

Growth Stimulus from Tax Reform in 2005 to Overshadow Weaker Global Economic Momentum

Economic Outlook for Austria from 2004 to 2006 (Fall 2004)

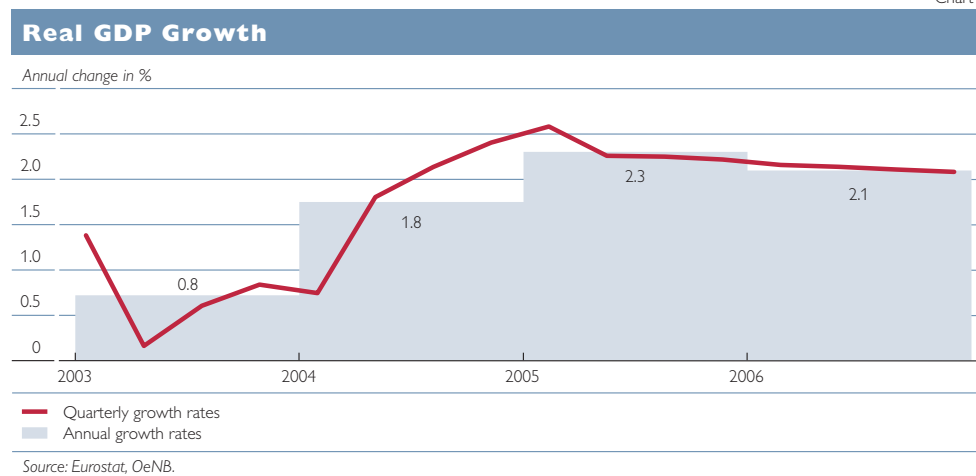
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1 Summary

According to the fall 2004 economic outlook of the Oesterreichische Nationalbank (OeNB), Austria's real gross domestic product (GDP) is projected to increase to 1.8% in 2004. Economic growth of 2.3% and 2.1% is expected in 2005 and 2006, respectively. Fuelled by the rise in oil prices,

in particular, inflation as measured by the Harmonized Index of Consumer Prices (HICP) will be 1.9% in 2004, 2.0% in 2005 and 1.7% in 2006. The second stage of the tax reform will result in the budget deficit (Maastricht definition) deepening from 1.4% in 2004 to 2.0% in 2005 and to 1.8% in 2006.

Chart 1



In 2003 the Austrian economy grew by 0.8%,¹ driven by dynamic investment activity. In the first half of 2004, by contrast, exports were the engine of economic growth. Despite mildly dampening effects induced by the appreciation of the euro, Austrian exporters succeeded in boosting deliveries abroad significantly. For the second half of 2004, high export growth rates are also expected thanks to a healthy order book. From 2005 onward, economic growth momentum (led by U.S.A., in particular) is likely to slow worldwide. Exports, however, will remain a key pillar of economic activity over the entire forecast horizon.

According to the revised national accounts figures, growth in consumer demand was far more sluggish in 2003 than previously anticipated. In 2004, consumer demand growth is expected to have remained below average owing to the relatively small increase in disposable income. In 2005, however, the second stage of the tax reform will increase disposable household income by EUR 1.25 billion. Reflecting measures agreed under the renegotiated fiscal sharing act, this tax relief will be just under EUR 1 billion. At the same time, modest wage settlements and increased energy prices will have a dampening effect on disposable household income. Overall, however,

¹ This figure relates to publication of the annual national accounts by Statistics Austria of October 2004. In addition to the usual revisions, some major changes in methodology were introduced, such as using prices of the previous year (chaining) rather than of a fixed base year, a new calculation of imputed bank services and the elimination of unclassified transactions. The revised annual figures will therefore also reflect these changes, as well as the availability of fresh data.

Table 1

OeNB Fall Outlook for 2004 – Key Results

	2003	2004	2005	2006
<i>Annual change in % (real)</i>				
Economic activity¹				
Gross domestic product	+0.8	+1.8	+2.3	+2.1
Private consumption	+0.6	+1.3	+2.1	+2.1
Government consumption	+0.4	+0.3	+0.2	+0.2
Gross fixed capital formation	+6.2	+1.5	+3.5	+3.4
Exports of goods and services	+1.4	+8.0	+7.4	+7.3
Imports of goods and services	+4.8	+6.2	+7.5	+7.5
<i>% of nominal GDP</i>				
Current account balance	-0.5	0.1	0.2	0.2
<i>Percentage points</i>				
Contribution to real GDP growth¹				
Private consumption	+0.4	+0.8	+1.2	+1.2
Government consumption	+0.1	+0.1	+0.0	+0.0
Gross fixed capital formation	+1.3	+0.4	+0.8	+0.8
Domestic demand (excl. changes in inventories)	+1.7	+1.2	+2.0	+2.0
Net exports	-1.5	+1.1	+0.1	+0.0
Changes in inventories (incl. statistical discrepancy)	+0.5	-0.5	+0.2	+0.1
<i>Annual change in %</i>				
Prices				
Harmonised Index of Consumer Prices (HICP)	+1.3	+1.9	+2.0	+1.7
Private consumption expenditure (PCE) deflator	+1.5	+2.0	+1.9	+1.7
GDP deflator	+1.6	+1.9	+1.6	+1.7
Unit labor costs in the total economy	+1.4	+0.8	+0.7	+1.3
Compensation per employee (at current prices)	+1.9	+2.2	+2.3	+2.6
Productivity (whole economy)	+0.9	+1.4	+1.7	+1.3
Compensation per employee (at 1995 prices)	+0.4	+0.2	+0.4	+0.8
Import prices	-0.9	+1.1	+1.4	+1.1
Export prices	+0.1	+0.9	+0.9	+1.1
Terms of Trade	+1.1	-0.2	-0.5	+0.0
Income and savings²				
Real disposable household income	+1.6	+0.9	+2.3	+2.2
<i>% of nominal disposable household income</i>				
Saving ratio	8.4	8.1	8.4	8.5
<i>Annual change in %</i>				
Labor market				
Payroll employment	+0.3	+0.7	+0.9	+1.0
<i>%</i>				
Unemployment rate (Eurostat definition)	4.3	4.5	4.5	4.4
<i>% of nominal GDP</i>				
Budget				
Budget balance (Maastricht definition)	-1.1	-1.4	-2.0	-1.8
Government debt	64.5	64.2	63.7	63.2

Source: 2003: Eurostat, Statistics Austria, 2004 to 2006: OeNB fall 2004 outlook.

¹ 2003: Chained volume data (reference year = 2000), 2004 to 2006: at 1995 prices.

² 2003: OeNB estimate.

a sharp acceleration in consumption growth to 2.1% and a simultaneous rise in the saving rate are expected in 2005. The net growth stimulus to GDP in 2005 from the second stage of the tax reform (less the effects of the fiscal sharing package) is estimated at 0.2 percentage point.

The situation on the labor market will be determined primarily by the robust growth in labor supply due to two factors: the sharp increase in foreign labor supply and the pension reforms in 2000 and 2003. Projected employment growth will, therefore, not be enough to reduce unemploy-

ment appreciably. The OeNB predicts an unemployment rate (Eurostat definition) of 4.5% in both 2004 and 2005, and 4.4% in 2006.

Strong export growth in the first half of 2004 improved the current account considerably. After a current account deficit of 0.5% of GDP in 2003, an almost balanced current account is expected in 2004, 2005 and 2006.

Inflation rose markedly during 2004. After recording an increase of 1.3% in the HICP in 2003, the OeNB anticipates an inflation rate of 1.9% in 2004. This is primarily attributable to the steep rise in oil prices, which was only partially offset by the appreciation of the euro. Inflation is expected to accelerate at a measured pace to 2.0% in 2005. Only in 2006 will the expected fall in energy prices trigger a decline in inflation to 1.7%. Second-round effects in the form of wage increases are not anticipated. Prices will not be subject to demand pressures. The output gap will only close toward the end of the forecast horizon.

