

Christian Glocker

# Stronger Growth in an Environment Fraught with Risk

## Economic Outlook for 2016 and 2017

### Stronger Growth in an Environment Fraught with Risk. Economic Outlook for 2016 and 2017

In 2016 and 2017, economic growth in Austria should pick up from the sluggish pace recorded in 2015. While leading indicators still give no clear hint for a substantial revival of activity, private and public consumption are fuelled by one-off factors, thereby supporting overall output growth. Gross Domestic Product is expected to gain 1.7 percent in volume, both in 2016 and 2017.

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Economic growth in Austria has recently accelerated from the slow pace of the last four years. The fresh momentum derives from stronger domestic demand on the back of lively job creation and higher private incomes. Exports, however, receive only limited incentives from the hesitant expansion of world trade. The outlook for exports is relatively better for 2017, which should offset a somewhat less buoyant performance of internal demand.

In such conditions, real GDP is projected to grow by 1.7 percent each in 2016 and 2017. The strong rebound from the trend of the last few years should, however, not belie the fact that the underlying cyclical momentum in 2016 is still weak. Indeed, the higher rate of growth in the current year is largely owed to several benign one-off factors like calendar effects, the tax reform or the wave of immigration; in the absence of these factors, GDP would grow only marginally faster than last year.

From today's perspective, the cyclical dynamics would strengthen significantly only in 2017, keeping the economy on a stable growth path even as the one-off factors of 2016 wear off. Nevertheless, the degree of utilisation of productive capacities will not exceed normal level over the forecast horizon, keeping the output gap negative by the end of 2017. In view of the expected revival of world trade and global cyclical activity, net exports should make a larger contribution to domestic growth. In the USA, demand and output should strengthen, notably in 2017, and in parallel the euro area should pursue its recovery. Moreover, commodity prices may now have passed the lower turning point, offering brighter perspectives for the emerging markets. Hence, exports should by 2017 take the lead in keeping the upturn of the Austrian economy on track.

A potential popular vote in favour of UK's exit from the EU should not have immediate consequences for Austrian exports as, in the event, a transition period of up to two years until the definite leave is foreseen, for the negotiation of a new settlement of bilateral relations. Possible turbulence on stock and foreign exchange markets

may, however, trigger early adverse effects which have not been included into the present forecast due to their high degree of uncertainty.

Table 1: Main results

		2012	2013	2014	2015	2016	2017
		Percentage changes from previous year					
GDP							
Volume		+ 0.8	+ 0.3	+ 0.4	+ 0.9	+ 1.7	+ 1.7
Value		+ 2.7	+ 1.8	+ 2.0	+ 2.4	+ 3.4	+ 3.5
Manufacturing <sup>1</sup> , volume		+ 2.2	- 0.4	+ 1.1	+ 1.2	+ 2.2	+ 2.8
Wholesale and retail trade, volume		- 1.6	- 0.2	- 0.5	+ 1.7	+ 3.2	+ 3.3
Private consumption expenditure, volume		+ 0.6	+ 0.1	+ 0.0	+ 0.4	+ 1.7	+ 1.3
Gross fixed investment, volume		+ 1.3	- 0.3	- 0.2	+ 0.5	+ 1.9	+ 2.0
Machinery and equipment <sup>2</sup>		+ 0.7	- 0.1	+ 1.3	+ 3.1	+ 3.2	+ 2.7
Construction		+ 2.2	- 2.1	- 1.0	- 1.2	+ 1.0	+ 1.4
Other investment <sup>3</sup>		+ 0.2	+ 4.1	- 0.7	+ 0.2	+ 1.9	+ 2.2
Exports of goods <sup>4</sup>							
Volume		+ 0.5	+ 2.9	+ 2.7	+ 2.2	+ 2.5	+ 4.5
Value		+ 1.5	+ 1.8	+ 1.8	+ 2.7	+ 2.6	+ 5.3
Imports of goods <sup>4</sup>							
Volume		- 0.9	- 0.1	+ 1.0	+ 4.0	+ 3.3	+ 4.2
Value		+ 0.7	- 1.0	- 0.7	+ 2.4	+ 2.8	+ 5.1
Current balance	billion €	+ 4.73	+ 6.29	+ 6.38	+ 8.64	+ 9.55	+ 11.48
As a percentage of GDP		+ 1.5	+ 1.9	+ 1.9	+ 2.6	+ 2.7	+ 3.2
Long-term interest rate <sup>5</sup>	percent	2.4	2.0	1.5	0.7	0.5	0.5
Consumer prices		+ 2.4	+ 2.0	+ 1.7	+ 0.9	+ 1.1	+ 1.8
Unemployment rate							
Eurostat definition <sup>6</sup>	percent	4.9	5.4	5.6	5.7	5.9	6.1
National definition <sup>7</sup>	percent	7.0	7.6	8.4	9.1	9.2	9.6
Persons in active dependent employment <sup>8</sup>		+ 1.4	+ 0.6	+ 0.7	+ 1.0	+ 1.4	+ 1.2
General government financial balance according to Maastricht definition							
As a percentage of GDP		- 2.2	- 1.3	- 2.7	- 1.2	- 1.7	- 1.5

Source: WIFO. 2016 to 2017: forecast. – <sup>1</sup> Value added, including mining and quarrying. – <sup>2</sup> Including weapon systems. – <sup>3</sup> Intellectual property products and cultivated biological resources. – <sup>4</sup> According to Statistics Austria. – <sup>5</sup> 10-year central government bonds (benchmark). – <sup>6</sup> According to Eurostat Labour Force Survey. – <sup>7</sup> According to Public Employment Service Austria, as a percentage of total labour force excluding self employed. – <sup>8</sup> Excluding persons with valid employment contract receiving child care benefit or being in military service.

