Austrian Economy Prevails in Bleak International Environment

Economic Outlook for Austria from 2012 to 2014 (June 2012)

Christian Ragacs, Klaus Vondra[1]

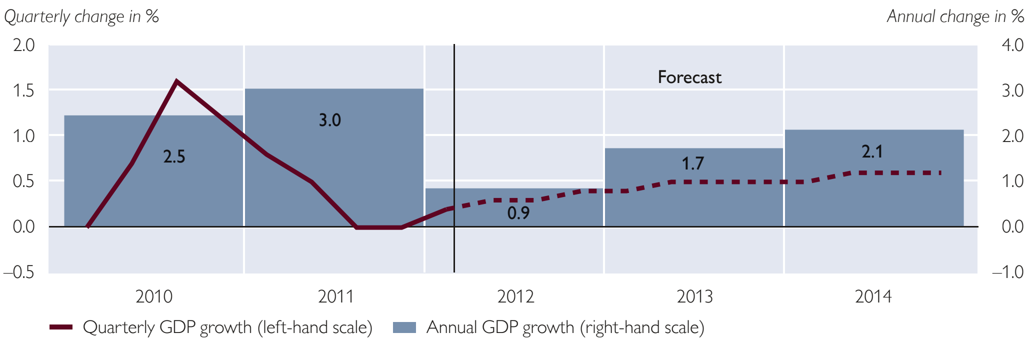
1 Summary: Austria Ranks among Europe's Growth Engines in 2012

In its economic outlook of June 2012, the Oesterreichische Nationalbank (OeNB) projects Austrian GDP growth to reach 0.9% in 2012 and expects the Austrian economy to remain one of the engines of euro area growth also in 2013 and 2014 (2013: 1.7%; 2014: 2.1%). Against the OeNB's December 2011 outlook, the projections have been revised upward slightly for 2012 (+0.2 percentage points) and 2013 (+0.1 percentage points) despite the fiscal consolidation package adopted in spring 2012 and an internationally bleak environment. Essentially, the upward revision is due to the robust performance of the domestic economy, which is reflected in very dynamic employment growth and a pronounced investment cycle. By contrast, net exports will make only a modest contribution to growth. The unemployment rate, which stood at 4.2% in 2011, will temporarily inch up to 4.3% in 2012 and 2013 but drop back to 4.2% in 2014. HICP inflation will fall to 1.7% by 2013, primarily owing to easing commodity price pressures, but will reaccelerate slightly in 2014 on the back of the recovering domestic economy (1.9%). The general government deficit will marginally increase to 2.8% of GDP in 2012, owing to financial stability measures, but will subsequently improve to 1.2% of GDP by 2014 for both economic and fiscal consolidation reasons. The current account, finally, will show a slight surplus over the entire forecast period and is projected to stand at 2.9% of GDP in 2014.

Global GDP growth will continue to lose steam in 2012, owing to the persistent European debt crisis and to slowing economic activity in Asian emerging markets. While long-term liquidity provided by the ECB in the form of two refinancing operations with a maturity of three years in December 2011 and

Chart 1

Real GDP Growth (Seasonally and Working Day-Adjusted)



Source: Eurostat, OeNB.

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[1] *Oesterreichische Nationalbank, Economic Analysis Division, christian.ragacs@oenb.at, klaus.vondra@oenb.at. In collaboration with Friedrich Fritzer, Ernest Gnan, Walpurga Köhler-Töglhofer, Peter Mooslechner, Lukas Reiss and Alfred Stiglbauer.*

March 2012, as well as the haircut negotiated for the Greek government's private creditors temporarily reduced uncertainty and calmed financial markets, the latest political developments in Greece have triggered renewed uncertainty. At the same time, economic developments in the U.S.A. and in Japan came as a pleasant surprise: both economies have been growing more rapidly in 2012 than forecast by the OeNB's economic outlook of December 2011.

In *Europe* and, particularly, in the euro area, the impact of the financial and economic crisis has resulted in increasingly wider divergence between individual countries' economic performance. The further deepening of the sovereign debt crisis at end-2011, which was accompanied by a decline in global demand, has induced a recession in a number of countries in some of which it will persist until 2013. Apart from the EU-IMF program countries of Greece and Portugal, the Netherlands and above all the two large economies of Italy and Spain have been hit. By contrast, Germany, France, Austria, Finland and Slovakia are driving euro area growth, but the strength of their economies will not prevent the euro area as a whole from sliding into a mild recession in 2012.

As in 2008 and 2009, *Austria* has been unable to decouple itself entirely from world economic momentum. In the second half of 2011, export growth virtually stagnated, which meant net exports did not make a positive contribution to growth. However, unlike the crisis year of 2009, buoyant domestic demand prevented a renewed recession in the second half of 2011. In early 2012, the Austrian economy returned to positive growth, which will continue to strengthen as the expansion in international demand accelerates. In the first quarter of 2012, the contributions to growth came from the entire spectrum of demand components. *Private consumption* growth in particular will accelerate over the forecast horizon, despite the fiscal consolidation measures, owing to record employment and an improvement in real disposable household incomes. Investment in equipment, which had fueled the investment cycle in 2011, will grow more slowly in the period from 2012 to 2014. Nonetheless, the forecast horizon will see continued above-average growth in *total gross fixed capital formation,* as construction investment will also contribute to growth following the rebound of the construction investment cycle amid the favorable financing conditions of 2011. Export growth, meanwhile, remains lackluster in historical terms, so that net exports will only marginally contribute to growth.

Robust *employment growth* of 56,700 persons (1.6%) is projected for 2012. This figure is only slightly lower than the increase in 2011 when employment had already risen very sharply (59,300 persons, or 1.7%). Employment momentum will persist in 2013 (1.0%) and 2014 (1.3%). Owing to the steep rise in employment, the *unemployment rate* (Eurostat definition) fell to 4.2% in 2011. This means Austria has the lowest unemployment rate in the euro area. In 2012, unemployment is projected to inch up to 4.3% due to slowing economic activity and a further increase in labor supply. For 2014, however, the unemployment rate is expected to revert to 4.2 % in line with the strengthening economic recovery.

HICP inflation stood at 3.6% in 2011, with core inflation up to almost 3%. Primarily in view of falling commodity prices – in particular, energy prices –

Table 1

OeNB June 2012 Outlook for Austria – Key Results[1]

	2011	2012	2013	2014
Economic activity	*Annual change in % (real)*			
Gross domestic product	+3.0	+0.9	+1.7	+2.1
Private consumption	+0.7	+1.1	+1.0	+1.3
Government consumption	+0.4	+0.4	+0.9	+0.9
Gross fixed capital formation	+5.0	+2.5	+2.5	+2.2
Exports of goods and services	+7.1	+3.4	+6.1	+6.8
Imports of goods and services	+7.5	+3.5	+5.9	+6.5
	% of nominal GDP			
Current account balance	+1.9	+2.1	+2.6	+2.9
Contribution to real GDP growth	*Percentage points*			
Private consumption	+0.4	+0.6	+0.5	+0.7
Government consumption	+0.1	+0.1	+0.2	+0.2
Gross fixed capital formation	+1.0	+0.5	+0.5	+0.5
Domestic demand (excluding changes in inventories)	+1.4	+1.1	+1.2	+1.3
Net exports	+0.3	+0.2	+0.5	+0.6
Changes in inventories (including statistical discrepancy)	+1.3	–0.5	+0.0	+0.2
Prices	*Annual change in %*			
Harmonised Index of Consumer Prices (HICP)	+3.6	+2.4	+1.7	+1.9
Private consumption expenditure (PCE) deflator	+2.8	+2.5	+1.8	+1.9
GDP deflator	+1.9	+1.6	+1.5	+1.7
Unit labor costs in the total economy	+0.8	+3.1	+1.6	+2.0
Compensation per employee (at current prices)	+2.4	+2.4	+2.3	+2.9
Productivity (whole economy)	+1.5	–0.7	+0.7	+0.8
Compensation per employee (real)	–0.4	–0.1	+0.5	+1.0
Import prices	+5.9	+2.4	+2.0	+2.0
Export prices	+3.5	+2.3	+1.8	+1.9
Terms of trade	–2.3	–0.2	–0.2	–0.2
Income and savings				
Real disposable household income	–0.2	+0.8	+1.0	+2.1
	% of nominal disposable household income			
Saving ratio	7.5	7.4	7.5	7.9
Labor market	*Annual change in %*			
Payroll employment	+1.7	+1.6	+1.0	+1.3
	% of labor supply			
Unemployment rate (Eurostat definition)	4.2	4.3	4.3	4.2
Budget	*% of nominal GDP*			
Budget balance (Maastricht definition)	–2.6	–2.8	–1.6	–1.2
Government debt	72.2	74.7	74.5	73.2

Source: 2011: Eurostat, Statistics Austria; 2012 to 2014: OeNB June 2012 outlook.

[1] *The outlook was drawn up on the basis of seasonally adjusted and working-day adjusted national accounts data. Therefore, the values for 2011 may deviate from the nonadjusted data released by Statistics Austria.*

inflation will ease significantly in 2012 (2.4%) and 2013 (1.7%). In 2014, however, stronger GDP growth will induce a marginal, domestic demand-led increase in inflation to 1.9%.

