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**Global Economic Crisis Striking
Severely also in Austria
Economic Outlook for 2009 and 2010**

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March 2009

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Abstract

The global economic crisis leaves deep traces in the EU countries. In Austria, too, GDP will suffer a marked decline by 2.2 percent this year. While exports and investment are falling steeply, consumption will maintain a moderate upward path due to the counter-cyclical policy action taken. The labour market will suffer job losses and a strong increase in unemployment. As a result of the worldwide economic stimulus measures, Austrian GDP should pick up by a modest 0.5 percent in 2010.

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2009/074/SPE/WIFO project no: 28491

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Medieninhaber (Verleger), Herausgeber und Hersteller: Österreichisches Institut für Wirtschaftsforschung,
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Verlags- und Herstellungsort: Wien

Verkaufspreis: 15,00 € • Download 15,00 €: http://www.wifo.ac.at/www/jsp/index.jsp?fid=23923&id=35539&typeid=8&display_mode=2

Global Economic Crisis Striking Severely also in Austria

Economic Outlook for 2009 and 2010

For the first time since World War II, the global economy is in recession. Demand and output will fall markedly in the world's major economic zones. Also Austria should expect real GDP to shrink by 2.2 percent in 2009, despite fiscal policy taking massive counter-action. While exports and investment take a slump, private consumption withstands the recession with a further modest gain. In 2010, the cyclical support measures should prove effective also at the international level. With the fall in external demand bottoming out, economic activity in Austria should pick up by 0.5 percent.

Towards the end of 2008, the worldwide cyclical downturn gathered considerable momentum. Global output is expected to decline by 1 percent this year, with the downward trend extending to all economic zones. The USA, Japan and the EU are caught in a deep recession, and growth of the emerging economies which has been dynamic until recently is set to decelerate sharply. The stabilisation of financial markets, a necessary condition for the resumption of sustainable growth, has so far not materialised. As a result of the large-scale international measures to stabilise the business cycle, the world economy should nevertheless return to a moderate upward path in 2010.

The adverse international business situation is reflected also by a steep decline in world trade (by 5 percent in 2009) that has so far been an important driver of global expansion. After a sharp fall from mid-July to early December 2008, oil prices have stabilised in a range from \$ 40 to \$ 45 per barrel. Due to sluggish demand, prices will remain in that range on annual average 2009. While oil producers scale back their investments, demand for oil products will pick up somewhat in 2010, possibly driving up prices to \$ 55 per barrel. In view of the persisting uncertainties on financial markets and the different response of monetary policy in the USA and the euro area, projections of exchange rates are subject to a particularly wide margin of error. For

the purpose of the present projections, an exchange rate assumption of \$ 1.25 per euro has been retained for both years.

Although the US economy is more severely affected by the financial market crisis, the setback in activity of an expected 2.7 percent will be somewhat smaller than that of the euro area of 3 percent. The more active economic policy stance in the USA plays a decisive role in this regard. Fiscal policy will support demand and output to the amount of \$ 600 billion (around 4 percent of GDP) in the next few years. Monetary policy can also give further incentives, even if the Fed cut its key interest rate to nearly 0 percent in December 2008. With open market interventions the Fed manages to increase money supply on a sustained basis.

In the EU, the crisis exacerbated markedly towards the end of 2008. Real GDP, having edged down already by a seasonally- and calendar-adjusted 0.1 percent and 0.3 percent in the second and third quarter, respectively, slumped by 1½ percent in the year-end period. Business surveys for the EU suggest a further fall of similar size for the first quarter 2009. According to WIFO expectations, the downward trend should become flatter thereafter. Towards the end of the year, the counter-cyclical stimulus programmes should exert their full impact also in the EU, preventing a further decline of GDP in 2010.

