

WIFO

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 **ÖSTERREICHISCHES INSTITUT FÜR
WIRTSCHAFTSFORSCHUNG**

**Uncertainty Weighing on Business
Activity**

Economic Outlook for 2015 and 2016

March 2015



Uncertainty Weighing on Business Activity Economic Outlook for 2015 and 2016

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Austrian Institute of Economic Research

Abstract

After the slow pace recorded in 2014, growth of the Austrian economy is likely to remain modest also in early 2015. Leading indicators to date give no substantial hint for a revival of business activity. Hence, the conditions for a cyclical recovery during the first half of the year are hardly in place. More favourable developments may set in only in 2016. Apart from a rebound in global demand and output, the weak euro exchange rate and low commodity prices should give positive incentives to the domestic economy. GDP growth is expected to gradually pick up from 0.3 percent in 2014 to 0.5 percent in 2015 and 1.3 percent in 2016.

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Uncertainty Weighing on Business Activity

Economic Outlook for 2015 and 2016

After the slow pace recorded in 2014, growth of the Austrian economy is likely to remain modest also in early 2015. Leading indicators to date give no substantial hint for a revival of business activity. Hence, the conditions for a cyclical recovery during the first half of the year are hardly in place. More favourable developments may set in only in 2016. Apart from a rebound in global demand and output, the weak euro exchange rate and low commodity prices should give positive incentives to the domestic economy. GDP growth is expected to gradually pick up from 0.3 percent in 2014 to 0.5 percent in 2015 and 1.3 percent in 2016.

Economic activity in Austria lost momentum in the third and fourth quarter 2014 and growth has virtually come to a halt. At present, positive incentives are lacking both from domestic and foreign demand. Developments in the fourth quarter 2014 were marked by sluggish domestic demand and exports as well as by declining output in manufacturing and construction. Low order levels, coupled with receding final domestic and foreign demand and weak economic confidence prompt firms to hold back with investment. Leading indicators do not signal a rebound of activity for the next few months, rather have they been pointing down lately. Most evidence suggests that in spring 2015 the Austrian economy will remain in the quasi-stagnation observed in the preceding quarters. There are, on the other hand, no signs for the economy slipping into recession, although demand and output are vulnerable to further setbacks. Against this background, GDP growth in 2015 will be subdued like in 2014, extending the phase of weakness that started in 2012. Despite an expected pick-up of activity in 2016, production capacities will remain far from being fully utilised. The output gap will not be closed by the forecast horizon.

Despite the slight acceleration of growth over the forecast period, inflationary pressure should abate somewhat. After an increase by 1.7 percent in 2014, the consumer price index is projected to climb by 1.3 percent in 2015 and 1.5 percent in 2016. Besides private consumption, corporate investment will gradually head up. The external

sector is unlikely to provide a positive net contribution to GDP growth over the forecast period. While the growth outlook for Austria's export markets has brightened in the last months, a sustained improvement should not be expected in view of market share losses and an unfavourable export structure.

Despite its slow pace, Austria's GDP growth is relatively labour-intensive, mainly due to a decline in average work hours. After an increase in the number of persons in dependent active employment by 0.7 percent in 2014, WIFO expects further gains of 0.5 percent and 0.7 percent in 2015 and 2016, respectively. Job creation is primarily driven by the service sector. However, given the strong expansion of labour supply, unemployment will continue heading up over the forecast horizon. After an increase in the jobless rate (national definition) by 0.8 percentage point to 8.4 percent in 2014, WIFO expects for 2015 a rate of 9.1 percent, rising further to 9.4 percent in 2016. The figures are nevertheless biased upwards by the parallel decline in the number of persons enrolled in training programmes organised by the labour market service.

In spite of sluggish economic activity, public finances are unlikely to weaken further this year and next. The general government deficit (according to Maastricht definition) is expected to narrow from 2.8 percent of GDP in 2014 to 2.2 percent in 2015 and 1.9 percent of GDP in 2016. Under the present assumptions on the cyclical profile and the economic policy settings and conditions, a balanced general government budget will not be achieved either in nominal or in structural terms even by the end of the forecast horizon.

