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Early Signs of Cyclical Recovery

Economic Outlook for 2013 and 2014

Uncertainty on financial markets has subsided somewhat, while companies are regaining confidence in their short-term business outlook. After a sustained decline in demand and output since the end of 2011, the second recession within five years in the euro area seems to have ended. Also in Austria, business sentiment is rebounding even if the recovery remains tentative for the time being.

For definitions of terms used, see "Methodological Notes and Short Glossary", http://www.wifo.ac.at/wwadocs/form/WIFO-BusinessCycleInformation-Glossary.pdf • All staff members of the Austrian Institute of Economic Research contribute to the Economic Outlook. • Data processing: Nora Popp • Cut-off date: 4 October 2013. • E-mail address: Marcus.Scheiblecker@wifo.ac.at

The coincidence of the slowdown in emerging markets with the cyclical sluggishness in the euro area has left its marks on business activity also in Austria. During 2012, growth decelerated steadily, turning negative towards the end of the year. In early 2013, the decline came to a halt and was followed by stagnation of demand and output.

For the first time, business surveys of August and September 2013 show a marked rebound in optimism. Domestic activity should head up as from the fourth quarter and strengthen further in 2014. Nevertheless, the recovery is unlikely to gain the momentum of previous cycles, given the lasting structural problems burdening the euro area.

In 2013, also internal demand was lacklustre, although falling demand for durable consumer goods, machinery and business equipment dampened imports more than domestic output. Private consumption in the first half of the year fell 1.3 percent in volume from the year-earlier level (unadjusted for the leap day last year). In view of the subdued outlook and the high degree of uncertainty, firms have been reluctant to invest; indeed, spending on new equipment is likely to fall by an inflation-adjusted 3.5 percent year-on-year in 2013, while construction investment may edge up by 0.5 percent. Domestic demand is thus expected to decline by 0.8 percent in real terms in the current year. While exports of goods and services should grow by 2.7 percent in volume, imports are projected to gain only 0.7 percent, yielding a positive net external contribution to GDP growth, despite the altogether weak foreign demand.

The receding domestic demand is clearly reflected by credit developments: the amount of outstanding credit to domestic non-financial borrowers has been flat since 2012 and is set to pick up only by 2014.

Unemployment reacted rather quickly to the cyclical downturn as well as to the marked increase in labour supply (2012 +1.6 percent, 2013 +1.2 percent). After an increase by over 5 percent last year, the number of registered unemployed will rise further to a total 287,600 (+27,000) in 2013. In 2014, the upward trend should abate (+11,000). In spite of the only moderate advance in output, employment is still heading up (persons in dependent active employment 2013 +0.7 percent; 2014 +0.8 percent).

Due to the efforts to consolidate public finances, and despite sluggish growth and additional subsidies to banks in distress, the general government deficit for 2013, projected at 2.6 percent of GDP, will broadly match the ratio of 2.5 percent of GDP recorded for both 2011 and 2012. A more substantial deficit cut to 1.6 percent of GDP may only be expected for 2014.

