

Austrian Economy to Grow by 0.5% in 2013

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No Economic Momentum in the First Half of 2013

The Austrian economy continued in the doldrums in the first half of 2013, which means that it has been stagnating for more than a year now. In the second quarter of 2013, economic output grew by 0.1% according to the first release of national accounts data (in real terms, seasonally and working day-adjusted, on a quarterly basis), thus remaining at first-quarter levels.

Austria's sluggish GDP growth performance reflects above all the difficult and mixed external economic conditions. Whereas both the U.S. and Japanese economies picked up steam and the Chinese economy grew fairly vigorously, despite financial market difficulties, European GDP growth was and remains very muted. Key sales markets such as Italy, Hungary, the Czech Republic and Slovenia are mired

in recession. As a result, Austrian goods exports in the first half of 2013 rose by a mere 1.1% in nominal terms. The results of the OeNB export indicator imply that this trend continued into the third quarter of 2013 (see chart 1).

Net exports were, nonetheless, the sole driver of GDP growth on the demand side in the previous quarters. While export growth was weak, imports declined. Slowing import growth is the result of very sluggish domestic demand. In view of high uncertainty and poor sales opportunities, many companies have curtailed or postponed planned investment, whereas slack real income growth and decelerating employment momentum have constrained personal consumption. Government consumption growth did not suffice to offset the modest decline in personal consumption and the sharp fall in gross fixed capital formation.