Cut-off date: 16 March 2015

For more details please contact

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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

Percentage changes from previous year

	2011	2012	2013	2014	2015	2016	
					Forecasts		
GDP							
Volume	+ 3.1	+ 0.9	+ 0.2	+ 0.3	+ 0.5	+ 1.3	
Value	+ 4.9	+ 2.8	+ 1.7	+ 2.0	+ 1.9	+ 2.7	
Manufacturing¹, volume	+ 9.0	+ 1.1	+ 0.6	+ 0.2	+ 1.0	+ 2.5	
Wholesale and retail trade, volume	+ 3.6	- 0.1	- 1.6	- 0.8	± 0.0	+ 0.8	
Private consumption expenditure, volume	+ 0.7	+ 0.6	- 0.1	+ 0.2	+ 0.4	+ 0.9	
Gross fixed investment, volume	+ 6.8	+ 0.5	- 1.5	+ 0.5	+ 1.0	+ 1.5	
Machinery and equipment ²	+ 9.8	- 0.6	- 1.5	+ 1.5	+ 1.5	+ 2.5	
Construction	+ 2.6	+ 1.2	- 2.2	+ 0.4	+ 0.5	+ 1.0	
Other Investment ³	+ 12.9	+ 0.5	+ 0.3	- 1.2	+ 1.5	+ 1.2	
Exports of goods⁴							
Volume	+ 7.1	+ 0.6	+ 2.8	+ 2.1	+ 2.5	+ 4.0	
Value	+ 11.3	+ 1.5	+ 1.8	+ 1.7	+ 1.5	+ 4.7	
Imports of goods⁴							
Volume	+ 8.3	- 0.9	+ 0.2	+ 0.9	+ 2.2	+ 3.3	
Value	+ 15.3	+ 0.7	- 1.0	- 0.8	+ 0.7	+ 4.3	
Current balance	€ bn	+ 5.06	+ 4.73	+ 3.32	+ 4.45	+ 4.79	+ 3.31
	as a percentage of GDP	+ 1.6	+ 1.5	+ 1.0	+ 1.4	+ 1.4	+ 1.0
Long-term interest rate⁵	percent	3.3	2.4	2.0	1.5	0.5	0.5
Consumer prices		+ 3.3	+ 2.4	+ 2.0	+ 1.7	+ 1.3	+ 1.5
Unemployment rate							
Eurostat definition ⁶	percent	4.2	4.3	4.9	5.0	5.3	5.3
National definition ⁷	percent	6.7	7.0	7.6	8.4	9.1	9.4
Persons in active dependent employment⁸		+ 1.9	+ 1.4	+ 0.6	+ 0.7	+ 0.5	+ 0.7
General government financial balance							
according to Maastricht definition							
as a percentage of GDP		- 2.6	- 2.3	- 1.5	- 2.8	- 2.2	- 1.9

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 2015

World economy

Percentage changes from previous year

	2011	2012	2013	2014	2015	2016
					Forecasts	
Real GDP						
World	+ 4.1	+ 3.4	+ 3.3	+ 3.3	+ 3.7	+ 3.7
USA	+ 1.6	+ 2.3	+ 2.2	+ 2.4	+ 2.9	+ 2.8
Japan	- 0.5	+ 1.8	+ 1.6	- 0.0	+ 0.8	+ 1.4
EU 28	+ 1.7	- 0.4	± 0.0	+ 1.4	+ 1.5	+ 1.7
Euro area 19	+ 1.6	- 0.7	- 0.5	+ 0.9	+ 1.1	+ 1.3
CEE5 ¹	+ 3.3	+ 0.5	+ 1.0	+ 3.0	+ 2.7	+ 3.1
China	+ 9.3	+ 7.7	+ 7.8	+ 7.4	+ 7.0	+ 6.5
World trade, volume	+ 6.0	+ 2.1	+ 2.7	+ 3.3	+ 4.1	+ 4.2
Market growth²	+ 7.5	+ 0.8	+ 1.8	+ 3.0	+ 3.5	+ 4.0
Primary commodity prices³						
HWWI Index, total	+ 28.6	- 2.8	- 1.9	- 7.0	- 24	+ 2
Excluding energy	+ 19.2	- 14.4	- 6.1	- 6.2	- 5	+ 10
Crude oil prices						
Brent, USD per barrel	111.3	111.6	108.7	99.0	70	80
Exchange rate						
USD per euro	1.392	1.286	1.328	1.329	1.15	1.15

