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Cyclical Stabilisation, But No Robust Upturn

Economic Outlook for 2010 and 2011

In 2009, economic activity in Austria contracted by 3.4 percent in volume, somewhat less than the euro area average (–3.9 percent). As from the middle of the year, merchandise exports and industrial output started heading up as a result of the expansionary policy stance adopted worldwide. The recovery is set to continue in the months to come, allowing GDP to grow by 1.5 percent in 2010. However, the still low capacity utilisation will hardly provide incentives for higher investment, which is one of the reasons why unemployment will keep rising, to a rate of 8.1 percent of the dependent labour force in 2011. The general government balance will deteriorate to a deficit corresponding to around 5 percent of GDP.

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The international financial market and economic crisis struck the Austrian economy heavily as from the middle of 2008. Manufacturing output and business investment in machinery and equipment each fell at double-digit rates in 2009. A turnaround set in as from mid-2009, driven primarily by the strongly expansionary stance of monetary and fiscal policy in the worlds' largest economies and by the measures taken at the national level to stabilise domestic activity and the labour market.

As in earlier recoveries, goods exports and manufacturing output are the first to react, heading up since the third quarter 2009 (from the previous period) in response to the pick-up in world trade and demand from major trading partners. International trade is expected to rebound by 7 percent already in 2010, after a fall by 14 percent in 2009. The German economy, taking up nearly one-third of Austrian merchandise exports, emerged relatively early from a particularly severe recession and should grow by 1.5 percent in volume in 2010, above the euro area average of +1.1 percent.

On the back of the worldwide recovery, Austrian volume exports and industrial output should rise by some 4 percent each in 2010. Unlike in many other EU countries, private consumption in Austria remained upward bound (+0.4 percent in volume in 2009) even during the recession, thanks to substantial real wage gains, higher social transfers and income tax cuts. For 2010, WIFO expects a slight acceleration of household demand growth to +0.7 percent. In such a scenario, real GDP will expand by 1.5 percent in 2010.

Nevertheless, the recovery remains fragile and subject to a number of risks. Thus, there are only few signs to date that the rebound in exports will soon trigger a revival of investment, as has usually been the case in the past. Indeed, results from the WIFO investment survey suggest that the very low capacity utilisation particularly in manufacturing induces firms to cut their investment plans further. WIFO therefore expects corporate spending on business equipment to continue its downward trend (–1 percent in real terms) in 2010. Likewise, construction investment may be reduced once again, by a projected 1 percent. Commercial building and non-subsidised residential building activity are lacklustre, whereas additional construction projects by the Federal Real Estate Agency ("Bundesimmobiliengesellschaft"), the Road Financing Agency (Asfinag) and the Austrian Railways (ÖBB) should largely materialise in 2010.

Major risks also derive from the international environment. In East-central Europe, the debt-financed consumption and construction boom has collapsed. In the Baltic countries, in Romania, Bulgaria and Hungary GDP may therefore decline also in 2010, while the Polish and the Czech economies will enjoy growth rates owing to more resilient private household demand. Uncertainty also relates to the profile of the recovery in Germany after the expiry of the car scrapping premium and of widespread price concessions by car manufacturers. The stabilisation of financial markets and of the banking system remains fragile and the euro appreciation vis-à-vis the dollar will weigh on the revival of business activity in the EU.

Table 1: Main results

		2006	2007	2008	2009	2010	2011
		Percentage changes from previous year					
GDP							
Volume		+ 3.5	+ 3.5	+ 2.0	– 3.4	+ 1.5	+ 1.6
Value		+ 5.2	+ 5.7	+ 4.1	– 1.7	+ 2.1	+ 2.9
Manufacturing[1], volume		+ 9.0	+ 7.3	+ 3.9	– 11.4	+ 4.5	+ 4.0
Wholesale and retail trade, volume		+ 0.8	+ 0.7	+ 0.6	– 2.4	+ 1.0	+ 1.0
Private consumption expenditure, volume		+ 1.8	+ 0.8	+ 0.8	+ 0.4	+ 0.7	+ 0.9
Gross fixed investment, volume		+ 2.4	+ 3.8	+ 1.0	– 7.6	– 1.0	+ 2.0
Machinery and equipment[2]		+ 2.0	+ 4.7	+ 0.1	– 12.0	– 1.0	+ 4.0
Construction		+ 2.8	+ 2.9	+ 1.8	– 4.0	– 1.0	+ 0.5
Exports of goods[3]							
Volume		+ 6.4	+ 9.0	+ 0.3	– 16.8	+ 4.0	+ 6.0
Value		+ 9.5	+ 10.5	+ 2.5	– 19.0	+ 5.6	+ 6.5
Imports of goods[3]							
Volume		+ 4.1	+ 7.6	+ 0.2	– 11.6	+ 3.2	+ 4.8
Value		+ 8.0	+ 9.6	+ 4.7	– 16.4	+ 5.8	+ 5.3
Current balance	billion €	+ 7.26	+ 9.62	+ 9.04	+ 6.27	+ 6.82	+ 8.01
As a percentage of GDP		+ 2.8	+ 3.6	+ 3.2	+ 2.3	+ 2.4	+ 2.7
Long-term interest rate[4]	in percent	3.8	4.3	4.3	3.9	3.7	3.8
Consumer prices		+ 1.5	+ 2.2	+ 3.2	+ 0.5	+ 1.3	+ 1.5
Unemployment rate							
Eurostat definition[5]	in percent	4.8	4.4	3.8	5.0	5.4	5.7
National definition[6]	in percent	6.8	6.2	5.8	7.1	7.7	8.1
Persons in active dependent employment[7]		+ 1.7	+ 2.1	+ 2.4	– 1.3	– 0.3	+ 0.3
General government financial balance according to Maastricht definition							
As a percentage of GDP		– 1.6	– 0.6	– 0.4	– 4.2	– 5.2	– 4.8

