

Growth Prospects for Austria Are Weakening

*Economic Outlook for Austria from 2007 to 2009
(December 2007)*

1 Summary

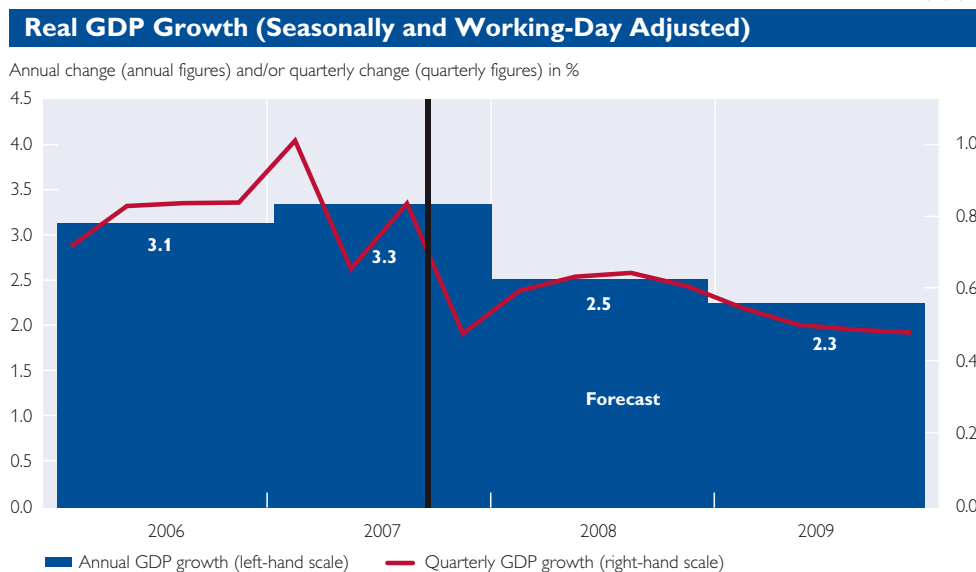
In its economic outlook for Austria of December 2007, the Oesterreichische Nationalbank (OeNB) expects Austria's real GDP to increase by 3.3% in 2007. In 2008 and 2009, real GDP will grow by 2.5% and 2.3%, respectively. The rate of inflation will rise to 2.1% in 2007 and increase further to 2.4% in 2008 and will decrease again to 1.8% in 2009. Employment growth will remain strong, and the unemployment rate will decrease to 4.2% in 2008.

Although the turbulence on the international financial markets caused by the subprime crisis in the U.S.A., the high price of oil and the strong devaluation of the U.S. dollar have significantly increased economic risks, global economic growth (excluding the euro area) only slowed slightly

from +5.9% (2006) to +5.6% in 2007. The current published indicators do not allow any clear conclusions regarding the extent of the effects of the American subprime crisis on the Austrian economy. The OeNB forecast presumes a "soft landing" for the American economy and a slow recovery of real estate markets. Above all as a result of the positive profit situation and favorable financing conditions, the economy is expected to shift once again to a higher growth path for 2008 and 2009. Asia (excluding Japan) will continue to post very strong growth. Economic growth in the euro area will be increasingly driven by private consumption, which will be supported by powerful increases in employment and higher wage agreements. The unemployment rate will even be lower in 2007

Christian Ragacs,
Klaus Vondra

Chart 1



Source: Eurostat, OeNB.

Jel classification: C5, E17
Keywords:
forecast, Austria.

Table 1

OeNB December 2007 Outlook for Austria – Key Results¹

	2006	2007	2008	2009
Annual change in % (real)				
Economic activity				
Gross domestic product	+3.1	+3.3	+2.5	+2.3
Private consumption	+2.0	+1.6	+1.5	+1.6
Government consumption	+2.0	+2.3	+2.9	-0.1
Gross fixed capital formation	+3.1	+4.5	+2.6	+2.3
Exports of goods and services	+7.5	+6.4	+6.1	+6.7
Imports of goods and services	+4.6	+4.7	+5.5	+6.1
Percentage points of GDP				
Contribution to real GDP growth				
Private consumption	+1.1	+0.9	+0.8	+0.9
Government consumption	+0.4	+0.4	+0.5	+0.0
Gross fixed capital formation	+0.6	+0.9	+0.6	+0.5
Domestic demand (excluding changes in inventories)	+2.1	+2.2	+1.9	+1.4
Net exports	+1.8	+1.3	+0.7	+0.9
Changes in inventories (including statistical discrepancy)	-0.8	-0.2	-0.1	+0.0
Annual change in %				
Prices				
Harmonized Index of Consumer Prices (HICP)	+1.7	+2.1	+2.4	+1.8
Private consumption expenditure (PCE) deflator	+1.9	+2.0	+2.3	+1.8
GDP deflator	+1.9	+2.2	+2.0	+1.9
Unit labor costs in the total economy	+1.1	+1.1	+1.6	+1.2
Compensation per employee (at current prices)	+2.5	+2.6	+3.4	+2.8
Productivity (whole economy)	+2.0	+1.8	+1.7	+1.5
Compensation per employee (real)	+0.6	+0.6	+1.0	+1.0
Import prices	+3.4	+1.1	+1.4	+1.4
Export prices	+2.8	+1.6	+1.3	+1.5
Terms of trade	-0.6	+0.5	-0.1	+0.1
Income and savings				
Real disposable household income	+2.4	+1.9	+1.7	+1.6
% of nominal disposable household income				
Saving ratio	9.7	10.1	10.2	10.2
Annual change in %				
Labor market				
Payroll employment	+1.7	+1.9	+0.8	+0.7
%				
Unemployment rate (Eurostat definition)	4.7	4.3	4.2	4.3
% of nominal GDP				
Budget				
Budget balance (Maastricht definition)	-1.4	-0.7	-0.7	-0.4
Government debt	61.7	59.9	58.3	57.0

Source: 2006: Eurostat, Statistics Austria; 2007 to 2009: OeNB December 2007 outlook.

¹ The outlook was drawn up on the basis of seasonally adjusted and working-day adjusted national accounts data. Therefore, the historical values for 2006 may deviate slightly from the nonadjusted data released by Statistics Austria.

than during the economic boom at the turn of the millennium and should continue to decrease over the further forecast horizon.

In its current forecast for Austria, the OeNB expects exports to continue to develop dynamically – though

less so than in 2006 – with growth rates for real exports of 6.4% for 2007, 6.1% for 2008 and 6.7% for 2009. The growth contribution of net exports will be positive over the entire forecast period, and the current account surplus is anticipated to

widen significantly from 2.8% (2006) of nominal GDP to 4.6% (2009).

Real consumption demand of private households has remained clearly behind the development of real disposable household income in recent years, leading to a steady increase in the savings rate since 2002. Despite the dynamic development of employment and higher wage increases compared to recent years, consumer demand will develop only modestly, with growth forecast at +1.6% (2007), +1.5% (2008), and +1.6% (2009). The investment cycle will have peaked in 2007. At 4.5%, the growth of real investment demand will be robust in 2007, but will weaken to 2.6% and 2.3%, respectively, in 2008 and 2009.

Coming to 1.9% in 2007, employment growth in Austria is above average and represents the highest rate of growth since 1991. The development of employment also remains positive over the entire forecast horizon. Payroll employment will increase by 0.8% and 0.7%, respectively, in 2008 and 2009, and total employment will rise by 0.8% a year in both years. The unemployment rate will exhibit a strong decreasing trend through 2008 and will sink from 4.7% in 2006 to 4.2% in 2008.

Inflation has accelerated sharply in recent months. The rate of inflation measured by the Harmonized Index of Consumer Prices (HICP) will thus increase to 2.1% in 2007 and will continue to augment to 2.4% in 2008. The rate of inflation will not ease before 2009, when it is anticipated to decrease to 1.8%. This forecast is based on a reduction of the oil price over the course of 2008 as well as a return of food price inflation to moderate levels in the second half of 2008.

2 Technical Assumptions

The current forecast for Austria is the contribution of the OeNB to the December 2007 Eurosystem staff macroeconomic projections. The forecast horizon ranges from the fourth quarter of 2007 to the fourth quarter of 2009. The assumptions regarding the development of the global economy as well as the technical assumptions with respect to interest rates, exchange rates, and crude oil prices take developments up to and including November 23, 2007, into account. The forecast was prepared on the basis of OeNB's macroeconomic quarterly model.

The national accounts data calculated by the Austrian Institute of Economic Research (WIFO), which are seasonally and working-day adjusted, are completely available up to the second quarter of 2007 and serve as the main data basis. For the third quarter of 2007, the flash estimate of GDP is available – for a portion of the national accounts data.

The short-term interest rate used for the forecast horizon is based on market expectations for the three-month EURIBOR. For the years 2007 to 2009, it is set at 4.3%, 4.5%, and 4.3%, respectively. The long-term interest rates are based on market expectations for ten-year government bonds, and are 4.3%, 4.2%, and 4.2%, respectively, for the years 2007 to 2009. For the further development of the EUR/USD exchange rate, a rate of 1.46 USD/EUR is assumed. Taking into account the exchange rate data to date, this results in an average rate of 1.36 USD/EUR for 2007. The assumed development of crude oil prices is oriented on futures prices. For 2007, an oil price of USD 72.6 per barrel of Brent is assumed; for 2008 and 2009, the

prices are USD 88.6 and USD 83.7, respectively. Compared to the forecast of June 2007, this means a revision of USD of +7.6 (2007), of USD +18.7 (2008), and of USD +14.1 (2009).

