Sluggish Economic Recovery – Conditions in the Labor Market Remain Strained

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

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1 Summary

According to the December 2009 economic outlook of the Oesterreichische Nationalbank (OeNB), economic output in Austria is projected to shrink by 3.5% in 2009, but to revert to positive growth in 2010 (+1.2%) and 2011 (+1.6%). These figures reflect a considerable improvement on the OeNB's June 2009 outlook. In June, the decline in GDP growth had been projected to reach as much as 4.2% in 2009, and the forecast for 2010 had been that of a decline by 0.4% of GDP. The revisions made since basically reflect temporary factors (inventory cycle, fiscal stimulus package) and a stronger revival of world trade than anticipated before. Over the medium term, however, the growth prospects remain weak as a result of the financial crisis. By the end of 2011, real GDP will still be slightly below pre-crisis levels.

The global recession spilled over to Austria above all through the export channel, with exports slowing sharply in the fall of 2008. While a gradual recovery of world trade observable since the summer of 2009 has since revived demand for Austrian exports, exports stand to shrink by as much as 12.9% in 2009 as a whole. Looking ahead, the acceleration of export growth is likely to remain moderate compared with earlier recoveries. Moreover, plummeting export demand and the general uncertainty amid the crisis, together with tighter financing conditions, are expected to have caused investment in plant and equipment to contract by a hefty 12.4% in 2009. In the near future, inventory investment should provide positive impulses to growth, since the contraction of GDP was reinforced by destocking in the first half of 2009.

Private consumption has continued to grow – albeit at low rates – throughout the crisis, reflecting the robust expansion of employment in recent years, the high wage settlements for 2009 and the decreasing inflation trend. The purchasing power of households has, moreover, been strengthened by a tax reform that entered into force in the spring of 2009. Consumption was also boosted temporarily in the second quarter of 2009 as the car scrapping scheme entered into force on April 1. However, the unwinding of these temporary measures implies the danger of a setback to the recovery in early 2010. In addition, compensation of employees is expected to stagnate in 2010 on account of the continued rise in unemployment and considerably lower wage settlements. Yet as the economy gradually revives, operating surpluses, self-employment income and investment income will at least stop shrinking and thus stabilize the level of household income in combination with public transfers.

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Table 1

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

	2008	2009	2010	2011
Economic activity	*Annual change in % (real)*			
Gross domestic product	+2.0	−3.5	+1.2	+1.6
Private consumption	+0.5	+0.4	+0.6	+0.9
Government consumption	+3.0	+0.6	+0.7	+1.0
Gross fixed capital formation	+0.5	−4.6	+1.2	+1.9
Exports of goods and services	−0.4	−12.9	+2.8	+3.9
Imports of goods and services	−1.6	−11.0	+2.3	+3.2
Contribution to real GDP growth	*Percentage points of GDP*			
Private consumption	+0.3	+0.2	+0.3	+0.5
Government consumption	+0.5	+0.1	+0.1	+0.2
Gross fixed capital formation	+0.1	−1.0	+0.2	+0.4
Domestic demand (excluding changes in inventories)	+0.9	−0.7	+0.7	+1.1
Net exports	+0.6	−1.8	+0.4	+0.6
Changes in inventories (including statistical discrepancy)	+0.5	−1.0	+0.1	+0.0
Prices	*Annual change in %*			
Harmonised Index of Consumer Prices (HICP)	+3.2	+0.5	+1.5	+1.6
Private consumption expenditure (PCE) deflator	+2.8	+0.9	+1.4	+1.6
GDP deflator	+2.0	+0.4	+1.2	+1.4
Unit labor costs in the total economy	+2.8	+4.9	−0.8	+0.5
Compensation per employee (at current prices)	+2.7	+2.4	+1.3	+1.8
Productivity (whole economy)	−0.1	−2.4	+2.1	+1.3
Compensation per employee (real)	−0.1	+1.5	−0.1	+0.2
Import prices	+3.8	−3.0	−0.4	+1.5
Export prices	+3.8	−3.1	−0.3	+1.3
Terms of trade	+0.0	−0.1	+0.1	−0.2
Income and savings				
Real disposable household income	+1.6	+0.4	+0.6	+0.6
	% of nominal disposable household income			
Saving ratio	12.0	11.9	11.8	11.6
Labor market	*Annual change in %*			
Payroll employment	+2.5	−1.3	−0.6	+0.5
	% of labor supply			
Unemployment rate (Eurostat definition)	3.9	4.7	5.3	5.4
Budget	*% of nominal GDP*			
Budget balance (Maastricht definition)	−0.4	−4.2	−5.6	−5.4
Government debt	62.6	68.9	73.6	76.9

Source: 2008: Eurostat, Statistics Austria; 2009 to 2011: OeNB December 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.*

Austria (like Germany) has been among the euro area countries with the lowest increases in unemployment during the crisis so far. In September 2009, the number of jobs was down by 65,000 from September 2008, whereas the number of unemployed persons was up by 51,000. The fact that the labor market has not reacted more strongly to the sharp economic setback can be attributed to a number of reasons. On the one hand, businesses have made an effort not to lay off employees if possible. On the other hand, the repercussions of the crisis on the labor market have been offset to some extent by labor market measures, such as short-term working schemes. Payroll employment numbers are expected to drop by 1.3% in 2009. The unemployment rate (Eurostat definition) should rise from 3.9% in 2008 to 4.7% in 2009 and is expected to climb further to 5.4% in 2011.

HICP inflation is assumed to rise gradually in the next few months and to peak at 1.9% in January 2010. Thereafter, inflation pressures are expected to subside so that the inflation rate should stand at 1.3% by the end of 2010. This slowdown basically reflects the dynamics of energy prices and, to a smaller extent, food price developments. The continued subdued economic outlook and an expected fall in wage growth in 2010 will dampen inflation pressure in the industrial goods and services sectors. On balance, HICP inflation is projected to average 0.5% in 2009, before rising to 1.5% in 2010 and inching up to 1.6% in 2011.

The fallout from the crisis has been offset to some extent by internationally coordinated expansionary fiscal policy measures. The measures adopted to date by the Austrian government (inflation package, two economic stimulus packages, earlier implementation of the income tax reform, labor market packages, car scrapping scheme) and the measures adopted by the federal provinces will boost GDP growth by approximately 1 percentage point in 2009 and by about 0.7 percentage points in 2010. The Austrian Institute of Economic Research (WIFO) expects the fiscal packages of the Austrian trading partners (above all Germany) to support GDP growth in Austria by 0.8 percentage points in 2009 (2010: 0.0 percentage points). At the same time, the various stimulus measures and above all the effect of the automatic stabilizers will cause the general government deficit to rise to 4.2% of GDP in 2009 and to 5.6% of GDP in 2010 (2008: 0.4% of GDP). Relatively high primary deficits and a highly unfavorable interest rate growth differential in 2009 will lead to an increase in the level of public debt to 68.9% of GDP in 2009 and to 73.6% of GDP in 2010 (2008: 62.6% of GDP).[2] By 2011, the debt ratio is expected to have climbed to 76.9%.

2 Technical Assumptions

This forecast is the OeNB contribution to the Eurosystem's December 2009 staff projections. The forecast horizon ranges from the fourth quarter of 2009 to the fourth quarter of 2011. November 12, 2009, was the cutoff date for the assumptions on global growth as well as interest rates, exchange rates and crude oil prices. The projections were prepared with the OeNB's macroeconomic quarterly model and are essentially based on seasonally and working-day adjusted national accounts data calculated by WIFO. These data were fully available up to the second quarter of 2009; for the third quarter we used the GDP flash estimate, which covers only part of the national accounts aggregates, though. The underlying short-term interest rate is based on market expectations for the three-month EURIBOR and is assumed to equal 1.2% in 2009 and 2010, and 2.4% in 2011. Long-term interest rates, which reflect market expectations for ten-year government bonds, are assumed to equal 3.9% in 2009 and 2010,

[2] *The fiscal projections include only adequately specified measures that had passed the legislative process at the time the OeNB outlook was prepared. Therefore, these projections do not reflect any consolidation measures that the government may take from 2011.*

and 4.4% in 2011. The USD/EUR exchange rate is assumed to remain at USD/EUR 1.49 throughout 2010 and 2011. The projected trend in crude oil prices is based on futures prices. For 2009, we assume oil prices of USD 62.2 per barrel (Brent); our assumption for 2010 is USD 81.4, and USD 85.9 for 2011. The prices of commodities excluding energy are also based on futures prices over the forecast horizon.

3 World Economy Back on Growth Path

At the time of writing, the world economy is gradually regaining momentum, led by activities in Asia. An increasing number of indicators point toward an economic recovery, following a range of joint efforts by central banks, governments and international institutions to rescue the financial sector. The support measures taken by central banks have revived the interbank market following its collapse in the fall of 2008 and have stabilized the banking sector. A key impetus for economic recovery has, moreover, come from a range of economic stimulus packages adopted around the world and from the low level to which central banks have lowered official rates worldwide. These combined efforts have made it possible to overcome the recession which had hit most economies when the financial crisis came to a head in the fall of 2008.

The world's major economies are all reporting signs of economic recovery. At the same time, it must not be overlooked that output levels continue to fall far short of pre-crisis levels. In addition, it is unclear whether demand will be robust enough to support growth when governments start to unwind their economic stimulus packages and start the necessary consolidation measures. Other dampening factors include continued financing constraints as well as asset losses by both businesses and households in many regions.

China is currently at the vanguard of global recovery, but it also spent a lot more on public support measures than most industrial countries. At an estimated 7.8%, GDP growth will not be substantially lower in 2009 than it was in 2008 (+9.0%). Moreover, the Chinese government has reverted to its pre-crisis exchange-rate regime, i.e. it continues to keep the external value of the renminbi yuan artificially low by purchasing U.S. government bonds. In doing so, China supports both its own exports and helps the U.S.A. finance its budget and current account deficits. However, this policy only entrenches macroeconomic imbalances and postpones required adjustments.

