

Moderate Upswing amid High Uncertainty

Economic Outlook for Austria from 2014 to 2016 (June 2014)

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1 Summary

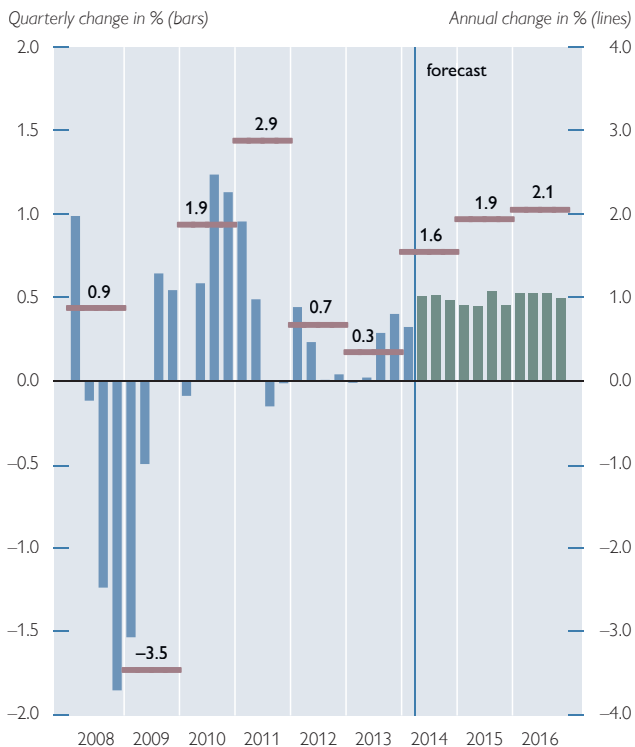
In its economic outlook of June 2014, the Oesterreichische Nationalbank (OeNB) projects Austrian GDP growth of 1.6% in 2014. In 2014, the upswing will remain largely led by exports, which are benefiting from both the gradual recovery of the euro area and the moderate improvement in the world economy. In 2015 and 2016, GDP growth will accelerate to 1.9% and 2.1% respectively, with domestic demand components increasingly driving growth. Investment, which shrank in 2013, will return to positive growth path owing to the need for replacement

investment and to improving sales prospects and growing business confidence in the economy. Private consumption is benefiting from continued favorable employment growth and a rise in real disposable household income. Austria's growth prospects are unchanged on the OeNB December 2013 economic outlook. As in previous years, the labor market is marked by a sharp increase in labor supply. As a result, despite continued high levels of employment growth, unemployment will climb to 5% and fall slightly only in 2016 (4.9%). HICP inflation was 2.1% in 2013 and is projected to ease to 1.8% in 2014

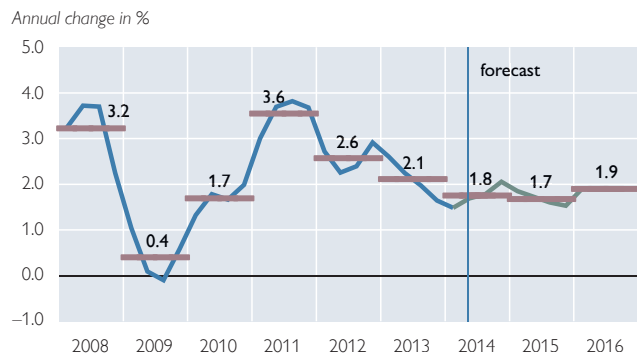
Chart 1

OeNB June 2014 Outlook for Austria – Key Results

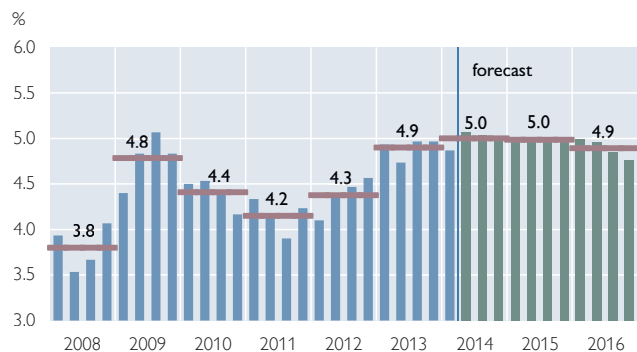
Real GDP Growth (Seasonally and Working Day-Adjusted)



Harmonized Index of Consumer Prices



Unemployment Rate



Source: Eurostat; 2008 to Q1 14; OeNB June 2014 outlook.

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and to 1.7% in 2015. At 1.9%, it will continue to remain at a moderate level in 2016. The general government budget balance (Maastricht definition) will deteriorate to -2.5% of GDP in 2014 but is set to improve significantly to -1.2% in 2015 and to -0.7% in 2016. Although the general government debt-to-GDP ratio will increase to 79.2% of GDP in 2014, it will trend down afterwards, decreasing to 75.3% of GDP in 2016.²

The world economy is on a moderate recovery path in the first half of 2014. The need for further consolidation measures in the public sector is diminishing in many countries. For the U.S.A., GDP growth is projected to further accelerate following a first-quarter performance that was disappointing for weather-related reasons. In Asia, although growth momentum is somewhat dampened, it is intact. The euro area has emerged from recession and is back on track to positive growth. Huge internal and external macro-economic imbalances have been reduced. Competitiveness improved in euro area countries that had sizeable current account deficits before the crisis. Continued high unemployment, high levels of private debt and a restrictive lending policy continue to dampen growth in the euro area, however. Still, significant differences remain between countries in the Eurosystem. Of the major euro area economies, Spain has turned its economy around while France and Italy still have to contend with structural problems. Against the backdrop of potential sanctions against Russia (and countersanctions), the risks to the OeNB June 2014 economic outlook are pointed to the downside.

The global economic recovery will to a large extent fuel the Austrian economy's projected upswing. In particular, GDP growth in Germany – Austria's most important trading partner – is developing dynamically. Although the expansion of Austrian export markets as a whole will accelerate from 4.0% (2014) to 5.6% (2016) over the forecast period, it will remain below precrisis levels. Price competitiveness and the shares of Austrian export markets will more or less steadily increase over the forecast period. The current account will continue to improve between 2014 (3.1%) and 2016 (3.6%).

Growth momentum will be fueled by domestic demand from 2015. In 2013, despite favorable domestic and external financing conditions, real gross fixed capital formation nevertheless contracted by 0.9%. Investment growth will however increasingly benefit from the need for replacement investment, from increasing business confidence, and from improving sales prospects. Owing to sustained levels of uncertainty, investment in equipment will grow only relatively moderately. Still favorable financing conditions and rising real estate prices indicate a further acceleration in the uptrend in housing investment. However, momentum in civil engineering investment remains subdued owing to the lower level of public sector orders. Overall, the investment cycle will prove to be relatively weak despite the need to catch up.

Falling real household income significantly dampened consumption growth in 2013. Lower inflation, sustained high levels of employment growth and stronger income growth accompanying the economic recovery

² Calculated in accordance with ESA 95.

Table 1

OeNB June 2014 Outlook for Austria – Key Results¹

	2013	2014	2015	2016
Economic activity				
<i>Annual change in % (real)</i>				
Gross domestic product	+0.3	+1.6	+1.9	+2.1
Private consumption	+0.1	+0.7	+1.0	+1.4
Government consumption	+1.4	+0.8	+1.2	+1.1
Gross fixed capital formation	-0.9	+0.8	+2.6	+2.9
Exports of goods and services	+2.5	+5.4	+5.4	+5.7
Imports of goods and services	+0.5	+3.9	+5.4	+5.8
<i>% of nominal GDP</i>				
Current account balance	+2.7	+3.1	+3.4	+3.6
Contribution to real GDP growth				
<i>Percentage points</i>				
Private consumption	+0.0	+0.4	+0.5	+0.8
Government consumption	+0.3	+0.1	+0.2	+0.2
Gross fixed capital formation	-0.2	+0.2	+0.5	+0.6
Domestic demand (excluding changes in inventories)	+0.1	+0.7	+1.3	+1.6
Net exports	+1.2	+1.2	+0.5	+0.4
Changes in inventories (including statistical discrepancy)	-0.9	-0.3	+0.2	+0.1
Prices				
<i>Annual change in %</i>				
Harmonised Index of Consumer Prices (HICP)	+2.1	+1.8	+1.7	+1.9
Private consumption expenditure (PCE) deflator	+2.2	+1.9	+1.6	+1.8
GDP deflator	+1.7	+1.5	+1.5	+1.8
Unit labor costs in the total economy	+2.6	+1.6	+1.4	+1.7
Compensation per employee (at current prices)	+2.2	+2.1	+2.4	+2.8
Productivity (whole economy)	-0.4	+0.5	+1.0	+1.0
Compensation per employee (real)	+0.0	+0.2	+0.8	+0.9
Import prices	-0.8	+0.1	+1.3	+1.6
Export prices	-0.3	+0.4	+1.2	+1.5
Terms of trade	+0.5	+0.2	-0.1	-0.1
Income and savings				
Real disposable household income	-1.1	+0.7	+1.8	+2.3
<i>% of nominal disposable household income</i>				
Saving ratio	6.6	6.4	7.1	7.8
Labor market				
<i>Annual change in %</i>				
Payroll employment	+0.8	+1.1	+0.9	+1.0
<i>% of labor supply</i>				
Unemployment rate (Eurostat definition)	4.9	5.0	5.0	4.9
Budget				
<i>% of nominal GDP</i>				
Budget balance (Maastricht definition)	-1.5	-2.5	-1.2	-0.7
Government debt	74.5	79.2	77.5	75.3

Source: 2013: Eurostat, Statistics Austria; 2014 to 2016: OeNB June 2014 outlook.

¹ The outlook was drawn up on the basis of seasonally adjusted and working-day adjusted national accounts data. Therefore, the values for 2013 may deviate from the nonadjusted data released by Statistics Austria. Calculated in accordance with ESA 95.

result in a steady rise in real disposable household income in the period from 2014 to 2016, leading to an increase in real private consumption of 0.7% in 2014, 1.0% in 2015 and 1.4% in 2016).

