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ÖSTERREICHISCHES INSTITUT FÜR WIRTSCHAFTSFORSCHUNG

Stronger Growth in an Environment Fraught with Risk

Economic Outlook for 2016 and 2017

June 2016

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AUSTRIAN INSTITUTE OF ECONOMIC RESEARCH

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Austrian Institute of Economic Research

Abstract

In 2016 and 2017, economic growth in Austria should pick up from the sluggish pace recorded in 2015. While leading indicators still give no clear hint for a substantial revival of activity, private and public consumption are fuelled by one-off factors, thereby supporting overall output growth. Gross Domestic Product is expected to gain 1.7 percent in volume, both in 2016 and 2017.

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Stronger Growth in an Environment Fraught with Risk

Economic Outlook for 2016 and 2017

In 2016 and 2017, economic growth in Austria should pick up from the sluggish pace recorded in 2015. While leading indicators still give no clear hint for a substantial revival of activity, private and public consumption are fuelled by one-off factors, thereby supporting overall output growth. Gross Domestic Product is expected to gain 1.7 percent in volume, both in 2016 and 2017.

Economic growth in Austria has recently accelerated from the slow pace of the last four years. The fresh momentum derives from stronger domestic demand on the back of lively job creation and higher private incomes. Exports, however, receive only limited incentives from the hesitant expansion of world trade. The outlook for exports is relatively better for 2017, which should offset a somewhat less buoyant performance of internal demand.

In such conditions, real GDP is projected to grow by 1.7 percent each in 2016 and 2017. The strong rebound from the trend of the last few years should, however, not belie the fact that the underlying cyclical momentum in 2016 is still weak. Indeed, the higher rate of growth in the current year is largely owed to several benign one-off factors like calendar effects, the tax reform or the wave of immigration; in the absence of these factors, GDP would grow only marginally faster than last year.

From today's perspective, the cyclical dynamics would strengthen significantly only in 2017, keeping the economy on a stable growth path even as the one-off factors of 2016 wear off. Nevertheless, the degree of utilisation of productive capacities will not exceed normal level over the forecast horizon, keeping the output gap negative by the end of 2017. In view of the expected revival of world trade and global cyclical activity, net exports should make a larger contribution to domestic growth. In the USA, demand and output should strengthen, notably in 2017, and in parallel the euro area should pursue its recovery. Moreover, commodity prices may now have passed the lower turning point, offering brighter perspectives for the emerging markets.

Hence, exports should by 2017 take the lead in keeping the upturn of the Austrian economy on track.

A potential popular vote in favour of UK's exit from the EU should not have immediate consequences for Austrian exports as, in the event, a transition period of up to two years until the definite leave is foreseen, for the negotiation of a new settlement of bilateral relations. Possible turbulence on stock and foreign exchange markets may, however, trigger early adverse effects which have not been included into the present forecast due to their high degree of uncertainty.

Despite stronger economic growth in prospect, inflation pressure should rise only moderately. From an annual rate of 0.9 percent in 2015, the consumer price index (CPI) may move up to 1.1 percent in 2016 and 1.8 percent in 2017. Oil price volatility remains a risk, in particular for the inflation projection, but, like the risks to economic growth, it is deemed balanced.

Labour supply is seen rising markedly over the entire forecast period, outpacing job creation despite strengthening output growth. Hence, unemployment is set to increase further, to an average rate of 9.2 percent of the dependent labour force (national definition) in 2016 and 9.6 percent in 2017.

