

WIFO

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

 **ÖSTERREICHISCHES INSTITUT FÜR
WIRTSCHAFTSFORSCHUNG**

**Heightened Uncertainty Weighing
Upon Activity
Economic Outlook for 2012 and 2013**

September 2012



Heightened Uncertainty Weighing Upon Activity Economic Outlook for 2012 and 2013

September 2012

Austrian Institute of Economic Research

Abstract

While short-term prospects for the Austrian economy have weakened since last June's forecast revision, the pattern of risks is somewhat uneven as external downward risks slightly dominate domestic upward risks. Against this background, Austria's GDP is expected to grow by 0.6 percent in 2012 and by 1.0 percent in 2013, with the latter figure being subject to particular uncertainty.

Please refer to: Christian.Glocker@wifo.ac.at

2012/285/SPE/WIFO project no: 28491

© 2012 Austrian Institute of Economic Research

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

Verkaufspreis: 15,00 € • Download 15,00 €: <http://www.wifo.ac.at/wwa/pubid/45524>

Heightened Uncertainty Weighing Upon Activity

Economic Outlook for 2012 and 2013

While short-term prospects for the Austrian economy have weakened since last June's forecast revision, the pattern of risks is somewhat uneven as external downward risks slightly dominate domestic upward risks. Against this background, Austria's GDP is expected to grow by 0.6 percent in 2012 and by 1.0 percent in 2013, with the latter figure being subject to particular uncertainty.

After a temporary revival early this year, growth of the world economy slackened markedly in spring, affecting the major industrialised countries as well as many emerging markets. The debt and confidence crisis in the euro area is only partly responsible for the slowdown. Indeed, many advanced economies outside the euro area are characterised by substantial macroeconomic imbalances and have to cope with economic misalignments in a similar way as the southern European periphery. Moreover, in several emerging markets, internal problems have lately come to the fore.

The downturn of global activity and the renewed aggravation of the sovereign debt crisis in the euro area have shaped the trend on international financial markets since spring. The Spanish banking system and government households in several euro-area countries have been the focus of European concerns. While financing conditions kept worsening for banks and governments in southern Europe, capital flows towards "safe havens" reduced bond yields particularly in Germany, Finland, the Netherlands and Austria. This divergence was mirrored by extraordinarily high risk premia on secondary markets for government bonds. As a reaction, the European Central Bank (ECB) in early September decided to retain the option of unlimited sovereign bond purchases in the context of Outright Monetary Transactions (OMT). Immediately after this announcement, interest rate spreads of southern European government bonds narrowed markedly on secondary markets. The unlimited OMT of the ECB are expected to strengthen at least temporarily market confidence in the stability of the

euro and rein in capital outflows from southern Europe. In such an environment, conditions for growth in Europe at large may gradually improve during 2013. For 2012, WIFO expects a decline in demand and output for the euro area overall, followed by a moderate recovery in 2013.

Austria's economy cannot entirely decouple from the international trend, as witnessed by the stagnation of exports since the middle of 2011. However, unlike during the peak of the crisis in 2009, domestic demand proved rather resilient. The current WIFO projection expects Austria's GDP to grow by 0.6 percent in 2012. In 2013, with a projected growth rate of 1.0 percent, Austria should remain among the leaders of recovery in the euro area. Compared with the forecast of last June, WIFO has somewhat reduced its growth outlook for 2013 on account of the weaker international environment.

While short-term prospects for the Austrian economy have weakened since last June's forecast revision, the pattern of risks is somewhat uneven. Current external developments in particular carry important risks for the domestic financial sector as well as for the real economy. A rather positive element is the robust labour demand in Austria. On the basis of the trend since the beginning of the year, employment is set to increase by 1.5 percent for the whole of 2012, abating to +0.5 percent in 2013. The rate of unemployment will nevertheless rise to 7.0 percent this year (according to the conventional national definition) and move further up in 2013.

Cut-off date: 28 September 2012

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.

Average rates of change

The time given refers to the initial and the final value of the period of computation: hence the average rate 2005-2010 comprises as the first rate of change that from 2005 to 2006, and as the last that from 2009 to 2010.

