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Activity Staying Robust, Driven by Manufacturing and Construction

Economic Outlook for 2007 and 2008

The business cycle upturn that started in 2005 is continuing throughout the current year. After an increase of 3.1 percent in 2006, real GDP is expected to expand by 3.2 percent in 2007. While export growth is gradually decelerating, investment is gaining momentum to become the key driver of the upswing. Private household consumption, while picking up this year, still lags behind its normal cyclical profile. The strong pace of growth is leading to a marked increase in the number of jobs and a further decline in unemployment. In 2008, GDP growth is likely to decelerate to 2.5 percent, due to slackening activity in the USA, the strength of the euro and the rise in long-term interest rates.

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The latest results of last May from the regular WIFO business survey among domestic companies still give no indication of a slowdown in the lively business activity. For the current year therefore, GDP growth can be expected at a rate of 3.2 percent. Only next year, the slackening of the US economy, the increase in long-term interest rates and the strength of the euro will have a dampening effect on activity in the EU and Austria.

Exports and strengthening investment demand continue to provide the most powerful growth incentives for the time being, benefiting notably the manufacturing and the construction sector as well as commercial services including the cyclically-sensitive personnel service agencies.

As suggested by foreign trade statistics, exports continue to show strong momentum. In the first quarter 2007, the value of goods exports rose by some 9 percent above the year-earlier level. Like in the past, the cyclical slowdown in the USA is assumed to spill over to Europe with some time lag and foreign demand may ebb in the course of the year. The negative repercussions on Austria's foreign trade should, however, be cushioned by continued lively domestic activity in the euro area. Austrian goods exports should expand by 8¼ percent in volume on annual average in 2007, in line with Austria's foreign market growth, followed by a deceleration to a projected 7¼ percent in 2008.

Apart from investment in construction, which rose markedly already last year, corporate spending should increase substantially this year also for machinery and equipment. Both the WIFO investment survey and the WIFO business survey among investment goods manufacturers point into that direction. So far, only investment in motor vehicles has been disappointing, although there too, a rebound may be expected for the second half of the year. WIFO expects investment in machinery and equipment to increase by an overall 8 percent in the current year and by a further 4½ percent in 2008. Growth of construction investment, projected at 4½ percent in volume will moderate only little from last year (+5¼ percent). Construction activity should stay lively also in 2008, investment in new projects is expected to increase by 3¼ percent.

Table 1: Main results

		2003	2004	2005	2006	2007	2008	
		Percentage changes from previous year						
GDP								
Volume		+ 1.1	+ 2.4	+ 2.0	+ 3.1	+ 3.2	+ 2.5	
Value		+ 2.4	+ 4.2	+ 3.9	+ 4.7	+ 5.2	+ 4.2	
Manufacturing ¹ , volume								
		+ 0.1	+ 2.4	+ 2.4	+ 7.7	+ 6.7	+ 3.7	
Wholesale and retail trade, volume								
		+ 0.5	+ 1.3	+ 0.3	+ 1.2	+ 2.2	+ 2.2	
Private consumption expenditure, volume								
		+ 1.3	+ 1.9	+ 1.7	+ 2.0	+ 2.2	+ 2.1	
Gross fixed investment, volume								
Machinery and equipment ²		+ 5.9	+ 0.6	+ 0.3	+ 4.3	+ 6.0	+ 3.8	
Construction		+ 6.8	- 0.7	+ 0.1	+ 3.0	+ 8.0	+ 4.5	
		+ 5.1	+ 1.6	+ 0.4	+ 5.2	+ 4.5	+ 3.3	
Exports of goods ³								
Volume		+ 2.6	+12.9	+ 2.2	+ 7.1	+ 8.7	+ 7.2	
Value		+ 1.9	+13.9	+ 5.4	+ 9.5	+ 9.8	+ 7.7	
Imports of goods ³								
Volume		+ 6.5	+11.4	+ 2.3	+ 4.4	+ 8.4	+ 6.6	
Value		+ 5.0	+12.5	+ 5.9	+ 8.0	+ 9.5	+ 7.5	
Current balance		billion €	-	+ 3.99	+ 5.16	+ 8.22	+10.39	+11.56
As a percentage of GDP			-	+ 1.7	+ 2.1	+ 3.2	+ 3.8	+ 4.1
Long-term interest rate ⁴		in percent	4.2	4.2	3.4	3.8	4.3	4.6
Consumer prices			+ 1.3	+ 2.1	+ 2.3	+ 1.5	+ 1.8	+ 1.9
Unemployment rate								
Eurostat definition ⁵	in percent	4.3	4.8	5.2	4.8	4.3	4.2	
National definition ⁶	in percent	7.0	7.1	7.3	6.8	6.3	6.1	
Persons in active dependent employment ⁷			+ 0.2	+ 0.7	+ 1.0	+ 1.7	+ 1.9	+ 0.8
General government financial balance according to Maastricht definition								
As a percentage of GDP			- 1.6	- 1.2	- 1.6	- 1.1	- 0.7	- 0.6

