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 **ÖSTERREICHISCHES INSTITUT FÜR  
WIRTSCHAFTSFORSCHUNG**

**Business Activity Gathering Pace  
Only Gradually  
Economic Outlook for 2014 and 2015**

**March 2014**



# Business Activity Gathering Pace Only Gradually

## Economic Outlook for 2014 and 2015

**March 2014**

Austrian Institute of Economic Research

### Abstract

Towards the end of 2013, activity rebounded in Austria as well as in Europe overall. However, the momentum promises to remain subdued: many countries are still struggling with the repercussions of the financial market crisis, and the need for consolidation of government households is restraining the growth of demand. The Austrian economy is projected to grow by 1.7 percent each in 2014 and 2015 – too slow a pace to rein back unemployment. Inflation is receding, though remaining high when compared with other EU member countries.

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# Business Activity Gathering Pace Only Gradually

## Economic Outlook for 2014 and 2015

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The emerging market economies which have so far stimulated global activity, have moved to a much slower growth path since last year, while showing wide regional differences. The US economy keeps following a stable upward trend and activity should gain momentum in 2014 and 2015.

In the euro area, the recovery of demand and output remains sluggish. The financial market crisis is still not overcome, and fiscal policy requires restraint on expenditure in most member countries. With the recession having bottomed out in 2013, growth should resume at a modest 1 percent this year, strengthening to 1.5 percent in 2015.

The markets in east-central Europe, which are important for the Austrian economy, have taken a positive turn since 2013. Yet, high private sector indebtedness is weighing on growth of aggregate demand, such that the process of catching-up towards the most advanced EU member countries has slowed down from the period before the crisis.

In such an environment of limited external growth incentives, the export-oriented Austrian economy can hardly achieve substantial output gains. Although volume exports of goods should increase by 5½ percent in 2014, twice the rate of the previous year, the momentum is markedly weaker than in earlier periods of cyclical upturn. While the measures of fiscal consolidation will weigh on domestic demand, pri-

vate consumption and investment will nevertheless pick up. After a decline in real terms of 0.2 percent in household spending and of 0.9 percent in gross fixed investment last year, 2014 should see a rebound of 0.8 percent and 3 percent, respectively. In 2015, private consumption is expected to accelerate, while growth of investment is likely to abate.

Overall, the Austrian economy is projected to grow by only 1.7 percent each in 2014 and 2015, a pace too slow to allow unemployment to decline. The jobless figure will rise above 300,000 in 2014 and is expected to reach a total of 314,000 in 2015, while labour supply and employment will both increase in parallel. The unemployment rate, on national definition, will climb to 8 percent of the dependent labour force and edge further up in 2015.

Latest information on the scope and time profile of the budget burden implied by the financial support to Hypo Alpe-Adria-Bank AG suggests that the general government deficit will jump to 3 percent of GDP in 2014. In the absence of this burden, the deficit ratio would equal 2.1 percent. From today's perspective, the fiscal gap would narrow to -1.2 percent of GDP in 2015, subject however to a considerable margin of uncertainty.

Cut-off date: 25 March 2014

*For more details please contact*

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## 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.

### Carry-over (in economic growth)

The carry-over identifies the impact of the dynamics of a series (in seasonally adjusted figures) during one year ( $t_0$ ) on the annual percentage change in the following year ( $t_1$ ). It is defined as the annual percentage change in year  $t_1$ , if GDP in  $t_1$  remains constant at the level of the fourth quarter of year  $t_0$  (in seasonally adjusted terms).

### Average rates of change

The time given refers to the initial and the final value of the period of computation: hence the average rate 2005-2010 comprises as the first rate of change that from 2005 to 2006, and as the last that from 2009 to 2010.

### 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 1,500 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.konjunkturtest.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 with a valid employment contract. By deducting their number one arrives at the number of "persons in dependent active employment".