As a small, export-oriented economy, Austria cannot withdraw from the negative international trend. In 2008, growth decelerated steadily from quarter to quarter, and at the end of the year the economy slipped also into recession. The regular WIFO business survey points to a marked acceleration of the downturn since the beginning of this year. As the stimulus "packages" and the income tax cuts will only be partially effective in 2009, the downward trend may not bottom out before the second half of the year. A major stabilising force will be private consumption which is set to remain slightly upward bound this year and next, despite the recession. Exports and investment, however, will drop sharply in 2009. In all, the Austrian economy will contract by 2.2 percent in 2009, less though than the entire euro area (-3 percent).

Against the background of worldwide cyclical sluggishness, inflation in Austria is moderating swiftly. On annual average 2009, the consumer price index is projected to edge up by only 0.6 percent. During the summer months, negative rates may even be recorded. The massive increase in money supply substantially reduces the

risk of deflation being triggered by the world recession. For 2010, WIFO expects headline inflation to go up slightly to an annual rate of 1.1 percent, while core inflation should remain stable at a low level.

The recession will lead to a sharp deterioration on the Austrian labour market. WIFO expects the number of unemployed to rise by 53,000 or 25 percent in 2009, to a total 265,000. At the same time, employment will fall by 38,000 or 1.2 percent. The jobless rate according to national definitions will rise to 7.3 percent of the dependent labour force. Since the labour market usually lags the cycle of demand and output, it will not yet benefit from the tentative recovery in 2010. Unemployment will thus rise by a further 33,000 persons, as a consequence of another 20,000 jobs being lost. The unemployment rate will reach 8.2 percent.

Vienna, 27 March 2009

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Projections - March 2009

Main results

Percentage changes from previous year

		2005	2006	2007	2008	2009	2010
GDP							
Volume		+ 2,9	+ 3,4	+ 3,1	+ 1,8	- 2,2	+ 0,5
Value		+ 5,0	+ 5,3	+ 5,3	+ 4,2	- 0,7	+ 1,3
Manufacturing¹, volume		+ 4,8	+ 9,6	+ 5,5	+ 3,5	- 5,5	+ 0,5
Wholesale and retail trade, volume		+ 2,2	- 1,0	+ 1,5	- 0,0	- 1,5	+ 0,5
Private consumption expenditure, volume		+ 2,6	+ 2,4	+ 1,0	+ 0,9	+ 0,4	+ 0,8
Gross fixed investment, volume		+ 2,4	+ 2,6	+ 4,7	+ 1,8	- 5,1	+ 0,3
Machinery and equipment ²		+ 5,5	+ 0,9	+ 6,8	+ 2,1	- 10,0	± 0,0
Construction		- 0,4	+ 4,2	+ 2,8	+ 1,5	- 1,0	+ 0,5
Exports of goods³							
Volume		+ 3,2	+ 6,8	+ 8,7	+ 0,9	- 7,0	+ 0,5
Value		+ 5,4	+ 9,5	+ 10,5	+ 2,3	- 7,9	+ 1,2
Imports of goods³							
Volume		+ 2,9	+ 4,1	+ 8,0	+ 1,7	- 5,0	+ 0,3
Value		+ 5,9	+ 8,0	+ 9,6	+ 4,3	- 6,9	+ 1,8
Current balance	€ bn	+ 4,92	+ 7,26	+ 8,56	+ 8,17	+ 4,61	+ 3,76
	as a percentage of GDP	+ 2,0	+ 2,8	+ 3,2	+ 2,9	+ 1,6	+ 1,3
Long-term interest rate⁴	percent	3,4	3,8	4,3	4,3	3,8	3,8
Consumer prices		+ 2,3	+ 1,5	+ 2,2	+ 3,2	+ 0,6	+ 1,1
Unemployment rate							
Eurostat definition ⁵	percent	5,2	4,8	4,4	3,8	5,0	5,8
National definition ⁶	percent	7,3	6,8	6,2	5,8	7,3	8,2
Persons in active dependent employment⁷		+ 1,0	+ 1,7	+ 2,1	+ 2,4	- 1,2	- 0,6
General government financial balance							
	according to Maastricht definition						
	as a percentage of GDP	- 1,5	- 1,5	- 0,4	- 0,3	- 3,5	- 4,0

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; break 2008.