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, and unemployed persons in training.

Private consumption expenditure, while picking up from last year to a rate of +2¼ percent in volume remains comparatively subdued against the background of buoyant overall economic activity. In the first quarter 2007, demand edged up only marginally, which may, however, reflect lower heating energy consumption during the unusually mild winter, an effect likely to be compensated over the subsequent periods. Gains in net household income are predominantly generated this year by the creation of new jobs, while per-capita earnings are expected to remain broadly flat in real terms over the entire forecast period. For this reason, the contribution of private consumption to GDP growth remains distinctly modest in the current cyclical upswing.

Wage developments will not give rise to any inflationary cost pressure, and as a result the sluggish household demand will in turn hold down the increase in consumer prices. Thus, despite the cyclical high and the durability of the upswing, headline inflation in Austria will remain below 2 percent in both years covered by the projections, which marks a notable difference from the experience of past business cycles.

As last year, the labour market is reacting strongly to growing demand and output. The number of people in dependent active employment is expected to go up by 60,000 or 1.9 percent year-on-year in 2007, while unemployment should fall by 15,000, taking the jobless rate down to 6.3 percent according to the national definition. The benign trend is set to continue into 2008, though losing some momentum: employment is expected to rise by a further 25,000 or 0.8 percent, accompanied by a decline in unemployment by 5,000 to a rate of 6.1 percent.

The general government balance, having narrowed to –1.1 percent of GDP in 2006, is expected to improve further this year. The deficit is projected at 0.7 percent for 2007 and 0.6 percent for 2008. The lower deficit is entirely the result of higher tax revenues on the back of the favourable cyclical conditions. The present projections are based upon the assumption of a rigorous implementation of the planned measures of expenditure restraint.

The projections for global economic growth in 2007 are again for a rate around 5 percent in real terms, for the fourth year in a row. Only by 2008, the pace should moderate slightly to 4% percent.

Cyclical activity in the USA has slackened markedly. After a strong increase in GDP in early 2006 (by 1.4 percent in the first quarter from the previous period), growth dropped to some ½ percent on average in the following quarters, before nearly stalling in the first three months of 2007 (+0.2 percent). The slowdown was triggered by the sharp fall in residential construction that gained increasing momentum in the course of 2006. Investment in machinery and equipment was also on a downward trend before tentatively heading up in the first quarter 2007 (+0.5 percent).

Activity in the USA slackening markedly

In the current year, the mainstay of global growth is shifting from the USA towards Europe. The cyclical weakening in the USA will weigh on euro area activity only in 2008. By then, demand and output in the USA should regain some strength.

