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Exports Driving Activity

Economic Outlook for 2004 and 2005

The strengthening of global economic activity has initiated a recovery in Europe this year. Lively exports have led to a marked increase in manufacturing output. In Austria, as in the euro area as a whole, GDP is set to rise by 1.9 percent in volume in 2004. While world trade may lose momentum next year, growth in Europe should receive stronger support from domestic demand. However, the recent jump in oil prices constitutes a risk for the short-term outlook.

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The cyclical recovery has gained pace in the first half of 2004. On the back of a revival in global economic activity and with the rise in the euro exchange rate levelling off, exports increased markedly. On annual average, GDP in Austria, as well as in the euro area, is expected to gain 1.9 percent. In 2005, due to the effects of the tax reform, growth may accelerate to 2.5 percent, outpacing that for the euro area. Demand forces are expected to shift gradually from exports towards investment and consumption. The stimulus from activity abroad, notably from the USA, is set to slacken next year. The major cyclical risks derive from a possible further rise in oil prices and from leakages in the transmission of the export boom to investment and consumer demand.

Exports are the only support to the recovery, growing by 8¼ percent in volume this year. Austrian companies are largely benefiting from being major suppliers of German manufacturers, and their price competitiveness has increased significantly over the medium term, enabling them to seize new opportunities on world markets. Value added of the manufacturing sector is projected to gain 4½ percent in volume in 2004, more than twice the rate for the whole economy. Next year, export growth is expected to decelerate in line with the profile of world trade, a further cyclical recovery thus relying more on domestic demand.

Higher exports and rising capacity utilisation, together with improved corporate earnings, should set in motion an upswing in investment. While the latest WIFO investment survey points into that direction, such evidence is not yet confirmed by the official statistics for the first semester (abstracting from purchases of motor vehicles carried forward for tax reasons). Construction investment had provided major cyclical support in 2003, on account of public spending on civil engineering projects as well as pre-emptive implementation of projects in view of the abolition of the accelerated depreciation rule at the end of 2003. As a consequence, construction investment in 2004 is rising only slightly and less than anticipated.

Private consumption is growing by 1½ percent in 2004, considerably below its longer-term average. Real income gains are being squeezed by higher energy prices; yet, the private household saving ratio is not declining, despite the "forced consumption" induced by the high energy costs. The sustained increase in crude oil prices requires an upward correction of the inflation forecast: the rise in consumer prices will attain 2.1 percent in 2004 and edge down only slightly next year. The increase in energy prices is adding 0.3 percentage point to the inflation rate this year. While real earnings per employee are barely rising in 2004, the cuts in direct taxes in 2005 will boost real net incomes substantially. In addition, the expected marked increase in employment will raise disposable income. Private consumption growth should thus accelerate to 2.5 percent in 2005, thereby converging closely towards its medium-term trend.

Employment has started reacting to the recovery of business activity. The number of economically active employees is projected to go up by 17,500 in 2004 and 28,000 in 2005. Increasingly, also new full-time jobs are being created. The number of people unemployed will edge up by a further 4,000 (to a total of 244,000) in 2004 and should fall by the same amount in 2005. Labour supply will continue to expand strongly in 2005, the inflow of foreign workers to the labour market staying lively.

Main results

		2000	2001	2002	2003	2004	2005
		Percentage changes from previous year					
GDP							
Volume		+ 3.4	+ 0.8	+ 1.4	+ 0.7	+ 1.9	+ 2.5
Value		+ 4.9	+ 2.8	+ 2.7	+ 2.6	+ 3.3	+ 4.3
Manufacturing[1], volume		+ 6.4	+ 1.5	+ 0.5	– 0.2	+ 4.5	+ 4.0
Whole sale and retail trade, volume		+ 3.7	– 0.0	+ 1.2	+ 1.3	+ 1.3	+ 2.5
Private consumption expenditure, volume		+ 3.3	+ 1.4	+ 0.8	+ 1.3	+ 1.6	+ 2.5
Gross fixed investment, volume		+ 6.2	– 2.3	– 2.8	+ 5.3	+ 2.2	+ 3.5
Machinery and equipment[2]		+ 11.8	– 2.1	– 5.2	+ 7.7	+ 4.0	+ 5.5
Construction		+ 1.9	– 2.5	– 0.7	+ 3.3	+ 0.7	+ 1.7
Exports of goods[3]							
Volume		+ 13.1	+ 7.5	+ 5.2	+ 2.7	+ 8.3	+ 6.8
Value		+ 15.6	+ 6.5	+ 4.2	+ 1.9	+ 9.5	+ 7.5
Imports of goods[3]							
Volume		+ 10.9	+ 5.7	+ 0.8	+ 6.3	+ 5.3	+ 7.1
Value		+ 14.7	+ 5.0	– 2.0	+ 5.0	+ 7.5	+ 7.8
Current balance	billion €	– 5.36	– 4.13	+ 0.36	– 2.04	– 1.62	– 1.92
As a percentage of GDP	%	– 2.6	– 1.9	+ 0.2	– 0.9	– 0.7	– 0.8
Long-term interest rate[4]	%	5.6	5.1	5.0	4.2	4.2	4.3
Consumer prices		+ 2.3	+ 2.7	+ 1.8	+ 1.3	+ 2.1	+ 2.0
Unemployment rate							
Percent of total labour force[5]	%	3.7	3.6	4.2	4.1	4.2	4.1
Percent of dependent labour force[6]	%	5.8	6.1	6.9	7.0	7.1	6.9
Dependent employment[7]		+ 0.9	+ 0.4	– 0.5	+ 0.2	+ 0.6	+ 0.9
General government financial balance according to Maastricht definition							
As a percentage of GDP	%	– 1.5	+ 0.3	– 0.2	– 1.1	– 1.3	– 1.9

[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 Labour Market Service, percent of total labour force excluding self employed. – [7] Excluding parental leave, military service, and unemployed persons in training.

The general government deficit in the Maastricht definition, projected at 1.3 percent of GDP for the current year, will turn out significantly higher than anticipated. The investment accrual tax premium ("Investitionszuwachsprämie") will lead to massive shortfalls in income and corporate tax revenues. Losses of receipts from VAT are likely to diminish in the second half of this year, given the likely solid increase in consumption. The upward correction of projected GDP growth, being confined to the export component, is hardly affecting expected government revenues. In 2005, the general government deficit will be slightly below 2 percent of GDP, if the sizeable cut in income and corporate taxes can be partly offset by revenue-raising one-off measures.