2 Technical Assumptions

The OeNB contributed this forecast as its input for the Eurosystem's fall 2004 staff projections for macroeconomic trends in the euro area. The forecast horizon ranges from the third quarter of 2004 to the fourth quarter of 2006. November 15, 2004 was the cutoff date for the underlying assumptions on global economic trends and for the technical assumptions on interest rates, exchange rates and crude oil prices. The OeNB used its macroeconomic quarterly model to prepare the projections for Austria.

This forecast is based on the assumption that the monetary policy framework will remain unchanged. It

therefore presupposes constant levels of both short-term nominal interest rates and the nominal effective exchange rate of the euro (euro area index) over the entire forecast horizon. The underlying short-term interest rate (three-month EURIBOR) is based on the two-week average prior to November 12, 2004 (2.16%).

Long-term interest rates, which are in tune with market expectations for ten-year government bonds, are set at 4.16% (2004), 4.13% (2005) and 4.49% (2006). A constant rate of USD/EUR 1.287 is assumed for future USD/EUR exchange rate trends. Taking exchange rate values to date into account, we arrive at an average rate for 2004 of USD/EUR 1.238. This implies an appreciation of the euro against the U.S. dollar of 9.4% in the current year. Since the average appreciation of the euro is weaker against other currencies, this means the nominal effective exchange rate used for the euro area projection will be 4.0% higher in 2004. For 2004 to 2006, we assume oil prices of USD 39.0, USD 44.4 and USD 40.8 per barrel (Brent) in each successive year. The projected future trend in crude oil prices is based on futures prices. As a result, oil prices for 2004 to 2006 are USD 4.4 (EUR 2.7), USD 12.5 (EUR 7.7) and USD 11.6 (EUR 7.2) higher than in the spring 2004 outlook.

3 Global Economic Growth Peaks in 2004

3.1 Growth in World Economy Outside Euro Area Slows During 2004

Global economic growth accelerated dramatically during 2003, peaking toward the end of the year. Although 2004 has so far seen a slowdown in momentum, annual growth is still higher than in 2003. According to

the Eurosystem's projection, the world economy outside the euro area will grow by 5.4% in real terms in 2004. This represents the highest rate of growth in the last 30 years. Growth will be led primarily by the U.S.A and by Asia (excluding Japan). The outlook for 2005 and 2006 indicates continued robust growth although growth rates are likely to be lower than in 2004.

The pace of growth in the *U.S.A.* has slowed somewhat since the start of 2004. Whereas export momentum, in particular, has declined, import growth has been far stronger. As a result, net exports are dampening growth, and steadily deepening the U.S. current account deficit. Private consumption recovered from a sluggish second quarter. Owing to the waning of stimuli from expansionary fiscal policies, the weakening of purchasing power (due to the rise in oil prices) and the Fed's switch to rising interest rates, significant impetus cannot be expected from private consumption in the near future. Moreover, the saving rate, which is already very low, does not suggest strong consumption growth. By contrast, investment growth, driven by continued buoyant domestic demand and still favorable financing conditions, is likely to remain robust in 2005. By 2006, however, investment momentum will lose steam, as growth in domestic demand is expected to decline and interest rates are anticipated to rise. Macroeconomic imbalances (budget deficit and external trade deficit) and high consumer debt levels represent risks for the U.S. economy.

The pace of *Japan's* economic recovery has slowed significantly since the second quarter of 2004. In the third quarter, export growth, which had hitherto been very strong, ground

to a virtual halt, as did investment growth. Private consumption, by contrast, looks very strong. However, the strength of economic growth is likely so far to have been overestimated. According to initial preliminary calculations based on a new method of calculation (using prices of the previous year rather than of a fixed base year), the Japanese economy has been stagnating since the second quarter of 2004. However, it is expected to recover from the fourth quarter onward. The protracted period of deflation is, nevertheless, likely to persist in 2004. Consumer prices are not expected to rise until 2005.

Since early 2004, growth in *Asia (excluding Japan)* has decelerated from an extremely dynamic rate to a somewhat more moderate pace. This is primarily attributable to measures taken in China to restrain economic growth, aiming to bring the overheated Chinese economy back on track to long-term sustainable growth. The role of exports for the region's growth is gradually decreasing in importance, and domestic demand is visibly growing in strength. Asia will, furthermore, continue to remain the fastest-growing region in the world.

Growth in the *United Kingdom* will slow to some extent during the forecast horizon. Interest rate hikes will curb both economic activity and the boom in real estate prices. Exports should benefit from the euro area's recovery and continue to grow dynamically as well.

Since the second half of 2003, *Switzerland's* economy has changed course and embarked on a relatively robust path of growth. Growth is now more broadly based, and investment activity has accelerated. The downturn in exports observed in the second quarter of 2004 is likely to

have been only temporary. Exports should strengthen in future in line with the global economic climate. The deflationary trends seen since the end of 2003 are likely to have come to an end. Growth in Switzerland will fall just short of 2% over the forecast horizon.

Growth in the *new EU Member States* largely ticked up during 2004, driven by investment and private consumption, in particular. It is expected to continue accelerating rapidly over the next two years. The catch-up process with Western European economies is making headway. Inflation, which rose recently, should recede over the forecast horizon.

3.2 Modest Recovery in the Euro Area

The pace of economic growth in the euro area has slowed in 2004 so far, as has the momentum of the world economy. Estimates currently available show that the third quarter, in par-

ticular, lagged behind expectations by a wide margin. Export momentum slowed in line with the world economy and was hit by the appreciation in the external value of the euro. For 2005 and 2006, however, exports are expected to continue growing strongly.

Domestic demand, not least supported by low interest rates, is starting to make a bigger contribution to growth. In the second half of 2004, private consumption is likely to grow at merely a modest pace owing to the continued low employment rate and to steep increases in energy prices. From 2005, consumption should be driven by two factors: an improved employment scenario and further declining inflation. However, debates (currently raging in many countries) about pension and health reforms will generate greater uncertainty and tend to boost the saving rate. Investment growth should accelerate from the

Table 2

Underlying Global Economic Conditions				
	2003	2004	2005	2006
	<i>Annual change in % (real)</i>			
Gross domestic product				
World GDP growth outside the euro area	+4.7	+5.4	+4.6	+4.5
U.S.A.	+3.0	+4.4	+3.4	+2.9
Japan	+2.5	+3.9	+2.0	+2.3
Asia excluding Japan	+7.4	+7.3	+6.4	+6.5
Latin America	+1.9	+4.0	+4.4	+4.2
United Kingdom	+2.2	+3.2	+2.9	+2.7
New EU Member States	+3.6	+4.7	+4.7	+5.3
Switzerland	-0.3	+1.8	+1.9	+1.9
Euro area ¹	+0.5	1.6-2.0	1.4-2.4	1.7-2.7
World trade				
Imports of goods and services World economy	+5.2	+8.3	+7.6	+7.0
Non-euro area countries	+6.7	+9.7	+7.8	+7.1
Real growth of euro-area export markets	+6.0	+8.7	+8.0	+7.4
Real growth of Austria's export markets	+4.6	+7.4	+7.5	+7.2
Prices				
Oil price (in USD/barrel of Brent)	28.9	39.0	44.4	40.8
Three-month interest rate in %	2.3	2.1	2.2	2.2
Long-term interest rate in %	4.1	4.2	4.1	4.5
USD/EUR exchange rate	1.131	1.238	1.287	1.287
Nominal effective exchange rate (euro area index)	100.03	103.98	106.16	106.16

Source: ECB.

