

WIFO

A-1103 WIEN, POSTFACH 91
TEL. 798 26 01 • FAX 798 93 86

 **ÖSTERREICHISCHES INSTITUT FÜR
WIRTSCHAFTSFORSCHUNG**

**ECONOMIC RECOVERY
SURROUNDED BY RISKS**

**ECONOMIC OUTLOOK FOR 2002
AND 2003**

June 2002

**ECONOMIC RECOVERY
SURROUNDED BY RISKS**
**ECONOMIC OUTLOOK FOR 2002
AND 2003**

Austrian Institute of Economic Research

June 2002

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-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.

Vienna, June 2002.

For further information, please refer to Mr. Ewald Walterskirchen, phone (1) 798 26 01, ext. 257.

Main results

Percentage changes from previous year

		1998	1999	2000	2001	2002	2003
GDP							
Volume		+ 3.5	+ 2.8	+ 3.0	+ 1.0	+ 1.2	+ 2.8
Value		+ 4.1	+ 3.5	+ 4.2	+ 2.6	+ 2.3	+ 4.0
Manufacturing¹, volume		+ 4.4	+ 3.4	+ 7.3	+ 0.9	+ 1.5	+ 5.0
Private consumption expenditure, volume		+ 2.8	+ 2.7	+ 2.5	+ 1.3	+ 1.5	+ 2.3
Gross fixed investment, volume		+ 3.4	+ 1.5	+ 5.1	- 2.7	- 0.7	+ 4.1
Machinery and equipment ²		+ 6.4	+ 4.3	+ 11.1	- 3.8	+ 0.7	+ 7.6
Construction		+ 1.3	- 0.7	+ 0.3	- 1.7	- 2.0	+ 1.0
Exports of goods³							
Volume		+ 8.1	+ 7.7	+ 13.1	+ 5.1	+ 4.0	+ 8.5
Value		+ 8.4	+ 7.0	+ 15.6	+ 6.5	+ 4.5	+ 10.1
Imports of goods³							
Volume		+ 7.1	+ 6.9	+ 10.9	+ 3.0	+ 2.0	+ 7.6
Value		+ 6.6	+ 6.7	+ 14.7	+ 5.0	+ 2.5	+ 9.8
Current balance	€ bn	- 4.68	- 6.33	- 5.04	- 4.57	- 4.54	- 4.81
As a percentage of GDP	%	- 2.5	- 3.2	- 2.5	- 2.2	- 2.1	- 2.2
Long-term interest rate⁴	%	4.7	4.7	5.6	5.1	5.4	5.7
Consumer prices		+ 0.9	+ 0.6	+ 2.3	+ 2.7	+ 1.7	+ 1.4
Unemployment rate							
Percent of total labour force ⁵	%	4.5	3.9	3.7	3.6	4.0	3.9
Percent of dependent labour force ⁶	%	7.2	6.7	5.8	6.1	6.8	6.5
Dependent employment⁷		+ 1.0	+ 1.2	+ 1.0	+ 0.4	- 0.2	+ 0.8
General government financial balance according to Maastricht definition							
As a percentage of GDP	%	- 2.4	- 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.

Key policy indicators

	1998	1999	2000	2001	2002	2003
Fiscal policy						
	As a percentage of GDP					
General government financial balance						
according to Maastricht definition	- 2.4	- 2.2	- 1.5	+ 0.1	- 0.4	± 0.0
according to National accounts	- 2.5	- 2.4	- 1.7	- 0.1	- 0.4	± 0.0
General government primary balance	+ 1.4	+ 1.3	+ 2.0	+ 3.5	+ 3.0	+ 3.3
Monetary policy						
	In percent					
3-month interest rate	3.6	3.0	4.4	4.3	3.5	4.2
Long-term interest rate ¹	4.7	4.7	5.6	5.1	5.4	5.7
	Percentage changes from previous year					
Effective exchange rate						
Nominal	2.8	1.5	-2.5	1.0	0.7	0.6
Real	0.3	-1.1	-3.6	0.1	0.0	-0.2

¹ 10-year central government bonds (benchmark).