Table 1

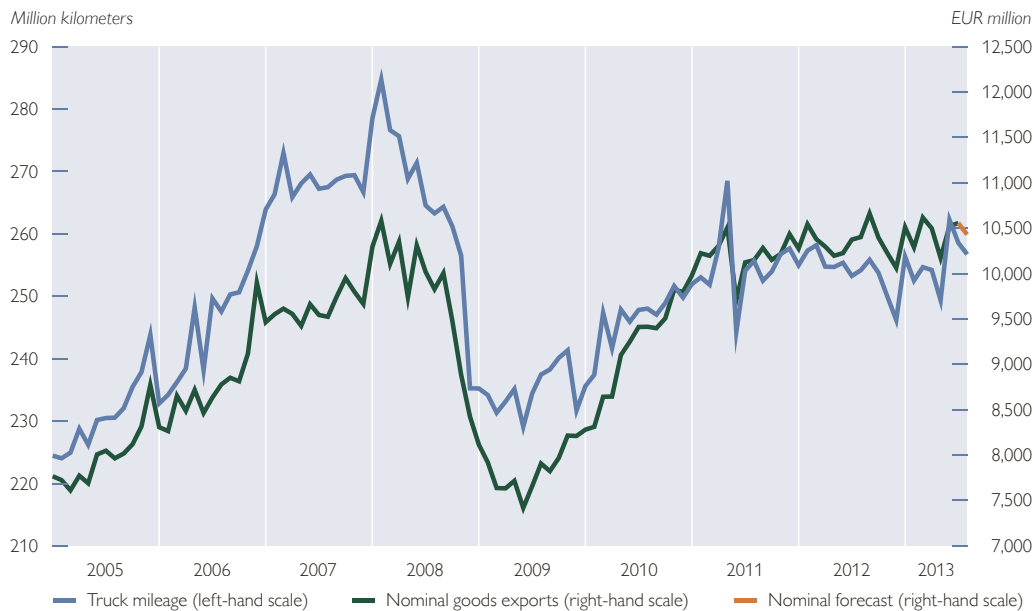
Results of the National Accounts

	GDP	Private consumption	Government consumption	Gross fixed capital formation	Exports	Imports	Domestic demand (excluding inventories)	Net exports	Changes in inventories	Statistical differences	
	Annual and / or quarterly changes						Contribution to GDP growth in percentage points				
Q1 12	+0.4	+0.1	-0.1	+0.3	-0.1	-0.3	0.1	0.1	-0.1	0.3	
Q2 12	+0.2	-0.0	-0.1	-0.0	+0.7	-0.2	-0.0	0.5	-0.1	-0.2	
Q3 12	+0.1	-0.1	-0.0	-0.4	+0.7	-0.2	-0.2	0.5	-0.0	-0.2	
Q4 12	-0.1	-0.1	+0.2	-0.9	+0.1	-0.3	-0.2	0.2	-0.0	-0.0	
Q1 13	+0.1	-0.1	+0.4	-1.2	+0.3	-0.4	-0.2	0.4	-0.0	-0.1	
Q2 13	+0.1	-0.0	+0.3	-0.9	+0.3	-0.1	-0.1	0.2	0.0	0.0	
2009	-3.5	+1.3	+1.2	-6.9	-14.0	-12.2	-0.6	-1.9	0.0	-1.0	
2010	+1.9	+1.5	+0.1	-0.8	+8.4	+8.4	0.7	0.5	0.8	-0.0	
2011	+2.9	+1.1	+0.5	+7.4	+6.8	+7.5	2.1	0.1	-0.4	1.1	
2012	+0.6	+0.3	+0.0	+1.7	+1.7	-0.0	0.5	1.0	-0.6	-0.2	

Source: Austrian Institute of Economic Research (WIFO).

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Chart 1

OeNB Export Indicator of September 2013 (seasonally and working-day adjusted)

Source: Highway authority ASFINAG, OeNB.

Austrian Economy to Grow by 0.5% in 2013 Fueled by Second-Half Recovery

Since mid-2013, numerous leading indicators have been signaling renewed growth momentum. After having bottomed out at end-2012, most national and international leading indicators moved sideways in the first half of 2013. Since mid-2013, some of the indicators have been trending up significantly, though. For instance, the Bank Austria Purchasing Managers' Index soared above the growth threshold of 50 points to stand at 52.0 points in August 2013, thereby impressively confirming its recovery, which was already evident in July 2013. This gain was evident in every subindex, with both the order intake and production subcomponents increasing particularly sharply.

The European Commission's current confidence indicators for Austria have also improved recently. Whereas the all-items index at 96.3 points still

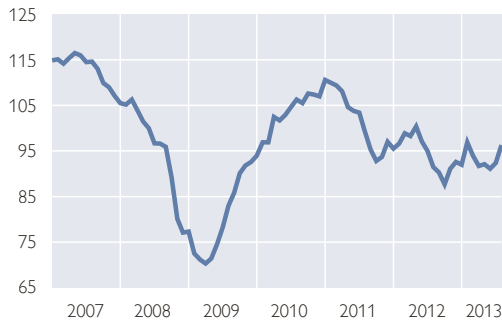
remained below its historical average of 100 in August 2013, the subindices for the construction and retail sector registered above-average figures. In addition, the OECD Composite Leading Indicator and WIFO's leading indicator – two monthly composite indicators that condense the data of many leading indicators – currently show an uptrend.

This improved sentiment has, so far, not passed through to the indicators of real activity. For instance, industrial production (industrial production excluding steam and air conditioning supply, which is not sensitive to the economic cycle: NACE B–D excluding D353) grew by just 0.4% in 2012 and even stagnated in the first half of 2013. Yet real activity measures are only available with a lag of several months (currently up to and including July 2013). By contrast, growing foreign order intake and greater corporate confidence worldwide indicate accelerating export momentum for the rest of

