

# Austrian GDP Growth at 0.8% in 2014

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## Austria's Economic Output Went Up by Only 0.2% in the Second Quarter of 2014

According to the flash release of national accounts data, in the second quarter of 2014 the Austrian economy grew by only 0.2% against the previous quarter (in real terms, seasonally and working day-adjusted). As a result, Austrian GDP growth is currently lagging behind the expectations of the OeNB's Economic Indicator of July 2014 (+0.4%).

In the second quarter of 2014, mildly positive economic stimuli were generated by both private and government consumption (0.1% and 0.4%, respectively). Investment growth, by contrast, was unexpectedly sluggish. Companies curbed their investment activity by 0.3% in view of persistent uncertainty. Overall, domestic demand contributed 0.1 percentage points to GDP growth. Despite weak investment, net exports did not make any contribution to GDP growth (0.0 percentage points). Modest export growth

of 0.5% was offset by similarly high import growth.

GDP growth for 2013 was marginally revised downward by 0.1 percentage points to 0.3%. What is more significant for GDP growth in 2014, however, is the marked downward revision by 0.15 percentage points to just under 0.1% for the first quarter of 2014. Even if GDP growth is likely to be revised slightly upward owing to data gaps in the first quarter of 2014, its performance in the first six months of 2014 remains disappointing on the whole.

## The OeNB's Economic Indicator Does Not Point to Economic Recovery in Austria in the Second Half of 2014 – GDP Growth at 0.8% in 2014

The external macroeconomic environment developed worse than anticipated in recent months. In addition to the sustained sluggishness of the euro area economy, the Austrian economy also had to struggle with the effects of geopolitical tensions. Goods exports on a

Table 1

### National Accounts Data for Austria

	GDP	Private consumption	Government consumption	Gross fixed capital formation	Exports	Imports	Domestic demand (excluding inventories)	Net exports	Changes in Inventories	Statistical differences	
	Change on previous period in %						Contribution to GDP growth in percentage points				
Q1 13	+0.0	+0.0	+0.9	-0.3	+0.5	-0.1	+0.1	+0.3	-0.2	-0.2	
Q2 13	+0.0	+0.1	+0.7	+0.0	+0.6	+0.9	+0.2	-0.1	-0.1	+0.0	
Q3 13	+0.3	+0.1	+0.5	+0.0	+1.0	+1.1	+0.1	+0.0	+0.0	+0.1	
Q4 13	+0.4	+0.1	+0.4	-0.3	+0.9	+0.6	+0.1	+0.2	+0.0	+0.1	
Q1 14	+0.1	+0.1	+0.4	+0.6	+0.3	+0.6	+0.3	-0.1	-0.3	+0.2	
Q2 14	+0.2	+0.1	+0.4	-0.3	+0.5	+0.5	+0.1	+0.0	-0.1	+0.2	
2011	+2.9	+1.1	+0.5	+7.3	+6.8	+7.5	2.1	0.1	-0.4	1.1	
2012	+0.7	+0.4	+0.1	+1.9	+1.6	+0.0	+0.6	+1.0	-0.7	-0.2	
2013	+0.3	+0.1	+2.2	-0.8	+2.5	+0.9	+0.3	+1.0	-0.5	-0.3	

