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Growth Resuming Since Mid-2009

Economic Outlook for 2009 and 2010

Backed by the fiscal stimulus measures adopted at home and abroad, economic activity in Austria will pick up from its low level in the second half of 2009. On annual average, GDP will nevertheless shrink by 3.4 percent compared to last year. In 2010, growth is set to remain sluggish at 1 percent, with no relief yet to expect for the labour market. Inflation should remain tamed even with some rebound in oil prices.

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After a fall by 2.7 percent in the first quarter 2009 compared to the previous period, GDP in Austria receded by a further 0.5 percent in spring, thereby significantly stemming the downward momentum. Business surveys and other major leading indicators point to an improving economic situation since the middle of the year. Growth can therefore be expected to resume as from the third quarter, with positive incentives coming both from domestic demand and from abroad where the cyclical stimulus programmes are now becoming effective. Germany and France recorded quarter-on-quarter growth rates already between April and June, whereas most other euro area countries saw at least, like in Austria, a deceleration of the downward trend.

While activity in Austria may still stay sluggish for some time, fiscal policy is stimulating private demand beyond this year. After the expiry of the car scrapping premium, investment in new infrastructure will take effect, facilitating a further, albeit modest, cyclical recovery. Notably the hesitant consumers in the USA as well as in east-central Europe will hold back a revival of Austrian exports.

Over the entire projection period, economic activity will remain to a large extent policy-driven. The endogenous forces of growth are yet too feeble as to set in motion a self-sustained recovery. An early withdrawal of policy stimulus at this juncture carries the risk of the economy relapsing into recession.

Foreign demand is strengthening as a result of support from policy worldwide, leading to a pick-up in Austrian exports from the first half to the rest of 2009. Subsequently, domestic industrial output will start heading up. Indeed, some firms have already reacted to strengthening demand by switching back from short-time to normal working hours. After the cutback of inventories over the last months, demand will quickly translate into higher production.

The slump in investment in machinery and equipment should peter out with a revival of industrial production. So far, domestic companies remain cautious in adding to their capital stock given existing excess capacities. The expected easing of financing conditions and tax incentives for investment should, however, encourage firms to at least replace obsolete production facilities. After a fall by 11 percent in 2009, equipment investment can thus be expected to edge up by 0.5 percent in 2010.

Domestic construction, for its part, should stay on a downward trend, falling by 2 percent in 2009 and a further 1 percent in 2010. While investment in public infrastructure will be boosted by the fiscal stimulus packages, supporting demand notably next year, private residential building will continue to be trimmed.

Table 1: Main results

		2005	2006	2007	2008	2009	2010
		Percentage changes from previous year					
GDP							
Volume		+ 2.5	+ 3.5	+ 3.5	+ 2.0	− 3.4	+ 1.0
Value		+ 4.6	+ 5.2	+ 5.7	+ 4.1	− 1.5	+ 1.8
Manufacturing[1], volume		+ 4.6	+ 9.0	+ 7.3	+ 3.9	− 9.5	+ 1.5
Wholesale and retail trade, volume		+ 2.2	+ 0.8	+ 0.7	+ 0.6	− 3.0	+ 0.7
Private consumption expenditure, volume		+ 2.1	+ 1.8	+ 0.8	+ 0.8	+ 0.2	+ 0.5
Gross fixed investment, volume		+ 1.2	+ 2.4	+ 3.8	+ 1.0	− 6.1	− 0.4
Machinery and equipment[2]		+ 3.4	+ 2.0	+ 4.7	+ 0.1	−11.0	+ 0.5
Construction		− 0.7	+ 2.8	+ 2.9	+ 1.8	− 2.0	− 1.0
Exports of goods[3]							
Volume		+ 3.2	+ 6.4	+ 9.0	+ 0.3	−15.1	+ 2.0
Value		+ 5.4	+ 9.5	+10.5	+ 2.5	−17.2	+ 3.5
Imports of goods[3]							
Volume		+ 3.1	+ 4.1	+ 7.6	+ 0.2	−11.2	+ 2.0
Value		+ 5.9	+ 8.0	+ 9.6	+ 4.7	−15.2	+ 4.6
Current balance	billion €	+ 5.31	+ 7.26	+ 8.41	+ 9.82	+ 5.16	+ 5.50
As a percentage of GDP		+ 2.2	+ 2.8	+ 3.1	+ 3.5	+ 1.9	+ 1.9
Long-term interest rate[4]	in percent	3.4	3.8	4.3	4.3	3.8	3.8
Consumer prices		+ 2.3	+ 1.5	+ 2.2	+ 3.2	+ 0.5	+ 1.3
Unemployment rate							
Eurostat definition[5]	in percent	5.2	4.8	4.4	3.8	5.3	5.8
National definition[6]	in percent	7.3	6.8	6.2	5.8	7.4	8.3
Persons in active dependent employment[7]		+ 1.0	+ 1.7	+ 2.1	+ 2.4	− 1.5	− 0.9
General government financial balance according to Maastricht definition							
As a percentage of GDP		− 1.6	− 1.6	− 0.5	− 0.4	− 4.5	− 5.7

