

WIFO

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

 **ÖSTERREICHISCHES INSTITUT FÜR
WIRTSCHAFTSFORSCHUNG**

**Consumption Offsetting Slackening
Austrian Exports
Economic Outlook for 2016 and 2017**

March 2016



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Austrian Institute of Economic Research

Abstract

The current sluggishness of the world economy causes a temporary slowdown in Austria's exports. However, domestic private and public consumption rises strongly in 2016 and 2017, lending support to business activity. Gross Domestic Product is projected to expand in both years by 1.6 percent.

Please refer to: Stefan.Ederer@wifo.ac.at

2016/080/SPE/WIFO project no: 28491

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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: 16,00 € • Download 16,00 €: <http://www.wifo.ac.at/wwa/pubid/58755>

Consumption Offsetting Slackening Austrian Exports

Economic Outlook for 2016 and 2017

The current sluggishness of the world economy causes a temporary slowdown in Austria's exports. However, domestic private and public consumption rises strongly in 2016 and 2017, lending support to business activity. Gross Domestic Product is projected to expand in both years by 1.6 percent.

In 2015, the Austrian economy grew only marginally: at +0.9 percent, GDP increased for the fourth time in a row at an annual rate below 1 percent. While investment in machinery and equipment picked up and exports were lively, private consumption barely edged up in the light of high unemployment and subdued income growth.

Demand and output hardly strengthened during the year, as quarterly GDP growth in the last three months was no higher than in the two earlier periods. Yet, the composition of aggregate demand changed: while export growth decelerated due to the international slowdown and also investment lost some momentum, private and public consumption firmed, reflecting the spending on care and accommodation of refugees who had arrived in large numbers during 2015.

The weak underlying dynamics is set to persist in the first half of 2016. Manufacturing companies have lately turned more pessimistic about order levels and business expectations. GDP growth in Austria in 2016 and 2017 should nevertheless prove stronger than in 2015. A major driver is the spending on refugee care, basic subsistence and needs-tested minimum income payments that will boost private as well as public consumption. The tax reform that entered into force in early 2016 will also strengthen private disposable income and spending, even if its impact is partly offset by counter-financing measures. Since the number of newly arriving asylum seekers will likely be lower in 2016 than in 2015, private consumption growth will taper off in 2017, as also the tax reform will no longer provide additional incentives.

The external environment should become more conducive to economic growth in the further course of the year. Activity in the USA remains robust, and the gradual re-

covery in the euro area continues. The fall in commodity prices has probably bottomed out, such that prospects for the Emerging Markets are improving. Growth of Austrian exports should thus firm in 2017 and keep demand for new machinery and other investment on a stable upward path. Construction activity, on the other hand, will stay lacklustre. Overall, GDP is expected to gain 1.6 percent, both in 2016 and 2017.

Employment will continue to expand markedly over the forecast period. The increasing population of working age, fuelled also by refugee immigration, the rise in the effective retirement age and in female labour force participation will all add to labour supply. With the latter outpacing labour demand, unemployment will climb further to rates of 9.5 percent and 9.8 percent of the dependent labour force in 2016 and 2017, respectively.

The dampening effect of cheap oil on inflation is likely to fade out by the end of 2016. At the same time, the measures to counter-finance the tax reform will show up in consumer prices. Private earnings, however, are unlikely to exert any substantial inflationary pressure, given the high level of unemployment. WIFO expects the consumer price index to move up by an annual average 1.2 percent in 2016 and by 1.8 percent in 2017.

Government budgets will still be burdened by financial support for banks in distress, but probably less so than in the last few years. On the other hand, care and accommodation of refugees will put new claims on public expenditure. The tax reform will cause sizeable losses in wage and income tax revenues, which shall be compensated by the counter-financing measures on the revenue and the expenditure side, which were adopted together with the reform. Offsetting the spending overruns in 2015 have been buoyant tax revenues and lower-than-budgeted retirement and interest expenditure. The general government deficit (Maastricht definition) narrowed from 2.7 percent of GDP in 2014 to 1.4 percent in 2015. WIFO projects the deficit ratio to edge up to 1.7 percent of GDP, abating to 1.5 percent in 2017.

Cut-off date: 16 March 2016

For more details please contact

Stefan Ederer, Tel. +43 1 798 26 01-464, Stefan.Ederer@wifo.ac.at

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). Unlike the "seasonally and calendar-adjusted" changes of quarterly GDP as communicated to Eurostat and released by Statistics Austria, WIFO in addition adjusts the series for irregular variations. The WIFO series labelled "trend-cycle component" exhibits a smoother path and offers a better interpretation of the cyclical profile.

