

WIFO

A-1103 WIEN, POSTFACH 91
TEL. 798 26 01 • FAX 798 93 86

 **ÖSTERREICHISCHES INSTITUT FÜR
WIRTSCHAFTSFORSCHUNG**

**Global Economic Boom Gradually
Spreading to the Euro Area and
to Austria**

Economic Outlook for 2004 and 2005

July 2004

Global Economic Boom Gradually Spreading to the Euro Area and to Austria

Economic Outlook for 2004 and 2005

Austrian Institute of Economic Research

July 2004

Global Economic Boom Gradually Spreading to the Euro Area and to Austria

Economic Outlook for 2004 and 2005

Growth of GDP is set to attain 1.7 percent this year. Notably demand from Germany has picked up significantly over the last few months. Assuming that the moderate recovery in the euro area will continue, growth may accelerate to 2.5 percent next year, providing incentives also for private consumption. Employment will be stimulated by stronger growth. Despite the cyclical recovery, special factors will nevertheless prevent unemployment from falling and drive the government deficit upwards.

In the first quarter 2004, GDP growth in the euro area (+2 percent in volume year-on-year) and notably in Germany (+1.5 percent) was stronger than expected by most analysts. In Austria, the expansion remained rather modest, at +0.7 percent. Many indicators suggest that the positive trend in the world economy, supported by the boom in China and the upswing in North America, will gradually strengthen the forces of growth also in Europe. The more than three-year-long economic stagnation in the euro area may now have given way to a tentative business cycle recovery. The German export industry will benefit particularly from its close ties with the world economy.

According to the business surveys for Germany, Austria and the euro area at large, manufacturing firms see current business conditions distinctly more positive than one year ago, even if they do not expect a speedy recovery as it was typical for previous cycles. The high euro exchange rate, the price hikes for internationally traded commodities, and particularly the persistent weakness of consumer demand in the euro area hold risks for the further strengthening of business activity.

Due to its close supply relations, Austrian manufacturing industry benefited mainly from the swift revival of German exports. In spring, merchandise exports have probably picked up strongly. For the whole year, volume export growth is expected at

5½ percent, even if the effective appreciation of the euro and a stronger competitive climate in the new EU member states may lead to some losses in foreign market shares. Over the medium term, price competitiveness of Austrian manufacturing industry has significantly improved, as unit labour costs relative to those of the main trading partners have declined by 6 percent since 1999. Manufacturing value added is set to gain 2.8 percent in volume in 2004, clearly more than on average over the last three years. The upward trend in sales expectations and capacity utilisation will also give incentives to investment this year. It has to be noted, however, that for tax reasons investment spending, notably for business vehicles, has been carried forward to an important extent into 2003.

The rise in energy prices has led to substantial terms-of-trade losses, keeping the current account deficit at around € 2 billion. It is also being passed on to the consumer level, where it will boost headline inflation by ¼ percentage point on average in 2004 and 2005 to rates of close to 2 percent, respectively. Growth of real disposable income will thereby be dampened, to a projected rate of 1¼ percent in 2004. For the fourth year in a row, real net income per employee will hardly increase this year. The higher energy costs, while slightly dampening private consumption, will be accommodated mainly by a lower household saving ratio. Only in 2005 will per-capita incomes gain substantially, due to the cuts in direct taxes. This will allow private household spending to revert, for the first time in four years, towards its long-term trend growth of 2½ percent in volume. The household saving ratio is expected to move up to almost 9 percent of disposable income.

Construction, a driver of growth already in 2003, is projected to expand by a further healthy 2½ percent in volume this year. Orders remain on a high level in civil engineering, while demand is set to slacken in the building sector. Rising excess capacity will hold back the creation of new office space, and sluggish demand for housing has led to a fall in building permits for subsidised dwellings by 4,000 or 10 percent in 2003.

