

■ PRONOUNCED CYCLICAL DOWNTURN, RECOVERY NOT BEFORE MID-2002

ECONOMIC OUTLOOK FOR 2002 AND 2003

GDP in Austria expanded by no more than 1.1 percent in volume in 2001. The weakness in overall demand is set to continue until Spring 2002 at least. By that time, a marked upturn in activity may set in, driven by a business cycle recovery in the USA and supported by low oil prices. On these assumptions, the Austrian economy may grow by 1.2 percent in 2002 and by 2.8 percent in the following year. The current sharp cyclical slowdown is putting strain on the labour market and on government budgets. Employment is expected to recede in 2002, making for a jump in the jobless rate to an average 6.6 percent. With automatic stabilisers operating, the general government balance in 2002 is projected at a deficit of around € 0.8 billion or 0.4 percent of GDP. Inflation is expected to decelerate significantly.

In Austria, GDP edged down already in the third quarter 2001 from the previous period; according to the information available, it will decline further in the fourth quarter. Cyclical sluggishness is set to continue into early 2002, as indicators of business and consumer confidence are still clearly pointing downwards. Further into the year, however, a recovery can be expected to take hold. It will be driven mainly by the expected revival of the U.S. economy and by households and firms benefiting from lower energy prices. WIFO assumes that the lower turning point of the business cycle may be reached by the second quarter 2002, followed by a strong upturn in the second semester yielding year-on-year growth rates of GDP around 3 percent towards year-end.

The projected time profile of downturn and recovery implies modest annual growth rates for both 2001 and 2002. In 2001, GDP growth will average 1.1 percent in volume, owing to still lively activity early in the year. Nevertheless, this would be the lowest rate since 1993. With cyclical weakness likely to persist until late Spring 2002, the annual average rate of growth is unlikely to be much higher. If the upturn were to be delayed by only one quarter, GDP growth for the whole year 2002 could be lower by ½ percentage point than according to the present projections.

Main results

	1999	2000	2001	2002	2003
	Percentage changes from previous year				
GDP					
Volume	+ 2.8	+ 3.0	+ 1.1	+ 1.2	+ 2.8
Value	+ 3.5	+ 4.2	+ 2.9	+ 2.6	+ 4.1
Manufacturing ¹⁾ , volume	+ 3.4	+ 7.3	+ 1.8	+ 1.5	+ 5.0
Private consumption expenditure, volume	+ 2.7	+ 2.5	+ 1.4	+ 1.6	+ 2.3
Gross fixed investment, volume	+ 1.5	+ 5.1	- 0.5	+ 0.3	+ 4.2
Machinery and equipment ²⁾	+ 4.3	+11.1	+ 1.5	+ 1.8	+ 7.0
Construction	- 0.7	+ 0.3	- 2.3	- 1.0	+ 1.5
Exports of goods ³⁾					
Volume	+ 7.7	+13.1	+ 5.0	+ 4.0	+ 8.5
Value	+ 7.0	+15.6	+ 6.6	+ 4.5	+10.1
Imports of goods ³⁾					
Volume	+ 6.9	+10.9	+ 4.4	+ 3.0	+ 7.8
Value	+ 6.7	+14.7	+ 6.5	+ 3.0	+10.2
Current balance	(billion Euro) - 6.33	- 5.71	- 5.19	- 5.09	- 5.32
	(billion ATS) -87.1	-78.6	-71.4	-70.0	-73.2
As a percentage of GDP	(%) - 3.2	- 2.8	- 2.5	- 2.4	- 2.4
Long-term interest rate ⁴⁾	(%) 4.7	5.6	5.0	4.6	4.9
Consumer prices	+ 0.6	+ 2.3	+ 2.7	+ 1.4	+ 1.6
Unemployment rate					
Percent of total labour force ⁵⁾	(%) 3.9	3.7	3.9	4.2	4.0
Percent of dependent labour force ⁶⁾	(%) 6.7	5.8	6.1	6.6	6.3
Dependent employment ⁷⁾	+ 1.2	+ 1.0	+ 0.4	- 0.2	+ 0.8
General government financial balance					
As a percentage of GDP	(%) - 2.2	- 1.1	- 0.0	- 0.4	± 0.0

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. - ⁶⁾ According to Labour Market Service. - ⁷⁾ Excluding parental leave and military service.

