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Sluggish Cyclical Recovery

Economic Outlook for 2010 and 2011

As from mid-2009, economic activity in Austria stabilised, supported by exports and manufacturing output. Yet, the tentative rebound has not gained momentum, notably because the turnaround has so far not extended to private investment. Real GDP is therefore expected to grow by no more than 1.3 percent in the current year. In 2011, fiscal consolidation is to set in, whose impact on aggregate demand is as yet largely unknown. WIFO expects for 2011 real GDP growth of 1.4 percent, unemployment rising to 7.7 percent of the dependent labour force, an inflation rate of 1.8 percent and a general government deficit of 4 percent of GDP.

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Since the middle of 2009, the world economy is recovering from the deep financial market and economic crisis. The revival of activity is driven by expansionary monetary and fiscal policy and is already quite strong in some areas such as Southeast Asia. Yet, the situation on international financial markets remains fragile. In 2010, world trade is expected to expand by 10 percent in volume, and global GDP by 3.3 percent. With a likely GDP increase of 0.9 percent, the EU economy is trailing behind, since internal demand is still subdued and many countries struggle with the repercussions of the real estate and financial market crisis. Moreover, as from 2011, the envisaged budgetary consolidation may dampen demand.

In Austria, in line with the usual cyclical pattern, goods exports and manufacturing output were the first to react to the international recovery, both heading up in real terms since the third quarter 2009. Merchandise exports are projected to increase by 5 percent in volume this year and by 6 percent in 2011. The positive incentives are coming notably from the world-market oriented German manufacturers, while key trading partners in western and eastern Europe, like Italy or Hungary, are still caught in recession this year, thereby weighing on Austrian exports. On the back of reviving exports, real output (value added) of domestic manufacturing is expected to expand by 4.2 percent each in 2010 and 2011. By the forecast horizon, the level of 2008 would still not be reached. Due to the deep slump in production, Austrian manufacturing industry lost 75,000 jobs since the middle of 2008, despite the employment-stabilising effects of widespread recourse to government-subsidised short-time work.

The nascent recovery would translate into a cyclical upswing only if higher export and industrial activity would stimulate corporate investment. However, any signs for this to occur are lacking so far, given the large degree of uncertainty and the still low capacity utilisation. Indeed, investment in machinery and equipment as well as construction is likely to recede again this year (by 3.0 percent and 1.0 percent, respectively), before tentatively heading up in 2011 (+4.0 percent and +0.3 percent, respectively).

Private consumption helped sustain economic activity during the recession. Supported by strong real wage gains, higher social transfers and tax cuts, it followed a slow, but steady upward trend. In 2010 and 2011, net real income per capita will edge down somewhat, on account of lower wage settlements and some rebound in inflation (2010: 1.4 percent, 2011: 1.8 percent). Private household demand should nevertheless increase by an inflation-adjusted 0.7 percent per year, benefiting from a slight decline in the saving ratio.

While the stabilisation of business activity in the last few months led to a cautious turnaround of employment and a slower increase in unemployment, the recovery remains too muted overall as to bring joblessness on a downward trend. The financial market and economic crisis causes the number of people out of work (registered unemployed plus those enrolled in training programmes) to ratchet up to 360,000 by 2011, an increase by almost 100,000 from 2008. The unemployment rate will reach 7.7 percent of the dependent labour force (conventional national definition) or 5.4 percent of the total labour force (Eurostat definition).

Table 1: Main results

		2006	2007	2008	2009	2010	2011
		Percentage changes from previous year					
GDP							
Volume		+ 3.5	+ 3.5	+ 2.0	– 3.6	+ 1.3	+ 1.4
Value		+ 5.2	+ 5.7	+ 4.1	– 1.8	+ 2.0	+ 2.7
Manufacturing[1], volume		+ 9.0	+ 7.3	+ 3.9	–11.5	+ 4.2	+ 4.2
Wholesale and retail trade, volume		+ 0.8	+ 0.7	+ 0.6	– 3.1	+ 1.0	+ 0.7
Private consumption expenditure, volume		+ 1.8	+ 0.8	+ 0.8	+ 0.4	+ 0.7	+ 0.7
Gross fixed investment, volume		+ 2.4	+ 3.8	+ 1.0	– 7.8	– 1.9	+ 1.9
Machinery and equipment[2]		+ 2.0	+ 4.7	+ 0.1	– 9.7	– 3.0	+ 4.0
Construction		+ 2.8	+ 2.9	+ 1.8	– 6.1	– 1.0	+ 0.3
Exports of goods[3]							
Volume		+ 6.4	+ 9.0	+ 0.3	–17.7	+ 5.0	+ 6.2
Value		+ 9.5	+10.5	+ 2.5	–19.9	+ 6.1	+ 6.7
Imports of goods[3]							
Volume		+ 4.1	+ 7.6	+ 0.2	–15.2	+ 2.4	+ 4.8
Value		+ 8.0	+ 9.6	+ 4.7	–18.2	+ 5.0	+ 5.3
Current balance	billion €	+ 7.26	+ 9.62	+ 9.04	+ 6.43	+ 6.98	+ 8.53
As a percentage of GDP		+ 2.8	+ 3.6	+ 3.2	+ 2.3	+ 2.5	+ 2.9
Long-term interest rate[4]	in percent	3.8	4.3	4.3	3.7	3.3	3.5
Consumer prices		+ 1.5	+ 2.2	+ 3.2	+ 0.5	+ 1.4	+ 1.8
Unemployment rate							
Eurostat definition[5]	in percent	4.8	4.4	3.8	5.0	5.2	5.4
National definition[6]	in percent	6.8	6.2	5.8	7.2	7.4	7.7
Persons in active dependent employment[7]		+ 1.7	+ 2.1	+ 2.4	– 1.4	– 0.2	+ 0.1
General government financial balance according to Maastricht definition							
As a percentage of GDP		– 1.6	– 0.6	– 0.4	– 3.5	– 4.7	– 4.0

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.

