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 **ÖSTERREICHISCHES INSTITUT FÜR  
WIRTSCHAFTSFORSCHUNG**

**Strong Cyclical Upswing Losing  
Momentum  
Economic Outlook for 2011 and 2012**

**July 2011**

## Strong Cyclical Upswing Losing Momentum Economic Outlook for 2011 and 2012

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Austrian Institute of Economic Research

### Abstract

The business cycle upturn in Austria is set to continue. Lively global demand is driving up exports, and also investment in machinery and equipment should post strong gains over the forecast period. Short-term indicators nevertheless point to some slackening during the remainder of the year. The expansion of the world economy loses steam under the impact of higher raw material and energy prices, a more restrictive stance of monetary policy in some emerging markets, and the continued burden on private households in the USA. The crisis in the euro area is adding to uncertainty on the part of companies and consumers. For the whole year 2011, WIFO expects GDP to grow by around 3.0 percent, followed by +1.8 percent in 2012. External cyclical risks have increased over the last few months.

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# Strong Cyclical Upswing Losing Momentum

## Economic Outlook for 2011 and 2012

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The recovery of the world economy continued in the first quarter 2011, as global trade and world industrial output grew rapidly. Once again, major cyclical stimulus came from the emerging markets in Asia, Latin America and East-central Europe. Meanwhile, the momentum of the rebound is gradually diminishing. In all regions, there are signs of a noticeable slowdown of growth in the further course of the year. Major reasons are the rise in commodity and energy prices as well as monetary tightening in several emerging market economies. Nevertheless, the world economy should retain substantial upward momentum over the forecast period. Particularly in Asia, Latin America and East-central Europe, growth is set to remain lively.

In the USA, total output will increase more slowly up to the forecast horizon than earlier projected. Reasons are the unexpectedly sluggish performance in the first quarter, the persistently high unemployment, the high debt burden weighing on private households, the further adverse trend on real estate markets, and a more restrictive stance of monetary and fiscal policy.

Growth in the euro area is moderate, with divergence persisting between one group of strongly expanding export-oriented economies, led by Germany, and the crisis-ridden countries in southern Europe and Ireland. The UK economy is expected to

grow only slowly, while prospects for the Scandinavian countries and for East-central Europe are highly positive.

The international cyclical risks are on the rise. In particular the upward drift of commodity and energy prices, the consequences of the earthquake in Japan, the political manoeuvre in the USA about the increase in the public debt ceiling and the crisis in the euro area may further weaken the global business cycle upswing.

In Austria, the upswing continued into early 2011. Buoyant activity in Germany made for further strong gains in exports, and investment in machinery and equipment also kept heading up. However, in line with the international environment, the pace of growth is set to slow also in Austria, as already foreshadowed by latest results from the regular WIFO business survey. While demand and output should post a healthy gain of 3.0 percent in 2011, WIFO expects GDP growth to moderate to 1.8 percent in 2012.

Lively business activity is giving rise to a marked increase in employment and a decline in unemployment in 2011 as compared with the previous year. Looking forward, however, job creation will lose momentum and no longer keep up with the growth of labour supply. Thus, 2012 will see no further inroads into unemployment, the jobless rate stabilising at 6.6 percent of the dependent labour force (national definition) or 4.2 percent of the total labour force (Eurostat definition).

Consumer prices will rise by a significant 3.2 percent in 2011, due to the jump in commodity and energy prices. 0.4 percentage point of the inflation rate is accounted for by higher indirect taxes decided as part of the fiscal consolidation programme. Both effects will abate in 2012, while the dynamics of wages and salaries may accelerate. Overall, the inflation rate is projected at 2.6 percent.

The general government balance will steadily improve over the forecast period. Buoyant tax revenues, driven by lively business activity, together with the consolidation measures taken will reduce the government deficit to 3.1 percent of GDP in 2011 and 2.9 percent in 2012.

Vienna, 29 June 2011

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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). 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.

