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**Cyclical Boom to Continue –
Substantial Improvement
on the Labour Market
Economic Outlook for 2007 and 2008**

March 2007

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Economic Outlook for 2007 and 2008: Cyclical Boom to Continue – Substantial Improvement on the Labour Market

The strong cyclical activity of last year is extending into 2007. After an increase of 3.2 percent in 2006, real GDP is expected to grow by 3.0 percent this year. While exports are slightly losing momentum, investment is gaining strength. Private household consumption is also picking up, though trailing the overall rate of economic growth. The positive trend on the labour market continues, with a further considerable gain in the number of new jobs and a continued fall in unemployment. In 2008, economic growth is set to moderate to a rate of 2.4 percent.

The regular WIFO business survey among domestic companies shows still no sign of slackening of the current lively economic activity. The strong momentum of demand and output will boost Austrian real GDP again by 3 percent this year. Only by 2008, the deceleration in the USA and the strength of the euro will dampen the pace of growth in the EU and in Austria.

Manufacturing and construction are the sectors currently posting the strongest expansion, with construction activity having also been sustained by the mild weather in the first quarter. Likewise, business services, to which also belong the cyclically sensitive personnel service agencies, benefit from booming activity to an above-average degree.

With the slackening of business activity in the USA, export demand is set to ebb in the course of the year, although strength within the euro area will dampen the negative repercussions on Austria's foreign trade. Exports of goods are projected to increase by 8¼ percent in volume this year, abating to a gain of 7 percent in 2008.

Both the semi-annual WIFO investment survey and the quarterly business survey among capital goods manufacturers indicate an extraordinary strength of investment demand. WIFO expects purchases of machinery and equipment to go up by

8 percent in 2007 and by 4½ percent in 2008. Construction investment, instead, will decelerate from +4½ percent last year to +3½ percent in 2007 and further to +2½ percent in 2008.

At a projected rate of 2¼ percent, consumption of private households will pick up from last year, although the upswing remains relatively modest when compared with previous cyclical episodes. A genuine business cycle upturn will only be attained when consumer demand starts to rebound strongly. Labour incomes are boosted mainly by the rising number of jobs, while the increase in hourly wages remains subdued. The moderate wage development accounts for the absence of cost pressure, while the resulting sluggishness of private consumption holds down prices from the demand side. Against this background, inflation will hardly accelerate.

The labour market is reacting unusually strongly to the lively activity. The number of persons in dependent active employment is set to increase by 56,000 or 1.8 percent, while unemployment will fall by 23,000, pushing the jobless rate down to 6.1 percent of the dependent labour force (4.2 percent according to Eurostat definition). Both trends are expected to continue at a somewhat slower pace in 2008, with employment rising by 25,000 or 0.8 percent and unemployment declining by 5,000 to a rate of 5.9 percent (4.1 percent, respectively).

Thanks to the strong growth of demand and output, the general government deficit narrowed markedly in 2006, to a ratio of 1.1 percent of GDP. In the current year, too, tax revenues will post strong gains, lowering the deficit ratio to 1 percent. The present projections were made before information on the Federal budget drafts for 2007 and 2008 became available. Thus, notably the assumption of the deficit remaining unchanged at 1 percent of GDP in 2008 is surrounded by a considerable margin of uncertainty.

Vienna, 27 March 2007.