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.

Carry-over (in economic growth)

The carry-over identifies the impact of the dynamics of a series (in seasonally adjusted figures) during one year (t_0) on the annual percentage change in the following year (t_1). It is defined as the annual percentage change in year t_1 , if GDP in t_1 remains constant at the level of the fourth quarter of year t_0 (in seasonally adjusted terms).

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 with a valid employment contract. By deducting their number one arrives at the number of "persons in dependent active employment".

Main results

		Forecasts					
		2012	2013	2014	2015	2016	2017
Percentage changes from previous year							
GDP							
Volume		+ 0.8	+ 0.3	+ 0.4	+ 0.9	+ 1.6	+ 1.6
Value		+ 2.7	+ 1.8	+ 2.0	+ 2.4	+ 3.7	+ 3.2
Manufacturing ¹	volume	+ 2.2	- 0.4	+ 1.1	+ 1.1	+ 1.9	+ 2.8
Wholesale and retail trade	volume	- 1.6	- 0.2	- 0.5	+ 1.8	+ 3.2	+ 3.3
Private consumption expenditure	volume	+ 0.6	+ 0.1	+ 0.0	+ 0.4	+ 1.8	+ 1.4
Gross fixed investment , volume							
	Machinery and equipment ²	+ 0.7	- 0.1	+ 1.3	+ 2.8	+ 2.5	+ 2.5
	Construction	+ 2.2	- 2.1	- 1.0	- 1.2	+ 0.8	+ 1.3
	Other Investment ³	+ 0.2	+ 4.1	- 0.7	+ 0.2	+ 2.2	+ 2.0
Exports of goods ⁴							
Volume		+ 0.5	+ 2.9	+ 2.7	+ 2.2	+ 2.7	+ 4.5
Value		+ 1.5	+ 1.8	+ 1.8	+ 2.7	+ 3.0	+ 5.5
Imports of goods ⁴							
Volume		- 0.9	- 0.1	+ 1.0	+ 4.0	+ 3.0	+ 4.2
Value		+ 0.7	- 1.0	- 0.7	+ 2.4	+ 2.0	+ 5.8
Current balance	€ bn	+ 4.73	+ 6.30	+ 6.49	+ 9.11	+ 10.73	+ 11.41
	as a percentage of GDP	+ 1.5	+ 1.9	+ 2.0	+ 2.7	+ 3.1	+ 3.2
Long-term interest rate ⁵	percent	2.4	2.0	1.5	0.7	0.8	1.1
Consumer prices		+ 2.4	+ 2.0	+ 1.7	+ 0.9	+ 1.2	+ 1.8
Unemployment rate							
	Eurostat definition ⁶	percent	4.9	5.4	5.6	5.7	5.9
	National definition ⁷	percent	7.0	7.6	8.4	9.1	9.8
Persons in active dependent employment ⁸		+ 1.4	+ 0.6	+ 0.7	+ 1.0	+ 1.2	+ 1.2
General government financial balance							
	according to Maastricht definition						
	as a percentage of GDP	- 2.2	- 1.3	- 2.7	- 1.4	- 1.7	- 1.5

¹ Value added, including mining and quarrying. ² Including weapon systems. ³ Intellectual property products and cultivated biological resources. ⁴ According to Statistics Austria. ⁵ 10-year central government bonds (benchmark). ⁶ According to Eurostat Labour Force Survey. ⁷ Public Employment Service Austria, percent of total labour force excluding self employed. ⁸ Excluding parental leave and military service.