### *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 1,100 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".

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## Main results

Percentage changes from previous year

		2007	2008	2009	2010	2011	2012
<b>GDP</b>							
Volume		+ 3,7	+ 2,2	- 3,9	+ 2,1	+ 3,0	+ 1,8
Value		+ 5,9	+ 4,1	- 3,1	+ 3,7	+ 5,3	+ 3,9
<b>Manufacturing<sup>1</sup>, volume</b>		+ 8,5	+ 3,5	- 14,0	+ 6,9	+ 8,5	+ 4,5
<b>Wholesale and retail trade, volume</b>		+ 2,0	+ 0,9	- 1,4	+ 2,9	+ 1,2	+ 1,1
<b>Private consumption expenditure, volume</b>		+ 0,7	+ 0,5	+ 1,3	+ 1,1	+ 0,9	+ 1,1
<b>Gross fixed investment, volume</b>		+ 3,9	+ 4,1	- 8,8	- 1,0	+ 3,8	+ 2,2
Machinery and equipment		+ 6,6	+ 7,5	- 14,5	+ 2,1	+ 8,0	+ 3,5
Construction		+ 1,6	+ 1,6	- 6,0	- 3,0	± 0,0	+ 1,0
<b>Exports of goods<sup>2</sup></b>							
Volume		+ 9,0	+ 0,3	- 18,7	+ 12,8	+ 10,0	+ 7,6
Value		+ 10,5	+ 2,5	- 20,2	+ 16,5	+ 14,2	+ 8,7
<b>Imports of goods<sup>2</sup></b>							
Volume		+ 7,6	+ 0,2	- 15,1	+ 11,1	+ 8,5	+ 6,9
Value		+ 9,6	+ 4,7	- 18,4	+ 16,3	+ 13,6	+ 8,3
<b>Current balance</b>	€ bn	+ 9,62	+ 13,76	+ 8,53	+ 7,76	+ 9,57	+ 10,75
	as a percentage of GDP	+ 3,5	+ 4,9	+ 3,1	+ 2,7	+ 3,2	+ 3,5
<b>Long-term interest rate<sup>3</sup></b>	percent	4,3	4,4	3,9	3,2	3,6	3,8
<b>Consumer prices</b>		+ 2,2	+ 3,2	+ 0,5	+ 1,9	+ 3,2	+ 2,6
<b>Unemployment rate</b>							
Eurostat definition <sup>4</sup>	percent	4,4	3,8	4,8	4,4	4,2	4,2
National definition <sup>5</sup>	percent	6,2	5,9	7,2	6,9	6,6	6,6
<b>Persons in active dependent employment<sup>6</sup></b>		+ 2,1	+ 1,7	- 1,5	+ 0,8	+ 1,6	+ 0,9
<b>General government financial balance</b>							
according to Maastricht definition							
as a percentage of GDP		- 0,9	- 0,9	- 4,1	- 4,6	- 3,1	- 2,9

<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.

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### Key policy indicators

	2007	2008	2009	2010	2011	2012
<b>Fiscal policy</b>						
	As a percentage of GDP					
<b>General government financial balance</b>						
according to Maastricht definition	- 0,9	- 0,9	- 4,1	- 4,6	- 3,1	- 2,9
according to National accounts	- 1,0	- 1,0	- 4,1	- 4,6	- 3,1	- 2,9
<b>General government primary balance</b>						
	+ 1,9	+ 1,7	- 1,3	- 2,0	- 0,6	- 0,3
<b>Monetary policy</b>						
	Percent					
3-month interest rate	4,3	4,6	1,2	0,8	1,6	2,5
Long-term interest rate <sup>1</sup>	4,3	4,4	3,9	3,2	3,6	3,8
	Percentage changes from previous year					
<b>Effective exchange rate</b>						
Nominal	+ 1,1	+ 1,2	+ 0,9	- 2,5	+ 0,9	- 0,5
Real	+ 0,7	+ 0,6	+ 0,4	- 2,7	+ 1,5	- 0,1