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

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Chart 1

### OeNB Export Indicator: Truck Mileage and Goods Exports (seasonally and working day-adjusted)

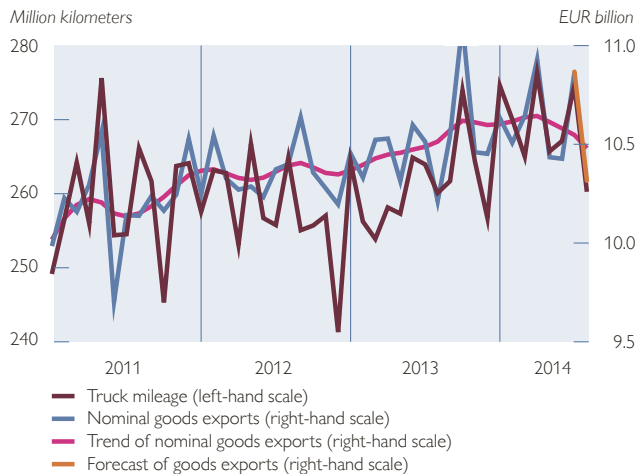
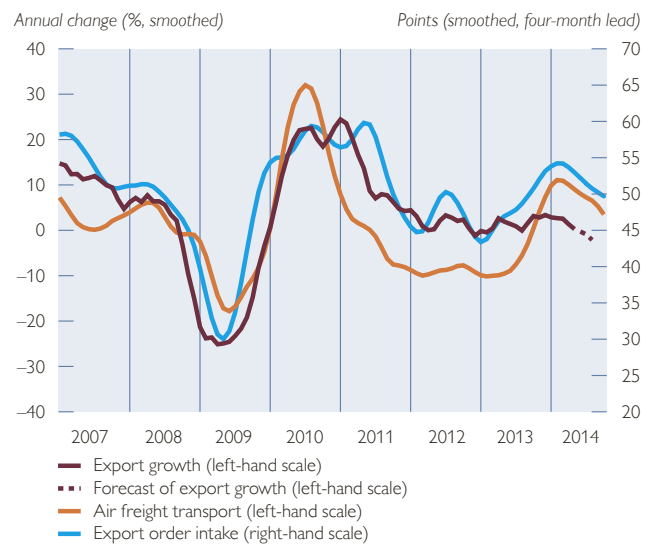


Chart 2

### Leading Indicators for External Trade



cumulative basis rose by a mere 1.2% in the first six months of 2014. Goods exports to the euro area strengthened by 0.4%, with exports to Italy going down (-0.7%) while those to Germany went up (+0.9%). Austrian exports to Russia slumped owing to Russia's longer-standing economic fragility and its conflict with Ukraine. Goods exports to Russia contracted by 12% in the first six months of 2014, slumping by more than 20% in June alone. Accounting for a share of less than 3% of Austria's external trade, the Russian market is of relatively small importance, however. The OeNB Export Indicator, which is based on truck mileage data compiled by the Austrian highway authority ASFINAG, signals a slow start to the second half of 2014 for Austrian exports. In addition, other available leading indicators such as export orders and air freight volumes do not currently indicate a rebound in exports in the second half of 2014.

Given the high level of uncertainty, the in any event weak cyclical stimulus

from exports is currently not transmitted to the domestic economy. Moreover, various confidence indicators reflect the high uncertainty prevailing in the corporate sector. For instance, both the European Commission's Economic Sentiment Indicator (ESI) and the Bank Austria Purchasing Managers' Index (BA-CA PMI) deteriorated to their lowest levels in over one year. At 93 points in September 2014, the ESI is significantly below its long-term average of 100, while the PMI, at just 47.9 points, even signals a contraction in industry.

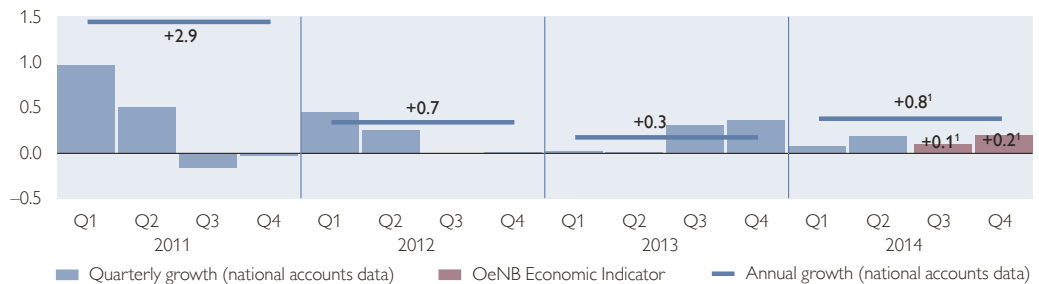
Thus, many companies are postponing their investment projects. Investment growth is being fueled only by housing investment, which is benefiting from rising property prices and an increased need for housing.

