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 **ÖSTERREICHISCHES INSTITUT FÜR  
WIRTSCHAFTSFORSCHUNG**

**Tentative, But Fragile Recovery  
Economic Outlook for 2014 to 2016**

**December 2014**



## Tentative, But Fragile Recovery Economic Outlook for 2014 to 2016

**December 2014**

Austrian Institute of Economic Research

### **Abstract**

After the stagnation prevailing since spring 2014, economic activity in Austria will remain subdued also in early 2015. Leading indicators have lately given no firm hopes for a cyclical rebound. From a short-term perspective, the conditions for a normal recovery of demand and output in Austria are hardly in place. Developments may turn more favourable only in 2016, when the weaker euro exchange rate, low commodity prices and a pick-up in global activity will give fresh momentum to the domestic economy. Austria's real GDP is projected to grow by 0.4 percent in 2014, 0.5 percent in 2015 and 1.1 percent in 2016.

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# Tentative, But Fragile Recovery

## Economic Outlook for 2014 to 2016

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*After the stagnation prevailing since spring 2014, economic activity in Austria will remain subdued also in early 2015. Leading indicators have lately given no firm hopes for a cyclical rebound. From a short-term perspective, the conditions for a normal recovery of demand and output in Austria are hardly in place. Developments may turn more favourable only in 2016, when the weaker euro exchange rate, low commodity prices and a pick-up in global activity will give fresh momentum to the domestic economy. Austria's real GDP is projected to grow by 0.4 percent in 2014, 0.5 percent in 2015 and 1.1 percent in 2016.*

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Business activity in Austria lost considerable momentum in the second and third quarter 2014, ending in stagnation. After having grown substantially in the third and fourth quarter 2013, seasonally- and calendar-adjusted real GDP remained flat. Growth in Austria is likely to resume only gradually, with no firm improvement to be expected until spring 2015. On the other hand, there are no signs for the economy slipping back into recession.

Whether the Austrian economy will regain strength during 2015 will depend not only on efforts at structural adjustments and a tax reform at the national level, but also on the international environment. If the recovery in the euro area progresses as expected and world trade picks up again, the domestic economy will also receive incentives for stronger growth. Since the Austrian corporate sector features on the whole a moderate debt burden and healthy price-cost relations and supplies key foreign markets with an attractive product mix, it should be able to take advantage of the opportunities offered by a recovery abroad. This should generate positive spillovers for private investment, given the continuing favourable financing conditions. GDP growth for 2015 will nevertheless turn out only marginally higher than in 2014,

taking the period of sluggish activity into its fourth year. Growth is expected to gradually gain momentum only by 2016<sup>1</sup>.

Despite the only moderate pick-up of growth over the forecast horizon, the rate of inflation should remain subdued. This is due to cheap energy commodities on the one hand, and to the expectation that the output gap will not have closed by the end of 2016, on the other. From a rate of 1.6 percent in 2014, headline inflation is projected to barely move to 1.5 percent in 2015 and 1.6 percent in 2016. The public sector is expected to be a major driver of inflation over the entire forecast period, via administered prices and indirect taxes. Next to steady, but moderate growth of private consumption, investment should pick up over the next two years. Employment and labour supply will both stay on an upward trend, but with business activity still slack, unemployment will keep rising despite new jobs being created. The contribution of foreign trade to GDP growth is likely to be slightly negative during the forecast period. In view of sluggish activity in the euro area that takes up around 50 percent of Austrian exports, a lasting recovery of the latter should not yet be expected.

In spite of the fragile cyclical conditions, the financial position of the general government is unlikely to deteriorate from the level held in 2013. For 2014, the government deficit (in the Maastricht definition) is expected at 3.0 percent of GDP, narrowing to 2.4 percent and 1.9 percent of GDP in 2015 and 2016, respectively. The budget projections are based upon the assumption that the government will keep fiscal consolidation on track and that any expansionary stimulus will be confined to the operation of automatic stabilisers. Particular budgetary risks on the expenditure side derive from the still uncertain need for financial support to banks in distress that had been nationalised.

Cut-off date: 18 December 2014

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<sup>1</sup> The projections have for the first time been based upon ESA 2010 (for methodological changes to the National Accounts and their implications see i.a. the latest publications by Statistics Austria).