Despite stronger economic growth in prospect, inflation pressure should rise only moderately. From an annual rate of 0.9 percent in 2015, the consumer price index (CPI) may move up to 1.1 percent in 2016 and 1.8 percent in 2017. Oil price volatility remains a specific risk for the inflation projection, which nevertheless, like the risks to economic growth, is deemed balanced.

Labour supply is seen rising markedly over the entire forecast period, outpacing job creation despite strengthening output growth. Hence, unemployment is set to increase further, to an average rate of 9.2 percent of the dependent labour force (national definition) in 2016 and 9.6 percent in 2017.

## 1. The starting position: subdued activity in 2015

In 2015, the Austrian economy grew by 0.9 percent, the fourth modest annual increase in a row. Activity remained subdued throughout the year, quarterly growth rates being largely alike. GDP growth was entirely sustained by domestic demand (growth contribution +0.9 percentage points), with no growth contribution coming from net exports. Austrian exporting firms were still facing difficult external conditions,

holding back the expansion of foreign trade. The increase in imports mirrors the gradual revival of investment.

At the turn of the year, the composition of aggregate demand shifted markedly. While, due to weakening global activity, export growth lost further momentum in the first quarter and gross fixed investment slackened somewhat, overall consumption expenditure picked up significantly. As far as public consumption is concerned, this largely reflects the spending on basic subsistence care for refugees, the number of which had strongly increased during the second half of 2015. Private consumption also posted healthy gains early this year: the main reason has probably been a further (quarter-on-quarter) fall in oil prices, strengthening domestic households' purchasing power; in addition, higher disposable income on account of the tax reform induced households to spend more on goods and services.

Developments on the supply side were uneven. Against the backdrop of limited export opportunities, manufacturing activity was weaker than in previous cyclical episodes. Construction picked up for the first time (first quarter +0.3 percent after +0.1 percent in the fourth quarter 2015) also growth incentives from the services sector were significantly stronger in the first quarter than on average in 2015.

Sagging economic activity, the continued under-utilisation of productive capacities (negative output gap) and the marked fall in commodity prices held inflation down in 2015, at an annual rate of 0.9 percent. In combination with moderate nominal wage increases of 1.7 percent (in gross terms, per capita), net real wages edged up by 0.2 percent. Since the rise in real wages slightly lagged behind productivity growth (per hour worked +0.5 percent for the overall economy), price competitiveness of the Austrian economy remained broadly unchanged.

*For some years, the Austrian economy has been lacking stimulating incentives both domestic and from abroad. Private consumption expenditure stagnated, while exports advanced sluggishly.*

## 2. Framework conditions

The present forecast takes on board the information on global economic developments, commodity prices, exchange rates and interest rates that was available up to mid-June 2016. On the policy framework for Austria, we include all measures adopted or sufficiently specified and whose implementation is considered likely.

### 2.1 Global business activity picking up

In the first quarter 2016, the world economy grew similarly weakly as in the fourth quarter 2015, once again disappointing earlier expectations. At the same time, the data suggest a regional shift in the forces of growth. In several larger industrialised countries, GDP growth remained subdued. This seems to be the case in Japan and the USA and may partly be explained by feedback effects from lacklustre demand in the emerging markets. Nevertheless, the quasi-stagnation of the US economy in the first quarter has also roots in domestic demand. At the same time, the slowdown of activity observed in many emerging market economies in 2015 appears to have come to a halt. Thus, policy efforts in China to stimulate the economy may reap early benefits. In Russia and Brazil, the recession is loosening its grip. Leading indicators for the industrialised countries point to an early turnaround of the business cycle. The expected firming of raw material prices and the stimulating policy measures should pull the emerging markets out of the doldrums, but growth prospects still remain altogether muted as projections, especially for 2016, have once again been revised down.

Against this background, WIFO expects world GDP to expand by 3.0 percent in 2016, accelerating to 3.4 percent in 2017. Part of the Austrian export markets may face a slowdown of growth in 2016, such as the USA, the UK, but also emerging markets like China as well as many countries in East-Central Europe (e.g., Poland, Hungary, Czech Republic and Slovakia). The markedly lower growth rates on annual average 2016 partly derive from a low carry-over from 2015 and poor results for early 2016. Business activity in the euro area, on the other hand, may exceed expectations for 2016 and provide stimulus for Austrian exports. Especially in the four major economies growth is projected to strengthen (France, Italy) or maintain the momentum enjoyed last year (Spain, Germany). The upward trend is reinforced by internal de-

mand. The latest credit survey for the euro area indicates a certain relaxation in loan conditions that should benefit private consumption and business investment alike. In addition, the sustained easing of fiscal policy should be conducive to stronger growth. In all, real GDP for the euro area is projected to gain 1.6 percent in 2016 and 1.7 percent in 2017.