Table 2: World economy

	2003	2004	2005	2006	2007	2008	
	Percentage changes from previous year						
<i>Real GDP</i>							
World total	+ 4.0	+ 5.3	+ 4.9	+ 5.4	+ 4.8	+ 4.7	
Total OECD	+ 2.0	+ 3.2	+ 2.7	+ 3.2	+ 2.5	+ 2.5	
USA	+ 2.5	+ 3.9	+ 3.2	+ 3.3	+ 1.8	+ 2.1	
Japan	+ 1.4	+ 2.7	+ 1.9	+ 2.2	+ 2.3	+ 2.0	
EU 27	+ 1.3	+ 2.3	+ 1.8	+ 3.0	+ 3.1	+ 2.5	
EU 15	+ 1.1	+ 2.1	+ 1.6	+ 2.8	+ 2.9	+ 2.3	
Euro area	+ 0.8	+ 2.0	+ 1.4	+ 2.7	+ 2.9	+ 2.3	
Germany	– 0.2	+ 1.2	+ 0.9	+ 2.8	+ 2.8	+ 2.2	
New member states ¹	+ 4.1	+ 5.4	+ 4.6	+ 6.0	+ 5.5	+ 5.2	
China	+10.0	+10.1	+10.2	+10.7	+10.5	+ 9.5	
<i>World trade, volume</i>	+ 5.3	+10.3	+ 7.2	+ 9.0	+ 7.5	+ 7.0	
<i>Market growth²</i>	+ 5.4	+ 9.1	+ 7.4	+10.3	+ 8.5	+ 7.0	
<i>Primary commodity prices</i>							
HWWA index, total	– 4	+18	+29	+19	– 5	+ 0	
Excluding energy	– 6	+18	+ 6	+22	– 2	+ 1	
<i>Crude oil prices</i>							
Average import price (cif) for OECD countries	\$ per barrel	28.4	36.3	50.6	61.1	62.0	64.0
<i>Exchange rate</i>							
\$ per euro		1.131	1.243	1.245	1.256	1.34	1.40

Source: WIFO Economic Outlook. – ¹ Bulgaria, Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia, Slovenia. – ² Real import growth of trading partners weighted by Austrian export shares.

Highly robust is still consumption by private households, which remains the main support to business activity. While latest consumer surveys do not point to a weaker sentiment, there is a non-negligible risk that the end to the real estate price boom may weigh on households' spending mood. The private household saving ratio remains negative, and the latest rise in long-term interest rates may give rise to financing problems for the most vulnerable groups. Activity may then receive support only from exports which benefit from the weaker dollar.

Underlying the WIFO projections is the assumption that the Federal Reserve will react to the cyclical slowdown by cutting the currently high key interest rate, as it has done in the past. While this will sustain economic activity, it may at the same time weaken the dollar. WIFO further assumes that the ECB will keep its reference rate unchanged until the end of the year, before lowering it slightly during 2008. The exchange rate assumption is for \$ 1.34 per euro in 2007 and \$ 1.40 in 2008.

The slowdown in the USA should also dampen activity in China, where GDP growth may edge down from 10½ percent this year to 9½ percent in 2008. The Japanese economy was surprisingly buoyant in the first quarter 2007, prompting WIFO to raise its forecast for annual GDP growth to 2¼ percent. In 2008, growth may well stay close to 2 percent.

Current developments on international oil markets hardly require an adjustment to the assumptions underlying the forecast of last March. WIFO assumes an average OECD import price for crude oil of \$ 62 and \$ 64 per barrel for 2007 and 2008, respectively.

For the region of East-Central Europe, WIFO expects real GDP growth to attain 5½ percent in 2007 and 5¼ percent in 2008. Apart from the ongoing process of economic convergence towards western Europe, the region is also benefiting from the cyclical boom in the euro area. With the EU accession of Bulgaria and Romania in early 2007, the group of East-Central European members states now includes two additional rapidly growing economies.

Business surveys in the euro area continue to indicate further lively activity ahead. The slowdown in the USA will weaken European exports only with some time lag. By that time, internal demand should have mustered enough strength to drive the European economy forward. Investment in particular will become the main driver of growth.

Private consumption will also pick up in 2007, though lagging behind its usual cyclical profile. Household demand is boosted by growing employment and modest inflation. A substantial increase in hourly wages should still not be expected. In the first quarter 2007, the labour cost index for the euro area rose by only 2.2 percent year-on-year, little more than the rate of inflation over the same time period (+1.8 percent).