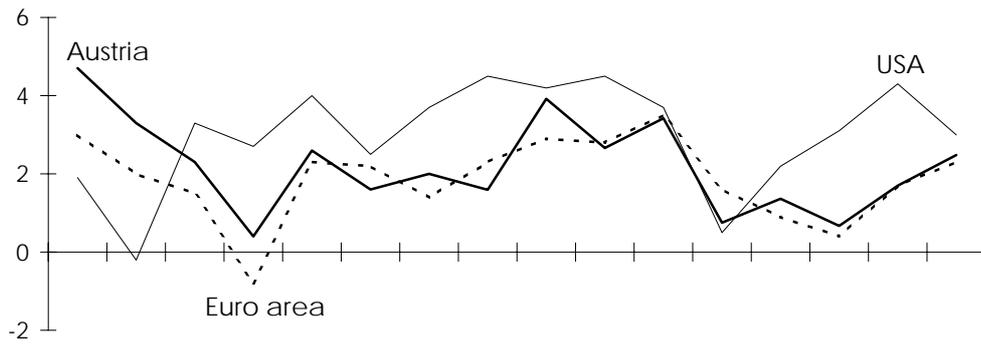
Employment is reacting in the usual way to the recovery of business activity. The number of people in active employment is seen rising by 0.6 percent this year and 0.9 percent in 2005. The increase may now extend also to domestic employees, the number of which has gone down by 30,000 over the last two years. The inflow of for-

own labour remains strong. As a consequence of the sizeable increase in labour supply, unemployment will show little reaction to the friendlier business situation, remaining at around 240,000 on annual average 2005.

Likewise, the public sector financial balance will hardly improve, despite the cyclical recovery. The general government deficit in the Maastricht definition is projected at € 3 billion or 1¼ percent of GDP this year, rising to € 4 billion or 1¾ percent of GDP in 2005. The prolongation of tax concessions for investors and rising outlays for social transfers, such as child care and partial retirement benefits, are exerting a drag on the 2004 budget, while in 2005 the sizeable cuts in direct taxes will lead to shortfalls in revenues.

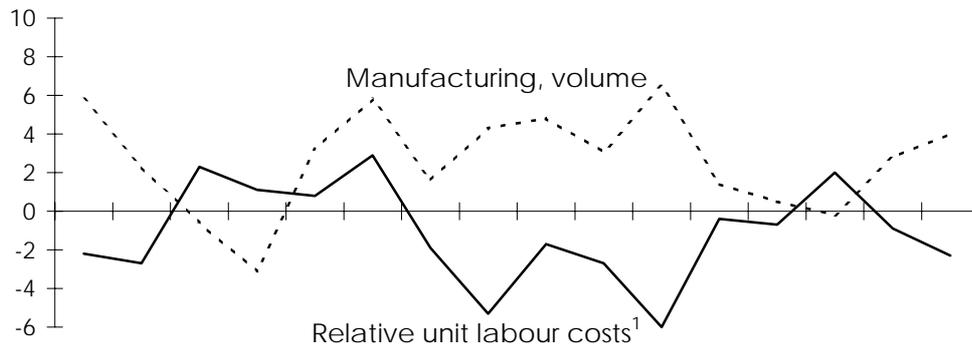
Growth of real GDP

In percent



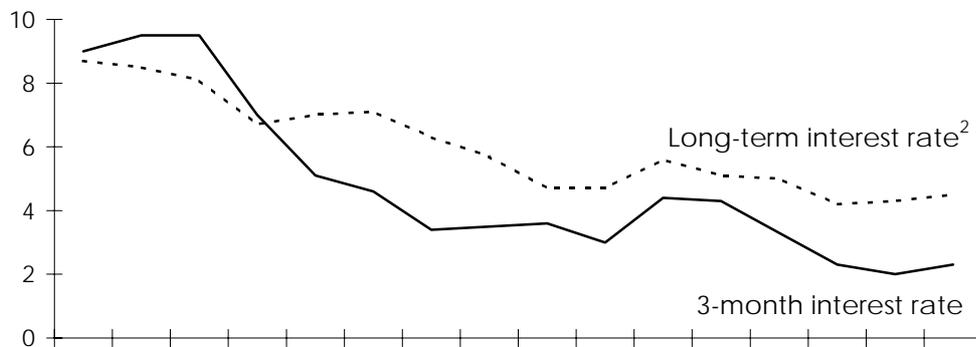
Competitiveness and manufacturing output