Table 2: World economy

	2012	2013	2014	2015	2016	2017
	Percentage changes from previous year					
<i>Real GDP</i>						
World	+ 3.5	+ 3.3	+ 3.4	+ 3.1	+ 3.0	+ 3.4
USA	+ 2.2	+ 1.5	+ 2.4	+ 2.4	+ 1.8	+ 2.4
Japan	+ 1.7	+ 1.4	± 0.0	+ 0.6	+ 0.5	+ 0.5
EU 28	- 0.5	+ 0.2	+ 1.4	+ 1.9	+ 1.8	+ 1.9
Euro area 19	- 0.9	- 0.3	+ 0.9	+ 1.6	+ 1.6	+ 1.7
Germany	+ 0.4	+ 0.3	+ 1.6	+ 1.7	+ 1.6	+ 1.7
CEEC 5 <sup>1</sup>	+ 0.4	+ 0.9	+ 3.0	+ 3.5	+ 2.2	+ 3.3
China	+ 7.7	+ 7.7	+ 7.3	+ 6.9	+ 6.0	+ 5.8
World trade, volume	+ 1.6	+ 2.5	+ 2.9	+ 1.6	+ 1.9	+ 2.5
Market growth <sup>2</sup>	+ 0.6	+ 1.7	+ 3.5	+ 2.9	+ 3.0	+ 4.5
<i>Primary commodity prices<sup>3</sup></i>						
HWI index, total	- 2.8	- 1.9	- 7.0	- 41.5	- 7	+ 15
Excluding crude oil	- 14.4	- 6.1	- 6.2	- 19.6	- 3	+ 6
<i>Crude oil prices</i>						
Brent, \$ per barrel	111.6	108.7	99.0	52.5	48	57
<i>Exchange rate</i>						
\$ per € <sup>4</sup>	1.286	1.328	1.329	1.110	1.10	1.15

Source: WIFO. 2016 to 2017: forecast. – <sup>1</sup> Czech Republic, Hungary, Poland, Slovakia, Slovenia. – <sup>2</sup> Real import growth of goods of trading partners (according to Oxford Economics) weighted by Austrian export shares. – <sup>3</sup> Dollar. – <sup>4</sup> Annual averages on the basis of monthly averages.

Oil prices had been under downward pressure in 2015. After hitting a low in early 2016, prices have been heading up since, possibly due to the prospect of the excess supply being mopped up. Oil futures, from which the price assumptions are derived, show a flat upward trend over the forecast horizon; prices should thus stay low also in 2017. In view of the expected appreciation of the euro vis-à-vis the dollar, the euro-denominated oil price increase should be even smaller than on a dollar basis. Quotations for other raw materials have also eased markedly until early this year, but have turned around more recently. The expected cyclical upswing of the world economy will push up commodity prices in 2017 above the average level for the current year.

## 2.2 Expansionary monetary policy and higher public consumption in Austria

The ECB is trying to reinforce its expansionary stance. Lately, in March 2016, the ECB Council adopted a further relaxation, leading to another marked decline in government bond yields. Market expectations on the future trend of interest rates, which are the yardstick for the technical assumption on short-term interest rates and the return on 10-year government bonds underlying the forecast, are also very low – and indeed below the assumptions retained in earlier projections.

The impact of the expansionary monetary stimulus on the real economy is likely to be altogether small, as witnessed by indicators on the scope of the "liquidity trap" in which the euro area is currently caught. Moreover, loan interest rates charged by banks and their readiness to extend loans to high-risk debtors have for some time already become independent from cost and restrictions on central bank refinancing. Thus, a high proportion of companies in need for credit reported in the regular WIFO Business Cycle Survey that despite low interest rates banks had put restrictions on their demands concerning credit amounts or conditions. Nearly 30 percent of com-

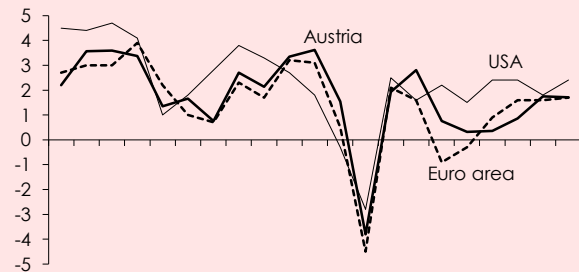
*Monetary policy by the ECB should keep its expansionary stance throughout the projection period.*

panies asking for credit were turned down by banks – a rather high proportion by past standards.