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.

Despite a weakening labour market situation, private household demand should sustain the recovery, rising by 0.2 percent in volume this year and 0.5 percent in 2010, due to the relatively high wage settlements of 2008, receding inflation and income tax cuts.

Following the sharp decline in oil prices, inflation has virtually levelled off in 2009 (+0.5 percent). In 2010, the upward trend is likely to resume, as the global recovery will trigger a rebound in commodity prices leading to an increase in consumer prices in Austria by 1.3 percent.

Although first signs of a pick-up in economic activity have become apparent, the adverse trend on the Austrian labour market will continue into 2010. The number of unemployed is projected to go up by 55,000 in 2009 and further by 35,000 to a total above 300,000 in 2010. The rate of unemployment (national definition) will thereby ratchet up from 7.4 percent of the dependent labour force in 2009 to 8.3 percent next year.

International financial market crisis overcome, real economy recovering more slowly

A host of indicators point to an easing of the financial market crisis. First, risk premia continued to decline over the last few months. Interest rates on interbank loans fell markedly, and spreads on corporate loans and bonds have aligned to the sluggishness prevailing in the real economy. Second, the slump in US real estate prices has come to a halt, followed even by a small turnaround most recently. Thereby, the collateral of real-estate-backed credits has stopped diminishing, requiring no further write-offs by creditor banks.

A further sign of normalisation towards the unwinding of macro-economic imbalances is the depreciation of the dollar which contributes importantly to a reduction of the huge current account deficit and to a devaluation of US foreign debt. While at the onset of the crisis the dollar had significantly lost ground, the subsequent loss of economic confidence worldwide led to higher demand for US bonds and thus for dollar investments. With uncertainty on financial markets gradually evaporating, the role of the USA as "safe haven" is becoming less important. The present projections are based on an assumed exchange rate of $ 1.40 per euro in 2009 and of $ 1.50 per euro on annual average 2010.

The first half of 2009 saw a clear easing of strain on international financial markets. Risk premia declined substantially and real estate prices in the USA tentatively picked up.

Economic activity in the USA receded markedly in the first two quarters of 2009. Since then, data show some relief, with GDP growth likely to resume as from the second semester. The strongly expansionary fiscal stance is driving the revival of aggregate demand. The US general government deficit will widen from 5.3 percent of GDP in 2008 to over 12 percent in 2009, providing an impulse not only for the current year, but also for 2010. Even if a setback may not be excluded, the US economy is likely to expand by 1 percent in 2010, after a setback of 2.7 percent in 2009.

In Asia, the recovery is driven by China which stimulates internal demand by a fiscal programme that in relative terms is the largest in size. GDP should grow vigorously in both forecast years, by 7 percent and 7½ percent, respectively. This will also boost imports and thus provide incentives for the economies of the trading partners, helping notably the Japanese economy to return to modest growth of 0.5 percent in 2010, following the slump of 5.5 percent in 2009.

