

High Price Competitiveness of Austrian Exporters and Recovery of Private Consumption Support Economic Activity

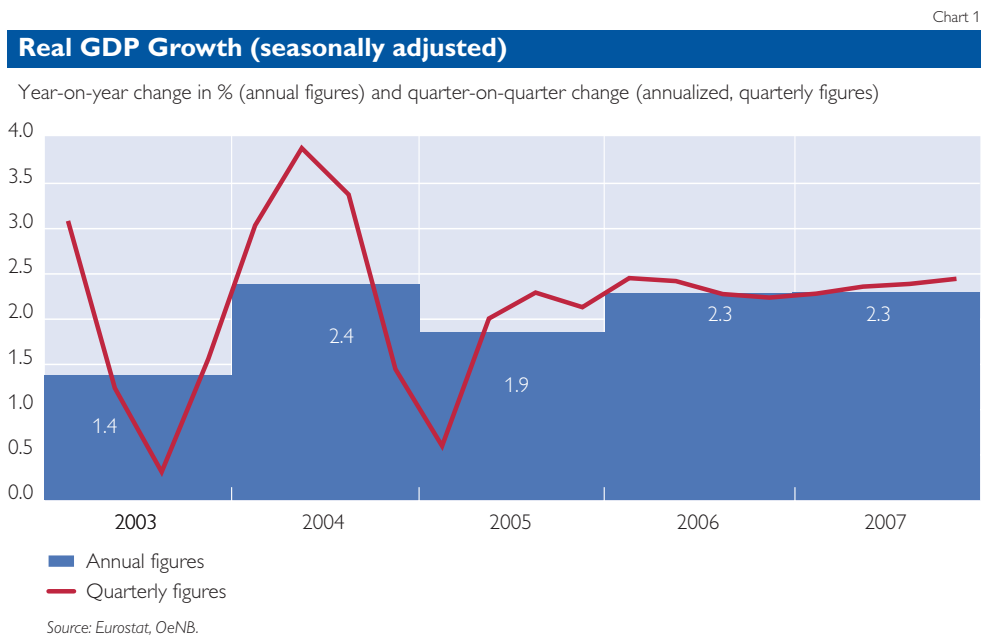
Economic Outlook for Austria from 2005 to 2007 (December 2005)

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1 Summary

According to the December 2005 economic outlook of the Oesterreichische Nationalbank (OeNB), Austria's real gross domestic product (GDP) is projected to increase by 1.9% in 2005. Economic growth is then expected to accelerate to 2.3% in 2006 and in 2007. Inflation according to the Harmonised Index of Consumer Prices (HICP) will quicken temporarily to 2.2% in 2005 as a result of the rise in the price of oil and services and then moderate to 1.9% in

2006 and further to 1.7% in 2007. With labor supply on the rise, unemployment is predicted to rise by 0.4 percentage point to 5.2% in 2005 and to ease slightly to 5.1% by 2007. The second stage of the tax reform and the three growth and employment packages will cause the budget deficit (Maastricht definition) to widen temporarily to 1.8% of GDP in 2005 and to 1.9% of GDP in 2006. In 2007, though, the budget deficit will shrink to 1.4% of GDP.



Austria's economy posted a robust growth of 2.4% in 2004, underpinned by highly dynamic export growth, which, however, lost steam temporarily at the turn of the year 2004/2005. In the meantime, signs of a recovery in the euro area have intensified. The oil price hike has come to a standstill, and the fall in the external value of the euro in recent months buoys exports. Confidence, which had declined throughout the first half of 2005, has been picking up steadily. Against this background, Austrian exports have

been regaining strength since the second quarter of 2005, sustained by ongoing improvements of the international unit labor cost position and the reinforcement of export relations with the dynamic markets of Central and Southeastern Europe. Hence, the OeNB expects exports to remain the chief support of economic activity.

Like in 2003, the development of households' real income in 2004 was characterized by surging property income coupled with a very weak rise in the real compensation of employees.

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This income development and low consumer confidence in the face of high joblessness and more expensive energy prompted consumers to stash away most of their income gains. So far in 2005, real consumer spending growth has accelerated marginally. The tax relief measures implemented during the second stage of the tax reform now appear to be gradually strengthening consumer demand with a time lag. Private consumption is set to quicken further to roughly 2% in 2006 and in 2007.

Investment stagnated in the first half of 2005 due to the expiration of the investment growth subsidy. Although investment growth speeded up in the second half of 2005, gross fixed capital formation has been rising only slowly and is anticipated to go up by just 0.9% for 2005 as a whole. In fact, investment in plant and equipment is supposed to diminish by 1.7% in 2005. After that time, the positive development of corporate profits and still very favorable financing conditions should prop up investment. Exports

and the growth and employment packages adopted in 2005 are expected to provide additional impulses. The OeNB sees gross fixed capital formation go up by 3.2% in 2006 and by 2.8% in 2007.

As a delayed reaction to the favorable economic developments in 2004, payroll employment will rise quite robustly by 1.1% in 2005. This trend is envisaged to continue throughout 2006 and 2007. The effects of the pension reforms, the influx of foreign labor and demographic effects in 2007 are expected to keep the unemployment rate at a high level over the entire forecast horizon.

Sharply mounting energy prices will raise inflation as measured by the HICP to 2.2% in 2005. For 2006 and 2007, inflation is forecast to decline to 1.9% and 1.7%, respectively, assuming that oil prices stay largely unchanged and that wages and prices are not raised significantly as a second-round effect of high oil prices.

Table 1

OeNB December 2005 Outlook for Austria – Key Results ¹⁾				
	2004	2005	2006	2007
Annual change in % (real)				
Economic activity				
Gross domestic product	+2.4	+1.9	+2.3	+2.3
Private consumption	+0.9	+1.3	+1.9	+2.1
Government consumption	+1.0	+1.2	+1.2	+1.5
Gross fixed capital formation	+1.8	+0.9	+3.2	+2.8
Exports of goods and services	+8.4	+3.2	+6.5	+6.6
Imports of goods and services	+6.0	+1.9	+6.6	+6.7
% of nominal GDP				
Current account balance	+0.2	+0.1	+0.4	+0.7
Percentage points of GDP				
Contribution to real GDP growth				
Private consumption	+0.5	+0.7	+1.1	+1.1
Government consumption	+0.2	+0.2	+0.2	+0.3
Gross fixed capital formation	+0.4	+0.2	+0.7	+0.6
Domestic demand (excluding changes in inventories)	+1.1	+1.1	+1.9	+2.0
Net exports	+1.4	+0.7	+0.3	+0.3
Changes in inventories (including statistical discrepancy)	-0.1	+0.0	+0.1	+0.0
Annual change in %				
Prices				
Harmonised Index of Consumer Prices (HICP)	+2.0	+2.2	+1.9	+1.7
Private consumption expenditure (PCE) deflator	+1.9	+2.0	+1.9	+1.8
GDP deflator	+2.0	+2.3	+1.6	+1.7
Unit labor costs in the total economy	-0.3	+0.8	+1.0	+0.9
Compensation per employee (at current prices)	+2.1	+2.3	+2.6	+2.5
Productivity (whole economy)	+2.4	+1.4	+1.6	+1.5
Compensation per employee (real)	+0.2	+0.3	+0.6	+0.7
Import prices	+0.6	+3.3	+2.0	+1.5
Export prices	-0.6	+1.8	+1.8	+1.7
Terms of trade	-1.2	-1.5	-0.2	+0.2
Annual change in %				
Income and savings				
Real disposable household income	+1.7	+2.7	+2.0	+1.8
% of nominal disposable household income				
Saving ratio	9.0	10.2	10.4	10.3
Annual change in %				
Labor market				
Payroll employment	+0.5	+1.1	+0.9	+1.1
%				
Unemployment rate (Eurostat definition)	4.8	5.2	5.2	5.1
% of nominal GDP				
Budget				
Budget balance (Maastricht definition)	-1.0	-1.8	-1.9	-1.4
Government debt	63.6	62.7	62.3	61.3

Source: 2004: Eurostat, Statistics Austria; 2005 to 2007: OeNB December 2005 outlook.