The *U.S.* economy has also reverted to a growth path. In the third quarter of 2009, the U.S. GDP expanded by 0.7% (based on the second release of data) against the previous quarter. Looking ahead to the fourth quarter, the leading indicators point to strong growth also in the remainder of the year. This would imply that the U.S. economy has recovered from the recession into which it plunged in mid-2008. At the same time, there are a range of risks and factors that suggest that the recovery is but weak. The stabilization of the economy was brought about almost exclusively by economic policy measures. With a fiscal package worth USD 787 billion, adopted in February 2009, the U.S. government relied above all on cutting taxes, financing infrastructure projects, supporting the U.S. car industry and increasing transfer payments. The Federal Reserve System cut key interest rates to close to zero and contributed to the stabilization of the financial sector through credit easing measures. How the recov-

Table 2

Underlying Global Economic Conditions

	2008	2009	2010	2011
	Annual change in % (real)			
Gross domestic product				
World GDP growth outside the euro area	+3.3	−0.6	+3.5	+3.9
U.S.A.	+0.4	−2.5	+1.9	+2.3
Japan	−0.7	−5.2	+1.9	+1.3
Asia excluding Japan	+6.7	+4.9	+6.9	+7.0
Latin America	+4.1	−2.0	+2.6	+3.1
United Kingdom	+0.6	−4.6	+1.2	+2.1
New EU Member States[1]	+3.9	−3.7	+0.3	+2.8
Switzerland	+1.8	−1.6	+0.5	+1.9
Euro area[2]	+0.5	−4,1 to −3,9	+0,1 to +1.5	+0,2 to +2,2
World trade (imports of goods and services)				
World economy	+3.1	−11.7	+4.3	+4.7
Non-euro area countries	+4.0	−11.5	+6.1	+5.5
Real growth of euro area export markets	+3.8	−12.2	+4.2	+4.7
Real growth of Austrian export markets	+2.6	−12.3	+3.4	+3.8
Prices				
Oil price in USD/barrel (Brent)	97.7	62.2	81.4	85.9
Three-month interest rate in %	4.6	1.2	1.2	2.4
Long-term interest rate in %	4.4	3.9	3.9	4.4
USD/EUR exchange rate	1.47	1.40	1.49	1.49
Nominal effective exchange rate (euro area index)	113.03	113.97	116.42	116.42

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] *2009 to 2011: Results of the Eurosystem's December 2009 projections. The ECB presents the result in ranges based upon average differences between actual outcomes and previous projections.*

ery continues to unfold will basically depend on whether the U.S.A. will succeed in closing the demand gap that will open up after the expiry of stimulating measures. Exporters should stand to gain from the depreciation of the U.S. dollar in the medium run. At the same time, the contribution to GDP growth stemming from household demand is unlikely to be substantial in the near future. The decline in real estate and securities prices has led to sharp financial losses. U.S. households have consequently reduced their expenditure on consumption in order to compensate these losses, which is already reflected in a visibly rising saving rate. Rising unemployment as well as tighter financing conditions have further depressed private consumption. Eurosystem projections expect the U.S. economy to grow by 1.9% in 2010 and by 2.3% in 2011. This means that the revival of the economy will be markedly less pronounced than the recovery from past recessions.

The global financial and economic crisis hit the euro area with full force at the turn of 2008/09. From the fourth quarter of 2008 until the second quarter of 2009, real GDP contracted by close to 4%. The second quarter of 2009, finally, brought first signs of stabilization, with the two biggest euro area economies – Germany and France – back on a growth path. In the third quarter of 2009, the euro area as a whole emerged from recession: With GDP rising by 0.4% (Eurostat flash estimate), the growth rate was positive again after three negative quarters. Growth was essentially driven by the recovery of the international economy, that is to say by rebounding world trade. Other growth drivers include the monetary and fiscal policy measures taken as well as the restocking of inventories that had been depleted in the first half of the year. Conversely, business investment appears to have continued to shrink. The crisis-related reluctance to invest is expected to subside only in 2010. In the field of industrial production, the trend reversal occurred already in May 2009; since then, the monthly change rates have again been consistently positive. In the third quarter of 2009, industrial production was up 2.2% against the previous quarter. Orders have also been on the rise, with a monthly increase by 1.5% in September 2009. However, unlike in industry, there are no signs of a trend reversal in retail trade yet.

Germany was hit particularly badly by the crisis, given its high dependency on exports. From the first quarter of 2008 until the first quarter of 2009, GDP contracted by close to 7%. In addition to the setback in exports, German businesses also reported a sharp decline in investment activity. Interestingly, the rise in unemployment was highly limited, even though output contracted particularly sharply compared with past economic slowdowns. This can be attributed to a high flexibility of working arrangements (averaging arrangements for hours worked) and to short-time working schemes. Recovery started earlier in Germany than in most other countries. Positive growth, driven by domestic demand, was reported as early as in the second quarter of 2009. Domestic demand, in turn, had been strengthened by fiscal policy measures. In the third quarter of 2009, exports took over as the key engine of growth.

The *French* economy suffered a smaller setback than the German economy. Domestic demand, which traditionally plays a key role, was instrumental in offsetting the effect that the decline of exports had on overall output. Like Germany, France was back on a positive growth track in the second quarter of 2009, and continued to post positive growth in the third quarter. At the same time, the development of France's public finances is a matter of serious concern. The automatic stabilizers have proved to be a large burden on the budget during the crisis. Moreover, the French government adopted a big spending package in June 2009, which will take effect in 2010.

The *Italian* economy had suffered from a permanent loss of competitiveness even before the onset of the economic crisis. Consequently, there was no contribution to growth from either exports or business investments. This is why private consumption expenditure, which contracted sharply at the turn of 2008/09, and public consumption are currently the sole stabilizing factors. Given the dismal condition of public finances, the Italian government refrained from adopting major economic stimulus measures.

The countries in *Central, Eastern and Southeastern Europe (CESEE),* which are of prime importance for Austria, were hit by the crisis through a number of channels. The countries in the area suffered as export demand collapsed and capital inflows reversed given the sharp rise in risk aversion during the financial crisis. Moreover, the sharp depreciation of some currencies posed substantial problems especially for debtors who had taken out foreign currency loans. On balance, however, developments in the area have been highly mixed. While the Baltic states as well as Hungary and Romania suffered huge setbacks, Poland even recorded positive growth in the first and second quarters of 2009. Yet more and more signs of stabilization are beginning to show. Of course, recovery will be highly dependent on the development of import demand in Western Europe, which is after all the biggest export market for CESEE producers.

4 Export Activity Gradually Regaining Momentum

The global crisis hit the Austrian economy above all through the foreign trade channel. Demand in Austrian export markets contracted by as much as 12.3% in 2009. At the same time, Austrian exporters lost ground through losses in price competitiveness, given the appreciation of the euro – in particular against the U.S. dollar and against most CESEE currencies – and given the sharp rise in unit labor costs in 2009. The loss in price competitiveness from 2007 to 2009 totaled 3%, which led to losses in market share.

In line with the recovery of the world economy, Austrian export activity has been regaining momentum. In the second half of 2009, export growth was still largely driven by temporary

Table 3

Growth and Price Developments in Austria's Foreign Trade

	2008	2009	2010	2011
	Annual change in %			
Exports				
Competitor prices in Austria's export markets	+2.4	−3.4	−0.1	+1.1
Export deflator	+3.8	−3.1	−0.3	+1.3
Changes in price competitiveness	−1.4	−0.3	+0.2	−0.1
Import demand in Austria's export markets (real)	+2.6	−12.3	+3.4	+3.8
Austrian exports of goods and services (real)	−0.4	−12.9	+2.8	+3.9
Market share	−3.0	−0.5	−0.5	+0.1
Imports				
International competitor prices in the Austrian market	+2.1	−3.1	+0.1	+1.1
Import deflator	+3.8	−3.0	−0.4	+1.5
Austrian imports of goods and services (real)	−1.6	−11.0	+2.3	+3.2
Terms of trade	+0.0	−0.1	+0.1	−0.2
	Percentage points of real GDP			
Contribution of net exports to GDP growth	+0.6	−1.8	+0.4	+0.6

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

Table 4

Austria's Current Account

	2008	2009	2010	2011
	% of nominal GDP			
Balance of trade	4.5	3.6	3.8	4.1
Balance on goods	−0.2	−0.8	−0.4	−0.4
Balance on services	4.7	4.3	4.3	4.5
Euro area	−0.2	0.1	0.1	0.4
Non-euro area countries	4.6	3.5	3.7	3.7
Balance on income	−0.7	−0.9	−1.0	−1.0
Balance on current transfers	−0.6	−0.8	−0.7	−0.7
Current account	3.2	1.8	2.2	2.4

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

factors, such as the inventory cycle and the fiscal stimulus packages adopted by numerous countries. As those factors unwind, export activity will weaken somewhat in early 2010. Quarterly growth rates will, however, remain in positive territory, in accordance with demand in Austrian export markets.

Following stagnation in 2008 based on national accounts data, real exports are expected to drop by 12.9% in 2009. The strengthening of economic activity over the remainder of the forecast horizon basically reflects external factors. Even though growth of real exports will fall considerably short of pre-crisis levels in both 2010 (+2.8%) and 2011 (+3.9%), exports will remain the key engine of growth.

The Austrian current account surplus has increased persistently in recent years, peaking at 3.6% of GDP in 2007. Following a slight decline to 3.2% in 2008, the crisis caused the current account surplus to contract more strongly, to 1.8%, in 2009, largely on account of a setback in goods exports. Goods imports, in contrast, have not contracted as much as exports, because domestic consumption has remained stable. Services exports and imports held up much better during the crisis than goods exports and imports. In fact, the tourist industry, which is of paramount importance for Austria, has so far fared better in 2009 than expected. Overnight stays of foreign tourists shrank by 3.3% from January to October 2009. On the whole, the trade balance has not reacted particularly strongly to the crisis. The expected recovery of world trade over the remainder of the forecast horizon will cause the current account surplus to rise again gradually in 2010 and 2011. The goods balance is projected to be balanced again by the end of 2011.