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

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## World economy

Percentage changes from previous year

	2007	2008	2009	2010	2011	2012
<b>Real GDP</b>						
World	+ 5,4	+ 2,9	- 0,6	+ 4,9	+ 4,1	+ 4,2
USA	+ 1,9	± 0,0	- 2,6	+ 2,9	+ 2,4	+ 2,5
Japan	+ 2,4	- 1,2	- 6,3	+ 4,0	+ 0,5	+ 2,5
EU 27	+ 3,0	+ 0,5	- 4,3	+ 1,8	+ 2,0	+ 1,8
Euro area 16	+ 2,9	+ 0,4	- 4,1	+ 1,8	+ 1,8	+ 1,5
Germany	+ 2,7	+ 1,0	- 4,7	+ 3,6	+ 3,4	+ 1,8
New member states <sup>1</sup>	+ 5,9	+ 4,1	- 3,2	+ 2,2	+ 3,2	+ 3,5
China	+ 14,2	+ 9,6	+ 9,2	+ 10,3	+ 9,5	+ 8,5
<b>World trade</b> , volume	+ 7,0	+ 2,5	- 12,8	+ 15,4	+ 8,5	+ 7,5
<b>Market growth</b> <sup>2</sup>	+ 7,5	+ 2,9	- 11,5	+ 11,5	+ 9,5	+ 7,0
<b>Primary commodity prices</b>						
HWI Index, total	+ 12,4	+ 31,7	- 34,4	+ 29,0	+ 35	+ 1
Excluding energy	+ 17,8	+ 18,3	- 28,0	+ 31,5	+ 25	+ 5
<b>Crude oil prices</b>						
Brent, USD per barrel	72,5	97,0	61,5	79,5	110	110
<b>Exchange rate</b>						
USD per euro	1,371	1,471	1,393	1,327	1,45	1,40

<sup>1</sup> Bulgaria, Czech Republic, Hungary, Latvia, Lithuania, Poland, Romania.

<sup>2</sup> Real import growth of trading partners weighted by Austrian export shares.



## Private consumption, income and prices

	2007	2008	2009	2010	2011	2012
Percentage changes from previous year, volume						
<b>Private consumption expenditure</b>	+ 0,7	+ 0,5	+ 1,3	+ 1,1	+ 0,9	+ 1,1
Durables	+ 2,6	+ 1,7	+ 5,2	- 1,0	+ 0,6	+ 1,1
Non-durables and services	+ 0,5	+ 0,3	+ 1,0	+ 1,3	+ 0,9	+ 1,1
<b>Household disposable income</b>	+ 2,3	+ 0,9	- 0,0	- 0,9	+ 0,7	+ 1,2
As a percentage of disposable income						
<b>Household saving ratio<sup>1</sup></b>	11,6	11,8	11,1	9,1	9,0	9,1
<b>Household saving ratio<sup>2</sup></b>	11,2	11,6	10,4	8,7	8,5	8,6
Percentage changes from previous year						
<b>Direct lending to domestic non-banks<sup>3</sup></b>	+ 3,6	+ 7,4	- 1,3	+ 2,9	+ 4,5	+ 4,0
<b>Inflation rate</b>						
National	2,2	3,2	0,5	1,9	3,2	2,6
Harmonised	2,2	3,2	0,4	1,7	3,4	2,7
Core inflation <sup>4</sup>	1,9	2,4	1,5	1,2	2,5	2,5

<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.

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## Productivity

Percentage changes from previous year

	2007	2008	2009	2010	2011	2012
<b>Total economy</b>						
Real GDP	+ 3,7	+ 2,2	- 3,9	+ 2,1	+ 3,0	+ 1,8
Employment <sup>1</sup>	+ 1,7	+ 2,2	- 0,8	+ 1,0	+ 1,5	+ 0,8
<b>Productivity</b> (GDP per employment)	+ 2,0	- 0,0	- 3,1	+ 1,1	+ 1,5	+ 1,1
<b>Manufacturing</b>						
Production <sup>2</sup>	+ 8,7	+ 3,5	- 14,3	+ 6,9	+ 8,5	+ 4,5
Employees <sup>3</sup>	+ 2,6	+ 1,7	- 5,3	- 1,3	+ 1,2	- 0,9
<b>Productivity per hour</b>	+ 6,3	+ 2,3	- 6,1	+ 5,0	+ 6,2	+ 5,4
Working hours per day per employee <sup>4</sup>	- 0,3	- 0,5	- 3,6	+ 3,1	+ 1,0	± 0,0

<sup>1</sup> Dependent and self-employed according to National Accounts definition.

<sup>2</sup> Value added, volume.

