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 **ÖSTERREICHISCHES INSTITUT FÜR  
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**Economic Growth Dampened  
by Oil Price Hike, but Exceeding  
the Euro Area Average**

**Economic Outlook for 2005 and 2006**

**October 2005**

# **Economic Growth Dampened by Oil Price Hike, but Exceeding the Euro Area Average**

**Economic Outlook for 2005 and 2006**

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Austrian Institute of Economic Research

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# **Economic Growth Dampened by Oil Price Hike, but Exceeding the Euro Area Average**

## **Economic Outlook for 2005 and 2006**

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*GDP growth will reach only 1.7 percent this year and is expected to move but to a marginally higher rate in 2006. The high energy prices are eating into real disposable income of private households and thereby into consumer demand. Latest survey results show an improvement in industrial confidence which may lead to a recovery in machinery and equipment investment from its low level. Higher public spending on infrastructure, research and the upgrading of qualifications of the labour force has led to a positive growth differential vis-à-vis the euro area, while at the same time widening the budget deficit somewhat further.*

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The Austrian economy has moved to a path of moderate growth. Real GDP rose by 0.4 percent seasonally adjusted in the 2nd quarter from the previous period and may keep a similar pace throughout the second half of the year. Activity is held back mainly by the high costs of energy whose direct share in total consumer expenditure amounts to 7 percent. Their contribution to the increase in consumer prices is close to ½ percentage point. Assuming that the increase in energy prices will be passed on to other goods and services to such a moderate degree as so far, the rate of inflation will average 2.4 percent this year and 2.1 percent in 2006. Real disposable income of private households is growing by only around 1½ percent per year, allowing a gain in private consumption by 1.4 percent in real terms. Such an increase would be higher than last year, but undershoot the long-term average significantly for the fifth year in a row, undermining activity in the trade sector and in other services branches.

The export-oriented industrial sectors are growing faster than those parts of the economy depending mainly on domestic demand. Austrian exporting companies are proving highly competitive, boosting deliveries by a further 4.2 percent this year from the particularly successful performance in 2004, when export volumes jumped by 12.9 percent. Demand is growing notably from the oil-exporting countries whose

foreign revenues have risen substantially. Incoming orders from the euro area are faring less well, given the lack of stimulus from internal demand. In the regular WIFO business survey, manufacturing firms have expressed continued uncertainty about the further trend in output, despite the latest improvement in business confidence. If such early signs for an industrial upturn are confirmed, the manufacturing sector may expect an increase in net value added by an inflation-adjusted 2.7 percent this year.

An increase in output and an improvement in medium-term expectations are prerequisites for a revival in machinery and equipment investment. With a projected decline of 1 percent in volume on annual average 2005, corporate investment spending has been subdued so far, despite an altogether comfortable profit situation. Since a large part of investment goods is supplied from abroad, notably machinery and vehicles, sluggish investment, in conjunction with weak consumer purchases of motor cars, is holding back merchandise import growth, projected at 1.7 percent in volume for 2005. For this reason, the trade balance is expected to be in small surplus, notwithstanding the high energy costs.

Since 1 May, 2005, the Federal government has adopted a set of measures designed to stimulate economic activity and rein back the marked rise in unemployment. Extra-budgetary funds for the improvement of transport infrastructure and expenditure for research were increased and budget allocations for active labour market policy reinforced. Public investment, in particular, should provide cyclical stimulus, mirrored by substantially higher order levels as reported by civil engineering companies. Since demand for residential construction is also strengthening, overall value added of the construction sector should expand by an inflation-adjusted 1.5 percent in 2005 and 2 percent in 2006.

In 2006, funds at the disposal of the labour market service for the upgrading of workers' qualifications and for facilitating labour market insertion have been stepped up by one-third. The focus is to be set on subsidies to women returning to the labour market and to young workers and jobseekers, i.e., those problem groups whose situation has deteriorated most during the last few years. WIFO expects that due to these measures a further increase in the unemployment rate in 2006 can be prevented. By then, the number of people out of work will have risen to more than 250,000, corresponding to an unemployment rate of 7.2 percent of the dependent

labour force, or 5.1 percent of the total labour force on Eurostat definitions. The overall pattern on the labour market will remain unchanged, with employment heading up by around 1 percent in spite of economic growth remaining moderate, but labour supply increasing much faster than in the past.

