Economic Crisis Unleashes Deep Recession in Austria – Stabilization Expected at Year-End

Economic Outlook for Austria from 2009 to 2011 (June 2009)

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Cutoff date for data: May 22, 2009

1 Summary: Deep Recession in 2009

According to the June 2009 economic outlook of the Oesterreichische Nationalbank (OeNB), the Austrian economy is projected to enter a deep recession in 2009 owing to the global slump in growth, with real GDP set to shrink by 4.2%. After further declining by a modest 0.4% in 2010, positive real annual GDP growth of 1.2% will reemerge only in 2011.

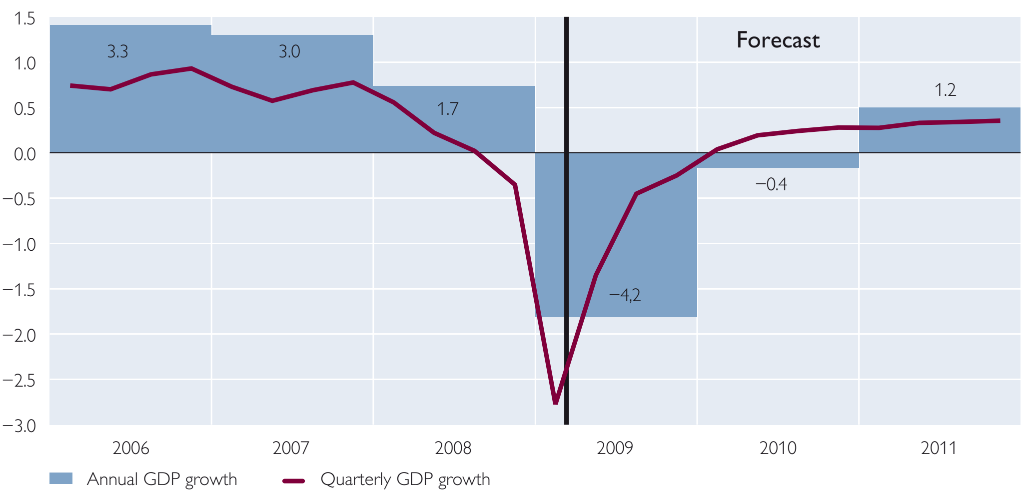
Compared with the OeNB December 2008 economic outlook, growth expectations for 2009 and 2010 were downgraded by 3.9 and 1.2 percentage points respectively. This major revision reflects the steep slump in the demand for exports and investment – unparalleled in the post-war period. The current downturn is so pronounced that GDP levels seen in 2007 will not return until 2011. HICP inflation will ease from 3.2% in 2008 to a mere 0.4% in 2009 and rise modestly to 1.1% and 1.2% in 2010 and 2011 respectively.

The global crisis, which was unleashed by financing difficulties in the U.S. real estate market, increasingly visibly spilled over into the real economy in the course of 2008, causing a global recession in 2009. In the euro area, real GDP growth slowed to 0.7% in 2008. Some euro area countries such as Germany, Italy and Spain were affected by the crisis at an earlier stage

Chart 1

Growth of Real GDP (Seasonally and Working-Day Adjusted)

Quarterly and annual changes in %



Source: Eurostat, OeNB.

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and significantly worse than Austria, which still registered real GDP growth of 1.7% in 2008. In recent years, the Austrian real economy outperformed the euro area average in relative terms, posting higher GDP growth, lower unemployment rates and, owing to steadily improving international competitiveness, growing current account surpluses. As a result, Austria was better positioned at the start of the crisis, but eventually also started to feel the impact of external developments.

Preliminary signs of the crisis in the real economy were therefore also evident in Austria in 2008. Since the second quarter of 2008, exports have declined in quarterly terms as has investment since the third quarter of 2008. In the fourth quarter of 2008, real GDP shrank on the previous quarter for the first time since 2001 – compared with other euro area countries, however, the decline by 0.4% was still relatively small.[2] In the first quarter of 2009, however, the crisis dealt a major blow to the Austrian real economy. GDP contracted by 2.8% on a quarterly basis, as did exports and investment by 4.4% each.

The projected recession in Austria will be driven primarily by a further slide in exports, which is also reflected in a decline in investment. While exports were the engine of economic growth these past few years, they will plummet by 8.9% in 2009. The last time Austria registered negative – albeit by a relatively small margin – export growth was in 1993. Despite similarly falling imports, net exports will make a negative growth contribution to real GDP of 1.8 percentage points.

The decline in gross fixed capital formation (–9.5%), which was fueled by a huge implosion of investment in equipment (–15.3%), commenced as early as the second half of 2008 and accelerated in the first quarter of 2009. Not only weakening exports but more difficult financing conditions (availability and risk premiums) prompted companies to curtail investment.

Although private consumption (–0.3%) will have a stabilizing effect in 2009, domestic demand (excluding inventory changes) will make a negative growth contribution of 2.3 percentage points. Despite anticipated negative labor market developments, real disposable household income will grow by a further 0.3% in 2009 owing to high wage settlements and low inflation. In 2010, however, a further rise in unemployment and expected low wage settlements will precipitate a 0.5% decline in real disposable household income. In 2009, the saving ratio will continue to increase to some 12½% owing to precautionary saving motives before decreasing slightly to 12.3% in 2010.

From 2009, the labor market situation is set to deteriorate significantly. In 2009, employment growth will shrink by 1.3% while the number of unemployed will climb by a total of some 132,000 in 2009 and 2010. The (seasonally-adjusted) unemployment rate (Eurostat definition) will increase to 5.3% (2009) and 6.5% (2010) – an unusually steep rise following the low of 3.6% in May 2008. By international standards, however, Austria's jobless rate will remain comparatively low.[3]

Following the historical increase in HICP inflation in 2008, the drop in

[2] *In the fourth quarter of 2008, real GDP in the euro area shrank by 1.6% and in Germany by 2.2% on a quarterly basis. This outlook is based on preliminary GDP data for the first quarter of 2009 ("Q1 Flash").*

[3] *According to both the European Commission economic outlook (May 2009) and the IMF World Economic Outlook (April 2009), Austria will have the euro area's third-lowest and fourth-lowest unemployment rate in 2010 and 2011 respectively.*

Table 1

OeNB June 2009 Outlook for Austria – Key Results[1]

	2008	2009	2010	2011
Economic activity	*Annual change in % (real)*			
Gross domestic product	+1.7	–4.2	–0.4	+1.2
Private consumption	+0.9	–0.3	+0.0	+0.5
Government consumption	+2.0	–0.1	+0.3	+0.9
Gross fixed capital formation	+0.9	–9.5	–3.0	+1.1
Exports of goods and services	+2.5	–8.9	–0.7	+3.5
Imports of goods and services	+1.3	–6.8	–1.0	+2.8
Contribution to real GDP growth	*Percentage points of GDP*			
Private consumption	+0.5	–0.2	+0.0	+0.3
Government consumption	+0.4	+0.0	+0.1	+0.2
Gross fixed capital formation	+0.2	–2.1	–0.6	+0.2
Domestic demand (excluding changes in inventories)	+1.0	–2.3	–0.6	+0.7
Net exports	+0.8	–1.8	+0.1	+0.5
Changes in inventories (including statistical discrepancy)	–0.1	–0.1	+0.0	+0.0
Prices	*Annual change in %*			
Harmonised Index of Consumer Prices (HICP)	+3.2	+0.4	+1.1	+1.2
Private consumption expenditure (PCE) deflator	+2.9	+0.5	+0.9	+1.2
GDP deflator	+2.3	–0.2	+0.6	+1.4
Unit labor costs in the total economy	+2.9	+4.9	–1.0	+0.0
Compensation per employee (at current prices)	+3.0	+2.1	+0.3	+1.1
Productivity (whole economy)	+0.1	–2.7	+1.3	+1.1
Compensation per employee (real)	+0.1	+1.6	–0.6	–0.2
Import prices	+3.6	+0.6	+0.3	+1.2
Export prices	+1.2	–0.4	+0.6	+1.2
Terms of trade	–2.4	–0.9	+0.2	+0.0
Income and savings				
Real disposable household income	+2.0	+0.3	–0.5	+0.8
	% of nominal disposable household income			
Saving ratio	12.4	12.6	12.3	12.4
Labor market	*Annual change in %*			
Payroll employment	+1.9	–1.3	–1.6	+0.1
	% of labor supply			
Unemployment rate (Eurostat definition)	3.8	5.3	6.5	6.6
Budget	*% of nominal GDP*			
Budget balance (Maastricht definition)[2]	–0.4	–5.0	–6.3	–6.2
Government debt	62.5	72.2	79.1	83.3

Source: 2008: Eurostat, Statistics Austria; 2009 to 2011: OeNB June 2009 outlook.

[1] *The outlook was drawn up on the basis of seasonally adjusted and working-day adjusted national accounts data. Therefore, the historical values for 2008 may deviate from the nonadjusted data released by Statistics Austria.*

[2] *The OeNB expects a deficit-increasing one-off effect of 0.3 percentage points for 2009 as a result of the EU's own resources decision of June 2007.*

energy and commodity prices will temporarily induce negative inflation in the second half of 2009 and very low inflation of 0.4% for the year as a whole. Despite falling manufacturing and service prices, inflation will climb back up to a modest 1.1% in 2010. In 2011, it is projected to rise marginally to 1.2%

The general government budget deficit (Maastricht definition) will deteriorate by 4.6 percentage points to

–5.0% of GDP[4] in 2009 and to –6.3% (–6.2%) of GDP in 2010 (2011). As a result, fiscal policy will markedly mitigate the repercussions of the recession in Austria. The OeNB June 2009 economic outlook includes all measures that had been approved by the cutoff date for data (May 22, 2009) for this publication.

2 Assumptions: Sharply Falling Money Market Rates, Lower Euro Exchange Rate and Oil Price

This forecast is the OeNB's contribution to the Eurosystem's June 2009 staff projections. The forecast horizon ranges from the second quarter of 2009 to the fourth quarter of 2011. May 13, 2009, was the cutoff date for the assumptions on global growth as well as interest rates, exchange rates and crude oil prices. The OeNB used its macroeconomic quarterly model to prepare the projections for Austria.[5]

The key data source comprised seasonally and working day-adjusted national accounts data computed by the Austrian Institute for Economic Research (WIFO), which were fully available to the fourth quarter of 2008. The GDP flash estimate is available for the first quarter of 2009 but covers only part of the national accounts aggregates.

The underlying short-term interest rate is based on market expectations for the three-month EURIBOR. It is set at 1.4% (2009), 1.6% (2010) and 2.5% (2011) respectively. Long-term interest rates reflect market expectations for ten-year government bonds and are set at 4.2% (2009), 4.6% (2010) and 5.0% (2011) respectively. Corporate loan spreads are implemented in this outlook on a time-varying basis and amount to around 25 basis points.[6] The USD/EUR exchange rate is assumed to remain at USD/EUR 1.34. The projected trend in crude oil prices is based on futures prices. For 2009, we assume oil prices of USD 54.5 per barrel (Brent) and, for 2010 and 2011, USD 65.5 and USD 70.3 per barrel (Brent) in each successive year. This signifies a revision of USD –12.8 (2009) and USD –11.1 (2010), compared with the OeNB December 2008 economic outlook. The prices of commodities excluding energy are also based on futures prices over the forecast horizon. Market participants expect commodity prices to increase over the forecast horizon as a whole. The budget forecast includes only those measures that had been agreed and suitably specified at the time the current OeNB outlook was prepared.

3 World Economy in Recession in 2009

The world economy will contract sharply in 2009 as a result of the global economic and financial crisis. The global recession was unleashed by the financial crisis arising from the U.S. real estate market. Loss of confidence in the financial sector led to major refinancing problems in the interbank market, which was countered via a generous injection of liquidity from central banks. The low capital ratio of many financial institutions prompted emergency sales of securities and induced dramatic price slumps. A number of financial institutions became insolvent or

[4] *The OeNB expects a deficit-increasing one-off effect of 0.3 percentage points for 2009 as a result of the EU's own resources decision of June 2007.*

[5] *For a description of the OeNB's macromodel, see Schneider and Leibrecht (2006).*

[6] *The spread on corporate loans is defined as the difference between the average interest rate on corporate loans and the interest rate on ten-year government bonds.*

were rescued only thanks to government measures. The peak of this development was marked by the weeks following the collapse of the formerly fourth-largest U.S. investment bank Lehman Brothers in September 2008. This event significantly accelerated the global downturn already underway. World trade then slumped sharply at the turn of 2008/09.[7] Export-led economies such as Japan and Germany were directly affected. Of the new EU Member States, the Baltic countries were particularly badly hit by the crisis. According to current analysis, the global slump reached a low in the first quarter of 2009 and should slow significantly from the second quarter of 2009. The world economy is expected to grow modestly in the second half of 2009.

