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CYCLICAL RECOVERY EXPECTED TO PROCEED SMOOTHLY

ECONOMIC OUTLOOK FOR 2002 AND 2003

The business cycle recovery in the USA will give early incentives to activity in Europe during the first half of 2002, leading to a marked revival of demand and output growth. Such expectations are confirmed by survey results and data collected over the past few months. The WIFO projection for economic growth from last December may therefore remain unchanged.

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Domestic business activity is set to pick up smoothly in the course of this year. From quarter to quarter, real GDP should rise by a seasonally adjusted $\frac{1}{2}$ to $\frac{3}{4}$ percent, yielding an annual growth rate of more than $2\frac{1}{2}$ percent towards the end of the year. Due to the low starting level (negative statistical overhang from last year), the average growth rate in 2002 will only be 1.2 percent, while in 2003 the projected 2.8 percent would be clearly above the medium-term trend.

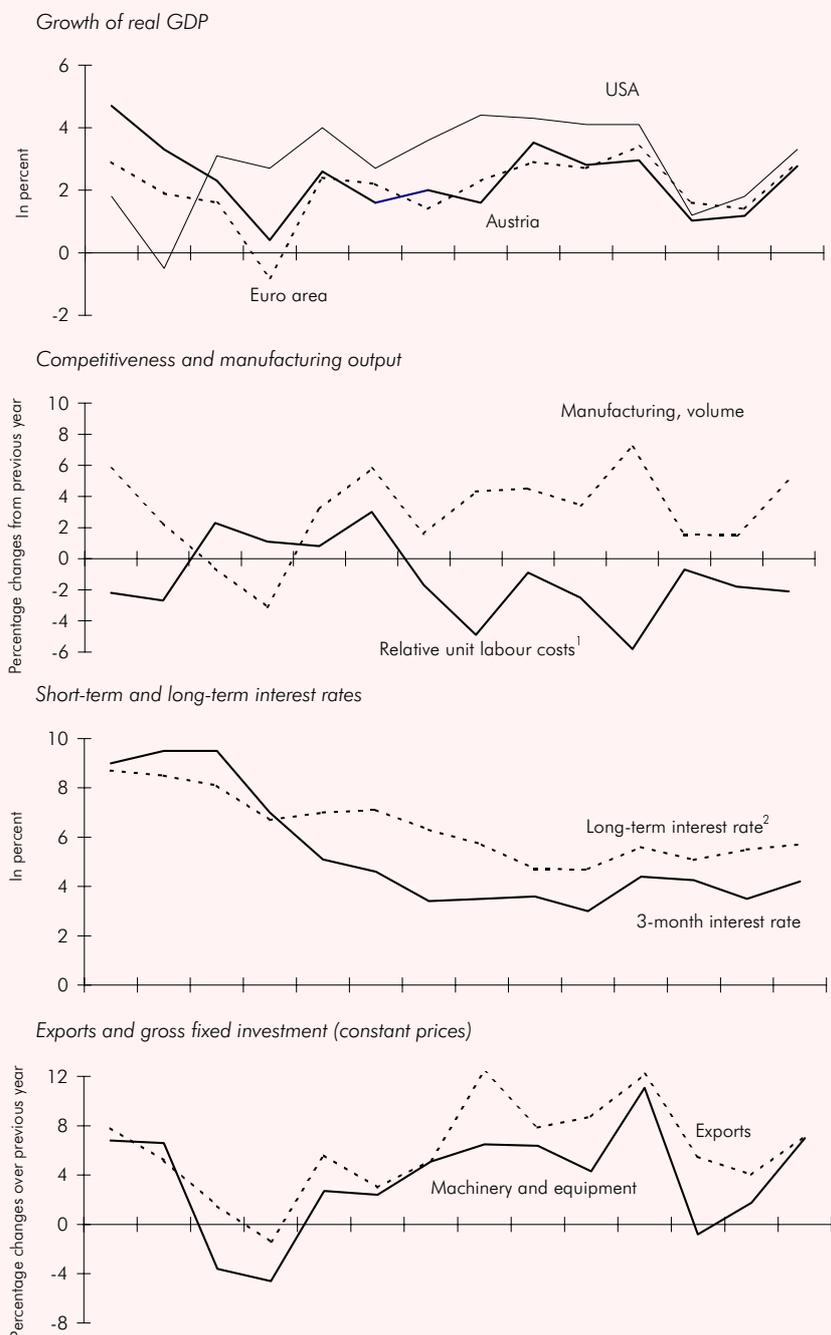
Table 1: Main results

		1998	1999	2000	2001	2002	2003
		Percentage changes from previous year					
GDP							
Volume		+ 3.5	+ 2.8	+ 3.0	+ 1.0	+ 1.2	+ 2.8
Value		+ 4.1	+ 3.5	+ 4.2	+ 2.9	+ 2.4	+ 4.0
Manufacturing ¹ , volume		+ 4.4	+ 3.4	+ 7.3	+ 1.5	+ 1.5	+ 5.0
Private consumption expenditure, volume		+ 2.8	+ 2.7	+ 2.5	+ 1.3	+ 1.6	+ 2.3
Gross fixed investment, volume		+ 3.4	+ 1.5	+ 5.1	- 1.5	+ 0.3	+ 4.1
Machinery and equipment ²		+ 6.4	+ 4.3	+ 11.1	- 0.8	+ 1.8	+ 7.0
Construction		+ 1.3	- 0.7	+ 0.3	- 2.2	- 1.0	+ 1.5
Exports of goods ³							
Volume		+ 8.1	+ 7.7	+ 13.1	+ 5.4	+ 4.0	+ 8.5
Value		+ 8.4	+ 7.0	+ 15.6	+ 6.8	+ 4.5	+ 10.1
Imports of goods ³							
Volume		+ 7.1	+ 6.9	+ 10.9	+ 2.9	+ 3.0	+ 7.6
Value		+ 6.6	+ 6.7	+ 14.7	+ 5.0	+ 3.5	+ 9.8
Current balance	billion €	- 4.68	- 6.33	- 5.71	- 4.80	- 4.28	- 5.04
As a percentage of GDP	in percent	- 2.5	- 3.2	- 2.8	- 2.3	- 2.0	- 2.2
Long-term interest rate ⁴	in percent	4.7	4.7	5.6	5.1	5.5	5.7
Consumer prices		+ 0.9	+ 0.6	+ 2.3	+ 2.7	+ 1.7	+ 1.4
Unemployment rate							
Percent of total labour force ⁵	in percent	4.5	3.9	3.7	3.6	3.9	3.8
Percent of dependent labour force ⁶	in percent	7.2	6.7	5.8	6.1	6.7	6.5
Dependent employment ⁷		+ 1.0	+ 1.2	+ 1.0	+ 0.4	- 0.2	+ 0.8
General government financial balance							
As a percentage of GDP	in percent	- 2.5	- 2.4	- 1.7	- 0.1	- 0.4	+ 0.0

¹ Value added, including mining and quarrying. – ² Including other products. – ³ According to Statistics Austria. – ⁴ 10-year central government bonds (benchmark). – ⁵ According to Eurostat. – ⁶ According to Labour Market Service. – ⁷ Excluding parental leave and military service.

Underlying this forecast is a cyclical recovery in the USA and in Europe, which is being announced by key leading indicators, such as business sentiment in the major countries or the low interest rates. The major factor of uncertainty is currently the political unrest in the Middle East which may keep oil prices high or drive up still further.

Figure 1: International context