Easing inflation and a modest rise in real incomes will permit some scope for additional household spending in the coming months. Private consumption growth will, however, be only marginally stronger, at best, than in the

### Outlook for Austria's Real GDP in the Third and Fourth Quarter of 2014

(seasonally and working day-adjusted)

Quarterly change in % (quarterly data)



Source: OeNB Economic Indicator of October 2014, Eurostat.

<sup>1</sup> As forecast.

first six months of 2014. Overall, GDP growth is not expected to accelerate in the second half of the 2014.

Against this backdrop, the OeNB had to significantly revise downward its growth expectations for 2014. The results of the OeNB's Economic Indicator of October 2014 suggest that Austrian GDP will grow by +0.1% on a quarterly basis in the third quarter of 2014. In the fourth quarter of 2014, quarter-on-quarter growth is expected to pick up slightly to +0.2%. This means that Austria's growth outlook for 2014 as a whole must be revised downward from 1.6% (OeNB June 2014 economic outlook) to no more than 0.8%. Via the carry-over effect, the changed growth profile for 2014 also has a detrimental impact on the growth expectations for 2015, which would be revised downward mechanically from 1.9% to around 1¼%.

### Unemployment Rate Not Expected to Decline

Austria – latterly, in tandem with Germany – continues to post the lowest unemployment rate in the EU. Whereas the labor market situation has significantly improved in Germany in recent years owing to the country's relatively

healthy economy and labor market reforms, in Austria it has deteriorated. In Germany, the unemployment rate (Eurostat definition) fell from 7.5% in 2008 to 4.9% in July 2014. In Austria, by contrast, it climbed from 3.8% to 4.9%.

The rise in Austria's unemployment rate cannot be attributed to slow employment growth. The number of persons in employment is rising steadily despite weak economic momentum. For instance, payroll employment registered 22,000 more persons in August 2014 than in the previous month. At 3,564,000, payroll employment numbers reached a new record high for August.

The fact that the number of newly created jobs does not suffice to prevent unemployment from rising reflects strongly expanding labor supply. In this context, two factors are crucial: growing labor force participation rates among older employees and the influx of foreign labor from the new EU Member States.

The number of economically active persons aged 50 to 64 increased by slightly more than 46,000 in both 2012 and 2013. More than half of this rise is attributable to an accelerating labor

Table 2

**Key Indicators for the Austrian Labor Market**

	Payroll employment		Unemployed persons		Unemployment rate (%)	
	Thousands	Annual change in %	Thousands	Annual change in %	AMS definition (nonseasonally adjusted)	Eurostat definition (seasonally adjusted)
2011	3,422	+1.8	246.7	-1.6	6.7	4.2
2012	3,465	+1.3	260.6	+5.7	7.0	4.4
2013	3,483	+0.5	287.2	+10.2	7.6	4.9
Q3 13	3,553	+0.4	260.3	+13.2	6.8	5.0
Q4 13	3,474	+0.4	314.5	+11.9	8.3	5.0
Q1 14	3,448	+0.7	348.6	+9.5	9.2	5.0
Q2 14	3,505	+0.7	293.3	+14.7	7.7	5.0
Mar. 14	3,472	+0.7	319.2	+10.0	8.4	4.9
Apr. 14	3,476	+0.7	307.5	+12.6	8.1	4.9
May 14	3,499	+0.4	290.9	+15.5	7.7	5.0
June 14	3,540	+0.9	281.6	+16.2	7.4	5.0
July 14	3,595	+0.3	286.4	+11.6	7.4	4.9
Aug. 14	3,564	+0.6	292.3	+11.1	7.6	x

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

force participation rate, which for this age cohort attained a new record high of 62% in 2013. Although the labor force participation rate of older employees is thus only slightly below the euro area average (65%), Austria's gap vis-à-vis its peer countries such as Germany (73.4%) and Sweden (81.3%) remains considerable. Excluding the increase in the labor force participation rate of persons aged 50 to 64, the number of Austria's total economically active population would have fallen by some 15,000 persons in 2013; in fact, however, it rose by 15,000 persons. In future, the labor force participation rate of older employees is anticipated to rise not least owing to pension reforms.

