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Economic Activity in Austria Picking Up Gradually

Economic Outlook for 2015 and 2016

Economic Activity in Austria Picking Up Gradually. Economic Outlook for 2015 and 2016
Economic growth in Austria remains subdued in the current year. Demand and output should gain momentum in 2016, thereby narrowing the growth gap vis-à-vis Germany and the euro-area average.

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Austrian exports are feeling the slower pace of growth in the emerging markets. With the exception of China, these economies should stage a cyclical recovery in 2016. Deliveries of goods to the euro area also receded in the first half of 2015, while trade with the USA posted strong gains.

Domestic private consumption remains sluggish this year before picking up from +0.4 percent (2015) to +1.3 percent in 2016, benefiting from the lower income tax burden brought about by the tax reform 2015-16 and from higher employment. Investment is also expected to strengthen, albeit less than in earlier periods of cyclical upturn. Corporate spending on machinery and business equipment is set to accelerate from a modest volume growth of 0.8 percent in 2015 to +2.5 percent in 2016. Construction investment, stagnating in 2015 (+0.2 percent), should enjoy a similar improvement, even if receiving little early stimulus from government moves for more residential building.

In all, WIFO expects real GDP growth at an annual average of 0.7 percent for 2015, accelerating to 1.4 percent in 2016. In spite of the moderate pace of activity, employment will continue to increase, somewhat less though the total number of hours worked. With the unabated expansion of labour supply, registered unemployment will nevertheless climb further, from 9.2 percent (2015) to 9.7 percent (2016) of the dependent labour force (national definition).

Notwithstanding the lower energy prices, the domestic consumer price index will increase by 1.1 percent in 2015 and by a projected 1.7 percent in 2016. Headline inflation thus remains significantly above the euro-area average, although the differential should narrow in 2016.

Table 1: Main results

		2011	2012	2013	2014	2015	2016
		Percentage changes from previous year					
GDP							
Volume		+ 2.8	+ 0.8	+ 0.3	+ 0.4	+ 0.7	+ 1.4
Value		+ 4.8	+ 2.7	+ 1.8	+ 2.0	+ 2.4	+ 3.1
Manufacturing[1], volume		+ 6.8	+ 2.2	– 0.4	+ 1.1	+ 0.8	+ 2.5
Wholesale and retail trade, volume		+ 3.6	– 1.6	– 0.2	– 0.5	+ 1.2	+ 2.2
Private consumption expenditure, volume		+ 1.3	+ 0.6	+ 0.1	+ 0.0	+ 0.4	+ 1.3
Gross fixed investment, volume		+ 6.7	+ 1.3	– 0.3	– 0.2	+ 0.4	+ 1.5
Machinery and equipment[2]		+ 10.1	+ 0.7	– 0.1	+ 1.3	+ 0.8	+ 2.5
Construction		+ 2.7	+ 2.2	– 2.1	– 1.0	+ 0.2	+ 1.0
Other investment[3]		+ 11.1	+ 0.2	+ 4.1	– 0.7	+ 0.1	+ 1.2
Exports of goods[4]							
Volume		+ 7.4	+ 0.5	+ 2.9	+ 2.7	+ 2.5	+ 4.0
Value		+ 11.3	+ 1.5	+ 1.8	+ 1.8	+ 2.3	+ 4.7
Imports of goods[4]							
Volume		+ 8.4	– 0.9	– 0.1	+ 1.0	+ 2.5	+ 3.5
Value		+ 15.3	+ 0.7	– 1.0	– 0.7	+ 1.0	+ 4.5
Current balance	billion €	+ 5.06	+ 4.73	+ 3.06	+ 2.56	+ 4.69	+ 4.99
As a percentage of GDP		+ 1.6	+ 1.5	+ 0.9	+ 0.8	+ 1.4	+ 1.4
Long-term interest rate[5]	percent	3.3	2.4	2.0	1.5	1.0	1.0
Consumer prices		+ 3.3	+ 2.4	+ 2.0	+ 1.7	+ 1.1	+ 1.7
Unemployment rate							
Eurostat definition[6]	percent	4.6	4.9	5.4	5.6	5.8	6.0
National definition[7]	percent	6.7	7.0	7.6	8.4	9.2	9.7
Persons in active dependent employment[8]		+ 1.9	+ 1.4	+ 0.6	+ 0.7	+ 0.9	+ 1.0
General government financial balance according to Maastricht definition							
As a percentage of GDP		– 2.6	– 2.2	– 1.3	– 2.7	– 1.9	– 2.0

Source: WIFO. 2015 and 2016: forecast. – [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] According to Public Employment Service Austria, as a percentage of total labour force excluding self employed. – [8] Excluding parental leave, military service.

1. World economy continues to move at different speed

While the US economy continues to steam ahead and recovery strengthens in Europe, the majority of the emerging markets are stuck in recession or stagnation, suffering mainly from the decline in commodity prices.

Whereas until a few years ago the BRICS countries (Brazil, Russia, India, China, South Africa) gave major impetus to global economic growth, they are nowadays, with the exception of India, facing serious economic problems. The fall in commodity prices on international markets has caused declines in GDP during the first half of 2015 in Brazil, South Africa and Russia; the latter economy suffers moreover from the sanctions imposed by the USA and the EU in the wake of the crisis in Ukraine. The recession in Russia and Brazil has been accompanied by a decline in their currencies' exchange rate to the dollar and a substantial rekindling of inflation.