The modest wage dynamics and the only sluggish expansion of consumer demand keep inflation firmly under control, against the backdrop of a strong and durable cyclical upturn. In May 2007, the Harmonised Index of Consumer Prices for the euro area rose by a moderate 1.9 percent from the year-earlier level, remaining unchanged from the previous month. Even at the present advanced stage of the upswing, inflation thereby remained below the ceiling of 2 percent considered by the ECB as compatible with price stability. The ECB nevertheless lifted its key interest rate in June by a further ¼ percentage point, the seventh increase in a row since the beginning of 2006. Given the low inflationary pressure, the present projections assume no further rate increase for the remainder of the year. In the course of 2008, the deceleration of growth should offer leeway for an interest rate cut.

The cyclical upturn is leading to a sustained improvement on European labour markets. Employment in the euro area rose 1.4 percent from last year in the first quarter 2007. At the same time, unemployment continued to decline. In April, the seasonally-adjusted jobless rate for the euro area stood at 7.1 percent of the labour force, down from 7.2 percent in March 2007 and 8 percent in April 2006.

Business activity is set to stay robust into 2008, though losing some momentum during the year. The WIFO projection is for GDP growth of 2¼ percent on annual average. Underlying the assumed deceleration is the slowdown in the USA, the rise in long-term interest rates, the appreciation of the euro vis-à-vis major trading partner currencies as well as the unusually subdued performance of private consumption.

As from early 2006, Germany saw a powerful rebound in economic activity. Having been caught in quasi-stagnation for years, demand and output jumped by a rate of 2¾ percent. Beyond the positive cyclical factor, the front-loading of demand in view of the VAT increase as from the beginning of 2007 provided incentives to growth.

Continued strong expansion in East-Central Europe

Strong growth in the euro area in 2007, with subsequent deceleration

The euro area economy will grow by nearly 3 percent this year. Whereas the export boom looks set to gradually lose momentum, internal demand is lending increasing support to activity. Notably investment is posting sizeable gains. In addition, rising employment is giving incentives to private consumption.

Strong expansion of the German economy

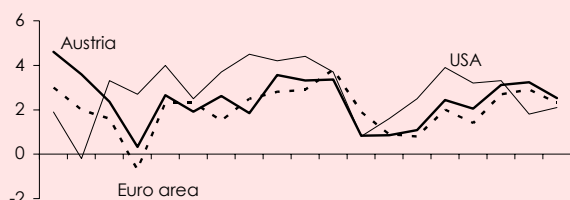
Both new car registrations and retail sales strengthened substantially. In a technical reaction, both indicators of consumer demand dropped sharply in early 2007.

Confidence in the manufacturing sector remains excellent. Opinions expressed on the current economic situation as well as expectations for the next few months point to continued strong growth ahead.