3.1 Industrialized Countries to Experience Deep Recession in 2009

The *U.S.A.* suffered significant economic contraction in both the fourth quarter of 2008 (–6.3%) and the first quarter of 2009 (–6.1%).[8] Since the U.S.A. has a relatively small degree of openness compared to other countries, the trade crisis – exports slumped by 30% in the first quarter of 2009 – is having a comparatively small impact on aggregate growth.[9] At the same time, the U.S.A. was relatively badly affected by the financial crisis. As a result, fixed capital formation contracted by 37.9% in the first quarter of 2009. In this case, fixed capital formation comprised investment in equipment (–34%), as well as both commercial construction investment (–44%) and residential construction investment (–38%). Growth in new orders as well as both sentiment and residential construction indicators currently suggest that the investment slump is bottoming out. Private consumption unexpectedly grew by +2.2% in the first quarter of 2009 (fourth quarter of 2008: –4.3%). Not least owing to swift and comprehensive economic policy measures, the U.S. economy is projected to recover in the second half of 2009. From 2009 to 2011, fiscal measures will amount to some USD 663 billion, or 4.6% of GDP. The Fed reacted by cutting the key policy rate to 0.25% and introducing extensive quantitative easing measures totaling around USD 1,500 billion.

Non-Japan Asia could not avoid the economic crisis either. Owing to their large degree of openness, small open economies such as Singapore or Hong Kong have been as severely affected as emerging economies (e.g. Thailand or South Korea). China countered the economic downturn by swiftly introducing government support measures. Although growth is below potential – proven by the rise in unemployment – China is now seen as an engine of economic growth amid hope for a swift global recovery. By contrast, *Japan's* economic performance in the first quarter of 2009 contracted by as much as 4.0% on a quarterly basis (fourth quarter of 2008: –3.8%). This makes Japan the country hardest hit in the world by the trade crisis. Japanese GDP fell to its 2003 levels. Exports plummeted by 26% in the first three months of 2009 compared with the fourth

[7] *Monthly data for world trade are provided by CPB Netherlands Bureau for Economic Policy Analysis (www.cpb.nl/eng/research/sector2/data/trademonitor.html). World trade volumes (seasonally adjusted) registered the following growth on a monthly basis: 10/08: +0.3%; 11/08: –6.6%; 12/08: –5.8%; 01/09: –5.9%; 02/09: +1,1%; 03/09: –0.5%.*

[8] *All values for the U.S.A. represent annualized quarterly growth rates. The annualized figure of 6.3% is approximately equal to a change in quarterly growth of 1.6%.*

[9] *Imports are down by as much as 34%, resulting in net exports making a positive contribution to GDP growth.*

Table 2

Underlying Global Economic Conditions

	2008	2009	2010	2011
	Annual change in % (real)			
Gross domestic product				
World GDP growth outside the euro area	+3.5	−1.6	+2.1	+3.6
U.S.A.	+1.1	−3.3	+0.3	+1.6
Japan	−0.7	−6.5	−0.9	+1.0
Asia excluding Japan	+6.8	+2.8	+5.8	+6.8
Latin America	+4.1	−2.8	+1.6	+3.1
United Kingdom	+0.7	−4.1	+0.2	+1.5
New EU Member States[1]	+4.1	−3.0	+0.2	+2.7
Switzerland	+1.6	−2.5	+0.3	+1.6
Euro area[2]	+0.6	−5.1 to −4.1	−1.0 to +0.4	×
World trade (imports of goods and services)				
World economy	+3.3	−13.3	+0.8	+4.2
Non-euro area countries	+4.2	−14.0	+1.4	+4.7
Real growth of euro area export markets	+3.7	−13.0	+1.0	+4.1
Real growth of Austrian export markets	+2.5	−12.4	+0.1	+3.6
Prices				
Oil price in USD/barrel (Brent)	97.7	54.5	65.5	70.3
Three-month interest rate in %	4.6	1.4	1.6	2.5
Long-term interest rate in %	4.4	4.2	4.6	5.0
USD/EUR exchange rate	1.47	1.33	1.34	1.34
Nominal effective exchange rate (euro area index)	113.03	112.35	112.49	112.49

Source: Eurosystem.

[1] *Member States that joined the EU in 2004 and 2007 and have not yet introduced the euro: Czech Republic, Hungary, Poland, Romania, Bulgaria, Estonia, Latvia, Lithuania.*

[2] *Results of the Eurosystem's June 2009 projections. The ECB presents the result in ranges based upon average differences between actual outcomes and previous projections.*

quarter of 2008. In addition, negative growth stimuli came from domestic demand (investment: –8.0%, private consumption: –4.0%) in the first quarter of 2009.

The *United Kingdom* has been in recession since mid-2008, which further deepened in 2009. At the same time, both hard facts such as industrial production and soft facts such as the purchasing managers' index (EMI) point to a recovery as early as the second half of 2009. *Switzerland*, too, could not decouple itself from the global economic crisis: its economy is set to shrink in 2009 and stagnate in 2010.

The GDP growth outlooks of *EU Member States* which acceded in 2004 and 2007 and have not yet introduced the euro (Czech Republic, Hungary, Poland, Romania, Bulgaria, Estonia, Latvia, Lithuania) have gradually been revised down sharply in the past months. While on a cumulated basis, these countries will still have a positive growth differential vis-à-vis the euro area, individual trends and, in particular, risk assessments vary widely across countries. While the Baltic countries are already in deep recession and Hungary and Romania are set to enter major recessions, Poland and the Czech Republic are expected to suffer only a comparatively weak recession in 2009. For the region as a whole, nevertheless, a relatively swift recovery is anticipated in 2011.

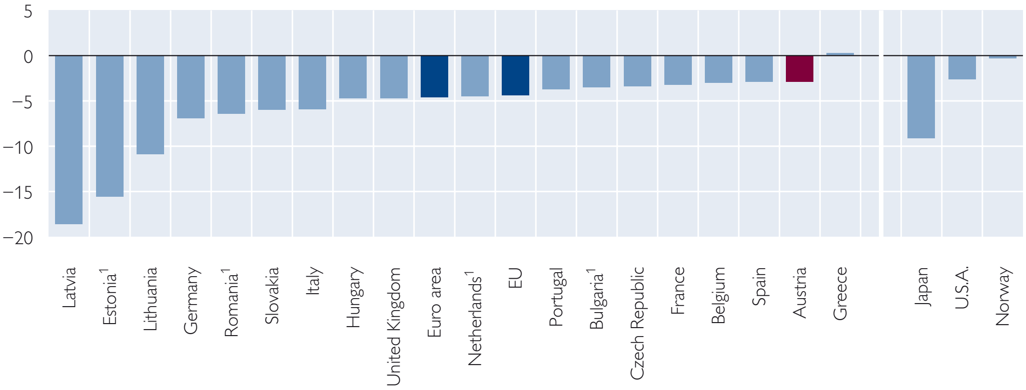
3.2 Economic Performance Down More Sharply in the Euro Area than in the U.S.A.

Chart 2 shows real GDP growth in EU countries and selected peer countries within the previous 12 months (between the first quarter of 2008 and the

Chart 2

Real GDP Growth

Change between the first quarter of 2008 and the first quarter of 2009 in %



Source: Eurostat, OeNB.

[1] *Basis: Nonseasonally-adjusted data.*

first quarter of 2009). The source of the economic crisis was in the Anglo-American area. However, as chart 2 illustrates, in the first quarter of 2009 export-led countries were hit more severely by the crisis than the countries where the crisis had originated.

A comparison of the three largest economic areas reveals that the contraction in economic performance in 2008 was most pronounced in Japan, followed by the euro area (and the EU) and the U.S.A. A very heterogeneous picture also emerges within Europe, with Ireland and Germany affected to an above-average extent. Like Spain, Ireland also witnessed the bursting of a home-grown real estate bubble. Austria and Greece have so far been least affected by the slowdown in growth.

The global trade shock is giving rise to a similar picture in almost all export-led countries. In *Germany*, real GDP, after falling sharply by 2.2% in the fourth quarter of 2008 (on a quarterly basis), declined by a further hefty 3.8% in the first quarter of 2009. As a result, Germany, a strongly export-led country, is particularly suffering from the impact of the trade crisis. During the previous boom (between the second quarter of 2003 and the first quarter of 2008), GDP growth was some 10½%. Net exports and gross fixed capital formation contributed 6 percentage points and some 3¾ percentage points respectively to GDP growth, with private consumption and government consumption sharing the remaining percentage points.[10] Net exports' contribution to growth has however reversed in recent quarters: while exports fell by more than 23% year on year in January and February 2009, imports were down by no more than 17%. The slump in exports resulted in a record underutilization of production capacity, which fell by 14 percentage points to an all-time low of 71.8% in the fourth quarter of 2008 and the first quarter of 2009. Aggravated by negative sales prospects, this underutilization of pro-

[10] *By contrast, Austria generated growth of around 14¾% in the same period, with net exports, gross fixed capital formation and private consumption accounting for 3½ percentage points, 3 percentage points and more than 5 percentage points respectively.*

duction capacity resulted in a marked decline in investment activity, which was further accelerated in the construction industry by unfavorable weather conditions. Only consumption served as a pillar of economic activity despite its basically weak growth. In the first quarter of 2009, however, consumption was fueled by high wage settlements, the continued robust labor market driven by a generous regulation governing short-time working, and a car-scrappage scheme. After the current wage settlements and the car-scrappage scheme have come to an end, labor market developments will however have a comparatively larger influence on private consumer demand, which therefore represents the largest forecast risk. Two key indicators currently offer hope of a swift end to this crisis: industrial production and the ifo business expectations. After already bottoming out, both signal a marked improvement in the second half of 2009.

Italy – Austria's second-largest trading partner – is also currently in a deep recession, which commenced as early as in the first half of 2008. Owing to various structural problems (low productivity growth, flagging competitiveness and high public debt), the recession will persist until mid-2010. Unlike in Germany, real GDP growth in *France* is relatively strongly driven by domestic demand. However, France cannot avoid the global economic crisis either. The French economy has been shrinking since the second quarter of 2008. According to recent industrial production data, France too is in deep recession in 2009.

The Eurosystem anticipates GDP growth will slump to –5.1% to –4.1% in 2009 and range between –1.0% and +0.4% in 2010.

4 Austria Cannot Avoid Recession

4.1 Austrian GDP Growth Plummets in the First Quarter of 2009

Thanks to its excellent position at the start of the crisis compared with its international peers, Austria was affected by the global economic crisis only at a relatively late stage. Compared with the euro area, Austria registered higher than average real GDP growth, lower unemployment and (for years) steadily increasing current account surpluses as a result of improving international competitiveness. On the expenditure side, private consumption is being fueled by relatively high wage settlements in 2008 and by the numerous tax measures and government transfers aimed at increasing disposable household income. In addition, low inflation is boosting real disposable household income. On the output side, particularly benign winter tourism (from October 2008 to March 2009, bed nights rose by +2.8% on a seasonally-adjusted basis) and the healthy construction industry (8% of value added) made an impact. In addition, stimuli fuelling economic activity came from retail sales in January (+2.0%) and March 2009 (+1.0%).

However, Austria cannot avoid the global downturn either. The crisis affected the country with a time lag in the first quarter of 2009. As in other export-led countries, the crisis of negative global demand resulted in a sharp collapse in export demand[11] and in a huge underutilization of production capacity. Aggravated by negative corporate sales expectations and difficult financing conditions, investment activity is also declining rapidly. The decline in employment and rapidly rising unemployment are dampening growth in

[11] *For further information, see also Ragacs and Vondra (2008).*

Box 1

When will the Turning Point in the Economy Be Reached?

The euro area has been in recession since mid-2008 and the pace of economic downturn has accelerated further over the last six months. In light of growing signs of economic recovery in the past few weeks, the exact timing of the turning point in the economy is currently being hotly discussed. Since the definition and identification of economic cycles vary in economic literature, the definitions of a turning point are commensurately different and diverse. According to the simplest definition, turning points in the economy describe the transition from boom to bust or from depression to recovery. In the current economic debate, however, turning points in the economy are frequently defined differently. According to this definition, turning points in the economy are reached in quarters with the most negative quarterly growth rate.[1] *This definition, however, implies a false picture of the business cycle since the GDP level will continue to fall after the current turning point is reached according to this outlook. In fact, only the tempo of the recession will slow down.*

In this article, a turning point in the economy (to recovery) is defined as the first of two successive quarters with a positive quarterly growth rate following a recession (i.e. at least two quarters of negative quarterly growth). Specifying the exact timing of the turning point continues to be problematic. While some euro area countries (e.g. Germany, Italy and Spain) were already in recession in 2008, Austria still registered mildly positive growth up to (and including) the third quarter of 2008. This delay is explicable by various factors: Austria's higher pre-crisis growth rates, its positive balance of trade, low unemployment, early adoption of fiscal measures etc. All in all, the country was better positioned at the outbreak of the crisis. It is also important to note that the source of this crisis is external. Thus, the recovery of the Austrian economy will not occur with a time lag like the slump did but in line with international developments.

