

**WIFO**

1030 WIEN, ARSENAL, OBJEKT 20  
TEL. 798 26 01 • FAX 798 93 86

 **ÖSTERREICHISCHES INSTITUT FÜR  
WIRTSCHAFTSFORSCHUNG**

**Cyclical Revival in Sight  
Economic Outlook for 2013 and 2014**

**December 2012**



## Cyclical Revival in Sight Economic Outlook for 2013 and 2014

December 2012

Austrian Institute of Economic Research

### Abstract

Since the revision of the WIFO forecast of last September, the short-term outlook for the Austrian economy has improved somewhat. This is mainly due to the slight, but broad-based uptick of the leading indicators which suggests that a turning point of the business cycle may have been reached around the turn of the year. Yet, the profile of risk remains uneven and largely corresponds to the assessment of last autumn, with external downward risks somewhat dominating domestic upward risks. In such an environment, the Austrian economy is expected to grow by 1.0 percent in volume in 2013 and by 1.8 percent in 2014.

Please refer to: [Christian.Glocker@wifo.ac.at](mailto:Christian.Glocker@wifo.ac.at)

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1030 Wien, Arsenal, Objekt 20 • Tel. (+43 1) 798 26 01-0 • Fax (+43 1) 798 93 86 • <http://www.wifo.ac.at/> • Verlags- und Herstellungsort: Wien

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# Cyclical Revival in Sight

## Economic Outlook for 2013 and 2014

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Economic activity in Austria is likely to have stagnated during the second half of 2012, while avoiding a cyclical recession. Given widespread fiscal restraint in the euro area and persistently difficult economic conditions in neighbouring countries, GDP growth is set to remain subdued over the entire forecast period. Leading indicators already point to the downward trend bottoming out. While these signals remain tentative for the time being, they are nevertheless observed for a larger number of variables. This gives ground to the expectation that the period of sluggishness will soon be overcome and allow demand and output to resume an upward trend. The current situation remains shaped by the (partly severe) adjustment recession in several euro area countries and the slackening of economic activity worldwide. While domestic fundamentals are still conducive to a sustained and broad-based cyclical upturn, a small open economy like Austria is highly dependent on demand stimulus from its external trading partners.

After a modest gain of 0.6 percent in 2012, real GDP growth in Austria is likely to accelerate to 1.0 percent in 2013 and 1.8 percent in 2014. This projection rests on the assumption that the international government debt crisis remains under control, allowing the loss of confidence on the part of investors and consumers to gradually fade. Austria's GDP should thereby return to a path of moderate growth in the course of 2013, supported by prolonged easy monetary conditions and a pick-up of global

economic activity. The projected growth path for the Austrian economy would on average over the period 2013-2014 correspond to the estimated rate of potential output growth.

Under the assumption of a slight decline in oil prices, inflationary pressure in Austria should remain contained. After an increase by 2.4 percent in 2012, the Consumer Price Index is projected to rise by 2.1 percent in 2013 and 2.0 percent in 2014. Besides a gradual, but steady gain in private consumption, investment is set to rebound over the entire forecast horizon. Employment will expand, but with labour supply growing in step, unemployment is likely to remain high.

The present projection remains subject to a high degree of uncertainty. In case the euro area economy recovers more quickly and global activity rebounds more strongly than assumed here, Austria's GDP growth could turn out higher, building upon the economy's strong fundamentals. Against such benign considerations should be set the non-negligible downward risks, such as a delayed recovery of the world economy or a new flare-up of the debt crisis in a number of countries.