In 2013, the number of unemployed persons rose sharply despite a steep rise

in employment. This phenomenon was attributable to the marked increase in the labor supply, which will continue to grow over the entire forecast period. Contributory factors are the liberalization of the Austrian labor market for workers from the new EU Member

States and migration from the old EU Member States, as well as the current expansion of domestic labor supply owing to further increases in the participation rates of women and older workers. The jobless rate will inch up slightly to 5.0% in 2014, dropping slightly to 4.9% only in 2016. This means Austria continues to have the lowest unemployment rate in the EU.

Austria's HICP inflation eased to 2.1% in 2013. Falling energy and commodity prices will trigger a further deceleration in inflation momentum. As a result, HICP inflation will decline further to 1.8% in 2014 and to 1.7% in 2015. In 2016, it will reaccelerate slightly to 1.9% on the back of the rebounding economy.

The OeNB's budget projection is based on a no-policy-change assumption, which means that only discretionary measures that have already been adopted are included in the forecast. The general government budget balance (Maastricht definition) improved substantially from -2.6% of GDP (2012) to -1.5 % of GDP (2013). Thus, the general government deficit ratio was lower than the benchmark of 3% of GDP under the terms of the Stability and Growth Pact for the third time in a row. This considerable improvement was attributable primarily to the impact of one-off effects (revenue from the auction of mobile licenses and from the tax agreement with Switzerland). Although the budget balance will deteriorate to -2.5% of GDP in 2014 especially as a result of further capital transfers to banks, it will improve substantially to -1.2% of GDP in 2015 and to -0.7% of GDP in 2016. The general government debt-to-GDP ratio will climb to 79.2% in 2014, primarily

owing to the restructuring of the Hypo Alpe-Adria-Bank International AG. In both 2015 and 2016, however, it will trend down, declining to 75.3% of GDP.³

The general government structural balance (general government balance excluding the cyclical component and the effects of one-off measures) plays an important role in the fiscal policy goals agreed with the EU. The structural budget balance should improve slightly in 2014, primarily owing to the following factors: several small consolidation measures on the revenue side, continued bracket creep, a further pension adjustment below the inflation rate and low growth in both staff costs and discretionary expenditure. To achieve the medium-term (structural) budgetary target (-0.45% of GDP) in 2015, the OeNB projects a need for further consolidation of some ¼% of GDP.

2 Technical Assumptions

This forecast is the OeNB's contribution to the Eurosystem's June 2014 staff projections. The forecast horizon ranges from the first quarter of 2014 to the fourth quarter of 2016. May 15, 2014, was the cutoff date for the assumptions on global growth as well as interest rates, exchange rates and crude oil prices. The OeNB used its macroeconomic quarterly model to prepare the projections for Austria. The key data source comprises seasonally and working day-adjusted national accounts data computed by the Austrian Institute of Economic Research (WIFO), which were fully available to the fourth quarter of 2013. The data for the first quarter of 2014 are based on GDP flash estimates, which cover only part of the aggregates in the national accounts,

³ Calculated in accordance with ESA 95.

however. The short-term interest rates used for the forecast horizon are based on market expectations for the three-month EURIBOR, namely 0.3% in 2014, 0.3% in 2015 and 0.4% in 2016. Long-term interest rates, which are based on market expectations for ten-year government bonds, are set at 1.8% (2014), 2.1% (2015) and 2.4% (2016). The exchange rate of the euro vis-à-vis the U.S. dollar is assumed to stay constant at USD 1.38 for the period from 2014 to 2016. The projected development of crude oil prices is based on futures prices. The oil price assumed for 2014 is USD 107.2 per barrel of Brent, while the prices for 2015 and 2016 are set at USD 102.2 and USD 98.2, respectively. The prices of commodities excluding energy are also based on futures prices over the forecast horizon.

3 World Economy on Course to Moderate Recovery

The world economy has been on a moderate recovery path since the first half of 2014. Although the growth momentum in industrialized countries slowed somewhat in the first quarter of 2014, this situation was partly attributable to temporary factors such as cold weather in North America. The underlying growth momentum of the world economy is intact, however. In *industrialized countries*, household deleveraging is tapering off slowly, and the need for further consolidation measures in the public sector is diminishing in many countries. Together with an improving labor market situation, the easing debt situation should fuel domestic demand in industrialized countries.

In *emerging economies*, growth slowed owing to sluggish domestic demand and the limited scope for further stimulative economic policy measures. Although financial markets in emerging economies stabilized in early 2014 after a

period of increased volatility, financing conditions have seriously deteriorated in many countries since mid-2013. In a number of emerging economies, growth is being dampened by structural factors such as constraints in infrastructure and production capacity. Countries that were heavily dependent on capital imports had to contend with capital outflows, which were attributable to the gradual normalization of U.S. monetary policy.

In the *U.S.A.*, although temporary factors such as an unusually cold winter caused a short-lived surprise when economic activity slumped in the first quarter of 2014, underlying growth momentum remains intact. Economic recovery is being fueled by growing corporate demand for investment, continued favorable financial conditions and easing fiscal drag. In *China*, GDP growth will continue to decelerate in 2014. More stringent credit conditions are curbing investment growth. This phenomenon is particularly conspicuous in the real estate market where additional restrictions placed on the development of building lots are having a dampening effect. In *Japan*, growth – fueled by advanced purchases made before the VAT increase in April 2014 – was relatively robust in the first quarter of 2014. Growth is anticipated to be less powerful in the second quarter of 2014. Despite positive growth stimuli coming from two sources – first, export growth on the back of the sharp depreciation of the yen since end-2012 and, second, strengthening investment – growth will remain low in the medium term because fiscal policy is restrictive. In the *United Kingdom*, the economy's buoyant momentum in 2013 was sustained during the first quarter of 2014. An expansionary monetary policy and an improving labor market situation are both driving demand.

Monetary policy is likely to start being tightened in 2015. In addition, fiscal consolidation will have a dampening effect on growth.

The *euro area* has emerged from recession. Against a backdrop of potential sanctions against Russia (and counter-sanctions), the risks to the OeNB June 2014 economic outlook are pointed to the downside, however. Huge internal and external macroeconomic imbalances have been either wholly or partly reduced. In euro area countries under stress, the structural reforms implemented, as well as both wage and price adjustments, resulted in improved competitiveness. Continued high unemployment, high levels of household debt and a tight lending policy are dampening growth, however. Driven by Germany's very buoyant performance, positive growth is expected to return to the

euro area in 2014 – after two years of declining economic output. However, euro area countries display significant differences in growth performance. Of the major euro area countries, Spain has turned around its economy while France and Italy still have to contend with structural problems. In *France*, growth will continue to be very muted in 2014. The French government is implementing comprehensive tax reform, which is intended to enhance economic competitiveness and to fuel employment growth as well as investment demand. Exports, however, are still struggling with losses of market shares. Public finance is marked by a relatively high, albeit declining budget deficit and by a high and increasing debt ratio. In *Italy*, economic output slumped sharply in both 2012 and 2013. Although marginally positive growth was registered for

Table 2

Underlying Global Economic Conditions

	2013	2014	2015	2016
	<i>Annual change in % (real)</i>			
Gross domestic product				
World excluding euro area	+3.4	+3.6	+4.0	+4.1
U.S.A.	+1.9	+2.4	+3.0	+3.0
Japan	+1.6	+1.6	+1.1	+0.9
Asia excluding Japan	+5.9	+5.9	+6.2	+6.2
Latin America	+2.6	+2.4	+3.0	+3.3
United Kingdom	+1.7	+3.0	+2.7	+2.8
New EU Member States ¹	+1.2	+2.8	+2.8	+3.0
Switzerland	+2.0	+2.0	+2.2	+2.2
Euro area ²	-0.4	+1.0	+1.7	+1.8
World trade (imports of goods and services)				
World	+2.7	+4.1	+5.5	+5.7
World excluding euro area	+3.5	+4.3	+5.7	+5.9
Growth of euro area export markets (in real terms)	+3.0	+3.7	+5.2	+5.6
Growth of Austrian export markets (in real terms)	+1.7	+4.0	+5.2	+5.6
Prices				
Oil price in USD/barrel (Brent)	108.8	107.2	102.2	98.2
Three-month interest rate in %	0.2	0.3	0.3	0.4
Long-term interest rate in %	2.0	1.8	2.1	2.4
USD/EUR exchange rate	1.33	1.38	1.38	1.38
Nominal effective exchange rate (euro area index)	101.64	104.24	104.35	104.35

Source: Eurosystem.

¹ Bulgaria, Lithuania, Poland, Romania, Czech Republic and Hungary.

² 2014 to 2016: Results of the Eurosystem's June 2014 staff projections.

Russia's Share in Austrian External Trade and Energy Imports

Data relating to Austria's economic links with Russia and, in particular, to Austrian oil and gas imports from Russia are important given the current tensions between Ukraine and Russia. Unless otherwise indicated, these figures relate to 2013. Austria's direct trade relations with Russia are relatively insignificant – only 2.8% of Austrian goods exports go to Russia, making the country Austria's tenth most important trading partner. For services as a whole, Austria's share of exports to Russia is even somewhat lower at 2.3%. For tourism exports, however, Russia is Austria's fifth most important trading partner, generating revenues of EUR 431 million. Additionally, until the outbreak of the crisis, tourism exports were on a steep uptrend, which has however ended in recent months.

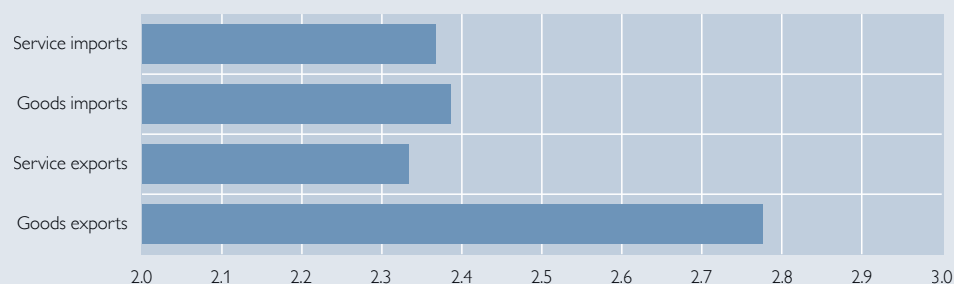
While Russia thus plays a relatively secondary role for the Austrian export sector, it is of major importance as a supplier of both natural gas and oil. Austria can cover only a small portion of its gas consumption from its own production (2012: 20%); the bulk (80%) needs to be imported. Almost two-thirds of Austria's gas imports (63%) come from Russia. As for Austria's oil imports, Russia's share is far smaller at 14%.

