

WIFO

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 **ÖSTERREICHISCHES INSTITUT FÜR
WIRTSCHAFTSFORSCHUNG**

**Consumption Boosting Economic
Growth in Austria**

Economic Outlook for 2016 and 2017

December 2015



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Austrian Institute of Economic Research

Abstract

For the first time in four years, domestic consumption is becoming a main driver of economic growth. Next to the tax reform, which raises private household incomes, expenditure in support of refugees will give a boost to aggregate demand in 2016 and 2017. Annual GDP growth, projected at 1.7 percent respectively, is set to accelerate markedly from the last few years.

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Consumption Boosting Economic Growth in Austria

Economic Outlook for 2016 and 2017

For the first time in four years, domestic consumption is becoming a main driver of economic growth. Next to the tax reform, which raises private household incomes, expenditure in support of refugees will give a boost to aggregate demand in 2016 and 2017. Annual GDP growth, projected at 1.7 percent respectively, is set to accelerate markedly from the last few years.

Economic growth in Austria remained subdued in 2015, with an estimated increase in GDP of only 0.8 percent, the fourth annual rate below 1 percent in a row. The weak external environment constrained the expansion of foreign trade, and investment picked up gradually only in the course of the year. Private consumption edged up but marginally from the previous year, due to high unemployment and sluggish income growth.

Despite the weak underlying cyclical momentum, the economy will nevertheless enjoy stronger growth in the years to come, as domestic demand will benefit from more lively consumption. Part of the explanation is the growing number of asylum seekers in 2015 and 2016, which implies higher expenditure on care, basic needs and subsistence payments for the newcomers and thus an increase in public and private consumption. The tax reform taking effect at the beginning of 2016 strengthens net disposable income of private households and will also lead to higher consumption, albeit attenuated by the counter-financing measures.

In addition, the external environment should brighten over the next few years. Business activity in the USA remains robust, while the euro area economy may tentatively recover. The fall in commodity prices is about to bottom out which bodes well for business activity in the emerging markets. Austrian exports should therefore pick up and, together with more buoyant investment in machinery and equipment, provide incentives for domestic output growth in 2016 and 2017. Construction activity, on the

other hand, appears to remain subdued. In all, real GDP is projected to expand by 1.7 percent in 2016 as well as in 2017.

The number of persons employed keeps growing, with the bulk of new jobs being created in the services branches. Since the long-term trend towards more part-time work is likely to persist in this area, total work hours will not rise in step with output. Moreover, job creation is not keeping pace with growing labour supply, such that unemployment will ratchet up further. The jobless rate is set to climb to 9.7 percent of the dependent labour force in 2016 and to 10.2 percent in 2017. The fall in oil prices is dampening inflation in 2015, an effect due to gradually dissipate in 2016. Moreover, the measures to counter-finance the tax reform 2016 will show up in consumer prices. WIFO expects headline inflation to re-accelerate to 1.5 percent in 2016 and 1.7 percent in 2017.

The subsidies for banks in distress are likely to remain a drag on the government balance, though to a lesser extent than in the past years. The wave of immigration will also put new claims on public expenditure, while the tax reform taking effect in early 2016 will lead to shortfalls in wage and income tax revenues. On the other hand, the budget is exonerated by low interest payments, lower-than-expected retirement benefit outlays and a favourable flow of revenue in 2015. The general government deficit (Maastricht definition) for 2015 is estimated at 1.6 percent of GDP, edging up to 1.9 percent of GDP in 2016, before moderating to 1.7 percent in 2017.

Cut-off date: 17 December 2015

For more details please contact

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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). Unlike the "seasonally and calendar-adjusted" changes of quarterly GDP as communicated to Eurostat and released by Statistics Austria, WIFO in addition adjusts the series for irregular variations. The WIFO series labelled "trend-cycle component" exhibits a smoother path and offers a better interpretation of the cyclical profile.