## 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

	2011	2012	2013	2014	2015	2016
	<b>Forecasts</b>					
<b>GDP</b>						
Volume	+ 3,1	+ 0,9	+ 0,2	+ 0,4	+ 0,5	+ 1,1
Value	+ 4,9	+ 2,8	+ 1,7	+ 2,2	+ 2,3	+ 2,5
<b>Manufacturing</b> <sup>1</sup> , volume	+ 9,0	+ 1,1	+ 0,6	+ 0,2	+ 1,0	+ 2,1
<b>Wholesale and retail trade</b> , volume	+ 3,6	- 0,1	- 1,6	- 1,0	± 0,0	+ 0,5
<b>Private consumption expenditure</b> , volume	+ 0,7	+ 0,6	- 0,1	+ 0,2	+ 0,4	+ 0,7
<b>Gross fixed investment</b> , volume	+ 6,8	+ 0,5	- 1,5	+ 1,4	+ 1,1	+ 1,3
Machinery and equipment <sup>2</sup>	+ 9,8	- 0,6	- 1,5	+ 1,5	+ 1,5	+ 2,0
Construction	+ 2,6	+ 1,2	- 2,2	+ 1,2	+ 0,7	+ 0,5
<b>Exports of goods</b> <sup>3</sup>						
Volume	+ 7,1	+ 0,6	+ 2,8	+ 1,2	+ 2,5	+ 3,5
Value	+ 11,3	+ 1,5	+ 1,8	+ 0,7	+ 1,5	+ 4,2
<b>Imports of goods</b> <sup>3</sup>						
Volume	+ 8,3	- 0,9	+ 0,2	+ 0,9	+ 2,5	+ 2,8
Value	+ 15,3	+ 0,7	- 1,0	- 0,6	+ 1,0	+ 4,1
<b>Current balance</b>	€ bn					
	+ 5,06	+ 4,73	+ 3,32	+ 3,20	+ 3,22	+ 2,70
as a percentage of GDP	+ 1,6	+ 1,5	+ 1,0	+ 1,0	+ 1,0	+ 0,8
<b>Long-term interest rate</b> <sup>4</sup>	percent	3,3	2,4	2,0	1,5	1,2
<b>Consumer prices</b>		+ 3,3	+ 2,4	+ 2,0	+ 1,6	+ 1,5
<b>Unemployment rate</b>						
Eurostat definition <sup>5</sup>	percent	4,2	4,3	4,9	5,0	5,3
National definition <sup>6</sup>	percent	6,7	7,0	7,6	8,4	9,3
<b>Persons in active dependent employment</b> <sup>7</sup>		+ 1,9	+ 1,4	+ 0,6	+ 0,7	+ 0,4
<b>General government financial balance</b>						
according to Maastricht definition						
as a percentage of GDP	- 2,6	- 2,3	- 1,5	- 3,0	- 2,4	- 1,9

<sup>1</sup> Value added, including mining and quarrying. <sup>2</sup> Including weapon systems. <sup>3</sup> According to Statistics Austria.

<sup>4</sup> 10-year central government bonds (benchmark). <sup>5</sup> According to Eurostat Labour Force Survey.

<sup>6</sup> Public Employment Service Austria, percent of total labour force excluding self employed.

<sup>7</sup> Excluding parental leave and military service.

**WIFO**

Projections - December 2014

**World economy**

Percentage changes from previous year

	2011	2012	2013	2014	2015	2016
	<b>Forecasts</b>					
<b>Real GDP</b>						
World	+ 4,1	+ 3,4	+ 3,3	+ 3,3	+ 3,6	+ 3,6
USA	+ 1,6	+ 2,3	+ 2,2	+ 2,2	+ 3,1	+ 2,8
Japan	- 0,5	+ 1,5	+ 1,5	+ 0,4	+ 0,7	+ 1,2
EU 28	+ 1,7	- 0,4	± 0,0	+ 1,3	+ 1,4	+ 1,5
Euro area 19	+ 1,6	- 0,7	- 0,5	+ 0,8	+ 0,9	+ 1,1
Germany	+ 3,6	+ 0,4	+ 0,1	+ 1,4	+ 0,9	+ 1,2
CEE5 <sup>1</sup>	+ 3,3	+ 0,5	+ 1,0	+ 2,9	+ 2,6	+ 2,8
China	+ 9,3	+ 7,7	+ 7,7	+ 7,3	+ 7,3	+ 6,7
<b>World trade, volume</b>	+ 6,1	+ 2,1	+ 2,7	+ 3,7	+ 4,0	+ 4,1
<b>Market growth<sup>2</sup></b>	+ 7,5	+ 0,8	+ 1,9	+ 3,0	+ 3,5	+ 4,0
<b>Primary commodity prices<sup>3</sup></b>						
HWWI Index, total	+ 28,6	- 2,8	- 1,9	- 7	- 22	+ 2
Excluding energy	+ 19,2	- 14,4	- 6,1	- 5	- 10	+ 10
<b>Crude oil prices</b>						
Brent, USD per barrel	111,3	111,6	108,7	100	75	90
<b>Exchange rate</b>						
USD per euro	1,392	1,286	1,328	1,32	1,25	1,20