2 Technical Assumptions

This forecast is the OeNB's contribution to the Eurosystem's June 2012 staff projections. The forecast horizon ranges from the first quarter of 2012 to the fourth quarter of 2014. May 16, 2012 was the cutoff date for the assumptions on global growth as well as interest rates, exchange rates and crude oil prices. The OeNB used its macroeconomic quarterly model to prepare the projections for Austria. The key data source comprised seasonally and working day-adjusted national accounts data computed by the Austrian Institute of Economic Research (WIFO), which were fully available to the fourth quarter of 2011. The data for the first quarter of 2012 are based on GDP flash estimates, which cover only part of the aggregates in the national accounts, however. The short-term interest rates used for the forecast horizon are based on market expectations of the three-month EURIBOR, namely 0.8% in 2012, 0.7% in 2013 and 1.0% in 2014. Long-term interest rates reflect market expectations for ten-year government bonds, and have been set at 2.9% (2012), 3.1% (2013) and 3.5% (2014). The exchange rate of the euro vis-à-vis the U.S. dollar is assumed to stay constant at USD 1.31. The projected trend in crude oil prices is based on futures prices. The oil price assumed for 2012 is USD 115.7 per barrel of Brent, while the prices for 2013 and 2014 are set at USD 109.3 and USD 103.1, respectively. The prices of commodities excluding energy are also based on futures prices over the forecast horizon.

3 Modest Decline in Global Economic Activity – European Sovereign Debt Crisis Curbs GDP Growth

In 2010, the world economy (excluding the euro area) registered above-average growth of 5.8%, thereby offsetting to some extent the slump it suffered in 2009. Conversely, 2011 was – and 2012 is – marked by a downturn in global economic activity, with growth rates of only 4.1% and 3.8%, respectively. Other factors contributing to this slowdown include the European sovereign debt crisis and the deceleration of GDP growth in Asian and Latin American emerging markets. By contrast, favorable economic developments in the U.S.A. and in Japan will fuel world GDP growth in 2012. A trend reversal is expected for 2013: world GDP growth will increase to more than 4% in 2013 and accelerate to 4.6% in 2014. In line with global GDP growth, world trade growth will also gather momentum.

The *U.S.* economy expanded by 0.5% in the first quarter of 2012 on a quarterly basis, i.e. more rapidly than hitherto forecast. Although consumption growth – curbed by the deleveraging process and a still problematic housing market – will remain at below-average levels in 2012, an improved labor market, an incipient investment cycle and the extension of tax breaks will drive overall momentum at least until the U.S. presidential elections in fall 2012. The latter, however, are depressing growth expectations for 2013, as the necessary fiscal consolidation measures will not induce further growth. Although U.S. GDP growth is much stronger than that of the euro area, in historical terms it remains subdued.

The pace of the *Japanese* economy is still determined by the impact of two natural disasters. First, economic output stagnated in the fourth quarter of 2011 owing to the flood in Thailand, as the latter gave rise to supply-side problems and an inventory rundown. Second, the long-term consequences of the Tohoku-Pacific earthquake, as well as the tsunami unleashed by it, will necessitate a steep increase in government investment in 2012. Based on robust consumption growth and positive net exports, GDP growth of 1.0% was exceptionally strong in the first quarter of 2012. Although unexpectedly substantial quarterly growth in early 2012 boosted the growth expectations for 2012 as a whole, economic momentum will slow over the remaining forecast period.

Unlike recent years, positive growth stimuli from emerging markets are not anticipated at present. While the slowdown in *Chinese* GDP growth to below 9% is attributable to various economic policy measures, lower construction investment and weakening export momentum, the slowdown in *Indian* GDP growth is a consequence of the loss of confidence induced by high debt levels and persistently high inflation. Both countries are currently in a soft landing phase. However, other major emerging markets such as Argentina, Korea, Mexico and Turkey also expect growth to decline in 2012 and, in some cases, by a significant margin. Except for Poland, the growth outlook in *Central, Eastern and Southeastern European (CESEE) countries* is similarly subdued. In addition to the global downturn, the factors depressing growth in some CESEE economies are, in particular, the euro area's sovereign debt crisis and the need for fiscal consolidation. The CESEE area is expected to register growth of 1.7% in 2012 and to see growth accelerate to 3.0% by 2014. Although this means growth in the region will still exceed that of the euro-area, the growth advantage has halved compared with the period from 2003 to 2008.

GDP growth in Europe and the *euro area* has become increasingly more heterogeneous in the wake of the sovereign debt crisis. The global financial and economic crisis has affected every single country in Europe. The crisis however revealed deep structural differences and significant macroeconomic imbalances, which had built up in the previous boom years. The fiscal consolidation efforts required as a result of the sharp increase in government budget deficits and the accompanying steep rise in the government debt ratio dampened real growth and increased unemployment. Weak international demand, which accompanied the cooling of the world economy, caused the situation to further deteriorate: the economic output of the euro area and the EU-27 contracted at end-2011. Although real GDP growth stagnated in the euro area and the EU-27 in the first quarter of 2012, some euro area countries slid back into recession in late 2011/early 2012. The Eurosystem thus expects euro area GDP to fall slightly in 2012 (when GDP growth is unlikely to exceed a range of –0.5% to +0.3%) and to recover modestly in 2013 (with GDP growth likely to be within a range of 0.0% to +2.0%). These projections are however based on the underlying assumption equally applicable to the current outlook for Austria that the crisis of confidence is gradually abating, a return to "normality" is taking place and the European sovereign debt crisis is being resolved, without any further negative shocks arising.

The divergence in euro area GDP growth is particularly evident in the growth prospects of the region's four major economies. The *German* economy, while suffering from sluggish demand within Europe, is benefiting from its strong position in global export markets. Exports are nonetheless growing more slowly than imports. Unlike previous years, German growth is being fueled by domestic demand. With growth of 0.5% in the first quarter of 2012, Germany has been among the fastest-growing economies in Europe. Even if the German economy does not continue to grow at the rate it did in 2010 and 2011, the OECD anticipates German GDP growth will exceed 1% in

2012, which means it will have a significant growth advantage within Europe. The outlook for *France* assumes modest GDP growth in 2012. The French economy stagnated in the previous six months, and future growth will be extremely subdued. A renewed recession has so far been avoided, however. France has benefited from above-average domestic demand, which will continue to grow fairly robustly in 2012. By contrast, the three next-largest economies in the euro area face a renewed recession in 2012. *Italy* has been in recession since mid-2011. Substantial fiscal adjustment measures will dampen domestic demand in 2012. In addition, the *Spanish* economy is contracting as a result of the bursting of the housing bubble, high unemployment of almost 25% and the need for both private and public sector deleveraging. Spain is therefore expected to be in recession in 2012 and 2013 and return to growth only in 2014. The *Netherlands* will also suffer a contraction in economic output in 2012, although the slump will not be as severe as in Italy and Spain.

Of the EU-IMF program countries, Greece and Portugal are still struggling with huge problems whereas Ireland appears to have managed to turn around its economy. Thanks to its excellent competitive situation and resurgent exports, Ireland can expect positive GDP growth in 2012.

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Austria was still marked by stable consumer demand and a pronounced investment cycle in the second half of 2011. Stagnating economic output in

Table 2

Underlying Global Economic Conditions

	2011	2012	2013	2014
	Annual change in % (real)			
Gross domestic product				
World GDP growth outside the euro area	+4.1	+3.8	+4.3	+4.6
U.S.A.	+1.7	+2.2	+2.2	+2.8
Japan	–0.7	+2.2	+1.7	+1.6
Asia excluding Japan	+7.2	+6.5	+7.3	+7.5
Latin America	+4.5	+3.1	+3.8	+4.1
United Kingdom	+0.7	+0.4	+2.0	+2.1
New EU Member States[1]	+3.2	+1.7	+2.3	+3.0
Switzerland	+1.9	+0.9	+1.6	+1.8
Euro area[2]	+1.5	–0.5 to +0.3	0.0 to +2.0	x
World trade (imports of goods and services)				
World economy	+6.1	+4.4	+6.4	+7.2
Non-euro area countries	+6.9	+5.5	+7.3	+8.0
Real growth of euro area export markets	+6.3	+4.0	+6.4	+7.2
Real growth of Austrian export markets	+6.1	+3.1	+6.1	+6.5
Prices				
Oil price in USD/barrel (Brent)	111.0	115.7	109.3	103.1
Three-month interest rate in %	1.4	0.8	0.7	1.0
Long-term interest rate in %	3.3	2.9	3.1	3.5
USD/EUR exchange rate	1.39	1.31	1.31	1.31
Nominal effective exchange rate (euro area index)	103.39	98.95	98.70	98.70

Source: Eurosystem.

[1] *Bulgaria, Czech Republic, Hungary, Latvia, Lithuania, Poland and Romania.*

[2] *2012 to 2014: Results of the Eurosystem's June 2012 projections. The ECB publishes the projections as ranges based on historical forecast errors.*

the third and fourth quarter of 2011 was therefore primarily a consequence of the European sovereign debt crisis and the accompanying weakening of export demand. According to the current GDP flash estimate, however, the Austrian economy resumed growth in the first quarter of 2012 (0.2%). This growth was fueled by both domestic and external demand, making Austria one of the pillars of growth in the euro area in early 2012 – alongside Germany, Belgium and Slovakia.

Since the OeNB December 2011 outlook, no major global shocks have occurred that would not have already been factored in at the time. Both the latter outlook and the current one assume that Europe's crisis of confidence is gradually abating and that conditions are "normalizing" in Austria as well as in the euro area. However, this return to "normality" does not at all signify a steady path to recovery. This phenomenon is reflected in the latest trend in various confidence indicators for April 2012, which is marked by increased vigilance. In view of stabilizing global demand over the forecast horizon, a return to long-term average growth rates is anticipated, however. Unlike the December 2011 outlook, the budget consolidation approved in spring 2012, which is intended to reduce the structural budget balance to –0.45% by 2017, was included in the current outlook's basic scenario (box 1).

Box 1

Development of Public Finances from 2011 to 2014[1]

In 2011, the general government deficit narrowed to 2.6% of GDP (2010: 4.5%). Owing to various tax increases implemented under the fiscal consolidation package of fall 2010 and, particularly, to excellent growth in personal and corporate income taxes due to the healthy economy, government revenues rose by 4.7%. By contrast, the increase in government expenditure was extremely modest, amounting to a mere 1% owing to low growth in monetary social benefits (low pension settlements, cut in social transfers to families), staff costs (low wage settlements) and discretionary spending, among other factors.