The budget forecast includes only those measures that had been passed and that had been suitably specified at the time the OeNB outlook was prepared.

3 Robust Global Economic Development Continues on the Back of Strong Emerging Markets Despite Financial Market Turbulence

3.1 Asia as the Engine of the Global Economy

Although the turbulence on the international financial markets brought about by the American subprime crisis, the high price of oil, and the strong devaluation of the U.S. dollar harbor risks for global economic developments, only slightly weaker growth of 5.6% is expected in 2007 (2006: 5.9%) for the *global economy* (excluding the euro area). For both 2008 and 2009 as well, continued robust growth of 5.2% is expected. The concentration of growth, however, will shift from the U.S.A. to Asia, where an expansion of +9.3% is expected for 2007. Following the extraordinarily strong performance in 2006 (+9.0%), *global trade* will slow significantly to 6.1% in 2007, but will increase again afterwards.

The development of the *price of oil* and of the U.S. dollar strongly characterized the global economy in 2007. From January 11, 2007, to November 23, 2007, the price of oil increased from around USD 52.6 per barrel of

Brent to USD 95.0, a gain of around 60%. The rise in the price of oil was not caused by a single factor, but rather by a combination of factors. Thus, the weak U.S. dollar, the geopolitical situation, and increasing demand for oil all exerted strong upward pressure on the price of oil. On the other hand, the current U.S. inventories of crude oil, heating oil, and diesel, which were all above the long-term average in 2007, argue against the price increase. The positive net position¹ of noncommercial traders on the futures market of the New York Mercantile Exchange throughout 2007 was partly very pronounced, signaling that the price of oil was also driven by speculation.

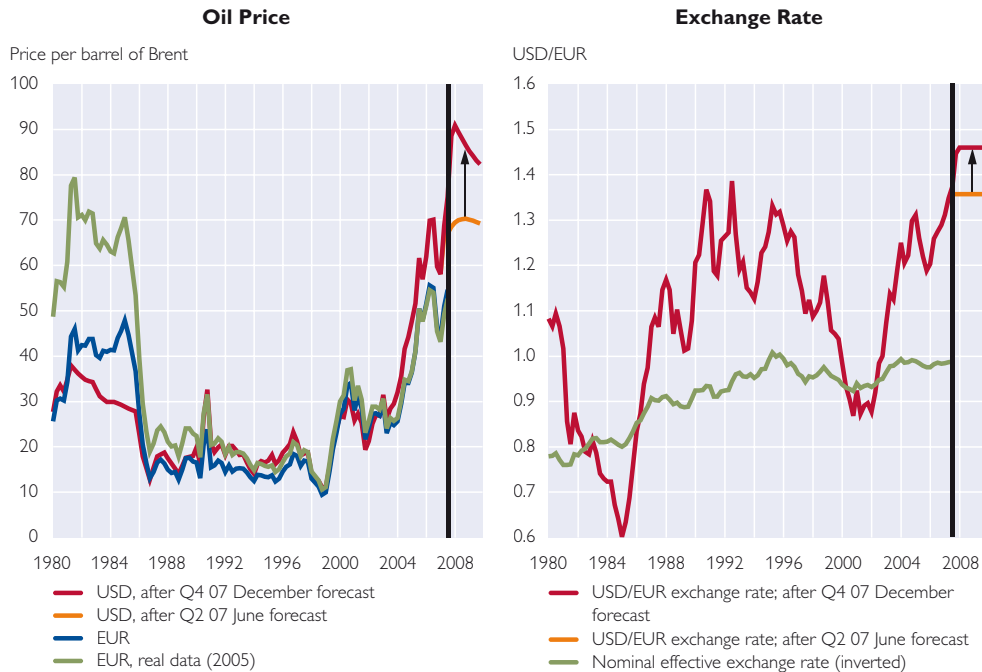
The USD/EUR exchange rate increased significantly over the course of the year as well, augmenting from USD/EUR 1.29 (January 11, 2007) to USD/EUR 1.48 (November 23, 2007). The strong depreciation of the U.S. dollar – above all in the second half of 2007 – can be attributed mostly to the decreases in the policy interest rate by the Federal Reserve in the wake of the financial market turbulence. The unexpected intensity of these developments implied a significant change in the external assumptions compared to the June outlook (represented in chart 2 by the arrow in the forecast horizon).

Chart 2 reflects the long-term developments of the price of oil in U.S. dollars and in euro, as well as the bilateral USD/EUR exchange rate and the nominal effective exchange rate of the euro. The chart shows that on the one hand, the price of oil in U.S. dollars has currently reached a historical peak, whereas on the other hand,

¹ A net positive position means that the majority is betting on increasing prices.

Chart 2

Forecast Assumptions Reflect Strong Rise in Oil Prices and Exchange Rates



Source: OeNB.

the price of oil billed in euro temporarily exceeded the price of oil during the second oil crisis at the beginning of the 1980s as late as mid-2006. The price level of the second oil crisis period was not noticeably and sustainably exceeded until the second quarter of 2007. Taking inflation into account, a significant increase is still noticeable in recent months; however, the current real price of oil is below the level observed between 1981 and 1985. Moreover, the USD/EUR exchange rate only exceeded the level of the early 1990s with the increase in recent weeks. By contrast, the nominal effective exchange rate of the euro (for Austrian exports), which takes trading shares into consideration, has been relatively constant since 1995.

The *U.S. economy* performed surprisingly well, with real GDP growth

coming to +1% in the third quarter of 2007 compared to the previous quarter; annual growth can be expected to run to 2.1% in 2007. On the one hand, the robust growth was driven by a significant increase in industrial investment (+1.9%), and on the other hand by a solid increase in exports (+3.8%) with only a slight increase in imports (+1.3%). The data currently available do not allow for an assessment of the actual effects of the real estate market crisis on real economic development. This OeNB forecast is based on the premise of a “soft landing” for the U.S. economy and a slow recovery of real estate markets. Above all as a result of the positive profit situation and favorable financing conditions, the economy is expected to shift once again to a higher growth path for 2008 and 2009. These expectations coincide

Table 2

Underlying Global Economic Conditions

	2006	2007	2008	2009
Annual change in % (real)				
Gross domestic product				
World excluding the euro area	+5.9	+5.6	+5.2	+5.2
U.S.A.	+2.9	+2.1	+2.3	+2.6
Japan	+2.2	+1.8	+1.8	+2.0
Asia excluding Japan	+9.1	+9.3	+8.3	+8.2
Latin America	+5.2	+4.8	+4.3	+4.1
United Kingdom	+2.8	+3.1	+2.4	+2.7
New EU Member States	+6.2	+5.8	+5.0	+5.0
Switzerland	+3.2	+2.5	+1.7	+2.0
Euro area ¹	+2.9	+2.4 to +2.8	+1.5 to +2.5	+1.6 to +2.6
World trade (imports of goods and services)				
World economy	+9.0	+6.1	+6.5	+7.0
Non-euro area countries	+9.4	+6.5	+7.2	+7.8
Real growth of euro area export markets	+9.8	+6.0	+6.9	+7.1
Real growth of Austrian export markets	+9.9	+6.4	+6.3	+6.6
Prices				
Oil price in USD/barrel (Brent)	65.4	72.6	88.6	83.7
Three-month interest rate in %	3.1	4.3	4.5	4.3
Long-term interest rate in %	3.7	4.3	4.2	4.2
USD/EUR exchange rate	1.26	1.37	1.46	1.46
Nominal effective exchange rate of the euro (euro area index)	103.63	107.54	110.33	110.33

Source: Eurosystem.

¹ Results of the Eurosystem's December 2007 projections. The ECB presents the results in ranges based on average differences between actual outcomes and previous projections.

with the Federal Reserve's estimate of growth of 1.8% to 2.5% in 2008 and of 2.3% to 2.7% in 2009.

In *Asia* (excluding Japan), growth will stay very strong. Following 9.0% in 2006, it will be as much as 9.3% in 2007. For 2008 and 2009, a slight decrease to 8.3% and 8.2%, respectively is forecast. Economic activity in China and India is developing particularly dynamically. Growth in *China* is being driven not only by exports, but also by investment. Both countries continue to propagate an economic policy of moderation to prevent their economies from overheating. However, robust economic growth and above all strongly increasing food prices are causing inflation to accelerate. Economic activity in *Japan* is slowing once again and is being carried by private consumption

despite the ongoing decline of nominal wages. In contrast, investment demand fell in the second quarter of 2007; however, it is likely to recover over the course of the year.

In the *United Kingdom*, growth prospects weakened – despite strong growth in the third quarter of 2007 (0.7% compared to the second quarter of 2007) – as a result of turbulence on the financial markets and the slump in residential market prices, which slowed private consumption. Growth is still expected to come to 3.1% in 2007, but will weaken to 2.4% in 2008 and to 2.7% in 2009.