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Projections - March 2017

World economy

	Forecasts					
	2012	2013	2014	2015	2016	2017
	Percentage changes from previous year					
Real GDP						
World	+ 3.5	+ 3.2	+ 3.3	+ 3.1	+ 3.1	+ 3.4
USA	+ 2.2	+ 1.5	+ 2.4	+ 2.4	+ 2.0	+ 2.4
Japan	+ 1.7	+ 1.4	± 0.0	+ 0.5	+ 0.8	+ 1.2
EU 28	- 0.5	+ 0.2	+ 1.4	+ 1.9	+ 1.6	+ 1.8
Euro area 19	- 0.9	- 0.3	+ 0.9	+ 1.6	+ 1.4	+ 1.6
CEE5 ¹	+ 0.4	+ 0.9	+ 3.0	+ 3.5	+ 3.1	+ 3.2
China	+ 7.7	+ 7.7	+ 7.3	+ 6.9	+ 6.2	+ 5.8
World trade, volume	+ 1.6	+ 2.4	+ 3.2	+ 2.5	+ 2.0	+ 2.5
Market growth²	+ 0.6	+ 1.8	+ 3.5	+ 2.5	+ 3.0	+ 4.5
Primary commodity prices³						
HWWI Index, total	- 2.8	- 1.9	- 7.0	- 41.5	- 26	+ 16
Excluding crude oil	- 14.4	- 6.1	- 6.2	- 19.6	- 6	+ 8
Crude oil prices						
Brent, USD per barrel	111.6	108.7	99.0	52.5	35	42
Exchange rate						
USD per euro ⁴	1.286	1.328	1.329	1.110	1.10	1.10

¹ Poland, Slovakia, Slovenia, Czech Republic, Hungary.² Real import growth of trading partners (according to Oxford Economics) weighted by Austrian export shares.³ In USD. ⁴ Annual averages on the basis of monthly averages.

Table 1: **Key policy indicators**

	2012	2013	2014	2015	F o r e c a s t s	
					2016	2017
Fiscal policy						
					As a percentage of GDP	
General government financial balance						
according to Maastricht definition	-2.2	-1.3	-2.7	-1.4	-1.7	-1.5
General government primary balance	0.6	1.3	-0.2	0.9	0.5	0.6
Monetary policy						
					Percent	
3-month interest rate	0.6	0.2	0.2	-0.0	-0.2	-0.1
Long-term interest rate ¹	2.4	2.0	1.5	0.7	0.8	1.1
					Percentage changes from previous year	
Effective exchange rate						
Nominal	-1.5	+1.7	+1.2	-2.8	+1.1	+0.1
Real	-1.5	+2.1	+1.5	-2.6	+1.2	-0.3

¹ 10-year central government bonds (benchmark).

Table 2: **Productivity**

	2012	2013	2014	2015	Forecasts	
					2016	2017
	Percentage changes from previous year					
Total economy						
Real GDP	+ 0.8	+ 0.3	+ 0.4	+ 0.9	+ 1.6	+ 1.6
Hours worked ¹	- 0.3	- 0.5	+ 0.4	+ 0.4	+ 0.9	+ 0.9
Productivity per hour	+ 1.1	+ 0.8	- 0.1	+ 0.5	+ 0.7	+ 0.7
Employment ²	+ 1.1	+ 0.6	+ 1.1	+ 0.5	+ 1.2	+ 1.3
Manufacturing						
Production ³	+ 2.4	- 0.4	+ 1.3	+ 1.3	+ 1.9	+ 2.8
Hours worked ¹	+ 1.1	- 0.7	- 0.0	+ 0.1	± 0.0	± 0.0
Productivity per hour	+ 1.2	+ 0.3	+ 1.3	+ 1.2	+ 1.9	+ 2.8
Employees ¹	+ 1.5	- 0.3	+ 0.2	- 0.2	- 0.1	± 0.0

¹ According to National Accounts definition.

² Dependent and self-employed according to National Accounts definition (jobs).

³ Value added, volume.

Table 3: **Private consumption, income and prices**

	Forecasts					
	2012	2013	2014	2015	2016	2017
Percentage changes from previous year, volume						
Private consumption expenditure	+ 0.6	+ 0.1	+ 0.0	+ 0.4	+ 1.8	+ 1.4
Durables	+ 0.7	- 3.0	- 0.5	- 1.5	+ 2.0	+ 2.5
Non-durables and services	+ 0.5	+ 0.4	+ 0.1	+ 0.6	+ 1.8	+ 1.3
Household disposable income	+ 2.0	- 2.0	+ 0.5	+ 0.6	+ 2.3	+ 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	8.0	8.4	8.5
Excluding adjustment for the change in net equity of households in pension fund reserves	8.5	6.6	7.0	7.2	7.6	7.7
Percentage changes from previous year						
Direct lending to domestic non-banks¹	+ 0.0	- 1.2	+ 0.3	+ 2.0	+ 2.3	+ 2.4
Inflation rate						
National	2.4	2.0	1.7	0.9	1.2	1.8
Harmonised	2.6	2.1	1.5	0.8	1.2	1.8
Core inflation ²	2.3	2.3	1.9	1.7	1.7	1.6

¹ End of period.² Excluding unprocessed food (meat, fish, fruits, vegetables) and energy items.