¹ Poland, Slovakia, Slovenia, Czech Republic, Hungary.² Real import growth of trading partners weighted by Austrian export shares.³ In USD.

Key policy indicators

	2011	2012	2013	2014	2015	2016
					Forecasts	
Fiscal policy						
					As a percentage of GDP	
General government financial balance according to Maastricht definition	- 2.6	- 2.3	- 1.5	- 2.8	- 2.2	- 1.9
General government primary balance	0.1	0.4	1.1	- 0.3	0.3	0.6
Monetary policy						
					Percent	
3-month interest rate	1.4	0.6	0.2	0.2	0.1	0.1
Long-term interest rate ¹	3.3	2.4	2.0	1.5	0.5	0.5
					Percentage changes from previous year	
Effective exchange rate						
Nominal	+ 0.2	- 1.5	+ 1.7	+ 1.2	- 2.2	± 0.0
Real	+ 0.6	- 1.6	+ 2.0	+ 1.5	- 1.5	- 0.3

¹ 10-year central government bonds (benchmark).

Productivity

Percentage changes from previous year

	2011	2012	2013	2014	2015	2016
					Forecasts	
Total economy						
Real GDP	+ 3.1	+ 0.9	+ 0.2	+ 0.3	+ 0.5	+ 1.3
Hours worked ¹	+ 2.0	- 0.1	- 0.5	+ 0.9	- 0.1	+ 0.1
Productivity per hour	+ 1.1	+ 1.0	+ 0.7	- 0.6	+ 0.6	+ 1.2
Employment ²	+ 1.7	+ 1.1	+ 0.7	+ 0.9	+ 0.8	+ 0.8
Manufacturing						
Production ³	+ 8.8	+ 1.2	+ 0.7	+ 0.3	+ 1.0	+ 2.5
Hours worked ¹	+ 1.6	+ 1.2	- 0.4	- 0.6	- 0.4	- 0.1
Productivity per hour	+ 7.0	- 0.1	+ 1.1	+ 0.9	+ 1.4	+ 2.6
Employees ¹	+ 1.9	+ 1.6	- 0.1	+ 0.1	- 0.1	± 0.0

¹ According to National Accounts definition.

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

³ Value added, volume.

Private consumption, income and prices

	2011	2012	2013	2014	2015	2016
					Forecasts	
	Percentage changes from previous year, volume					
Private consumption expenditure	+ 0.7	+ 0.6	- 0.1	+ 0.2	+ 0.4	+ 0.9
Durables	+ 4.6	- 0.1	- 3.2	+ 0.4	+ 0.5	+ 2.0
Non-durables and services	+ 0.3	+ 0.7	+ 0.2	+ 0.1	+ 0.4	+ 0.8
Household disposable income	- 1.1	+ 1.9	- 2.1	+ 0.3	+ 0.5	+ 1.1
	As a percentage of disposable income					
Household saving ratio						
Including adjustment for the change in net equity of households in pension fund reserves	7.8	9.0	7.3	7.4	7.4	7.6
Excluding adjustment for the change in net equity of households in pension fund reserves	7.1	8.3	6.5	6.6	6.6	6.8
	Percentage changes from previous year					
Direct lending to domestic non-banks¹	+ 2.7	+ 0.0	- 1.2	+ 0.3	+ 1.0	+ 1.2
Inflation rate						
National	3.3	2.4	2.0	1.7	1.3	1.5
Harmonised	3.6	2.6	2.1	1.5	1.2	1.5
Core inflation ²	2.8	2.3	2.3	1.9	1.8	1.5

