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**Growth Resuming Since Mid-2009
Economic Outlook for 2009 and 2010**

Marcus Scheiblecker

September 2009

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Abstract

Backed by the fiscal stimulus measures adopted at home and abroad, economic activity in Austria will pick up from its low level in the second half of 2009. On annual average, GDP will nevertheless shrink by 3.4 percent compared to last year. In 2010, growth is set to remain sluggish at 1 percent, with no relief yet to expect for the labour market. Inflation should remain tamed even with some rebound in oil prices.

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Economic Outlook for 2009 and 2010: Growth Resuming Since Mid-2009

Backed by the fiscal stimulus measures adopted at home and abroad, economic activity in Austria will pick up from its low level in the second half of 2009. On annual average, GDP will nevertheless shrink by 3.4 percent compared to last year. In 2010, growth is set to remain sluggish at 1 percent, with no relief yet to expect for the labour market. Inflation should remain tamed even with some rebound in oil prices.

After a fall by 2.7 percent in the first quarter 2009 compared to the previous period, GDP in Austria receded by a further 0.5 percent in spring, thereby significantly stemming the downward momentum. Business surveys and other major leading indicators point to an improving economic situation since the middle of the year. Growth can therefore be expected to resume as from the third quarter, with positive incentives coming both from domestic demand and from abroad where the cyclical stimulus programmes are now becoming effective. Germany and France recorded quarter-on-quarter growth rates already between April and June, whereas most other euro area countries saw at least, like in Austria, a deceleration of the downward trend.

While activity in Austria may still stay sluggish for some time, fiscal policy is stimulating private demand beyond this year. After the expiry of the car scrapping premium, investment in new infrastructure will take effect, facilitating a further, albeit modest, cyclical recovery. Notably the hesitant consumers in the USA as well as in east-central Europe will hold back a revival of Austrian exports.

Over the entire projection period, economic activity will remain to a large extent policy-driven. The endogenous forces of growth are yet too feeble as to set in motion a self-sustained recovery. An early withdrawal of policy stimulus at this juncture carries the risk of the economy relapsing into recession.

Foreign demand is strengthening as a result of support from policy worldwide, leading to a pick-up in Austrian exports from the first half to the rest of 2009. Subsequently, domestic industrial output will start heading up. Indeed, some firms have already reacted to strengthening demand by switching back from short-time to normal work-

ing hours. After the cutback of inventories over the last months, demand will quickly translate into higher production.

The slump in investment in machinery and equipment should peter out with a revival of industrial production. So far, domestic companies remain cautious in adding to their capital stock given existing excess capacities. The expected easing of financing conditions and tax incentives for investment should, however, encourage firms to at least replace obsolete production facilities. After a fall by 11 percent in 2009, equipment investment can thus be expected to edge up by 0.5 percent in 2010.

Domestic construction, for its part, should stay on a downward trend, falling by 2 percent in 2009 and a further 1 percent in 2010. While investment in public infrastructure will be boosted by the fiscal stimulus packages, supporting demand notably next year, private residential building will continue to be trimmed.

Despite a weakening labour market situation, private household demand should sustain the recovery, rising by 0.2 percent in volume this year and 0.5 percent in 2010, due to the relatively high wage settlements of 2008, receding inflation and income tax cuts.

Following the sharp decline in oil prices, inflation has virtually levelled off in 2009 (+0.5 percent). In 2010, the upward trend is likely to resume, as the global recovery will trigger a rebound in commodity prices leading to an increase in consumer prices in Austria by 1.3 percent.

Although first signs of a pick-up in economic activity have become apparent, the adverse trend on the Austrian labour market will continue into 2010. The number of unemployed is projected to go up by 55,000 in 2009 and further by 35,000 to a total above 300,000 in 2010. The rate of unemployment (national definition) will thereby ratchet up from 7.4 percent of the dependent labour force in 2009 to 8.3 percent next year.

Vienna, 24 September 2009.

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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, this is referred to as "seasonally and working day adjusted changes".

The phrase "changed compared with a year before . . .", on the other hand, describes a relative 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.