Table 2: World economy

	2005	2006	2007	2008	2009	2010
	Percentage changes from previous year					
Real GDP						
World	+ 4.5	+ 5.1	+ 5.1	+ 3.1	– 1.2	+ 2.0
Total OECD	+ 2.6	+ 2.9	+ 2.6	+ 0.5	– 3.5	+ 0.6
USA	+ 3.1	+ 2.7	+ 2.1	+ 0.4	– 2.7	+ 1.0
Japan	+ 1.9	+ 2.1	+ 2.4	– 0.7	– 5.5	+ 0.5
EU 27	+ 2.0	+ 3.2	+ 2.9	+ 0.9	– 4.0	+ 0.6
Euro area 16	+ 1.7	+ 3.0	+ 2.7	+ 0.7	– 4.0	+ 0.8
New EU countries[1]	+ 4.7	+ 6.5	+ 6.0	+ 3.8	– 3.5	+ 0.8
China	+ 10.4	+ 11.6	+ 13.0	+ 9.0	+ 7.0	+ 7.5
World trade, volume	+ 8.1	+ 9.5	+ 7.1	+ 2.8	– 12.0	+ 2.0
Market growth[2]	+ 7.6	+ 11.2	+ 7.7	+ 3.3	– 15.0	+ 2.2
Primary commodity prices						
HWWA index, total	+ 28.5	+ 19.7	+ 3.7	+ 22.4	– 31	+ 13
Excluding energy	+ 5.6	+ 22.0	+ 9.5	+ 15.6	– 25	+ 3
Crude oil prices						
Brent, $ per barrel	54.4	65.1	72.5	97.0	60	75
Exchange rate						
$ per euro	1.245	1.256	1.371	1.471	1.40	1.50

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.

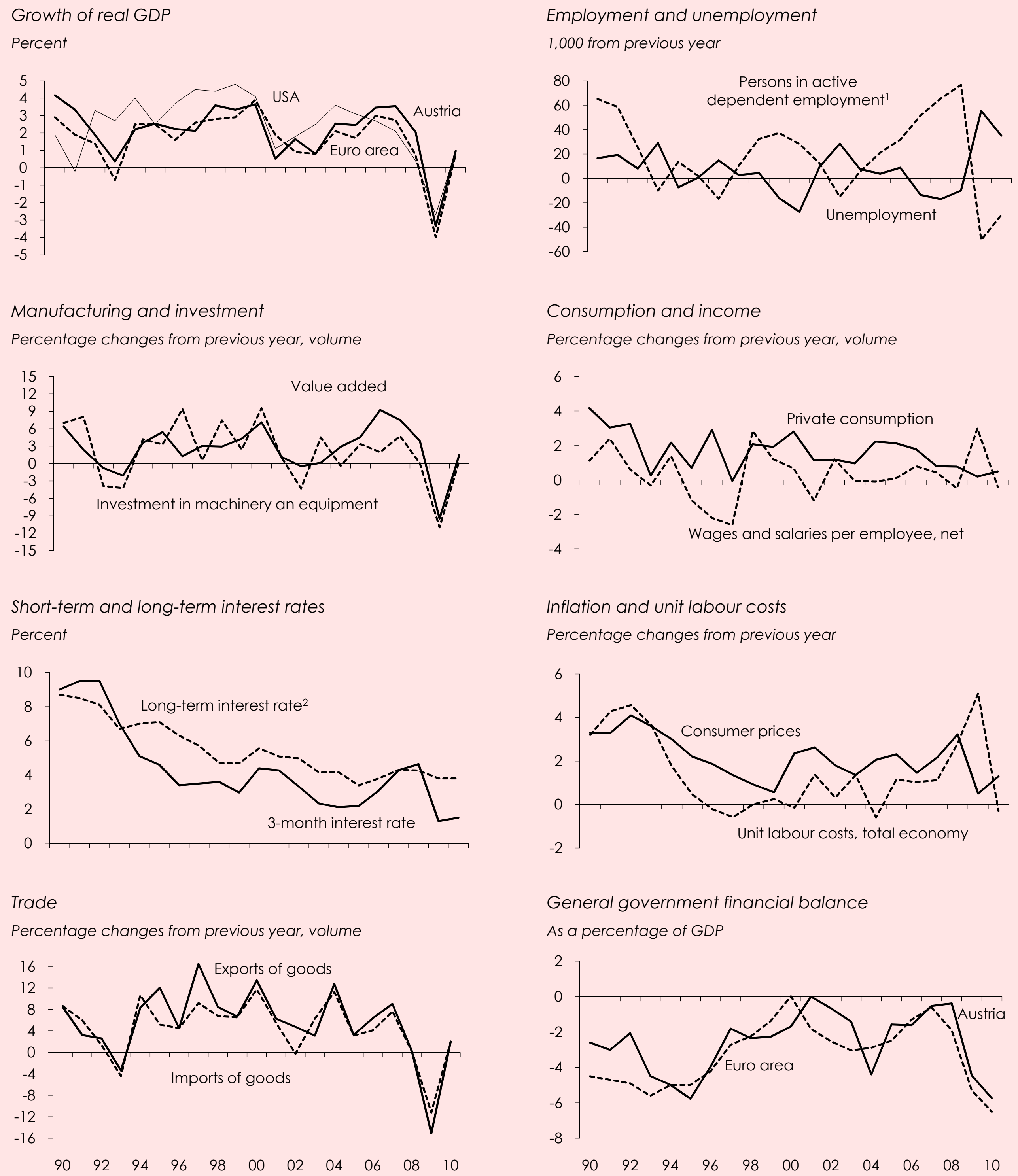
Growth advantage of EU economies outside the euro area fading

