

# Economic Growth in Austria at 3¼% in 2007

Economic Outlook for Austria from 2007 to 2009  
(June 2007)

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## 1 Summary

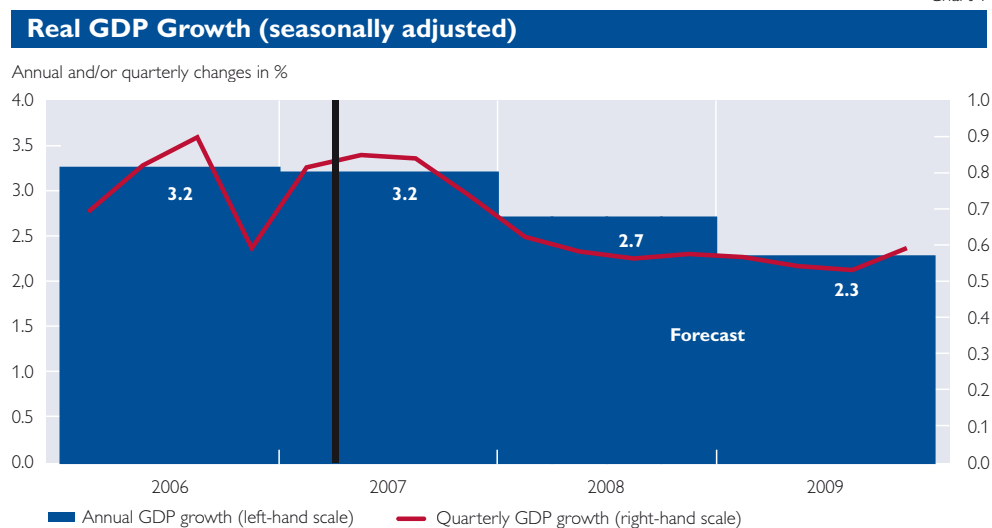
According to the economic outlook of the Oesterreichische Nationalbank (OeNB), Austria's real GDP will grow by 3.2% in 2007, by 2.7% in 2008 and by 2.3% in 2009. The OeNB's growth forecasts for 2007 and 2008 have been revised upward by 0.4 and by 0.3 percentage point, respectively, since the December 2006 outlook. At 1.7%, the inflation rate in 2007 will stay unchanged against the previous year. In 2008, inflation will come to 1.8% and rise to 1.9% in 2009. Employment growth will continue to remain animated, significantly reducing the unemployment rate from 4.8% in 2006 to 4.2% in 2009.

The pace of global economic growth will ease marginally, but will remain robust from 2007 to 2009. The cooling of the U.S. economy is expected to be only temporary. Globally speaking, the main drivers of

growth are particularly the Asian economies; for Austria, the most important impetus will come from livelier economic activity in Germany and Italy and the robust growth of the new EU Member States. On the back of strong investment growth, economic activity in the euro area has become self-sustaining and will be more vigorous than in the U.S.A. in 2007. The healthy economic development in the euro area is primarily driven by Germany's performance, but growth prospects of the other major euro area economies have also improved.

Austria's export activity thrived in 2006 and, based on the assumed development of world trade, will abate only slightly, thus remaining an important pillar of overall economic activity. The current account surplus of 3.2% of GDP in 2006 will continue to increase as a result of further improvements in the goods and ser-

Chart 1



Source: Eurostat, OeNB.

JEL classification: C5, E17  
Keywords: forecast,  
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Table 1

**OeNB June 2007 Outlook for Austria – Key Results<sup>1</sup>**

	2006	2007	2008	2009
Annual change in % (real)				
<b>Economic activity</b>				
Gross domestic product	+3.2	+3.2	+2.7	+2.3
Private consumption	+1.9	+2.2	+2.2	+2.1
Government consumption	+1.2	+2.1	+2.8	+0.0
Gross fixed capital formation	+3.9	+4.9	+3.2	+2.2
Exports of goods and services	+8.7	+7.2	+7.1	+6.9
Imports of goods and services	+6.8	+7.0	+7.3	+6.8
Percentage points of GDP				
<b>Contribution to real GDP growth</b>				
Private consumption	+1.1	+1.2	+1.2	+1.2
Government consumption	+0.2	+0.4	+0.5	+0.0
Gross fixed capital formation	+0.8	+1.1	+0.7	+0.5
Domestic demand (excluding changes in inventories)	+2.1	+2.7	+2.4	+1.6
Net exports	+1.4	+0.6	+0.4	+0.5
Changes in inventories (including statistical discrepancy)	-0.3	-0.1	-0.1	+0.1
Annual change in %				
<b>Prices</b>				
Harmonized Index of Consumer Prices (HICP)	+1.7	+1.7	+1.8	+1.9
Private consumption expenditure (PCE) deflator	+1.7	+1.7	+1.8	+1.8
GDP deflator	+1.5	+1.7	+1.9	+2.0
Unit labor costs in the total economy	+0.7	+1.4	+1.1	+1.0
Compensation per employee (at current prices)	+2.5	+3.0	+2.9	+2.6
Productivity (whole economy)	+1.8	+1.5	+1.8	+1.5
Compensation per employee (real)	+0.8	+1.2	+1.1	+0.8
Import prices	+2.9	+0.9	+1.3	+1.3
Export prices	+2.2	+0.8	+1.4	+1.5
Terms of trade	-0.6	-0.1	+0.1	+0.2
<b>Income and savings</b>				
Real disposable household income	+2.5	+2.4	+2.1	+1.6
% of nominal disposable household income				
Saving ratio	9.8	10.5	10.6	10.2
Annual change in %				
<b>Labor market</b>				
Payroll employment	+1.7	+2.0	+1.0	+0.9
%				
Unemployment rate (Eurostat definition)	4.8	4.3	4.2	4.2
% of nominal GDP				
<b>Budget</b>				
Budget balance (Maastricht definition)	-1.1	-0.7	-0.5	-0.2
Government debt	62.2	60.8	59.0	57.5

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

<sup>1</sup> 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.

vices balances. As enterprises are increasingly approaching their capacity limits, they already considerably stepped up their investments in 2006. The investment cycle is expected to peak in 2007. In addition to cyclically-sensitive investment in plant and

equipment, construction investment also developed very favorably in 2006 and further vigorous expansion in this sector is projected for 2007, not least as a consequence of the mild winter.

After surging in 2006, employment growth will accelerate further in 2007, thereby considerably improving households' income situation. Owing to the growing share of full-time employment in sectors with above-average wage levels and in view of the healthy economy, the increase in per capita wages in 2007 will be higher than the standard wage raises negotiated in fall 2006. Since available data on consumer spending point to an only moderate acceleration of consumption growth, income growth is likely to lead to a sharp rise of the savings ratio in 2007.

Thanks to powerful employment growth, the unemployment rate will fall by 0.5 percentage point to 4.3% in 2007. As strong employment growth in 2006 and 2007 was mainly driven by backlog effects, the OeNB's outlook predicts a cooling of the employment dynamics for 2008 and 2009. Accordingly, the unemployment rate is expected to fall only slightly to 4.2% in 2008 and to remain at that level in 2009. At 1.7%, inflation as measured by the Harmonized Index of Consumer Prices (HICP) will remain at the same level in 2007 as in the previous year. In 2008 and 2009, HICP inflation is projected to tick up slightly to 1.8% and 1.9%, respectively. The budget deficit (Maastricht definition) for 2007 is expected to decrease to 0.7% of GDP (from 1.1% in 2006) and is projected to narrow further to 0.5% of GDP in 2008 and to 0.2% of GDP in 2009.

## 2 Technical Assumptions

The current outlook for Austria is the OeNB's contribution to the June 2007 Eurosystem staff macroeconomic projections for the euro area. The forecast horizon ranges from the second quarter of 2007 to the fourth

quarter of 2009. May 14, 2007, was the cutoff date for the underlying assumptions on global economic trends and for the technical assumptions on interest rates, exchange rates and crude oil prices. The OeNB used its macroeconomic quarterly model to prepare the projections for Austria.