Despite this significant improvement in the budget balance in 2011, further fiscal consolidation measures are necessary, as Austria has to correct its excessive deficit and put it on a sustainable basis by 2013 at the latest and, owing to the "debt brake" adopted at end-2011, to achieve a structurally almost balanced budget by 2017.[2] This is why the Austrian federal government passed a second package of fiscal consolidation measures in early 2012. The

Impact of (Specified) Consolidation Measures

	Volume			GDP			Budget balance		
	2012	2013	2014	2012	2013	2014	2012	2013	2014
	% of GDP			*Annual change in %*			*% of GDP*		
Scenario excluding consolidation				0.9	2.0	2.3	–3.1	–2.4	–2.0
Overall impact of consolidation	**0.4**	**1.0**	**1.1**	**–0.1**	**–0.3**	**–0.2**	**0.4**	**0.8**	**0.8**
OeNB forecast				0.9	1.7	2.1	–2.8	–1.6	–1.2

Source: Austrian Federal Ministry of Finance (BMF), OeNB.

[1] *Compiled by Lukas Reiss, Economic Analysis Division, lukas.reiss@oenb.at.*

[2] *The requirements stipulated under the preventive arm of the Stability and Growth Pact are fairly similar.*

revenue-increasing measures primarily consist in increasing social contributions, taxation of realized capital gains from the sale of real estate, closing tax loopholes related to VAT and two sizeable one-off measures (tax agreement with Switzerland, frontloaded taxation of certain pension fund benefits). The spending-restraint measures comprise cuts in staff costs (in particular, a public-sector wage freeze in 2013), smaller pension increases in 2013 and 2014 (adjustment factor reduced by 1 percentage point and 0.8 percentage points respectively), measures to raise the effective retirement age, as well as the reduction in various government grants (subsidies for Federal Railways of Austria, integration of public investment subsidies to avoid duplication ("Förderpyramide"), etc.) and (so far still unspecified) savings by federal provinces, municipalities and social security institutions.

The table above shows the estimated macroeconomic effects of those fiscal consolidation measures that have been specified in detail. The impact on GDP growth is relatively small because some of the measures included do not have a knock-on effect (frontloaded taxation of certain pension fund benefits,[3] tax agreement with Switzerland) or, if they do, have a rather mild one. The latter also applies to the moves to close tax loopholes, to reductions in tax exemptions and to the increase in taxation of labor income (as these mesasures primarily concern high-income earners).

In addition to these fiscal consolidation measures, the non-indexation of wage and income tax brackets ("bracket creep"),[4] and various social transfers (family benefits, long-term-care allowance) and assumed low discretionary spending growth are expected to keep the budget deficit from rising more than a fraction beyond 1% of GDP in 2014 (these factors are however not included in the table above).

However, the development of both deficit and debt over the forecast horizon is also influenced by two extraordinary factors: support to the financial sector in Austria ("bank stabilization package"), as well as measures implemented within the framework of crisis management in the euro area. The following table[5] shows that the impact of the bank stabilization package

Impact of Austrian Bank Stabilization Package and Euro Area Crisis Management

		2008	2009	2010	2011	2012
Austrian bank stabilization package		*% of GDP*				
Gross savings[1]	A	0.0	0.0	0.1	0.1	0.1
Capital transfers	B	0.0	0.0	0.6	0.2	0.8
Stock-flow adjustment[2]	C	0.3	1.7	0.0	–0.2	–0.2
Budget balance	A–B	0.0	–0.0	–0.5	–0.1	–0.7
Debt ratio (direct)[3]	∑(B+C)	0.3	2.1	2.6	2.5	3.0
Debt ratio (total)[4]	∑(B+C–A)	0.3	2.1	2.4	2.2	2.6
Euro area crisis management[5]						
Budget balance		×	×	0.0	0.0	0.0
Debt		×	×	0.2	0.7	2.3

Source: OeNB, Statistics Austria, Eurostat, ECB.

[1] *Dividends + premiums – guarantee fees.*
[2] *Factors influencing only the deficit level (reduction of participation capital) or only the debt level (e.g. private bank equity).*
[3] *Cumulative. Corresponds to the Eurostat table relating to the Austrian bank stabilization package.*
[4] *Cumulative. Includes impact of current balance on debt ratio.*
[5] *Bilateral loans, EFSF loans, contributions to ESM.*

[3] *However, frontloaded taxation of pension fund benefits only appears to be making a contribution to fiscal consolidation. In actual fact it worsens the sustainability of public finances (slightly), as the one-off reduction in the budget deficit is more than offset by higher budget deficits in the future.*

[4] *Compared with 2011, the nonindexation of wage and income tax brackets will generate additional revenue of almost 0.5% of GDP in 2014. The dampening effect of the nonadjustment of nominally fixed excise duties (particularly, the tax on hydrocarbon fuels) on revenue growth is relatively smaller.*

[5] *This table only shows values up to and including 2012, as uncertainty about numbers going forward is relatively high.*

on the budget balance was and is significant in 2010 and 2012 respectively (and therefore also strongly influenced changes in the budget balance in 2011 and will do so in 2013). Although the direct impact of crisis management measures on the budget balance is currently minimal, they will contribute to the projected increase in Austria's government debt ratio especially in 2012 (particularly, via the second Greek bailout package).

4.1 Exports Suffer From European Crises of Confidence and Debt

After Austrian exports benefited from significant catch-up effects in 2010 following the economic crisis in 2009, their momentum slowed markedly during 2011. The enduring sovereign debt crisis in Europe, increased saving efforts, slackening growth and rising unemployment in many countries ultimately led to a drop in demand for Austrian export products. Furthermore, weaker euro area demand was not offset by growing demand from countries outside the euro area, as the CESEE economies and Switzerland were affected by the euro area's problems as well. However, the slumps in demand within the euro area were considerably more pronounced. The Austrian goods and service sector almost stagnated in the second half of 2011.

According to the baseline scenario, the underlying reasons for current weak demand within Europe should gradually disappear over the forecast horizon, given the far-reaching adjustment processes. Together with a revival in international economic activity, this development should result in an appreciable pick-up in exports. However, exports will continue to grow very modestly in 2012 as a whole (3.4%), only gathering momentum in 2013 (6.1%) and 2014 (6.8%).

Owing to buoyant investment activity, 2011 saw imports (7.5%) growing faster than exports (7.1 %). In 2012, the investment cycle that is winding down, as well as low export levels, will slow import growth, which will not pick up pace until 2013 and 2014.

The slide in exports in 2008 and 2009 is also reflected in Austria's

Table 3

Growth and Price Developments in Austria's Foreign Trade

	2011	2012	2013	2014
	Annual change in %			
Exports				
Competitor prices in Austria's export markets	+4.1	+3.4	+1.8	+1.7
Export deflator	+3.5	+2.3	+1.8	+1.9
Changes in price competitiveness	+0.6	+1.1	+0.0	–0.2
Import demand in Austria's export markets (real)	+6.1	+3.1	+6.1	+6.5
Austrian exports of goods and services (real)	+7.1	+3.4	+6.1	+6.8
Austrian market share	+1.1	+0.4	+0.0	+0.2
Imports				
International competitor prices in the Austrian market	+3.8	+2.6	+1.9	+1.8
Import deflator	+5.9	+2.4	+2.0	+2.0
Austrian imports of goods and services (real)	+7.5	+3.5	+5.9	+6.5
Terms of trade	–2.3	–0.2	–0.2	–0.2
	Percentage points of real GDP			
Contribution of net exports to GDP growth	+0.3	+0.2	+0.5	+0.6

Source: 2011: Eurostat; 2012 to 2014: OeNB June 2012 outlook, Eurosystem.

Table 4

Austria's Current Account

	2011	2012	2013	2014
	% of nominal GDP			
Balance of trade	2.3	2.2	2.8	3.2
Balance on goods	–2.3	–1.7	–1.2	–0.6
Balance on services	4.7	3.9	4.0	3.8
Balance on income	0.3	0.2	0.1	0.1
Balance on current transfers	–0.7	–0.3	–0.3	–0.4
Current account	1.9	2.1	2.6	2.9

Source: 2011: Eurostat; 2012 to 2014: OeNB June 2012 outlook.

current account. After the current account balance's steady improvement since the mid-1990s and its positive balance since 2001, the global financial and economic crisis reduced it from its peak in 2008 (4.9%) to its 2004 and 2005 level. Sluggish export growth in 2012 means Austria's current account surplus of some 2.1% of GDP will exceed the 2011 level only by a small margin. From 2013, the current account will improve again more markedly.

4.2 Investment Provides Considerable Growth Impetus

Gross fixed capital formation suffered a huge slump in 2009 and stagnated in 2010. The ensuing backlog, particularly in investment in equipment which had shrunk sharply in 2008 and 2009, was met by the latter's extraordinary growth in 2011. Gross fixed capital formation grew by 5.0% – as high as last seen in 1996 – and investment in equipment expanded by as much as

Table 5

Investment Activity in Austria

	2011	2012	2013	2014
	Annual change in %			
Total gross fixed capital formation	+5.0	+2.5	+2.5	+2.2
of which: Investment in plant and equipment	+9.3	+4.9	+4.1	+3.2
Residential construction investment	+0.8	+1.7	+1.8	+1.6
Nonresidential construction investment and other investment	+1.2	+0.6	+1.2	+1.4
Government investment	–8.5	+0.5	+0.5	+0.5
Private investment	+5.8	+2.5	+2.6	+2.3
	Contribution to total gross fixed capital formation growth in percentage points			
Investment in plant and equipment	+3.7	+2.0	+1.8	+1.4
Residential construction investment	+0.2	+0.3	+0.3	+0.3
Nonresidential construction investment and other investment	+0.5	+0.3	+0.5	+0.5
Government investment	–0.5	+0.0	+0.1	+0.0
Private investment	+5.4	+2.4	+2.5	+2.2
	Contribution to real GDP growth in percentage points			
Inventory changes	+1.2	–0.3	+0.0	+0.2

Source: 2011: Eurostat; 2012 to 2014: OeNB June 2012 outlook.