Cut-off date: 20 December 2012

*For more details, please contact Christian Glocker, Tel. (1) 798 26 01/303,  
[Christian.Glocker@wifo.ac.at](mailto:Christian.Glocker@wifo.ac.at)*

## 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.

### *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".

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## Main results

Percentage changes from previous year

		2009	2010	2011	2012	2013	2014
<b>GDP</b>							
Volume		- 3.8	+ 2.1	+ 2.7	+ 0.6	+ 1.0	+ 1.8
Value		- 2.3	+ 3.7	+ 5.0	+ 2.7	+ 2.9	+ 3.6
<b>Manufacturing</b> <sup>1</sup> , volume		- 12.7	+ 7.0	+ 8.2	+ 1.5	+ 2.5	+ 4.0
<b>Wholesale and retail trade</b> , volume		- 0.3	+ 1.4	+ 1.3	- 1.0	+ 0.6	+ 1.2
<b>Private consumption expenditure</b> , volume		+ 1.1	+ 1.7	+ 0.7	+ 0.6	+ 0.7	+ 1.0
<b>Gross fixed investment</b> , volume		- 7.8	+ 0.8	+ 7.3	+ 0.8	+ 1.5	+ 2.0
Machinery and equipment		- 10.6	+ 6.0	+ 12.1	+ 0.5	+ 2.5	+ 3.0
Construction		- 7.1	- 2.7	+ 4.4	+ 1.1	+ 0.6	+ 1.1
<b>Exports of goods</b> <sup>2</sup>							
Volume		- 18.3	+ 13.0	+ 7.9	+ 0.8	+ 3.8	+ 6.0
Value		- 20.2	+ 16.7	+ 11.3	+ 1.7	+ 4.1	+ 7.1
<b>Imports of goods</b> <sup>2</sup>							
Volume		- 14.1	+ 10.9	+ 8.5	- 0.4	+ 3.5	+ 5.5
Value		- 18.4	+ 16.5	+ 15.3	+ 0.7	+ 3.7	+ 6.6
<b>Current balance</b>	€ bn	+ 7.49	+ 9.74	+ 1.74	+ 6.30	+ 7.75	+ 9.01
	as a percentage of GDP	+ 2.7	+ 3.4	+ 0.6	+ 2.0	+ 2.4	+ 2.7
<b>Long-term interest rate</b> <sup>3</sup>	percent	3.9	3.2	3.3	2.4	1.8	1.8
<b>Consumer prices</b>		+ 0.5	+ 1.9	+ 3.3	+ 2.4	+ 2.1	+ 2.0
<b>Unemployment rate</b>							
Eurostat definition <sup>4</sup>	percent	4.8	4.4	4.2	4.3	4.6	4.6
National definition <sup>5</sup>	percent	7.2	6.9	6.7	7.0	7.4	7.4
<b>Persons in active dependent employment</b> <sup>6</sup>		- 1.5	+ 0.8	+ 1.9	+ 1.4	+ 0.6	+ 0.9
<b>General government financial balance</b>							
according to Maastricht definition							
as a percentage of GDP		- 4.1	- 4.5	- 2.5	- 3.1	- 2.6	- 2.0

<sup>1</sup> Value added, including mining and quarrying. <sup>2</sup> According to Statistics Austria. <sup>3</sup> 10-year central government bonds (benchmark). <sup>4</sup> According to Eurostat Labour Force Survey. <sup>5</sup> Public Employment Service Austria, percent of total labour force excluding self employed. <sup>6</sup> Excluding parental leave and military service.

## Key policy indicators

	2009	2010	2011	2012	2013	2014
<b>Fiscal policy</b>						
	As a percentage of GDP					
<b>General government financial balance</b>						
according to Maastricht definition	- 4.1	- 4.5	- 2.5	- 3.1	- 2.6	- 2.0
<b>General government primary balance</b>	- 1.3	- 1.8	+ 0.1	- 0.5	- 0.0	+ 0.6
<b>Monetary policy</b>						
	Percent					
3-month interest rate	1.2	0.8	1.4	0.6	0.5	0.7
Long-term interest rate <sup>1</sup>	3.9	3.2	3.3	2.4	1.8	1.8
	Percentage changes from previous year					
<b>Effective exchange rate</b>						
Nominal	+ 0.9	- 2.5	+ 0.1	- 1.5	+ 0.1	+ 0.1
Real	+ 0.4	- 2.7	+ 0.8	- 1.5	+ 0.1	+ 0.1