Cut-off date: 21 June 2016

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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 over 87 percent of the goods and services contained in the consumer price index (CPI 2015) 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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Projections - June 2016

Main results

		2012	2013	2014	2015	2016	2017
						Forecasts	
		Percentage changes from previous year					
GDP							
Volume		+ 0.8	+ 0.3	+ 0.4	+ 0.9	+ 1.7	+ 1.7
Value		+ 2.7	+ 1.8	+ 2.0	+ 2.4	+ 3.4	+ 3.5
Manufacturing[1], volume		+ 2.2	– 0.4	+ 1.1	+ 1.2	+ 2.2	+ 2.8
Wholesale and retail trade, volume		– 1.6	– 0.2	– 0.5	+ 1.7	+ 3.2	+ 3.3
Private consumption expenditure, volume		+ 0.6	+ 0.1	+ 0.0	+ 0.4	+ 1.7	+ 1.3
Gross fixed investment, volume		+ 1.3	– 0.3	– 0.2	+ 0.5	+ 1.9	+ 2.0
Machinery and equipment[2]		+ 0.7	– 0.1	+ 1.3	+ 3.1	+ 3.2	+ 2.7
Construction		+ 2.2	– 2.1	– 1.0	– 1.2	+ 1.0	+ 1.4
Other Investment[3]		+ 0.2	+ 4.1	– 0.7	+ 0.2	+ 1.9	+ 2.2
Exports of goods[4]							
Volume		+ 0.5	+ 2.9	+ 2.7	+ 2.2	+ 2.5	+ 4.5
Value		+ 1.5	+ 1.8	+ 1.8	+ 2.7	+ 2.6	+ 5.3
Imports of goods[4]							
Volume		– 0.9	– 0.1	+ 1.0	+ 4.0	+ 3.3	+ 4.2
Value		+ 0.7	– 1.0	– 0.7	+ 2.4	+ 2.8	+ 5.1
Current balance	€ bn	+ 4.73	+ 6.29	+ 6.38	+ 8.64	+ 9.55	+ 11.48
	as a percentage of GDP	+ 1.5	+ 1.9	+ 1.9	+ 2.6	+ 2.7	+ 3.2
Long-term interest rate[5]	percent	2.4	2.0	1.5	0.7	0.5	0.5
Consumer prices		+ 2.4	+ 2.0	+ 1.7	+ 0.9	+ 1.1	+ 1.8
Unemployment rate							
Eurostat definition[6]	percent	4.9	5.4	5.6	5.7	5.9	6.1
National definition[7]	percent	7.0	7.6	8.4	9.1	9.2	9.6
Persons in active dependent employment[8]		+ 1.4	+ 0.6	+ 0.7	+ 1.0	+ 1.4	+ 1.2
General government financial balance							
according to Maastricht definition							
	as a percentage of GDP	– 2.2	– 1.3	– 2.7	– 1.2	– 1.7	– 1.5

[1] Value added, including mining and quarrying. [2] Including weapons systems. [3] Mainly intellectual property products (research and development, computer programs, copyrights). [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.

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Projections - June 2016

World economy

	2012	2013	2014	2015	2016	2017
					Forecasts	
	Percentage changes from previous year					
Real GDP						
World	+ 3.5	+ 3.3	+ 3.4	+ 3.1	+ 3.0	+ 3.4
USA	+ 2.2	+ 1.5	+ 2.4	+ 2.4	+ 1.8	+ 2.4
Japan	+ 1.7	+ 1.4	± 0.0	+ 0.6	+ 0.5	+ 0.5
EU 28	– 0.5	+ 0.2	+ 1.4	+ 1.9	+ 1.8	+ 1.9
Euro area 19	– 0.9	– 0.3	+ 0.9	+ 1.6	+ 1.6	+ 1.7
Germany	+ 0.4	+ 0.3	+ 1.6	+ 1.7	+ 1.6	+ 1.7
CEE5[1]	+ 0.4	+ 0.9	+ 3.0	+ 3.5	+ 2.2	+ 3.3
China	+ 7.7	+ 7.7	+ 7.3	+ 6.9	+ 6.0	+ 5.8
World trade, volume	+ 1.6	+ 2.5	+ 2.9	+ 1.6	+ 1.9	+ 2.5
Market growth[2]	+ 0.6	+ 1.7	+ 3.5	+ 2.9	+ 3.0	+ 4.5
Primary commodity prices[3]						
HWWI Index, total	– 2.8	– 1.9	– 7.0	– 41.5	– 7	+ 15
Excluding crude oil	– 14.4	– 6.1	– 6.2	– 19.6	– 3	+ 6
Crude oil prices						
Brent, USD per barrel	111.6	108.7	99.0	52.5	48	57
Exchange rate						
USD per euro[4]	1.286	1.328	1.329	1.110	1.10	1.15