¹ Manufacturing; in a common currency vis-à-vis trading partners. – ² 10-year central government bonds (benchmark).

The forecast for inflation has to be adjusted slightly upwards, as oil prices are exceeding earlier expectations. Consumer prices may rise by 1.7 percent this year, still 1 percentage point less than in 2001.

No turnaround is as yet visible on the labour market. Data for the annual average 2002 will be weaker than for last year. The rate of unemployment (as traditionally defined) will

go up from 6.1 to 6.7 percent. Nevertheless, by 2003 employment should pick up significantly, allowing the jobless rate to fall.

Public finances have returned to balance in 2001, for the first time since 1974. The closing of the deficit has been achieved on the back of a sharp rise in the tax burden. In 2002 and 2003, budget deficits should remain close to zero. In the current year, the cyclical weakness is complicating the task of balancing the budget; in 2003, while economic conditions should be more favourable, some revenues will be lost as a number of temporary measures wear off. Thus, if budget balance is to be maintained, the scope for a tax reform is extremely limited.

In the USA, the business cycle has passed the lower turning point, and signs are mounting that a recovery is under way. De-stocking appears to have ended, and the index of purchasing managers, a key leading indicator, is rising steeply. There is a good deal of evidence to suggest that the recession in the USA which according to the National Bureau of Economic Research (NBER) started in March 2001, has run its course.

In the wake of the terrorist attacks, the Federal Reserve cut short-term interest rates aggressively, down to a low $1\frac{3}{4}$ percent. Real short-term rates converged towards zero, yielding a stimulatory effect in a similar way as during the 1991-92 recession. Thus, economic activity was surprisingly robust in the fourth quarter 2001, immediately after the attacks, with real GDP rising by 1.7 percent (seasonally adjusted annualised rate). Higher public spending (on defence) and private purchases boosted by low interest rates and special rebates were the main supporting forces.

Due to the unexpectedly robust activity around the turn of the year, the forecast for US economic growth in 2002 may be revised upwards. GDP is likely to rise by $1\frac{3}{4}$ percent this year and by $3\frac{1}{4}$ percent in 2003. Judging by past experience, the low interest rates will stimulate construction activity, and the improvement in business confidence should give rise to a pick-up of investment. The further trend in private consumption is less certain, given the low household saving ratio and the rather volatile consumer sentiment.

For Japan, the projection requires a downward correction, as demand and output are set to decline further this year. Nevertheless, first signs of revival have become apparent in the manufacturing sector, following the depreciation of the yen. In South America, the severe crisis in Argentina has not spread to the whole continent, as has been the case in South-East Asia during the 1998 crisis.

