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 **ÖSTERREICHISCHES INSTITUT FÜR  
WIRTSCHAFTSFORSCHUNG**

**Recovery Subject to Lasting  
Uncertainty  
Economic Outlook for 2013 and 2014**

**March 2013**



## Recovery Subject to Lasting Uncertainty Economic Outlook for 2013 and 2014

March 2013

Austrian Institute of Economic Research

### Abstract

Short-term prospects for the Austrian economy have hardly changed since the revision of the WIFO forecast of last December. As expected, demand and output edged down slightly in the fourth quarter 2012, but leading indicators kept heading up during the first three months of 2013. Having moderated to an average 0.8 percent in 2012, GDP growth is projected to pick up to 1.0 percent in 2013 and 1.8 percent in 2014.

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# Recovery Subject to Lasting Uncertainty

## Economic Outlook for 2013 and 2014

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*Short-term prospects for the Austrian economy have hardly changed since the revision of the WIFO forecast of last December. As expected, demand and output edged down slightly in the fourth quarter 2012, but leading indicators kept heading up during the first three months of 2013. Having moderated to an average 0.8 percent in 2012, GDP growth is projected to pick up to 1.0 percent in 2013 and 1.8 percent in 2014.*

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The Austrian economy, although virtually stagnating in the second half of 2012, was nevertheless spared the stronger setback of activity observed in most other euro area countries in the fourth quarter. Many considerations speak in favour of a return of the economy to an upward path, albeit flat for the time being, in the first quarter 2013. Thus, the bulk of leading indicators have signalled an end to the downward trend already last November and have steadily improved since. It is likely that the cycle has passed the trough early this year. Domestic conditions for a self-sustained and broad-based upturn are still in place. The external environment, however, holds important risks. In particular, uncertainty surrounding the future political course in several southern and eastern neighbour countries weighs on the outlook for the export sector.

After a modest rate of 0.8 percent in 2012, GDP growth in Austria is projected to pick up gradually to 1.0 percent in 2013 and 1.8 percent in 2014. This expectation rests notably on the assumption of a further dwindling of uncertainty for investors and consumers. This presupposes that, on the one hand, the government debt crisis in the euro area remains under control, and that, on the other, the political uncertainty about fiscal management in the USA subsides.

Despite the slight acceleration of GDP growth over the forecast period, inflationary pressure is set to abate, given the current poor capacity utilisation and the prospect of a negative output gap prevailing until the end of 2014. International demand conditions should allow only limited increases in energy and other commodity prices. Consumer prices, having gone up by an average 2.4 percent in 2012, are expected

to rise by 2.2 percent in 2013 and 2.0 percent in 2014. Along with a moderate, but steady increase in private consumption, investment is projected to rebound markedly. While labour supply is further growing rapidly, dependent employment may edge up only marginally, keeping unemployment high. The external sector will provide a positive contribution to GDP growth over the entire forecast horizon. The outlook for Austrian exports has improved over the last months, even if a firm recovery may only be expected towards the end of the forecast horizon, in view of sluggish demand from the euro area where almost 52 percent of Austria's exports go to.

Despite the subdued business conditions, the state of public finances is likely to improve. The general government deficit for 2013 is expected at 2.6 percent of GDP, edging down to 2.0 percent of GDP in 2014. The fiscal projection hinges on the assumption that the consolidation course will not be interrupted in 2013 for the sake of discretionary cyclical stimulus, while automatic stabilisers would be allowed to operate. Although some short-term dampening effect on activity may result from fiscal consolidation, the reduction of budget deficits is a meaningful medium-term strategy from an overall economic point of view.

Cut-off date: 21 March 2013

*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). In the text, reference is made to "seasonally and working day adjusted changes".

