

# Temporary Slowdown of Economic Activity in Austria Expected to Be Overcome Fast, but Downside Risks Increased

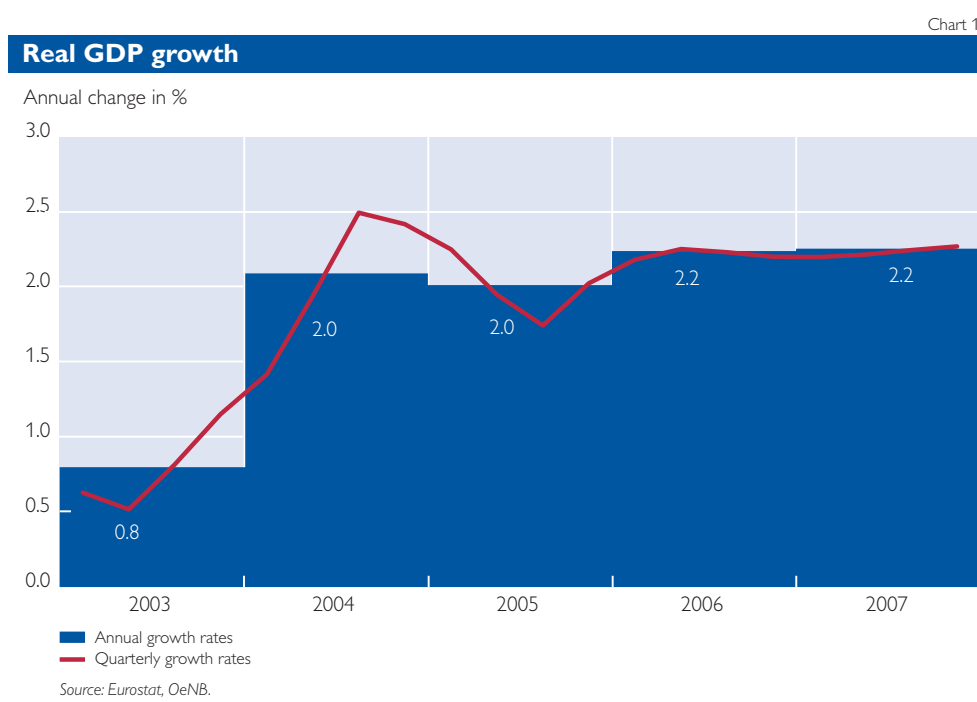
Economic Outlook for Austria from 2005 to 2007 (June 2005)

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## 1 Summary

According to the June 2005 economic outlook of the Oesterreichische Nationalbank (OeNB), Austria's real gross domestic product (GDP) is projected to grow 2.0% in 2005 and to advance to 2.2% both in 2006 and 2007. Fueled by the oil price surge, inflation as measured by the Harmonised Index of Consumer Prices (HICP) will rise to 2.3%

in 2005 before dropping noticeably below the 2 percent mark in subsequent years. The second stage of the tax reform will result in the budget deficit (Maastricht definition) declining temporarily to 1.8% and 1.7% of GDP in 2005 and 2006, respectively. In 2007, the budget balance will improve to -1.3% of GDP.



In line with the development of the euro area economy, economic growth in Austria slowed down considerably toward the end of 2004 owing to the steep rise in oil prices and the appreciation of the euro. The OeNB expects economic activity in Austria and the euro area to cool only temporarily and predicts growth to pick up again notably already in mid-2005.

Global economic growth has stabilized at a high level after peaking in 2004. Therefore, exports will continue to be the major engine driving Austria's

economy in the upcoming years. The dampening effects on price competitiveness induced by the appreciation of the euro will slowly subside in 2005. At about 7%, Austria's export growth will more or less equal demand on export markets in subsequent years. The current account surplus is expected to rise to about 1% of GDP until 2007.

Private households are facing real wage losses amid high inflation and modest wage settlements. Against this background, the second stage of the

tax reform – which amounts to a net relief of about EUR 1 billion – provides an important growth stimulus. However, the expansionary effects of the tax reform are not likely to take full effect before the second half of 2005: given increased unemployment rates, consumer confidence was still low at the beginning of the year. Hence, the OeNB expects households to invest somewhat more than half of the net relief in saving schemes in 2005.

In the first half of 2005, investment growth is expected to lose considerable momentum on the back of declining capacity utilization, significant scaling back of corporate investment plans and the phasing out of a special investment subsidy in Austria at the end of 2004, which prompted companies to frontload investment. In 2006, investment growth is expected to recover again owing to favorable financing conditions, a rebound in corporate profits and continued dynamic export growth.

The same factors that temporarily dampened private consumption and investment prevented the vigorous export activity from feeding through to domestic demand as strongly as in previous economic cycles. Thus, economic conditions in Austria are predicted to improve only marginally: after overcoming the current downturn, economic growth is expected to expand merely insignificantly above potential growth.

Employment growth is likely to be high over the entire forecast horizon. However, the unemployment rate will fall only slightly given the sharp increase in labor supply resulting from the pension reforms and the strong influx of foreign labor into Austria.

Against the background of significantly increased oil prices and housing costs, HICP inflation will accelerate to 2.3% in 2005. The inflationary pres-

ures triggered by the oil price surge are expected to subside slowly in 2006 and 2007; the rate of inflation is pegged to drop below 2%. The current inflation forecast does not anticipate substantial second-round effects in the form of higher wage settlements and confirms the continued absence of any signs of demand-pull inflation. The output gap will remain negative over the entire forecast horizon.

Typical of cyclical turning points, there is still major uncertainty about when and to what extent domestic demand will recover. In such phases of the business cycle the economy is also more susceptible to external shocks such as higher oil prices over a protracted period of time, a further appreciation of the euro as well as a rise in long-term interest rates. Thus, the risks predicted in this forecast mostly point downward.

## 2 Technical Assumptions

The OeNB compiled this forecast as its input for the Eurosystem's June 2005 staff projections for macroeconomic trends in the euro area. The forecast horizon ranges from the first quarter of 2005 to the fourth quarter of 2007. May 12, 2005, was the cutoff date for the underlying assumptions on global economic trends and for the technical assumptions on interest rates, exchange rates and crude oil prices. The OeNB used its macroeconomic quarterly model to prepare the projections for Austria.

The forecast is based on the assumption that the monetary policy framework will remain unchanged. It therefore presupposes constant levels of both short-term nominal interest rates and the nominal effective exchange rate of the euro over the entire forecast horizon. The underlying short-term interest rate (three-month

EURIBOR) is based on the two-week average prior to May 12, 2005 (2.13%).

Long-term interest rates, which are in tune with market expectations for ten-year government bonds, are set at 3.6% (2005), 3.8% (2006) and 4.1% (2007). A constant rate of USD/EUR 1.29 is assumed for future

USD/EUR exchange rate trends. In this forecast, oil prices are assumed to decline gradually from just below USD 52 per barrel (Brent) in the second quarter of 2005 to just over USD 48 per barrel (Brent) in the fourth quarter of 2007. This projection is based on futures prices.