Much as during the downturn, sentiment indicators in Europe and the USA are moving highly synchronised also in the nascent recovery, reflecting the globalisation of economic activity. International transmission channels are not confined to foreign trade, but also include investment activity, stock market trends and interest rates.

The European economy was lagging clearly behind the USA over the last cyclical expansion, but its subsequent downturn has also been less sharp. GDP in the EU rose by 1.7 percent in 2001 and is expected to advance at a similar 1.5 percent pace in 2002, before accelerating to almost 3 percent in 2003.

Over the second half of 2001, economic activity in the EU was broadly flat on a seasonally adjusted basis, the year-on-year increase was a modest 1 percent. Nearly all leading indicators show that a cyclical turnaround is now under way also in Europe. Business sentiment has improved over the last few months, underpinned by the pick-up in the USA, lower interest rates and the run-down of inventories. In the first instance, oil prices also had a stabilising influence on the cycle, before turning into a factor of uncertainty in recent weeks.

The "euroframe" indicator developed by a group of European economic research institutes suggests economic activity in the euro area may expand by 1.4 percent in the first and 1.8 percent in the second quarter, which rather appears to be the upper end of the likely range. In a critical phase of the cycle, negative shocks such as a jump in oil prices may still undermine a fragile recovery.

In 2001, differences in economic performance between EU countries have been marked. Spain, France and the UK registered growth of 2 to $2\frac{3}{4}$ percent, but Germany only a modest $\frac{1}{2}$ percent, as GDP remained flat already in the second quarter 2001, edging down in seasonally adjusted terms over the remainder of the year.

While German exports rose relatively strongly in 2001, domestic demand was trailing the EU average, notwithstanding a lowering of the tax burden taking effect. Construction investment and firms' spending on machinery and equipment both dropped sharply. Since the beginning of the year, industrial confidence has started reviving, with the ifo

US recession swiftly overcome through counter-cyclical policy action

The US economy slipped into recession in the second quarter 2001. Monetary and fiscal policies reacted decisively, such that the downturn was relatively quickly overcome, in spite of the shock caused by the terrorist attacks. Activity around the turn of the year was stronger than expected, and leading indicators are signalling further growth ahead.

European economy pulled by the upturn in the USA

business climate index heading up over the last months. On annual average 2002, German GDP is projected to rise by $\frac{3}{4}$ percent, accelerating to a rate of $2\frac{1}{2}$ percent in 2003.

Sluggishness in key Western markets is adversely affecting also the countries in East Central Europe. The Polish economy is close to stagnation, whereas in Hungary growth is holding up much better. With the recovery in the EU gaining momentum, GDP growth in the candidate countries should attain 3 percent in 2003.

Table 2: World economy

	1998	1999	2000	2001	2002	2003
	Percentage changes from previous year					
<i>Real GDP</i>						
Total OECD	+ 2.7	+ 3.1	+ 3.8	+ 1.1	+ 1.5	+ 3.1
USA	+ 4.3	+ 4.1	+ 4.1	+ 1.2	+ 1.8	+ 3.3
Japan	- 1.1	+ 0.7	+ 2.4	- 0.5	- 1.0	+ 1.0
EU	+ 2.9	+ 2.6	+ 3.3	+ 1.7	+ 1.5	+ 2.9
Euro area	+ 2.9	+ 2.7	+ 3.4	+ 1.6	+ 1.4	+ 2.9
Germany	+ 2.0	+ 1.8	+ 3.0	+ 0.6	+ 0.8	+ 2.5
Central and Eastern Europe ¹	+ 3.6	+ 3.2	+ 3.9	+ 2.5	+ 2.0	+ 3.0
<i>World trade, volume</i>						
OECD exports	+ 5.6	+ 6.2	+ 12.9	+ 0.3	+ 3.0	+ 8.8
OECD exports	+ 5.5	+ 5.4	+ 12.0	- 0.3	+ 1.5	+ 8.0
Intra-OECD trade	+ 8.3	+ 7.8	+ 11.6	- 1.0	+ 1.0	+ 6.8
<i>Market growth²</i>						
	+ 11.3	+ 7.3	+ 13.0	+ 3.0	+ 3.0	+ 7.0
<i>Primary commodity prices, in US\$</i>						
HWVA index, total, 1990 = 100	- 22.0	+ 12.0	+ 31.0	- 11.0	- 1.0	+ 5.0
Excluding energy	- 13.0	- 8.0	+ 1.0	- 7.0	- 3.0	+ 3.0
<i>Crude oil prices</i>						
Average import price (cif) for OECD countries	US\$ per barrel	12.6	17.3	28.0	24.5	26.0
Exchange rate	US\$ per ECU or €	1.121	1.067	0.924	0.896	0.90

¹ Poland, Slovakia, Slovenia, Czech Republic, Hungary. - ² Real import growth of trading partners weighted by Austrian export shares.