Like in other countries, a substantial widening of the government deficit dampened the recession in Austria and kept job losses in check. The general government balance is set to weaken to –4¾ percent of GDP in 2010. The federal government intends to start fiscal consolidation next year: the deficit is to be reduced to 4 percent of GDP through expenditure cuts and tax increases of about equal size, totalling € 3.4 billion. To what extent these measures will dampen consumer and investment demand or be cushioned by a decline in the private household saving ratio can only be judged once concrete measures have been defined. Decisive in this regard will be their impact on the personal income distribution and on consumer and business confidence.

The cyclical recovery in Austria and in the EU at large is still fragile and subject to a number of risks relating in particular to the external environment. A crucial factor will be whether a strong rebound of corporate investment sets in before potential demand-dampening effects of the synchronised fiscal consolidation planned in all EU countries materialise.

Recovery of the global economy continues

World trade and world output are expanding strongly since the middle of 2009. Growth is driven mainly by demand from the dynamic economies in Asia and by the world-wide expansionary policy stance.

The world economy is on a path of cyclical recovery. This is most visible in the profile of global trade which is expanding strongly since the middle of 2009. In December 2009, its volume, according to preliminary data from the Dutch Centraal Plan Bureau, was 15 percent up from its trough of May 2009, but still 8 percent below the peak of April 2008. On annual average 2009, world trade contracted by 13 percent; for 2010, the projections assume an increase by 10 percent. Global output of goods and services, being less volatile than trade, is likely to have declined by 1 percent in real terms in 2009, before rebounding by slightly above 3 percent in the current year.

The recovery of the world economy from the deep crisis is primarily driven by the upswing in Asia, where expansionary monetary and fiscal policy proved highly effective since the banking system largely withstood the turmoil and capital inflow did not dry out during the recession. Cyclical stimulus proved particularly successful in China, be it via incentives to purchase consumer goods or via higher public infrastructure investment, e.g., in the health care system. Also credit growth was buoyant. Nevertheless, observers increasingly point to the dangers of speculative bubbles on real estate markets and of overheating in the heavy-industry sector. The Chinese economy is likely to grow by over 9 percent in volume this year, generating positive spill-overs notably for the trading partners in Asia, but also for raw material producers around the globe. For that reason, and due to resilient internal demand, the cyclical outlook is favourable also for Latin America.

Economic policy worldwide expansionary, financial markets fragile

Economic policy in the industrialised countries remains expansionary also in 2010. On financial markets, calm has returned although confidence has not been restored.

The situation on global financial markets eased on the back of timely policy action of stabilisation maintained until autumn 2009, which partly relied on unconventional instruments. The revival of financial investment in the second half of 2009 added to inflation on commodity and stock markets. Since that time, however, no further normalisation has been observed, particularly in the banking sector. While risk premia on inter-bank transactions narrowed, confidence in the stability of the financial sector has returned only partially. The need of many banks to write off "bad" assets is probably still high, and the recession in the real economy entails an increase in credit defaults. Banks are holding high liquidity reserves. Bond markets are tightening under the impact of potential debt crises in some countries. For these reasons, the situation on financial markets is still deemed unstable.

Monetary and fiscal policy remains expansionary worldwide in 2010. The major Central Banks offer ample liquidity to commercial banks and keep short-term interest rates low over the entire forecast period. Governments generally let automatic fiscal stabilisers operate fully, and many of the expansionary measures planned for 2009, such as investment in infrastructure, should have their full effect on demand only in the current year. In some regions of the world, restrictive fiscal measures have already been announced for 2011. In China, this is deemed warranted, given the danger of overheating, notably in the real estate sector. In the EU, a restrictive stance may prove premature in view of the sluggish cyclical recovery. In the USA, additional expansionary measures take effect, particularly in the area of public infrastructure, and stronger incentives to job creation; at the same time, the tax burden becomes heavier for the upper income groups which should, however, not seriously undermine aggregate demand.

US economy expanding strongly

In the USA, growth of real GDP in the year-end quarter 2009 exceeded expectations: output edged up by 1.4 percent from the previous period, nearly matching the year-earlier level. The growth profile was largely shaped by a turnaround in the stock cycle, as the sharp run-down of inventories during the recession came to an end. Since the trough in mid-2009, industrial output has risen at a steady 5 percent annual rate. Private consumption is edging up slightly, despite the steep rise in unemployment. The tentative pick-up in house prices may have sustained household confidence, which is also reflected in a small increase in residential investment. Industrial construction, on the other hand, continued its downward trend.

US GDP grew vigorously in the fourth quarter 2009, mainly because the depletion of inventories has now run its course. In 2010, demand and output are expected to increase by 2½ percent, supported by the continued expansionary setting of monetary and fiscal policy.