5 Domestic Demand Remains Weak during the Recovery

5.1 Crisis-Driven Sharp Decline in Investment in Plant and Equipment

The industrial sector has suffered by far the most from the crisis. In August 2009, industrial production was 15% below the comparative level of August 2008. While orders have picked up somewhat recently, they are still far below pre-crisis levels. Given markedly lower export demand and widespread uncertainty, businesses cut back on investment in plant and equipment from the second half of 2008 onward. At the same time, they suffered from tightened financing conditions. At the height of the crisis, financing through the issuance of stocks and bonds had virtually dried up. Banks, too, tightened their credit standards, but they did pass on the cuts in key interest rates adopted by the ECB since the fall of 2008. In the second quarter of 2009, capacity utilization dropped to 73%, from 84% in the first quarter. While capacity utilization has since improved again somewhat to 75% in the fourth quarter of 2009, investment activity continues to remain limited given existing excess capacities. Therefore, the main investment motive in the next year or two will be replacement investment rather than the development of new production capacities. Thus, investment in plant and equipment is projected to grow rather slowly in 2010 (+0.3%) and 2011 (+2.7%). Producers and retailers have largely depleted their inventories during the crisis. Restocking will support GDP growth in the short run.

Construction investment, finally, remained fairly strong, among other things because Austria had not seen any real estate bubbles. While residential construction investment has contracted

Chart 1

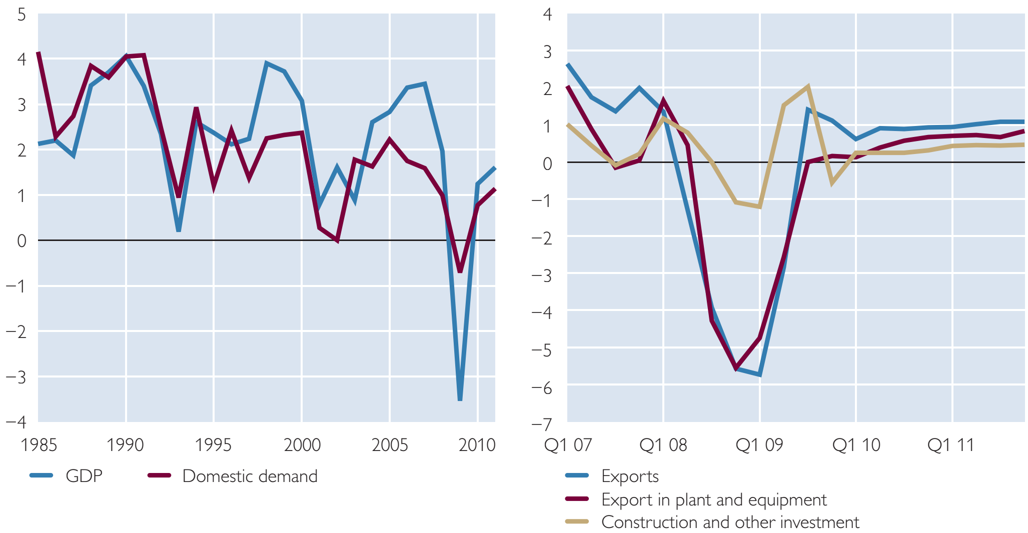
Domestic Demand Remains Weak during the Recovery

Downward Trend in Growth of Domestic Demand

Annual change in %

Investment in Plant and Equipment Mirrors Exports

Quarterly change in %



Source: WIFO, OeNB calculations.

Table 5

Investment Activity in Austria

	2008	2009	2010	2011
	Annual change in %			
Total gross fixed capital formation (real)	+0.5	–4.6	+1.2	+1.9
of which: Investment in plant and equipment (real)	*–1.4*	*–12.4*	*+0.3*	*+2.7*
Residential construction investment (real)	*+1.9*	*–2.3*	*+0.8*	*+1.6*
Nonresidential construction investment and other investment	*+1.6*	*+1.5*	*+2.0*	*+1.5*
Government investment (real)	*+2.1*	*+1.0*	*+0.5*	*–1.5*
Private investment (real)	*+0.4*	*–4.9*	*+1.2*	*+2.1*
	Contribution to total gross fixed capital formation growth in percentage points			
Investment in plant and equipment (real)	–0.5	–4.7	+0.1	+0.9
Residential construction investment (real)	+0.4	–0.5	+0.2	+0.4
Nonresidential construction investment and other investment	+0.6	+0.6	+0.9	+0.6
Government investment (real)	+0.1	+0.0	+0.0	–0.1
Private investment (real)	+0.4	–4.7	+1.1	+2.0
	Contribution to real GDP growth in percentage points			
Inventory changes (real)	–0.3	–1.8	+0.1	+0.0

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

slightly since the end of 2008, the decline is expected to be fairly limited in 2009 at –2.3% compared with the more substantial decline in investment in plant and equipment (–12.4%). Civil engineering, in contrast, has benefited from the government's economic support measures (development of road and railway infrastructure) and is expected to grow by 1½% in 2009.

5.2 Car Scrapping Scheme and Tax Reform Support Consumption in First Half 2009

Given the economic crisis and a massive setback in property income, self-employment income and operating surpluses, consumer spending turned out to be surprisingly robust in the first half of 2009. This fact can be attributed to a combination of factors. On the one hand, real disposable household income developed very favorably as of late, following several years without substantial gains, as the size of payroll employment increased by 2½% in 2008. In addition, wage settlements for 2009 broadly reflected the high inflation levels prevailing in the fall of 2008, when most settlements were concluded, but inflation has since dropped sharply; this has caused real household income to rise considerably.

On the other hand, two temporary factors had a positive impact on consumption in the first half of 2009. First, the tax reform that entered into force in the spring of 2009 has strengthened the purchasing power of households.[3] Second, the car scrapping scheme applicable from April 1, 2009 temporarily stoked household demand, after having initially depressed the level of new car registrations in the first quarter following the announcement of the new scheme. The number of new passenger car registrations continued to grow vigorously even after the incentive expired in July 2009, as high discounts made up for it. Thus, passenger car sales did not start to decrease – and thus dampen consumption – until the fourth quarter of 2009.

[3] *Together with the family package, the tax reform reduces the burden on households by EUR 2.1 billion in 2009.*

Box 1

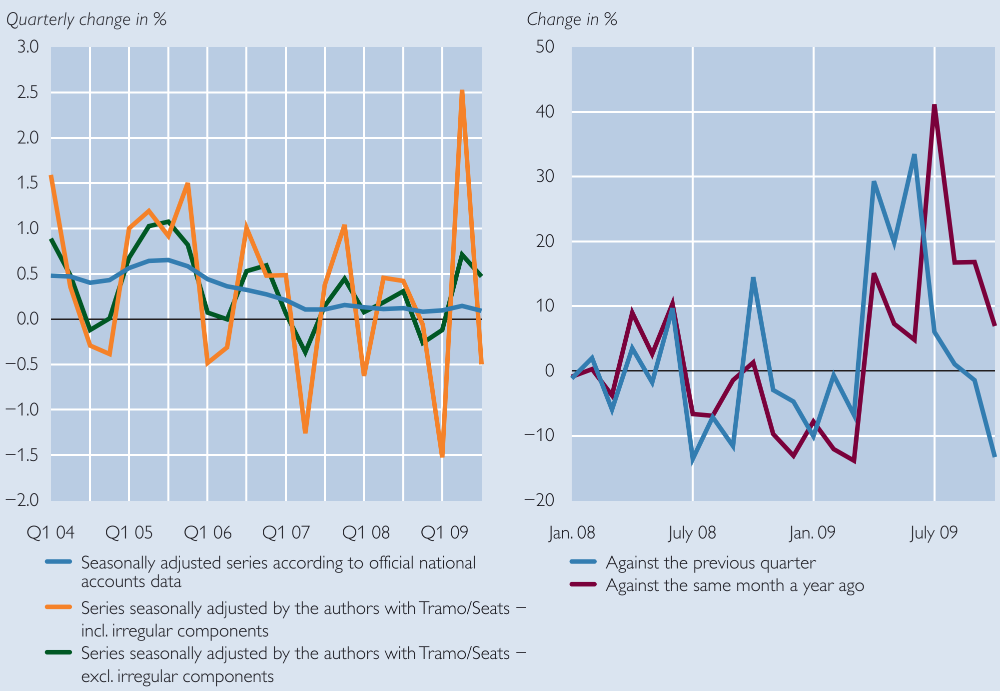
Development of Private Consumption in the First Half of 2009

The official seasonally and working-day adjusted national accounts data available at the time of writing (= flash estimate for the third quarter of 2009) do not reflect the changes in consumption levels that the temporary support measures should have created. The underlying reason is that the official series exhibits a high degree of smoothness. This series shows private consumption to have been growing at a steady quarterly rate of 0.1% for the past seven quarters in a row. Having adjusted the consumption series for seasonal and working-day effects with the Tramo/Seats[1] program, we arrived at very different results. Including the irregular component (which accounts for outliers and special effects), consumption expenditure grew by 2½% in the second quarter of 2009 against the previous quarter. The seasonally adjusted trend series (i.e. excluding the irregular component) suggests that consumption increased by 0.7% in the second quarter. Both series show negative growth for the first quarter of 2009, which is likely to reflect the announcement effect of the car scrapping scheme.

Chart 2

Car Scrapping Scheme Supports Private Consumption in Second Quarter 2009

Private Consumption | **New Passenger Car Registrations**



Source: WIFO, OeNB calculations.