The gradual deceleration of trend growth in China observed for several years has gained considerable momentum since 2014, coupled with adverse cyclical conditions. The international competitiveness of Chinese goods has weakened for some time, the high pace of growth of the past ten years gave rise to strong wage increases that were not accommodated by a depreciation of the renminbi. Against this background, production was relocated abroad and foreign direct investment shifted towards other target countries. Already in 2009, the Chinese government was induced to stem the slowdown of growth by launching an investment programme that, however, provided only temporary relief. Imports remained flat in 2014 and even slumped by some 17 percent in the first six months of 2015.

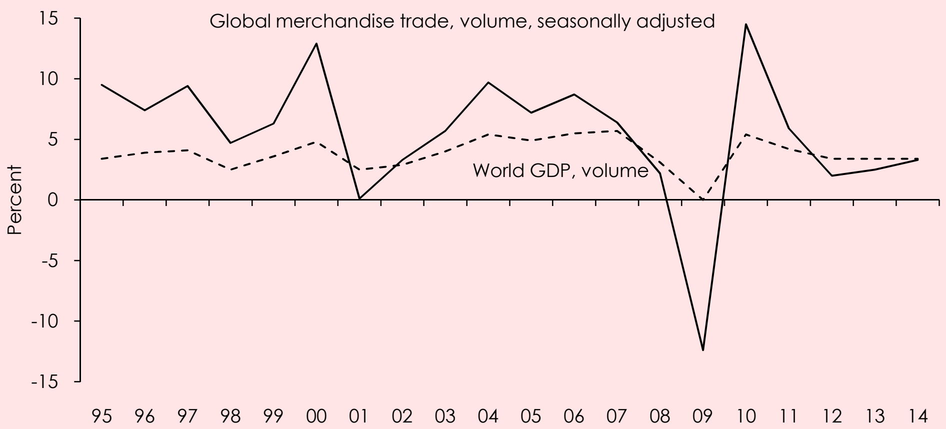
The loss of growth momentum and the high indebtedness of regional and municipal authorities as well as of companies have raised doubts about the sustained expansion of the Chinese economy. On the biggest Chinese stock market, prices caved in by around 30 percent in the middle of last July. The government was forced to intervene via asset purchases and a temporary suspension of trading, following which stock market values stabilised before weakening again in mid-August. After a revaluation of the Renminbi against the dollar in 2014, the central government has moved to a devaluation strategy in 2015 in order to rein in the loss of international competitiveness. Since the beginning of the year, the Central Bank has cut interest rates in several steps. WIFO projects a slowdown in Chinese GDP growth to 6.5 percent in 2015 and 6.0 percent in 2016.

1.1 World trade increasingly decoupled from global growth

The problems affecting the emerging markets leave their marks on the development of world trade. During the first five months of 2015, commercial trade slackened steadily, not so much due to the marginal slowdown of global GDP growth but rather to a shift in growth drivers away from the commodity-intensive emerging markets towards the advanced economies.

In addition, the income elasticity of trade has decreased further. As revealed by an IMF study (Economic Outlook April 2015), the diminishing dependence of global merchandise trade on demand and output growth has both structural and cyclical causes. Since 1995, world trade has been lagging behind GDP growth in 2009 (recession: world GDP ±0.0 percent, world trade –12.4 percent) and 2001 (burst of the dotcom bubble: +2.5 percent vs. +0.1 percent; Figure 1).

Figure 1: World trade and global GDP growth since 1995



Source: Netherlands Central Planning Bureau, IMF.

In the current year, the connection may be loosened by another factor: according to the OECD Interim Economic Outlook of September 2015, the decline in Chinese iron ore imports observed for the last two years and the fall in imports in the first half of 2015 is inconsistent with the official Chinese GDP data. In June 2015, the Financial Times also suspected that the official figures over-estimate actual GDP growth in China since they are blatantly out of line with information on transport volumes, credit growth and energy consumption. Given the meanwhile substantial share of China in world GDP, this may have a noticeable effect on global growth, too. For 2015, WIFO expects the world trade volume index to edge up by only 0.5 percent, along with projected global GDP growth of 3 percent.

The present forecast does not assume a "hard landing" of business activity in China, but rather a further deceleration of trend growth and a mild cyclical recovery in the course of 2016. A rebound in commodity prices will allow Brazil, Russia and South Africa to pull out of recession.

China's importance for the Austrian economy

The slowdown of growth in China raises the question of its potential impact on the world economy as well as on Austria. Over the last decades, the Chinese economy staged an extraordinary catching-up process: China's share on global GDP (measured at purchasing power parities) moved from 4 percent in the early 1990s to over 16 percent in 2014, with an annual average growth around 10 percent over that period. Although for the industrialised economies China is more important as supplier of goods than as export market, slower growth of China's domestic demand may nevertheless have negative repercussions on many countries.

With a share of 3.7 percent of euro-area exports, China held rank eight in 2014. Around 6.6 percent of Germany's merchandise exports go to China, the country being Germany's fourth-most-important foreign market. For Austria, China holds rank ten, with an export share of 2.6 percent (Table 2).

To date, there are few studies on the implications of a slowdown of Chinese growth. According to model simulations carried out by the OECD (Interim Economic Outlook of September 2015), a decline in Chinese domestic demand by 2 percent from baseline in the first and again in the second year depresses China's GDP by more than 1 percent in both years. Growth of world GDP would be cut by 0.5 percentage points respectively, the effect for the USA and the euro area being of similar magnitude, at –0.25 percentage points in each year. The study cites no figures for the impact on Germany and Austria.