For *Switzerland* as well, a weakening of the robust growth in 2006 is expected beginning in 2007.

By contrast, the *Central and Eastern European EU Member States*, which are especially important for the Austrian

exports, will exhibit sustained high rates of growth between 5.8% (2007) and 5.0% (2008 and 2009) and will therefore grow much more vigorously than the euro area.

3.2 Domestic Demand is the Engine of Euro Area Growth

After modest GDP growth of 0.3% in the euro area in the second quarter of 2007 compared to the previous quarter, the economy clearly picked up again in the third quarter and, with 0.7% (flash estimate compared to the previous quarter), recorded a surprisingly strong growth dynamic. However, the “hard facts,” such as the development of the price of oil and the USD/EUR exchange rate, as well as the “soft facts,” such as the Manufacturing Purchasing Managers’ Index (NTC)² or the declining trend of the Economic Sentiment Indicator, suggest a weakening of economic growth in the fourth quarter of 2007. The Eurosystem expects economic growth of 2.4% to 2.8% for 2007, and 1.5% to 2.5% for 2008.

Economic growth in the euro area will be increasingly sustained by private consumption, which, in turn, will be supported on the one hand by strong employment growth and on the other hand by higher wage agreements than in recent years. Forecast to run to 7.3% in 2007 (European Commission), the unemployment rate will even be lower than during the economic boom at the turn of the millennium and should continue to fall in the forecast horizon (7.1% for both 2008 and 2009). However, inflation increased to 2.6% in October 2007. Sustained high energy prices are anticipated to lead to continuous

high rates of inflation in the coming months. Driven by food and energy price inflation, a further increase in the HICP is expected for 2007 to 2008; a significant decrease is first expected in 2009.

After modest development in the first half of 2007, *Germany* recorded unexpectedly strong growth of +0.7% in the third quarter (compared to the previous quarter). Following the extraordinarily strong growth dynamic in 2006, with GDP augmenting by +2.7%, the German economy will once again lose some momentum in 2007 and the coming years. As a result of external developments, net exports are not expected to make a positive contribution to growth in the near future. Furthermore, *Germany* is also showing a vigorous increase in prices induced by higher food and energy prices. Inflation (HICP) was 2.7% (compared to the previous year) not only in September, but also in October 2007. A quick reduction in inflation is not in the cards at this time.

France also exhibited surprisingly strong growth of +0.7% in the third quarter of 2007 (compared to the previous quarter). The positive contribution to growth in the third quarter also resulted from net exports, above all from the delivery of the Airbus A380 to Singapore Airlines. Private consumption continues to be typically robust and is also supported by increasing employment. Nevertheless, continuously moderate growth is expected over the forecast horizon.

Following a healthy 2006, the growth dynamic in *Italy* slowed noticeably in 2007. In addition to private consumption and investments,

² This fell to 51.5 points in October 2007; the “recession threshold” is 50 points.

The International Financial Crisis Currently Has only Minor Effects on Austria

The granting of mortgage loans to subprime borrowers triggered strong turbulence on the international financial markets in the summer months of 2007, leading to high losses in some cases. Loan defaults surged in the wake of the expiration of highly favorable fixed interest agreements in the first two to three years of a loan (“teaser rates”) and the higher interest rate level in the U.S.A. In addition, real estate prices had been stagnating for more than a year and had recently even been falling, making refinancing more difficult. The spread of the subprime crisis in the U.S.A. to the global financial markets can be attributed to the securitization of these loans. Uncertainty about the distribution and concentration of these credit risks, as well as about unrealized losses and hidden accounting losses, have led to a crisis of confidence among banks and thus to liquidity constraints. As a consequence, the ECB and the Federal Reserve – among others – added liquidity to the money markets, whereby the situation was somewhat alleviated. In the U.S.A., the Federal Reserve reduced the federal funds rate in two steps by 75 basis points to 4.5% and the discount rate by 1 percentage point to 5.25%. In the euro area, the ECB held the interest rate constant; however, it injected liquidity into the money market in the form of overnight quick tenders and long-term refinancing transactions.

The consequences of the financial market turmoil for Europe remain unclear. Although there were corrections in the Irish and Spanish real estate markets – which are to be considered as only partially related to the U.S. credit crisis – the European banking market is the focus of observation. In addition to large American banks, a few large European banks had to record value adjustments of structured financial instruments, which in some cases considerably affected their earnings position. Liquidity constraints and a sharp rise in short-term interest rates (EONIA and the one- and three-month EURIBOR), as well as in swap spreads,¹ resulted directly from the loss of confidence between banks. Swap spreads widened from 21 basis points in May 2007 to 34 basis points until mid-August. Following a slight recovery in early fall, they once again climbed to 32 basis points mid-November – a sign that the fundamental difficulties have still not been resolved. Thus, a spreading of the financial market crisis to the real economy – hardly imaginable over the summer – is no longer out of the question. The problems on the interbank market could affect lending to private households as well as to businesses. If credit should become scarce, the direct effects on the real economy would be a drop in investments and lower consumption, if private households and businesses were unable to completely replace credit by savings or profit transfers. Fewer investments and less consumption would hamper GDP growth.

Estimating the effects of the financial market crisis on Austria remains difficult, given the current level of information. Based on the results for Austria of the last bank lending survey, Austrian banks have felt the effects of the crisis in the form of more difficult refinancing conditions. The effect on the surveyed institutions was more expensive large-volume financing via medium- and long-term bonds and the money market. Conversely, the crisis has hardly affected lending policy. The banks indicate that the credit guidelines in the corporate customer segment were somewhat tightened, whereas they were slightly loosened in the retail customer segment – in particular to finance residential construction. Overall, the exposure of Austrian banks vis-à-vis the U.S. mortgage market seems to be low – especially considering that they primarily pursue a strategy of expansion in Central, Eastern and Southeastern Europe.

¹ The swap spread is the difference between interbank swaps and long-term government bonds. For the purposes of this analysis, we use the swap spread based on ten-year bonds.

net exports also contributed positively to growth, although Italy must accept further market share losses as a result of its reduced price competitiveness.

4 Exports Continue to Drive Growth

Exports and imports both reached the EUR 100 billion benchmark for the first time in 2006. In total, exports increased by 9.5% in 2006. Austrian exporters profited from the strong global economic development as well as from the economic recovery in the EU-25 (+7.5%) – but in particular from the recovery of the German and Italian economies. They were also highly successful in increasing exports outside the EU (+14.5%). In the same period, imports increased by 8.0% (EU-25: 7.5%, non-EU countries: 13.7%). The results for 2007 are set to be just as favorable. Between January and July 2007, exports increased by 10%, imports by 8%. Exports to the EU mounted

by 10.3% and imports by 8.3% compared to the reference period of the previous year. Exports to all other countries also increased by 10.3% and imports by 6.6% compared to the reference period. However, export growth has lost some momentum since its peak in the fourth quarter of 2006.

Whereas the Austrian export market³ had grown by 9.9% in 2006, growth is still expected to remain dynamic at around 6½% over the entire forecast horizon. The price competitiveness of Austrian exports worsened slightly in 2007 as a result of the depreciation of the U.S. dollar vis-à-vis the euro at the end of the year. For 2008, an additional marginal loss in price competitiveness is expected owing to the higher wage increases compared to recent years. At the end of the forecast horizon, domestic exporters will once again be able to realize small market share gains.

Table 3

Growth and Price Developments in Austria's External Trade

	2006	2007	2008	2009
	Annual change in %			
Exports				
Competitors' prices in Austria's export markets	+2.4	+0.6	+0.9	+1.4
Export deflator	+2.8	+1.6	+1.3	+1.5
Changes in price competitiveness	-0.3	-1.0	-0.4	-0.1
Demand on Austria's export markets (real)	+9.9	+6.4	+6.3	+6.6
Austrian exports of goods and services (real)	+7.5	+6.4	+6.1	+6.7
Market share	-2.4	+0.0	-0.2	+0.2
Imports				
International competitors' prices on the Austrian market	+2.2	+0.8	+0.9	+1.4
Import deflator	+3.4	+1.1	+1.4	+1.4
Austrian imports of goods and services (real)	+4.6	+4.7	+5.5	+6.1
Terms of trade	-0.6	+0.5	-0.1	+0.1
	Percentage points of real GDP			
Contribution of net exports to GDP growth	+1.8	+1.3	+0.7	+0.9

Source: 2006: Eurostat; 2007 to 2009: OeNB December 2007 outlook, Eurosystem.

³ The Austrian export markets are defined as the total imports of Austrian trading partners weighted with Austrian export shares.

Table 4

Austria's Current Account				
	2006	2007	2008	2009
	% of nominal GDP			
Balance of trade	4.4	5.4	5.6	6.3
Goods	0.1	1.0	0.9	1.4
Services	4.3	4.4	4.8	4.8
Euro area	0.0	0.3	0.8	0.9
Non-euro area countries	4.4	5.1	4.9	5.4
Balance on income	-1.2	-1.4	-1.4	-1.3
Balance on current transfers	-0.4	-0.6	-0.5	-0.5
Current account	2.8	3.3	3.8	4.6

Source: 2006: OeNB; 2007 to 2009: OeNB December 2007 outlook.