[1] *The Tramo/Seats program, which is also being used by Eurostat, decomposes time series into a trend/cyclical component, a seasonal component, and an irregular component. For a (German) description of Tramo/Seats, see e.g. Wüger (1995): Das neue Saisonbereinigungsverfahren des WIFO. WIFO-Monatsberichte 10/95. 625–635.*

In 2010, compensation of employees will stagnate on account of the continued rise in unemployment and considerably lower wage settlements. Operating surpluses, self-employment income and investment income are projected to have dropped sharply in 2009 and will continue to shrink somewhat thereafter. At the same time, public transfer payments will stabilize household income. Employment levels are expected to start rising again in 2011. The ensuing growth of household income would imply an – albeit subdued – acceleration of consumption growth.

Table 6

Determinants of Nominal Household Income in Austria

	2008	2009	2010	2011
	Annual change in %			
Employees	+2.5	–1.3	–0.6	+0.5
Wages per employee	+2.7	+2.4	+1.3	+1.8
Compensation of employees	+5.3	+1.0	+0.6	+2.3
Mixed income and operating surplus, net	+8.5	–13.7	–0.2	+4.8
Property income[1]	+3.4	–2.4	–0.2	+2.6
	Contribution to disposable household income growth in percentage points			
Compensation of employees	+4.3	+0.9	+0.5	+1.8
Mixed income and operating surplus, net	+1.1	–1.9	+0.0	+0.6
Property income	+0.7	–0.5	+0.0	+0.5
Net transfers minus direct taxes[1]	–1.7	+3.0	+1.6	–0.4
Disposable household income (nominal)	+4.4	+1.3	+2.0	+2.3

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

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

Table 7

Private Consumption in Austria

	2008	2009	2010	2011
	Annual change in %			
Disposable household income (nominal)	+4.4	+1.3	+2.0	+2.3
Private consumption expenditure (PCE) deflator	+2.8	+0.9	+1.4	+1.6
Disposable household income (real)	+1.6	+0.4	+0.6	+0.6
Private consumption (real)	+0.5	+0.4	+0.6	+0.9
	% of nominal disposable household income			
Saving ratio	12.0	11.9	11.8	11.6

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

5.3 Labor Market Conditions Expected to Remain Strained over the Entire Forecast Horizon

While the crisis has not left the labor market unscathed, payroll employment only dropped by close to 2% in recent months (year on year) according to data released by the Association of Austrian Social Security Institutions. Adjustments on the labor market typically occurred through a reduction of hours worked rather than through job cuts. The most recent data on employment (based on the labor force concept) show hours worked to have shrunk by 5.2% in the second quarter of 2009 compared with the same quarter of 2008, whereas the number of employed persons declined by a mere 0.7% over the same period. At the firm level, these reductions were basically achieved through a reduction of overtime hours worked and through the use of vacation leave credits, as well as through the use of averaging arrangements. Economic policymakers managed to prevent larger job cuts by gradually expanding the short-term working scheme. Thus, the unemployment rate (Eurostat definition) rose relatively moderately from 3.5% in mid-2008 to 4.8% in September 2009. Other factors that helped contain this rise include the massive

Table 8

Labor Market Developments in Austria

	2008	2009	2010	2011
	Annual change in %			
Total employment	+2.1	−1.2	−0.8	+0.3
of which: Payroll employment	*+2.5*	*−1.3*	*−0.6*	*+0.5*
Self-employment	*−0.2*	*−1.0*	*−1.2*	*−0.4*
Public sector employment	*+2.0*	*+0.1*	*+0.0*	*−0.1*
Registered unemployment	+1.7	+19.5	+10.6	+1.8
Labor supply	+1.7	+0.0	−0.1	+0.4
	% of labor supply			
Unemployment rate (Eurostat definition)	3.9	4.7	5.3	5.4

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

expansion of training activities and the hoarding of labor at the beginning of the crisis. Above all in the manufacturing industry – the sector that has been hit hardest by the crisis – has the experience of labor shortages before the onset of the crisis prevented larger and more rapid job cuts.

With the unwinding of these factors, some of which were temporary, and given the lag with which the labor market tends to react to cyclical developments, further job cuts appear to be in the offing for 2010. Following a drop by 1.3% in 2009, payroll employment is expected to decrease by another 0.6% in 2010. Employment losses are likely to bottom out in mid-2010, by which time payroll employment (based on national accounts data) is expected to lie about 80,000 employees below the peak value reached in the third quarter of 2008. Payroll employment will not start to grow again until 2011 (by 0.4%).

As in the past, the growth of labor supply will be highly procyclical. The influx of workers from abroad will slow down considerably and will not start to rebound more strongly until all workers resident in the countries that joined the EU in 2004 and 2007 have gained full access to the labor market in mid-2011. The effects of the pension reform of 2003 have been strongly limited by an early retirement scheme for workers with long employment histories (the so-called "Hacklerregelung"). Demographic developments will have a slightly negative impact on the supply of labor in 2010 and 2011.

The changes in employment levels and in the supply of labor indicate that labor market conditions will remain strained over the entire forecast horizon. Based on the national accounts definition, around 300,000 persons will be unemployed in both 2010 and 2011. The unemployment rate (Eurostat definition) is thus expected to rise from 4.7% in 2009 to 5.4% in 2011.

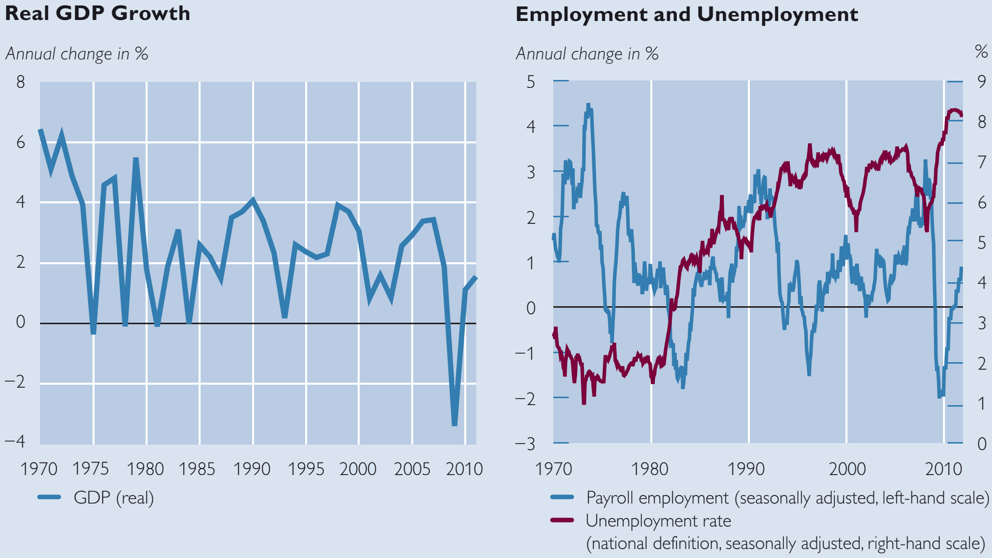
Box 2

Changes in Employment Levels in the Current Crisis

The size of the current growth setback by far exceeds all other recessions in recent decades. At the same time, the number of actual or anticipated job losses is lower than would have been expected compared with past crisis episodes. Indeed, the losses in employment are virtually no higher than they were in the early 1980s and in the mid-1990s. This box looks into the underlying factors and also discusses whether these factors will have a limited effect, or whether they are likely to keep the reaction of employment figures moderate also in the medium to long run.

Chart 3

Economic Growth and Employment from 1970 to 2011



Source: Statistics Austria.

We have looked at productivity growth during the latest crisis for pointers. During the economic slowdown from the first quarter of 2001 to the second quarter of 2003, labor productivity (defined as value added per employee) rose by roughly ½% each year on average. Based on the assumption that productivity patterns will develop along similar lines also during the current crisis, we arrive at hypothetical employment patterns based on realized and projected GDP growth rates (chart 4, left panel). Actual employment growth (including projections) is, however, more favorable.[1] The right-hand panel of chart 4 shows the discrepancy between employment figures as projected in the current economic outlook and hypothetical employment figures for the final quarters of 2009, 2010 and 2011. This discrepancy is moreover broken down into four underlying factors (sectoral impact, overtime, short-term working, residual).

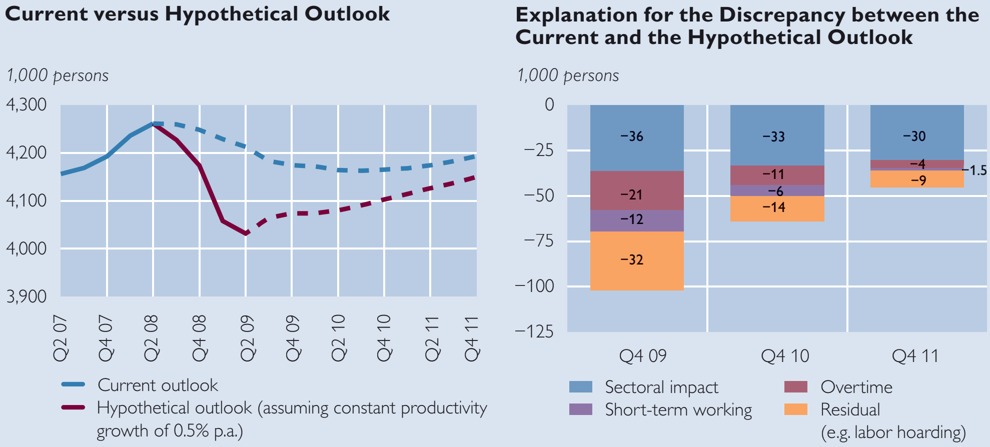
The most important factor, also in the medium run, is the difference in the ***impact*** *of the crisis* ***on individual sectors.*** *The current crisis has hit above all the manufacturing industry. This industry is particularly capital-intensive, and its labor productivity is more than 1½ times as high as that of the economy as a whole. Therefore, any decline in GDP that almost exclusively hits the manufacturing industry will trigger a markedly weaker employment reaction than an economic slowdown that affects all industries uniformly. From today's point of view,*

[1] The discrepancy between the two employment patterns is certainly overstated initially, as hoarding of labor and the decline in hours worked caused to depress productivity growth when the economy first started to slow down. By the end of 2009 – 1½ years after the onset of the crisis – these typical adjustment lags should, however, have largely run their course.

the output of the manufacturing sector is unlikely to return to pre-crisis levels by the end of 2011. Consequently, we have taken the effects on value added and employment to be permanent in the manufacturing industry. These effects explain one-third of the discrepancy between the actual and hypothetical changes in employment at the end of 2009, and as much as two-thirds at the end of 2011.

