

**WIFO**

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

 **ÖSTERREICHISCHES INSTITUT FÜR  
WIRTSCHAFTSFORSCHUNG**

**External Demand Unable to Secure  
Export-driven Recovery  
Economic Outlook for 2014 and 2015**

**September 2014**



## External Demand Unable to Secure Export-driven Recovery Economic Outlook for 2014 and 2015

September 2014

Austrian Institute of Economic Research

### Abstract

A further slackening of global trade in the last few months is holding back an export-led recovery in the euro area as well as in Austria. Since many countries have not yet digested the repercussions of the financial market crisis, also domestic demand remains feeble, unlike in the USA. In Austria, real GDP is expected to grow by a modest 0.8 percent in the current year, picking up to 1.2 percent in 2015.

Please refer to: [Stefan.Schiman@wifo.ac.at](mailto:Stefan.Schiman@wifo.ac.at)

2014/370/SPE/WIFO project no: 28491

© 2014 Austrian Institute of Economic Research

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

Verkaufspreis: 15,00 € • Download 15,00 €: <http://www.wifo.ac.at/wwa/pubid/47482>

# External Demand Unable to Secure Export-driven Recovery

## Economic Outlook for 2014 and 2015

---

*A further slackening of global trade in the last few months is holding back an export-led recovery in the euro area as well as in Austria. Since many countries have not yet digested the repercussions of the financial market crisis, also domestic demand remains feeble, unlike in the USA. In Austria, real GDP is expected to grow by a modest 0.8 percent in the current year, picking up to 1.2 percent in 2015.*

---

In 2013, world trade strengthened moderately, stimulating Austria's foreign trade. Yet, the cyclical recovery foretold by positive sentiment indicators failed to gain ground, partly because international demand fell back sharply due to the retreat of foreign capital from many emerging markets. In addition, internal demand in the euro area has been subdued since the recession of 2012-13. Private indebtedness has hardly come down since the onset of the financial market crisis and is still constraining consumption and investment in many countries. While the further relaxation of monetary policy by the ECB is easing restrictions on credit supply, it does not address the weakness of demand. Thus, for the euro area the projection for GDP growth has to be taken down from the last revision in late June 2014, to 0.8 percent on annual average 2014 and 1.1 percent in 2015, while for the USA it is kept unchanged at 2.2 percent and 3.1 percent, respectively.

Against this background, Austria's foreign trade will expand less than expected in summer. Investment is withheld by poorer sales prospects, affecting in particular purchases of machinery and business equipment which is set to remain flat in the current year. In the manufacturing sector, both employment and hours worked per capita are declining. In the services branches, job creation is mainly driven by a rising number of part-time jobs. For the overall economy, the total number of hours worked is stagnating, hence projected real GDP growth of 0.8 percent in 2014 and 1.2 percent in 2015 is entirely driven by productivity gains. Employment of domestic workers keeps declining, with supply falling for demographic reasons. The rate of unemploy-

ment will climb to just below 9 percent of the dependent labour force (national definition) over the forecast horizon. Headline inflation, projected at 1.8 percent, remains relatively high in view of the weak business conditions, squeezing real purchasing power together with a rising tax burden. As a result, private consumption keeps advancing only gradually. The cyclical slowdown is weighing also on public finances, although the further fall in interest rates is providing relief on the expenditure side. A major risk for the business outlook derives from a potential worsening of the crisis in Ukraine and relations with Russia. On the other hand, the recovery may receive fresh momentum if the new European Commission were to take decisive measures to stimulate business activity.

Cut-off date: 18 September 2014

*For more details please contact*

*Stefan Schiman, Tel. (1) 798 26 01/234, [Stefan.Schiman@wifo.ac.at](mailto:Stefan.Schiman@wifo.ac.at)*

## Methodological Notes and Short Glossary

### Period comparisons

Time-series comparisons with the previous period, e.g., the previous quarter, are adjusted for seasonal effects. They also include effects that result from a different number of working days in the period (e.g., Easter). In the text, reference is made to "seasonally and working day adjusted changes".

The phrase "changed compared with a year before . . .", on the other hand, describes a change compared with the same period a year before and refers to unadjusted time series.

The analysis of the seasonally and working day adjusted development provides more precise information about the actual course of economic activity and shows turning points sooner. However, the data are subject to additional revisions as seasonal adjustment is based on statistical methods.

### 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 just under 87 percent of the goods and services contained in the consumer price index (CPI 2010) are included in the calculation of core inflation.