In 2001, the Austrian economy grew by a modest 1 percent. Together with Germany, Finland and Belgium, Austria was at the bottom end of an internal EU ranking. Apart from the international cyclical downturn, the domestic fiscal stance and the crisis in the construction sector exerted a restrictive influence, while demand was supported by a fall in the private household saving ratio by almost $\frac{3}{4}$ percentage point, as well as by sizeable gains in export market shares. Exports fared distinctly better than in the euro area, but private consumption was somewhat less robust. Construction investment lagged behind the EU trend, falling by 2 percent. Some firms, instead of spending on new capital, may have carried forward tax payments in order to avoid being charged interest.

The 2001 cyclical slowdown of the Austrian economy was the sharpest since the 1993 recession. Having remained flat in the second quarter, real GDP declined on a quarter-to-quarter basis in the third and fourth period. By now, the downward trend appears to have bottomed out. Business sentiment improved in March for the third consecutive month, and forward-looking indicators are clearly heading upwards, while the current situation continues to be judged more cautiously.

The statistical data and survey indicators confirm the assessment underlying the projection for GDP growth of last December which therefore remains unchanged. On a seasonally adjusted basis, demand and output are expected to pick up significantly from quarter to quarter, although the annual average rate of growth of around 1.2 percent will not yet reflect the stronger momentum.

By 2003, GDP growth may reach 2.8 percent, well above the medium-term trend, provided that the situation on oil markets remains broadly stable.

Until last autumn, exports held up rather well against the international slowdown, before aligning to the downward trend. In 2001, Austrian exports gained foreign market shares, as volume exports went up by $5\frac{1}{2}$ percent while foreign markets (i.e., imports of trading partners) expanded by around 3 percent. Deliveries to oil producing countries (OPEC, former Soviet Union) rose particularly strongly.

Strong pick-up in seasonally-adjusted growth

Domestic activity will strengthen significantly in the course of the year. As from the first quarter, real GDP should post substantial quarter-to-quarter gains. In the annual comparison, growth will still be subdued in the first six months, before reaching and exceeding the medium-term trend in the final quarter and in 2003.

Exports and manufacturing output to rise strongly in 2003

Export growth is set to remain subdued (on a year-on-year basis) in the first half of 2002; for the year as a whole it is forecast at 4 percent, accelerating to 8½ percent in 2003.

Manufacturing production is largely determined by exports. It will therefore follow a similar pattern, with average annual growth in 2002 still modest (1½ percent), rising to 5 percent in 2003.

This projection is being confirmed by the results from the regular WIFO business survey: industrial firms' judgement on business conditions has turned much more favourable from the final quarter 2001 to the first quarter 2002, a majority of them now expects production to rise shortly. The improvement has been most marked for the basic and intermediate goods sector.

Firms' investment propensity has weakened considerably as from mid-2001, according to the WIFO investment survey, and confirmed by the National Accounts data: capital spending on machinery and equipment fell by almost 1 percent in real terms in 2001. It is likely to rebound only in 2003, when the upturn in exports will have taken firm hold.

Table 3: Productivity

	1998	1999	2000	2001	2002	2003
	Percentage changes from previous year					
<i>Total economy</i>						
Real GDP	+ 3.5	+ 2.8	+ 3.0	+ 1.0	+ 1.2	+ 2.8
Employment ¹	+ 0.7	+ 1.2	+ 0.5	+ 0.2	- 0.2	+ 0.7
Full-time equivalent	+ 0.8	+ 1.0	+ 1.3	+ 0.1	- 0.3	+ 0.6
Productivity (GDP per employment)	+ 2.8	+ 1.5	+ 2.5	+ 0.8	+ 1.4	+ 2.1
Full-time equivalent	+ 2.7	+ 1.8	+ 1.6	+ 0.9	+ 1.5	+ 2.2
<i>Manufacturing</i>						
Production ²	+ 4.5	+ 3.4	+ 7.2	+ 1.5	+ 1.5	+ 5.0
Employees ³	+ 0.1	- 0.7	+ 0.0	+ 0.2	- 2.3	- 0.2
Productivity per hour	+ 4.3	+ 4.8	+ 7.3	+ 1.9	+ 3.9	+ 5.1
Working hours per day per employee ⁴	+ 0.1	- 0.6	- 0.1	- 0.6	± 0.0	+ 0.1

¹ Dependent and self-employed according to National Accounts. – ² Value added. – ³ According to Federation of Austrian Social Security Institutions. – ⁴ According to "Konjunkturerhebung" of Statistics Austria.

2001 has been a good year for the Austrian tourism sector. Travel receipts from abroad advanced by an inflation-adjusted 5 percent. After September 11, Austria became more attractive for European holidaymakers seeking to avoid air travel.

Supply facilities continued to improve. The number of customers rose strongly in four- and five-star category hotels, but fell in the more modest private lodgings – a structural shift which also drove up guests' average spending per day.

Gains are expected to be somewhat less strong this year and next, as the global cyclical slowdown will have a lagged effect on demand for travel. Still, growth of the sector may be somewhat higher than that of overall GDP. The external surplus in the tourism services balance is seen rising by € 200 million each in 2002 and 2003, thereby contributing towards an improvement of the current account balance.

In 2001, the current account deficit narrowed by almost € 1 billion, according to preliminary calculations. Beyond tourism, the positive trend extended to "other services" (transport) and the statistical residual of "non classified goods or services". In 2002, the overall gap is set to shrink further.