Real and nominal values

In principle, the values shown must be understood as real values, i.e., adjusted for price effects. Whenever values are shown as nominal values (e.g., foreign trade statistics), this is specifically mentioned.

Production Sector

This term comprises the NACE-2008 sections B, C and D (Mining and Quarrying, Manufacturing, Energy Supply) and is here used in an international comparison.

Inflation, CPI und HICP

The inflation rate measures changes in consumer prices compared with a year before. The Consumer Price Index (CPI) is a measure of national inflation. The Harmonised Index of Consumer Prices (HICP) is the basis for comparable measurement of inflation in the EU and for the evaluation of price stability in the euro area (see <http://www.statistik.at/>).

Core inflation as a monetary policy indicator is not clearly defined. WIFO follows the common practice of using the inflation rate excluding the product categories unprocessed food and energy for core inflation. Thus just under 87 percent of the goods and services contained in the consumer price index (CPI 2010) are included in the calculation of core inflation.

WIFO Business Cycle Survey and WIFO Investment Survey

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

Unemployment rate

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

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

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

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

Persons in dependent active employment: "Persons in dependent employment" include persons receiving child-care benefit, as well as persons in military service 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".

WIFO
Projections - June 2012

Main results

Percentage changes from previous year

		2008	2009	2010	2011	2012	2013
GDP							
Volume		+ 1.4	- 3.8	+ 2.1	+ 2.7	+ 0.6	+ 1.0
Value		+ 3.2	- 2.3	+ 3.7	+ 5.0	+ 2.5	+ 2.6
Manufacturing ¹ , volume		+ 1.1	- 12.7	+ 7.0	+ 8.2	+ 0.5	+ 2.5
Wholesale and retail trade , volume		- 2.1	- 0.3	+ 1.4	+ 1.3	- 0.4	+ 0.5
Private consumption expenditure , volume		+ 0.7	+ 1.1	+ 1.7	+ 0.7	+ 0.6	+ 0.7
Gross fixed investment , volume		+ 0.7	- 7.8	+ 0.8	+ 7.3	+ 1.1	+ 1.5
Machinery and equipment		- 0.4	- 10.6	+ 6.0	+ 12.1	+ 1.0	+ 2.5
Construction		+ 0.9	- 7.1	- 2.7	+ 4.4	+ 1.1	+ 0.6
Exports of goods ²							
Volume		+ 0.5	- 18.3	+ 13.0	+ 7.9	+ 0.8	+ 4.3
Value		+ 2.5	- 20.2	+ 16.7	+ 11.3	+ 1.7	+ 4.5
Imports of goods ²							
Volume		+ 0.6	- 14.1	+ 10.9	+ 8.5	- 0.3	+ 4.0
Value		+ 4.7	- 18.4	+ 16.5	+ 15.3	+ 1.0	+ 4.5
Current balance	€ bn	+ 13.76	+ 7.49	+ 8.62	+ 5.86	+ 6.95	+ 8.14
	as a percentage of GDP	+ 4.9	+ 2.7	+ 3.0	+ 1.9	+ 2.3	+ 2.6
Long-term interest rate ³	percent	4.4	3.9	3.2	3.3	2.4	2.0
Consumer prices		+ 3.2	+ 0.5	+ 1.9	+ 3.3	+ 2.3	+ 2.1
Unemployment rate							
Eurostat definition ⁴	percent	3.8	4.8	4.4	4.2	4.4	4.8
National definition ⁵	percent	5.9	7.2	6.9	6.7	7.0	7.4
Persons in active dependent employment ⁶		+ 1.7	- 1.5	+ 0.8	+ 1.9	+ 1.5	+ 0.5
General government financial balance							
according to Maastricht definition							
as a percentage of GDP		- 0.9	- 4.1	- 4.5	- 2.6	- 2.9	- 2.6