¹⁾ The outlook was drawn up on the basis of seasonally adjusted and working-day adjusted national accounts data. Therefore, the historical values for 2004 may deviate slightly from the nonadjusted data released by Statistics Austria.

2 Technical Assumptions

The OeNB contributed this forecast as its input for the Eurosystem's December 2005 staff economic projections for the euro area. The forecast horizon ranges from the fourth quarter of 2005 to the fourth quarter of 2007. November 15, 2005, 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 seasonally and working-day adjusted national accounts data compiled by the Austrian Institute of Economic Research (WIFO), which are fully available up to the second quarter of 2005, represent the main data source. The historical values for 2004 may, however, deviate slightly from the non-adjusted annual data released by Statistics Austria. Data for the third quarter of 2005 are based on WIFO's flash estimate.

The OeNB's forecast starts from the assumption that the monetary policy framework will remain unchanged. It therefore presupposes constant levels of both short-term nominal interest rates and the nominal effective exchange rate of the euro over the entire forecast horizon. The underlying short-term interest rate (three-month EURIBOR) is based on the two-week average (2.28%) prior to November 10, 2005. Long-term interest rates, which are in tune with market expectations for ten-year government bonds, are forecast to come to 3.41% (2005), 3.59% (2006) and 3.69% (2007). A constant rate of USD/EUR 1.19 is assumed for future USD/EUR exchange rate trends. Oil prices are based on forward rates, which are expected to remain largely unchanged at about USD 60

per barrel (Brent) over the entire forecast horizon. The budget forecast includes only those measures which have been passed and suitably specified upon compilation of the OeNB outlook.

3 Euro Area Economy Strengthens on the Back of Robust Global Activity

3.1 Global Economic Growth Outside the Euro Area Remains Dynamic

After a record performance in 2004, the world economy has retained its robustness. Burgeoning oil prices have hardly affected the real economy and financial markets so far. This may have to do with the circumstance that the most recent price surge was to a goodly extent demand-induced and was thus not as abrupt as earlier oil price shocks. Although growth in the U.S.A. and in China will lose some momentum compared to the powerful rates recorded in 2004, both of these regions are still the most important engines of world economic growth.

Nearly all demand components in the U.S.A. are currently advancing at an animated pace. A very low saving ratio and rising real estate prices have kept consumer spending vigorous. Augmenting energy prices, high household debt, the gradual tightening of monetary policy and the end of the real estate price boom, however, pose a considerable risk to consumer spending in the U.S.A. Hence, private consumption is expected to lose strength. Investment activity is still flourishing at the moment, but signs of a cooling of the investment cycle are on the horizon. The output disruptions caused by the two tropical storms in the Gulf of Mexico are likely to be only temporary and in the medium term will probably be more than offset by the demand impulse triggered by the reconstruction

efforts. At least partly because of the hurricanes, the orientation of U.S. fiscal policy will remain expansive whereas a further moderate tightening of monetary policy appears to be in the cards. Consequently, business activity will gradually slow down. Macroeconomic imbalances (the budget and current account deficits) are not likely to be addressed in the near future. The danger of an abrupt depreciation of the U.S. dollar is currently assessed as being low, as central banks in Asia will continue to try to keep their currencies' exchange rate down against the U.S. dollar by purchasing U.S. currency.

In the first half of 2005, economic growth in *Japan* accelerated noticeably and stabilized at a somewhat lower level in the third quarter. Whereas the recovery was driven by exports and expansionary fiscal policy in the past, domestic demand has now become the mainspring of the expansion. With the labor market situation having improved, private consumption has gained speed. Investment activity in *Japan* is currently being supported by several factors, such as high profitability, restructured corporate balance sheets and favorable financing conditions. While consumer prices are still declining, producer prices have been on the rise in the wake of higher oil and commodity prices and rising wages, which signals the imminent end of deflation.

Growth in *Asia (excluding Japan)* remains extremely dynamic. There is no evidence that activity in the largest economy in the region, *China*, is cooling down. Measures designed to dampen investment did not result in a slowdown of growth. Excess capacity generated by animated investment activities in some sectors represents a serious risk. Private consumer demand is

increasingly gaining importance. Booming exports are entailing large export surpluses. The undervalued renminbi-yuan has appreciated only insignificantly since *China* abandoned its peg to the U.S. dollar in July 2005 and adopted a managed float currency regime. Therefore, *China's* external imbalances will hardly change in the short term. Growth in *India* is propelled by healthy domestic demand. A rapidly growing middle class is financing powerful consumer spending. In addition, investment activity, which is bolstered by public infrastructure spending, is powerful.

Growth in the *United Kingdom* will no longer be as strong in 2005 as in the preceding years. Up to now, consumption has benefited from the vibrant real estate market thanks to the flexible mortgage market. But flagging real estate price growth could dampen consumer spending, as could rising interest rates. Investment already lost momentum at the end of 2004. With public debt enlarging, expansionary fiscal policymaking is expected to come to an end. *Switzerland's* GDP contracted marginally at the end of 2004 and recovered a bit in the first half of 2005, fueled above all by booming industrial exports and investment. However, there are no signs of a positive trend reversal on the labor market. Though the economy is projected to firm further, growth will be perceptibly lower in 2005 than in 2004.

In the *new EU Member States*, whose economic situation is particularly important to Austria, stable growth is anticipated throughout the entire forecast horizon. The three largest countries – *Poland*, the *Czech Republic* and *Hungary*, are currently suffering from tepid domestic demand, which is also weakening import demand. Growth is thus based on net exports.

But from 2006, domestic demand is expected to become an important pillar of the economy again. Falling inflation rates and rising employment should support consumer spending growth. Rising investment will go hand in hand with a further increase in foreign demand and good profit developments.

3.2 Euro Area Recovery Gains Momentum

Economic activity in the euro area has improved discernibly so far in 2005. The third-quarter flash estimates which have been released so far confirm the strengthening of activity augured by the confidence indicators. Rising production expectations and improved order books hold out hope that the upward trend will continue over the next months. The depreciation of

the euro and the drop in oil prices since early September 2005 contributed importantly to this development. Euro area growth is projected to come to between 1.2% and 1.6% in 2005. Robust world economic growth and the euro depreciation in 2005 will sustain exports throughout the forecast horizon. In view of the positive development of profits and low financing costs, this external impulse should help reinforce investment. Recent survey results corroborate this expectation. The outlook for private consumption is set to remain subdued. With employment growth moderate and real incomes stagnating, purchasing power gains are likely to be weak. The Eurosystem projects euro area GDP growth to accelerate to between 1.4% and 2.4% in 2006 and 2007.

Table 2

Underlying Global Economic Conditions

	2004	2005	2006	2007
Annual change in % (real)				
Gross domestic product				
World GDP growth outside the euro area	+5.6	+4.9	+4.8	+4.5
U.S.A.	+4.2	+3.6	+3.5	+3.0
Japan	+2.6	+2.4	+2.1	+2.0
Asia excluding Japan	+7.7	+7.0	+6.8	+6.8
Latin America	+4.7	+4.7	+4.2	+3.9
United Kingdom	+3.2	+1.8	+2.4	+2.6
New EU Member States	+4.6	+4.2	+4.4	+4.4
Switzerland	+2.1	+1.1	+1.7	+1.8
Euro area ¹⁾	+2.1	1.2–1.6	1.4–2.4	1.4–2.4
World trade (imports of goods and services)				
World economy	+9.5	+6.4	+6.7	+6.6
Non-euro area countries	+11.0	+7.6	+7.0	+6.9
Real growth of euro area export markets	+10.3	+7.2	+7.1	+7.1
Real growth of Austrian export markets	+7.8	+6.1	+7.1	+6.6
Prices				
Oil price in USD/barrel (Brent)	38.3	55.0	60.0	59.5
Three-month interest rate in %	2.1	2.2	2.3	2.3
Long-term interest rate in %	4.1	3.4	3.6	3.7
USD/EUR exchange rate	1.24	1.25	1.19	1.19
Nominal effective exchange rate (euro area index)	104.18	103.96	102.09	102.09

Source: Eurosystem.