Figure 1: Indicators of economic performance

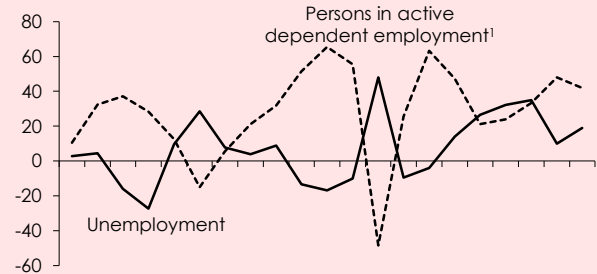
Growth of real GDP

Percent



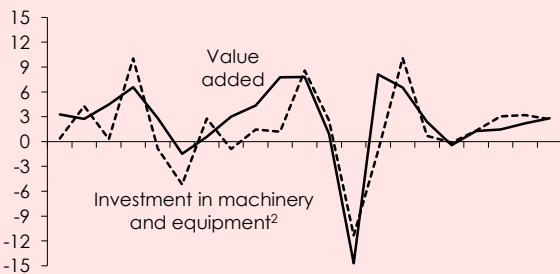
Employment and unemployment

1,000 from previous year



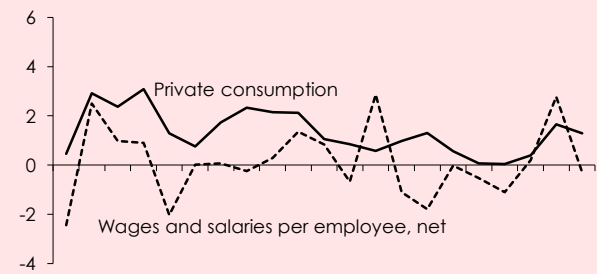
Manufacturing and investment

Percentage changes from previous year, volume



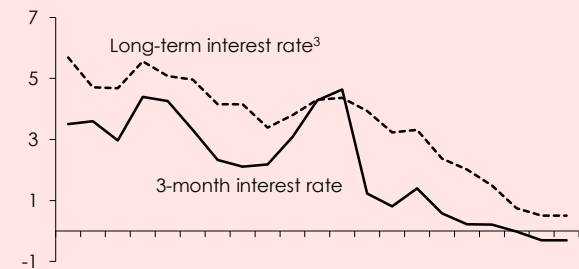
Consumption and income

Percentage changes from previous year, volume



Short-term and long-term interest rates

Percent



Inflation and unit labour costs

Percentage changes from previous year



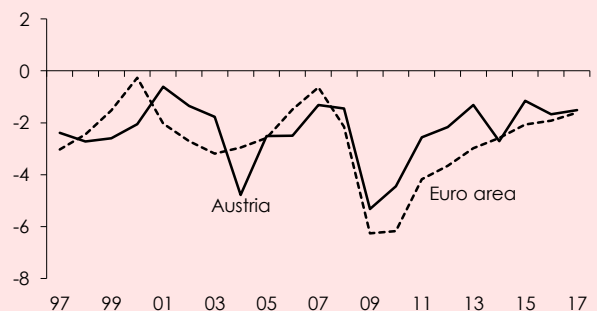
Trade

Percentage changes from previous year, volume



General government financial balance

As a percentage of GDP



Source: WIFO. 2016 to 2017: forecast. – <sup>1</sup> Excluding persons with valid employment contract receiving child care benefit or being in military service. – <sup>2</sup> 10-year central government bonds (benchmark).

The Financial Market Stability Board has taken no measures influencing business activity in its latest meetings. The counter-cyclical capital buffer was again set at 0 percent as total credit outstanding in relation to GDP growth is still way below its long-term trend. However, those measures that are part of the road map of Basle III implementation continue to be taken. While these are more of structural rather than cyclical nature, they may by themselves still have contractionary effects on economic activity in the short term. However, given the glut of liquidity engineered by the ECB, any dampening effects on credit extension at the current juncture are likely to be small.

The present forecast includes fiscal policy measures already adopted or sufficiently specified, whose implementation is deemed likely. Over the forecast horizon, the government budget continues to be burdened by support for ailing banks, albeit to a lesser extent than in recent years. For 2016, such financial support is assumed at 700 million €, for 2017 at 650 million €. Further budgetary cost derives from accommodation and basic subsistence care for refugees. Such cost raises public consumption in the first round, but via spending of other current transfers also private consumption. Total expenditure on accommodation and care of refugees, including needs-tested minimum income payments, is anticipated at 1.0 billion € for 2016 and 0.7 billion € for 2017. Adding to this is reinforced spending in the areas of integration, justice and security as foreseen in the Federal Fiscal Framework 2017-2020. Estimated total expense will amount to some 2.1 billion € each in 2016 and 2017. Underlying the forecast is the ceiling on asylum applications as announced by the federal government for 2016 and 2017. A slight upward correction of the respective expenditure item is largely explained by a revised assumption on the duration of asylum approval procedures, leading to a higher number of persons (full-year equivalents) entitled to basic subsistence care.

*Domestic macro-prudential policy continues its efforts to accelerate credit growth.*

*The drain on government finances from the wage and income tax reform, support for banks in distress and accommodation and care of refugees is partly counter-balanced by several benign factors, notably low debt service charges.*

Table 3: Key policy indicators

	2012	2013	2014	2015	2016	2017
	As a percentage of GDP					
<i>Fiscal policy</i>						
General government financial balance						
According to Maastricht definition	- 2.2	- 1.3	- 2.7	- 1.2	- 1.7	- 1.5
General government primary balance	0.6	1.3	- 0.2	1.2	0.5	0.4
	In percent					
<i>Monetary policy</i>						
3-month interest rate	0.6	0.2	0.2	- 0.0	- 0.3	- 0.3
Long-term interest rate <sup>2</sup>	2.4	2.0	1.5	0.7	0.5	0.5
	Percentage changes from previous year					
<i>Effective exchange rate</i>						
Nominal	- 1.5	+ 1.7	+ 1.2	- 2.8	+ 0.9	+ 0.5
Real	- 1.5	+ 2.1	+ 1.5	- 2.7	+ 1.0	+ 0.4

Source: WIFO. 2016 to 2017: forecast. - <sup>1</sup> 10-year central government bonds (benchmark).

The adjustment of the wage and income tax schedule as well as VAT, capital gains tax and real estate transfer tax payments carried forward into 2015 imply revenues foregone in 2016 and 2017. A further burden on the budget balance originates from increased spending on public investment in infrastructure.

The negative items affecting the general government financial balance are partly offset by a further exoneration of interest charges on public debt. In all, WIFO expects the general government deficit (Maastricht definition) to widen to 1.7 of GDP in 2016, before edging down to 1.5 percent of GDP in 2017.

### 3. Growth prospects improving significantly

The strong acceleration of GDP growth in Austria in the first quarter 2016 is remarkable in view of the rather sluggish global economic activity and the less than encouraging signs given by domestic leading indicators. The latest WIFO Business Cycle

Survey of May shows somewhat less pessimistic economic assessment by firms. Judgements of the current situation improved noticeably for the overall economy, driven by greater optimism among service companies, while scepticism still dominates among manufacturers who have an important influence on the business cycle. The index of business expectations has been heading down since November 2015, but turned around in May. Like with the judgements on the current situation, expectations improved most in the service sector. Forward-looking confidence edged up also in manufacturing, the index still remained in negative territory, however.

