, but official forecasts for Greece suggest a more severe contraction of GDP than expected so far.

Growth in the euro area is likely to rebound somewhat in the third quarter. While German exports of goods eased again in July, industrial output jumped at the same time by 4 percent from the previous month. Production pointed up also in France.

Business surveys for the euro area nevertheless keep signalling a marked economic downturn, which leads WIFO to assume sluggish growth for around the turn of the year. Notably the export-oriented economies like Germany and Austria will suffer setbacks to activity, even if growth rates for the whole year should remain above the euro area average. On a seasonally adjusted basis, quarterly GDP may tempo-

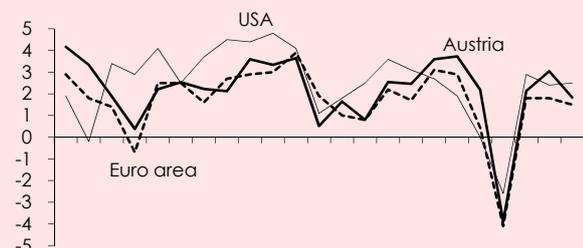
*The imminent cyclical slowdown will have an above-average impact on the so far more dynamic euro area economies*

rarily stagnate or even decline. The WIFO projection for annual GDP growth in Germany is for 2.9 percent in 2011 and 0.7 percent in 2012.

Figure 2: Indicators of economic performance

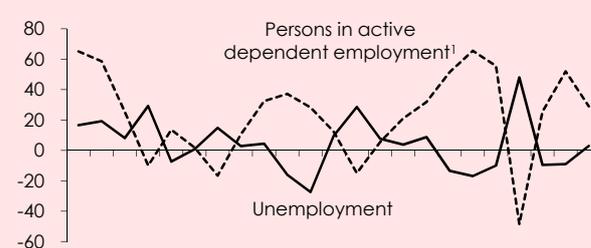
Growth of real GDP

Percent



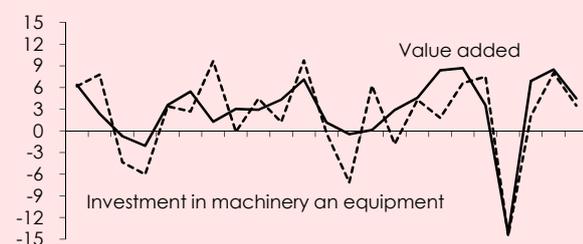
Employment and unemployment

1,000 from previous year



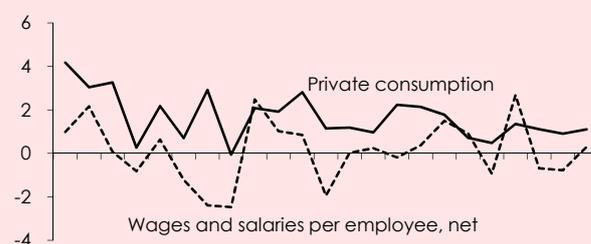
Manufacturing and investment

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



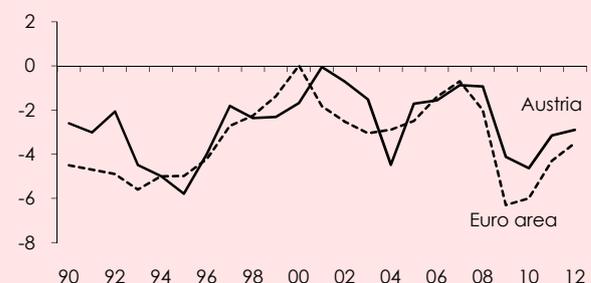
Trade

Percentage changes from previous year, volume



General government financial balance

As a percentage of GDP



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

Growth will be subdued also in other euro area countries, such that the entire area economy may expand by 0.5 percent in 2012, after +1.6 percent in the current year. According to the usual cyclical pattern, growth should pick up as from mid-2012. For the EU 27, WIFO expects real GDP to gain 1.7 percent in 2011, followed by 0.7 percent in 2012.

The Austrian economy continued its cyclical recovery in the first half of 2011, with real GDP rising by 3.8 percent year-on-year. In line with the usual pattern of small open economies, the upturn was mainly driven by exports. Investment in machinery and equipment initially also provided a significant growth contribution, but soon showed signs of slackening in response to firms' growing scepticism about the short-term outlook.