## Main results

Percentage changes from previous year

		2010	2011	2012	2013	2014	2015
						<b>Forecasts</b>	
<b>GDP</b>							
Volume		+ 1.8	+ 2.8	+ 0.9	+ 0.4	+ 1.7	+ 1.7
Value		+ 3.2	+ 4.9	+ 2.6	+ 2.0	+ 3.5	+ 3.7
<b>Manufacturing<sup>1</sup>, volume</b>		+ 7.6	+ 8.3	+ 1.1	+ 1.1	+ 3.5	+ 4.2
<b>Wholesale and retail trade, volume</b>		+ 2.2	+ 1.3	- 1.7	- 1.4	+ 1.3	+ 2.0
<b>Private consumption expenditure, volume</b>		+ 2.0	+ 0.8	+ 0.5	- 0.2	+ 0.8	+ 1.0
<b>Gross fixed investment, volume</b>		- 1.4	+ 8.5	+ 1.6	- 0.9	+ 3.0	+ 2.1
Machinery and equipment		+ 2.1	+ 14.3	+ 2.1	- 3.1	+ 5.0	+ 3.0
Construction		- 3.9	+ 2.5	+ 2.5	+ 0.7	+ 1.2	+ 1.3
<b>Exports of goods<sup>2</sup></b>							
Volume		+ 13.6	+ 8.1	+ 0.8	+ 2.7	+ 5.5	+ 6.5
Value		+ 16.7	+ 11.3	+ 1.5	+ 1.5	+ 6.2	+ 7.7
<b>Imports of goods<sup>2</sup></b>							
Volume		+ 11.7	+ 8.6	- 1.3	+ 0.2	+ 5.5	+ 6.0
Value		+ 16.5	+ 15.3	+ 0.7	- 1.5	+ 6.0	+ 7.0
<b>Current balance</b>	€ bn	+ 9.74	+ 4.90	+ 4.93	+ 8.60	+ 10.67	+ 12.50
	as a percentage of GDP	+ 3.4	+ 1.6	+ 1.6	+ 2.7	+ 3.3	+ 3.7
<b>Long-term interest rate<sup>3</sup></b>	percent	3.2	3.3	2.4	2.0	1.8	1.9
<b>Consumer prices</b>		+ 1.9	+ 3.3	+ 2.4	+ 2.0	+ 1.9	+ 1.9
<b>Unemployment rate</b>							
Eurostat definition <sup>4</sup>	percent	4.4	4.2	4.3	4.9	5.2	5.3
National definition <sup>5</sup>	percent	6.9	6.7	7.0	7.6	8.0	8.1
<b>Persons in active dependent employment<sup>6</sup></b>		+ 0.8	+ 1.9	+ 1.4	+ 0.6	+ 1.0	+ 1.0
<b>General government financial balance</b>							
according to Maastricht definition							
as a percentage of GDP		- 4.5	- 2.5	- 2.5	- 1.9	- 3.0	- 1.2

<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> Public Employment Service Austria, percent of total labour force excluding self employed. <sup>6</sup> Excluding parental leave and military service.

## WIFO

Projections - March 2014

### World economy

Percentage changes from previous year

	2010	2011	2012	2013	2014	2015
					<b>Forecasts</b>	
<b>Real GDP</b>						
World	+ 5.2	+ 3.8	+ 3.1	+ 3.0	+ 3.5	+ 3.8
USA	+ 2.5	+ 1.8	+ 2.8	+ 1.9	+ 2.7	+ 3.1
Japan	+ 4.7	- 0.5	+ 1.4	+ 1.5	+ 1.4	+ 1.2
EU 28	+ 2.0	+ 1.7	- 0.4	+ 0.1	+ 1.5	+ 1.9
Euro area 18	+ 2.0	+ 1.6	- 0.7	- 0.4	+ 1.1	+ 1.5
CEE5 <sup>1</sup>	+ 3.1	+ 3.2	+ 0.6	+ 0.9	+ 2.5	+ 2.9
China	+ 10.4	+ 9.3	+ 7.7	+ 7.7	+ 7.6	+ 7.3
<b>World trade, volume</b>	+ 14.5	+ 6.2	+ 1.9	+ 2.7	+ 5.5	+ 6.5
<b>Market growth<sup>2</sup></b>	+ 14.5	+ 7.5	+ 1.3	+ 1.7	+ 5.5	+ 6.5
<b>Primary commodity prices<sup>3</sup></b>						
HWWI Index, total	+ 28.9	+ 28.6	- 2.8	- 2.0	+ 1	± 0
Excluding energy	+ 31.9	+ 19.2	- 14.4	- 6.0	± 0	± 0
<b>Crude oil prices</b>						
Brent, USD per barrel	79.5	111.3	111.6	108.7	110	110
<b>Exchange rate</b>						
USD per euro	1.327	1.392	1.286	1.328	1.35	1.35

<sup>1</sup> Poland, Slovakia, Slovenia, Czech Republic, Hungary.