9.3%, thereby registering its strongest annual growth in the past few decades. This catch-up process is due to several factors: (1) replacement investment was necessary after two years of contracting investment in equipment, (2) the benign economic situation which is reflected in above-average capacity utilization and full order books, (3) enterprises' favorable internal financing situation as well as (4) external financing costs which were historically low despite the crisis.

Although the equipment investment cycle will slowly weaken in the forecast period on the back of decelerating international GDP growth since mid-2011 and extensive replacement investment, annual growth should nonetheless reach 4.9% in 2012 and 3.2% in 2014 in view of continued excellent internal financing potential. Gross fixed capital formation is also being sustained by resurgent housing investment against the backdrop of a housing investment cycle that has traditionally spanned several years in Austria. Housing investment started to expand again by a modest 0.8% in 2011 and should grow at an annual rate of more than 1.5% over the forecast horizon, being driven by rising house prices and internationally very low interest rates in the medium term. Growth in civil engineering investment will be very sluggish in 2012 owing to lackluster public sector demand, yet it is expected to accelerate at a slightly faster tempo in both 2013 and 2014. As for government investment, the consequences of the fiscal adjustment requirements are clearly evident: government investment will increase by only 0.5% per year in real terms over the forecast horizon. However, government investment accounts for only some 5% of total investment, which will grow by 2.5% (2012 and 2013) and by 2.2% (2014).

4.3 Continued Modest Consumer Growth

Low growth in real private consumption demand in 2011 (0.7%) was primarily attributable to extraordinarily high HICP inflation and an accompanying contraction in real disposable income (–0.2%). A sharp increase in the total wage bill, which is currently being fueled by high employment growth (for further details, see section 5) and

Table 6

Determinants of Nominal Household Income in Austria

	2011	2012	2013	2014
	Annual change in %			
Payroll employment	+1.7	+1.6	+1.0	+1.3
Wages per employee	+2.4	+2.4	+2.3	+2.9
Compensation of employees	+4.1	+4.0	+3.4	+4.3
Property income	–2.5	–2.6	+1.0	+1.5
Mixed income and operating surplus, net	+5.3	+1.9	+2.7	+2.9
	Contribution to disposable household income growth in percentage points			
Compensation of employees	+3.5	+3.4	+2.9	+3.7
Investment income	–0.2	–0.2	+0.1	+0.1
Mixed income and operating surplus, net	+1.1	+0.4	+0.6	+0.6
Net transfers minus direct taxes[1]	–2.1	–1.2	–0.9	–0.2
Disposable household income (nominal)	+2.6	+3.3	+2.9	+4.1

Source: 2011: Eurostat; 2012 to 2014: OeNB June 2012 outlook.

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

comparatively high wage settlements (3.3%), is anticipated in 2012. The latter should be seen as a reaction to unexpectedly steep inflation and the healthy corporate profit situation in 2011. However, a cyclically negative wage drift is dampening wage growth, as the need to work overtime has fallen sharply compared with the boom year of 2011. Despite the weak economy, this means wages per employee will rise steeply in 2012 (2.4%). In line with the recovering economy, wages per employee will continue to climb until 2014 (2.9%). Although property income will contract in 2012 (–2.6%), it will recover in 2013 and accelerate to 1.5% by 2014. Mixed income and operating surplus will be dampened by the tough economic climate and recover only from 2013 onward.

Compared with 2011 (2.6%), nominal household income growth will be slightly higher in 2012 (3.3%) and 2013 (2.9%). In 2014, it will climb steeply to just above 4% on the back of the economic recovery. From 2012, lower inflation will spur a rise in real disposable household income after the latter fell in 2011. At an almost constant saving ratio of some 7.5% in 2012 and 2013 and at a slightly higher one of 7.9% in 2014, private consumption growth – despite fiscal consolidation efforts – will accelerate slightly from 0.7% (2011) to 1.3% (2014).

5 Robust Employment Growth in 2012, Only Slight Temporary Rise in Jobless Rate

During the 2009 recession, Austrian employment fell only slightly in both international and historical terms and, in the subsequent upturn, registered unexpectedly high growth, which has since continued to persist. Historically above-average employment growth in terms of aggregate employment is also projected for 2012 (1.6%). (See Box 2 for a more detailed analysis of these "unexpected" developments.) In 2013, employment momentum is expected to normalize to average growth levels of 1.0% but 2014 should see a slight acceleration to 1.3% for cyclical reasons. Owing to the fiscal consolidation measures, growth in public-sector employment will slow over the entire forecast period.

Following robust growth in 2011 (1.2%) labor supply growth will climb to 1.7% in 2012 but slacken during the year and decelerate to 1.0% in 2013. The reasons for this phenomenon are twofold: first, the fading impact from the opening of the Austrian labor market to workers from the CESEE economies that joined the EU in 2004 and, second, the effects of the slowing economy on Austria's labor supply which traditionally develops in a very procyclical way. Labor supply growth is therefore expected to reaccelerate in 2014.

Table 7

Private Consumption in Austria

	2011	2012	2013	2014
	Annual change in %			
Disposable household income (nominal)	+2.6	+3.3	+2.9	+4.1
Private consumption expenditure (PCE) deflator	+2.8	+2.5	+1.8	+1.9
Disposable household income (real)	–0.2	+0.8	+1.0	+2.1
Private consumption (real)	+0.7	+1.1	+1.0	+1.3
	% of nominal disposable household income			
Saving ratio	7.5	7.4	7.5	7.9

Source: 2011: Eurostat; 2012 to 2014: OeNB June 2012 outlook.

Table 8

Labor Market Developments in Austria

	2011	2012	2013	2014
	Annual change in %			
Total employment	+1.5	+1.6	+1.0	+1.3
of which: Payroll employment	*+1.7*	*+1.6*	*+1.0*	*+1.3*
Self-employment	*+0.2*	*+1.5*	*+0.7*	*+1.2*
Public sector employment	*–0.3*	*–0.1*	*–0.1*	*–0.1*
Registered unemployment	–5.2	+4.5	+1.4	–0.7
Labor supply	+1.2	+1.7	+1.0	+1.2
	% of labor supply			
Unemployment rate (Eurostat definition)	4.2	4.3	4.3	4.2

Source: 2011: Eurostat; 2012 to 2014: OeNB June 2012 outlook.

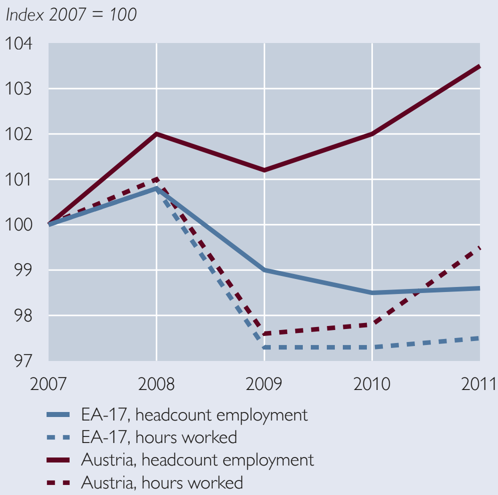
Austria has had the lowest unemployment rate in the EU since mid-2011 (full year 2011: 4.2%). In 2012, the unemployment rate, in the wake of slowing growth and still rapidly expanding labor supply, will temporarily creep up to 4.3%. In 2014, however, it will drop back to 4.2% in line with the economic recovery.

Box 2

Robust Employment Growth and Working Hour Adjustments Fuel GDP Growth – Shift in Employment from Manufacturing to the Service Sector

The Austrian economy is currently marked by very dynamic employment growth, which comes rather as a surprise given that GDP growth stagnated in the second half of 2011. In 2011, growth in aggregate employment (payroll employment) stood at 1.5% (1.7%). In the first quarter of 2012, it further accelerated to 1.7% (1.8%) on a quarterly basis. In addition to the buoyant economy and Austrian enterprises' favorable financing conditions, the opening of the Austrian labor market, in May 2011, to workers from the CESEE countries that had joined the EU in 2004 also influenced employment growth. The latter was driven by labor shortages in specific sectors, a better mix of skills and a comparatively small increase in wages and thus labor costs. However, statistical distortions via potential legalizations of existing jobs are also feasible.

Headcount Employment and Hours Worked



Source: National accounts data on employment, Eurostat, authors' calculations.

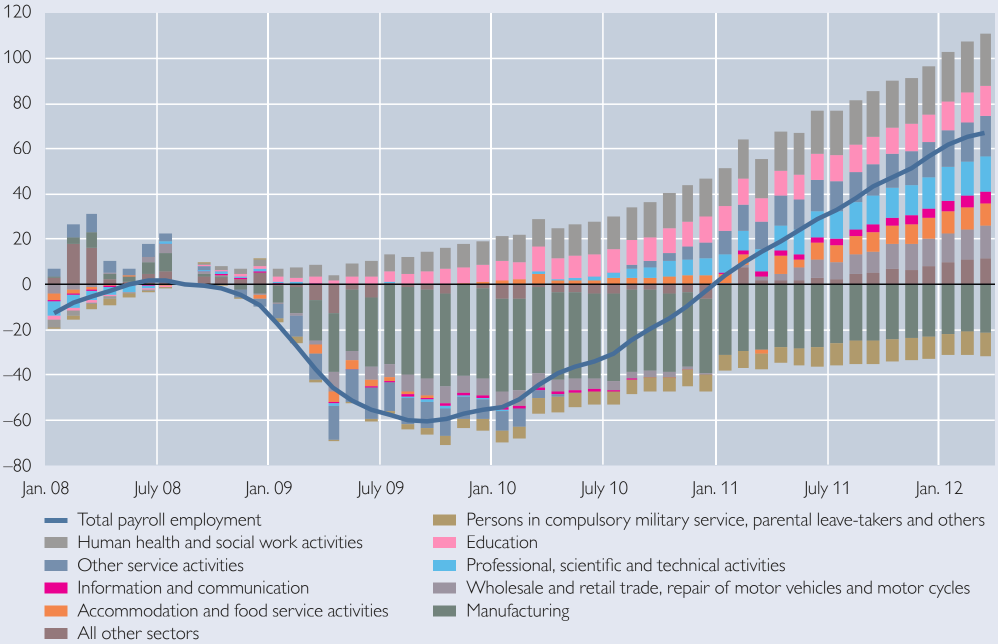
Even before Austria's labor market opened up to the workers from the CESEE countries that had joined the EU in 2004, employment per capita – as well as unemployment – developed positively in international terms. Employment growth returned to precrisis levels in 2010 as it rebounded to 0.9% that year. Since then, continuing momentum in 2011 and 2012 has generated an all-time employment high in Austria.