The economies in East-central Europe, having for years expanded significantly faster than the euro area, will contract this year. In 2010, growth rates should be similar in both regions.

The catching-up process of the eight new EU member countries not yet being part of the euro area has been fed over the last decade by abundant capital inflows from abroad. This positive trend has been interrupted by the financial market crisis. Most severely hit were the Baltic countries which in 2008 slid into a deep and protracted recession with GDP falling by 17 percent to 20 percent year-on-year in the second quarter 2009. In Hungary, capital outflow triggered a currency crisis compelling as a consequence the government to resort to foreign financial assistance. The accompanying programme for fiscal retrenchment requires budgetary restriction even beyond 2009 which is likely to delay a recovery of the Hungarian economy. Also other countries of the region, like Romania and Bulgaria, suffered a reversal of their economies. Only the Polish economy, the largest in the region, enjoyed positive growth in the first and second quarter 2009.

Against this background, WIFO expects GDP of these countries to fall by an overall 3.5 percent in 2009, not much less than in the euro area (–4 percent). In 2010, the region should stage a tentative recovery while the return to a dynamic growth path may take some more time. Growth in East-central Europe in 2010 is likely to match the 0.8 percent pace projected for the euro area.

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).

Private consumption and external demand incentives driving the recovery

The introduction of a scrapping premium boosted in many EU countries household demand for passenger cars. Exports also are tentatively picking up. Even if the forces of growth may lose some momentum in 2010, activity will remain on a gradual upward path.

Like in other zones of the world, GDP in the euro area contracted sharply from mid-2008 to the first quarter 2009. The major drag came from exports, although investment and consumption also slackened such that the euro area economy fell into the deepest recession in the post-war era. In the fourth quarter 2008, GDP edged down by 1.8 percent from the previous period, and in the first three months of 2009 the decline accelerated to 2.5 percent.

Meanwhile, many EU countries have adopted comprehensive fiscal stimulus programmes. Tax cuts, premia for scrapping old cars against purchase of new ones, and public infrastructure investment have been the main elements of such programmes. While a large part of tax cuts leak into higher household saving in the short term, thereby delaying the impact on final demand, the time limit set for the car scrapping premium generated an early stimulus. The USA also introduced such a premium in July 2009 which provides temporary relief for the ailing motor car industry.

Euro area car exports will benefit from the US incentives, and the US current account deficit which started widening again in June and July will increase further. European business surveys indicate a return of confidence along with a revival of industrial production.

As the scrapping premia have by now expired or are about to do so, some cyclical reversal should be expected in the quarters to come. By that time, however, tax cuts and infrastructure investment may translate into higher demand, arresting at least the downturn of the euro area economy. A strong rebound of activity should not be expected for 2010 since demand from the USA and from East-central Europe will still be too weak to lift up exports in the euro area. Also the projected further appreciation of the euro against the dollar will weigh on exports.

