

# Austrian economy fueled by growth stimuli, yet fraught with external risks

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## 1 Austrian economy grew by 0.7% in 2015

According to the first full release of national accounts data, the Austrian economy expanded by 0.7% in real terms in 2015 (trend-cycle component adjusted for seasonal and working-day effects). As a result, annual Austrian GDP growth remained below 1% for the fourth time in a row.

Austrian economic growth picked up modestly from 0.2% in the first quarter to 0.3% in the fourth quarter of 2015. The demand-side composition of GDP growth reflects a “typical,” albeit muted economic recovery in Austria. Investment and exports bounced back as early as the second quarter of 2015. While cyclically sensitive investment in equipment registered quarterly growth of more than 1%, construction investment stagnated. Despite an acceleration in export growth, the contributions of net exports to growth slipped into negative territory in 2015 – not least in view of

the high import content of investment in equipment. Consumption expenditure expanded more vigorously only by end-2015. Rising real incomes increased the scope of additional private consumption. Expenditures related to the increased arrival of asylum seekers are likely to have fueled growth in government consumption.

Two different seasonally adjusted GDP series have been calculated since the introduction of the European System of Accounts (ESA) 2010. The trend-cycle series, which exhibits a smoother trend and is used by the Austrian Institute of Economic Research (WIFO) and the Oesterreichische Nationalbank (OeNB), indicates steady growth for 2015 (first to fourth quarter of 2015: +0.2%, +0.3%, +0.3%, +0.3%; against the respective previous quarter). By contrast, the more sharply fluctuating seasonally and calendar-adjusted GDP series published by Eurostat signals a downtrend for 2015, with growth picking up again only in

Table 1

### Quarterly National Account data: results from February 29, 2016

	GDP	Private consumption	Government consumption	Gross fixed capital formation	Exports	Imports	Domestic demand (excluding inventories)	Net exports	Changes in inventories	Statistical discrepancy	
	Quarterly and annual changes in % (seasonally adjusted trend-cycle series)						Contributions to GDP growth in percentage points				
Q1 15	+0.2	+0.1	+0.2	+0.2	+0.2	+0.4	+0.1	-0.1	-0.2	+0.4	
Q2 15	+0.3	+0.1	+0.3	+0.4	+0.8	+1.0	+0.2	+0.0	+0.2	-0.1	
Q3 15	+0.3	+0.1	+0.3	+0.6	+1.4	+2.1	+0.3	-0.3	+0.4	-0.1	
Q4 15	+0.3	+0.2	+0.6	+0.5	+0.7	+1.3	+0.3	-0.3	+0.3	-0.1	
2012	+0.6	+0.6	+0.1	+2.0	+1.6	+0.9	+0.8	+0.4	-0.6	+0.1	
2013	+0.4	-0.0	+0.4	-0.1	+1.0	+0.5	+0.0	+0.3	+0.0	+0.2	
2014	+0.4	+0.1	+0.8	-0.1	+2.2	+1.1	+0.2	+0.6	-0.4	+0.0	
2015	+0.7	+0.2	+0.8	+0.4	+2.2	+2.2	+0.4	+0.1	-0.1	+0.3	

Source: Austrian Institute of Economic Research (WIFO), OeNB calculations.

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the fourth quarter of 2015 (+0.7%, +0.3%, -0.0%, +0.2%). The different development of these two series at the current end is problematic in communication policy terms. The available economic indicators for Austria suggest, however, that the trend-cycle series better reflects the actual picture of the Austrian economy.

## 2 Results of the OeNB's Economic Indicator of February 2016: one-off effects will spur growth in the first half of 2016

Early 2016 saw a significant increase in risks to the global economy. International equity market losses contributed to growing uncertainty. At the same time, commodity prices continued to tumble. While supply side-driven price slumps generally support global GDP growth, the current development is – at least, in part – attributable to sluggish demand in major markets and should therefore be interpreted as a sign of crisis. In particular, the energy

requirements of China, the world's largest emerging economy, have shrunk owing to the state of the Chinese economy, which grew by only 6.9% in 2015 – its lowest rate for 25 years. China's growth target for 2016 was dialed back to 6.5%. The repercussions of these developments on industrialized countries are currently still minimal. Although the appreciation of the U.S. dollar dampened U.S. growth in the fourth quarter of 2015, the outlook for 2016 remains positive on the back of the country's intact domestic economy. The euro area was on track to modest growth in 2015, expanding by 0.3% quarter on quarter in the fourth quarter of 2015. Economic growth is currently considerably more buoyant in CESEE, with most countries' GDP strengthening by approximately 1% in the fourth quarter of 2015. This development could also benefit Austrian exports. The latest results of the OeNB Export Indicator reveal that Austrian companies sold almost 3% more goods