World economy

Percentage changes from previous year

	1998	1999	2000	2001	2002	2003	
Real GDP							
Total OECD	+ 2.8	+ 3.1	+ 3.9	+ 1.0	+ 1.5	+ 2.8	
USA	+ 4.3	+ 4.1	+ 4.1	+ 1.2	+ 2.3	+ 3.3	
Japan	- 1.1	+ 0.7	+ 2.4	- 0.5	- 1.0	+ 1.0	
EU	+ 2.9	+ 2.7	+ 3.4	+ 1.6	+ 1.3	+ 2.8	
Euro area	+ 2.9	+ 2.6	+ 3.5	+ 1.5	+ 1.2	+ 2.8	
Germany	+ 2.0	+ 1.8	+ 3.0	+ 0.6	+ 0.7	+ 2.3	
Central Eastern Europe ¹	+ 3.6	+ 3.2	+ 3.9	+ 2.3	+ 1.6	+ 3.0	
World trade, volume	+ 5.6	+ 5.9	+ 12.7	± 0.0	+ 3.5	+ 7.8	
OECD exports	+ 5.5	+ 5.4	+ 12.0	- 0.8	+ 2.0	+ 7.5	
Intra-OECD trade	+ 8.3	+ 7.8	+ 11.4	- 1.4	+ 1.5	+ 6.5	
Market growth²	+ 11.3	+ 7.3	+ 13.0	+ 3.0	+ 3.0	+ 7.0	
Primary commodity prices, in US\$							
HWWA Index, total, 1990=100	- 22.0	+ 12.0	+ 31.0	- 11.0	- 1.0	+ 5.0	
Excluding energy	- 13.0	- 8.0	+ 1.0	- 7.0	- 3.0	+ 3.0	
Crude oil prices							
Average import price (cif) for OECD countries	US\$/barrel	12.6	17.3	28.0	24.5	24.5	26.0
Exchange rate							
US\$ per ECU/Euro	1.121	1.067	0.924	0.896	0.95	0.98	

¹ Poland, Slovak Republic, Slovenia, Czech Republic, and Hungary.

² Real import growth of trading partners weighted by Austrian export shares.

Private consumption, income and prices

	1998	1999	2000	2001	2002	2003
Percentage changes from previous year, volume						
Private consumption expenditure	+ 2.8	+ 2.7	+ 2.5	+ 1.3	+ 1.5	+ 2.3
Durables	+ 5.8	+ 9.4	+ 3.9	- 2.6	± 0.0	+ 3.5
Non-durables and services	+ 2.3	+ 1.8	+ 2.3	+ 1.9	+ 1.7	+ 2.1
Household disposable income	+ 3.6	+ 2.2	+ 1.8	+ 0.1	+ 1.6	+ 2.2
Household saving ratio						
As a percentage of disposable income	8.0	7.7	6.7	6.2	6.4	6.8
Percentage changes from previous year						
Direct lending to domestic non-banks¹	+ 3.7	+ 5.2	+ 6.7	+ 3.5	+ 3.8	+ 5.0
In percent						
Inflation rate						
National	0.9	0.6	2.3	2.7	1.7	1.4
Harmonised	0.8	0.5	2.0	2.3	1.6	1.4
Core inflation ²	1.2	0.6	1.0	2.3	2.0	1.6

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

Productivity

Percentage changes from previous year

	1998	1999	2000	2001	2002	2003
Total economy						
Real GDP	+ 3.5	+ 2.8	+ 3.0	+ 1.0	+ 1.2	+ 2.8
Employment ¹	+ 0.7	+ 1.2	+ 0.5	+ 0.2	- 0.1	+ 0.7
Full-time equivalent	+ 0.8	+ 1.0	+ 1.3	+ 0.1	- 0.3	+ 0.6
Productivity (GDP per employment)	+ 2.8	+ 1.5	+ 2.5	+ 0.7	+ 1.2	+ 2.1
Full-time equivalent	+ 2.7	+ 1.8	+ 1.6	+ 0.9	+ 1.5	+ 2.1
Manufacturing						
Production ²	+ 4.5	+ 3.4	+ 7.2	+ 0.9	+ 1.5	+ 5.0
Employees ³	+ 0.1	- 0.7	+ 0.0	+ 0.2	- 1.6	- 0.1
Productivity per hour	+ 4.3	+ 4.8	+ 7.3	+ 1.3	+ 3.3	+ 5.0
Working hours per day per employee ⁴	+ 0.1	- 0.6	- 0.1	- 0.6	- 0.1	+ 0.1

¹ Dependent and self-employed according to National Accounts.-

² Value added.-

³ According to Federation of Austrian Social Security Institution.-

⁴ According to 'Konjunkturerhebung' of Statistics Austria.

Earnings and international competitiveness

Percentage changes from previous year

	1998	1999	2000	2001	2002	2003
Gross earnings per employee ¹	+ 3.0	+ 2.0	+ 2.5	+ 3.1	+ 2.5	+ 2.5
Full-time equivalent	+ 3.2	+ 2.4	+ 2.3	+ 3.4	+ 2.9	+ 2.8
Gross real earnings per employee ¹	+ 2.5	+ 1.2	+ 1.0	+ 0.7	+ 0.8	+ 1.1
Net real earnings per employee	+ 2.3	+ 4.3	+ 1.7	+ 0.1	+ 0.3	+ 0.6
Net wages and salaries	+ 3.3	+ 3.7	+ 4.3	+ 2.6	+ 2.3	+ 2.8
<i>Total economy</i>						
Unit labor costs	- 0.2	+ 0.4	- 0.1	+ 2.3	+ 1.4	+ 0.4
<i>Manufacturing</i>						
Unit labor costs	- 1.7	- 1.5	- 5.1	+ 2.1	- 0.3	- 1.6
Relative unit labor costs ²						
Vis-à-vis trading partners	- 0.9	- 2.5	- 5.9	- 0.2	- 1.3	- 1.7
Vis-à-vis Germany	+ 0.4	- 1.1	- 2.4	+ 0.2	- 2.1	- 2.2
Effective exchange rate - manufactures						
Nominal	+ 2.5	+ 0.6	- 2.7	+ 0.9	+ 0.5	+ 0.5
Real	+ 0.5	- 1.3	- 3.5	+ 0.3	± 0.0	- 0.2