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 (<http://www.statistik.at/>).

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.ifkt.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".

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Projections - September 2009

Main results

Percentage changes from previous year

		2005	2006	2007	2008	2009	2010
GDP							
Volume		+ 2.5	+ 3.5	+ 3.5	+ 2.0	- 3.4	+ 1.0
Value		+ 4.6	+ 5.2	+ 5.7	+ 4.1	- 1.5	+ 1.8
Manufacturing ¹ , volume		+ 4.6	+ 9.0	+ 7.3	+ 3.9	- 9.5	+ 1.5
Wholesale and retail trade , volume		+ 2.2	+ 0.8	+ 0.7	+ 0.6	- 3.0	+ 0.7
Private consumption expenditure , volume		+ 2.1	+ 1.8	+ 0.8	+ 0.8	+ 0.2	+ 0.5
Gross fixed investment , volume		+ 1.2	+ 2.4	+ 3.8	+ 1.0	- 6.1	- 0.4
Machinery and equipment ²		+ 3.4	+ 2.0	+ 4.7	+ 0.1	- 11.0	+ 0.5
Construction		- 0.7	+ 2.8	+ 2.9	+ 1.8	- 2.0	- 1.0
Exports of goods ³							
Volume		+ 3.2	+ 6.4	+ 9.0	+ 0.3	- 15.1	+ 2.0
Value		+ 5.4	+ 9.5	+ 10.5	+ 2.5	- 17.2	+ 3.5
Imports of goods ³							
Volume		+ 3.1	+ 4.1	+ 7.6	+ 0.2	- 11.2	+ 2.0
Value		+ 5.9	+ 8.0	+ 9.6	+ 4.7	- 15.2	+ 4.6
Current balance	€ bn	+ 5.31	+ 7.26	+ 8.41	+ 9.82	+ 5.16	+ 5.50
	as a percentage of GDP	+ 2.2	+ 2.8	+ 3.1	+ 3.5	+ 1.9	+ 1.9
Long-term interest rate ⁴	percent	3.4	3.8	4.3	4.3	3.8	3.8
Consumer prices		+ 2.3	+ 1.5	+ 2.2	+ 3.2	+ 0.5	+ 1.3
Unemployment rate							
Eurostat definition ⁵	percent	5.2	4.8	4.4	3.8	5.3	5.8
National definition ⁶	percent	7.3	6.8	6.2	5.8	7.4	8.3
Persons in active dependent employment ⁷		+ 1.0	+ 1.7	+ 2.1	+ 2.4	- 1.5	- 0.9
General government financial balance							
according to Maastricht definition							
as a percentage of GDP		- 1.6	- 1.6	- 0.5	- 0.4	- 4.5	- 5.7

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 Labour Force Survey. ⁶ Public Employment Service Austria, percent of total labour force excluding self employed. ⁷ Excluding parental leave and military service.

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Key policy indicators

	2005	2006	2007	2008	2009	2010
Fiscal policy						
	As a percentage of GDP					
General government financial balance						
according to Maastricht definition	- 1.6	- 1.6	- 0.5	- 0.4	- 4.5	- 5.7
according to National accounts	- 1.7	- 1.7	- 0.7	- 0.5	- 4.5	- 5.7
General government primary balance	+ 1.3	+ 1.1	+ 2.2	+ 2.1	- 1.5	- 2.6
Monetary policy						
	Percent					
3-month interest rate	2.2	3.1	4.3	4.6	1.3	1.5
Long-term interest rate ¹	3.4	3.8	4.3	4.3	3.8	3.8
	Percentage changes from previous year					
Effective exchange rate						
Nominal	- 0.7	+ 0.2	+ 1.1	+ 1.2	- 0.2	+ 0.4
Real	- 1.0	- 0.5	+ 0.7	+ 0.6	- 0.5	+ 0.4

¹ 10-year central government bonds (benchmark).