Table 1: Main results

		2009	2010	2011	2012	2013	2014
		Percentage changes from previous year					
GDP							
Volume		– 3.8	+ 1.8	+ 2.8	+ 0.9	+ 0.4	+ 1.7
Value		– 2.3	+ 3.2	+ 4.9	+ 2.6	+ 2.6	+ 3.7
Manufacturing[1], volume		– 12.2	+ 7.6	+ 8.3	+ 1.1	+ 0.8	+ 3.5
Wholesale and retail trade, volume		– 0.7	+ 2.2	+ 1.3	– 1.7	– 1.5	+ 1.3
Private consumption expenditure, volume		+ 0.9	+ 2.0	+ 0.8	+ 0.5	+ 0.0	+ 0.9
Gross fixed investment, volume		– 7.8	– 1.4	+ 8.5	+ 1.6	– 1.4	+ 3.0
Machinery and equipment		– 10.8	+ 2.1	+ 14.3	+ 2.1	– 3.5	+ 5.0
Construction		– 7.1	– 3.9	+ 2.5	+ 2.5	+ 0.5	+ 1.2
Exports of goods[2]							
Volume		– 18.3	+ 13.6	+ 8.1	+ 0.8	+ 2.5	+ 5.5
Value		– 20.2	+ 16.7	+ 11.3	+ 1.5	+ 2.1	+ 6.6
Imports of goods[2]							
Volume		– 14.5	+ 11.7	+ 8.6	– 1.3	+ 0.4	+ 5.5
Value		– 18.4	+ 16.5	+ 15.3	+ 0.7	– 0.7	+ 6.3
Current balance	billion €	+ 7.49	+ 9.74	+ 4.90	+ 4.93	+ 9.75	+ 11.16
As a percentage of GDP		+ 2.7	+ 3.4	+ 1.6	+ 1.6	+ 3.1	+ 3.4
Long-term interest rate[3]	percent	3.9	3.2	3.3	2.4	2.2	2.3
Consumer prices		+ 0.5	+ 1.9	+ 3.3	+ 2.4	+ 2.0	+ 1.9
Unemployment rate							
Eurostat definition[4]	percent	4.8	4.4	4.2	4.3	5.1	5.2
National definition[5]	percent	7.2	6.9	6.7	7.0	7.6	7.8
Persons in active dependent employment[6]		– 1.5	+ 0.8	+ 1.9	+ 1.4	+ 0.7	+ 0.8
General government financial balance according to Maastricht definition							
As a percentage of GDP		– 4.1	– 4.5	– 2.5	– 2.5	– 2.6	– 1.6

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

Global forces of growth about to shift

Although demand and output growth in the emerging markets is losing momentum, a rebound of activity in this group of countries may be expected for 2014.

Global economic activity slackened somewhat in 2012 and 2013. After an expansion by almost 4 percent in 2011, world GDP rose by little over 3 percent in 2012, with broadly the same rate expected for 2013. By 2014, growth should return to a pace of nearly 4 percent.

At the same time, a shift in the growth momentum can be observed, away from the emerging markets towards the USA and Japan. In Brazil, GDP growth declined below 1 percent in 2012 and the situation remains fragile in 2013; strong capital outflows since the beginning of the year have depressed the exchange rate vis-à-vis the dollar and the euro by some 15 percent, while the implicit increase in interest rates is weighing on internal demand.

Developments in Russia are shaped by the stagnation of oil prices that are crucial for the country's foreign exchange revenues and hence its import potential. Industrial output has been flat since early 2013 while the rouble has lost about 10 percent against the dollar and the euro.

A similar exchange rate decline, by around 15 percent each vis-à-vis the dollar and the euro, has been recorded for the Indian rupee which fell to a new low in August 2013. In 2012, GDP growth of 3.8 percent was only half the rate of the previous year (+7.7 percent), moderating further to 2¾ percent in the first half of 2013.

Table 2: World economy

	2009	2010	2011	2012	2013	2014
	Percentage changes from previous year					
Real GDP						
World	– 0.6	+ 5.2	+ 3.9	+ 3.1	+ 3.2	+ 3.8
USA	– 2.8	+ 2.5	+ 1.8	+ 2.8	+ 1.8	+ 2.5
Japan	– 5.5	+ 4.7	– 0.6	+ 2.0	+ 1.8	+ 1.9
EU 28	– 4.5	+ 2.0	+ 1.6	– 0.4	– 0.1	+ 1.2
Euro area 17	– 4.4	+ 2.0	+ 1.5	– 0.6	– 0.4	+ 1.1
Germany	– 3.0	+ 2.4	+ 3.5	+ 0.9	+ 0.8	+ 2.2
New EU countries[1]	+ 9.2	+ 10.4	+ 9.3	+ 7.8	+ 7.5	+ 8.0
China	– 0.6	+ 5.2	+ 3.9	+ 3.1	+ 3.2	+ 3.8
World trade, volume	– 12.3	+ 14.4	+ 5.9	+ 1.9	+ 2.5	+ 5.0
Market growth[2]	– 10.9	+ 11.4	+ 6.3	+ 1.6	+ 2.3	+ 5.5
Primary commodity prices						
HWWI index, total	– 34.7	+ 28.9	+ 28.6	– 2.8	– 4	±0
Excluding energy	– 28.4	+ 31.9	+ 19.2	– 14.4	– 7	+ 1
Crude oil prices						
Brent, $ per barrel	61.5	79.5	111.3	111.6	108	105
Exchange rate						
$ per euro	1.393	1.327	1.392	1.286	1.30	1.30

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

Economic expansion decelerated markedly also in China. While annual GDP growth had regularly exceeded 9 percent before 2012, the target set by the central government for the years to come has been lowered to 7.5 percent. In the year-on-year comparison, growth has slowed gradually from 7.9 percent in the fourth quarter 2012 to 7.7 percent in early 2013 and further to 7.5 percent in spring. Quarter-on-quarter, growth decelerated from 1.9 percent to 1.6 percent and 1.7 percent.