To a much greater extent than manufacturing, the construction industry has been hit by the cyclical downturn and by public spending restraint. Value added dropped by 2¾ percent in 2001, leading to a cut in the workforce by 10.000 and a marked rise in unemployment among construction workers.

Most severely affected was residential building, but also the creation of new office space suffered from prevailing excess capacity. Activity in civil engineering stabilised during the second semester. In the latest WIFO business survey, firms were more pessimistic for civil engineering than for building of new structures, although plans of the agencies in charge of road and railroad construction provide for a substantial increase in expenditure in 2002.

Tourism to continue growing

Fall in construction output continuing

The action plans adopted by the federal and the state governments will help sustain construction activity. Yet, a decline in output by a further 1 percent this year appears inevitable, before activity picks up in 2003. The cyclical recovery should give incentives to the building of new production facilities. Still, for a number of years to come, construction output will trail the pace of overall GDP growth.

Private household demand is lending support to business activity. Consumer spending rose by over 1 percent in real terms in 2001, although real disposable income remained flat¹. Private households have been saving markedly less in order to maintain desired consumption levels in the face of weaker business conditions and a rising tax burden.

Household spending acting as cyclical stabiliser

Table 4: Private consumption, earnings and prices

	1998	1999	2000	2001	2002	2003
	Percentage changes from previous year, volume					
Private consumption expenditure	+ 2.8	+ 2.7	+ 2.5	+ 1.3	+ 1.6	+ 2.3
Durables	+ 5.8	+ 9.4	+ 3.9	- 2.6	+ 1.5	+ 3.5
Non-durables and services	+ 2.3	+ 1.8	+ 2.3	+ 1.9	+ 1.6	+ 2.1
Household disposable income	+ 3.6	+ 2.2	+ 1.8	- 0.1	+ 1.6	+ 2.4
Household saving ratio						
As a percentage of disposable income	8.0	7.7	6.7	6.0	6.2	6.7
	Percentage changes from previous year					
Direct lending to domestic non-banks ¹	+ 3.7	+ 5.2	+ 6.7	+ 3.5	+ 3.8	+ 5.0
	In percent					
Inflation rate						
National	0.9	0.6	2.3	2.7	1.7	1.4
Harmonised	0.8	0.5	2.0	2.3	1.6	1.4
Core inflation ²	1.2	0.6	1.0	2.3	2.0	1.6

¹ End of period. – ² Excluding unprocessed food (meat, fish, fruits, vegetables) and energy items.

In 2002, consumers are expected to raise their spending by an inflation-adjusted 1½ percent from last year, broadly in line with income gains. With the recovery progressing, employment will pick up and give a boost to disposable income growth, leading to an increase in consumption by an expected 2¼ percent in 2003. Demand may be particularly lively for motor cars and other durable goods. The saving ratio should pick up from its low level and converge towards its longer-term average.

Overall inflation has been rather stubborn across Europe in the early part of this year, even before oil prices bounced back. It is unlikely, therefore, that the European Central Bank will cut interest rates further. The period of falling interest rates should have come to an end also with a view to the business cycle recovery now setting in. By what time the ECB may proceed to raising rates again will largely depend on further price developments and on future policy moves by the US Federal Reserve.

As a consequence of the repeated cuts in policy-controlled interest rates, money market rates will edge down to 3.5 percent this year, one percentage point below the average of the last two years; in real terms, interest rates are still comfortably in the positive range, contrary to the USA. Short-term interest rates are projected to rise significantly in 2003, long-term rates already in the remainder of this year. Some banks have already lifted rates on deposits over the last few weeks.

Inflation decelerated markedly in the second half of 2001. Contrary to some expectations, it was not ignited by the introduction of euro notes and coins. Dual price labelling, price surveillance and competition all had a positive effect in this regard. In other western European countries inflation rates ticked up early this year, in Germany mainly caused by higher indirect taxes. Thus, in Austria inflation is currently ¾ percentage point below the average rate for the euro area.

No further lowering of interest rates in prospect

Inflation abating more slowly than expected, due to higher oil prices

¹ At present it is still uncertain whether Statistics Austria will adopt the WIFO calculations for private consumption which have adjusted upwards the apparently distorted survey data for food items.

Table 5: Earnings and international competitiveness

	1998	1999	2000	2001	2002	2003
	Percentage changes from previous year					
Gross earnings per employee ¹	+ 3.0	+ 2.0	+ 2.5	+ 2.8	+ 2.5	+ 2.5
Full-time equivalent	+ 3.2	+ 2.4	+ 2.3	+ 3.0	+ 2.7	+ 2.8
Gross real earnings per employee ¹	+ 2.5	+ 1.2	+ 1.0	+ 0.4	+ 0.8	+ 1.1
Net real earnings per employee	+ 2.3	+ 4.3	+ 1.7	- 0.2	+ 0.3	+ 0.6
Net wages and salaries	+ 3.3	+ 3.7	+ 4.3	+ 2.5	+ 2.4	+ 3.0
Unit labour costs						
Total economy	- 0.2	+ 0.4	- 0.1	+ 2.0	+ 1.2	+ 0.0
Manufacturing	- 1.7	- 1.5	- 5.1	+ 0.9	- 0.7	- 1.8
Relative unit labour costs ²						
Vis-à-vis trading partners	- 0.9	- 2.5	- 5.8	- 0.7	- 1.8	- 2.1
Vis-à-vis Germany	+ 0.4	- 1.1	- 2.4	- 0.1	- 1.2	- 1.8
Effective exchange rate – manufactures						
Nominal	+ 2.5	+ 0.6	- 2.7	+ 0.9	+ 0.3	± 0.0
Real	+ 0.5	- 1.3	- 3.5	+ 0.3	± 0.0	- 0.6