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

		2009	2010	2011	2012	2013	2014
						<b>Forecasts</b>	
<b>GDP</b>							
Volume		-3.8	+2.1	+2.7	+0.8	+1.0	+1.8
Value		-2.3	+3.7	+5.0	+3.1	+3.0	+3.6
<b>Manufacturing<sup>1</sup></b> , volume		-12.7	+7.0	+8.2	+1.1	+2.5	+4.0
<b>Wholesale and retail trade</b> , volume		-0.3	+1.4	+1.3	-1.4	±0.0	+1.0
<b>Private consumption expenditure</b> , volume		+1.1	+1.7	+0.7	+0.4	+0.6	+0.9
<b>Gross fixed investment</b> , volume		-7.8	+0.8	+7.3	+1.3	+1.5	+2.0
Machinery and equipment		-10.6	+6.0	+12.1	+0.3	+2.5	+3.0
Construction		-7.1	-2.7	+4.4	+1.5	+0.6	+1.1
<b>Exports of goods<sup>2</sup></b>							
Volume		-18.3	+13.0	+7.9	+0.2	+3.8	+6.0
Value		-20.2	+16.7	+11.3	+1.4	+4.3	+7.1
<b>Imports of goods<sup>2</sup></b>							
Volume		-14.1	+10.9	+8.5	-0.4	+3.5	+5.5
Value		-18.4	+16.5	+15.3	+0.7	+3.7	+6.6
<b>Current balance</b>	€ bn	+7.49	+9.74	+1.74	+6.35	+8.34	+9.65
	as a percentage of GDP	+2.7	+3.4	+0.6	+2.1	+2.6	+2.9
<b>Long-term interest rate<sup>3</sup></b>	percent	3.9	3.2	3.3	2.4	2.0	2.0
<b>Consumer prices</b>		+0.5	+1.9	+3.3	+2.4	+2.2	+2.0
<b>Unemployment rate</b>							
Eurostat definition <sup>4</sup>	percent	4.8	4.4	4.2	4.4	4.8	4.8
National definition <sup>5</sup>	percent	7.2	6.9	6.7	7.0	7.4	7.4
<b>Persons in active dependent employment<sup>6</sup></b>		-1.5	+0.8	+1.9	+1.4	+0.7	+0.9
<b>General government financial balance</b>							
according to Maastricht definition							
as a percentage of GDP		-4.1	-4.5	-2.5	-3.1	-2.6	-2.0

<sup>1</sup> Value added, including mining and quarrying. <sup>2</sup> According to Statistics Austria. <sup>3</sup> 10-year central government bonds (benchmark). <sup>4</sup> According to Eurostat Labour Force Survey. <sup>5</sup> Public Employment Service Austria, percent of total labour force excluding self employed. <sup>6</sup> Excluding parental leave and military service.

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## World economy

Percentage changes from previous year

	2009	2010	2011	2012	2013	2014
					<b>Forecasts</b>	
<b>Real GDP</b>						
World	-0.6	+5.1	+3.9	+3.1	+3.3	+4.0
USA	-3.1	+2.4	+1.8	+2.2	+1.8	+2.4
Japan	-5.5	+4.7	-0.6	+1.3	+0.8	+1.3
EU 27	-4.3	+2.1	+1.5	-0.3	+0.4	+1.6
Euro area 16	-4.4	+2.0	+1.4	-0.6	±0.0	+1.4
Germany	-5.1	+4.2	+3.0	+0.7	+0.8	+2.0
New member states <sup>1</sup>	-3.2	+2.2	+3.2	+1.0	+1.5	+2.5
China	+9.2	+10.4	+9.3	+7.8	+7.5	+8.0
<b>World trade, volume</b>	-12.6	+15.1	+5.8	+2.2	+3.8	+6.0
<b>Market growth<sup>2</sup></b>	-10.8	+11.4	+6.2	+2.2	+3.8	+6.0
<b>Primary commodity prices</b>						
HWI Index, total	-34.7	+28.9	+28.6	-2.8	-5	+4
Excluding energy	-28.4	+31.9	+19.2	-14.4	±0	+10
<b>Crude oil prices</b>						
Brent, USD per barrel	61.5	79.5	111.3	111.6	105	108
<b>Exchange rate</b>						
USD per euro	1.393	1.327	1.392	1.286	1.30	1.30

<sup>1</sup> Bulgaria, Czech Republic, Hungary, Latvia, Lithuania, Poland, Romania.