In addition, foreign labor has increased sharply since the Austrian labor market was opened to workers from the new EU Member States. Since then, labor supply from the EU-10 countries has been growing by an annual average of more than 30,000 persons. Since January 1, 2014, a stronger influx from Romania and Bulgaria has offset the

slowly decelerating inflow from the EU-8 countries.

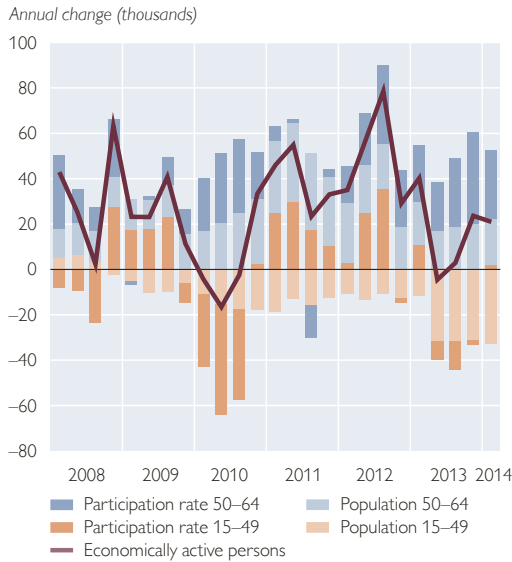
The trend of growing employment, expanding labor supply and stable or slightly rising unemployment is likely to continue in the coming months. The stabilizing number of vacancies and the increasing number of leased workers indicate sustained employment growth for the remainder of 2014. At the same time, the number of leased workers who are registered unemployed is going up. Nevertheless, it is gratifying to note that the number of intended dismissals under the AMS early warning system is trending downward.

All in all, however, it should not be expected, given the bleak economic environment, that employment growth will be sufficiently robust in the next few months to induce a fall in unemployment. Austria's unemployment rate (AMS definition), which rose by 0.7 percentage points to 8.5% on a seasonally-adjusted basis (nonseasonally adjusted: 7.6%) within a year, might therefore continue to inch up slightly in the com-

Chart 4

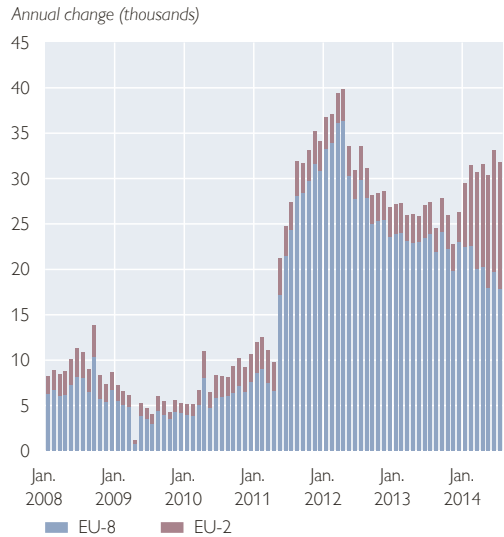
### Determinants of Labor Supply Growth in Austria