Source: WIFO Economic Outlook. – [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] According to Public Employment Service Austria, as a percentage of total labour force excluding self employed. – [7] Excluding parental leave, military service.

Under these circumstances, the cyclical recovery in Austria promises to be slow and may suffer temporary setbacks. WIFO expects real GDP growth of 1.5 percent on annual average 2010 and hardly stronger momentum in 2011 (+1.6 percent). Such flat upward trend will not allow unemployment to decline, given that labour supply is boosted by a growing population of working age and a high reserve of discouraged jobseekers. Even if employment growth should tentatively resume, registered unemployment will rise to nearly 300,000 in 2011 (+70,000 persons in labour market training). Unemployment will by then reach 8.1 percent of the dependent labour force (national definition), the highest rate since 1953, with the risk of the bulk of the recession-induced layoffs becoming long-term unemployed.

The economic crisis also leads to a jump in the government deficit. The slump in tax revenues and the cost of fiscal stimulus programmes will weaken the general government balance to a gap of 5.2 percent of GDP in 2010. A slight improvement to a deficit of 4.8 percent of GDP is expected for 2011 as tax revenues should recover with employment picking up and assuming restraint in government expenditure.

Expansionary policy stance worldwide driving trade and production

The comprehensive stimulus programmes adopted in the USA, China and the EU are driving the recovery of the global economy. In Asia and Latin America, the upturn is already robust, extending gradually also to the industrialised countries.

After the deep fall in late 2008 and early 2009, world trade has resumed strong upward momentum since the middle of the year, gaining over 4 percent in volume in the third quarter from the previous period. For the fourth quarter, early indicators suggest an increase of similar magnitude. In 2010, world trade is thus expected to expand by an average 7 percent after the slump by 14 percent in volume in 2009.

Cyclical variations of global trade are substantially stronger than those of production of goods and services. In 2009, the world economy has probably contracted by 1 percent in real terms. In 2010, global demand and output may increase by 3 percent, driven mainly by the strongly expansionary stance of monetary and fiscal policy adopted worldwide. Foreign trade and production are particularly buoyant in Asia, where China's comprehensive programmes to stimulate internal demand have positive spill-over effects on the entire region. The Chinese economy is set to grow by around 9 percent per year between 2009 and 2011, still vigorously though less than during the previous boom. Activity is lively also in Latin America where many countries benefit from rising raw material prices.

Table 2: World economy

	2006	2007	2008	2009	2010	2011
	Percentage changes from previous year					
Real GDP						
World	+ 5.1	+ 5.1	+ 3.1	– 1.0	+ 3.0	+ 3.5
USA	+ 2.7	+ 2.1	+ 0.4	– 2.5	+ 1.7	+ 1.9
Japan	+ 2.1	+ 2.3	– 0.7	– 5.2	+ 1.0	+ 1.2
EU 27	+ 3.2	+ 2.9	+ 0.8	– 4.0	+ 0.9	+ 1.5
Euro area 16	+ 3.0	+ 2.8	+ 0.7	– 3.9	+ 1.1	+ 1.4
Germany	+ 3.2	+ 2.5	+ 1.3	– 5.0	+ 1.5	+ 1.4
New EU countries[1]	+ 6.5	+ 6.1	+ 3.7	– 3.8	± 0.0	+ 1.8
China	+ 11.6	+ 13.0	+ 9.7	+ 8.6	+ 9.0	+ 8.6
World trade, volume	+ 9.6	+ 7.2	+ 2.4	– 14.0	+ 7.0	+ 8.0
Market growth[2]	+ 11.2	+ 7.8	+ 3.6	– 15.0	+ 4.5	+ 6.5
Primary commodity prices						
HWWA index, total	+ 19.7	+ 3.7	+ 22.4	– 31	+ 17	+ 4
Excluding energy	+ 22.0	+ 9.5	+ 15.6	– 25	+ 5	+ 7
Crude oil prices						
Brent, $ per barrel	65.1	72.5	97.0	60	80	82
Exchange rate						
$ per euro	1.256	1.371	1.471	1.40	1.50	1.55

Source: WIFO Economic Outlook. – [1] Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania. – [2] Real import growth of trading partners weighted by Austrian export shares.

Along with the global economic recovery goes a significant rebound of commodity prices, in particular of industrial raw materials and crude oil. Should this trend continue, it would carry a risk for the industrialised countries as the implicit deterioration of their terms of trade would weigh on the recovery of the real economy.