¹ Results of Eurosystem's fall 2004 projections. The ECB presents the results in ranges based upon average differences between actual outcomes and previous projections.

second half of 2004 onward. Preliminary data for the third quarter confirm these expectations. Compared with previous recoveries, however, investment is expected to grow at a slower pace. Whereas growth in plant and equipment investment should accelerate appreciably, growth in construction investment is expected to decelerate due to an anticipated slowing in the rise of real estate prices.

Inflation is likely to continue increasing until the end of 2004, owing to oil price developments. From 2005 onward, however, it is expected to edge back down. This is due to two factors: first, oil prices are expected to decline and, second, domestic prices are not forecast to come under significant pressure thanks to modest wage growth and continued low capacity utilization levels. In addition, the currently high external value of the euro will have a dampening effect on inflation.

Germany, Austria's main trading partner, is still suffering from sluggish growth. Growth in the third quarter of 2004 ground to a virtual halt. Exports were down on the previous quarter, with private consumption flagging too. By contrast, investment growth was healthy. As a result, the expected broadening of the solely export-led recovery in the first half of 2004 could have commenced. Expected global economic growth should continue to be a key driver of German economic growth as well. Private consumption is likely to grow only at a measured pace in 2005.

The economy in *France* is marked by strong domestic demand. Although the third quarter saw a deterioration in domestic demand, this decline is considered to be temporary. The French economy is expected to grow at a faster rate than the European

average in the near future. In the first three quarters of 2004, economic growth in *Italy* was driven by investment, in particular. As before, private consumption did not accelerate despite upbeat consumer sentiment. In addition, growth stimuli from net exports are currently almost entirely absent.

4 Exports Remain Pillar of Economic Activity

The external trade environment is marked by dynamic growth in world trade over the forecast horizon as a whole. However, economic growth in 2004 is likely to have already peaked in the U.S.A and in Asia (excluding Japan) – the world's two major engines of economic growth. Owing to the delayed recovery in the euro area (particularly, in both leading trading partners Germany and Italy), growth in Austria's export markets is not expected to peak until 2005.

Data for the first half of 2004 show that Austrian exporters increased their market share despite a deterioration in price competitiveness following the appreciation of the euro. Export growth rates, as seen in the second quarter of 2004 when exports surged on a quarterly basis, can no longer be expected in future. However, they will remain a key pillar of economic activity over the forecast horizon as a whole. The OeNB projects real exports to grow to 8.0% in 2004, thereafter weakening a tad to 7.4% in 2005 and to 7.3% in 2006.

The contribution of net exports to real GDP growth, which was deep in negative territory in 2003 (–1.5 percentage points), will climb to 1.1 percentage points in 2004. With burgeoning domestic demand, import growth will gather momentum in

Table 3

Growth and Price Developments, Austrian External Trade					
	2002	2003	2004	2005	2006
	<i>Annual change in %</i>				
Exports					
Competitors' prices in Austria's export markets	-2.2	-5.6	-1.3	+0.4	+1.6
Export deflator	+0.6	+0.1	+0.9	+0.9	+1.1
Changes in price competitiveness	-2.8	-5.7	-2.2	-0.5	+0.5
Import demand in Austria's export markets (real)	+1.1	+4.6	+7.4	+7.5	+7.2
Austrian exports of goods and services (real)	+3.8	+1.4	+8.0	+7.4	+7.3
Market share	+2.7	-3.2	+0.6	-0.1	+0.1
Imports					
International competitors' prices in the Austrian market	-0.8	-3.3	-0.5	+0.7	+1.5
Import deflator	-1.2	-0.9	+1.1	+1.4	+1.1
Austrian imports of goods and services (real)	-0.2	+4.8	+6.2	+7.5	+7.5
Terms of Trade	+1.8	+1.1	-0.2	-0.5	+0.0
	<i>Percentage points</i>				
Contribution of net exports to GDP growth	+1.9	-1.5	+1.1	+0.1	+0.0

Source: 2002 to 2003: Eurostat, 2004 to 2006: OeNB fall 2004 outlook, Eurosystem.

both 2005 and 2006, as a result of which the contribution of net exports to growth will approach zero.

Owing to the high percentage of imports in investment, buoyant investment activity in 2003 resulted in a current account deficit (-0.5% of GDP). This deficit is entirely attributable to the sharp reduction in the goods surplus.

The export boom in the first half of 2004 and the healthy order book for the rest of the year suggest a reversal of the previous year's trend. The results of the transactions account for the first half of 2004 show that the surplus in goods traded not only

exceeded the figure for the comparable period in 2003 by a wide margin but also topped the record set in 2002. Goods surpluses are expected to continue over the forecast horizon thanks to unit wage cost trends that are favorable by international standards. However, growing import demand in tandem with the economy's recovery will prevent any further improvement in 2005 and 2006. The services surplus has diminished steadily in the past few years. The OeNB projects this trend to taper off over the forecast horizon, and expects the services account balance to be in the red by a slight margin. The pattern

Table 4

Austria's Current Account					
	2002	2003	2004	2005	2006
	<i>% of nominal GDP</i>				
Balance of trade	2.0	1.1	2.0	2.0	1.9
Balance on goods	1.7	0.4	1.9	1.6	1.7
Balance on services	0.3	0.7	0.1	0.3	0.2
Euro area	-3.6	-4.3	-4.5	-4.8	-5.0
Non-euro area countries	5.5	5.4	6.4	6.7	7.0
Balance on income	-0.8	-0.7	-0.8	-0.7	-0.7
Balance on current transfers	-0.9	-0.9	-1.0	-1.0	-1.0
Current account	0.3	-0.5	0.1	0.2	0.2

Source: 2002 to 2003: OeNB, 2004 to 2006: OeNB fall 2004 outlook.

of the trade balance's regional breakdown, namely a negative balance with euro area countries and a large surplus with non-euro area countries, will not change until 2006.

In the first half of 2004, the income subaccount posted a marginally bigger decrease than in the comparable period a year ago. For the forecast years, a stable balance of -0.7% to -0.8% of nominal GDP is expected. At -1.0% of GDP, the current transfers balance – which is mainly influenced by EU transactions – will remain constant over the forecast horizon. The overall current account balance will be almost balanced over the forecast horizon.

5 Oil Price Rise Fuels Fresh Inflation

Following a very modest HICP inflation rate of 1.3% in 2003, price growth accelerated markedly in 2004, reaching 2.3% in November. The OeNB expects inflation to peak at almost 2.5% at the start of 2005. Thereafter, pricing pressures will ease noticeably and only strengthen slightly toward the end of the forecast

horizon. The HICP inflation rate is expected to accelerate from 1.9% in 2004 to 2.0% in 2005, only to slip back to 1.7% in 2006.

The inflation trend projected is influenced quite strongly by the energy subcomponent. According to futures prices, the price of oil will gradually fall from USD 46.9 in the fourth quarter of 2004 to USD 39.9 in the fourth quarter of 2006. Driven by high oil prices, the energy subcomponent (weighted at approximately 7% of the HICP) will explain only a third of overall inflation in 2004 and 2005. By 2006, however, the contribution of the energy subcomponent to inflation will have dropped to almost nil. The risk of significant second-round effects induced by the oil price rise is still considered as being very low. Current wage settlements suggest that the path of wage moderation will not be abandoned in 2005 either. Since the unemployment rate will barely decline over the forecast horizon as a whole, wage inflation is not forecast to accelerate noticeably in 2006. Neither are prices expected to be subject to significant demand pressures. The output gap

Table 5

Price and Cost Indicators for Austria

	2003	2004	2005	2006
	Annual change in %			
Harmonised Index of Consumer Prices (HICP)	+1.3	+1.9	+2.0	+1.7
HICP energy	+1.0	+7.0	+8.0	+0.8
HICP excl. energy	+1.3	+1.6	+1.5	+1.8
Private consumption expenditure (PCE) deflator	+1.5	+2.0	+1.9	+1.7
Investment deflator	-0.3	+1.6	+1.7	+1.4
Import deflator	-0.9	+1.1	+1.4	+1.1
Export deflator	+0.1	+0.9	+0.9	+1.1
Terms of Trade	+1.1	-0.2	-0.5	+0.0
GDP deflator	+1.6	+1.9	+1.6	+1.7
Unit labor costs	+1.4	+0.8	+0.7	+1.3
Compensation per employee	+1.9	+2.2	+2.3	+2.6
Labor productivity	+0.9	+1.4	+1.7	+1.3
Collectively agreed wage settlements	+2.2	+2.1	+2.3	+2.5
Profit margins ¹	+0.3	+1.1	+0.9	+0.4

Source: 2003: Eurostat, Statistics Austria, 2004 to 2006: OeNB fall 2004 outlook.