On the back of the expected global recovery, the economies in this group of countries should return to stronger growth in 2014, thereby stimulating activity in other regions.

Robust growth in the USA and Japan

Growth of the US economy is less dynamic in 2013 than before, but highly robust. In the second quarter, it accelerated from 0.3 percent to 0.6 percent against the previous period. While construction investment jumped by 3.4 percent, companies spent only little more on new machinery and equipment (+0.8 percent). Private consumption rose by a moderate 0.5 percent, keeping the steady upward trend observed since early 2010.

Due to the automatic expiry of cyclical support measures introduced in 2008, the budget balance in 2013 should improve to the tune of 2 percent of GDP, largely on account of higher revenues. Despite this restrictive fiscal impact, the economy is set to grow by nearly 2 percent in 2013. Current leading indicators from business and consumer surveys do not point to an imminent slowdown of activity. Since the budget cuts planned for 2014 correspond to no more than 1 percent of GDP, their dampening effect will be smaller, allowing GDP growth to pick up to a projected 2.5 percent.

In the euro area, the fiscal deficit narrowed by the equivalent of 2 percentage points of GDP in 2011. Although annual GDP growth of 1.5 percent in that period of most stringent consolidation was similar to the rate attained by the USA in 2013, the pace slowed markedly during the year and the economy slid into a recession that lasted for almost two years. The euro area countries had possibly started fiscal tightening too early, thereby choking off the incipient recovery. Moreover, consolidation in the euro was mainly expenditure-driven, while in the USA it is brought about rather by higher revenues as several tax rates are raised to their pre-recession levels.

While fiscal policy in the USA is at present mildly restrictive, monetary policy is pursuing its expansionary course for the time being. The key interest rate has remained stuck at zero since the end of 2008. In addition, the Federal Reserve maintains its non-conventional measures by massively purchasing government bonds. Inflation has nevertheless remained calm so far: the headline figure stood at 1.7 percent in the first quarter and abated to 1.4 percent in the subsequent period.

Economic policy in Japan is also trying to stabilise demand and output by a substantial expansion of money supply. The planned doubling of money supply within two years is intended to stop deflation that has lasted for many years. Since the middle of 2012, the yen has depreciated by around one-third against the euro, and by one-fourth vis-à-vis the dollar, giving rise to a jump in share prices. After the bottoming-out of the recession, the Japanese economy has resumed growth since the fourth quarter 2012. In early 2013, real GDP picked up by 1.0 percent quarter-on-quarter, followed by +0.9 percent in spring, with private consumption being a key driver of the recovery. Latest business surveys confirm the favourable short-term outlook, suggesting continued growth for the third quarter. WIFO expects annual GDP growth at 1.8 percent for the current year, followed by 1.9 percent in 2014.

First signs of improving business conditions in Europe

For the first time since mid-2011, the euro area economy expanded on a seasonally-adjusted basis in the second quarter 2013. Business surveys indicate a broad-based cyclical improvement, although the recovery is likely to progress only gradually.

Having continuously receded since the fourth quarter 2011, demand and output in the euro area edged up by 0.3 percent in the second quarter 2013. The second recession within the last five years now appears to have been overcome. During the Great Recession of 2008-09, euro area GDP had been falling during five quarters in a row, altogether by 5.7 percent; with six quarters of decline, the latest recession lasted even longer, but was less deep with an output loss of 1.3 percent. Taken together, both recessions pushed down euro area output back to its level of 2006.

All major demand components contributed to euro area growth in the second quarter 2013. Real private consumption picked up by 0.2 percent from the previous period, government current expenditure by 0.4 percent. Gross fixed investment gained 0.3 percent in volume, the first increase in two years. Exports of goods and services to non-euro-area countries, rising by 1.6 percent quarter-on-quarter, also experienced the strongest increase since early 2011.