The business survey conducted by WIFO on behalf of the European Commission has been indicating for several months a weakening of conditions: the stock of foreign and domestic orders, output expectations for the next three months and the outlook over a six months' period are all judged less positive by firms than at the beginning of the year. Likewise, business confidence is waning across the EU and the euro area. Against this background, Austrian merchandise exports are expected to decline at the latest from the end of this year and in the first half of 2012. By that time, foreign demand should head up again if the business cycle follows the usual pattern. WIFO projects Austria's merchandise exports to expand by 8.5 percent in volume in 2011 and by 4.5 percent in 2012.

Receding demand from abroad will slow the momentum of manufacturing output, possibly down to a temporary contraction. Here again, a turnaround towards recovery should take place in the course of 2012. On annual average, manufacturing value added will expand by 8 percent in volume in 2011, but edge up by only 1 percent in 2012.

Unit labour cost in manufacturing, having trended down in 2010 and 2011, should pick up by ¼ percent in 2012. Price competitiveness of domestic manufacturing will thus be preserved, such that Austrian goods should further gain foreign market shares even in the difficult environment of 2012.

The speedy recovery from the severe recession of 2008-09 took overall output back this year to the level held before the crisis. As firms had massively cut their investment spending during the recession, capacity utilisation rose quickly during the recovery. Since 2010, renewal of an addition to productive machinery and equipment has resumed, with a gain of some 4 percent in real terms after a drop of nearly 10 percent in 2009. This rebound accelerated in the first half of 2011. Yet, rising uncertainty and pessimism about the short-term outlook, as emerging from the results of business surveys since spring, is about to interrupt this second stage of a typical recovery. While still growing by 8 percent in volume in 2011, machinery investment will almost remain flat (+1½ percent) next year.

## Slackening external demand interrupting domestic recovery

*The Austrian economy still enjoyed solid growth in the first half of 2011 (+3.8 percent in volume from the previous year). For the months to come, business surveys signal a marked deceleration of activity, resulting in annual average GDP growth of 2.9 percent, abating further to 0.8 percent in 2012.*

## Recovery of investment ends abruptly

*In the light of a more pessimistic outlook and the uncertainty on international markets firms hesitate to embark on new investment projects.*

Table 3: Productivity

	2007	2008	2009	2010	2011	2012
	Percentage changes from previous year					
<i>Total economy</i>						
Real GDP	+ 3.7	+ 1.4	- 3.8	+ 2.3	+ 2.9	+ 0.8
Employment <sup>1</sup>	+ 1.9	+ 2.1	- 0.9	+ 0.8	+ 1.7	+ 0.4
Productivity (GDP per employment)	+ 1.8	- 0.7	- 2.9	+ 1.5	+ 1.1	+ 0.4
<i>Manufacturing</i>						
Production <sup>2</sup>	+ 8.3	+ 0.9	-15.3	+ 7.4	+ 8.0	+ 1.0
Employees <sup>3</sup>	+ 2.6	+ 1.7	- 5.3	- 1.3	+ 1.8	- 1.2
Productivity per hour	+ 5.9	- 0.3	- 7.3	+ 5.5	+ 5.0	+ 2.8
Working hours per day per employee <sup>4</sup>	- 0.3	- 0.5	- 3.6	+ 3.1	+ 1.0	- 0.6

Source: WIFO Economic Outlook. – <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.

Construction investment had followed a downward trend since the beginning of the economic crisis in 2008-09, but started heading up in the first half of 2011. On annual average, modest output growth of ¼ percent in volume may be expected for both 2011 and 2012. Subdued prospects for the economy overall in 2012 will particularly weigh on "other building" activity, the category that moved to positive growth of late. Residential building and civil engineering are likely to be less affected; the for-

mer should continue to expand, albeit slowly, the latter may slightly decline, given the restraint in embarking on new projects on the part of the public sector.

Table 4: Earnings and international competitiveness

	2007	2008	2009	2010	2011	2012
	Percentage changes from previous year					
Gross earnings per employee <sup>1</sup>	+ 3.1	+ 3.2	+ 1.6	+ 1.2	+ 2.7	+ 2.5
Gross real earnings per employee <sup>2</sup>	+ 0.9	- 0.0	+ 1.1	- 0.7	- 0.4	+ 0.4
Net real earnings per employee <sup>2</sup>	+ 0.9	- 0.7	+ 2.9	- 0.9	- 0.7	+ 0.1
<i>Total economy</i>						
Unit labour costs	+ 1.1	+ 3.7	+ 4.7	- 0.3	+ 1.6	+ 2.1
<i>Manufacturing</i>						
Unit labour costs	- 2.3	+ 5.2	+ 15.1	- 5.7	- 2.9	+ 0.7
Effective exchange rate, manufactures						
Nominal	+ 1.2	+ 1.1	+ 0.7	- 2.6	+ 0.6	+ 0.7
Real	+ 0.8	+ 0.6	+ 0.4	- 2.7	+ 1.2	+ 0.8

Source: WIFO Economic Outlook. – <sup>1</sup> Employees according to National Accounts definition. – <sup>2</sup> Deflated by CPI.