<sup>2</sup> Real import growth of trading partners weighted by Austrian export shares.

<sup>3</sup> In USD.

## Key policy indicators

	2010	2011	2012	2013	2014	2015
					<b>Forecasts</b>	
<b>Fiscal policy</b>						
					As a percentage of GDP	
<b>General government financial balance</b>						
according to Maastricht definition	- 4.5	- 2.5	- 2.5	- 1.9	- 3.0	- 1.2
Structural budget balance	- 3.2	- 2.4	- 1.8	- 1.7	- 1.3	- 0.9
<b>General government primary balance</b>	- 1.8	+ 0.2	+ 0.1	+ 0.7	- 0.6	+ 1.2
 <b>Monetary policy</b>						
					Percent	
3-month interest rate	0.8	1.4	0.6	0.2	0.3	0.3
Long-term interest rate <sup>1</sup>	3.2	3.3	2.4	2.0	1.8	1.9
					Percentage changes from previous year	
<b>Effective exchange rate</b>						
Nominal	- 2.7	+ 0.2	- 1.5	+ 1.7	+ 0.8	+ 0.2
Real	- 3.0	+ 0.6	- 1.6	+ 2.0	+ 1.0	- 0.1

<sup>1</sup> 10-year central government bonds (benchmark).



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Projections - March 2014

## Productivity

Percentage changes from previous year

	2010	2011	2012	2013	2014	2015
					<b>F o r e c a s t s</b>	
<b>Total economy</b>						
Real GDP	+ 1.8	+ 2.8	+ 0.9	+ 0.4	+ 1.7	+ 1.7
Hours worked <sup>1</sup>	- 0.1	+ 2.3	- 0.0	- 0.9	+ 0.6	+ 0.6
<b>Productivity per hour</b>	+ 1.9	+ 0.5	+ 0.9	+ 1.3	+ 1.1	+ 1.1
Employment <sup>2</sup>	+ 0.7	+ 1.8	+ 1.4	+ 0.6	+ 1.1	+ 1.0
<b>Manufacturing</b>						
Production <sup>3</sup>	+ 7.8	+ 8.3	+ 1.2	+ 1.2	+ 3.5	+ 4.2
Hours worked <sup>1</sup>	+ 1.6	+ 1.4	+ 0.6	- 1.2	+ 0.2	+ 0.3
<b>Productivity per hour</b>	+ 6.1	+ 6.9	+ 0.6	+ 2.4	+ 3.3	+ 3.9
Employees <sup>1</sup>	- 1.3	+ 1.7	+ 1.1	- 0.0	+ 0.2	+ 0.3

<sup>1</sup> According to National Accounts definition.

<sup>2</sup> Dependent and self-employed according to National Accounts definition.

<sup>3</sup> Value added, volume.

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## Private consumption, income and prices

	2010	2011	2012	2013	2014	2015
					<b>Forecasts</b>	
					Percentage changes from previous year, volume	
<b>Private consumption expenditure</b>	+ 2.0	+ 0.8	+ 0.5	- 0.2	+ 0.8	+ 1.0
Durables	+ 1.6	+ 1.8	+ 0.6	- 2.2	+ 2.5	+ 1.0
Non-durables and services	+ 2.0	+ 0.7	+ 0.5	+ 0.0	+ 0.6	+ 1.0
<b>Household disposable income</b>	- 0.5	- 1.3	+ 1.1	- 1.2	+ 1.1	+ 1.3
					As a percentage of disposable income	
<b>Household saving ratio<sup>1</sup></b>	8.9	6.7	7.4	6.5	6.8	7.1
<b>Household saving ratio<sup>2</sup></b>	8.4	6.4	7.0	6.0	6.3	6.6
					Percentage changes from previous year	
<b>Direct lending to domestic non-banks<sup>3</sup></b>	+ 2.9	+ 2.7	+ 0.0	- 1.2	+ 1.8	+ 2.3
<b>Inflation rate</b>						
National	1.9	3.3	2.4	2.0	1.9	1.9
Harmonised	1.7	3.6	2.6	2.1	1.9	1.9
Core inflation <sup>4</sup>	1.2	2.8	2.3	2.3	2.1	1.9

<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.