#### Economically active persons aged 15–64



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

#### Economically Active Persons from the EU-10 Countries

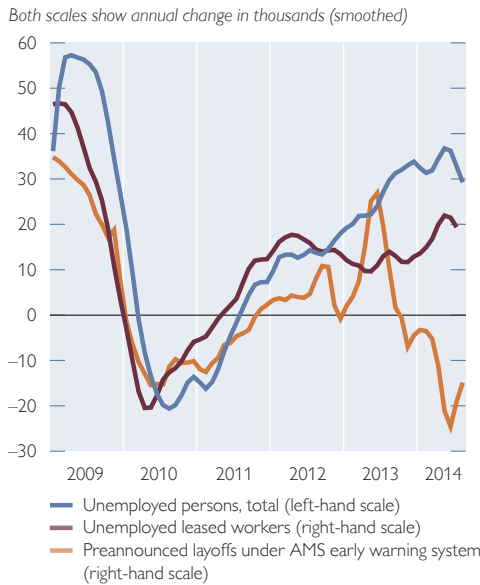


Note: EU-8: Czech Republic, Estonia, Latvia, Lithuania, Hungary, Poland, Slovakia, Slovenia.  
 EU-2: Bulgaria, Romania.  
 EU-10=EU-8+EU-2.

Chart 5

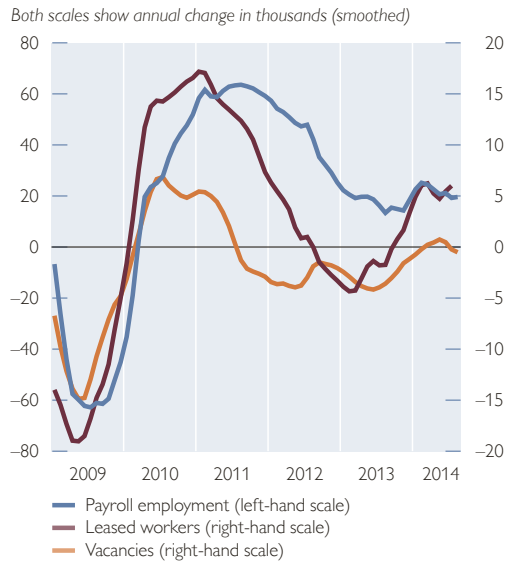
### Leading Indicators for the Labor Market

#### Unemployment



Source: Statistics Austria, AMS.

#### Employment



ing months. By contrast, the unemployment rate (Eurostat definition) is likely to remain at just below 5% for the rest of 2014, as in the previous 12 months. The different development of these two unemployment rates is likely to be related to difficulties encountered in the coverage of foreign employees.

### **Inflation Rate in 2014 Barely Changed So Far**

Austrian HICP inflation has remained nearly unchanged since early 2014. In August 2014, headline inflation stood at 1.5%, i.e. at the same level as in January 2014. In the interim, it had climbed to 1.7% in June and July 2014, which reflected above all the price developments in the services and processed foods sectors (including alcohol and tobacco).

In August 2014, the services sector alone, where annual inflation accelerated from 2.6% (in January) to 3.0% (in August), accounted for around 90% of headline inflation. Inflation in restaurant and hotel services remains above average, for which healthy growth in demand in the tourism sector is likely to be a key factor. In addition, annual rent inflation accelerated (to 4.2% in August 2014) owing to the previous months' adjustment of both rents in various categories and benchmark rent levels, as well as to the continued dynamic development of property prices. However, administered prices such as those for dental services also contributed to the uptick in services inflation.

Although nonenergy industrial goods inflation fluctuated for the most part just below 0.5% until July 2014, it fell sharply to  $-0.2\%$  in the following month. This drop in inflation was attributable primarily to price declines in clothing and footwear ( $-1.5\%$ ) but also to those in many durables for rec-

reation and culture (e.g. recording media) and in nondurable household goods.

Although inflation in the food sector has on the whole eased since early 2014, it accelerated slightly in both July and August 2014. This development is primarily attributable to unprocessed food (e.g. fruit and vegetables) prices, the inflation rate of which went down from 1.8% in January 2014 to  $-0.3\%$  in June. By August 2014, however, it had climbed again to 0.8%. Annual inflation in the energy sector has so far remained negative in 2014, standing most recently at  $-2.3\%$  in August owing to still falling fuel prices.