As a consequence of the recession in 2008-09, the Austrian tourism industry suffered a severe setback. The downturn came to a halt in 2010, when export earning edged up by almost 1 percent in real terms. Accelerating inflation due to rising energy prices squeezes real income gains in the industrialised countries this year. In 2012, the cyclical slowdown, coupled with uncertainty on the part of private households on the size of their burden in the context of the resolution of the euro area public debt crisis, will again weigh on demand for tourism services. The projection is for stagnation in the current year, followed by a loss of 2 percent in volume in 2012.

### Continued weakness in tourism

Table 5: Private consumption, income and prices

	2007	2008	2009	2010	2011	2012
	Percentage changes from previous year					
Private consumption expenditure	+ 0.9	+ 0.8	- 0.3	+ 2.2	+ 0.9	+ 0.8
Durables	+ 2.5	+ 4.7	+ 0.9	+ 5.8	+ 1.0	- 0.3
Non-durables and services	+ 0.7	+ 0.4	- 0.4	+ 1.8	+ 0.9	+ 0.9
Household disposable income	+ 2.5	+ 1.3	- 1.3	- 1.4	+ 0.4	+ 0.6
	As a percentage of disposable income					
Household saving ratio <sup>1</sup>	11.6	11.8	11.1	9.1	8.7	8.5
Household saving ratio <sup>2</sup>	11.2	11.6	10.4	8.7	8.3	8.1
	Percentage changes from previous year					
Direct lending to domestic non-banks <sup>3</sup>	+ 3.6	+ 7.4	- 1.3	+ 2.9	+ 4.0	+ 3.5
	Percentage changes from previous year					
Inflation rate						
National	2.2	3.2	0.5	1.9	3.1	2.1
Harmonised	2.2	3.2	0.4	1.7	3.5	2.3
Core inflation <sup>4</sup>	1.9	2.4	1.5	1.2	2.7	2.1

Source: WIFO Economic Outlook. – <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.

In line with sluggish tourism demand, prospects for the hotel and restaurant sector are subdued. In 2009, value added shrunk by 1.5 percent, markedly less though than tourism services exports, before rebounding by 1.8 percent in 2010. WIFO expects further limited losses in 2011 and 2012 (by 0.2 percent and 1.3 percent, respectively).

Although real income of private households per capita declined for the second year in a row in 2011, domestic private consumption proved highly robust. Demand for motor cars was lively in the first six months, but is set to level off over the forecast period. Given the projected cyclical slowdown, real income gains will provide at best modest stimulus to private consumption, even if inflation is set to subside.

Private household spending will edge up by an inflation-adjusted 0.9 percent in 2011 and by 0.8 percent in 2012. This corresponds to the pace observed during the boom period of 2007 and 2008. Private consumption should thereby act as an important cyclical stabiliser in 2012. Since real income gains over the projection horizon are set to be markedly leaner than in 2007-08, higher consumption will imply a lower saving ratio. The latter had already moderated in 2010 from 11 percent to 9 percent of private disposable income. For 2011 and 2012, WIFO expects a further slight decline, to 8.7 percent and 8.5 percent, respectively.

In July, consumer price inflation in Austria rose to a peak of 3.5 percent, the highest year-to-year rate since the crisis of 2008-09. Highest annual gains were recorded for oil products, food items, foreign travel arrangements, restaurants and hotels as well as rents of apartments. In August, the inflation rate edged down to 3.4 percent. While oil prices are still much higher than one year ago, they have moved to a downward trend since April, which should facilitate a further deceleration of headline inflation in coming months. WIFO expects oil prices to ease also in 2012. Moreover, the base effect of consumption tax hikes introduced in 2011 will disappear as from early 2012. Finally, the cyclical downturn will dampen price increases. For 2012, WIFO expects an annual inflation rate of 2.1 percent as measured by the national consumer price index, down from 3.1 percent in 2011. The EU-wide Harmonised Consumer Price Index is projected to fall from 3.5 percent to 2.3 percent.

## Private consumption resilient, but not dynamic

## Inflationary pressure subsides

The latest fall in oil prices and the cyclical slowdown will have a dampening effect on consumer prices. On annual average 2011, headline inflation will rise to 3.1 percent, before abating to 2.1 percent in 2012.