[1] Poland, Slovakia, Slovenia, Czech Republic, Hungary.
[2] Real import growth of trading partners (according to Oxford Economics) weighted by Austrian export shares.
[3] In USD. [4] Annual averages on the basis of monthly averages.

Table 1: **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	– 1.2	– 1.7	– 1.5
General government primary balance	0.6	1.3	– 0.2	1.2	0.5	0.4
Monetary policy						
	Percent					
3-month interest rate	0.6	0.2	0.2	– 0.0	– 0.3	– 0.3
Long-term interest rate[1]	2.4	2.0	1.5	0.7	0.5	0.5
	Percentage changes from previous year					
Effective exchange rate						
Nominal	– 1.5	+ 1.7	+ 1.2	– 2.8	+ 0.9	+ 0.5
Real	– 1.5	+ 2.1	+ 1.5	– 2.7	+ 1.0	+ 0.4

[1] 10-year central government bonds (benchmark).

Table 2: **Productivity**

					Forecasts	
	2012	**2013**	**2014**	**2015**	**2016**	**2017**
	Percentage changes from previous year					
Total economy						
Real GDP	+ 0.8	+ 0.3	+ 0.4	+ 0.9	+ 1.7	+ 1.7
Hours worked[1]	– 0.3	– 0.5	+ 0.4	+ 0.4	+ 0.9	+ 0.9
Productivity per hour	+ 1.1	+ 0.8	– 0.1	+ 0.5	+ 0.8	+ 0.8
Employment[2]	+ 1.1	+ 0.6	+ 1.1	+ 0.5	+ 1.3	+ 1.2
Manufacturing						
Production[3]	+ 2.4	– 0.4	+ 1.3	+ 1.5	+ 2.2	+ 2.8
Hours worked[1]	+ 1.1	– 0.7	– 0.0	+ 0.4	+ 0.1	± 0.0
Productivity per hour	+ 1.2	+ 0.3	+ 1.3	+ 1.1	+ 2.1	+ 2.8
Employees[1]	+ 1.5	– 0.3	+ 0.2	– 0.2	± 0.0	± 0.0

[1] According to National Accounts definition.
[2] Dependent and self-employed according to National Accounts definition (jobs).
[3] Value added, volume.

Table 3: **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	+ 1.3
Durables	+ 0.7	– 3.0	– 0.5	– 1.4	+ 2.0	+ 2.5
Non-durables and services	+ 0.5	+ 0.4	+ 0.1	+ 0.6	+ 1.6	+ 1.2
Household disposable income	+ 2.0	– 2.0	+ 0.5	– 0.6	+ 2.2	+ 1.5
	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	6.9	7.4	7.5
Excluding adjustment for the change in net equity of households in pension fund reserves	8.5	6.6	7.0	6.1	6.5	6.7
	Percentage changes from previous year					
Direct lending to domestic non-banks[1]	+ 0.0	– 1.2	+ 0.3	+ 2.0	+ 2.2	+ 2.5
Consumer prices						
National	+ 2.4	+ 2.0	+ 1.7	+ 0.9	+ 1.1	+ 1.8
Harmonised	+ 2.6	+ 2.1	+ 1.5	+ 0.8	+ 1.1	+ 1.8
Core inflation[2]	+ 2.3	+ 2.3	+ 1.9	+ 1.7	+ 1.6	+ 1.6

[1] End of period.
[2] Excluding unprocessed food (meat, fish, fruits, vegetables) and energy items.