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World economy

Percentage changes from previous year

	2005	2006	2007	2008	2009	2010
Real GDP						
World	+ 4.5	+ 5.1	+ 5.1	+ 3.1	- 1.2	+ 2.0
Total OECD	+ 2.6	+ 2.9	+ 2.6	+ 0.5	- 3.5	+ 0.6
USA	+ 3.1	+ 2.7	+ 2.1	+ 0.4	- 2.7	+ 1.0
Japan	+ 1.9	+ 2.1	+ 2.4	- 0.7	- 5.5	+ 0.5
EU 27	+ 2.0	+ 3.2	+ 2.9	+ 0.9	- 4.0	+ 0.6
Euro area 16	+ 1.7	+ 3.0	+ 2.7	+ 0.7	- 4.0	+ 0.8
New member states ¹	+ 4.7	+ 6.5	+ 6.0	+ 3.8	- 3.5	+ 0.8
China	+ 10.4	+ 11.6	+ 13.0	+ 9.0	+ 7.0	+ 7.5
World trade, volume	+ 8.1	+ 9.5	+ 7.1	+ 2.8	- 12.0	+ 2.0
Market growth²	+ 7.6	+ 11.2	+ 7.7	+ 3.3	- 15.0	+ 2.2
Primary commodity prices						
HWWI Index, total	+ 28.5	+ 19.7	+ 3.7	+ 22.4	- 31	+ 13
Excluding energy	+ 5.6	+ 22.0	+ 9.5	+ 15.6	- 25	+ 3
Crude oil prices						
Brent, USD per barrel	54.4	65.1	72.5	97.0	60	75
Exchange rate						
USD per euro	1.245	1.256	1.371	1.471	1.40	1.50

¹ Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania.

² Real import growth of trading partners weighted by Austrian export shares.

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Private consumption, income and prices

	2005	2006	2007	2008	2009	2010
Percentage changes from previous year, volume						
Private consumption expenditure	+ 2.1	+ 1.8	+ 0.8	+ 0.8	+ 0.2	+ 0.5
Durables	+ 2.0	+ 5.6	+ 3.6	+ 2.2	- 1.0	± 0.0
Non-durables and services	+ 2.2	+ 1.4	+ 0.5	+ 0.6	+ 0.3	+ 0.6
Household disposable income	+ 2.6	+ 3.0	+ 1.7	+ 1.7	+ 1.0	+ 0.2
Household saving ratio						
As a percentage of disposable income	9.7	10.8	11.3	12.0	12.7	12.5
Percentage changes from previous year						
Direct lending to domestic non-banks¹	+ 4.7	+ 4.5	+ 3.6	+ 7.4	+ 3.0	+ 3.5
Inflation rate						
National	2.3	1.5	2.2	3.2	0.5	1.3
Harmonised	2.1	1.7	2.2	3.2	0.5	1.3
Core inflation ²	1.5	1.3	1.9	2.4	1.5	1.2

¹ End of period.

² Excluding unprocessed food (meat, fish, fruits, vegetables) and energy items.

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Projections - September 2009

Productivity

Percentage changes from previous year

	2005	2006	2007	2008	2009	2010
Total economy						
Real GDP	+ 2.5	+ 3.5	+ 3.5	+ 2.0	- 3.4	+ 1.0
Employment ¹	+ 1.1	+ 1.5	+ 1.7	+ 2.3	- 1.1	- 0.5
Productivity (GDP per employment)	+ 1.3	+ 2.0	+ 1.8	- 0.2	- 2.3	+ 1.5
Manufacturing						
Production ²	+ 4.6	+ 9.2	+ 7.5	+ 3.9	- 9.5	+ 1.5
Employees ³	- 0.8	+ 0.2	+ 2.6	+ 1.7	- 6.3	- 2.7
Productivity per hour	+ 6.0	+ 8.8	+ 5.1	+ 2.7	- 0.6	+ 4.1
Working hours per day per employee ⁴	- 0.6	+ 0.2	- 0.3	- 0.5	- 2.8	+ 0.2

¹ Dependent and self-employed according to National Accounts definition.

² Value added, volume.

³ According to Federation of Austrian Social Security Institutions.