Model calculations by Deutsche Bundesbank (Monthly Report of July 2015) simulate a slump in Chinese domestic demand by 6 percent in the first and 3 percent in the second year. China's GDP would thereby fall by 2.3 percent in the first year and by almost 2 percent in the second; the first-year GDP effect for the euro area would be –0.2 percent and for Germany –0.3 percent. The Bundesbank considers these estimates as being at the lower end of the actual effects. Positive effects were to be expected for the USA in the second year: lower prices for Chinese goods would dampen inflation in the USA, triggering an interest rate cut by the Federal Reserve, with a positive impact on GDP growth. No figures are given for Austria.

The only available simulation analysis on the subject for Austria was published by Bank Austria on 7 September 2015. It suggests that a reduction of the Chinese growth rate by 1 percentage point dampens Austria's GDP growth by up to 0.3 percentage points.

Table 2: China's importance for merchandise exports

	2014	2015 First half	2000-2005	2005-2010	2010-2014	2015 First half
	Percentage shares of total exports		Average year-to-year percentage changes			Percentage changes from previous year
Euro area						
Total			+ 4.3	+ 3.5	+ 4.2	+ 4.8
China	3.7	3.5	+ 16.1	+ 17.0	+ 8.4	+ 2.5
Germany						
Total			+ 5.6	+ 3.9	+ 4.5	+ 6.9
China	6.6	6.0	+ 17.6	+ 20.4	+ 8.5	+ 0.8
Austria						
Total			+ 6.3	+ 2.9	+ 4.0	+ 1.4
China	2.6	2.5	+ 20.0	+ 18.1	+ 4.7	– 3.3

Source: Statistics Austria, Destatis, Eurostat, WIFO calculations.

1.2 USA remain the driver of world economic growth

A steadily improving labour market, sustained monetary accommodation and low oil prices make for buoyant private consumption in the USA, which also benefits European exporters.

After a "soft patch" due to one-off effects in early 2015, US GDP rebounded strongly in the second quarter, gaining 1 percent from the previous period. The main driver was private consumption on the back of a particularly favourable environment: the steady decline in unemployment is boosting confidence, as reflected by consumer surveys. The slump in commodity prices takes the rate of inflation down to virtually zero (+0.2 percent in July and August) and thereby strengthens private purchasing power. At the same time, the Federal Reserve, contrary to announcements in early 2015 of a tightening of the monetary reins, left its key interest rate close to zero until September. The perpetually easy financing conditions led to a significant drop in the saving rate in the second quarter from the earlier period.

However, several signs challenge the robustness of business activity in coming months. Thus, the Purchasing Managers' Index has been clearly pointing down ever since the end of 2014. Moreover, consumer confidence has to some extent been fuelled by stock market gains; yet, after an increase by 10 percent in 2014, the Dow Jones Index has moved sideways in the first half of 2015, before losing 10 percent in mid-August and barely recovering thereafter.

The present forecast nevertheless assumes unabated GDP growth for the USA, at 2.4 percent respectively for 2015 and 2016.

Table 3: World economy

	2011	2012	2013	2014	2015	2016
			Percentage changes from previous year			
Real GDP						
World	+ 4.2	+ 3.4	+ 3.4	+ 3.4	+ 3.0	+ 3.3
USA	+ 1.6	+ 2.2	+ 1.5	+ 2.4	+ 2.4	+ 2.4
Japan	– 0.5	+ 1.7	+ 1.6	– 0.1	+ 0.8	+ 1.1
EU 28	+ 1.7	– 0.5	+ 0.1	+ 1.4	+ 1.9	+ 1.8
Euro area 19	+ 1.6	– 0.8	– 0.4	+ 0.9	+ 1.5	+ 1.5
CEEC 5[1]	+ 3.5	+ 0.7	+ 1.2	+ 3.1	+ 3.5	+ 3.1
China	+ 9.3	+ 7.8	+ 7.7	+ 7.3	+ 6.5	+ 6.0
World trade, volume	+ 5.9	+ 1.9	+ 2.5	+ 3.3	+ 0.5	+ 2.0
Market growth[2]	+ 7.4	+ 0.6	+ 1.8	+ 3.5	+ 3.0	+ 4.0
Primary commodity prices[3]						
HWWI index, total	+ 28.6	– 2.8	– 1.9	– 7.0	– 40	+ 5
Excluding crude oil	+ 19.2	– 14.4	– 6.1	– 6.2	– 20	– 8
Crude oil prices						
Brent, $ per barrel	111.3	111.6	108.7	99.0	55	60
Exchange rate						
$ per €	1.392	1.286	1.328	1.329	1.10	1.10

Source: WIFO. 2015 and 2016: forecast. – [1] Czech Republic, Hungary, Poland, Slovakia, Slovenia. – [2] Real import growth of goods of trading partners weighted by Austrian export shares. – [3] Dollar.

1.3 Countries in East-Central Europe catching up

The pace of growth of the East-Central European economies remains stronger over the forecast period than that of the euro area, thereby narrowing the income differential between the two regions. Private demand is set to be the driving force behind the catching-up. Financing constraints which acted as a bottleneck during the financial market crisis and the recession of 2008-09 appear to have now been overcome. Financial market confidence allows the East-central European countries to run the current account deficits inherent in the catching-up process, although their exports will expand strongly over the forecast period.

WIFO expects for the CEE-5-countries an overall GDP growth of 3.5 percent in 2015, edging down to slightly above 3 percent in 2016. Demand and output expansion is likely to prove most resilient in Poland.