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

Earnings and international competitiveness

Percentage changes from previous year

	2011	2012	2013	2014	2015	2016
					Forecasts	
Wages and salaries per employee¹						
Gross earnings	+ 1.8	+ 2.7	+ 1.7	+ 1.7	+ 1.5	+ 1.7
Gross real earnings²	- 1.4	+ 0.3	- 0.3	+ 0.0	+ 0.2	+ 0.2
Net real earnings²	- 1.8	- 0.1	- 0.7	- 0.5	- 0.3	- 0.3
Unit labour costs						
Total economy	+ 0.5	+ 2.9	+ 2.4	+ 2.4	+ 1.8	+ 1.4
Manufacturing	- 3.2	+ 3.7	+ 1.8	+ 1.6	+ 0.7	- 0.7
Effective exchange rate - manufactures						
Nominal	+ 0.1	- 1.7	+ 1.8	+ 1.2	- 2.2	± 0.0
Real	+ 0.5	- 1.7	+ 2.1	+ 1.5	- 1.6	- 0.3

¹ Employees according to National Accounts definition.

² Deflated by CPI.

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Projections - March 2015

Labour market

Changes from previous year (1,000^s)

		2011	2012	2013	2014	2015	2016
						Forecasts	
Demand for labour							
Persons in active employment ¹		+ 69.9	+ 50.1	+ 29.3	+ 29.7	+ 23.5	+ 28.0
Employees ²		+ 63.3	+ 47.2	+ 21.2	+ 23.8	+ 18.5	+ 23.0
Percentage changes from previous year		+ 1.9	+ 1.4	+ 0.6	+ 0.7	+ 0.5	+ 0.7
Nationals		+ 25.7	+ 9.0	- 8.5	- 8.1	- 3.5	- 3.0
Foreign workers		+ 37.7	+ 38.1	+ 29.7	+ 32.0	+ 22.0	+ 26.0
Self-employed ³		+ 6.6	+ 2.9	+ 8.1	+ 5.9	+ 5.0	+ 5.0
Labour supply							
Population of working age	(15 to 64 years)	+ 31.3	+ 18.0	+ 23.5	+ 28.4	+ 25.5	+ 23.3
	(15 to 59 years)	+ 11.7	+ 22.3	+ 27.2	+ 28.2	+ 18.7	+ 8.5
Labour force ⁴		+ 65.8	+ 64.0	+ 55.9	+ 61.9	+ 54.5	+ 47.0
Surplus of labour							
Registered unemployed ⁵		- 4.1	+ 13.9	+ 26.6	+ 32.2	+ 31.0	+ 19.0
	1,000 ^s	246.7	260.6	287.2	319.4	350.4	369.4
Unemployed persons in training	1,000 ^s	63.2	66.6	73.5	75.3	61.3	58.3
Unemployment rate							
Eurostat definition ⁶	percent	4.2	4.3	4.9	5.0	5.3	5.3
Percent of total labour force ⁵	percent	6.0	6.2	6.8	7.4	8.1	8.4
National definition ^{5,7}	percent	6.7	7.0	7.6	8.4	9.1	9.4
Employment rate							
Persons in active employment ^{1,8}	percent	66.6	67.2	67.5	67.6	67.8	68.0
Total employment (Eurostat) ^{6,8}	percent	72.1	72.5	72.3	72.6	72.7	72.8