As a result of the slight weakening in global trade growth and the loss of price competitiveness, the OeNB expects export growth to slacken in the coming years. Real exports will increase by 6.4% in 2007, by 6.1% in 2008 and by 6.7% in 2009. The growth contribution of net exports will weaken above all in 2008. Net exports will, however, support growth over the entire forecast period.

In 2006, the favorable export development led to a significant increase in the current account surplus to 2.8% of GDP. From 2007 to 2009, a further improvement to 4.6% in 2009 is expected. In the forecast period, the trade surplus of 4.4% (2006) of GDP will increase significantly to 6.3% (2009). This can be attributed not only to the recovery of services (2006: 4.3% of GDP; 2009: 4.8% of GDP), but also to the balance of goods (2006: 0.1% of GDP; 2009: 1.4% of GDP). The income deficit measured on the share of GDP will shrink slightly in the forecast period; the transfer balance, however, will remain nearly unchanged.

5 Food and Energy Push Inflation to over 2%

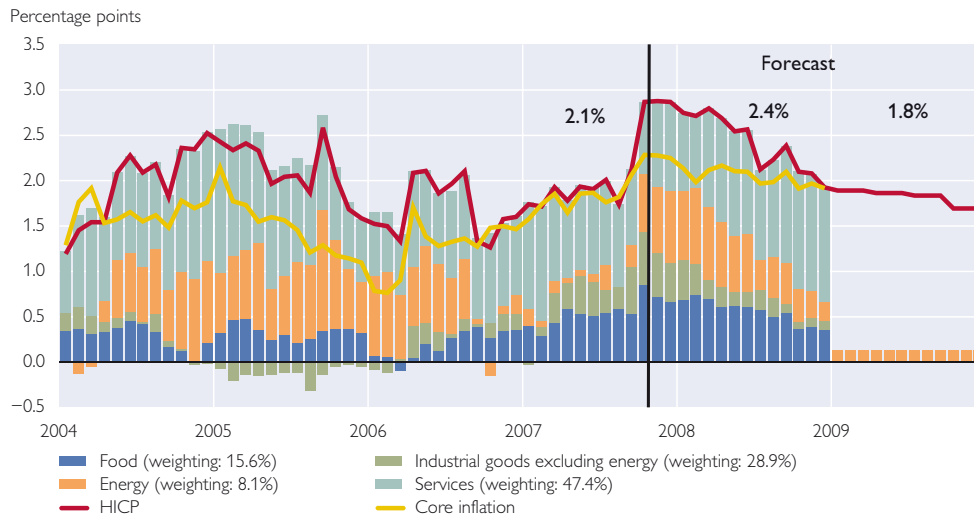
The HICP inflation rate has increased significantly in recent months and

reached 2.9% in October (compared to the previous year). Energy and food prices are mostly responsible for the strong increase in prices. Contributing 0.85 percentage points to inflation, food was the primary price driver in October. In particular, dairy products, bread, and grain products were much more expensive compared to the reference month in 2006. The higher cost of food can be traced to the increase in grain prices on global markets, which was caused above all by crop failures in Australia. The strong increase in the price of fruits and vegetables, however, is likely to be temporary. The contribution of energy to inflation increased to 0.64 percentage points in October, foremost because of the higher price of fuels and household energy (electricity, gas, heating fuels). The prices of processed foods recently increased far more than the euro average in Austria. Moreover, Austrian energy price inflation was somewhat higher than the euro area average.

The rate of inflation will persist at this level until the end of 2007. The rate of price increase will weaken noticeably once again in the second half of 2008 and will decrease to around 2% by the end of 2008. The annual average HICP inflation

Chart 3

Sharp Rise in HICP Inflation



Source: OeNB, Statistics Austria; last observation: October 2007.

Table 5

Selected Price Indicators for Austria

	2006	2007	2008	2009
Annual change in %				
HICP	+1.7	+2.1	+2.4	+1.8
HICP energy	+6.3	+3.3	+6.6	+1.6
HICP excluding energy	+1.3	+2.0	+2.1	+1.8
Private consumption expenditure (PCE) deflator	+1.9	+2.0	+2.3	+1.8
Investment deflator	+2.7	+1.8	+1.7	+1.6
Import deflator	+3.4	+1.1	+1.4	+1.4
Export deflator	+2.8	+1.6	+1.3	+1.5
Terms of trade	-0.6	+0.5	-0.1	+0.1
GDP deflator at factor cost	+1.8	+2.2	+2.1	+1.9
Unit labor costs	+1.1	+1.1	+1.6	+1.2
Compensation per employee	+2.5	+2.6	+3.4	+2.8
Labor productivity	+2.0	+1.8	+1.7	+1.5
Collectively agreed wage settlements	+2.7	+2.5	+3.1	+2.6
Profit margins ¹	+1.4	+1.4	+0.4	+0.6

Source: 2006: Eurostat, Statistics Austria; 2007 to 2009: OeNB December 2007 outlook.

¹ GDP deflator divided by unit labor costs.

rate will thus accelerate to 2.4% in 2008 and will decline again to 1.8% in 2009. This forecast is based on a continuous reduction in the

price of oil after the second quarter of 2008, as well as a moderation of food prices in the second half of 2008.⁴

⁴ Chart 3 combines two forecasts prepared with different models: From November 2007 until and including November 2008: Monthly forecast of the HCPI and its components; 2009: Quarterly forecast of the HICP.

6 Domestic Demand Weakens

6.1 Consumer Demand Remains Weak despite Increasing Household Income

After the economic downturn at the beginning of the decade, private household income recovered relatively quickly. Disposable household income after taxes and transfers grew by around 4% annually in nominal terms (by around 2% to 2.5% in real terms) from 2003. However, as a result of moderate wage agreements, wage income advanced at a comparably slower rate than investment income and self-employment income. The minimum wage agreements for 2008 that had already been concluded at the time the forecast was prepared were significantly higher than in preceding years. For the metal industry, an increase in collectively agreed wages of 3.6% and in actual wages of between 3.2% and 3.5% was negotiated.⁵ The retail sector agreed to minimum and actual wage increases of

3.1%, or at least EUR 45, the highest wage agreement since 1998. Despite these higher wage agreements for 2008 compared to recent years, the OeNB assumes that the collective bargaining partners in Austria will principally abide by wage moderation; therefore, wages will not exert significant pressure on inflation.

The wage negotiation results for 2008 were made possible by the relatively good business profits of 2006 and 2007. The significantly lower profit margins expected for 2008 and 2009 limit unions' room for negotiation for 2009, though, which is why wage increases are expected to be significantly smaller than in 2008.

Income development was also supported by unusually strong employment growth in 2006 and in the first three quarters of 2007 (2006: +1.7%, forecast for 2007: +1.9%), as well as the continuous reduction in the unemployment rate since the fourth quarter of 2005. Similar employment growth rates were last

Table 6

Determinants of Nominal Household Income in Austria

	2006	2007	2008	2009
Annual change in %				
Payroll employees	+1.7	+1.9	+0.8	+0.7
Wages per employee	+2.5	+2.6	+3.4	+2.8
Compensation of employees	+4.2	+4.5	+4.2	+3.5
Investment income	+10.2	+9.0	+6.8	+4.7
Self-employed income and operating surpluses (net)	+4.3	+5.2	+3.4	+3.6
Contribution to disposable household income in percentage points				
Compensation of employees	+3.4	+3.5	+3.3	+2.8
Investment income	+1.4	+1.3	+1.1	+0.8
Self-employed income and operating surpluses (net)	+0.8	+1.0	+0.7	+0.7
Net transfers less direct taxes ¹	-1.4	-1.7	-1.1	-0.8
Disposable household income (nominal)	+4.3	+3.9	+4.1	+3.5

Source: 2006: Eurostat; 2007 to 2009: OeNB December 2007 outlook.

¹ Negative values indicate an increase in (negative) net transfers less direct taxes; positive values indicate a decrease.

⁵ If operating profits (EBIT) exceed 6% of turnover, an additional nonrecurring payment of EUR 200 and between 0% and 6% of the turnover of EUR 150 must be made. By comparison, actual and minimum wages augmented by 2.6% in 2007, and if the company turned a profit, it made a nonrecurring payment of EUR 100.

Table 7

Private Consumption in Austria

	2006	2007	2008	2009
	Annual change in %			
Disposable household income (nominal)	+4.3	+3.9	+4.1	+3.5
Private consumption expenditure (PCE) deflator	+1.9	+2.0	+2.3	+1.8
Disposable household income (real)	+2.4	+1.9	+1.7	+1.6
Private consumption (real)	+2.0	+1.6	+1.5	+1.6
	% of disposable nominal household income			
Saving ratio	9.7	10.1	10.2	10.2

Source: 2006: Eurostat; 2007 to 2009: OeNB December 2007 outlook.

achieved at the beginning of the 1990s.

The real household income dynamic will weaken over the forecast period compared to previous years. Additionally, real disposable household income in 2008 will be dampened by the high rate of inflation.