### WIFO Business Cycle Survey and WIFO Investment Survey

The WIFO Business Cycle Survey is a monthly survey in which around 1,500 Austrian firms are asked to assess their current and future economic situation. The WIFO Investment Survey is conducted twice a year, asking companies about their investment activity (<http://www.konjunkturtest.at/>). The indicators are balances between the positive and negative responses expressed as a percentage of the total number of firms sampled.

### Unemployment rate

Austrian national definition: The number of persons registered as job seekers with the Public Employment Service expressed as a percentage of the dependent labour force. Labour force is the sum of the unemployed and the persons in dependent employment (measured in standard employment relationships). Database: registrations with the Public Employment Service (AMS) and Association of Austrian social insurance agencies.

Definition according to ILO and Eurostat: Any person who is not gainfully employed and is actively seeking work is considered unemployed. Gainfully employed persons comprise all persons who during the reference week worked for at least one hour in a self-employed capacity or in paid employment. Persons receiving child-care benefit and apprentices are classified as gainfully employed, whereas persons in military service or persons carrying out alternative service are not. The unemployment rate is the number of unemployed persons expressed as a percentage of the total labour force (unemployed persons plus gainfully employed persons). Database: data from household surveys ("Mikrozensus").

### Terms used in connection with the national definition of the unemployment rate

Persons in training: Persons who at a set date are enrolled in AMS (Public Employment Service) training programmes. When calculating the unemployment rate, their number is not taken into account either in the denominator or in the numerator.

Persons in dependent active employment: "Persons in dependent employment" include persons receiving child-care benefit, as well as persons in military service with a valid employment contract. By deducting their number one arrives at the number of "persons in dependent active employment".

## Main results

Percentage changes from previous year

		2010	2011	2012	2013	2014	2015
						<b>Forecasts</b>	
<b>GDP</b>							
Volume		+ 1,8	+ 2,8	+ 0,9	+ 0,3	+ 0,8	+ 1,2
Value		+ 3,2	+ 4,9	+ 2,6	+ 2,0	+ 2,4	+ 2,8
<b>Manufacturing<sup>1</sup>, volume</b>		+ 7,6	+ 8,3	+ 1,1	+ 1,3	+ 0,8	+ 2,5
<b>Wholesale and retail trade, volume</b>		+ 2,2	+ 1,3	- 1,7	- 1,4	± 0,0	+ 1,0
<b>Private consumption expenditure, volume</b>		+ 2,0	+ 0,8	+ 0,5	- 0,2	+ 0,4	+ 0,8
<b>Gross fixed investment, volume</b>		- 1,4	+ 8,5	+ 1,6	- 0,8	+ 0,9	+ 1,5
Machinery and equipment		+ 2,1	+ 14,3	+ 2,1	- 3,5	± 0,0	+ 2,0
Construction		- 3,9	+ 2,5	+ 2,5	+ 1,2	+ 1,7	+ 1,0
<b>Exports of goods<sup>2</sup></b>							
Volume		+ 13,6	+ 8,1	+ 0,8	+ 3,1	+ 2,3	+ 3,5
Value		+ 16,7	+ 11,3	+ 1,5	+ 1,8	+ 1,8	+ 4,0
<b>Imports of goods<sup>2</sup></b>							
Volume		+ 11,7	+ 8,6	- 1,3	+ 0,9	+ 1,7	+ 3,5
Value		+ 16,5	+ 15,3	+ 0,7	- 1,0	+ 0,7	+ 4,0
<b>Current balance</b>	€ bn	+ 9,74	+ 4,90	+ 7,33	+ 8,45	+ 7,63	+ 8,30
	as a percentage of GDP	+ 3,4	+ 1,6	+ 2,4	+ 2,7	+ 2,4	+ 2,5
<b>Long-term interest rate<sup>3</sup></b>	percent	3,2	3,3	2,4	2,0	1,5	1,3
<b>Consumer prices</b>		+ 1,9	+ 3,3	+ 2,4	+ 2,0	+ 1,8	+ 1,8
<b>Unemployment rate</b>							
Eurostat definition <sup>4</sup>	percent	4,4	4,2	4,3	4,9	5,0	5,2
National definition <sup>5</sup>	percent	6,9	6,7	7,0	7,6	8,4	8,8
<b>Persons in active dependent employment<sup>6</sup></b>		+ 0,8	+ 1,9	+ 1,4	+ 0,6	+ 0,7	+ 0,6
<b>General government financial balance</b>							
according to Maastricht definition							
as a percentage of GDP		- 4,5	- 2,5	- 2,6	- 1,5	- 2,9	- 1,9