¹ According to National Accounts. – ² Manufacturing, in a common currency; minus sign indicates improvement of competitiveness.

The projected rate of inflation for 2002 is being revised upward from 1.4 percent (last December) to 1.7 percent, in view of oil prices being higher than anticipated. Turbulence on oil markets, induced by political developments, requires a correction in the assumed average benchmark price from \$ 22 to \$ 24.5 per barrel.

Price rises for food and for manufactures should subside in the course of the year, but rents may continue to move up swiftly, as they normally lag the trend of the overall price index. Price increases for many services are also unlikely to abate; in Vienna, tramway fares will go up.

Inflation is likely to moderate somewhat in 2003. A number of special factors (concerning prices of oil, fruits and vegetables) will have disappeared, and the recovery will take some time to feed into prices – and, for that matter, into wages.

Gross effective earnings per employee went up by 2³/₄ percent on annual average 2001. However, this figure is distorted by the rising number of part-time workers: per-capita wages of full-time workers increased by 3 percent. This year and next, average earnings are assumed to advance by 2¹/₂ percent p.a.

As yet, the labour market is showing no sign of relief. The business cycle slowdown and the crisis in the construction industry have exacerbated the situation at the beginning of the year. The number of full-time jobs, mainly held by male workers, is falling significantly, while part-time employment is still on the rise. Job losses are concentrated in construction, the public sector and the postal service. Industrial employment, having held up well for a long time owing to lively exports, has been on a clear downward trend during the last few months.

In March, a year-on-year increase in employment has been recorded, only because recipients of child care benefits previously employed are included in the official statistics. This year's March figures are also biased upwards by a calendar effect: the early date of Easter and its impact on the tourism sector.

On annual average 2002, the number of jobs could fall slightly as labour demand shrinks. Since the newly introduced child care allowance may be combined with earnings up to a higher ceiling than the previous maternity benefits, some shift may occur from marginal² towards part-time employment.

In 2003, the cyclical upturn will give a strong boost to labour demand (+24,000), leading to an increase also in the number of full-time jobs.

In spite of employment falling only slightly, unemployment picked up strongly from the year-earlier level in recent months (+38,100 in March). The apparent discrepancy is explained by a substantial increase in labour supply, even if the population of working age (15 to 59 years of age) remained broadly constant. Main reasons are a notably higher

Unemployment rising sharply in 2002, before receding in 2003

The cyclical downturn and the crisis in the construction sector are being increasingly reflected on the labour market. Some 5,000 jobs will be lost on aggregate in 2002, while unemployment will rise by 23,500 from the year-earlier level. The cyclical rebound in demand and output will also improve employment prospects, but only with the usual time lag.

² Marginal employment is not included in the official employment statistics, but in the labour force data of the National Accounts.

supply of foreign labour (seasonal workers), notwithstanding the fact that a large number of foreigners were granted citizenship, and the raise in the statutory early-retirement age.

