

WIFO

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 **ÖSTERREICHISCHES INSTITUT FÜR
WIRTSCHAFTSFORSCHUNG**

**Early Signs of Cyclical Recovery
Economic Outlook for 2013 and 2014**

October 2013

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Austrian Institute of Economic Research

Abstract

After six consecutive quarters of decline, GDP in the euro area headed up in the second quarter 2013. Business surveys suggest that the positive trend will continue in the near future. The recovery will nevertheless be held back by the many existing structural problems. Due to the delayed cyclical pick-up, GDP growth for 2013 will remain subdued also in Austria, at a projected 0.4 percent. Towards the end of the year, domestic activity should gain momentum, raising the annual rate of growth to 1.7 percent in 2014. Despite this rebound, the unemployment rate will rise to a new high. Headline inflation is set to remain at a moderate 2 percent at annual average, while the general government deficit should be brought down to 1.6 percent of GDP.

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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.

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 attain 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.

Cut-off date: 4 October 2013

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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, reference is made to "seasonally and working day adjusted changes".

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

Carry-over (in economic growth)

The carry-over identifies the impact of the dynamics of a series (in seasonally adjusted figures) during one year (t_0) on the annual percentage change in the following year (t_1). It is defined as the annual percentage change in year t_1 , if GDP in t_1 remains constant at the level of the fourth quarter of year t_0 (in seasonally adjusted terms).

Average rates of change

The time given refers to the initial and the final value of the period of computation: hence the average rate 2005-2010 comprises as the first rate of change that from 2005 to 2006, and as the last that from 2009 to 2010.

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.

Production Sector

This term comprises the NACE-2008 sections B, C and D (Mining and Quarrying, Manufacturing, Energy Supply) and is here used in an international comparison.

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

Core inflation as a monetary policy indicator is not clearly defined. WIFO follows the common practice of using the inflation rate excluding the product categories unprocessed food and energy for core inflation. Thus just under 87 percent of the goods and services contained in the consumer price index (CPI 2010) are included in the calculation of core inflation.

WIFO Business Cycle Survey and WIFO Investment Survey

The WIFO Business Cycle Survey is a monthly survey in which around 1,500 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.konjunkturtest.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 with a valid employment contract. By deducting their number one arrives at the number of "persons in dependent active employment".

Main results

Percentage changes from previous year

		2009	2010	2011	2012	2013	2014
						Forecasts	
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
Manufacturing¹, 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 goods²							
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 goods²							
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	€ bn	+ 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 rate³	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 employment⁶		- 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

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

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Projections - October 2013

World economy

Percentage changes from previous year

	2009	2010	2011	2012	2013	2014
					Forecasts	
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
New member states ¹	-3.0	+2.4	+3.5	+0.9	+0.8	+2.2
China	+9.2	+10.4	+9.3	+7.8	+7.5	+8.0
World trade, volume	-12.3	+14.4	+5.9	+1.9	+2.5	+5.0
Market growth²	-10.9	+11.4	+6.3	+1.6	+2.3	+5.5
Primary commodity prices³						
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, USD per barrel	61.5	79.5	111.3	111.6	108	105
Exchange rate						
USD per euro	1.393	1.327	1.392	1.286	1.30	1.30

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

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

³ In USD.

Key policy indicators

	2009	2010	2011	2012	2013	2014
					Forecasts	
Fiscal policy						
					As a percentage of GDP	
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
Monetary policy						
					Percent	
3-month interest rate	1.2	0.8	1.4	0.6	0.2	0.2
Long-term interest rate ¹	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

¹ 10-year central government bonds (benchmark).

Productivity

Percentage changes from previous year

	2009	2010	2011	2012	2013	2014
					F o r e c a s t s	
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

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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Private consumption, income and prices

	2009	2010	2011	2012	2013	2014
					Forecasts	
					Percentage changes from previous year, volume	
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 ratio¹	11.2	8.9	6.7	7.4	7.7	7.9
Household saving ratio²	10.6	8.4	6.4	7.0	7.2	7.4
					Percentage changes from previous year	
Direct lending to domestic non-banks³	- 1.3	+ 2.9	+ 2.7	+ 0.0	± 0.0	+ 1.7
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

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.