Lively activity in the fourth quarter 2009 bodes well for further GDP growth in the USA which in 2010 should return to an annual rate of 2½ percent. Many US observers have nevertheless doubts that the recession has been finally overcome. No turnaround is as yet visible on the labour market where the latest unemployment rate stood at 9.7 percent of the labour force. Furthermore, rising aggregate demand is closely linked to the expansionary course of fiscal policy. With an early withdrawal of stimulus appearing unlikely, GDP growth in 2011 may keep a similar pace of 2¼ percent. The general government balance should improve mainly via the effect of automatic stabilisers.

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	+ 3.3	+ 3.5
USA	+ 2.7	+ 2.1	+ 0.4	– 2.4	+ 2.5	+ 2.2
Japan	+ 2.1	+ 2.3	– 0.7	– 5.0	+ 1.5	+ 1.5
EU 27	+ 3.2	+ 2.9	+ 0.8	– 4.2	+ 0.9	+ 1.3
Euro area 16	+ 3.0	+ 2.8	+ 0.7	– 4.1	+ 1.0	+ 1.2
New EU countries[1]	+ 6.5	+ 6.1	+ 3.8	– 3.5	+ 0.4	+ 1.8
China	+ 11.6	+ 13.0	+ 9.7	+ 8.7	+ 9.3	+ 8.6
World trade, volume	+ 9.0	+ 7.1	+ 2.4	– 13.2	+ 10.0	+ 8.0
Market growth[2]	+ 11.2	+ 7.8	+ 3.6	– 13.5	+ 5.0	+ 5.8
Primary commodity prices						
HWWA index, total	+ 19.7	+ 3.7	+ 22.4	– 29.2	+ 27	+ 4
Excluding energy	+ 22.0	+ 9.5	+ 15.6	– 22.7	+ 15	+ 7
Crude oil prices						
Brent, $ per barrel	65.1	72.5	97.0	61.5	80	82
Exchange rate						
$ per euro	1.256	1.371	1.471	1.393	1.35	1.35

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.

Sluggish recovery in the euro area

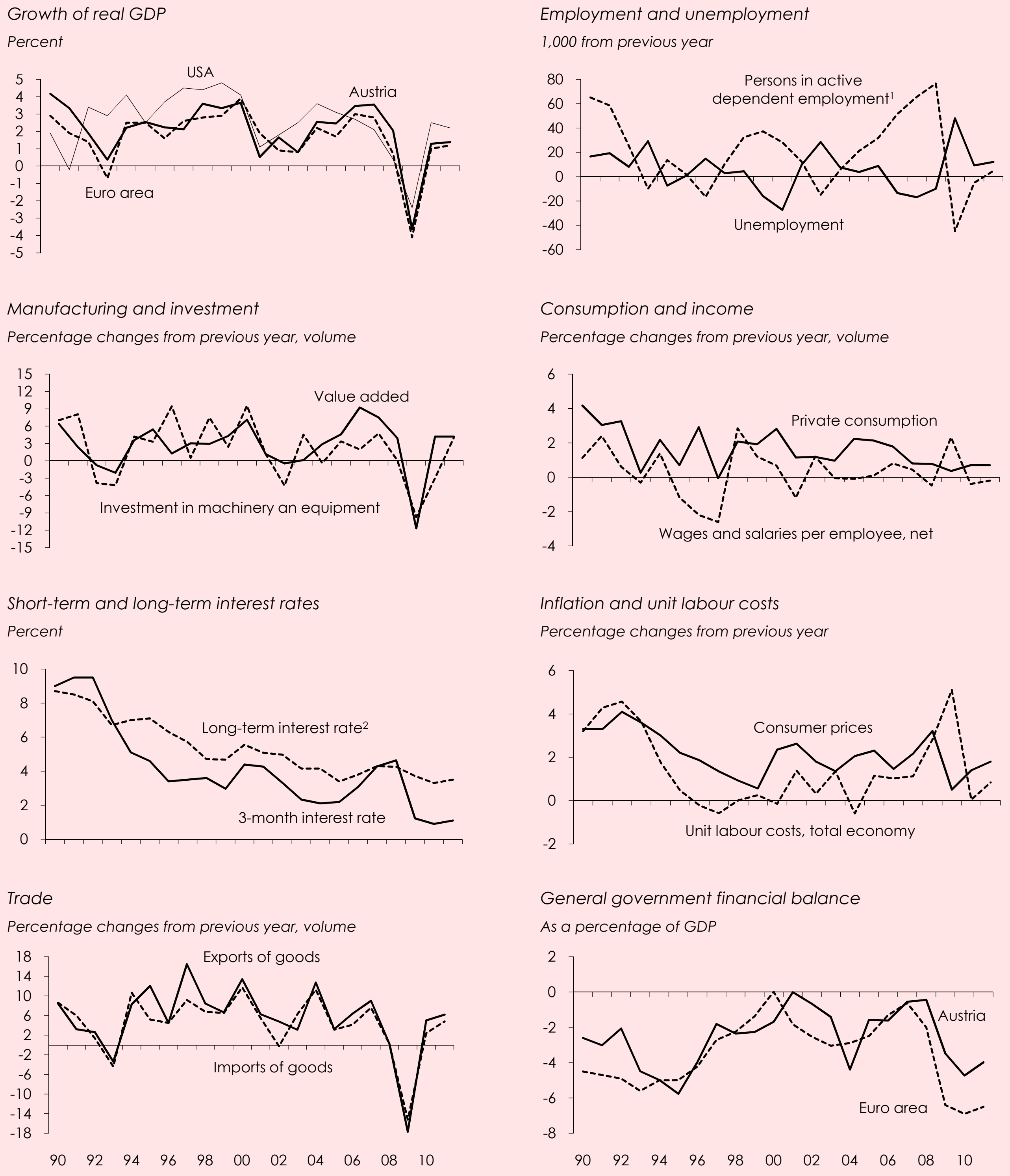
Cyclical differentials within the euro area are widening. While a group of countries around Germany and France may enjoy growth of about 1½ percent in 2010, real GDP is set to decline further in the southern European economies, in particular in Greece. On average, the euro area economy is expected to expand by no more than 1 percent.