¹ GDP deflator divided by unit labor costs.

will close toward the end of 2006. At 1.5% in 2004 and 1.6% in 2005, HICP core inflation (excluding energy) will therefore remain relatively stable and only accelerate slightly to 1.8% in 2006.

Both exchange rate and oil price trends are key determinants of the terms of trade. In the past, the appreciation of the euro against the U.S. dollar generally resulted in improved terms of trade for Austria, with oil price hikes leading to a deterioration thereof. In 2004 and 2005 the oil price effect is expected to dominate the exchange rate effect, and the terms of trade are anticipated to deteriorate slightly by 0.2% and 0.5%, respectively. The terms of trade are likely to remain basically unchanged in 2006.

Productivity growth (real GDP per employee) will peak in 2005. In 2006 an expected slight deterioration in growth and the fact that employment growth follows economic recovery with a time lag will lead to a modest decline in productivity growth. Wage settlements saw an increase of 2.1% in 2004, and are likely to remain modest in 2005 (+2.3%). In 2006, somewhat higher wage settlements are on the cards in view of the antici-

pated economic recovery. Payments in excess of the minimum wage will also rise slightly in the wake of economic recovery. After three below-average years, corporate profit margins will rebound in 2004 and 2005, supported by favorable unit wage cost trends. In 2006, by contrast, more moderate growth is indicated by somewhat higher and faster-growing unit wage costs.

6 Domestic Economy Gathers Steam in 2004

6.1 Growth Stimulus from Tax Reform Dampened by Higher Inflation, Modest Wage Settlements and Fiscal Sharing Agreement

In 2003 and the first half of 2004, sluggish growth in real disposable income strongly influenced private consumption growth. For the second half of 2004, the European Commission's confidence indicators suggest stable consumption growth for Austria. After several months, both consumer confidence and retail confidence remain close to their long-term average. Although retail sales have grown modestly in real terms in the last few months, clear signs of a notable pick-up in real consumption growth still remain absent. This should

Table 6

Determinants of Nominal Household Income in Austria

	2003	2004	2005	2006
<i>Annual change in %</i>				
Compensation of employees	+2.2	+2.9	+3.2	+3.6
Employees	+0.3	+0.7	+0.9	+1.0
Wages per employee	+2.4	+2.2	+2.3	+2.6
Mixed income (net) of the self-employed and property income	+2.2	+4.1	+5.4	+5.7
Net transfers minus direct taxes ¹	+1.8	-5.4	-0.5	-6.0
<i>Contribution to disposable household income in percentage points</i>				
Compensation of employees	+2.2	+2.4	+2.7	+3.0
Mixed income (net) of the self-employed and property income	+0.7	+1.2	+1.7	+1.8
Net transfers minus direct taxes ¹	+0.3	-0.7	-0.1	-0.8
Disposable household income (nominal)	+3.1	+2.9	+4.3	+4.0

Source: 2003: Statistics Austria, 2004 to 2006: OeNB fall 2004 outlook.

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

not be expected in the second half of 2004 either.

Owing to the rise in oil prices, the current inflation rate is outpacing wage growth, forcing employees to suffer wage losses in real terms. Until oil price effects begin to fade, wages cannot be expected to increase in real terms. At 0.2% in 2004 and 0.4% in 2005, growth in real wages will fall well short of the long-term average. Average wages cannot be expected to grow in real terms until 2006 (+0.8%).

Despite weak real wage growth, disposable household income will soar in 2005 thanks to the second stage of tax reform and to growing employment. The second stage of tax reform will generate tax relief worth EUR 1,250 million for households, or 0.8% of disposable household income. However, the expansionary effect of

the tax reform on private consumption and economic growth will be partially offset by hospital financing measures under the fiscal sharing agreement. These come to some EUR 250 million, or 0.15% of disposable household income. The OeNB expects approximately half of the remaining net relief – worth almost EUR 1 billion – to generate a higher saving rate, which will therefore rise by 0.35 percentage point in 2005. At +2.3%, disposable household income in 2005 will grow on the whole much faster in real terms than in 2004 (0.9%). In addition to increasing consumption by 2.1%, this means households can sharply boost their saving. In 2006 consumption expenditure is also expected to grow by 2.1%, owing to stronger real wage growth and to the acceleration in employment growth.

Table 7

Private Consumption in Austria

	2003	2004	2005	2006
<i>Annual change in %</i>				
Disposable household income (nominal)	+3.1	+2.9	+4.3	+4.0
Private consumption deflator	+1.5	+2.0	+1.9	+1.7
Disposable household income (real)	+1.6	+0.9	+2.3	+2.2
Private consumption (real)	+0.6	+1.3	+2.1	+2.1
<i>% of nominal disposable household income</i>				
Saving ratio	8.4	8.1	8.4	8.5

Source: 2003: Eurostat, 2004 to 2006: OeNB fall 2004 outlook.

6.2 Recovery Fuels Investment

In view of subdued economic growth, investment activity was unexpectedly vigorous in 2003. As growth was essentially concentrated in the first quarter, high demand for replacement investment (after two years of shrinking investment) can only partially explain this recovery in investment activity. Two special factors must also be considered: First, distortions in both investment and external trade statistics are likely to recur in connec-

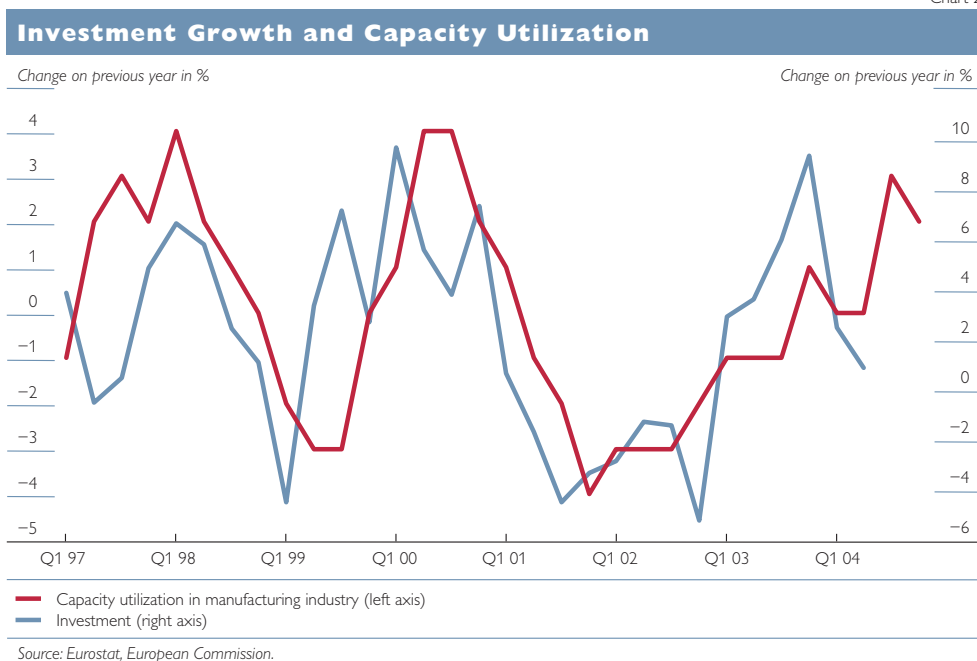
tion with aircraft repairs. In the case of large-scale aircraft repairs abroad, the total aircraft value is recorded as exports and disinvestment in GDP-neutral terms and, following successful repair, recorded as import and investment in GDP-neutral terms again. If these two records occur in different quarters, distortions arise in the GDP components. This is likely to apply, notably, to the fourth quarter of 2002 and to the first quarter of 2003. Second, the investment tax

credit created incentives to implement investment projects in 2003 that had originally been planned for 2002.