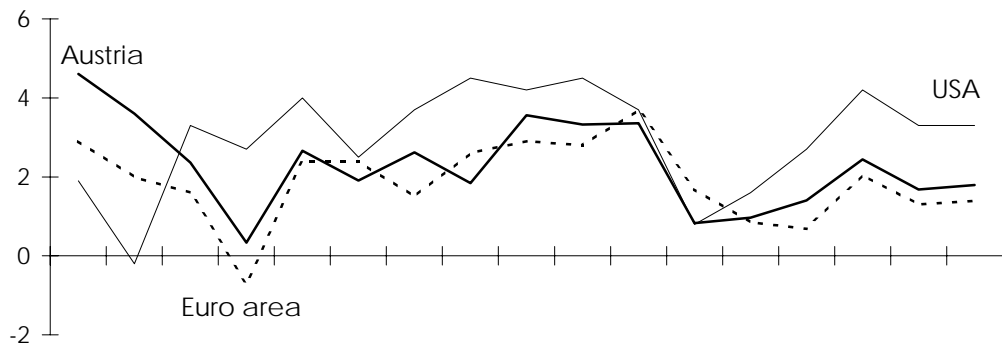
The expansionary budgetary measures adopted since May 2005 should for the larger part become effective next year, with an estimated growth impulse of 0.3 percent of GDP. Owing to this impulse, the Austrian economy should grow slightly faster than the euro area average. At the same time, the additional government spending will lead to a somewhat higher budget deficit. The latter is projected at 2 percent of GDP for 2006, thereby exceeding the benchmark figure laid down in the Federal budget and in the Stability Programme.

Vienna, 7 October 2005.

*For more details, please refer to Markus Marterbauer, Tel. (1) 798 26 01/303, e-mail address [Markus.Marterbauer@wifo.ac.at](mailto:Markus.Marterbauer@wifo.ac.at).*