1.4 Sluggish cyclical recovery in the euro area

Growth in the euro area is slightly picking up in 2015, but unlikely to strengthen further in 2016.

Business activity in the euro area is unlikely to strengthen substantially over the forecast horizon. Demand and output gained 0.4 percent in the second quarter, broadly in line with the earlier periods (third quarter 2014 +0.3 percent, fourth quarter 2014 +0.4 percent, first quarter 2015 +0.5 percent). Growth is so far sustained by consumer demand, but will gradually shift somewhat towards investment and exports once the situation in the emerging markets improves. WIFO expects GDP growth for the euro area at 1.5 percent for 2015 as well as for 2016, lagging behind the momentum in the USA by almost 1 percentage point.

Growth differentials between the euro area countries are set to narrow this year and next. Whereas in 2014, growth was led by Germany and Spain, other major economies caught up in the first half of 2015. German GDP expanded by 0.3 percent and 0.4 percent in the first and second quarter 2015, respectively; similar rates were achieved by Italy (+0.4 percent, +0.3 percent), France (+0.7 percent, ±0 percent) and the Netherlands (+0.6 percent, +0.1 percent). The Spanish economy enjoyed above-average growth of +0.9 percent in the first and +1.0 percent in the second quarter (always against the previous period). Yet, a trend towards acceleration is nowhere in sight.

Policy efforts to stimulate growth have shown little effect so far. The projects envisaged in the context of the European Strategic Investment Fund have not yet reached the stage of implementation, nor has monetary expansion via "quantitative easing" (purchases of government bonds to the tune of € 60 billion per month) produced tangible growth effects. The fall in oil prices took the inflation rate again down to almost zero (+0.1 percent) in August. For the last 12 months, headline inflation has been below 0.5 percent, significantly below the ECB target of close to 2 percent.

While the monetary policy measures are successful in forcing down long-term interest rates, their effect is largely undermined by the lasting fragility of the European financial system and the high debt levels of public authorities and private households alike.

Given the sluggishness of the cyclical recovery, the improvement on the labour market remains tentative. In July, the unemployment rate stood at 9.5 percent for the EU and at 10.9 percent for the euro area, down by 0.7 percentage points respectively from one year ago.

The massive inflow of refugees will add to aggregate demand in some countries, without however substantially stimulating business activity.

The massive inflow of asylum seekers in 2015 will have an impact on a number of EU economies. In the second quarter 2015, Eurostat recorded the access of 213,200 asylum seekers to the EU, 15 percent more than in the first quarter and a year-on-year increase of 85 percent. In the first six months, some 400,000 persons sought refuge in the EU. Their number is growing further in the second half of the year, with a total of 1 million for the entire year 2015 (0.2 percent of the EU population) being a realistic estimate. The additional demand triggered by the inflow will, however translate into a less-than-proportional increase in private consumption, given the generally low incomes of the refugees.

Already the last few years have seen an inflow of refugees, requiring an adjustment of population, labour supply and demand projections. Even the currently-observed immigration wave should nevertheless be too small for an ad-hoc revision of the growth projections for 2015 and 2016. Since, however, the distribution of the newcomers is rather unequal across countries, some of them may indeed experience an unexpected surge in demand.

While in the second quarter the EU recorded an average 420 asylum seekers per 1 million inhabitants, the ratio was highest for Hungary (3,300), Austria (2,000), Sweden (1,500) and Germany (1,000). In these countries, the implicit surge in demand may on certain conditions (e.g., prolonged stay of asylum seekers) raise GDP in the short term.