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Projections - March 2006

Main results

Percentage changes from previous year

		2003	2004	2005	2006	2007	2008
GDP							
Volume		+ 1.1	+ 2.4	+ 2.0	+ 3.2	+ 3.0	+ 2.4
Value		+ 2.4	+ 4.2	+ 3.9	+ 4.6	+ 4.8	+ 4.2
Manufacturing¹ , volume		+ 0.1	+ 2.4	+ 2.4	+ 7.2	+ 6.0	+ 3.3
Wholesale and retail trade , volume		+ 0.5	+ 1.3	+ 0.3	+ 1.3	+ 2.2	+ 2.0
Private consumption expenditure , volume		+ 1.3	+ 1.9	+ 1.7	+ 1.8	+ 2.2	+ 2.0
Gross fixed investment , volume		+ 5.9	+ 0.6	+ 0.3	+ 4.7	+ 5.5	+ 3.4
Machinery and equipment ²		+ 6.8	- 0.7	+ 0.1	+ 4.9	+ 8.0	+ 4.5
Construction		+ 5.1	+ 1.6	+ 0.4	+ 4.6	+ 3.5	+ 2.5
Exports of goods³							
Volume		+ 2.6	+ 12.9	+ 2.2	+ 10.2	+ 8.3	+ 7.0
Value		+ 1.9	+ 13.9	+ 5.4	+ 12.7	+ 9.4	+ 7.5
Imports of goods³							
Volume		+ 6.5	+ 11.4	+ 2.3	+ 7.2	+ 8.5	+ 6.5
Value		+ 5.0	+ 12.5	+ 5.9	+ 10.8	+ 9.9	+ 7.4
Current balance	€ bn	- 0.48	+ 1.08	+ 3.24	+ 5.62	+ 6.01	+ 6.45
	as a percentage of GDP	- 0.2	+ 0.5	+ 1.3	+ 2.2	+ 2.2	+ 2.3
Long-term interest rate⁴	percent	4.2	4.2	3.4	3.8	4.0	4.2
Consumer prices		+ 1.3	+ 2.1	+ 2.3	+ 1.5	+ 1.7	+ 1.8
Unemployment rate							
Eurostat definition ⁵	percent	4.3	4.8	5.2	4.7	4.2	4.1
National definition ⁶	percent	7.0	7.1	7.3	6.8	6.1	5.9
Persons in active dependent employment⁷		+ 0.2	+ 0.7	+ 1.0	+ 1.7	+ 1.8	+ 0.8
General government financial balance							
	according to Maastricht definition						
	as a percentage of GDP	- 1.6	- 1.2	- 1.5	- 1.1	- 1.0	- 1.0

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

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Projections - March 2006

Key policy indicators

	2003	2004	2005	2006	2007	2008
<i>Fiscal policy</i>						
	As a percentage of GDP					
General government financial balance						
according to Maastricht definition	- 1.6	- 1.2	- 1.5	- 1.1	- 1.0	- 1.0
according to National accounts	- 1.8	- 1.3	- 1.6	- 1.2	- 1.1	- 1.1
General government primary balance	+ 1.3	+ 1.6	+ 1.3	+ 1.6	+ 1.7	+ 1.7
<i>Monetary policy</i>						
	Percent					
3-month interest rate	2.3	2.1	2.2	3.1	4.1	4.0
Long-term interest rate ¹	4.2	4.2	3.4	3.8	4.0	4.2
	Percentage changes from previous year					
Effective exchange rate						
Nominal	+ 4.3	+ 1.5	- 0.7	+ 0.2	+ 0.7	+ 0.4
Real	+ 3.3	+ 1.0	- 1.0	- 0.5	+ 0.3	+ 0.2

¹ 10-year central government bonds (benchmark).

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Projections - March 2006

World economy

Percentage changes from previous year

	2003	2004	2005	2006	2007	2008
Real GDP						
World	+ 4.1	+ 5.3	+ 4.9	+ 5.0	+ 4.8	+ 4.6
Total OECD	+ 2.0	+ 3.2	+ 2.6	+ 3.2	+ 2.7	+ 2.4
USA	+ 2.5	+ 3.9	+ 3.2	+ 3.3	+ 2.0	+ 2.3
Japan	+ 1.4	+ 2.7	+ 1.9	+ 2.2	+ 1.9	+ 1.6
EU 27	+ 1.3	+ 2.4	+ 1.7	+ 2.9	+ 2.9	+ 2.4
EU 15	+ 1.1	+ 2.3	+ 1.5	+ 2.7	+ 2.7	+ 2.2
Euro area	+ 0.8	+ 2.0	+ 1.4	+ 2.6	+ 2.7	+ 2.2
Germany	- 0.2	+ 1.2	+ 0.9	+ 2.7	+ 2.5	+ 2.0
New member states ¹	+ 4.0	+ 5.4	+ 4.6	+ 6.2	+ 5.5	+ 5.2
China	+ 10.0	+ 10.1	+ 10.4	+ 10.7	+ 9.5	+ 9.5
World trade, volume	+ 5.1	+ 10.3	+ 7.2	+ 9.3	+ 7.0	+ 6.5
Market growth²	+ 5.4	+ 9.1	+ 7.4	+ 10.3	+ 7.7	+ 6.7
Primary commodity prices						
HWWA Index, total	- 4	+ 18	+ 29	+ 19	- 4	- 4
Excluding energy	- 6	+ 18	+ 6	+ 22	- 1	- 4
Crude oil prices						
Average import price (cif) for OECD countries	28.4	36.3	50.6	61.1	61.0	62.0
Exchange rate						
USD per euro	1.131	1.243	1.245	1.256	1.33	1.40