<sup>2</sup> Real import growth of trading partners weighted by Austrian export shares.

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### Key policy indicators

	2009	2010	2011	2012	2013	2014
					<b>Forecasts</b>	
<b>Fiscal policy</b>						
					As a percentage of GDP	
<b>General government financial balance</b>						
according to Maastricht definition	- 4.1	- 4.5	- 2.5	- 3.1	- 2.6	- 2.0
<b>General government primary balance</b>	- 1.3	- 1.8	+ 0.1	- 0.5	- 0.0	+ 0.6
<b>Monetary policy</b>						
					Percent	
3-month interest rate	1.2	0.8	1.4	0.6	0.4	0.7
Long-term interest rate <sup>1</sup>	3.9	3.2	3.3	2.4	2.0	2.0
					Percentage changes from previous year	
<b>Effective exchange rate</b>						
Nominal	+ 0.9	- 2.5	+ 0.1	- 1.5	+ 0.8	+ 0.2
Real	+ 0.4	- 2.6	+ 1.2	- 1.4	+ 0.9	+ 0.1

<sup>1</sup> 10-year central government bonds (benchmark).



## Productivity

Percentage changes from previous year

	2009	2010	2011	2012	2013	2014
					<b>F o r e c a s t s</b>	
<b>Total economy</b>						
Real GDP	- 3.8	+ 2.1	+ 2.7	+ 0.8	+ 1.0	+ 1.8
Employment <sup>1</sup>	- 0.9	+ 0.7	+ 1.8	+ 1.3	+ 0.9	+ 1.1
<b>Productivity</b> (GDP per employment)	- 2.9	+ 1.4	+ 0.9	- 0.5	+ 0.1	+ 0.7
 <b>Manufacturing</b>						
Production <sup>2</sup>	- 13.0	+ 7.2	+ 8.5	+ 1.3	+ 2.5	+ 4.0
Employees <sup>3</sup>	- 5.3	- 1.3	+ 1.9	+ 1.7	+ 0.3	+ 0.5
<b>Productivity per hour</b>	- 4.7	+ 5.4	+ 6.6	- 0.1	+ 2.6	+ 3.3
Working hours per day per employee <sup>4</sup>	- 3.5	+ 3.0	- 0.1	- 0.3	- 0.4	+ 0.2

<sup>1</sup> Dependent and self-employed according to National Accounts definition.

<sup>2</sup> Value added, volume.

<sup>3</sup> According to Federation of Austrian Social Security Institutions.

<sup>4</sup> According to 'Konjunkturerhebung' of Statistics Austria.

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## Private consumption, income and prices

	2009	2010	2011	2012	2013	2014
					<b>Forecasts</b>	
	Percentage changes from previous year, volume					
<b>Private consumption expenditure</b>	+ 1.1	+ 1.7	+ 0.7	+ 0.4	+ 0.6	+ 0.9
Durables	+ 4.8	+ 2.3	+ 1.8	- 4.7	- 2.4	+ 0.2
Non-durables and services	+ 0.6	+ 1.6	+ 0.6	+ 1.0	+ 0.9	+ 1.0
<b>Household disposable income</b>	+ 0.3	- 0.6	- 0.9	+ 0.4	+ 0.9	+ 1.2
	As a percentage of disposable income					
<b>Household saving ratio<sup>1</sup></b>	11.2	9.1	7.4	7.6	7.8	8.1
<b>Household saving ratio<sup>2</sup></b>	10.6	8.6	7.1	7.1	7.3	7.6
	Percentage changes from previous year					
<b>Direct lending to domestic non-banks<sup>3</sup></b>	- 1.3	+ 2.9	+ 2.6	+ 0.0	+ 1.6	+ 2.9
<b>Inflation rate</b>						
National	0.5	1.9	3.3	2.4	2.2	2.0
Harmonised	0.4	1.7	3.6	2.6	2.3	2.0
Core inflation <sup>4</sup>	1.5	1.2	2.8	2.3	2.1	1.9

<sup>1</sup> Including adjustment for the change in net equity of households in pension fund reserves.