2. Austria: tentative economic recovery in 2016

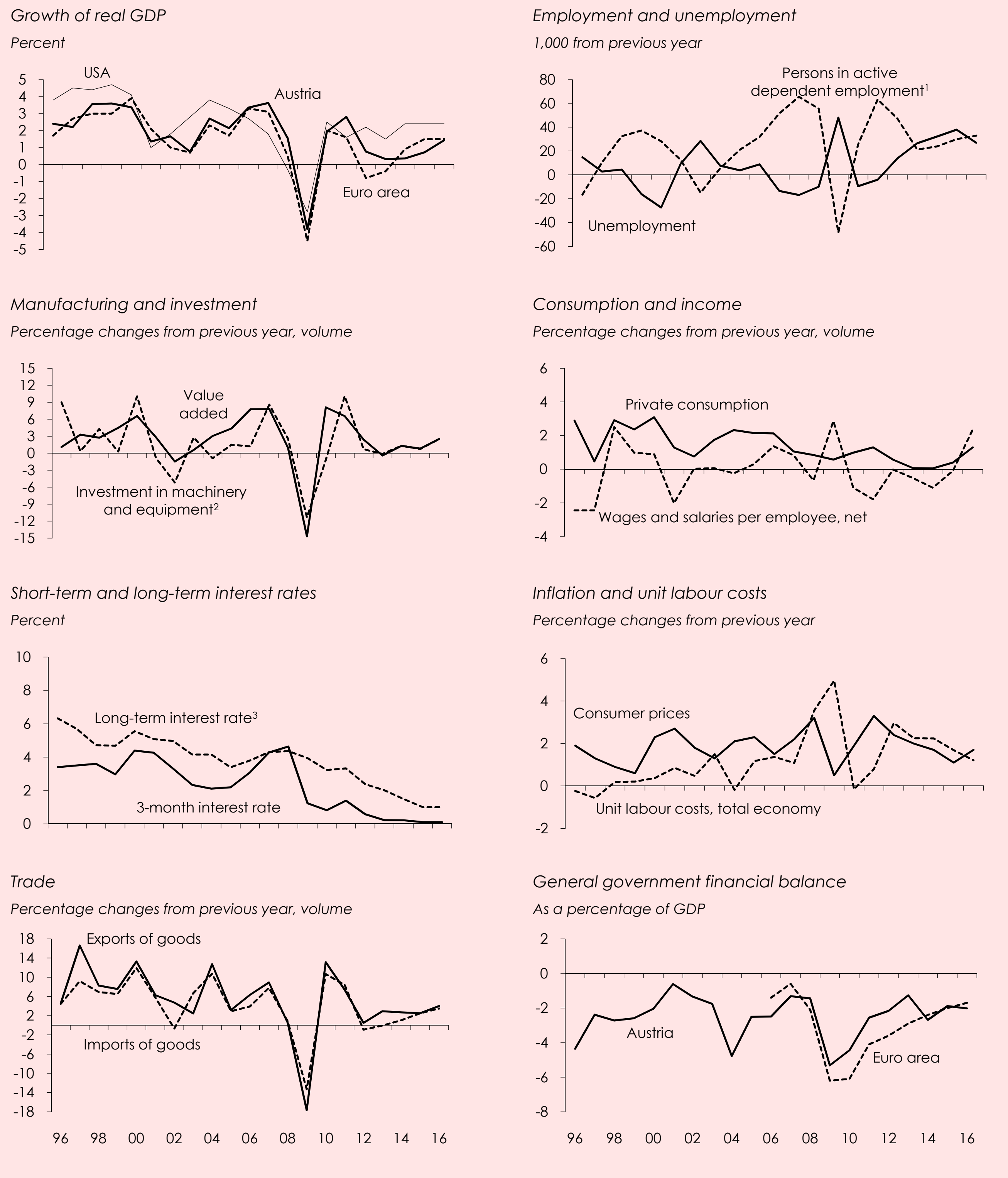
The growth lag of the Austrian economy observed since 2014 will significantly diminish in 2016, as GDP growth will nearly reach the euro-area average.

Business activity in Austria remained lacklustre in the first half of 2015. GDP gained 0.3 percent in the second quarter from the previous period, after +0.2 percent in the first three months of the year. Business surveys suggest a slight pick-up for the second semester. For the whole year, WIFO expects growth of real GDP at 0.7 percent. A further acceleration may be expected for the first half of 2016, which should, however, subside again thereafter (Figure 3).

The sluggishness of activity is visible in all major demand components. The crisis in the emerging markets is weighing on foreign trade. Exports to China and Russia, holding respectively rank 10 and in 11 in the importance of external markets, caved in during the first half of 2015. Still more importantly, trade with the other euro area countries also receded. If overall goods exports nevertheless edged up, it was thanks to buoyant trade with the USA (almost +20 percent) and the CEEC 5 (+6 percent). Austria's trade deficit narrowed despite the modest export performance, since imports remained flat due to a weak domestic demand and falling import prices.

Private consumption has hardly been growing in recent years. A high tax burden, accentuated i.a. by fiscal drag, an above-average rate of inflation and rising unemployment all undermine households' appetite for higher spending. An increase in purchasing power on the back of falling energy prices, which could pave the way for a revival of consumption, has so far hardly materialised.

Figure 2: Indicators of economic performance

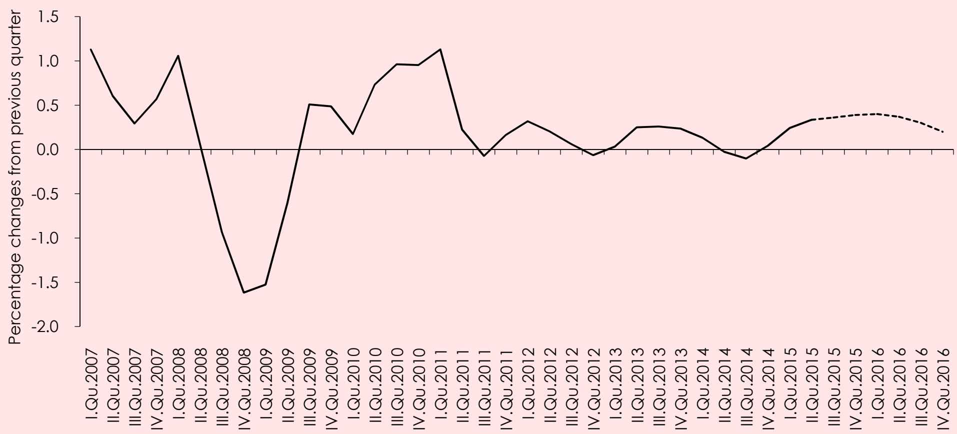


Source: WIFO. 2015 and 2016: forecast. – [1] Excluding parental leave, military service, and unemployed persons in training. – [2] 10-year central government bonds (benchmark).

In the past, lower oil prices have rather been associated with weaker international and domestic economic activity, as shown in Figure 4. A decline in energy prices on world markets is in most cases a symptom of global cyclical weakness. The latter and its adverse impact on exports of small open economies often dominates the positive effect of stronger domestic purchasing power. Figure 4 (right chart) therefore shows for Austria, if at all, a slightly negative correlation between oil price cuts and GDP growth.