¹ Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, Slovenia.

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

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Projections - March 2006

Private consumption, income and prices

	2003	2004	2005	2006	2007	2008
	Percentage changes from previous year, volume					
Private consumption expenditure	+ 1.3	+ 1.9	+ 1.7	+ 1.8	+ 2.2	+ 2.0
Durables	+ 3.1	+ 5.1	+ 2.2	+ 1.7	+ 3.2	+ 2.3
Non-durables and services	+ 1.1	+ 1.5	+ 1.6	+ 1.8	+ 2.1	+ 2.0
Household disposable income	+ 2.1	+ 2.0	+ 2.1	+ 2.1	+ 2.2	+ 1.6
Household saving ratio						
As a percentage of disposable income	8.6	8.8	9.1	9.4	9.4	9.1
	Percentage changes from previous year					
Direct lending to domestic non-banks¹	+ 1.6	+ 5.0	+ 4.7	+ 4.5	+ 5.4	+ 5.0
	Percentage changes from previous year					
Inflation rate						
National	1.3	2.1	2.3	1.5	1.7	1.8
Harmonised	1.3	2.0	2.1	1.7	1.9	2.0
Core inflation ²	1.3	1.6	1.5	1.3	1.8	1.9

¹ End of period.

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

Productivity

Percentage changes from previous year

	2003	2004	2005	2006	2007	2008
Total economy						
Real GDP	+ 1.1	+ 2.4	+ 2.0	+ 3.2	+ 3.0	+ 2.4
Employment ¹	- 0.0	- 0.0	+ 0.5	+ 1.4	+ 1.3	+ 0.4
Productivity (GDP per employment)	+ 1.1	+ 2.5	+ 1.6	+ 1.8	+ 1.7	+ 2.0
Manufacturing						
Production ²	+ 0.1	+ 2.3	+ 2.6	+ 7.4	+ 6.0	+ 3.3
Employees ³	- 1.7	- 0.6	- 0.8	+ 0.2	+ 0.7	- 0.1
Productivity per hour	+ 1.4	+ 2.0	+ 4.0	+ 6.6	+ 5.2	+ 3.4
Working hours per day per employee ⁴	+ 0.3	+ 0.8	- 0.6	+ 0.5	+ 0.1	± 0.0

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.

Earnings and international competitiveness

Percentage changes from previous year

	2003	2004	2005	2006	2007	2008
Gross earnings per employee ¹	+ 1.9	+ 1.9	+ 1.7	+ 2.6	+ 2.6	+ 2.5
Gross real earnings per employee ¹	+ 0.3	- 0.0	+ 0.0	+ 1.1	+ 0.9	+ 0.7
Net real earnings per employee ¹	+ 0.0	+ 0.1	+ 1.1	+ 0.5	+ 0.4	+ 0.2
<i>Total economy</i>						
Unit labour costs	+ 0.7	- 0.8	+ 0.2	+ 0.8	+ 0.9	+ 0.6
<i>Manufacturing</i>						
Unit labour costs	+ 0.8	- 0.8	- 0.6	- 3.9	- 2.3	- 0.6
Relative unit labour costs²						
Vis-à-vis trading partners	+ 3.6	+ 1.8	+ 0.9	- 2.3	- 1.6	- 1.0
Vis-à-vis Germany	+ 2.1	+ 2.2	+ 3.9	+ 0.1	- 0.2	- 0.1
Effective exchange rate - manufactures						
Nominal	+ 4.3	+ 1.5	- 0.6	+ 0.2	+ 0.7	+ 0.4
Real	+ 3.4	+ 1.0	- 0.9	- 0.5	+ 0.3	+ 0.2

¹ Employees according to National Accounts definition.