Figure 1: Indicators of economic performance

Growth of real GDP

Percent



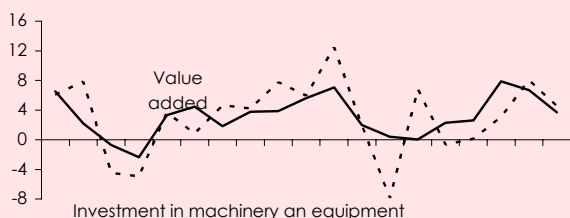
Employment and unemployment

1,000 from previous year



Manufacturing and investment

Percentage changes from previous year, volume



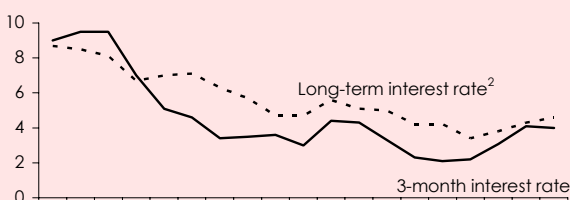
Consumption and income

Percentage changes from previous year, volume



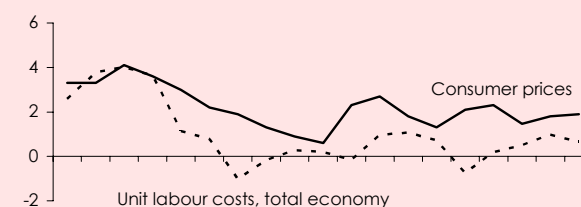
Short-term and long-term interest rates

Percent



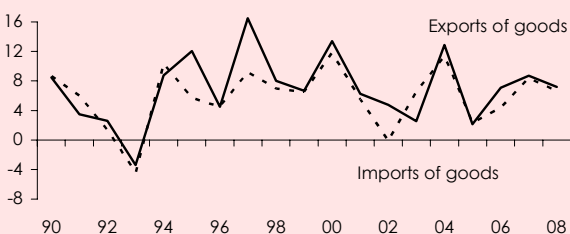
Inflation and unit labour costs

Percentage changes from previous year



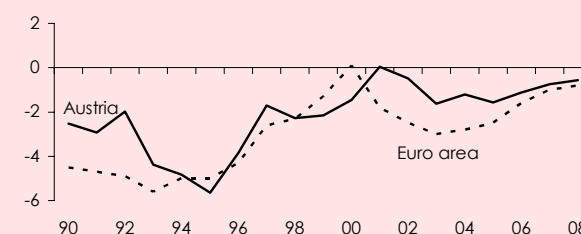
Trade

Percentage changes from previous year, volume



General government financial balance

As a percentage of GDP



Source: WIFO Economic Outlook. – ¹ Excluding parental leave, military service, and unemployed persons in training. – ² 10-year central government bonds (benchmark).

Buoyant activity has led to a turnaround on the German labour market. Strong job creation is accompanied by a considerable reduction in unemployment. In this improved environment, consumer demand may gather momentum. Consumer surveys show a marked and sustained increase in confidence, although hourly wages in the first quarter 2007 did not exceed the year-earlier level in nominal and fell markedly in real terms. Yet, a rebound of this key demand variable would be paramount for the durability of the business cycle upswing, not only in Germany but in the euro area as a whole.

The levelling-off of activity in the USA, the strength of the euro and the modest pace of consumer demand are likely to slow GDP growth in Germany to a rate of 2¼ per cent next year.

The Austrian economy continues to move along a strong growth path, and business surveys do not indicate any weakening in the near term. In particular the manufacturers of investment goods express high satisfaction with their current order levels and optimism with regard to the prospects for the future. While exports may lose some strength this year, this will be offset by lively internal demand in the euro area.

Growth of merchandise exports is expected at 8¾ percent in volume this year and 7¼ percent in 2008. It is assumed that overall, firms will succeed in maintaining their export market shares. Price competitiveness will increase vis-à-vis many trading partners this year, although once again German wages will rise less than domestic ones and the strength of the euro will weigh on export opportunities in a number of markets. As domestic demand strengthens, imports of goods will increase by 8½ percent in volume in 2007, abating to 6½ percent in 2008.

Table 3: Productivity

	2003	2004	2005	2006	2007	2008
	Percentage changes from previous year					
<i>Total economy</i>						
Real GDP	+ 1.1	+ 2.4	+ 2.0	+ 3.1	+ 3.2	+ 2.5
Employment ¹	- 0.0	- 0.0	+ 0.5	+ 1.0	+ 1.6	+ 0.5
Productivity (GDP per employment)	+ 1.1	+ 2.5	+ 1.6	+ 2.1	+ 1.6	+ 2.0
<i>Manufacturing</i>						
Production ²	+ 0.1	+ 2.3	+ 2.6	+ 7.9	+ 6.7	+ 3.7
Employees ³	- 1.7	- 0.6	- 0.8	+ 0.2	+ 1.5	- 0.7
Productivity per hour	+ 1.4	+ 2.0	+ 4.0	+ 7.4	+ 5.2	+ 5.0
Working hours per day per employee ⁴	+ 0.3	+ 0.8	- 0.6	+ 0.2	- 0.1	- 0.5

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.