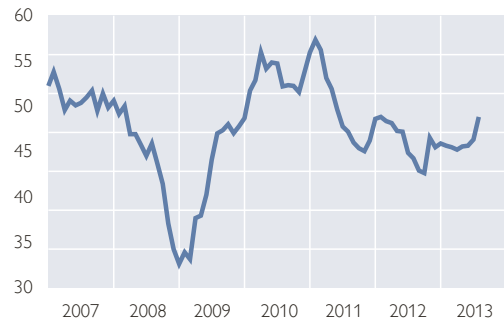
Chart 2

Improved Sentiment Indicates Economic Upturn

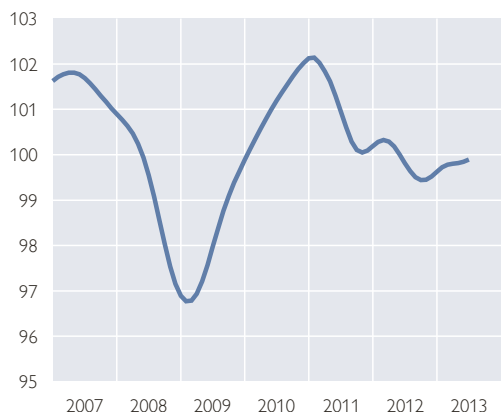
EC Economic Sentiment Indicator



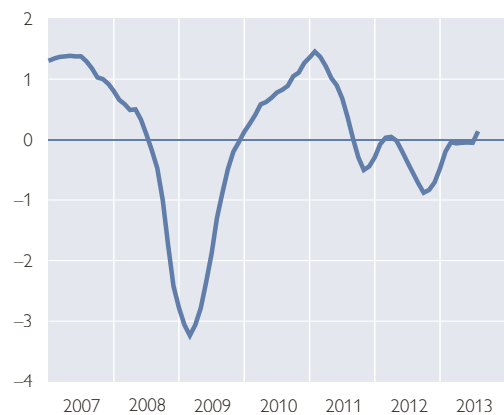
BA Purchasing Managers' Index



OECD Composite Leading Indicator



WIFO Flash Leading Indicator

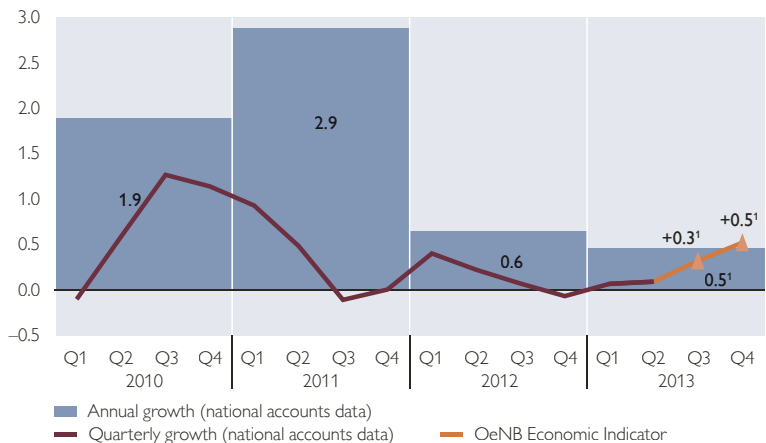


Source: European Commission, Bank Austria, OECD, Austrian Institute of Economic Research (WIFO).

Chart 3

Short-Term Outlook for Austria's Real GDP in the Third and Fourth Quarter of 2013 (seasonally and working-day adjusted)

Change on previous period in %



Source: OeNB Economic Indicator of September 2013, Eurostat.

¹ As forecast.

2013. Growing export demand will in turn reboost the propensity of companies to invest and industrial activity. Furthermore, falling inflation and rising real wages will offer Austrian households scope for additional consumer spending. Overall, domestic demand will become more important as a driver of economic growth in the next few months.

The economic upturn will, however, prove subdued because external economic conditions are set to remain mixed. The results of the OeNB Economic Indicator of September 2013 suggest that Austrian GDP will grow by 0.3% on a quarterly basis in the third quarter of 2013. The fourth quarter of 2013 will see growth inch up to 0.5% quarter on quarter. Although this

level corresponds to historically average Austrian GDP growth, it is still fairly modest for an economic upturn. Owing to the economy recovering in the second half of 2013, Austrian GDP growth for 2013 as a whole will be 0.5% year on year.

The risks to the forecast remain mostly tilted to the downside. While domestic risks are considered to be largely balanced, the risk that the European debt crisis may reintensify has not been averted.