### Truck mileage and goods exports

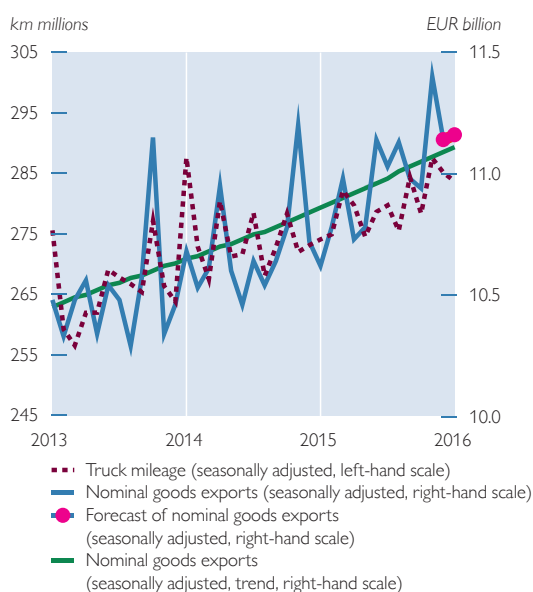
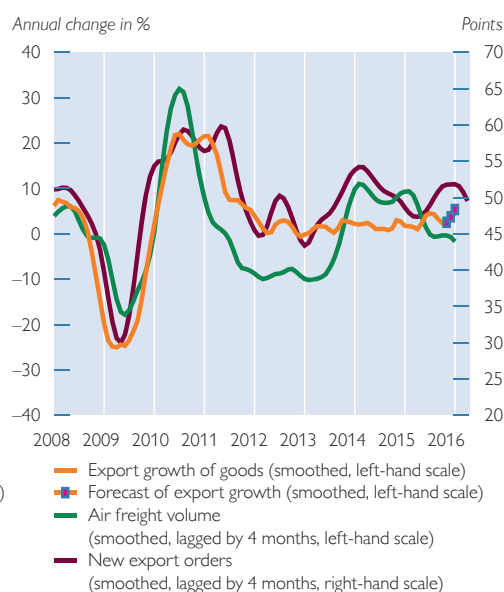


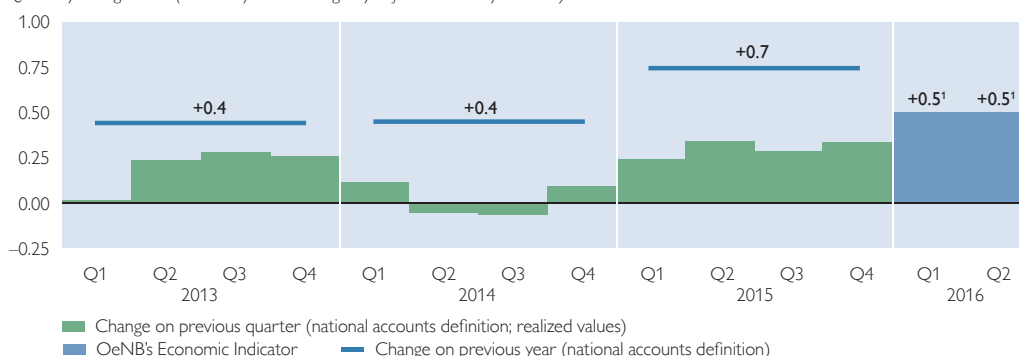
Chart 1

### Leading indicators for external trade



### Outlook for Austria's real GDP for the first and second quarter of 2016

Quarterly changes in % (seasonally and working-day adjusted trend-cycle series)



Source: OeNB's Economic Indicator of February 2016, Austrian Institute of Economic Research (WIFO).

<sup>1</sup> Forecast.

abroad in 2015 than in the previous year. The available leading indicators such as truck mileage data or new export orders suggest that Austrian exports will continue to advance in the first quarter of 2016 even if their momentum remains restrained in view of the uncertainty outlined above.