Table 1

### OeNB June 2005 Outlook for Austria – Key Results

	2004	2005	2006	2007
<b>Economic activity</b>				
<i>Annual change in % (real)</i>				
Gross domestic product	+2.0	+2.0	+2.2	+2.2
Private consumption	+1.5	+1.7	+2.3	+2.2
Government consumption	+1.1	+0.5	+0.7	+1.0
Gross fixed capital formation	+4.8	+1.8	+2.5	+2.9
Exports of goods and services	+9.0	+4.9	+7.0	+6.7
Imports of goods and services	+5.7	+4.6	+7.3	+7.1
<i>% of nominal GDP</i>				
Current account balance	+0.3	+0.7	+0.9	+1.0
<b>Contribution to real GDP growth</b>				
<i>Percentage points of GDP</i>				
Private consumption	+0.8	+1.0	+1.3	+1.2
Government consumption	+0.2	+0.1	+0.1	+0.2
Gross fixed capital formation	+1.1	+0.4	+0.6	+0.7
Domestic demand (excl. changes in inventories)	+2.1	+1.5	+1.9	+2.0
Net exports	+1.8	+0.3	+0.2	+0.1
Changes in inventories (incl. statistical discrepancy)	-1.8	+0.1	+0.1	+0.0
<b>Prices</b>				
<i>Annual change in %</i>				
Harmonised Index of Consumer Prices (HICP)	+2.0	+2.3	+1.7	+1.6
Private consumption expenditure (PCE) deflator	+1.8	+2.4	+1.8	+1.7
GDP deflator	+1.9	+2.0	+1.8	+1.7
Unit labor costs in the total economy	+1.0	+1.2	+1.3	+1.3
Compensation per employee (at current prices)	+2.3	+2.4	+2.6	+2.6
Productivity (whole economy)	+1.2	+1.2	+1.2	+1.2
Compensation per employee	+0.4	+0.0	+0.7	+0.8
Import prices	+0.2	+1.2	+1.7	+1.6
Export prices	-0.1	+0.7	+1.6	+1.5
Terms of Trade	-0.3	-0.4	-0.1	+0.0
<b>Income and savings<sup>1)</sup></b>				
<i>Annual change in %</i>				
Real disposable household income	+1.7	+2.0	+2.0	+1.8
<i>% of nominal disposable household income</i>				
Saving ratio	9.3	9.7	9.6	9.4
<b>Labor market</b>				
<i>Annual change in %</i>				
Payroll employment	+0.8	+1.0	+1.1	+1.1
<i>%</i>				
Unemployment rate (Eurostat definition)	+4.5	+4.5	+4.4	+4.3
<i>% of nominal GDP</i>				
<b>Budget</b>				
Budget balance (Maastricht definition)	-1.2	-1.8	-1.7	-1.3
Government debt	64.2	63.5	62.9	61.9

Source: 2004: Eurostat, Statistics Austria; 2005 to 2007: OeNB June 2005 outlook.

<sup>1)</sup> 2004: OeNB estimate.

### 3 Global Economic Growth Already Past Its Peak

#### 3.1 Growth in World Economy Outside Euro Area Remains Dynamic Despite Slight Slowdown

Global economic growth is expected to slow down slightly in 2005 after showing great momentum in 2004. Nevertheless, the global economy will continue to post robust growth rates. While growth was primarily led by the U.S.A. and Asia (excluding Japan) in 2004, the contributions by the different regions to global economic growth are now expected to be distributed more evenly, as economic growth in the U.S.A. and in China is projected to slow down.

Owing to less expansionary monetary and fiscal policies, growth in the U.S.A. is expected to weaken over the forecast horizon, thus approaching potential growth. Investment and consumption expenditure were found to be robust in the second half of 2004, whereas net exports fell short of expectations in the fourth quarter of 2004. Private consumption is likely to decline as a result of both higher interest rates and the continuing necessity of raising the household saving rate to a level that is sustainable in the medium term. Investment will also slow down to some extent in the medium term. Given strong domestic demand and high corporate profits, however, investment growth is assumed to maintain its momentum in the short term.

The pace of Japan's economic growth slowed significantly in 2004, while picking up speed in the first quarter of 2005. There are signs of short-term uncertainty, but cyclical dynamics are still expected to gather considerable steam in the second half of 2005. Private consumption is currently in a phase of economic downturn due

to tight labor market conditions; however, the projected labor market developments and wage increases will stimulate consumer demand. Toward the end of the forecast horizon, investment demand is also expected to contribute substantially to growth thanks to high corporate profits, improved balance sheets and favorable financing conditions.

After decelerating slightly in the second half of 2004, growth in *Asia (excluding Japan)* has picked up again since the beginning of 2005. Current indicators suggest that the remarkably robust growth in China will continue at a slightly slower but – in the long run – sustainable pace. Domestic demand, above all, is estimated to be lively. While private consumption is supported by the favorable labor market situation, investment growth benefits from rising corporate profits.

The assessment of the *United Kingdom's* positive growth prospects remains largely unchanged compared with previous forecasts. In the short run, growth is likely to slow down to some extent as a result of the latest interest rate hikes; especially consumption growth is expected to be somewhat subdued. By contrast, investment is predicted to continue growing strongly. On the back of exchange rate developments, net exports will profit from increased competitiveness and are expected to surge in 2005.

*Switzerland* experienced a slight economic slowdown toward the end of 2004, and current economic indicators suggest that growth will accelerate only in the second half of 2005. Private consumption is assumed to provide strong growth stimuli as labor market conditions and consumer confidence have improved. In addition, net exports are also likely to make a positive contribution to growth as exports

will profit from the economic recovery in the euro area.

Economic conditions in the *new EU Member States* took a positive turn in the course of 2004. Driven mainly by investment and private consumption, growth is anticipated to remain strong over the entire forecast horizon.

### 3.2 Recovery in the Euro Area Continues after Temporary Slowdown

The pace of economic growth in the euro area slowed toward the end of 2004. There are, however, indications that this was only a temporary slump and that growth rates will approach potential growth again toward the end of 2005. Export growth is expected to accelerate as global demand gathers considerable momentum and the negative effects of the euro's appreciation are likely to subside in 2005. In addition, the effects of the

rise in oil prices will decline, which will result in domestic demand making a bigger contribution to growth again.

Investment growth is expected to be robust over the entire forecast horizon. In the medium term, it will be supported both by improved corporate balance sheets as well as favorable financing conditions and by strong export market growth. Gains in construction investment are expected to decelerate from 2006 onward, as the rise of real estate prices is anticipated to slow. In 2004, private consumption grew at a merely modest pace as a result of tight labor market conditions and the steep increase in energy prices. From 2005 onward, private consumption is likely to profit from an improved employment scenario and the associated increase in disposable income as well as from declining inflation. However, saving rates are expected to mount in a slightly more pronounced

Table 2

#### Underlying Global Economic Conditions

	2004	2005	2006	2007
<i>Annual change in % (real)</i>				
<b>Gross domestic product</b>				
World GDP growth outside the euro area	+5.7	+4.8	+4.6	+4.5
U.S.A.	+4.4	+3.4	+3.2	+3.1
Japan	+2.6	+1.6	+1.7	+1.7
Asia excluding Japan	+7.7	+6.9	+6.6	+6.7
Latin America	+4.9	+4.4	+4.1	+4.0
United Kingdom	+3.1	+2.7	+2.7	+2.7
New EU Member States	+4.6	+4.4	+4.7	+4.7
Switzerland	+1.7	+1.4	+1.9	+1.8
Euro area <sup>1)</sup>	+1.8	1.1–1.7	1.5–2.5	x
<b>World trade</b>				
Imports of goods and services World economy	+9.4	+7.3	+6.7	+6.6
Non-euro area countries	+10.8	+8.6	+7.0	+6.9
Real growth of euro-area export markets	+10.0	+8.3	+7.3	+6.9
Real growth of Austria's export markets	+7.7	+5.7	+6.9	+6.8
<b>Prices</b>				
Oil price (in USD/barrel of Brent)	38.3	50.6	50.7	49.0
Three-month interest rate in %	2.1	2.1	2.1	2.1
Long-term interest rate in %	4.1	3.6	3.8	4.1
USD/EUR exchange rate	1.24	1.29	1.29	1.29
Nominal effective exchange rate	104.18	105.60	105.13	105.13

Source: ESCB.