² In a common currency; minus sign indicates improvement of competitiveness.

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Projections - March 2006

Labour market

Changes from previous year (1,000^s)

	2003	2004	2005	2006	2007	2008	
Demand for labour							
Persons in active employment ¹	+ 8.5	+ 25.1	+ 37.2	+ 57.0	+ 61.0	+ 29.5	
Employees ²	+ 5.5	+ 21.1	+ 31.9	+ 51.5	+ 56.0	+ 25.0	
<i>Percentage changes from previous year</i>	+ 0.2	+ 0.7	+ 1.0	+ 1.7	+ 1.8	+ 0.8	
Nationals	- 10.4	+ 9.2	+ 20.0	+ 35.0	+ 37.2	+ 14.3	
Foreign workers	+ 15.9	+ 11.9	+ 11.9	+ 16.5	+ 18.8	+ 10.7	
Self-employed ³	+ 3.0	+ 4.0	+ 5.3	+ 5.5	+ 5.0	+ 4.5	
Labour supply							
Population of working age (15 to 64 years)	+ 37.7	+ 34.4	+ 15.6	+ 21.2	+ 20.3	+ 25.8	
(15 to 59 years)	+ 21.2	+ 35.6	+ 48.5	+ 52.2	+ 24.9	+ 16.1	
Labour force ⁴	+ 16.1	+ 28.9	+ 45.9	+ 43.5	+ 38.0	+ 24.5	
Surplus of labour							
Registered unemployed ⁵	+ 7.7	+ 3.8	+ 8.8	- 13.5	- 23.0	- 5.0	
1,000 ^s	240.1	243.9	252.7	239.2	216.2	211.2	
Unemployment rate							
Eurostat definition ⁶	percent	4.3	4.8	5.2	4.7	4.2	4.1
Percent of total labour force ⁵	percent	6.3	6.4	6.5	6.1	5.5	5.3
National definition ^{5,7}	percent	7.0	7.1	7.3	6.8	6.1	5.9
Employment rate							
Persons in active employment ^{1,8}	percent	62.2	62.3	62.8	63.5	64.4	64.6
Total employment (Eurostat) ^{6,8,9}	percent	-	67.8	68.6	70.2	70.7	70.8

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

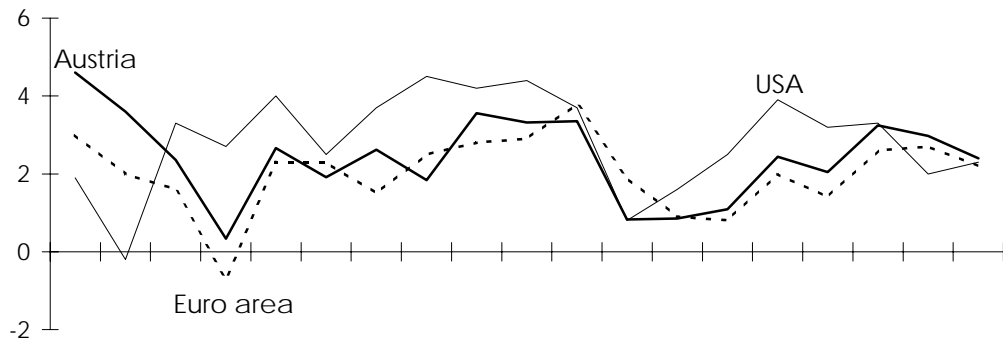
⁵ According to Public Employment Service Austria. ⁶ According to Eurostat Labour Force Survey.

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

⁹ Changed survey method.