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

**WIFO**

Projections - September 2014

**World economy**

Percentage changes from previous year

	2010	2011	2012	2013	2014	2015
					<b>Forecasts</b>	
<b>Real GDP</b>						
World	+ 5,2	+ 3,9	+ 3,2	+ 3,2	+ 3,1	+ 3,5
USA	+ 2,5	+ 1,6	+ 2,3	+ 2,2	+ 2,2	+ 3,1
Japan	+ 4,7	- 0,5	+ 1,5	+ 1,5	+ 0,9	+ 0,8
EU 28	+ 2,0	+ 1,6	- 0,4	+ 0,1	+ 1,3	+ 1,4
Euro area 18	+ 1,9	+ 1,6	- 0,7	- 0,4	+ 0,8	+ 1,1
CEE5 <sup>1</sup>	+ 2,6	+ 3,2	+ 0,7	+ 1,2	+ 2,9	+ 2,6
China	+ 10,4	+ 9,3	+ 7,7	+ 7,7	+ 7,3	+ 7,3
<b>World trade, volume</b>	+ 14,4	+ 6,8	+ 2,1	+ 2,3	+ 3,5	+ 4,0
<b>Market growth<sup>2</sup></b>	+ 14,5	+ 7,6	+ 1,3	+ 1,9	+ 3,5	+ 3,5
<b>Primary commodity prices<sup>3</sup></b>						
HWWI Index, total	+ 28,9	+ 28,6	- 2,8	- 1,9	± 0	± 0
Excluding energy	+ 31,9	+ 19,2	- 14,4	- 6,1	- 4	- 1
<b>Crude oil prices</b>						
Brent, USD per barrel	79,5	111,3	111,6	108,7	110	110
<b>Exchange rate</b>						
USD per euro	1,327	1,392	1,286	1,328	1,35	1,30

<sup>1</sup> Poland, Slovakia, Slovenia, Czech Republic, Hungary.<sup>2</sup> Real import growth of trading partners weighted by Austrian export shares.<sup>3</sup> In USD.

## Key policy indicators

	2010	2011	2012	2013	2014	2015
					<b>Forecasts</b>	
<b>Fiscal policy</b>						
					As a percentage of GDP	
<b>General government financial balance</b>						
according to Maastricht definition	- 4,5	- 2,5	- 2,6	- 1,5	- 2,9	- 1,9
Structural budget balance	- 3,2	- 2,4	- 1,8	- 1,2	- 0,9	- 0,7
<b>General government primary balance</b>	- 1,8	+ 0,2	+ 0,0	+ 1,0	- 0,4	+ 0,6
 <b>Monetary policy</b>						
					Percent	
3-month interest rate	0,8	1,4	0,6	0,2	0,2	0,2
Long-term interest rate <sup>1</sup>	3,2	3,3	2,4	2,0	1,5	1,3
					Percentage changes from previous year	
<b>Effective exchange rate</b>						
Nominal	- 2,7	+ 0,2	- 1,5	+ 1,7	+ 1,0	- 0,3
Real	- 3,0	+ 0,6	- 1,6	+ 2,0	+ 1,4	- 0,4

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



## Productivity

Percentage changes from previous year

	2010	2011	2012	2013	2014	2015
					<b>Forecasts</b>	
<b>Total economy</b>						
Real GDP	+ 1,8	+ 2,8	+ 0,9	+ 0,3	+ 0,8	+ 1,2
Hours worked <sup>1</sup>	- 0,1	+ 2,3	- 0,0	- 0,8	± 0,0	+ 0,1
<b>Productivity per hour</b>	+ 1,9	+ 0,5	+ 0,9	+ 1,1	+ 0,8	+ 1,1
Employment <sup>2</sup>	+ 0,7	+ 1,8	+ 1,4	+ 0,7	+ 0,9	+ 0,8
<b>Manufacturing</b>						
Production <sup>3</sup>	+ 7,8	+ 8,3	+ 1,2	+ 1,5	+ 0,8	+ 2,5
Hours worked <sup>1</sup>	+ 1,6	+ 1,4	+ 0,6	- 1,2	- 1,0	- 0,8
<b>Productivity per hour</b>	+ 6,1	+ 6,9	+ 0,6	+ 2,7	+ 1,8	+ 3,3
Employees <sup>1</sup>	- 1,3	+ 1,7	+ 1,1	- 0,0	- 0,2	- 0,1

<sup>1</sup> According to National Accounts definition.