<sup>1)</sup> Results of Eurosystem's June 2005 projections. The ECB presents the results in ranges based upon average differences between actual outcomes and previous projections.

fashion than is usual because of the public debate about pension and health reforms in several countries.

Inflation is likely to remain just above 2% in 2005 and to edge back down over the remaining forecast horizon, as oil prices are expected to decline. On average, inflation in the euro area is forecast to increase only insignificantly thanks to modest wage growth and continued low capacity utilization levels.

Economic growth in *Germany*, Austria's main trading partner, has regained momentum in the first quarter of 2005, thus continuing the recovery that had ground to a halt in the second half of 2004. However, the unexpectedly strong GDP growth in the first quarter of 2005 is almost exclusively due to the fact that exports increased while imports declined. Furthermore, various economic indicators, e.g. the ifo business climate index, suggest that the economy will slow again in the short term. Thus, a sustainable recovery is likely to occur only in the second half of 2005. Economic growth in *Italy* slowed significantly in the fourth quarter of 2004, with net exports growing only slightly, which was ascribable to a deterioration of price competitiveness. Two other factors that contributed to this slowdown were the absence of growth stimuli from domestic demand and a strong – and possibly unintentional – buildup of inventories in the fourth quarter of 2004. Economic growth in *France* was characterized by relatively high real GDP growth compared with the euro area. Strong domestic demand was the main driving force behind this favorable development. By contrast, the French economy profited only to a limited degree from the dynamic growth in world trade; this is reflected in the negative

contribution of net exports to growth. As price competitiveness is anticipated to improve, however, external trade is expected to recover.

#### **4 Dynamic Foreign Demand Backs Austria's Economy**

World trade is expected to grow dynamically over the entire forecast horizon, thus also boosting foreign demand for Austrian goods and services. However, growth in Austria's export markets is not expected to peak before 2006, as the economic recovery in the euro area (and of Austria's key trading partner Germany, in particular) is lagging behind.

Austrian exporters will continue to lose market share in 2005 – a delayed effect of the euro appreciation and the associated deterioration in price competitiveness. This negative effect, which is partially offset by a – by international standards – favorable trend of unit labor costs, is expected to subside by the end of 2005, and no further loss in market share seems to be in store for 2006 and 2007. However, future export growth rates are not expected to be as high as in 2004. The OeNB projects real exports to grow 4.9% in 2005, a slowdown by almost 4 percentage points against 2004, followed by increases to 7.0% in 2006 and 6.7% in 2007.

With burgeoning domestic demand, import growth will also gather momentum, thus resulting in a positive (albeit relatively low) contribution of net exports to growth. The contribution of net exports to real GDP growth, which was deep in positive territory in 2004 (1.8 percentage points), will fall to +0.3 percentage point in 2005 and is expected to come to 0.2 and 0.1 percentage point in 2006 and 2007, respectively.

Table 3

<b>Growth and Price Developments, Austrian External Trade</b>				
	2004	2005	2006	2007
<i>Annual change in %</i>				
<b>Exports</b>				
Competitors' prices in Austria's export markets	-0.5	+1.5	+2.0	+1.5
Export deflator	-0.1	+0.7	+1.6	+1.5
Changes in price competitiveness	-0.4	+0.7	+0.4	+0.0
Import demand in Austria's export markets (real)	+7.7	+5.7	+6.9	+6.8
Austrian exports of goods and services (real)	+9.0	+4.9	+7.0	+6.7
Market share	+1.2	-0.8	+0.1	-0.1
<b>Imports</b>				
International competitors' prices in the Austrian market	+0.6	+1.9	+1.8	+1.5
Import deflator	+0.2	+1.2	+1.7	+1.6
Austrian imports of goods and services (real)	+5.7	+4.6	+7.3	+7.1
<b>Terms of Trade</b>	-0.3	-0.4	-0.1	+0.0
<i>Percentage points</i>				
<b>Contribution of net exports to GDP growth</b>	+1.8	+0.3	+0.2	+0.1

Source: 2004: Eurostat; 2005 to 2007: OeNB June 2005 outlook, Eurosystem.

The merchandise trade balance is expected to continue posting a surplus over the forecast horizon, thus sustaining its visible improvement that began already in 1998. The services surplus has remained relatively stable in recent years, and this trend is basically expected to continue over the forecast horizon. Owing to the positive trends in the tourism sector, the services surplus will be even somewhat higher in 2005. The pattern of the trade balance's regional breakdown (i.e. a negative balance with euro area countries and a large surplus with non-euro area countries) is expected to remain unchanged until the end of the forecast horizon. However, exports to euro area coun-

tries are likely to be somewhat stronger in 2006, as economic growth in non-euro area countries will have passed its peak by then.

In 2004, the income subaccount posted a decrease equivalent to 0.8% of nominal GDP. This balance is expected to remain unchanged in 2005 and to improve to a stable -0.7% of nominal GDP in the subsequent forecast years. At -0.9% of GDP, the current transfers balance – which is mainly influenced by EU transactions – will remain constant over the forecast horizon, whereas the overall current account balance will be positive, reaching 1.0% of nominal GDP in 2007.

Table 4

<b>Austria's Current Account</b>				
	2004	2005	2006	2007
<i>% of nominal GDP</i>				
<b>Balance of trade</b>	2.1	2.4	2.5	2.7
Goods	1.4	1.8	2.2	2.3
Services	0.6	0.7	0.4	0.4
Euro area	-4.8	-4.7	-4.6	-4.8
Non-euro area countries	6.9	7.1	7.1	7.5
<b>Balance on income</b>	-0.8	-0.8	-0.7	-0.7
<b>Balance on current transfers</b>	-0.9	-0.9	-0.9	-0.9
<b>Current account</b>	0.3	0.7	0.9	1.0

Source: 2004: OeNB; 2005 to 2007: OeNB June 2005 outlook.



## 5 Oil Price Rise Fuels Fresh Inflation

Following a marked acceleration of HICP inflation in 2004, the OeNB expects price growth to reach 2.3% in 2005, only to slip back to 1.7% in 2006 and 1.6% in 2007.

The projected inflation trend is strongly influenced by the energy and services subcomponents, even though the euro appreciation will somewhat dampen the rise in oil prices. According to futures prices, on which the forecast is based, the oil price will peak at USD 51.7 per barrel (Brent) in the second quarter of 2005 and decline gradually to USD 48.3 per barrel (Brent) in the fourth quarter of 2007. The risk of significant second-round effects induced by the oil price rise is still considered to be low. The contribution of the services subcomponent to inflation is mainly due to an increase in housing costs.

The rise in prescription fees and the tobacco tax hike are also likely to have short-term effects on the inflation trend: In 2005, the higher prescription fee is estimated to contribute to in-

creasing the inflation rate by 0.15 percentage point on average, whereas the effect of the tobacco tax hike is estimated to be 0.2 percentage point.