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

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## World economy

Percentage changes from previous year

	2009	2010	2011	2012	2013	2014
<b>Real GDP</b>						
World	-0.6	+5.1	+3.8	+3.3	+3.3	+4.0
USA	-3.1	+2.4	+1.8	+2.3	+1.8	+2.4
Japan	-5.5	+4.7	-0.6	+1.7	+0.8	+1.3
EU 27	-4.3	+2.1	+1.5	-0.1	+0.6	+1.6
Euro area 16	-4.4	+2.0	+1.4	-0.3	+0.2	+1.2
Germany	-5.1	+4.2	+3.0	+1.0	+1.0	+2.0
New member states <sup>1</sup>	-3.2	+2.2	+3.2	+1.2	+1.5	+2.4
China	+9.2	+10.4	+9.2	+8.0	+7.0	+8.0
<b>World trade, volume</b>	-12.7	+15.2	+5.8	+3.5	+3.8	+6.0
<b>Market growth<sup>2</sup></b>	-10.8	+11.4	+6.2	+1.8	+3.8	+6.0
<b>Primary commodity prices</b>						
HWI Index, total	-34.7	+28.9	+28.6	-4.0	-8	+5
Excluding energy	-28.4	+31.9	+19.2	-15.0	±0	+15
<b>Crude oil prices</b>						
Brent, USD per barrel	61.5	79.5	111.3	111.0	100	102
<b>Exchange rate</b>						
USD per euro	1.393	1.327	1.392	1.280	1.28	1.28

<sup>1</sup> Bulgaria, Czech Republic, Hungary, Latvia, Lithuania, Poland, Romania.

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



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## Private consumption, income and prices

	2009	2010	2011	2012	2013	2014
	Percentage changes from previous year, volume					
<b>Private consumption expenditure</b>	+ 1.1	+ 1.7	+ 0.7	+ 0.6	+ 0.7	+ 1.0
Durables	+ 4.8	+ 2.3	+ 1.8	- 3.1	- 0.5	+ 1.0
Non-durables and services	+ 0.6	+ 1.6	+ 0.6	+ 1.0	+ 0.8	+ 1.0
<b>Household disposable income</b>	+ 0.3	- 0.6	- 0.9	+ 0.5	+ 0.7	+ 1.3
	As a percentage of disposable income					
<b>Household saving ratio<sup>1</sup></b>	11.2	9.1	7.4	7.5	7.6	7.9
<b>Household saving ratio<sup>2</sup></b>	10.6	8.6	7.1	7.0	7.1	7.3
	Percentage changes from previous year					
<b>Direct lending to domestic non-banks<sup>3</sup></b>	- 1.3	+ 2.9	+ 2.6	+ 1.4	+ 2.1	+ 2.6
<b>Inflation rate</b>						
National	0.5	1.9	3.3	2.4	2.1	2.0
Harmonised	0.4	1.7	3.6	2.5	2.2	2.0
Core inflation <sup>4</sup>	1.5	1.2	2.8	2.2	2.0	1.9

<sup>1</sup> Including adjustment for the change in net equity of households in pension fund reserves.

<sup>2</sup> Excluding adjustment for the change in net equity of households in pension fund reserves.

<sup>3</sup> End of period.

<sup>4</sup> Excluding unprocessed food (meat, fish, fruits, vegetables) and energy items.