Nevertheless, economic activity in the euro area should show clear signs of revival in the second half of this year, confirming indications from business surveys, in particular for industrial orders. GDP in the two major economies, Germany and France, already edged up by 0.3 percent respectively in the second quarter from the previous period, while in the other countries the downturn lost momentum. For the area as a whole, the fall in GDP slowed to 0.1 percent after the 2.5 percent slump in the first three months of 2009.

Austria: recovering from the slump in the second half of 2009

Since the third quarter of 2008, the Austrian economy has been in the worst recession since World War II. On the back of the stimulus measures taken at home and abroad, activity started to recover as from mid-2009. In 2010 the economy should return to moderate growth which, however, will not yet be strong enough for the labour market to improve.

Due to the higher growth momentum in the last few years, GDP in Austria started declining one quarter later than in the euro area as a whole. Activity contracted as from the third quarter 2008, at an accelerating pace. The full impact of the recession was felt in the first quarter 2009, when demand and output plummeted by 2.7 percent from the earlier period. After a further decline by 0.5 percent in the second quarter, the trough now appears to be reached.

A number of cyclical indicators started improving shortly before mid-year. In the regular WIFO business cycle survey, firms turned more confident about the short-term outlook and, after a long time, judged their order levels more positively. Likewise, the seasonally- and workday-adjusted monthly export figures show that the downward trend has come to a halt.

Due to the fiscal stimulus measures, private consumption stabilised overall domestic activity, edging up by 0.4 percent seasonally- and calendar-adjusted from the previous period. The car scrapping premia introduced in a number of countries is boosting demand also for cars from Germany, thereby benefiting Austrian suppliers of components. According to the recent business surveys, confidence is picking up in these companies. Some of them close their short-time work arrangements prematurely on account of rising order inflows.

The domestic car scrapping premium had only a limited impact on industrial production, since the Austrian automobile market is rather small and the bulk of purchases is covered by imports. Towards the end of the year, this one-off demand hike is likely to ebb possibly even leading to a setback, although the downward adjustment of inventories should have been completed by that time. The slump in final demand induced firms to cut inventories sharply as, moreover, the credit squeeze after the financial market crisis had raised inventory cost substantially.

After the fall by 4.6 percent year-on-year in the first six months, the fiscally-induced one-off hike should take GDP growth into positive territory in the remainder of 2009, as confirmed by the business survey responses in Austria and abroad. On annual average, demand and output are projected to shrink by 3.4 percent. With the fading of fiscal stimulus in 2010, the recovery is likely to shift into lower gear. Although the positive effect from the car scrapping premium and the inventory build-up will be replaced by the lagged impact of the tax cut and of public investment programmes, the latter will stretch over a longer time period. GDP growth in 2010 is projected at 1 percent.

The income tax cut raises private household saving in the first instance, before gradually translating into higher spending.

Against the background of fragile labour market conditions, private consumption is proving resilient in 2009 and 2010. In early 2009, it was still subdued because of the delayed exoneration from the tax cut and the hesitant demand for new cars. However, in the second quarter, with the car scrapping premium taking effect, new car registrations increased at double-digit rates, thereby fuelling overall private consumption.

Apart from the tax cut, private consumption benefited also from the sharp deceleration of inflation which strengthens private household real disposable income, as well as from the relatively generous wage settlements last year. For this reason, private consumption is likely to increase by 0.2 percent this year, despite the swift rise in unemployment. In 2010, smaller wage increases and the acceleration of inflation will dampen private consumption growth, whereas it will be supported by a decline in the saving ratio. The latter will, however, be more muted than in earlier recoveries, due to the weak labour market situation. For 2010, consumption growth is projected at 0.5 percent.

Investment still edging down in 2010

Demand for machinery and equipment fell particularly strongly in 2009. Firms struggle with idle productive capacity, and prospects for the recovery from the recession remain vague. In addition, the financial market crisis has complicated bond refinancing for large companies. Already in the first six months of 2009, equipment investment retreated by over 18 percent year-on-year, although demand should start rebounding in the second semester, equipment investment for the year as a whole will be 11 percent lower than in 2008.