Domestic demand is expected to provide stronger positive stimuli in the first half of 2016. Investment activity improved as early as 2015. In addition, consumption in the first half of 2016 will be driven not only by low inflation but also by two one-off effects. Public expenditure on refugees is having the same effect as a deficit-financed economic stimulus program and is reflected particularly in higher government consumption. In addition, the tax reform approved in spring 2015 entered into force at the start of 2016, generating substantial relief for households and triggering a revival in private consumption. Both these one-off effects will each make growth contributions of 0.2 percentage point in the first two quarters of 2016. In its quarterly short-term outlook (the OeNB's Economic Indicator), the OeNB therefore projects real GDP growth of +0.5% for both

the first and second quarter of 2016 (quarterly changes, seasonally and working-day adjusted trend-cycle series). Although the outlook for the first quarter of 2016 was left unchanged on that of November 2015, in recent weeks risks to the downside have increased considerably. If the one-off effects are stripped out, what remains is merely modest underlying economic growth, which is subject to significant risks.

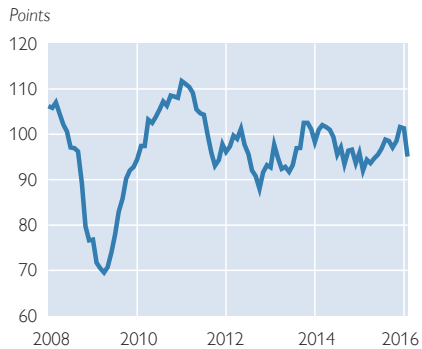
### 3 Confidence indicators reflect increased risks to the economy

Hard facts that would corroborate a slowdown in Austrian economic activity are still unavailable not least owing to publication delays. Increased risks to the economy have so far led only to a deterioration in some confidence indicators. Nevertheless, the dynamics of these indicators are still uneven, and it remains to be seen if, when and to what extent the latest geopolitical tensions and global turmoil will actually squeeze the Austrian economy.

The ifo Business Climate Index currently indicates a potential deterioration in external macroeconomic conditions. This index recently fell three times in succession, although compa-

## Sentiment indicators

### Economic Sentiment Indicator (ESI)



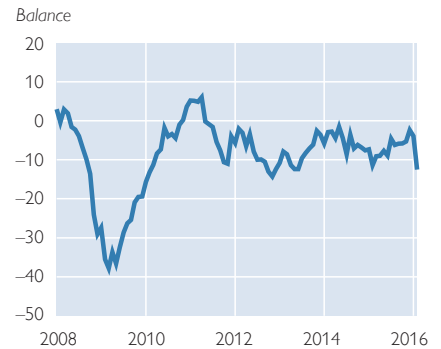
Source: European Commission.

### ESI: foreign new orders



Source: European Commission.

### ESI: industrial confidence



Source: European Commission.

### Purchasing Managers' Index (BA PMI)



Source: Bank Austria.

### BA PMI: New Orders



Source: Bank Austria.

### ifo Business Climate Index



Source: ifo.

nies continued to assess the current situation positively despite revising downward their expectations about future business development. In Austria, confidence indicators are currently sending out mixed signals. The European Commission's Economic Sentiment Indicator (ESI) registered a steep decline in February 2016. It contracted by more than 6 points to 95.1, thereby falling well below its historical average of 100. This slump was primarily attributable to low levels of confidence in industry where particularly sentiment concerning the development of foreign orders was more pessimistic. By contrast, the Bank Austria (BA) Purchasing Managers' Index remained unscathed by the latest turmoil, reaching a value of 51.9

in February 2016 – well above the expansion threshold of 50. Growth in both new orders and the order book also contributed to this upbeat assessment.