The key data source comprised seasonally and working day adjusted data from the quarterly national accounts computed by the Austrian Institute of Economic Research (WIFO), which were fully available up to the fourth quarter of 2006. Data for the first quarter of 2007 are based on the GDP flash estimate, but are only available for some of the national accounts aggregates.

The underlying short-term interest rate for the forecast horizon is based on market expectations for the three-month EURIBOR. It is set at 4.2% (2007), 4.5% (2008) and 4.4% (2009). Long-term interest rates, which are based on market expectations for ten-year government bonds, are set at 4.1% (2007), 4.3% (2008) and 4.3% (2009). A rate of U.S. dollar 1.36 to the euro is assumed for future USD/EUR exchange rate trends. Taking into account exchange rate values to date, we arrive at an average rate of USD/EUR 1.34 for 2007. The projected trend in crude oil prices is based on futures prices. For 2007 to 2009, we assume oil prices of USD 65.0, USD 69.9 and USD 69.6 per barrel (Brent) in each successive year. Compared to the OeNB's December 2006 economic outlook this means a revision of USD +0.4 (2007) and USD +2.8 (2008).

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

### 3 Continued Robust Growth of the World Economy Despite Cooling in the U.S.A.

#### 3.1 Asia Remains the Engine of Global Economic Growth

Despite persistently high oil prices, *global economic growth* (excluding the euro area) was 6% in 2006 and will only marginally weaken to 5% in the forecast period. However, the primary locus of economic growth will continue to shift from the U.S.A. to Asia. Although *world trade growth* will slow considerably in 2007 after an extraordinarily strong 2006 (+9.1%), it will still reach a very high 5.8% and thereafter resume its advance. The cooling of the U.S. economy and the related low interest rates for U.S. government bonds continue to reflect a generally low level of worldwide long-term interest rates. Oil price levels have remained high since the fourth quarter of 2006.

In the first quarter of 2006, growth in the *U.S.A.* peaked after several above-average years and has since slackened significantly owing to the slowdown of the increase in real estate prices and the related decline in residential construction investment. In 2006, the U.S. economy – fueled by both favorable employment and wage growth – expanded by 3.3%. In terms of real estate prices, a soft landing and a gradual recovery of the real estate market are anticipated. Although the high budget and current account deficits will require a correction in the medium term, they do not represent an immediate cyclical risk. Owing to the healthy profit situation and favorable financing conditions, the U.S. economy is expected to resume its course to higher growth in 2008 and 2009.

In *Asia* (excluding Japan), growth will continue to remain very vigorous. After 9.0% in 2006, growth rates of 8.3% in 2007 and 7.9% for the remaining forecasting period are expected. India and China are currently expanding particularly dynamically, with domestic demand and exports driving *China's* growth. In both countries, a slight dampening of growth is anticipated in 2007 since economic policymakers are presently endeavoring to counter the overheating of the economy through restrictive measures. As for *Japan*, growth is being fueled by growing investment demand and the recovery of exports, while private consumption remains subdued. In 2006, the Bank of Japan abandoned its zero interest rate policy after having maintained it for five years. The country's precarious fiscal position (government debt is 1.75 times as high as GDP) also suggests a more restrictive fiscal policy strategy in the future. The positive effects of the Japanese yen's devaluation can also be expected to peter out gradually. A modest slowdown in economic growth is therefore anticipated in 2007 and 2008.

Following the stabilization of the *United Kingdom's* economy in 2006, which had been stoked by brisk investment demand and growing private consumption, GDP growth of 2.8% is expected in 2007, which will then weaken slightly to 2.5% (2008) and 2.7% (2009) owing to an anticipated modest decline in domestic demand.

In *Switzerland*, economic growth is expected to slow from 2007 after a strong performance in 2006.

The *new EU Member States*, which are particularly important for Austria's export economy, will exhibit sustained high levels of growth rang-

Table 2

Underlying Global Economic Conditions				
	2006	2007	2008	2009
Annual change in % (real)				
<b>Gross domestic product</b>				
World excluding the euro area	+6.0	+5.1	+5.0	+5.1
U.S.A.	+3.3	+2.0	+2.7	+3.2
Japan	+2.2	+2.2	+1.9	+1.9
Asia excluding Japan	+9.0	+8.3	+7.9	+7.9
Latin America	+5.2	+4.2	+3.5	+3.4
United Kingdom	+2.8	+2.8	+2.5	+2.7
New EU Member States	+6.1	+5.7	+4.9	+4.8
Switzerland	+2.7	+1.9	+1.8	+1.9
Euro area <sup>1</sup>	+2.8	+2.3 to +2.9	+1.8 to +2.8	x
<b>World trade (imports of goods and services)</b>				
World economy	+9.1	+5.8	+6.9	+7.3
Non-euro area countries	+9.4	+5.9	+7.4	+7.8
Real growth of euro area export markets	+10.2	+5.6	+6.9	+7.1
Real growth of Austrian export markets	+10.0	+7.3	+6.5	+6.5
<b>Prices</b>				
Oil price in USD/barrel (Brent)	65.4	65.0	69.9	69.6
Three-month interest rate in %	3.1	4.2	4.5	4.4
Long-term interest rate in %	3.8	4.1	4.3	4.3
USD/EUR exchange rate	1.26	1.34	1.36	1.36
Nominal effective exchange rate of the euro (euro area index)	103.63	106.90	107.41	107.41

Source: Eurosystem.

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

ing between 5.7% (2007) and 4.8% (2009) over the forecast period and will therefore grow much faster than the euro area (see also the box entitled "Economic Outlook for Central and Eastern European Countries").

### 3.2 Domestic Demand Fuels Euro Area Economy

In 2006, the euro area economy strengthened: At 2.8%, it registered its strongest growth since 2000. At 7.3%, the unemployment rate was even lower than during the boom at the turn of the new millennium. The forecast period will see a moderate slowdown in growth owing to continued positive profit performance, favorable financing conditions, the stronger rise in disposable income and currently weakening, albeit still high global demand. The Eurosystem expects economic growth to range

between 2.3% and 2.9% in 2007 and between 1.8% and 2.8% in 2008. Although domestic demand will be also the mainstay of the economy over the next few years, growth in exports to the extra-euro area will fall slightly in 2007, which is in line with the trend in global demand.

At 2.7%, Germany's economy in 2006 exhibited its fastest growth momentum since 2000 and a marked increase in employment. Exports remained the growth engine, but domestic demand also made a positive contribution. Although the burst of buying anticipating the 2007 increase in VAT on consumer durables from 16% to 19% fueled private consumption in 2006, it is dampening consumer demand in 2007. Yet, as the German economy and particularly German consumer confidence are currently looking robust, only a tem-

porary dent in growth is anticipated in the first six months of 2007.<sup>1</sup> For the forecast period, growth is projected to continue developing dynamically, albeit at a slower pace.

Among the euro area countries, *France* ranks among those with the most stable domestic demand. Above all, private consumption will drive GDP growth over the entire forecast period, whereas the net exports' contribution to growth will continue to remain negative. After a relatively sharp increase in GDP growth in 2006, further acceleration is also expected in 2007.

After stagnating in 2005, *Italy's* economic growth in 2006 reached its highest levels since 2000. Also in Italy, domestic demand was the main growth driver of the economy, with net exports also making a positive contribution. Although growth trends are likely to deteriorate to some extent over the forecast period, they will continue to remain dynamic.

#### 4 Austrian Exports Still Dynamic

In 2006, Austria's exports markets<sup>2</sup> expanded by 10%. The dynamic growth in demand meant that both goods exports and imports exceeded the EUR 100 billion mark in 2006 for the first time. Austrian exporters benefited, above all, from the euro area's economic recovery and partic-

ularly from the upswing in Germany and Italy. In addition, exports to the new EU Member States Bulgaria and Romania posted steep growth, as did exports to Poland and to oil-exporting countries such as Russia.<sup>3</sup> However, export momentum has slowed slightly since peaking in the first quarter of 2006. Demand in Austria's export markets will, however, continue to remain very dynamic over the forecast period and, above all, prove to be stronger than that of the global economy.