Table 6: Labour market

	1998	1999	2000	2001	2002	2003	
	Changes from previous year (in 1,000)						
<i>Demand for labour</i>							
Civilian employment	+ 22.1	+ 32.2	+ 27.7	+ 15.9	+ 7.1	+ 26.3	
Excluding parental leave and military service	+ 30.8	+ 38.2	+ 30.8	+ 15.1	- 2.9	+ 26.3	
Dependent employment ¹	+ 21.1	+ 31.2	+ 25.8	+ 14.4	+ 5.0	+ 24.0	
Excluding parental leave and military service	+ 29.8	+ 37.2	+ 28.9	+ 13.6	- 5.0	+ 24.0	
Percentage changes from previous year	+ 1.0	+ 1.2	+ 1.0	+ 0.4	- 0.2	+ 0.8	
Parental leave and military service ¹	- 8.7	- 6.0	- 3.1	+ 0.8	+ 10.0	± 0.0	
Foreign workers	- 0.2	+ 7.8	+ 13.4	+ 9.5	+ 4.0	+ 14.0	
Self-employed ²	+ 1.0	+ 1.0	+ 1.9	+ 1.5	+ 2.1	+ 2.3	
<i>Labour supply</i>							
Economically active population							
aged 15 to 64	+ 11.0	+ 19.8	+ 25.2	+ 26.1	+ 22.9	+ 19.1	
aged 15 to 59	+ 10.9	- 2.6	- 17.5	- 15.6	- 5.5	+ 3.1	
Total labour force	+ 26.5	+ 16.2	+ 0.3	+ 25.5	+ 30.6	+ 18.3	
Excluding parental leave and military service	+ 35.2	+ 22.2	+ 3.4	+ 24.7	+ 20.6	+ 18.3	
Foreign	+ 0.7	+ 6.6	+ 12.0	+ 14.3	+ 9.5	+ 10.0	
Migration of nationals	+ 3.9	+ 3.0	+ 1.0	± 0.0	± 0.0	± 0.0	
Indigenous	+ 21.9	+ 6.6	- 12.7	+ 11.2	+ 21.1	+ 8.3	
Excluding parental leave and military service	+ 30.6	+ 12.6	- 9.6	+ 10.4	+ 11.1	+ 8.3	
<i>Surplus of labour</i>							
Registered unemployed ³	+ 4.4	- 16.1	- 27.4	+ 9.6	+ 23.5	- 8.0	
In 1,000	237.8	221.7	194.3	203.9	227.4	219.4	
<i>Unemployment rate</i>							
Percent of total labour force ⁴	in percent	4.5	3.9	3.7	3.6	3.9	3.8
Percent of total labour force ³	in percent	6.5	6.0	5.3	5.5	6.1	5.8
Percent of dependent labour force ³	in percent	7.2	6.7	5.8	6.1	6.7	6.5
<i>Participation rate⁵</i>							
in percent	67.6	67.6	67.3	67.5	67.8	67.9	
Excluding parental leave and military service ⁶	70.7	71.2	71.5	72.2	72.7	73.0	
<i>Employment rate⁷</i>							
in percent	63.2	63.6	63.8	63.8	63.7	63.9	
Excluding parental leave and military service ⁶	66.1	66.9	67.7	68.2	68.2	68.7	

¹ According to Federation of Austrian Social Security Institutions. - ² According to WIFO. - ³ According to Labour Market Service. - ⁴ According to Eurostat. - ⁵ Total labour force as a percentage of active population (aged 15 to 64). - ⁶ As a percentage of population aged 15 to 59. - ⁷ Employment as a percentage of active population (aged 15 to 64).

The unemployment rate according to the conventional way of calculation will rise from 6.1 percent in 2001 to 6.7 percent this year. The number of registered unemployed is expected to average 227,000 in 2002. The projection has been corrected slightly upwards from December, due to the unexpectedly high seasonal unemployment last winter. In 2003, the business cycle recovery should allow the jobless rate to moderate to 6.5 percent. The improvement rests on the assumption that the measures of "active" labour market policy will be maintained without restraint, and that only a limited number of foreign workers will be granted access to the labour market.

The general government budget was balanced in 2001, for the first time since 1974. The deficit ratio of 1¾ percent of GDP in 2000 was reduced to zero. This was achieved mainly by an increase in public revenues. Their ratio to GDP went up from 44.0 to 45.9 percent, according to Statistics Austria, whose calculations are notified to the European Commission. Government expenditure rose by 2 percent, somewhat less than nominal GDP (+3 percent), such that the public expenditure ratio edged down by 0.3 percentage points.

The deficit of the central government stood at ¾ percent of GDP in 2001, which was the smallest gap since 1974 (a central government surplus having last been recorded in 1972). Offsetting the deficit were surpluses in the federal states' households which were achieved by "off-budget" transfers and other operations designed to present positive results of consolidation efforts compatible with the Maastricht criteria.