Whereas, for oil imports, oil from other countries of origin is quickly substitutable owing to relatively easy transportation facilities, switching to other supplier countries is far more difficult for gas imports. This is why a country's gas storage capacity is key as regards the degree to which the dominance of a specific supplier of gas can jeopardize gas production. Austria uses subterranean gas reservoirs with a storage capacity totaling 83% of annual end consumption of gas. Storage capacity in Austria has almost doubled since 2009, which means it is now some four times as large as the EU average (20%). As at May 18, 2014, Austrian gas reservoirs were 56% full (source: Energie-Control Austria for the Regulation of the Electricity and Natural Gas Markets). In view of currently low gas prices, gas reservoirs are being refilled at present. Consequently, a shortage of Russian gas supplies could therefore be absorbed well into the winter of 2014/15 without any major problems.

Russia's Share in Austrian External Trade and Energy Imports

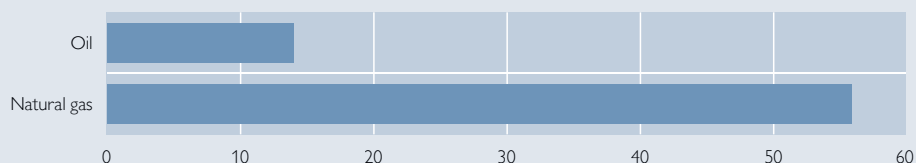
External Trade (2013)

% of exports/imports



Energy Imports (2012)

% of the total of all imports and own production



Source: OeNB, Statistics Austria, Eurostat.

the first time by end-2013, it dipped slightly in the first quarter of 2014. Export market growth and lower financing costs are fueling the recovery, the pace of which is proving to be modest, however. The labor market remains marked by the recession, with still rising unemployment. The deficit ratio is decreasing slightly, with general government gross debt stabilizing at a high level.

Most euro area countries under stress have succeeded in turning around their economy. After Ireland and Spain, Portugal has now also exited the euro-area bailout without the safety net of a credit line and is funding itself again on the finance markets. In addition to Spain and Portugal, Greece should also register a return to positive growth for the first time in 2014. In Cyprus, however, economic output is also expected to slump sharply in 2014.

4 Upswing in Austria Increasingly Fueled by Domestic Demand

Despite historically very low real GDP growth in Austria, the domestic economy grew fairly robustly in both 2012 and 2013 (real GDP growth: 0.7% and 0.3%, respectively) compared with the euro area, which was still in recession (real GDP growth in 2012: -0.7%, 2013: -0.4%). After four quarters of stagnation, the Austrian economy embarked on a moderate growth path from mid-2013, registering GDP growth of 0.3% and 0.4% (in real terms; on a quarterly basis). Austria recorded GDP growth of 0.3% in the first quarter of 2014. All demand components made positive contributions to GDP growth.

The OeNB June 2014 economic outlook projects GDP growth of 1.6% for 2014 as a whole. GDP growth will gain further momentum in 2015 (1.9%) and 2016 (2.1%). Although GDP growth will continue to be largely

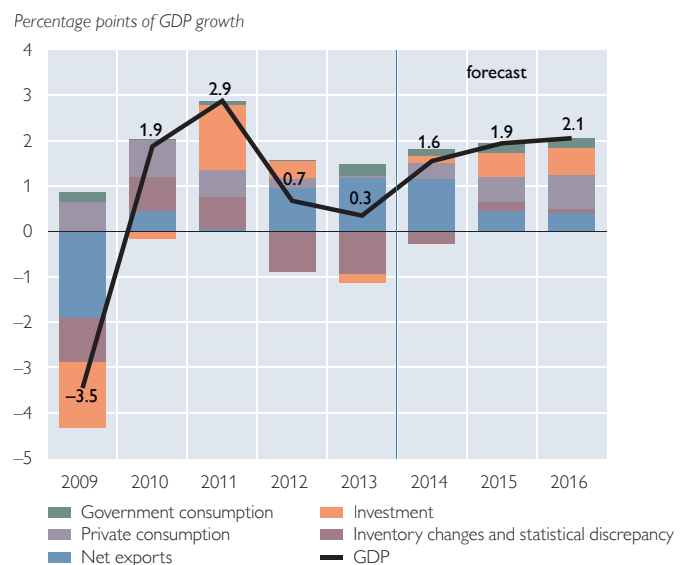
driven by external trade in 2014, momentum will increasingly come from domestic demand from 2015 onward (see chart 2).

4.1 Exports

The current moderate upswing of the Austrian economy is being driven primarily by exports. In 2013 as a whole, the contribution of net exports to real GDP growth stood at 1.2 percentage points and that of domestic demand at a mere 0.1 percentage points. After slumping sharply in 2009, exports bounced back strongly in both 2010 and 2011. Export growth almost came to a standstill in 2012 and 2013, with particularly goods exports being hit. The proportionally less important service exports developed fairly dynamically, however. In the wake of the current economic recovery, which commenced in the second half of 2013, goods exports are once again expanding more vigorously than services exports. Since mid-2013, import growth has been accelerating after slowing for a year and

Chart 2

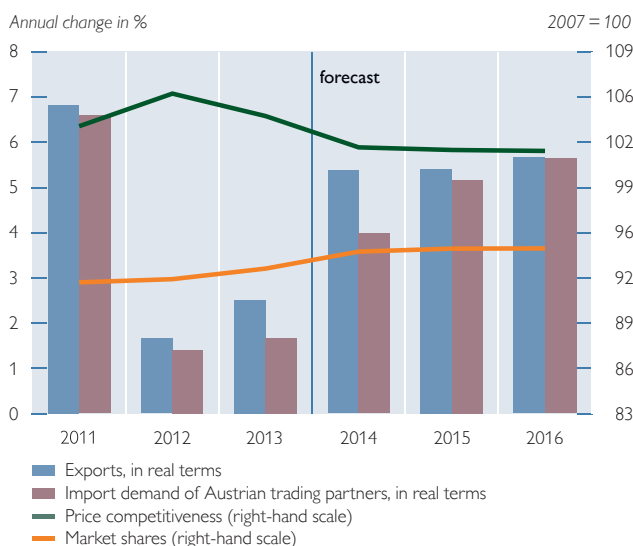
Domestic Upturn Fueled by Foreign Demand



Source: OeNB, Statistics Austria.

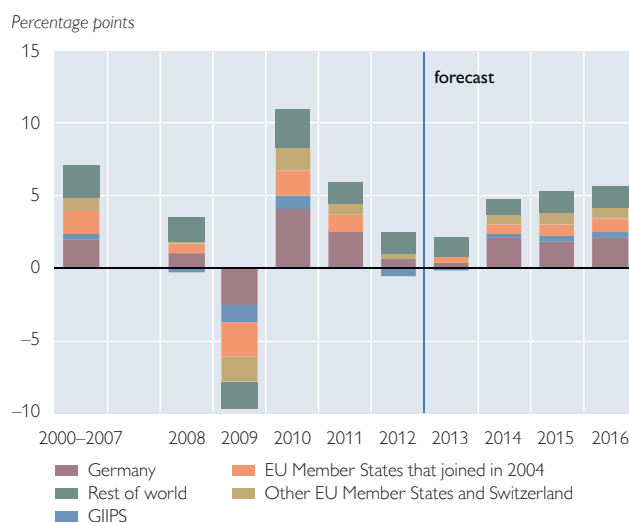
Exports and Competitiveness

Export Growth and Competitiveness



Source: Eurostat, Eurosystem, OeNB.

Contribution to the Growth of Austrian Export Markets



Source: Eurostat, Statistics Austria, Eurosystem, OeNB.

Note: GIIPS = Greece, Italy, Ireland, Portugal, Spain.

a half. Since almost no growth stimuli have so far come from domestic demand – especially investment – import growth has lagged behind export growth.

The OeNB export indicator of May 2014 shows sustained momentum in Austrian exports, with expected annual average export growth to come to 5.4% in 2014 (2013: 2.5%). Austrian export growth is not expected to accelerate further in 2015; it should quicken slightly to 5.7% only in 2016 on the back of expansion in Austria's export markets. Export growth will therefore remain below its average pre-crisis momentum over the entire forecast period (1999 to 2007: 7.3%).

Austria's key export markets are characterized by a process of "normalization" as they return to their precrisis growth levels (right-hand panel in chart 3). This return to normal growth

applies primarily to Germany, Austria's leading trading partner. German GDP growth is expected to accelerate to some 2% in 2014. The euro area's improved prospects mean that the economies of most of the countries that have joined the EU since 2004 will also recover by the end of the forecast period. The growth of Austrian export markets as a whole will accelerate from 4.0% in 2014 to 5.6% in 2016 over the forecast period, thereby remaining below average precrisis growth levels. Price competitiveness, which is shown in chart 3 as the difference between the development in the prices of Austria's competitors in its export markets and the export prices of Austrian manufacturers themselves, remains roughly constant over the forecast period.⁴ This picture implies only minimal changes in the growth of Austria's market share.

⁴ For an up-to-date discussion about the performance of Austrian competitiveness, see also: Gnan, E. and R. Kronberger. 2014. *Schwerpunkt Außenwirtschaft 2013/14*, Facultas.

Table 3

Growth and Price Developments in Austria's Foreign Trade

	2013	2014	2015	2016
	<i>Annual change in %</i>			
Exports				
Competitor prices in Austria's export markets	-1.8	-1.8	+1.0	+1.4
Export deflator	-0.3	+0.4	+1.2	+1.5
Changes in price competitiveness	-1.5	-2.2	-0.2	-0.1
Import demand in Austria's export markets (real)	+1.7	+4.0	+5.2	+5.6
Austrian exports of goods and services (real)	+2.5	+5.4	+5.4	+5.7
Austrian market share	+0.8	+1.4	+0.2	+0.0
Imports				
International competitor prices in the Austrian market	-1.4	-1.3	+1.1	+1.6
Import deflator	-0.8	+0.1	+1.3	+1.6
Austrian imports of goods and services (real)	+0.5	+3.9	+5.4	+5.8
Terms of trade	+0.5	+0.2	-0.1	-0.1
	<i>Percentage points of real GDP</i>			
Contribution of net exports to GDP growth	+1.2	+1.2	+0.5	+0.4

Source: 2013: Eurostat; 2014 to 2016: OeNB June 2014 outlook, Eurosystem.