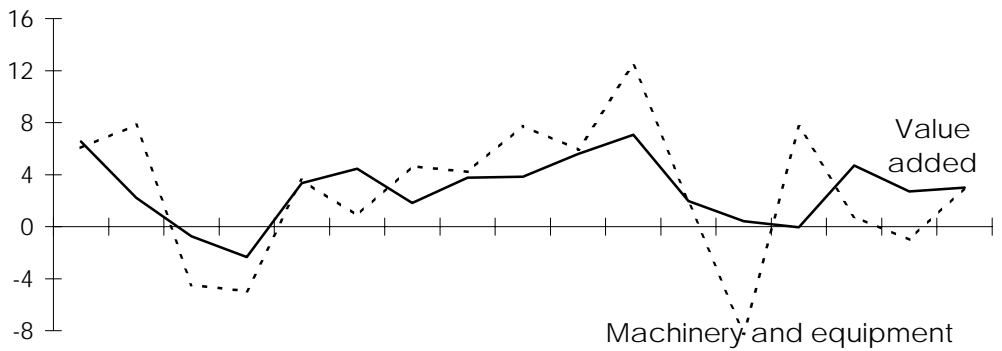
### Growth of real GDP

Percent



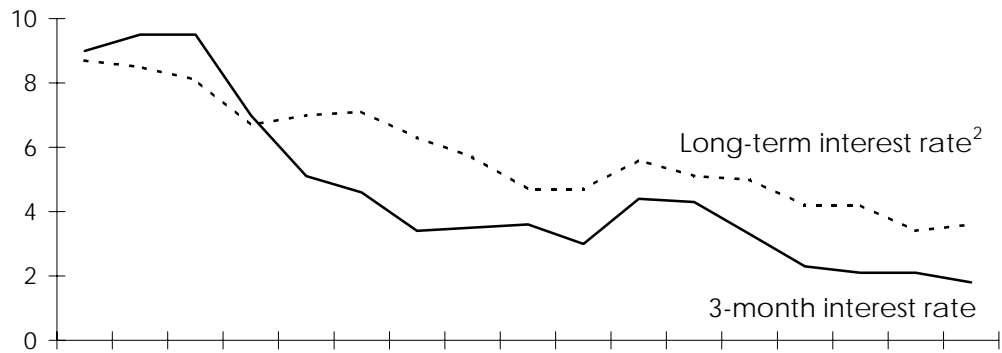
### Manufacturing and investment

Percentage changes from previous year, volume



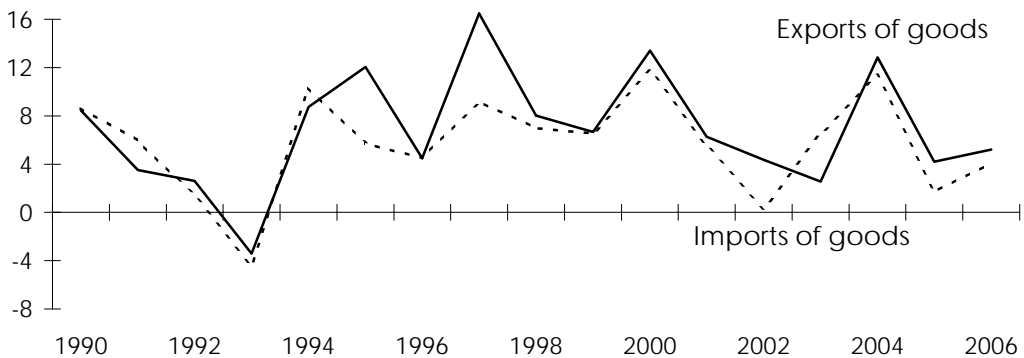
### Short-term and long-term interest rates

Percent



### Trade

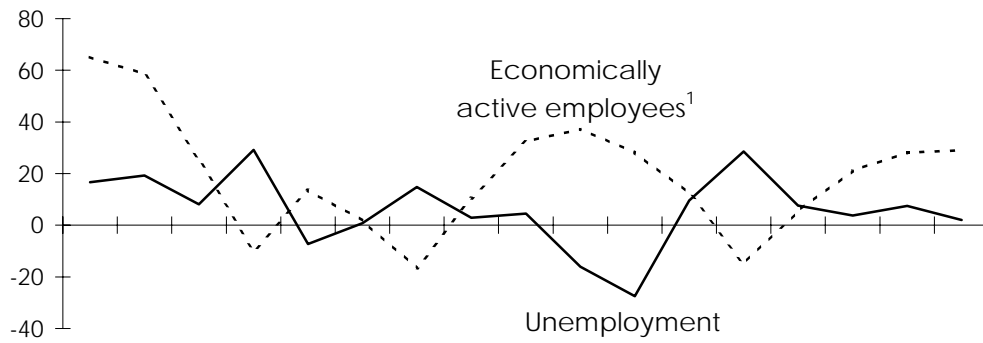
Percentage changes from previous year, volume