Chart 4

Projected and Hypothetical Employment Dynamics



Source: OeNB, Eurostat.

The other factors reflect a range of instruments used to offset the negative impact of the recession on employment in the short term, which will cease to be relevant in the medium term. For instance, in the current crisis, overtime levels have been reduced disproportionately strongly (e.g. by working less overtime, using vacation leave credits or applying averaging clauses). This effect is estimated to correspond to about 0.5% of total hours worked, or to about 21,000 employees up to the end of 2009. Similarly, the effect of short-term working arrangements will be temporary, even though the time limits for those schemes have been extended. The number of persons working short-term (i.e. on average 70% of standard working hours) is estimated to lie at 40,000 at the end of 2009, and should drop to 5,000 until the end of 2011. The residual of the discrepancy between actual and hypothetical changes in total employment basically includes hoarding of labor or other undocumented factors.

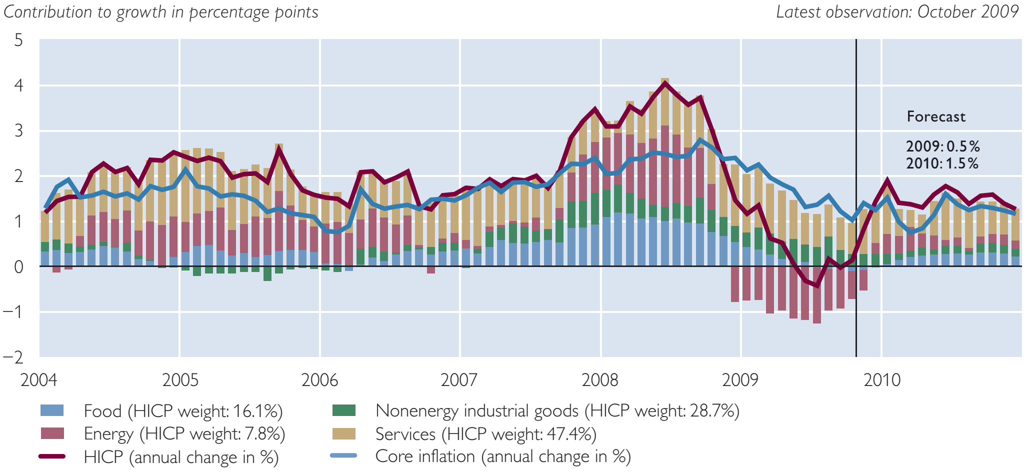
6 Inflation Remains Low in View of the Crisis

In 2008, the surge in energy prices drove up inflation rates, causing the HICP to climb by 3.2% against 2007 levels. In contrast, developments in 2009 have been characterized by marked disinflation. After peaking in June 2008 at 4.0%, inflation rates have been going down continually. June and July 2009 even saw a decline in prices (by –0.3% and –0.4%, respectively). Since then, consumer prices have stagnated year on year. Inflation developments have basically been shaped by two effects. First, decreasing energy prices have dampened the impact of the energy component on the HICP. Second, food prices, which were a key driver of inflation in 2008, ceased to contribute significantly to overall inflation in 2009. The current crisis has affected above all wholesale prices, which decreased by 8.4% in the first ten months of 2009 compared with the same period 2008.

For the full year of 2009, we expect HICP inflation to reach 0.5%. As the

Chart 5

HICP Inflation and Contributions from Subcomponents



Source: OeNB, Statistics Austria.

dampening effects of declining energy prices will disappear at the end of 2009, inflation should accelerate to 1.5% in 2010. For 2011, we forecast a rate of 1.6%.

As the decline in employment has been very moderate in relation to the extent of the economic setback, unit labor costs have risen sharply in 2009. Yet in view of the continued bleak economic outlook, businesses will most likely not be able to pass on their higher costs through higher prices; thus their profit margins will sink in 2009. In 2010 and 2011 this trend will be slightly reversed. Compensation per employee is expected to have increased by 2.4% in 2009, thus remaining markedly below the growth in negotiated wages (+3.4%). This negative wage drift

Table 9

Selected Price and Cost Indicators for Austria

	2008	2009	2010	2011
	Annual change in %			
Harmonised Index of Consumer Prices (HICP)	+3.2	+0.5	+1.5	+1.6
HICP energy	+10.7	–10.5	+3.3	+2.7
HICP excluding energy	+2.5	+1.5	+1.2	+1.5
Private consumption expenditure (PCE) deflator	+2.8	+0.9	+1.4	+1.6
Investment deflator	+1.5	+0.7	+1.2	+1.5
Import deflator	+3.8	–3.0	–0.4	+1.5
Export deflator	+3.8	–3.1	–0.3	+1.3
Terms of trade	+0.0	–0.1	+0.1	–0.2
GDP at factor cost deflator	+2.0	+0.2	+1.2	+1.4
Unit labor costs	+2.8	+4.9	–0.8	+0.5
Compensation per employee	+2.7	+2.4	+1.3	+1.8
Labor productivity	–0.1	–2.4	+2.1	+1.3
Collectively agreed wage settlements	+3.1	+3.4	+1.3	+1.6
Profit margins[1]	–0.8	–4.7	+2.0	+0.8

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

[1] GDP deflator divided by unit labor costs.

results from a number of factors. On the one hand, employees worked less overtime, and companies paid fewer bonuses and other incentive compensation. On the other hand, structural effects have also been at play. In the current crisis, job losses were recorded above all in the manufacturing industry. Since this industry pays above-average wages, average wages have gone down as well. In view of the wage settlements negotiated in fall 2009 that were available at the time of writing (metal industry and retail sector: approximately +1½%), we expect negotiated wages to increase by 1.3% in 2010, and by 1.6% in 2011. Given high unemployment levels and the strongly negative output gap, there is little sign of inflation pressures building up during the forecast horizon.

7 Medium-Term Balance of Risks for Growth Is on the Downside

In the short run, the risks surrounding this economic outlook are tilted to the upside. The projections are based on the assumption that the temporary factors that supported growth in the second half of 2009 will rapidly lose effect, and that GDP growth – last measured at 0.9% in the third quarter 2009 (real, seasonally adjusted, against the previous quarter) – will drop to 0.4% in the fourth quarter of 2009 and to 0.1% in the first quarter of 2010. However, there is a chance that the inventory cycle and the economic stimulus packages may in the short run provide a higher contribution to growth than expected. In the medium run, however, risks lie mainly on the downside. The widespread strong need to consolidate public finances and a faster unwinding of fiscal and monetary stimulus programs might dampen economic growth. Other downside risks include the unexpected emergence of renewed tensions in financial markets. A further appreciation of the euro would hurt the European export industry. Last but not least, a continued rise in commodity prices also constitutes a risk for cyclical developments.

With regard to inflation, the main upside risk stems from a renewed surge in commodity prices. In addition, measures to consolidate the budget through revenue increases by raising fees and taxes would also stoke inflation. At the same time, a further appreciation of the euro and weaker medium-term output growth would dampen inflation. In general, rising unemployment figures and persisting excess capacities would also imply lower levels of wage and price inflation.

8 Economic Outlook Much Brighter on Account of more Favorable External Conditions

The underlying assumptions on global growth have been revised upward since the OeNB's June 2009 economic outlook. For 2010, we raised our growth expectations for Austria's export markets by another 3½ percentage points. In view of the rise in oil prices in recent months, the price of oil futures expiring at the end of 2011 increased by around USD 15 per barrel (Brent). The euro has appreciated against the U.S. dollar and it has also strengthened on the basis of nominal effective exchange rates. Since interest rates have decreased since June 2009, long-term interest rates have been revised downward by about ½ percentage point throughout the forecast horizon.

The effects of these new external assumptions were simulated using the OeNB's macroeconomic model. The brighter external conditions were found to support GDP growth by 1.3 percentage points in 2010. Austria will benefit above all from stronger

Table 10

Change in the External Economic Conditions since the OeNB June 2009 Outlook

	December 2009			June 2009			Difference		
	2009	2010	2011	2009	2010	2011	2009	2010	2011
	Annual change in %								
Growth of Austria's export markets	−12.3	+3.4	+3.8	−12.4	+0.1	+3.6	+0.1	+3.3	+0.2
Competitor prices in Austria's export markets	−3.4	−0.1	+1.1	−2.5	−0.1	+0.7	−0.9	+0.0	+0.4
Competitor prices in Austria's import markets	−3.1	+0.1	+1.1	−2.5	−0.1	+0.7	−0.6	+0.2	+0.4
	USD								
Oil price per barrel (Brent)	62.2	81.4	85.9	54.5	65.5	70.3	+7.7	+15.9	+15.6
	Annual change in %								
Nominal effective exchange rate (exports)	−0.7	−0.4	+0.0	−0.4	+0.1	+0.0	−0.3	−0.5	+0.0
Nominal effective exchange rate (imports)	−0.8	−0.1	+0.0	−0.7	+0.1	+0.0	−0.1	−0.2	+0.0
	%								
Three-month interest rate	1.2	1.2	2.4	1.4	1.6	2.5	−0.2	−0.4	−0.1
Long-term interest rate	3.9	3.9	4.4	4.2	4.6	5.0	−0.3	−0.7	−0.6
	Annual change in %								
U.S. GDP (real)	−2.5	+1.9	+2.3	−3.3	+0.3	+1.6	+0.8	+1.6	+0.7
	USD/EUR								
USD/EUR exchange rate	1.40	1.49	1.49	1.33	1.34	1.34	+0.07	+0.15	+0.15

Source: Eurosystem.