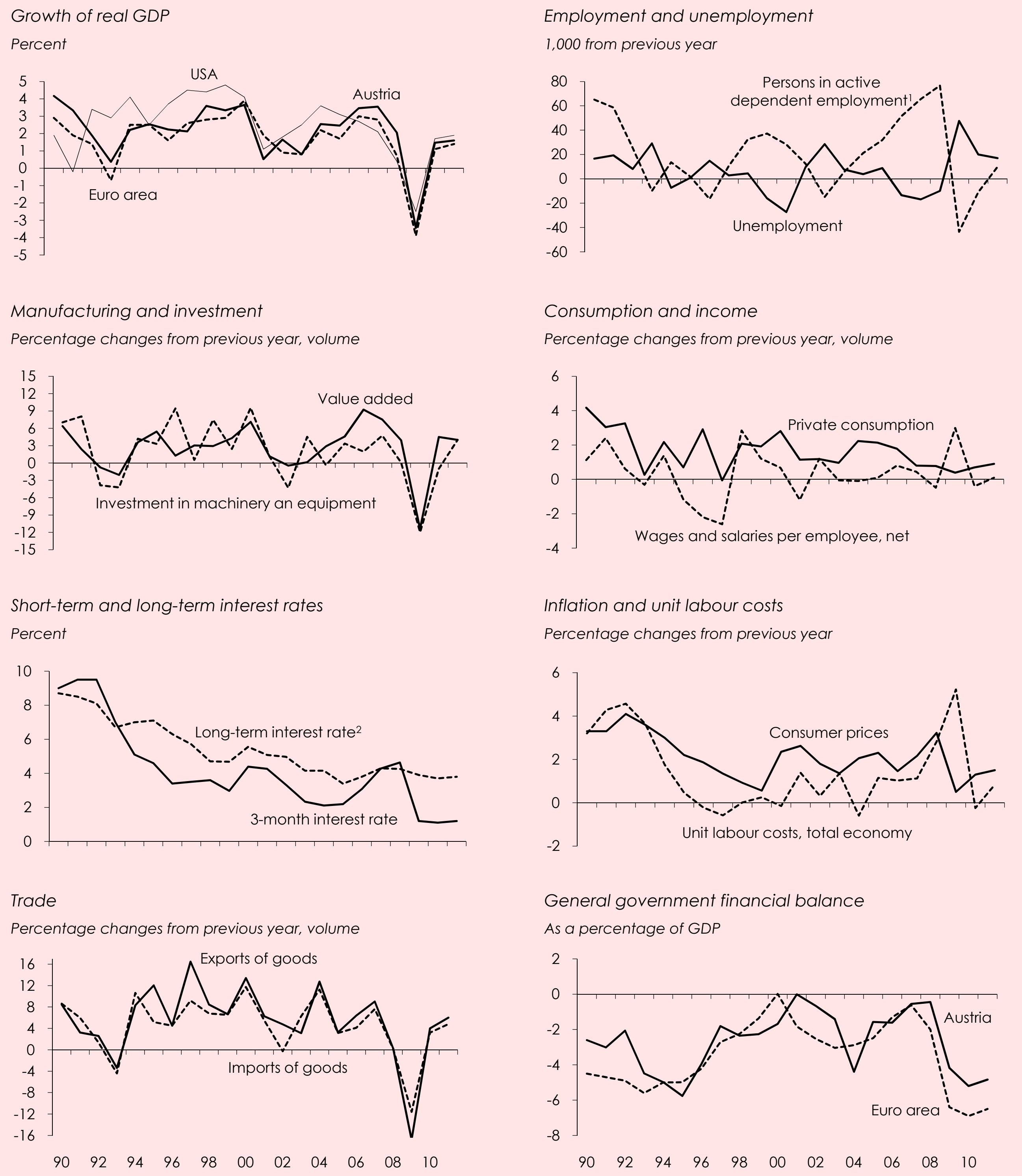
Growth in the USA sustained by expansionary economic policy

In the USA, monetary and fiscal expansion, supported by the effective depreciation of the dollar, managed to stabilise business activity as from mid-2009, as witnessed by a series of indicators:

- Real GDP for the third quarter edged up by 0.7 percent from the previous period, while still being 2.5 percent below the year-earlier level;
- For the first time in three years, residential investment and real estate prices no longer declined in the third quarter from the previous period;
- Incoming orders and industrial output are cautiously picking up since spring 2009;

- Retail sales have been heading up on a seasonally-adjusted basis in October and November;
- The fall of employment is losing momentum. In November, the total number of people in gainful employment edged down by "only" 11,000 from October (seasonally adjusted), while still undershooting the year-earlier level by 4.7 million;

Figure 1: Indicators of economic performance



Source: WIFO Economic Outlook. – [1] Excluding parental leave, military service, and unemployed persons in training. – [2] 10-year central government bonds (benchmark).

The rate of unemployment has nevertheless doubled since the beginning of 2008, currently reaching 10 percent of the labour force. Many sectors still suffer severely, such as residential construction where demand has fallen sharply. Moreover, cyclical stabilisation rests primarily on government fiscal stimulus amounting to 2 percent of GDP in 2009, roughly twice as big as for the EU on average. Signs of an endogenous upturn of business investment have so far been lacking, given the low degree of capacity utilisation and firms' poor sales expectations.