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

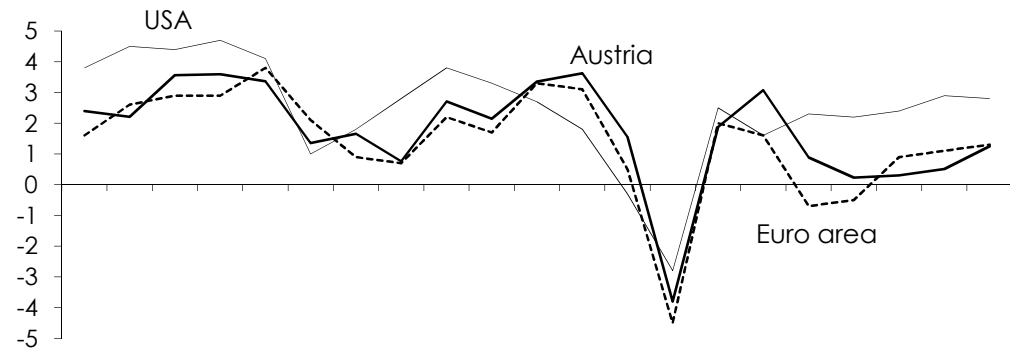
³ According to WIFO. ⁴ Persons in active employment plus unemployment.

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).

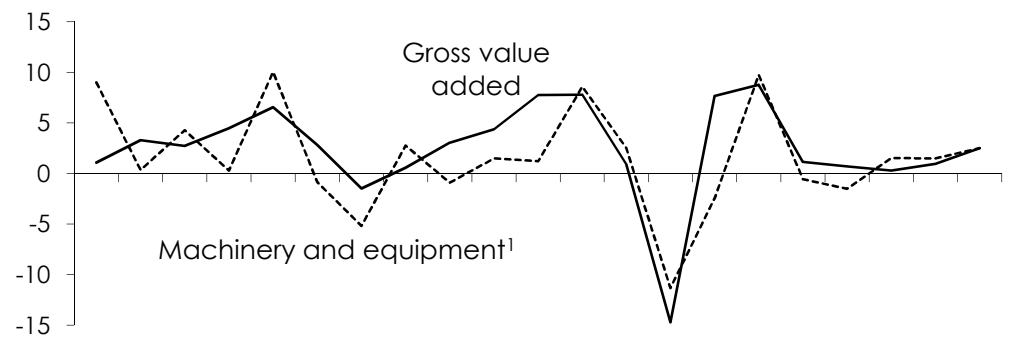
Growth of real GDP

Percent



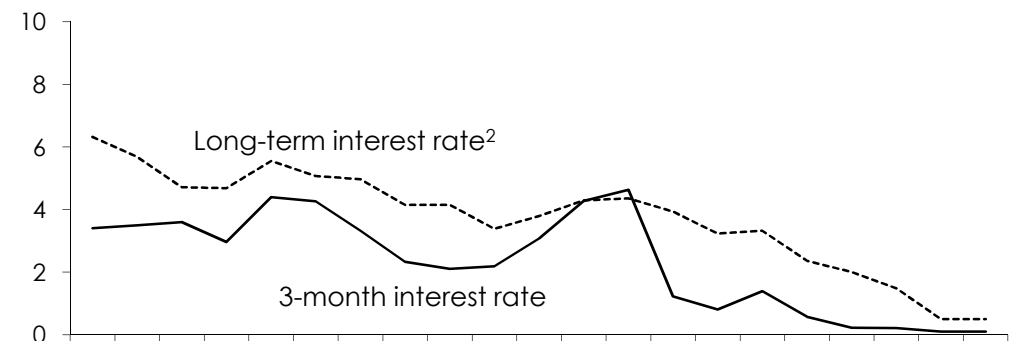
Manufacturing and investment

Percentage changes from previous year, volume



Short-term and long-term interest rates

Percent



Trade

Percentage changes from previous year, volume

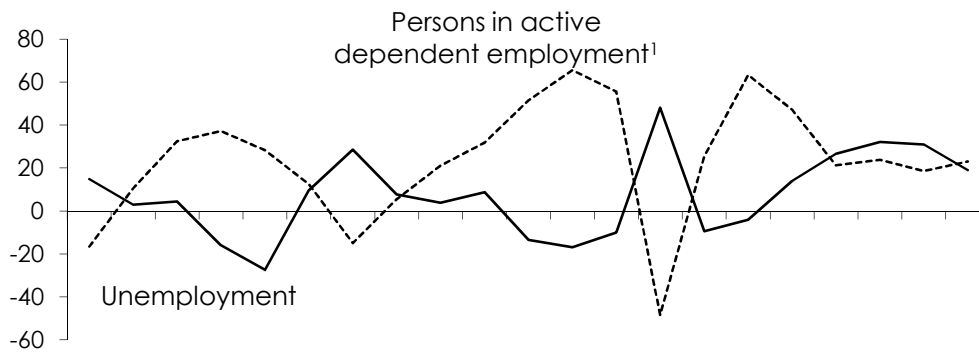


¹ Including weapon systems.