In the euro area, business activity stabilised in the second half of 2009, without firmly staging a recovery. After a rise by 0.4 percent in the third quarter (from the previous period), real GDP edged up by only 0.1 percent in the last three months of the year. On a seasonally adjusted basis, GDP was still 4.7 percent below the pre-recession level of the first quarter 2008. Fiscal expansion continues to stimulate demand and output. Besides, exports receive strong incentives from the dynamic expansion in Asia. Industrial output in January was 7 percent above its trough of spring 2009. However, the last months of 2009 saw virtually no further gains in industrial orders, while corporate investment remains on a downward trend. The exchange rate of the euro may still exert a dampening impact.

The recovery of aggregate demand is held back also by sluggish private consumption. At present, there are only few indications for a lasting business cycle upturn. Real GDP growth is expected at only 1 percent this year, accelerating only little in 2011, to an annual average 1.2 percent, notably if fiscal consolidation should weigh on overall demand simultaneously in all euro area countries.

Within the euro area, cyclical differentials are widening. In most countries (Germany, France, the Netherlands, Belgium, Austria, Finland and Slovenia), real GDP is likely to grow by some 1½ percent, and somewhat more in Slovakia, owing to the recovery of car manufacturing towards the end of 2009. By contrast, activity is likely to contract once more in Spain, Italy, Portugal and Ireland. In Greece, the recession may even deepen markedly, due to the severe fiscal restriction. The combined share of these five countries in euro area GDP amounts to 37 percent.

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 cyclical differentials are mirrored on labour markets. The seasonally-adjusted unemployment rate for the euro area climbed to 9.9 percent of the labour force in January 2010, up by 2¾ percentage points from its trough of February 2008. Developments were most benign in Germany where unemployment barely increased; the rise was muted inter alia in Belgium, the Netherlands and Austria; it was most pronounced in Spain and Ireland where the extended construction and real estate boom had collapsed. On annual average 2010, the euro area jobless rate will rise above 10 percent of the labour force, with no turnaround yet being in sight.

Headline inflation in the euro area stood at a rate of 0.9 percent in February, according to preliminary calculations, still markedly below the ceiling defined by the European Central Bank. This is essentially the consequence of the under-utilisation of firms' productive capacities which rules out demand-driven price increases. On annual average 2010, the rate of inflation will rise barely above 1 percent (2009 0.3 percent). The exchange rate of the dollar to the euro stood at $ 1.37 per euro of late, implying a depreciation of about 5 percent since the beginning of the year. Nevertheless, on the basis of purchasing power parities for traded goods, the euro may still be markedly over-valued.

Germany: feeble growth, but stable unemployment

The German economy is benefiting from the global recovery, but modest growth in the euro area and sluggish private consumption are weighing on domestic activity. Various arrangements of shorter working hours have hitherto largely prevented unemployment from rising.

The German economy benefited from the recovery of the world economy, with exports and industrial output picking up strongly since early summer 2009. Yet, manufacturing production has levelled off since last autumn, possibly related to an international slowdown of inventory build-up, but also to a squeeze in price competitiveness following the strong appreciation of the euro against the dollar in 2009.

Private household demand, the traditional Achilles heel of the German economy, remains subdued, as witnessed by the decline in volume retail sales. Despite gross earning remaining flat, private disposable income should edge up slightly in 2010 on account of tax cuts. Whether these net income gains will lead to a higher saving ratio or rather be channelled into private consumption will be crucial for the further profile of the business cycle. This will depend not only on the personal distribution of the income gains, but also on the development of unemployment which influences precautionary saving.

Germany exhibited in the recession the most benign development of unemployment among all EU countries. The seasonally adjusted unemployment rate, at 7.5 percent of the labour force according to latest figures, was only ½ percentage point higher than in summer 2008. This is, notably in industry, owed to the widespread resort to government-subsidised short-time work, the reduction of surpluses on firms' internal working time accounts and to agreements at the firm level to trade normal working time reductions for job guarantees. In the service sector, also the moves towards liberalisation may have contributed towards stable employment levels. Driven by the buoyant rebound of world trade, real GDP should rise somewhat more strongly in Germany than in the euro area on average. Acceleration in 2011 cannot be safely assumed, particularly since fiscal consolidation required by the new constitutional ceiling on public debt ("Schuldenbremse") may dampen internal demand in the short term.

Large cyclical differences among new EU member countries

Thanks to buoyant private consumption, the Polish economy proves highly resilient. The Czech Republic should return to growth in 2010, while in most of the other new EU member countries GDP may remain on a downward slope.