The economic stimulus programmes adopted by the US authorities were double the size of those undertaken by the EU countries. The US recession therefore turned out less deep and the recovery is somewhat more dynamic. Unemployment has nevertheless risen much more rapidly in the USA than in the EU.

Driven by the expansionary policy stance, US GDP should rebound from the 2.5 percent setback recorded in 2009, growing by nearly 2 percent in volume both in 2010 and 2011. The momentum will be constrained over the years to come by the likely increase in the private saving ratio, a lasting sluggishness in the construction sector, higher risk aversion of private investors and the gradual withdrawal of monetary and fiscal stimulus.

Recession in the euro area driving up unemployment and fiscal deficits

GDP in the euro area fell by nearly 4 percent in volume in 2009. Since the middle of the year it has been heading up again: markedly in the countries most exposed to world trade, but insignificantly in countries still suffering from the collapse of the real estate boom. Unemployment and government deficits are rising swiftly.

GDP in the euro area rose by 0.4 percent in volume in the third quarter from the previous period, but was still down year-on-year by 4.1 percent. Fiscal and monetary xpansion has largely contributed towards the stabilisation of business activity. Many export-oriented companies also benefit from the pick-up in world trade. After a drop by 3.9 percent for the whole year 2009, real GDP is expected to gain 1.1 percent in 2010. The recovery therefore promises to be moderate, gaining little momentum even in 2011 (+1.4 percent).

The deep recession entails a significant deterioration on labour markets. The seasonally-adjusted unemployment rate rose in the euro area from 7.2 percent in March 2008 to 9.8 percent in October 2009. A further increase to around 11 percent of the labour force in 2011 is likely, since the recovery will be too weak for a turnaround and labour demand only reacts with a lag to the stabilisation of business activity. Yet, developments are uneven across the euro area. Seasonally adjusted unemployment in the third quarter 2009 was up from the second quarter 2008 by only 4 percent in Germany, and below average (+31.5 percent: Austria +33.6 percent) also in Italy (+13 percent), Belgium (+19 percent) and the Netherlands (+28 percent); on the other hand, particularly strong increases were recorded in Spain (+81 percent) and Ireland (+130 percent).

The recession-induced fall in government revenues and the cost of fiscal stimulus measures drive up the general government deficit in the euro area to 6½ percent of GDP in 2009. For 2010, the European Commission expects a deficit close to 7 percent and an increase in public debt to 84 percent of GDP. New government borrowing should remain clearly below the euro area average in Germany, the Netherlands, Finland and Austria, while exceeding 10 percent of GDP in Greece, Ireland and Spain.

Germany: Early cyclical stabilisation, limited rise in unemployment

Thanks to its high openness to world markets, the German economy exits relatively early from recession and has so far seen a surprisingly small increase in unemployment.

The German economy has been severely struck by the slump in world trade, its real GDP falling by 5 percent in 2009. Now it is drawing important benefit from the revival of global trade and the expansionary policy stance. Since its low last March, industrial output has gained 8 percent on a seasonally-adjusted basis. The increase in industrial orders from abroad and rising business confidence suggest further economic expansion, albeit at a moderate pace.

In particular private consumption is holding up better than could be expected in view of the sharp fall in GDP. A major reason has been the resilience of the labour market, where employment has so far been stable and unemployment has only edged up slightly, from a seasonally-adjusted rate of 7 percent of the labour force in summer 2008 to "only" 7.5 percent in October 2009. This is mainly the result of widespread resort to short-time work arrangements and social partner agreements to avoid lay-offs in many industrial branches. GDP has been heading up since the second quarter 2009 (by a seasonally-adjusted 0.4 percent against the earlier period). In the third quarter, an increase of 0.7 percent has been recorded, and a similar rate may be expected for the last three months of the year. In 2010, the German economy is projected to grow by an inflation-adjusted 1.5 percent.

A non-negligible risk relates to the production and sales of motor cars which have so far benefited from the government car scrapping premium and from substantial discounts granted by producers and dealers. A sizeable slump in private demand would not only have negative repercussions for other branches, but also reduce imports from foreign suppliers of components.

Debt-financed catching up of new EU countries grinds to a halt

The international crisis hit the economies of the new EU countries in two ways: first, the recession in western trading partner countries led to a fall in exports; second, the inflow of foreign capital dried up, which in previous years had enabled the debt-driven expansion of construction and private consumption and had financed high current account deficits. With the rebound in global trade and the stabilisation of demand and output in western and central Europe, exports of the new EU countries are gradually picking up. Yet, the financing of internal demand in these countries remains critical.

Among the new EU countries that are not yet part of the euro area, only Poland and the Czech Republic may enjoy economic growth in 2010. In the other countries, GDP will continue to shrink, in some cases even markedly so.

Particularly difficult is the situation in the Baltic countries where an over-heated financial market and real estate boom has collapsed. Real GDP in the area shrank by one-fifth in 2009 and is set to decline further in 2010. Already, the number of unemployed has tripled, and the labour market situation is further complicated by fiscal restriction to curb the swiftly widening government deficits. Hungary, Bulgaria and Romania also face the prospect of another decline in GDP in 2010.