¹⁾ Results of the Eurosystem's December 2005 projections. The ECB presents the result in ranges based upon average differences between actual outcomes and previous projections.

The recovery of economic activity in *Germany* is likely to be picking up somewhat at this juncture. After powerful first-quarter growth, German economic growth let up slightly in the second quarter of 2005, to accelerate again in the third quarter. The currently available economic indicators point to a favorable development in the fourth quarter of 2005 as well. However, growth remains fully dependent on export performance, which is a problem. While the price competitiveness of Germany's export industry has improved markedly in recent years, the growth impulses of exports have not been able to stimulate domestic demand so far. Diminishing real incomes act as a damper on consumer spending, which is forecast to remain very subdued in 2006. Construction investment is characterized by persistent negative growth; only investment in plant and equipment is now developing positively. With capacity utilization low in many sectors, however, the pace of investment is not expected to be very high. The dramatic budget situation is forcing the government to tighten fiscal policy. Most of the budget austerity measures announced in the new government's coalition agreement, such as the increase in value added taxes, will take effect in 2007 and will depress activity. The observed rise in employment figures reflects the impact of the fourth stage of labor market reform measures (Hartz IV). Unlike the "one-euro jobs" which have been created under the Hartz IV program, jobs subject to social security contributions are on the decline. Macroeconomic growth will stay subdued in Germany throughout the forecast horizon.

Among the euro area members, *France* is the country in which domestic demand is most stable. After growth had been rather weak in the first half

of 2005, with consumer spending and investment on the decline, it returned to a robust level in the third quarter of 2005. Rising capacity utilization and mounting profit margins suggest that vigorous investment growth will last. Since 2003, France has been losing export market share, but the decline is expected to be only temporary.

Italy (along with Portugal) will probably post the lowest growth rate among European countries in 2005. Around the turn of the year 2004/2005, exports plummeted, triggering a recession. However, in the second and third quarters of 2005, with exports picking up and domestic demand strengthening, activity recovered again. Nevertheless, structural weakness and the unfavorable development of unit labor cost appear to presage a further loss of market share. Manufacturing and industrial and service sector confidence are sending out positive signals; they hold out hope that the positive development last observed will continue. Investment activity should accelerate perceptibly in 2006. Climbing real estate prices drive construction investment, whereas investment in plant and equipment is bolstered by improving profit margins. Conversely, consumer sentiment is gloomy, with no recovery of consumer spending in view.

4 Austrian Exports Benefit from Improved Unit Labor Cost Position

Real exports of goods and services abroad chalked up 8.4% growth in 2004, a rate that was well above the euro area average. There are several reasons for this favorable performance. First, Austrian exporters have succeeded in significantly improving their price competitiveness in recent years. Examining the cumulated rise in unit labor costs since 1999, Austria, at

+2.5%, posts the lowest increase in the euro area (average: +8.5%). In the comparable period, only Germany performed about as well in terms of unit labor costs (+2.6%).¹ This positive development was fueled by a more moderate wage policy than in other euro area countries and by above-average productivity growth.

Moreover, Austrian companies have scored successes in opening up new markets in Central and Southeastern Europe. These dynamic markets are attracting a widening share of Austria's goods and service exports abroad. Chart 2 clearly shows how the develop-

ment of exports to non-euro area countries offset the slump in exports to the euro area from 2001. Apart from exports to Central and Southeastern Europe, rising sales of goods and services to the U.S.A. play an important role. Throughout the forecast horizon, the growth of exports to markets outside the euro area will surpass that of exports to euro area markets. In 2004 export growth was clearly propelled by the animated development of global economic activity. This benefited Austria's export activity not just directly but also indirectly through exporters' close supply ties to Germany.

Chart 2

Growth of Austrian Euro Area and Non-Euro Area Export Markets

(Weighted import growth of trade partners in % year on year)



By contrast, the euro appreciation against the U.S. dollar from end-2000 dampened the price competitiveness of Austrian exports. In 2004 alone the

price competitiveness of Austria's export activity diminished by 5.4%.² Since the euro peaked at an exchange rate of USD 1.34 per euro in December 2004,

¹ In fact, Austrian unit labor costs even fell by 2.8% from 1995 to 2004. Germany was the only other country to show sinking labor costs of -1.8% during the same period (Source: AMECO data base of the European Commission).

² Price competitiveness on the export side is expressed as the ratio of the prices of competitors on Austrian export markets to the prices of Austrian exports. A two-step weighting procedure is used to establish competitor prices. For each export market, the prices of other exports into the respective country are aggregated using their import shares as weights. In addition, the price of domestic production of the export market is considered. The competitor prices thus determined for each Austrian export market are then aggregated with the shares the respective market has in total Austrian exports.

the euro has lost considerable ground again, easing to USD 1.19 per euro.

However, with export market growth sluggish, Austrian exports sank in the fourth quarter of 2004 and the first quarter of 2005. In the second quarter of 2005, however, export growth picked up strongly and accelerated somewhat further in the third quarter. The full-year 2005 result of +3.2% export growth, though, will show a loss of market share as a consequence of the euro's strength. The more pronounced market expansion and improving price competitiveness should both help push export growth to 6.5% in 2006 and 6.6% in 2007.

Paralleling the development of exports, imports also receded marginally

in the fourth quarter of 2004 and the first quarter of 2005. In the second half of 2005, the forecast revival of domestic demand and the firming of export activity are anticipated to boost imports. Import growth is scheduled to come to 1.9% for full-year 2005 before quickening to 6.6% in 2006 and 6.7% in 2007. In all three years, net exports will make a positive contribution to GDP growth. As exports in absolute terms are currently already some 10% higher than imports in absolute terms, net exports are envisaged to contribute positively to GDP growth even if imports and exports advance at the same rate, which they are expected to in 2006 and 2007.

Table 3

Growth and Price Developments in Austria's External Trade

	2003	2004	2005	2006	2007
Annual change in %					
Exports					
Competitor prices in Austria's export markets	-5.6	-0.3	+3.5	+3.7	+1.5
Export deflator	+3.0	-0.6	+1.8	+1.8	+1.7
Changes in price competitiveness	-8.5	+0.3	+1.7	+1.9	-0.2
Import demand in Austria's export markets (real)	+5.6	+7.8	+6.1	+7.1	+6.6
Austrian exports of goods and services (real)	+2.7	+8.4	+3.2	+6.5	+6.6
Market share	-2.9	+0.6	-3.0	-0.5	+0.1
Imports					
International competitor prices in the Austrian market	-3.6	+0.2	+3.6	+3.2	+1.4
Import deflator	+0.3	+0.6	+3.3	+2.0	+1.5
Austrian imports of goods and services (real)	+4.5	+6.0	+1.9	+6.6	+6.7
Terms of trade	+2.7	-1.2	-1.5	-0.2	+0.2
Percentage points of real GDP					
Contribution of net exports to GDP growth	-0.7	+1.4	+0.7	+0.3	+0.3

Source: 2003 and 2004: Eurostat; 2005 to 2007: OeNB December 2005 outlook, Eurosystem.