Also among the East-Central European EU member countries who are not yet part of Monetary Union, there are large differences in cyclical profiles. Thanks to lively private household demand, GDP did not decline even during the severe global recession of 2009; indeed, growth picked up slightly towards the end of the year and may reach an inflation-adjusted 3 percent on annual basis in 2010. In the Czech Republic too, which like Poland is less exposed to exchange rate variations due to the minor role of foreign currency loans, GDP should rebound in 2010.

In most other countries, the situation is less benign. As exports fell and capital inflows dried out, which earlier on had facilitated the debt-financed expansion of construction and private consumption, the economies slid into a deep recession. In the Baltic States, GDP fell in the single year of 2009 by around 15 percent. Also in Hungary, Bulgaria and Romania, demand and output may stay downward bound in 2010.

Austria: sluggish cyclical recovery

Exports and industrial activity are recovering in Austria, while private consumption is growing slowly, but steadily. What is lacking for a genuine upswing is a revival of corporate investment which is not likely to occur over the next few quarters.

According to preliminary calculations, demand and output fell by 3.6 percent in real terms in 2009, by ½ percentage point less than on average in the euro area. Since the middle of last year, the downturn has come to a halt, on the back of the cyclical stimulus programmes adopted worldwide which led to an increase in exports and industrial output, as well as due to substantial real wage increases, higher social transfers, tax cuts and labour market policy measures which all supported consumer demand.

Nevertheless, the economic recovery remains muted. After a seasonally-adjusted increase of +0.5 percent in volume in the third quarter 2009, the year-end quarter saw a smaller gain of 0.4 percent from the previous period. The main driver is foreign demand, although it is apparently gaining little momentum with key trading partners. Major risks, apart from still fragile financial markets, derive from the markedly uneven developments in East-central Europe. Important destinations of Austrian exports are still in recession. Moreover, capacity utilisation of domestic manufacturers is still low and firms remain cautious in their plans after the deep recession. This may inhibit the translation of the upswing from exports to investment in the next few quarters, making for an only gradual recovery.

Private household demand acted as a stabiliser during the recession. It should have maintained a slow upward trend in early 2010, underpinned by the lagged effects of tax cuts and some employment gains. However, wages are rising markedly more slowly than last year, and high unemployment undermines households' readiness to increase spending. Starting from 2011, measures of fiscal consolidation planned in Austria and EU-wide, will dampen private disposable income. To what extent such fiscal restriction will be accommodated by a lower saving ratio or rather induce households to spend less can only be judged once the consolidation strategy is known in detail.

Overall, a vigorous cyclical upswing is not in sight. Real GDP is expected to increase by only 1.3 percent in 2010. The outlook for 2011 is still subject to considerable uncertainty, due to the risks at the international level as well as to the fiscal consolidation strategy still to be defined. WIFO currently expects that the pace of economic growth will hardly increase from 2010 to 2011.

Export recovery sustaining cyclical turnaround

Domestic goods exports rebounded on the back of a pick-up in demand on the part of trading partners in Western Europe. Deliveries may grow by 5 percent and 6 percent in volume in 2010 and 2011 respectively, without yet returning to the level of 2008.

After the precipitous fall of merchandise exports in the wake of the global economic crisis, the turnaround set in as from mid-2009. In the third quarter, volume exports headed up by a seasonally-adjusted 1.6 percent from the previous period, followed by +2.3 percent in the fourth quarter.

Demand notably from the trading partners in Western Europe is on an upward trend, with orders from Germany strengthening most significantly. Austria benefits from the strong cyclical upswing in Southeast Asia and from the rebound of world trade largely indirectly, via its supply relations with the world-market-oriented German economy where 31 percent of Austria's goods exports go. Demand from Italy however, the second-most important trade partner with an export share of 8 percent, remained sluggish because of the recession in the country still persisting. Export dynamism is also dampened by the fact that the twelve new EU member countries (taking up 16 percent of Austrian exports) have lost their growth advantage with the slowdown of their internal demand. Important trading partners like Hungary are still in recession, leading to lower imports from Austria.

In view of their strong price competitiveness, the profile of Austrian exports is largely determined by the strength of economic activity in the trade partners. In its projections, WIFO assumes that the export revival observed over the last six months or more will continue, albeit at a somewhat slower pace. Goods exports should gain 5 percent in volume in 2010 and slightly over 6 percent in 2011. If confirmed, volume exports by the end of the forecast period would still fall short of the pre-crisis level of 2008.

Merchandise imports are set to rebound more moderately than exports. While higher exports also drag up imports, the subdued demand for durable consumer goods and, even more, the persistent sluggishness of machinery and equipment investment will weigh on import growth, projected to reach only 2½ percent in volume in 2010 and 4¾ percent in 2011. Although import price increases will outpace export prices due to rising world market prices for commodities, the trade deficit should narrow in 2010 as well as 2011.

Rebound of industrial activity, but sizeable personnel cuts

The highly export-dependent manufacturing sector raised output (gross value added) markedly in the third and fourth quarter 2009. The momentum should be maintained in 2010 and 2011, with respective output gains of 4.2 percent in volume. Despite firms resorting to short time work, 75,000 industrial jobs were lost during the crisis.