Table 4: **Earnings and international competitiveness**

	2012	2013	2014	2015	2016	2017
					Forecasts	
	Percentage changes from previous year					
Wages and salaries per employee[1]						
Gross earnings	+ 2.7	+ 1.9	+ 1.4	+ 1.7	+ 1.4	+ 1.6
Gross real earnings[2]	+ 0.3	– 0.1	– 0.3	+ 0.8	+ 0.3	– 0.2
Net real earnings[2]	– 0.0	– 0.5	– 1.1	+ 0.2	+ 2.8	– 0.3
Unit labour costs						
Total economy	+ 3.0	+ 2.2	+ 2.2	+ 1.4	+ 1.0	+ 1.1
Manufacturing	+ 2.7	+ 2.5	+ 1.2	+ 0.8	– 0.3	– 0.7
Effective exchange rate - manufactures						
Nominal	– 1.7	+ 1.8	+ 1.2	– 2.7	+ 1.0	+ 0.5
Real	– 1.6	+ 2.2	+ 1.5	– 2.7	+ 1.1	+ 0.3

[1] Employees according to National Accounts definition.
[2] Deflated by CPI.

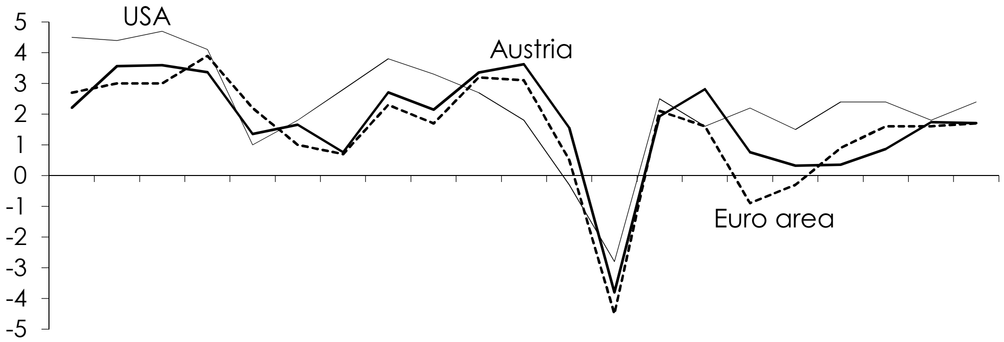
Table 5: **Labour market**

		2012	2013	2014	2015	2016 (Forecasts)	2017 (Forecasts)
		Changes from previous year (1,000s)					
Demand for labour							
Persons in active employment[1]		+ 50.1	+ 29.2	+ 31.8	+ 41.0	+ 53.0	+ 47.0
Employees[2]		+ 47.2	+ 21.2	+ 23.8	+ 33.2	+ 48.0	+ 42.0
Percentage changes from previous year		+ 1.4	+ 0.6	+ 0.7	+ 1.0	+ 1.4	+ 1.2
Nationals		+ 9.0	– 8.5	– 8.1	+ 6.3	+ 13.0	+ 9.0
Foreign workers		+ 38.1	+ 29.7	+ 32.0	+ 27.0	+ 35.0	+ 33.0
Self-employed[3]		+ 2.9	+ 8.0	+ 8.0	+ 7.8	+ 5.0	+ 5.0
Labour supply							
Population of working age	(15 to 64 years)	+ 18.0	+ 23.5	+ 33.1	+ 52.3	+ 37.8	+ 34.2
	(15 to 59 years)	+ 22.3	+ 27.2	+ 33.7	+ 44.6	+ 22.6	+ 15.2
Labour force[4]		+ 64.0	+ 55.8	+ 64.0	+ 76.0	+ 63.0	+ 66.0
Surplus of labour							
Registered unemployed[5]		+ 13.9	+ 26.6	+ 32.2	+ 35.0	+ 10.0	+ 19.0
	1,000s	260.6	287.2	319.4	354.3	364.3	383.3
Unemployed persons in training	1,000s	66.6	73.5	75.3	65.1	71.1	81.1
Unemployment rate							
Eurostat definition[6]	percent	4.9	5.4	5.6	5.7	5.9	6.1
Percent of total labour force[5]	percent	6.2	6.8	7.4	8.1	8.2	8.5
National definition[5,7]	percent	7.0	7.6	8.4	9.1	9.2	9.6
Employment rate							
Persons in active employment[1,8]	percent	67.2	67.4	67.6	67.7	68.2	68.6
Total employment (Eurostat)[6,8]	percent	71.4	71.4	71.1	71.1	71.6	71.9