By contrast, employment in the euro area has still not returned to its 2007 level. In 2011, however, the euro area – after two years of shrinking employment – registered at least modest employment growth. Unlike other countries, active labor market measures caused the number of hours worked to be adjusted far more flexibly in Austria than headcount employment. The adjustments in hours worked helped to keep unemployment low and maintain corporate human capital during the crisis. At the same time, the number of hours worked, while rising significantly more sharply than in the euro area in 2011, continues to lag behind its 2007 level in Austria. The divergent development of headcount employment and hours worked is due to three factors: (1) less recourse to overtime and time quotas, (2) a trend in increased part-time work[1] and (3) a shift from manufacturing to the services industry, as is evident from an analysis of employment growth by economic sector.

The following chart shows employment growth by NACE economic sectors compared with August 2008. The data source comprises seasonally-adjusted values for the number of jobs (Main Association of Austrian Social Security Institutions). August 2008 was selected as a reference value because it represents the peak in precrisis employment.

Employment Classified By NACE Sectors

Absolute change on August 2008 measured in thousands of jobs, seasonally adjusted



Source: Economic activities according to the Main Association of Austrian Social Security Institutions, authors' calculations.

The sectoral employment trends indicate that the negative impact of the financial and economic crisis in 2008 and 2009 on employment was largely limited to manufacturing and did not spill over onto the service sector. By early 2010, Austrian manufacturing jobs had declined by almost 43,000, despite a reduction in working hours as well as considerable use of short-time working options.[2] Strictly speaking, the decrease in employment in the "Other

[1] *The provisions governing phased retirement were amended in 2009. The current trend shows pronounced employment growth in the over 55 year-old age group. In addition, the Austrian female employment rate, which also shows a marked trend in part-time work, has been on the rise for years.*

[2] *More than 30,000 persons were registered as engaged in short-time working between March 2009 and January 2010. The peak was reached in June 2009, with 56,860 persons on short-term work at 321 firms (mainly large industrial enterprises, owing to the administrative burden).*

service activities" sector (some 15,000 leased employees) also qualifies as a decrease in manufacturing jobs. While the number of leased employees returned to precrisis levels in summer 2010 and even exceeded this figure by some 17,000 persons in early 2012, manufacturing employment was still markedly below precrisis levels at the start of 2012. As manufacturing has now almost returned to precrisis levels, this would imply significant efficiency gains. The sectoral analysis of employment also reveals a shift from manufacturing to a number of service industries. In this respect, employment growth in particular in "Human health and social work activities," "Accommodation and food service activities" and "Wholesale and retail trade, repair of motor vehicles and motor cycles" evidently reflects the full opening of the Austrian labor market to workers from EU CESEE countries.

6 Inflation Drops to below 2%

Food and energy prices soared sharply in early 2011 and service prices rose markedly in the remaining course of the year. In the full year 2011, HICP inflation stood at 3.6%, with core inflation up to almost 3%. Since December 2011, HICP inflation has been easing significantly on an annual basis. Whereas it was 3.9% in November 2011, by April 2012 it had fallen by 1.6 percentage points to 2.3%. In particular, the core components industrial goods and food as well as, to a lesser extent, energy contributed to the fall in inflation. As a result, core inflation also eased to just above 2% in April 2012.

Owing primarily to falling commodity prices – particularly, energy prices – HICP inflation will drop to 2.4% in 2012 and further to 1.7% in 2013. The public sector, i.e. administered prices and the effects of any tax increases, will make a constant contribution to inflation. In 2014, accelerating GDP growth will induce a modest domestic demand-led uptick in inflation to 1.9%.

Table 9

Selected Price and Cost Indicators for Austria

	2011	2012	2013	2014
	Annual change in %			
Harmonised Index of Consumer Prices (HICP)	+3.6	+2.4	+1.7	+1.9
HICP energy	+11.3	+4.6	+0.8	+1.1
HICP excluding energy	+2.8	+2.0	+1.8	+2.0
Private consumption expenditure (PCE) deflator	+2.8	+2.5	+1.8	+1.9
Investment deflator	+2.6	+1.9	+2.0	+2.1
Import deflator	+5.9	+2.4	+2.0	+2.0
Export deflator	+3.5	+2.3	+1.8	+1.9
Terms of trade	–2.3	–0.2	–0.2	–0.2
GDP at factor cost deflator	+1.9	+1.7	+1.8	+2.1
Unit labor costs	+0.8	+3.1	+1.6	+2.0
Compensation per employee	+2.4	+2.4	+2.3	+2.9
Labor productivity	+1.5	–0.7	+0.7	+0.8
Collectively agreed wage settlements	+2.0	+3.3	+2.4	+2.6
Profit margins[1]	+1.1	–1.5	+0.2	+0.0

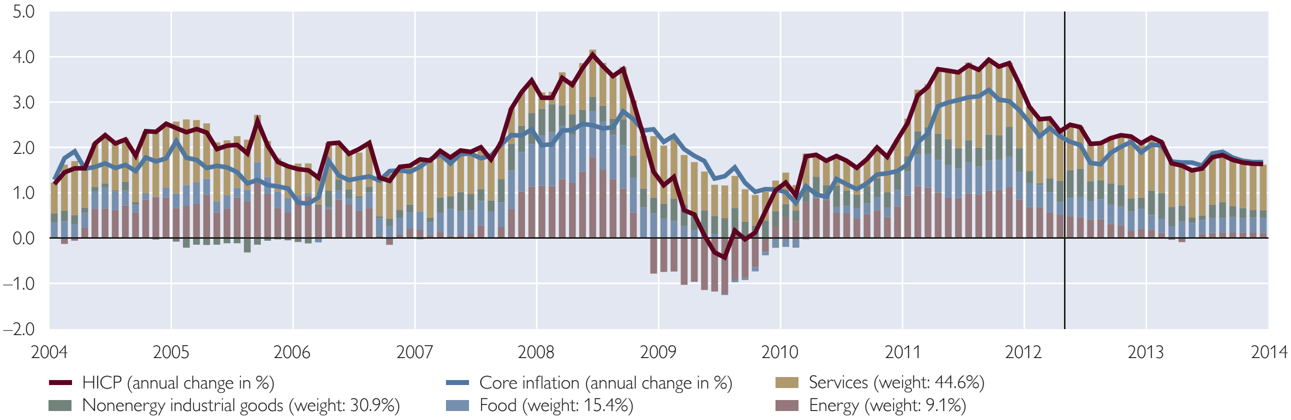
Source: 2011: Eurostat, Statistics Austria; 2012 to 2014: OeNB June 2012 outlook.

[1] GDP deflator divided by unit labor costs.

Chart 2

HICP Inflation and Contributions from Subcomponents

Contributions to growth in percentage points *Last observation: April 2012*



Source: OeNB, Statistics Austria.

7 External Downside Risks Outweigh Domestic Upside Risks

The crisis in the euro area notwithstanding, the balance of domestic risks to GDP growth in Austria is slightly on the upside. Continued robust employment growth could further strengthen the total wage bill and thus disposable income, triggering an upward revision of private consumption at a constant saving ratio. As for gross fixed capital formation, it is also subject to upside risk arising in respect of two factors: first, fixed capital formation owing to Austrian companies' healthy financial coffers and, second, housing investment, whose cycle – equally fueled by favorable financing conditions – may be more robust than projected.

In contrast, the balance of external risks to GDP growth is clearly on the downside. The current developments represent a high risk to the financial sector and, consequently, to real GDP growth. The impact on Austria as a euro area member would be even more massive, should other countries get more deeply entangled in the sovereign debt and banking crisis as a result of the Greek crisis. By contrast, recent unexpectedly strong GDP growth in Germany represents an upside risk.

The fall in crude oil prices since the editorial deadline (May 24, 2012) represents an upside risk to the further development of the economy and a downside risk to inflation. The weaker euro exchange rate is having a stimulating effect on the economy and at the same time represents an upside risk to inflation.

8 Forecast Revised against December 2011 Primarily owing to Lower Interest Rates

The underlying assumptions on the growth of global trade have been revised downward since the OeNB's December 2011 economic outlook. For 2012 (2013), we have lowered our growth expectations for Austria's export markets by 1.3 (0.3) percentage points. Crude oil futures prices went up marginally (USD per barrel of Brent, 2013: USD +5.3). The exchange rate of the euro against the U.S. dollar has moved only little. The nominal effective exchange rate is 1.2 percentage points higher than projected in December 2011 and is almost unchanged for 2013.