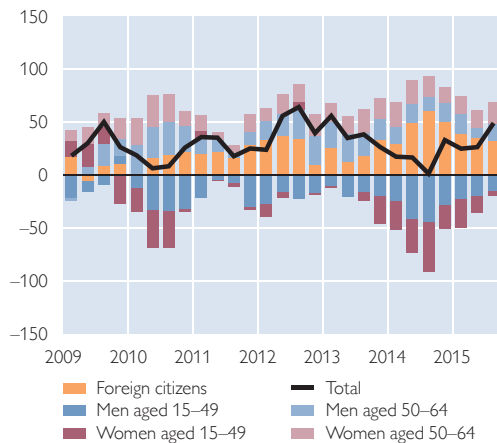
## 4 No further rise in unemployment in the second half of 2015

Employment in Austria is continuing to rise fairly robustly despite the recently fragile economy. In February 2016, employment growth was 1.3% year on year, with the mild winter additionally fueling employment in the construction sector. Despite dynamic employment growth, the jobless rate is still comparatively high owing to growth in labor supply. Two factors – the increasing number of older labor force partici-

### Determinants of labor supply growth in Austria

#### Labor force (aged 15–64)

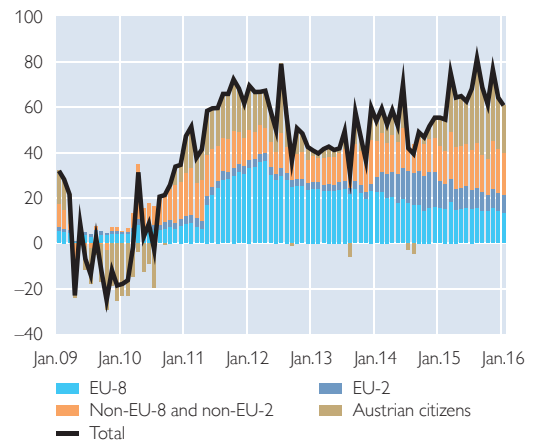
Annual change in thousands



Source: Eurostat, Federal Ministry of Labour, Social Affairs and Consumer Protection (BMASK), Public Employment Service Austria (AMS).

#### Payroll employees by nationality

Annual change in thousands



Note: EU-8: Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, Slovenia.  
EU-2: Bulgaria, Romania.

pants and the increased arrival of foreign workers – are playing a crucial role in this respect.

According to the Austrian micro-census, the number of 50 to 64 year-old labor force participants in Austria rose by 32,400 persons in the first three quarters of 2015, i.e. by almost exactly as much as the total number of

economically active persons (+33,700). Although demographic effects explain most of this increase, one-quarter of this rise is attributable to the labor force participation rate of this age cohort growing by 0.8 percentage point to 63%. It is, however, still below the euro area average (66.2%), with Austria's gap relative to peer countries

Table 2

### Key figures for the Austrian labor market

	Payroll employment		Unemployed persons		Unemployment rate in %			Registered job vacancies	
	Thousands	Annual change in %	Thousands	Annual change in %	AMS definition (not seasonally adjusted)	AMS definition (seasonally adjusted)	EU definition (seasonally adjusted)	Thousands	Annual change in %
2013	3,483	+0.5	287.2	+10.2	7.6	7.6	5.3	26,383	-10.3
2014	3,503	+0.6	319.4	+11.2	8.4	8.4	5.6	26,320	-0.2
2015	3,535	+0.9	354.3	+11.0	9.1	9.1	5.7	29,251	+11.1
Sep. 15	3,589	+1.1	322.2	+10.3	8.2	9.2	5.7	33,770	+18.4
Oct. 15	3,552	+0.9	339.4	+9.4	8.7	9.2	5.7	31,944	+23.0
Nov. 15	3,542	+1.4	359.3	+8.3	9.2	9.1	5.9	31,021	+25.4
Dec. 15	3,512	+1.2	417.5	+6.1	10.6	9.0	5.9	29,461	+33.1
Jan. 16	3,488	+1.2	425.0	+4.6	10.9	9.0	5.9	33,431	+45.5
Feb. 16	3,502	+1.3	405.7	+2.0	10.4	8.8	×	35,851	+41.4

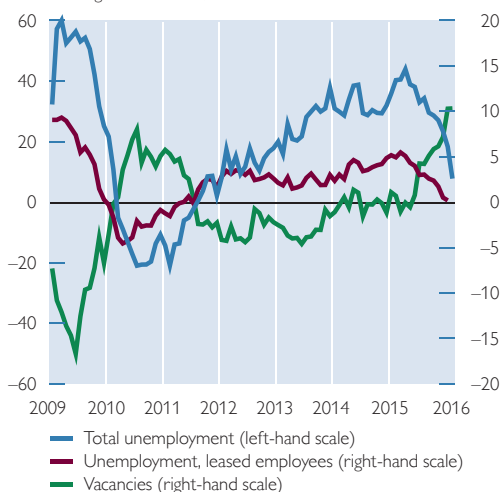
Source: Eurostat, Association of Social Insurance Providers, Public Employment Service Austria (AMS).