Table 4: **Earnings and international competitiveness**

	2012	2013	2014	2015	Forecasts	
					2016	2017
	Percentage changes from previous year					
Wages and salaries per employee¹						
Gross earnings	+ 2.7	+ 1.9	+ 1.4	+ 1.7	+ 1.3	+ 1.5
Gross real earnings²	+ 0.3	- 0.1	- 0.3	+ 0.8	+ 0.1	- 0.3
Net real earnings²	- 0.0	- 0.5	- 1.1	+ 0.2	+ 2.6	- 0.4
Unit labour costs						
Total economy	+ 3.0	+ 2.2	+ 2.2	+ 1.4	+ 0.9	+ 1.2
Manufacturing	+ 2.7	+ 2.5	+ 1.2	+ 0.9	- 0.4	- 1.0
Effective exchange rate - manufactures						
Nominal	- 1.7	+ 1.8	+ 1.2	- 2.7	+ 1.1	+ 0.1
Real	- 1.7	+ 2.1	+ 1.5	- 2.7	+ 1.3	- 0.3

¹ Employees according to National Accounts definition.² Deflated by CPI.

Table 5: Labour market

		Forecasts					
		2012	2013	2014	2015	2016	2017
		Changes from previous year (1,000s)					
Demand for labour							
Persons in active employment ¹		+ 50.1	+ 29.3	+ 31.8	+ 38.2	+ 47.0	+ 47.0
Employees ²		+ 47.2	+ 21.2	+ 23.8	+ 33.2	+ 42.0	+ 42.0
Percentage changes from previous year		+ 1.4	+ 0.6	+ 0.7	+ 1.0	+ 1.2	+ 1.2
Nationals		+ 9.0	- 8.5	- 8.1	+ 6.3	+ 9.0	+ 9.0
Foreign workers		+ 38.1	+ 29.7	+ 32.0	+ 27.0	+ 33.0	+ 33.0
Self-employed ³		+ 2.9	+ 8.1	+ 8.0	+ 5.0	+ 5.0	+ 5.0
Labour supply							
Population of working age (15 to 64 years)		+ 18.0	+ 23.5	+ 33.1	+ 44.4	+ 37.8	+ 34.2
	(15 to 59 years)	+ 22.3	+ 27.2	+ 33.7	+ 36.4	+ 22.5	+ 15.2
Labour force ⁴		+ 64.0	+ 55.9	+ 64.0	+ 73.2	+ 70.0	+ 61.0
Surplus of labour							
Registered unemployed ⁵		+ 13.9	+ 26.6	+ 32.2	+ 35.0	+ 23.0	+ 14.0
	1,000 ⁵	260.6	287.2	319.4	354.3	377.3	391.3
Unemployed persons in training	1,000 ⁵	66.6	73.5	75.3	65.1	73.1	81.1
Unemployment rate							
Eurostat definition ⁶	percent	4.9	5.4	5.6	5.7	5.9	6.1
Percent of total labour force ⁵	percent	6.2	6.8	7.4	8.1	8.5	8.7
National definition ^{5,7}	percent	7.0	7.6	8.4	9.1	9.5	9.8
Employment rate							
Persons in active employment ^{1,8}	percent	67.2	67.5	67.6	67.8	68.1	68.5
Total employment (Eurostat) ^{6,8}	percent	71.4	71.4	71.1	71.2	71.5	71.8

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

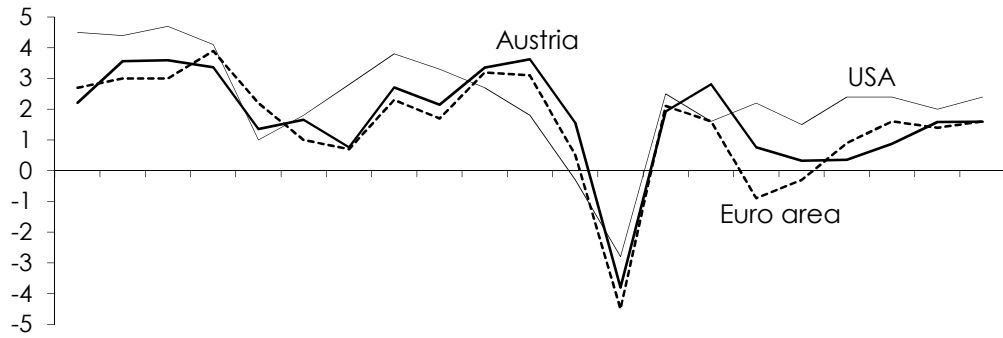
³ According to WIFO. ⁴ Persons in active employment plus unemployment.