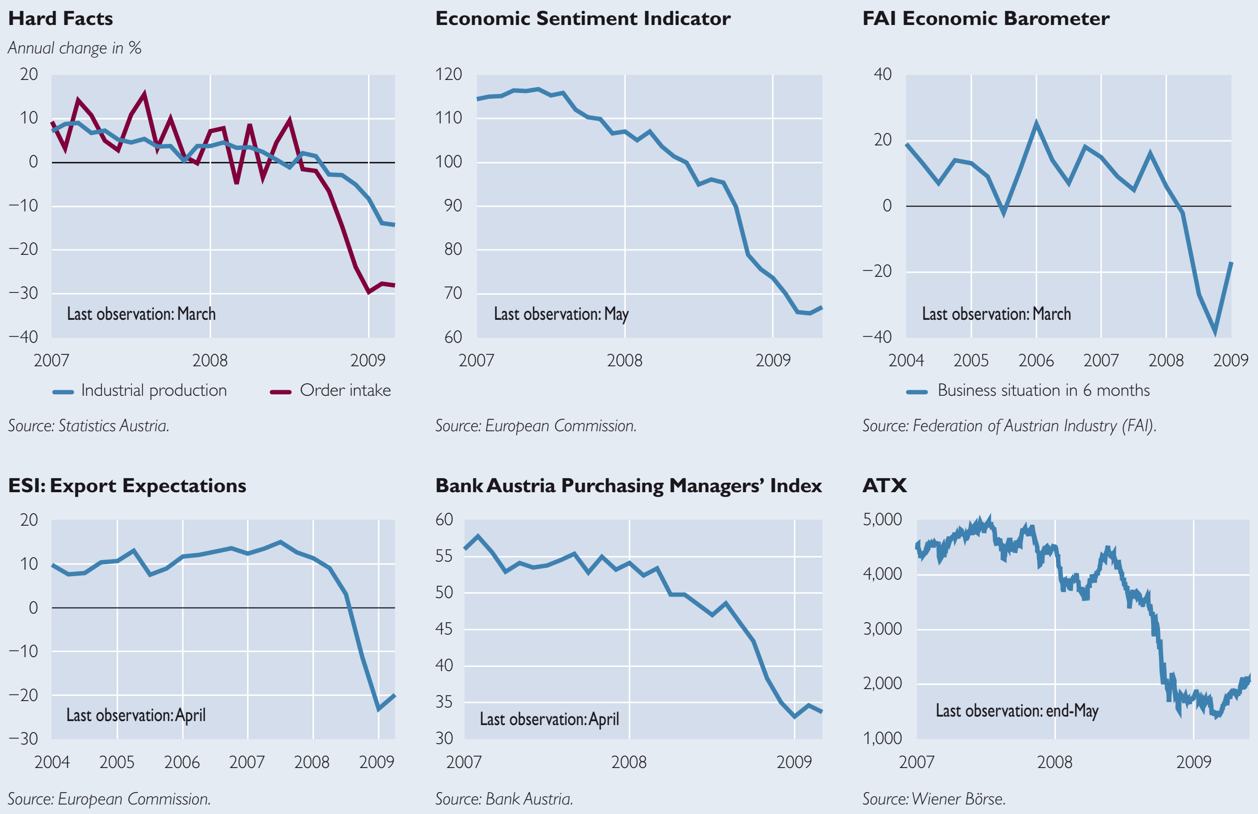
The turning point in the economy is expected in early 2010 (for further details, see also chart 1 on quarterly growth trends of the current outlook). So-called green shoots – economic indicators signaling recovery – have been evident for Austria since mid-May 2009. These green shoots include:

- *the bottoming out of new orders and industrial production according to Statistics Austria up to (and including) March 2009,*
- *the bottoming out of the Economic Sentiment Indicator (ESI) in May 2009,*
- *the Purchasing Managers' Index of Bank Austria and most of this indicator's subindices,*
- *the ESI component of export volume expectations in manufacturing industry,*
- *the expectations component of the Federation of Austrian Industry's economic barometer, and*
- *the performance of the Wiener Börse Index since early March 2009.*

External green shoots are even more important than their Austrian counterparts. Their number has increased significantly since mid-April 2009. These international indicators include certain hard facts such as new orders and industrial production but also various confidence indicators such as the ESI, the ifo business expectations and the Purchasing Managers' Index (PMI).

[1] *In most forecasts available, this point was reached in the first quarter of 2009.*

Austrian Green Shoots



household income and encouraging precautionary saving, thus driving down private consumption.

4.2 Exports Plummet in 2009

The slump in global demand triggered a marked acceleration in the decline of exports in January and February 2009. According to Statistics Austria, exports fell by 25% year on year in the first two months of 2009. Exports to Central, Eastern and Southeastern Europe (CESEE) as well as to Central Asia[12] were somewhat worse affected by the collapse in global demand (–29.1%; EU Member States which joined in 2004 and 2007: –29.2%) than exports to the euro area (–24.9%). On a working day-adjusted basis, nominal goods exports declined by about 20% year on year in January and February 2009 (Fenz and Schneider, 2009). On the basis of truck toll data provided by Austria's highway operator, ASFINAG, the OeNB forecasts a continued decline in nominal goods exports of around 20% (year on year) in both March and April 2009. Services exports will not sufficiently soften this setback. According to non-seasonally-adjusted national accounts data, goods and services exports plummeted by 18.9% in the first quarter of 2009. At the same time, imports were down by 17.8%, generating only a small net effect in Austria (in contrast to Germany). Although real exports data were revised downward in the seasonally-adjusted national accounts series, the

[12] *For a precise definition of regions, see Ragacs and Vondra (2009).*

Table 3

Growth and Price Development in Austria's External Trade

	2008	2009	2010	2011
	Annual change in %			
Exports				
Competitor prices in Austria's export markets	+2.4	−2.5	−0.1	+0.7
Export deflator	+1.2	−0.4	+0.6	+1.2
Changes in price competitiveness	+1.2	−2.1	−0.6	−0.5
Import demand in Austria's export markets (real)	+2.5	−12.4	+0.1	+3.6
Austrian exports of goods and services (real)	+2.5	−8.9	−0.7	+3.5
Market share	−0.1	+3.5	−0.7	−0.2
Imports				
International competitor prices in the Austrian market	+2.1	−2.5	−0.1	+0.7
Import deflator	+3.6	+0.6	+0.3	+1.2
Austrian imports of goods and services (real)	+1.3	−6.8	−1.0	+2.8
Terms of trade	−2.4	−0.9	+0.2	+0.0
	Percentage points of real GDP			
Contribution of net exports to GDP growth	+0.8	−1.8	+0.1	+0.5

Source: 2008: Eurostat; 2009 to 2011: OeNB June 2009 outlook, Eurosystem.

effects of this severe trade shock are still not evident to a corresponding degree. In the first quarter of 2009, real exports declined by some 4½% on a quarterly basis.

Following the export slump in early 2009, export growth expectations have been gloomy. In addition to the decline in exports in recent months, this gloom is primarily attributable to the development in new foreign orders. At –35%, the latter fell much more sharply in the first quarter of 2009 than domestic new orders (about –18%). However, a glimmer of hope came from export volume expectations in manufacturing industry, which are published on a quarterly basis as a component of the ESI. These expectations – which had deteriorated since the third quarter of 2007, thus signaling the crisis early on – improved for the first time in April 2009.

According to the OeNB, exports are projected to fall by 8.9% in 2009 and by a further 0.7% in 2010. Export volumes in 2010 will therefore only slightly exceed 2006 levels.

Table 4

Austria's Current Account

	2008	2009	2010	2011
	% of nominal GDP			
Balance of trade	4.7	2.5	3.5	4.2
Balance on goods	−0.1	−0.7	−0.2	0.3
Balance on services	4.8	3.2	3.6	3.9
Euro area	0.0	−1.0	−1.0	−0.6
Non-euro area countries	4.7	3.6	4.5	4.8
Balance on income	−0.8	−0.9	−0.8	−0.9
Balance on current transfers	−0.4	0.1	0.1	0.0
Current account	3.5	1.7	2.7	3.3

Source: 2008: Eurostat; 2009 to 2011: OeNB June 2009 outlook.

Fueled by private consumption, imports will shrink less sharply than exports in 2009 (–6.8%); owing to the slump in exports and investment, however, imports will also be down in 2010 as a whole (–1%). As a result, imports too will fall almost to 2006 levels.

In 2008, Austria generated a current account surplus of EUR 9.8 billion (+3.5% of nominal GDP). This surplus continued the growth trend which had persisted since 2005. Although the massive slump in exports in 2009 will interrupt this trend temporarily, the current account will still be in the black in 2009 according to the OeNB. The balance on both goods and services will deteriorate substantially, with the balance on goods even showing a deficit. The regional breakdown of the trade surplus is barely changed. While the trade balance with the euro area will be in the red, it will still be in surplus with countries outside the euro area. The long-term trend in the improving current account is expected to resume in 2010 and 2011, with the trade surplus with countries outside the euro area growing faster than the trade deficit with euro area countries decreases. The balance on income will barely change over the forecast horizon, while the balance on transfers should moderately improve in 2009, thereafter remaining almost unchanged.

4.3 Sharp Slump in Investment Activity

In its December 2008 outlook, the OeNB already anticipated a contraction in gross fixed capital formation in 2009. Since then, the external environment and the sales performance of Austrian exporters have deteriorated significantly. Investment demand depends heavily on export growth, however – according to an OeNB estimate, a 1 percentage point decline in export growth triggers a deterioration in investment growth of about 0.5 percentage points[13] – so that plummeting exports have triggered a sharp slump in investment activity. In the first quarter of 2009, investment shrank by 4.4%; according to a current national accounts' flash estimate (May 15, 2009), investment activity has been flagging since the third quarter of 2008 (third quarter of 2008: –0.9%, fourth quarter of 2008: –1.7%). In addition, sluggish consumption growth is dampening investment momentum. The continued contraction of domestic export markets in 2009 and falling domestic demand are inducing a marked drop in investment activity.

This decline in investment is, however, also driven by rising financing costs and tightening financing conditions. Corporate *financing* has changed considerably since the outbreak of the financial crisis,[14] in the wake of which equity financing has come to a standstill. Bond-based financing continued to expand in an attenuated form. In the fall of 2008, however, yields on corporate bonds rose steeply and stabilized at a high level. Bank loans therefore became more important again in 2008, making a contribution to external financing of almost 73% in the second half of 2008 (first half of 2008: about 31%). Lending to nonfinancial corporations has so far continued to grow. In

[13] *As a result of the global trade shock, the current OeNB outlook on import demand of Austria's trading partners was downgraded by some 14 percentage points compared with the December 2008 economic outlook. A 1 percentage point contraction in Austrian export markets induces a decline in investment by approximately 0.4 percentage points. Owing to the repercussions of the trade shock, investment is down by some 5½ percentage points, thereby explaining some two-thirds of the downward revision of investment demand since the previous outlook.*

[14] *For further details, see Financial Stability Report 17 (OeNB, 2009).*

Table 5

Investment Activity in Austria

	2008	2009	2010	2011
	Annual change in %			
Total gross fixed capital formation (real)	+0.9	−9.5	−3.0	+1.1
of which: Investment in plant and equipment (real)	*+2.3*	*−15.3*	*−7.4*	*+1.9*
Residential construction investment (real)	*−0.2*	*−0.6*	*−0.1*	*+0.2*
Nonresidential construction investment and other investment	*+2.9*	*−2.2*	*−0.7*	*+1.0*
Government investment (real)	*+2.1*	*+3.3*	*+1.8*	*+1.8*
Private investment (real)	*+0.8*	*−10.1*	*−3.3*	*+1.1*
	Contribution to total gross fixed capital formation growth in percentage points			
Investment in plant and equipment (real)	+0.9	−6.2	−2.8	+0.7
Residential construction investment (real)	+0.0	−0.1	+0.0	+0.0
Nonresidential construction investment and other investment	+1.2	−0.9	−0.3	+0.5
Government investment (real)	+0.1	+0.2	+0.1	+0.1
Private investment (real)	+0.8	−9.6	−3.1	+1.0
	Contribution to real GDP growth in percentage points			
Inventory changes (real)	−0.1	−0.1	+0.1	+0.0

Source: 2008: Eurostat; 2009 to 2011: OeNB June 2009 outlook.

March 2009, annual lending growth was 7.0%, still exceeding its pre-crisis levels (July 2007: +6.6%). Overall, external corporate financing was about one-third lower in 2008 than the previous year.

Corporate *financing costs* have fallen in recent months compared with the developments in the fourth quarter of 2008, as the banking sector passed on key policy rate cuts by the ECB (box 3). Nevertheless, banks' *credit standards* (required collateral etc.) have further tightened in recent months, which was partly also attributable to the deteriorated economic outlook and more cautious risk assessments and ratings.