Table 4

Austria's Current Account

	2013	2014	2015	2016
	<i>% of nominal GDP</i>			
Balance of trade	3.7	3.6	3.6	3.9
Balance of goods	-1.2	-1.2	-1.3	-1.3
Balance of services	4.9	4.8	5.0	5.2
Balance on income	-0.2	0.2	0.3	0.3
Balance on current transfers	-0.8	-0.7	-0.6	-0.6
Current account	2.7	3.1	3.4	3.6

Source: 2013: Eurostat; 2014 to 2016: OeNB June 2014 outlook.

Import growth accelerated significantly in early 2014. The demand for imports will experience a further impetus with domestic demand reviving during the remainder of 2014 and, particularly, in the next two years. As a result, the contribution of net exports to GDP growth will be reduced from 1.2% in 2014 to 0.5% in 2015 and to 0.4% in 2016.

The export-induced upswing is also reflected in the development of the current account balance, which will improve from 2.7% of GDP in 2013 to 3.1% in 2014; the goods balance, however, will not change notably. Although

the balance on income (flows) was in slightly negative territory in 2013, it is trending up currently. Owing to the now positive balance of Austria's net international investment position, surpluses are anticipated from 2014. The current account surplus is expected to augment further in 2015 and 2016.

4.2 Investment Contributes to Growth Again

Despite favorable domestic and external financing conditions in Austria, Austrian investment activity shrank owing to the euro area recession, the accompanying falloff in demand and to

higher levels of uncertainty. In 2013, real gross fixed capital formation slumped by 0.9%. It had already started to decline as early as the third quarter of 2012 and has since fallen by a total of 1.3%. In addition, the rundown of inventories has been dampening GDP growth for three years now. Investment in equipment, which is cyclically sensitive, was especially hit by the crisis, contracting by 6% between the first quarter of 2012 and the final quarter of 2013. Housing investment, by contrast, grew fairly dynamically, rising by 5.4% in the same period.

Preliminary signs of a recovery in investment demand emerged in the first quarter of 2014. At 0.1% (on a quarterly basis), growth in real gross fixed capital formation remained very weak, however. For the first time, nevertheless, inventories were built up again. Both the euro area and all of Austria's major trading partners will return to positive GDP growth in 2014. Heightened investment activity is anticipated as a result of growing export demand. Leading indicators are already signaling

an improvement in sentiment. The increase in export order intake and imports of machines and vehicles, which largely constitute capital goods, exhibit uptrends. Both internal and external financing are continuing to develop favorably. Capacity utilization recently rose slightly and is now standing at its long-term average.

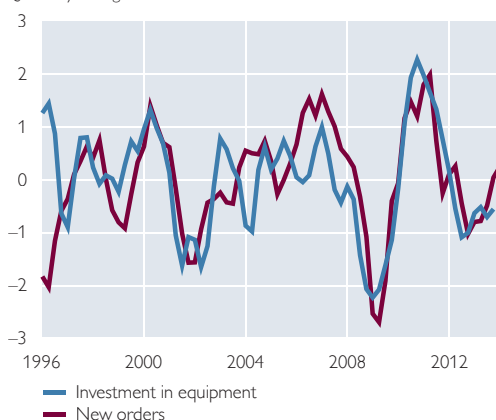
Sluggish investment, which has prevailed since 2012, is basically indicating a significant need for replacement investment, especially of investment in equipment. Unlike during the post-crisis year of 2011 when a very considerable need to catch up triggered extraordinarily robust growth in investment in equipment, the OeNB currently projects only a relatively moderate rise owing to continued uncertainty. Although housing investment had still generated a share of some 5.5% of GDP in 2000, by 2008 this figure had fallen to 4.1% of GDP. Since the outbreak of the global financial and economic crisis, domestic housing investment – as a share of total investment – is trending up again. Still favorable financing

Chart 4

Determinants of Investment in Equipment

New Orders

Quarterly change in %



Source: Statistics Austria, Eurostat, ESI.

Note: Values are standardized and seasonally adjusted.

Machine and Vehicle Imports

Quarterly change in %

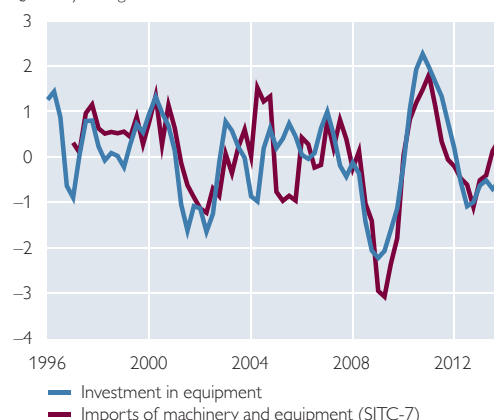


Table 5

Investment Activity in Austria

	2013	2014	2015	2016
<i>Annual change in %</i>				
Total gross fixed capital formation	-0.9	+0.8	+2.6	+2.9
<i>of which: Investment in plant and equipment</i>	-3.3	-1.3	+2.7	+3.3
Residential construction investment	+2.9	+3.8	+2.6	+3.1
Nonresidential construction investment and other investment	-0.1	+1.2	+2.4	+2.5
Government investment	-1.6	+2.7	+2.4	+2.3
Private investment	-0.9	+0.7	+2.6	+3.0
<i>Contribution to total gross fixed capital formation growth in percentage points</i>				
Investment in plant and equipment	-1.3	-0.5	+1.1	+1.3
Residential construction investment	+0.6	+0.8	+0.6	+0.7
Nonresidential construction investment and other investment	-0.1	+0.5	+0.9	+1.0
Government investment	-0.1	+0.1	+0.1	+0.1
Private investment	-0.9	+0.6	+2.5	+2.8
<i>Contribution to real GDP growth in percentage points</i>				
Inventory changes	-0.8	-0.2	+0.2	+0.1

Source: 2013: Eurostat; 2014 to 2016: OeNB June 2014 outlook.

conditions and rising real estate prices indicate a further acceleration in momentum. Civil engineering investment remains subdued owing to scant public sector orders. Overall, the OeNB projects investment growth of 0.8% for 2014, 2.6% for 2015, and 2.9% for 2016.

In line with the economic upturn and the related need to refill inventories, the inventory cycle should once again power real GDP growth in both 2015 and 2016. After registering -0.8 percentage points in 2013 and -0.2 percentage points in 2014, the contribution of inventories to GDP growth will be back in positive territory in 2015 and 2016.

4.3 Real Income Growth Fuels Consumer Demand

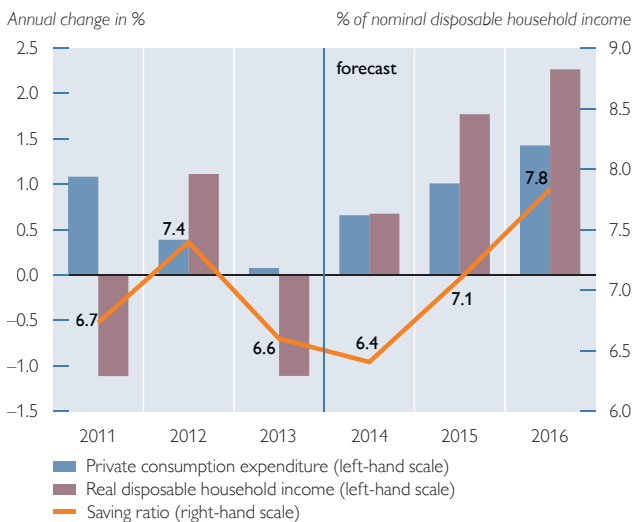
Although disposable household income (national accounts definition) grew nominally by 1.1% in 2013, in real terms it fell by 1.1%. Inflation was 2.1% in 2013. Net real wages fell by

0.4%, with mixed income accruing to self-employed households increasing more slowly than inflation. Property income slumped owing to the sluggish economy. Growing by only 0.1%, real private consumption expenditure developed exceptionally weakly in 2013. In view of falling real household disposable income, even such minimal consumption growth could only be financed by a decline in the saving ratio, which slumped to a historically very low level of -6.6%.

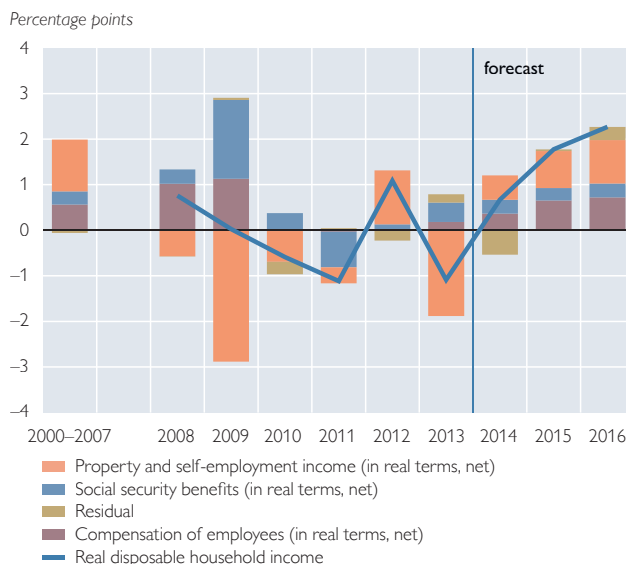
Despite high employment growth and advanced purchases of motor vehicles in February 2014 (owing to the increase in the environmental tax on motor vehicle purchases in March 2014), consumer demand was also listless in the first quarter of 2014. Employment growth will remain high for the rest of 2014, and inflation will ease compared with 2013. Both will bolster real disposable household income and lend increased momentum to consumer demand.

Private Consumption¹

Real Disposable Income Rises



Contributions to the Growth of Real Disposable Household Income



Source: Statistics Austria, OeNB.

¹ Explanatory notes and data sources relating to chart 5, right-hand panel. "Compensation of employees (net)": compensation of employees less social contributions (actual and imputed, to government and private entities) of employers and employees as well as other wage-related taxes payable by employees (Statistics Austria data up to and including 2012, from 2013 onward update based on 2013 tax data and the OeNB outlook). "Social benefits (net)": difference between monetary social benefits received by the household sector (including transfers from the private sector) less wage tax and social security contributions on pensions (data for wage tax and social security contributions on pensions based on wage tax statistics, combined with the OeNB outlook). "Property and self-employment income (net)": sum comprising property income (including interest) and mixed income accruing to self-employed households less withholding taxes on property income of the household sector, assessed income tax and social security contributions of self-employed households (latter based on own estimates). "Residual": primarily net contribution of other current transfers (e.g. nonlife insurance premiums and benefits, etc.) as well as social security contributions and current direct taxes that were not taken into consideration above (in particular, motor vehicle taxes and parafiscal charges paid by private households).