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).

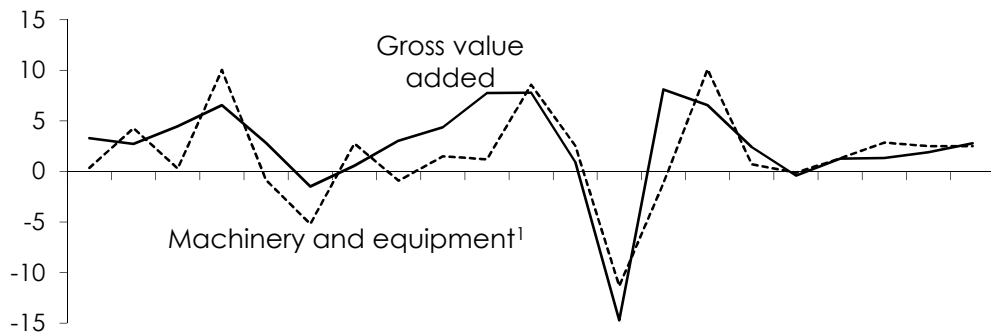
Growth of real GDP

Percent



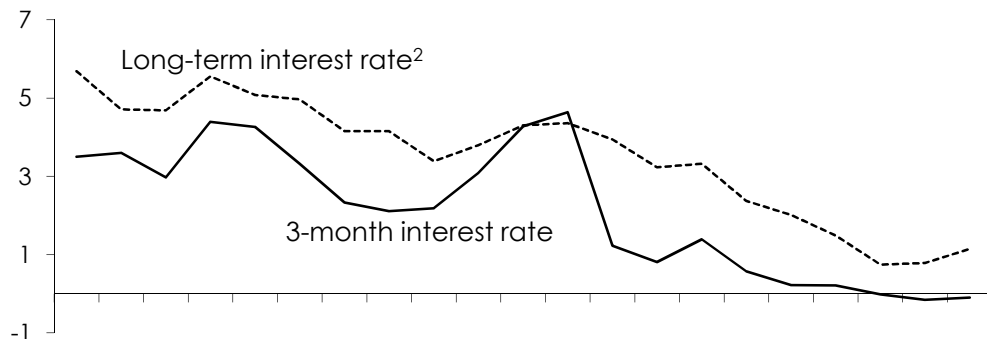
Manufacturing and investment

Percentage changes from previous year, volume



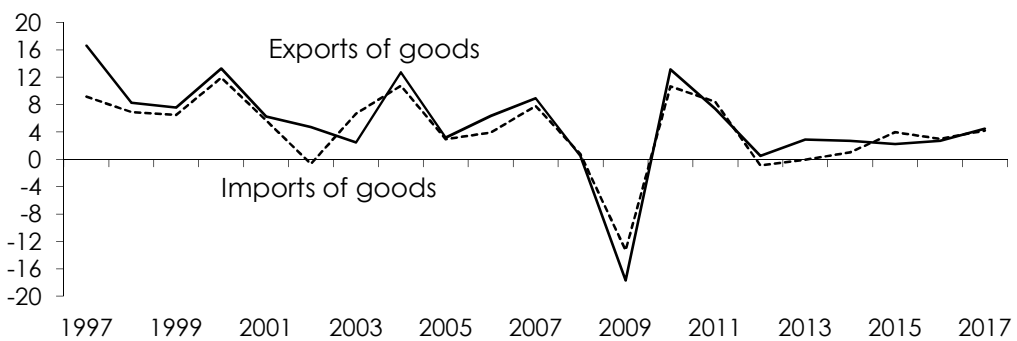
Short-term and long-term interest rates

Percent



Trade

Percentage changes from previous year, volume

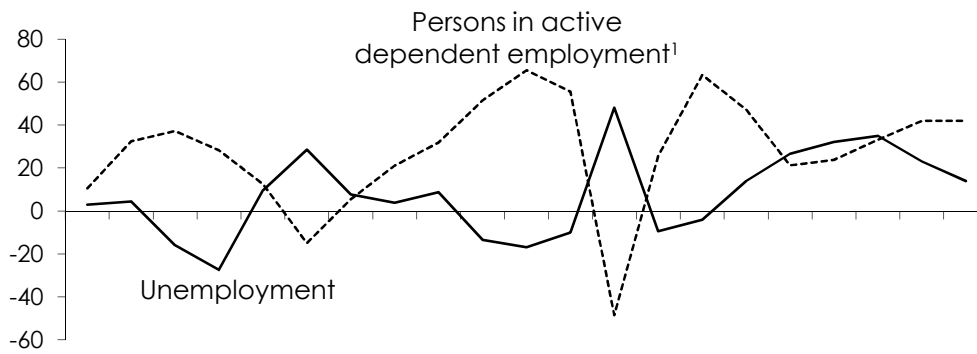