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

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | |
|--|------------------|--------|--------|--------|---------|---------|---------|
| | Forecasts | | | | | | |
| GDP | | | | | | | |
| Volume | + 0.8 | + 0.3 | + 0.4 | + 0.8 | + 1.7 | + 1.7 | |
| Value | + 2.7 | + 1.8 | + 2.0 | + 2.7 | + 3.6 | + 3.4 | |
| Manufacturing ¹ , volume | + 2.2 | - 0.4 | + 1.1 | + 1.2 | + 2.6 | + 2.8 | |
| Wholesale and retail trade , volume | - 1.6 | - 0.2 | - 0.5 | + 1.7 | + 3.2 | + 3.5 | |
| Private consumption expenditure , volume | + 0.6 | + 0.1 | + 0.0 | + 0.4 | + 1.7 | + 1.7 | |
| Gross fixed investment , volume | + 1.3 | - 0.3 | - 0.2 | + 0.9 | + 1.8 | + 2.1 | |
| Machinery and equipment ² | + 0.7 | - 0.1 | + 1.3 | + 2.6 | + 2.8 | + 2.7 | |
| Construction | + 2.2 | - 2.1 | - 1.0 | - 1.0 | + 0.8 | + 1.3 | |
| Other Investment ³ | + 0.2 | + 4.1 | - 0.7 | + 2.3 | + 2.5 | + 2.7 | |
| Exports of goods ⁴ | | | | | | | |
| Volume | + 0.5 | + 2.9 | + 2.7 | + 2.5 | + 4.0 | + 4.4 | |
| Value | + 1.5 | + 1.8 | + 1.8 | + 3.0 | + 4.5 | + 5.1 | |
| Imports of goods ⁴ | | | | | | | |
| Volume | - 0.9 | - 0.1 | + 1.0 | + 3.2 | + 3.5 | + 4.2 | |
| Value | + 0.7 | - 1.0 | - 0.7 | + 1.8 | + 3.9 | + 5.1 | |
| Current balance | € bn | + 4.73 | + 6.30 | + 6.49 | + 10.23 | + 11.72 | + 12.49 |
| as a percentage of GDP | | + 1.5 | + 1.9 | + 2.0 | + 3.0 | + 3.3 | + 3.4 |
| Long-term interest rate ⁵ | percent | 2.4 | 2.0 | 1.5 | 0.8 | 0.9 | 1.2 |
| Consumer prices | | + 2.4 | + 2.0 | + 1.7 | + 0.9 | + 1.5 | + 1.7 |
| Unemployment rate | | | | | | | |
| Eurostat definition ⁶ | percent | 4.9 | 5.4 | 5.6 | 5.7 | 6.1 | 6.3 |
| National definition ⁷ | percent | 7.0 | 7.6 | 8.4 | 9.1 | 9.7 | 10.2 |
| Persons in active dependent employment ⁸ | | + 1.4 | + 0.6 | + 0.7 | + 0.9 | + 1.0 | + 1.0 |
| General government financial balance | | | | | | | |
| according to Maastricht definition | | | | | | | |
| as a percentage of GDP | | - 2.2 | - 1.3 | - 2.7 | - 1.6 | - 1.9 | - 1.7 |

¹ Value added, including mining and quarrying. ² Including weapon systems. ³ Intellectual property products and cultivated biological resources. ⁴ According to Statistics Austria. ⁵ 10-year central government bonds (benchmark). ⁶ According to Eurostat Labour Force Survey. ⁷ Public Employment Service Austria, percent of total labour force excluding self employed. ⁸ Excluding parental leave and military service.