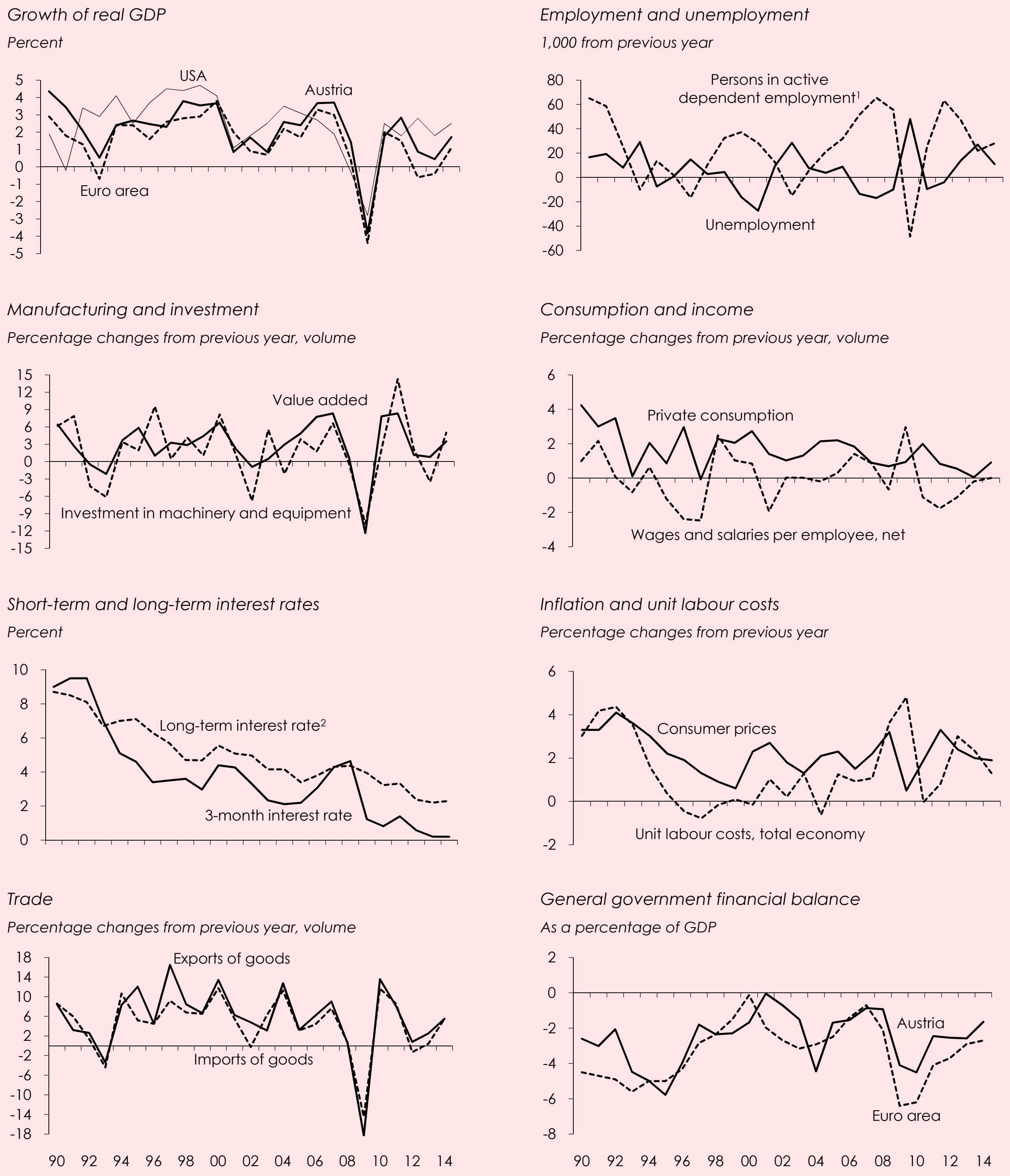
From a geographical perspective, the recovery appears to be broad-based. In Germany, after a setback in late 2012 and stagnation in early 2013, real GDP jumped by 0.7 percent in the second quarter 2012 from the previous period. The trend was similar in France (+0.5), where it had been negative during the previous two quarters. In Spain (–0.1 percent) and Italy (–0.2 percent), output kept declining in the second quarter, but the contraction pace decelerated further in both countries. In the fourth quarter 2012, output had contracted by almost 1 percent respectively, followed by around –0.5 percent during the first three months of the current year.