As the most cyclically sensitive investment component, *investment in equipment* has been the most severely affected by the slump. The OeNB therefore expects a marked decline of 15.3% in 2009 and continued contraction of some 7½% in 2010. *Construction investment* is less cyclically sensitive than other types of investment. Compared with other sectors of the economy, the construction industry for the time being still has a relatively healthy order book, which is supported by infrastructure measures adopted in two economic stimulus packages and by subsidies for energy efficiency renovation (box 3 and Köhler-Töglhofer and Reiss, 2009). Although confidence in the construction sector (WIFO survey for the ESI) continued to falter in March 2009, it has since stabilized at this level. In 2009 and 2010, however, only *government investment* will make a positive contribution to real GDP growth (0.2 and 0.1 percentage points, respectively). The OeNB expects *gross fixed capital formation* to shrink by 9.5% in 2009 and by 3.0% in 2010. Moderately positive growth in investment demand is expected to return only in 2011.

4.4 Consumption, Despite Slight Decline, Continues to Stabilize Economy

Compared with the December 2008 economic outlook, the revision of OeNB's growth forecast for private con-

Table 6

Determinants of Nominal Household Income in Austria

	2008	2009	2010	2011
	Annual change in %			
Employees	+1.9	–1.3	–1.6	+0.1
Wages per employee	+3.0	+2.1	+0.3	+1.1
Compensation of employees	+4.9	+0.8	–1.3	+1.2
Mixed income and operating surplus, net	+13.7	–12.6	–2.7	+5.9
Property income[1]	+4.0	–1.1	+1.4	+2.2
	Contribution to disposable household income in percentage points			
Compensation of employees	+4.0	+0.6	–1.0	+1.0
Mixed income and operating surplus, net	+1.9	–1.9	–0.3	+0.7
Property income	+0.8	–0.2	+0.3	+0.4
Net transfers minus direct taxes[1]	–1.8	+3.4	+1.5	–0.1
Disposable household income (nominal)	+5.0	+0.7	+0.4	+2.0

Source: 2008: Eurostat; 2009 to 2011: OeNB June 2009 outlook.

[1] Negative values indicate an increase in (negative) net transfers minus direct taxes, positive values indicate a decrease.

sumption at – 0.8 percentage points was downgraded much less sharply than its export and investment forecast. While export demand and its corollary investment demand were directly affected by the global demand shock, private consumer demand is reacting only with a time lag to dampened income growth, growing unemployment, tighter consumer credit conditions and deteriorating expectations about the future. However, private consumption will also be directly and indirectly fueled by economic measures over the forecast horizon.

Despite early signs of the crisis, 2008 was still characterized by dynamic growth in aggregate *disposable nominal household income* (+5.0%) owing to unusually high employment growth (+1.9%). Steep inflation on the back of international commodity price growth caused real wages to decline, however, which, among other things, led to relatively high wage settlements for 2009, with negotiated wages up by +3.2%. Despite robust wage growth, however, 2009 can expect to see a sharp decline in disposable nominal household income growth for two reasons. First, the crisis has now reached the Austrian labor market in full force and, second, all other household income factors such as investment and profit income are deteriorating sharply.

According to the OeNB, the labor market crisis will induce a drop in payroll employment numbers in 2009 and 2010, which is expected to stabilize only in 2011. Owing to the crisis, furthermore, the wage drift will be very negative over the forecast horizon. Although *wages* per employee will rise nominally by 2.1% in 2009, the compensation of employees will only edge up by 0.8% (2008: +4.9%). The far lower wage settlements owing to the crisis mean that 2010 will witness even nominally negative growth in the compensation of employees (–1.3%). Modest growth (+1.2%) is anticipated in 2011. *Mixed income of self-employed households and operating surpluses* will decline in 2009 (–1.1%). However, positive growth is projected for 2010 and 2011. *Investment income* will plummet by 12.6% in 2009 and by 2.7% in 2010 (2008: +13.7%). It is not expected to

Table 7

Private Consumption in Austria

	2008	2009	2010	2011
	Annual change in %			
Disposable household income (nominal)	+5.0	+0.7	+0.4	+2.0
Private consumption expenditure (PCE) deflator	+2.9	+0.5	+0.9	+1.2
Disposable household income (real)	+2.0	+0.3	−0.5	+0.8
Private consumption (real)	+0.9	−0.3	+0.0	+0.5
	% of nominal disposable household income			
Saving ratio	12.4	12.6	12.3	12.4

Source: 2008: Eurostat; 2009 to 2011: OeNB June 2009 outlook.

recover until 2011. Wealth effects are influencing private consumer demand in Austria only to a relatively limited extent, however.[15]

The OeNB expects disposable nominal household income growth to fall from 5% (2008) to +0.7% (2009). At +0.4% in 2010, nominal household income will grow sluggishly before strengthening somewhat in 2011.

The banking sector passed on key policy rate cuts to households to a smaller extent than to enterprises (box 3). Likewise, the further rise in the *saving ratio,* which was anticipated for 2009, is dampening growth in consumer demand. The saving ratio rose steadily from 2003 to 2008. In this period, growth in real disposable household income was driven to an above-average extent by investment income and mixed income accruing to self-employed households, which exhibit lower than average marginal consumer demand. This is not the case in 2009. Instead, the sharp deterioration in consumer confidence is expected to give rise to increased precautionary saving and consumer restraint. Owing to the decline in the compensation of employees, however, the saving ratio will decrease in 2010 before stabilizing in 2011.

In 2009, consumption-stimulating *economic measures* (including inflation package) will total EUR 4.36 billion (see also box 3 as well as Köhler-Töglhofer and Reiss, 2009). Private demand will be fueled primarily by the front-loaded tax reform and various transfers increases. By contrast, the consumption-stimulating effects of the car-scrap bonus are very limited according to the OeNB's simulations and, in the best scenario, will generate a GDP effect of 0.1 percentage points in 2009.

Private consumption growth was slightly negative in the fourth quarter of 2008 and in the first quarter of 2009 (in both quarters: –0.1% on a quarterly basis). The consumption outlook for 2009 to 2011 reflects the aforementioned trends. With projected inflation rates factored in, real consumption growth will slow marginally by –0.3% in 2009, stagnate in 2010 and pick up modestly in 2011. Compared with the export and investment outlooks, private consumption is thus expected to stabilize GDP growth during the recession.

[15] *For more details, see Fenz and Fessler (2008) and the OeNB December 2008 outlook (Ragacs and Vondra, 2008).*

Box 2

The Crisis in a Historical Context

Since World War II, Austria has been affected by six major economic downturns (including the current crisis). As the table below shows, the current financial and economic crisis is the longest recession of the Second Republic (five quarters of negative growth) according to the current outlook.

Economic Crises in Austria

	Last quarter of positive growth	Exogenously caused	Number of quarters of negative growth
First oil shock	Q3 1974	×	2
Second oil shock	Q4 1980	×	2
Crisis of Austria's state-owned industries	Q4 1983		2
EMS crisis	Q4 1992	×	1
Dotcom crisis	Q1 2001	×	1
Pattern of the current global crisis	Q3 2008	×	5[1]

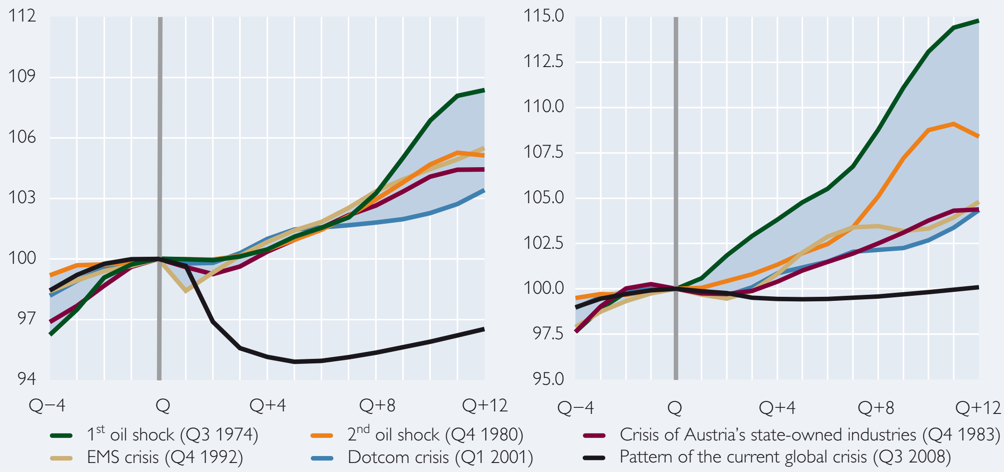
Source: Eurostat, OeNB.

[1] *OeNB June 2009 outlook.*

The left[1] chart below shows that the current crisis is also inducing the deepest downturn in Austria's post-war economy.

GDP Growth, Real **Private Consumption Growth, Real**

Change in % *Change in %*



Source: Eurostat.

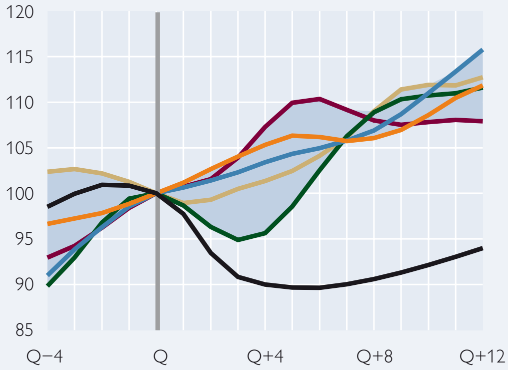
In the current situation, private consumption (right chart above) has a stabilizing effect in the first few quarters, but grows at a slower than average pace hereafter compared with earlier crises. By contrast, the slump in exports (see left chart below) is massive and fairly unique. While export growth was still above average in the quarters preceding the downturn, exports shrank more sharply than in all previous crises owing to the drastic decline in world trade at end-2008/early 2009. In addition, investment (right chart below), has contracted more sharply

[1] *The four charts show the percentage change on the base quarter that is defined as the turning point in the economy (standardized to 100) in each case.*

in the first year of the recession than in earlier crises. Modest growth is anticipated for the longer forecast horizon, which means that some two years after the onset of the crisis, investment will contract as sharply as in the wake of the first oil shock when the slump in investment was not as drastic but was protracted.

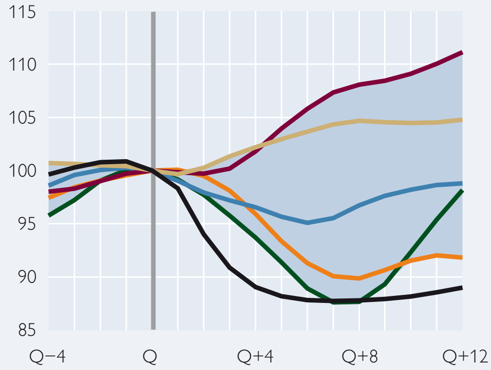
Export Growth, Real

Change in %



Investment Growth, Real

Change in %



1st oil shock (Q3 1974) — 2nd oil shock (Q4 1980) — Crisis of Austria's state-owned industries (Q4 1983)
EMS crisis (Q4 1992) — Dotcom crisis (Q1 2001) — Pattern of the current global crisis (Q3 2008)

Source: Eurostat.

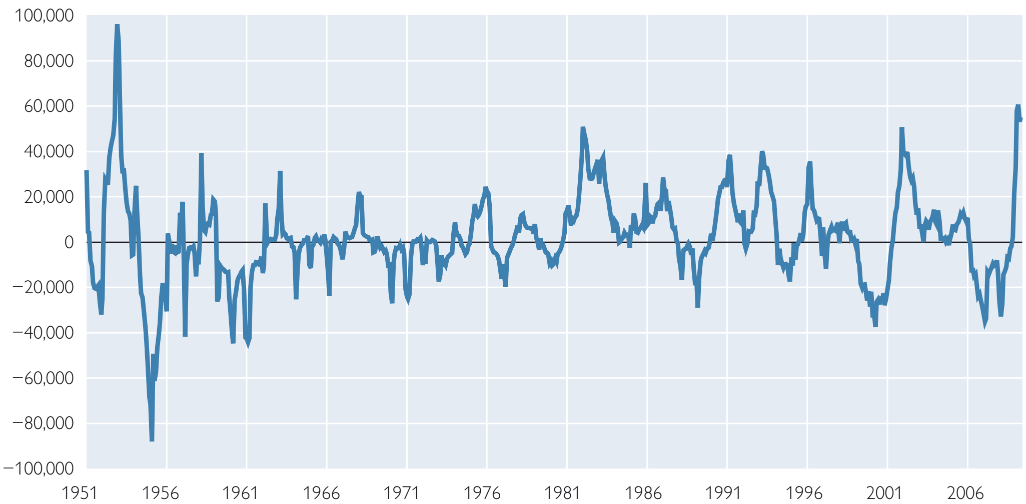
4.5 Labor Market Not Left Unscathed by Crisis

Following impressive growth in 2008, when employment rose by 1.6% and the unemployment rate fell to a (by international standards) very low 3.8%, the economic downturn has not left the labor market unscathed since the turn of the year (2008/09). Unemployment numbers have risen since November 2008 (on an annual basis) and, since February 2009, employment has been

Chart 3

Year-on-Year Monthly Change in Unemployment (Absolute)

Persons



Source: Statistics Austria.

falling year on year. In the first quarter of 2009, some 50,300 more persons were registered as unemployed than in the same period a year previously. In historical terms, this increase is notable. Although, in previous recessions (2001, 1993, 1988, 1975), the number of registered unemployed persons also rose sharply (in absolute year-on-year monthly terms), only 1952/53 (December 1952: 96,068) witnessed a higher increase than early 2009. This phenomenon is attributable to two factors. First, the rapid rise in unemployment is explicable by a historically more flexible labor market, in which overcapacity generated by the economic boom from 2005 to early 2008 was quickly run down. Second, this situation was aggravated by the winter of 2008/09, which was more severe than the previous year and may be responsible for as much as an additional 10,000 unemployed persons.