Austria's dynamic export economy and robust growth in domestic demand are inducing a growing demand for imports. Although this means that the contribution to growth by net exports will weaken in 2007, net exports will still make a positive contribution over the forecast horizon as a whole.

In 2006, the competitiveness<sup>4</sup> of Austrian export prices improved slightly as a result of continued wage moderation. A modest loss in price competitiveness is expected in 2007 due to the appreciation of the euro and the somewhat higher unit labor costs resulting from cyclical developments. Assuming constant nominal USD/EUR exchange rates, price competitiveness will stabilize in 2008 and 2009.

In 2006, Austria suffered slight losses in its export market share. It is,

<sup>1</sup> The OeNB December 2006 economic outlook estimated the effects on Austria's GDP growth at  $-0.1$  percentage point for 2007. This value represents an upper limit according to the current assessment.

<sup>2</sup> Austria's export markets are defined as a weighted sum of its trading partners' total imports weighted by Austrian export shares.

<sup>3</sup> The above-average result of exports to the U.S.A. can partly be explained by statistical distortions in connection with the restitution of certain paintings by Austrian artist Gustav Klimt (some +EUR 250 million).

<sup>4</sup> The competitiveness of exports is expressed by the ratio of competitors' prices in Austrian export markets to the prices of Austrian exports. Competitors' prices are determined by a two-stage weighting method. For every export market, the prices of all non-Austrian exporters to the country in question are aggregated with the relevant import shares as weights. In addition, the price of domestic products in the relevant export market is included. Competitors' prices thus calculated per Austrian export market are then aggregated with the shares of the respective market in total Austrian exports.

Table 3

<b>Growth and Price Developments in Austria's External Trade</b>				
	2006	2007	2008	2009
	Annual change in %			
<b>Exports</b>				
Competitors' prices in Austria's export markets	+2.3	+0.5	+1.3	+1.4
Export deflator	+2.2	+0.8	+1.4	+1.5
Changes in price competitiveness	+0.1	-0.4	-0.1	-0.1
Demand on Austria's export markets (real)	+10.0	+7.3	+6.5	+6.5
Austrian exports of goods and services (real)	+8.7	+7.2	+7.1	+6.9
Market share	-1.4	-0.1	+0.6	+0.4
<b>Imports</b>				
International competitors' prices on the Austrian market	+1.9	+0.8	+1.3	+1.4
Import deflator	+2.9	+0.9	+1.3	+1.3
Austrian imports of goods and services (real)	+6.8	+7.0	+7.3	+6.8
<b>Terms of trade</b>	-0.6	-0.1	+0.1	+0.2
	Percentage points of real GDP			
<b>Contribution of net exports to GDP growth</b>	+1.4	+0.6	+0.4	+0.5

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

however, anticipated that domestic exporters will recoup some of these losses over the forecast horizon.

As the results of the current account<sup>5</sup> reveal for 2006, favorable export growth generated a significant increase in the current account surplus. Despite higher energy prices, the goods balance improved by more than EUR 2 billion and, with a surplus of EUR 0.5 billion, can be de-

scribed as being balanced. The improvement in the services balance by EUR 1 billion is attributable to research and development, as well as to technical services. The travel surplus stabilized at almost EUR 6 billion. Overall, the current account improved to 3.2% of GDP.

In the forecast period, the goods balance will steady at approximately 0.5 percentage point of nominal GDP,

Table 4

<b>Austria's Current Account</b>				
	2006	2007	2008	2009
	% of nominal GDP			
<b>Balance of trade</b>	4.2	4.6	4.8	5.0
Goods	0.2	0.4	0.4	0.5
Services	4.0	4.2	4.4	4.5
Euro area	-3.2	-3.2	-3.1	-3.2
Non-euro area countries	7.4	7.8	7.9	8.2
<b>Balance on income</b>	-0.6	-0.5	-0.5	-0.4
<b>Balance on current transfers</b>	-0.4	-0.4	-0.4	-0.4
<b>Current account</b>	3.2	3.6	3.9	4.2

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

<sup>5</sup> As of January 1, 2006, the reporting system for compiling the Austrian balance of payments (which represents the basis for trade in services in the quarterly national accounts) was modified in line with international trends: cross-border payments are no longer reported by banks but are reported directly by economic agents. This change has caused a break in the time series.



Table 5

## Selected Price Indicators for Austria

	2006	2007	2008	2009
	Annual change in %			
HICP	+1.7	+1.7	+1.8	+1.9
HICP energy	+6.3	+1.5	+2.8	+0.9
HICP excluding energy	+1.3	+1.7	+1.7	+2.0
Private consumption expenditure (PCE) deflator	+1.7	+1.7	+1.8	+1.8
Investment deflator	+1.9	+1.9	+1.7	+1.8
Import deflator	+2.9	+0.9	+1.3	+1.3
Export deflator	+2.2	+0.8	+1.4	+1.5
Terms of trade	-0.6	-0.1	+0.0	+0.2
GDP deflator	+1.5	+1.7	+1.9	+2.0
Unit labor costs	+0.7	+1.4	+1.1	+1.0
Compensation per employee	+2.5	+3.0	+2.9	+2.6
Labor productivity	+1.8	+1.5	+1.8	+1.5
Collectively agreed wage settlements	+2.7	+2.5	+2.9	+2.7
Profit margins <sup>1</sup>	+0.9	+0.2	+0.8	+1.0

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

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

and the services balance will increase from 4.0% (2006) to 4.5% of GDP. The deficit on the income account, measured as a percentage of GDP, will shrink marginally in the forecast period whereas the current transfers balance will remain unchanged. Overall, the current account surplus is expected to improve substantially from 3.2% (2006) to 4.2% in 2009.

## 5 Persistent Wage Moderation Keeps Inflation below 2%

Until August 2007, the HICP inflation rate in Austria will fall slightly; then it will rise again, reaching 1.8% by year-end. This decline in the next few months is attributable to the development in energy prices and to base effects. Despite the latest increase, oil prices are expected to remain below last year's levels until the third quarter of 2007, thereby dampening inflation over the next few months. The planned tax increase on diesel (by 5 cents per liter) and gasoline (by 3 cents per liter) from the middle of the year will partly counter

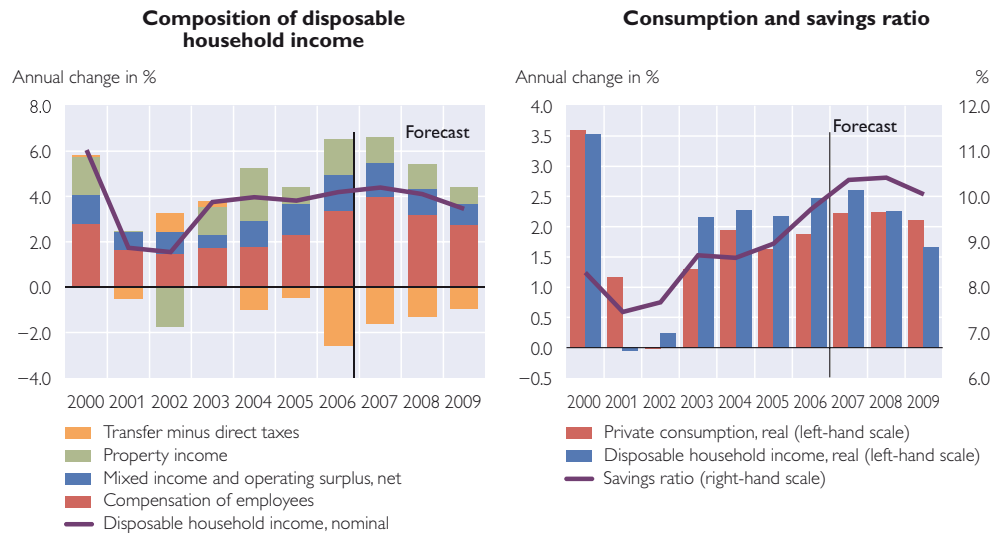
the decelerating trend in energy price growth. This measure is likely to increase the inflation rate by 0.23 percentage point by mid-2007. Inflation of 1.7% is expected for 2007 as a whole. In 2008 and 2009, inflation is expected to tick up slightly to 1.8% and 1.9%, respectively.