Table 11

Breakdown of Forecast Revisions

	GDP			HICP		
	2009	2010	2011	2009	2010	2011
	Annual change in %					
December 2009 outlook	−3.5	+1.2	+1.6	+0.5	+1.5	+1.6
June 2009 outlook	−4.2	−0.4	+1.2	+0.4	+1.1	+1.2
Difference	+0.7	+1.6	+0.4	+0.1	+0.4	+0.4
	Percentage points					
Due to:						
External assumptions	+0.1	+1.3	+0.5	+0.3	+0.5	+0.4
New data	+0.5	+0.9	x	+0.0	+0.0	x
of which: Revision of historical data until Q1 09	*−0.7*	*x*	*x*	*x*	*x*	*x*
Projection errors for Q2 09 and Q3 09	*+1.3*	*+0.9*	*x*	*+0.0*	*x*	*x*
Other[1]	+0.0	−0.6	−0.1	−0.2	−0.1	+0.0

Source: OeNB June 2009 and December 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.*

growth in its export markets. In addition, the low level of interest rates is also beneficial for growth.

Table 11 lists in detail the reasons that motivated the latest forecast revisions, differentiating between effects of changed external assumptions, effects of new data and other effects. The influence of new data includes the effects of the revisions of both the historical data already available at the time of the previous economic outlook (i.e. data up to the first quarter of 2009) and the forecasting errors of the previous outlook for the periods now published for the first time (i.e. data for the second and third quarters of 2009). This exercise shows that economic activity developed more favorably than forecast both in the second quarter (–0.5% rather than –1.4%) and in the third quarter of 2009 (+0.9% rather than –0.5%). This forecasting error was, however, partly offset by a marked downward revision of GDP growth in the second half of 2008. For the forecast for 2010, these historical data revisions were not relevant. The upward revision of the inflation forecast basically reflects the assumption of higher energy prices. The exchange rate assumptions, in contrast, had a dampening effect in comparison with the June 2009 outlook.

Box 3

OeNB-BOFIT Outlook for CESEE Countries[1] The Region is Reaching the Trough, a Gradual Recovery, Mainly Driven by External Demand, to Be Seen from 2010 Onward[2]

This box presents GDP projections for an aggregate of eight CEE countries (the CEE-8, covering Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania) as well as for five individual CEE countries (Bulgaria, the Czech Republic, Hungary, Poland, Romania) and Russia for the years 2009 to 2011. In 2009, GDP in the CEE-8 will contract by close to 4%, even though Poland, the largest economy in the region, will post positive growth. In 2010, growth in the CEE-8 will turn slightly positive (+0.5%) and recover further by a moderate 2.6% in 2011. The Russian economy, following a deep contraction of 8% in 2009, will grow by 3% in both 2010 and 2011.

Table 1

CEE-8 GDP Outcomes 2008 and Projections for 2009–2011

	Eurostat	OeNB		
	2008	2009	2010	2011
	Annual growth in %			
CEE-8	**3.7**	**–3.8**	**0.5**	**2.6**
Bulgaria	6.0	–5.2	–0.1	1.6
Czech Republic	3.2	–5.2	0.6	2.6
Hungary	0.6	–6.7	–1.1	3.3
Poland	4.8	1.0	1.9	3.1
Romania	7.1	–7.7	0.3	3.1

Source: OeNB September 2009 forecast, Eurostat.

Measured in average annual terms, the extent of the decline in growth in 2009 will be very similar in the CEE-8 and the euro area. Thus, the positive growth differential of the past years will not be visible in 2009. However, the performance in most countries will actually be far below the average, and the projected growth rate of –3.8% is significantly influenced by the strong performance of Poland. On the back of strong domestic demand, the Polish economy is expected to grow by +1%. Hence, the country is leading in terms of performance not only within the region but also within the EU as a whole. For 2010, a slight recovery of +0.5% is projected for the CEE-8 aggregate. In 2011, all countries will experience positive, albeit still relatively low growth rates, and the economy of the CEE-8 region as a whole will expand by 2.6%.

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

[2] *The OeNB and the Bank of Finland Institute for Economies in Transition (BOFIT) compile semiannual forecasts of economic developments in Bulgaria, the Czech Republic, Hungary, Poland, Romania, Russia, and Croatia, with the OeNB being in charge of the projections for the EU Member States and Croatia and BOFIT for the forecast regarding Russia. The cutoff date for all projections is September 28, 2009. The projections rest 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 recover steadily up until 2011, but will stay well below its pre-crisis level. The USD/EUR exchange rate is assumed to rise moderately in 2009 and to remain unchanged over the remaining projection horizon.*

1 *Outlook for CEE-5: Poland Performs Best in 2009, Gradual Recovery in the Region Expected for 2010 and 2011*

The global financial crisis hit the CEE-5 countries later but in most cases more severely than Western Europe, as already laid out in the March OeNB-BOFIT[3] projections. The significant downturn in the ***first half of 2009*** *was mainly driven by a slump in exports triggered by a lack of external demand (this decline was less pronounced in Poland, possibly helped by the comparatively strong currency depreciation in late 2008 and early 2009), a strong decrease in gross fixed capital formation and substantial destocking related to faltering export demand and worsening economic sentiment. Private consumption delivered a substantial negative contribution to growth in all countries as labor market conditions started to deteriorate, wage growth decelerated in real terms and credit growth declined substantially. Imports contracted more sharply than exports in almost all countries. Thus, net exports developed into the most important GDP-sustaining component in all countries apart from the Czech Republic.*

Just as the crisis hit the region with a time lag, recovery will take place with some delay, too. In the ***second half of 2009,*** *domestic demand will not pick up compared to the first half, and the positive contribution of net exports will continue to rely on the slump in imports (which will, however, lose momentum in all countries).[4] Exports are expected to remain weak for the rest of 2009 due to lackluster import growth in the euro area, partly due to the end of Western European car scrappage schemes. These schemes were particularly important for the Czech Republic and Hungary in the first half of 2009. The inventory cycle will help support GDP dynamics during the second half of 2009, as destocking came to an end by mid-2009. The positive contribution of net exports to growth observed in most countries (ranging between 19 percentage points in Romania and 2½ percentage points in Poland for the whole year of 2009) will partly be temporary and is particularly strong in those countries where domestic demand declined the most. Export-oriented Czech Republic is the only country showing a negative contribution of net exports in 2009 because of the country's high dependance on the car industry, one of the industries hit hardest by the current crisis at the global level.*

The moderate growth projected for the CEE-5 for ***2010*** *is expected to stem from external demand. We expect mostly positive though very small contributions from net exports to GDP, ranging between 0.1 percentage points in the Czech Republic to 1.7 percentage points in Hungary. Again, Poland is the only exception, with a projected small negative contribution (−0.5 percentage points) in 2010.*

In most countries, current account imbalances have been reduced significantly during the crisis, while the turmoil seen in financial markets in late 2008 and early 2009 has abated. Hence, we expect investment activity to stabilize in 2010 and exports to rise as a consequence of an improved global environment (imports will also pick up somewhat from their depressed 2009 levels). For the region as a whole, the external growth impetus will, however, be too weak to bring the CEE countries back on a robust growth track as early as in 2010, given that domestic demand continues to be weak. As the effects of the crisis on the real economy materialize only with a certain time lag (through rising unemployment, precautionary savings and weak confidence), private consumption will remain subdued. All countries will continue to have little room for anticyclical fiscal measures. In a few countries, there might even be a (moderately) negative impact on GDP dynamics coming from (continued) fiscal tightening.

In ***2011,*** *improving external demand conditions and the continued process of restocking is expected to lead to a positive growth performance in all countries. The strong growth of both exports and imports will be partly due to base effects arising from previously low levels.*

[3] *See Box 4 of the "Economic Outlook for Austria" in Monetary Policy & the Economy Q2/09.*

[4] *The unprecedented collapse of international trade in late 2008 and early 2009 is reflected in major downward revisions in the projections of import growth compared to our last forecast. However, with exports falling substantially as well, the net effect on our revisions for GDP growth is rather moderate.*

Compared to pre-crisis levels, growth will remain subdued and the contribution of domestic demand will continue to be weaker due to lagged real economy effects. Hungary, where domestic demand has already been sluggish for several years, will be an exception and show some recovery in investments.

The forecasts for 2010 and 2011 are still subject to considerable uncertainty, mainly related to developments in Western Europe. External demand and external financing conditions for the CEE-8 may be affected negatively if the gradual recovery of the global and the euro area economy that we assume in our baseline scenario does not materialize (risk of a double dip). Another risk factor would be a renewed increase in risk aversion vis-à-vis emerging economies. Moreover, domestic demand may also be weaker than expected, in particular if the real economy impact of the financial crisis in the CEE-5 countries turns out to be stronger than anticipated.

2 BOFIT-OeNB Forecast for Russia: Deep Contraction in 2009, Global Crisis probably Prelude to Lower Trend Growth

The world economic crisis hit Russia hard through the sharp decline in oil prices and the drying up of international financial markets, which triggered a credit crunch in the country. In the first half of 2009, Russia's total output fell 10.4% year on year, although the second-quarter performance showed signs of stabilization. The drop in GDP was primarily due to a decline in fixed investments (estimated at 19% in the first eight months over the same period in 2008) and a substantial drawdown of inventories. A drop in economic activity and the strong devaluation of the ruble in early 2009 also triggered a sharp contraction of imports. Month-on-month and quarter-on-quarter data point to a bottoming out of GDP growth in the summer of 2009. Monthly estimates of real GDP reached their lowest point in early 2009 and have been rising again since May. Unemployment rates (International Labour Organization's methodology) leveled off over spring and summer.