Real consumer demand has clearly lagged behind the development of real disposable household income in recent years, so that the savings rate has continually increased since 2002. In the first three quarters of 2007, real demand of private households also fell significantly short of expectations. Retail sales revenues grew even less than in 2006; automobile sales were quite unimpressive. It is striking that households' consumption expectations according to the European Commission's economic sentiment indicator were much more positive than was reflected by actual consumption. As opposed to the OeNB's June economic outlook, in which consumer demand was expected to jumpstart after mid-2007, the December outlook presumes that real private consumption will remain subdued. With growth rates of 1.6% (2007), 1.5% (2008), and 1.6% (2009), private consumption will be weaker over the forecast horizon than the average of the last three years (just under 2%). The growth contri-

bution of domestic demand is sinking accordingly.

In 2008, the savings rate will again increase slightly as a result of favorable income development. For 2009, however, no further increase in the savings rate is anticipated, owing to the expected economic slowdown.

6.2 The Investment Cycle Peaks in 2007

As a result of strong demand for exports in recent years and a gradual stabilization of sales expectations, the growth of capital expenditure on equipment has accelerated since the fourth quarter of 2006 and reached its peak in the first quarter of 2007. Residential investment expanded for the first time again in 2005 after having recorded negative growth rates eight years in a row and in the following year contributed substantially to the growth of overall investment activity. It was unexpectedly low in the first three quarters of 2007, however, despite the unusually mild winter. But a slight increase in this type of investment is expected for the further course of the forecast owing to increasing residential demand.

Overall, the slight decline of capacity utilization and the development of industrial confidence indicators signal a significant reduction in

Table 8

Investment Activity in Austria				
	2006	2007	2008	2009
Annual change in %				
Total gross fixed capital formation (real)	+3.1	+4.5	+2.6	+2.3
of which: Investment in plant and equipment (real)	+3.2	+4.3	+2.9	+2.0
Residential construction investment (real)	+5.6	+0.8	+2.1	+2.9
Non-residential construction investment and other investment	+3.6	+5.6	+2.8	+2.3
Government investment (real)	-2.5	+3.4	+4.5	+2.5
Private investment (real)	+3.4	+4.5	+2.5	+2.3
Contribution to total gross fixed capital formation growth in percentage points				
Investment in plant and equipment (real)	+1.3	+1.7	+1.1	+0.8
Residential construction investment (real)	+1.1	+0.2	+0.4	+0.6
Non-residential construction investment and other investment	+1.4	+2.2	+1.1	+0.9
Government investment (real)	-0.1	+0.2	+0.2	+0.1
Private investment (real)	+3.2	+4.3	+2.4	+2.2
Contribution to real GDP growth in percentage points				
Changes in inventories (real)	-0.1	-0.4	+0.0	+0.0

Source: 2006: Eurostat; 2007 to 2009: OeNB December 2007 outlook.

the growth of construction and equipment expenditure in the forecast period. The expenditure dynamic is expected to weaken as a result of deteriorating business profits, slightly worsening external financing conditions, and the lower rate of growth of both private consumption and exports compared to 2007. Thus, the investment cycle will have peaked in 2007.

The OeNB expects strong investment growth of 4.5% for 2007, but significantly lower rates of growth for 2008 (2.6%) and 2009 (2.3%). After 2008, inventories will rise once again. As a result of the anticipated lower economic growth, the investment share in the forecast period will remain close to constant.

6.3 Labor Market Improvement to Continue until 2008

The number of registered jobseekers (employment as registered by the Main Association of Austrian Social Security Institutions) was 4.6% lower

in October 2007 than in the previous year. Thus, the number of registered jobseekers has decreased for 20 months in a row.

Two demand-side factors are responsible for this development. First, many companies apparently continued to wait at the beginning of the upturn and absorbed the higher demand for labor with overtime and unused plant capacities, which resulted in a need to catch up. Second, temporary factors, such as the mild winter, led to additional dynamic on the labor market (in particular in the construction industry).

The growth of the labor supply is the result of the effects of the reform of the pension system in 2003 (increase in the supply of older persons), the childcare benefit reform (increase in the supply of women), demographic developments, and the influx of foreign labor. On May 1, 2007, the labor market was opened for 800 lathe operators, welders, and milling cutters. For 2008, another partial opening of

Table 9

Labor Market Developments in Austria

	2006	2007	2008	2009
	Annual change in %			
Total employment	+1.2	+1.5	+0.8	+0.8
of which: Payroll employment	+1.7	+1.9	+0.8	+0.7
Self-employment	-1.2	+0.1	+0.7	+1.1
Public sector employment	+0.7	+0.3	+0.0	+0.1
Registered unemployment	-5.7	-5.0	-3.0	+5.3
Labor supply	+0.8	+1.2	+0.6	+1.0
	%			
Unemployment rate (Eurostat definition)	4.7	4.3	4.2	4.3

Source: 2006: Eurostat; 2007 to 2009: OeNB December 2007 outlook.

the labor market for skilled workers is planned.⁶ Principally, the limitations for entry to the labor market should be completely lifted as early as May 2009. However, the current transitional regulations will presumably remain in force until May 1, 2011; only a formal and well-grounded notification of the European Commission is necessary for this. Thus, only a moderate increase in the supply of foreign labor is expected. In total, the OeNB expects lower labor supply growth than in 2007 (1.2%) not only for 2008 (0.6%), but also for 2009 (1.0%).

In 2007, employment growth is likely to be powerful at 1.9%, representing the greatest increase since 1991. Even if this dynamic is not achieved in the further course of the forecast horizon, the expectations for employment growth remain positive for the entire forecast horizon. Payroll employment will mount by 0.8% (0.7%) in 2008 (2009), and total employment will increase by 0.8% in both years. The unemployment rate will sink to 4.3% in 2007 (2006:

4.7%) and to 4.2% in 2008 before rising marginally to 4.3% in 2009.

7 Significantly Increased Forecast Risks

Whereas the external economic risks are clearly on the downside, the majority of domestic economic risks point upward. Upside risks for investments, consumption, and wages, but also for inflation, could be cited as specific domestic risks. In light of the current capacity utilization in 2007, which continues to be high, the investment cycle could last longer than forecast in 2008, despite a worsening of the international economic picture. The expected restraint in spending leaves room for stronger growth in private consumption.

The greatest downward risk from a current point of view is the danger of an even faster slowdown on the U.S. real estate market (box 1). A “hard landing” in the U.S.A. would negatively impact the entire global economy via numerous transmission channels (trade, confidence, financial markets, exchange rates, etc.).

⁶ The corresponding regulation was still under examination at the time the forecast was prepared. The main point is the opening for skilled workers in 50 shortage professions, with a shortage profession being defined as a number of job seekers per position equal to or less than 1.5.

Furthermore, additional increases in the price of oil, further acceleration of food prices, and further devaluation of the U.S. dollar vis-à-vis the euro represent central forecast risks. Continued wage moderation is a key assumption of this forecast. In light of the steady decline of the wage share on the one hand and unexpectedly strong inflation in October 2007 on the other hand, wage agreements could also turn out higher than assumed. This would strengthen consumption growth in the short term, but would also drive prices up. Overall, the risk of this forecast is oriented downward on the real side and upward on the nominal side.

8 Downward Revision of Growth Forecast Compared to June 2007

Compared to the June 2007 economic outlook, the basic external conditions have significantly worsened – above all for 2007 and 2008. While the price of oil has undergone sharp fluctuations, it is significantly higher overall, and the nominally effective exchange rate for Austria has fallen – in particular as a result of the USD/EUR development (in effect, euro appreciation). The growth prospects for the U.S.A. have worsened noticeably, and the growth of the Austrian export markets in 2007 is more than 1 percentage point lower than predicted in June 2007. The market expectations for the further development of short- and long-term interest rates are – in light of worsening economic prospects – mostly just below the values of the June 2007 economic outlook.

The effects of the changed external assumptions were simulated using the OeNB's macroeconomic model.

The result is a downward revision of GDP by 0.1 percentage points for 2007, a downward revision by 0.3 percentage points for 2008, and an upward revision by 0.1 percentage points for 2009.

Table 10 lists the causes for the forecast revision in detail. In addition to the effects of the changed external assumptions, this is also explained by the effects of new data and influences listed under "Other." The influence of new data takes the effects of the revisions of historical data (up to the first quarter of 2007) already available at the time of the last forecast and the errors of the last forecast into consideration for those quarters now published for the first time (the second and third quarters of 2007). The item "Other" includes changes in expert estimates regarding the development of domestic aggregates, such as public consumption or wage agreements, as well as any changes to the forecast models.

The growth revision for Austria for 2007 (+0.1 percentage points) is based essentially on data revisions; these outweigh all other factors. The revision of the growth forecast for 2008 (–0.2 percentage points) largely reflects changes in external assumptions, but also amended expert estimates, whereby the decrease in investment demand occurs somewhat more slowly than was assumed in the June forecast.