<sup>1</sup> Poland, Slovakia, Slovenia, Czech Republic, Hungary.<sup>2</sup> Real import growth of trading partners weighted by Austrian export shares.<sup>3</sup> In USD.

## Key policy indicators

	2011	2012	2013	2014	2015	2016
	<b>Forecasts</b>					
<b>Fiscal policy</b>						
	As a percentage of GDP					
<b>General government financial balance</b> according to Maastricht definition	- 2,6	- 2,3	- 1,5	- 3,0	- 2,4	- 1,9
<b>General government primary balance</b>	+ 0,1	+ 0,4	+ 1,1	- 0,4	+ 0,2	+ 0,6
<b>Monetary policy</b>						
	Percent					
3-month interest rate	1,4	0,6	0,2	0,2	0,2	0,2
Long-term interest rate <sup>1</sup>	3,3	2,4	2,0	1,5	1,2	1,2
	Percentage changes from previous year					
<b>Effective exchange rate</b>						
Nominal	+ 0,2	- 1,5	+ 1,7	+ 1,1	- 0,9	- 0,6
Real	+ 0,6	- 1,6	+ 2,0	+ 1,3	- 1,0	- 1,0

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



## Productivity

Percentage changes from previous year

	2011	2012	2013	2014	2015	2016
					<b>Forecasts</b>	
<b>Total economy</b>						
Real GDP	+ 3,1	+ 0,9	+ 0,2	+ 0,4	+ 0,5	+ 1,1
Hours worked <sup>1</sup>	+ 2,0	- 0,1	- 0,5	- 0,1	- 0,1	± 0,0
<b>Productivity per hour</b>	+ 1,1	+ 1,0	+ 0,7	+ 0,5	+ 0,6	+ 1,1
Employment <sup>2</sup>	+ 1,7	+ 1,1	+ 0,7	+ 1,1	+ 0,6	+ 0,7
<b>Manufacturing</b>						
Production <sup>3</sup>	+ 8,8	+ 1,2	+ 0,7	+ 0,2	+ 1,0	+ 2,1
Hours worked <sup>1</sup>	+ 1,6	+ 1,2	- 0,4	- 1,7	- 0,4	+ 1,6
<b>Productivity per hour</b>	+ 7,0	- 0,1	+ 1,1	+ 1,9	+ 1,4	+ 0,5
Employees <sup>1</sup>	+ 1,9	+ 1,6	- 0,1	- 0,2	- 0,1	± 0,0

<sup>1</sup> According to National Accounts definition.

<sup>2</sup> Dependent and self-employed according to National Accounts definition.

<sup>3</sup> Value added, volume.

## Private consumption, income and prices

	2011	2012	2013	2014	2015	2016
	<b>Forecasts</b>					
	Percentage changes from previous year, volume					
<b>Private consumption expenditure</b>	+ 0,7	+ 0,6	- 0,1	+ 0,2	+ 0,4	+ 0,7
Durables	+ 4,6	- 0,1	- 3,2	- 0,5	+ 0,5	+ 1,5
Non-durables and services	+ 0,3	+ 0,7	+ 0,2	+ 0,3	+ 0,4	+ 0,6
<b>Household disposable income</b>	- 1,1	+ 1,9	- 2,1	- 0,0	+ 0,5	+ 1,0
	As a percentage of disposable income					
<b>Household saving ratio<sup>1</sup></b>	7,8	9,0	7,3	7,1	7,1	7,4
<b>Household saving ratio<sup>2</sup></b>	7,1	8,3	6,5	6,3	6,3	6,6
	Percentage changes from previous year					
<b>Direct lending to domestic non-banks<sup>3</sup></b>	+ 2,7	+ 0,0	- 1,2	+ 0,5	+ 1,0	+ 1,2
<b>Inflation rate</b>						
National	3,3	2,4	2,0	1,6	1,5	1,6
Harmonised	3,6	2,6	2,1	1,5	1,4	1,6
Core inflation <sup>4</sup>	2,8	2,3	2,3	1,9	1,8	1,5

<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.