Although current wage settlements suggest slightly higher wage growth than in 2004, wage inflation is not forecast to accelerate noticeably. Following a stagnation of real wages in 2005, somewhat higher – but still modest – wage settlements are expected for 2006 and 2007, as the unemployment rate will decline only insignificantly over the entire forecast horizon. Thus, wages are not expected to exert inflationary pressures in 2006 and 2007. Neither will prices be subject to notable demand pressures. The output gap is likely to remain negative over the entire forecast horizon. HICP core inflation (excluding energy) will accelerate by 0.2 percentage point to 1.8% in 2005, thus remaining below the HICP inflation rate.

In 2005, the oil price hikes will result in deteriorated terms of trade that are expected to remain unchanged in 2006 and 2007. Productivity growth (real GDP per employee) will continue

Table 5

### Price and Cost Indicators for Austria

	2004	2005	2006	2007
<i>Annual change in %</i>				
HICP	+2.0	+2.3	+1.7	+1.6
HICP energy	+6.9	+7.9	+2.6	+0.0
HICP excl. energy	+1.6	+1.8	+1.6	+1.7
Private consumption expenditure (PCE) deflator	+1.8	+2.4	+1.8	+1.7
Investment deflator	+1.4	+1.4	+1.5	+1.7
Import deflator	+0.2	+1.2	+1.7	+1.6
Export deflator	-0.1	+0.7	+1.6	+1.5
Terms of Trade	-0.3	-0.4	-0.1	+0.0
GDP deflator	+1.9	+2.0	+1.8	+1.7
Unit labor costs	+1.0	+1.2	+1.3	+1.3
Compensation per employee	+2.3	+2.4	+2.6	+2.6
Labor productivity	+1.2	+1.2	+1.2	+1.2
Collectively agreed wage settlements	+2.1	+2.3	+2.5	+2.4
Profit margins <sup>1)</sup>	+0.9	+0.8	+0.4	+0.4

Source: 2004: Eurostat, Statistics Austria; 2005 to 2007: OeNB June 2005 outlook.

<sup>1)</sup> GDP deflator divided by unit labor costs.



at a constant rate of 1.2% over the entire forecast horizon. Wage settlements, which saw an increase of 2.1% in 2004, are again likely to remain modest in 2005 (+2.3%), even though they may be slightly higher than assumed in the previous forecast. The continued economic recovery will lead to somewhat higher wage settlements in 2006. Owing to real wage stagnation, corporate profit margins will rebound in 2005, whereas more moderate growth is expected for 2006 and 2007.

## 6 Domestic Demand to Recover in 2005

### 6.1 Growth Stimulus from Second Stage of Tax Reform Dampened by Oil Price Surge and Low Consumer Confidence

Weak real wage growth, increased unemployment and low consumer confidence substantially dampened household expenditure in 2004. At 1.5%, real consumption growth was noticeably below its long-term average and did not pick up in the course of 2005. Two factors will impact strongly on growth in consumer spending over the forecast horizon: the second stage

of the tax reform and future inflation trends.

In the light of the rise in oil prices and housing costs, the current inflation rate is outpacing wage growth, thus forcing employees to suffer wage losses in real terms. Only when the oil price effects begin to fade can wages be expected to increase in real terms. Following growth of 0.4% in 2004, real wages will stagnate in 2005 (+0.0%) and are expected to climb, on average, by 0.7% in 2006 and by 0.8% in 2007.

In 2005, the dampening effects of accelerated inflation on private consumption will be more than offset by the second stage of the tax reform and continued employment growth. The second stage of the tax reform will generate a net tax relief for households worth EUR 1 billion, or 0.65% of disposable household income. These figures already consider the costs of hospital financing measures under the fiscal sharing agreement. The OeNB would normally expect approximately half of this net relief to generate a higher saving rate in the first year of tax reform. However, trends in real retail sales and new car registrations show that consumer spending was still

Table 6

### Determinants of Nominal Household Income in Austria

	2004	2005	2006	2007
<i>Annual change in %</i>				
Compensation of employees	+3.1	+3.4	+3.7	+3.7
Employees	+0.8	+1.0	+1.1	+1.1
Wages per employee	+2.3	+2.4	+2.6	+2.6
Mixed income (net) of the self-employed and property income	+5.3	+4.6	+4.9	+4.8
Net transfers minus direct taxes <sup>1)</sup>	-4.3	+1.7	-5.6	-7.8
<i>Contribution to disposable household income in percentage points</i>				
Compensation of employees	+2.5	+2.8	+3.1	+3.0
Mixed income (net) of the self-employed and property income	+1.6	+1.4	+1.5	+1.5
Net transfers minus direct taxes <sup>1)</sup>	-0.5	+0.2	-0.7	-1.0
Disposable household income (nominal)	+3.6	+4.4	+3.9	+3.6

Source: 2004: Eurostat and OeNB estimate; 2005 to 2007: OeNB June 2005 outlook.

<sup>1)</sup> Negative values indicate an increase in (negative) net transfers minus direct taxes, positive values indicate a decrease.

Table 7

**Private Consumption in Austria**

	2004	2005	2006	2007
<i>Annual change in %</i>				
Disposable household income (nominal)	+3.6	+4.4	+3.9	+3.6
Private consumption deflator	+1.8	+2.4	+1.8	+1.7
Disposable household income (real)	+1.7	+2.0	+2.0	+1.8
Private consumption (real)	+1.5	+1.7	+2.3	+2.2
<i>% of nominal disposable household income</i>				
Saving ratio	9.3	9.7	9.6	9.4

Source: 2004: Eurostat and OeNB estimate; 2005 to 2007: OeNB June 2005 outlook.

subdued in the first half of 2005. While still mostly below average at the beginning of 2005, both consumer confidence and retail confidence have continuously improved over the past few months. In April 2005, both indicators were above the 2004 levels and also just above the long-term average. The simultaneous improvement of these indicators is a clear signal of the imminent recovery of consumer demand. In view of the leading indicators available, the OeNB therefore expects the expansionary effects of the tax reform on private consumer demand to be somewhat delayed and become fully effective in the second half of 2005. The projected rise in the saving rate by 0.4 percentage point in 2005 corresponds to slightly more than half of the net relief of the tax reform. At +2.0%, real disposable household income will grow on the whole only moderately faster in 2005 than in 2004 (+1.7%), whereas household expenditure will accelerate slightly to +1.7% in 2005 (2004: +1.5%). Owing to the anticipated strengthening of consumer confidence, stronger real wage growth, continued employment growth and the delayed effects of the tax reform, household expenditure is expected to increase by 2.3% and 2.2% in 2006 and 2007, respectively.

## **6.2 Investment Passed its Peak in 2004 – Phasing Out of Special Investment Subsidy Causes Investment Momentum to Slow Temporarily**

Owing to changes in the system of national accounts, GDP demand components had to be revised in part substantially since the December 2004 outlook. Investment was affected most by this development: investment growth had to be revised upward by 3 percentage points solely as a result of the revision of historical data. According to recent national accounts data, investment activity was unexpectedly vigorous both in 2003 and 2004, growing 4.4% (in real terms, seasonally and working-day adjusted) and 4.8%, respectively. This comes as a surprise both in view of quite subdued economic growth and, in particular, also compared with Austria's major trading partners. While almost stagnating in the entire euro area (+1.1%) and even shrinking by 3.5% in Germany, investment rose by approximately 9.5% in Austria in 2003 and 2004. The view that companies' propensity to invest is currently low – as put forward in economic policy debates in many countries – does therefore not hold true for Austria, at least not in the most recent past.