The revision of the inflation forecast for 2007 is almost equally attributable (0.2 percentage points each) to new external assumptions and new data. The revision of the inflation forecast for 2008 is essentially determined by the revision of external assumptions (+0.3 percentage points) and the forecasting error (+0.2 percentage points) caused by the unex-

Table 10

Change in the Underlying External Economic Conditions since the OeNB June 2007 Outlook

	December 2007			June 2007			Difference		
	2007	2008	2009	2007	2008	2009	2007	2008	2009
	Annual change in %								
Growth of Austria's export markets	+6.4	+6.3	+6.6	+7.3	+6.5	+6.5	-0.9	-0.2	+0.1
Competitors' prices in Austria's export markets	+0.6	+0.9	+1.4	+0.5	+1.3	+1.4	+0.1	-0.4	+0.0
Competitors' prices in Austria's import markets	+0.8	+0.9	+1.4	+0.8	+1.3	+1.4	+0.0	-0.4	+0.0
	USD								
Oil price per barrel (Brent)	72.6	88.6	83.7	65.0	69.9	69.6	+7.6	+18.7	+14.1
	Annual change in %								
Nominal effective exchange rate (exports)	-0.6	-0.4	+0.0	-0.5	-0.1	+0.0	-0.1	-0.3	+0.0
Nominal effective exchange rates (imports)	-0.1	-0.2	+0.0	+0.0	+0.0	+0.0	-0.1	-0.2	+0.0
	%								
Three-month interest rates	4.3	4.5	4.3	4.2	4.5	4.4	+0.1	+0.0	-0.1
Long-term interest rates	4.3	4.2	4.2	4.1	4.3	4.3	+0.2	-0.1	-0.1
	Annual change in %								
Real GDP, U.S.A.	+2.1	+2.3	+2.6	+2.0	+2.7	+3.2	+0.1	-0.4	-0.6
	USD/EUR								
USD/EUR exchange rate	1.37	1.46	1.46	1.34	1.36	1.36	+0.03	+0.10	+0.10

Source: Eurosystem.

Table 11

Breakdown of Forecast Revisions

	GDP			HICP		
	2007	2008	2009	2007	2008	2009
	Annual change in %					
December 2007 outlook	+3.3	+2.5	+2.3	+2.1	+2.4	+1.8
June 2007 outlook	+3.2	+2.7	+2.3	+1.7	+1.8	+1.9
Difference	+0.1	-0.2	+0.0	+0.4	+0.6	-0.1
Due to:						
External assumptions	-0.1	-0.3	+0.1	+0.2	+0.3	-0.1
New data	+0.2	+0.0	x	+0.2	+0.2	x
of which: Revision of historical data up to Q1 07	+0.4	x	x	+0.1	x	x
Projection errors for Q2 07 and Q3 07	-0.1	+0.0	x	+0.1	+0.2	x
Other ¹	+0.0	+0.2	-0.1	+0.0	+0.1	+0.0

Source: OeNB June 2007 and December 2007 outlooks.

¹ Different assumptions about developments in domestic variables such as wages, government consumption, effects of tax measures, other changes in assessment or in the model.

pected development of inflation at the end of 2007.

A comparison with other available forecasts for Austria shows that the OeNB's estimate of real GDP growth is near the average, but that

its estimate for the rate of inflation is at the top end. This is the result of the timing of publication, which allowed the current development of inflation to be taken into account.

Economic Outlook for Central and Eastern European Countries^{1,2}

The OeNB compiles semiannual forecasts of economic developments in the Czech Republic, Hungary and Poland as well as Russia. Taken together, the 3 CEE Member States already account for more than 60% of the 12 CESEE EU Member States' overall GDP and are thus representative of trends in this region of the EU. Among the CEE Member States, economic growth is expected to decelerate in the Czech Republic and in Hungary in 2007 compared to 2006, whereas growth will pick up in Poland. In 2008, economic growth will be stronger only in Hungary; the Czech Republic and Poland are expected to register weaker growth rates.

GDP Growth in Three Central and Eastern European Member States and Russia: Forecast of October 2007

Annual change at constant prices (%)

Gross domestic product	2004	2005	2006	2007	2008 ¹
Czech Republic	4.6	6.5	6.4	5.4	5.1
Hungary	4.8	4.1	3.9	2.0	2.5
Poland	5.3	3.5	5.8	6.5	5.7
Russia	7.1	6.4	6.7	7.0	6.2

Source: Eurostat, national statistical offices, OeNB, Suomen Pankki.

¹ Forecast.

In the Czech Republic, the growth rate of private consumption is expected to pick up in 2007, driven by a sizeable increase in gross disposable income. Considering the slowdown of GFCF in the first half of this year, GFCF growth in 2007 is expected to be below that of 2006. Export and import growth rates will decline slightly in 2007 compared to 2006. The contribution of net exports to GDP growth is expected to be about neutral. For **2008**, private consumption growth is expected to slow down in the wake of a recently accorded reform package which includes i.e. higher VAT and excise taxes and lower social transfers. The negative effects on private consumption will be mitigated by employment increases. Due to the reform package, public consumption growth will be slightly negative. GFCF growth is expected to pick up. On the external side, a slowdown both of import and export growth is expected. The contribution of net exports to GDP will again be about neutral.

In Hungary, both private and public consumption will contract in **2007**. This can largely be explained with the fiscal consolidation program, which includes, inter alia, an employment cut and a wage freeze in the public sector, an increase in health care contributions and the elimination of some tax exemptions. Real net disposable income is expected to decrease, even if no significant moderation of gross nominal wages in the private sector is assumed. The dynamics of public consumption in the first half of 2007 are considerably below previous expectations, due to a particularly strong decline of social transfers in kind. After declining in 2006, GFCF growth is expected to recover marginally in 2007. The deceleration of export growth will be accompanied by a slowdown of import

¹ Compiled by Antje Hildebrandt.

² These forecasts are based on preliminary global growth projections and technical assumptions about oil prices and USD/EUR exchange rates, which are prepared by the ECB for the Eurosystem in broad macroeconomic projection exercises. These assumptions are central to the current outlook for two reasons: first, the sizeable export links of these three EU countries with the euro area, and second, the fact that Russia is one of the world's largest oil-producing nations and that energy sources account for some 60% of the country's total exports. (In the case of Russia, the forecast is established in collaboration with Suomen Pankki, Finland's central bank.)

dynamics, especially as domestic demand continues to contract. The contribution of net exports is expected to remain positive, but significantly smaller than in 2006. For **2008**, economic growth in Hungary is expected to pick up moderately. Private consumption will grow marginally as a result of a modest recovery of employment and a stabilization (or minor increase) of real wages. GFCF growth is expected to augment. On the external side, export growth will moderate slightly, and import dynamics are expected to remain roughly stable as a result of deceleration export growth coupled with a gradual recovery of domestic demand. The contribution of net exports will erode further, but will remain positive.

In **Poland**, the domestic demand boom is expected to continue in 2007, driven by private consumption and GFCF. Private consumption is rising on the back of high employment growth combined with robust real wage growth and the high growth of credit to households. On the back of buoyant demand, (still) high profitability, robust credit growth and a further increase in the absorption of structural funds, GFCF growth is expected to accelerate further. Export growth is anticipated to decline, while import growth will moderate less strongly. Thus, the contribution of net exports will become more negative. For **2008**, GDP growth will moderate somewhat, as domestic demand growth is expected to decline. With real wage growth forecast to slow, private consumption growth will diminish. The deceleration of private consumption growth will be moderated mainly by social reforms. GFCF growth is expected to decelerate from very high levels in 2007, as profitability will come down, credit growth will be dampened and the increase of the absorption of structural funds will slow. Export growth will weaken slightly, import growth will slow moderately. Overall, the contribution of net exports will stay negative.

Regarding possible sources of risk to these forecasts, deviations from the underlying assumptions for external factors, like import growth of the main trading partners and oil price developments, constitute one source of risk. Additionally, some uncertainty remains about the emergence of bottlenecks on the labor market (in particular in the Czech Republic and in Poland), which could lead to an acceleration of real wages, higher inflation and, finally, to tighter than expected monetary policy. In Poland, reforms were adopted before elections took place; thus, there remains some uncertainty about whether they will be changed. Furthermore, the region depends largely on foreign capital inflows. The recent developments on the financial markets could have a deeper impact on the region than up until now. In Hungary, public expenditures represent a source of some uncertainty: with elections coming up in 2010, it is unclear how long restraint in public sector investment and wages will last.

In **Russia**, the economic situation and prospects for **2007** and **2008** are quite good. Annual real growth of private consumption has remained high in recent years and is forecast to continue at a slightly weaker, but still robust rate, due the confluence of buoyant (preelection) rises in real income and the somewhat weaker expansion of lending. Credit growth may be curbed somewhat in late 2007 and in 2008 by a tighter liquidity situation in the banking sector stemming from repercussions of the most recent financial turbulences.

There is pressure to loosen fiscal policy in Russia, given the upcoming elections. Thus, government consumption is expected to speed up somewhat in 2007 and in 2008. GFCF is predicted to continue growing at a robust pace in 2007 and 2008, driven by huge projects in the energy sector and increased public investment. Rapid economic growth and the further real appreciation of the ruble will sustain high import growth which, however, is expected to decline somewhat. Import demand growth is expected to ease because the upward pressure on the ruble will presumably weaken somewhat once the strong rise of oil prices experienced in recent years levels off, as expected and because the economic expansion will lose some momentum. Rapidly rising imports are not yet considered to pose a threat to Russia's external balances.