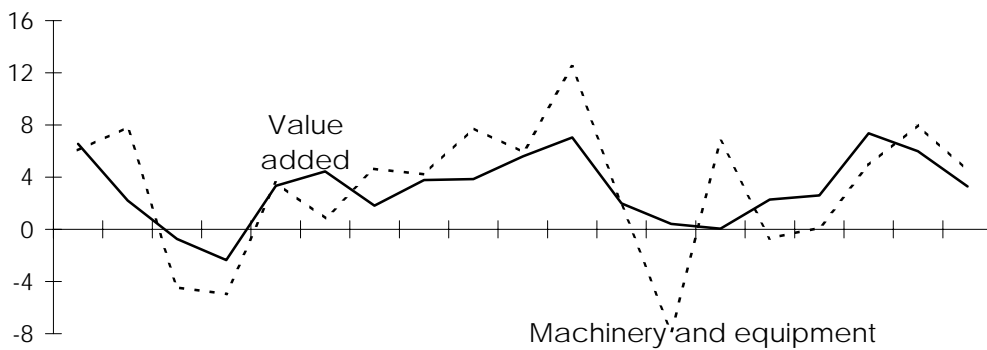
Growth of real GDP

Percent



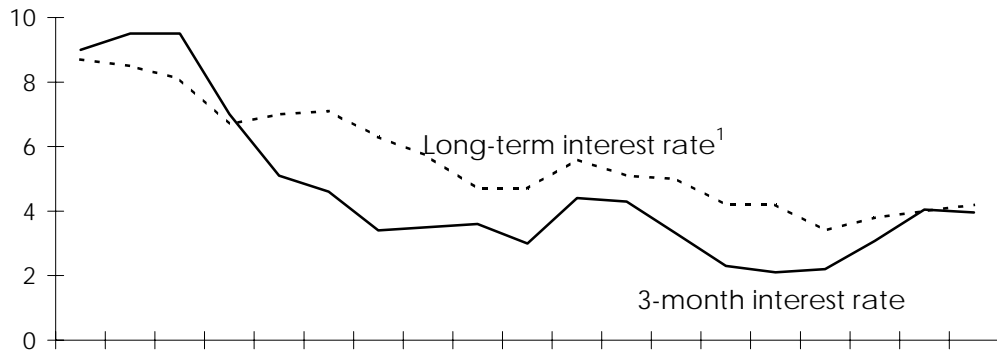
Manufacturing and investment

Percentage changes from previous year, volume



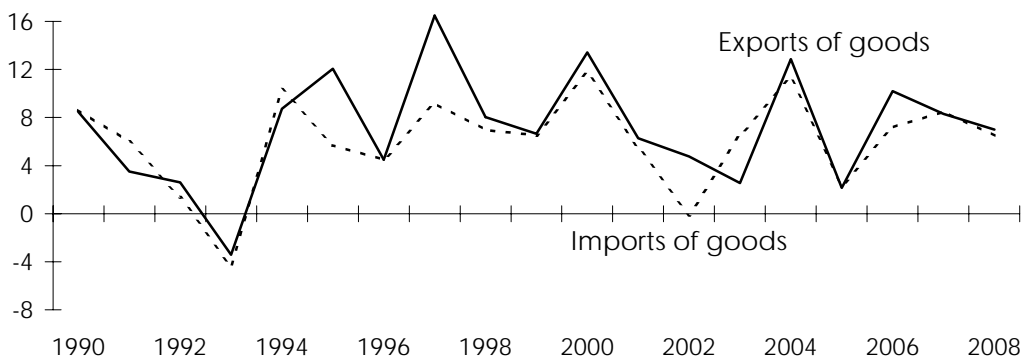
Short-term and long-term interest rates

Percent



Trade

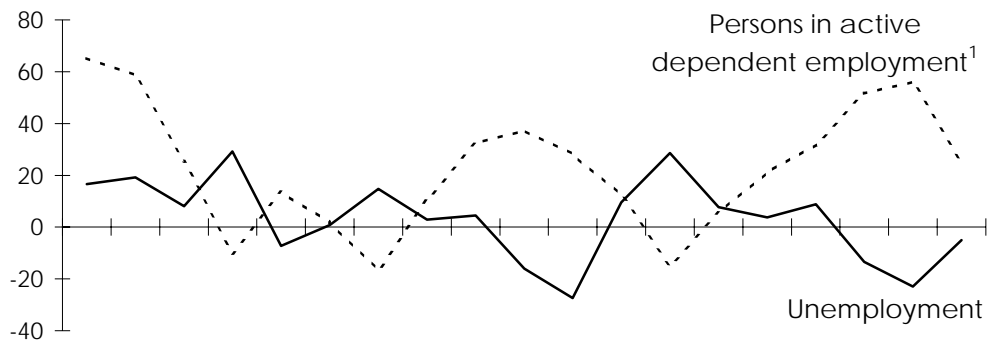
Percentage changes from previous year, volume



¹ 10-year central government bonds (benchmark).