In the ***second half of 2009,*** *private consumption is likely to be boosted by trickle-down effects of recovering oil and staple revenues, by the stabilization of the job market and by wage recovery. Moreover, growth in government consumption should kick in, since the revised federal budget for 2009 provides for a sizable fiscal stimulus: It foresees higher expenditure (+7% of GDP) despite falling revenues, leading to an expected budget deficit of over 8% of GDP (2008: surplus of 4.1%). The turnaround in the second half of 2009 will be supported by modest growth in export demand. Import growth will likely remain subdued, given its sharp decrease in the first half of the year and the continuing impact of the ruble devaluation of early 2009. However, persisting elevated (double digit) inflation has been eroding competitiveness gains sparked by devaluation, and recovering consumer demand may contribute to a gradual pick-up of imports toward the end of the year. Still, net exports will probably deliver a positive contribution to GDP growth for the first time in years. Given the weak economic performance in the earlier part of the year, total output in 2009 will register a substantial contraction, which we project at 8.0%.*

Owing to considerable lingering uncertainty and limited credit availability, investment – hit by a severe credit crunch – is not expected to pick up until 2010. At that point, investment will join private and government consumption, buoyed by a stabilization of the global recovery, as the driving forces of Russian economic expansion. The continuing, though smaller fiscal stimulus in 2010 will include an expansion of social policy measures. Budget shortfalls in both 2009 and 2010 are to be covered mostly by money from reserve and welfare funds. While exports will continue to grow modestly, the recovery of domestic demand and the likely return of the ruble's real effective exchange rate to almost the level posted one year earlier will revive imports – to the point that the contribution of net exports to growth will revert to negative territory. GDP growth will be relatively moderate in 2010 and 2011 (+3% in both years).

Table 2

Russia GDP Outcome 2008 and Projections for 2009–2011

	Rosstat	BOFIT-OeNB		
	2008	2009	2010	2011
	Annual growth in %			
Russia	5.6	–8.0	3.0	3.0

Source: Rosstat 2008, BOFIT forecast 2009–2011.

The risks to these projections are mainly on the downside. As in the past, Russia's economic performance in the coming years will largely depend on the oil price, and therefore on the strength of the world economy's recovery, which is expected to remain fragile for some time. Another risk factor relates to nonperforming loans, which have already reached a high level. Their further expansion would perpetuate the credit squeeze and act as a major drag on the economy's recovery. Inflation also gives rise to concern: If it does not subside in the remaining months of 2009, the Russian currency could get under renewed downward pressure, which might even again destabilize the financial system. Finally, the world economic crisis may dampen Russian investment growth and hence the economy's medium- to long-term growth trajectory if the banking sector (or capital market) fails to make up at least partly for the breakdown of foreign investment finance.

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	137,953	138,531	139,412	140,649	+0.5	+0.4	+0.6	+0.9
Government consumption	48,619	48,892	49,250	49,724	+3.0	+0.6	+0.7	+1.0
Gross fixed capital formation	56,152	53,564	54,184	55,236	+0.5	−4.6	+1.2	+1.9
of which: Investment in plant and equipment	*21,421*	*18,774*	*18,838*	*19,346*	*−1.4*	*−12.4*	*+0.3*	*+2.7*
Residential construction investment	*12,174*	*11,900*	*11,999*	*12,193*	*+1.9*	*−2.3*	*+0.8*	*+1.6*
Investment in other construction	*22,557*	*22,890*	*23,347*	*23,697*	*+1.6*	*+1.5*	*+2.0*	*+1.5*
Changes in inventories (including statistical discrepancy)	4,781	2,009	2,333	2,221	×	×	×	×
Domestic demand	247,505	242,997	245,179	247,830	+1.5	−1.8	+0.9	+1.1
Exports of goods and services	153,726	133,930	137,695	143,120	−0.4	−12.9	+2.8	+3.9
Imports of goods and services	135,631	120,740	123,504	127,402	−1.6	−11.0	+2.3	+3.2
Net exports	18,095	13,190	14,191	15,719	×	×	×	×
Gross domestic product	265,600	256,187	259,370	263,549	+2.0	−3.5	+1.2	+1.6

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

Table 13

Demand Components (Current Prices)

	2008	2009	2010	2011	2008	2009	2010	2011
	EUR million				*Annual change in %*			
Private consumption	148,512	150,496	153,570	157,435	+3.3	+1.3	+2.0	+2.5
Government consumption	52,030	53,892	55,101	56,466	+5.9	+3.6	+2.2	+2.5
Gross fixed capital formation	60,218	57,867	59,239	61,295	+2.0	−3.9	+2.4	+3.5
Changes in inventories (including statistical discrepancy)	2,192	−2,299	−2,336	−2,781	×	×	×	×
Domestic demand	262,952	259,956	265,573	272,415	+3.4	−1.1	+2.2	+2.6
Exports of goods and services	167,310	141,233	144,775	152,396	+3.3	−15.6	+2.5	+5.3
Imports of goods and services	148,447	128,167	130,574	136,673	+2.2	−13.7	+1.9	+4.7
Net exports	18,863	13,066	14,201	15,723	×	×	×	×
Gross domestic product	281,815	273,022	279,774	288,138	+4.0	−3.1	+2.5	+3.0

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

Table 14

Deflators of Demand Components

	2008	2009	2010	2011	2008	2009	2010	2011
	2000 = 100				*Annual change in %*			
Private consumption	107.7	108.6	110.2	111.9	+2.8	+0.9	+1.4	+1.6
Government consumption	107.0	110.2	111.9	113.6	+2.9	+3.0	+1.5	+1.5
Gross fixed capital formation	107.3	108.0	109.3	111.0	+1.5	+0.7	+1.2	+1.5
Domestic demand (excluding changes in inventories)	107.4	108.8	110.3	112.0	+2.5	+1.3	+1.4	+1.6
Exports of goods and services	108.9	105.5	105.1	106.5	+3.8	−3.1	−0.3	+1.3
Imports of goods and services	109.4	106.2	105.7	107.3	+3.8	−3.0	−0.4	+1.5
Terms of trade	99.5	99.3	99.4	99.3	+0.0	−0.1	+0.1	−0.2
Gross domestic product	106.1	106.6	107.9	109.3	+2.0	+0.4	+1.2	+1.4

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

Table 15

Labor Market

	2008	2009	2010	2011	2008	2009	2010	2011
	Thousands				*Annual change in %*			
Total employment	4,251.6	4,200.0	4,166.1	4,179.6	+2.1	−1.2	−0.8	+0.3
of which: Private sector employment	*3,719.9*	*3,667.6*	*3,633.7*	*3,647.5*	*+2.1*	*−1.4*	*−0.9*	*+0.4*
Payroll employment (national accounts definition)	3,570.1	3,522.4	3,499.8	3,515.8	+2.5	−1.3	−0.6	+0.5
	% of labor supply							
Unemployment rate (Eurostat definition)	3.9	4.7	5.3	5.4	×	×	×	×
	EUR per real output unit x 100							
Unit labor costs (whole economy)[1]	62.1	65.1	64.6	65.0	+2.8	+4.9	−0.8	+0.5
	EUR thousand per employee							
Labor productivity (whole economy)[2]	62.5	61.0	62.3	63.1	−0.1	−2.4	+2.1	+1.3
	EUR thousand							
Real compensation per employee[3]	36.0	36.6	36.5	36.6	−0.1	+1.5	−0.1	+0.2
	At current prices, EUR thousand							
Gross compensation per employee	38.8	39.7	40.2	41.0	+2.7	+2.4	+1.3	+1.8
	At current prices, EUR million							
Total gross compensation of employees	138,531	139,967	140,854	144,064	+5.3	+1.0	+0.6	+2.3

Source: 2008: Eurostat; 2009 to 2011: OeNB December 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	12,619.0	9,729.3	10,688.9	11,853.4	4.5	3.6	3.8	4.1
Balance on goods	−556.0	−2,145.3	−1,238.8	−1,136.5	−0.2	−0.8	−0.4	−0.4
Balance on services	13,175.0	11,874.6	11,927.7	12,989.9	4.7	4.3	4.3	4.5
Euro area	−437.0	143.1	399.3	1,255.7	−0.2	0.1	0.1	0.4
Non-euro area countries	13,056.0	9,586.2	10,289.6	10,597.7	4.6	3.5	3.7	3.7
Balance on income	−1,866.0	−2,508.4	−2,689.4	−2,759.6	−0.7	−0.9	−1.0	−1.0
Balance on transfers	−1,714.0	−2,307.7	−1,938.2	−2,075.2	−0.6	−0.8	−0.7	−0.7
Current account	9,039.0	4,913.2	6,061.3	7,018.6	3.2	1.8	2.2	2.4