In the first half of 2004, investment activity was sluggish: both quarters posted negative growth compared with the previous quarter. Yet the OeNB expects investment demand to pick up in the second half of 2004, on the back of soaring export growth in the first half of the year. This assessment is supported by the marked improvement in capacity utilization. At 82.4%, manufacturing industry's capacity utilization in the fourth quarter of 2004 outperformed its long-term average yet again. In the

past, the year-on-year change in capacity utilization has been a good leading indicator for the investment cycle (see chart 2). In addition, the results of the investment test performed by the Austrian Institute of Economic Research (WIFO) suggest a growing propensity to invest. Finally, favorable financial conditions and a rebound in corporate profits should kick-start the investment cycle. The phasing out of the 10% subsidy on any investment that exceeds the investment level of the past three years at the end of 2004 should trigger an appropriate response in anticipation of this change.

Chart 2



The robust investment growth posted in 2003 (+6.2%) will not be matched in 2004. However, projected growth of 1.5% means that the investment ratio (investments as a percentage of GDP) will remain at the long-term average of 23.2%. Although the reduction in corporate tax in 2005 will not generate a direct strong investment stimulus, it will make

Austria more attractive as a location for foreign investors in the medium and long term. Fueled by accelerator effects, investment is expected to grow to 3.5% in 2005 and to 3.4% in 2006. At almost 24% of GDP, the investment ratio toward the end of the forecast horizon will fall slightly short of its historical record achieved in 2000.

As the most sensitive component of investment, investment in plant and equipment will generate the strongest growth over the entire forecast horizon. Although residential construction investment slipped 4.3% in 2003, moderately buoyant growth is anticipated over the forecast horizon.

With investment activity rebounding in the second half of 2004, inventory changes will also fuel GDP growth. In view of the historical trend, a further negative growth contribution of -0.2 percentage point will be made in 2004. A positive contribution of $+0.1$ percentage point is expected in both 2005 and 2006.

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

The growing number of reported vacancies – a good leading indicator for the labor market – signaled an increase in payroll employment during the first half of 2004. In view of this indicator's still positive development, this trend is expected to continue over the next few months. Employment growth is concentrated in the services sector, in particular. What is more, layoffs in both manufacturing and construction industries are now a thing of

the past. Overall, payroll employment will grow by 0.7% in 2004. In 2005 and 2006 employment growth, on the back of economic recovery, will accelerate to 0.9% and to 1.0%, respectively. Public sector employment will continue to fall over the next few years, as will the number of self-employed.

Despite the creation of new jobs, unemployment will stagnate over the forecast horizon as a whole, as labor supply is growing at an above-average rate. Two factors are responsible for this development: first, the sharp increase in foreign labor supply (be they seasonal workers or workers hired for longer periods); second, the greater labor force participation of mature workers as a result of the pension reforms in 2000 and 2003. In particular, the gradual phasing out of early retirement will contribute to higher labor supply growth in the medium term as well. In addition, cyclically induced growth in the labor supply is expected toward the end of the forecast horizon. Overall, labor supply growth will come to 0.4% in 2004, 0.6% in 2005 and 0.7% in 2006. As for the unemployment rate, it will remain unchanged at 4.5% in both 2004 and 2005 and fall only slightly to 4.4% in 2006.

Table 8

Labor Market Developments in Austria

	2003	2004	2005	2006
	Annual change in %			
Total employment	-0.2	+0.3	+0.6	+0.8
<i>thereof:</i>				
Payroll employment	+0.3	+0.7	+0.9	+1.0
Self-employed	-2.1	-1.3	-0.4	-0.4
Public sector employment	-0.5	-0.4	-0.5	-0.8
Registered unemployment	+3.9	+1.5	-0.2	-0.2
Labor supply	+0.0	+0.4	+0.6	+0.7
	%			
Unemployment rate (Eurostat definition)	4.3	4.5	4.5	4.4

Source: 2003: Eurostat, 2004 to 2006: OeNB fall 2004 outlook.

7 Exchange Rates and Oil Prices – Factors of Uncertainty

Austria's economic recovery in the first half of 2004 was driven primarily by exports. According to the OeNB's fall 2004 economic outlook, the upturn will now gradually feed through to domestic demand. However, the extent to which exports will revive investment activity still remains largely unclear. At the very start of a recovery, moreover, the economy is susceptible to external shocks. These include, above all, a further appreciation of the euro and higher oil prices over a protracted period of time. If the euro were to continue appreciating, the competitiveness of Austrian exports – the most important pillar of the economy – would be severely hit. This outlook is based on the assumption of a constant exchange rate of USD/EUR 1.29. If the euro appreciates by 10% against the U.S. dollar in early 2005, Austrian GDP growth would be at the very least 0.1 percentage point lower in both 2005 and 2006. Inflation would also fall by 0.2 and 0.1 percentage point successively in each of these years. In addition, indirect effects, particularly via the country's close trade links with Germany, would lead to a total decline in growth of almost 0.2 percentage point per year.

A further risk factor can be seen in future oil price developments. Higher oil prices over a protracted period of time could occur if production capacities did not satisfy global demand. However, oil prices are currently also influenced by speculative buying and carry a risk premium, given continued geopolitical tensions. A dramatic slump in oil prices is therefore equally possible.

According to the OeNB's fall 2004 outlook, oil prices are expected to de-

cline gradually from USD 46.9/barrel (Brent) in the fourth quarter of 2004 to USD 39.9/barrel (Brent) in the fourth quarter of 2006. Using the OeNB's macromodel, an attempt was made to quantify the impact of oil prices rising by 20% for each quarter from early 2005 onward. This calculation included not only the direct demand effects of an oil price hike but also supply-side cost effects and substitution effects. On the basis of this higher oil price assumption, economic growth is 0.15 and 0.25 percentage point lower in 2005 and 2006, respectively. By contrast, the HICP inflation rate is successively 0.3 and 0.1 percentage point higher in each of these years.

GDP growth will be subject to a modest upside risk arising from the second stage of tax reform. Reducing corporate taxes and introducing group taxation in 2005 will mean merely a small direct reduction in capital user costs. A direct strong investment stimulus was therefore not assumed in the basic scenario. However, it cannot be ruled out that Austria's greater attractiveness over other countries as a location for foreign investors is reflected in the higher investment expected over the forecast horizon. On the consumer front, generous tax relief could have a more positive effect than previously assumed on both consumer confidence and behavior.

8 Revision on Spring 2004 Outlook Due to External Assumptions

The key changes in the external trade environment since the spring 2004 outlook relate to oil prices, exchange rates and the growth of Austria's export markets.

Oil prices rocketed during the second half of 2004. For both 2005

and 2006, the technical oil price assumptions are about USD 12, or 40% higher than in the spring 2004 outlook. The appreciation of the euro against the U.S. dollar (almost 10% higher than in the spring 2004 outlook) dampens this effect to some extent. Owing to Austria's large share of external trade with the euro area, fluctuations in nominal effective exchange rates are much smaller. Financing conditions (i.e. short- and long-term interest rates) have remained almost unchanged since the spring 2004 outlook.