<sup>3</sup> According to Federation of Austrian Social Security Institutions.

<sup>4</sup> According to 'Konjunkturerhebung' of Statistics Austria.

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## Earnings and international competitiveness

Percentage changes from previous year

	2007	2008	2009	2010	2011	2012
<b>Wages and salaries per employee<sup>1</sup></b>						
<b>Gross earnings</b>	+ 3,1	+ 2,9	+ 1,5	+ 1,5	+ 2,7	+ 3,2
<b>Gross real earnings<sup>2</sup></b>	+ 0,9	- 0,3	+ 1,0	- 0,4	- 0,5	+ 0,6
<b>Net real earnings<sup>2</sup></b>	+ 0,9	- 0,9	+ 2,7	- 0,7	- 0,8	+ 0,3
<i>Total economy</i>						
<b>Unit labour costs</b>	+ 0,9	+ 2,7	+ 4,8	+ 0,3	+ 1,2	+ 2,1
<i>Manufacturing</i>						
<b>Unit labour costs</b>	- 2,3	+ 1,1	+ 13,5	- 5,5	- 3,9	- 1,9
<b>Effective exchange rate - manufactures</b>						
Nominal	+ 1,2	+ 1,1	+ 0,7	- 2,6	+ 0,9	- 0,5
Real	+ 0,8	+ 0,6	+ 0,4	- 2,7	+ 1,5	± 0,0

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

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

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## Labour market

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

		2007	2008	2009	2010	2011	2012
<b>Demand for labour</b>							
Persons in active employment <sup>1</sup>		+ 64,7	+ 66,0	- 44,0	+ 31,3	+ 59,5	+ 34,0
Employees <sup>2</sup>		+ 65,5	+ 55,6	- 48,5	+ 25,5	+ 52,0	+ 29,0
<i>Percentage changes from previous year</i>		+ 2,1	+ 1,7	- 1,5	+ 0,8	+ 1,6	+ 0,9
Nationals		+ 43,6	+ 31,1	- 43,0	+ 5,8	+ 19,0	+ 11,0
Foreign workers		+ 21,9	+ 24,5	- 5,5	+ 19,7	+ 33,0	+ 18,0
Self-employed <sup>3</sup>		- 0,8	+ 10,4	+ 4,5	+ 5,8	+ 7,5	+ 5,0
<b>Labour supply</b>							
Population of working age	(15 to 64 years)	+ 15,5	+ 27,7	+ 17,3	+ 21,6	+ 30,1	+ 16,9
	(15 to 59 years)	+ 17,1	+ 17,6	+ 11,1	+ 8,9	+ 15,5	+ 16,7
Labour force <sup>4</sup>		+ 47,8	+ 56,0	+ 4,0	+ 21,8	+ 50,5	+ 37,0
<b>Surplus of labour</b>							
Registered unemployed <sup>5</sup>		- 16,9	- 10,0	+ 48,1	- 9,5	- 9,0	+ 3,0
	1,000 <sup>s</sup>	222,2	212,3	260,3	250,8	241,8	244,8
Unemployed persons in training	1,000 <sup>s</sup>	52,7	50,5	64,1	73,2	61,2	59,2
<b>Unemployment rate</b>							
Eurostat definition <sup>6</sup>	percent	4,4	3,8	4,8	4,4	4,2	4,2
Percent of total labour force <sup>5</sup>	percent	5,6	5,3	6,5	6,2	5,9	5,9
National definition <sup>5,7</sup>	percent	6,2	5,9	7,2	6,9	6,6	6,6
<b>Employment rate</b>							
Persons in active employment <sup>1,8</sup>	percent	64,9	65,7	64,7	65,0	65,7	66,1
Total employment (Eurostat) <sup>6,8</sup>	percent	71,4	72,1	71,6	71,7	72,2	72,4