Surging oil prices in 2005 have caused the terms of trade to deteriorate massively, which acts as a damper on the nominal trade balance. The oil price shock becomes especially visible in the trade balance with countries outside the euro area, which worsened by 0.5 percentage point of GDP in 2005. Moderate import growth is anticipated

to result in an improvement of the balance of trade with euro area countries, though. Overnight stays by visitors from abroad have been developing well in 2005 so far, despite the listless summer results in the wake of bad weather. The trend to higher-quality tourism has further lifted turnover. Balance of payments data show an 8%

decline in incoming tourism in the first half of 2005, which is thought to be attributable to data problems rather than reflecting actual developments. The

trade surplus will contract from 2.0% of GDP in 2004 to 1.8% in 2005, but is expected to enlarge to 2.1% in 2006 and further to 2.2% in 2007.

Table 4

Austria's Current Account					
	2003	2004	2005	2006	2007
	% of nominal GDP				
Balance of trade	1.2	2.0	1.8	2.1	2.2
Balance on goods	0.4	1.1	0.9	1.1	1.2
Balance on services	0.7	0.9	0.8	1.0	1.0
Euro area	-4.3	-5.1	-4.7	-4.7	-4.7
Non-euro area countries	5.5	7.0	6.5	6.8	6.9
Balance on income	-0.5	-0.8	-0.8	-0.7	-0.7
Balance on current transfers	-0.9	-0.9	-0.9	-0.9	-0.9
Current account	-0.2	0.2	0.1	0.4	0.7

Source: 2003 and 2004: OeNB; 2005 to 2007: OeNB December 2005 outlook.

The balance on income in the first half of 2005 was unchanged from the year-earlier result. No major change is expected to occur in the second half, either, so the outcome for 2005 as a whole is reckoned to be the same as in 2004, namely a deficit of 0.8% of GDP. With outward foreign direct investments maturing, the deficit on incomes is due to decrease somewhat in the next few years. The deficit on current transfers is likely to remain at 0.9% of GDP, the amount it has posted since 2002, through 2007. The current account balance will improve slightly over the forecast horizon and will close at 0.7% of GDP in 2007.

5 Oil Price Surge Still Not Expected to Have Major Second-Round Effects

Inflation as measured by the HICP declined successively from 2.4% in January 2005 to 2.0% in October. Inflation is projected to hover around or just above the 2% mark in the next few months. The rate of price increases is not expected to fall perceptibly below 2% until sometime during the course of the second half of 2006. This outlook

is based on the assumption that the oil price rise will still not have any significant second-round effects on wages and prices.

The further course of inflation during the forecast horizon will fundamentally hinge on the developments of the subcomponents energy and services. The very flat course of the forward rates for oil demonstrate how strong the market's conviction has become that oil prices will remain high over the long term. Accordingly, the energy subcomponent of the HICP will still post inflation in the double digit range in the first half of 2006; only in 2007, will it cease to contribute significantly to overall inflation.

The easing of price pressure observed in the service sector since the beginning of 2005 is projected to last throughout the upcoming months. Inflation for housing rentals, which had still come to 10% in January 2005, plunged to 0.5% in October and should remain moderate in the next few months.

Intense competition among package holiday providers and in the telecommunications sector has resulted

Table 5

Price and Cost Indicators for Austria				
	2004	2005	2006	2007
	Annual change in %			
Harmonised Index of Consumer Prices (HICP)	+2.0	+2.2	+1.9	+1.7
HICP energy	+6.9	+10.4	+6.5	-0.7
HICP excluding energy	+1.6	+1.5	+1.5	+1.9
Private consumption expenditure (PCE) deflator	+1.9	+2.0	+1.9	+1.8
Investment deflator	+0.1	+1.6	+1.5	+1.5
Import deflator	+0.6	+3.3	+2.0	+1.5
Export deflator	-0.6	+1.8	+1.8	+1.7
Terms of trade	-1.2	-1.5	-0.2	+0.2
GDP deflator	+2.0	+2.3	+1.6	+1.7
Unit labor costs	-0.3	+0.8	+1.0	+0.9
Compensation per employee	+2.1	+2.3	+2.6	+2.5
Labor productivity	+2.4	+1.4	+1.6	+1.5
Collectively agreed wage settlements	+2.1	+2.3	+2.8	+2.6
Profit margins ¹⁾	+2.3	+1.4	+0.6	+0.8

Source: 2004: Eurostat, Statistics Austria; 2005 to 2007: OeNB December 2005 outlook.

¹⁾ GDP deflator divided by unit labor costs.

in price cuts. By contrast, housing costs (operating and energy costs) are supposed to climb at an above-average rate in the near future. Prices in the subcategory industrial goods excluding energy have dropped in the course of 2005. With unit labor costs for industrial products developing favorably, prices for industrial goods are anticipated to stay moderate.

Overall, the OeNB expects that inflation as measured by the HICP will quicken to 2.2% in 2005 and will ease back to 1.9% in 2006 and will sink further to 1.7% in 2007. The fall wage negotiations have been concluded for very few sectors as yet. The settlements which have been concluded to date suggest that gains in the compensation of employees in 2006 will be a bit above the 2005 raises. The relatively high settlement for the metal industry (3.1% following 2.5% achieved in fall 2004) may be partly attributable to industry-specific factors, such as extraordinary profit developments and high productivity gains. In recent years, wage settlements for the retail trade

sector (+2.65% for 2006) have usually been below average. Hence, overall standard wages are expected to go up by 2.8% in 2006. This assumption represents an upward revision by +0.3 percentage point compared to the last OeNB outlook of June 2005. Standard wage increases are reckoned to slow to 2.6% in 2007 in tandem with the forecast decline in inflation.

Real compensation per employee, which advanced by just 0.2% in 2004, will nearly stagnate in 2005 as well (+0.3%) and is anticipated to accelerate slightly from 2006. With conditions on the labor market tight, wage growth will lag substantially behind productivity growth, however.

Higher oil prices will entail another pronounced deterioration of the terms of trade in 2005, but their negative impact is set to peter out in 2006. Unit labor costs diminished in 2004 and are calculated to augment by just under 1% a year from 2005 through 2007, with this rise attributable to lower productivity growth on account of the faster increase in employment. The ex-

pansion of corporate profit margins will let up somewhat over the forecast horizon but will remain positive. Profit margins had last declined perceptibly in 1993.

6 Domestic Demand Gradually Gains Strength in the Course of 2005

6.1 Quickening Pace of Consumer Spending Signals an End to the Rise of the Saving Ratio

Private consumption growth has persisted substantially below its long-term average since the economic downturn in 2001. Households increased their real spending by a mere 0.9% a year on average from 2001 to 2004, over 1.5 percentage points less than from 1997 to 2000. In the course of 2005, growth so far has accelerated step by step. Apparently, after a delay consumers are now beginning to spend income gains from the second stage of the tax reform. The dampening impulses emanating from the high energy prices and uncertainties (e.g. about jobs) are slowly receding. Cautious optimism characterizes the assessment of the future trend of consumer spending. In the upcoming quarters, private con-

sumption is projected to mount by around 0.5% a quarter. Despite the acceleration in the second half of 2005, consumption growth in 2005 as a whole will be only marginally higher than in 2004, coming to just +1.3% on account of the weak performance up to now.