<sup>2</sup> Dependent and self-employed according to National Accounts definition.

<sup>3</sup> Value added, volume.

## Private consumption, income and prices

	2010	2011	2012	2013	2014	2015
	<b>Forecasts</b>					
	Percentage changes from previous year, volume					
<b>Private consumption expenditure</b>	+ 2,0	+ 0,8	+ 0,5	- 0,2	+ 0,4	+ 0,8
Durables	+ 1,6	+ 1,8	+ 0,6	- 2,2	- 0,5	+ 0,5
Non-durables and services	+ 2,0	+ 0,7	+ 0,5	+ 0,1	+ 0,5	+ 0,8
<b>Household disposable income</b>	- 0,5	- 1,3	+ 1,1	- 1,0	+ 0,1	+ 1,0
	As a percentage of disposable income					
<b>Household saving ratio<sup>1</sup></b>	8,9	6,7	7,4	6,6	6,3	6,5
<b>Household saving ratio<sup>2</sup></b>	8,4	6,4	7,0	6,2	5,9	6,1
	Percentage changes from previous year					
<b>Direct lending to domestic non-banks<sup>3</sup></b>	+ 2,9	+ 2,7	+ 0,0	- 1,2	+ 1,3	+ 1,9
<b>Inflation rate</b>						
National	1,9	3,3	2,4	2,0	1,8	1,8
Harmonised	1,7	3,6	2,6	2,1	1,7	1,8
Core inflation <sup>4</sup>	1,2	2,8	2,3	2,3	2,0	1,9

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

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

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

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

## Earnings and international competitiveness

Percentage changes from previous year

	2010	2011	2012	2013	2014	2015
					<b>Forecasts</b>	
<b>Wages and salaries per employee<sup>1</sup></b>						
<b>Gross earnings</b>	+ 0,9	+ 1,8	+ 2,4	+ 2,1	+ 1,7	+ 2,0
<b>Gross real earnings<sup>2</sup></b>	- 0,9	- 1,4	- 0,1	+ 0,1	- 0,1	+ 0,2
<b>Net real earnings<sup>2</sup></b>	- 1,1	- 1,8	- 1,1	- 0,3	- 0,5	- 0,2
<b>Unit labour costs</b>						
Total economy	- 0,0	+ 0,8	+ 3,0	+ 2,5	+ 1,8	+ 1,5
Manufacturing	- 6,9	- 3,0	+ 3,0	+ 1,9	+ 1,0	- 0,4
<b>Effective exchange rate - manufactures</b>						
Nominal	- 2,9	+ 0,1	- 1,7	+ 1,8	+ 1,1	- 0,2
Real	- 3,2	+ 0,5	- 1,7	+ 2,1	+ 1,3	- 0,3

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

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

## Labour market

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

		2010	2011	2012	2013	2014	2015
						<b>Forecasts</b>	
<b>Demand for labour</b>							
Persons in active employment <sup>1</sup>		+ 35,0	+ 69,9	+ 50,1	+ 27,9	+ 31,0	+ 26,0
Employees <sup>2</sup>		+ 25,5	+ 63,3	+ 47,2	+ 21,2	+ 25,0	+ 21,0
Percentage changes from previous year		+ 0,8	+ 1,9	+ 1,4	+ 0,6	+ 0,7	+ 0,6
Nationals		+ 5,8	+ 25,7	+ 9,0	- 8,5	- 7,0	- 5,0
Foreign workers		+ 19,7	+ 37,7	+ 38,1	+ 29,7	+ 32,0	+ 26,0
Self-employed <sup>3</sup>		+ 9,5	+ 6,6	+ 2,9	+ 6,7	+ 6,0	+ 5,0
<b>Labour supply</b>							
Population of working age	(15 to 64 years)	+ 17,3	+ 31,3	+ 18,0	+ 23,5	+ 5,8	+ 8,1
	(15 to 59 years)	+ 4,9	+ 11,7	+ 22,3	+ 27,2	+ 5,6	+ 1,7
Labour force <sup>4</sup>		+ 25,5	+ 65,8	+ 64,0	+ 54,5	+ 64,0	+ 46,0
<b>Surplus of labour</b>							
Registered unemployed <sup>5</sup>		- 9,5	- 4,1	+ 13,9	+ 26,6	+ 33,0	+ 20,0
	1,000 <sup>s</sup>	250,8	246,7	260,6	287,2	320,2	340,2
Unemployed persons in training	1,000 <sup>s</sup>	73,2	63,2	66,6	73,5	77,5	80,5
<b>Unemployment rate</b>							
Eurostat definition <sup>6</sup>	percent	4,4	4,2	4,3	4,9	5,0	5,2
Percent of total labour force <sup>5</sup>	percent	6,2	6,0	6,2	6,8	7,5	7,8
National definition <sup>5,7</sup>	percent	6,9	6,7	7,0	7,6	8,4	8,8
<b>Employment rate</b>							
Persons in active employment <sup>1,8</sup>	percent	65,7	66,6	67,2	67,4	67,9	68,3
Total employment (Eurostat) <sup>6,8</sup>	percent	71,7	72,1	72,5	72,3	72,7	73,1