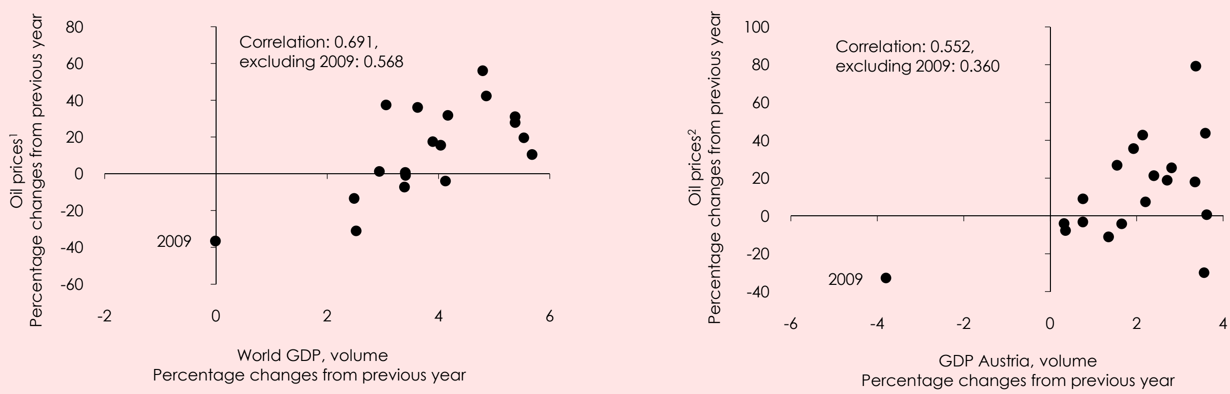
Figure 3: Cyclical pattern of the Austrian economy

GDP volume, trend-cycle component



Source: WIFO. third quarter 2015 to fourth quarter 2016: forecast.

Figure 4: GDP growth and oil prices 1995-2014



Source: HWWI, IMF, WIFO calculations. – [1] HWWI-Index, dollar basis. – [2] HWWI-Index, euro basis.

For 2016, WIFO projects private consumption growth at 1.3 percent in real terms, after only +0.4 percent in 2015. Notably the lower tax burden as a result of the income tax reform 2015-16 should give private spending greater impetus.

Whereas public consumption may expect an increase by nearly 1 percent in 2015, greater restraint will be exerted in 2016 in view of the need to "counter-finance" the income tax reform.

Gross fixed investment remains subdued in 2015, expanding by only 0.4 percent in volume. Sluggishness extends to investment in construction (+0.2 percent) as well as to corporate spending on machinery and equipment (less than +1 percent).

For 2016, WIFO expects a tentative rebound in investment. First, stronger growth in the EU and the euro area should translate via higher exports to additional investment; second, construction should benefit from higher public spending on new homebuilding. After a year-on-year decline in the first seven months of 2015, employment in the construction sector posted a first-time increase in August. Demand for new machinery and equipment is projected to gain 2.5 percent in volume in 2016, investment in construction +1 percent.

Table 4: Private consumption, income and prices

	2011	2012	2013	2014	2015	2016
	Percentage changes from previous year, volume					
Private consumption expenditure	+ 1.3	+ 0.6	+ 0.1	+ 0.0	+ 0.4	+ 1.3
Durables	+ 4.4	+ 0.7	– 3.0	– 0.5	± 0.0	+ 3.2
Non-durables and services	+ 0.9	+ 0.5	+ 0.4	+ 0.1	+ 0.4	+ 1.1
Household disposable income	– 0.9	+ 1.9	– 1.9	+ 0.1	+ 0.7	+ 1.8
	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	7.6	7.8	8.3
Excluding adjustment for the change in net equity of households in pension fund reserves	7.1	8.3	6.5	6.7	7.0	7.5
	Percentage changes from previous year					
Direct lending to domestic non-banks[1]	+ 2.7	+ 0.0	– 1.2	+ 0.3	+ 1.0	+ 1.2
	Percentage changes from previous year					
Inflation rate						
National	3.3	2.4	2.0	1.7	1.1	1.7
Harmonised	3.6	2.6	2.1	1.5	1.1	1.7
Core inflation[2]	2.8	2.3	2.3	1.9	1.7	1.7

Source: WIFO. 2015 and 2016: forecast. – [1] End of period. – [2] Excluding unprocessed food (meat, fish, fruits, vegetables) and energy items.

Table 5: Earnings and international competitiveness

	2011	2012	2013	2014	2015	2016
	Percentage changes from previous year					
Gross earnings per employee[1]	+ 1.8	+ 2.7	+ 1.9	+ 1.4	+ 1.6	+ 1.7
Gross real earnings per employee[2]	– 1.4	+ 0.3	– 0.1	– 0.3	+ 0.5	± 0.0
Net real earnings per employee[2]	– 1.8	– 0.0	– 0.5	– 1.1	– 0.1	+ 2.4
Unit labour costs						
Total economy	+ 0.8	+ 3.0	+ 2.2	+ 2.2	+ 1.7	+ 1.2
Manufacturing	– 1.2	+ 2.7	+ 2.5	+ 1.2	+ 0.4	– 0.5
Effective exchange rate, manufactures						
Nominal	+ 0.1	– 1.7	+ 1.8	+ 1.2	– 2.8	+ 0.3
Real	+ 0.5	– 1.7	+ 2.1	+ 1.5	– 2.7	+ 0.1

Source: WIFO. 2015 and 2016: forecast. – [1] Employees according to National Accounts definition. – [2] Deflated by CPI.