Only the Czech Republic and Poland can expect a modest expansion of economic activity, i.a., because of the resilience of private household demand and the two countries being less exposed to exchange rate variations due to the relatively minor role played by foreign currency loans.

Austria: Cyclical stabilisation

Real GDP in Austria fell by 3.4 percent in 2009. While the slump was somewhat less severe than in the euro area on average, it was nevertheless the strongest cyclical reversal since the 1930s. Goods exports, manufacturing output and investment in machinery and equipment all dropped at double-digit rates. By mid-2009, the downturn bottomed out. Due to the successful operations undertaken worldwide to rescue the international financial system and the expansionary impact of the fiscal stimulus programmes adopted by trading partners, Austria's exports and industrial output headed up as from the third quarter. On the back of substantial real wage gains, higher social transfers and tax cuts as well as the reinforced implementation of labour market policy measures, private consumption remained on an, albeit gradual, upward trend.

After the slump in 2009, real GDP is expected to edge up by 1.5 percent in 2010. Beside the existing risks from the external side, restraint in planned new investment on the part of domestic companies argues against a dynamic cyclical upswing even by 2011.

In the third quarter, Austria's real GDP rose by 0.5 percent from the previous period, the first gain after a decline lasting for four quarters in a row. Higher industrial orders from Germany and other countries in western Europe were drivers of the turnaround, whereas demand from key trading partners in East-central Europe remained sluggish. Recent leading indicators suggest that GDP will remain upward bound in the last quarter of 2009 and in early 2010, without gaining significant momentum.

However, utilisation of productive capacities appears too low as to facilitate a transition from an export-led recovery to a new investment cycle. This, together with the remaining uncertainties on financial and foreign exchange markets and the danger of problems in some East-central European countries becoming more severe, implies risks to the sustainability of the incipient recovery. On the other hand, major elements of the domestic fiscal stimulus programme, such as the tax reform and public infrastructure investment, will provide similar or even stronger support to demand in 2010 than in 2009. A first, still highly tentative outlook on 2011 suggests that economic growth will still remain clearly below its long-term trend.

Revival of goods exports driving the recovery

The global economic crisis was transmitted to Austria mainly via a slump in merchandise exports (by 16.8 percent in volume in 2009). The fall was particularly sharp for exports to the new EU countries. However, a turnaround can be observed since the middle of 2009. In the third quarter, goods exports rose by 1.9 percent seasonally adjusted and at constant prices from the previous period, while still remaining 17 percent below the year-earlier level. The recovery is likely to be led by the revival of demand in Germany. International indicators such as of global trade as well as sample responses on foreign orders by domestic firms in the context of the regular WIFO business survey point to a continued recovery. WIFO expects volume merchandise exports to gain 4 percent in 2010 and 6 percent in 2011.

Exports are heading up since the middle of 2009, notably those to Germany and other trading partners in western Europe.

Austrian export growth is being held back by the fact that the central and eastern European countries no longer enjoy a substantial growth advantage, leading to a slower pace of their imports. The region accounts for about one-eighth of Austria's merchandise exports. The steady appreciation of the euro vis-à-vis the dollar may also weigh on export growth, mainly in an indirect way via a loss of competitiveness of German and other foreign producers relying on Austrian suppliers of components.

The rebound of exports and the cautious increase in consumer demand lead to a pick-up in imports that is, however, constrained by the persistent sluggishness of corporate investment in machinery and equipment (of which 80 percent is covered by imports). Imports of goods are projected to go up by 3.2 percent in volume in 2010, after a drop by 11.6 percent in the previous year. The implicit improvement in the foreign contribution is a key factor for the projected resumption of GDP growth.

Table 3: Productivity

	2006	2007	2008	2009	2010	2011
	Percentage changes from previous year					
Total economy						
Real GDP	+ 3.5	+ 3.5	+ 2.0	− 3.4	+ 1.5	+ 1.6
Employment[1]	+ 1.5	+ 1.7	+ 2.3	− 1.1	+ 0.0	+ 0.5
Productivity (GDP per employment)	+ 2.0	+ 1.8	− 0.2	− 2.4	+ 1.4	+ 1.1
Manufacturing						
Production[2]	+ 9.2	+ 7.5	+ 3.9	−11.4	+ 4.5	+ 4.0
Employees[3]	+ 0.2	+ 2.6	+ 1.7	− 5.8	− 2.0	− 0.4
Productivity per hour	+ 8.8	+ 5.1	+ 2.7	− 3.2	+ 6.4	+ 4.2
Working hours per day per employee[4]	+ 0.2	− 0.3	− 0.5	− 2.8	+ 0.2	+ 0.2

Source: WIFO Economic Outlook. – [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.

Industrial output rebounding from low level

Austrian manufacturing being heavily geared towards foreign markets, it has been suffering severely from the deep fall in world trade. Indeed, output value added dropped by a seasonally-adjusted 15.7 percent between the second quarter 2008 and the same period of the following year. A tentative recovery set in around mid-2009, with value added edging up by 1.8 percent in volume in the third quarter from the previous period. For the next few quarters a gradual strengthening may be expected, as suggested by the results from the latest WIFO business survey. On balance, the companies sampled see their order levels improving and expects further gains in production. Nevertheless, the outlook remains mixed: thus, motor car manufacturing which recently rebounded strongly from its low may face a setback in production after the expiry of government car scrapping premia and the sizeable rebates granted by car dealers.