Manufacturing firms sampled in the regular WIFO investment survey cite capacity increase as the overriding motive for their ambitious investment plans. Demand for new equipment will go up by 8 percent at constant prices in 2007. While spending on motor vehicles has been sluggish so far this year, a strong increase should be expected for machinery and electronic equipment. In 2008, the rate of increase is set to diminish to 4½ percent.

For investment in construction, WIFO is revising upwards its projection from last March: with an assumed increase by 4½ percent in volume, activity in 2007 will keep most of its momentum of last year (+5.2 percent). The exceptionally mild weather early in the year led to a strong increase in construction output. Construction orders are high enough as to warrant an unabated expansion for the months to come. Demand should stay lively also in 2008 according to plans reported in the survey, though moving at a steadier pace of 3¼ percent.

Getting finally rid of stagnation, the German economy grew by 2.8 percent in 2006. A similar rate will be attained this year, despite the dampening one-off effect of the VAT increase.

Growth in Austria once more above 3 percent

Austria's economy is keeping the strong momentum of last year. With order levels high, productive capacities in manufacturing and construction will be utilised to a high degree also in the months to come. GDP growth is expected to attain 3¼ percent this year, moderating to 2½ percent in 2008.

Need for additional capacities fuelling investment

Manufacturing firms envisage a sizeable increase in their investment for the current year. Total spending on new machinery, electronic and other equipment will rise by an estimated 8 percent in volume. Demand for new construction is also booming.

Private consumption in the first quarter 2007, when adjusted for inflation, was only 1½ percent higher than one year ago. In part, this mirrors the impact of the warm weather that allowed households to save on heating energy. While this one-off effect should dissipate in the course of the year, consumption remains much more tempered than what may be expected in a cyclical upturn. From a volume increase by 2 percent last year, growth looks set to edge up to 2¼ percent, keeping that pace in 2008 accompanied by a decline in the saving ratio. Thus, private household demand is unlikely to become a growth driver in the current cycle.

One reason is the unusually feeble growth of household real disposable income which is so far generated exclusively by the strong gains in employment. Net real earning per capita, for their part, remain broadly flat even in the face of low inflation. Like for the euro area as a whole, the high competitive pressure on increasingly integrated markets is setting tighter constraints to wage formation.

Although surveys point to a strengthening of consumer confidence in Austria, a pick-up in household spending is so far not confirmed by actual data. In May 2007, new car registrations fell by 7 percent year-on-year, for the first five months taken together the decline amounts to 4.5 percent.

Consumer demand remaining moderate

While higher employment is leading to an increase in household disposable income, the trend in hourly wages has so far been flatter than in previous cyclical episodes.

Table 4: Private consumption, income and prices

	2003	2004	2005	2006	2007	2008
	Percentage changes from previous year, volume					
Private consumption expenditure	+ 1.3	+ 1.9	+ 1.7	+ 2.0	+ 2.2	+ 2.1
Durables	+ 3.1	+ 5.1	+ 2.2	+ 1.7	+ 3.0	+ 2.5
Non-durables and services	+ 1.1	+ 1.5	+ 1.6	+ 2.0	+ 2.1	+ 2.1
Household disposable income	+ 2.1	+ 2.0	+ 2.1	+ 2.3	+ 2.2	+ 1.8
	As a percentage of disposable income					
Household saving ratio	8.6	8.8	9.1	9.4	9.4	9.2
	Percentage changes from previous year					
Direct lending to domestic non-banks ¹	+ 1.6	+ 5.0	+ 4.7	+ 4.5	+ 2.9	+ 3.7
	Percentage changes from previous year					
Inflation rate						
National	1.3	2.1	2.3	1.5	1.8	1.9
Harmonised	1.3	2.0	2.1	1.7	1.9	2.0
Core inflation ²	1.3	1.6	1.5	1.3	1.9	1.9

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

Although 2007 marks the second year in a row with business activity booming, inflation shows no tendency to accelerate, as would be normal at that stage of the cycle. The likely reason is the atypically sluggish growth of earnings. In a boom period, firms find it easier to pass the usually rising wage increases onto prices. The absence of this pattern is reflected in below-average increases in disposable income of private households as well as in their expenditure on consumption. Sluggish consumption is in turn being mirrored by low consumer price inflation.