Table 10

Change in the External Economic Conditions since the OeNB December 2011 Outlook

	June 2012		December 2011		Difference	
	2012	2013	2012	2013	2012	2013
	Annual change in %					
Growth of Austria's export markets	+3.1	+6.1	+4.4	+6.4	–1.3	–0.3
Competitor prices in Austria's export markets	+3.4	+1.8	+1.3	+1.4	+2.1	+0.4
Competitor prices in Austria's import markets	+2.6	+1.9	+1.0	+1.4	+1.6	+0.5
	USD per barrel (Brent)					
Oil price	115.7	109.3	109.4	104.0	+6.3	+5.3
	Annual change in %					
Nominal effective exchange rate (exports)	+1.1	+0.1	–0.1	+0.0	+1.2	+0.1
Nominal effective exchange rate (imports)	+0.6	+0.1	–0.2	+0.0	+0.8	+0.1
	%					
Three-month interest rate	0.8	0.7	1.2	1.4	–0.4	–0.7
Long-term interest rate	2.9	3.1	3.8	4.1	–0.9	–1.0
	Annual change in %					
U.S. GDP (real)	+2.2	+2.2	+1.8	+2.5	+0.4	–0.3
	USD/EUR					
USD/EUR exchange rate	1.31	1.31	1.36	1.36	–0.05	–0.05

Source: Eurosystem.

Both long-term and short-term interest rates are much lower than pegged in the December forecast. Short-term interest rates will be a mere 0.8% (–0.4 percentage points) in 2012 and 0.7% (–0.7 percentage points) in 2013. Long-term interest rates will fall more sharply (2012: 2.9%, or –0.9 percentage points; 2013: 3.1%, or –1.0 percentage points).

The effects of these new external assumptions were simulated using the OeNB macroeconomic model. Table 11 lists the reasons for revising the out-

Table 11

Breakdown of Forecast Revisions

	GDP		HICP	
	2012	2013	2012	2013
	Annual change in %			
June 2012 outlook	+0.9	+1.7	+2.4	+1.7
December 2011 outlook	+0.7	+1.6	+2.2	+1.6
Difference	+0.2	+0.1	+0.2	+0.1
Due to:	*Percentage points*			
External assumptions	+0.2	+0.2	+0.1	+0.1
New data	+0.0	+0.0	+0.1	+0.0
of which: Revision of historical data until Q3 11	*–0.1*	*+0.0*	*+0.0*	*x*
Projection errors for Q4 11 and Q1 12	*+0.1*	*+0.0*	*+0.1*	*x*
Other[1]	+0.0	+0.0	+0.0	+0.0

Source: OeNB June 2012 and December 2011 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.*

look in detail. Apart from the impact of changed external assumptions, they are attributable to the impact of new data and to a residual. 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 third quarter of 2011) and the forecasting errors of the previous outlook for the periods now published for the first time (i.e. data for the fourth quarter of 2011 and the first quarter of 2012). The item "Other" includes new expert opinions regarding the development of domestic variables, such as government consumption or wage settlements, as well as any changes to the model.

Owing to considerably lower interest rate assumptions, projected GDP growth for both 2012 and 2013 is higher than the OeNB December 2011 outlook. In addition, unexpectedly higher employment growth in the first quarter of 2012 and the unexpectedly robust investment cycle influenced the forecast for total wage bills, consumption and investment. The modest upward revisions of the inflation forecast for both 2012 and 2013 are primarily due to new energy prices.

Box 3

OeNB-BOFIT Outlook for Selected CESEE Countries: Mixed External Environment Compounds Weak Domestic Demand[1, 2]

The CESEE-7 region posted rather strong GDP growth in 2011, but in 2012 will be affected by lower economic activity in the euro area. Despite some signs of stabilization both globally and in the euro area, the weaker external environment will halve economic growth in the region to 1.4% in 2012 from the rather strong performance in 2011. In 2013, growth will pick up to 2.6% amid a stabilizing external environment. Although the contribution of net exports to growth will shrink in all countries, external demand will continue to contribute positively to GDP growth almost everywhere in the region. Domestic demand will remain subdued in 2012 and will show only moderate signs of improvement in 2013. Given continued fiscal consolidation, no growth impetus can be expected from public consumption. Tight financing conditions and weak labor markets are hampering the recovery in private consumption and gross fixed capital formation, with individual growth prospects remaining diversified. CESEE-7 imports will expand by a modest 3.4% in 2012 and import growth will accelerate slightly to 5.7% in 2013. GDP growth in Russia is forecast to moderate to 3.7% both in 2012 and 2013, driven by reverting crude oil price dynamics, while the import expansion is expected to average around 7% p.a. in the forecast period, reflecting lower post-crisis GDP growth. Croatia is forecast to slide into recession again in 2012 (–0.9%), but GDP growth is expected to recover to 1.3% in 2013, backed by recovering domestic demand.

Risks to these projections remain tilted to the downside, mainly because the development of the euro area periphery is uncertain. However, better than expected economic developments in Germany in response to increased global trade growth represent an upside risk.

GDP and Import Projections for 2012 to 2013

	GDP			Imports		
	2011	2012	2013	2011	2012	2013
	Annual growth in %					
CESEE-7	**3.2**	**1.4**	**2.6**	**7.6**	**3.4**	**5.7**
Bulgaria	2.1	1.3	2.4	8.7	4.5	7.0
Czech Republic	1.7	0.3	1.9	7.5	2.3	6.3
Hungary	1.7	–0.5	1.2	6.3	3.0	5.4
Poland	4.4	2.4	3.1	6.0	3.4	5.0
Romania	2.1	1.2	2.6	11.2	3.4	5.8
Croatia	0.3	–0.9	1.3	–6.5	0.5	4.9
Russia	4.3	3.7	3.7	22.0	8.0	6.0

Source: OeNB-BOFIT March 2012 forecast, Eurostat, Rosstat.

Note: CESEE-7 = CESEE EU member countries that have not yet introduced the Euro; seasonally adjusted data for 2011.

[1] *Compiled by Julia Wörz, Oesterreichische Nationalbank, Foreign Research Division, julia.woerz@oenb.at.*

[2] *The OeNB and the Bank of Finland's Institute for Economies in Transition (BOFIT) compile semiannual forecasts of economic developments in selected CESEE countries (Bulgaria, Croatia, the Czech Republic, Hungary, Poland and Romania as well as Russia). These forecasts are based on a broad range of available information, including country-specific time-series models for Bulgaria, Croatia, the Czech Republic, Hungary, Poland and Romania (for technical details, see Crespo Cuaresma, J., M. Feldkircher, T. Slačík and J. Wörz. 2009. Simple but Effective: The OeNB's Forecasting Model for Selected CESEE Countries. In: Focus on European Economic Integration Q4/09. pp. 84–95). The projections for Russia, which were prepared by BOFIT, are based on a SVAR model. Cut-off date for all projections: March 19, 2012.*

CESEE-7: External and Domestic Weaknesses Will Continue to Weigh on Economic Growth over the Long Term

According to the current forecast, the CESEE-7 will grow by only 1.4% in 2012 in terms of GDP, and growth dynamics will remain uneven within the region. Poland will continue to outperform the region while Hungary will slide into a recession in the first half of 2012 – primarily caused by domestic factors – and is thus expected to record a small contraction of annual GDP in 2012. Thus, although the CESEE-7 region in the aggregate will not get close to a renewed recession, growth will remain at low levels. Moreover, regional differences will prevail for a longer time than initially anticipated.

Owing to weak external demand, export growth will roughly halve in 2012 in the five countries covered by the OeNB's projections. Thus the contribution of net exports will shrink in all countries remain positive in all countries but Romania. Budget consolidation implies that public consumption will provide no impetus in 2012. Private consumption will likewise be hampered by the current consolidation packages. Weak labor market conditions and tight private sector funding conditions also weigh negatively on private consumption. Even in the absence of bottlenecks in private sector credit supply in all countries apart from Hungary, the need to reduce currently elevated levels of private debt in the household sectors of some countries imply a continued drain on demand. Growth in gross fixed capital formation will remain weak in 2012, but will show a rising tendency in most countries except for Poland, where rising private investment will only just compensate for diminishing public investment. Due to heightened uncertainty, restocking will be postponed into 2013.

Taking into account the assumed stabilization in external demand from the euro area, GDP growth is expected to rebound somewhat in 2013. The GDP of the CESEE-7 region will rise by 2.6%, which still represents a rather weak overall growth performance. The recovery will again be led by Poland, the Baltics and the Southeastern European economies Bulgaria and Romania. Growth in the Czech Republic will also pick up again, while growth dynamics will remain more restrained in Hungary. Economic growth will become more balanced again in 2013 in terms of both regional composition and growth drivers.

Domestic demand will pick up throughout the region and will show a positive contribution to GDP growth in all countries. The hesitant recovery of domestic demand in the five countries covered by the current outlook is related to slightly improving financing conditions for the private sector. While consumer spending growth will pick up to some extent, public consumption growth will remain subdued over the entire forecasting period. Investment growth will show some signs of reviving, partly related to inventory restocking and partly to previously postponed investment decisions, improved financing conditions and rising investor confidence. Trade growth will accelerate, but only in line with the moderately improving external environment. Import and export dynamics will be roughly similar; as a result, the contribution of net exports will remain almost unchanged compared to 2012.

The risks to this outlook continue to be tilted downwards. A further intensification of the sovereign debt problems in the euro area's southern periphery, in particular if a shock would occur in a larger country, would impact negatively on the projection outcome in at least two ways: First, investor and business confidence would severely drop in all European catching-up countries, leading to a more protracted weakness in domestic demand. Second, demand for CESEE-7 exports would immediately be reduced, thus also curbing the most robust growth pillar of recent years. In addition, the effects of the EBA's capital requirements decided upon in late 2011 are still not fully clear and imply some continued deleveraging risk for the region. On the other hand, stronger than assumed German growth could pose an upside risk for our projections.

Russia: Brisk Economic Recovery to Level Off Somewhat Owing to Uncertainties

According to the current outlook, annual GDP growth will moderate to 3.7% in 2012 and also in 2013. This leveling-off tendency is influenced by the expected turnaround in crude oil price dynamics and a modest decline of the crude oil price from a currently relatively high level by about 10% over the entire forecast period. The forecast decline of GDP growth in 2012 is attributed to uncertainties in the global economy as well as in Russia. Another point is that farming simply cannot count on another large rebound of the kind it experienced in 2011. In 2013, we expect growth to be supported by rekindled confidence, recovering global economies and trade, and waning uncertainty about future developments in Russia.