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

WIFO
Projections - June 2012

Key policy indicators

	2008	2009	2010	2011	2012	2013
Fiscal policy						
	As a percentage of GDP					
General government financial balance						
according to Maastricht definition	- 0.9	- 4.1	- 4.5	- 2.6	- 2.9	- 2.6
General government primary balance	+ 1.7	- 1.3	- 1.8	- 0.0	- 0.3	+ 0.0
Monetary policy						
	Percent					
3-month interest rate	4.6	1.2	0.8	1.4	0.7	0.7
Long-term interest rate ¹	4.4	3.9	3.2	3.3	2.4	2.0
	Percentage changes from previous year					
Effective exchange rate						
Nominal	+ 1.2	+ 0.9	- 2.5	+ 0.1	- 1.3	+ 0.1
Real	+ 0.6	+ 0.4	- 2.7	+ 0.7	- 1.3	+ 0.5

¹ 10-year central government bonds (benchmark).

WIFO
Projections - June 2012

World economy

Percentage changes from previous year

	2008	2009	2010	2011	2012	2013
Real GDP						
World	+ 2.8	- 0.7	+ 5.3	+ 3.9	+ 3.1	+ 3.3
USA	- 0.3	- 3.1	+ 2.4	+ 1.8	+ 2.2	+ 1.8
Japan	- 1.0	- 5.5	+ 4.5	- 0.8	+ 1.4	+ 1.5
EU 27	+ 0.3	- 4.3	+ 2.1	+ 1.5	- 0.2	+ 0.6
Euro area 16	+ 0.4	- 4.4	+ 2.0	+ 1.4	- 0.4	+ 0.4
Germany	+ 1.1	- 5.1	+ 4.2	+ 3.1	+ 0.8	+ 1.1
New member states ¹	+ 4.2	- 3.2	+ 2.3	+ 3.2	+ 1.3	+ 2.1
China	+ 9.6	+ 9.2	+ 10.4	+ 9.3	+ 8.0	+ 7.0
World trade, volume	+ 2.3	- 12.7	+ 15.2	+ 5.8	+ 3.5	+ 4.8
Market growth²	+ 3.0	- 11.4	+ 11.7	+ 6.1	+ 1.8	+ 4.0
Primary commodity prices						
HWI Index, total	+ 32.7	- 34.7	+ 28.9	+ 28.6	- 4	+ 3
Excluding energy	+ 18.7	- 28.4	+ 31.9	+ 19.2	- 15	+ 15
Crude oil prices						
Brent, USD per barrel	97.0	61.5	79.5	111.3	110	110
Exchange rate						
USD per euro	1.471	1.393	1.327	1.392	1.25	1.25

¹ Bulgaria, Czech Republic, Hungary, Latvia, Lithuania, Poland, Romania.

² Real import growth of trading partners weighted by Austrian export shares.

Productivity

Percentage changes from previous year

	2008	2009	2010	2011	2012	2013
Total economy						
Real GDP	+ 1.4	- 3.8	+ 2.1	+ 2.7	+ 0.6	+ 1.0
Employment ¹	+ 2.1	- 0.9	+ 0.7	+ 1.8	+ 1.4	+ 0.7
Productivity (GDP per employment)	- 0.7	- 2.9	+ 1.4	+ 0.9	- 0.9	+ 0.3
Manufacturing						
Production ²	+ 0.7	- 13.0	+ 7.2	+ 8.5	+ 0.5	+ 2.5
Employees ³	+ 1.7	- 5.3	- 1.3	+ 1.9	+ 1.8	+ 0.3
Productivity per hour	- 0.5	- 4.7	+ 5.4	+ 6.7	+ 0.2	+ 1.7
Working hours per day per employee ⁴	- 0.5	- 3.5	+ 3.0	- 0.1	- 1.5	+ 0.5

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.