The external value of the euro, which has steadily increased since end-2005, implies that price developments in external trade will be moderate in 2007. Assuming unchanged exchange rates, 2008 and 2009 will witness stronger price momentum. It is, nonetheless, expected that both import and export price growth will be more or less equally robust and will therefore not give rise to any notable changes in the terms of trade.

Wage negotiations for 2007, which were largely concluded in fall 2006, will generate a slightly more modest wage growth (2.5%) than in the previous year. However, compensation per employee is expected to increase by 3.0% in 2007. In addition to payments in excess of the minimum wage, which are customary in



### Increasing Compensation of Employees Boosts Consumption and Savings Ratio



economically robust times, the wage drift of 0.5 percentage point can also be explained by the growing share of full-time employees in sectors with above-average wages such as manufacturing and construction. Unit labor costs are also increasing more rapidly on the back of extraordinarily strong employment growth in 2007. Accordingly, profit margin growth in 2007 will still be positive, albeit more modest in size.

The excellent economic situation points to higher collective wage settlements in 2008. However, the wage drift will return to zero as a result of the expected rise in the share of part-time employees.<sup>6</sup> In 2009, the increase in the compensation of employees is predicted to slow down slightly. The OeNB's outlook is based on the assumption of persistent wage moderation, as average real wage growth of 1.1% per annum will be significantly lower than labor produc-

tivity growth of 1.6% per annum over the forecast horizon.

## 6 Domestic Demand Driven by Dynamic Investment Activity

### 6.1 Employment Growth Fuels Compensation of Employees in 2007

Household income trends recovered quickly after the economic slump at the start of this decade. Nominal disposable household income after tax and transfers has been growing by some 4% per year since 2003, and real disposable household income by around 2% to 2.5% per year. Consumption growth, however, has significantly lagged behind income growth in recent years, thereby steadily boosting the savings ratio. This development is, on the one hand, attributable to uncertainty caused by changes in the pension system and by job concerns, and on the other hand,

<sup>6</sup> As a result of the growing share of part-time employees, the wage drift, in the recent past, has almost without exception been negative, averaging -0.4% in the period from 1990 to 2006.

Table 6

**Determinants of Nominal Household Income in Austria**

	2006	2007	2008	2009
Annual change in %				
Payroll employees	+1.7	+2.0	+1.0	+0.9
Wages per employee	+2.5	+3.0	+2.9	+2.6
Compensation of employees	+4.2	+5.0	+4.0	+3.4
Property income	+11.0	+7.4	+6.9	+4.5
Mixed income and operating surplus (net)	+8.1	+7.3	+5.6	+4.4
Contribution to disposable household income in percentage points				
Compensation of employees	+3.4	+4.0	+3.2	+2.8
Property income	+1.5	+1.1	+1.1	+0.7
Mixed income and operating surplus (net)	+1.6	+1.5	+1.2	+0.9
Net transfers less direct taxes <sup>1</sup>	-2.6	-1.8	-1.4	-1.0
Disposable household income (nominal)	+4.2	+4.2	+4.0	+3.4

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

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

Table 7

**Private Consumption in Austria**

	2006	2007	2008	2009
Annual change in %				
Disposable household income (nominal)	+4.2	+4.2	+4.0	+3.4
Private consumption expenditure (PCE) deflator	+1.7	+1.7	+1.8	+1.8
Disposable household income (real)	+2.5	+2.4	+2.1	+1.6
Private consumption (real)	+1.9	+2.2	+2.2	+2.1
% of disposable nominal household income				
Saving ratio	9.8	10.5	10.6	10.2

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

to the fact that real wages (that is the part of income with a high propensity to consume) have only grown below average. Employment growth, which has been rising since 2005, favors the income trends of the household sector.

In the first quarter of 2007, the currently unusually robust employment growth increased the wage bill by 1.6% against the previous quarter. Such growth rates were last achieved in the early 1990s. The exceptionally mild winter of 2006/07 resulted in a sharp decline in household energy consumption. In the first quarter of 2007, private consumption therefore grew at only a moderate pace despite

soaring retail sales. A significant upturn in consumer demand is expected from the second quarter. Savings which have been at the disposal of customers from the second quarter of 2007 as a result of lower energy costs should boost consumer demand. In addition, inflation developments should have a favorable impact on consumer demand. In 2007 as a whole, private consumption growth will therefore rise to +2.2%, compared with 2006 (+1.9%). The positive developments of income will induce a further increase in the savings ratio by 2008. However, sustained high levels of consumer growth are anticipated in 2008 and 2009.

## 6.2 Investment Cycle Peaks in 2007

Robust export demand in recent years and the gradual strengthening of sales expectations have contributed to accelerating the growth of investment in plant and equipment. Very high capacity utilization of 85.1% in the first quarter of 2007 indicates the need for capacity-expanding investment. Healthy profit growth gives enterprises adequate scope for the internal financing of their investment plans. By historical comparison, the terms of external financing will also remain very favorable over the entire forecast horizon, thereby fueling investment activity. The OeNB therefore expects investment in plant and equipment to post robust growth of 5.8% in 2007. This forecast is backed by the results of the investment surveys conducted by WIFO in fall 2006. The surveyed manufacturing companies envisage buoyant investment growth in 2007. Increasing capacity is cited as an investment motive to a greater extent than in 2006. In 2008

and 2009, investment growth is likely to weaken slightly.

The construction industry was clearly on track to growth in 2006. Residential construction expanded in 2005 for the first time after eight years of negative growth rates, making a significant contribution of +6.2% to total investment activity in 2006. Although civil engineering also posted vigorous growth, its performance was somewhat weaker than that of building construction. The mild winter of 2006/07 suggests that construction investment growth will accelerate in the first quarter of 2007. However, this was not yet borne out in the GDP flash estimate released in mid-May. Although the European Commission's survey of order book levels in the construction sector reveals a slight decline after the peak in September 2006, it shows that they still exceed the levels of previous years by a significant margin. This suggests that construction investment effected in the winter months was not

Table 8

Investment Activity in Austria				
	2006	2007	2008	2009
	Annual change in %			
Total gross fixed capital formation (real)	+3.9	+4.9	+3.2	+2.2
of which: Investment in plant and equipment (real)	+2.9	+5.8	+4.5	+2.0
Residential construction investment (real)	+6.2	+4.7	+2.4	+2.2
Non-residential construction investment and other investment	+3.8	+4.3	+2.4	+2.4
Government investment (real)	-2.5	+2.1	+2.5	+2.1
Private investment (real)	+4.3	+5.1	+3.3	+2.2
	Contribution to total gross fixed capital formation growth in percentage points			
Investment in plant and equipment (real)	+1.1	+2.3	+1.8	+0.8
Residential construction investment (real)	+1.3	+1.0	+0.5	+0.5
Non-residential construction investment and other investment	+1.5	+1.7	+1.0	+1.0
Government investment (real)	-0.1	+0.1	+0.1	+0.1
Private investment (real)	+4.0	+4.8	+3.1	+2.1
	Contribution to real GDP growth in percentage points			
Changes in inventories (real)	-0.2	-0.0	-0.1	+0.1

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

just brought forward, which means a shortfall in demand will not materialize this summer. Accordingly, construction activity is projected to be brisk in 2007, but it is predicted to increase more sluggishly in 2008 and 2009.

### 6.3 Labor Market Recovery Has Peaked

In the first four months of 2007, employment as registered by the Association of Austrian Social Security Institutions rose by 75,000 persons (+2.3%) year on year, while unemployment as recorded by the Austrian Public Employment Service (AMS) fell by almost 30,000 persons (−10%). Similarly high employment growth was last posted in 1990/91, whereas, even during the economic boom in the late 1990s and in 2000, employment growth had remained below 1.5%.