The Business Barometer issued by the Austrian Economic Chambers suggests a rebound in activity for the twelve months to come, in particular as regards firms' order levels, capacity utilisation and sales. On investment plans, companies take a wait-and-see attitude, the balance of positive vs. negative expectations remaining slightly negative. Among investment motives, replacement of machinery and equipment dominates; indeed, only 36 percent of companies cite the creation of new production facilities as the main motive for their investment plans. As reasons for new investment, firms mainly name innovation and digitisation (63 percent) and rising capacity utilisation (57 percent). 30 percent of firms sampled plan no investment at all in the next twelve months.

In the business survey conducted by the European Commission, the index of consumer confidence has also increased lately, but still remains at a very low level.

Overall, the short-term outlook has brightened up, albeit moderately and from a low level. Hence, the underlying dynamics of business activity remains subdued and is likely to strengthen only gradually in the further course of 2016.

### 3.1 Stronger GDP growth in 2016 driven by one-off factors

Under the current external conditions and policy settings, the adjusted annual rate of real GDP growth is expected to rise from +0.8 percent in 2015 to +1.5 percent in 2016 and +1.8 percent in 2017 (Figure 2 and Table 4). Given the limited carry-over from 2015, the stronger growth momentum in 2016 is mainly the result of buoyant dynamics during the year. For 2017, the projected annual growth rate is boosted by a higher statistical overhang from 2016 and a still stronger pace during the year. The unadjusted annual growth rates of 1.7 percent respectively in 2016 and 2017 show a somewhat different profile, due to calendar effects (variation in the number of working days, inter alia the leap day; see Table 4).

Such comparatively high growth rates should, however, not hide the fact that the underlying cyclical dynamics is still sluggish in 2016. A large part of the apparent strong growth in 2016 is explained by special factors like calendar effects, the tax reform and the wave of immigration. Without these benign elements, the annual growth rate would be distinctly lower and barely above the one recorded for 2015. By 2017, however, the brighter global environment should give fresh impetus to economic activity in Austria; the stronger cyclical momentum should therefore keep GDP growth at the same rate as in 2016 even if the favourable one-off factors will have dropped out.

*A number of benign one-off factors has recently raised Austria's GDP growth beyond the still weak underlying cyclical momentum. However, thanks to an improvement in the general environment, business activity is set to strengthen over the forecast period.*

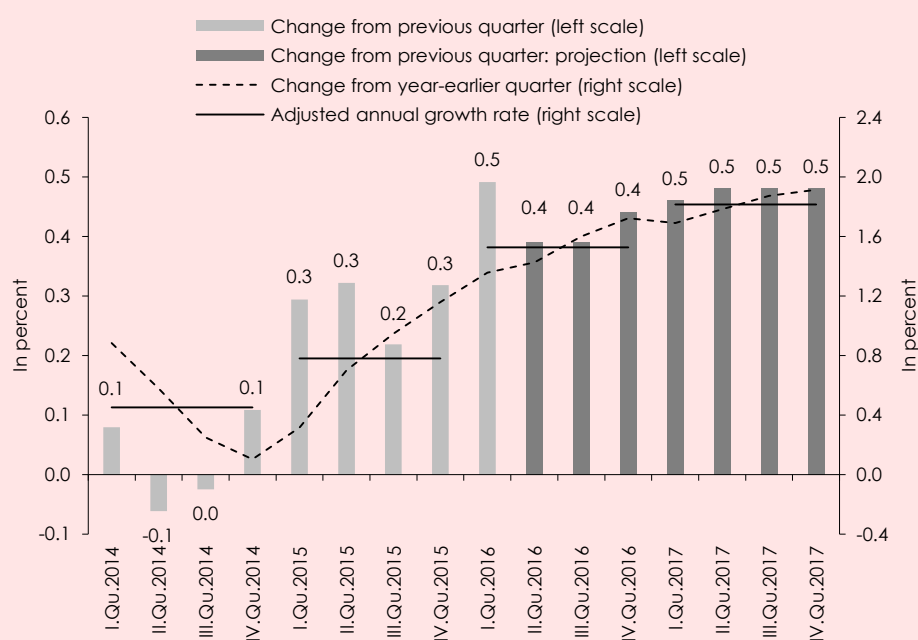
Table 4: Technical notes to the projection of real GDP growth

		2014	2015	2016	2017
Carry-over <sup>1</sup>	percentage points	+ 0.4	+ 0.1	+ 0.4	+ 0.6
Growth rate during the year <sup>2</sup>	in percent	+ 0.1	+ 1.2	+ 1.7	+ 1.9
<i>Annual growth rate</i>	<i>in percent</i>	<i>+ 0.4</i>	<i>+ 0.9</i>	<i>+ 1.7</i>	<i>+ 1.7</i>
Adjusted annual growth rate <sup>3</sup>	in percent	+ 0.5	+ 0.8	+ 1.5	+ 1.8
Calendar effect <sup>4</sup>	percentage points	- 0.1	+ 0.1	+ 0.2	- 0.1

Source: WIFO. 2016 to 2017: forecast. – <sup>1</sup> Impact of year-earlier growth dynamics on growth in the current year. Equals the annual growth rate in the current year, if the level of GDP in the current year remains at the level of the fourth quarter of the previous year; trend-cycle component. – <sup>2</sup> Shows the growth dynamics during a calendar year. Equals the year-on-year growth rate for the fourth quarter; trend-cycle component. – <sup>3</sup> Trend-cycle component. – <sup>4</sup> Impact of working days and the leap day.

Figure 2: Cyclical profile Austria

GDP volume, trend-cycle-component



Source: WIFO.