Domestic manufacturing is strongly oriented towards exports. Like for the latter, a turnaround in the trend of production was observed around mid-2009. Real output (gross value added) rose by a seasonally-adjusted 1.9 percent in the third quarter (from the previous period), and by 1.3 percent in the year-end quarter. Results from the regular WIFO business survey suggest that the recovery will continue in the first half of 2010. Firms register a gradual increase in order levels and revise up their output expectations from month to month.

The upswing in industrial activity may nevertheless remain muted as some of Austria's key trading partners in Eastern and Western Europe remain vulnerable. After a fall of manufacturing gross value added by 11.7 percent in real terms in 2009, WIFO expects a pick-up by slightly above 4 percent each in 2010 and 2011.

An important element of the federal government's counter-cyclical stimulus programme was the offer of subsidies for temporary short-time work in order to stabilise manufacturing employment in the face of the slump in production. This has been successful only to some extent, since by February 2010 employment had fallen by 75,000 or 12 percent from the peak of July 2008, despite up to 60.000 workers being on short-time work. In Germany where the recourse to short-time work has been much more widespread, job losses in industry have been markedly smaller. Personnel cuts in domestic manufacturing will continue in 2010 and 2011 as hourly productivity is set to rebound strongly from its fall in 2009.

Table 3: Productivity

	2006	2007	2008	2009	2010	2011
	Percentage changes from previous year					
Total economy						
Real GDP	+ 3.5	+ 3.5	+ 2.0	– 3.6	+ 1.3	+ 1.4
Employment[1]	+ 1.5	+ 1.7	+ 2.3	– 1.1	+ 0.1	+ 0.4
Productivity (GDP per employment)	+ 2.0	+ 1.8	– 0.2	– 2.6	+ 1.2	+ 1.0
Manufacturing						
Production[2]	+ 9.2	+ 7.5	+ 3.9	– 11.7	+ 4.2	+ 4.2
Employees[3]	+ 0.2	+ 2.6	+ 1.7	– 6.0	– 2.0	– 0.4
Productivity per hour	+ 8.8	+ 5.1	+ 2.7	– 2.3	+ 5.8	+ 4.4
Working hours per day per employee[4]	+ 0.2	– 0.3	– 0.5	– 3.8	+ 0.5	+ 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.

Persistent weakness in investment

In view of firms' cautious attitude after the deep recession and the persistent slack in capacity utilisation, the upswing in exports will be slow in stimulating private investment.

Being largely determined by firms' sales expectations, Investment in machinery and equipment is a highly volatile cyclical component. During the recession of 2009, investment literally caved in, by 12.1 percent in volume or € 2¾ billion from the previous year. In the fourth quarter, it lost a further 2 percent seasonally adjusted from the earlier three-months period.

The rebound of machinery and equipment investment that normally comes with a business cycle upswing is not visible so far. According to the latest WIFO investment survey, manufacturers plan to cut their capital expenditure once more in 2010. After the steep fall of demand and output during the recession, business confidence remains fragile. In addition, capacity utilisation remains low, around 75 percent in manufacturing in early 2010, as compared with almost 85 percent at the cyclical peak in 2007 and 73 percent at the trough in the first semester 2009.

Towards the end of the current year, some investment projects may be carried forward before tax incentives for capital formation expire. For the whole year 2010, WIFO nevertheless expects machinery and equipment investment to recede by a further 3 percent in volume, followed by a pick-up of 4 percent in 2011.

Construction sector stuck in recession

The slump in industrial and commercial building cannot be offset, also residential construction remains sluggish. In spite of the investment-stimulating measures on the part of economic policy, value added of the construction sector may fall by a further 1 percent in real terms in 2010.

Gross value added of the construction sector receded by 5.4 percent in volume in 2009. While in the past, construction activity has always acted as a stabiliser in recessions, its current weakness has noticeably exacerbated the crisis. Industrial construction was particularly hard hit by the deep cuts in corporate investment. Financing constraints are likely to weigh on non-subsidised residential building activity.

The construction industry benefited from several government stimulus measures, inter alia from energy-saving insulation of private buildings. The larger part of the additional spending by the Federal Real Estate Agency ("Bundesimmobiliengesellschaft" – BIG), the Highway Financing Agency (Asfinag) and the Federal Austrian Railways (ÖBB) will become effective only in the course of this year. With the start of fiscal consolidation, infrastructure investment is likely to be curtailed as from 2011. Under such auspices, WIFO expects the construction sector to remain in recession for some time, with value added set to decline by another 1 percent in 2010 and barely heading up thereafter (+0.3 percent in 2011).

Stable consumer demand

Private consumption expenditure edged up slightly during the severe recession of the overall economy. It is projected to stay on a moderate upward trend in 2010 and 2011, gaining 0.7 percent in volume per annum.

In 2009, private household spending contributed importantly to the stabilisation of business activity. Despite receding employment, consumption advanced at a seasonally- and inflation-adjusted ¼ percent in each quarter, yielding an annual average increase of 0.4 percent over the previous year. Besides substantial gains in real earnings, household demand was underpinned by higher social transfers (effective as from the beginning of 2009) and the tax reform (as from around mid-2009).

In 2010, the expansionary forces are somewhat weaker, notably since net real earnings per capita will now fall by 0.4 percent, after an increase of 2.3 percent in 2009. On the other hand, the fall in employment will decelerate and the rise in unemployment level off. Private disposable income is projected to gain 0.6 percent in real terms, private consumption 0.7 percent.