[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.

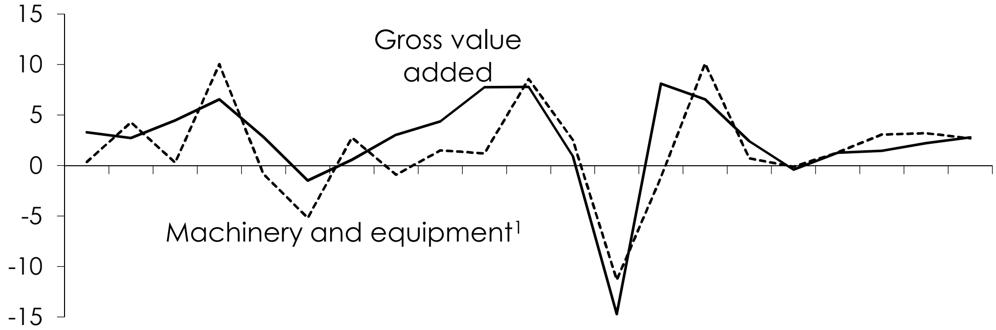
Growth of real GDP

Percent



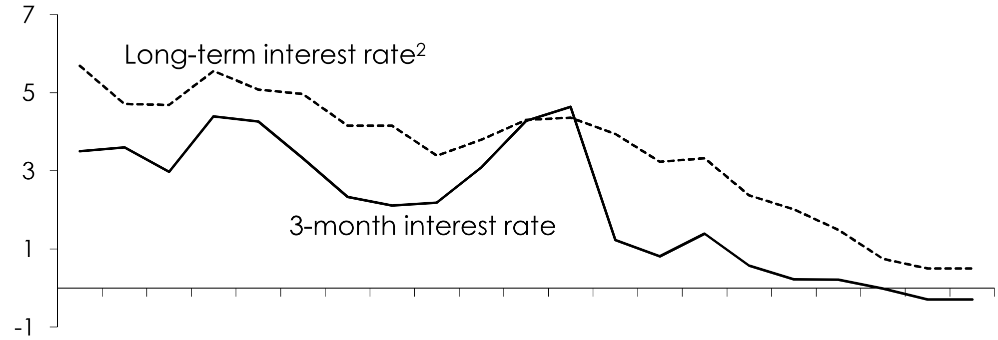
Manufacturing and investment

Percentage changes from previous year, volume



Short-term and long-term interest rates

Percent



Trade

Percentage changes from previous year, volume

[1] Including weapons systems.

[2] 10-year central government bonds (benchmark).