Chart 5

## Labor market indicators

### Unemployment

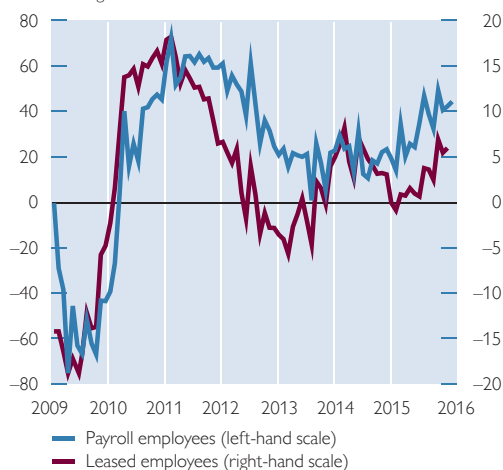
Annual change in thousands, smoothed



Source: Statistics Austria, Public Employment Service Austria (AMS).

### Employment

Annual change in thousands, smoothed



such as Germany (76.8%) or Sweden (82.8%) continuing to remain significant.

Foreign labor migration to Austria is unremitting. The average number of economically active persons (payroll employees and unemployed persons) with foreign citizenship has climbed by 42,500 per year since 2011. This level was also attained in 2015 although migration from the EU-10 Member States was down slightly.

While Austria's unemployment rate (Eurostat definition) rose by a mere 0.1 percentage point to 5.7% in 2015, the unemployment rate (national definition) was up by 0.7 percentage point to 9.1%. This difference in unemployment growth is likely to be linked to, among other factors, difficulties in recording foreign workers in the microcensus (Eurostat).

A positive aspect is that the unemployment rate according to both definitions did not rise any further in the second half of 2015. In fact, the rate of unemployment according to the national definition even decreased marginally in

this period. In addition, other indicators suggest that the Austrian labor market situation will ease somewhat in the next few months or, at the very least, not deteriorate any further. The strongest signals are coming from job vacancies registered at the Public Employment Service Austria (AMS), which advanced by 11% in 2015. In the first two months of 2016, these job vacancies even rose by more than 40%. Moreover, the increasing number of leased staff indicates sustained employment growth for the rest of 2016. At the same time, the number of leased staff registered as unemployed is no longer rising. The largest uncertainty factor for the further path of unemployment is the question of how quickly recognized refugees will be integrated into the Austrian labor market and included in the country's labor market statistics.

Overall, however, given the subdued underlying pace of economic growth and the continued increase in labor supply employment growth in the

next few months should not be expected to be vigorous enough to cause a drop in unemployment.

### 5 Tourism services spur rise in inflation in early 2016

Following a temporary low of 0.5% in November 2015, Austrian HICP inflation has risen again in the previous two months, reaching 1.4% in January 2016. This up-tick was primarily attributable to two factors: growth in services prices and easing downward pressure on energy prices. Core inflation (excluding energy and unprocessed food) climbed at a somewhat slower pace than headline inflation from 1.4% in November 2015 to 2.1% in January 2016. Average annual Austrian HICP inflation stood at 0.8% in 2015 and was thus markedly lower than in 2014 (1.5%). The drop in HICP inflation in 2015 as a whole was primarily attributable to both the direct and indirect effects of the oil price decline, which commenced at end-2014 and regained momentum in the second half of 2015.

Austrian HICP inflation has continued also in recent months to exceed both the euro area average and the inflation rate of Germany, Austria's most important trading partner, which came to 0.3% and 0.4% in January 2016, respectively. The difference in inflation rates between Austria and the euro area as well as Germany is attributable primarily to above-average price growth in the Austrian services sector, which in turn is caused by the public sector's contribution to inflation (via administered services prices and indirect taxes) and the increase in unit labor costs in the services sector.

In the energy sector, although the drop in prices slowed in recent months from  $-8.6\%$  in November 2015 to  $-5.2\%$  in January 2016, annual inflation still remained negative. Despite oil

prices sliding in 2015, annual inflation for electricity and natural gas has so far eased only moderately, standing at 0.8% (electricity) and  $-0.7\%$  (natural gas) in January 2016.