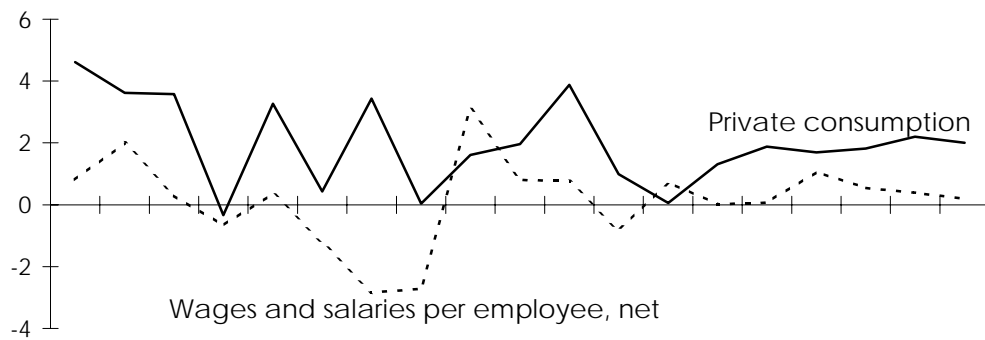
Employment and unemployment

1,000^s from previous year



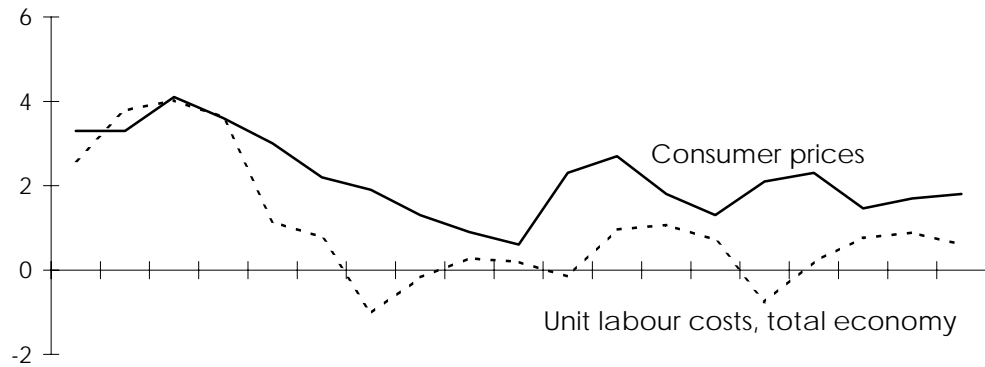
Consumption and income

Percentage changes from previous year, volume



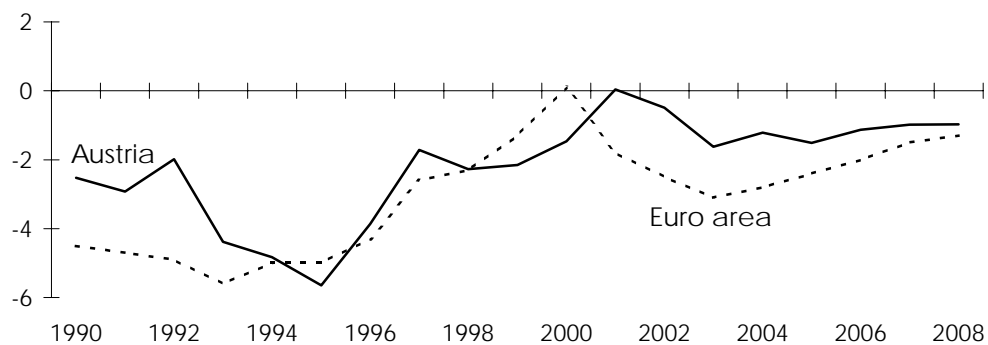
Inflation and unit labour costs

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.

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