At 2.5%, collective wage growth will fall slightly short of its 2013 level (2.6%) in 2014. Furthermore, it is not expected to advance more robustly in either 2015 (2.4%) or 2016 (2.5%). Wage drift has been negative since 2009. It was driven particularly by the structural shift of employment to low wage sectors, by an increasing share of part-time employees and by overpayments, which were low for cyclical reasons. Healthy GDP growth raises expectations that wage drift will be positive in 2016 for the first time since the outbreak of the crisis. Employment will rise markedly in the coming years with growth rates of around 1%, thereby contributing to an ongoing increase in the wage bill. In addition, nonwage-related income components

will again make a higher contribution to household income growth from 2014 thanks to the economic recovery. After contracting in 2013, property income will revive fairly slowly in 2014. Owing to the historically low level of interest rates, it will remain subdued over the entire forecast period. Self-employment income and operating surpluses are following in the path of the general economic recovery.

Overall, real disposable household income will climb steadily in 2014 (0.7%), 2015 (1.8%) and 2016 (2.3%). A more protracted phase with growing momentum in real disposable household income was most recently evident in the period from 2002 to 2005. Additional real disposable household income will however only partly flow

Table 6

Determinants of Nominal Household Income in Austria

	2013	2014	2015	2016
<i>Annual change in %</i>				
Payroll employment	+0.8	+1.1	+0.9	+1.0
Wages per employee	+2.2	+2.1	+2.4	+2.8
Compensation of employees	+3.0	+3.2	+3.3	+3.8
Property income	-14.4	+3.5	+5.7	+7.6
Mixed income and operating surplus, net	+1.7	+3.7	+4.4	+4.6
<i>Contribution to disposable household income growth in percentage points</i>				
Compensation of employees	+2.5	+2.8	+2.9	+3.3
Property income	-1.5	+0.3	+0.5	+0.7
Mixed income and operating surplus, net	+0.3	+0.7	+0.9	+1.0
Net transfers minus direct taxes ¹	-0.4	-0.9	-0.8	-0.8
Disposable household income (nominal)	+1.1	+2.6	+3.4	+4.1

Source: 2013: Eurostat; 2014 to 2016: OeNB June 2014 outlook.

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

Table 7

Private Consumption in Austria

	2013	2014	2015	2016
<i>Annual change in %</i>				
Disposable household income (nominal)	+1.1	+2.6	+3.4	+4.1
Private consumption expenditure (PCE) deflator	+2.2	+1.9	+1.6	+1.8
Disposable household income (real)	-1.1	+0.7	+1.8	+2.3
Private consumption (real)	+0.1	+0.7	+1.0	+1.4
<i>% of nominal disposable household income</i>				
Saving ratio	6.6	6.4	7.1	7.8

Source: 2013: Eurostat; 2014 to 2016: OeNB June 2014 outlook.

into private consumption, since households are gradually readjusting their saving targets to those of the precrisis period and thus slowly increasing their saving ratio (2007 saving ratio: 11.6%). This increase in the saving ratio will be further sustained by income shares attracting a relatively small marginal

propensity to consume – in particular, property income – exhibiting relatively stronger growth momentum in the wake of the economic recovery. The OeNB therefore projects moderate real private consumption growth of 0.7% (2014), 1.0% (2015) and 1.4% (2016).

Development of Public Sector Finances from 2013 to 2016¹

The general government deficit narrowed to 1.5% of GDP in 2013 (2012: 2.6%) primarily owing to an improvement in the contribution of one-off effects. In addition to a decline in capital transfers to banks (from EUR 2.8 billion to EUR 2.1 billion), high one-off revenues were generated from the auction of mobile frequencies (EUR 2 billion; recorded as negative spending in the national accounts) and from the tax agreement with Switzerland (EUR 0.7 billion). Thanks to robust growth in the wage bill, the bleak state of the economy was reflected only in the sluggish growth in revenue from taxes on products (particularly, VAT) and in a sharp rise in expenditure on unemployment benefits. These effects were roughly compensated by the consolidation measures that took effect in 2013 (zero wage round in parts of the civil service sector, pension adjustments below the inflation rate, increases in social security contributions, etc.) and by the impact of bracket creep (through the nominal fixing of the wage and income tax brackets).

Further structural improvements in the budget balance are expected over the forecast horizon, particularly in 2014. These improvements are primarily due to many small measures on the revenue side (such as the increase in the motor vehicle tax), to continued bracket creep, further pension adjustments below the inflation rate in 2014 as well as to sluggish growth in both staff and discretionary expenditure. To meet Austria's medium-term objective of a structural balance of -0.45% of GDP in 2015, further consolidation of about ¼% of GDP is therefore still required from the OeNB's perspective.

The largest factor of uncertainty in forecasting the headline budget balance lies in the impact of any potential financial stabilization measures ("bank rescue package"). In view of the budgetary effect of these measures, the forecast of the budget balance shown in table 1 is based on data in the latest strategy report published by the Austrian Federal Ministry of Finance. Owing to the imminent reorganization of the Hypo Alpe-Adria group, very substantial budgetary strains can be expected in 2014, in particular. As a result, Austria's general government debt will expand substantially;² from 2015, however, a relatively sharp decline in the government debt ratio is expected thanks to low new net borrowing and comparatively higher nominal GDP growth.

The OeNB's current projection is based on the statistical definitions of the European System of Accounts 1995 (ESA 95), ESA 2010 will enter into force in fall 2014. An impact assessment by Statistics Austria revealed an increase in the general government debt ratio in 2011 of some 2.5 percentage points. Assuming that the impact in the years before and afterwards is similarly high, Austria's general government debt ratio should be expected to increase to a little over 80% of GDP in 2014.

¹ Prepared by Lukas Reiss, Oesterreichische Nationalbank, Economic Analysis Division, lukas.reiss@oenb.at.

² Since future bank rescue packages are to be financed through the ESM, the anticipated additional impact of the euro area's crisis management on Austria's general government debt in 2014 will be well below that in the period from 2011 to 2013; no further impact on the government debt is expected for 2015 and 2016.

5 Further Rise in Both Employment and Unemployment

Despite only minimal real GDP growth of 0.3% in 2013, payroll employment (persons) as defined by the national accounts⁵ registered steep growth of 0.8%, i.e. an increase of more than 28,000 persons to a total of 3.677 million persons. As a result, employment has reached a new record level for the fourth year in a row now. At the same time, the number of jobless persons rose by 13.8% to 215,200 (microcensus). This figure also represents a record high. In addition, the first quarter of 2014 was marked by a simultaneous increase in both employment and unemployment. Owing to the particularly mild winter and the related sharp rise in employment in the construction industry, the number of payroll employees rose by 0.4% on a quarterly basis. As a result, even long-term average growth was surpassed by a wide margin.⁶ At the same time, the number of jobless persons increased by 11.1%.

However, the extraordinarily robust growth in employment is overstating the employment momentum. In times of crisis, the Austrian economy demonstrates above all flexibility in the number of hours worked and less so in per capita employment. Employment per hour,

which in addition to the economic situation also records structural changes such as growth in part-time employment, developed far less positively than per capita employment. As in 2009, 2013 was in fact marked by a reduction in the total number of hours worked (2013: -0.8%; 2009: -3.4%). Unlike per capita employment, a return to the precrisis level of 2008 has not yet been reached for employment per hour. Current leading indicators signal sustained high momentum for per capita employment. The seasonally-adjusted number of job vacancies has been trending up slightly since July 2013. The number of companies that registered for short-time work and the number of persons thereby affected are falling steadily. The number of terminations of employment reported to the Austrian Public Employment Service is fairly stable. The OeNB expects that employment growth will stabilize a little below the current level in the coming quarters. At 1.1%, employment growth in 2014 will even exceed the level in both 2015 (0.9%) and 2016 (1.0%) owing to the extraordinarily buoyant first quarter of 2014. Despite the sustained trend toward part-time employment, hours worked are, however, expected to rise sharply again for cyclical reasons in

⁵ The OeNB's forecast is based on seasonally and working day-adjusted national accounts data. Employment (national accounts definition) is surveyed in accordance with the place of work concept, i.e. it also includes the employment of commuters. According to the Microcensus Labor Force Survey (LFS) compiled by Statistics Austria, which was carried out in accordance with the residence concept, employed labor force numbers fell slightly in 2013. The term of employed labor force differs conceptually in both sets of statistics and is more broadly defined in the national accounts than in the microcensus (particularly, the place of work concept which includes not only commuters but also persons in compulsory military service and civilian draftees, as well as persons employed in institutional households). For many economic analyses (e.g. the estimation of the wage tax amount), it is irrelevant whether a commuter permanently active in Austria or a resident worker is considered. But this is not the case for many other questions (e.g. determinants of the development in domestic private consumption). The difference between both sets of employment statistics stood at around 14,000 persons in 2012. In 2013, however, this gap widened to around 54,000 persons. For a detailed comparison of both sets of statistical data, see Chalupa, J. and K. Knittler. 2013. *Erwerbstätige in den Volkswirtschaftlichen Gesamtrechnungen und im Mikrozensus. Konzeptionelle und quellenbedingte Unterschiede*, *Statistische Nachrichten* ("The Employed Labor Force in the National Accounts and Microcensus. Conceptual and Source-Related Differences, Statistical News") 3/2013. 238–246.