Table 6: Productivity

	2011	2012	2013	2014	2015	2016
	Percentage changes from previous year					
Total economy						
Real GDP	+ 2.8	+ 0.8	+ 0.3	+ 0.4	+ 0.7	+ 1.4
Hours worked[1]	+ 2.0	– 0.3	– 0.5	+ 0.4	± 0.0	+ 0.3
Productivity per hour	+ 0.8	+ 1.1	+ 0.8	– 0.1	+ 0.7	+ 1.1
Employment[2]	+ 1.7	+ 1.1	+ 0.6	+ 1.1	+ 0.7	+ 1.0
Manufacturing						
Production[3]	+ 6.5	+ 2.4	– 0.4	+ 1.3	+ 0.8	+ 2.5
Hours worked[1]	+ 1.6	+ 1.1	– 0.7	– 0.0	– 1.4	– 0.1
Productivity per hour	+ 4.8	+ 1.2	+ 0.3	+ 1.3	+ 2.2	+ 2.6
Employees[1]	+ 1.9	+ 1.5	– 0.3	+ 0.2	– 0.4	± 0.0

Source: WIFO. 2015 and 2016: forecast. – [1] According to National Accounts definition. – [2] Dependent and self-employed according to National Accounts definition. – [3] Value added, volume.

On the back of higher exports which were lacklustre in the last four years, manufacturing output should expand stronger again by 2.5 percent in volume in 2016. The fall in manufacturing employment by 0.4 percent in 2015, induced by productivity gains, should come to a halt in 2016.

2.1 Inflation remains above the euro area average

In 2015, headline inflation in Austria is set to remain 1 percentage point above the euro area average, virtually unchanged from the +1.1 percentage points recorded in 2014.

The fall in world market commodity prices, triggered by the growth slowdown in the energy-intensive emerging market economies, is keeping down inflation worldwide. Also in Austria, inflation is moderated mainly by the fall in oil prices. Inflation remains nevertheless strong when compared with Germany or the euro area average. In August, the consumer price index edged down from 1.2 percent in July to 1 percent, driven by a further decline in oil product prices. Without the latter, headline inflation would have climbed to 1.8 percent, despite the cyclical slack. Like in previous months, services posted the strongest price increases, notably housing rents and restaurant services. These components are also largely responsible for the inflation differential vis-à-vis Germany and the euro area average.

For the whole year 2015, WIFO expects an increase in the national CPI of 1.1 percent. In 2016, inflation is projected to move up to 1.7 percent, as the dampening impact of energy prices fades and the measures decided in the context of counter-financing the tax reform 2015-16 get price effective. For the euro area, the ECB expects inflation at 0.1 percent in 2015 and 1.1 percent next year. Adjusted for the price effects of the measures to counter-finance the tax reform, Austria's inflation differential vis-à-vis the euro area narrows by about ½ percentage point. Inflation forecasts for Germany for 2016 range from 1.2 percent (DIW) to 1.8 percent (European Commission and Deutsche Bundesbank).

2.2 Labour market developments staying uneven

Like in the last few years, unemployment rises in parallel with the number of jobs. Employment gains benefit to a large extent the age group above 50 years.

Despite the slow pace of growth, the Austrian economy continues to create new jobs. In August, the year-on-year increase in dependent active employment jumped – partly due to a counting date effect – to 1.4 percent, up from around +1 percent in the months before. WIFO projects the gain in active dependent employment at 30,000 persons on annual average 2015 and +33,000 in 2016 (+0.9 percent and +1.0 percent, respectively).

In 2015, the job gains are confined to persons above the age of 50: one reason is demographic, as more and more persons fall into this age group (strong age cohorts), another one the restrictions of access to early retirement taking effect. According to the latest population projections by Statistics Austria, the working-age population under 50 would, in the high-immigration scenario, decline by 12,000 to 16,000 persons per year between 2015 and 2017, while the number of over-50-year-olds rises by over 40,000 p.a. The ageing of the labour force would thus gain momentum in coming years. However, this scenario does not include the latest immigration wave of asylum seekers.

The number of total hours worked rose less in the first six months of 2015 than the number of persons employed, implying a decline in the number per-capita work hours. This points to the spreading of part-time work and to shorter working time in full-time employment. In the first half of 2015, new jobs were created notably in public service branches, hotel and restaurant services, transport, information and communication and business services. The decline in the number of hired personnel came to a halt in August, possibly an early sign of cyclical recovery.

Due to the restriction of access to early retirement, the inflow of labour from abroad and rising labour force participation, growth of labour supply is outpacing labour demand. Open unemployment is also boosted in 2015 by the cut in jobless training by the labour market service. Overall unemployment will therefore remain on an upward trend over the forecast period; the registered unemployment rate will ratchet up from 8.4 percent of the dependent labour force (national definition) in 2014 to 9.2 percent in 2015 and 9.7 percent in 2016.