## Earnings and international competitiveness

Percentage changes from previous year

	2011	2012	2013	2014	2015	2016
	<b>Forecasts</b>					
<b>Wages and salaries per employee<sup>1</sup></b>						
<b>Gross earnings</b>	+ 1,8	+ 2,7	+ 1,7	+ 1,5	+ 1,5	+ 1,6
<b>Gross real earnings<sup>2</sup></b>	- 1,4	+ 0,2	- 0,3	- 0,1	± 0,0	± 0,0
<b>Net real earnings<sup>2</sup></b>	- 1,7	- 0,2	- 0,7	- 0,6	- 0,5	- 0,5
<b>Unit labour costs</b>						
Total economy	+ 0,5	+ 2,9	+ 2,4	+ 2,7	+ 1,6	+ 1,2
Manufacturing	- 3,2	+ 3,7	+ 1,8	+ 1,3	+ 0,6	- 0,3
<b>Effective exchange rate - manufactures</b>						
Nominal	+ 0,1	- 1,7	+ 1,8	+ 1,1	- 1,0	- 0,5
Real	+ 0,5	- 1,7	+ 2,1	+ 1,3	- 1,1	- 0,9

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

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

## Labour market

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

		2011	2012	2013	2014	2015	2016
							<b>Forecasts</b>
<b>Demand for labour</b>							
Persons in active employment <sup>1</sup>		+ 69,9	+ 50,1	+ 27,9	+ 29,0	+ 20,0	+ 25,0
Employees <sup>2</sup>		+ 63,3	+ 47,2	+ 21,2	+ 22,5	+ 15,0	+ 20,0
Percentage changes from previous year		+ 1,9	+ 1,4	+ 0,6	+ 0,7	+ 0,4	+ 0,6
Nationals		+ 25,7	+ 9,0	- 8,5	- 9,5	- 4,0	- 4,0
Foreign workers		+ 37,7	+ 38,1	+ 29,7	+ 32,0	+ 19,0	+ 24,0
Self-employed <sup>3</sup>		+ 6,6	+ 2,9	+ 6,7	+ 6,5	+ 5,0	+ 5,0
<b>Labour supply</b>							
Population of working age	(15 to 64 years)	+ 31,3	+ 18,0	+ 23,5	+ 28,4	+ 25,5	+ 23,3
	(15 to 59 years)	+ 11,7	+ 22,3	+ 27,2	+ 28,2	+ 18,7	+ 8,5
Labour force <sup>4</sup>		+ 65,8	+ 64,0	+ 54,5	+ 61,0	+ 43,0	+ 43,0
<b>Surplus of labour</b>							
Registered unemployed <sup>5</sup>		- 4,1	+ 13,9	+ 26,6	+ 32,0	+ 23,0	+ 18,0
	1,000 <sup>s</sup>	246,7	260,6	287,2	319,2	342,2	360,2
Unemployed persons in training	1,000 <sup>s</sup>	63,2	66,6	73,5	75,0	71,5	71,5
<b>Unemployment rate</b>							
Eurostat definition <sup>6</sup>	percent	4,2	4,3	4,9	5,0	5,3	5,3
Percent of total labour force <sup>5</sup>	percent	6,0	6,2	6,8	7,4	7,9	8,2
National definition <sup>5,7</sup>	percent	6,7	7,0	7,6	8,4	8,9	9,3
<b>Employment rate</b>							
Persons in active employment <sup>1,8</sup>	percent	66,6	67,2	67,4	67,6	67,7	67,8
Total employment (Eurostat) <sup>6,8</sup>	percent	72,1	72,5	72,3	72,7	72,7	72,8