WIFO

Projections - December 2015

World economy

Percentage changes from previous year

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|------------------|-------|-------|-------|-------|-------|
| | Forecasts | | | | | |
| Real GDP | | | | | | |
| World | + 3.4 | + 3.3 | + 3.4 | + 3.0 | + 3.3 | + 3.5 |
| USA | + 2.2 | + 1.5 | + 2.4 | + 2.5 | + 2.4 | + 2.6 |
| Japan | + 1.7 | + 1.4 | ± 0.0 | + 0.6 | + 1.0 | + 1.2 |
| EU 28 | - 0.5 | + 0.2 | + 1.4 | + 1.9 | + 1.8 | + 1.8 |
| Euro area 19 | - 0.8 | - 0.3 | + 0.9 | + 1.5 | + 1.5 | + 1.6 |
| Germany | + 0.4 | + 0.3 | + 1.6 | + 1.5 | + 1.6 | + 1.6 |
| CEE5 ¹ | + 0.4 | + 0.9 | + 3.0 | + 3.5 | + 3.1 | + 3.2 |
| China | + 7.7 | + 7.7 | + 7.3 | + 6.8 | + 6.2 | + 5.8 |
| World trade, volume | + 2.1 | + 2.6 | + 3.3 | + 1.0 | + 2.0 | + 2.5 |
| Market growth² | + 0.6 | + 1.9 | + 3.6 | + 2.5 | + 4.0 | + 4.4 |
| Primary commodity prices³ | | | | | | |
| HWI Index, total | - 2.8 | - 1.9 | - 7.0 | - 40 | - 3 | + 8 |
| Excluding crude oil | - 14.4 | - 6.1 | - 6.2 | - 20 | - 3 | + 10 |
| Crude oil prices | | | | | | |
| Brent, USD per barrel | 111.6 | 108.7 | 99.0 | 55 | 53 | 57 |
| Exchange rate | | | | | | |
| USD per euro | 1.286 | 1.328 | 1.329 | 1.10 | 1.05 | 1.05 |

¹ Poland, Slovakia, Slovenia, Czech Republic, Hungary.² Real import growth of trading partners weighted by Austrian export shares.³ In USD.

Key policy indicators

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---------------------------------------|-------|-------|-------|-------|-------|
| | Forecasts | | | | | |
| Fiscal policy | | | | | | |
| | As a percentage of GDP | | | | | |
| General government financial balance according to Maastricht definition | - 2.2 | - 1.3 | - 2.7 | - 1.6 | - 1.9 | - 1.7 |
| General government primary balance | 0.6 | 1.3 | - 0.2 | 0.8 | 0.3 | 0.5 |
| Monetary policy | | | | | | |
| | Percent | | | | | |
| 3-month interest rate | 0.6 | 0.2 | 0.2 | 0.0 | 0.0 | 0.2 |
| Long-term interest rate ¹ | 2.4 | 2.0 | 1.5 | 0.8 | 0.9 | 1.2 |
| | Percentage changes from previous year | | | | | |
| Effective exchange rate | | | | | | |
| Nominal | - 1.5 | + 1.7 | + 1.2 | - 2.9 | - 0.2 | + 0.1 |
| Real | - 1.6 | + 2.0 | + 1.5 | - 2.9 | - 0.4 | - 0.3 |

¹ 10-year central government bonds (benchmark).

Productivity

Percentage changes from previous year

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|------------------------------|------------------|-------|-------|-------|-------|-------|
| | Forecasts | | | | | |
| Total economy | | | | | | |
| Real GDP | + 0.8 | + 0.3 | + 0.4 | + 0.8 | + 1.7 | + 1.7 |
| Hours worked ¹ | - 0.3 | - 0.5 | + 0.4 | + 0.7 | + 0.9 | + 0.9 |
| Productivity per hour | + 1.1 | + 0.8 | - 0.1 | + 0.1 | + 0.8 | + 0.8 |
| Employment ² | + 1.1 | + 0.6 | + 1.1 | + 0.9 | + 1.1 | + 1.1 |
| Manufacturing | | | | | | |
| Production ³ | + 2.4 | - 0.4 | + 1.3 | + 1.2 | + 2.6 | + 2.8 |
| Hours worked ¹ | + 1.1 | - 0.7 | - 0.0 | + 0.2 | + 0.2 | ± 0.0 |
| Productivity per hour | + 1.2 | + 0.3 | + 1.3 | + 1.0 | + 2.4 | + 2.8 |
| Employees ¹ | + 1.5 | - 0.3 | + 0.2 | - 0.3 | ± 0.0 | ± 0.0 |

¹ According to National Accounts definition.