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## Productivity

Percentage changes from previous year

	2009	2010	2011	2012	2013	2014
<b>Total economy</b>						
Real GDP	- 3.8	+ 2.1	+ 2.7	+ 0.6	+ 1.0	+ 1.8
Employment <sup>1</sup>	- 0.9	+ 0.7	+ 1.8	+ 1.5	+ 0.8	+ 1.1
<b>Productivity</b> (GDP per employment)	- 2.9	+ 1.4	+ 0.9	- 0.9	+ 0.2	+ 0.6
<b>Manufacturing</b>						
Production <sup>2</sup>	- 13.0	+ 7.2	+ 8.5	+ 1.5	+ 2.5	+ 4.0
Employees <sup>3</sup>	- 5.3	- 1.3	+ 1.9	+ 1.7	± 0.0	+ 0.3
<b>Productivity per hour</b>	- 4.7	+ 5.4	+ 6.6	+ 0.3	+ 3.2	+ 3.3
Working hours per day per employee <sup>4</sup>	- 3.5	+ 3.0	- 0.1	- 0.5	- 0.7	+ 0.4

<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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## Earnings and international competitiveness

Percentage changes from previous year

	2009	2010	2011	2012	2013	2014
<b>Wages and salaries per employee<sup>1</sup></b>						
<b>Gross earnings</b>	+ 1.7	+ 1.0	+ 1.7	+ 2.7	+ 2.0	+ 2.5
<b>Gross real earnings<sup>2</sup></b>	+ 1.2	- 0.8	- 1.5	+ 0.3	- 0.1	+ 0.5
<b>Net real earnings<sup>2</sup></b>	+ 3.0	- 1.1	- 2.0	- 0.1	- 0.5	+ 0.2
<b>Unit labour costs</b>						
Total economy	+ 4.8	- 0.3	+ 0.8	+ 3.6	+ 1.7	+ 1.8
Manufacturing	+ 11.5	- 6.1	- 3.9	+ 2.8	- 0.5	- 1.1
<b>Effective exchange rate - manufactures</b>						
Nominal	+ 0.7	- 2.6	+ 0.0	- 1.5	+ 0.1	+ 0.1
Real	+ 0.4	- 2.7	+ 0.7	- 1.5	+ 0.1	+ 0.1

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

<sup>2</sup> Deflated by CPI.

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## Labour market

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

		2009	2010	2011	2012	2013	2014
<b>Demand for labour</b>							
Persons in active employment <sup>1</sup>		- 44.0	+ 32.4	+ 70.4	+ 51.3	+ 25.0	+ 37.0
Employees <sup>2</sup>		- 48.5	+ 25.5	+ 63.3	+ 47.0	+ 20.0	+ 32.0
<i>Percentage changes from previous year</i>		- 1.5	+ 0.8	+ 1.9	+ 1.4	+ 0.6	+ 0.9
Nationals		- 43.0	+ 5.8	+ 25.7	+ 8.5	+ 2.0	+ 7.0
Foreign workers		- 5.5	+ 19.7	+ 37.7	+ 38.5	+ 18.0	+ 25.0
Self-employed <sup>3</sup>		+ 4.5	+ 6.9	+ 7.1	+ 4.3	+ 5.0	+ 5.0
<b>Labour supply</b>							
Population of working age	(15 to 64 years)	+ 17.3	+ 21.6	+ 37.0	+ 15.6	+ 3.0	+ 5.5
	(15 to 59 years)	+ 11.1	+ 8.9	+ 17.1	+ 19.5	+ 7.2	+ 5.3
Labour force <sup>4</sup>		+ 4.0	+ 22.9	+ 66.3	+ 65.3	+ 44.0	+ 40.0
<b>Surplus of labour</b>							
Registered unemployed <sup>5</sup>		+ 48.1	- 9.5	- 4.1	+ 14.0	+ 19.0	+ 3.0
	1,000 <sup>s</sup>	260.3	250.8	246.7	260.7	279.7	282.7
Unemployed persons in training	1,000 <sup>s</sup>	64.1	73.2	63.2	66.6	71.6	71.6
<b>Unemployment rate</b>							
Eurostat definition <sup>6</sup>	percent	4.8	4.4	4.2	4.3	4.6	4.6
Percent of total labour force <sup>5</sup>	percent	6.5	6.2	6.0	6.3	6.6	6.7
National definition <sup>5,7</sup>	percent	7.2	6.9	6.7	7.0	7.4	7.4
<b>Employment rate</b>							
Persons in active employment <sup>1,8</sup>	percent	64.7	65.1	65.9	66.6	67.0	67.6
Total employment (Eurostat) <sup>6,8</sup>	percent	71.6	71.7	72.1	72.6	72.9	73.3