The investment boom of 2003 and 2004 can be explained in part by the high demand for replacement investment after two years of shrinking investment (2001 and 2002). The special investment subsidy (granted for investment that exceeds the average investment level of the previous three years) created an additional incentive to implement investment projects in 2003 and 2004. Soaring import growth in machines and vehicles in 2004 (+13%), and especially the remarkable rise in the vehicles import subcategory (+27%), indicates that the subsidy was used by a large number of companies. Hence, the estimated costs of the subsidy had to be significantly revised upward by the Austrian Federal Ministry of Finance. Contrary to the trend in the euro area, vigorous investment activity led to a distinctive increase in the investment share of GDP, which reached the highest level since 1994 in the fourth quarter of 2004 (22.9%). The investment cycle is therefore likely to have hit its peak in 2004.

The OeNB expects investment momentum to cool notably in the first half of 2005. Owing to the phasing out of the investment subsidy by end-2004, numerous investment projects seem to have been frontloaded, thus leading to a drop in investment in 2005. Weak import growth in machines and vehicles in the first two months of 2005 (+1.6% and -8.1% in the vehicles subcategory) corroborate this assessment. In addition, companies' capacity utilization is estimated to have declined in the first half of 2005 and is now again just below the long-term average. In the investment test performed by the Austrian Institute of Economic Research (WIFO), companies also stated to have cut back on their investment plans for 2005. Real gross fixed capital formation is therefore pro-

jected to grow only by 1.8% in 2005. The dampening effects of the phasing out of the investment subsidy, however, will fade slowly in the course of 2005, and a new investment cycle is expected to begin in 2006. Investment growth will accelerate to 2.5% in 2006 and 2.9% in 2007 driven by favorable financing conditions, the rebound in corporate profits and continued dynamic export growth. Even though investment momentum will be below the levels of 2003 and 2004, the projected investment trends indicate an investment rate of just above 22.9% by the end of the forecast horizon.

Investment in plant and equipment, which will be affected most by the phasing out of the investment subsidy, is forecast to shrink in the first half of 2005. However, as it is also the investment component influenced most by the economic cycle, it will again generate the highest growth rates in 2006 and 2007. Residential construction investment edged up for the first time in 2004 (by 0.4% in real terms) after seven years of declining continuously from 30% to approximately 20% of total investment. This positive trend is expected to continue over the entire forecast horizon, leading to a stable share of residential construction investment in total investment demand.

### **6.3 Despite Rising Employment, Unemployment Rate Stagnates Due to Vigorous Labor Supply Growth**

Employment responded unexpectedly swiftly and vigorously to the economic recovery in 2004. According to national accounts data, payroll employment went up by 0.8% (seasonally and working-day adjusted) in 2004. Owing to the temporary slowdown at the turn of the year, employment growth is not expected to accelerate markedly in

2005. However, the number of reported vacancies – a good leading indicator for the labor market – is still growing, thus signaling a stable development of payroll employment (+1.0%). Employment growth is concentrated in the service sector. The manufacturing industry, by contrast, continues to shed jobs, while an end to layoffs is expected in the construction industry. In the wake of further economic recovery, the rise in payroll employment will be just above 1% both in 2006 and 2007. Public sector employment will decrease further over the next few years, whereas the number of self-employed persons will remain largely unchanged.

Given the current economic environment, labor supply growth is above average; hence, unemployment will decline only insignificantly despite the creation of new jobs. Several factors are responsible for this projected development: first, cyclically induced employment growth will remain below average due to the continued high unemployment rate, even though

the employment rate is expected to rise given the pro-cyclical development of the labor supply curve. Second, while demographic effects will be insignificant in 2005 and 2006, they are expected to provide for an additional increase in the labor pool in 2007. Third, the migration of foreign labor to Austria is expected to remain high over the entire forecast horizon. Finally, labor force participation of mature workers is anticipated to increase further as a result of the pension reforms in 2000 and 2003. All these factors are expected to contribute to a generally higher unemployment rate in the future. An initial sign of this structural break is the outward shift of the Beveridge curve<sup>1</sup> observed in Austria since 2004. This shift reflects the fact that unemployment has not declined in the most recent past despite the rising number of reported vacancies. In 2005, the unemployment rate (Eurostat definition) will remain at the 2004 level (4.5%), only to decline slightly by 0.1 percentage point each in 2006 and 2007.

Table 8

### Labor Market Developments in Austria

	2004	2005	2006	2007
	Annual change in %			
<b>Total employment</b>	+0.8	+0.8	+0.9	+1.0
<i>thereof:</i>				
Payroll employment	+0.8	+1.0	+1.1	+1.1
Self-employed	+0.9	-0.1	+0.1	+0.2
Public sector employment	-0.4	-0.3	-0.5	-0.3
Registered unemployment	-3.0	-1.6	-2.0	-0.8
Labor supply	+0.6	+0.7	+0.8	+0.9
<b>Unemployment rate (Eurostat definition)</b>	%			
	4.5	4.5	4.4	4.3

Source: 2004: Eurostat, 2005 to 2007: OeNB June 2005 outlook.

<sup>1</sup> The Beveridge curve (which was derived by the British economist William Beveridge in 1944) represents the relationship between the unemployment rate and the number of reported job vacancies.

## 7 Risks to Economic Growth Above Average

In its baseline scenario, the OeNB expects sluggish growth in the fourth quarter of 2004 to have been only temporary and economic activity to pick up notably already in mid-2005 given stable global demand and the first signs of strengthening consumer confidence

at the beginning of the second quarter of 2005. Typical of cyclical turning points, there is still major uncertainty about when and to what extent domestic demand will recover. Moreover, the economy is highly susceptible to external shocks in such phases of the business cycle.

Table 9

### Alternative Scenario: Oil Price Rise by USD 10/barrel

	2005	2006	2007
<i>Deviation of growth rates from basic scenario in percentage points</i>			
GDP	-0.12	-0.33	-0.21
HICP	+0.17	+0.37	+0.18

Source: OeNB June 2005 outlook.

An external shock that occurred frequently in the past is e.g. a higher oil price over a protracted period of time. The OeNB's macroeconomic model was applied in order to quantify the effects of an oil price increase by USD 10 per barrel in the third quarter of 2005. This calculation included demand effects, supply-side cost effects and substitution effects as well as external trade spillovers of an oil price hike. The effects of the higher oil price would be greatest in 2006, with growth down by 0.33 percentage point and inflation up by 0.37 percentage point (see table 9). Other downside risks are a further appreciation of the euro or an increase in long-term interest rates. Thus, the risks of this forecast point mainly downward. Still, two factors may pose an upside risk to GDP growth: first, a faster recovery of investment activity than expected owing to the reduction of corporate taxes and the introduction of group taxation, and second, a stronger decline in oil prices than currently anticipated by the markets.

## 8 Short-Term Growth Prospects Dampened Against December 2004 Outlook

Compared with the December 2004 outlook, this forecast assumes higher oil prices over a protracted period of time and a temporary slowdown in growth on Austria's export markets (see table 10). For 2005 and 2006, the technical oil price assumptions are USD 6 and USD 10 per barrel (Brent) higher than in the December 2004 outlook. Amid the temporary economic slowdown in the euro area, Austria's export markets will grow by just under 2% in 2005. By contrast, the external trade environment for economic growth outside the euro area and the exchange rates have remained largely unchanged. Financing conditions (i.e. long-term interest rates) have dropped by more than half a percentage point since the December 2004 outlook. Against this background, the projected growth rate for Austria in 2005 has been revised downward by 0.3 percentage point compared with the December 2004 outlook.