Given an overall expected tendency of somewhat slower wage increases, we expect consumer demand to decelerate slightly over the forecast period. The current rapid growth in household borrowing may be reined in as real interest rates on short-term credit (under a year) have risen to exceptionally high levels. After three slow years, growth in public consumption is expected to pick up a bit in 2012, with government spending rising and the Russian economy ministry's forecast suggesting that public investment may expand modestly. Growth in export volumes is expected to remain low in the forecast period. Indeed, the Russian authorities have adjusted their own export estimates for crude oil and petroleum products downward slightly for the coming years, as increased domestic oil consumption exceeds growth in domestic oil production. The impact will, however, be moderated by rising exports of natural gas and of other basic commodities. Growth in corporate fixed capital investment could dip this year amidst uncertainty and should recover in 2013 as uncertainty fades.

The momentous inventory restocking activities following the recession are expected to ease off in 2012 and the coming years. Net capital outflows from Russia may persist in 2012 until the uncertainty in international financial markets recedes and the new government takes measures to improve Russia's business climate. In that case, the direction of net capital flows could also reverse. After rebounding strongly from the recession, import growth eased in recent months. Import expansion is expected to average around 7% a year in the forecast period, reflecting lower post-crisis GDP growth.

Risks to the forecast are largely on the downside. For instance, Russian consumer confidence could erode for domestic reasons even if the global economy develops as assumed. Corporate investors could become more cautious if the prevailing global and domestic uncertainty persists in 2013. Furthermore, Russia would be quick to feel any shock to the world economy if it triggered a sharp drop in crude oil prices or jolted financial markets anew. In such a case, Russia's leadership retains the means for stimulus measures and if needed can be expected to respond actively to cushion adverse impacts on the economy.

Croatia: Prolonged Weakness Mainly Due to Domestic Factors

Economic conditions will remain gloomy in Croatia in 2012, as the economy is forecast to slide into a recession again (–0.9%). In particular, adverse labor market conditions, the increase of the VAT rate from 23% to 25% (March 2012) and the ongoing process of financial deleveraging in the household sector will weigh on private consumption, while the pressing need to consolidate public finances will compromise public consumption. At the same time, a less supportive international environment is expected to hurt exports. Given the gradual recovery of investments and strong base effects, imports are expected to post moderate growth, so that the contribution of net exports to GDP growth is expected to turn negative in 2012.

Driven by a recovery in domestic demand, GDP growth is expected to reach 1.3% in 2013. Consumption will remain rather weak, though. In fact, while private consumption is estimated to pick up due to the base effects related to the VAT hike in 2012 and advanced purchases before EU accession on July 1, 2013, ongoing fiscal consolidation will continue to weigh on public consumption. Investment activity is expected to become the main pillar of growth in 2013. After having contracted strongly for several years in row, gross fixed capital formation is forecast to grow robustly thanks to increasing FDI inflows ahead of EU accession, while inventory restocking ahead of EU entry is expected to provide a strong impetus to economic growth as well. At the same time, the investment-driven recovery of domestic demand will also contribute to accelerating import growth. Together with only moderately firming export growth in a gradually stabilizing global environment, this will result in an increasingly negative contribution of net exports to GDP growth.

Annex: Detailed Result Tables

Table 12

Demand Components (Real Prices)

Chained volume data (reference year = 2005)

	2011	2012	2013	2014	2011	2012	2013	2014
	EUR million				*Annual change in %*			
Private consumption	142,912	144,415	145,880	147,820	+0.7	+1.1	+1.0	+1.3
Government consumption	49,560	49,760	50,200	50,631	+0.4	+0.4	+0.9	+0.9
Gross fixed capital formation	54,338	55,669	57,086	58,348	+5.0	+2.5	+2.5	+2.2
of which: Investment in plant and equipment	*22,658*	*23,766*	*24,741*	*25,533*	*+9.3*	*+4.9*	*+4.1*	*+3.2*
Residential construction investment	*10,453*	*10,630*	*10,820*	*10,992*	*+0.8*	*+1.7*	*+1.8*	*+1.6*
Investment in other construction	*21,135*	*21,273*	*21,526*	*21,823*	*+1.2*	*+0.6*	*+1.2*	*+1.4*
Changes in inventories (including statistical discrepancy)	5,899	4,639	4,680	5,217	×	×	×	×
Domestic demand	252,709	254,483	257,847	262,016	+2.9	+0.7	+1.3	+1.6
Exports of goods and services	156,466	161,814	171,676	183,341	+7.1	+3.4	+6.1	+6.8
Imports of goods and services	138,084	142,876	151,347	161,220	+7.5	+3.5	+5.9	+6.5
Net exports	18,382	18,937	20,329	22,121	×	×	×	×
Gross domestic product	271,090	273,421	278,176	284,137	+3.0	+0.9	+1.7	+2.1

Source: 2011: Eurostat; 2012 to 2014: OeNB June 2012 outlook.

Table 13

Demand Components (Current Prices)

	2011	2012	2013	2014	2011	2012	2013	2014
	EUR million				*Annual change in %*			
Private consumption	161,227	166,937	171,725	177,340	+3.5	+3.5	+2.9	+3.3
Government consumption	56,646	58,526	59,706	61,293	+2.3	+3.3	+2.0	+2.7
Gross fixed capital formation	63,252	66,014	69,060	72,062	+7.7	+4.4	+4.6	+4.3
Changes in inventories (including statistical discrepancy)	9,615	6,555	6,813	7,960	×	×	×	×
Domestic demand	290,739	298,031	307,304	318,654	+6.2	+2.5	+3.1	+3.7
Exports of goods and services	171,903	181,850	196,498	213,749	+10.9	+5.8	+8.1	+8.8
Imports of goods and services	162,081	171,828	185,621	201,781	+13.8	+6.0	+8.0	+8.7
Net exports	9,822	10,021	10,877	11,969	×	×	×	×
Gross domestic product	300,562	308,053	318,181	330,623	+5.0	+2.5	+3.3	+3.9

Source: 2011: Eurostat; 2012 to 2014: OeNB June 2012 outlook.

Table 14

Deflators of Demand Components

	2011	2012	2013	2014	2011	2012	2013	2014
	2005 = 100				*Annual change in %*			
Private consumption	112.8	115.6	117.7	120.0	+2.8	+2.5	+1.8	+1.9
Government consumption	114.3	117.6	118.9	121.1	+1.8	+2.9	+1.1	+1.8
Gross fixed capital formation	116.4	118.6	121.0	123.5	+2.6	+1.9	+2.0	+2.1
Domestic demand (excluding changes in inventories)	113.9	116.7	118.7	121.0	+2.6	+2.4	+1.7	+1.9
Exports of goods and services	109.9	112.4	114.4	116.6	+3.5	+2.3	+1.8	+1.9
Imports of goods and services	117.4	120.2	122.6	125.1	+5.9	+2.4	+2.0	+2.0
Terms of trade	93.6	93.5	93.3	93.2	–2.3	–0.2	–0.2	–0.2
Gross domestic product	110.9	112.7	114.4	116.4	+1.9	+1.6	+1.5	+1.7

Source: 2011: Eurostat; 2012 to 2014: OeNB June 2012 outlook.

Table 15

Labor Market

	2011	2012	2013	2014	2011	2012	2013	2014
	Thousands				*Annual change in %*			
Total employment	4,128.1	4,193.1	4,235.1	4,289.7	+1.5	+1.6	+1.0	+1.3
of which: Private sector employment	*3,598.0*	*3,663.6*	*3,706.3*	*3,761.6*	*+1.7*	*+1.8*	*+1.2*	*+1.5*
Payroll employment (national accounts definition)	3,582.0	3,638.7	3,676.7	3,724.7	+1.7	+1.6	+1.0	+1.3
	% of labor supply							
Unemployment rate (Eurostat definition)	4.2	4.3	4.3	4.2	×	×	×	×
	EUR per real output unit x 100							
Unit labor costs (whole economy)[1]	63.2	65.2	66.2	67.6	+0.8	+3.1	+1.6	+2.0
	EUR thousand per employee							
Labor productivity (whole economy)[2]	65.7	65.2	65.7	66.2	+1.5	–0.7	+0.7	+0.8
	EUR thousand							
Real compensation per employee[3]	36.8	36.8	37.0	37.3	–0.4	–0.1	+0.5	+1.0
	At current prices in EUR thousand							
Gross compensation per employee	41.5	42.5	43.5	44.8	+2.4	+2.4	+2.3	+2.9
	At current prices in EUR million							
Total gross compensation of employees	148,734	154,709	159,994	166,795	+4.1	+4.0	+3.4	+4.3

Source: 2011: Eurostat; 2012 to 2014: OeNB June 2012 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

	2011	2012	2013	2014	2011	2012	2013	2014
	EUR million				*% of nominal GDP*			
Balance of trade	7,057.0	6,700.8	8,896.2	10,647.7	2.3	2.2	2.8	3.2
Balance on goods	–6,962.0	–5,296.8	–3,687.0	–2,063.8	–2.3	–1.7	–1.2	–0.6
Balance on services	14,019.0	11,997.7	12,583.2	12,711.5	4.7	3.9	4.0	3.8
Balance on income	854.0	639.9	383.3	362.9	0.3	0.2	0.1	0.1
Balance on transfers	–2,056.0	–781.2	–954.5	–1,425.9	–0.7	–0.3	–0.3	–0.4
Current account	5,855.0	6,559.5	8,324.9	9,584.7	1.9	2.1	2.6	2.9

Source: 2011: Eurostat; 2012 to 2014: OeNB June 2012 outlook.