¹ Including weapon systems.

² 10-year central government bonds (benchmark).

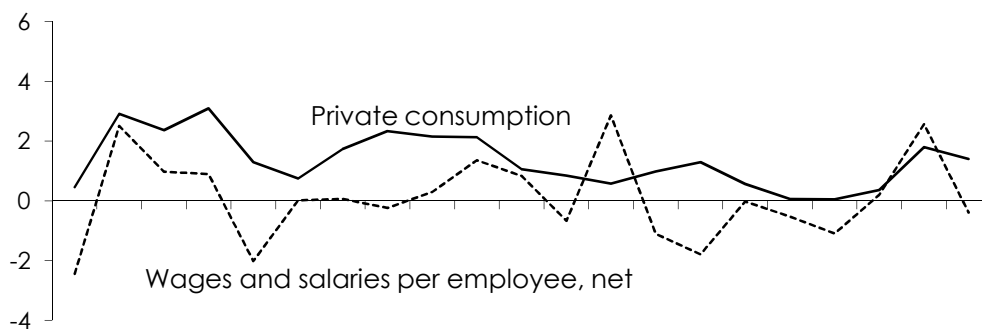
Employment and unemployment

1,000^s from previous year



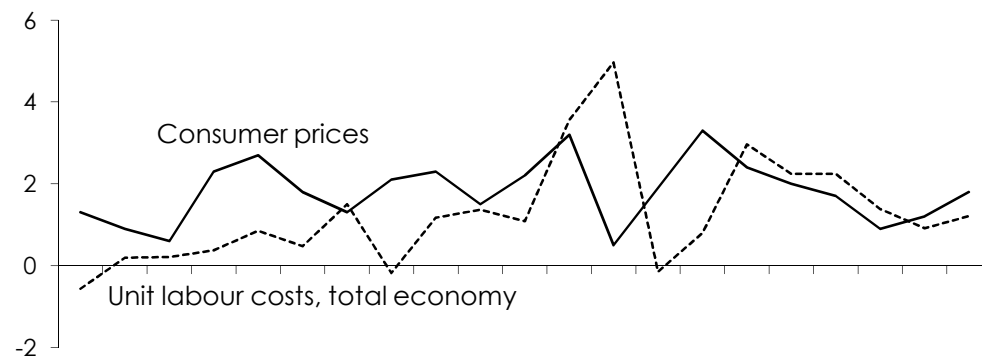
Consumption and income

Percentage changes from previous year, volume



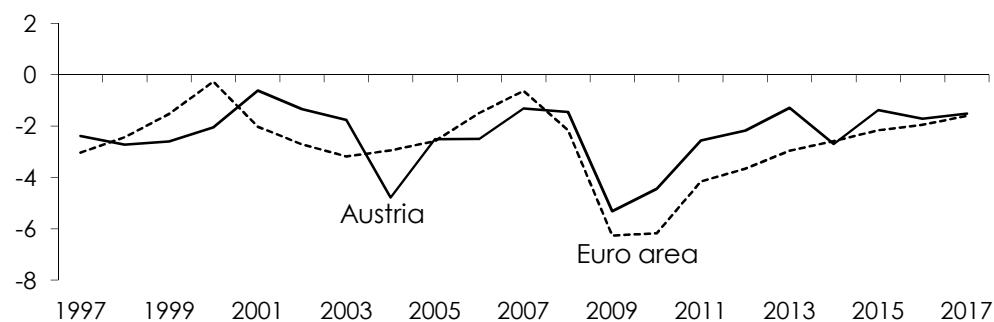
Inflation and unit labour costs

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.