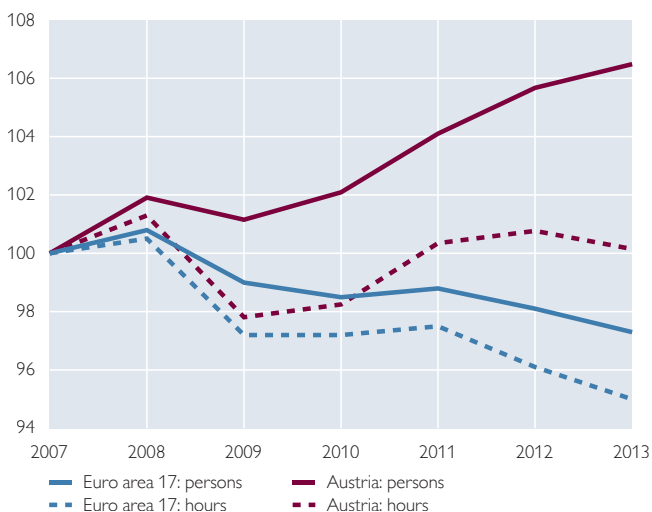
⁶ Average growth stood at 0.21% in the period from 2000 to 2007. At 0.24%, average growth was even higher in the period from 2000 to 2013 which include the crisis years but fell short of the level in the first quarter of 2014 (national accounts).

Chart 6

Labor Market

Employment in Terms of Persons and Hours

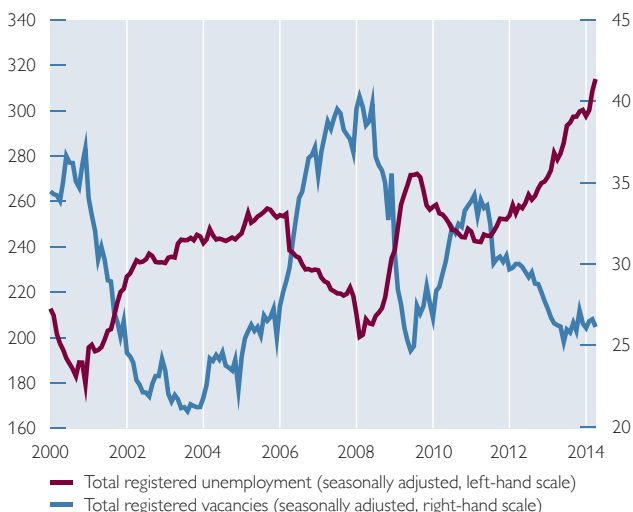
2007 = 100



Source: National accounts, Eurostat, OeNB calculations.

Unemployed Persons and Vacancies

thousands



Source: Austrian Public Employment Service, OeNB.

the rest of the forecast period (2014: +0.1%; 2016: +1.0%).

The simultaneous rise in both employment and unemployment is attributable to robust growth in labor supply. This surge stems not only from the expansion in foreign labor supply in the wake of the liberalization of the Austrian labor market for workers from the new EU Member States and to the migration from the old EU Member States – particularly, Germany – but is

also attributable to current growth in domestic labor supply owing to increasing participation rates of women and older workers, the latter as a result of adjustments to pension legislation.

A simultaneous increase in the demand and supply of labor is expected over the forecast horizon. As a result, the jobless rate will also rise (+0.1 percentage point) in 2014 to 5.0%, a level where it will remain in 2015. The jobless rate is projected to drop slightly

Table 8

Labor Market Developments in Austria

	2013	2014	2015	2016
<i>Annual change in %</i>				
Total employment	+0.8	+1.1	+0.9	+1.0
of which: Payroll employment	+0.8	+1.1	+0.9	+1.0
Self-employment	+0.8	+1.0	+0.8	+1.2
Public sector employment	+0.0	-0.1	-0.1	-0.1
Registered unemployment	+13.4	+4.5	-0.6	-1.1
Labor supply	+1.3	+1.2	+0.8	+0.9
<i>% of labor supply</i>				
Unemployment rate (Eurostat definition)	4.9	5.0	5.0	4.9

Source: 2013: Eurostat; 2014 to 2016: OeNB June 2014 outlook.

to 4.9% only in 2016. Economic momentum is accelerating too slowly to substantially lower the jobless rate.

6 Inflation below Two Percent

Austrian HICP inflation stood at 2.6% in 2012 and fell sharply to 2.1% in 2013. This drop in inflation was attributable to three factors: the dip in global commodity prices, the modest development in the prices of imported goods and marginally slowing wage cost growth. Inflation declined to 1.6% in April 2014. In the course of 2014, a modest uptick is expected owing primarily to base effects and to the increase in the prices of consumer durables. The Tax Amendment Act (tobacco duty, environmental tax on motor vehicle purchases, duty on alcohol and sparkling wine), which entered into force in March 2014, will increase HICP inflation by 0.1 percentage points.

Commodity prices will slide in line with the development of futures prices during the forecast period. In addition, the expected collective wage agreements will fall short of their 2013 level

in the forecast period as a whole. Neither 2014 nor 2015 will therefore see any upward pressures on wages or prices; wage drift is not expected to turn positive until 2016. HICP inflation is expected to ease to 1.8% (2014), 1.7% (2015) and 1.9% (2016). Core inflation will exceed HICP inflation in 2014 (2.1%) and 2015 (2.0%) but remain unchanged in 2016.

Despite easing in 2013, Austrian inflation still exceeded the euro area average. In April 2014, Austria had the highest inflation in the euro area as a whole. Countries that were obliged to undergo a far-reaching adjustment process have very low, at times even negative inflation rates. But inflation was weaker than in Austria also in Germany, where growth developed along similar lines as in Austria. In the first quarter of 2014, the inflation gap vis-à-vis Germany was wholly attributable to a higher contribution of service prices to inflation. This contribution is attributable to two factors: first, stronger momentum in wage-sensitive sectors (e.g. restaurant and hotel ser-

Table 9

Selected Price and Cost Indicators for Austria

	2013	2014	2015	2016
<i>Annual change in %</i>				
Harmonised Index of Consumer Prices (HICP)	+2.1	+1.8	+1.7	+1.9
HICP energy	-1.0	-1.4	-0.9	-0.9
HICP excluding energy	+2.4	+2.1	+2.0	+2.0
Private consumption expenditure (PCE) deflator	+2.2	+1.9	+1.6	+1.8
Investment deflator	+1.4	+1.3	+1.5	+1.7
Import deflator	-0.8	+0.1	+1.3	+1.6
Export deflator	-0.3	+0.4	+1.2	+1.5
Terms of trade	+0.5	+0.2	-0.1	-0.1
GDP at factor cost deflator	+1.7	+1.5	+1.6	+1.9
Unit labor costs	+2.6	+1.6	+1.4	+1.7
Compensation per employee	+2.2	+2.1	+2.4	+2.8
Labor productivity	-0.4	+0.5	+1.0	+1.0
Collectively agreed wage settlements	+2.6	+2.5	+2.4	+2.5
Profit margins ¹	-0.9	-0.1	+0.2	+0.2

Source: 2013: Eurostat, Statistics Austria; 2014 to 2016: OeNB June 2014 outlook.

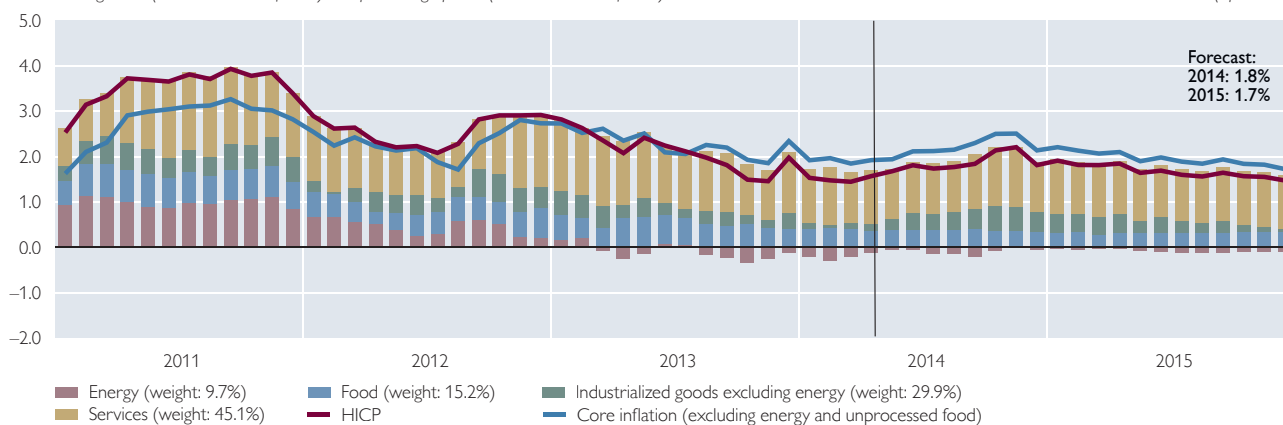
¹ GDP deflator divided by unit labor costs.

Chart 7

Austrian HICP Inflation Rate and Contributions of Subcomponents

Annual change in % (HICP and core inflation) and percentage points (contributions to inflation)

Last observation: 1.6% (April 2014)



Source: Statistics Austria, OeNB.

vices, financial services) and, second, a larger contribution to inflation by the Austrian public sector. The inflation gap vis-à-vis the euro area and Germany will consequently persist in the coming months too.

7 Balanced Domestic Risks to the Forecast with Significant External Downside Risks

External risks to growth are clearly pointed to the downside. The most significant risk by far comes from the aggravation of the Ukraine-Russia crisis and from the impact of potential further EU sanctions. Although progress was made in reducing macroeconomic imbalances in the euro area and in Central, Eastern and Southeastern European (CESEE) countries, considerable uncertainty remains in view of still extraordinarily high unemployment, the fragmentation of European financial markets and the continuing need for further public-sector and private-sector debt reduction in many countries. A further external risk persists as regards the U.S. budgetary development. The withdrawal of U.S. monetary policy measures could provoke

financial turbulence in countries that are highly dependent on international capital inflows.

Domestic economic risks are balanced: increased precautionary saving might result in lower consumption growth. In view of the protracted slump in investment activity, the projected investment cycle is marked by considerable caution. Stronger investment demand as presumed in the basic scenario could make the investment cycle more pronounced. Although the increase in real estate prices has recently slowed to some extent, it could nonetheless generate more vigorous construction investment activity.

The risks to the inflation forecast are considered to be largely balanced. Nevertheless, accelerating commodity prices represent an upside risk, as does an aggravation of the Ukraine-Russia crisis.