Growing Unemployment despite Record Employment

Despite the sluggish economic momentum, the Austrian labor market registered a rise in employment in recent months. So far this year, employment has risen by 17,000 persons (+0.5%) on an annual basis up to and including August 2013. The same month saw 3.54 million persons registered as dependently employed. The jobless numbers have continued to rise as well, though. In

August 2013, 263,100 persons were registered as unemployed, which is an increase of 13.1% on August 2012. While the rise in unemployment numbers has driven up the national unemployment rate slightly, no such rise is currently evident from the Eurostat unemployment rate, which stood at 4.8% in July 2013 following several revisions. Compared with other EU countries, labor market conditions are still excellent in Austria. Austria continues to boast the lowest unemployment rate in the EU, except for youth unemployment, where Germany leads the ranking (9.2% in Austria). The number of layoffs preannounced to the AMS (Public Employment Service Austria) surged in the period from May to July 2013, but this figure is distorted to the upside by the bankruptcies of the construction group Alpine GmbH and the drugstore chain Dayli.

Employment growth is dominated by the continued strong inflow of foreign labor from the eight countries that

Table 2

Key Indicators for the Austrian Labor Market

	Payroll employment		Unemployed persons		Unemployment rate in %		Registered job vacancies		Preannounced layoffs (AMS early warning system)	
	Thousands	Annual change in %	Thousands	Annual change in %	AMS definition (seasonally adjusted)	EU definition (seasonally adjusted)	Thousands	Annual change in %	Thousands	Annual change in %
2010	3,360	+0.6	250.8	-3.7	6.9	4.4	31,009	+14.1	132,956	-16.2
2011	3,422	+1.8	246.7	-1.6	6.7	4.2	32,310	+4.2	119,000	-10.5
2012	3,465	+1.3	260.6	+5.7	7.0	4.4	29,422	-8.9	129,407	+8.7
Q3 12	3,537	+1.2	229.9	+6.5	7.0	4.5	31,689	-5.5	21,279	+18.8
Q4 12	3,460	+0.9	281.1	+6.3	7.2	4.5	26,195	-7.2	75,468	+321.4
Q1 13	3,423	+0.6	318.3	+7.1	7.3	4.9	24,679	-10.5	22,161	+19.9
Q2 13	3,482	+0.6	255.8	+9.1	7.5	4.7	28,137	-12.7	29,377	+107.3
Mar. 13	3,449	+0.4	290.0	+10.0	7.4	4.8	26,520	-11.9	5,623	+10.6
Apr. 13	3,452	+0.6	273.1	+8.5	7.5	4.8	28,111	-12.2	5,877	+25.5
May 13	3,486	+0.6	251.9	+9.0	7.5	4.6	28,465	-11.9	11,750	+149.4
June 13	3,509	+0.6	242.2	+10.1	7.6	4.7	27,835	-13.9	11,750	+145.9
July 13	3,583	+0.6	256.5	+12.6	7.7	4.8	28,192	-11.8	7,081	+75.8
Aug. 13	3,542	+0.0	263.1	+13.1	7.8	x	27,808	-11.7	8,714	+40.5

Source: Austrian Association of Social Insurance Providers, Austrian Public Employment Service (AMS), OeNB, Eurostat.

joined the EU in 2004 (EU-8) and whose citizens finally gained unlimited access to the Austrian labor market in May 2011. From April 2011 to April 2013, employment in Austria rose by 73,000 persons. During this period, an additional 74,000 nonresidents (70% of whom are from EU-8 countries) were hired, whereas the employment figures of Austrian nationals dropped by 1,000.

A disaggregated analysis by sector shows that the employment of foreigners expanded in every sector while the decline in employment of Austrian nationals was limited to agriculture, construction, transport, accommodation and other business services.