Percentage changes from previous year



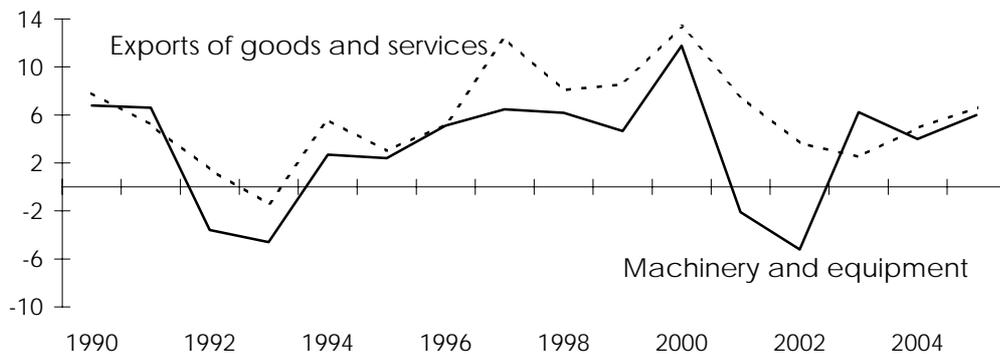
Short-term and long-term interest rates

In percent



Exports and investment (constant prices)

Percentage changes from previous year

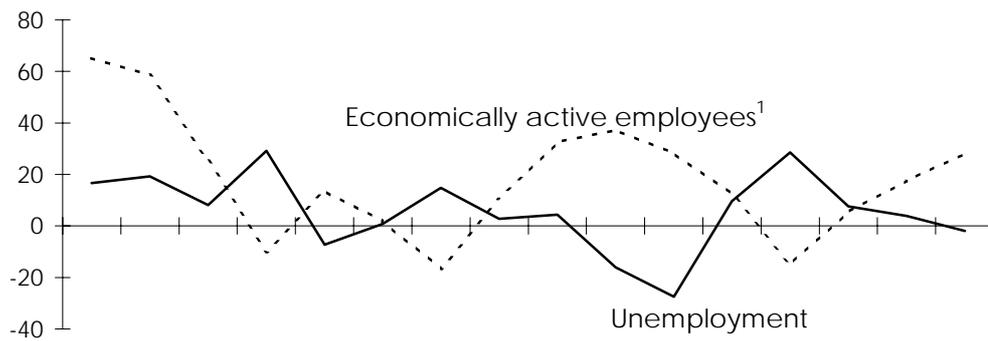


¹ Manufacturing; in a common currency vis-à-vis trading partners.

² 10-year central government bonds (benchmark).