Table 6: Labour market

		2007	2008	2009	2010	2011	2012
		Changes from previous year, in 1,000					
<i>Demand for labour</i>							
Persons in active employment <sup>1</sup>		+64.7	+66.0	-44.0	+31.3	+65.5	+17.5
Employees <sup>2</sup>		+65.5	+55.6	-48.5	+25.5	+58.0	+12.5
<i>Percentage changes from previous year</i>		+ 2.1	+ 1.7	- 1.5	+ 0.8	+ 1.8	+ 0.4
Nationals		+43.6	+31.1	-43.0	+ 5.8	+25.0	+ 3.0
Foreign workers		+21.9	+24.5	- 5.5	+19.7	+33.0	+ 9.5
Self-employed <sup>3</sup>		- 0.8	+10.4	+ 4.5	+ 5.8	+ 7.5	+ 5.0
<i>Labour supply</i>							
Population of working age	15 to 64 years	+15.5	+27.7	+17.3	+21.6	+32.8	+15.0
	15 to 59 years	+17.1	+17.6	+11.1	+ 8.9	+16.8	+14.7
Labour force <sup>4</sup>		+47.8	+56.0	+ 4.0	+21.8	+61.0	+28.5
<i>Surplus of labour</i>							
Registered unemployed <sup>5</sup>		-16.9	-10.0	+48.1	- 9.5	- 4.5	+11.0
In 1,000		222.2	212.3	260.3	250.8	246.3	257.3
Unemployed persons in training <sup>5</sup>		52.7	50.5	64.1	73.2	63.2	62.2
		In percent					
<i>Unemployment rate</i>							
Eurostat definition <sup>6</sup>		4.4	3.8	4.8	4.4	4.2	4.4
As a percentage of total labour force <sup>5</sup>		5.6	5.3	6.5	6.2	6.0	6.2
National definition <sup>5,7</sup>		6.2	5.9	7.2	6.9	6.7	7.0
<i>Employment rate</i>							
Persons in active employment <sup>1,8</sup>		64.9	65.7	64.7	65.0	65.8	65.9
Total employment <sup>6,8</sup>		71.4	72.1	71.6	71.7	72.1	72.2

Source: WIFO Economic Outlook. – <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).

In Austria, the cyclical recovery from the crisis of 2008-09 was accompanied by a surprisingly early and strong improvement in labour market conditions. As early as 2010, the number of persons in dependent active employment increased by 25,500 or 0.8 percent, with a further gain of 58,000 or 1.8 percent expected for 2011. At the same time, the number of unemployed fell by nearly 10,000 in 2010 and should again be lower by 4,500 in 2011, despite a cut in enrolment of job training programmes by 10,000. The unemployment rate, on national definitions, will edge down from 6.9 percent in 2010 to 6.7 percent.

## Improvement of labour market grinds to a halt

### *Methodological Notes and Short Glossary*

#### *Period comparisons*

Time-series comparisons with the previous period, e.g., the previous quarter, are adjusted for seasonal effects. They also include effects that result from a different number of working days in the period (e.g., Easter). In the text, reference is made to "seasonally and working day adjusted changes".

The phrase "changed compared with a year before . . .", on the other hand, describes a change compared with the same period a year before and refers to unadjusted time series.

The analysis of the seasonally and working day adjusted development provides more precise information about the actual course of economic activity and shows turning points sooner. However, the data are subject to additional revisions as seasonal adjustment is based on statistical methods.

#### *Real and nominal values*

In principle, the values shown must be understood as real values, i.e., adjusted for price effects. Whenever values are shown as nominal values (e.g., foreign trade statistics), this is specifically mentioned.

#### *Production Sector*

This term comprises the NACE-2008 sections B, C and D (Mining and Quarrying, Manufacturing, Energy Supply) and is here used in an international comparison.

#### *Inflation, CPI und HICP*

The inflation rate measures changes in consumer prices compared with a year before. The Consumer Price Index (CPI) is a measure of national inflation. The Harmonised Index of Consumer Prices (HICP) is the basis for comparable measurement of inflation in the EU and for the evaluation of price stability in the euro area (see <http://www.statistik.at/>).

Core inflation as a monetary policy indicator is not clearly defined. WIFO follows the common practice of using the inflation rate excluding the product categories unprocessed food and energy for core inflation. Thus just under 87 percent of the goods and services contained in the consumer price index (CPI 2010) are included in the calculation of core inflation.