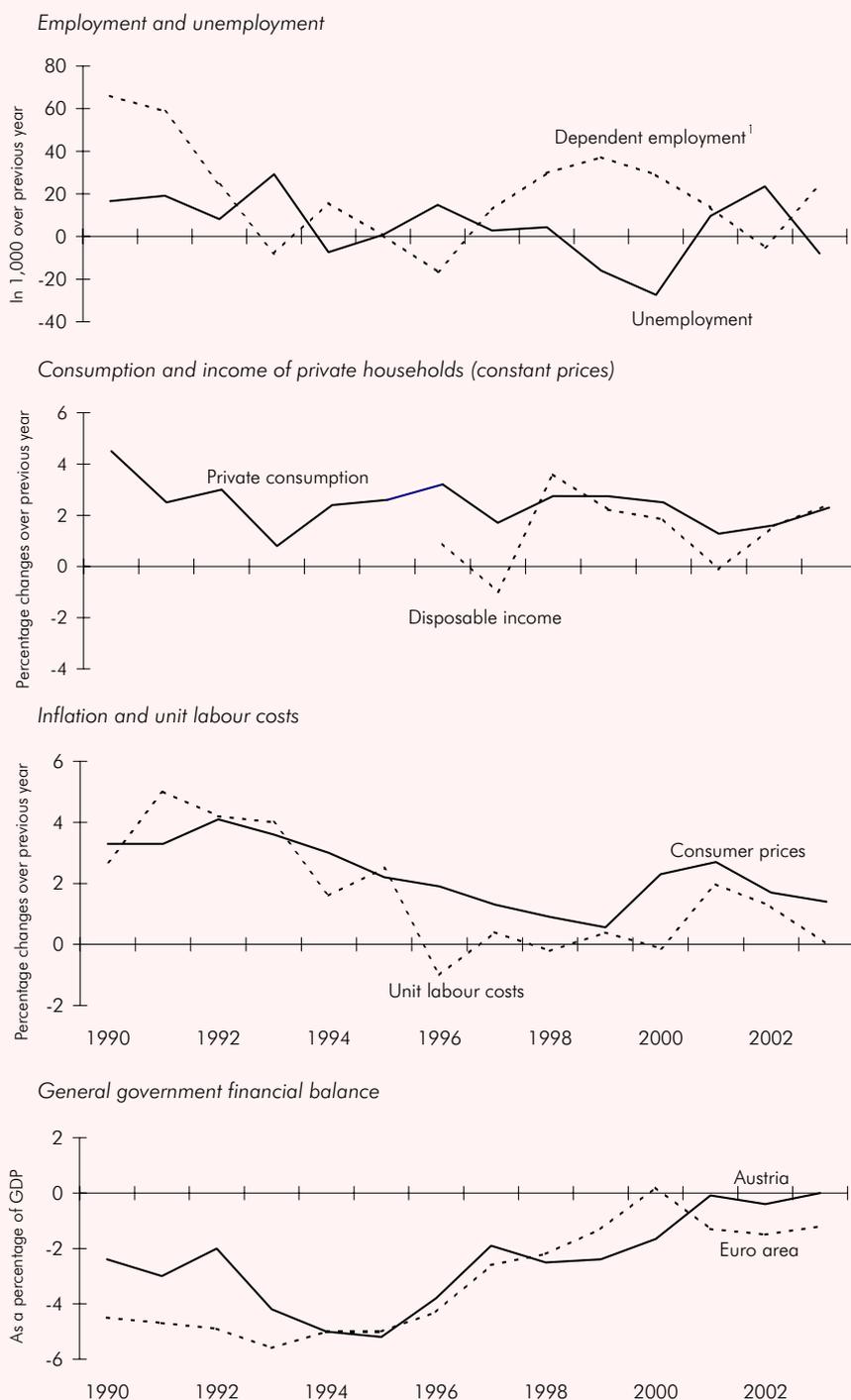
The lagged budgetary effects of the business cycle slowdown will make it more difficult to maintain the "zero deficit" in 2002. The sharp rise in unemployment is putting upward pressure on expenditure, while revenues from income and corporate taxes will be eroded. In 2001, such revenues had been boosted by advance tax payments and the

Government budget in balance

The government household was in balance in 2001, for the first time in three decades. This was achieved mainly by a strong increase in the public revenue ratio. In 2002 and 2003, the public sector deficit will remain closer to zero than to a ratio of 1 percent of GDP.

introduction of interest obligations for tax liabilities. The stagnation in employment is also weighing on revenues from wage tax and social security contributions.

Figure 2: Economic performance



¹ Excluding parental leave and military service.

In early December, the federal and several state governments adopted counter-cyclical stimulus "packages". The measures, of altogether limited scope, are welcome in principle as they aim into the right direction. However, they will take effect at a time when the recovery is already under way. For the construction industry, where the situation remains critical, they should provide much-needed relief.

The most important counter-cyclical instrument are automatic budgetary stabilisers, i.e., the impact of revenue losses on the budget balance. Yet, the federal government is

about to offset this effect, by once again withholding discretionary expenditures in 2002, when cyclical activity is still weak. Such a strategy will undermine the effectiveness not only of automatic stabilisers, but also of the stimulus "packages".

While in 2003, economic developments and their budgetary impact will be more favourable, a number of positive influence factors (e.g., one-off revenues from earmarked funds) will not recur. Therefore, there will be hardly any room for manoeuvre for a tax reform implying revenue losses, if the goal of a "zero deficit" is to be maintained. The actual budget balance in 2003 will, among other things, depend on the government's decisions on a tax reform, non-wage labour costs, and the wage round in the public sector.

Table 7: Key policy indicators

	1998	1999	2000	2001	2002	2003
<i>Fiscal policy</i>						
			As a percentage of GDP			
Central government net balance	- 3.1	- 2.5	- 1.4	- 0.7	- 1.0	- 0.7
General government financial balance	- 2.5	- 2.4	- 1.7	- 0.1	- 0.4	0.0
General government primary balance	+ 1.4	+ 1.3	+ 2.0	+ 3.4	+ 3.0	+ 3.3
Public deficit/surplus according to Maastricht definition	- 2.4	- 2.3	- 1.5	+ 0.1		
<i>Monetary policy</i>						
			In percent			
3-month interest rate	3.6	3.0	4.4	4.3	3.5	4.2
Long-term interest rate ¹	4.7	4.7	5.6	5.1	5.5	5.7
			Percentage changes from previous year			
<i>Effective exchange rate</i>						
Nominal	+ 2.8	+ 1.5	- 2.5	+ 1.0	+ 0.5	+ 0.1
Real	+ 0.3	- 1.1	- 3.6	+ 0.1	± 0.0	- 0.6

¹ 10-year central government bonds (benchmark).