The export-led recovery in the euro area commenced, as predicted. However, import demand in the euro area grew at a more dynamic pace than forecast in the spring 2004 outlook. As a result, the expansion of Austria's export markets will accelerate by 1.3 percentage points in 2004. By contrast, growth is expected to

remain almost unchanged in 2005 and 2006.

Table 13 shows a breakdown of the reasons for these forecast revisions, which are explained by the impact of new data, the effects of changing external assumptions and other effects. In the case of GDP growth, the impact of new data includes the influence of new data for the first and the second quarters of 2004 as well as the influence of data revisions for 2003 on the carry-over effect², thus also on annual growth in 2004. The data available for the first few months of 2004 are included in the HICP as well. The effects of new external assumptions were simulated using the OeNB's macroeconomic model. The item "Other" comprises various expert assessments regarding the development of domestic variables (such as government consumption).

Table 9

Change in the Underlying Global Environment Since Spring 2004 Outlook

	Fall 2004			Spring 2004			Difference		
	2004	2005	2006	2004	2005	2006	2004	2005	2006
<i>Change on previous year (%)</i>									
Growth of Austrian export markets	+7.4	+7.5	+7.2	+6.1	+7.2	+7.6	+1.3	+0.2	-0.4
Competitor prices in Austrian export markets	-1.3	+0.4	+1.6	-1.4	+1.4	+1.2	+0.1	-1.1	+0.4
Competitor prices in Austrian import markets	-0.5	+0.7	+1.5	-1.1	+1.1	+1.1	+0.6	-0.5	+0.4
USD									
Oil price per barrel (Brent)	39.0	44.4	40.8	34.6	31.8	29.2	+4.4	+12.5	+11.6
<i>Change on previous year (%)</i>									
Nominal effective exchange rate (exports)	-1.3	-0.8	+0.0	-0.6	+0.3	+0.0	-0.7	-1.1	+0.0
Nominal effective exchange rate (imports)	-0.6	-0.3	+0.0	-0.4	+0.1	+0.0	-0.3	-0.4	+0.0
%									
Three-month interest rate (%)	2.1	2.2	2.2	2.1	2.1	2.1	+0.0	+0.1	+0.1
Long-term interest rate (%)	4.2	4.1	4.5	4.3	4.4	4.5	-0.1	-0.3	+0.0
<i>Change on previous year (%)</i>									
Real GDP, U.S.A.	+4.4	+3.4	+2.9	+4.6	+3.6	+3.0	-0.2	-0.2	-0.1
USD/EUR									
USD/EUR exchange rate	1.24	1.29	1.29	1.20	1.19	1.19	+0.03	+0.10	+0.10

Source: ESCB.

² The carry-over effect is a measure for the influence of growth in the individual quarters of the previous year on growth in a given year. It is equivalent to the percentage difference between the levels of corresponding variables in the final quarters of the previous year divided by the annual average of the previous year.

Table 10

Breakdown of Forecast Revisions						
	GDP			HICP		
	2004	2005	2006	2004	2005	2006
<i>Annual change in %</i>						
Fall 2004 outlook	+1.8	+2.3	+2.1	+1.9	+2.0	+1.7
Spring 2004 outlook	+1.5	+2.4	+2.5	+1.7	+1.5	+1.6
Difference	+0.3	-0.1	-0.4	+0.2	+0.5	+0.2
Due to:						
New data ¹	+0.2	+0.1	x	+0.2	+0.2	x
External assumptions	+0.1	-0.3	-0.3	+0.1	+0.5	+0.2
Other ²	+0.0	+0.1	-0.1	-0.1	-0.2	-0.0

Source: OeNB fall 2004 and spring 2004 outlooks.
¹ Effect of new and revised historic data for 2003.
² Different assumptions about trends in domestic variables such as wages, government consumption, effects of measures designed to support the economy, other rating changes and model changes.

The forecast of real GDP growth in 2004 has been revised upwards from 1.5% to 1.8%. This change can be put down to revised historical growth rates in 2003, which imply a higher carry-over effect for growth in 2004, the availability of new data (particularly, robust export-led growth in the second quarter) and changes in external assumptions, which likewise have a mildly positive effect on growth projections. For the years 2005 and 2006, by contrast, GDP growth has been revised downwards by 0.1 and 0.4 percentage point, respectively. In both years, the by now deteriorated external trade environment – especially, the higher oil price assumptions – will dampen growth by 0.3 percentage point successively. In 2005, the impact of this will be partially offset by a somewhat higher carry-over effect. The composition of GDP growth has also changed. In comparison to the spring 2004 outlook, lower investment growth is expected in both 2005 and 2006. Unexpectedly vigorous investment growth in 2003 significantly reduced the demand for replacement

investment. Stoked by the rise in energy prices, the inflation outlook for 2004 to 2006 has been revised upwards by 0.2, 0.5 and 0.2 percentage point for each successive forecast year.

8.1 Comparison with Other Forecasts

The current forecasts for real GDP growth in Austria range in a narrow band from 1.6% to 2.1% in 2004 and from 2.2% to 2.5% in 2005. Unlike the Austrian Institute of Economic Research (WIFO) and the Institute for Advanced Studies (IHS), the OeNB is more cautious in estimating domestic demand. Conversely, it anticipates stronger growth in external trade. The OeNB's far more optimistic current account estimate can be explained by the availability of more up-to-date information. There is, quite naturally, little to separate the inflation forecasts available for 2004. The OeNB's somewhat higher inflation outlook for 2005 can be attributed to the current price developments of the last few months. The unemployment rate forecasts are not mutually comparable since the historical series have now been revised.