¹ Employees according to National Accounts definition.-

² Manufacturing, in a common currency; minus sign indicates improvement of competitiveness.

WIFO

Projections - June 2002

Labour market

Changes from previous year (in 1,000)

	1998	1999	2000	2001	2002	2003	
Demand for labour							
Civilian employment	+ 22.1	+ 32.2	+ 27.7	+ 15.9	+ 17.3	+ 41.3	
Excluding parental leave and military service	+ 30.8	+ 38.2	+ 30.8	+ 15.1	- 2.9	+ 26.3	
Dependent employment ¹	+ 21.1	+ 31.2	+ 25.8	+ 14.4	+ 15.2	+ 39.0	
Excluding parental leave and military service	+ 29.8	+ 37.2	+ 28.9	+ 13.6	- 5.0	+ 24.0	
<i>Percentage changes from previous year</i>	+ 1.0	+ 1.2	+ 1.0	+ 0.4	- 0.2	+ 0.8	
Parental leave and military service ¹	- 8.7	- 6.0	- 3.1	+ 0.8	+ 20.2	+ 15.0	
Foreign workers	- 0.2	+ 7.8	+ 13.4	+ 9.5	+ 5.0	+ 14.0	
Self-employed ²	+ 1.0	+ 1.0	+ 1.9	+ 1.5	+ 2.1	+ 2.3	
Labour supply							
Economically active population	(15-64)	+ 11.0	+ 19.8	+ 25.2	+ 26.1	+ 22.9	+ 19.1
	(15-59)	+ 10.9	- 2.6	- 17.5	- 15.6	- 5.5	+ 3.1
Total labour force		+ 26.5	+ 16.2	+ 0.3	+ 25.5	+ 42.8	+ 33.3
Excluding parental leave and military service		+ 35.2	+ 22.2	+ 3.4	+ 24.7	+ 22.6	+ 18.3
Foreign		+ 0.7	+ 6.6	+ 12.0	+ 14.3	+ 9.5	+ 10.0
Migration of nationals		+ 3.9	+ 3.0	+ 1.0	± 0.0	± 0.0	± 0.0
Indigenous		+ 21.9	+ 6.6	- 12.7	+ 11.2	+ 33.3	+ 23.3
Excluding parental leave and military service		+ 30.6	+ 12.6	- 9.6	+ 10.4	+ 13.1	+ 8.3
Surplus of labour							
Registered unemployed ³		+ 4.4	- 16.1	- 27.4	+ 9.6	+ 25.5	- 8.0
In 1,000		237.8	221.7	194.3	203.9	229.4	221.4
Unemployment rate							
Percent of total labour force ⁴	%	4.5	3.9	3.7	3.6	4.0	3.9
Percent of total labour force ³	%	6.5	6.0	5.3	5.5	6.1	5.8
Percent of dependent labour force ³	%	7.2	6.7	5.8	6.1	6.8	6.5
Participation rate⁵	%	67.6	67.6	67.3	67.5	68.0	68.3
Excluding parental leave and military service ⁶		70.7	71.2	71.5	72.2	72.8	73.1
Employment rate⁷	%	63.2	63.6	63.8	63.8	63.8	64.4
Excluding parental leave and military service ⁶		66.1	66.9	67.7	68.2	68.2	68.7

¹ According to Federation of Austrian Social Security Institutions.- ² According to WIFO.- ³ According to Labour Market Service.- ⁴ According to Eurostat.- ⁵ Total labour force as percent of economically active population (15-64).- ⁶ As percent of population aged 15 to 59.- ⁷ Employment as percent of economically active population (15-64).

© 2002 Österreichisches Institut für Wirtschaftsforschung

Medieninhaber (Verleger), Herausgeber und Hersteller: Österreichisches Institut für Wirtschaftsforschung,
Wien 3, Arsenal, Objekt 20 • Postanschrift: A-1103 Wien, Postfach 91 • Tel. (+43 1) 798 26 01-0 •
Fax (+43 1) 798 93 86 • <http://www.wifo.ac.at/> • Verlags- und Herstellungsort: Wien

Verkaufspreis: EUR 14,00 • Download: EUR 14,00

http://titan.wsr.ac.at/wifosites/wifosite.get_abstract_type?p_language=1&pubid=22263