With output expectations and incoming orders heading up, the positive turnaround in the manufacturing sector is becoming confirmed. Production volume should rise by 4 percent each in 2010 and 2011, still remaining below the level held in 2008.

WIFO expects an only gradual recovery of industrial activity. Manufacturing output (value added) is projected to increase by 4.5 percent in real terms in 2010 and by a similar rate in 2011. In the event, the output level of 2008 would still not be matched by the forecast horizon.

By resorting to government-subsidised short-time work, manufacturers tried to keep employment stable despite the slump in production. This has been achieved only to some extent: the number of short-time workers reached a peak of around 60,000 in mid-2009, while employment was nevertheless down by 62,000 in October from its high of July 2008. The biggest job losses were recorded in car manufacturing and machine tool production. Output gains in 2010 and 2011 will likely be too small as to prevent further job cuts. Hourly productivity will rebound markedly over the forecast period, after having declined in 2009 mainly due to the widespread implementation of short-time work.

No signs of revival in investment

In view of the low utilisation of existing productive facilities, companies are deferring capacity-enhancing investment.

Investment in machinery and equipment caved in particularly severely during the crisis, falling by 12 percent in volume in 2009. Also in the third quarter, the trend remained negative, with a seasonally-adjusted decline of 1.8 percent from the earlier three-months-period. No turnaround for 2010 is visible either. According to early results from the WIFO investment survey, manufacturing companies plan to cut their investment programmes even further. Although output is gradually recovering, there is so much idle capacity that firms see no need for adding to their capital stock. WIFO therefore expects a further decline in investment by 1 percent in 2010, followed by a turnaround in 2011. Subdued investment activity is a matter of concern also in a longer-term perspective, since dynamism was lacking even during the previous boom period when machinery and equipment investment rose by a cumulated 9 percent in volume over the years from 2005 to 2007.

Construction activity gaining strength only slowly

The impact of the fiscal stimulus programmes on construction activity should be greater in 2010 than in 2009.

Output (value added) of the construction industry receded by 4 percent in real terms in 2009. As a result of the steep fall in corporate investment, new industrial building shrank markedly. The situation is also critical for non-subsidised residential building. Government measures stem the decline, such as subsidies for the insulation of privately-owned buildings or easier access to subsidies for private homebuilding. However, only the smaller part of the additional investment spending by the Federal Real Estate Agency, the Highway Financing Agency (Asfinag) and the Austrian Railways (OeBB) to be triggered by the government fiscal stimulus programme has actually been incurred so far. The impact of public investment should therefore be felt more strongly in 2010. Construction net output is nevertheless expected to edge down by another 1 percent in the absence of any signs of revival in industrial and commercial building activity. Growth in overall construction output should resume only in 2011.

Private consumption as cyclical stabiliser

Unlike in many other EU countries, private consumption in Austria acted as an important cyclical stabiliser. Household spending has edged up by a steady 0.1 percent quarter-on-quarter (in real terms, seasonally adjusted) since spring 2008, yielding a year-on-year increase of 0.4 percent for 2009 – despite sizeable job losses and waning household confidence.

Table 4: Earnings and international competitiveness

	2006	2007	2008	2009	2010	2011
	Percentage changes from previous year					
Gross earnings per employee[1]	+ 3.2	+ 3.1	+ 2.7	+ 2.3	+ 1.2	+ 1.9
Gross real earnings per employee[1]	+ 1.0	+ 0.5	+ 0.0	+ 1.8	– 0.1	+ 0.4
Net real earnings per employee[1]	+ 0.8	+ 0.4	– 0.5	+ 3.0	– 0.4	+ 0.1
Total economy						
Unit labour costs	+ 1.0	+ 1.1	+ 2.8	+ 5.2	– 0.2	+ 0.8
Manufacturing						
Unit labour costs	– 4.2	– 1.7	+ 1.0	+ 6.9	– 3.9	– 1.8
Effective exchange rate, manufactures						
Nominal	+ 0.2	+ 1.2	+ 1.1	+ 0.4	+ 1.1	+ 0.6
Real	– 0.4	+ 0.8	+ 0.6	±0.0	+ 0.9	+ 0.2

Source: WIFO Economic Outlook. – [1] Employees according to National Accounts definition.

Private consumption has been sustained by comparatively high gains in employees' real earnings, increase in social transfers, tax cuts and active labour market policy measures. WIFO assumes some strengthening in the momentum of private spending in 2010 and 2011 to growth rates of 0.7 percent and 0.9 percent, respectively. It should be driven by the after-effects of the fiscal stimulus measures, later on also by job losses petering out.

Private household demand increased by an inflation-adjusted 0.4 percent in 2009. A somewhat stronger momentum may be expected for the years to come.