Furthermore, other indicators show a sharp deterioration in the labor market situation. At end-April 2009, some 9,700 more people year on year were on training schemes organized by the Austrian employment service (AMS), while the number of vacancies had fallen by 13,600 at the same time. The number of people on short-time working is also soaring. In mid-May 2009, some 54,500 people in almost 300 businesses were on short-time working. By contrast, almost no one was on short-time working a year ago.[16]

In view of the continued recession in 2009, a further severe deterioration in the labor market situation must be expected. So far, the manufacturing industry, in particular, has been hit by the rise in unemployment (mostly men from typical industrial regions and sectors with on average relatively poorer education). Over the forecast horizon, however, this phenomenon is expected to have a knock-on effect on other sectors of the economy. Since employment follows on the heels of economic growth, employment growth will shrink by 1.5% in 2009 and 1.6% in 2010 (2008: +1.6%) and only stabilize in 2011. Since labor supply growth is also sensitive to cyclical changes in the economy, it will fall from +1.3% in 2008 by –0.1% in 2009 and by –0.5% in 2010. This situation will counter the rise in unemployment to some extent. Even in 2011, however, GDP growth will remain too sluggish to reduce unemployment. According to the OeNB, the unemployment rate is consequently projected to rise to 5.3% in 2009, 6.5% in 2010 and 6.6% in 2011. After a decline in unemployment numbers of some 4,000 persons in 2008, the number of unemployed will increase by a total of almost 140,000 persons in the period from 2009 to 2011.

[16] *Short-time working could be seen as "part-time unemployment": enterprises cut their working hours and thus pay their employees lower wages and salaries. If an employer's application for a short-time working grant is approved by the AMS, the employees will receive financial assistance from the AMS, the amount of which is equal to pro-rata unemployment benefits. In the wake of the current economic crisis, the potential duration of short-time working was increased from six months to 18 months. The reduction in working hours, which is funded by the AMS, can range from 10% to 90% of normal working hours. According to information provided by the AMS, the average reduction in working hours is currently 30%. Since the reduction in wages is less than the reduction in working hours, short-time working actually results in increased hourly pay.*

Table 8

Labor Market Developments in Austria

	2008	2009	2010	2011
	Annual change in %			
Total employment	+1.6	–1.5	–1.6	+0.1
of which: Payroll employment	*+1.9*	*–1.3*	*–1.6*	*+0.1*
Self-employment	*–0.2*	*–2.3*	*–2.0*	*–0.1*
Public sector employment	*+0.5*	*+0.1*	*+0.0*	*–0.1*
Registered unemployment	–2.8	+36.8	+18.3	+1.6
Labor supply	+1.3	–0.1	–0.5	+0.1
	% of labor supply			
Unemployment rate (Eurostat definition)	3.8	5.3	6.5	6.6

Source: 2008: Eurostat; 2009 to 2011: OeNB June 2009 outlook.

4.6 Sharp Fall in Commodity and Energy Prices Triggers Drop in Inflation

In 2008, HICP inflation was driven primarily by rocketing oil and commodity prices worldwide (+3.2%). Since then basis effects and the global downturn, as well as related low market expectations about future energy price trends, have had a clearly negative impact on inflation. As a result, the OeNB expects inflation to be only 0.4% in 2009. In 2010, HICP inflation will climb to 1.1% and tick up to a modest 1.2% in 2011.

The sharp rise in commodity prices worldwide led to a pronounced deterioration in the terms of trade in 2008 (–2.4%). However, the latter are expected to worsen only slightly in 2009 (–0.9%) before stabilizing in 2010 and 2011.

Wage negotiations for 2010 will be determined by the current slump and the anticipated narrowing of profit margins in 2009. According to the

Table 9

Selected Price and Cost Indicators for Austria

	2008	2009	2010	2011
	Annual change in %			
Harmonised Index of Consumer Prices (HICP)	+3.2	+0.4	+1.1	+1.2
HICP energy	+10.7	–12.9	+1.3	+2.7
HICP excluding energy	+2.5	+1.7	+1.1	+1.1
Private consumption expenditure (PCE) deflator	+2.9	+0.5	+0.9	+1.2
Investment deflator	+4.4	–0.1	+0.7	+1.5
Import deflator	+3.6	+0.6	+0.3	+1.2
Export deflator	+1.2	–0.4	+0.6	+1.2
Terms of trade	–2.4	–0.9	+0.2	+0.0
GDP at factor cost deflator	+2.3	–0.3	+0.6	+1.4
Unit labor costs	+2.9	+4.9	–1.0	+0.0
Compensation per employee	+3.0	+2.1	+0.3	+1.1
Labor productivity	+0.1	–2.7	+1.3	+1.1
Collectively agreed wage settlements	+3.1	+3.2	+1.0	+1.5
Profit margins[1]	–0.5	–5.2	+1.6	+1.5

Source: 2008: Eurostat, Statistics Austria; 2009 to 2011: OeNB June 2009 outlook.

[1] *GDP deflator divided by unit labor costs.*

OeNB, wages will therefore rise at only a very modest 1.0%.[17] Collective wage agreements for 2011 are expected to be somewhat higher (1.5%). Although unit labor costs will soar in 2009 owing to the economic downturn and relatively high wage settlements for 2009 (+4.9% after +2.9% in 2008), they will plummet in 2010 (–1.0%) before stabilizing in 2011. Profit margins will narrow – significantly – by 5.2% in 2009 but widen marginally in the years thereafter (2010: +1.6%, 2011: +1.5%).

Box 3

Impact of Monetary and Fiscal Policy Measures

Both monetary and fiscal policymakers have responded to the current financial and economic crisis with expansionary measures. Although influencing real economic growth via the key policy rate ("interest rate channel") is only one of many avenues of monetary policy, it is one of the most important for the euro area economy. This box focuses on the impact of changes to the key policy rate and then presents a table summarizing the impact on GDP growth from current monetary and fiscal policy measures.

In Austria, bank loans are a key source of financing for enterprises and households. With the outbreak of the financial crisis, corporate financing via the capital market became more difficult and bank loans more important. Since bank loans thus enjoy a special status in the interest rate channel, an analysis of rate developments for newly issued loans in Austria is presented below. This analysis makes a distinction between corporate and household loans. Of newly raised bank loans, corporate loans account for around 85%, while the remaining 15% are issued to households.[1]

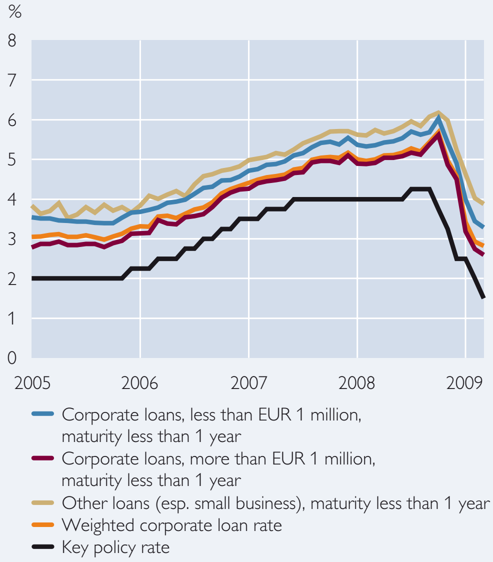
The OeNB's interest rate statistics break down small (less than EUR 1 million) and large (more than EUR 1 million) corporate loans, as well as loans to small businesses by their maturity of rates.[2] The left chart below shows some representative rates from this group, which apply to over 90% of the relevant total lending volume, as well as the volume-weighted rate for all corporate loans. The corporate lending rates shown have been developing very similarly, closely following the Eurosystem's key policy rate. Between October 2008 and March 2009, the weighted average of all corporate lending rates fell by a similar order of magnitude as the key policy rate (by some 275 basis points).

[1] *By contrast, corporate loans as a share of total loans issued account for two-thirds, while household loans make up the remaining one-third.*

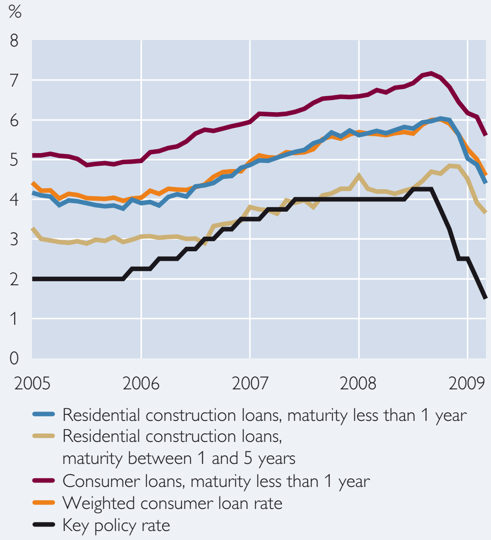
[2] *This breakdown includes under corporate loans consumer loans for other purposes, as this category is dominated by loans to small businesses.*

[17] *This analysis is based on both the time pattern of wage negotiations and the system of wage leadership implicitly practiced in Austria. The wage leadership role is exercised by the metal working industry, where only marginal wage increases can be expected since the industry is particularly affected by the current crisis. Since collective wage negotiations are conducted at an industry-wide level in Austria, wage increases only slightly above projected inflation look likely.*

Corporate Lending Rates in Austria



Consumer and Residential Construction Lending Rates in Austria



Source: OeNB, Thomson Reuters.

As for household loans, they are broken down by consumer loans and residential construction loans, as well as by maturities of rates. Here too, the right chart above shows some representative rates from this group and a weighted average of all household lending rates. This group of lending rates is based less closely on the key policy rate as a rule. As Jobst and Kwapil (2008) show, in the short term, rates are passed on to household loans to a much smaller extent than to corporate loans. Accordingly, household lending rates are currently also falling at a much slower pace. While the key policy rate between October 2008 and March 2009 fell by 275 basis points, the weighted average of household lending rates decreased by only some 140 basis points. This slow adjustment is in line with the historical correlation, which remains applicable despite the unusual circumstances of the current economic crisis. In the long term, changes to the key policy rate were fully passed on to household loans, albeit at a slower pace than for corporate loans.

The impact on Austrian GDP growth by the ECB's interest rate cuts was simulated using a macroeconomic model (projection update elasticities – PUEs), which includes not only the direct effects of interest rate changes on Austria but also the effects with an indirect impact on Austria via the other euro area countries. Compared with the basic solution, furthermore, a ceteris paribus cut in the short-term interest rate of 275 basis points was implemented, which is realized within two quarters and remains in place until the end of the forecast horizon.

The results of this simulation and the fiscal policy effects (described in Köhler-Töglhofer and Reiss, 2009) are presented in the table below. According to this table, monetary and fiscal policy measures will fuel Austrian GDP growth by some 1.1% in 2009 and around 2¼% in 2010. These simulation results are subject to various upside and downside risks, which are not precisely quantifiable. Stronger effects can be expected, as neither fiscal policy measures outside Austria and their impact nor the effects of interest rate cuts outside the euro area, which also have an effect on Austria by increasing demand, were included. Weaker effects can arise should a relatively larger share of additional disposable income be saved or if the banking sector offsets falling rates by increasing risk-related fees.