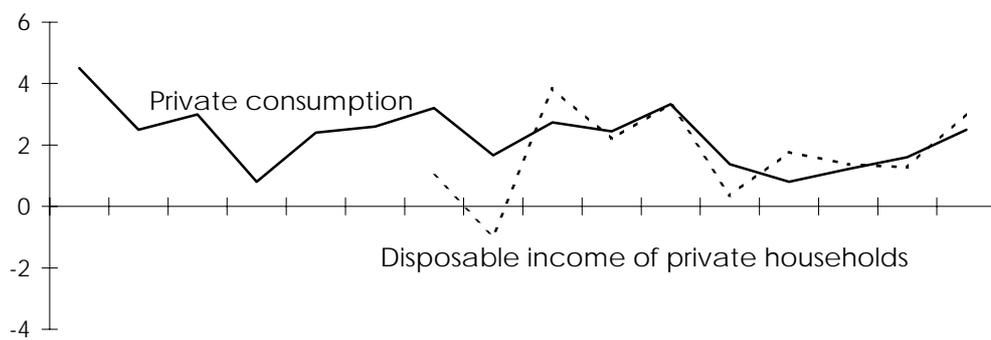
Employment and unemployment

1,000^s from previous year



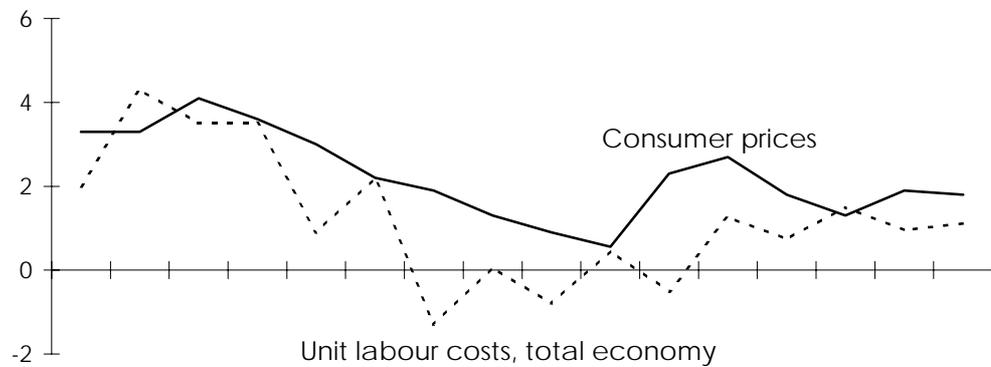
Consumption and income (constant prices)

Percentage changes from previous year



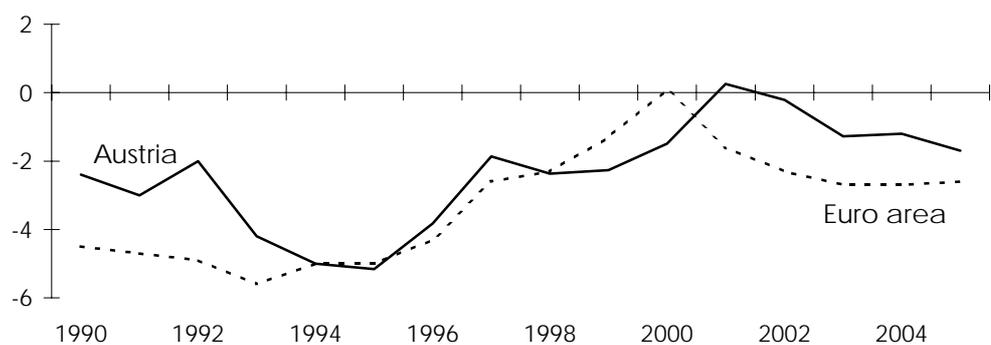
Inflation and unit labour costs

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.