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

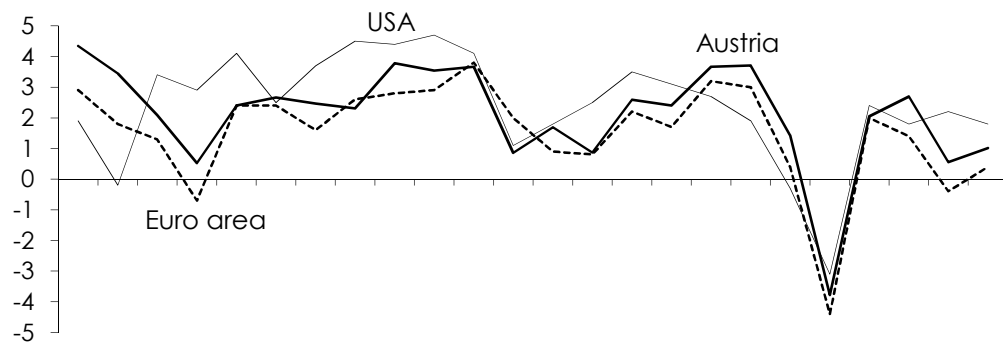
<sup>3</sup> According to WIFO. <sup>4</sup> Persons in active employment plus unemployment.

<sup>5</sup> According to Public Employment Service Austria <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).