According to latest business surveys, the positive trend should continue in the euro area, with the cyclical trough definitely passed. The survey conducted by the European Commission last September saw the Economic Sentiment Indicator up by 1.6 points, after +2.8 points in the month before. Assessments improved in all sectors, i.e. manufacturing industry, services, consumption and trade, as confidence rose across all major member countries.

The general government deficit of the euro area should narrow from 3.7 percent of GDP in 2012 to 3 percent in 2013. Monetary conditions will remain loose, with the ECB key interest rate at 0.5 percent since early May 2013. Given the protracted recession just about being overcome, the euro area rate of inflation averaging 1.6 percent since the beginning of 2013 is relatively high, although this is not a consequence of the expansionary monetary policy. The labour market will only respond with some lag to the business cycle recovery. The euro area unemployment rate has been stable at 12 percent since the beginning of the year.

For the whole year 2013, WIFO expects euro area GDP to edge down by 0.4 percent, with the recovery becoming more clearly visible in 2014. Nevertheless, the growth profile will be flatter than in previous stages of cyclical upturn. Fiscal retrenchment will continue, and structural problems in many areas will continue to prevent the forces of growth from fully unfolding. GDP in the euro area is therefore projected to expand by little more than 1 percent in 2014.

Figure 1: Indicators of economic performance



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

Cyclical recovery of the EU economy not confined to the euro area

The economic climate is brightening also in the EU member countries not belonging to the euro area. Likewise, Austrian eastern neighbour countries will join in the upswing.

On 1 July 2013, Croatia acceded to the EU as 28th member country. In the second quarter 2013, the EU 28 recorded GDP growth of 0.4 percent from the previous period, slightly above the rate for the euro area. Notably the UK enjoyed a strong rebound of 0.7 percent in volume, from +0.3 percent in the first quarter.

Austria's eastern neighbours and major trading partners also benefited from a revival of activity. After several quarters of recession, the Czech economy grew by 0.6 percent in volume in the second quarter from the earlier three-months period. In Slovakia, demand and output growth strengthened from 0.1 percent in late 2012 and 0.2 percent in early 2013 to 0.3 percent in spring.

Developments in Hungary are rather volatile: output weakened by 0.5 percent towards the end of 2012, having stagnated during the previous summer months. In early 2013, GDP gained 0.6 percent in volume, followed by renewed sluggishness in spring (+0.1 percent quarter-on-quarter). Slovenia's economy, struck by a severe banking crisis, remains caught in recession. GDP declined further in the second quarter 2013, although the downward momentum decelerated.

For all these countries, the business surveys signal rising confidence in the short-term outlook, boding well for the further recovery. For the whole EU 28, WIFO expects real GDP to edge down by 0.1 percent on annual average 2013, followed by a rebound of 1.2 percent in 2014.

Austria: sluggish domestic demand

Consumption expenditure by Austrian private households is set to remain flat in real terms in 2013, while investment is likely to decline. Both elements will weigh to a greater extent on imports than on domestic production.

Unlike in the euro area, activity in Austria hardly receded at all in late 2012: after edging down by 0.1 percent from the previous period in the fourth quarter, real GDP headed up tentatively by 0.1 percent each in the first and second quarter 2013.

Among developments in the first half of the current year, the weakness of private consumption is eye-catching: according to national accounts data, households spent 1.3 percent less in real terms than one year ago, and data confirm a decline even when adjusted for the leap day in 2012. Although growing population and employment provide potential stimulus for private consumption, the cyclically most sensitive component of spending on durable consumer goods will shrink by almost 5 percent in volume in 2013. Car purchases in particular took a slump in the first half of the year, although the implicit impact is mainly on imports and only marginally on domestic output. Private household real disposable income is expected to rise by only 0.3 percent, given the cyclical weakness. Headline inflation is projected at a rate of 2 percent (national definition) for 2013, easing to 1.9 percent in 2014.