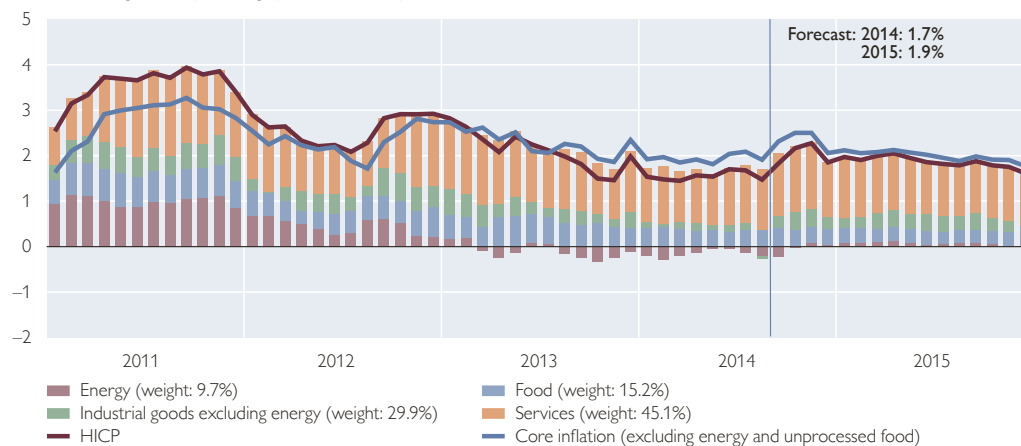
Inflation continues to be far higher in Austria than in other euro area countries. In August 2014, for instance, HICP inflation stood at 0.4% in the euro area and at 0.8% in Germany. Austria's inflation gap vis-à-vis Germany, its most important trading partner, was 0.7 percentage points in August 2014. This gap mirrors above all differing price developments in the services sector. In August 2014, services inflation was 3.0% (July: 2.8%) in Austria and 1.4% (same as in July) in Germany. Within the services sector, Austria's inflation gap vis-à-vis Germany is attributable to both wage-sensitive sectors (recently, especially restaurant and hotel services as well as financial services) and sectors where pricing is essentially determined by public sector entities (including cultural services and education). The higher rate of services inflation in Austria is therefore likely to be attributable to the public sector, to wage development and, not least, to the increase in rents.

In its inflation forecast of September 2014, the OeNB expects inflation in Austria to average 1.7% in 2014 and to rise modestly to 1.9% in 2015. Core inflation (excluding energy and unpro-

### Austrian HICP Inflation and Contributions of Subcomponents

Annual change in % for HICP and core inflation;  
contributions to growth in percentage points for subcomponents

Last observation: 1.5% (August 2014)



Source: OeNB, Statistics Austria.

cessed food) will be above headline inflation over the forecast horizon and is expected to average 2.1% per annum in 2014 and 2.0% in 2015.

In particular, the industrial goods sector (excluding energy) will fuel the modest uptrend in inflation from its current level of 1.5% (August 2014) to an annual average of 1.9% in 2015. Inflation in this sector should rise on the back of both import prices that are pointing to the upside and improved consumer demand, as well as owing to base effects in the forecast period. In the services sector, by contrast, HICP inflation will ease slightly by 2015. Falling crude oil prices, which have an inflation-dampening effect particularly on transportation services, will be a key contributory factor. In restaurant and hotel services, however, inflation is not expected to fall, as positive growth in demand in the tourism sector should further continue. Owing to falling producer prices for certain agricultural products, annual processed food inflation is forecast to be lower in 2015 than

in 2014. By contrast, unprocessed food inflation, which recently slumped sharply, should return to its medium-term level by 2015. The impact of the Russian import embargo for agricultural products on Austrian consumer prices cannot be estimated at this point in time. However, the direct impact is most likely to be minimal since Russia is a relatively unimportant market for the Austrian products affected by the embargo.

The public sector's contribution to inflation (in terms of administered prices and indirect taxes) will be 0.4 percentage points in both 2014 and 2015. The fiscal package (particularly, the hike in tobacco taxes, which are to be increased further in a second step in 2015), which came into force in March 2014, will lift inflation by 0.1 percentage points in both 2014 and 2015. The contribution made to inflation by administered prices (e.g. fees and charges) will amount to 0.3 percentage points in both 2014 and 2015.