² 10-year central government bonds (benchmark).

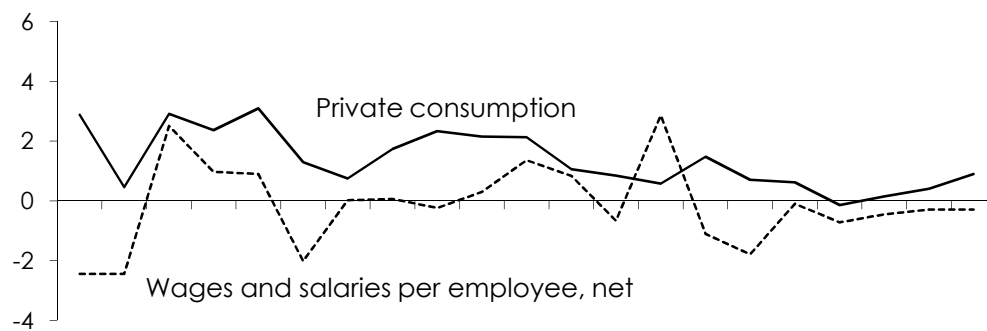
Employment and unemployment

1,000^s from previous year



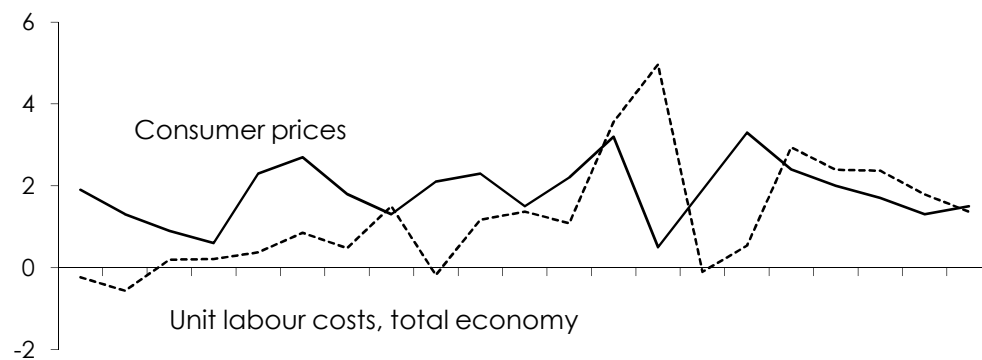
Consumption and income

Percentage changes from previous year, volume



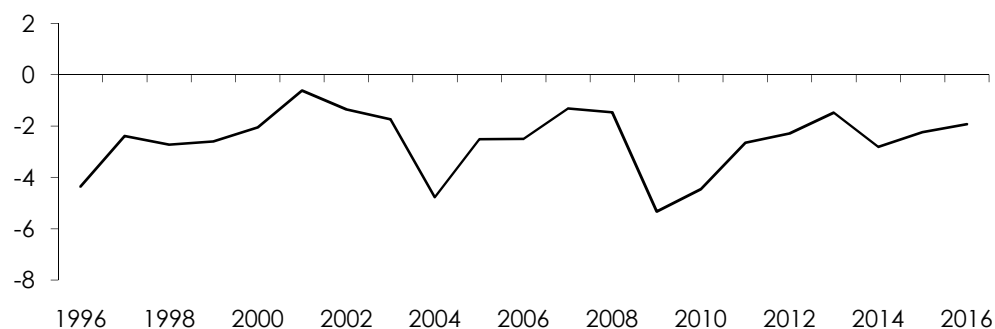
Inflation and unit labour costs

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.