GDP and Employment Effects of Fiscal and Monetary Policy

Effects of Economic Stimulus Measures and the Tax Reform (Fiscal Policy)

	Volume (EUR million)		Employment[1] (persons)		GDP (% of basic solution)	
	2009	2010	2009	2010	2009	2010
Consumer stimulus measures	4,360	4,460	9,312	17,840	0.6	0.9
Investment incentives and export promotion	1,395	1,385	590	1,079	0.0	0.1
Investment in infrastructure	580	745	2,698	6,299	0.2	0.3
Employment promotion[1]	275	275	×	×	0.0	0.1
Total	6,610	6,865	12,600	25,218	0.8	1.4

Effects of Interest Rate Cuts by the ECB (Monetary Policy)

	Amount (basis points)		Employment (persons)		GDP (% of basic solution)	
	2009	2010	2009	2010	2009	2010
Key policy rate cuts	–244	–275	3,738	16,051	0.2	0.9

Total Monetary and Fiscal Policy Measures

Employment (persons)		GDP (% of basic solution)	
2009	2010	2009	2010
16,337	41,270	1.1	2.3

Source: Federal Ministry of Finance, OeNB.

[1] *Employment effects of short-time working and of the job-creation initiative are currently not quantifiable.*

Note: Fiscal simulation using the OeNB macromodel (AQM). Volume per year (compared with 2007), effects on employment and GDP are shown cumulatively. Assumption: no anticipation effects of the tax reform. Monetary policy simulation with PUEs. Assumption: all other variables remain constant.

5 Unusually High Risks to Growth Outlook

The current OeNB outlook is subject to a large number of *unusually high risks,* the source of which remains future external economic developments. Both the scale and duration of these developments are currently extremely uncertain.

Of the *external assumptions,* on which this outlook is based, primarily the projected growth trend of Austria's trading partners exhibits the greatest degree of uncertainty – both in upside and downside terms. This uncertainty relates, above all, to the extent of the recession in 2009 but – and this point is even more important for real economic developments in Austria – also to its scale in the years to follow. All other external assumptions of this outlook (oil prices, interest rates, etc.) are far more heavily dependent on the development of the global economy compared with previous forecasts. For instance, the price of oil depends on expectations about future economic developments. At the cutoff date of data for this publication, futures indicated only a slight rise in oil prices in 2010 and 2011, from which deviations can represent either an upside or a downside risk. Likewise, exchange rate developments can be considered as upside or downside risk depending on the economic trend.

A material *domestic downside risk* is a stronger than expected negative retroactive effect of the economic crisis on the banking sector's profitability. A *domestic upside risk* for 2010 is higher wage settlements, which can give rise to relatively stronger stimulation of consumer demand. The effects on consumption from measures to support the economy and from the tax reform can prove to be either stronger or weaker than expected. At the time this outlook was prepared, furthermore, a relatively strong rally by Austria's stock market indicated a more robust recovery of Austrian industry than factored into this outlook.

Overall, the risks to the growth outlook *do not clearly point in one direction.* Since inflation risks are closely related to real economic ones, a clear upside or downside risk does not exist for the inflation outlook either.

6 Noticeably Sharp Forecast Revision Compared with December 2008

External economic conditions have deteriorated markedly since the previous OeNB economic outlook (December 2008). Growth in external demand for Austrian exports experienced a huge implosion in early 2009. Compared with the December 2008 economic outlook, it is downgraded by 13.8 percentage points to –12.4% for 2009. The assumptions for the future development of oil prices were corrected down by USD 12.8 and USD 11.1 per barrel (Brent). The short-term interest rate is 1.4 percentage points (2009) and 1.6 percentage points (2010) lower than in

Table 10

Change in the External Economic Conditions since the OeNB December 2008 Outlook

	June 2009			December 2008		Difference	
	2009	2010	2011	2009	2010	2009	2010
	Annual change in %						
Growth of Austria's export markets	–12.4	+0.1	+3.6	+1.4	+4.5	–13.8	–4.4
Competitor prices in Austria's export markets	–2.5	–0.1	+0.7	+3.4	+1.3	–5.9	–1.4
Competitor prices in Austria's import markets	–2.5	–0.1	+0.7	+2.8	+1.3	–5.3	–1.4
	USD						
Oil price per barrel (Brent)	54.5	65.5	70.3	67.3	76.6	–12.8	–11.1
	Annual change in %						
Nominal effective exchange rate (exports)	–0.4	+0.1	+0.0	+1.4	+0.0	–1.8	+0.1
Nominal effective exchange rate (imports)	–0.7	+0.1	+0.0	+0.7	+0.0	–1.4	+0.1
	%						
Three-month interest rate	1.4	1.6	2.5	2.8	3.2	–1.4	–1.6
Long-term interest rate	4.2	4.6	5.0	4.5	4.7	–0.3	–0.1
	Annual change in %						
U.S. GDP (real)	–3.3	+0.3	+1.6	–0.7	+0.9	–2.6	–0.6
	USD/EUR						
USD/EUR exchange rate	1.33	1.34	1.34	1.27	1.27	+0.06	+0.07

Source: Eurosystem.

the December 2008 outlook. The nominal effective exchange rate for both exports and imports is lower in 2009, compared with the December 2008 outlook. The USD/EUR exchange rate remained almost unchanged.

The effects of these new external assumptions were simulated using the OeNB macroeconomic model. The two years of the forecasting period will see significantly negative effects on GDP growth: –0.8 percentage points in 2009 and –2.0 percentage points in 2010. The mostly favorable developments on the economy's price front are clearly too sluggish to counter the negative effects on real activity. Table 11 lists in detail the reasons for revising the outlook (effects of these new external assumptions, effects of new data and the item "Other"). The influence of new data includes the effects of the revisions of both the historical data already available at the time of the previous OeNB economic outlook (i.e. data to the third quarter of 2008) and the forecasting errors of the previous outlook for the periods now published for the first time (i.e. data for the fourth quarter of 2008 and for the first quarter of 2009). The item "Other" includes new expert assessments regarding the development of domestic variables, such as government consumption or wage settlements, as well as any changes to the model.

The downgrade of the *growth outlook* for 2009 by 3.9 percentage points is basically attributable to the negative effects of the external assumptions (–0.8 percentage points) and the effects of new data (–2.6 percentage points). The effects of revised historical data (–0.1 percentage points) are significantly smaller than those of preliminary values for the fourth quarter of 2008 and, in particular, for the first quarter of 2009 (a total of –2.6 percentage points). It should not be forgotten however that these quarterly values were also largely generated by negative external developments. The new expert assessment for 2009 (–0.4 percentage points) is derived from a somewhat more negative economic assessment on the basis of current leading indicators and new data regarding the development of the expenditure side of GDP

Table 11

Breakdown of Forecast Revisions

	GDP		HICP	
	2009	2010	2009	2010
	Annual change in %			
June 2009 outlook	−4.2	−0.4	+0.4	+1.1
December 2008 outlook	−0.3	+0.8	+1.4	+1.6
Difference	−3.9	−1.2	−1.0	−0.5
	Percentage points			
Due to:				
External assumptions	−0.8	−2.0	−0.1	+0.0
New data	−2.6	+0.0	−0.8	+0.0
of which: Revision of historical data until Q3 08	−0.1	x	−0.1	x
Projection errors for Q4 08 and Q1 09	−2.6	+0.0	−0.7	+0.0
Other[1]	−0.4	+0.8	−0.1	−0.5

Source: OeNB December 2008 and June 2009 outlooks.

[1] *Different assumptions about trends in domestic variables such as wages, government consumption, effects of tax measures, other changes in assessment and model changes.*

based on the latest publication of the national accounts. The effects of the new expert assessment for 2010 (+0.8 percentage points) are notable. As would be expected at first glance, this new expert assessment does not reflect a clearly positive assessment for this year but is based on the very pessimistic assessment of the effects of the financial crisis contained in the December 2008 outlook and, in this instance, particularly of export and investment activities, which is now included in the external assumptions.

The revision of the inflation outlook for 2009 (–1.0 percentage point) was largely prompted by fresh data. New assumptions (–0.1 percentage points) and a new expert assessment play only a secondary role (–0.1 percentage points). The revision for 2010 is essentially based on a new expert assessment. Owing to the great openness of the Austrian economy, the huge implosion of domestic demand will have only a relatively mild effect on the trend in inflation.

A comparison of the current forecasts for Austria (table 18 in the annex) shows clear differences in the forecast results. As in the OeNB December 2008 economic outlook, the forecasts correlate with the time of publication, and an even more pronounced downgrade trend is visible. With its growth outlook for 2009 (–4.2%), the OeNB is at the bottom end of the forecast spectrum. The European Commission outlook, however, is similarly pessimistic (–4.0%). The IMF outlook for 2009 was somewhat more "optimistic" (–3.0%). The WIFO and IAS outlooks (2009: –2.2% and –2.7%, respectively) are still based on a relatively old data situation. The growth outlooks for 2010 differ less than those for 2009 but, even in this instance, the OeNB (–0.4%) and the European Commission (–0.1%) are at the bottom end of the forecast spectrum. All other institutions projected modest growth in 2010.

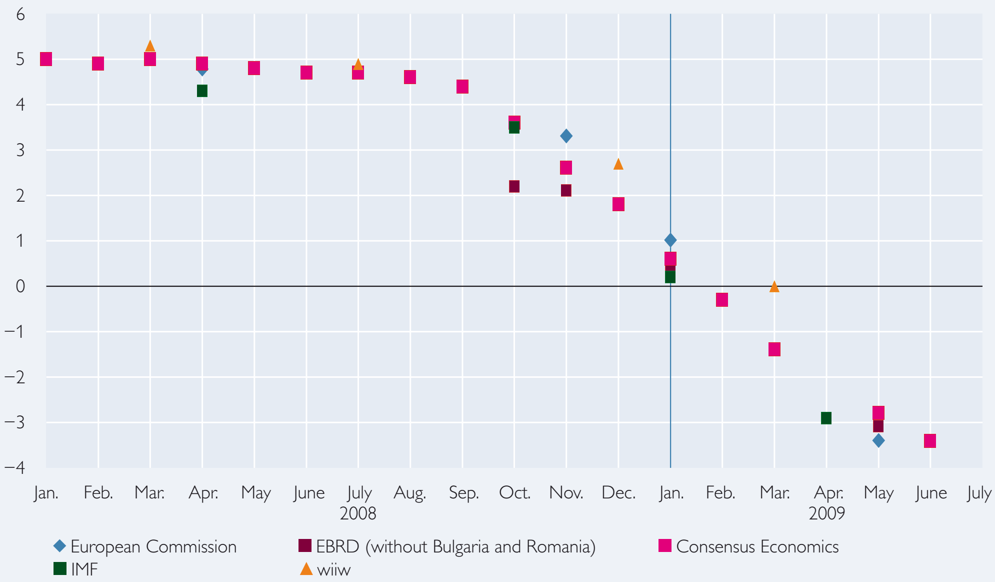
Box 4

Outlook for Selected Central and Eastern European (CEE) Countries[1, 2]
Region not immune against the global downturn: 2009 will bring stagnation in Poland and recession in the Czech Republic, Hungary and Russia; comparatively moderate recovery in 2010 hinges strongly on improvement of external demand

Since the fall of 2008, the global financial crisis has intensified markedly, risk aversion has risen substantially, especially vis-à-vis emerging economies, and the repercussions of the crisis on the real economy have magnified very strongly across the globe. Alongside, all forecasting institutions undertook repeated and very substantial downward revisions of growth projections world-wide. While forecasters had already started to moderately reduce their growth projections for the U.S.A. and the euro area since the beginning of 2008, projections for CESEE[3] countries remained broadly unchanged or were even revised upwards in the case of Russia until August/September 2008, but then declined sharply thereafter. The positive growth differential of about 3 percentage points between CESEE and the euro area, which has been observed for many years, is no longer visible in current projections. For 2009 and 2010, the growth differential between these two regions could be around 1 percentage point.

CESEE EU Members: Development of Growth Projections for 2009

Real growth in %



Source: European Commission, EBRD, Consensus Economics, IMF, wiiw.

[1] *Compiled by Julia Wörz (julia.woerz@oenb.at).*

[2] *The OeNB and the Bank of Finland (BoF) compile semiannual forecasts of economic developments in the Czech Republic, Hungary, Poland and Russia, with the OeNB being in the lead with respect to the projections for the three Central European countries and the BoF in charge of the forecast for Russia. The forecasts are based on expert judgement and estimates of long-run elasticities. For the first time, the projections for the three Central European countries are also informed by country-specific IS-LM models, which are, though, still in the process of development. The forecast for Russia was prepared in cooperation with the Bank of Finland and is based on a structural VAR model. The forecasts are based on preliminary global growth projections and technical assumptions about euro area import growth, oil prices and USD/EUR exchange rates, which are prepared by the ECB for the Eurosystem in the context of broad macroeconomic projection exercises. Imports of the euro area are expected to shrink substantially in 2009 and to recover moderately thereafter. The price of oil will stay broadly stable in 2009 and is expected to rise slightly in 2010. The EUR/USD exchange rate is assumed to remain unchanged over the entire projection horizon at levels recorded at the end of March 2009.*

[3] *Central, Eastern and Southeastern Europe.*

In the fourth quarter of 2008 growth decelerated markedly. The development of important short-term activity indicators points to a further weakening of general economic dynamics in early 2009.