Given the persisting dependence of the Russian economy on the extraction and export of raw materials, the oil price remains a key risk factor for Russian growth. If the oil price

were to drop sharply, Russia's current account balance could run into the red in one or two years from now and economic growth could suffer. However, there are now some buffers that can cushion the decline. Furthermore, the stability of the capital inflows is not guaranteed. Another risk factor consists of a possible excessively quick appreciation of the real exchange rate, triggered by accelerating inflows of energy proceeds and/or capital inflows. The rapid expansion of domestic lending, which has been going on for some years now, will also trigger risks if the number of problem loans swells further. Recently, non-performing household credits have been proliferating swiftly, albeit from a low point of departure. Another risk could be a stronger curbing of credit growth. Finally, the political uncertainty brought on by the presidential elections in the spring of 2008 could also spill over into economic risks to growth expected toward the end of the forecast period.

Annex Detailed Result Tables

Table 12

Demand Components (Real Prices)

Chained volume data (reference year = 2000)

	2006	2007	2008	2009	2006	2007	2008	2009
	EUR million				Annual change in %			
Private consumption	129,554	131,612	133,632	135,817	+2.0	+1.6	+1.5	+1.6
Government consumption	41,544	42,484	43,715	43,681	+2.0	+2.3	+2.9	-0.1
Gross fixed capital formation	49,149	51,353	52,693	53,915	+3.1	+4.5	+2.6	+2.3
of which: Investment in plant and equipment	19,552	20,397	20,981	21,405	+3.2	+4.3	+2.9	+2.0
Residential investment	10,269	10,351	10,571	10,882	+5.6	+0.8	+2.1	+2.9
Non-residential and other investment	19,377	20,464	21,041	21,528	+3.6	+5.6	+2.8	+2.3
Changes in inventories (including statistical discrepancy)	-759	-1,167	-1,495	-1,465	x	x	x	x
Domestic demand	219,487	224,282	228,545	231,948	+1.4	+2.2	+1.9	+1.5
Exports of goods and services	135,602	144,265	153,069	163,397	+7.5	+6.4	+6.1	+6.7
Imports of goods and services	121,826	127,492	134,492	142,660	+4.6	+4.7	+5.5	+6.1
Net exports	13,776	16,773	18,577	20,738	x	x	x	x
Gross domestic product	233,263	241,055	247,122	252,685	+3.1	+3.3	+2.5	+2.3

Source: 2006: Eurostat; 2007 to 2009: OeNB December 2007 outlook.

Table 13

Demand Components (Current Prices)

	2006	2007	2008	2009	2006	2007	2008	2009
	EUR million				Annual change in %			
Private consumption	142,608	147,706	153,460	158,778	+3.9	+3.6	+3.9	+3.5
Government consumption	46,408	48,421	51,041	52,026	+4.2	+4.3	+5.4	+1.9
Gross fixed capital formation	53,153	56,540	58,999	61,309	+5.9	+6.4	+4.3	+3.9
Changes in inventories (including statistical discrepancy)	719	521	100	363	x	x	x	x
Domestic demand	242,888	253,188	263,600	272,477	+3.6	+4.2	+4.1	+3.4
Exports of goods and services	145,338	157,059	168,795	182,906	+10.5	+8.1	+7.5	+8.4
Imports of goods and services	130,257	137,755	147,379	158,544	+8.1	+5.8	+7.0	+7.6
Net exports	15,081	19,304	21,416	24,362	x	x	x	x
Gross domestic product	257,969	272,493	285,016	296,839	+5.1	+5.6	+4.6	+4.1

Source: 2006: Eurostat; 2007 to 2009: OeNB December 2007 outlook.

Table 14

Deflators of Demand Components

	2006	2007	2008	2009	2006	2007	2008	2009
	2000 = 100				Annual change in %			
Private consumption	110.1	112.2	114.8	116.9	+1.9	+2.0	+2.3	+1.8
Government consumption	111.7	114.0	116.8	119.1	+2.1	+2.0	+2.5	+2.0
Gross fixed capital formation	108.1	110.1	112.0	113.7	+2.7	+1.8	+1.7	+1.6
Domestic demand (excluding changes in inventories)	110.0	112.1	114.5	116.6	+2.1	+1.9	+2.2	+1.8
Exports of goods and services	107.2	108.9	110.3	111.9	+2.8	+1.6	+1.3	+1.5
Imports of goods and services	106.9	108.0	109.6	111.1	+3.4	+1.1	+1.4	+1.4
Terms of trade	100.2	100.8	100.6	100.7	-0.6	+0.5	-0.1	+0.1
Gross domestic product	110.6	113.0	115.3	117.5	+1.9	+2.2	+2.0	+1.9

Source: 2006: Eurostat; 2007 to 2009: OeNB December 2007 outlook.

Table 15

Labor Market

	2006	2007	2008	2009	2006	2007	2008	2009
	Thousands				Annual change in %			
Total employment	4,230.5	4,295.1	4,328.8	4,362.2	+1.2	+1.5	+0.8	+0.8
of which: private sector	3,745.3	3,808.5	3,842.4	3,875.3	+1.2	+1.7	+0.9	+0.9
Payroll employment (national accounts definition)	3,411.3	3,474.7	3,502.6	3,527.0	+1.7	+1.9	+0.8	+0.7
	%							
Unemployment rate (Eurostat definition)	4.7	4.3	4.2	4.3	x	x	x	x
	% of real GDP							
Unit labor costs (whole economy) ¹	53.6	54.2	55.1	55.8	+1.1	+1.1	+1.6	+1.2
	EUR thousand per employee							
Labor productivity (whole economy) ²	55.1	56.1	57.1	57.9	+2.0	+1.8	+1.7	+1.5
	EUR thousand							
Real compensation per employee ³	33.3	33.5	33.8	34.2	+0.6	+0.6	+1.0	+1.0
	At current prices, EUR thousand							
Gross compensation per employee	36.7	37.6	38.9	39.9	+2.5	+2.6	+3.4	+2.8
	At current prices, EUR million							
Total gross compensation of employees	125,094	130,675	136,153	140,899	+4.2	+4.5	+4.2	+3.5

Source: 2006: Eurostat; 2007 to 2009: OeNB December 2007 outlook.

¹ Gross wages as a ratio of real GDP.

² Real GDP divided by total employment.

³ Gross wages per employee divided by the private consumption deflator.

Table 16

Current Account

	2006	2007	2008	2009	2006	2007	2008	2009
	EUR million				% of nominal GDP			
Balance of trade	11,280.5	14,655.4	16,100.6	18,629.0	4.4	5.4	5.6	6.3
Goods	220.8	2,738.7	2,497.3	4,249.5	0.1	1.0	0.9	1.4
Services	11,059.7	11,916.8	13,603.3	14,379.5	4.3	4.4	4.8	4.8
Euro area	-66.1	842.0	2,274.3	2,539.7	0.0	0.3	0.8	0.9
Non-euro area countries	11,346.6	13,813.4	13,826.3	16,089.3	4.4	5.1	4.9	5.4
Balance on income	-3,033.0	-3,942.3	-3,865.7	-3,769.6	-1.2	-1.4	-1.4	-1.3
Balance on transfers	-1,140.0	-1,643.0	-1,348.0	-1,348.0	-0.4	-0.6	-0.5	-0.5
Current account	7,107.5	9,070.1	10,886.9	13,511.4	2.8	3.3	3.8	4.6

Source: 2006: Eurostat; 2007 to 2009: OeNB December 2007 outlook.