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

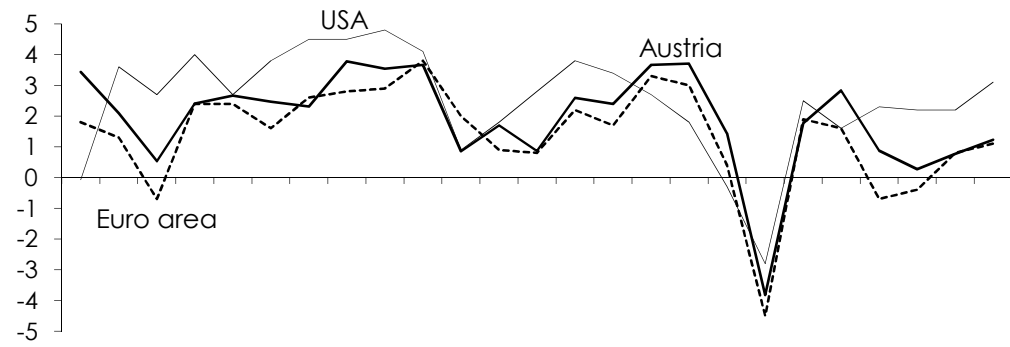
<sup>3</sup> According to WIFO. <sup>4</sup> Persons in active employment plus unemployment.

<sup>5</sup> According to Public Employment Service Austria <sup>6</sup> According to Eurostat Labour Force Survey.

<sup>7</sup> Percent of total labour force excl. self-employed. <sup>8</sup> Percent of population of working age (15 to 64 years).