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## Earnings and international competitiveness

Percentage changes from previous year

	2010	2011	2012	2013	2014	2015
					<b>Forecasts</b>	
<b>Wages and salaries per employee<sup>1</sup></b>						
<b>Gross earnings</b>	+ 0.9	+ 1.8	+ 2.4	+ 2.1	+ 2.1	+ 2.4
<b>Gross real earnings<sup>2</sup></b>	- 0.9	- 1.4	- 0.1	+ 0.1	+ 0.2	+ 0.5
<b>Net real earnings<sup>2</sup></b>	- 1.1	- 1.8	- 1.1	- 0.3	- 0.1	+ 0.1
<b>Unit labour costs</b>						
Total economy	- 0.0	+ 0.8	+ 3.0	+ 2.4	+ 1.5	+ 1.7
Manufacturing	- 6.9	- 3.0	+ 3.0	+ 2.0	- 0.8	- 1.0
<b>Effective exchange rate - manufactures</b>						
Nominal	- 2.9	+ 0.1	- 1.7	+ 1.8	+ 0.8	+ 0.2
Real	- 3.2	+ 0.5	- 1.7	+ 2.1	+ 1.0	- 0.1

<sup>1</sup> Employees according to National Accounts definition.

<sup>2</sup> Deflated by CPI.

# WIFO

Projections - March 2014

## Labour market

Changes from previous year (1,000<sup>s</sup>)

		2010	2011	2012	2013	2014	2015
						<b>Forecasts</b>	
<b>Demand for labour</b>							
Persons in active employment <sup>1</sup>		+ 37.4	+ 67.3	+ 51.7	+ 30.3	+ 41.0	+ 40.0
Employees <sup>2</sup>		+ 25.5	+ 63.3	+ 47.2	+ 21.2	+ 35.0	+ 35.0
Percentage changes from previous year		+ 0.8	+ 1.9	+ 1.4	+ 0.6	+ 1.0	+ 1.0
Nationals		+ 5.8	+ 25.7	+ 9.0	- 8.5	+ 3.0	+ 9.0
Foreign workers		+ 19.7	+ 37.7	+ 38.1	+ 29.7	+ 32.0	+ 26.0
Self-employed <sup>3</sup>		+ 11.9	+ 4.0	+ 4.5	+ 9.1	+ 6.0	+ 5.0
<b>Labour supply</b>							
Population of working age	(15 to 64 years)	+ 17.3	+ 31.3	+ 18.0	+ 14.0	+ 5.8	+ 8.1
	(15 to 59 years)	+ 4.9	+ 11.7	+ 22.3	+ 18.0	+ 5.6	+ 1.7
Labour force <sup>4</sup>		+ 27.9	+ 63.2	+ 65.6	+ 56.9	+ 60.0	+ 48.0
<b>Surplus of labour</b>							
Registered unemployed <sup>5</sup>		- 9.5	- 4.1	+ 13.9	+ 26.6	+ 19.0	+ 8.0
	1,000 <sup>s</sup>	250.8	246.7	260.6	287.2	306.2	314.2
Unemployed persons in training	1,000 <sup>s</sup>	73.2	63.2	66.6	73.5	79.5	82.5
<b>Unemployment rate</b>							
Eurostat definition <sup>6</sup>	percent	4.4	4.2	4.3	4.9	5.2	5.3
Percent of total labour force <sup>5</sup>	percent	6.2	6.0	6.3	6.8	7.2	7.3
National definition <sup>5,7</sup>	percent	6.9	6.7	7.0	7.6	8.0	8.1
<b>Employment rate</b>							
Persons in active employment <sup>1,8</sup>	percent	65.4	66.2	66.9	67.3	68.0	68.6
Total employment (Eurostat) <sup>6,8</sup>	percent	71.7	72.1	72.5	72.4	72.7	73.0

<sup>1</sup> Excluding parental leave and military service. <sup>2</sup> According to Federation of Austrian Social Security Institutions.