⁶ Public Employment Service Austria, percent of total labour force excluding self employed.

⁷ Excluding parental leave, military service, and unemployed persons in training.

WIFO*Projections - March 2009***Key policy indicators**

	2005	2006	2007	2008	2009	2010
<i>Fiscal policy</i>						
	As a percentage of GDP					
General government financial balance						
according to Maastricht definition	- 1,5	- 1,5	- 0,4	- 0,3	- 3,5	- 4,0
according to National accounts	- 1,6	- 1,7	- 0,5	- 0,4	- 3,5	- 4,1
General government primary balance	+ 1,4	+ 1,2	+ 2,3	+ 2,5	- 0,5	- 1,0
<i>Monetary policy</i>						
	Percent					
3-month interest rate	2,2	3,1	4,3	4,6	1,7	2,0
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	- 1,0	± 0,0
Real	- 1,0	- 0,5	+ 0,7	+ 0,6	- 1,2	- 0,3

¹ 10-year central government bonds (benchmark).

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Projections - March 2009

World economy

Percentage changes from previous year

	2005	2006	2007	2008	2009	2010
Real GDP						
World	+ 4,5	+ 5,1	+ 5,2	+ 2,5	- 1,0	+ 1,7
Total OECD	+ 2,7	+ 3,1	+ 2,7	+ 0,9	- 3,0	+ 0,3
USA	+ 2,9	+ 2,8	+ 2,0	+ 1,1	- 2,7	+ 0,5
Japan	+ 1,9	+ 2,0	+ 2,4	- 0,7	- 4,5	+ 0,5
EU 27	+ 2,0	+ 3,1	+ 2,9	+ 0,9	- 3,0	± 0,0
Euro area 16	+ 1,7	+ 2,9	+ 2,7	+ 0,8	- 3,0	± 0,0
New member states ¹	+ 4,7	+ 6,5	+ 6,0	+ 4,0	± 0,0	+ 1,0
China	+ 10,4	+ 11,6	+ 13,0	+ 9,0	+ 5,0	+ 7,0
World trade, volume	+ 7,6	+ 8,8	+ 6,2	+ 4,0	- 5,0	+ 3,0
Market growth²	+ 7,8	+ 11,1	+ 7,6	+ 3,8	- 7,5	± 0,0
Primary commodity prices						
HWWI Index, total	+ 28,5	+ 19,7	+ 3,7	+ 22,4	- 31	+ 15
Excluding energy	+ 5,6	+ 22,0	+ 9,5	+ 15,6	- 15	+ 5
Crude oil prices						
Brent, USD per barrel	54,4	65,1	72,5	97,0	45	55
Exchange rate						
USD per euro	1,245	1,256	1,371	1,471	1,25	1,25

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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Projections - March 2009

Private consumption, income and prices

	2005	2006	2007	2008	2009	2010
	Percentage changes from previous year, volume					
Private consumption expenditure	+ 2,6	+ 2,4	+ 1,0	+ 0,9	+ 0,4	+ 0,8
Durables	+ 5,9	+ 7,0	+ 6,2	- 1,0	- 3,8	- 0,3
Non-durables and services	+ 2,2	+ 1,9	+ 0,4	+ 1,1	+ 0,9	+ 0,9
Household disposable income	+ 3,1	+ 3,5	+ 2,2	+ 0,8	+ 1,2	+ 0,4
Household saving ratio						
As a percentage of disposable income	9,8	10,8	11,7	11,5	12,2	11,8
	Percentage changes from previous year					
Direct lending to domestic non-banks¹	+ 4,7	+ 4,5	+ 3,6	+ 7,4	- 1,0	± 0,0
Inflation rate						
National	2,3	1,5	2,2	3,2	0,6	1,1
Harmonised	2,1	1,7	2,2	3,2	0,6	1,1
Core inflation ²	1,5	1,3	1,9	2,4	1,4	1,2

¹ End of period.