After having first turned negative in October 2008, industrial output growth contracted at an accelerating rate which reached –17.1% (year on year) in January 2009 on average in the CESEE area (Slovakia, Slovenia, Bulgaria, the Czech Republic, Hungary, Poland and Romania). Output declined at broadly comparable speed also in Russia and Turkey while a less pronounced reduction could be observed in Croatia. Currently, industrial production in CESEE contracts at rates comparable to the euro area, the deterioration was, however, more pronounced in CESEE countries, as industrial production growth in CESEE before the onset of the crisis had been higher than in the euro area.

The weakening of the industrial sector is also reflected in declining capacity utilization rates and worsening industrial sentiment. Both indicators continued their downward trend and reached long-time lows in recent months.

Overview of Projections for 2009 and 2010

	2008	2009				2010			
		OeNB-BoF	IMF	European Commission	Consensus Economics	**OeNB-BoF**	IMF	European Commission	Consensus Economics
		Apr. 09	Apr. 09	May 09	June 09	**Apr. 09**	Apr. 09	May 09	June 09
	%								
Czech Republic	3.2	**–2.3**	–3.5	–2.7	–3.3	**1.4**	0.1	0.3	1.1
Hungary	0.5	**–4.1**	–3.3	–6.3	–6.2	**–0.4**	–0.4	–0.3	–0.7
Poland	4.8	**–0.1**	–0.7	–1.4	0.1	**1.7**	1.3	0.8	1.7
Russia	5.6	**–2.0**	–6.0	×	–5.0	**1.0**	0.5	×	2.4

Sources: OeNB, Bank of Finland (BoF), IMF, European Commission, Consensus Economics.

The household sector, in turn, has been less affected than industry so far. The growth of retail sales turned negative in December 2008 and reached –1.4% in February 2009 on average in the EU Member States (without the Baltic states). The latest data available for Croatia and Russia show that retail sales still expanded in December (comparable data for Turkey are not available). While retail sales in the euro area contracted somewhat stronger in February, the deceleration over the past months was again more pronounced in CESEE. Consumer sentiment continued its downward trend, reaching levels which were even below industrial sentiment by March. Unemployment rates have been slowly increasing in all CESEE countries in early 2009, thus lagging developments in a number of euro area countries where unemployment has recently soared.

Export orders in the region had fallen far below long-term average levels (comparable data for Croatia, Russia and Turkey are not available) by the end of 2008 and continued to go down in early 2009, which shows that external demand conditions in key export markets, including the euro area – which accounts for more than 50% of all CESEE exports –, have worsened further most recently. Export expectations have also declined markedly in early 2009 and reached negative levels in all countries, which means that a majority of exporters expect export orders to decline in the coming months.

The new OeNB-BoF projections were completed in early April 2009[4] and cover the three largest EU members in Eastern Europe – the Czech Republic, Hungary, Poland (which represent

[4] *Cutoff date: April 3, 2009.*

more than 60% of the CESEE EU members' GDP) – and Russia. For all economies alike, the main growth drivers of recent years are dysfunctional at the moment: Much stiffer financing conditions as a result of the financial crisis and receding foreign capital inflows are weighing on the growth outlook. As a consequence domestic demand has suffered considerably in recent months. Domestic demand upholds relatively well in Poland and is likely to react to stimuli from economic support programs in the Czech Republic and Russia. No room for such measures is currently available in Hungary. Some revival can be expected to come from EU-funded investment projects and the catching-up process, which has been slowed substantially by the crisis but will continue thereafter. An upswing in Central Europe is expected to rely strongly on a recovery of external demand, which is assumed to gradually get going again in 2010. For Russia, oil price developments remain key to the growth outlook.

The highly export-oriented ***Czech Republic*** *is being hit strongly by the current bust in the automotive industry. Private consumption and investment will suffer given the unprecedented drop of confidence indicators over the last half year, an expected marked rise in unemployment and stiff financing conditions. Nevertheless, the negative impact on both private consumption and gross fixed capital formation will be alleviated by significant monetary and fiscal stimuli. Although net exports will certainly suffer from plunging import demand in the euro area so that a substantial contraction seems inevitable, the impact will be alleviated by massive fiscal measures in the euro area (particularly in the automotive sector) and also by the recently depreciated Czech koruna.*

Against the backdrop of the assumed strengthening of external demand, net exports are expected to contribute positively to growth in 2010. Growth will also be supported by some revival of domestic demand. While public consumption growth will likely decelerate, private consumption is likely to pick up. Given continued tight financing conditions, we expect investment to stay broadly flat in 2010.

The global economic crisis reached ***Hungary*** *when the country was already experiencing difficult times. Given the global growth outlook and a new wave of domestic fiscal tightening measures – which are in line with the commitments made in connection with the international financial support provided by the IMF and the EU[5] – GDP is projected to decline strongly in 2009. Private consumption will likely remain weak due to moderate wage growth (both in the private and the public sector), tightened financing conditions, reductions in transfers and savings measures in the pension system. Fiscal restraint will also hamper public investments. The bleak economic outlook, deteriorated financing conditions and a declining profitability of the corporate sector will lead to a projected decline in investment. With receding FDI, EU-funded projects will likely constitute the main pillar of investment. Exports will contract sharply in 2009 and the recent depreciation of the Hungarian forint cannot give the much-needed export stimulus, but puts additional pressure on the balance sheets of unhedged borrowers who have taken out foreign currency loans.*

For 2010, based on the assumption of strengthening external demand, net exports will again contribute positively to growth but not outweigh a projected further decline in domestic demand, while public consumption and investments will still decline. Hence, no growth impetus can be expected from domestic factors for 2010, and the revival of external demand will not be sufficient to lead to a recovery.

The economy of ***Poland*** *is expected to stagnate in 2009 and to start growing again in 2010. In 2009, private consumption will remain the main pillar of growth, with its growth rate remaining positive, but considerably smaller than in 2008. While consumer sentiment has already deteriorated markedly, the impact of the crisis on employment and retail sales will continue to drag somewhat behind the development in investment, exports and industrial output. The Polish economy will see a marked contraction of fixed investment given the negative sales outlook, considerably higher unit labor costs, tighter lending conditions of banks and reduced*

[5] For detailed information on the package see: www.imf.org/external/country/HUN/index.htm

access to cross-border loans as well as due to funding and home market problems of foreign parent companies. While the budget envisages enhanced public investment (as a fiscal stimulus), such spending plans were always underexecuted in previous years. Given the deterioration in all three major final demand components, imports will fall even more than exports, thus putting the contribution of net exports to GDP growth in positive territory.

For 2010, on the basis of the assumptions for foreign demand, a stabilization of exports, some moderate recovery in investment growth and constant subdued private consumption growth are expected, which will experience the upswing probably only with some delay. The investment-driven recovery will imply import growth exceeding export growth.

The forecast for ***Russia*** *has been substantially scaled down in the wake of a massive deterioration in the external environment. The crash in oil prices is markedly squeezing domestic incomes, and capital can no longer be obtained from the international markets. Private consumption growth, largely driven by the trickle-down effects of oil and staple revenues, is slowing substantially and projected to decline slightly in 2009, owing to weaker wage developments and rising layoffs and unemployment. Given the authorities' sizable anti-crisis measures already put in place and anti-cyclical fiscal policy, public consumption is projected to cushion the decline somewhat. Moreover, as Russian households are not highly indebted, there should be room for recovery of private consumption in 2010. Investment is estimated to decline markedly. Weak international demand is having a modest contractionary effect on export volumes. Import volumes will decline much more dramatically, in line with the depreciation of the ruble and soft demand.*

As for risks to these projections, Russia's economic outlook depends heavily on what happens in the world economy through both oil prices and financial market developments. If the world economic crisis lasts longer and deepens, the price of oil falls further, and financial markets remain in the doldrums, the situation in Russia will worsen. A renewed sustained deterioration of Russia's terms of trade would increase the downward pressure on the ruble and further destabilize the banking sector and the economy. Shrinking purchasing power due to a weaker ruble, high inflation, and declining incomes could also set off popular unrest. In a worst plausible case, Russia's economic performance would be way below the one forecast here. Alternatively, a swift recovery of the world economy and a bouncing back of the oil price could set the stage for an above-forecast economic performance.

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Annex: Detailed Result Tables

Table 12

Demand Components (Real Prices)

Chained volume data (reference year = 2000)

	2008	2009	2010	2011	2008	2009	2010	2011
	EUR million				*Annual change in %*			
Private consumption	128,367	127,928	127,955	128,559	+0.9	−0.3	+0.0	+0.5
Government consumption	43,828	43,792	43,943	44,347	+2.0	−0.1	+0.3	+0.9
Gross fixed capital formation	54,537	49,376	47,896	48,434	+0.9	−9.5	−3.0	+1.1
of which: Investment in plant and equipment	*21,999*	*18,635*	*17,252*	*17,575*	*+2.3*	*−15.3*	*−7.4*	*+1.9*
Residential construction investment	*10,756*	*10,694*	*10,687*	*10,703*	*−0.2*	*−0.6*	*−0.1*	*+0.2*
Investment in other construction	*22,598*	*22,103*	*21,939*	*22,156*	*+2.9*	*−2.2*	*−0.7*	*+1.0*
Changes in inventories (including statistical discrepancy)	1,448	1,098	1,173	1,119	×	×	×	×
Domestic demand	228,180	222,195	220,967	222,459	+1.0	−2.6	−0.6	+0.7
Exports of goods and services	152,796	139,212	138,294	143,097	+2.5	−8.9	−0.7	+3.5
Imports of goods and services	135,896	126,680	125,430	128,999	+1.3	−6.8	−1.0	+2.8
Net exports	16,900	12,532	12,865	14,097	×	×	×	×
Gross domestic product	245,081	234,727	233,831	236,556	+1.7	−4.2	−0.4	+1.2

Source: 2008: Eurostat; 2009 to 2011: OeNB June 2009 outlook.

Table 13

Demand Components (Current Prices)

	2008	2009	2010	2011	2008	2009	2010	2011
	EUR million				*Annual change in %*			
Private consumption	149,245	149,412	150,849	153,443	+3.7	+0.1	+1.0	+1.7
Government consumption	50,141	51,351	52,043	53,047	+2.6	+2.4	+1.3	+1.9
Gross fixed capital formation	63,155	57,108	55,796	57,267	+5.3	−9.6	−2.3	+2.6
Changes in inventories (including statistical discrepancy)	4,504	2,635	1,586	2,253	×	×	×	×
Domestic demand	267,044	260,506	260,273	266,010	+4.8	−2.4	−0.1	+2.2
Exports of goods and services	166,934	151,563	151,399	158,507	+3.6	−9.2	−0.1	+4.7
Imports of goods and services	152,001	142,491	141,483	147,223	+5.0	−6.3	−0.7	+4.1
Net exports	14,933	9,072	9,916	11,283	×	×	×	×
Gross domestic product	281,977	269,578	270,189	277,294	+4.1	−4.4	+0.2	+2.6

Source: 2008: Eurostat; 2009 to 2011: OeNB June 2009 outlook.

Table 14

Deflators of Demand Components

	2008	2009	2010	2011	2008	2009	2010	2011
	2000 = 100				*Annual change in %*			
Private consumption	116.3	116.8	117.9	119.4	+2.9	+0.5	+0.9	+1.2
Government consumption	114.4	117.3	118.4	119.6	+0.7	+2.5	+1.0	+1.0
Gross fixed capital formation	115.8	115.7	116.5	118.2	+4.4	−0.1	+0.7	+1.5
Domestic demand (excluding changes in inventories)	115.8	116.6	117.7	119.2	+2.8	+0.7	+0.9	+1.2
Exports of goods and services	109.3	108.9	109.5	110.8	+1.2	−0.4	+0.6	+1.2
Imports of goods and services	111.9	112.5	112.8	114.1	+3.6	+0.6	+0.3	+1.2
Terms of trade	97.7	96.8	97.1	97.1	−2.4	−0.9	+0.2	+0.0
Gross domestic product	115.1	114.8	115.5	117.2	+2.3	−0.2	+0.6	+1.4

Source: 2008: Eurostat; 2009 to 2011: OeNB June 2009 outlook.