WIFO
Projections - June 2012

Private consumption, income and prices

	2008	2009	2010	2011	2012	2013
Percentage changes from previous year, volume						
Private consumption expenditure	+ 0.7	+ 1.1	+ 1.7	+ 0.7	+ 0.6	+ 0.7
Durables	+ 3.3	+ 4.8	+ 2.3	+ 1.8	- 2.2	± 0.0
Non-durables and services	+ 0.4	+ 0.6	+ 1.6	+ 0.6	+ 0.9	+ 0.8
Household disposable income	+ 0.7	- 1.5	- 0.2	- 1.0	+ 0.3	+ 0.8
As a percentage of disposable income						
Household saving ratio¹	11.5	10.7	8.3	7.5	7.3	7.5
Household saving ratio²	11.4	10.1	7.8	7.0	6.8	6.9
Percentage changes from previous year						
Direct lending to domestic non-banks³	+ 7.4	- 1.3	+ 2.9	+ 2.6	+ 1.2	+ 2.1
Inflation rate						
National	3.2	0.5	1.9	3.3	2.3	2.1
Harmonised	3.2	0.4	1.7	3.6	2.4	2.2
Core inflation ⁴	2.4	1.5	1.2	2.8	2.2	2.0

¹ Including adjustment for the change in net equity of households in pension fund reserves.

² Excluding adjustment for the change in net equity of households in pension fund reserves.

³ End of period.

⁴ Excluding unprocessed food (meat, fish, fruits, vegetables) and energy items.

WIFO
Projections - June 2012

Earnings and international competitiveness

Percentage changes from previous year

	2008	2009	2010	2011	2012	2013
Wages and salaries per employee¹						
Gross earnings	+ 3.2	+ 1.7	+ 1.0	+ 1.7	+ 3.2	+ 2.2
Gross real earnings²	- 0.0	+ 1.2	- 0.8	- 1.5	+ 0.9	+ 0.1
Net real earnings²	- 0.7	+ 3.0	- 1.1	- 2.0	+ 0.4	- 0.2
Unit labour costs						
Total economy	+ 3.6	+ 4.8	- 0.3	+ 0.8	+ 4.1	+ 1.8
Manufacturing	+ 5.4	+ 11.5	- 6.1	- 3.9	+ 3.3	+ 0.0
Effective exchange rate - manufactures						
Nominal	+ 1.1	+ 0.7	- 2.6	+ 0.0	- 1.3	+ 0.1
Real	+ 0.6	+ 0.4	- 2.7	+ 0.7	- 1.2	+ 0.5

¹ Employees according to National Accounts definition.

² Deflated by CPI.

WIFO
Projections - June 2012

Labour market

Changes from previous year (1,000^s)

		2008	2009	2010	2011	2012	2013
Demand for labour							
Persons in active employment ¹		+ 66.0	- 44.0	+ 31.3	+ 70.5	+ 55.0	+ 23.0
Employees ²		+ 55.6	- 48.5	+ 25.5	+ 63.3	+ 50.0	+ 18.0
<i>Percentage changes from previous year</i>		+ 1.7	- 1.5	+ 0.8	+ 1.9	+ 1.5	+ 0.5
Nationals		+ 31.1	- 43.0	+ 5.8	+ 25.7	+ 11.5	+ 1.0
Foreign workers		+ 24.5	- 5.5	+ 19.7	+ 37.7	+ 38.5	+ 17.0
Self-employed ³		+ 10.4	+ 4.5	+ 5.8	+ 7.2	+ 5.0	+ 5.0
Labour supply							
Population of working age	(15 to 64 years)	+ 27.7	+ 17.3	+ 21.6	+ 37.0	+ 15.0	+ 6.7
	(15 to 59 years)	+ 17.6	+ 11.1	+ 8.9	+ 17.1	+ 14.7	+ 10.8
Labour force ⁴		+ 56.0	+ 4.0	+ 21.8	+ 66.4	+ 69.0	+ 40.0
Surplus of labour							
Registered unemployed ⁵		- 10.0	+ 48.1	- 9.5	- 4.1	+ 14.0	+ 17.0
	1,000 ^s	212.3	260.3	250.8	246.7	260.7	277.7
Unemployed persons in training	1,000 ^s	50.5	64.1	73.2	63.2	65.7	68.7
Unemployment rate							
Eurostat definition ⁶	percent	3.8	4.8	4.4	4.2	4.4	4.8
Percent of total labour force ⁵	percent	5.3	6.5	6.2	6.0	6.3	6.6
National definition ^{5,7}	percent	5.9	7.2	6.9	6.7	7.0	7.4
Employment rate							
Persons in active employment ^{1,8}	percent	65.7	64.7	65.0	65.9	66.6	67.0
Total employment (Eurostat) ^{6,8}	percent	72.1	71.6	71.7	72.1	72.5	72.8