² Dependent and self-employed according to National Accounts definition.

³ Value added, volume.

Private consumption, income and prices

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|--|---|-------|-------|-------|-------|-------|
| | Forecasts | | | | | |
| | Percentage changes from previous year, volume | | | | | |
| Private consumption expenditure | + 0.6 | + 0.1 | + 0.0 | + 0.4 | + 1.7 | + 1.7 |
| Durables | + 0.7 | - 3.0 | - 0.5 | - 1.0 | + 2.0 | + 2.5 |
| Non-durables and services | + 0.5 | + 0.4 | + 0.1 | + 0.5 | + 1.7 | + 1.6 |
| Household disposable income | + 2.0 | - 2.0 | + 0.5 | + 0.4 | + 2.1 | + 1.3 |
| | As a percentage of disposable income | | | | | |
| Household saving ratio | | | | | | |
| Including adjustment for the change in net equity of households in pension fund reserves | 9.2 | 7.3 | 7.8 | 7.8 | 8.3 | 7.9 |
| Excluding adjustment for the change in net equity of households in pension fund reserves | 8.5 | 6.6 | 7.0 | 7.0 | 7.4 | 7.1 |
| | Percentage changes from previous year | | | | | |
| Direct lending to domestic non-banks¹ | + 0.0 | - 1.2 | + 0.3 | + 2.2 | + 1.3 | + 1.3 |
| Inflation rate | | | | | | |
| National | 2.4 | 2.0 | 1.7 | 0.9 | 1.5 | 1.7 |
| Harmonised | 2.6 | 2.1 | 1.5 | 0.8 | 1.5 | 1.7 |
| Core inflation ² | 2.3 | 2.3 | 1.9 | 1.7 | 1.7 | 1.6 |

¹ End of period.

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

Earnings and international competitiveness

Percentage changes from previous year

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|--|------------------|-------|-------|-------|-------|-------|
| | Forecasts | | | | | |
| Wages and salaries per employee¹ | | | | | | |
| Gross earnings | + 2.7 | + 1.9 | + 1.4 | + 1.4 | + 1.3 | + 1.5 |
| Gross real earnings² | + 0.3 | - 0.1 | - 0.3 | + 0.5 | - 0.2 | - 0.2 |
| Net real earnings² | - 0.0 | - 0.5 | - 1.1 | - 0.1 | + 2.3 | - 0.3 |
| Unit labour costs | | | | | | |
| Total economy | + 3.0 | + 2.2 | + 2.2 | + 1.6 | + 0.6 | + 0.9 |
| Manufacturing | + 2.7 | + 2.5 | + 1.2 | + 0.2 | - 0.9 | - 0.8 |
| Effective exchange rate - manufactures | | | | | | |
| Nominal | - 1.7 | + 1.8 | + 1.2 | - 2.8 | - 0.1 | + 0.1 |
| Real | - 1.7 | + 2.1 | + 1.5 | - 2.9 | - 0.3 | - 0.3 |

¹ Employees according to National Accounts definition.

² Deflated by CPI.

WIFO

Projections - December 2015

Labour market

Changes from previous year (1,000^s)