Table 17

Quarterly Outlook Results

	2012	2013	2014	2012				2013				2014			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Prices, wages and costs	*Annual change in %*														
HICP	+2.4	+1.7	+1.9	+2.7	+2.4	+2.1	+2.2	+2.0	+1.5	+1.8	+1.6	+1.8	+1.9	+1.9	+2.0
HICP (excluding energy)	+2.0	+1.8	+2.0	+2.3	+2.0	+1.7	+2.0	+1.9	+1.6	+1.8	+1.7	+1.9	+2.0	+2.0	+2.1
Private consumption expenditure (PCE) deflator	+2.5	+1.8	+1.9	+2.7	+2.5	+2.4	+2.2	+1.9	+1.8	+1.8	+1.9	+1.9	+1.9	+1.9	+1.9
Gross fixed capital formation deflator	+1.9	+2.0	+2.1	+1.5	+2.0	+1.9	+2.2	+2.7	+1.7	+1.8	+1.9	+1.9	+2.0	+2.2	+2.3
GDP deflator	+1.6	+1.5	+1.7	+1.6	+1.6	+1.6	+1.6	+1.5	+1.5	+1.5	+1.6	+1.7	+1.8	+1.8	+1.7
Unit labor costs	+3.1	+1.6	+2.0	+3.5	+3.4	+3.1	+2.5	+1.8	+1.7	+1.5	+1.5	+1.5	+1.8	+2.2	+2.7
Nominal wages per employee	+2.4	+2.3	+2.9	+2.5	+2.3	+2.4	+2.4	+2.3	+2.4	+2.3	+2.3	+2.3	+2.6	+3.1	+3.6
Productivity	–0.7	+0.7	+0.8	–1.0	–1.1	–0.7	–0.1	+0.5	+0.7	+0.8	+0.8	+0.8	+0.8	+0.9	+0.9
Real wages per employee	–0.1	+0.5	+1.0	–0.2	–0.2	+0.0	+0.2	+0.4	+0.6	+0.5	+0.4	+0.4	+0.7	+1.1	+1.7
Import deflator	+2.4	+2.0	+2.0	+2.1	+2.3	+2.1	+3.3	+3.7	+1.3	+1.6	+1.5	+1.6	+1.9	+2.2	+2.5
Export deflator	+2.3	+1.8	+1.9	+2.6	+2.3	+2.2	+2.1	+1.9	+1.9	+1.8	+1.8	+1.8	+1.8	+1.9	+1.9
Terms of trade	–0.2	–0.2	–0.2	+0.5	+0.0	+0.0	–1.2	–1.7	+0.6	+0.2	+0.3	+0.2	–0.1	–0.3	–0.6
Economic activity	*Annual and/or quarterly changes in % (real)*														
GDP	+0.9	+1.7	+2.1	+0.2	+0.3	+0.3	+0.4	+0.4	+0.5	+0.5	+0.5	+0.5	+0.6	+0.6	+0.6
Private consumption	+1.1	+1.0	+1.3	+0.2	+0.4	+0.3	+0.3	+0.2	+0.2	+0.3	+0.3	+0.3	+0.4	+0.4	+0.4
Government consumption	+0.4	+0.9	+0.9	+0.1	+0.0	+0.0	+0.1	+0.2	+0.3	+0.4	+0.3	+0.3	+0.1	+0.0	–0.1
Gross fixed capital formation	+2.5	+2.5	+2.2	+0.4	+0.4	+0.5	+0.6	+0.7	+0.7	+0.7	+0.7	+0.5	+0.5	+0.4	+0.4
Exports	+3.4	+6.1	+6.8	+0.7	+1.1	+1.4	+1.4	+1.5	+1.5	+1.6	+1.6	+1.6	+1.7	+1.7	+1.7
Imports	+3.5	+5.9	+6.5	+0.5	+1.3	+1.4	+1.4	+1.4	+1.5	+1.5	+1.5	+1.6	+1.6	+1.7	+1.7
	Contribution to real GDP growth in percentage points														
Domestic demand	+1.1	+1.2	+1.3	+0.2	+0.3	+0.2	+0.3	+0.3	+0.3	+0.3	+0.3	+0.3	+0.3	+0.3	+0.3
Net exports	+0.2	+0.5	+0.6	+0.2	+0.0	+0.1	+0.1	+0.2	+0.1	+0.2	+0.2	+0.1	+0.2	+0.2	+0.2
Changes in inventories	–0.5	+0.0	+0.2	–0.2	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.1	+0.2	+0.1
Labor market	*% of labor supply*														
Unemployment rate (Eurostat definition)	4.3	4.3	4.2	4.1	4.2	4.4	4.4	4.4	4.3	4.3	4.3	4.2	4.2	4.2	4.2
	Annual and/or quarterly changes in %														
Total employment	+1.6	+1.0	+1.3	+0.6	+0.3	+0.2	+0.2	+0.2	+0.3	+0.3	+0.3	+0.3	+0.3	+0.3	+0.3
of which: Private sector employment	*+1.8*	*+1.2*	*+1.5*	*+0.7*	*+0.4*	*+0.3*	*+0.2*	*+0.3*	*+0.3*	*+0.3*	*+0.4*	*+0.4*	*+0.4*	*+0.4*	*+0.4*
Payroll employment	+1.6	+1.0	+1.3	+0.5	+0.3	+0.2	+0.2	+0.2	+0.3	+0.3	+0.3	+0.3	+0.3	+0.3	+0.3
Additional variables	*Annual and/or quarterly changes in % (real)*														
Real disposable household income	+0.8	+1.0	+2.1	–1.3	+1.2	–0.9	+0.1	+0.5	+0.4	+0.4	+0.5	+0.7	+0.5	+0.5	+0.4
	% of real GDP														
Output gap	–0.4	–0.3	0.2	–0.4	–0.4	–0.4	–0.4	–0.4	–0.3	–0.2	–0.1	0.0	0.1	0.3	0.5

Source: OeNB June 2012 outlook (based on seasonally and working-day adjusted data).

Table 18

Comparison of Current Economic Forecasts for Austria

Indicator	OeNB			WIFO		IAS		OECD		IMF		European Commission	
	June 2012			March 2012		March 2012		May 2012		April 2012		May 2012	
	2012	2013	2014	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013
Key results	*Annual change in %*												
GDP (real)	+0.9	+1.7	+2.1	+0.4	+1.4	+0.8	+1.7	+0.8	+1.6	+0.9	+1.8	+0.8	+1.7
Private consumption (real)	+1.1	+1.0	+1.3	+0.8	+0.9	+0.7	+1.1	+0.9	+1.2	×	×	+0.8	+1.0
Government consumption (real)	+0.4	+0.9	+0.9	–1.0	–1.0	+0.5	+0.0	+0.7	+0.0	×	×	+0.7	+1.2
Gross fixed capital formation (real)	+2.5	+2.5	+2.2	+1.1	+2.0	+0.5	+1.7	+1.8	+2.1	×	×	+1.4	+2.3
Exports (real)	+3.4	+6.1	+6.8	+3.3	+5.9	+3.3	+5.7	+2.6	+6.3	+2.5	+5.6	+2.8	+5.1
Imports (real)	+3.5	+5.9	+6.5	+3.2	+5.0	+2.7	+5.2	+2.9	+5.6	+2.9	+5.5	+2.2	+4.9
GDP per employee	–0.7	+0.7	+0.8	–0.5	+0.8	+0.1	+1.0	×	×	×	×	+0.3	+1.0
GDP deflator	+1.6	+1.5	+1.7	+1.7	+1.4	+1.9	+1.7	+1.5	+1.4	×	×	+1.9	+1.5
CPI	×	×	×	+2.4	+2.0	+2.2	+2.0	×	×	×	×	×	×
HICP	+2.4	+1.7	+1.9	+2.5	+2.1	×	×	+2.3	+1.8	+2.2	+1.9	+2.4	+2.0
Unit labor costs	+3.1	+1.6	+2.0	+3.6	+1.3	×	×	×	×	×	×	+3.2	+0.9
Payroll employment	+1.6	+1.0	+1.3	+0.8	+0.4	+0.7	+0.7	×	×	+0.3	+0.8	+0.4	+0.7
	% of labor supply												
Unemployment rate (Eurostat definition)	4.3	4.3	4.2	4.6	4.8	4.5	4.4	4.6	4.8	4.4	4.3	4.3	4.2
	% of nominal GDP												
Current account	2.1	2.6	2.9	1.4	1.8	×	×	2.2	2.5	1.4	1.4	1.9	1.9
Budget balance (Maastricht definition)	–2.8	–1.6	–1.2	–3.0	–2.6	–2.9	–2.1	–2.9	–2.3	–3.1	–2.4	–3.0	–1.9
External assumptions													
Oil price in USD/barrel (Brent)	115.7	109.3	103.1	120.0	120.0	125.0	130.0	129.8	136.3	114.7	110.0	116.8	110.2
Short-term interest rate in %	0.8	0.7	1.0	1.1	1.5	1.0	1.1	0.6	0.3	0.8	0.8	0.8	0.8
USD/EUR exchange rate	1.31	1.31	1.31	1.30	1.30	1.30	1.28	1.31	1.31	1.32	1.32	1.31	1.31
	Annual change in %												
Euro area GDP (real)	–0.5 to +0.3	0.0 to +2.0	×	–0.2	+1.3	–0.2	+1.2	–0.1	+0.9	–0.3	+0.9	–0.3	+1.0
U.S. GDP (real)	+2.2	+2.2	+2.8	+2.0	+2.3	+2.5	+2.3	+2.4	+2.6	+2.1	+2.4	+2.0	+2.1
World GDP (real)	+3.2	+3.8	+4.2	+3.4	+4.0	×	×	+3.4	+4.2	+3.5	+4.1	+3.3	+3.7
World trade	+4.4	+6.4	+7.2	+5.0	+7.0	+4.5	+7.0	+4.1	+7.0	+4.0	+5.6	+4.1	+5.7

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