Since the expected trend rate of growth of 1.3 percent p.a. over the forecast period falls short of the projected actual rate, overall capacity utilisation will rise significantly. The latter will nevertheless not exceed the "normal" degree of capacity utilisation even by the end of 2017, such that the output gap will remain negative and not entirely close by the forecast horizon.

### 3.2 Positive evolution in all demand components

A key condition for a brighter outlook for the Austrian economy in 2017 is a revival of exports. For the time being, such a revival is held back by the subdued cyclical prospects for major trading partner countries. Hence, the contribution of net exports to GDP growth may be slightly negative in 2016, as import growth is likely to outpace exports. With the one-off factors fading out and the implicit slowdown of consumption spending, domestic-demand-driven import growth will subside in 2017, while the rebound of world trade and global activity should stimulate exports.

Lively import growth in 2016 is fuelled by a favourable development of investments and consumption alike. The wage and income tax reform and the (deficit-financed) higher expenditure on refugees give a significant boost to private and public consumption. The positive effects of the tax reform will largely materialise during 2016. The quantitative assessment of these effects remains unchanged from the earlier WIFO Economic Outlook of March 2016. Real disposable income of private households in 2016 will also benefit from low inflation, allowing private consumption and the saving ratio to increase at the same time. With projected gains of 1.7 percent in 2016 and 1.3 percent in 2017, real private consumption will move to a substantially higher pace compared with the last few years.

Investment in machinery and equipment was buoyant already in 2015. Thanks to a high carry-over from the previous year, it may expand by 3.2 percent in 2016 and 2.7 percent in 2017. In view of the pick-up in overall economic activity, the positive signs from leading indicators, high corporate monetary assets and favourable conditions for external financing, this projection may prove rather cautious. Construction investment is expected to accelerate from +1.0 percent in 2016 to +1.4 percent in 2017.

*The performance of overall investment is shaped by the different growth profiles of spending on machinery and equipment on the one hand, and of construction on the other.*



### 3.3 Unemployment rising unabatedly despite lively job creation

The rebound in output growth in 2016 will further increase the expansion in employment. This benign outlook is confirmed by current employment figures as well as by the strong increase in job vacancies. WIFO expects the number of persons in active dependent employment to rise by 1.4 percent in 2016 and 1.2 percent in 2017. The number of total hours worked is set to grow by 0.9 percent per year, slightly less than employment.

*Despite stronger output growth, job creation cannot keep pace with rising labour supply. Unemployment will therefore remain upward bound over the forecast period.*

Table 5: Labour market

		2012	2013	2014	2015	2016	2017
		Changes from previous year, in 1,000					
<i>Demand for labour</i>							
Persons in active employment <sup>1</sup>		+ 50.1	+ 29.2	+ 31.8	+ 41.0	+ 53.0	+ 47.0
Employees <sup>2</sup>		+ 47.2	+ 21.2	+ 23.8	+ 33.2	+ 48.0	+ 42.0
Percentage changes from previous year		+ 1.4	+ 0.6	+ 0.7	+ 1.0	+ 1.4	+ 1.2
Nationals		+ 9.0	- 8.5	- 8.1	+ 6.3	+ 13.0	+ 9.0
Foreign workers		+ 38.1	+ 29.7	+ 32.0	+ 27.0	+ 35.0	+ 33.0
Self-employed <sup>3</sup>		+ 2.9	+ 8.0	+ 8.0	+ 7.8	+ 5.0	+ 5.0
<i>Labour supply</i>							
Population of working age	15 to 64 years	+ 18.0	+ 23.5	+ 33.1	+ 52.3	+ 37.8	+ 34.2
	15 to 59 years	+ 22.3	+ 27.2	+ 33.7	+ 44.6	+ 22.6	+ 15.2
Labour force <sup>4</sup>		+ 64.0	+ 55.8	+ 64.0	+ 76.0	+ 63.0	+ 66.0
<i>Surplus of labour</i>							
Registered unemployed <sup>5</sup>		+ 13.9	+ 26.6	+ 32.2	+ 35.0	+ 10.0	+ 19.0
In 1,000		260.6	287.2	319.4	354.3	364.3	383.3
Unemployed persons in training <sup>5</sup>	in 1,000	66.6	73.5	75.3	65.1	71.1	81.1
		In percent					
<i>Unemployment rate</i>							
Eurostat definition <sup>6</sup>		4.9	5.4	5.6	5.7	5.9	6.1
As a percentage of total labour force <sup>5</sup>		6.2	6.8	7.4	8.1	8.2	8.5
National definition <sup>5,7</sup>		7.0	7.6	8.4	9.1	9.2	9.6
<i>Employment rate</i>							
Persons in active employment <sup>1,8</sup>		67.2	67.4	67.6	67.7	68.2	68.6
Total employment <sup>6,8</sup>		71.4	71.4	71.1	71.1	71.6	71.9

Source: WIFO. 2016 to 2017: forecast. – <sup>1</sup> Excluding persons with valid employment contract receiving child care benefit or being in 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> As a percentage of total labour force, excluding self-employed. – <sup>8</sup> As a percentage of population of working age (15 to 64 years).