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

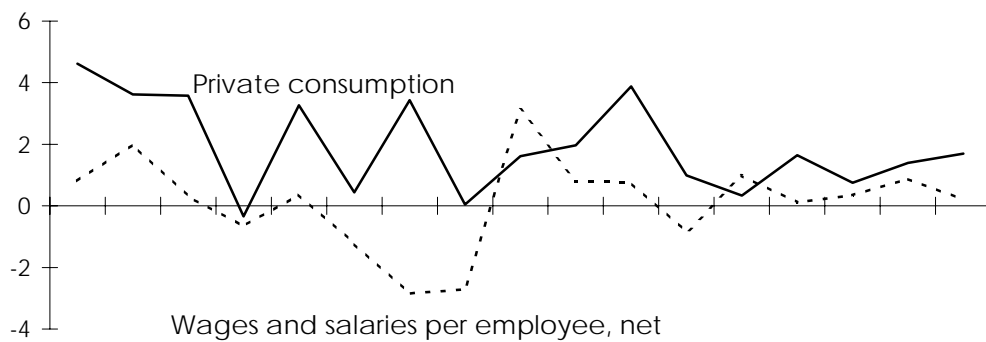
## Employment and unemployment

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



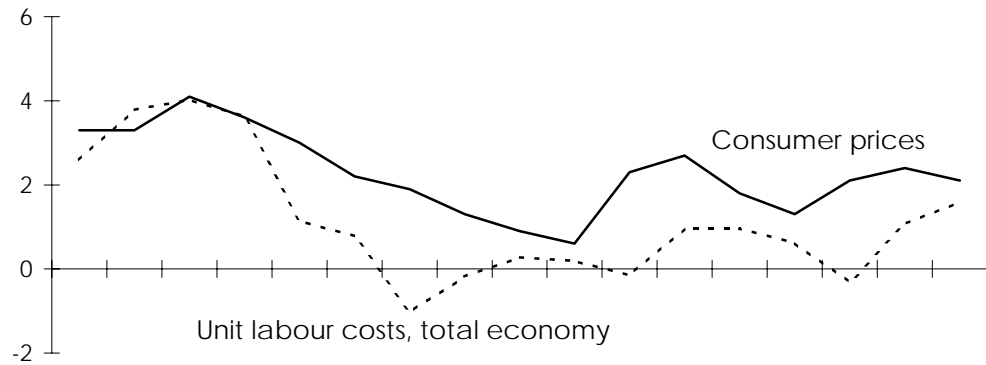
## Consumption and income

Percentage changes from previous year, volume



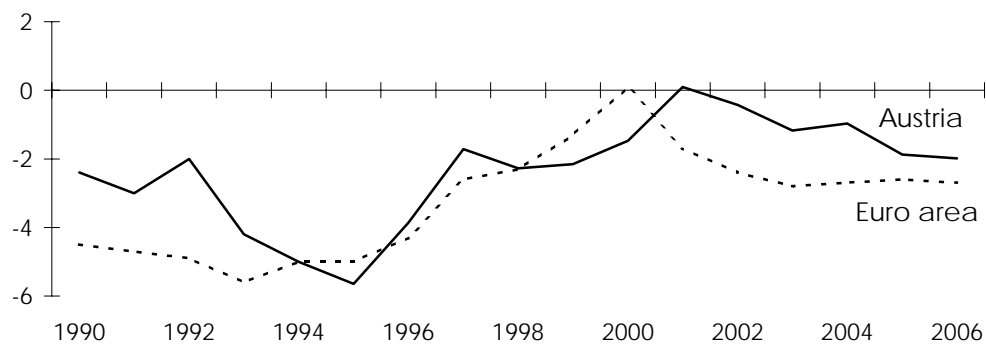
## Inflation and unit labour costs

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.

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Projections - September 2005

## Main results

Changes from previous year

		2001	2002	2003	2004	2005	2006
<b>GDP</b>							
Volume		+ 0.8	+ 1.0	+ 1.4	+ 2.4	+ 1.7	+ 1.8
Value		+ 2.6	+ 2.2	+ 2.8	+ 4.4	+ 3.5	+ 3.7
<b>Manufacturing<sup>1</sup>, volume</b>		+ 2.3	+ 0.4	- 0.1	+ 4.6	+ 2.7	+ 3.0
<b>Wholesale and retail trade, volume</b>		+ 2.0	+ 2.0	+ 0.3	+ 1.9	+ 1.2	+ 1.5
<b>Private consumption expenditure, volume</b>		+ 1.0	+ 0.3	+ 1.6	+ 0.8	+ 1.4	+ 1.7
<b>Gross fixed investment, volume</b>		- 1.5	- 5.0	+ 6.1	+ 0.6	+ 0.4	+ 2.4
Machinery and equipment <sup>2</sup>		+ 1.9	- 8.2	+ 7.7	+ 0.8	- 1.0	+ 3.0
Construction		- 4.2	- 2.3	+ 4.8	+ 0.5	+ 1.5	+ 2.0
<b>Exports of goods<sup>3</sup></b>							
Volume		+ 6.3	+ 4.3	+ 2.6	+ 12.9	+ 4.2	+ 5.2
Value		+ 6.5	+ 4.2	+ 1.9	+ 13.9	+ 5.6	+ 6.0
<b>Imports of goods<sup>3</sup></b>							
Volume		+ 5.5	+ 0.3	+ 6.5	+ 11.4	+ 1.7	+ 4.1
Value		+ 5.0	- 2.0	+ 5.0	+ 12.5	+ 4.6	+ 5.7
<b>Current balance</b>	€ bn	- 4.13	+ 0.75	- 1.17	+ 0.75	+ 1.24	+ 1.07
	as a percentage of GDP	- 1.9	+ 0.3	- 0.5	+ 0.3	+ 0.5	+ 0.4
<b>Long-term interest rate<sup>4</sup></b>	percent	5.1	5.0	4.2	4.2	3.4	3.6
<b>Consumer prices</b>		+ 2.7	+ 1.8	+ 1.3	+ 2.1	+ 2.4	+ 2.1
<b>Unemployment rate</b>							
Eurostat definition <sup>5</sup>	percent	3.6	4.2	4.3	4.8	5.1	5.1
National definition <sup>6</sup>	percent	6.1	6.9	7.0	7.1	7.2	7.2
<b>Economically active employees<sup>7</sup></b>		+ 0.4	- 0.5	+ 0.2	+ 0.7	+ 0.9	+ 0.9
<b>General government financial balance</b>							
	according to Maastricht definition						
	as a percentage of GDP	+ 0.1	- 0.4	- 1.2	- 1.0	- 1.9	- 2.0