Table 17

Quarterly Forecast Results															
	2007	2008	2009	2007				2008				2009			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Annual change in %															
Prices, wages and costs															
HICP	+2.1	+2.4	+1.8	+1.8	+1.9	+1.9	+2.9	+2.8	+2.6	+2.3	+2.1	+1.9	+1.9	+1.8	+1.7
HICP excluding energy	+2.0	+2.1	+1.8	+1.8	+2.0	+1.9	+2.3	+2.1	+2.1	+2.0	+1.9	+1.9	+1.8	+1.8	+1.7
Private consumption expenditure (PCE) deflator	+2.0	+2.3	+1.8	+1.9	+1.9	+1.9	+2.2	+2.4	+2.4	+2.4	+2.1	+1.9	+1.8	+1.8	+1.7
Gross fixed capital formation deflator	+1.8	+1.7	+1.6	+2.1	+1.8	+1.7	+1.6	+1.8	+1.8	+1.7	+1.6	+1.6	+1.6	+1.5	+1.5
GDP deflator	+2.2	+2.0	+1.9	+2.2	+2.2	+2.2	+2.2	+2.1	+2.1	+2.0	+1.9	+1.8	+1.8	+1.9	+1.9
Unit labor costs	+0.4	+1.6	+1.4	-2.6	-1.8	+4.4	+1.7	+3.2	+3.2	-1.7	+1.8	+1.7	+1.5	+1.1	+1.1
Nominal wages per employee	+2.6	+3.4	+2.8	+2.3	+2.6	+2.8	+2.5	+3.1	+3.1	+3.5	+3.7	+3.4	+3.0	+2.4	+2.3
Productivity	+1.8	+1.7	+1.5	+3.1	+3.0	+0.0	+1.2	+0.8	+0.8	+3.5	+1.9	+1.8	+1.6	+1.4	+1.2
Real wages per employee	+0.6	+1.0	+1.0	+0.4	+0.7	+0.9	+0.3	+0.7	+0.7	+1.0	+1.6	+1.5	+1.2	+0.7	+0.5
Import deflator	+1.1	+1.4	+1.4	+1.6	+1.0	+0.6	+1.0	+1.3	+1.4	+1.6	+1.4	+1.4	+1.4	+1.4	+1.4
Export deflator	+1.6	+1.3	+1.5	+2.1	+1.7	+1.3	+1.2	+1.1	+1.2	+1.4	+1.4	+1.5	+1.5	+1.5	+1.5
Terms of trade	+0.5	-0.1	+0.1	+0.5	+0.7	+0.6	+0.2	-0.2	-0.2	-0.1	+0.0	+0.1	+0.1	+0.1	+0.1
Annual and/or quarterly changes in %, in real terms															
Economic activity															
GDP	+3.3	+2.5	+2.3	+1.0	+0.7	+0.8	+0.5	+0.6	+0.6	+0.6	+0.6	+0.5	+0.5	+0.5	+0.5
Private consumption	+1.6	+1.5	+1.6	+0.4	+0.4	+0.5	+0.4	+0.3	+0.3	+0.4	+0.4	+0.4	+0.4	+0.4	+0.4
Government consumption	+2.3	+2.9	-0.1	+0.3	+0.4	+2.0	+0.0	+1.0	+0.7	+0.4	+0.1	-0.2	-0.2	-0.2	-0.2
Gross fixed capital formation	+4.5	+2.6	+2.3	+1.3	+0.8	+0.7	+0.7	+0.6	+0.6	+0.6	+0.6	+0.6	+0.6	+0.6	+0.6
of which: Investment in plant and equipment	+4.3	+2.9	+2.0	+1.4	+1.2	+1.2	+0.6	+0.6	+0.6	+0.6	+0.5	+0.5	+0.5	+0.5	+0.4
Residential construction investment ¹	+0.8	+2.1	+2.9	-0.4	-0.3	+0.2	+0.7	+0.6	+0.6	+0.7	+0.7	+0.7	+0.8	+0.8	+0.8
Exports	+6.4	+6.1	+6.7	+1.7	+0.9	+1.2	+1.4	+1.5	+1.6	+1.7	+1.7	+1.7	+1.6	+1.6	+1.6
Imports	+4.7	+5.5	+6.1	+1.1	+0.4	+1.0	+1.3	+1.6	+1.5	+1.5	+1.5	+1.5	+1.5	+1.5	+1.5
Contribution to real GDP growth in percentage points															
Domestic demand	+2.2	+1.9	+1.4	+0.5	+0.5	+0.8	+0.4	+0.5	+0.4	+0.4	+0.4	+0.3	+0.3	+0.3	+0.3
Net exports	+1.3	+0.7	+0.9	+0.4	+0.3	+0.2	+0.2	+0.1	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2
Changes in inventories	-0.2	-0.1	+0.0	+0.1	-0.2	-0.2	-0.1	+0.1	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0
%															
Labor market															
Unemployment rate (Eurostat definition)	4.3	4.2	4.3	4.4	4.3	4.3	4.2	4.1	4.2	4.2	4.2	4.3	4.3	4.4	4.4
Annual and/or quarterly changes in %															
Total employment	+1.5	+0.8	+0.8	+0.1	+0.2	+3.0	-1.5	+0.1	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2
of which: Private sector employment	+1.7	+0.9	+0.9	+0.1	+0.2	+3.4	-1.6	+0.1	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2	+0.3
Payroll employment	+1.9	+0.8	+0.7	+0.7	+0.2	+0.4	+0.2	+0.2	+0.1	+0.1	+0.2	+0.2	+0.2	+0.2	+0.2
Annual and/or quarterly changes in %, in real terms															
Additional variables															
Disposable household income	+1.9	+1.7	+1.6	+2.3	+1.7	-1.5	-0.9	+1.6	+1.0	+0.7	+0.2	+0.2	+0.3	+0.5	+0.5
% of disposable real household income (saving ratio) and % of real GDP (output gap)															
Household saving ratio	10.1	10.2	10.2	10.6	12.2	9.7	8.1	9.7	10.3	10.6	10.4	10.2	10.2	10.2	10.3
Output gap	0.0	0.4	0.4	-0.2	-0.1	0.2	0.2	0.2	0.3	0.4	0.5	0.5	0.4	0.4	0.3

Source: OeNB December 2007 outlook. Quarterly values are seasonally adjusted.

¹ Excluding other construction investment and other investment.

Table 18

Comparison of Current Economic Forecasts for Austria

Indicator	OeNB			WIFO		IHS		OECD			IMF		European Commission		
	June 2007			Sep. 2007		Sep. 2007		Dec. 2007			Oct. 2007		Nov. 2007		
	2007	2008	2009	2007	2008	2007	2008	2007	2008	2009	2007	2008	2007	2008	2009
Annual change in %															
Key results															
GDP (real)	+3.3	+2.5	+2.3	+3.4	+2.4	+3.2	+2.6	+3.3	+2.5	+2.5	+3.3	+2.5	+3.3	+2.7	+2.4
Private consumption (real)	+1.6	+1.5	+1.6	+1.9	+2.1	+2.0	+2.2	+1.6	+1.9	+2.0	x	x	+1.7	+1.9	+2.1
Government consumption (real)	+2.3	+2.9	-0.1	+2.0	+2.3	+2.1	+2.8	+2.3	+2.0	+1.3	x	x	+1.9	+2.1	+0.6
Gross fixed capital formation (real) ¹	+4.5	+2.6	+2.3	+6.3	+3.7	+5.9	+3.9	+4.4	+2.6	+1.8	x	x	+5.7	+3.2	+2.4
Exports (real)	+6.4	+6.1	+6.7	+8.3	+6.0	+6.5	+6.0	+6.3	+5.4	+6.2	x	x	+7.2	+6.5	+5.9
Imports (real)	+4.7	+5.5	+6.1	+7.7	+6.5	+6.2	+6.6	+4.6	+4.9	+5.4	x	x	+6.1	+6.0	+5.3
GDP per employee	+1.8	+1.7	+1.5	+2.5	+1.7	+1.3	+1.6	x	x	x	x	x	+1.6	+1.8	+1.8
GDP deflator	+2.2	+2.0	+1.9	+2.2	+2.0	+1.8	+1.5	+2.2	+2.3	+1.9	+2.0	+1.9	+2.3	+2.1	+1.4
CPI	x	x	x	+1.9	+2.0	+1.8	+1.6	x	x	x	+1.9	+1.9	x	x	x
HICP	+2.1	+2.4	+1.8	+1.9	+2.0	x	x	+2.1	+2.4	+2.0	x	x	+1.9	+1.9	+1.8
Unit labor costs	+1.1	+1.6	+1.2	+0.1	+1.4	x	x	x	x	x	x	x	+0.8	+1.0	+0.8
Total employment	+1.5	+0.8	+0.8	+1.9	+0.9	+1.9	+1.0	x	x	x	x	x	+1.6	+0.9	+0.6
%															
Unemployment rate ²	4.3	4.2	4.3	4.3	4.2	4.3	4.3	5.3	5.3	5.5	4.3	4.2	4.3	4.2	4.2
% of nominal GDP															
Current account	3.3	3.8	4.6	3.5	3.7	x	x	4.7	4.9	5.5	3.7	3.7	4.8	5.3	5.3
Government surplus/deficit	-0.7	-0.7	-0.4	-0.4	-0.5	-0.6	-0.5	-0.8	-0.6	-0.2	-0.8	-0.6	-0.8	-0.7	-0.4
External assumptions															
Oil price in USD per barrel (Brent)	72.6	88.6	83.7	64.0	69.0	67.0	67.0	90.0	90.0	90.0	68.5	75.0	70.6	78.8	76.0
Short-term interest rate in %	4.3	4.5	4.3	4.2	4.4	4.2	4.4	4.3	4.2	4.1	4.0	4.1	4.3	4.4	4.3
USD/EUR exchange rate	1.37	1.46	1.46	1.35	1.40	1.35	1.35	1.45	1.45	1.45	1.35	1.37	1.36	1.42	1.42
Annual change in %															
Euro area GDP (real)	+2.4 bis +2.8	+1.5 bis +2.5	+1.6 bis +2.6	+2.7	+1.9	+2.5	+2.3	+2.6	+1.9	+2.0	+2.5	+2.1	+2.6	+2.2	+2.1
U.S. GDP (real)	+2.1	+2.3	+2.6	+1.9	+1.8	+2.0	+2.5	+2.2	+2.0	+2.2	+1.9	+1.9	+2.1	+1.7	+2.6
World GDP (real)	+5.2	+4.7	+4.7	+5.1	+4.8	x	x	x	x	x	+5.2	+4.8	+5.1	+4.7	+4.8
World trade	+6.1	+6.5	+7.0	+7.0	+7.0	+6.0	+5.5	+7.0	+8.1	+8.1	+6.6	+6.7	+7.5	+7.0	+7.2

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

¹ For IHS: Gross investment.

² Eurostat definition; for OECD: OECD definition.