Table 10

### Change in the Underlying Global Environment Since December 2004 Outlook

	June 2005			December 2004		Difference	
	2005	2006	2007	2005	2006	2005	2006
<i>Annual change in %</i>							
Growth of Austria's export markets	+5.7	+6.9	+6.8	+7.5	+7.2	-1.8	-0.3
Competitor prices in Austria's export markets	+1.5	+2.0	+1.5	+0.4	+1.6	+1.1	+0.4
Competitor prices in Austria's import markets	+1.9	+1.8	+1.5	+0.7	+1.5	+1.2	+0.3
<i>USD</i>							
Oil price per barrel (Brent)	50.6	50.7	49.0	44.4	40.8	+6.2	+9.9
<i>Annual change in %</i>							
Nominal effective exchange rate (exports)	-0.5	+0.2	+0.0	-0.8	+0.0	+0.3	+0.2
Nominal effective exchange rate (imports)	-0.3	+0.1	+0.0	-0.3	+0.0	+0.0	+0.1
<i>%</i>							
Three-month interest rate	2.1	2.1	2.1	2.2	2.2	-0.0	-0.0
Long-term interest rate	3.6	3.8	4.1	4.1	4.5	-0.6	-0.7
<i>Annual change in %</i>							
Real GDP, U.S.A.	+3.4	+3.2	+3.1	+3.4	+2.9	+0.0	+0.2
<i>USD/EUR</i>							
USD/EUR exchange rate	1.29	1.29	1.29	1.29	1.29	+0.01	-0.00

Source: ESCB.

Table 11 details the reasons for the forecast revisions, which are explained by the impact of new data, the effects of changed external assumptions and other effects. The impact of new data includes the influence of historical data revisions and the projection error, i.e. differences between released quarterly figures and the figures projected in

the previous forecast. The effects of changed external assumptions were simulated using the OeNB's macroeconomic model. The item "Other" comprises new expert assessments regarding the development of domestic variables (such as government consumption or wage settlements).

Table 11

### Breakdown of Forecast Revisions

	GDP			HICP		
	2004	2005	2006	2004	2005	2006
<i>Annual change in %</i>						
<b>June 2005 outlook</b>	+2.0	+2.0	+2.2	+2.0	+2.3	+1.7
<b>December 2004 outlook</b>	+1.8	+2.3	+2.1	+1.9	+2.0	+1.7
<b>Difference</b>	+0.3	-0.3	+0.1	+0.0	+0.3	-0.0
<b>Due to:</b>						
New data <sup>1)</sup>	+0.3	-0.1	-0.0	+0.0	+0.1	+0.0
Revision of historical data	+0.3	-0.0	-0.0	+0.0	-0.0	-0.0
Projection error	+0.0	-0.1	+0.0	+0.0	+0.1	+0.0
External assumptions	+0.0	-0.3	-0.0	+0.0	+0.2	+0.1
Other <sup>2)</sup>	+0.0	+0.1	+0.1	+0.0	-0.0	-0.1

Source: OeNB December 2004 and June 2005 outlooks.

<sup>1)</sup> Effect of revised historical data and new data (projection error).<sup>2)</sup> Different assumptions about trends in domestic variables such as wages, government consumption, effects of measures designed to support the economy, other rating changes and model changes.

The revision of Austria's GDP growth for 2005 (−0.3 percentage point) can be basically put down to changed external assumptions. For 2006, GDP growth has been revised upward by 0.1 percentage point. In 2005 and 2006, employment is assumed to grow somewhat more dynamically than projected in the December 2004 outlook, and the composition of employment growth has also changed. Compared with the December 2004 outlook, investment growth is now expected to be lower in both 2005 and 2006, owing to historical data revisions and the increased use of the investment subsidy. Expectations for exports have been revised slightly downward due to the external trade environment. However, the contribution of net exports to growth will climb nonetheless, as imports have been revised downward more strongly mainly because of a slowdown in investment momentum. Given the rise in energy prices, the inflation outlook for 2005 has been revised upward by 0.3 percentage point.

### 8.1 Comparison with Other Forecasts

Despite the great uncertainty about future economic developments, the available forecasts for economic growth in Austria stay within a narrow band.

Compared with other forecasts, the OeNB forecast for 2005 appears to be cautious, with projected GDP growth of 2% at cutoff date (May 12, 2005), but this is probably due to the newer historical data used, as most of the other forecasts were published already some time ago. The OECD forecast of May 2005 suggests that the projections published by the Austrian economic research institutes at the beginning of July 2005 might also be revised slightly downward.

The OeNB's optimistic current account estimate can be explained by the later cutoff date and, thus, more up-to-date information. The inflation outlook is the same in all available forecasts. The price pressure triggered by the oil price surge is expected to subside slowly so that the inflation rate is generally forecast to fall below 2% in 2006.



Table 12

**Comparison of Current Economic Forecasts for Austria**

Indicator	OeNB			WIFO		IHS		OECD		IMF		European Commission	
	June 2005			April 2005		April 2005		May 2005		April 2005		April 2005	
	2005	2006	2007	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
<b>Key results</b>	<i>Annual change in %</i>												
GDP (real)	+2.0	+2.2	+2.2	+2.2	+2.3	+2.1	+2.5	+1.9	+2.3	+2.1	+2.3	+2.1	+2.1
Private consumption (real)	+1.7	+2.3	+2.2	+2.0	+2.2	+2.1	+1.9	+1.8	+2.2	x	x	+1.7	+2.0
Government consumption (real)	+0.5	+0.7	+1.0	+0.5	+0.8	+0.2	+0.2	+0.7	+1.1	x	x	+0.3	+0.2
Gross fixed capital formation (real) <sup>1)</sup>	+1.8	+2.5	+2.9	+1.8	+2.7	+2.3	+3.1	+2.6	+3.1	x	x	+2.4	+2.7
Exports (real)	+4.9	+7.0	+6.7	+5.4	+6.1	+6.3	+6.2	+5.1	+8.0	x	x	+6.1	+6.4
Imports (real)	+4.6	+7.3	+7.1	+5.6	+6.4	+5.9	+5.4	+5.7	+8.5	x	x	+5.7	+6.6
GDP per employee	+1.2	+1.2	+1.2	+1.4	+1.4	+1.4	+1.7	x	x	x	x	+1.8	+1.4
GDP deflator	+2.0	+1.8	+1.7	+2.2	+1.6	+1.9	+1.6	+2.2	+1.7	+1.8	+1.8	+1.6	+1.5
CPI	x	x	x	+2.5	+1.8	+2.2	+1.7	x	x	+2.0	+1.8	x	x
HICP	+2.3	+1.7	+1.6	+2.4	+1.7	x	x	+2.4	+1.7	x	x	+2.3	+1.7
Unit labor costs	+1.2	+1.3	+1.3	+0.9	+1.1	x	x	x	x	x	x	+0.6	+1.2
Payroll employment	+0.8	+0.9	+1.0	+0.8	+0.9	+0.7	+0.8	x	x	x	x	+0.2	+0.7
	<i>%</i>												
Unemployment rate <sup>2)</sup>	4.5	4.4	4.3	4.5	4.5	4.5	4.4	5.6	5.5	4.5	4.2	4.1	3.9
	<i>% of nominal GDP</i>												
Current account	0.7	0.9	1.0	-0.6	-0.4	-0.0	0.4	0.2	0.3	-1.0	-1.1	x	x
Government surplus/deficit	-1.8	-1.7	-1.3	-2.0	-1.8	-1.9	-1.7	-2.0	-1.9	-2.0	-1.8	-2.0	-1.7
<b>External assumptions</b>													
Oil price in USD/barrel (Brent)	50.6	50.7	49.0	44.0	39.0	47.0	47.0	51.0	48.0	46.5	43.8	50.9	48.0
Short-term interest rate in %	2.1	2.1	2.1	2.2	2.2	2.2	2.4	1.8	1.9	2.7	3.2	x	x
USD/EUR	1.29	1.29	1.29	1.34	1.28	1.34	1.34	1.28	1.28	1.31	1.31	1.31	1.32
	<i>Annual change in %</i>												
Euro area GDP (real)	1.1– 1.7	1.5– 2.5	x	+1.7	+2.2	+1.8	+2.3	+1.2	+2.0	+1.6	+2.3	+1.6	+2.1
U.S. GDP (real)	+3.4	+3.2	+3.1	+3.8	+3.1	+3.3	+3.3	+3.6	+3.3	+3.6	+3.6	+3.6	+3.0
World GDP (real)	+4.3	+4.2	+4.1	x	x	x	x	x	x	+4.3	+4.4	+4.2	+4.1
World trade	+7.3	+6.7	+6.6	+7.2	+7.1	+12.0	+8.0	+7.4	+9.4	+7.4	+7.6	+8.2	+7.4