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

Productivity

Percentage changes from previous year

	2005	2006	2007	2008	2009	2010
Total economy						
Real GDP	+ 2,9	+ 3,4	+ 3,1	+ 1,8	- 2,2	+ 0,5
Employment ¹	+ 1,1	+ 1,5	+ 1,7	+ 1,6	- 1,2	- 0,5
Productivity (GDP per employment)	+ 1,7	+ 1,9	+ 1,3	+ 0,1	- 0,9	+ 1,1
Manufacturing						
Production ²	+ 4,8	+ 9,9	+ 5,5	+ 3,5	- 5,5	+ 0,5
Employees ³	- 0,8	+ 0,2	+ 2,6	+ 1,6	- 4,5	- 2,6
Productivity per hour	+ 6,2	+ 9,5	+ 3,2	+ 2,4	+ 0,5	+ 3,2
Working hours per day per employee ⁴	- 0,6	+ 0,2	- 0,3	- 0,5	- 1,5	± 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

	2005	2006	2007	2008	2009	2010
Gross earnings per employee ¹	+ 2,4	+ 3,2	+ 2,3	+ 3,0	+ 2,7	+ 1,2
Gross real earnings per employee ¹	+ 0,1	+ 1,4	+ 0,1	+ 0,1	+ 2,1	+ 0,1
Net real earnings per employee ¹	+ 0,5	+ 1,2	- 0,1	- 0,3	+ 3,6	- 0,2
<i>Total economy</i>						
Unit labour costs	+ 0,7	+ 1,1	+ 0,8	+ 2,9	+ 4,0	+ 0,1
<i>Manufacturing</i>						
Unit labour costs	- 0,9	- 4,4	- 0,6	+ 1,3	+ 3,5	- 1,4
Effective exchange rate - manufactures						
Nominal	- 0,6	+ 0,2	+ 1,2	+ 1,1	- 1,0	± 0,0
Real	- 0,9	- 0,4	+ 0,8	+ 0,6	- 1,2	- 0,3

¹ Employees according to National Accounts definition.

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Projections - March 2009

Labour market

Changes from previous year (1,000^s)

		2005	2006	2007	2008	2009	2010
Demand for labour							
Persons in active employment ¹		+ 37,2	+ 55,9	+ 66,9	+ 85,7	- 39,0	- 19,0
Employees ²		+ 31,9	+ 51,5	+ 65,5	+ 76,7	- 38,0	- 20,0
<i>Percentage changes from previous year</i>		+ 1,0	+ 1,7	+ 2,1	+ 2,4	- 1,2	- 0,6
Nationals		+ 20,0	+ 35,0	+ 43,6	+ 53,2	- 34,5	- 18,5
Foreign workers		+ 11,9	+ 16,5	+ 21,9	+ 23,5	- 3,5	- 1,5
Self-employed ³		+ 5,3	+ 4,4	+ 1,4	+ 9,0	- 1,0	+ 1,0
Labour supply							
Population of working age	(15 to 64 years)	+ 15,6	+ 18,5	+ 17,4	+ 24,9	+ 20,2	+ 27,6
	(15 to 59 years)	+ 48,5	+ 52,8	+ 18,8	+ 15,7	+ 13,6	+ 13,7
Labour force ⁴		+ 45,9	+ 42,4	+ 50,0	+ 75,7	+ 14,0	+ 14,0
Surplus of labour							
Registered unemployed ⁵		+ 8,8	- 13,5	- 16,9	- 10,0	+ 53,0	+ 33,0
	1,000 ^s	252,7	239,2	222,2	212,3	265,3	298,3
Unemployed persons in training	1,000 ^s	48,6	57,5	52,7	50,5	57,5	65,5
Unemployment rate							
Eurostat definition ^{6,7}	percent	5,2	4,8	4,4	3,8	5,0	5,8
Percent of total labour force ⁵	percent	6,5	6,1	5,6	5,3	6,6	7,3
National definition ^{5,8}	percent	7,3	6,8	6,2	5,8	7,3	8,2
Employment rate							
Persons in active employment ^{1,9}	percent	62,8	63,6	64,5	65,8	64,9	64,2
Total employment (Eurostat) ^{6,9}	percent	68,6	70,2	71,4	72,3	71,2	70,5