<sup>2</sup> Excluding adjustment for the change in net equity of households in pension fund reserves.

<sup>3</sup> End of period.

<sup>4</sup> Excluding unprocessed food (meat, fish, fruits, vegetables) and energy items.

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## Earnings and international competitiveness

Percentage changes from previous year

	2009	2010	2011	2012	2013	2014
					<b>Forecasts</b>	
<b>Wages and salaries per employee<sup>1</sup></b>						
<b>Gross earnings</b>	+ 1.7	+ 1.0	+ 1.7	+ 2.9	+ 2.4	+ 2.6
<b>Gross real earnings<sup>2</sup></b>	+ 1.2	- 0.8	- 1.5	+ 0.5	+ 0.2	+ 0.6
<b>Net real earnings<sup>2</sup></b>	+ 3.0	- 1.1	- 2.0	+ 0.0	- 0.1	+ 0.2
<b>Unit labour costs</b>						
Total economy	+ 4.8	- 0.3	+ 0.8	+ 3.4	+ 2.2	+ 1.8
Manufacturing	+ 11.5	- 6.1	- 3.9	+ 3.1	+ 0.6	- 0.6
<b>Effective exchange rate - manufactures</b>						
Nominal	+ 0.7	- 2.6	+ 0.0	- 1.5	+ 0.9	+ 0.1
Real	+ 0.4	- 2.6	+ 1.1	- 1.4	+ 1.1	+ 0.1

<sup>1</sup> Employees according to National Accounts definition.

<sup>2</sup> Deflated by CPI.

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## Labour market

Changes from previous year (1,000<sup>s</sup>)

		2009	2010	2011	2012	2013	2014	
							<b>Forecasts</b>	
<b>Demand for labour</b>								
Persons in active employment <sup>1</sup>		- 44.0	+ 32.4	+ 70.4	+ 52.1	+ 26.5	+ 36.5	
Employees <sup>2</sup>		- 48.5	+ 25.5	+ 63.3	+ 47.2	+ 22.0	+ 32.0	
<i>Percentage changes from previous year</i>		- 1.5	+ 0.8	+ 1.9	+ 1.4	+ 0.7	+ 0.9	
Nationals		- 43.0	+ 5.8	+ 25.7	+ 9.0	+ 3.0	+ 7.0	
Foreign workers		- 5.5	+ 19.7	+ 37.7	+ 38.1	+ 19.0	+ 25.0	
Self-employed <sup>3</sup>		+ 4.5	+ 6.9	+ 7.1	+ 4.9	+ 4.5	+ 4.5	
<b>Labour supply</b>								
Population of working age	(15 to 64 years)	+ 17.3	+ 21.6	+ 37.0	+ 15.6	+ 3.0	+ 5.5	
	(15 to 59 years)	+ 11.1	+ 8.9	+ 17.1	+ 19.5	+ 7.2	+ 5.3	
Labour force <sup>4</sup>		+ 4.0	+ 22.9	+ 66.3	+ 66.0	+ 43.5	+ 39.5	
<b>Surplus of labour</b>								
Registered unemployed <sup>5</sup>		+ 48.1	- 9.5	- 4.1	+ 13.9	+ 17.0	+ 3.0	
	1,000 <sup>s</sup>	260.3	250.8	246.7	260.6	277.6	280.6	
Unemployed persons in training	1,000 <sup>s</sup>	64.1	73.2	63.2	66.6	72.6	72.6	
<b>Unemployment rate</b>								
Eurostat definition <sup>6</sup>	percent	4.8	4.4	4.2	4.4	4.8	4.8	
Percent of total labour force <sup>5</sup>	percent	6.5	6.2	6.0	6.3	6.6	6.6	
National definition <sup>5,7</sup>	percent	7.2	6.9	6.7	7.0	7.4	7.4	
<b>Employment rate</b>								
Persons in active employment <sup>1,8</sup>	percent	64.7	65.1	65.9	66.6	67.0	67.6	
Total employment (Eurostat) <sup>6,8</sup>	percent	71.6	71.7	72.1	72.6	72.9	73.3	