Two factors are responsible for this unusually strong increase in employment. First, many enterprises may have responded at the start of the upturn by adopting a wait-and-see attitude and might have absorbed higher levels of labor demand via overtime and spare operational capacities. Many companies felt it necessary to create new jobs only when the recovery strengthened – albeit now to a higher than average degree. Second, temporary factors such as the mild winter have generated additional momentum in the labor market, especially in the construction industry. Weather-related special factors in the construction sector eased off markedly in April and are likely to have made a significant contribution to the considerably more modest decline in

persons reported unemployed (April 2007: −5.6%). A negative base effect must also be taken into account here, as a marked improvement in the labor market was evident for the first time in April 2006. All in all, first signs are emerging that the labor market recovery will become weaker over the next few months.

Even if employment growth fails to reach the levels of the first quarter of 2007, prospects for the entire forecast horizon remain favorable. Payroll employment will increase by 2.0% (2007), 1.0% (2008) and 0.9% (2009). At +1.7% (2007), +0.9% (2008) and +0.7% (2009), total employment growth will be far more sluggish in this period, as the number of self-employed persons is close to stagnating. According to national accounts data, about 50% of self-employed persons are contributing family workers in the agricultural sector. The employment growth of this group is declining, while the number of those self-employed in other sectors (particularly in businesslike services) is rising steadily.

Labor supply growth is currently marked by the impact of the pension reform in 2003, the influx of foreign labor and by demographic developments. As a result, an additional 100,000 persons will enter the labor market in the period from 2007 to 2009. As a result of the favorable economic climate, employment growth is outpacing labor supply, and unemployment is falling. In 2007, the unemployment rate (Eurostat definition) will fall by 0.5 percentage point to 4.3%, whereas in 2008 and 2009, only a marginal improvement to 4.2% is expected.

Table 9

**Labor Market Developments in Austria**

	2006	2007	2008	2009
	Annual change in %			
<b>Total employment</b>	+1.4	+1.7	+0.9	+0.7
of which: Payroll employment	+1.7	+2.0	+1.0	+0.9
Self-employment	+0.2	+0.3	+0.3	+0.2
Public sector employment	+0.5	+0.3	-0.0	+0.0
Registered unemployment	-4.8	-10.9	-1.5	-0.4
Labor supply	+1.0	+1.0	+0.8	+0.7
	%			
<b>Unemployment rate (Eurostat definition)</b>	4.8	4.3	4.2	4.2

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

## 7 Risks to the Forecast

Whereas domestic economic risks are pointing mostly to the upside, external economic risks are mostly on the downside. Upside risks associated with investment and consumption can be termed as specifically domestic risks. As the most cyclically sensitive component of GDP, investment could grow even faster than projected in 2007, given the currently high levels of capacity utilization. The assumed consumer restraint in the household sector, which is mirrored in an anticipated increase in the savings ratio, will afford scope for steeper private consumption growth, provided that the considerably improved consumer confidence filters through to households' propensity to consume to a greater extent than it has lately.

From a current perspective, the biggest downside risk in relative terms is the risk that the U.S. real estate market cools down more quickly. A hard landing in the U.S.A. would detrimentally affect the global economy as a whole via various transmission channels (trade, confidence, financial markets, exchange rates etc.). There is currently no economic risk directly associated with the U.S. budget and current account deficits.

In nominal terms, oil price increases and a possible appreciation of

the euro are – as in the past – the key risks to the forecast. In addition, higher long-term interest rates such as those currently factored into market expectations cannot be ruled out in view of the historically low interest rates worldwide. As far as Austria is concerned, the continuation of its policy of wage moderation is a central assumption of the current forecast. Wage settlements could, however, also be higher than assumed in view of the long-declining wage share and favorable corporate profit performance. Although this would boost growth in the short term, it would also fuel inflation.

Overall, the risk to the current forecast seems to be pointing to the upside both in real and nominal terms.

## 8 Sharp Upside Revision of Growth Forecast against December 2006

Compared with the OeNB's outlook of December 2006, the external trade environment has not changed materially. Oil prices, which fluctuated strongly in the interim, are only marginally higher. The nominal effective exchange rate for Austria has firmed slightly thanks particularly to the USD/EUR trend. Growth prospects for the U.S.A. have deteriorated

Table 10

**Change in the Underlying External Economic Conditions since the OeNB December 2006 Outlook**

	June 2007			December 2006		Difference	
	2007	2008	2009	2007	2008	2007	2008
	Annual change in %						
Growth of Austria's export markets	+7.3	+6.5	+6.5	+6.2	+6.4	+1.1	+0.1
Competitors' prices in Austria's export markets	+0.5	+1.3	+1.4	+1.2	+1.3	-0.7	-0.1
Competitors' prices in Austria's import markets	+0.8	+1.3	+1.4	+1.2	+1.2	-0.4	+0.1
	USD						
Oil price per barrel (Brent)	65.0	69.9	69.6	64.6	67.2	+0.4	+2.8
	Annual change in %						
Nominal effective exchange rate (exports)	-0.5	-0.1	+0.0	-0.1	+0.0	-0.5	-0.1
Nominal effective exchange rates (imports)	+0.0	-0.0	+0.0	+0.1	+0.0	-0.1	-0.0
	%						
Three-month interest rates	4.2	4.5	4.4	4.0	3.8	+0.2	+0.6
Long-term interest rates	4.1	4.3	4.3	3.7	3.7	+0.4	+0.5
	Annual change in %						
Real GDP, U.S.A.	+2.0	+2.7	+3.2	+2.4	+2.8	-0.4	-0.1
	USD/EUR						
USD/EUR exchange rate	1.34	1.36	1.36	1.28	1.28	+0.07	+0.08

Source: Eurosystem.

rated slightly. Nevertheless, Austrian export markets will grow by more than 1 percentage point in 2007, i.e. by a greater margin than predicted in December 2006. This is primarily attributable to the improved growth prospects of Germany and Italy, Austria's two major trading partners. Thanks to the improved economic outlook, market expectations for the future development of short- and long-term interest rates are somewhat higher than predicted in the OeNB's December 2006 economic outlook.

The effects of the new external assumptions were simulated using the OeNB's macroeconomic model. This showed that there will be no significant impact on GDP growth in 2007 and 2008. The negative effects resulting from higher interest rates and oil prices, as well as from the appreciation of the euro, will be balanced by more robust export market growth.

Table 11 presents a detailed list of the reasons for revising the outlook. In addition to the effects of changed

external assumptions, the revisions can be explained by the impact of new data and a remaining rest ("Other"). The impact of new data comprises the effects arising from the revisions of historical data already released at the time of the previous outlook (i.e. data up to the third quarter of 2006) and the forecasting errors of the previous outlook for the quarters now disclosed for the first time (i.e. for the fourth quarter of 2006 and the first quarter of 2007). The item "Other" includes changes in expert assessments regarding the development of domestic variables such as government consumption or wage settlements and any changes to the forecast models.