Table 5: Private consumption, income and prices

	2006	2007	2008	2009	2010	2011
	Percentage changes from previous year					
Private consumption expenditure	+ 1.8	+ 0.8	+ 0.8	+ 0.4	+ 0.7	+ 0.9
Durables	+ 5.6	+ 3.6	+ 2.2	+ 1.0	+ 0.7	+ 1.5
Non-durables and services	+ 1.4	+ 0.5	+ 0.6	+ 0.3	+ 0.7	+ 0.8
Household disposable income	+ 3.0	+ 1.7	+ 1.7	+ 0.9	+ 0.6	+ 0.5
	As a percentage of disposable income					
Household saving ratio	10.8	11.3	12.0	13.0	12.9	12.6
	Percentage changes from previous year					
Direct lending to domestic non-banks[1]	+ 4.5	+ 3.6	+ 7.4	− 0.5	+ 1.0	+ 3.8
	Percentage changes from previous year					
Inflation rate						
National	1.5	2.2	3.2	0.5	1.3	1.5
Harmonised	1.7	2.2	3.2	0.4	1.3	1.5
Core inflation[2]	1.3	1.9	2.4	1.4	1.2	1.4

Source: WIFO Economic Outlook. – [1] End of period. – [2] Excluding unprocessed food (meat, fish, fruits, vegetables) and energy items.

Also the trade and distribution sector may look forward to a stabilisation of business conditions. Value added shrank by 2.4 percent in volume in 2009 in wholesale and motor vehicle trade, mainly due to the fall in foreign demand as well as in investment in motor cars. Retail sales, for their part, remained broadly constant. Value added of the trade sector is projected to edge up by 1 percent each in 2010 and 2011.

Limited losses in tourism

Although demand for tourism services is slackening markedly, Austria benefits from the shift in preferences in favour of short-distance destinations.

Expenditure by foreign customers in Austria fell to a total € 12 billion in 2009, an inflation-adjusted loss of 5 percent from 2008. Nevertheless, the tourism sector has been hit somewhat less than expected by the global economic crisis. Results for the summer season were rather benign, with overnight stays down by 1 percent from last year and revenues by 1.6 percent, reflecting travellers' more cautious spending behaviour. Austria, a close destination for customers from Germany and other major European countries, appears to enjoy a competitive advantage over destinations far away. Yet, export earnings from tourism are set to decline by a further 2 percent in volume in 2010.

Also domestic customers will substitute domestic holidays for long-distance travel and exert restraint on their daily spending. Tourism imports fell by 3.5 percent in volume in 2009 and are expected to recede by a further 1 percent in 2010. Value added of the hotel and restaurant sector declined by 3.7 percent in 2009 and is projected to drop by another 1.4 percent in 2010.

Inflation heading up slightly

Consumer prices in 2009 remained virtually stable. For the period from January to October, the index rose by 0.4 percent year-on-year. Sluggish aggregate demand is keeping prices down, in the first half of the year it was mainly energy prices that exerted downward pressure. In 2010, the rebound in prices for oil and other energy items will make for an uptick in inflation. Prices for manufactured goods and for services will hardly gain upward pace. Headline inflation will go up to an annual average of 1.3 percent, still well below the European Central Bank's inflation target.

Stable consumer prices and relatively high wage settlements concluded in the previous year made for sizeable gains in real purchasing power in 2009. With the new round of collective wage agreements, earnings will increase more modestly. WIFO expects gross earnings per capita to rise by an average 1.2 percent, broadly in step with overall inflation.

In 2010, inflation will slowly regain momentum, mainly on account of higher energy prices.

Unemployment continues to rise

With the economic crisis spreading, the labour market situation worsened drastically. Although the fiscal stimulus programmes, government-subsidised short-time work arrangements and ad-hoc measures in favour of young jobseekers helped to sustain demand for labour and reined back the rise in unemployment, a net total of 56,000 jobs were lost (on a seasonally adjusted basis) from the peak of employment reached in mid-2008. The bulk of job losses occurred in manufacturing and with temporary work agencies. The number of unemployed rose from its trough in March 2008 by 61,000 by last November.

Table 6: Labour market

		2006	2007	2008	2009	2010	2011
		Changes from previous year, in 1,000					
Demand for labour							
Persons in active employment[1]		+ 55.0	+ 64.8	+ 86.1	− 34.1	− 6.2	+ 12.6
Employees[2]		+ 51.5	+ 65.5	+ 76.7	− 43.6	− 11.0	+ 9.8
Percentage changes from previous year		*+ 1.7*	*+ 2.1*	*+ 2.4*	*− 1.3*	*− 0.3*	*+ 0.3*
Nationals		+ 35.0	+ 43.6	+ 53.2	− 37.1	− 9.0	+ 5.3
Foreign workers		+ 16.5	+ 21.9	+ 23.5	− 6.5	− 2.0	+ 4.5
Self-employed[3]		+ 3.5	− 0.7	+ 9.4	+ 9.5	+ 4.8	+ 2.8
Labour supply							
Population of working age	15 to 64 years	+ 12.8	+ 15.5	+ 27.7	+ 22.1	+ 26.4	+ 30.7
	15 to 59 years	+ 47.3	+ 17.1	+ 17.6	+ 15.9	+ 12.3	+ 15.9
Labour force[4]		+ 41.5	+ 47.9	+ 76.1	+ 13.5	+ 13.8	+ 29.6
Surplus of labour							
Registered unemployed[5]		− 13.5	− 16.9	− 10.0	+ 47.6	+ 20.0	+ 17.0
In 1,000		239.2	222.2	212.3	259.9	279.9	296.9
Unemployed persons in training	in 1,000	57.5	52.7	50.5	63.8	69.8	69.8
		Percent					
Unemployment rate							
Eurostat definition[6]		4.8	4.4	3.8	5.0	5.4	5.7
As a percentage of total labour force[5]		6.1	5.6	5.2	6.4	6.9	7.3
National definition[5, 7]		6.8	6.2	5.8	7.1	7.7	8.1
Employment rate							
Persons in active employment[1, 8]		63.9	64.8	66.0	65.2	64.8	64.6
Total employment[6, 8]		70.2	71.4	72.1	71.6	70.9	70.7