Net real wages and salaries per capita remained broadly flat in 2013 (–0.2 percent), after having fallen by over 1 percent in each of the three years before. Consumer surveys show for August a pick-up in confidence in all components. The deceleration of inflation should also encourage higher consumption during the second half of the year. For the year as a whole, however, no more than a stagnation is expected. In 2014, while net wages and salaries may not rise much more than in 2013 (by an inflation-adjusted +0.9 percent, after +0.5 percent), income from property and wealth should give a boost to private disposable income, leaving scope for an increase in private consumption by 0.9 percent in real terms and a rise in the saving ratio to 7.9 percent at the same time.

Investment in machinery and equipment is dropping markedly in 2013, by 3.5 percent in volume, after a gain of around 2 percent in 2012. Results for the first six months were particularly negative, with sharp falls in both machinery and business vehicles. Meanwhile, companies have turned more confident in the short-term outlook; given also the persistent favourable financing conditions and a certain pent-up demand for replacement, investment should revive markedly in 2014. In this regard too, the high import content of investment will leave only a limited impact on domestic production.

Unlike machinery investment, expenditure on construction is set to edge up by 0.5 percent in volume in 2013, matching the figure recorded for the first six months. In 2014, demand should strengthen only moderately (+1.2 percent) since public investment will be constrained by the need for fiscal consolidation.

Table 3: Private consumption, income and prices

	2009	2010	2011	2012	2013	2014
	Percentage changes from previous year					
Private consumption expenditure	+ 0.9	+ 2.0	+ 0.8	+ 0.5	+ 0.0	+ 0.9
Durables	+ 4.7	+ 1.6	+ 1.8	+ 0.6	– 4.8	+ 0.8
Non-durables and services	+ 0.5	+ 2.0	+ 0.7	+ 0.5	+ 0.6	+ 0.9
Household disposable income	+ 0.1	– 0.5	– 1.3	+ 1.1	+ 0.3	+ 1.1
	As a percentage of disposable income					
Household saving ratio[1]	11.2	8.9	6.7	7.4	7.7	7.9
Household saving ratio[2]	10.6	8.4	6.4	7.0	7.2	7.4
	Percentage changes from previous year					
Direct lending to domestic non-banks[3]	– 1.3	+ 2.9	+ 2.7	+ 0.0	± 0.0	+ 1.7
	Percentage changes from previous year					
Inflation rate						
National	0.5	1.9	3.3	2.4	2.0	1.9
Harmonised	0.4	1.7	3.6	2.6	2.1	1.9
Core inflation[4]	1.5	1.2	2.8	2.3	2.3	1.9

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

Table 4: Earnings and international competitiveness

	2009	2010	2011	2012	2013	2014
	Percentage changes from previous year					
Gross earnings per employee[1]	+ 1.7	+ 0.9	+ 1.8	+ 2.4	+ 2.2	+ 2.2
Gross real earnings per employee[2]	+ 1.2	– 0.9	– 1.4	– 0.1	+ 0.2	+ 0.3
Net real earnings per employee[2]	+ 3.0	– 1.1	– 1.8	– 1.1	– 0.2	± 0.0
Unit labour costs						
Total economy	+ 4.8	– 0.0	+ 0.8	+ 3.0	+ 2.3	+ 1.3
Manufacturing	+10.7	– 6.9	– 3.0	+ 3.0	+ 1.6	– 0.9
Effective exchange rate, manufactures						
Nominal	+ 0.9	– 2.9	+ 0.1	– 1.7	+ 1.4	+ 0.3
Real	+ 0.4	– 3.2	+ 0.5	– 1.7	+ 1.6	+ 0.1

Source: WIFO. 2013, 2014: forecast. – [1] Employees according to National Accounts definition. – [2] Deflated by CPI.

Merchandise exports expanded by a modest 2.3 percent in volume year-on-year in the first six months. Since, however, imports of goods stagnated (–0.1 percent) due to sluggish consumer and investment demand, net foreign trade contributes substantially to GDP growth in 2013.

During 2014, growth should be increasingly driven by the domestic demand components. While merchandise exports should expand twice as fast as in 2013 (by 5.5 percent in real terms), the rebound in consumption and in machinery and equipment investment will drive imports up at broadly the same pace (+5.5 percent).

Revival only towards the end of 2013

The latest surveys among Austrian companies show a gradual, but steady increase in confidence in an improving business situation. In September, the index for the cyclically sensitive manufacturing output rose further, with the positive responses exceeding the negative assessments for the first time since the middle of 2011. Producers of consumer goods as well as those of semi-finished and investment goods judged the short-term prospects better than in the months before.