Table 11

Comparison of Current Economic Forecasts for Austria

Indicator	OeNB November 2004			WIFO October 2004		IHS October 2004		OECD November 2004			IMF September 2004		European Commission October 2004		
	2004	2005	2006	2004	2005	2004	2005	2004	2005	2006	2004	2005	2004	2005	2006
<i>Annual change in %</i>															
Key results															
GDP (real)	+1.8	+2.3	+2.1	+1.9	+2.5	+2.1	+2.5	+1.8	+2.3	+2.6	+1.6	+2.4	+1.9	+2.4	+2.4
Private consumption (real)	+1.3	+2.1	+2.1	+1.6	+2.5	+1.6	+2.6	+1.4	+2.3	+2.4	x	x	+1.2	+2.1	+2.4
Government consumption (real)	+0.3	+0.2	+0.2	+0.5	+0.0	+0.0	+0.0	+0.2	+0.7	+1.4	x	x	+0.3	+0.5	+0.5
Gross fixed capital formation (real) ¹	+1.5	+3.5	+3.4	+2.2	+3.5	+1.9	+3.5	+1.6	+3.0	+4.1	x	x	+2.9	+4.0	+4.3
Exports (real)	+8.0	+7.4	+7.3	+6.0	+6.2	+6.4	+6.1	+8.1	+8.0	+7.9	x	x	+5.6	+5.7	+5.6
Imports (real)	+6.2	+7.5	+7.5	+4.7	+6.4	+5.2	+5.9	+7.1	+8.1	+8.2	x	x	+5.0	+5.6	+6.1
GDP per employee	+1.4	+1.7	+1.3	+1.4	+1.6	+1.3	+1.7	x	x	x	x	x	+1.4	+1.7	+1.6
GDP deflator	+1.9	+1.6	+1.7	+1.3	+1.8	+1.8	+2.0	+2.1	+1.9	+1.4	+1.5	+1.5	+1.1	+1.2	+1.2
CPI	x	x	x	+2.1	+2.0	+2.0	+1.9	x	x	x	+1.7	+1.6	x	x	x
HICP	+1.9	+2.0	+1.7	+2.1	+1.9	x	x	+1.9	+1.9	+1.4	x	x	+2.1	+1.8	+1.4
Unit labor costs	+0.8	+0.7	+1.3	+0.9	+1.2	x	x	x	x	x	x	x	+1.1	+0.8	+1.0
Payroll employment	+0.3	+0.6	+0.8	+0.6	+0.9	+0.7	+0.8	+0.5	+0.7	+1.0	x	x	+0.5	+0.7	+0.8
<i>%</i>															
Unemployment rate ²	4.5	4.5	4.4	4.2	4.1	4.2	4.1	5.8	5.8	5.5	4.4	4.2	4.2	3.9	3.4
<i>% of nominal GDP</i>															
Current account	0.1	0.2	0.2	-0.7	-0.8	-0.8	-0.4	-0.1	0.0	0.1	-1.0	-1.1	x	x	x
Government surplus/deficit	-1.4	-2.0	-1.8	-1.3	-1.9	-1.3	-1.8	-1.5	-2.1	-2.1	-1.2	-1.8	-1.3	-2.0	-1.7
External assumptions															
Oil price in USD/barrel of Brent	39.0	44.4	40.8	36.0	38.0	36.0	37.0	47.0	45.5	44.0	37.3	37.3	39.3	45.1	40.1
Short-term interest rate in %	2.1	2.2	2.2	2.1	2.1	2.0	2.3	2.1	2.1	2.7	2.4	3.1	x	x	x
USD/EUR	1.24	1.29	1.29	1.23	1.23	1.22	1.21	1.30	1.30	1.30	1.22	1.21	1.23	1.24	1.24
<i>Annual change in %</i>															
Euro area GDP (real)	1.6–2.0	1.4–2.4	1.7–2.7	+1.9	+2.3	+2.0	+2.3	+1.8	+1.9	+2.5	+2.2	+2.2	+2.1	+2.0	+2.2
U.S. GDP (real)	+4.4	+3.4	+2.9	+4.3	+3.0	+4.5	+3.0	+4.4	+3.3	+3.6	+4.3	+3.5	+4.4	+3.0	+2.9
World GDP (real)	+4.9	+4.3	+4.2	x	x	x	x	x	x	x	+5.0	+4.3	+5.0	+4.2	+4.2
World trade	+8.3	+7.6	+7.0	+8.5	+7.0	+16.0	+8.0	9.5	9.0	9.5	+8.8	+7.2	+9.9	+8.1	+7.7

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

¹ For IHS: Gross investment.

² Eurostat definition; for OECD: OECD definition.

9 Annex Detailed Result Tables

Table 12

Demand Components (Real Prices)								
	2003	2004	2005	2006	2003	2004	2005	2006
	EUR million				Annual change in %			
Private consumption	121,340	115,911	118,353	120,828	+0.6	+1.3	+2.1	+2.1
Government consumption	38,695	37,171	37,246	37,320	+0.4	+0.3	+0.2	+0.2
Gross fixed capital formation	48,053	47,979	49,666	51,366	+6.2	+1.5	+3.5	+3.4
thereof: Investment in plant and equipment	19,015	20,026	20,806	21,699	+5.5	+2.6	+3.9	+4.3
Residential construction investment	9,527	9,309	9,486	9,689	-4.3	+1.7	+1.9	+2.1
Investment in other construction and other investment	19,523	18,644	19,375	19,978	+13.0	+0.4	+3.9	+3.1
Changes in inventories (incl. statistical discrepancy)	2,245	840	1,194	1,349	x	x	x	x
Domestic demand	210,333	201,902	206,459	210,864	+2.3	+0.7	+2.3	+2.1
Exports of goods and services	107,495	122,202	131,231	140,821	+1.4	+8.0	+7.4	+7.3
Imports of goods and services	101,832	117,877	126,708	136,272	+4.8	+6.2	+7.5	+7.5
Net exports	5,663	4,325	4,523	4,550	x	x	x	x
Gross domestic product	215,996	206,228	210,982	215,413	+0.8	+1.8	+2.3	+2.1

Source: 2003: Statistics Austria, 2004 to 2006: OeNB fall 2004 outlook.

Table 13

Demand Components (Current Prices)								
	2003	2004	2005	2006	2003	2004	2005	2006
	EUR million				Annual change in %			
Private consumption	126,920	132,143	137,489	142,804	+2.1	+3.4	+4.0	+3.9
Government consumption	40,635	42,659	43,631	44,627	+2.5	+2.3	+2.3	+2.3
Gross fixed capital formation	48,648	53,052	55,827	58,539	+5.9	+3.2	+5.2	+4.9
Changes in inventories (incl. statistical discrepancy)	987	1,027	1,650	1,827	x	x	x	x
Domestic demand	217,190	228,881	238,596	247,797	+3.2	+2.9	+4.2	+3.9
Exports of goods and services	109,062	127,698	138,305	150,099	+1.5	+9.0	+8.3	+8.5
Imports of goods and services	100,110	124,397	135,545	147,373	+3.8	+7.4	+9.0	+8.7
Net exports	8,953	3,301	2,761	2,727	x	x	x	x
Gross domestic product	226,142	232,181	241,357	250,523	+2.3	+3.7	+4.0	+3.8

Source: 2003: Statistics Austria, 2004 to 2006: OeNB fall 2004 outlook.

Table 14

Deflators of Demand Components								
	2003	2004	2005	2006	2003	2004	2005	2006
	2003: 2000 = 100, 2004 to 2006: 1995 = 100				Annual change in %			
Private consumption	104.6	114.0	116.2	118.2	+1.5	+2.0	+1.9	+1.7
Government consumption	105.0	114.8	117.1	119.6	+2.1	+2.0	+2.1	+2.1
Gross fixed capital formation	101.2	110.6	112.4	114.0	-0.3	+1.6	+1.7	+1.4
Domestic demand (excl. changes in inventories)	103.9	113.3	115.4	117.4	+1.2	+1.9	+1.9	+1.7
Exports of goods and services	101.5	104.5	105.4	106.6	+0.1	+0.9	+0.9	+1.1
Imports of goods and services	98.3	105.5	107.0	108.1	-0.9	+1.1	+1.4	+1.1
Terms of Trade	103.2	99.0	98.5	98.6	+1.1	-0.2	-0.5	+0.0
Gross domestic product	104.7	112.6	114.4	116.3	+1.6	+1.9	+1.6	+1.7

Source: 2003: Statistics Austria, 2004 to 2006: OeNB fall 2004 outlook.

Table 15

Labor Market

	2003	2004	2005	2006	2003	2004	2005	2006
	1,000				Annual change in %			
Total employment	4,078.3	4,072.2	4,098.5	4,131.0	+0.3	+0.3	+0.6	+0.8
thereof: Private sector employment	3,601.2	3,596.8	3,625.4	3,661.9	+0.4	+0.4	+0.8	+1.0
Payroll employment (national accounts definition)	3,327.8	3,349.3	3,378.4	3,413.5	+0.3	+0.7	+0.9	+1.0
	%							
Unemployment rate (Eurostat definition)	4.3	4.5	4.5	4.4	x	x	x	x
	% of real GDP							
Unit labor costs (whole economy) ¹	64.8	69.6	70.1	71.0	+1.4	+0.8	+0.7	+1.3
	EUR 1,000 (2003: Chained volume data (reference year = 2000), 2004 to 2006: at 1995 prices)							
Labor productivity (whole economy)	53.2	50.6	51.5	52.1	+0.9	+1.4	+1.7	+1.3
Real compensation per employee ²	32.7	30.9	31.1	31.3	+0.4	+0.2	+0.4	+0.8
	At current prices, EUR 1,000							
Gross compensation per employee	34.2	35.3	36.1	37.0	+1.9	+2.2	+2.3	+2.6
	At current prices, EUR million							
Total gross compensation of employees	113,746	118,139	121,953	126,384	+2.2	+2.9	+3.2	+3.6

Source: 2003: Statistics Austria, 2004 to 2006: OeNB fall 2004 outlook.