⁴ According to 'Konjunkturerhebung' of Statistics Austria.

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Projections - September 2009

Earnings and international competitiveness

Percentage changes from previous year

	2005	2006	2007	2008	2009	2010
Gross earnings per employee ¹	+ 2.4	+ 3.2	+ 3.1	+ 2.7	+ 2.3	+ 1.2
Gross real earnings per employee ¹	- 0.2	+ 1.0	+ 0.5	+ 0.0	+ 1.8	- 0.1
Net real earnings per employee ¹	+ 0.1	+ 0.8	+ 0.4	- 0.5	+ 3.0	- 0.4
<i>Total economy</i>						
Unit labour costs	+ 1.1	+ 1.0	+ 1.1	+ 2.8	+ 5.1	- 0.3
<i>Manufacturing</i>						
Unit labour costs	- 0.7	- 4.2	- 1.7	+ 1.0	+ 3.2	- 2.5
Effective exchange rate - manufactures						
Nominal	- 0.6	+ 0.2	+ 1.2	+ 1.1	- 0.2	+ 0.4
Real	- 0.9	- 0.4	+ 0.8	+ 0.6	- 0.4	+ 0.5

¹ Employees according to National Accounts definition.

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Labour market

Changes from previous year (1,000^s)

		2005	2006	2007	2008	2009	2010
Demand for labour							
Persons in active employment ¹		+ 37.1	+ 55.0	+ 64.8	+ 86.1	- 48.4	- 30.0
Employees ²		+ 31.9	+ 51.5	+ 65.5	+ 76.7	- 50.4	- 30.0
<i>Percentage changes from previous year</i>		+ 1.0	+ 1.7	+ 2.1	+ 2.4	- 1.5	- 0.9
Nationals		+ 20.0	+ 35.0	+ 43.6	+ 53.2	- 44.9	- 26.5
Foreign workers		+ 11.9	+ 16.5	+ 21.9	+ 23.5	- 5.5	- 3.5
Self-employed ³		+ 5.2	+ 3.5	- 0.7	+ 9.4	+ 2.0	± 0.0
Labour supply							
Population of working age	(15 to 64 years)	+ 13.4	+ 12.8	+ 15.5	+ 27.7	+ 20.2	+ 27.5
	(15 to 59 years)	+ 46.5	+ 47.3	+ 17.1	+ 17.6	+ 13.6	+ 13.7
Labour force ⁴		+ 45.8	+ 41.5	+ 47.9	+ 76.1	+ 7.0	+ 5.0
Surplus of labour							
Registered unemployed ⁵		+ 8.8	- 13.5	- 16.9	- 10.0	+ 55.4	+ 35.0
	1,000 ^s	252.7	239.2	222.2	212.3	267.7	302.7
Unemployed persons in training	1,000 ^s	48.6	57.5	52.7	50.5	63.8	69.8
Unemployment rate							
Eurostat definition ⁶	percent	5.2	4.8	4.4	3.8	5.3	5.8
Percent of total labour force ⁵	percent	6.5	6.1	5.6	5.2	6.6	7.5
National definition ^{5,7}	percent	7.3	6.8	6.2	5.8	7.4	8.3
Employment rate							
Persons in active employment ^{1,8}	percent	63.0	63.9	64.8	66.0	65.0	64.1
Total employment (Eurostat) ^{6,8}	percent	68.6	70.2	71.4	72.1	71.0	70.1

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

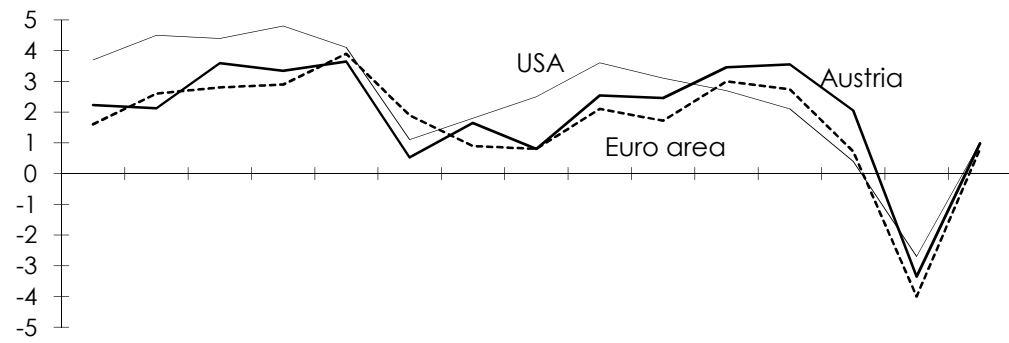
³ According to WIFO. ⁴ Economically active employment plus unemployment.