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

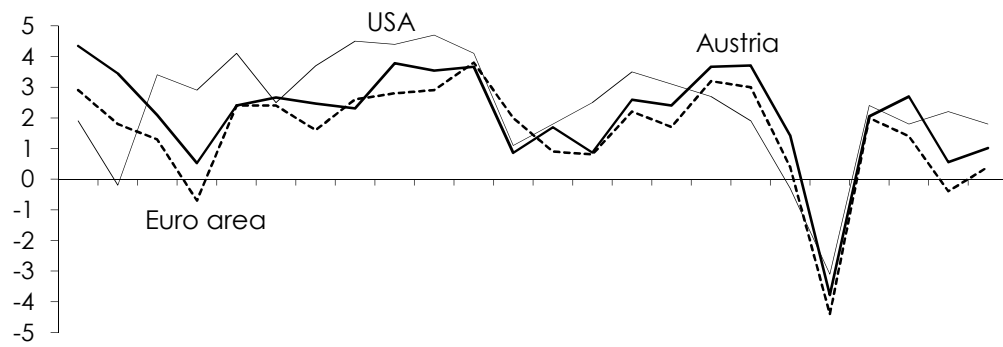
³ According to WIFO. ⁴ Persons in active employment plus unemployment.

⁵ According to Public Employment Service Austria ⁶ According to Eurostat Labour Force Survey.