However, the data currently available do not clearly point to perceptible

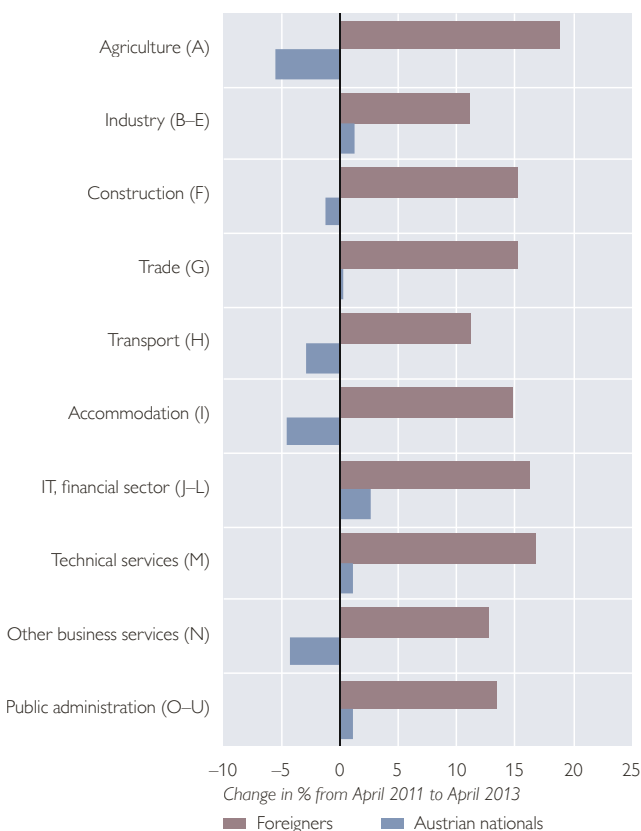
“crowding-out” effects resulting from the liberalization of the labor market, as the number of registered unemployed rose in every sector for both Austrian nationals and foreigners. If the influx of additional foreign labor has indeed given rise to “crowding-out” effects, domestic and foreign employees have been affected in equal terms.

As in the past, the economic recovery will not be felt in the labor market immediately but with a time lag. For the remainder of 2013, leading indicators such as the falling number of job vacancies anticipate a further increase in unemployment initially. Labor market developments are unlikely to reverse before 2014.

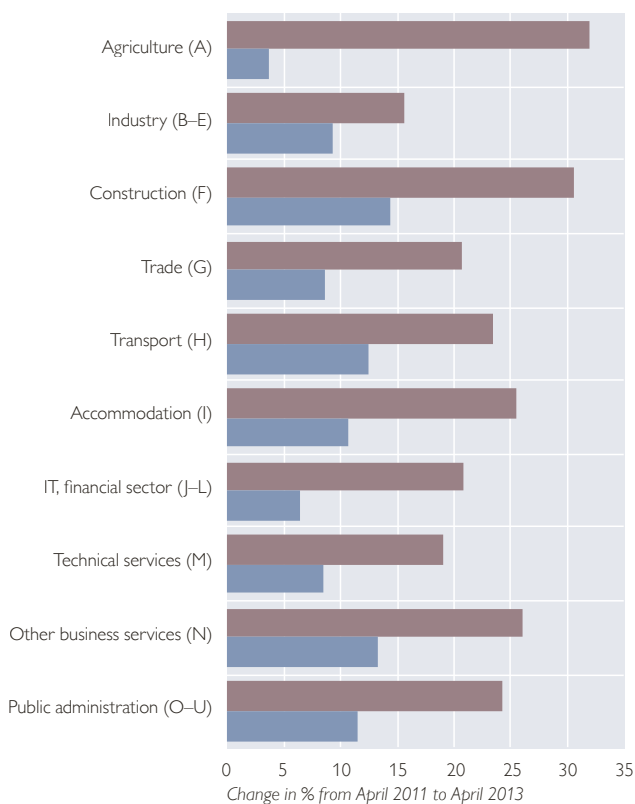
Chart 4

Labor Market Development by Sector from April 2011 to April 2013

Payroll Employment



Registered Unemployed



Source: Austrian Association of Social Insurance Providers, OeNB.