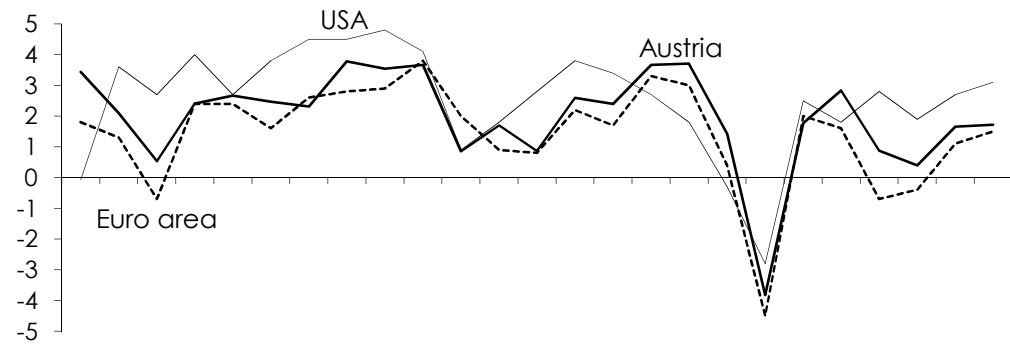
<sup>3</sup> According to WIFO. <sup>4</sup> Persons in active employment plus unemployment.

<sup>5</sup> According to Public Employment Service Austria <sup>6</sup> According to Eurostat Labour Force Survey.

<sup>7</sup> Percent of total labour force excl. self-employed. <sup>8</sup> Percent of population of working age (15 to 64 years).