<sup>1</sup> Value added, including mining and quarrying. <sup>2</sup> Including other products. <sup>3</sup> According to Statistics Austria.

<sup>4</sup> 10-year central government bonds (benchmark). <sup>5</sup> According to Eurostat Labour Force Survey. <sup>6</sup> According to Labour Market Service, percent of total labour force excluding self employed. <sup>7</sup> Excluding parental leave, military service, and unemployed persons in training.



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Projections - September 2005

**Key policy indicators**

	2001	2002	2003	2004	2005	2006
<b><i>Fiscal policy</i></b>						
	As a percentage of GDP					
<b>General government financial balance</b>						
according to Maastricht definition	+ 0.1	- 0.4	- 1.2	- 1.0	- 1.9	- 2.0
according to National accounts	- 0.0	- 0.6	- 1.3	- 1.1	- 2.0	- 2.1
<b>General government primary balance</b>	+ 3.5	+ 2.7	+ 1.7	+ 1.9	+ 0.9	+ 0.7
<b><i>Monetary policy</i></b>						
	Percent					
3-month interest rate	4.3	3.3	2.3	2.1	2.1	1.8
Long-term interest rate <sup>1</sup>	5.1	5.0	4.2	4.2	3.4	3.6
	Percentage changes from previous year					
<b>Effective exchange rate</b>						
Nominal	+ 1.0	+ 1.4	+ 3.8	+ 1.2	- 0.6	- 0.3
Real	+ 0.3	+ 0.6	+ 2.8	+ 0.9	- 0.4	- 0.1

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

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*Projections - September 2005*

## World economy

Percentage changes from previous year

	2001	2002	2003	2004	2005	2006
<b>Real GDP</b>						
Total OECD	+ 1.1	+ 1.3	+ 1.9	+ 3.2	+ 2.4	+ 2.4
USA	+ 0.8	+ 1.6	+ 2.7	+ 4.2	+ 3.3	+ 3.3
Japan	+ 0.2	- 0.3	+ 1.4	+ 2.7	+ 2.2	+ 2.3
EU 25	+ 1.8	+ 1.1	+ 1.1	+ 2.4	+ 1.5	+ 1.6
EU 15	+ 1.7	+ 1.0	+ 1.0	+ 2.3	+ 1.4	+ 1.5
Euro area	+ 1.7	+ 0.9	+ 0.7	+ 2.1	+ 1.3	+ 1.4
Germany	+ 1.2	+ 0.1	- 0.2	+ 1.6	+ 1.0	+ 1.1
New members <sup>1</sup>	+ 2.4	+ 2.4	+ 3.7	+ 5.0	+ 4.5	+ 4.5
China	+ 7.5	+ 8.3	+ 9.3	+ 9.5	+ 9.3	+ 9.0
<b>World trade, volume</b>	+ 0.1	+ 3.4	+ 4.8	+ 7.9	+ 6.7	+ 7.0
<b>Market growth<sup>2</sup></b>	+ 2.3	+ 1.8	+ 5.1	+ 8.4	+ 4.5	+ 4.8
<b>Primary commodity prices</b>						
HWWA Index, total	- 8	- 5	- 4	+ 18	+ 41	+ 12
Excluding energy	- 3	- 6	- 6	+ 18	+ 12	+ 11
<b>Crude oil prices</b>						
Average import price (cif) for OECD countries	23.6	24.1	28.4	36.3	58.0	62.0
<b>Exchange rate</b>						
USD per euro	0.896	0.945	1.131	1.243	1.25	1.21