Annual payroll employment growth over the entire forecast horizon is expected to remain stable at roughly 1%. This and the faster rise in wage settlements than expected in the June 2005 outlook will reinforce the compensation of employees in 2006 and 2007. The negative impact of higher inflation on households' real purchasing power will last into 2006. Not until the repercussions of the increase in oil prices on inflation cease will real wages begin to rise perceptibly again in the course of 2006. The further outlook for consumer spending in the period covered by this forecast will be determined by two other factors as well – the rise in mixed income of the self-employed and property income, and the development of consumer confidence. The income of the self-employed is anticipated to parallel the stable course of operating surpluses

Table 6

Determinants of Nominal Household Income in Austria

	2004	2005	2006	2007
Annual change in %				
Compensation of employees	+2.6	+3.3	+3.5	+3.5
Employees	+0.5	+1.1	+0.9	+1.1
Wages per employee	+2.1	+2.3	+2.6	+2.5
Mixed income (net) of the self-employed and property income	+7.5	+5.5	+5.0	+4.5
Net transfers minus direct taxes ¹⁾	-6.2	+1.9	-3.8	-5.7
Contribution to disposable household income in percentage points				
Compensation of employees	+2.1	+2.7	+2.8	+2.8
Mixed income (net) of the self-employed and property income	+2.3	+1.8	+1.6	+1.5
Net transfers minus direct taxes ¹⁾	-0.8	+0.2	-0.5	-0.7
Disposable household income (nominal)	+3.7	+4.7	+3.9	+3.6

Source: 2004: Eurostat; 2005 to 2007: OeNB December 2005 outlook.

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

throughout the forecast period. Property incomes are calculated to climb fairly strongly once again in 2005 in view of bullish domestic and international financial markets and then to subside to average growth rates in

2006 and 2007. Overall, the contributions of mixed income to household disposable income will decline marginally but still remain quite strong (see box “Sharp Rise in Property Income in 2003 and 2004”).

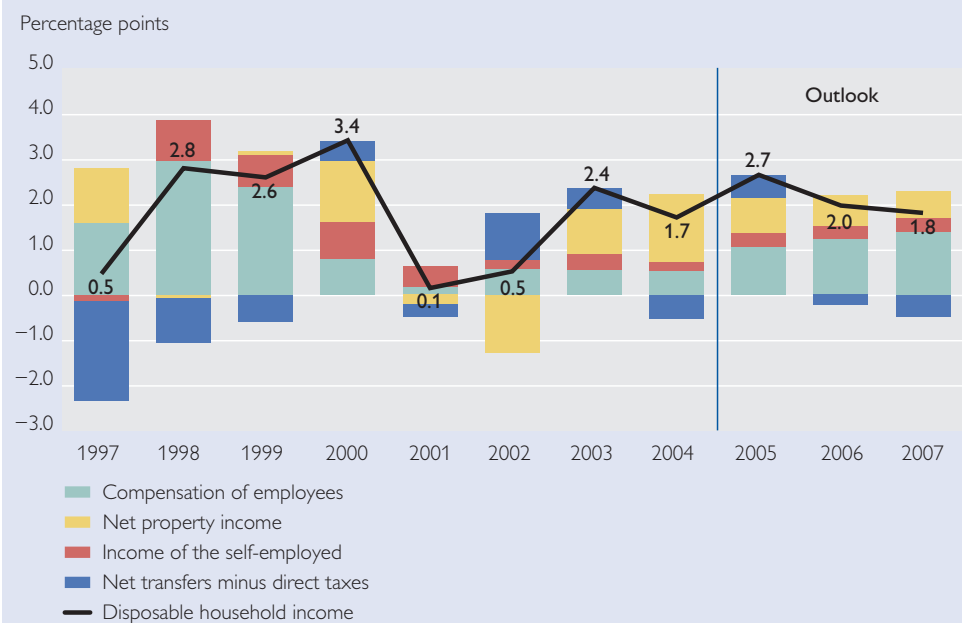
Sharp Rise in Property Income in 2003 and 2004

In 2003 and 2004 the saving ratio enlarged by a total of 1.3 percentage points. An important reason for this rise must be seen in the composition of household income. Whereas net property income – which accrues mainly to the population groups with a high propensity to save – accounted for less than 14% of household disposable income in 2003 and 2004, it contributed to more than two-thirds of the growth of household disposable income in this period (see chart in this box). Conversely, the increase in real compensation of employees remained disappointing because real wage growth and employment growth were weak.

Property income breaks down into interest payments (share in total property income in 2004: 16%), distributed income of corporations (70%) and property income attributed to insurance policyholders (14%). The surge in distributed income of corporations as well as property income attributed to insurance policyholders is responsible for the rise in property income in 2003 and 2004. The favorable development of corporate profits and the recovery in the Austrian and international financial markets are likely to have played a crucial role in this result. By contrast, interest payments diminished, as interest rates were low.

Several factors in addition to the composition of household income appear to have been instrumental in pushing up the saving ratio. For example, the distribution of labor income has become more unequal over the past few years (Guger and Marterbauer, 2005). As the marginal propensity to consume falls with declining incomes, this labor income development has a negative impact on consumer spending growth. But high unemployment and the greater fear of job losses in the wake of growing globalization also seem to have lifted consumers’ saving ratio. Finally, the necessary structural reforms which were implemented recently and depressed consumer confidence also put a damper on consumer spending (Janger et al., 2005).

Contribution to Real Disposable Household Income



Source: Statistics Austria; 2005 to 2007: OeNB December 2005 outlook.

Net transfers minus direct taxes will contribute a total of 0.2 percentage point to households' real disposable income growth in 2005, reflecting the impact of the second stage of tax reform. However, in 2006 and 2007, this component will dampen income

growth again, as it usually does. Consumer confidence, which is still in the doldrums, should pick up gradually when the economic framework improves. Consumer spending is projected to climb to 1.9% in 2006 and to 2.1% in 2007.

Table 7

Private Consumption in Austria

	2004	2005	2006	2007
	Annual change in %			
Disposable household income (nominal)	+3.7	+4.7	+3.9	+3.6
Private consumption expenditure (PCE) deflator	+1.9	+2.0	+1.9	+1.8
Disposable household income (real)	+1.7	+2.7	+2.0	+1.8
Private consumption (real)	+0.9	+1.3	+1.9	+2.1
	% of nominal disposable household income			
Saving ratio	9.0	10.2	10.4	10.3

Source: 2004: Eurostat; 2005 to 2007: OeNB December 2005 outlook.

With household incomes making headway and consumer growth still hesitant, the saving ratio probably rose noticeably again in the first half of 2005. Although no official data on the saving ratio have become available yet, the results of the financial accounts on households' net financial investment support this assumption.³ Seeing that households' disposable incomes will rise by 2.7% in real terms in full-year 2005, the saving ratio is expected to go up by 1.2 percentage points to 10.2% and to hover at about that level in 2006 and 2007.

6.2 Temporary Dip in Investment Growth in the First Half of 2005

The financial accounts data are revised frequently and sometimes substantially when new data become available. Demand-side GDP components, above all investment, have been subject to es-

pecially pronounced revision in the recent past. According to the latest financial accounts data, gross fixed capital formation growth amounted to 1.8% in real terms in 2004, 3.0 percentage points below the figure officially given when the OeNB outlook was compiled in June 2005. The tepid growth of gross fixed capital formation in 2004 comes as a surprise, as companies had been expected to invest heavily in 2004 to take advantage of the temporary investment subsidy before it expired at the end of 2004. However, the specific features of the investment growth subsidy appear to have prompted many business startups that the statistics could not appropriately register. The surge in machinery and transport equipment imports, above all in the second half of 2004 (+19% year on year), corroborates suspected underrepresentation of investment in 2004 in the statistics.

³ According to the financial accounts, households' net financial investment came to EUR 7.6 billion in the first six months of 2005 as compared to an average of EUR 4.6 billion in the comparable periods of the years 2001 through 2004.