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

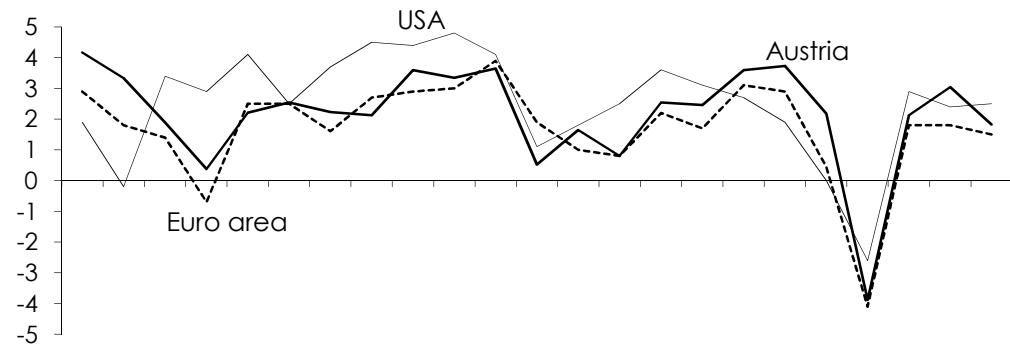
<sup>3</sup> According to WIFO. <sup>4</sup> Persons in active employment plus unemployment.

<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).

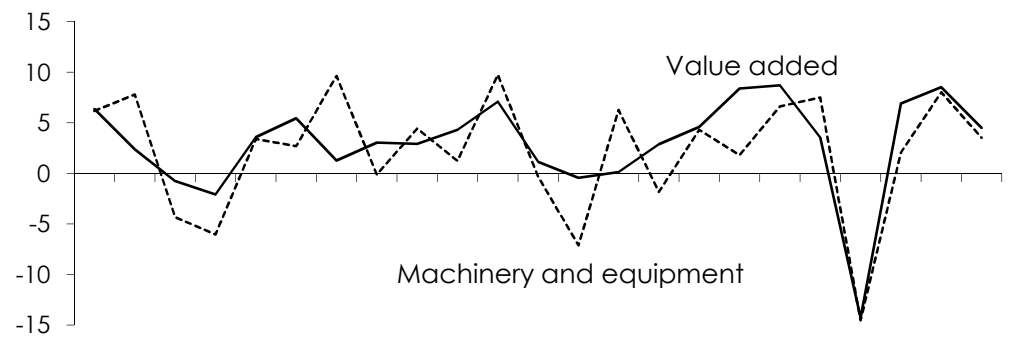
### Growth of real GDP

Percent



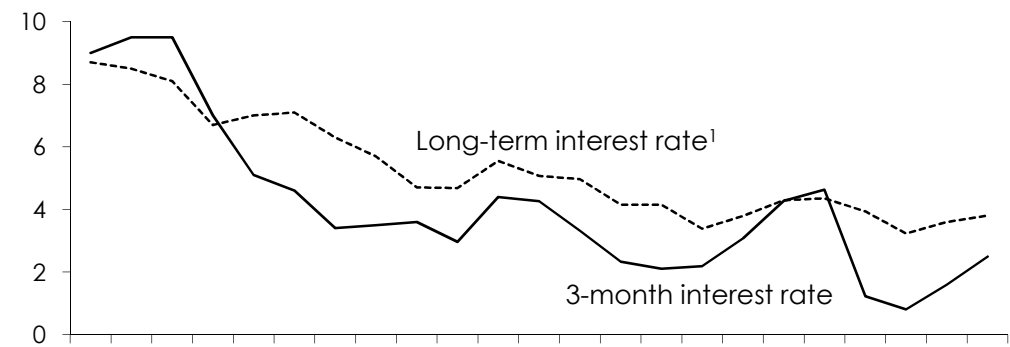
### Manufacturing and investment

Percentage changes from previous year, volume



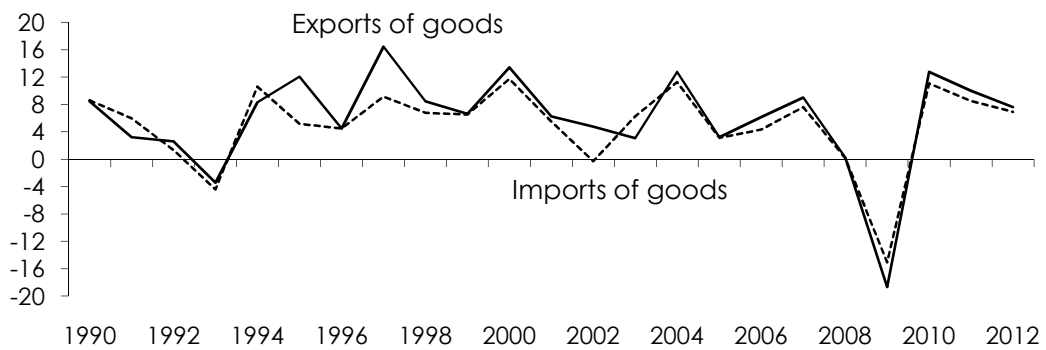
### Short-term and long-term interest rates