Annual inflation in the services sector ticked up from 2.0% in November 2015 to 2.8% in January 2016. This rise is traceable to growth in services prices in the hotel and restaurant as well as travel industries. For instance, the inflation rate for hotels and restaurants climbed from 2.9% in November 2015 to 3.6% in January 2016. In the same period, the inflation rate for flight tickets and package holidays also rose from  $-2.7\%$  to 6.5% and from  $-0.2\%$  to 5.0%, respectively. By contrast, the inflation rate for housing rentals eased from 3.2% to 2.4% over the same period.

Inflation for industrial goods excluding energy remained stable in December 2015 at the previous month's level of 0.7% and then accelerated to 1.3% in January 2016. The key factor for this rise was the growth in clothing and footwear prices, whose annual inflation rate climbed from 0.4% in December 2015 to 2.6% in January 2016. According to Statistics Austria, seasonally-induced price declines in the textile industry (clearance sales) proved to be smaller in January 2016 than the year before, resulting in an increase in the annual inflation rate for this product group.

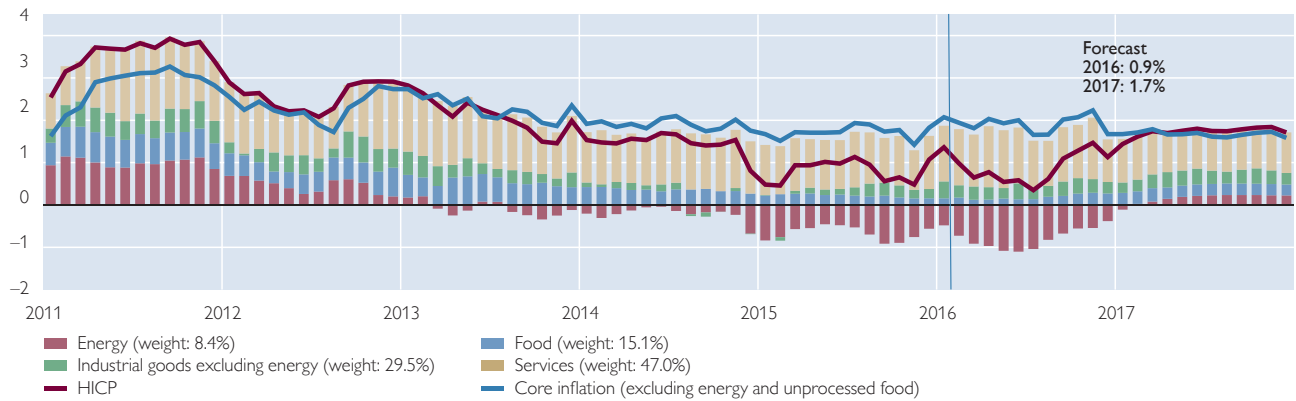
The annual inflation rate for unprocessed food remained relatively stable over the past three months and stood at 1.4% in January 2016, with a rise in inflation for meat and fruit being offset by a dip in inflation for vegetables in the same period. Likewise, annual inflation for processed food (including tobacco and alcohol) was stable at 0.9% in December 2015 and in January 2016.



## Austrian HICP inflation rate and contributions of subcomponents

Annual change in % (HICP and core inflation)  
and percentage points (contributions to inflation)

Last observation: 1.4% (January 2016)



Sources: OeNB, Statistics Austria.

### 6 Inflation forecast of March 2016: Austrian inflation will rise from 0.8% (2015) to 0.9% (2016) and 1.7% (2017)

Under the March 2016 Narrow Inflation Projection Exercise (NIPE), the OeNB projects an average HICP inflation of 0.9% for 2016 and 1.7% for 2017. Until July 2016, however, headline inflation is expected to ease considerably to 0.3% before ticking up sharply again. The projected drop in inflation in the first half of 2016 is primarily attributable to the infla-

tion-dampening effect of the development in oil prices, which will ease from mid-2016 onward. A modest inflation-accelerating effect will emanate from energy commodity prices in 2017. Demand-side inflationary stimuli will be minimal. In addition, the low inflation rate anticipated and the labor market situation will induce smaller wage cost increases. Core inflation (excluding energy and unprocessed food) should therefore ease slightly from 1.9% in 2016 to 1.7% in 2017.