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

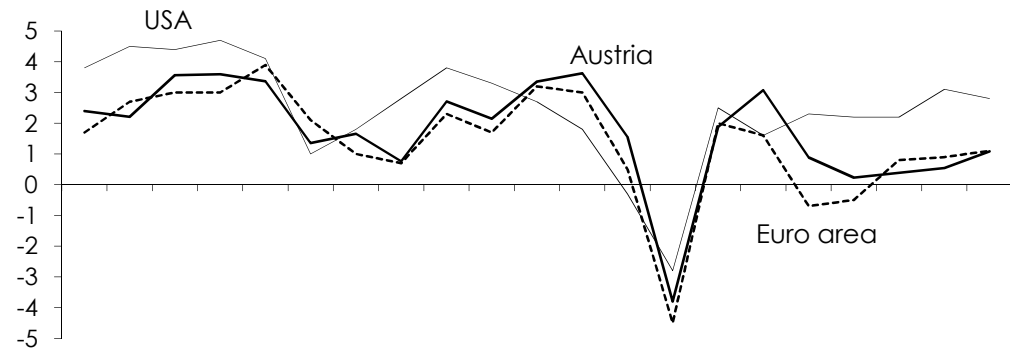
<sup>3</sup> According to WIFO. <sup>4</sup> Persons in active employment plus unemployment.

<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).