WIFO

Projections - June 2004

Main results

Changes from previous year

		2000	2001	2002	2003	2004	2005
GDP							
Volume		+ 3.4	+ 0.8	+ 1.4	+ 0.7	+ 1.7	+ 2.5
Value		+ 4.9	+ 2.8	+ 2.7	+ 2.7	+ 3.1	+ 4.2
Manufacturing¹ , volume		+ 6.4	+ 1.5	+ 0.5	- 0.2	+ 2.8	+ 4.0
Wholesale and retail trade , volume		+ 3.7	- 0.0	+ 1.2	+ 1.3	+ 1.4	+ 2.5
Private consumption expenditure , volume		+ 3.3	+ 1.4	+ 0.8	+ 1.2	+ 1.6	+ 2.5
Gross fixed investment , volume		+ 6.2	- 2.3	- 2.8	+ 4.6	+ 3.2	+ 3.7
Machinery and equipment ²		+ 11.8	- 2.1	- 5.2	+ 6.2	+ 4.0	+ 6.0
Construction		+ 1.9	- 2.5	- 0.7	+ 3.3	+ 2.5	+ 1.7
Exports of goods³							
Volume		+ 13.1	+ 7.5	+ 5.2	+ 2.7	+ 5.5	+ 6.8
Value		+ 15.6	+ 6.5	+ 4.2	+ 1.9	+ 6.4	+ 7.3
Imports of goods³							
Volume		+ 10.9	+ 5.7	+ 0.8	+ 6.2	+ 3.8	+ 7.1
Value		+ 14.7	+ 5.0	- 2.0	+ 5.0	+ 6.0	+ 7.8
Current balance	€ bn	- 5.36	- 4.13	+ 0.36	- 2.04	- 1.80	- 2.02
As a percentage of GDP	percent	- 2.6	- 1.9	+ 0.2	- 0.9	- 0.8	- 0.8
Long-term interest rate⁴	percent	5.6	5.1	5.0	4.2	4.3	4.5
Consumer prices		+ 2.3	+ 2.7	+ 1.8	+ 1.3	+ 1.9	+ 1.8
Unemployment rate							
Eurostat definition ⁵	percent	3.7	3.6	4.3	4.4	4.5	4.4
National definition ⁶	percent	5.8	6.1	6.9	7.0	7.1	7.0
Economically active employees⁷		+ 0.9	+ 0.4	- 0.5	+ 0.2	+ 0.6	+ 0.9
General government financial balance							
according to Maastricht definition							
As a percentage of GDP	percent	- 1.5	+ 0.2	- 0.2	- 1.3	- 1.2	- 1.7

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 Labour Market Service, percent of total labour force excluding self employed. ⁷ Excluding parental leave, military service, and unemployed persons in training.

WIFO

Projections - June 2004

Key policy indicators

	2000	2001	2002	2003	2004	2005
Fiscal policy						
	As a percentage of GDP					
General government financial balance						
according to Maastricht definition	- 1.5	+ 0.2	- 0.2	- 1.3	- 1.2	- 1.7
according to National accounts	- 1.7	+ 0.1	- 0.4	- 1.4	- 1.4	- 1.8
General government primary balance	+ 2.2	+ 3.8	+ 3.1	+ 1.9	+ 1.8	+ 1.3
Monetary policy						
	In percent					
3-month interest rate	4.4	4.3	3.3	2.3	2.0	2.3
Long-term interest rate ¹	5.6	5.1	5.0	4.2	4.3	4.5
	Percentage changes from previous year					
Effective exchange rate						
Nominal	- 2.5	+ 1.0	+ 1.4	+ 3.8	+ 1.2	± 0.0
Real	- 3.4	+ 0.3	+ 0.6	+ 2.8	+ 1.1	- 0.4

¹ 10-year central government bonds (benchmark).

WIFO*Projections - June 2004***World economy**

Percentage changes from previous year

	2000	2001	2002	2003	2004	2005
Real GDP						
Total OECD	+ 3.9	+ 1.0	+ 1.8	+ 2.1	+ 3.3	+ 2.7
USA	+ 3.7	+ 0.5	+ 2.2	+ 3.1	+ 4.3	+ 3.0
Japan	+ 2.8	+ 0.4	- 0.4	+ 2.5	+ 3.5	+ 2.8
Asia (excluding Japan)	+ 6.8	+ 5.2	+ 6.0	+ 7.2	+ 7.0	+ 6.5
EU 25	+ 3.6	+ 1.7	+ 1.1	+ 0.9	+ 2.1	+ 2.5
EU 15	+ 3.6	+ 1.7	+ 1.1	+ 0.8	+ 2.0	+ 2.4
Euro area	+ 3.5	+ 1.6	+ 0.9	+ 0.4	+ 1.7	+ 2.3
Germany	+ 2.9	+ 0.8	+ 0.2	- 0.1	+ 1.4	+ 1.8
Acceding Countries ¹	+ 4.1	+ 2.5	+ 2.4	+ 3.6	+ 4.0	+ 4.0
World trade, volume	+ 12.4	+ 0.3	+ 3.3	+ 4.1	+ 8.5	+ 7.0
Market growth²	+ 12.2	+ 2.2	+ 1.8	+ 4.4	+ 6.0	+ 6.8
Primary commodity prices						
HWWA Index, total	+ 51.0	- 8.0	- 5.0	- 4.0	+ 14.0	+ 4.0
Excluding energy	+ 19.0	- 3.0	- 6.0	- 6.0	+ 12.0	+ 10.0
Crude oil prices						
Average import price (cif)						
for OECD countries	USD/barrel					
	28.0	23.6	24.1	28.4	34.5	34.5
Exchange rate						
USD per euro	0.924	0.896	0.945	1.13	1.20	1.20