Source: 2008: Eurostat; 2009 to 2011: OeNB December 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	+0.5	+1.5	+1.6	+1.0	+0.1	−0.1	+0.8	+1.6	+1.6	+1.5	+1.4	+1.5	+1.6	+1.6	+1.6
HICP (excluding energy)	+1.5	+1.2	+1.5	+2.2	+1.6	+1.3	+1.1	+1.1	+1.3	+1.4	+1.3	+1.4	+1.5	+1.5	+1.5
Private consumption expenditure (PCE) deflator	+0.9	+1.4	+1.6	+0.9	+0.9	+0.9	+1.0	+1.3	+1.4	+1.4	+1.5	+1.6	+1.6	+1.6	+1.6
Gross fixed capital formation deflator	+0.7	+1.2	+1.5	+0.9	+0.7	+0.6	+0.7	+0.9	+1.1	+1.4	+1.4	+1.4	+1.5	+1.6	+1.6
GDP deflator	+0.4	+1.2	+1.4	+0.4	+0.2	−0.1	+1.2	+1.1	+1.1	+1.3	+1.3	+1.3	+1.4	+1.4	+1.4
Unit labor costs	+4.9	−0.8	+0.5	+7.0	+7.5	+3.6	+1.5	−1.3	−2.2	+0.0	+0.4	+0.1	+0.3	+0.7	+1.0
Nominal wages per employee	+2.4	+1.3	+1.8	+3.0	+3.4	+1.9	+1.3	+1.0	+0.6	+1.7	+1.9	+1.7	+1.7	+1.9	+2.0
Productivity	−2.4	+2.1	+1.3	−3.8	−3.8	−1.6	−0.2	+2.3	+2.9	+1.6	+1.4	+1.6	+1.4	+1.2	+1.0
Real wages per employee	+1.5	−0.1	+0.2	+2.0	+2.6	+1.0	+0.3	−0.3	−0.7	+0.3	+0.3	+0.1	+0.1	+0.2	+0.3
Import deflator	−3.0	−0.4	+1.5	−2.1	−1.8	−5.7	−2.3	−1.1	−1.9	+0.7	+0.8	+1.1	+1.4	+1.6	+1.7
Export deflator	−3.1	−0.3	+1.3	−0.9	−2.6	−4.8	−4.2	−1.4	−1.0	+0.5	+0.7	+1.0	+1.2	+1.4	+1.5
Terms of trade	−0.1	+0.1	−0.2	+1.2	−0.8	+1.0	−1.9	−0.2	+1.0	−0.2	−0.1	−0.2	−0.2	−0.2	−0.2
Economic activity	*Annual and/or quarterly changes in % (real)*														
GDP	−3.5	+1.2	+1.6	−2.6	−0.5	+0.9	+0.4	+0.1	+0.3	+0.4	+0.4	+0.4	+0.4	+0.4	+0.4
Private consumption	+0.4	+0.6	+0.9	+0.1	+0.1	+0.1	+0.0	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2	+0.3
Government consumption	+0.6	+0.7	+1.0	−1.6	+0.2	+1.2	−0.1	−0.1	+0.1	+0.2	+0.3	+0.3	+0.2	+0.2	+0.2
Gross fixed capital formation	−4.6	+1.2	+1.9	−2.5	+0.1	+1.3	−0.3	+0.2	+0.3	+0.4	+0.4	+0.5	+0.5	+0.5	+0.6
of which: Investment in plant and equipment	*−12.4*	*+0.3*	*+2.7*	*−4.7*	*−2.6*	*+0.0*	*+0.2*	*+0.1*	*+0.4*	*+0.6*	*+0.7*	*+0.7*	*+0.7*	*+0.7*	*+0.8*
Residential construction investment[1]	*−2.3*	*+0.8*	*+1.6*	*−1.1*	*−0.6*	*−0.1*	*+0.2*	*+0.4*	*+0.4*	*+0.4*	*+0.3*	*+0.4*	*+0.5*	*+0.4*	*+0.5*
Exports	−12.9	+2.8	+3.9	−5.7	−2.8	+1.4	+1.1	+0.6	+0.9	+0.9	+0.9	+0.9	+1.0	+1.1	+1.1
Imports	−11.0	+2.3	+3.2	−5.6	−2.3	+0.9	+1.2	+0.6	+0.5	+0.6	+0.7	+0.8	+0.8	+0.9	+0.9
	Contribution to real GDP growth in percentage points														
Domestic demand	−0.7	+0.7	+1.1	−0.8	+0.1	+0.6	−0.1	+0.1	+0.2	+0.2	+0.3	+0.3	+0.3	+0.3	+0.3
Net exports	−1.8	+0.4	+0.6	−0.4	−0.4	+0.3	+0.0	+0.0	+0.2	+0.2	+0.2	+0.1	+0.1	+0.1	+0.1
Changes in inventories	−1.0	+0.1	+0.0	−1.5	−0.3	+0.1	+0.4	+0.0	−0.1	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0
Labor market	*% of labor supply*														
Unemployment rate (Eurostat definition)	4.7	5.3	5.4	4.4	4.8	4.7	4.9	5.1	5.3	5.4	5.4	5.4	5.4	5.4	5.3
	Annual and/or quarterly changes in %														
Total employment	−1.2	−0.8	+0.3	−0.5	−0.4	−0.7	−0.2	−0.1	−0.2	+0.0	+0.0	+0.1	+0.2	+0.2	+0.3
of which: Private sector employment	*−1.4*	*−0.9*	*+0.4*	*−0.5*	*−0.4*	*−0.8*	*−0.2*	*−0.1*	*−0.2*	*+0.0*	*+0.1*	*+0.1*	*+0.2*	*+0.2*	*+0.3*
Payroll employment	−1.3	−0.6	+0.5	−0.6	−0.6	−0.7	−0.1	+0.0	−0.1	+0.0	+0.1	+0.1	+0.2	+0.3	+0.3
Additional variables	*Annual and/or quarterly changes in % (real)*														
Disposable household income	+0.4	+0.6	+0.6	+0.2	+1.2	+1.4	−0.1	+0.0	−0.4	+0.0	−0.1	+0.2	+0.3	+0.5	+0.3
	% of real disposable household income (saving ratio) and % of real GDP (output gap)														
Household saving ratio	11.9	11.8	11.6	10.7	11.6	12.8	12.6	12.4	11.9	11.7	11.4	11.4	11.5	11.7	11.8
Output gap	−2.0	−2.0	−1.9	−2.1	−2.5	−1.8	−1.7	−1.9	−2.0	−2.0	−1.9	−1.9	−1.9	−1.9	−1.8

Source: OeNB December 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		
	December 2009			September 2009		September 2009		November 2009			October 2009		November 2009		
	2009	2010	2011	2009	2010	2009	2010	2009	2010	2011	2009	2010	2009	2010	2011
	Annual change in %														
Key results															
GDP (real)	−3.5	+1.2	+1.6	−3.4	+1.0	−3.8	+1.0	−3.8	+0.9	+2.2	−3.8	+0.3	−3.7	+1.1	+1.5
Private consumption (real)	+0.4	+0.6	+0.9	+0.2	+0.5	+0.3	+0.5	+0.7	+0.8	+1.7	×	×	+0.5	+0.5	+0.6
Government consumption (real)	+0.6	+0.7	+1.0	+0.8	+1.5	+1.0	+0.8	+0.9	+1.7	+1.3	×	×	+1.0	+1.4	+1.1
Gross fixed capital formation (real)[1]	−4.6	+1.2	+1.9	−6.1	−0.4	−10.8	−0.2	−6.5	+0.1	+3.7	×	×	−6.6	−0.3	+3.0
Exports (real)	−12.9	+2.8	+3.9	−12.0	+2.2	−13.5	+3.8	−14.1	+4.5	+7.5	×	×	−13.7	+2.1	+3.5
Imports (real)	−11.0	+2.3	+3.2	−10.1	+1.6	−12.1	+2.9	−9.6	+5.1	+7.8	×	×	−9.8	+1.6	+3.1
GDP per employee	−2.4	+2.1	+1.3	−2.3	+1.5	−2.4	+1.8	×	×	×	×	×	−2.3	+1.8	+1.2
GDP deflator	+0.4	+1.2	+1.4	+1.9	+0.9	+1.5	+1.0	+0.7	+1.0	+1.1	×	×	+1.6	+0.9	+1.7
CPI	×	×	×	+0.5	+1.3	+0.6	+1.4	×	×	×	+0.5	+1.0	×	×	×
HICP	+0.5	+1.5	+1.6	+0.5	+1.3	×	×	+0.3	+0.6	+1.0	×	×	+0.5	+1.3	+1.6
Unit labor costs	+4.9	−0.8	+0.5	+5.1	−0.3	×	×	×	×	×	×	×	+5.4	+0.2	+1.3
Payroll employment	−1.2	−0.8	+0.3	−1.5	−0.9	−1.5	−0.8	×	×	×	×	×	−1.5	−0.7	+0.3
	% of labor supply														
Unemployment rate[2]	4.7	5.3	5.4	5.3	5.8	5.0	5.8	5.8	7.1	7.3	5.3	6.4	5.5	6.0	5.7
	% of nominal GDP														
Current account	1.8	2.2	2.4	1.9	1.9	×	×	1.9	2.2	2.6	2.1	2.0	1.5	1.4	1.8
Government surplus/deficit	−4.2	−5.6	−5.4	−4.5	−5.7	−4.4	−5.4	−4.3	−5.5	−5.8	−4.2	−5.6	−4.3	−5.5	−5.3
External assumptions															
Oil price in USD/barrel (Brent)	62.2	81.4	85.9	60.0	75.0	61.0	80.0	77.0	77.0	77.0	61.5	76.5	61.3	76.5	80.5
Short-term interest rate in %	1.2	1.2	2.4	1.3	1.5	1.2	1.2	1.2	0.8	1.9	1.2	1.6	1.3	1.5	2.5
USD/EUR exchange rate	1.40	1.49	1.49	1.40	1.50	1.39	1.35	1.49	1.49	1.49	1.37	1.41	1.39	1.48	1.48
	Annual change in %														
Euro area GDP (real)	−4.1 to −3.9	+0.1 to +1.5	+0.2 to +2.2	−4.0	+0.8	−3.9	+1.0	−4.0	+0.9	+1.7	−4.2	+0.3	−4.0	+0.7	+1.5
U.S. GDP (real)	−2.5	+1.9	+2.3	−2.7	+1.0	−2.7	+1.7	−2.5	+2.5	+2.8	−2.7	+1.5	−2.5	+2.2	+2.0
World GDP (real)	−1.1	+3.0	+3.5	−1.2	+2.0	×	×	×	×	×	−1.1	+3.1	−1.2	+3.1	+3.5
World trade	−11.7	+4.3	+4.7	−12.0	+2.0	−14.5	+6.0	−12.5	+6.0	+7.7	−11.9	+2.5	−14.0	+3.6	+4.6

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

[1] *For IAS: Gross investment.*

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