The current situation, however, was hardly seen more positive now than before by manufacturing companies. Thus, no significant pick-up in production should be expected for the third quarter, while activity should gradually strengthen during the last three months of the year. For 2014, manufacturing output (value added) is expected to expand by 3.5 percent in volume, with the sector playing its usual role as leader in a cyclical recovery. As manufacturing employment will remain broadly constant (+0.1 percent), hourly productivity is expected to gain 3 percent.

Austrian GDP growth will remain subdued in the third quarter 2013. It is only for the last three months of the year that business surveys indicate a more substantial strengthening of activity.

Table 5: Productivity

	2009	2010	2011	2012	2013	2014
	Percentage changes from previous year					
Total economy						
Real GDP	– 3.8	+ 1.8	+ 2.8	+ 0.9	+ 0.4	+ 1.7
Employment[1]	– 0.9	+ 0.7	+ 1.8	+ 1.4	+ 0.6	+ 0.9
Productivity (GDP per employment)	– 2.9	+ 1.0	+ 1.0	– 0.5	– 0.2	+ 0.8
Manufacturing						
Production[2]	–12.4	+ 7.8	+ 8.3	+ 1.2	+ 0.8	+ 3.5
Employees[3]	– 5.3	– 1.3	+ 1.9	+ 1.7	± 0.0	+ 0.1
Productivity per hour	– 4.1	+ 6.0	+ 6.4	+ 0.1	+ 1.3	+ 3.0
Working hours per day per employee[4]	– 3.5	+ 3.0	– 0.1	– 0.6	– 0.5	+ 0.4

Source: WIFO. 2013, 2014: forecast. – [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.

In the construction sector, the business climate has weakened somewhat. Both the current situation and the short-term outlook are seen more sceptically than before. Firms nevertheless believe in an increase in construction prices, although they have revised down their expectations for employment and order levels.

Companies in the service sector also consider current business conditions as lacklustre as before, but they express greater optimism for the future. This holds in particular for the providers of IT services and for freelance researchers and technicians.

Ambivalent prospects for the labour market

The cyclical weakness has driven up unemployment figures significantly (registered persons without job in 2012 +13,900 to a total 260,600; 2013 +27,000 to 287,600). Since the labour market usually reacts with a certain lag to the variations in business activity, unemployment is set to increase further in 2014, by 11,000 to a total 298,600, mainly in the cyclically sensitive areas of manufacturing and construction, and later on in services. Apart from the rising labour force participation of women and higher supply of foreign labour, registered unemployment is pushed up a restricted access to early retirement and by reintegration measures of persons of limited employability into labour force.

The inflow of labour from abroad is projected to lose momentum, after an increase by 1.6 percent in 2012 to +1.2 percent in 2013 and +1.0 percent in 2014.

The situation on the Austrian labour market remains fragile. In spite of steadily rising employment, the jobless rate is climbing to new highs.

The impact of the cyclical weakness on employment is significantly smaller, as the number of persons in dependent active employment is likely to increase further, albeit at a slower pace (2012 +1.4 percent, 2013 +0.7 percent). In 2014, the recovery will, with a short delay, lead to slightly stronger employment growth (+0.8 percent).

The rate of unemployment will head up over the entire forecast horizon. According to the conventional national definition, the rate will climb to 7.6 percent of the dependent labour force in 2013, higher than during the Great Recession in 2009 (7.2 percent). A further increase to 7.8 percent is expected for 2014. According to the EU-wide harmonised definition, the unemployment rate will edge up to 5.1 percent in the current year and to 5.2 percent in 2014.

Fiscal consolidation path subject to several risks

Fiscal policy in Austria is adhering to its course of consolidation. For 2013, WIFO projects a general government deficit of 2.6 percent of GDP, and a deficit of 1.6 percent of GDP for 2014. Yet, apart from cyclically-related uncertainty about the flow of tax revenues, there are several risks some of which are difficult to quantify. Notably potential expenditure overruns in the context of financial market stabilisation may weigh on the budget balance more than anticipated. Without such additional outlays, the general government deficit for 2013 would be lower by more than ½ percentage point.