Earnings and international competitiveness

Percentage changes from previous year

	2009	2010	2011	2012	2013	2014
					Forecasts	
Wages and salaries per employee¹						
Gross earnings	+ 1.7	+ 0.9	+ 1.8	+ 2.4	+ 2.2	+ 2.2
Gross real earnings²	+ 1.2	- 0.9	- 1.4	- 0.1	+ 0.2	+ 0.3
Net real earnings²	+ 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

¹ Employees according to National Accounts definition.

² Deflated by CPI.

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Projections - October 2013

Labour market

Changes from previous year (1,000^s)

		2009	2010	2011	2012	2013	2014
						Forecasts	
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
	1,000 ^s	260.3	250.8	246.7	260.6	287.6	298.6
Unemployed persons in training	1,000 ^s	64.1	73.2	63.2	66.6	72.6	75.6
Unemployment rate							
Eurostat definition ⁶	percent	4.8	4.4	4.2	4.3	5.1	5.2
Percent of total labour force ⁵	percent	6.5	6.2	6.0	6.3	6.8	7.0
National definition ^{5,7}	percent	7.2	6.9	6.7	7.0	7.6	7.8
Employment rate							
Persons in active employment ^{1,8}	percent	65.0	65.3	66.2	66.9	67.4	67.9
Total employment (Eurostat) ^{6,8}	percent	71.6	71.7	72.1	72.5	72.3	72.4

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

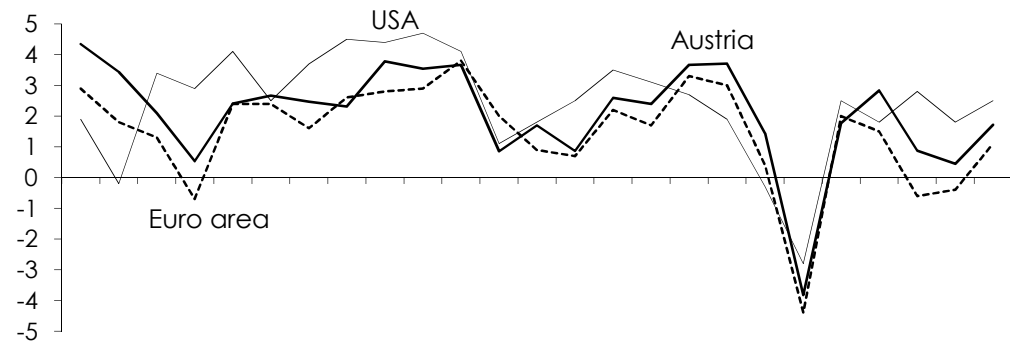
³ According to WIFO. ⁴ Persons in active employment plus unemployment.