Table 8

Investment Activity in Austria				
	2004	2005	2006	2007
	Annual change in %			
Total gross fixed capital formation (real)	+1.8	+0.9	+3.2	+2.8
<i>of which: Investment in plant and equipment (real)</i>	+1.4	-1.7	+4.4	+3.9
<i>Residential construction investment (real)</i>	-0.3	+0.2	+1.4	+1.5
<i>Nonresidential construction investment and other investment</i>	+1.1	+1.5	+3.1	+2.3
<i>Government investment (real)</i>	-8.8	+9.3	+3.4	-1.8
<i>Private investment (real)</i>	+2.4	+0.5	+3.2	+3.1
	Contribution to total gross fixed capital formation growth in percentage points			
Investment in plant and equipment (real)	+0.6	-0.7	+1.8	+1.6
Residential construction investment (real)	-0.1	+0.0	+0.3	+0.3
Nonresidential construction investment and other investment	+0.4	+0.6	+1.2	+0.9
Government investment (real)	-0.5	+0.5	+0.2	-0.1
Private investment (real)	+2.3	+0.5	+3.0	+2.9
	Contribution to real GDP growth in percentage points			
Inventory changes (real)	-0.2	+0.0	+0.1	+0.0

Source: 2004: Eurostat; 2005 to 2007: OeNB December 2005 outlook.

In the first half of 2005, investment growth weakened in the wake of the expiration of the investment subsidy at the end of 2004, but not as much as originally expected. Both the decline in imports of machinery and transport equipment in the first half of 2005 (-5% year on year) and the lackluster expansion of corporate loans along with unusually low corporate borrowing requirements according to financial accounts data confirm the reduced rate of corporate investment in this period.

The outlook for investment is based on the assumption that the temporary dampening caused by the expiration of the investment subsidy is limited to the first three quarters of 2005 and that investment will recover noticeably thereafter. The slight revival of machinery and transport equipment imports from mid-2005 and the steady improvement in business confidence are first evidence that this assumption holds. Even though investment growth is scheduled to accelerate in the fourth

quarter, it should amount to only 0.9% for 2005 as a whole as a result of the weak performance of gross fixed capital formation up to now.

In 2006 and 2007, good corporate profit developments will have a positive impact on investment activity. The enlargement of companies' profit margins measured as the difference between unit labor cost growth rates and the GDP deflator has steadily gained ground since 1994. Assuming that wage increases will remain moderate, this trend should continue throughout the forecast horizon. Additionally, the exceptionally good financing conditions compared to the past and the lively export activity should bolster investment. Moreover, the government's economic stimulus packages ("Reform dialogue for growth and employment," May 2005; "Regional employment and growth campaign 2005-2006," August 2005 and "Qualification campaign and introduction of a combination wage," September 2005) are expected to provide an important demand impetus.

Capacity utilization, by contrast, is likely to dampen companies' investment enthusiasm; it was assessed more and more pessimistically in the course of 2005 and currently stands just below the long-term average. Consequently, the OeNB is counting on a recovery of investment activity in 2006 and 2007, but the investment cycle is not expected to be very pronounced. Investment growth is set to quicken to 3.2% in 2006 and 2.8% in 2007. The investment ratio will drop to 21.2% in 2005, the lowest value since 1984, and will revive only marginally in 2006 and 2007.

Investment in plant and equipment, the investment category which is most sensitive to cyclical changes, is especially hard hit by the termination of the investment subsidy and will contract by 1.7% in 2005; it will expand faster than the other categories in 2006 and 2007, though. The outlook for residential construction investment remains cautiously optimistic. After decreasing for eight consecutive years, they should post slightly positive growth again in 2005. Civil engineering construction investment is to benefit from more animated public sector demand over the entire forecast horizon.

6.3 Labor Market Ambivalence Continues: Unemployment Remains Persistently High despite Record Employment

The fairly powerful revival of economic activity in 2004 had repercussions on the labor market, albeit with a certain time lag. The growth of seasonally and working-day adjusted payroll employment is likely to speed up from 0.5% in 2004 according to national accounts data to 1.1% in 2005. However, the number of hours worked is anticipated to grow more slowly than employment, because part-time jobs and flexible working arrangements are on the rise. The disproportionately strong increase in female employment and service-sector employment confirms that the different growth rates can be traced to the rise in part-time and flexible jobs. The ongoing increase in the number of reported vacancies – a good leading indicator of labor market trends – signals that upcoming employment developments will be stable. Payroll employment growth will hover at roughly 1% in 2006 and 2007. Public sector employment is envisaged to sink a bit in 2005 and 2006 and to edge up in 2007. Self-employment according to national accounts data will fall further

Table 9

Labor Market Developments in Austria

	2004	2005	2006	2007
Annual change in %				
Total employment	+0.0	+0.4	+0.7	+0.8
<i>of which:</i>				
Payroll employment	+0.5	+1.1	+0.9	+1.1
Self-employment	-1.8	-2.1	-0.2	-0.4
Public sector employment	-0.4	-0.3	-0.1	+0.1
Registered unemployment	+1.9	+1.0	+0.7	-1.3
Labor supply	+0.1	+0.5	+0.7	+0.7
%				
Unemployment rate (Eurostat definition)	4.8	5.2	5.2	5.1

Source: 2004: Eurostat; 2005 to 2007: OeNB December 2005 outlook.

as a result of the decline in agricultural self-employment.

Conditions on the labor market are not expected to ease during the period covered by the outlook, even though new jobs will be created. The jobless rate will climb to 5.2% in 2005 as a consequence of the higher-than-average rise in labor supply, will stay at this level in 2006 and will fall back to 5.1% in 2007. Three factors will determine the development of labor supply in the future: First, demographic changes will cause an additional rise in labor supply in particular in 2007. Second, the influx of labor from abroad is supposed to remain marked throughout the forecast horizon. Third, a continuously growing number of older persons will remain part of the labor force as a result of the pension reforms implemented in 2000 and 2003. Considering that the jobless rate is persevering at a high level, a cyclical increase in labor supply will not play a role, however.

7 Cyclical Risks Are Largely Balanced

The further development of oil prices, which will remain highly volatile and will attract a considerable risk premium, still represents the main risk to economic activity. Low spare production capacities and refineries' high capacity utilization make it likely for prices to be hiked additionally if new shocks hit the market (supply shortfalls or a sharp surge in demand).

Apart from the future course of oil prices, an abrupt correction of the high U.S. current account deficit represents a forecast risk. Such a correction would be linked to a corresponding de-

cline in the U.S. dollar's exchange rate, which would be a severe blow to the competitiveness of European exports. The probability of such a scenario occurring, however, is currently assessed as being low, considering that Asian central banks continue to support the U.S. dollar by purchases. While the euro area's economic activity has firmed somewhat, the further development of domestic demand remains a downside risk. In view of the upcoming consolidation phase in Germany, further developments there are also subject to considerable risk. The comprehensive consolidation package will sap the German economy's strength, above all in 2007. The increase in value added tax and in pension insurance contributions (net of the reduction in unemployment insurance contributions) in 2007 will dampen German consumer spending by roughly 1% in the same year. By contrast, the frontloading of purchases is expected to trigger a marginal pickup in economic activity in the second half of 2006. German cyclical developments will add +0.02 percentage point to Austrian GDP growth in 2006 and reduce it by -0.1 percentage point in 2007, an effect which could not be taken into consideration and which thus represents a risk to the outlook.

Upward risks marginally predominate for the domestic demand components. Within the baseline scenario, the OeNB assumes that the wage moderation approach followed in the past will be maintained throughout the forecast horizon. However, considering that the wage ratio has steadily declined since 1994,⁴ wage settlements may be higher in the future than cur-

⁴ The wage ratio (compensation of employees and employers' contributions in percent of GDP) contracted from 54.2% in 1993 to 49.2% in 2004, a decline by over 4 percentage points.

rently assumed and may therefore trigger short-term Keynesian demand impulses. If the reduction of corporate taxes, the introduction of group taxation and the government's economic stimulus packages cause investment to revive more strongly than assumed in the forecast, this also represents a slight upward risk for GDP growth. The consumption forecast is surrounded by a particularly high degree of uncertainty. On the one hand, the burgeoning of the saving ratio observed in the past few years provides scope for a more robust recovery of consumer spending, on the other hand precautionary savings related to consumers' concerns about economic prospects may rise.

Overall, the risks to the forecast appear to be slightly on the downside in the short run and largely balanced in the medium term.