Table 6: Labour market

		2009	2010	2011	2012	2013	2014
		Changes from previous year, in 1,000					
Demand for labour							
Persons in active employment[1]		– 44.0	+ 32.4	+ 70.4	+ 52.2	+ 30.0	+ 32.5
Employees[2]		– 48.5	+ 25.5	+ 63.3	+ 47.2	+ 22.0	+ 28.0
Percentage changes from previous year		– 1.5	+ 0.8	+ 1.9	+ 1.4	+ 0.7	+ 0.8
Nationals		– 43.0	+ 5.8	+ 25.7	+ 9.0	– 6.0	+ 3.0
Foreign workers		– 5.5	+ 19.7	+ 37.7	+ 38.1	+ 28.0	+ 25.0
Self-employed[3]		+ 4.5	+ 6.9	+ 7.1	+ 5.0	+ 8.0	+ 4.5
Labour supply							
Population of working age	15 to 64 years	+ 11.1	+ 17.3	+ 31.3	+ 18.0	+ 3.0	+ 5.5
	15 to 59 years	+ 5.2	+ 4.9	+ 11.7	+ 22.3	+ 7.2	+ 5.2
Labour force[4]		+ 4.0	+ 22.9	+ 66.3	+ 66.1	+ 57.0	+ 43.5
Surplus of labour							
Registered unemployed[5]		+ 48.1	– 9.5	– 4.1	+ 13.9	+ 27.0	+ 11.0
In 1,000		260.3	250.8	246.7	260.6	287.6	298.6
Unemployed persons in training[5]	in 1,000	64.1	73.2	63.2	66.6	72.6	75.6
		In percent					
Unemployment rate							
Eurostat definition[6]		4.8	4.4	4.2	4.3	5.1	5.2
As a percentage of total labour force[5]		6.5	6.2	6.0	6.3	6.8	7.0
National definition[5,7]		7.2	6.9	6.7	7.0	7.6	7.8
Employment rate							
Persons in active employment[1,8]		65.0	65.3	66.2	66.9	67.4	67.9
Total employment[6,8]		71.6	71.7	72.1	72.5	72.3	72.4

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

The measures aiming at financial market stabilisation constitute a major burden for the government household.

Table 7: Key policy indicators

	2009	2010	2011	2012	2013	2014
	As a percentage of GDP					
Fiscal policy						
General government financial balance						
According to Maastricht definition	– 4.1	– 4.5	– 2.5	– 2.5	– 2.6	– 1.6
General government primary balance	– 1.3	– 1.8	+ 0.2	+ 0.1	+ 0.0	+ 0.9
	In percent					
Monetary policy						
3-month interest rate	1.2	0.8	1.4	0.6	0.2	0.2
Long-term interest rate[2]	3.9	3.2	3.3	2.4	2.2	2.3
	Percentage changes from previous year					
Effective exchange rate						
Nominal	+ 1.1	– 2.7	+ 0.2	– 1.5	+ 1.3	+ 0.2
Real	+ 0.5	– 3.0	+ 0.6	– 1.6	+ 1.5	+ 0.1

Source: WIFO. 2013, 2014: forecast. – [1] 10-year central government bonds (benchmark).

For 2013, an additional € 1.20 billion in capital transfers beyond the budgeted € 1.15 billion, and in 2014 € 0.4 billion will be required for the rescue of Hypo Alpe-Adria-Bank AG. Still higher and deficit-increasing capital needs for nationalised banks in distress cannot be ruled out for 2013 and even less for 2014. Expenditure overruns may also occur in the social retirement system, should the measures to raise the effective retirement age not generate the expected savings.

On the revenue side, amount and time profile of receipts to be expected from the bilateral tax agreements with Switzerland and notably with Liechtenstein are still uncertain. On the basis of payments received so far, the present forecast includes for 2013 revenues from the agreement with Switzerland to the amount of € 0.9 billion.

For 2014, revenues from both bilateral agreements are assumed at € 0.7 billion. No assumption is made for revenues from a financial transaction tax in 2014.

The present forecast also includes the direct budgetary impact of the "fiscal package" adopted in June 2013, of the Federal government guarantees for Alpine Bau GmbH that have been called, and of the revenues from the auction of LTE licences of mobile phone frequencies to the amount of minimal offers.