After a fall by 6 percent in 2009, gross fixed investment will slightly decline further in 2010.

Table 3: Productivity

	2005	2006	2007	2008	2009	2010
	Percentage changes from previous year					
Total economy						
Real GDP	+ 2.5	+ 3.5	+ 3.5	+ 2.0	− 3.4	+ 1.0
Employment[1]	+ 1.1	+ 1.5	+ 1.7	+ 2.3	− 1.1	− 0.5
Productivity (GDP per employment)	+ 1.3	+ 2.0	+ 1.8	− 0.2	− 2.3	+ 1.5
Manufacturing						
Production[2]	+ 4.6	+ 9.2	+ 7.5	+ 3.9	− 9.5	+ 1.5
Employees[3]	− 0.8	+ 0.2	+ 2.6	+ 1.7	− 6.3	− 2.7
Productivity per hour	+ 6.0	+ 8.8	+ 5.1	+ 2.7	− 0.6	+ 4.1
Working hours per day per employee[4]	− 0.6	+ 0.2	− 0.3	− 0.5	− 2.8	+ 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.

In 2010, the recession will peter out; also, the accelerated depreciation rule will expire, as foreseen in the second fiscal stimulus "package". Both elements will make for a modest pick-up in machinery and equipment investment by 0.5 percent.

Firms and public authorities also cut drastically their investment in new construction, by almost 8 percent from last year in the first half of 2009, although bad weather conditions were largely responsible for the fall. In the latter part of the year, growth should resume, limiting the annual loss to 2 percent. The decline is particularly strong for residential investment, but rather small for other domains of construction.

In 2010, overall demand for new construction will decline further (–1 percent), due to a continued fall in private new-home building. On the other hand, the fiscal stimulus measures will lead to higher investment in infrastructure.

Table 4: Earnings and international competitiveness

	2005	2006	2007	2008	2009	2010
	Percentage changes from previous year					
Gross earnings per employee[1]	+ 2.4	+ 3.2	+ 3.1	+ 2.7	+ 2.3	+ 1.2
Gross real earnings per employee[1]	– 0.2	+ 1.0	+ 0.5	+ 0.0	+ 1.8	– 0.1
Net real earnings per employee[1]	+ 0.1	+ 0.8	+ 0.4	– 0.5	+ 3.0	– 0.4
Total economy						
Unit labour costs	+ 1.1	+ 1.0	+ 1.1	+ 2.8	+ 5.1	– 0.3
Manufacturing						
Unit labour costs	– 0.7	– 4.2	– 1.7	+ 1.0	+ 3.2	– 2.5
Effective exchange rate, manufactures						
Nominal	– 0.6	+ 0.2	+ 1.2	+ 1.1	– 0.2	+ 0.4
Real	– 0.9	– 0.4	+ 0.8	+ 0.6	– 0.4	+ 0.5

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

Tourism exports held back by the economic crisis

While the early part of the winter season 2008-09 turned out still favourable for the Austrian tourism sector, the expected losses materialised as from the first months of 2009. Besides the impact of the economic crisis, the late date of Easter in this year's calendar explains the reversal.

The negative trend continued in the summer season, where in the first three months both tourism sales and overnight stays decreased by over 5 percent. Especially customers from abroad stayed away (–6.6 percent).

For the whole year 2009, a fall in tourism exports by 6.5 percent should be expected. With the situation on labour markets set to remain fragile in 2010, WIFO projects a further decline by 1 percent.

The repercussions of the recession on the labour market overshadow also the demand for travel. Although Austria in the current crisis enjoys the advantage of being a destination close to Germany and other key European markets, tourism exports will recede by 6.5 percent this year.