¹ Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, Slovenia.

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

WIFO

Projections - June 2004

Private consumption, income and prices

	2000	2001	2002	2003	2004	2005
Percentage changes from previous year, volume						
Private consumption expenditure	+ 3.3	+ 1.4	+ 0.8	+ 1.2	+ 1.6	+ 2.5
Durables	+ 3.9	+ 1.8	+ 3.6	+ 0.8	+ 2.5	+ 5.5
Non-durables and services	+ 3.2	+ 1.3	+ 0.4	+ 1.3	+ 1.5	+ 2.0
Household disposable income	+ 3.3	+ 0.4	+ 1.8	+ 1.4	+ 1.3	+ 3.0
Household saving ratio						
As a percentage of disposable income	8.4	7.5	8.2	8.4	8.3	8.8
Percentage changes from previous year						
Direct lending to domestic non-banks¹	+ 6.7	+ 3.5	+ 1.2	+ 1.6	+ 2.8	+ 3.0
Percent						
Inflation rate						
National	2.3	2.7	1.8	1.3	1.9	1.8
Harmonised	2.0	2.3	1.7	1.3	1.9	1.6
Core inflation ²	0.9	2.3	2.0	1.3	1.5	1.6

¹ End of period.

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

WIFO

Projections - June 2004

Productivity

Percentage changes from previous year

	2000	2001	2002	2003	2004	2005
Total economy						
Real GDP	+ 3.4	+ 0.8	+ 1.4	+ 0.7	+ 1.7	+ 2.5
Employment ¹	+ 0.8	+ 0.6	- 0.2	- 0.1	+ 0.5	+ 0.9
Full-time equivalent	+ 1.0	+ 0.6	- 0.0	+ 0.1	+ 0.3	+ 0.7
Productivity (GDP per employment)	+ 2.6	+ 0.1	+ 1.6	+ 0.8	+ 1.2	+ 1.6
Full-time equivalent	+ 2.4	+ 0.1	+ 1.4	+ 0.6	+ 1.4	+ 1.8
Manufacturing						
Production ²	+ 6.5	+ 1.4	+ 0.5	- 0.2	+ 2.8	+ 4.0
Employees ³	+ 0.0	+ 0.2	- 2.5	- 1.7	- 0.5	± 0.0
Productivity per hour	+ 6.6	+ 1.6	+ 3.6	+ 1.3	+ 3.3	+ 3.8
Working hours per day per employee ⁴	- 0.1	- 0.4	- 0.5	+ 0.2	± 0.0	+ 0.2

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.