Table 4: 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	+ 0.7
Durables	+ 5.6	+ 3.6	+ 2.2	+10.9	+ 0.3	+ 0.1
Non-durables and services	+ 1.4	+ 0.5	+ 0.6	– 0.7	+ 0.7	+ 0.8
Household disposable income	+ 3.0	+ 1.7	+ 1.7	+ 0.4	+ 0.6	+ 0.1
	As a percentage of disposable income					
Household saving ratio	10.8	11.3	12.0	12.3	12.1	11.6
	Percentage changes from previous year					
Direct lending to domestic non-banks[1]	+ 4.5	+ 3.6	+ 7.4	–1.3	+ 0.9	+ 4.0
	Percentage changes from previous year					
Inflation rate						
National	1.5	2.2	3.2	0.5	1.4	1.8
Harmonised	1.7	2.2	3.2	0.4	1.4	1.8
Core inflation[2]	1.3	1.9	2.4	1.5	1.2	1.4

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

In 2011, the measures of fiscal consolidation on both the expenditure and the revenue side will weigh on disposable income. WIFO assumes that, like in earlier phases of fiscal retrenchment, part of the income squeeze will be accommodated by a decline in the saving ratio, while part will reduce private consumption. The relative weight of both effects on saving and consumption will be largely determined by the redistributive implications of consolidation and private household sentiment. With both determinants yet unknown, WIFO infers a consumption increase by 0.7 percent in volume, and a decline in the household saving ratio from 12.1 percent to 11.6 percent of disposable income.

The rather benign situation of private consumption is mirrored by retail sales in 2009. However, gross value added in wholesale trade and for motor car sales declined, resulting in an overall output loss of 3.1 percent in volume for the trade sector as a whole. In 2010, developments should improve markedly, thanks to the revival of foreign trade, allowing value added of the trade sector to increase by 1 percent in volume and somewhat less in 2011.

Table 5: 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	+ 1.8
Gross real earnings per employee[1]	+ 1.0	+ 0.5	+ 0.0	+ 1.1	− 0.2	± 0.0
Net real earnings per employee[1]	+ 0.8	+ 0.4	− 0.5	+ 2.3	− 0.4	− 0.2
Total economy						
Unit labour costs	+ 1.0	+ 1.1	+ 2.8	+ 5.1	+ 0.0	+ 0.8
Manufacturing						
Unit labour costs	− 4.2	− 1.7	+ 1.0	+ 9.7	− 3.6	− 2.0
Effective exchange rate, manufactures						
Nominal	+ 0.2	+ 1.2	+ 1.1	+ 0.7	− 0.4	+ 0.1
Real	− 0.4	+ 0.8	+ 0.6	+ 0.4	− 0.8	− 0.1

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

Gradual recovery in tourism

Earnings from foreign travel have dropped markedly during the economic crisis. Austria, being an attractive short-distance destination for European neighbours, managed to gain market shares in international tourism.

The international economic crisis has also left its mark on demand for tourism services, even if Austria was less negatively affected than other holiday destinations. Foreign visitors spent some € 12 billion in 2009, 5.5 percent less than in the previous year, after adjustment for inflation. Results for the last winter season were relatively benign, as overnight stays dropped only little, though gross earnings somewhat more. Particularly in the hotel branch, prices are easing markedly. In 2010, tourism export earnings are set to fall by a further 2 percent in volume, thereby matching the level of 2007.

Austrian travellers were also cautious in spending abroad, as tourism service imports edged down somewhat in volume. Domestic vacations, for their part, became more attractive. The tourism services balance surplus has stabilised around € 6 billion.

Declining foreign demand and spending restraint on the part of domestic customers are reflected by the fall in gross value added of the hotel and restaurant sector by almost 5 percent year-on-year in real terms in 2009. A further decline of 1.3 percent is expected for the current year, followed by a tentative pick-up in 2011.

Moderate increase in consumer prices

Headline inflation will move up to 1.4 percent on annual average 2010, due to higher energy cost and some increase in services prices. By 2011, the inflation rate may reach 1.8 percent, when energy taxes will possibly be raised.

Inflationary pressure is still subdued. After a rate of only 0.5 percent in 2009, WIFO projects the increase in consumer prices for the current year at 1.4 percent, once again markedly below the European Central Bank's price stability target of slightly below 2 percent. The moderate increase in the inflation rate is mainly due to higher energy prices which early this year were some 5 percent higher than one year ago. Service prices, with a weight of 45 percent in the overall index, were up by around 1½ percent. Price hikes for manufactures and food are even smaller.

A demand-induced acceleration of inflation is unlikely even in 2011, given the low capacity utilisation and the modest increase in unit labour cost. However, the envisaged hike in energy taxes may add to upward price pressure. WIFO currently expects headline inflation to edge up to 1.8 percent in 2011, which would be somewhat above the euro area average.

No relief for the labour market

The financial market and economic crisis has pushed up the number of unemployed by almost 100,000. The strengthening of business activity is gradually leading to a turnaround in employment and a slower increase in unemployment.

Between the summer of 2008 and summer 2009, 63,000 jobs were lost in Austria on a seasonally-adjusted basis, most of them in manufacturing and with personnel leasing agencies. Meanwhile, the stabilisation of activity is reaching the labour market. The seasonally adjusted number of people in dependent active employment has picked up slightly since August 2009, while the upward drift of unemployment has lost momentum. Nevertheless, the seasonally adjusted number of registered unemployed was by 66,000 higher in February 2010 than at its lower turning point two years earlier.