Table 5: Private consumption, income and prices

	2005	2006	2007	2008	2009	2010
	Percentage changes from previous year					
Private consumption expenditure	+ 2.1	+ 1.8	+ 0.8	+ 0.8	+ 0.2	+ 0.5
Durables	+ 2.0	+ 5.6	+ 3.6	+ 2.2	– 1.0	± 0.0
Non-durables and services	+ 2.2	+ 1.4	+ 0.5	+ 0.6	+ 0.3	+ 0.6
Household disposable income	+ 2.6	+ 3.0	+ 1.7	+ 1.7	+ 1.0	+ 0.2
	As a percentage of disposable income					
Household saving ratio	9.7	10.8	11.3	12.0	12.7	12.5
	Percentage changes from previous year					
Direct lending to domestic non-banks[1]	+ 4.7	+ 4.5	+ 3.6	+ 7.4	+ 3.0	+ 3.5
	Percentage changes from previous year					
Inflation rate						
National	2.3	1.5	2.2	3.2	0.5	1.3
Harmonised	2.1	1.7	2.2	3.2	0.5	1.3
Core inflation[2]	1.5	1.3	1.9	2.4	1.5	1.2

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

Decline in overall price level will not continue

Inflation came to a halt towards the end of May 2009. For June and July, even a decline in the consumer price index by 0.3 percent respectively was recorded. This is only partly the result of the deep recession, the main reason being the steep fall in prices for oil and oil products from last year. Adjusted for energy and unprocessed food items, core inflation in the Harmonised Index of Consumer Prices (HICP) remains above 1 percent. In August 2009, headline inflation edged up to 0.3 percent: in August 2008, the slump in oil prices had started whose dampening effect will from now on disappear in the annual comparison. For 2009, WIFO projects a rate of inflation of 0.5 percent.

With raw material prices drifting up as the global recovery takes on momentum, the domestic price level will resume a gentle upward trend. However, the gap between overall demand and potential output renders unlikely a sharp acceleration of inflation as a consequence of strong money supply growth.

Prices for internationally traded oil have been climbing again for some time, a trend likely to continue in 2010, as the international recovery will raise demand for energy. Underlying the WIFO projections is the assumption of a reference price for crude oil of $ 75 per barrel in 2010, after $ 60 per barrel for 2009. However, the appreciation of the euro vis-à-vis the dollar will dampen the impact on the domestic consumer price index. Headline inflation for 2010 is therefore expected at a rate of 1.3 percent.

No relief for the labour market yet in sight

The recession had a rather early impact on the Austrian labour market. Already from the second quarter 2008, unemployment started picking up on a seasonally-adjusted basis, while employment growth slowed down. By mid-2008, employment began to decline month-on-month, after adjustment for seasonal and calendar variations. Since that time, the labour market continued to weaken although the possibility for firms to resort to temporary short-time work has had an important cushioning effect.

The Austrian labour market reacted rather early, but in a muted way to the slump in economic activity. Policy measures taken to dampen the impact on employment have proved effective. GDP growth in 2010 will still be too weak to turn the situation around, such that the fall in employment and the rise in unemployment will both continue.

Table 6: Labour market

		2005	2006	2007	2008	2009	2010
		Changes from previous year, in 1,000					
Demand for labour							
Persons in active employment[1]		+ 37.1	+ 55.0	+ 64.8	+ 86.1	– 48.4	– 30.0
Employees[2]		+ 31.9	+ 51.5	+ 65.5	+ 76.7	– 50.4	– 30.0
Percentage changes from previous year		*+ 1.0*	*+ 1.7*	*+ 2.1*	*+ 2.4*	*– 1.5*	*– 0.9*
Nationals		+ 20.0	+ 35.0	+ 43.6	+ 53.2	– 44.9	– 26.5
Foreign workers		+ 11.9	+ 16.5	+ 21.9	+ 23.5	– 5.5	– 3.5
Self-employed[3]		+ 5.2	+ 3.5	– 0.7	+ 9.4	+ 2.0	± 0.0
Labour supply							
Population of working age	15 to 64 years	+ 13.4	+ 12.8	+ 15.5	+ 27.7	+ 20.2	+ 27.5
	15 to 59 years	+ 46.5	+ 47.3	+ 17.1	+ 17.6	+ 13.6	+ 13.7
Labour force[4]		+ 45.8	+ 41.5	+ 47.9	+ 76.1	+ 7.0	+ 5.0
Surplus of labour							
Registered unemployed[5]		+ 8.8	– 13.5	– 16.9	– 10.0	+ 55.4	+ 35.0
In 1,000		252.7	239.2	222.2	212.3	267.7	302.7
Unemployed persons in training	In 1,000	48.6	57.5	52.7	50.5	63.8	69.8
		Percent					
Unemployment rate							
Eurostat definition[6]		5.2	4.8	4.4	3.8	5.3	5.8
As a percentage of total labour force[5]		6.5	6.1	5.6	5.2	6.6	7.5
National definition[5, 7]		7.3	6.8	6.2	5.8	7.4	8.3
Employment rate							
Persons in active employment[1, 8]		63.0	63.9	64.8	66.0	65.0	64.1
Total employment[6, 8]		68.6	70.2	71.4	72.1	71.0	70.1