8 Growth Prospects Virtually Unchanged from June 2005 Outlook

Oil prices represent the only substantial change in external conditions by comparison to the June 2005 outlook. The assumptions of oil prices per barrel of Brent for the outlook for 2005 through 2007 are USD 4.4, USD 9.3 and USD 10.5 higher. The higher oil prices are reflected in the greater cost of goods of competitors on Austria's export and import markets. As expected, demand on Austrian export markets cooled off only temporarily at the beginning of 2005 and will remain animated throughout the entire forecast horizon. The forecast assumptions about economic growth outside the euro area are unchanged from June 2005, and the exchange rate declined marginally. Financing costs as measured by long-term interest rates decreased by 16 basis points to 37 basis points compared to the June 2005 outlook.

Table 10

Change in the Underlying Global Environment since the June 2005 Outlook

	December 2005			June 2005			Difference		
	2005	2006	2007	2005	2006	2007	2005	2006	2007
	Annual change in %								
Growth of Austria's export markets	+6.1	+7.1	+6.6	+5.7	+6.9	+6.8	+0.4	+0.2	-0.2
Competitor prices in Austria's export markets	+3.5	+3.7	+1.5	+1.5	+2.0	+1.5	+2.0	+1.7	+0.0
Competitor prices in Austria's import markets	+3.6	+3.2	+1.4	+1.9	+1.8	+1.5	+1.7	+1.4	-0.0
	USD								
Oil price per barrel (Brent)	55.0	60.0	59.5	50.6	50.7	49.0	+4.4	+9.3	+10.5
	Annual change in %								
Nominal effective exchange rate (exports)	-0.0	+0.6	+0.0	-0.5	+0.2	+0.0	+0.5	+0.4	+0.0
Nominal effective exchange rate (imports)	-0.1	+0.2	+0.0	-0.3	+0.1	+0.0	+0.2	+0.2	+0.0
	%								
Three-month interest rate	2.2	2.3	2.3	2.1	2.1	2.1	+0.0	+0.2	+0.2
Long-term interest rate	3.4	3.6	3.7	3.6	3.8	4.1	-0.2	-0.2	-0.4
	Annual change in %								
U.S. GDP (real)	+3.6	+3.5	+3.0	+3.4	+3.2	+3.1	+0.2	+0.3	-0.1
	USD/EUR								
USD/EUR exchange rate	1.25	1.19	1.19	1.29	1.29	1.29	-0.05	-0.09	-0.09

Source: Eurosystem.

Table 11 lists the reasons for the revisions of the outlook for Austria in detail. Apart from the impact of changed external assumptions, the impact of new data and a residual explain the revisions. The effect of new data covers the impact of revisions of historical data which had already been released for the last forecast and the forecasting error of the last forecast for the newly released quarterly data. The effects of the new external assumptions were simulated using the OeNB's macroeco-

nomical model. The simulation showed that the stronger growth of world trade, lower long-term interest rates and the depreciation of the euro more than offset the dampening effect of higher oil prices. All in all, changes in external conditions result in a GDP rise of about 0.1% a year; the remainder of the change is due to a shift in experts' assessments about the development of domestic factors, such as government consumption or wage settlements.

Table 11

Breakdown of Forecast Revisions

	GDP			HICP		
	2005	2006	2007	2005	2006	2007
	Annual change in %					
December 2005 outlook	+1.9	+2.3	+2.3	+2.2	+1.9	+1.7
June 2005 outlook	+2.0	+2.2	+2.2	+2.3	+1.7	+1.6
Difference	-0.1	+0.1	+0.1	-0.1	+0.2	+0.1
Due to:						
New data ¹⁾	-0.1	+0.0	+0.0	-0.1	+0.0	+0.0
Revision of historical data	+0.1	-0.0	-0.0	+0.0	+0.0	+0.0
Projection errors	-0.2	+0.0	+0.0	-0.1	+0.0	-0.0
External assumptions	+0.1	+0.1	+0.1	+0.1	+0.2	+0.2
Other ²⁾	-0.1	+0.0	-0.0	-0.1	-0.0	-0.0

Source: OeNB June and December 2005 outlooks.

¹⁾ Effect of revised historical data and new data (forecasting error).

²⁾ Different assumptions about trends in domestic variables such as wages, government consumption, effects of tax measures, other rating changes and model changes.

The deterioration of growth prospects for Austria in 2005 (-0.1 percentage point) is attributable mainly to the unexpectedly languid growth in the first quarter of 2005. By contrast, growth in the second and third quarters was in line with the June 2005 outlook values; moreover, the further course of economic growth was revised only minimally. In both 2006 and 2007, growth is expected to be 0.1 percentage point higher than envisaged in the June outlook. The composition of growth, though, has changed more strongly compared to the June outlook. Now, forecasters expect net exports to make a somewhat stronger

contribution. Also, the development of government consumption and from 2006 investment activity is assessed more optimistically. The estimate of the growth of household consumption, though, is somewhat more cautious than given in the last OeNB outlook. With consumer spending remaining subdued at the beginning of 2005 and consumer confidence persistently low, consumer spending is now seen to recover at a slower pace than was anticipated in the June outlook. Prompted by the rise in energy prices, the forecasters revised upward inflation expectations for 2006 by 0.2 percentage point.

8.1 Comparison with Other Forecasts

The available forecasts of Austria's economic development until 2007 do not differ markedly from the OeNB outlook. At 2.3%, the OeNB figure for economic growth in 2006 is at the upper limit among forecasts. Along with

economic indicators showing the improvement of cyclical developments, the outlook relied on the flash estimates for the third quarter of 2005, which were available in time for the completion of the outlook on November 21, 2005.