⁵ According to Public Employment Service Austria ⁶ According to Eurostat Labour Force Survey.

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

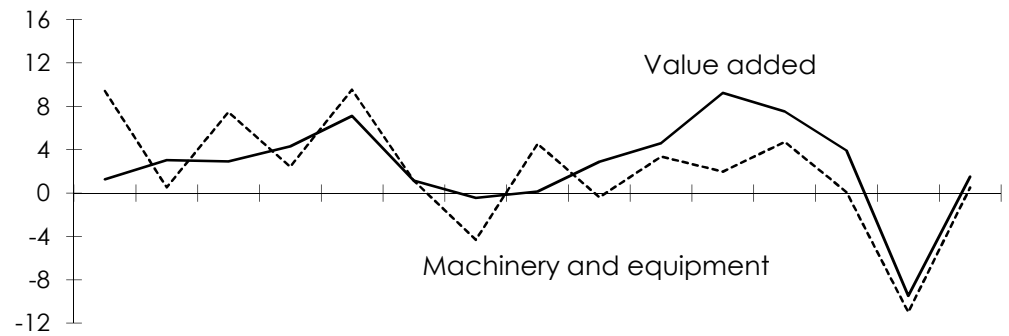
Growth of real GDP

Percent



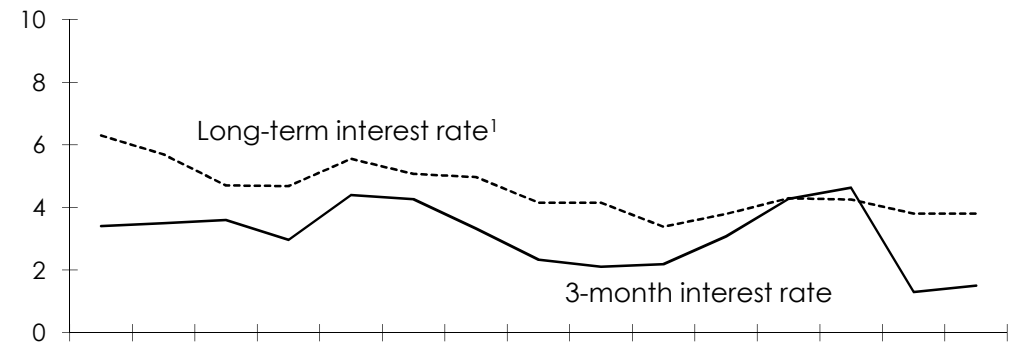
Manufacturing and investment

Percentage changes from previous year, volume



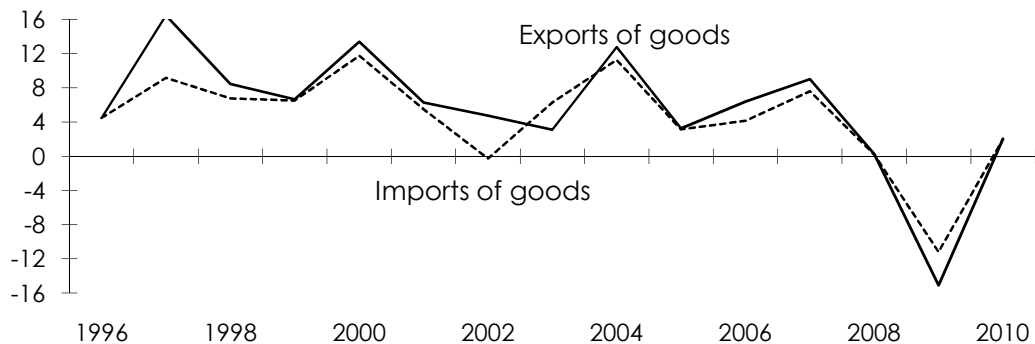
Short-term and long-term interest rates

Percent



Trade

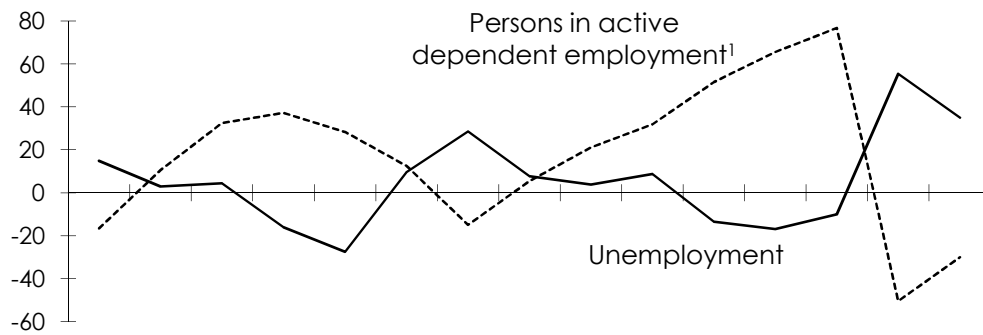