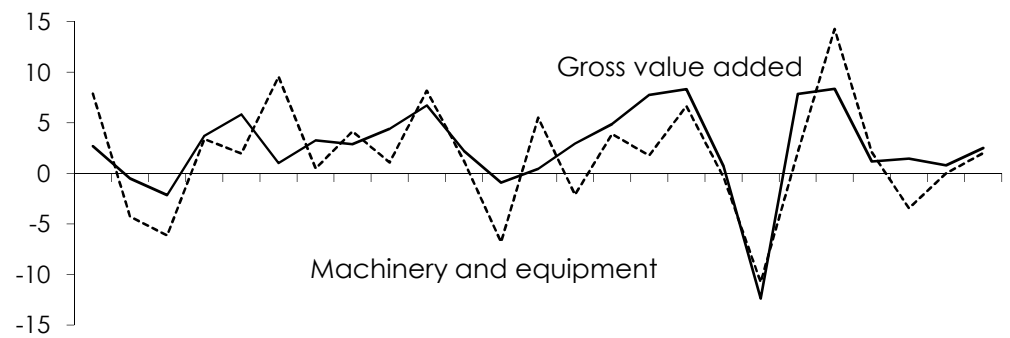
## Growth of real GDP

Percent



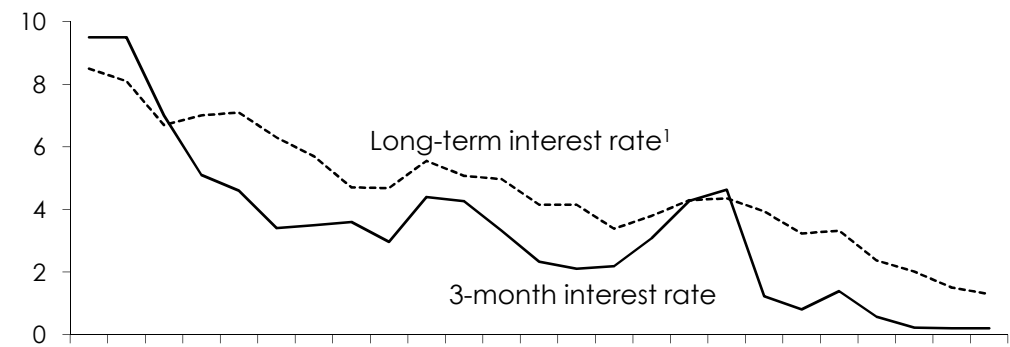
## Manufacturing and investment

Percentage changes from previous year, volume



## Short-term and long-term interest rates

Percent



## Trade

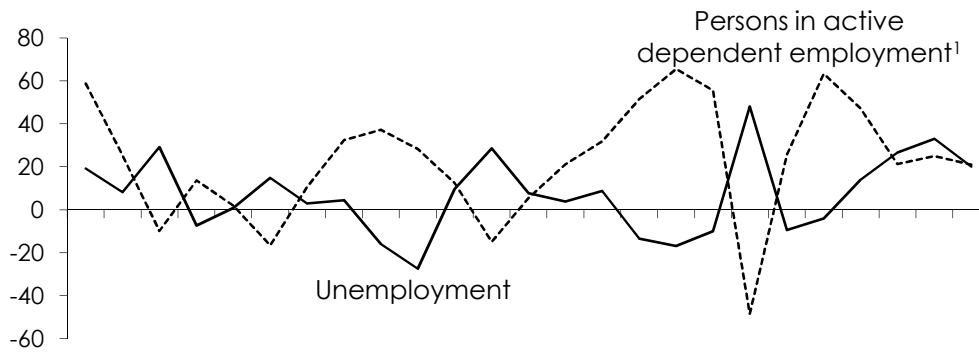
Percentage changes from previous year, volume



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

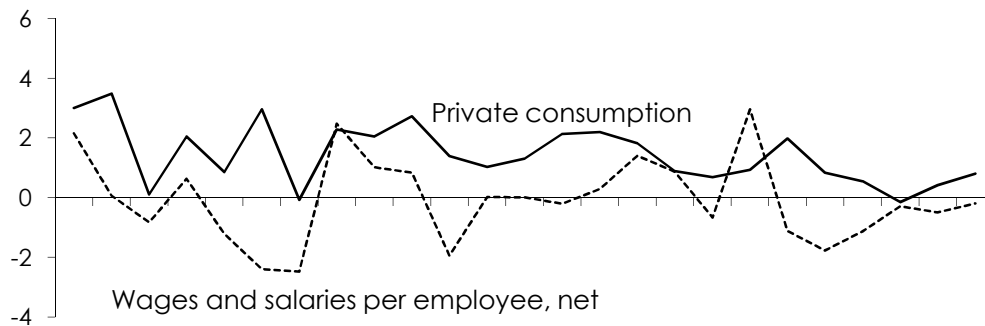
## Employment and unemployment

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



## Consumption and income

Percentage changes from previous year, volume



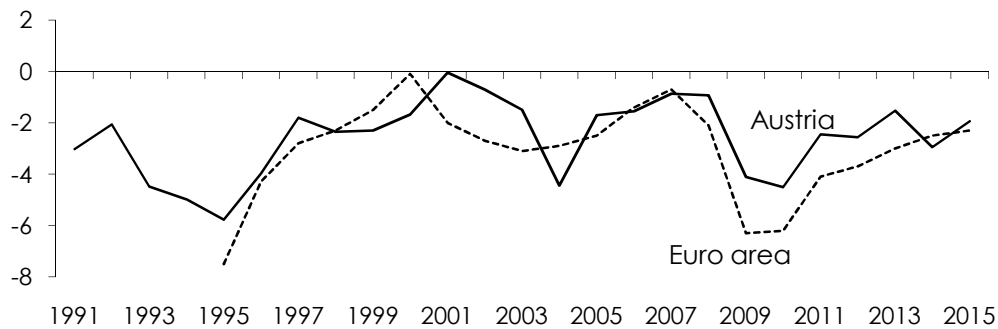
## Inflation and unit labour costs

Percentage changes from previous year



## General government financial balance

As a percentage of GDP



<sup>1</sup> Excluding parental leave, military service, and unemployed persons in training.