Thus, despite the lasting cyclical boom, price increases remain moderate overall in 2007. In the first four months of the year, headline inflation averaged 1.7 percent, followed by 2.1 percent in May. For the year as a whole, WIFO expects a rate of 1.8 percent (on national definitions), edging up to 1.9 percent in 2008.

Low inflation despite lively activity

Sluggish private consumption in Europe is reflected by a moderate increase in consumer prices. Despite strong growth of GDP, domestic headline inflation remains below 2 percent this year and next.

Table 5: Earnings and international competitiveness

	2003	2004	2005	2006	2007	2008
	Percentage changes from previous year					
Gross earnings per employee ¹	+ 1.9	+ 1.9	+ 1.7	+ 2.6	+ 2.6	+ 2.5
Gross real earnings per employee ¹	+ 0.3	- 0.0	+ 0.0	+ 1.2	+ 0.8	+ 0.6
Net real earnings per employee ¹	+ 0.0	+ 0.1	+ 1.1	+ 0.6	+ 0.1	± 0.0
Total economy						
Unit labour costs	+ 0.7	- 0.8	+ 0.2	+ 0.5	+ 1.0	+ 0.7
Manufacturing						
Unit labour costs	+ 0.8	- 0.8	- 0.6	- 4.4	- 2.2	- 1.5
Relative unit labour costs ²						
Vis-à-vis trading partners	+ 3.6	+ 1.5	+ 1.0	- 2.0	- 0.7	- 1.7
Vis-à-vis Germany	+ 2.1	+ 2.1	+ 3.9	- 0.4	+ 1.0	- 0.5
Effective exchange rate, manufactures						
Nominal	+ 4.3	+ 1.5	- 0.6	+ 0.2	+ 1.0	+ 0.7
Real	+ 3.4	+ 1.0	- 0.9	- 0.5	+ 0.6	+ 0.6

Source: WIFO Economic Outlook. – ¹ Employees according to National Accounts definition. – ² In a common currency; minus sign indicates improvement of competitiveness.

The labour market continues its positive development from last year. The number of people in dependent active employment will rise by an estimated 60,000 or 1.9 percent this year, up from almost 52,000 (+1.7 percent) in 2006. The data so far available for 2007 also confirm that the creation of full-time jobs is on the rise. Employment keeps growing rapidly in the construction sector, but also the manufacturing sector which usually cuts jobs due to strong productivity gains, is adding markedly to its workforce (+1.5 percent). In the present instance, the increase in productive capacity in this cyclically sensitive sector is not confined to additional capital stock.