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | |
|--|-------------------------|--------|--------|--------|--------|--------|------|
| | Forecasts | | | | | | |
| Demand for labour | | | | | | | |
| Persons in active employment ¹ | + 50.1 | + 29.3 | + 31.8 | + 35.0 | + 41.0 | + 41.0 | |
| Employees ² | + 47.2 | + 21.2 | + 23.8 | + 30.0 | + 36.0 | + 36.0 | |
| <i>Percentage changes from previous year</i> | + 1.4 | + 0.6 | + 0.7 | + 0.9 | + 1.0 | + 1.0 | |
| Nationals | + 9.0 | - 8.5 | - 8.1 | + 4.0 | + 3.0 | + 3.0 | |
| Foreign workers | + 38.1 | + 29.7 | + 32.0 | + 26.0 | + 33.0 | + 33.0 | |
| Self-employed ³ | + 2.9 | + 8.1 | + 8.0 | + 5.0 | + 5.0 | + 5.0 | |
| Labour supply | | | | | | | |
| Population of working age (15 to 64 years) | + 18.0 | + 23.5 | + 33.1 | + 44.4 | + 37.8 | + 34.2 | |
| (15 to 59 years) | + 22.3 | + 27.2 | + 33.7 | + 36.4 | + 22.5 | + 15.2 | |
| Labour force ⁴ | + 64.0 | + 55.9 | + 64.0 | + 70.6 | + 71.0 | + 65.0 | |
| Surplus of labour | | | | | | | |
| Registered unemployed ⁵ | + 13.9 | + 26.6 | + 32.2 | + 35.6 | + 30.0 | + 24.0 | |
| 1,000 ^s | 260.6 | 287.2 | 319.4 | 355.0 | 385.0 | 409.0 | |
| Unemployed persons in training | 1,000 ^s 66.6 | 73.5 | 75.3 | 65.3 | 76.3 | 88.3 | |
| Unemployment rate | | | | | | | |
| Eurostat definition ⁶ | percent | 4.9 | 5.4 | 5.6 | 5.7 | 6.1 | 6.3 |
| Percent of total labour force ⁵ | percent | 6.2 | 6.8 | 7.4 | 8.1 | 8.7 | 9.1 |
| National definition ^{5,7} | percent | 7.0 | 7.6 | 8.4 | 9.1 | 9.7 | 10.2 |
| Employment rate | | | | | | | |
| Persons in active employment ^{1,8} | percent | 67.2 | 67.5 | 67.6 | 67.7 | 68.0 | 68.3 |
| Total employment (Eurostat) ^{6,8} | percent | 71.4 | 71.4 | 71.1 | 71.2 | 71.4 | 71.5 |

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

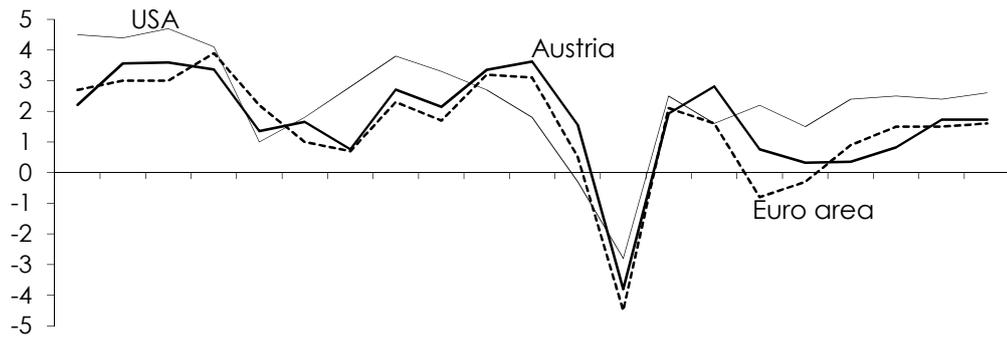
³ According to WIFO. ⁴ Persons in active employment plus unemployment.

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).