<sup>1</sup> Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia.

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

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Projections - September 2005

## Private consumption, income and prices

	2001	2002	2003	2004	2005	2006
	Percentage changes from previous year, volume					
<b>Private consumption expenditure</b>	+ 1.0	+ 0.3	+ 1.6	+ 0.8	+ 1.4	+ 1.7
Durables	+ 0.2	+ 0.3	+ 3.2	+ 0.6	+ 2.1	+ 1.9
Non-durables and services	+ 1.1	+ 0.3	+ 1.5	+ 0.8	+ 1.3	+ 1.7
<b>Household disposable income</b>	+ 0.1	+ 0.4	+ 1.5	+ 1.6	+ 1.7	+ 1.6
<b>Household saving ratio</b>						
As a percentage of disposable income	7.6	7.6	7.8	8.4	8.7	8.7
	Percentage changes from previous year					
<b>Direct lending to domestic non-banks<sup>1</sup></b>	+ 3.5	+ 1.2	+ 1.6	+ 5.0	+ 2.9	+ 2.7
	Percentage changes from previous year					
<b>Inflation rate</b>						
National	2.7	1.8	1.3	2.1	2.4	2.1
Harmonised	2.3	1.7	1.3	2.0	2.3	2.0
Core inflation <sup>2</sup>	2.3	2.0	1.3	1.6	1.7	1.5

<sup>1</sup> End of period.

<sup>2</sup> Excluding unprocessed food (meat, fish, fruits, vegetables) and energy items.

## Productivity

Percentage changes from previous year

	2001	2002	2003	2004	2005	2006
<b>Total economy</b>						
Real GDP	+ 0.8	+ 1.0	+ 1.4	+ 2.4	+ 1.7	+ 1.8
Employment <sup>1</sup>	+ 0.6	- 0.1	+ 0.1	- 0.0	+ 0.4	+ 0.7
Full-time equivalent	+ 0.5	- 0.2	+ 0.2	+ 0.2	+ 0.4	+ 0.6
<b>Productivity</b> (GDP per employment)	+ 0.2	+ 1.1	+ 1.3	+ 2.5	+ 1.2	+ 1.1
Full-time equivalent	+ 0.3	+ 1.2	+ 1.2	+ 2.2	+ 1.3	+ 1.2
<b>Manufacturing</b>						
Production <sup>2</sup>	+ 2.0	+ 0.4	- 0.0	+ 4.7	+ 2.7	+ 3.0
Employees <sup>3</sup>	+ 0.2	- 2.5	- 1.7	- 0.6	- 0.7	- 0.6
<b>Productivity per hour</b>	+ 2.2	+ 3.5	+ 1.3	+ 4.4	+ 4.3	+ 4.2
Working hours per day per employee <sup>4</sup>	- 0.4	- 0.5	+ 0.3	+ 0.8	- 0.8	- 0.6

<sup>1</sup> Dependent and self-employed according to National Accounts definition.

<sup>2</sup> Value added, volume.

<sup>3</sup> According to Federation of Austrian Social Security Institutions.

<sup>4</sup> According to 'Konjunkturerhebung' of Statistics Austria.