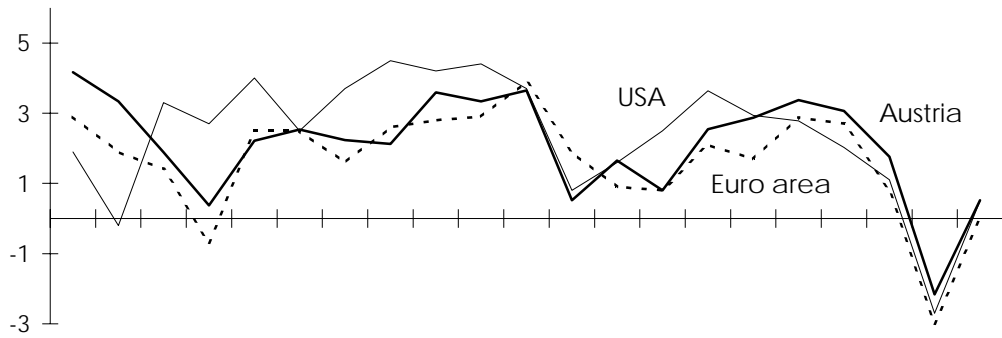
¹ Excluding parental leave, military service, and unemployed persons in training. ² According to Federation of Austrian Social Security Institutions. ³ According to WIFO. ⁴ Economically active employment plus unemployment.

⁵ According to Public Employment Service Austria. ⁶ According to Eurostat Labour Force Survey. ⁷ Break 2008.

⁸ Percent of total labour force excl. self-employed. ⁹ Percent of population of working age (15 to 64 years).