The growth revision for Austria in 2007 (+0.4 percentage point) is, to a large extent, attributable to a new expert assessment and, only to a lesser extent, to the revision of historical data and to the new external trade environment. In its December 2006 economic outlook, the OeNB

Table 11

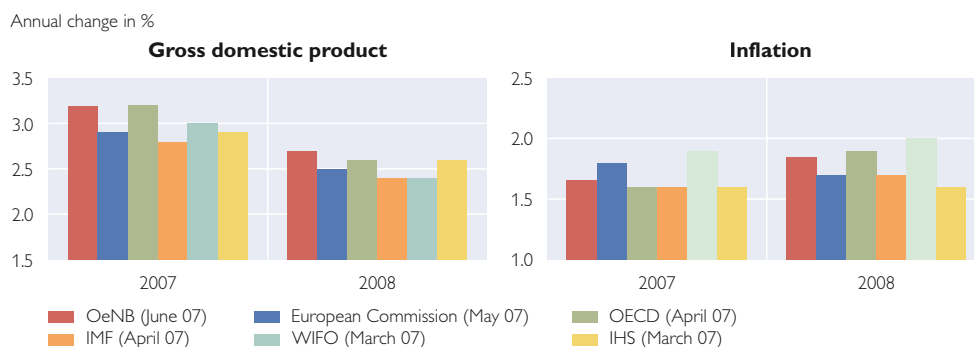
**Breakdown of Forecast Revisions**

	GDP		HICP	
	2007	2008	2007	2008
	Annual change in %			
December 2006 outlook	+2.8	+2.4	+1.4	+1.6
June 2007 outlook	+3.2	+2.7	+1.7	+1.8
Difference	+0.4	+0.3	+0.3	+0.3
Due to:				
External assumptions	+0.1	+0.0	-0.1	+0.1
New data	-0.0	+0.0	+0.2	+0.0
of which: Revision of historical data up to Q3 06	+0.1	+0.0	+0.0	+0.0
Projection errors for Q4 06 and Q1 07	-0.1	-0.1	+0.2	+0.0
Other <sup>1</sup>	+0.3	+0.4	+0.2	+0.2

Source: OeNB December 2006 and June 2007 outlooks.

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

Chart 3

**Comparison of Current Economic Forecasts for Austria**

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

had expected a stronger increase in domestic demand already for 2006. However, growth was, to a greater degree than expected, driven by net exports. A significant pick-up in investment and consumer demand is now expected only in 2007, as is reflected in the new expert assessment for 2007 and 2008.

The revision of the inflation forecast is attributable almost in equal parts to a forecasting error (0.2 percentage point) and to discretionary measures (see “Other” category in table 11) such as the increase of the petroleum tax (impact on HICP: 0.2 percentage point). The contribution

of external assumptions is small and negative. The inflation-fueling effect of higher crude oil prices is more than offset by the inflation-dampening effect of both higher interest rates and the appreciation of the euro.

A comparison with other available economic forecasts for Austria shows that the OeNB’s assessment of real GDP growth is at the top end of the range. This is also due to the publication date of the outlook, as current economic data tend to have surprised positively. As for the inflation outlook, no systematic differences between the current forecasts are identifiable.



## Economic Outlook for Central and Eastern European Countries<sup>1</sup>

The OeNB compiles semiannual forecasts of economic developments in the Czech Republic, Hungary, Poland as well as Russia. Taken together, the 3 EU Member States account for more than 60% of the 12 new EU Member States' overall GDP and are thus representative of trends in this EU region.<sup>2</sup>

### Three New EU Member States and Russia:

#### Forecast of March 2007

Annual change at constant prices (%)

Gross domestic product	2003	2004	2005	2006	2007 <sup>1</sup>	2008 <sup>1</sup>
Czech Republic	3.6	4.2	6.1	6.1	5.1	4.6
Hungary	4.1	4.9	4.2	3.9	2.7	3.0
Poland	3.9	5.3	3.5	5.8	6.0	5.5
Russia	7.4	7.1	6.4	6.7	6.4	6.0

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

<sup>1</sup> Forecast.

In the **Czech Republic**, growth rates of (private and public) consumption and gross fixed capital formation will slow down slightly but remain at solid levels in **2007**. Real income will continue to increase, while employment is expected to rise only moderately. There are signs of a slowdown in growth of consumer lending. Export and import growth rates will decline by around 4 percentage points. The contribution of net exports to GDP growth is expected to be about neutral. In **2008**, economic developments in the Czech Republic will essentially hinge on the extent to which the government will be able to push its reform package through parliament. Assuming full implementation, private consumption would be boosted by the planned reduction of the income tax to 15%, but could be impaired by the intended increase of the VAT rate from 5% to 9% and by substantial cuts in social transfers. Gross fixed capital formation will augment in particular owing to the construction of an automotive parts production plant. Exports and imports will continue to grow at roughly the same speed as in 2007.

In **Hungary**, private and public consumption growth will decline in **2007**, which is largely attributable to the fiscal consolidation program. Real net disposable income is expected to decrease, even assuming no significant moderation of gross nominal wages in the private sector. After declining in 2006, gross fixed capital formation growth is expected to recover marginally. The deceleration of export growth will be accompanied by a slowdown of import dynamics, especially as domestic demand continues to contract. The positive contribution of net exports to GDP growth will be somewhat higher than in 2006. In **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 the stabilization (or minor increase) of real wages. Public consumption will continue to decline, whereas gross fixed capital formation is expected to pick up. On the external side, export growth will moderate slightly despite some acceleration of euro area import demand. A modest increase of domestic demand will cause import growth to rise, so that the contribution of net exports is expected to be less positive than in 2006 and 2007.

<sup>1</sup> Compiled by Antje Hildebrandt.

<sup>2</sup> 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 by means of broad macroeconomic projection exercises. These assumptions are central to the current outlook for two reasons: first, the sizeable export links of the three new 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. The forecast for Russia is prepared by OeNB in collaboration with Suomen Pankki, Finland's central bank.

In **Poland**, private consumption will go up in **2007** on the back of high employment growth combined with high nominal wage growth. ULC and inflation are expected to increase only moderately, while credit growth will remain considerable. The growth of gross fixed capital formation will be supported by high profitability, conducive financing conditions and further improvements in the absorption of structural funds. Import growth is expected to slow down less than export growth, so that the negative contribution of net exports will increase. However, the positive evolution of domestic demand will more than compensate the negative contribution of net exports. In **2008**, a moderate rise in ULC and a slight increase in inflation are expected to dampen private consumption in Poland. Employment growth is expected to slacken, and credit growth will be dampened slightly. Gross fixed capital formation will decrease owing to lower profitability, monetary tightening and a slower increase in the absorption of structural funds. Export growth will remain stable, while import growth will slow down, which will result in a less negative contribution of net exports to GDP growth.

Regarding possible sources of **risk** to these forecasts, sizeable deviations from the built-in assumptions for external factors are possible, e.g. for import growth of the countries' main trading partners and oil price developments. Exchange rate developments represent a further risk factor to the forecasts. Additionally, some uncertainty remains about the implementation of fiscal reforms. In Poland, in particular, growth of domestic demand hinges upon solid further employment growth. However, there are some signs of labor shortage in the Polish economy, which might have a moderating effect on domestic demand growth.

In **Russia**, the economy is projected to grow at a robust pace in **2007** and **2008**, largely due to high consumption and investment growth. Private consumption is expected to expand robustly owing to continued buoyant rises in real income and strong lending growth. Government consumption is expected to speed up further over the following two years. Gross fixed capital formation is predicted to continue growing strongly, driven by huge projects in the energy sector and increased public investment. Rapid economic growth and further real appreciation of the Russian ruble will sustain strong import growth. Exports are expected to expand at approximately the same pace as in 2006.

Regarding **risk** factors for Russian growth, oil price developments remain the key factor, given the persisting dependence of the Russian economy on the extraction and export of raw materials. Another risk factor consists in the possibility of an excessively quick appreciation of the real exchange rate, triggered by accelerating inflows of energy proceeds and/or capital inflows. Such a quick appreciation could have repercussions for Russia's competitiveness, with the Dutch disease looming. Furthermore, political uncertainty brought on by elections to the lower house of parliament, the Duma, in late 2007 and the 2008 presidential election pose an additional risk to the projection.