Table 15

Labor Market

	2008	2009	2010	2011	2008	2009	2010	2011
	Thousands				*Annual change in %*			
Total employment	4,229.4	4,164.8	4,096.9	4,100.5	+1.6	−1.5	−1.6	+0.1
of which: Private sector employment	*3,707.8*	*3,642.8*	*3,575.0*	*3,579.1*	*+1.7*	*−1.8*	*−1.9*	*+0.1*
Payroll employment (national accounts definition)	3,547.6	3,503.2	3,448.7	3,453.3	+1.9	−1.3	−1.6	+0.1
	% of labor supply							
Unemployment rate (Eurostat definition)	3.8	5.3	6.5	6.6	×	×	×	×
	EUR per real output unit x 100							
Unit labor costs (whole economy)[1]	66.6	69.9	69.3	69.3	+2.9	+4.9	−1.0	+0.0
	EUR thousand per employee							
Labor productivity (whole economy)[2]	57.9	56.4	57.1	57.7	+0.1	−2.7	+1.3	+1.1
	EUR thousand							
Real compensation per employee[3]	33.2	33.7	33.5	33.5	+0.1	+1.6	−0.6	−0.2
	At current prices, EUR 1.000							
Gross compensation per employee	38.6	39.4	39.5	40.0	+3.0	+2.1	+0.3	+1.1
	At current prices, EUR million							
Total gross compensation of employees	136,998	138,063	136,327	137,972	+4.9	+0.8	−1.3	+1.2

Source: 2008: Eurostat; 2009 to 2011: OeNB June 2009 outlook.

[1] *Gross wages divided by real GDP.*
[2] *Real GDP divided by total employment.*
[3] *Gross wages per employee divided by the private consumption expenditure (PCE) deflator.*

Table 16

Current Account

	2008	2009	2010	2011	2008	2009	2010	2011
	EUR million				*% of nominal GDP*			
Balance of trade	13,226.0	6,850.0	9,377.5	11,617.5	4.7	2.5	3.5	4.2
Balance on goods	−197.0	−1,901.5	−414.8	862.7	−0.1	−0.7	−0.2	0.3
Balance on services	13,423.0	8,751.5	9,792.4	10,754.8	4.8	3.2	3.6	3.9
Euro area	32.0	−2,825.4	−2,737.1	−1,771.8	0.0	−1.0	−1.0	−0.6
Non-euro area countries	13,194.0	9,675.4	12,114.6	13,389.3	4.7	3.6	4.5	4.8
Balance on income	−2,238.0	−2,550.0	−2,200.0	−2,400.0	−0.8	−0.9	−0.8	−0.9
Balance on transfers	−1,170.0	242.4	182.4	0.0	−0.4	0.1	0.1	0.0
Current account	9,818.0	4,542.4	7,359.9	9,217.5	3.5	1.7	2.7	3.3

Source: 2008: Eurostat; 2009 to 2011: OeNB June 2009 outlook.

Table 17

Quarterly Outlook Results

	2009	2010	2011	2009				2010				2011			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Prices, wages and costs	*Annual change in %*														
HICP	+0.4	+1.1	+1.2	+1.0	+0.1	−0.2	+0.8	+1.4	+1.2	+0.9	+0.9	+1.1	+1.1	+1.2	+1.3
HICP (excluding energy)	+1.7	+1.1	+1.1	+2.2	+1.7	+1.6	+1.5	+1.4	+1.3	+0.8	+0.8	+1.0	+1.0	+1.1	+1.2
Private consumption expenditure (PCE) deflator	+0.5	+0.9	+1.2	+1.3	+0.6	+0.2	−0.2	+0.5	+0.9	+1.1	+1.2	+1.2	+1.2	+1.2	+1.3
Gross fixed capital formation deflator	−0.1	+0.7	+1.5	+2.4	+1.1	−0.8	−3.1	+0.3	+0.6	+0.9	+1.1	+1.3	+1.4	+1.5	+1.7
GDP deflator	−0.2	+0.6	+1.4	+0.6	−0.3	−0.7	−0.4	+0.1	+0.4	+0.8	+1.1	+1.3	+1.4	+1.5	+1.6
Unit labor costs	+4.9	−1.0	+0.0	+5.8	+5.8	+4.8	+3.4	+0.4	−1.1	−1.6	−1.6	−1.0	−0.4	+0.4	+1.0
Nominal wages per employee	+2.1	+0.3	+1.1	+2.8	+2.4	+1.8	+1.3	+0.6	+0.2	+0.1	+0.2	+0.5	+0.9	+1.3	+1.6
Productivity	−2.7	+1.3	+1.1	−2.8	−3.3	−2.9	−2.0	+0.2	+1.4	+1.7	+1.8	+1.6	+1.2	+0.9	+0.6
Real wages per employee	+1.6	−0.6	−0.2	+1.4	+1.8	+1.6	+1.6	+0.1	−0.7	−1.0	−1.0	−0.6	−0.3	+0.0	+0.3
Import deflator	+0.6	+0.3	+1.2	−1.7	+3.6	+1.4	−1.0	+4.7	−1.2	−1.4	−0.9	+0.0	+0.8	+1.7	+2.1
Export deflator	−0.4	+0.6	+1.2	+0.4	+0.1	−0.1	−1.9	+0.5	+0.5	+0.6	+0.7	+0.9	+1.1	+1.3	+1.4
Terms of trade	−0.9	+0.2	+0.0	+2.1	−3.4	−1.4	−0.9	−4.1	+1.7	+2.0	+1.6	+0.8	+0.3	−0.4	−0.7
Economic activity	*Annual and/or quarterly changes in % (real)*														
GDP	−4.2	−0.4	+1.2	−2.8	−1.4	−0.5	−0.3	+0.0	+0.2	+0.2	+0.3	+0.3	+0.3	+0.3	+0.4
Private consumption	−0.3	+0.0	+0.5	−0.1	−0.3	−0.1	+0.0	+0.0	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1
Government consumption	−0.1	+0.3	+0.9	+0.4	−1.3	−0.7	−0.4	+0.6	+0.6	+0.5	+0.3	+0.1	+0.1	+0.1	+0.1
Gross fixed capital formation	−9.5	−3.0	+1.1	−4.4	−3.3	−2.0	−1.0	−0.4	−0.1	+0.0	+0.1	+0.3	+0.4	+0.5	+0.6
of which: Investment in plant and equipment	*−15.3*	*−7.4*	*+1.9*	*−7.0*	*−8.0*	*−4.7*	*−2.4*	*−1.1*	*−0.3*	*+0.0*	*+0.2*	*+0.4*	*+0.8*	*+0.9*	*+1.0*
Residential construction investment[1]	*−0.6*	*−0.1*	*+0.2*	*−0.1*	*−0.1*	*−0.1*	*−0.1*	*+0.0*	*+0.0*	*+0.0*	*+0.0*	*+0.0*	*+0.0*	*+0.1*	*+0.2*
Exports	−8.9	−0.7	+3.5	−4.4	−2.8	−0.9	−0.4	+0.0	+0.4	+0.6	+0.8	+0.9	+1.0	+1.0	+1.0
Imports	−6.8	−1.0	+2.8	−2.3	−2.2	−1.3	−0.5	−0.1	+0.3	+0.5	+0.6	+0.8	+0.8	+0.9	+0.9
	Contribution to real GDP growth in percentage points														
Domestic demand	−2.3	−0.6	+0.7	−1.0	−1.1	−0.6	−0.3	+0.0	+0.1	+0.1	+0.1	+0.1	+0.2	+0.2	+0.2
Net exports	−1.8	+0.1	+0.5	−1.4	−0.5	+0.2	+0.0	+0.0	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1
Changes in inventories	−0.1	+0.0	+0.0	−0.4	+0.3	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0
Labor market	*% of labor supply*														
Unemployment rate (Eurostat definition)	5.3	6.5	6.6	4.4	5.1	5.6	6.0	6.3	6.5	6.6	6.7	6.7	6.7	6.5	6.4
	Annual and/or quarterly changes in %														
Total employment	−1.5	−1.6	+0.1	−1.0	−0.8	−0.6	−0.5	−0.4	−0.3	−0.2	−0.1	+0.1	+0.2	+0.2	+0.3
of which: Private sector employment	*−1.8*	*−1.9*	*+0.1*	*−1.2*	*−0.9*	*−0.6*	*−0.6*	*−0.5*	*−0.4*	*−0.2*	*−0.1*	*+0.1*	*+0.2*	*+0.3*	*+0.3*
Payroll employment	−1.3	−1.6	+0.1	−0.5	−0.7	−0.5	−0.4	−0.4	−0.4	−0.2	−0.1	+0.1	+0.2	+0.2	+0.3
Additional variables	*Annual and/or quarterly changes in % (real)*														
Disposable household income	+0.3	−0.5	+0.8	+1.2	+0.9	+0.4	+0.1	−0.4	−0.5	−0.4	−0.1	+0.4	+0.5	+0.5	+0.5
	% of real disposable household income (saving ratio) and % of real GDP (output gap)														
Household saving ratio	12.6	12.3	12.4	11.7	12.6	13.0	13.1	13.0	12.5	12.0	11.9	12.0	12.3	12.6	12.9
Output gap	−2.4	−3.2	−2.5	−0.9	−2.4	−3.0	−3.3	−3.4	−3.3	−3.2	−3.0	−2.8	−2.6	−2.4	−2.1

Source: OeNB June 2009 outlook (based on seasonally and working-day adjusted data).

[1] *Excluding other investment in construction and other investment.*

Table 18

Comparison of Current Economic Forecasts for Austria

Indicator	OeNB			WIFO		IAS		OECD		IMF		European Commission	
	June 2009			March 2009		March 2009		November 2008		April 2009		May 2009	
	2009	2010	2011	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010
	Annual change in %												
Key results													
GDP (real)	−4.2	−0.4	+1.2	−2.2	+0.5	−2.7	+0.4	−0.1	+1.2	−3.0	+0.2	−4.0	−0.1
Private consumption (real)	−0.3	+0.0	+0.5	+0.4	+0.8	+0.4	+0.4	+0.2	+1.2	×	×	+0.1	+0.4
Government consumption (real)	−0.1	+0.3	+0.9	+0.5	+1.0	+0.3	+0.0	+0.9	+0.7	×	×	+0.6	+0.8
Gross fixed capital formation (real)[1]	−9.5	−3.0	+1.1	−5.1	+0.3	−6.3	−1.9	−3.1	+1.0	×	×	−11.6	+0.1
Exports (real)	−8.9	−0.7	+3.5	−5.6	+0.6	−7.9	+2.2	+1.0	+3.3	×	×	−10.9	+0.4
Imports (real)	−6.8	−1.0	+2.8	−4.2	+0.6	−6.2	+1.2	+0.6	+3.2	×	×	−9.5	+1.1
GDP per employee	−2.7	+1.3	+1.1	−0.9	+1.1	−1.4	+0.7	×	×	×	×	×	×
GDP deflator	−0.2	+0.6	+1.4	+1.4	+0.8	+1.5	+0.9	+1.7	+1.1	+0.9	+1.5	+1.4	+1.0
CPI	×	×	×	+0.6	+1.1	+0.9	+1.4	×	×	+0.5	+1.3	×	×
HICP	+0.4	+1.1	+1.2	+0.6	+1.1	×	×	+1.1	+0.8	×	×	+0.5	+1.1
Unit labor costs	+4.9	−1.0	+0.0	+4.0	+0.1	×	×	×	×	×	×	+4.1	+0.6
Payroll employment	−1.5	−1.6	+0.1	−1.2	−0.6	−1.3	−0.3	×	×	+0.5	+0.7	−2.7	−0.9
	% of labor supply												
Unemployment rate[2]	5.3	6.5	6.6	5.0	5.8	5.3	6.1	5.7	6.0	5.4	6.2	6.0	7.1
	% of nominal GDP												
Current account	1.7	2.7	3.3	1.6	1.3	×	×	3.7	4.0	1.3	1.3	2.7	2.4
Government surplus/deficit	−5.0	−6.3	−6.2	−3.5	−4.0	−3.3	−4.0	−2.7	−3.5	−3.5	−4.2	−4.2	−5.3
External assumptions													
Oil price in USD/barrel (Brent)	54.5	65.5	70.3	45.0	55.0	44.0	60.0	60.0	60.0	52.0	62.5	52.9	63.5
Short-term interest rate in %	1.4	1.6	2.5	1.7	2.0	1.3	1.2	2.7	2.6	1.6	2.0	1.6	2.0
USD/EUR exchange rate	1.33	1.34	1.34	1.25	1.25	1.30	1.30	1.25	1.25	1.31	1.31	1.32	1.33
	Annual change in %												
Euro area GDP (real)	−5.1 to −4.1	−1.0 to +0.4	×	−3.0	+0.0	−3.5	+0.5	−0.6	+1.2	−4.2	−0.4	−4.0	−0.1
U.S. GDP (real)	−3.3	+0.3	+1.6	−2.7	+0.5	−3.0	+1.0	−0.9	+1.6	−2.8	−0.0	−2.9	+0.9
World GDP (real)	−2.1	+1.7	+3.2	−1.0	+1.7	×	×	×	×	−1.3	+1.9	−1.4	+1.9
World trade	−13.3	+0.8	+4.2	−5.0	+3.0	−10.0	+3.5	+1.9	+5.0	−11.0	+0.6	−11.4	+0.9

Source: OeNB, WIFO, IAS, OECD, IMF, European Commission.

[1] *For IAS: Gross investment.*

[2] *Eurostat definition; for OECD: OECD definition.*