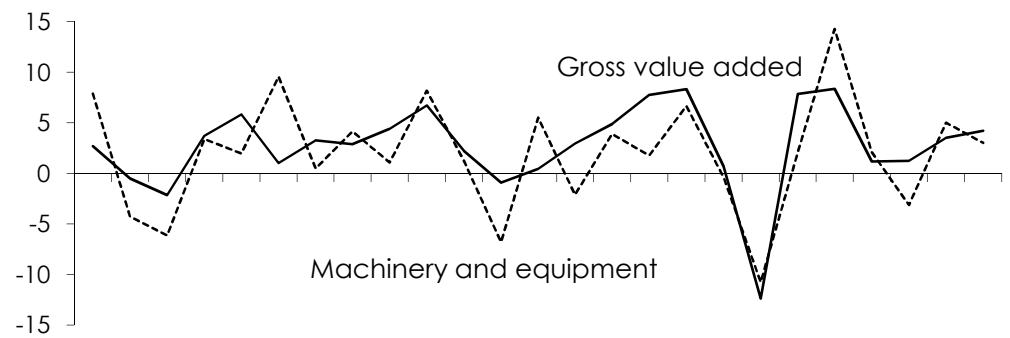
## Growth of real GDP

Percent



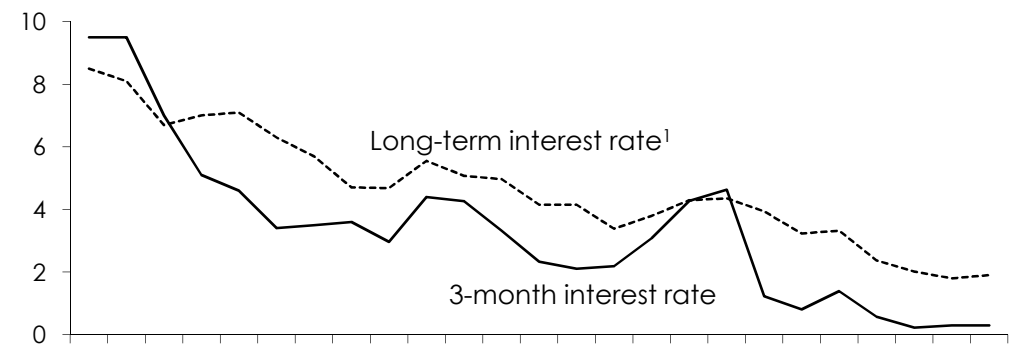
## Manufacturing and investment

Percentage changes from previous year, volume



## Short-term and long-term interest rates

Percent



## Trade

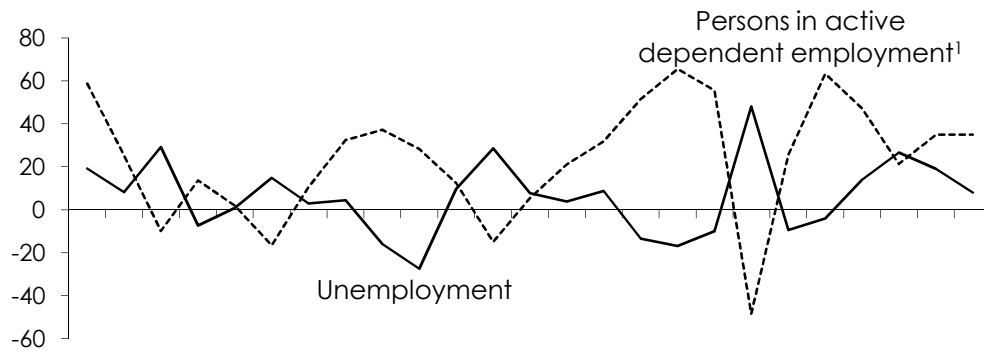
Percentage changes from previous year, volume



<sup>1</sup> 10-year central government bonds (benchmark).

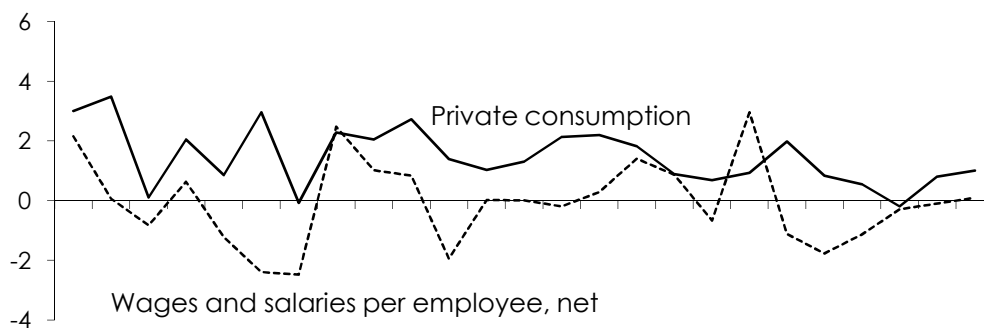
## Employment and unemployment

1,000<sup>s</sup> from previous year



## Consumption and income

Percentage changes from previous year, volume



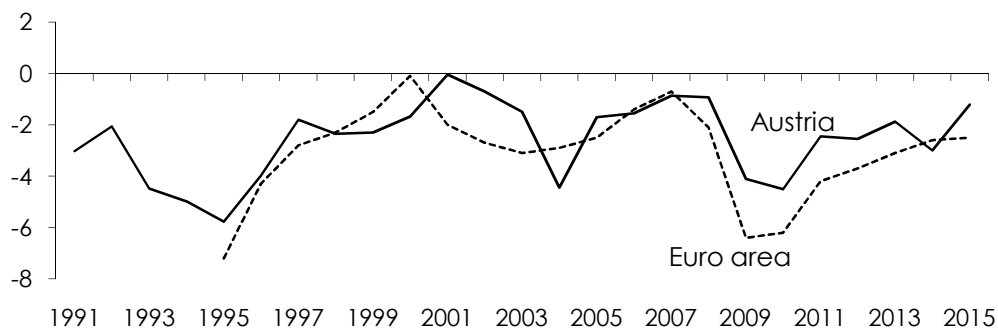
## Inflation and unit labour costs

Percentage changes from previous year



## General government financial balance

As a percentage of GDP



<sup>1</sup> Excluding parental leave, military service, and unemployed persons in training.