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

<sup>1)</sup> For IHS: Gross investment.<sup>2)</sup> Eurostat definition; for OECD: OECD definition.

## Annex Detailed Result Tables

Table 13

### Demand Components (Real Prices)

	2004	2005	2006	2007	2004	2005	2006	2007
	<i>EUR million</i>				<i>Annual change in %</i>			
Private consumption	123,086	125,223	128,049	130,838	+1.5	+1.7	+2.3	+2.2
Government consumption	39,165	39,357	39,628	40,017	+1.1	+0.5	+0.7	+1.0
Gross fixed capital formation	49,965	50,878	52,147	53,676	+4.8	+1.8	+2.5	+2.9
<i>thereof: Investment in plant and equipment</i>	20,183	20,563	21,126	21,912	+6.9	+1.9	+2.7	+3.7
<i>Residential construction investment</i>	9,579	9,779	9,990	10,203	+0.4	+2.1	+2.2	+2.1
<i>Investment in other construction and other investment</i>	20,136	20,469	20,964	21,496	+4.1	+1.7	+2.4	+2.5
Changes in inventories (incl. statistical discrepancy)	-2,077	-1,748	-1,629	-1,612	x	x	x	x
Domestic demand	210,139	213,710	218,194	222,919	+0.3	+1.7	+2.1	+2.2
Exports of goods and services	117,409	123,110	131,668	140,550	+9.0	+4.9	+7.0	+6.7
Imports of goods and services	107,050	111,985	120,105	128,646	+5.7	+4.6	+7.3	+7.1
Net exports	10,359	11,126	11,563	11,904	x	x	x	x
<b>Gross domestic product</b>	220,498	224,836	229,757	234,822	+2.0	+2.0	+2.2	+2.2

Source: 2004: Eurostat; 2005 to 2007: OeNB June 2005 outlook.

Table 14

### Demand Components (Current Prices)

	2004	2005	2006	2007	2004	2005	2006	2007
	<i>EUR million</i>				<i>Annual change in %</i>			
Private consumption	131,070	136,537	142,154	147,769	+3.3	+4.2	+4.1	+4.0
Government consumption	41,867	42,872	43,968	45,228	+3.0	+2.4	+2.6	+2.9
Gross fixed capital formation	51,362	53,054	55,188	57,784	+6.3	+3.3	+4.0	+4.7
Changes in inventories (incl. statistical discrepancy)	-1,648	-982	-686	-711	x	x	x	x
Domestic demand	222,650	231,481	240,623	250,070	+2.4	+4.0	+3.9	+3.9
Exports of goods and services	118,824	125,525	136,410	147,856	+8.8	+5.6	+8.7	+8.4
Imports of goods and services	106,502	112,712	122,995	133,798	+5.9	+5.8	+9.1	+8.8
Net exports	12,322	12,814	13,414	14,058	x	x	x	x
<b>Gross domestic product</b>	234,972	244,295	254,038	264,128	+4.0	+4.0	+4.0	+4.0

Source: 2004: Eurostat; 2005 to 2007: OeNB June 2005 outlook.

Table 15

### Deflators of Demand Components

	2004	2005	2006	2007	2004	2005	2006	2007
	<i>2000 = 100</i>				<i>Annual change in %</i>			
Private consumption	106.5	109.0	111.0	112.9	+1.8	+2.4	+1.8	+1.7
Government consumption	106.9	108.9	111.0	113.0	+1.8	+1.9	+1.9	+1.9
Gross fixed capital formation	102.8	104.3	105.8	107.7	+1.4	+1.4	+1.5	+1.7
Domestic demand (excl. changes in inventories)	105.7	107.9	109.8	111.7	+1.7	+2.1	+1.7	+1.7
Exports of goods and services	101.2	102.0	103.6	105.2	-0.1	+0.7	+1.6	+1.5
Imports of goods and services	99.5	100.6	102.4	104.0	+0.2	+1.2	+1.7	+1.6
Terms of trade	101.7	101.3	101.2	101.1	-0.3	-0.4	-0.1	-0.0
<b>Gross domestic product</b>	106.6	108.7	110.6	112.5	+1.9	+2.0	+1.8	+1.7

Source: 2004: Eurostat; 2005 to 2007: OeNB June 2005 outlook.

Table 16

**Labor Market**

	2004	2005	2006	2007	2004	2005	2006	2007
	1,000				Annual change in %			
Total employment	4,182.3	4,216.0	4,256.0	4,296.8	+0.8	+0.8	+0.9	+1.0
<i>thereof: Private sector employment</i>	3,706.9	3,742.2	3,784.8	3,827.1	+1.0	+1.0	+1.1	+1.1
Payroll employment (national accounts definition)	3,394.0	3,428.4	3,467.5	3,506.8	+0.8	+1.0	+1.1	+1.1
	%							
Unemployment rate (Eurostat definition)	4.5	4.5	4.4	4.3	×	×	×	×
	% of real GDP							
Unit labor costs (whole economy) <sup>1</sup>	65.5	66.3	67.2	68.1	+1.0	+1.2	+1.3	+1.3
	EUR 1,000							
Labor productivity (whole economy)	52.7	53.3	54.0	54.6	+1.2	+1.2	+1.2	+1.2
Real compensation per employee <sup>2</sup>	32.4	32.4	32.7	32.9	+0.4	+0.0	+0.7	+0.8
	At current prices, EUR 1,000							
Gross compensation per employee	34.6	35.4	36.3	37.2	+2.3	+2.4	+2.6	+2.6
	At current prices, EUR million							
Total gross compensation of employees	117,272	121,272	125,818	130,500	+3.1	+3.4	+3.7	+3.7

Source: 2004: Eurostat; 2005 to 2007: OeNB June 2005 outlook.

<sup>1</sup>Gross wages as a ratio of real GDP.<sup>2</sup>Gross wages per employee divided by the private consumption deflator.