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

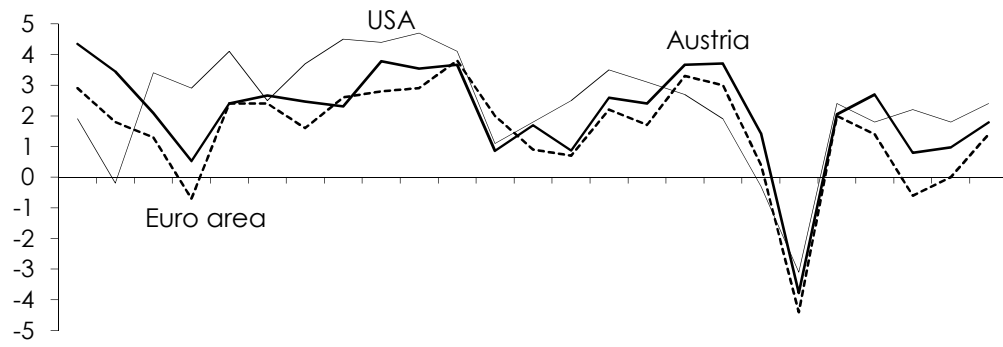
<sup>3</sup> According to WIFO. <sup>4</sup> Persons in active employment plus unemployment.

<sup>5</sup> According to Public Employment Service Austria <sup>6</sup> According to Eurostat Labour Force Survey.

<sup>7</sup> Percent of total labour force excl. self-employed. <sup>8</sup> Percent of population of working age (15 to 64 years).