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

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

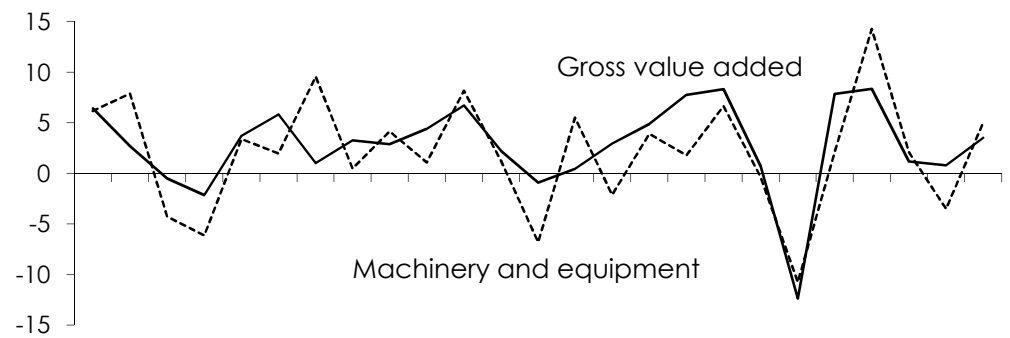
Growth of real GDP

Percent



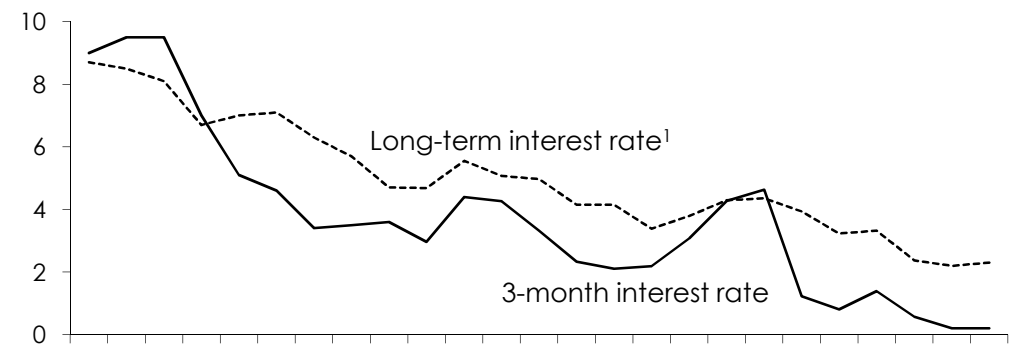
Manufacturing and investment

Percentage changes from previous year, volume



Short-term and long-term interest rates

Percent



Trade

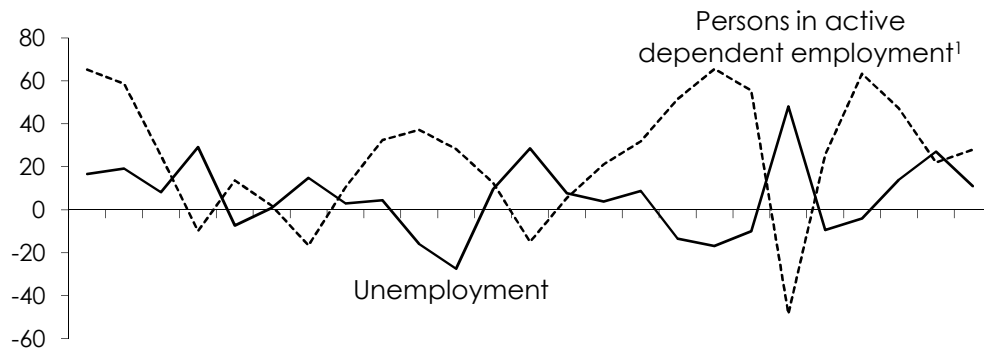
Percentage changes from previous year, volume



¹ 10-year central government bonds (benchmark).

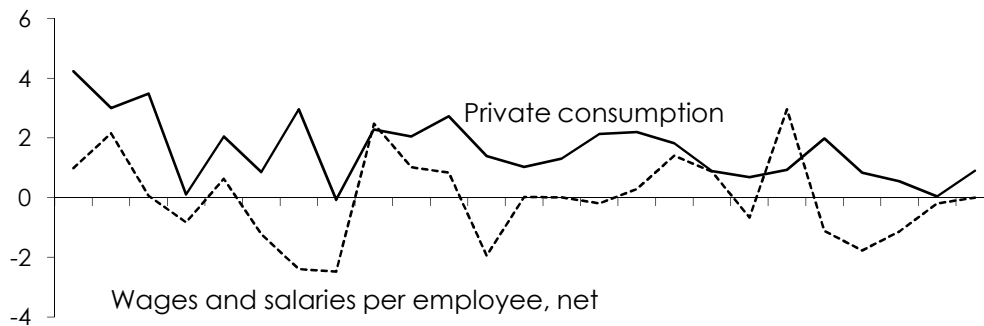
Employment and unemployment

1,000^s from previous year



Consumption and income

Percentage changes from previous year, volume



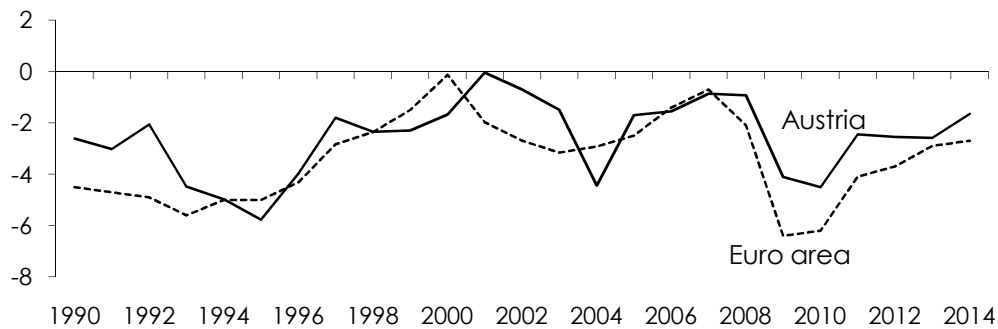
Inflation and unit labour costs

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.