Table 17

**Current Account**

	2004	2005	2006	2007	2004	2005	2006	2007
	EUR million				% of nominal GDP			
<b>Balance of trade</b>	4,836.4	5,960.9	6,427.2	7,005.2	2.1	2.4	2.5	2.7
Goods	3,405.7	4,338.6	5,499.8	6,005.5	1.4	1.8	2.2	2.3
Services	1,430.7	1,622.3	927.4	999.7	0.6	0.7	0.4	0.4
Euro area	-11,380.3	-11,373.8	-11,645.6	-12,748.9	-4.8	-4.7	-4.6	-4.8
Non-euro area countries	16,216.7	17,334.7	18,072.8	19,754.1	6.9	7.1	7.1	7.5
<b>Balance on income</b>	-1,877.6	-1,877.6	-1,877.6	-1,877.6	-0.8	-0.8	-0.7	-0.7
<b>Balance on transfers</b>	-2,209.0	-2,260.0	-2,367.8	-2,447.4	-0.9	-0.9	-0.9	-0.9
<b>Current account</b>	749.8	1,823.3	2,181.7	2,680.1	0.3	0.7	0.9	1.0

Source: 2004: OeNB; 2005 to 2007: OeNB June 2005 outlook.

## Quarterly Forecast Results

	2005	2006	2007	2005				2006				2007			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Prices, wages and costs</b>															
	<i>Annual change in %</i>														
HICP	+2.3	+1.7	+1.6	+2.4	+2.3	+2.4	+2.0	+2.0	+1.8	+1.5	+1.4	+1.5	+1.6	+1.6	+1.6
HICP (excl. energy)	+1.8	+1.6	+1.7	+1.9	+1.7	+1.9	+1.7	+1.6	+1.8	+1.6	+1.5	+1.6	+1.7	+1.8	+1.8
Private consumption expenditure (PCE) deflator	+2.4	+1.8	+1.7	+2.7	+2.6	+2.2	+2.1	+1.9	+1.8	+1.8	+1.8	+1.7	+1.7	+1.7	+1.8
Gross fixed capital formation deflator	+1.4	+1.5	+1.7	+1.9	+1.5	+1.2	+1.2	+1.3	+1.4	+1.6	+1.6	+1.7	+1.7	+1.7	+1.7
GDP deflator	+2.0	+1.8	+1.7	+2.1	+2.1	+1.9	+1.7	+1.7	+1.7	+1.8	+1.9	+1.9	+1.8	+1.7	+1.6
Unit labor costs	+1.2	+1.3	+1.3	+0.9	+1.2	+1.5	+1.3	+1.2	+1.3	+1.4	+1.5	+1.5	+1.4	+1.3	+1.1
Nominal wages per employee	+2.4	+2.6	+2.6	+2.3	+2.4	+2.4	+2.4	+2.5	+2.5	+2.6	+2.7	+2.7	+2.6	+2.5	+2.4
Productivity	+1.2	+1.2	+1.2	+1.4	+1.1	+0.9	+1.2	+1.2	+1.3	+1.2	+1.2	+1.2	+1.2	+1.2	+1.3
Real wages per employee	+0.0	+0.7	+0.8	-0.4	-0.2	+0.2	+0.4	+0.5	+0.7	+0.8	+0.9	+0.9	+0.9	+0.8	+0.7
Import deflator	+1.2	+1.7	+1.6	+0.6	+0.8	+1.4	+1.9	+1.6	+1.8	+1.8	+1.8	+1.7	+1.6	+1.5	+1.4
Export deflator	+0.7	+1.6	+1.5	+0.0	+0.7	+1.5	+0.8	+1.5	+1.7	+1.7	+1.6	+1.6	+1.6	+1.5	+1.5
Terms of trade	-0.4	-0.1	+0.0	-0.5	-0.2	+0.1	-1.1	-0.1	-0.1	-0.2	-0.2	-0.2	-0.1	+0.0	+0.1
<b>Economic activity</b>															
	<i>Annual and/or quarterly changes in %, in real terms</i>														
GDP	+2.0	+2.2	+2.2	+0.4	+0.5	+0.6	+0.6	+0.6	+0.5	+0.5	+0.5	+0.5	+0.6	+0.6	+0.6
Private consumption	+1.7	+2.3	+2.2	+0.5	+0.5	+0.6	+0.6	+0.6	+0.5	+0.5	+0.5	+0.5	+0.5	+0.5	+0.5
Government consumption	+0.5	+0.7	+1.0	+0.0	+0.0	+0.1	+0.1	+0.1	+0.2	+0.2	+0.3	+0.2	+0.2	+0.2	+0.2
Gross fixed capital formation	+1.8	+2.5	+2.9	-0.7	+0.3	+0.4	+0.6	+0.8	+0.6	+0.7	+0.8	+0.7	+0.7	+0.7	+0.8
thereof: Investment in plant and equipment	+1.9	+2.7	+3.7	-0.8	-0.1	+0.3	+0.6	+1.0	+0.7	+0.8	+0.9	+1.0	+0.9	+1.0	+1.0
Residential construction investment <sup>1)</sup>	+2.1	+2.2	+2.1	+2.5	+0.6	+0.4	+0.5	+0.6	+0.5	+0.6	+0.6	+0.5	+0.5	+0.5	+0.5
Exports	+4.9	+7.0	+6.7	+1.0	+1.6	+1.7	+1.7	+1.7	+1.7	+1.7	+1.6	+1.7	+1.6	+1.6	+1.6
Imports	+4.6	+7.3	+7.1	+0.4	+1.5	+1.5	+1.7	+1.9	+1.8	+1.8	+1.8	+1.7	+1.7	+1.7	+1.6
<i>Contribution to real GDP growth in percentage points</i>															
Domestic demand	+1.5	+1.9	+2.0	+0.1	+0.4	+0.4	+0.5	+0.5	+0.5	+0.5	+0.5	+0.5	+0.5	+0.5	+0.5
Net exports	+0.3	+0.2	+0.1	+0.3	+0.1	+0.1	+0.1	+0.0	+0.0	+0.0	+0.0	+0.0	+0.1	+0.1	+0.1
Changes in inventories	+0.1	+0.1	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0
<b>Labor market</b>															
	<i>%</i>														
Unemployment rate (Eurostat definition)	4.5	4.4	4.3	4.6	4.6	4.5	4.5	4.4	4.4	4.4	4.4	4.3	4.3	4.3	4.3
<i>Annual and/or quarterly changes in %</i>															
Total employment	+0.8	+0.9	+1.0	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2
thereof: Private sector employment	+1.0	+1.1	+1.1	+0.2	+0.3	+0.3	+0.3	+0.3	+0.3	+0.3	+0.3	+0.3	+0.3	+0.3	+0.3
Payroll employment	+1.0	+1.1	+1.1	+0.2	+0.3	+0.3	+0.3	+0.3	+0.3	+0.3	+0.3	+0.3	+0.3	+0.3	+0.3
<b>Additional variables</b>															
	<i>Annual and/or quarterly changes in %, in real terms</i>														
Disposable household income	+2.0	+2.0	+1.8	+0.6	+0.5	+0.5	+0.4	+0.6	+0.5	+0.5	+0.5	+0.3	+0.5	+0.5	+0.5
<i>% of nominal disposable household income (saving ratio) and % of real GDP (output gap)</i>															
Household saving ratio	9.7	9.6	9.4	9.7	9.7	9.7	9.6	9.6	9.6	9.6	9.6	9.4	9.4	9.4	9.5
Output gap	-0.8	-0.5	-0.2	-0.9	-0.9	-0.8	-0.7	-0.6	-0.5	-0.5	-0.4	-0.3	-0.2	-0.2	-0.1

Source: OeNB June 2005 outlook. Quarterly data are seasonally adjusted.

<sup>1)</sup> Excluding other investment in construction and other investment.