8 No Forecast Revisions on the OeNB December 2013 Outlook

The underlying assumptions on the projected growth of Austrian export markets have changed only marginally – despite the Ukraine-Russia crisis –

since the OeNB December 2013 outlook and were revised down by 0.4 and 0.1 percentage points for 2014 and 2015, respectively. Relatively sharp revisions were made for the assumptions on the price development of Austrian competitors in both export and import markets; they are anticipated to be far more muted for 2014. For 2014 and 2015, oil futures prices will be slightly higher on December 2013: by USD 3.3 per barrel of Brent in 2014 and by USD 3 per barrel of Brent in 2015. The assumptions on the EUR/USD exchange rate and the nominal effective exchange rate imply a modest appreciation. Although short-term interest rates remain for 2014 unchanged on the OeNB December 2013 forecast, they are now 20 basis points lower for 2015. Long-term interest rates are 50 to 60 basis points lower than in the previous outlook.

The effects of these new external assumptions were simulated using the

OeNB macroeconomic model. Table 11 lists the reasons for revising the outlook in detail. Apart from the impact of changed external assumptions, the impact of new data and other changes (“Other”) have played a role. The influence of new data includes the effects of the revisions of both the historical data already available at the time of the previous economic outlook (i.e. data up to the third quarter of 2013) and the forecasting errors of the previous outlook for the periods now published for the first time (i.e. data for the fourth quarter of 2013 and for the first quarter of 2014). “Other” includes new expert analyses regarding the development of domestic variables, such as government consumption or wage settlements, as well as any changes to the model.

The upward revision of historical data up to the fourth quarter of 2013 has resulted in higher growth for 2014 as a whole. By contrast, the rate of growth for the first quarter of 2014

Table 10

Change in the External Economic Conditions since the OeNB December 2013 Outlook

	June 2014		December 2013		Difference	
	2014	2015	2014	2015	2014	2015
<i>Annual change in %</i>						
Growth of Austria's export markets	+4.0	+5.2	+4.4	+5.3	-0.4	-0.1
Competitor prices in Austria's export markets	-1.8	+1.0	+0.4	+1.3	-2.2	-0.3
Competitor prices in Austria's import markets	-1.3	+1.1	+0.6	+1.4	-1.9	-0.3
<i>USD per barrel (Brent)</i>						
Oil price	107.2	102.2	103.9	99.2	+3.3	+3.0
<i>Annual change in %</i>						
Nominal effective exchange rate (exports)	-1.9	+0.0	-0.3	+0.0	-1.6	+0.0
Nominal effective exchange rate (imports)	-1.3	+0.0	-0.2	+0.0	-1.1	+0.0
%						
Three-month interest rate	0.3	0.3	0.3	0.5	+0.0	-0.2
Long-term interest rate	1.8	2.1	2.3	2.7	-0.5	-0.6
<i>Annual change in %</i>						
U.S. GDP (real)	+2.4	+3.0	+2.6	+3.2	-0.2	-0.2
<i>USD/EUR</i>						
USD/EUR exchange rate	1.38	1.38	1.34	1.34	+0.04	+0.04

Source: Eurosystem.

Table 11

Breakdown of Forecast Revisions

	GDP		HICP	
	2014	2015	2014	2015
	<i>Annual change in %</i>			
June 2014 forecast	+1.6	+1.9	+1.8	+1.7
December 2013 forecast	+1.6	+1.9	+1.7	+1.6
Difference	+0.0	+0.0	+0.1	+0.1
	<i>Percentage points</i>			
Caused by:				
External assumptions	-0.1	+0.0	+0.1	+0.1
New data	+0.0	+0.0	+0.0	+0.0
of which: Revision of historical data up to Q3 13	+0.1	+0.0	+0.0	+0.0
Forecasting errors for Q4 13 and Q1 14	-0.1	+0.0	+0.0	+0.0
Other ¹	+0.1	+0.0	+0.0	+0.0

Source: OeNB June 2014 and December 2013 outlooks.

¹ Different assumptions on the development of domestic variables such as wages, government consumption, impact of fiscal measures, other changes to the analysis and model changes.

was, however, projected at somewhat too high a level. Projected GDP growth for both 2014 and 2015 was left unchanged despite marginally worse external economic conditions compared with the December 2013 outlook. The investment growth forecast for 2014 was reduced; the impact on GDP growth will, however, be offset by stronger-than-expected export momentum.

The modest upward revision of the inflation forecast for 2014 and 2015 is essentially based on the impact of the new external assumptions – expected higher crude oil and food commodity prices (particularly, coffee and wheat).

Annex: Detailed Result Tables

Table 12

Demand Components (Real Prices)

Chained volume data (reference year = 2005)

	2013	2014	2015	2016	2013	2014	2015	2016
	EUR million				Annual change in %			
Private consumption	145,548	146,509	147,991	150,107	+0.1	+0.7	+1.0	+1.4
Government consumption	50,638	51,028	51,632	52,205	+1.4	+0.8	+1.2	+1.1
Gross fixed capital formation	55,867	56,292	57,751	59,442	-0.9	+0.8	+2.6	+2.9
of which: Investment in plant and equipment	22,395	22,104	22,708	23,451	-3.3	-1.3	+2.7	+3.3
Residential construction investment	11,680	12,123	12,439	12,819	+2.9	+3.8	+2.6	+3.1
Investment in other construction	22,033	22,287	22,820	23,385	-0.1	+1.2	+2.4	+2.5
Changes in inventories (including statistical discrepancy)	-593	-1,322	-757	-530	x	x	x	x
Domestic demand	251,460	252,507	256,617	261,223	-0.9	+0.4	+1.6	+1.8
Exports of goods and services	160,875	169,530	178,702	188,820	+2.5	+5.4	+5.4	+5.7
Imports of goods and services	140,103	145,580	153,493	162,424	+0.5	+3.9	+5.4	+5.8
Net exports	20,773	23,950	25,209	26,396	x	x	x	x
Gross domestic product	272,233	276,457	281,825	287,619	+0.3	+1.6	+1.9	+2.1

Source: 2013: Eurostat; 2014 to 2016: OeNB June 2014 outlook.

Table 13

Demand Components (Current Prices)

	2013	2014	2015	2016	2013	2014	2015	2016
	EUR million				Annual change in %			
Private consumption	172,652	177,141	181,871	187,779	+2.3	+2.6	+2.7	+3.2
Government consumption	59,866	61,445	63,170	65,014	+2.5	+2.6	+2.8	+2.9
Gross fixed capital formation	65,974	67,336	70,140	73,400	+0.5	+2.1	+4.2	+4.6
Changes in inventories (including statistical discrepancy)	-433	-1,912	-924	53	x	x	x	x
Domestic demand	298,059	304,009	314,257	326,246	+0.6	+2.0	+3.4	+3.8
Exporte insgesamt	179,924	190,296	203,062	217,740	+2.2	+5.8	+6.7	+7.2
Importe insgesamt	165,140	171,829	183,563	197,323	-0.3	+4.1	+6.8	+7.5
Nettoexporte	14,785	18,467	19,499	20,416	x	x	x	x
Gross domestic product	312,844	322,477	333,757	346,662	+2.0	+3.1	+3.5	+3.9

Source: 2013: Eurostat; 2014 to 2016: OeNB June 2014 outlook.

Table 14

Deflators of Demand Components

	2013	2014	2015	2016	2013	2014	2015	2016
	2005 = 100				Annual change in %			
Private consumption	118.6	120.9	122.9	125.1	+2.2	+1.9	+1.6	+1.8
Government consumption	118.2	120.4	122.3	124.5	+1.1	+1.9	+1.6	+1.8
Gross fixed capital formation	118.1	119.6	121.4	123.5	+1.4	+1.3	+1.5	+1.7
Domestic demand (excluding changes in inventories)	118.4	120.5	122.5	124.6	+1.8	+1.8	+1.6	+1.8
Exports of goods and services	111.8	112.2	113.6	115.3	-0.3	+0.4	+1.2	+1.5
Imports of goods and services	117.9	118.0	119.6	121.5	-0.8	+0.1	+1.3	+1.6
Terms of trade	94.9	95.1	95.0	94.9	+0.5	+0.2	-0.1	-0.1
Gross domestic product	114.9	116.6	118.4	120.5	+1.7	+1.5	+1.5	+1.8

Source: 2013: Eurostat; 2014 to 2016: OeNB June 2014 outlook.

Table 15

Labor Market

	2013	2014	2015	2016	2013	2014	2015	2016
	Thousands				Annual change in %			
Total employment	4,229.5	4,275.3	4,313.2	4,357.9	+0.8	+1.1	+0.9	+1.0
of which: Private sector employment	3,702.0	3,748.3	3,786.6	3,831.6	+0.9	+1.3	+1.0	+1.2
Payroll employment (national accounts definition)	3,676.9	3,716.9	3,750.4	3,788.6	+0.8	+1.1	+0.9	+1.0
	% of labor supply							
Unemployment rate (Eurostat definition)	4.9	5.0	5.0	4.9	x	x	x	x
	EUR per real output unit x 100							
Unit labor costs (whole economy) ¹	67.0	68.1	69.0	70.2	+2.6	+1.6	+1.4	+1.7
	EUR thousand per employee							
Labor productivity (whole economy) ²	64.4	64.7	65.3	66.0	-0.4	+0.5	+1.0	+1.0
	EUR thousand							
Real compensation per employee ³	36.4	36.4	36.7	37.1	+0.0	+0.2	+0.8	+0.9
	At current prices in EUR thousand							
Gross compensation per employee	43.1	44.0	45.1	46.4	+2.2	+2.1	+2.4	+2.8
	At current prices in EUR million							
Total gross compensation of employees	158,641	163,725	169,192	175,623	+3.0	+3.2	+3.3	+3.8

Source: 2013: Eurostat; 2014 to 2016: OeNB June 2014 outlook.

¹ Gross wages divided by real GDP.

² Real GDP divided by total employment.

³ Gross wages per employee divided by the private consumption expenditure (PCE) deflator.

Table 16

Current Account

	2013	2014	2015	2016	2013	2014	2015	2016
	EUR million				% of nominal GDP			
Balance of trade	11,606.0	11,637.5	12,138.8	13,648.0	3.7	3.6	3.6	3.9
Balance of goods	-3,799.0	-3,909.3	-4,487.7	-4,531.5	-1.2	-1.2	-1.3	-1.3
Balance of services	15,405.0	15,546.8	16,626.5	18,179.5	4.9	4.8	5.0	5.2
Balance on income	-747.0	765.6	1,149.6	955.9	-0.2	0.2	0.3	0.3
Balance on transfers	-2,415.0	-2,293.4	-2,038.3	-1,966.6	-0.8	-0.7	-0.6	-0.6
Current account	8,444.0	10,109.7	11,250.1	12,637.3	2.7	3.1	3.4	3.6

Source: 2013: Eurostat; 2014 to 2016: OeNB June 2014 outlook.