Inflation will Ease to 1.6% in 2014

In August 2013, Austrian HICP inflation stood at 2.0%, with core inflation (excluding energy and unprocessed food) marginally higher at 2.3%. Inflation measured on the basis of the national CPI was 1.8%.

The downtrend in HICP inflation evident since early 2013 therefore also continued in August 2013. The OeNB inflation outlook of September 2013 projects inflation to drop further until year-end and increase but slightly thereafter. The OeNB therefore anticipates HICP inflation to average 2.1% in 2013 and to drop to 1.6% in 2014. Although core inflation will also ease in the forecast period, it will exceed headline inflation. Average annual core inflation will be 2.2% in 2013 and fall to 2.0% in 2014.

The decline in HICP inflation reflects, above all, steadily falling crude oil prices and sharply slowing wage cost growth until mid-2014. Inflation in the services sector – which led the uptrend in headline inflation in the second half of 2012 – will ease again significantly in the forecast period, driven by decel-

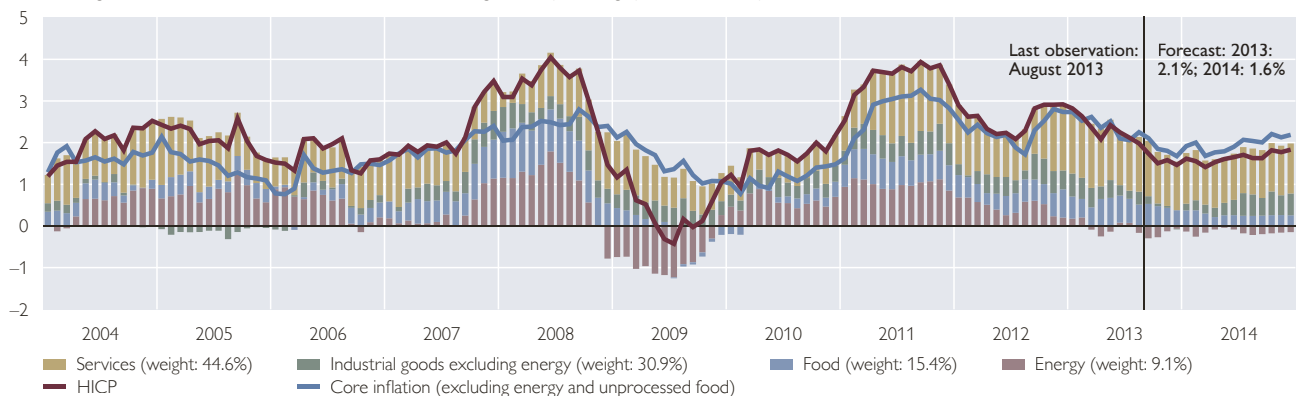
erating wage cost growth and tumbling crude oil prices, which affect transportation services in particular.

For food (both unprocessed and processed), the OeNB expects inflation to trend down until mid-2014. Although inflation is forecast to rise for certain food items such as milk products, this increase should be compensated by an offsetting decline in wheat, bread and cereals as well as in unprocessed food. In addition, food inflation will be reduced by more moderate wage cost growth. For industrial goods excluding energy, no significant inflationary pressure is foreseeable until end-2013. The producer prices of consumer durables exhibited sharply slowing growth while the annual inflation for consumer perishables remained largely constant at some 1½% in recent months. For the industrial goods sector (excluding energy), the OeNB projects average inflation of 0.9% in 2013. Currently slack demand for vehicles and furniture is expected to pick up in 2014, which means that the modest uptick in inflation in the industrial goods sector should continue.

Chart 5

HICP Inflation and Contributions of Subcomponents

Annual change in % for HICP and core inflation and contributions to growth in percentage points for subcomponents



Source: OeNB (September 2013), Statistics Austria.