## 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	129,192	132,063	135,020	137,867	+1.9	+2.2	+2.2	+2.1
Government consumption	41,055	41,924	43,089	43,103	+1.2	+2.1	+2.8	+0.0
Gross fixed capital formation	49,400	51,844	53,518	54,693	+3.9	+4.9	+3.2	+2.2
of which: Investment in plant and equipment	19,393	20,527	21,447	21,868	+2.9	+5.8	+4.5	+2.0
Residential investment	10,231	10,708	10,968	11,212	+6.2	+4.7	+2.4	+2.2
Non-residential and other investment	19,677	20,514	21,013	21,523	+3.8	+4.3	+2.4	+2.4
Changes in inventories (including statistical discrepancy)	-1,020	-1,155	-1,358	-1,090	x	x	x	x
Domestic demand	218,626	224,676	230,269	234,572	+1.9	+2.8	+2.5	+1.9
Exports of goods and services	139,015	149,093	159,727	170,760	+8.7	+7.2	+7.1	+6.9
Imports of goods and services	124,908	133,601	143,347	153,081	+6.8	+7.0	+7.3	+6.8
Net exports	14,107	15,491	16,380	17,679	x	x	x	x
<b>Gross domestic product</b>	<b>232,733</b>	<b>240,167</b>	<b>246,650</b>	<b>252,251</b>	<b>+3.2</b>	<b>+3.2</b>	<b>+2.7</b>	<b>+2.3</b>

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

Table 13

### Demand Components (Current Prices)

	2006	2007	2008	2009	2006	2007	2008	2009
	EUR million				Annual change in %			
Private consumption	142,095	147,781	153,825	159,831	+3.6	+4.0	+4.1	+3.9
Government consumption	46,016	47,933	50,248	51,268	+3.5	+4.2	+4.8	+2.0
Gross fixed capital formation	53,430	57,130	59,953	62,355	+5.9	+6.9	+4.9	+4.0
Changes in inventories (including statistical discrepancy)	282	89	63	770	x	x	x	x
Domestic demand	241,823	252,933	264,089	274,223	+3.8	+4.6	+4.4	+3.8
Exports of goods and services	148,117	160,184	173,976	188,763	+11.1	+8.1	+8.6	+8.5
Imports of goods and services	133,115	143,713	156,247	169,043	+9.9	+8.0	+8.7	+8.2
Net exports	15,002	16,471	17,730	19,719	x	x	x	x
<b>Gross domestic product</b>	<b>256,826</b>	<b>269,404</b>	<b>281,819</b>	<b>293,942</b>	<b>+4.8</b>	<b>+4.9</b>	<b>+4.6</b>	<b>+4.3</b>

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

Table 14

### Deflators of Demand Components

	2006	2007	2008	2009	2006	2007	2008	2009
	2000 = 100				Annual change in %			
Private consumption	110.0	111.9	113.9	115.9	+1.7	+1.7	+1.8	+1.8
Government consumption	112.1	114.3	116.6	118.9	+2.3	+2.0	+2.0	+2.0
Gross fixed capital formation	108.1	110.2	112.0	114.0	+1.9	+1.9	+1.7	+1.8
Domestic demand (excluding changes in inventories)	110.0	112.0	114.0	116.0	+1.8	+1.8	+1.8	+1.8
Exports of goods and services	106.5	107.4	108.9	110.5	+2.2	+0.8	+1.4	+1.5
Imports of goods and services	106.6	107.6	109.0	110.4	+2.9	+0.9	+1.3	+1.3
Terms of trade	100.0	99.9	99.9	100.1	-0.6	-0.1	+0.0	+0.2
<b>Gross domestic product</b>	<b>110.3</b>	<b>112.2</b>	<b>114.3</b>	<b>116.5</b>	<b>+1.5</b>	<b>+1.7</b>	<b>+1.9</b>	<b>+2.0</b>

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

Table 15

Labor Market								
	2006	2007	2008	2009	2006	2007	2008	2009
	Thousands				Annual change in %			
Total employment	4,215.5	4,286.3	4,324.9	4,356.8	+1.4	+1.7	+0.9	+0.7
of which: private sector	3,734.3	3,803.7	3,842.6	3,874.4	+1.5	+1.9	+1.0	+0.8
Payroll employment (national accounts definition)	3,409.8	3,478.4	3,514.7	3,544.7	+1.7	+2.0	+1.0	+0.9
	%							
Unemployment rate (Eurostat definition)	4.8	4.3	4.2	4.2	x	x	x	x
	% of real GDP							
Unit labor costs (whole economy) <sup>1</sup>	66.2	67.1	67.8	68.5	+0.7	+1.4	+1.1	+1.0
	EUR thousand per employee							
Labor productivity (whole economy) <sup>2</sup>	55.2	56.0	57.0	57.9	+1.8	+1.5	+1.8	+1.5
	EUR thousand							
Real compensation per employee <sup>3</sup>	33.2	33.6	34.0	34.2	+0.8	+1.2	+1.1	+0.8
	At current prices, EUR thousand							
Gross compensation per employee	36.5	37.6	38.7	39.7	+2.5	+3.0	+2.9	+2.6
	At current prices, EUR million							
Total gross compensation of employees	124,555	130,817	136,003	140,688	+4.2	+5.0	+4.0	+3.4

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

<sup>1</sup> Gross wages as a ratio of real GDP.

<sup>2</sup> Real GDP divided by total employment.

<sup>3</sup> 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			
<b>Balance of trade</b>	10,819.0	12,332.6	13,463.6	14,731.3	4.2	4.6	4.8	5.0
Goods	506.0	1,054.5	1,092.9	1,561.9	0.2	0.4	0.4	0.5
Services	10,313.0	11,278.1	12,370.7	13,169.4	4.0	4.2	4.4	4.5
Euro area	-8,290.6	-8,653.3	-8,777.7	-9,300.6	-3.2	-3.2	-3.1	-3.2
Non-euro area countries	19,109.6	20,985.9	22,241.3	24,031.9	7.4	7.8	7.9	8.2
<b>Balance on income</b>	-1,476.0	-1,363.0	-1,321.1	-1,225.0	-0.6	-0.5	-0.5	-0.4
<b>Balance on transfers</b>	-1,110.0	-1,200.0	-1,200.0	-1,200.0	-0.4	-0.4	-0.4	-0.4
<b>Current account</b>	8,233.0	9,769.6	10,942.6	12,306.3	3.2	3.6	3.9	4.2