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).

In August 2009, the number of people in dependent active employment fell almost 2 percent below the year-earlier level, matching the fall of July. In both months, the seasonally and work-day-adjusted employment edged down by 0.1 percent month-on-month. Job losses have thus not yet been brought to a halt. For the whole of 2009, WIFO expects a net loss of 50,400 jobs or 1.5 percent of the total. Due to the extension of the maximum duration of short-time work arrangements to 24 months and with the recession bottoming out, the fall in employment in 2010 should be contained to 30,000 persons or 0.9 percent.

Increased offers for job training organised by employment agencies for the unemployed and the elastic response of labour supply are keeping the rise in unemployment in check. The number of jobseekers registered at the labour exchange service will nevertheless rise by an estimated 55,400 this year, driving the unemployment rate (national definition) up from 5.8 percent in 2008 to 7.4 percent. In 2010, the jobless figure is likely to increase by a further 35,000 persons. While the inflow into unemployment will taper off, total registrations at the Labour Market Service will peak above 300,000, corresponding to an unemployment rate of 8.3 percent. On international definitions (Eurostat), the jobless rate moves up from 3.8 percent in 2008 to 5.3 percent in 2009 and 5.8 percent in 2010.

Severe shortfall of corporate tax revenues

Most affected by the recession have been revenues from business taxes; thus, corporate tax revenues for the first seven months of 2009 were down by more than 40 percent from the same period of last year. In addition, due to the weakening labour market and the tax cuts, revenues from wage tax fall by around 5 percent and those from VAT are depressed (–1 percent) by sluggish private consumption growth and the cut in the VAT rate on pharmaceuticals.

After years of buoyant tax revenues, government budgets are now faced with important losses and higher expenditure for cyclical stabilisation and social purposes.

On the expenditure side, unemployment benefits and the cost of the stimulus "packages" exert additional upward pressure. The general government deficit is therefore projected to widen to 4.5 percent of GDP in 2009 and further to 5.7 percent in 2010. Like almost all euro area countries, Austria will exceed in both years the deficit ceiling of 3 percent of GDP provided for in the European Stability and Growth Pact.

As a result of the higher deficits, the level of government debt will rise from 62.6 percent of nominal GDP in 2008 to over 70 percent this year. A further increase to more than 75 percent is projected for 2010.

Table 7: Key policy indicators

	2005	2006	2007	2008	2009	2010
	As a percentage of GDP					
Fiscal policy						
General government financial balance						
According to Maastricht definition	– 1.6	– 1.6	– 0.5	– 0.4	– 4.5	– 5.7
According to National Accounts	– 1.7	– 1.7	– 0.7	– 0.5	– 4.5	– 5.7
General government primary balance	+ 1.3	+ 1.1	+ 2.2	+ 2.1	– 1.5	– 2.6
	Percent					
Monetary policy						
3-month interest rate	2.2	3.1	4.3	4.6	1.3	1.5
Long-term interest rate[1]	3.4	3.8	4.3	4.3	3.8	3.8
	Percentage changes from previous year					
Effective exchange rate						
Nominal	– 0.7	+ 0.2	+ 1.1	+ 1.2	– 0.2	+ 0.4
Real	– 1.0	– 0.5	+ 0.7	+ 0.6	– 0.5	+ 0.4

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

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 relative 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 (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".