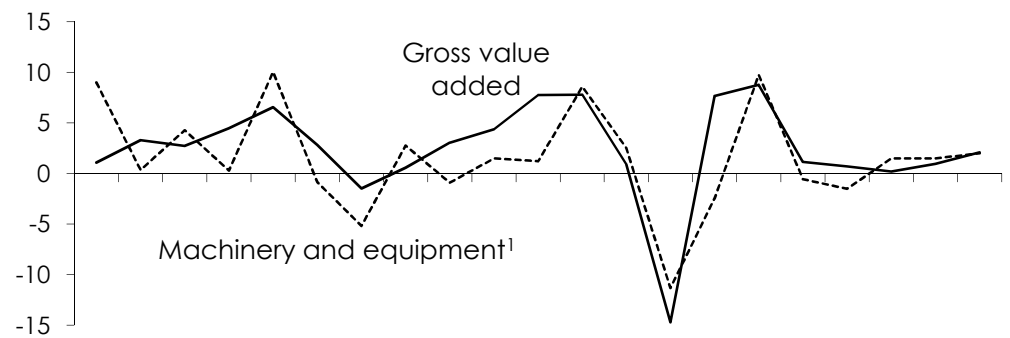
## Growth of real GDP

Percent



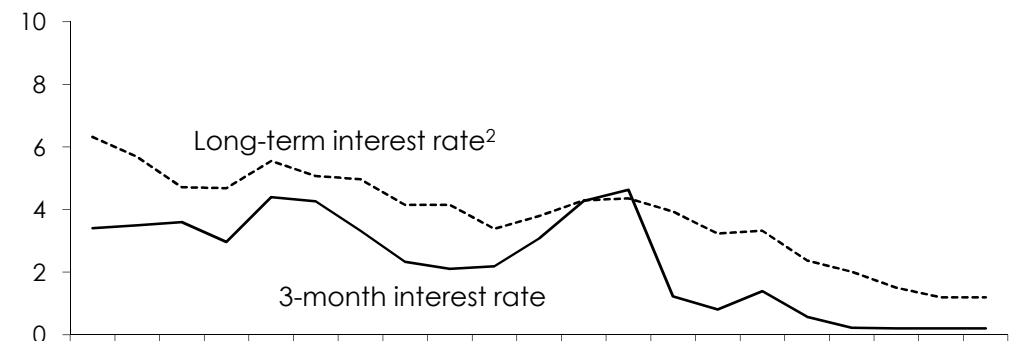
## Manufacturing and investment

Percentage changes from previous year, volume



## Short-term and long-term interest rates

Percent



## Trade

Percentage changes from previous year, volume

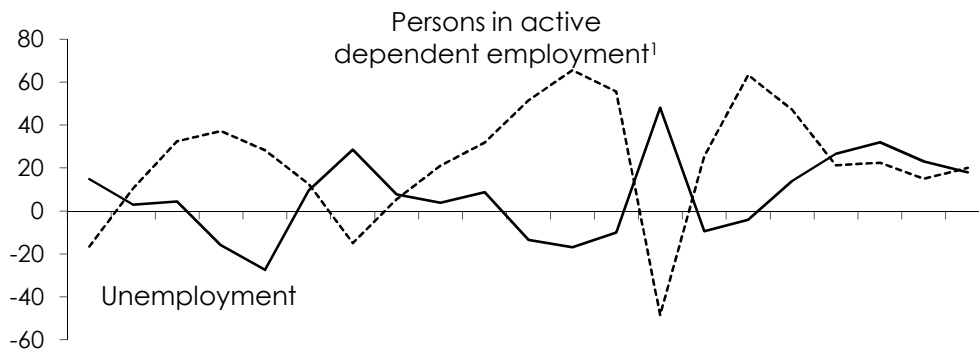


<sup>1</sup> Including weapon systems.

<sup>2</sup> 10-year central government bonds (benchmark).

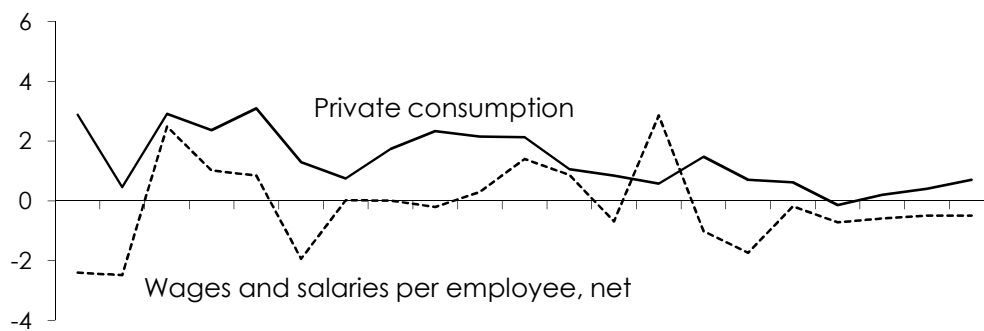
## Employment and unemployment

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



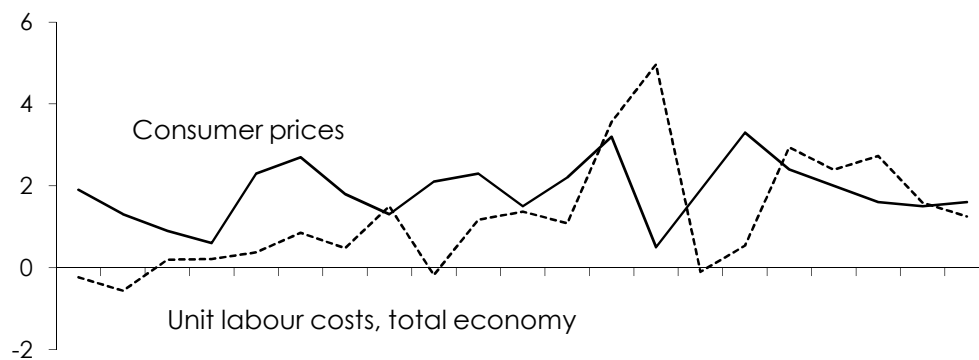
## Consumption and income

Percentage changes from previous year, volume



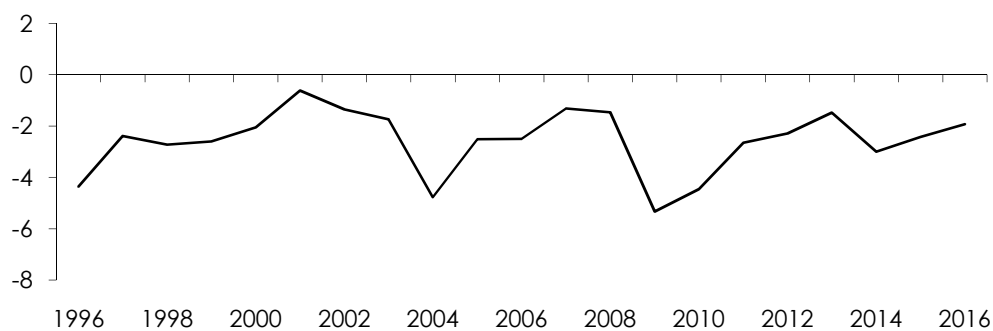
## Inflation and unit labour costs

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.