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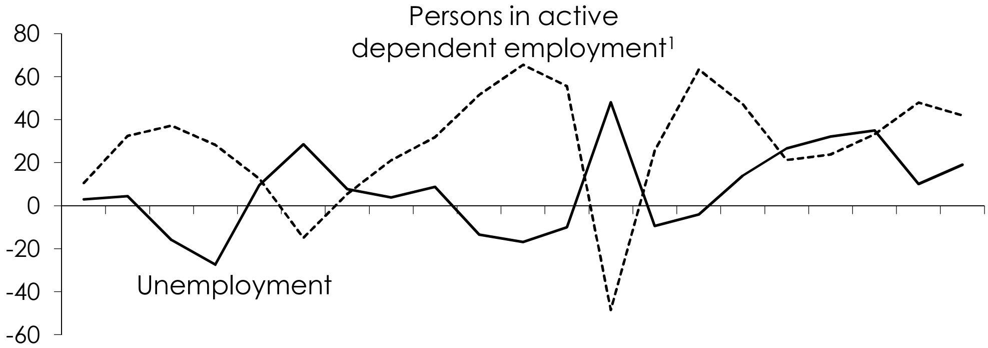
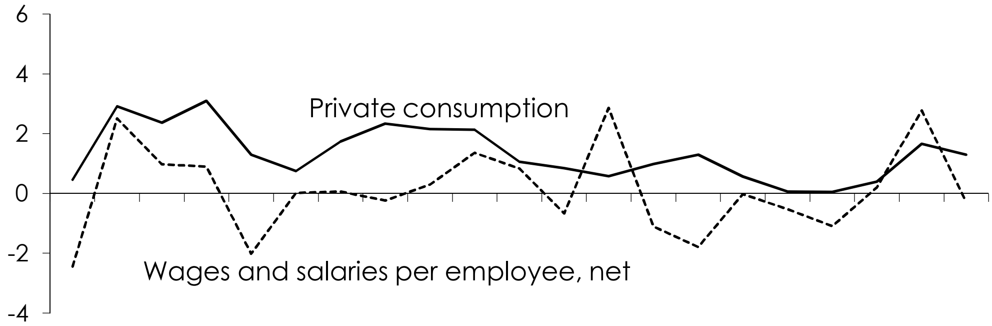
Employment and unemployment

1,000 s from previous year



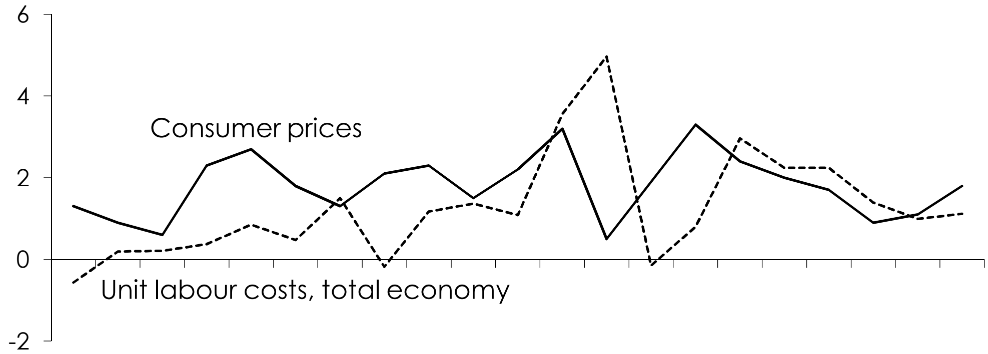
Consumption and income

Percentage changes from previous year, volume



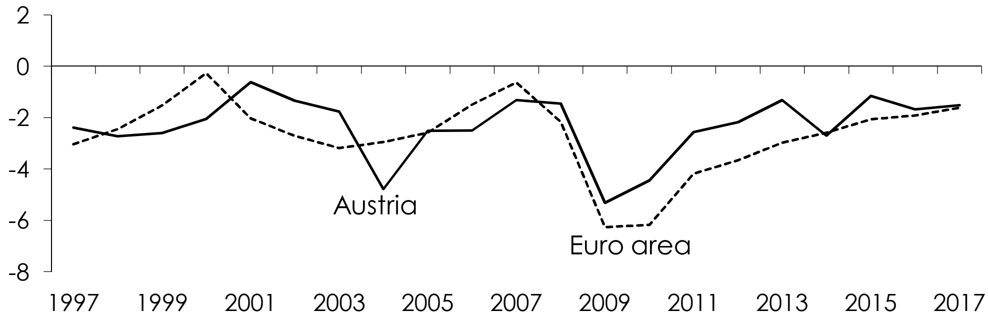
Inflation and unit labour costs

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.