Percent



### Trade

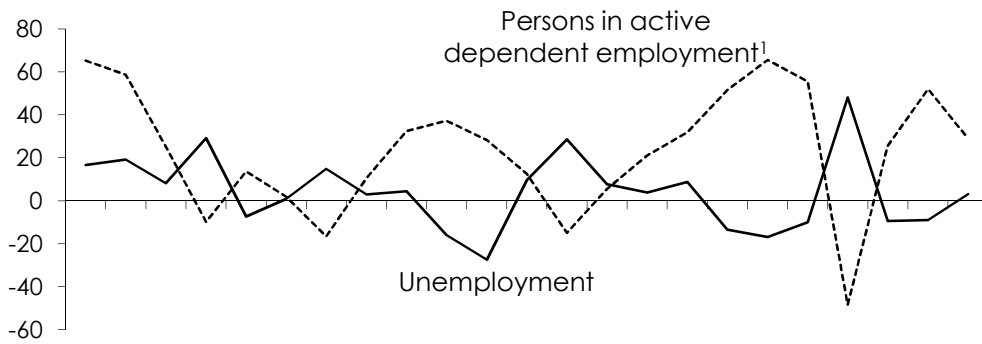
Percentage changes from previous year, volume



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

## Employment and unemployment

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



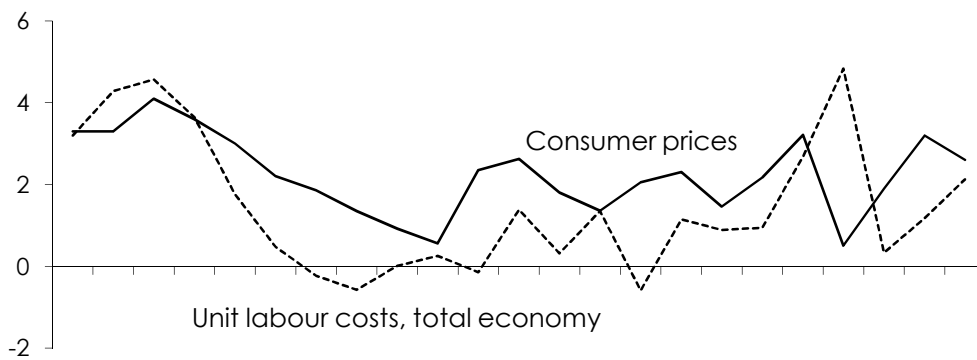
## Consumption and income

Percentage changes from previous year, volume



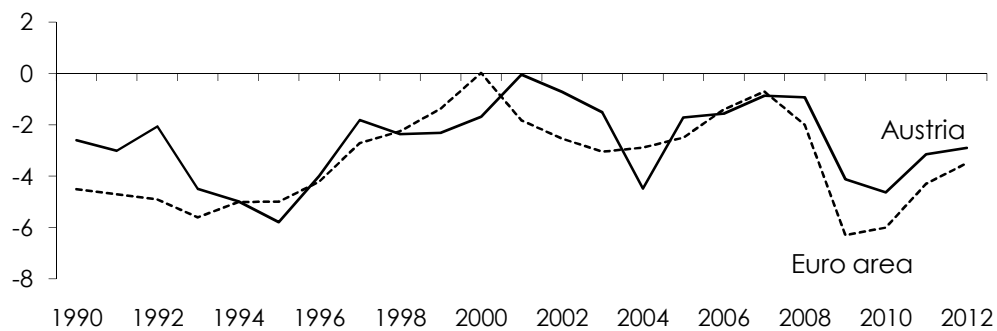
## Inflation and unit labour costs

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.