Both in 2000 and 2001, the Austrian economy grew by ½ percentage point less than the EU average. For 2002, a negative growth gap should again be expected. Still, growth will be stronger than in Germany, Austria's main trading partner, which holds the bottom rank among the EU countries. Overall GDP growth in the EU, projected at 1.5 percent, may about match the 1.6 percent expected for 2001. For Germany, the projections are for modest growth of 0.5 and 0.8 percent in 2001 and 2002, respectively. Economic policy in Europe bears a large part of responsibility for the extent of the slowdown which, admittedly, originated from developments in the USA and from high oil prices. For too long, policy trusted in overly optimistic growth scenarios, and too late it took action to stabilise activity via interest rate cuts and the readiness to deviate from its own budgetary targets.

Austrian exports may remain sluggish from autumn 2001 to spring 2002, as demand from major trading partners keeps slackening, while price competitiveness of domestic producers remains satisfactory. Weak foreign demand for goods is depressing growth in the manufacturing sector, which is projected at a modest 1½ percent, much as in 2001. The poor outlook for sales is also responsible for a quasi-stagnation of investment in machinery, vehicles and electronic equipment. It will only be the cyclical upturn in the second half of 2002 that will give fresh impetus to activity in these sectors which are highly dependent from developments in the world economy.

No major impulse should be expected from the domestic demand side. In the construction sector, output declined by 3 percent in 2001. It is likely to edge down by a further 1 percent in 2002, despite the „cyclical stimulus package“ decided by the federal government, and stabilise only in the following year. While building of new structures is constrained by persisting over-capacities, a tentative recovery may be expected for road and railroad construction. Public consumption is shrinking in real terms. Spending by private households may rise by a further 1½ percent in 2002, despite only modest gains in real disposable income, implying a lower saving ratio. The rate of inflation, averaging 2.7 percent in 2001, was clearly higher than anticipated at the beginning of the year. With energy prices markedly lower and assuming an easing of food prices, headline inflation may abate to a rate of 1.4 percent in 2002.

The cyclical slackening has led to a significant reversal on the labour market. The number of dependent workers and employees could decrease by about 5,000 in 2002. Unemployment is set to rise strongly, by 19,000 to a projected average level of 221,000, corresponding to a ratio of 4.2 percent of the labour force (Eurostat definition) or 6.6 percent of the dependent labour supply. Jobs will be particularly scarce in the construction industry, in manufacturing and in the transport and telecommunication sector. Most severely affected will be the least qualified and foreign workers. While unemployment among older workers remains a key problem, it is hitting more and more also the young entrants to the labour force. Only on the assumption of a strong business cycle upturn will the labour market show signs of improvement by 2003, but even so the number of jobless will hardly fall below the mark of 200,000.

Advance tax payments on a large scale made for a balanced budget on the general government account for 2001. Nevertheless, the cyclical downturn is taking its toll also on public finances. Revenues from direct taxes are set to decline in 2002, while high unemployment will exert upward pressure on outlays. In its projections, WIFO is focussing on the impact the business cycle will have on the government balance. Issues which are more of an accounting nature, such as the recognition by Eurostat of the dissociation of the federal real estate agency from the public sector, may, however, be of considerable influence for the actual general government balance. On present assumptions, the latter will be in deficit to the amount of € 0.8 billion or 0.4 percent of GDP. The business cycle recovery in prospect should, with the usual time lag, have a positive effect on the government balance. Thus, for 2003 a balanced general government budget is possible, assuming no revenue shortfalls from a tax reform that is currently under discussion.

Although the „cyclical stimulus package“ presented by the federal government in early December will not be

able to counter the strong rise in unemployment in the current winter season, it should nevertheless prove useful in a more general context. The accent has been appropriately put on the promotion of research, on education and re-training (particularly in the construction sector), and on incentives for investment. Thus it should be possible to support activity in the short term and at the same time meet the longer-term requirements of structural adjustment. Priority should now be given to the speedy implementation of the package in order to se-

cure its early effect on demand. In some areas, the measures should be made even more focused, in others they ought to be widened in scope. While their direct cyclical impact may remain limited, it is the stabilising effect of a pro-active policy stance on business and consumer expectations that is needed at the present juncture. In this regard, it is essential that the automatic budgetary stabilisers be allowed to operate to full extent.

Cut-off date: 18 December 2001.