Cyclical boom giving strong incentives to the job market

Table 6: Labour market

	2003	2004	2005	2006	2007	2008
	Changes from previous year, in 1,000					
Demand for labour						
Persons in active employment ¹	+ 8.5	+ 25.1	+ 37.2	+ 55.9	+ 65.0	+ 29.5
Employees ²	+ 5.5	+ 21.1	+ 31.9	+ 51.5	+ 60.0	+ 25.0
Percentage changes from previous year	+ 0.2	+ 0.7	+ 1.0	+ 1.7	+ 1.9	+ 0.8
Nationals	- 10.4	+ 9.2	+ 20.0	+ 35.0	+ 41.2	+ 14.3
Foreign workers	+ 15.9	+ 11.9	+ 11.9	+ 16.5	+ 18.8	+ 10.7
Self-employed ³	+ 3.0	+ 4.0	+ 5.3	+ 4.4	+ 5.0	+ 4.5
Labour supply						
Population of working age						
15 to 64 years	+ 37.7	+ 34.4	+ 15.6	+ 18.5	+ 22.9	+ 25.8
15 to 59 years	+ 21.2	+ 35.6	+ 48.5	+ 52.8	+ 24.3	+ 16.1
Labour force ⁴	+ 16.1	+ 28.9	+ 45.9	+ 42.4	+ 50.0	+ 24.5
Surplus of labour						
Registered unemployed ⁵	+ 7.7	+ 3.8	+ 8.8	- 13.5	- 15.0	- 5.0
In 1,000	240.1	243.9	252.7	239.2	224.2	219.2
	Percent					
Unemployment rate						
Eurostat definition ⁶	4.3	4.8	5.2	4.8	4.3	4.2
As a percentage of total labour force ⁵	6.3	6.4	6.5	6.1	5.7	5.5
National definition ^{5,7}	7.0	7.1	7.3	6.8	6.3	6.1
Employment rate						
Persons in active employment ^{1,8}	62.2	62.3	62.8	63.6	64.5	64.7
Total employment ^{6,8,9}	-	67.8	68.6	70.2	70.78	70.9

Source: WIFO Economic Outlook. – ¹ Excluding parental leave, military service, and unemployed persons in training. – 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). – ⁹ Changed survey method.

At the same time, and despite the cuts applied to training measures organised by the labour exchange, the number of unemployed is falling by an estimated 15,000. Thereby, the rate of unemployment is declining this year to 6.3 percent according to national definitions, having already gone down to 6.8 percent in 2006. A further moderation to 6.1 percent is projected for 2008, while employment growth will decelerate to 25,000 or 0.8 percent under the impact of the slower pace of business activity.

The lower unemployment together with the higher number of jobs raises further the employment ratio. After an increase to 70.2 percent (Eurostat definition) in 2006, it is projected to edge up to 70.8 percent in 2007 and 70.9 percent in 2008.

The persistent strong expansion of demand and output is boosting tax revenues. The cut in the corporate tax rate in 2005 has so far not led to shortfalls in corporate tax receipts, as the excellent profit situation of domestic companies is reflected in strong tax revenue gains. At the same time, the rise in employment generates higher receipts from wage tax and social security contributions. The WIFO projection is for a continued decline in the general government deficit, from 1.1 percent of GDP in 2006 to 0.7 percent in 2007.

Booming economic activity is shaping developments on the labour market, leading to strong and sustained employment growth along with a decline in unemployment.

Lively growth leading to gradually narrowing budget deficit

Strong economic activity helps narrowing the budget deficit from the revenue side this year and next. However, in order to achieve the target of a balanced budget over the cycle, surpluses should be accumulated in cyclical boom periods like the one currently prevailing.

Table 7: Key policy indicators

	2003	2004	2005	2006	2007	2008
	As a percentage of GDP					
<i>Fiscal policy</i>						
General government financial balance						
According to Maastricht definition	-1.6	-1.2	-1.6	-1.1	-0.7	-0.6
According to National Accounts	-1.8	-1.3	-1.7	-1.2	-0.8	-0.7
General government primary balance	+1.3	+1.6	+1.3	+1.6	+2.0	+2.2
	Percent					
<i>Monetary policy</i>						
3-month interest rate	2.3	2.1	2.2	3.1	4.1	4.0
Long-term interest rate ¹	4.2	4.2	3.4	3.8	4.3	4.6
	Percentage changes from previous year					
<i>Effective exchange rate</i>						
Nominal	+4.3	+1.5	-0.7	+0.2	+0.9	+0.7
Real	+3.3	+1.0	-1.0	-0.5	+0.6	+0.6

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

In 2008, the deficit is likely to fall further, albeit marginally, to 0.6 percent of GDP. Underlying the forecast is the assumption of firm control over expenditure being maintained. Further action will be necessary, notably the forceful implementation of the measures planned in the area of administrative and constitutional reform as well as a reform of budgetary legislation, in order to achieve the goal of a balanced general government budget over the business cycle.