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Projections - September 2005

## Earnings and international competitiveness

Percentage changes from previous year

	2001	2002	2003	2004	2005	2006
<b>Gross earnings</b> per employee <sup>1</sup>	+ 1.4	+ 2.2	+ 1.9	+ 2.0	+ 2.4	+ 2.7
Full-time equivalent	+ 1.6	+ 2.3	+ 1.9	+ 2.1	+ 2.7	+ 2.9
<b>Gross real earnings</b> per employee <sup>1</sup>	- 0.4	+ 1.2	+ 0.4	+ 0.0	± 0.0	+ 0.6
<b>Net real earnings</b> per employee <sup>1</sup>	- 0.8	+ 1.0	+ 0.1	+ 0.3	+ 0.9	+ 0.2
<i>Total economy</i>						
<b>Unit labour costs</b>	+ 1.0	+ 1.0	+ 0.6	- 0.3	+ 1.1	+ 1.6
<i>Manufacturing</i>						
<b>Unit labour costs</b>	+ 0.2	- 0.3	- 0.1	- 3.5	- 0.9	- 0.8
<b>Relative unit labour costs</b> <sup>2</sup>						
Vis-à-vis trading partners	- 2.4	- 0.1	+ 2.5	- 0.9	- 0.8	- 1.0
Vis-à-vis Germany	- 2.5	- 0.4	+ 0.9	+ 0.2	- 1.3	- 1.5
<b>Effective exchange rate - manufactures</b>						
Nominal	+ 0.9	+ 1.3	+ 3.7	+ 1.2	- 0.5	- 0.3
Real	+ 0.5	+ 0.8	+ 2.9	+ 1.0	- 0.3	± 0.0

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

<sup>2</sup> In a common currency; minus sign indicates improvement of competitiveness.

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Projections - September 2005

## Labour market

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

	2001	2002	2003	2004	2005	2006	
<b>Demand for labour</b>							
Economically active employment <sup>1</sup>	+ 13.9	- 11.6	+ 8.5	+ 25.1	+ 33.0	+ 34.5	
Employees <sup>2</sup>	+ 12.4	- 15.0	+ 5.5	+ 21.1	+ 28.0	+ 29.0	
<i>Percentage changes from previous year</i>	+ 0.4	- 0.5	+ 0.2	+ 0.7	+ 0.9	+ 0.9	
Nationals	+ 3.0	- 20.1	- 10.4	+ 9.2	+ 16.0	+ 12.0	
Foreign workers	+ 9.5	+ 5.1	+ 15.9	+ 11.9	+ 12.0	+ 17.0	
Self-employed <sup>3</sup>	+ 1.5	+ 3.4	+ 3.0	+ 4.0	+ 5.0	+ 5.5	
<b>Labour supply</b>							
Population of working age (15 to 64 years)	+ 36.3	+ 42.9	+ 37.7	+ 34.4	+ 12.7	+ 9.0	
(15 to 59 years)	- 5.2	+ 13.4	+ 21.2	+ 35.6	+ 45.7	+ 40.5	
Labour force <sup>4</sup>	+ 23.5	+ 17.0	+ 16.1	+ 28.9	+ 40.5	+ 36.5	
<b>Surplus of labour</b>							
Registered unemployed <sup>5</sup>	+ 9.6	+ 28.5	+ 7.7	+ 3.8	+ 7.5	+ 2.0	
1,000 <sup>s</sup>	203.9	232.4	240.1	243.9	251.4	253.4	
<b>Unemployment rate</b>							
Eurostat definition <sup>6</sup>	percent	3.6	4.2	4.3	4.8	5.1	5.1
Percent of total labour force <sup>5</sup>	percent	5.5	6.2	6.3	6.4	6.5	6.5
National definition <sup>5,7</sup>	percent	6.1	6.9	7.0	7.1	7.2	7.2
<b>Employment rate</b>							
Economically active employment <sup>1,8</sup>	percent	63.2	62.5	62.2	62.3	62.7	63.2
Total employment (Eurostat) <sup>6,8,9</sup>	percent	-	-	-	67.5	68.0	68.4

<sup>1</sup> Excluding parental leave, military service, and unemployed persons in training. <sup>2</sup> According to Federation of Austrian Social Security Institutions. <sup>3</sup> According to WIFO. <sup>4</sup> Economically active employment plus unemployment.

<sup>5</sup> According to Labour Market Service. <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).

<sup>9</sup> Changed survey method.

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