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

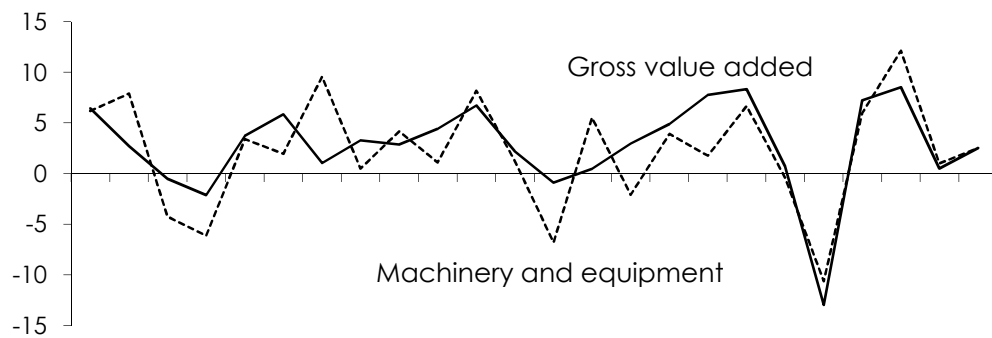
Growth of real GDP

Percent



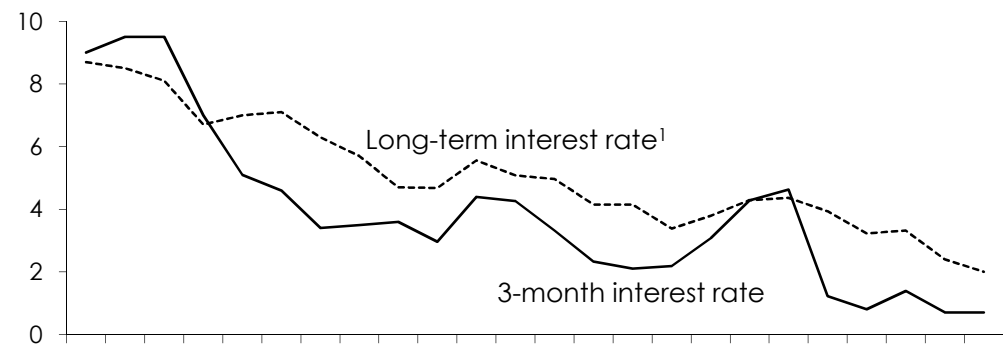
Manufacturing and investment

Percentage changes from previous year, volume



Short-term and long-term interest rates

Percent



Trade

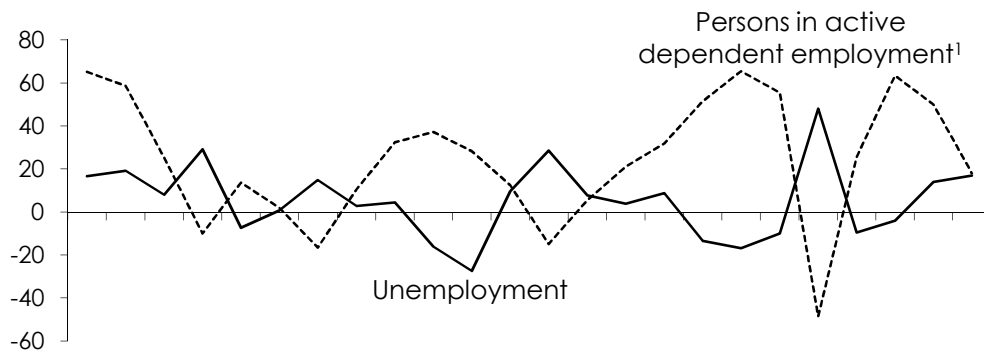
Percentage changes from previous year, volume



¹ 10-year central government bonds (benchmark).

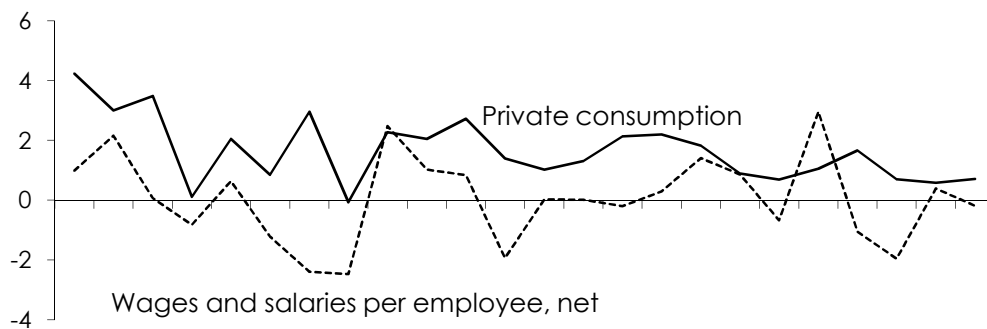
Employment and unemployment

1,000^s from previous year



Consumption and income

Percentage changes from previous year, volume



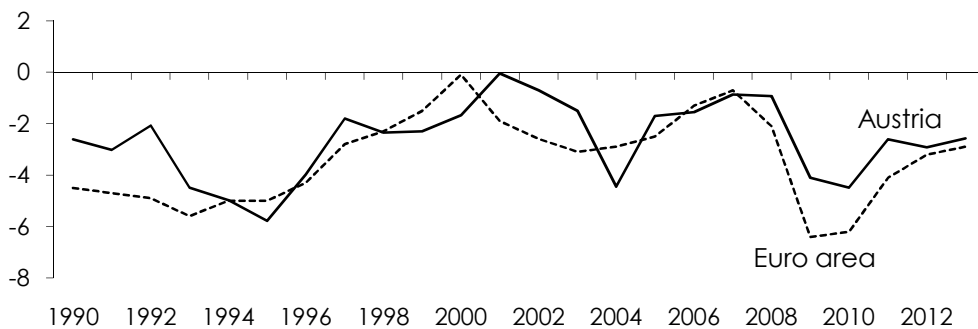
Inflation and unit labour costs

Percentage changes from previous year



General government financial balance

As a percentage of GDP



¹ Excluding parental leave, military service, and unemployed persons in training.