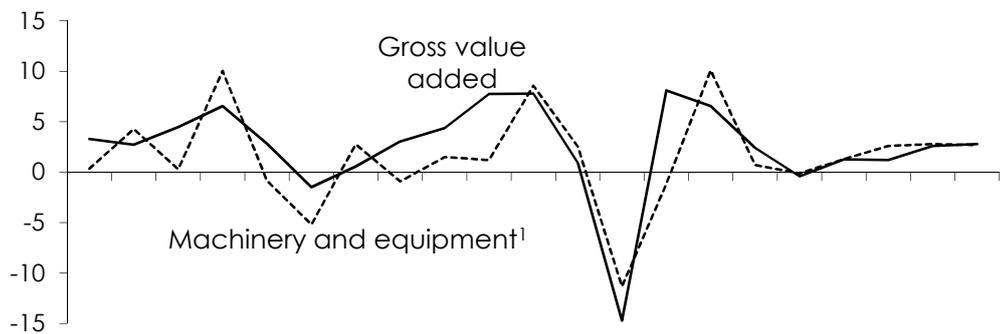
Growth of real GDP

Percent



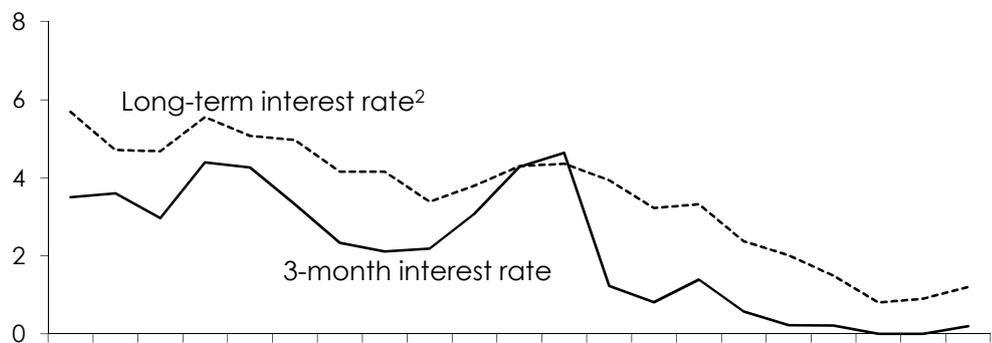
Manufacturing and investment

Percentage changes from previous year, volume



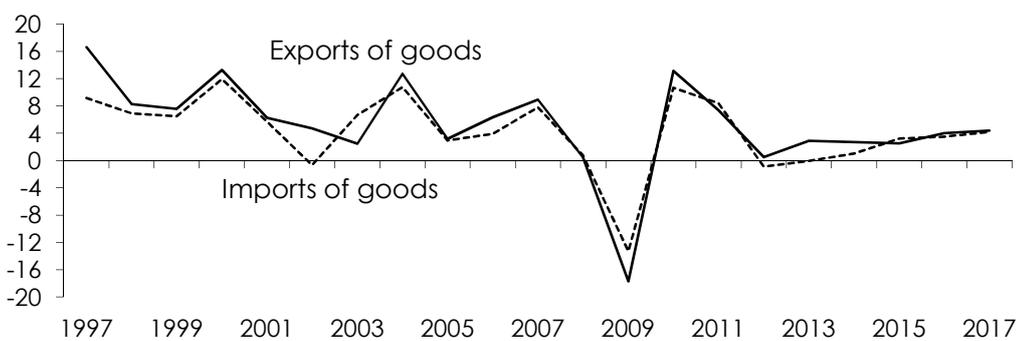
Short-term and long-term interest rates

Percent



Trade

Percentage changes from previous year, volume

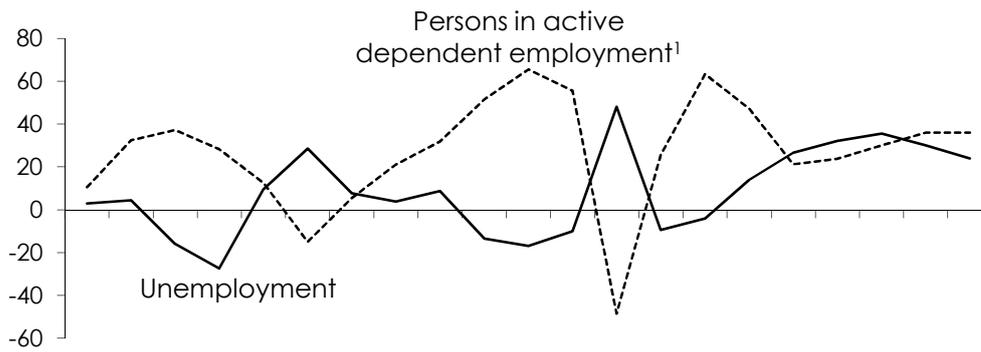


¹ Including weapon systems.