Percentage changes from previous year, volume



¹ 10-year central government bonds (benchmark).

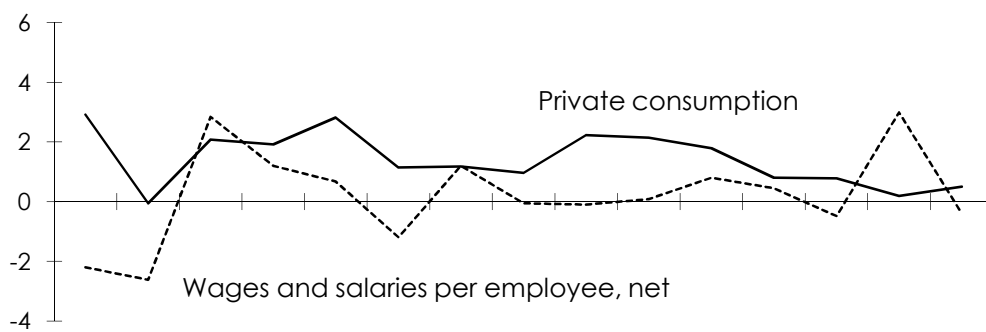
Employment and unemployment

1,000^s from previous year



Consumption and income

Percentage changes from previous year, volume



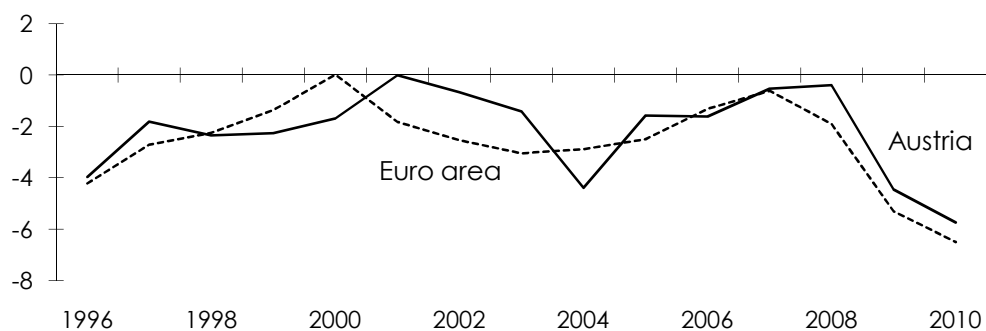
Inflation and unit labour costs

Percentage changes from previous year



General government financial balance

As a percentage of GDP



¹ Excluding parental leave, military service, and unemployed persons in training.