

■ ECONOMIC RECOVERY SURROUNDED BY RISKS

ECONOMIC OUTLOOK FOR 2002 AND 2003

The Austrian economy is expected to grow by slightly over 1 percent this year, and by more than 2½ percent in 2003. This projection by WIFO has been upheld since last December. It is supported by a tentative rebound in activity in the first quarter and the recent trend in leading indicators. However, the risks deriving from international developments appear somewhat greater now than at the time of the last forecasting round in mid-April. The business cycle upturn in the EU has so far been hesitant, and in the USA the fragility of consumer confidence and the fall on stock markets are adding to uncertainty.

Domestic activity is gradually recovering from its low. In the first quarter, real GDP edged up both from the year-earlier level and from the previous period (+0.1 percent), in line with the assumption embodied in the last forecast. For the second quarter, survey data and leading indicators are heading up, but the revival will first remain moderate, with an expected GDP growth rate of less than 1 percent. Subsequently, in the second semester, the rebound should gain momentum.

The pace of the upturn largely depends on the international cyclical trend. While the latter remains firmly upward bound, the risk of the recovery being delayed has increased. In the EU, and in Germany in particular, the revival of activity is making slow progress, not yet being self-sustained, but receiving its major stimulus from the USA. The US economy expanded strongly in the first quarter, due to lively stock-building, but private consumption showed signs of weakening in the following period. Consumer confidence is being overshadowed by the new bout of stock market falls.

The newly gained strength of the euro will put a lid on European inflation, but may dampen real growth with a lag of several quarters. For Austria, the direct dampening effect should not be overrated, since less than one-fifth of exports go overseas.

The rebound in exports on the back of the international business cycle upturn will stimulate investment in new equipment also in Austria by next year. In 2002, such investment is still depressed, having fallen by 10 percent in volume year-

All staff members of the Austrian
Institute of Economic Research
contribute to the Economic Outlook.

Main results

	1999	2000	2001	2002	2003
	Percentage changes from previous year				
GDP					
Volume	+2.8	+ 3.0	+1.0	+1.2	+ 2.8
Value	+3.5	+ 4.2	+2.6	+2.3	+ 4.0
Manufacturing ¹⁾ , volume	+3.4	+ 7.3	+0.9	+1.5	+ 5.0
Private consumption expenditure, volume	+2.7	+ 2.5	+1.3	+1.5	+ 2.3
Gross fixed investment, volume	+1.5	+ 5.1	-2.7	-0.7	+ 4.1
Machinery and equipment ²⁾	+4.3	+11.1	-3.8	+0.7	+ 7.6
Construction	-0.7	+ 0.3	-1.7	-2.0	+ 1.0
Exports of goods ³⁾					
Volume	+7.7	+13.1	+5.1	+4.0	+ 8.5
Value	+7.0	+15.6	+6.5	+4.5	+10.1
Imports of goods ³⁾					
Volume	+6.9	+10.9	+3.0	+2.0	+ 7.6
Value	+6.7	+14.7	+5.0	+2.5	+ 9.8
Current balance (billion Euro)	-6.33	- 5.04	-4.57	-4.54	- 4.81
As a percentage of GDP (%)	-3.2	- 2.5	-2.2	-2.1	- 2.2
Long-term interest rate ⁴⁾ (%)	4.7	5.6	5.1	5.4	5.7
Consumer prices	+0.6	+ 2.3	+2.7	+1.7	+ 1.4
Unemployment rate					
Percent of total labour force ⁵⁾ (%)	3.9	3.7	3.6	4.0	3.9
Percent of dependent labour force ⁶⁾ (%)	6.7	5.8	6.1	6.8	6.5
Dependent employment ⁷⁾	+1.2	+ 1.0	+0.4	-0.2	+ 0.8
General government financial balance					
As a percentage of GDP (%)	-2.2	- 1.5	+0.1	-0.4	± 0.0

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. - ⁶⁾ According to Labour Market Service. - ⁷⁾ Excluding parental leave and military service.

on-year in the first quarter. In an environment of uncertainty and low capacity utilisation, business capital formation tends to be deferred, but will be caught-up upon once expectations have stabilised.

Construction investment has been hit hardest by the business cycle slump. It dropped by 7½ percent in the first quarter, as building activity is particularly cyclically sensitive in the winter season. On annual average 2002, the decline is projected at around 2 percent, much as in 2001. Some relief may be expected for 2003, when new orders, notably for industrial and commercial structures, should pick up.

Demand for durable consumer goods is reacting to cyclical variations to a similar degree as investment. Particularly volatile are car purchases, with new car registrations undershooting the year-earlier level by one-tenth in the first five months of 2002. As overall activity strengthens, purchases of durables will bounce back. Total private consumption is projected to gain close to 1½ percent this year and 2¼ percent in 2003.

Tourism has developed altogether favourably in the last winter season. Smaller gains should be expected this summer and into next year, reflecting the weak economic performance in Germany. Moreover, many holidaymakers will revert to longer-distance air travel, which they have shied away from after the September 2001 terrorist attacks.

Inflation is decelerating, in spite of strengthening activity. Consumer prices are set to go up by 1.7 percent in 2002, less by 1 percentage point than in 2001, owing to stable energy prices. In 2003, the rate of inflation may abate further to 1.4 percent, as the impact of several one-off factors, e.g., price hikes for fruits and vegetables, wears off.

The labour market has weakened under the impact of slower growth. Total employment in 2002 will edge down by an estimated 5,000 from last year. Job cuts in manufacturing, construction, transport and the public sector will partly be offset by gains in services, even if the new jobs created are often not full-time, but rather part-time jobs for women. While the decline in employment corresponds to the pace of the cyclical slowdown, unemployment is rising disproportionately strongly. This discrepancy is explained by the shift towards part-time work and, more importantly, by a substantial increase in labour supply. The unemployment rate is projected to rise from 6.1 to 6.8 percent this year, before moderating to 6.5 percent in 2003, when demand for labour should resume.

The cyclical downturn is leading to a shortfall in public revenues in 2002, making for a general government deficit of nearly ½ percent of GDP. This figure hinges on the assumption that the federal states („Länder“) will be able to attain the envisaged aggregate budget surplus, and that the positive outturn will also be validated by Eurostat. Compared with other EU countries, notably Germany and France, the projected overall deficit is small. In 2003, public finances should be in balance, assuming stronger economic growth and no change in tax rates and non-wage labour costs. Any revenue losses due to tax cuts will thus have to be accompanied by commensurate restraint on expenditure, if budgetary policy is to stay on the „zero deficit“ track.

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