Table 6: Productivity

	2012	2013	2014	2015	2016	2017	
		Percentage changes from previous year					
<i>Total economy</i>							
Real GDP	+ 0.8	+ 0.3	+ 0.4	+ 0.9	+ 1.7	+ 1.7	
Hours worked <sup>1</sup>	- 0.3	- 0.5	+ 0.4	+ 0.4	+ 0.9	+ 0.9	
Productivity per hour	+ 1.1	+ 0.8	- 0.1	+ 0.5	+ 0.8	+ 0.8	
Employment <sup>2</sup>	+ 1.1	+ 0.6	+ 1.1	+ 0.5	+ 1.3	+ 1.2	
<i>Manufacturing</i>							
Production <sup>3</sup>	+ 2.4	- 0.4	+ 1.3	+ 1.5	+ 2.2	+ 2.8	
Hours worked <sup>1</sup>	+ 1.1	- 0.7	- 0.0	+ 0.4	+ 0.1	± 0.0	
Productivity per hour	+ 1.2	+ 0.3	+ 1.3	+ 1.1	+ 2.1	+ 2.8	
Employees <sup>1</sup>	+ 1.5	- 0.3	+ 0.2	- 0.2	± 0.0	± 0.0	

Source: WIFO. 2016 to 2017: forecast. – <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.

Labour supply will keep expanding strongly over the entire forecast period, driven by several factors: rising labour force participation of older workers as a reaction to past reforms of the old-age insurance scheme; the sustained increase in female labour force participation; the inflow of foreign workers on the basis of "traditional" immigration. At the same time, the number of persons recognised as having the right to asylum in Austria will increase significantly. At present their number (plus persons entitled

to subsidiary protection) is rising only moderately in the statistics of the Public Employment Service. By what time the backlog of demands for asylum will be discharged, when a significant acceleration will set in and how the implicit increase in unemployment will spread between 2016 and 2017 is all difficult to foresee. The WIFO forecast assumes that the number of approvals of asylum will rise in the further course of 2016 and will boost labour supply to a greater extent than so far. However, a major part of the increase originally expected for 2016 will actually materialise only by 2017. Since the rise of employment will not be able to keep pace with labour supply, unemployment is likely to keep moving up over the entire forecast period. The rate of unemployment will therefore, primarily due to the significant rise of labour force, climb to 9.2 percent of the dependent labour force (national definition) on annual average 2016 and further to 9.6 percent in 2017.

Table 7: Private consumption, income and prices

	2012	2013	2014	2015	2016	2017
	Percentage changes from previous year, volume					
Private consumption expenditure	+ 0.6	+ 0.1	+ 0.0	+ 0.4	+ 1.7	+ 1.3
Durables	+ 0.7	- 3.0	- 0.5	- 1.4	+ 2.0	+ 2.5
Non-durables and services	+ 0.5	+ 0.4	+ 0.1	+ 0.6	+ 1.6	+ 1.2
Household disposable income	+ 2.0	- 2.0	+ 0.5	- 0.6	+ 2.2	+ 1.5
	As a percentage of disposable income					
Household saving ratio						
Including adjustment for the change in net equity of households in pension fund reserves	9.2	7.3	7.8	6.9	7.4	7.5
Excluding adjustment for the change in net equity of households in pension fund reserves	8.5	6.6	7.0	6.1	6.5	6.7
	Percentage changes from previous year					
Direct lending to domestic non-banks <sup>1</sup>	+ 0.0	- 1.2	+ 0.3	+ 2.0	+ 2.2	+ 2.5
	Percentage changes from previous year					
Inflation rate						
National	+ 2.4	+ 2.0	+ 1.7	+ 0.9	+ 1.1	+ 1.8
Harmonised	+ 2.6	+ 2.1	+ 1.5	+ 0.8	+ 1.1	+ 1.8
Core inflation <sup>2</sup>	+ 2.3	+ 2.3	+ 1.9	+ 1.7	+ 1.6	+ 1.6

Source: WIFO. 2016 to 2017: forecast. – <sup>1</sup> End of period. – <sup>2</sup> Excluding unprocessed food (meat, fish, fruits, vegetables) and energy items.

Table 8: Earnings and international competitiveness

	2012	2013	2014	2015	2016	2017
	Percentage changes from previous year					
Gross earnings per employee <sup>1</sup>	+ 2.7	+ 1.9	+ 1.4	+ 1.7	+ 1.4	+ 1.6
Gross real earnings per employee <sup>2</sup>	+ 0.3	- 0.1	- 0.3	+ 0.8	+ 0.3	- 0.2
Net real earnings per employee <sup>2</sup>	- 0.0	- 0.5	- 1.1	+ 0.2	+ 2.8	- 0.3
Unit labour costs						
Total economy	+ 3.0	+ 2.2	+ 2.2	+ 1.4	+ 1.0	+ 1.1
Manufacturing	+ 2.7	+ 2.5	+ 1.2	+ 0.8	- 0.3	- 0.7
Effective exchange rate, manufactures						
Nominal	- 1.7	+ 1.8	+ 1.2	- 2.7	+ 1.0	+ 0.5
Real	- 1.6	+ 2.2	+ 1.5	- 2.7	+ 1.1	+ 0.3

Source: WIFO. 2016 to 2017: forecast. – <sup>1</sup> Employees according to National Accounts definition. – <sup>2</sup> Deflated by CPI.