#### *WIFO Business Cycle Survey and WIFO Investment Survey*

The WIFO Business Cycle Survey is a monthly survey in which around 1,100 Austrian firms are asked to assess their current and future economic situation. The WIFO investment survey is conducted twice a year, asking companies about their investment activity (<http://www.itkt.at/>). The indicators are balances between the positive and negative responses expressed as a percentage of the total number of firms sampled.

#### *Unemployment rate*

Austrian national definition: The number of persons registered as job seekers with the Public Employment Service expressed as a percentage of the dependent labour force. Labour force is the sum of the unemployed and the persons in dependent employment (measured in standard employment relationships). Database: registrations with the Public Employment Service (AMS) and Association of Austrian social insurance agencies.

Definition according to ILO and EUROSTAT: Any person who is not gainfully employed and is actively seeking work is considered unemployed. Gainfully employed persons comprise all persons who during the reference week worked for at least one hour in a self-employed capacity or in paid employment. Persons receiving child-care benefit and apprentices are classified as gainfully employed, whereas persons in military service or persons carrying out alternative service are not. The unemployment rate is the number of unemployed persons expressed as a percentage of the total labour force (unemployed persons plus gainfully employed persons). Database: data from household surveys ("Mikrozensus").

#### *Terms used in connection with the national definition of the unemployment rate*

Persons in training: Persons who at a set date are enrolled in AMS (Public Employment Service) training programmes. When calculating the unemployment rate, their number is not taken into account either in the denominator or in the numerator.

Persons in dependent active employment: "Persons in dependent employment" include persons receiving child-care benefit, as well as persons in military service or persons carrying out alternative service with a valid employment contract. By deducting their number one arrives at the number of "persons in dependent active employment".

While in a year-on-year comparison the number of registered unemployed increased slightly only as from August, the month-on-month trend has been heading up since spring. Due to this trend, together with a further cyclical slowdown, the jobless figure for 2012 will move up 11,000 above the year-earlier level. The rate of unemployment will thereby reach again 7 percent of the dependent labour force, according to the conventional national definition.

Job creation has so far been unabated, even on a monthly comparison. Nevertheless, the slower pace of activity is likely to leave its mark as from the turn of the year. For 2012, WIFO expects an increase in the number of persons in dependent active employment by only 12,500 or 0.4 percent. The unemployment rate on harmonised Eurostat definitions will decline to 4.2 percent on annual average 2011, before returning next year to 4.4 percent as recorded in 2010.

Government households, heavily strained by the crisis of 2008-09, will be facing an additional burden in 2012 as rising unemployment drives up expenditure. At the same time, slower employment growth will be reflected in a less dynamic expansion of the wage bill. Revenues from profit taxes are expected to fall, while growth of VAT receipts will decelerate under the impact of lower inflation. As a result, the general government deficit will stay around 3 percent of GDP, despite the consolidation efforts undertaken.

Should the profile of the cyclical slowdown turn out as projected here, and barring unorderly default of Greece with the implicit repercussions on the European banking system, the measures of fiscal consolidation adopted by the Federal government can and shall be implemented as planned. The weakening of the budget balance on account of the operation of automatic stabilisers ought to be accepted. At the same time, efforts at improving the composition of public spending should be intensified, even if involving initial costs.

*With the cyclical recovery stalling, job creation is set to slacken and unemployment is bound to rise.*

### Cyclical sluggishness keeps deficit ratio at 3 percent

*The marked slowdown of demand and output growth will dampen public revenue in 2012, while giving rise to higher expenditure. The consolidation measures already adopted to reduce the structural deficit will nevertheless be implemented as planned.*

Table 7: Key policy indicators

	2007	2008	2009	2010	2011	2012
	As a percentage of GDP					
<i>Fiscal policy</i>						
General government financial balance						
According to Maastricht definition	- 0.9	- 0.9	- 4.1	- 4.6	- 3.1	- 3.1
According to National Accounts	- 1.0	- 1.0	- 4.1	- 4.6	- 3.1	- 3.1
General government primary balance	+ 1.9	+ 1.7	- 1.3	- 1.9	- 0.6	- 0.5
	In percent					
<i>Monetary policy</i>						
3-month interest rate	4.3	4.6	1.2	0.8	1.4	1.5
Long-term interest rate <sup>2</sup>	4.3	4.4	3.9	3.2	3.3	3.2
	Percentage changes from previous year					
<i>Effective exchange rate</i>						
Nominal	+ 1.1	+ 1.2	+ 0.9	- 2.5	+ 0.6	+ 0.9
Real	+ 0.7	+ 0.6	+ 0.4	- 2.7	+ 1.2	+ 0.9

Source: WIFO Economic Outlook. – <sup>1</sup> 10-year central government bonds (benchmark).