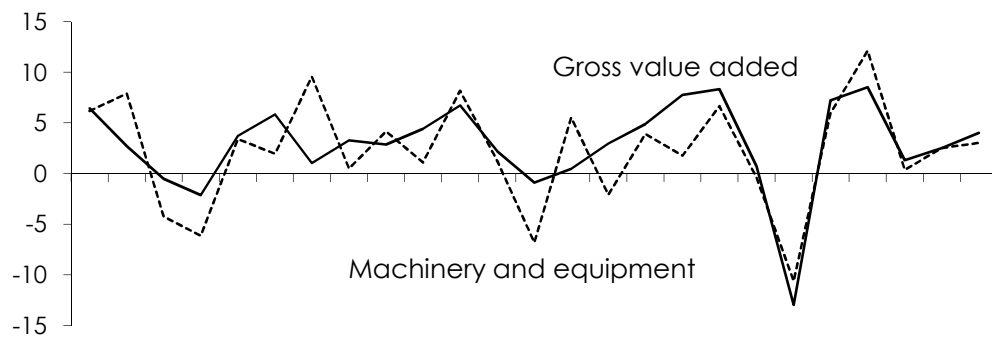
## Growth of real GDP

Percent



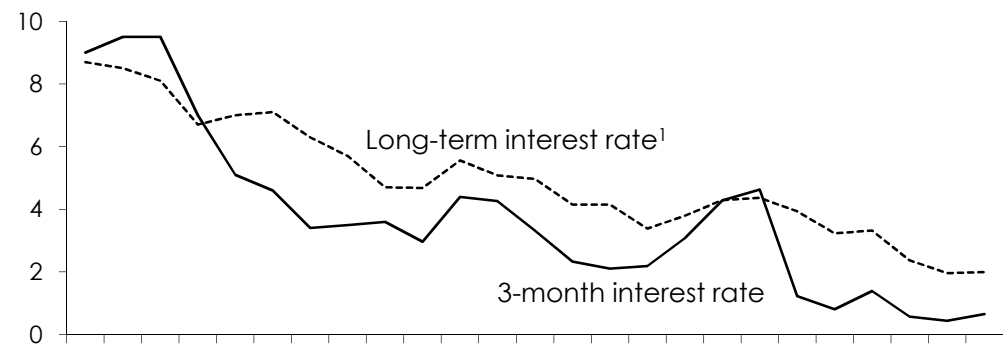
## Manufacturing and investment

Percentage changes from previous year, volume



## Short-term and long-term interest rates

Percent



## Trade

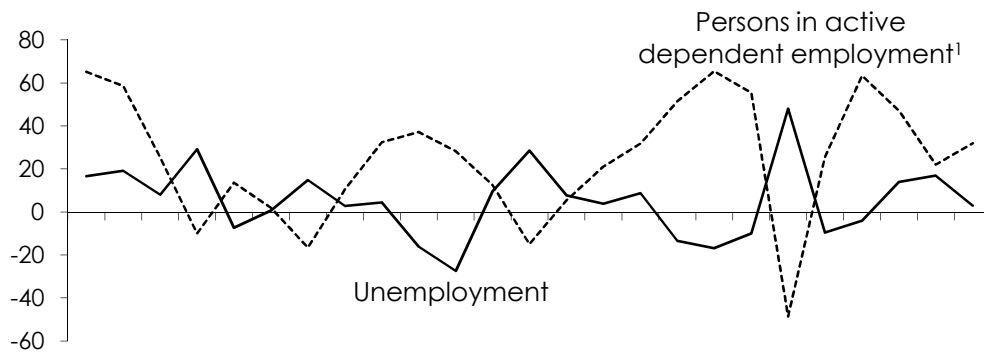
Percentage changes from previous year, volume



<sup>1</sup> 10-year central government bonds (benchmark).

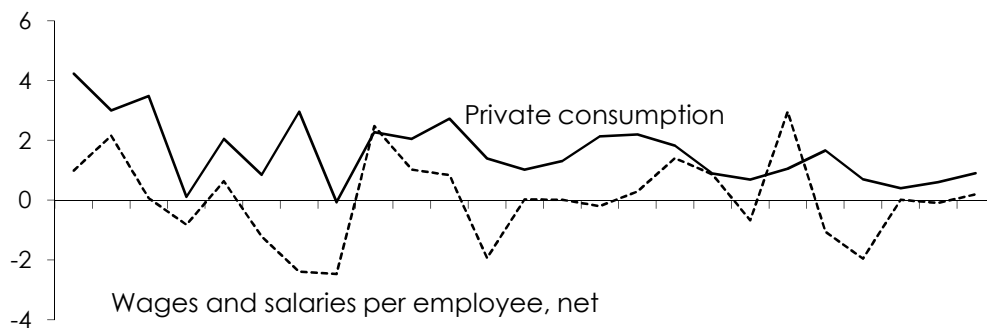
## Employment and unemployment

1,000<sup>s</sup> from previous year



## Consumption and income

Percentage changes from previous year, volume



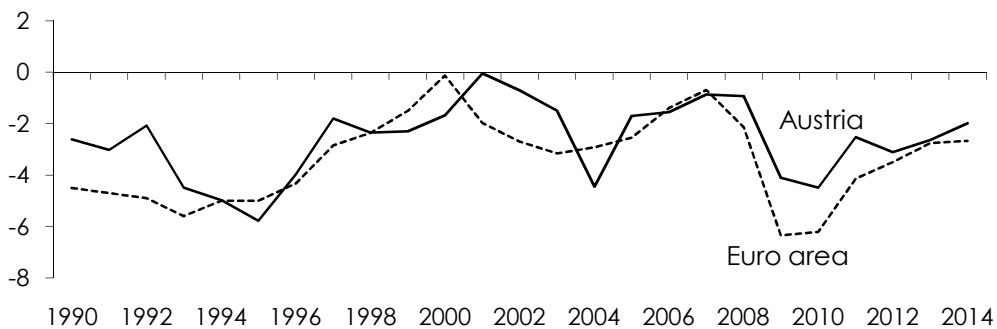
## Inflation and unit labour costs

Percentage changes from previous year



## General government financial balance

As a percentage of GDP



<sup>1</sup> Excluding parental leave, military service, and unemployed persons in training.