Table 17

Quarterly Outlook Results

	2014	2015	2016	2014				2015				2016			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Prices, wages and costs															
Annual change in %															
HICP	+1.8	+1.7	+1.9	+1.5	+1.7	+1.8	+2.1	+1.8	+1.7	+1.6	+1.5	+1.9	+1.9	+1.9	+1.9
HICP (excluding energy)	+2.1	+2.0	+2.0	+1.9	+1.9	+2.2	+2.3	+2.1	+2.0	+1.9	+1.8	+2.0	+2.0	+2.0	+2.0
Private consumption expenditure (PCE) deflator	+1.9	+1.6	+1.8	+2.0	+2.0	+2.0	+1.8	+1.7	+1.6	+1.6	+1.7	+1.8	+1.8	+1.8	+1.8
Gross fixed capital formation deflator	+1.3	+1.5	+1.7	+1.1	+1.3	+1.4	+1.4	+1.5	+1.5	+1.6	+1.6	+1.7	+1.7	+1.7	+1.6
GDP deflator	+1.5	+1.5	+1.8	+1.3	+1.5	+1.5	+1.6	+1.6	+1.4	+1.5	+1.6	+1.8	+1.9	+1.8	+1.6
Unit labor costs	+1.6	+1.4	+1.7	+2.2	+1.6	+1.4	+1.3	+1.1	+1.3	+1.4	+1.5	+1.6	+1.7	+1.8	+1.8
Nominal wages per employee	+2.1	+2.4	+2.8	+1.8	+1.9	+2.2	+2.4	+2.6	+2.5	+2.3	+2.3	+2.5	+2.7	+2.9	+3.0
Productivity	+0.5	+1.0	+1.0	-0.4	+0.3	+0.8	+1.1	+1.4	+1.1	+0.9	+0.7	+0.9	+1.0	+1.0	+1.1
Real wages per employee	+0.2	+0.8	+0.9	-0.1	-0.1	+0.2	+0.6	+0.9	+0.8	+0.7	+0.6	+0.7	+0.9	+1.0	+1.2
Import deflator	+0.1	+1.3	+1.6	-0.5	+0.0	+0.4	+0.6	+1.0	+1.2	+1.4	+1.6	+1.6	+1.6	+1.6	+1.6
Export deflator	+0.4	+1.2	+1.5	-0.1	+0.3	+0.5	+0.8	+1.0	+1.2	+1.3	+1.4	+1.4	+1.5	+1.5	+1.5
Terms of trade	+0.2	-0.1	-0.1	+0.4	+0.2	+0.2	+0.1	+0.0	+0.0	-0.1	-0.2	-0.2	-0.1	+0.0	+0.0
Economic activity															
Annual and/or quarterly changes in % (real)															
GDP	+1.6	+1.9	+2.1	+0.3	+0.5	+0.5	+0.5	+0.5	+0.5	+0.5	+0.5	+0.5	+0.5	+0.5	+0.5
Private consumption	+0.7	+1.0	+1.4	+0.1	+0.2	+0.3	+0.3	+0.2	+0.2	+0.3	+0.3	+0.4	+0.4	+0.4	+0.4
Government consumption	+0.8	+1.2	+1.1	+0.4	-0.1	+0.0	+0.0	+0.5	+0.5	+0.5	+0.5	+0.1	+0.1	+0.2	+0.2
Gross fixed capital formation	+0.8	+2.6	+2.9	+0.1	+0.4	+0.6	+0.7	+0.7	+0.7	+0.7	+0.7	+0.8	+0.8	+0.7	+0.7
Exports	+5.4	+5.4	+5.7	+1.5	+1.4	+1.3	+1.4	+1.3	+1.3	+1.3	+1.3	+1.4	+1.4	+1.4	+1.4
Imports	+3.9	+5.4	+5.8	+1.1	+1.0	+1.1	+1.3	+1.4	+1.4	+1.4	+1.4	+1.4	+1.4	+1.4	+1.4
Contribution to real GDP growth in percentage points															
Domestic demand	+0.7	+1.3	+1.6	+0.2	+0.2	+0.2	+0.3	+0.3	+0.3	+0.4	+0.4	+0.4	+0.4	+0.4	+0.4
Net exports	+1.2	+0.5	+0.4	+0.3	+0.3	+0.2	+0.2	+0.0	+0.0	+0.1	+0.0	+0.1	+0.1	+0.1	+0.1
Changes in inventories	-0.3	+0.2	+0.1	-0.2	+0.0	+0.0	+0.0	+0.1	+0.1	+0.1	+0.0	+0.0	+0.0	+0.0	+0.0
Labor market															
% of labor supply															
Unemployment rate (Eurostat definition)	5.0	5.0	4.9	4.9	5.1	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	4.9	4.8
Annual and/or quarterly changes in %															
Total employment	+1.1	+0.9	+1.0	+0.4	+0.1	+0.1	+0.1	+0.3	+0.3	+0.3	+0.3	+0.2	+0.2	+0.2	+0.3
of which: Private sector employment	+1.3	+1.0	+1.2	+0.5	+0.1	+0.1	+0.1	+0.3	+0.3	+0.3	+0.3	+0.3	+0.3	+0.3	+0.3
Payroll employment	+1.1	+0.9	+1.0	+0.4	+0.2	+0.2	+0.2	+0.2	+0.3	+0.3	+0.3	+0.2	+0.2	+0.3	+0.3
Additional variables															
Annual and/or quarterly changes in % (real)															
Real disposable household income	+0.7	+1.8	+2.3	-0.4	-0.5	-0.3	+0.3	+0.8	+0.7	+0.6	+0.6	+0.0	+0.6	+1.2	+0.8
% of real GDP															
Output gap	-1.5	-1.0	-0.4	-1.7	-1.5	-1.4	-1.2	-1.2	-1.1	-0.9	-0.8	-0.6	-0.5	-0.3	-0.3

Source: OeNB June 2014 outlook (based on seasonally and working-day adjusted data).

Table 18

Comparison of Current Economic Outlooks for Austria

Indicator	OeNB			WIFO		IAS		OECD		IMF		European Commission	
	June 2014			March 2014		March 2014		May 2014		April 2014		May 2014	
	2014	2015	2016	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015
<i>Annual change in %</i>													
Key results													
GDP (real)	+1.6	+1.9	+2.1	+1.7	+1.7	+1.7	+2.0	+1.5	+2.1	+1.7	+1.7	+1.6	+1.8
Private consumption (real)	+0.7	+1.0	+1.4	+0.8	+1.0	+0.8	+1.1	+0.4	+1.2	x	x	+0.7	+1.0
Government consumption (real)	+0.8	+1.2	+1.1	+0.5	+0.3	+0.3	+0.3	+0.9	+0.7	x	x	+0.9	+0.8
Gross fixed capital formation (real)	+0.8	+2.6	+2.9	+3.0	+2.1	+2.3	+3.1	+1.8	+4.5	x	x	+2.2	+3.4
Exports (real)	+5.4	+5.4	+5.7	+4.7	+5.7	+4.8	+5.6	+4.4	+5.5	+3.3	+5.3	+4.4	+5.9
Imports (real)	+3.9	+5.4	+5.8	+4.8	+5.5	+4.4	+5.6	+3.3	+5.2	+3.2	+5.3	+3.7	+5.7
GDP per employee ¹	+0.5	+1.0	+1.0	+1.1	+1.1	+0.7	+0.9	+0.6	+0.7	x	x	+0.9	+1.0
GDP deflator	+1.5	+1.5	+1.8	+1.8	+1.9	+1.4	+1.6	+1.2	+1.5	x	x	+1.9	+1.7
CPI	x	x	x	+1.9	+1.9	+1.8	+1.9	x	x	x	x	x	x
HICP	+1.8	+1.7	+1.9	+1.9	+1.9	+1.8	+1.9	+1.4	+1.6	+1.8	+1.7	+1.6	+1.7
Unit labor costs	+1.6	+1.4	+1.7	+1.5	+1.7	+1.4	+1.3	+1.2	+1.4	x	x	+1.1	+1.1
Employee	+1.1	+0.9	+1.0	+1.0	+1.0	+1.0	+1.0	x	x	x	x	+0.8	+0.9
<i>% of labor supply</i>													
Unemployment rate (Eurostat definition)	5.0	5.0	4.9	5.2	5.3	4.8	4.7	5.0	4.6	+5.0	+4.9	+4.8	+4.7
<i>% of nominal GDP</i>													
Current account	3.1	3.4	3.6	3.3	3.7	x	x	2.9	3.0	3.5	3.5	3.4	3.8
Budget balance (Maastricht)	-2.5	-1.2	-0.7	-3.0	-1.2	-3.1	-1.4	-2.8	-1.3	-3.0	-1.5	-2.8	-1.5
Forecast assumptions													
Oil price in USD/barrel of Brent	107.2	102.2	98.2	110.0	110.0	111.0	114.0	110.6	115.6	104.2	97.9	107.6	102.9
Short-term interest rate in %	0.3	0.3	0.4	0.3	0.3	0.4	0.5	0.1	0.1	0.3	0.4	0.3	0.4
USD/EUR exchange rate	1.38	1.38	1.38	1.35	1.35	1.36	1.35	1.38	1.38	1.37	1.39	1.38	1.38
<i>Annual change in %</i>													
Euro area GDP (real)	+1.0	+1.7	+1.8	+1.1	+1.5	+1.2	+1.6	+1.2	+1.7	+1.2	+1.5	+1.2	+1.7
U.S. GDP (real)	+2.4	+3.0	+3.0	+2.7	+3.1	+2.7	+3.0	+2.6	+3.5	+2.8	+3.0	+2.8	+3.2
World GDP (real)	+3.3	+3.7	+3.8	+3.5	+3.8	x	x	+3.4	+3.9	+3.6	+3.9	+3.5	+3.8
World trade ²	+4.1	+5.5	+5.7	+5.5	+6.5	+5.0	+6.0	+4.4	+6.1	+4.3	+5.3	+4.4	+5.7

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

¹ WIFO – productivity per hour.

² EU Commission: global imports.