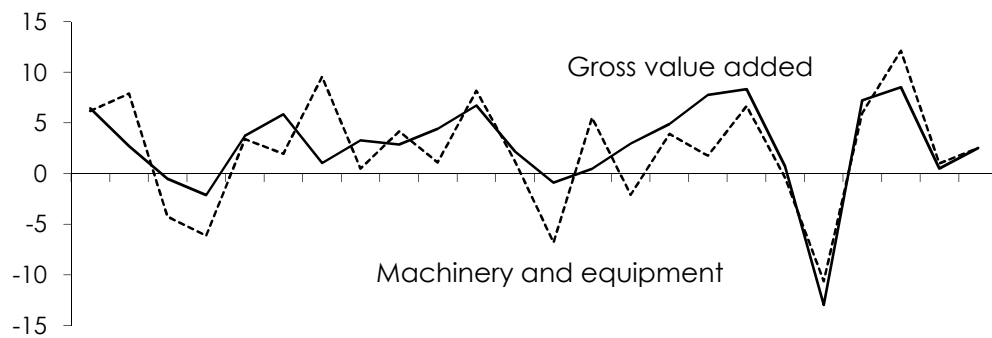
## Growth of real GDP

Percent



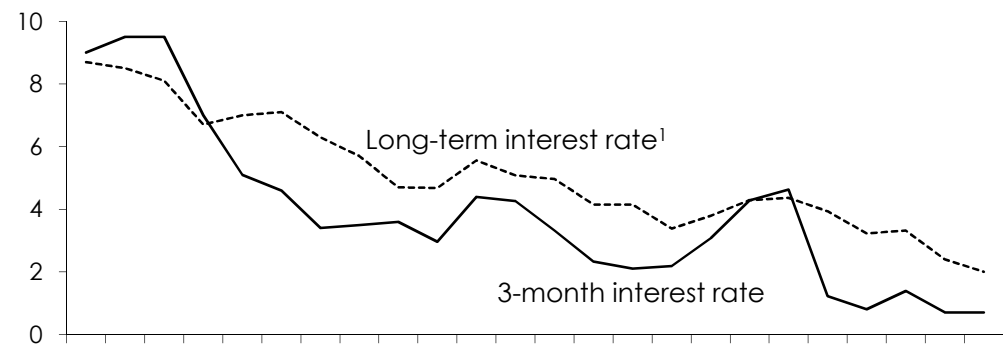
## Manufacturing and investment

Percentage changes from previous year, volume



## Short-term and long-term interest rates

Percent



## Trade

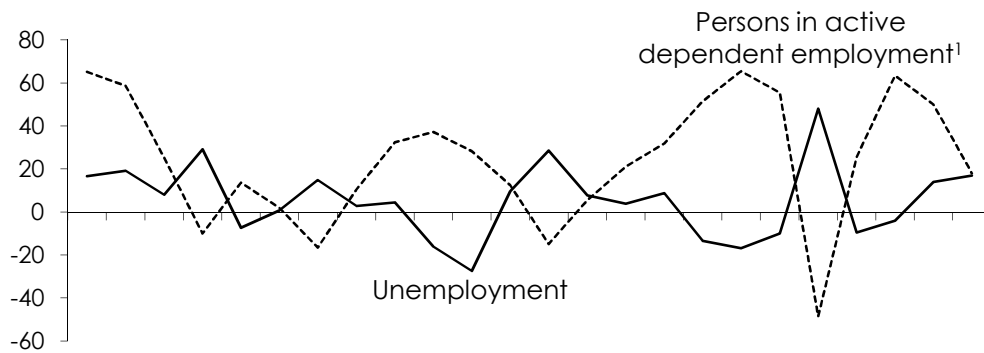
Percentage changes from previous year, volume



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

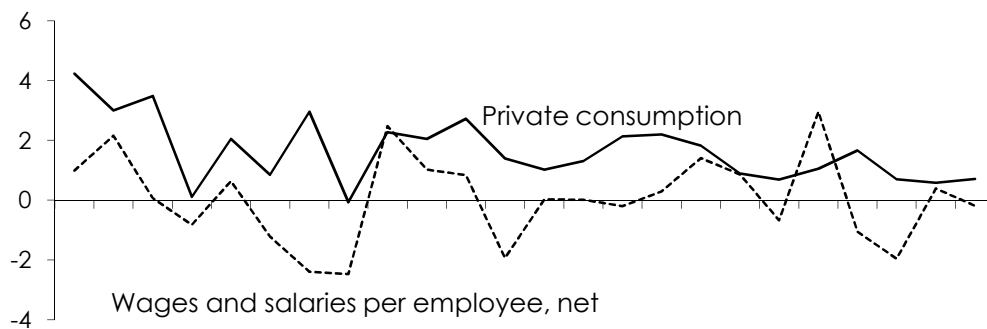
## Employment and unemployment

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



## Consumption and income

Percentage changes from previous year, volume



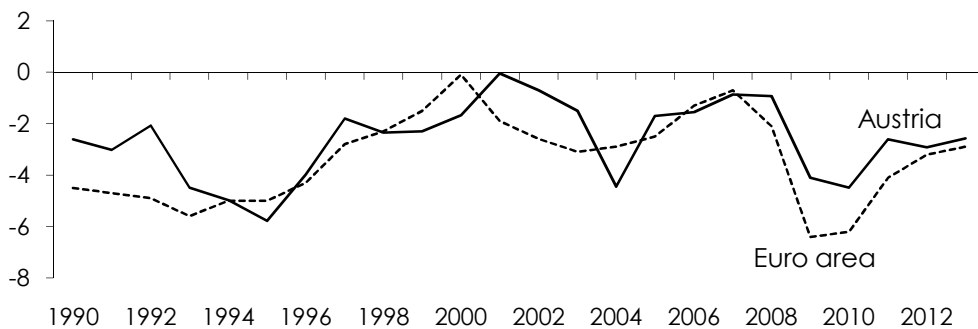
## Inflation and unit labour costs

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.