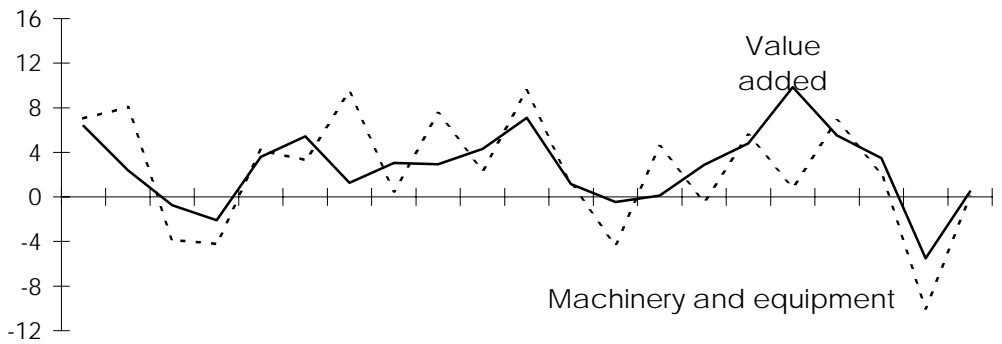
Growth of real GDP

Percent



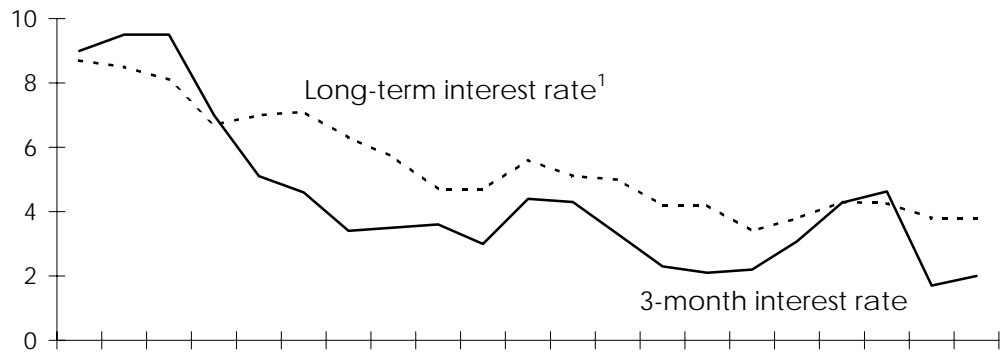
Manufacturing and investment

Percentage changes from previous year, volume



Short-term and long-term interest rates

Percent



Trade

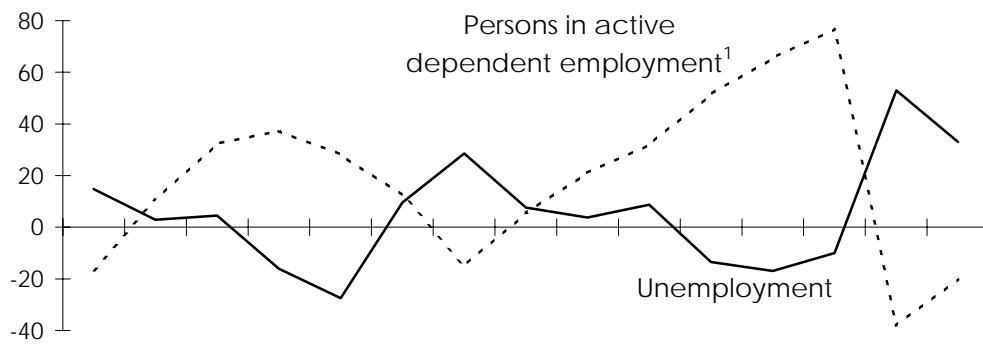
Percentage changes from previous year, volume



¹ 10-year central government bonds (benchmark).

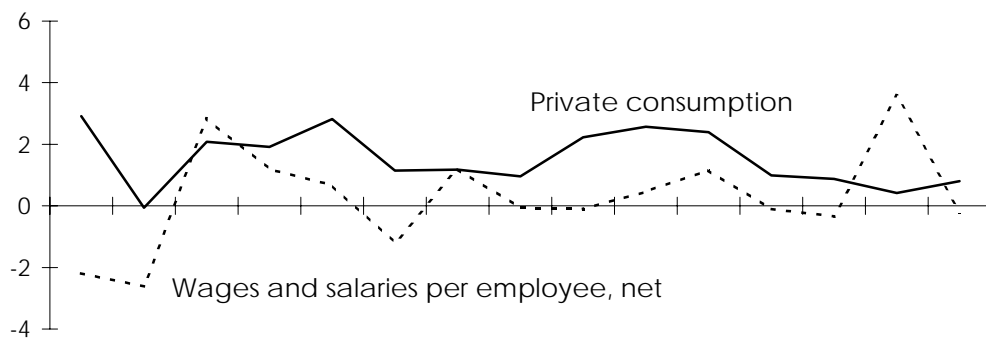
Employment and unemployment

1,000^s from previous year



Consumption and income

Percentage changes from previous year, volume



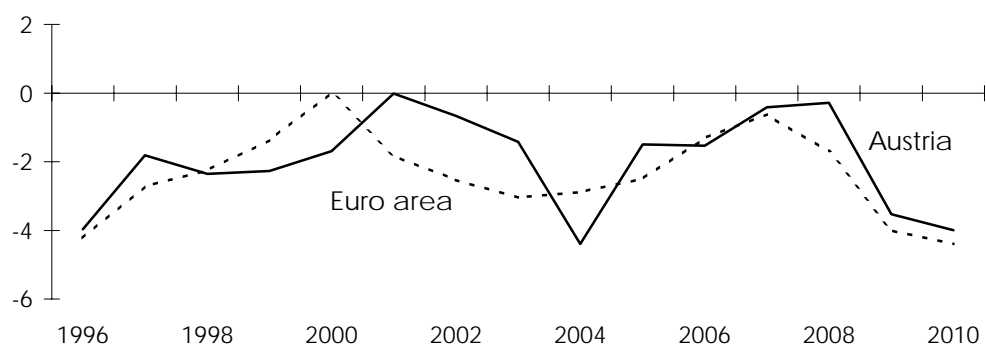
Inflation and unit labour costs

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.