Source: 2006: Eurostat; 2007 to 2009: OeNB June 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 %															
<b>Prices, wages and costs</b>															
HICP	+1.7	+1.8	+1.9	+1.8	+1.7	+1.6	+1.8	+1.8	+1.7	+1.8	+2.0	+1.9	+1.9	+1.9	+1.9
HICP excluding energy	+1.7	+1.7	+2.0	+1.8	+1.9	+1.7	+1.6	+1.5	+1.5	+1.8	+2.0	+2.0	+2.0	+2.0	+2.0
Private consumption expenditure (PCE) deflator	+1.7	+1.8	+1.8	+1.8	+1.7	+1.7	+1.7	+1.7	+1.8	+1.9	+1.9	+1.9	+1.8	+1.7	+1.7
Gross fixed capital formation deflator	+1.9	+1.7	+1.8	+2.3	+2.1	+1.7	+1.5	+1.4	+1.6	+1.8	+1.9	+1.8	+1.8	+1.7	+1.7
GDP deflator	+1.7	+1.9	+2.0	+1.7	+1.7	+1.6	+1.6	+1.7	+1.8	+1.9	+2.0	+2.0	+2.0	+2.0	+1.9
Unit labor costs	+1.4	+1.1	+1.0	+1.4	+1.4	+1.5	+1.5	+1.0	+1.1	+1.1	+1.1	+1.1	+1.0	+1.0	+1.0
Nominal wages per employee	+3.0	+2.9	+2.6	+2.7	+2.8	+3.0	+3.2	+3.0	+2.9	+2.8	+2.8	+2.7	+2.6	+2.5	+2.5
Productivity	+1.5	+1.8	+1.5	+1.3	+1.5	+1.5	+1.7	+2.0	+1.8	+1.7	+1.7	+1.6	+1.5	+1.5	+1.5
Real wages per employee	+1.2	+1.1	+0.8	+0.9	+1.1	+1.3	+1.5	+1.3	+1.1	+1.0	+0.9	+0.8	+0.8	+0.8	+0.8
Import deflator	+0.9	+1.3	+1.3	+1.1	+0.8	+0.8	+1.0	+1.3	+1.3	+1.3	+1.3	+1.3	+1.3	+1.3	+1.3
Export deflator	+0.8	+1.4	+1.5	+1.2	+0.7	+0.6	+0.8	+1.2	+1.4	+1.5	+1.5	+1.5	+1.5	+1.5	+1.5
Terms of trade	-0.1	+0.0	+0.2	+0.1	-0.1	-0.2	-0.2	-0.2	+0.1	+0.1	+0.1	+0.2	+0.2	+0.2	+0.1
Annual and/or quarterly changes in %, in real terms															
<b>Economic activity</b>															
GDP	+3.2	+2.7	+2.3	+0.8	+0.8	+0.8	+0.7	+0.6	+0.6	+0.6	+0.6	+0.6	+0.5	+0.5	+0.6
Private consumption	+2.2	+2.2	+2.1	+0.3	+1.4	+0.3	+0.5	+0.6	+0.5	+0.5	+0.5	+0.5	+0.5	+0.6	+0.6
Government consumption	+2.1	+2.8	+0.0	+0.2	+1.1	+1.2	+1.0	+0.6	+0.5	+0.3	+0.1	-0.1	-0.1	-0.2	-0.2
Gross fixed capital formation	+4.9	+3.2	+2.2	+0.9	+2.2	+0.7	+0.7	+0.7	+0.7	+0.7	+0.6	+0.5	+0.5	+0.4	+0.4
of which: Investment in plant and equipment	+5.8	+4.5	+2.0	+0.4	+5.1	+1.0	+0.9	+0.9	+0.8	+0.7	+0.5	+0.5	+0.4	+0.3	+0.3
Residential construction investment <sup>1</sup>	+4.7	+2.4	+2.2	+1.1	+0.7	+0.6	+0.5	+0.6	+0.6	+0.7	+0.6	+0.5	+0.5	+0.5	+0.5
Exports	+7.2	+7.1	+6.9	+1.8	+1.6	+1.8	+1.8	+1.7	+1.7	+1.7	+1.7	+1.7	+1.7	+1.7	+1.7
Imports	+7.0	+7.3	+6.8	+1.1	+3.3	+1.3	+1.7	+1.7	+1.8	+1.8	+1.6	+1.6	+1.6	+1.6	+1.6
Contribution to real GDP growth in percentage points															
Domestic demand	+2.7	+2.4	+1.6	+0.4	+1.4	+0.5	+0.6	+0.6	+0.5	+0.5	+0.4	+0.4	+0.4	+0.4	+0.4
Net exports	+0.6	+0.4	+0.5	+0.5	-0.8	+0.4	+0.2	+0.1	+0.1	+0.0	+0.1	+0.2	+0.2	+0.2	+0.2
Changes in inventories	-0.1	-0.1	+0.1	-0.1	+0.3	-0.1	-0.0	-0.1	-0.0	+0.0	+0.1	+0.0	+0.0	+0.0	+0.0
%															
<b>Labor market</b>															
Unemployment rate (Eurostat definition)	4.3	4.2	4.2	4.4	4.4	4.3	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.1
Annual and/or quarterly changes in %															
Total employment	+1.7	+0.9	+0.7	+0.6	+0.3	+0.4	+0.3	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2
of which: Private sector employment	+1.9	+1.0	+0.8	+0.6	+0.3	+0.4	+0.3	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2
Payroll employment	+2.0	+1.0	+0.9	+0.6	+0.3	+0.4	+0.3	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2
Annual and/or quarterly changes in %, in real terms															
<b>Additional variables</b>															
Disposable household income	+2.4	+2.1	+1.6	+1.7	+0.6	+1.0	+0.8	+0.4	+0.4	+0.3	+0.3	+0.4	+0.4	+0.5	+0.5
% of disposable real household income (saving ratio) and % of real GDP (output gap)															
Household saving ratio	10.5	10.6	10.2	10.7	10.0	10.6	10.9	10.8	10.7	10.5	10.4	10.3	10.3	10.2	10.1
Output gap	-0.2	0.2	0.2	-0.6	-0.3	-0.0	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2

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

<sup>1</sup> 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			March 2007		March 2007		May 2007		April 2007		May 2007	
	2007	2008	2009	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008
Annual change in %													
<b>Key results</b>													
GDP (real)	+3.2	+2.7	+2.3	+3.0	+2.4	+2.9	+2.6	+3.2	+2.6	+2.8	+2.4	+2.9	+2.5
Private consumption (real)	+2.2	+2.2	+2.1	+2.2	+2.0	+2.4	+2.1	+2.1	+2.3	x	x	+2.0	+2.1
Government consumption (real)	+2.1	+2.8	+0.0	+1.7	+1.6	+1.0	+1.0	+0.9	+1.0	x	x	+1.8	+2.1
Gross fixed capital formation (real) <sup>1</sup>	+4.9	+3.2	+2.2	+5.5	+3.4	+4.8	+3.8	+4.1	+2.7	x	x	+5.2	+3.2
Exports (real)	+7.2	+7.1	+6.9	+7.4	+6.2	+7.9	+7.1	+7.0	+7.7	x	x	+7.4	+6.9
Imports (real)	+7.0	+7.3	+6.8	+7.5	+6.3	+7.9	+7.0	+5.2	+7.7	x	x	+7.3	+6.7
GDP per employee	+1.5	+1.8	+1.5	+1.7	+2.0	+1.4	+1.7	x	x	x	x	+1.7	+1.8
GDP deflator	+1.7	+1.9	+2.0	+1.8	+1.7	+1.8	+1.5	+1.9	+2.3	+1.7	+1.7	+1.8	+1.7
CPI	x	x	x	+1.7	+1.8	+1.6	+1.6	x	x	+1.6	+1.7	x	x
HICP	+1.7	+1.8	+1.9	+1.9	+2.0	x	x	+1.6	+1.9	x	x	+1.8	+1.7
Unit labor costs	+1.4	+1.1	+1.0	+0.9	+0.6	x	x	x	x	x	x	-1.1	-1.0
Total employment	+1.7	+0.9	+0.7	+1.8	+0.8	+1.5	+0.9	x	x	x	x	+1.2	+0.7
%													
Unemployment rate <sup>2</sup>	4.3	4.2	4.2	4.2	4.1	4.5	4.4	5.3	5.3	4.5	4.3	4.4	4.3
% of nominal GDP													
Current account	3.6	3.9	4.2	x	x	x	x	4.1	4.5	1.9	1.6	3.2	3.1
Government surplus/deficit	-0.7	-0.5	-0.2	-1.0	-1.0	-1.1	-0.9	-0.8	-0.6	-1.6	-1.2	-0.9	-0.8
<b>External assumptions</b>													
Oil price in USD per barrel (Brent)	65.0	69.9	69.6	61.0	62.0	64.0	64.0	65.0	65.0	60.8	64.8	66.2	70.3
Short-term interest rate in %	4.2	4.5	4.4	4.1	4.0	4.0	4.1	4.1	4.3	3.8	3.7	x	x
USD/EUR exchange rate	1.35	1.36	1.36	1.33	1.40	1.30	1.30	1.35	1.35	1.30	1.31	1.33	1.34
Annual change in %													
Euro area GDP (real)	+2.3 to +2.9	+1.8 to +2.8	x	+2.7	+2.2	+2.5	+2.3	+2.7	+2.3	+2.3	+2.3	+2.6	+2.5
U.S. GDP (real)	+2.0	+2.7	+3.2	+2.0	+2.3	+2.5	+3.0	+2.1	+2.5	+2.2	+2.8	+2.2	+2.7
World GDP (real)	+4.8	+4.6	+4.7	+4.8	+4.6	x	x	x	x	+4.9	+4.9	+4.8	+4.8
World trade	+5.8	+6.9	+7.3	+7.0	+6.5	+8.0	+7.5	+7.5	+8.3	+7.0	+7.4	+7.7	+7.6

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

<sup>1</sup> For IHS: Gross investment.

<sup>2</sup> Eurostat definition; for OECD: OECD definition.