² 10-year central government bonds (benchmark).

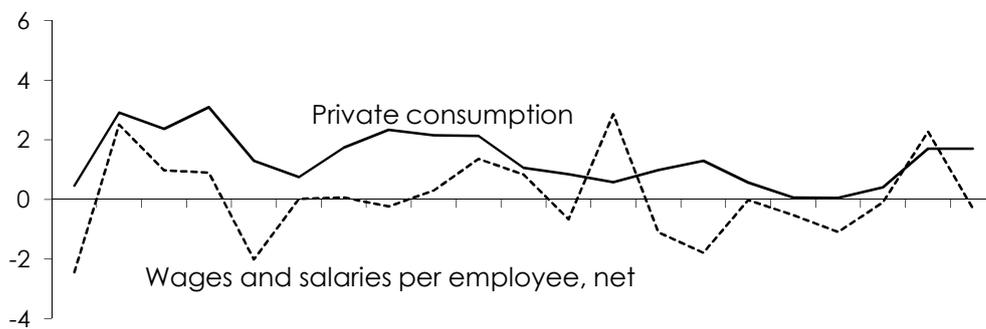
Employment and unemployment

1,000^s from previous year



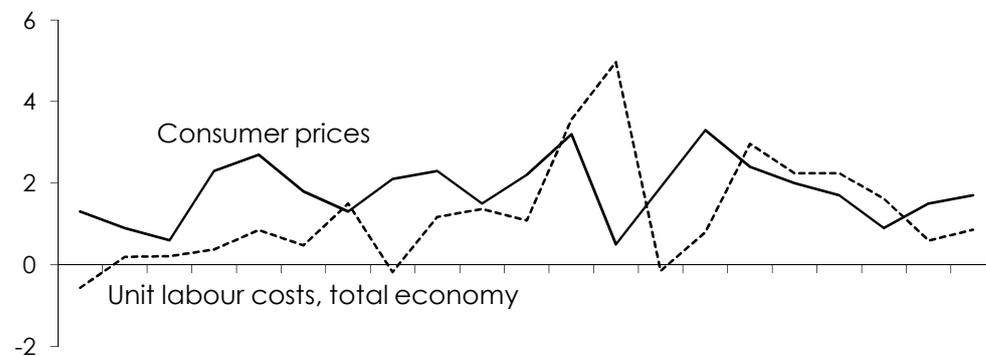
Consumption and income

Percentage changes from previous year, volume



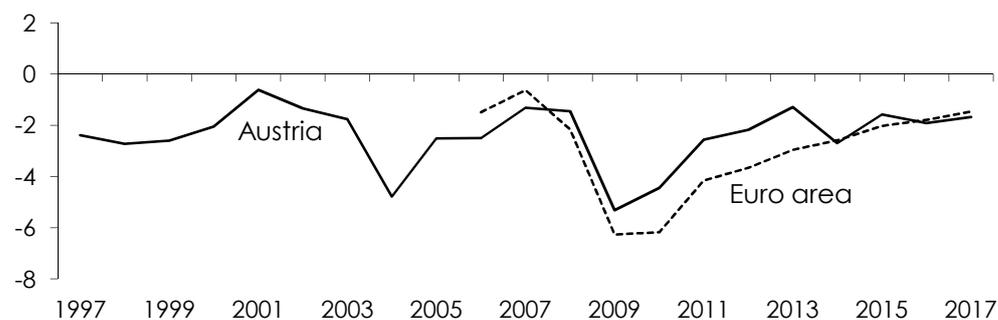
Inflation and unit labour costs

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.