### 3.4 Inflation accelerating markedly

Inflation, as measured by the consumer price index, is expected to accelerate over the projection period, from an annual +0.9 percent in 2015 to +1.1 percent in 2016 and +1.8 percent in 2017. The rising momentum is due to external as well as internal factors. Import prices are heading up, both for commodities and for goods. Domestically, stronger final demand and the upward adjustment of the reduced VAT rate

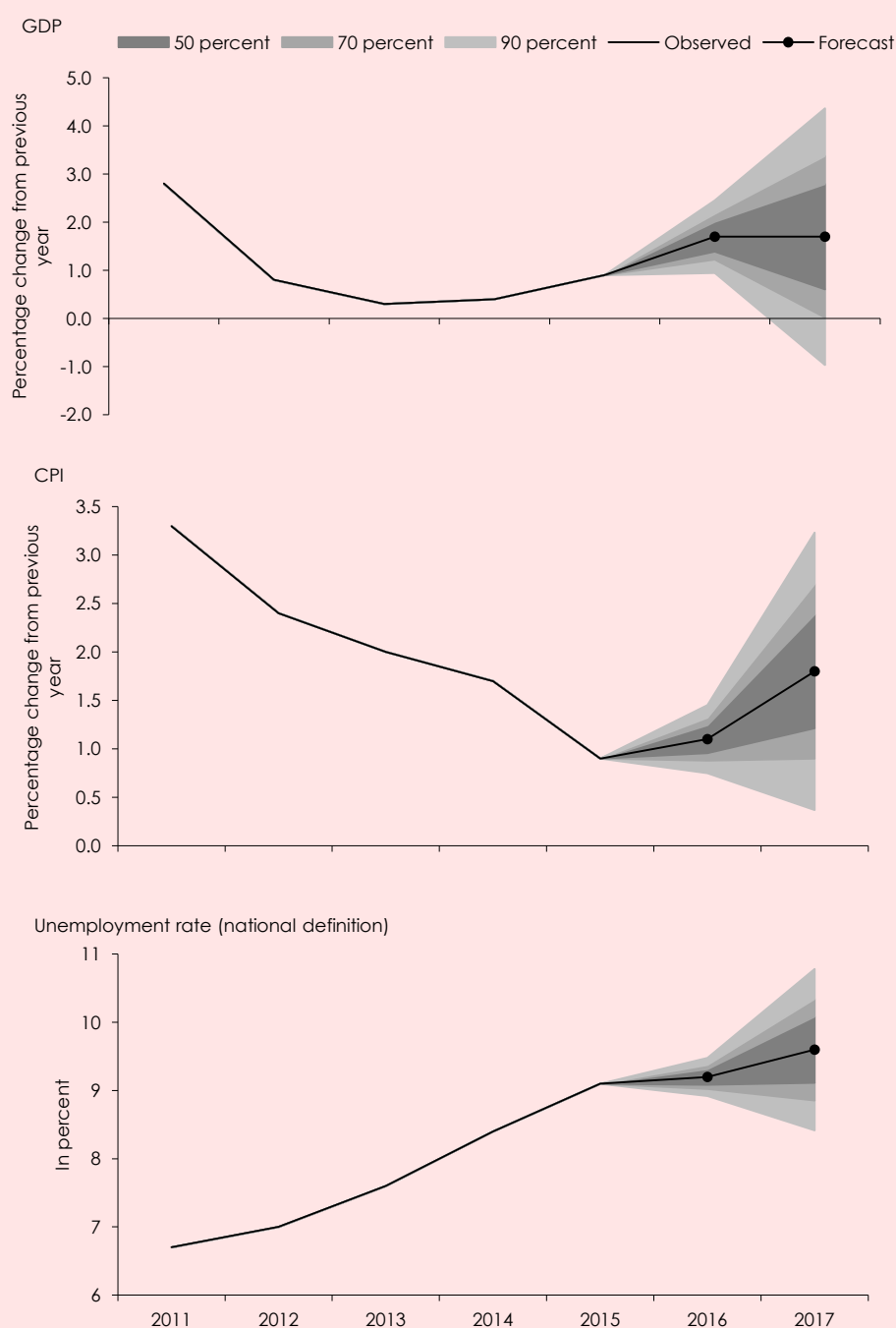
*Inflation dynamics is shaped both by internal and external factors. The momentum is set to accelerate over the entire forecast horizon.*

in the context of the tax reform will make for higher price pressure. Also the output gap will narrow, though still being negative by the end of 2017. While the price-dampening impact of underutilised capacities will thus diminish, wage cost is unlikely to exert upward pressure as the increase in gross real wages per capita will lag behind productivity gains.

### 3.5 The risk environment

Apart from the projection of developments considered most likely (baseline scenario), the assessment of qualitative and quantitative risks constitutes a key element of our forecast. This concerns not only the exogenous assumptions as outlined above, but also other uncertainties surrounding point estimates. For this reason, we supplement the latter with calculations of margins of uncertainty for a number of indicators (Figure 3).

Figure 3: Margins of uncertainty for GDP, CPI and unemployment rate



Source: WIFO. Margins of uncertainty calculated on the basis of ex-post revealed forecast errors.

The internal risk factors for 2016 mainly emanate from one-off elements such as the tax reform and the wave of refugee immigration. Our assumption for the number of asylum applications is based on the officially announced ceiling imposed by the Austrian federal government for 2016 and 2017, which is significantly lower than the figures retained in our forecast of last March. The actual trend will, however, depend on a large variety of factors that are difficult to assess from today's perspective. It is, for example, unclear whether the latest EU agreement with Turkey on the accommodation of refugees will be honoured or rather be suspended in reaction to current political tensions. In view of this uncertainty, the current forecast can only set tentative assumptions for the number of asylum applications filed in Austria.

The balance of external risks to the forecast remains downward bound. Given the foreign economic environment, the upswing in some commodity-exporting emerging markets may turn out weaker than assumed here. Likewise, the anticipated cyclical strength in several major industrialised economies may prove over-optimistic; a key risk relates to the result of the British referendum on exit from the EU on 23 June 2016, which may trigger financial market turbulence with adverse repercussions on the real economy; early hints in this respect are sent by the implicit volatility index of Euro STOXX 50 (VSTOXX), which has risen significantly while this forecast was prepared. Finally, latent geo-political tensions may flare up again and undermine global business activity.