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

Table 16

Current Account

	2003	2004	2005	2006	2003	2004	2005	2006
	EUR million				% of nominal GDP			
Balance of trade	2,586.7	4,555.3	4,711.1	4,811.1	1.1	2.0	2.0	1.9
Balance on goods	968.2	4,349.6	3,973.1	4,200.5	0.4	1.9	1.6	1.7
Balance on services	1,618.5	205.7	738.0	610.7	0.7	0.1	0.3	0.2
Euro area	-9,647.3	-10,350.5	-11,543.5	-12,645.9	-4.3	-4.5	-4.8	-5.0
Non-euro area countries	12,234.0	14,905.9	16,254.6	17,457.0	5.4	6.4	6.7	7.0
Balance on income	-1,623.3	-1,891.0	-1,745.6	-1,745.6	-0.7	-0.8	-0.7	-0.7
Balance on transfers	-2,073.3	-2,375.6	-2,432.0	-2,568.5	-0.9	-1.0	-1.0	-1.0
Current account	-1,110.0	288.8	533.5	497.1	-0.5	0.1	0.2	0.2

Source: 2003: OeNB, 2004 to 2006: OeNB fall 2004 outlook.

Table 17

Quarterly Forecast Results															
	2004	2005	2006	2004				2005				2006			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<i>Annual change in %</i>															
Prices, wages and costs															
HICP	+1.9	+2.0	+1.7	+1.4	+2.0	+2.0	+2.3	+2.3	+2.2	+2.0	+1.6	+1.6	+1.7	+1.8	+1.8
HICP (excl. energy)	+1.6	+1.5	+1.8	+1.6	+1.6	+1.5	+1.5	+1.5	+1.6	+1.5	+1.5	+1.7	+1.8	+1.9	+2.0
Private consumption expenditure (PCE) deflator	+2.0	+1.9	+1.7	+1.5	+2.1	+2.3	+2.1	+2.1	+1.7	+1.9	+1.9	+1.8	+1.7	+1.7	+1.8
Gross fixed capital formation deflator	+1.6	+1.7	+1.4	+1.1	+1.4	+1.8	+2.1	+2.1	+1.8	+1.5	+1.3	+1.2	+1.4	+1.4	+1.5
GDP deflator	+1.9	+1.6	+1.7	+2.2	+1.9	+1.7	+1.7	+1.8	+1.7	+1.5	+1.4	+1.5	+1.6	+1.7	+1.8
Unit labor costs	+0.8	+0.7	+1.3	+1.7	+0.9	+0.5	+0.1	+0.2	+0.5	+0.8	+1.2	+1.2	+1.2	+1.3	+1.3
Nominal wages per employee	+2.2	+2.3	+2.6	+2.3	+2.5	+2.2	+2.0	+2.1	+2.1	+2.4	+2.7	+2.6	+2.6	+2.6	+2.6
Productivity	+1.4	+1.7	+1.3	+0.6	+1.5	+1.7	+1.9	+1.9	+1.6	+1.6	+1.5	+1.4	+1.3	+1.3	+1.2
Real wages per employee	+0.2	+0.4	+0.8	+0.8	+0.3	-0.1	-0.1	+0.0	+0.4	+0.5	+0.8	+0.8	+0.8	+0.8	+0.8
Import deflator	+1.1	+1.4	+1.1	+0.4	+1.2	+0.9	+1.9	+1.2	+1.6	+1.6	+1.1	+1.0	+1.0	+1.1	+1.3
Export deflator	+0.9	+0.9	+1.1	+0.5	+2.5	+0.4	+0.0	+1.2	+0.0	+1.0	+1.3	+1.3	+1.2	+1.1	+1.0
Terms of Trade	-0.2	-0.5	+0.0	+0.1	+1.3	-0.5	-1.8	+0.0	-1.6	-0.6	+0.2	+0.3	+0.2	+0.0	-0.2
<i>At 1995 prices, annual and/or quarterly changes in %</i>															
Economic activity															
GDP	+1.8	+2.3	+2.1	+0.4	+0.9	+0.5	+0.5	+0.6	+0.6	+0.5	+0.5	+0.5	+0.5	+0.5	+0.5
Private consumption	+1.3	+2.1	+2.1	+0.3	+0.5	+0.4	+0.4	+0.6	+0.6	+0.6	+0.5	+0.5	+0.5	+0.5	+0.5
Government consumption	+0.3	+0.2	+0.2	-0.1	-0.1	+0.2	+0.0	+0.0	+0.0	+0.0	+0.1	+0.1	+0.0	+0.0	+0.0
Gross fixed capital formation	+1.5	+3.5	+3.4	-0.3	-0.5	+1.0	+1.2	+0.8	+1.0	+0.8	+0.9	+0.8	+0.8	+0.8	+0.8
<i>thereof: Investment in plant and equipment</i>	+2.6	+3.9	+4.3	-1.5	+0.0	+0.9	+1.3	+0.7	+1.3	+1.0	+1.1	+1.2	+1.0	+0.9	+0.8
<i>Residential construction investment¹</i>	+1.7	+1.9	+2.1	+0.5	-0.2	+0.2	+0.1	+0.7	+0.8	+0.6	+0.5	+0.5	+0.5	+0.5	+0.5
Exports	+8.0	+7.4	+7.3	+0.6	+5.8	+2.0	+1.1	+1.4	+1.6	+1.7	+1.8	+1.8	+1.8	+1.8	+1.8
Imports	+6.2	+7.5	+7.5	-0.7	+4.0	+2.2	+1.3	+1.6	+1.8	+1.8	+1.9	+1.9	+1.8	+1.8	+1.8
<i>Contribution to real GDP growth in percentage points</i>															
Domestic demand	+1.2	+2.0	+2.0	+0.1	+0.2	+0.5	+0.5	+0.5	+0.6	+0.5	+0.5	+0.5	+0.5	+0.5	+0.5
Net exports	+1.1	+0.1	+0.0	+0.8	+1.1	+0.0	-0.1	-0.1	-0.1	+0.0	+0.0	+0.0	+0.0	+0.0	+0.1
Changes in inventories	-0.5	+0.2	+0.1	-0.4	-0.4	+0.1	+0.1	+0.1	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0
<i>%</i>															
Labor market															
Unemployment rate (Eurostat definition)	4.5	4.5	4.4	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.4	4.4	4.4
<i>Annual and/or quarterly changes in %</i>															
Total employment	+0.3	+0.6	+0.8	+0.0	+0.2	+0.1	+0.1	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2
<i>thereof: Private sector employment</i>	+0.4	+0.8	+1.0	+0.0	+0.3	+0.2	+0.2	+0.2	+0.2	+0.2	+0.3	+0.3	+0.3	+0.3	+0.2
Payroll employment	+0.7	+0.9	+1.0	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2	+0.3	+0.3	+0.3	+0.3	+0.3
<i>At 1995 prices, annual and/or quarterly changes in %</i>															
Additional variables															
Disposable household income	+0.9	+2.3	+2.2	+0.2	+0.1	+0.6	+0.3	+0.9	+0.6	+0.5	+0.5	+0.6	+0.6	+0.5	+0.5
<i>% of nominal disposable household income (saving ratio) and % of real GDP (output gap)</i>															
Household saving ratio	8.1	8.4	8.5	8.1	7.9	8.1	8.1	8.4	8.4	8.4	8.4	8.5	8.5	8.6	8.6
Output gap	-0.9	-0.5	-0.3	-1.0	-0.9	-0.9	-0.7	-0.5	-0.5	-0.4	-0.4	-0.3	-0.3	-0.3	-0.2

Source: OeNB fall 2004 outlook. Quarterly data are seasonally adjusted.

¹ Excluding other investment in construction and other investment.