WIFO

Projections - June 2004

Earnings and international competitiveness

Percentage changes from previous year

	2000	2001	2002	2003	2004	2005
Gross earnings per employee ¹	+ 2.5	+ 1.4	+ 2.2	+ 2.3	+ 2.2	+ 2.7
Full-time equivalent	+ 2.6	+ 1.4	+ 2.1	+ 2.5	+ 2.6	+ 3.1
Gross real earnings per employee ¹	+ 1.0	- 0.8	+ 1.0	+ 0.5	+ 0.3	+ 0.9
Net real earnings per employee ¹	+ 1.6	- 1.1	+ 0.8	+ 0.2	+ 0.6	+ 2.2
Net wages and salaries	+ 4.5	+ 2.1	+ 2.5	+ 2.7	+ 2.5	+ 4.2
<i>Total economy</i>						
Unit labour costs	- 0.5	+ 1.3	+ 0.7	+ 1.5	+ 1.0	+ 1.1
<i>Manufacturing</i>						
Unit labour costs	- 5.0	+ 1.6	- 0.7	+ 0.3	- 1.1	- 1.3
Relative unit labour costs ²						
Vis-à-vis trading partners	- 6.0	- 0.4	- 0.7	+ 2.0	- 0.9	- 2.3
Vis-à-vis Germany	- 2.3	- 0.1	- 0.5	+ 0.2	- 1.5	- 1.8
Effective exchange rate - manufactures						
Nominal	- 2.7	+ 0.9	+ 1.3	+ 3.7	+ 1.1	- 0.1
Real	- 3.3	+ 0.5	+ 0.8	+ 2.9	+ 1.1	- 0.5

¹ Employees according to National Accounts definition.

² In a common currency; minus sign indicates improvement of competitiveness.

WIFO

Projections - June 2004

Labour market

Changes from previous year (1,000^s)

	2000	2001	2002	2003	2004	2005
Demand for labour						
Economically active employment ¹	+ 30.1	+ 13.9	- 11.6	+ 8.5	+ 20.7	+ 31.5
Employees ²	+ 28.2	+ 12.4	- 15.0	+ 5.5	+ 17.5	+ 28.1
Percentage changes from previous year	+ 0.9	+ 0.4	- 0.5	+ 0.2	+ 0.6	+ 0.9
Nationals	+ 14.8	+ 3.0	- 20.1	- 10.4	+ 4.5	+ 7.0
Foreign workers	+ 13.4	+ 9.5	+ 5.1	+ 15.9	+ 13.0	+ 21.1
Self-employed ³	+ 1.9	+ 1.5	+ 3.4	+ 3.0	+ 3.2	+ 3.4
Labour supply						
Population of working age (15 to 64 years)	+ 27.0	+ 27.5	+ 27.0	+ 29.1	+ 11.7	- 4.0
(15 to 59 years)	- 16.5	- 13.8	- 1.2	+ 12.3	+ 14.3	+ 26.3
Labour force ⁴	+ 2.7	+ 23.5	+ 17.0	+ 16.1	+ 24.6	+ 29.5
Surplus of labour						
Registered unemployed ⁵	- 27.4	+ 9.6	+ 28.5	+ 7.7	+ 3.9	- 2.0
1,000 ^s	194.3	203.9	232.4	240.1	244.0	242.0
Unemployment rate						
Eurostat definition ⁶	% 3.7	3.6	4.3	4.4	4.5	4.4
Percent of total labour force ⁵	% 5.3	5.5	6.2	6.3	6.4	6.3
National definition ^{5,7}	% 5.8	6.1	6.9	7.0	7.1	7.0
Employment rate						
Economically active employment ^{1,8}	% 63.3	63.3	62.8	62.6	62.8	63.4
Total employment(Eurostat) ^{6,8}	% 68.5	68.5	69.2	69.2	69.4	69.6

¹ Excluding parental leave, military service, and unemployed persons in training. ² According to Federation of Austrian Social Security Institutions. ³ According to WIFO. ⁴ Economically active employment plus unemployment.

⁵ According to Labour Market Service. 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).

© 2004 Österreichisches Institut für Wirtschaftsforschung

Medieninhaber (Verleger), Herausgeber und Hersteller: Österreichisches Institut für Wirtschaftsforschung,
Wien 3, Arsenal, Objekt 20 • Postanschrift: A-1103 Wien, Postfach 91 • Tel. (+43 1) 798 26 01-0 •
Fax (+43 1) 798 93 86 • <http://www.wifo.ac.at/> • Verlags- und Herstellungsort: Wien

Verkaufspreis: 15,00 €, Download 15,00 €:

http://publikationen.wifo.ac.at/pls/wifosite/wifosite.wifo_search.get_abstract_type?p_language=1&pubid=25184