Table 7: Labour market

		2011	2012	2013	2014	2015	2016
		Changes from previous year, in 1,000					
Demand for labour							
Persons in active employment[1]		+ 69.9	+ 50.1	+ 29.3	+ 30.6	+ 35.0	+ 38.0
Employees[2]		+ 63.3	+ 47.2	+ 21.2	+ 23.8	+ 30.0	+ 33.0
Percentage changes from previous year		+ 1.9	+ 1.4	+ 0.6	+ 0.7	+ 0.9	+ 1.0
Nationals		+ 25.7	+ 9.0	– 8.5	– 8.1	+ 3.0	+ 3.0
Foreign workers		+ 37.7	+ 38.1	+ 29.7	+ 32.0	+ 27.0	+ 30.0
Self-employed[3]		+ 6.6	+ 2.9	+ 8.1	+ 6.8	+ 5.0	+ 5.0
Labour supply							
Population of working age	15 to 64 years	+ 31.3	+ 18.0	+ 23.5	+ 33.1	+ 31.3	+ 28.5
	15 to 59 years	+ 11.7	+ 22.3	+ 27.2	+ 33.7	+ 24.3	+ 13.6
Labour force[4]		+ 65.8	+ 64.0	+ 55.9	+ 62.8	+ 73.0	+ 65.0
Surplus of labour							
Registered unemployed[5]		– 4.1	+ 13.9	+ 26.6	+ 32.2	+ 38.0	+ 27.0
In 1,000		246.7	260.6	287.2	319.4	357.4	384.4
Unemployed persons in training[5]	in 1,000	63.2	66.6	73.5	75.3	65.3	72.3
		In percent					
Unemployment rate							
Eurostat definition[6]		4.6	4.9	5.4	5.6	5.8	6.0
As a percentage of total labour force[5]		6.0	6.2	6.8	7.4	8.2	8.7
National definition[5, 7]		6.7	7.0	7.6	8.4	9.2	9.7
Employment rate							
Persons in active employment[1, 8]		66.6	67.2	67.5	67.6	67.8	68.2
Total employment[6, 8]		71.1	71.4	71.4	71.1	71.2	71.3

Source: WIFO. 2015 and 2016: forecast. – [1] Excluding parental leave, 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] As a percentage of total labour force, excluding self-employed. – [8] As a percentage of population of working age (15 to 64 years).

2.3 Fiscal consolidation under difficult circumstances

Government finances continue to be burdened by support for banks in distress and the resolution of the bad bank for non-performing assets of Hypo-Alpe-Adria Bank (HETA). Indeed, the transfers to HETA pushed up general government expenditure in 2014 significantly more than anticipated. The general government expenditure ratio rose to 52.7 percent of GDP, the revenue ratio reached 50.0 percent and the general government deficit 2.7 percent of GDP. Without the one-off effect of HETA resolution, the deficit ratio would have abated to 1.0 percent of GDP. Financial aid for banks will strain public finances also in the years to come, to the projected amount of € 1.7 billion in 2015 and € 0.6 billion in 2016.

The fiscal projection for 2015 mirrors the cyclical weakness and the persistently critical labour market situation. Higher government spending and lower revenue will make for a general government deficit of 1.9 percent of GDP. Abstracting from the bank support and unplanned expenditure related to the inflow of refugees since the middle of the year, the deficit (Maastricht definition) would correspond to 1.3 percent of GDP.

The tax reform, the bulk of which takes effect in 2016, lowers revenue from wage and assessed income tax by about € 4 billion or 1.1 percent of projected GDP. The reform will be counter-financed largely by revenue-raising measures such as several minor tax hikes and the fight against tax and social contribution fraud. To this end, an increase in fiscal administration personnel is envisaged. In addition, the federal and the Länder governments shall trim administrative spending and subsidies to the tune of € 1.1 billion by measures still to be specified. The low interest rates will further dampen interest expenditure on public debt. The government expenditure ratio shall thereby edge down to 51.5 percent of GDP. On these assumptions, the general government deficit for 2016 is projected at 2.0 percent of GDP. Potential further aid to ailing banks which may prove necessary constitutes a downside risk for the general government balance. In the same vein, less than full implementation of the measures designed to counter-finance the tax reform would push up the deficit accordingly.

Table 8: Key policy indicators

	2011	2012	2013	2014	2015	2016
	As a percentage of GDP					
Fiscal policy						
General government financial balance						
According to Maastricht definition	– 2.6	– 2.2	– 1.3	– 2.7	– 1.9	– 2.0
General government primary balance	0.2	0.6	1.3	– 0.2	0.5	0.3
	In percent					
Monetary policy						
3-month interest rate	1.4	0.6	0.2	0.2	0.1	0.1
Long-term interest rate[2]	3.3	2.4	2.0	1.5	1.0	1.0
	Percentage changes from previous year					
Effective exchange rate						
Nominal	+ 0.2	– 1.5	+ 1.7	+ 1.2	– 2.8	+ 0.3
Real	+ 0.6	– 1.6	+ 2.0	+ 1.5	– 2.7	+ 0.1

Source: WIFO. 2015 and 2016: forecast. – [1] 10-year central government bonds (benchmark).

3. The risk environment

One of the key downside risks of the present WIFO projections is the evolution of the Chinese economy. Substantial imbalances have accumulated over the past years, notably in the financial sector, which carry the risk of abrupt unwinding and possible overshooting. Although the Chinese central government has substantial margin of it's monetary and fiscal policy at its command to stem adverse developments, the success of such action cannot be taken for granted. The present forecast assumes a further gradual slowdown in trend growth, with a sharp fall in demand and output being avoided. In the event of such a sharp reversal, growth in Austria in 2016 would be negatively affected.

A further imponderable relates to the inflow of refugees that is difficult to forecast. The last few weeks have seen a massive increase in the number of immigrants; the further trend depends on a number of political factors beyond the scope of the present forecast. Apart from the implicit cost and the associated increase in public and private consumption, GDP growth in 2015 and 2016 may also be affected. At present it is not clear how many asylum seekers will stay in Austria and how many refugees will move on to other EU member countries, creating a margin of uncertainty also for the budgetary cost.