Source: WIFO Economic Outlook. – [1] Excluding parental leave, military service. – [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] As a percentage of total labour force, without self-employed. – [8] As a percentage of population of working age (15 to 64 years).

In recent months, the rise in unemployment has decelerated markedly, in particular thanks to the stabilisation of industrial activity. The number of people in dependent active employment may still fall by an average 11,000 year-on-year in 2010, before edging up by a projected 10,000 in 2011. Unemployment will nevertheless keep trending up over the entire forecast period as GDP growth will not be strong enough as to generate sufficient demand for new workforce. Moreover, labour supply is set to increase with the growing population of working age (for 15 to 59 year olds +15,000 each in 2010 and 2011; for the age bracket 15 to 64 even +30,000). As from 2011, the last restrictions of the Austrian labour market for workers from the new EU countries will fall, with yet uncertain effects on labour supply. The revival of labour demand after the recession will probably be covered in the first instance by the termination of short-time work arrangements and the hiring of jobseekers in training or persons from the "hidden reserve". Registered unemployment is likely to keep rising to nearly 300,000 by 2011. The rate of unemployment will thereby reach 8.1 percent of the dependent labour force (conventional national definition) or 5.7 percent of

After a sharp decline since the middle of 2008, employment stabilised during last autumn. Unemployment will nevertheless rise in 2010 to a rate of 7.7 percent of the dependent labour force (according to the conventional national definition). For 2011, WIFO projects a further increase to slightly above 8 percent.

the total labour force (Eurostat). This carries the danger that the unemployment generated by the recession becomes entrenched, with the implicit negative repercussions on people's qualifications and the risk of slipping into poverty.

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, this is referred to as "seasonally and working day adjusted changes".

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

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.

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 (http://www.statistik.at/).

WIFO Business Cycle Survey and WIFO Investment Survey

The WIFO business cycle survey is a monthly survey in which around 1,100 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.itkt.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 or persons carrying out alternative service with a valid employment contract. By deducting their number one arrives at the number of "persons in dependent active employment".

Economic crisis leads to significantly higher budget deficits

Fiscal policy in Austria has reacted at an early stage to the sharp cyclical downturn. Already in autumn 2008, private disposable income has been strengthened by the introduction of new social transfers. Timely stimulus has also been provided by government incentives for the purchase of new motor cars and for the insulation of private buildings to save energy. The tax reform, enacted retroactively as from 1 January 2009, boosted private incomes as of April 2009 and should have led to early increases in private demand since the middle of the year. On the other hand, the additional investment projects to be undertaken off-budget by the Federal public agencies have so far been implemented to a small extent.

These discretionary measures, but even more the operation of automatic stabilisers on the revenue side of the federal budget, have led to a sharp increase in the government deficit. Corporate tax revenues for the first ten months of 2009 hardly reached € 3 billion, falling by 37 percent from the year-earlier period, while wage tax and VAT revenues were down by 5.8 percent and 0.5 percent, respectively. The general government balance deteriorated from –0.4 percent of GDP in 2008 to around –4 percent in 2009.

Revenue losses related to lower employment and smaller corporate earnings, together with the cost of the fiscal stimulus programmes, make for an increase in the general government deficit to around 5 percent of GDP.

In 2010, the fiscal gap is likely to widen to more than 5 percent of GDP. For 2011, WIFO assumes a slight narrowing of the deficit to 4.8 percent of GDP as employment will no longer decline and restraint will probably be exerted on government spending. The government deficit over the forecast period will thus be of similar size as that recorded during the period from 1993 to 1995.

Table 7: Key policy indicators

	2006	2007	2008	2009	2010	2011
	As a percentage of GDP					
Fiscal policy						
General government financial balance						
According to Maastricht definition	− 1.6	− 0.6	− 0.4	− 4.2	− 5.2	− 4.8
According to National Accounts	− 1.7	− 0.7	− 0.5	− 4.2	− 5.3	− 4.9
General government primary balance	+ 1.1	+ 2.2	+ 2.1	− 1.3	− 2.2	− 1.6
	Percent					
Monetary policy						
3-month interest rate	3.1	4.3	4.6	1.2	1.1	1.2
Long-term interest rate[1]	3.8	4.3	4.3	3.9	3.7	3.8
	Percentage changes from previous year					
Effective exchange rate						
Nominal	+ 0.2	+ 1.1	+ 1.2	+ 0.5	+ 1.2	+ 0.6
Real	− 0.5	+ 0.7	+ 0.6	± 0.0	+ 0.8	+ 0.2

Source: WIFO Economic Outlook. – [1] 10-year central government bonds (benchmark).