The number of dependent people actively employed is likely to decline by a further 5,000 on annual average 2010, before rising by the same number in 2011. Yet, job creation remains too weak to prevent unemployment from rising further since labour supply is growing steadily. Not only is the population of working age on an upward trend, but rising demand for labour is accompanied by a growing number of foreign workers. It is yet uncertain to what extent foreign labour supply will increase when as from 2011 access to the Austrian labour market will be fully liberalised for people from the new EU member countries.

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]		+ 55.8	+ 68.1	+ 83.1	– 36.7	– 0.4	+ 7.6
Employees[2]		+ 51.5	+ 65.5	+ 76.7	– 44.8	– 5.1	+ 4.8
Percentage changes from previous year		*+ 1.7*	*+ 2.1*	*+ 2.4*	*– 1.4*	*– 0.2*	*+ 0.1*
Nationals		+ 35.0	+ 43.6	+ 53.2	– 39.2	– 4.0	+ 2.2
Foreign workers		+ 16.5	+ 21.9	+ 23.5	– 5.6	– 1.1	+ 2.6
Self-employed[3]		+ 4.3	+ 2.6	+ 6.4	+ 8.1	+ 4.7	+ 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]		+ 42.3	+ 51.2	+ 73.1	+ 11.3	+ 8.8	+ 19.7
Surplus of labour							
Registered unemployed[5]		– 13.5	– 16.9	– 10.0	+ 48.1	+ 9.2	+ 12.1
In 1,000		239.2	222.2	212.3	260.3	269.5	281.6
Unemployed persons in training	in 1,000	57.5	52.7	50.5	64.1	80.9	78.5
		Percent					
Unemployment rate							
Eurostat definition[6]		4.8	4.4	3.8	5.0	5.2	5.4
As a percentage of total labour force[5]		6.1	5.6	5.2	6.4	6.6	6.9
National definition[5, 7]		6.8	6.2	5.8	7.2	7.4	7.7
Employment rate							
Persons in active employment[1, 8]		63.9	64.9	66.1	65.2	64.9	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).

The number of registered unemployed may rise to 282,000 in 2011, to which should be added 79,000 persons in job training programmes. The overall increase in the jobless figure caused by the financial market and economic crisis may amount to nearly 100,000. There is a risk that unemployment remains stuck at that record level. The jobless rate will reach 7.7 percent of the dependent labour force in 2011 (on conventional national definitions) or 5.4 percent of the total labour force (Eurostat definition).

Moving from fiscal expansion towards restriction

Domestic fiscal policy contributed importantly to the stabilisation of business activity in 2009. Overall demand was sustained mainly via the full operation of automatic stabilisers, but also through higher social transfers, the carrying-forward of the tax reform, incentives for the purchase of new cars and for energy-saving insulation of private buildings, as well as by way of additional investment via off-budget public agencies. As a result, the general government balance deteriorated from –0.4 percent of GDP in 2008 to –3.5 percent in 2009. Nevertheless, Austria's deficit is next to Germany's and Finland's one of the lowest in the euro area. Like in most other countries, the deficit is set to widen further in 2010, to a projected 4¾ percent of GDP, due to further cyclically-induced revenue shortfalls. The tax ratio is expected at 41 percent of GDP in the current year, while the expenditure ratio, primarily on account of the fall in GDP but also of expenditure increases, will ratchet up to 51 percent of GDP.

In 2010, fiscal policy remains supportive to aggregate demand. For 2011, planned expenditure cuts and tax increases should allow the general government deficit to narrow to 4 percent of GDP.

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 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 (see 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".

As from 2011, the federal government plans to implement measures of fiscal consolidation, in line with recommendations by the European Commission. As a first step, a comprehensive overall framework foresees a cut in federal spending and tax increases, each to the tune of € 1.7 billion, in total worth 1.2 percent of GDP. In addition, the Länder (federal states) are expected to contribute € 800 million to deficit reduction. Details on the fiscal strategy still need to be defined.

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	− 3.5	− 4.7	− 4.0
According to National Accounts	− 1.7	− 0.7	− 0.5	− 3.6	− 4.8	− 4.0
General government primary balance	+ 1.1	+ 2.2	+ 2.1	− 1.0	− 2.1	− 1.1
			Percent			
Monetary policy						
3-month interest rate	3.1	4.3	4.6	1.2	0.9	1.1
Long-term interest rate[1]	3.8	4.3	4.3	3.7	3.3	3.5
			Percentage changes from previous year			
Effective exchange rate						
Nominal	+ 0.2	+ 1.1	+ 1.2	+ 0.9	− 0.4	+ 0.1
Real	− 0.5	+ 0.7	+ 0.6	+ 0.4	− 0.8	− 0.1

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

For the purpose of the present projections, WIFO assumes that the measures on the revenue side will consist to about equal extent in higher taxes on consumption (e.g., of energy) and on wealth (including a new levy on financial institutions). On the expenditure side, federal outlays will be cut across the board, including on public consumption, personnel, social transfers in cash as well as investment. On the basis of these assumptions, it is possible to roughly estimate the implicit dampening effects on private consumption, household saving and private investment. The substantial amount of expenditure cuts and tax increases suggests that the target of a general government deficit of 4 percent of GDP for 2011 can be reached even against potential demand-dampening effects of consolidation.