Table 12

Comparison of Current Economic Forecasts for Austria

Indicator	OeNB			WIFO		IHS		OECD			IMF		European Commission		
	Dec. 2005			Sep. 2005		Sep. 2005		Nov. 2005			Sep. 2005		Nov. 2005		
	2005	2006	2007	2005	2006	2005	2006	2005	2006	2007	2005	2006	2005	2006	2007
	Annual change in %														
Key results															
GDP (real)	+1.9	+2.3	+2.3	+1.7	+1.8	+1.8	+2.1	+1.8	+2.1	+2.3	+1.9	+2.2	+1.7	+1.9	+2.2
Private consumption (real)	+1.3	+1.9	+2.1	+1.4	+1.7	+1.7	+1.9	+1.2	+1.7	+1.9	x	x	+1.2	+1.6	+2.0
Government consumption (real)	+1.2	+1.2	+1.5	+0.6	+0.0	+0.8	+0.8	+1.1	+1.2	+1.3	x	x	+1.0	+1.0	+0.9
Gross fixed capital formation (real) ¹⁾	+0.9	+3.2	+2.8	+0.4	+2.4	+2.1	+3.2	+0.9	+2.8	+3.8	x	x	+0.5	+2.5	+2.9
Exports (real)	+3.2	+6.5	+6.6	+3.4	+4.3	+4.7	+5.7	+2.5	+6.3	+7.8	x	x	+3.9	+5.2	+5.0
Imports (real)	+1.9	+6.6	+6.7	+1.8	+3.9	+4.4	+5.6	+1.8	+6.0	+7.8	x	x	+2.0	+5.2	+5.0
GDP per employee	+1.4	+1.6	+1.5	+1.2	+1.1	+0.8	+1.2	x	x	x	x	x	+1.3	+1.3	+1.6
GDP deflator	+2.3	+1.6	+1.7	+1.8	+1.8	+1.8	+1.7	+2.2	+1.5	+1.4	+1.8	+1.8	+1.6	+1.4	+1.3
CPI	x	x	x	+2.4	+2.1	+2.4	+1.9	x	x	x	+2.0	+1.8	x	x	x
HICP	+2.2	+1.9	+1.7	+2.3	+2.0	x	x	+2.2	+1.8	+1.4	x	x	+2.2	+2.1	+1.7
Unit labor costs	+0.8	+1.0	+0.9	+1.1	+1.6	x	x	x	x	x	x	x	+0.9	+1.4	+0.7
Payroll employment	+0.4	+0.7	+0.8	+0.9	+0.9	+1.0	+0.9	x	x	x	x	x	+0.4	+0.6	+0.6
	%														
Unemployment rate ²⁾	5.2	5.2	5.1	5.1	5.1	5.1	5.1	5.8	5.8	5.7	5.0	4.7	5.0	5.0	5.1
	% of nominal GDP														
Current account	0.1	0.4	0.7	0.5	0.4	0.1	-0.4	-0.4	-0.1	0.3	0.0	-0.3	0.8	0.6	0.6
Government surplus/deficit	-1.8	-1.9	-1.4	-1.9	-2.0	-1.9	-1.8	-2.0	-2.0	-1.5	-2.0	-1.8	-1.9	-1.8	-1.4
External assumptions															
Oil price in USD/barrel (Brent)	55.0	60.0	59.5	58.0	62.0	56.0	62.0	58.0	54.5	51.0	54.2	61.8	55.0	61.4	60.3
Short-term interest rate in %	2.2	2.3	2.3	2.1	1.8	2.1	2.3	2.2	2.2	2.9	2.1	2.4	x	x	x
USD/EUR exchange rate	1.25	1.19	1.19	1.25	1.21	1.25	1.23	1.19	1.19	1.19	1.25	1.21	1.25	1.21	1.22
	Annual change in %														
Euro area GDP (real)	1.2-1.6	1.4-2.4	1.4-2.4	-1.3	-1.4	-1.3	-1.8	+1.4	+2.1	+2.2	-1.2	-1.8	-1.3	-1.9	-2.1
U.S. GDP (real)	+3.6	+3.5	+3.0	+3.3	+3.3	+3.3	+3.0	+3.6	+3.5	+3.3	+3.5	+3.3	+3.5	+3.2	+2.7
World GDP (real)	+4.4	+4.3	+4.1	x	x	x	x	x	x	x	+4.3	+4.3	+4.3	+4.3	+4.2
World trade	+6.4	+6.7	+6.6	+6.7	+7.0	+10.0	+6.0	+7.3	+9.1	+9.2	+7.0	+7.4	+6.9	+7.4	+7.3

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

¹⁾ For IHS: Gross investment.

²⁾ Eurostat definition; for OECD: OECD definition.

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Annex Detailed Result Tables

Table 13

Demand Components (Real Prices)								
Chained volume data (reference year = 2000)								
	2004	2005	2006	2007	2004	2005	2006	2007
	EUR million				Annual change in %			
Private consumption	124,119	125,713	128,099	130,750	+0.9	+1.3	+1.9	+2.1
Government consumption	39,700	40,175	40,657	41,267	+1.0	+1.2	+1.2	+1.5
Gross fixed capital formation	47,614	48,058	49,599	50,991	+1.8	+0.9	+3.2	+2.8
of which: Investment in plant and equipment	19,868	19,523	20,378	21,174	+1.4	-1.7	+4.4	+3.9
Residential construction investment	9,498	9,514	9,648	9,791	-0.3	+0.2	+1.4	+1.5
Investment in other construction	18,688	18,969	19,552	20,004	+1.1	+1.5	+3.1	+2.3
Changes in inventories (including statistical discrepancy)	1,887	1,886	2,036	2,033	x	x	x	x
Domestic demand	213,320	215,833	220,391	225,041	+1.0	+1.2	+2.1	+2.1
Exports of goods and services	118,065	121,795	129,766	138,363	+8.4	+3.2	+6.5	+6.6
Imports of goods and services	108,801	110,921	118,281	126,204	+6.0	+1.9	+6.6	+6.7
Net exports	9,264	10,874	11,484	12,159	x	x	x	x
Gross domestic product	222,583	226,707	231,876	237,200	+2.4	+1.9	+2.3	+2.3

Source: 2004: Eurostat; 2005 to 2007: OeNB December 2005 outlook.

Table 14

Demand Components (Current Prices)								
	2004	2005	2006	2007	2004	2005	2006	2007
	EUR million				Annual change in %			
Private consumption	132,088	136,467	141,747	147,216	+2.9	+3.3	+3.9	+3.9
Government consumption	42,315	43,533	44,885	46,394	+3.0	+2.9	+3.1	+3.4
Gross fixed capital formation	49,516	50,764	53,177	55,490	+1.9	+2.5	+4.8	+4.3
Changes in inventories (including statistical discrepancy)	159	2,874	2,667	2,324	x	x	x	x
Domestic demand	224,078	233,639	242,476	251,424	+3.8	+4.3	+3.8	+3.7
Exports of goods and services	121,467	127,532	138,382	150,078	+7.7	+5.0	+8.5	+8.5
Imports of goods and services	108,602	114,383	124,398	134,708	+6.6	+5.3	+8.8	+8.3
Net exports	12,865	13,149	13,984	15,370	x	x	x	x
Gross domestic product	236,942	246,788	256,460	266,794	+4.5	+4.2	+3.9	+4.0

Source: 2004: Eurostat; 2005 to 2007: OeNB December 2005 outlook.

Table 15

Deflators of Demand Components								
	2004	2005	2006	2007	2004	2005	2006	2007
	2000 = 100				Annual change in %			
Private consumption	106.4	108.6	110.7	112.6	+1.9	+2.0	+1.9	+1.8
Government consumption	106.6	108.4	110.4	112.4	+2.0	+1.7	+1.9	+1.8
Gross fixed capital formation	104.0	105.6	107.2	108.8	+0.1	+1.6	+1.5	+1.5
Domestic demand (excluding changes in inventories)	105.9	107.9	109.8	111.7	+1.5	+1.8	+1.8	+1.7
Exports of goods and services	102.9	104.7	106.6	108.5	-0.6	+1.8	+1.8	+1.7
Imports of goods and services	99.8	103.1	105.2	106.7	+0.6	+3.3	+2.0	+1.5
Terms of trade	103.1	101.6	101.4	101.6	-1.2	-1.5	-0.2	+0.2
Gross domestic product	106.4	108.9	110.6	112.5	+2.0	+2.3	+1.6	+1.7

Source: 2004: Eurostat; 2005 to 2007: OeNB December 2005 outlook.

Table 16

Labor Market								
	2004	2005	2006	2007	2004	2005	2006	2007
	1,000				Annual change in %			
Total employment	4,145.3	4,162.7	4,192.4	4,224.8	+0.0	+0.4	+0.7	+0.8
of which: Private sector employment	3,670.2	3,689.4	3,719.5	3,751.2	+0.1	+0.5	+0.8	+0.9
Payroll employment (national accounts definition)	3,317.5	3,352.7	3,383.7	3,419.4	+0.5	+1.1	+0.9	+1.1
	%							
Unemployment rate (Eurostat definition)	4.8	5.2	5.2	5.1	x	x	x	x
	% of real GDP							
Unit labor costs (whole economy) ¹⁾	65.5	66.0	66.7	67.3	-0.3	+0.8	+1.0	+0.9
	EUR 1,000 per employee							
Labor productivity (whole economy) ²⁾	53.7	54.5	55.3	56.1	+2.4	+1.4	+1.6	+1.5
	EUR 1,000							
Real compensation per employee ³⁾	33.0	33.1	33.3	33.6	+0.2	+0.2	+0.6	+0.7
	At current prices, EUR 1,000							
Gross compensation per employee	35.2	36.0	36.9	37.8	+2.1	+2.3	+2.6	+2.5
	At current prices, EUR million							
Total gross compensation of employees	116,679	120,583	124,820	129,239	+2.6	+3.3	+3.5	+3.5

Source: 2004: Eurostat; 2005 to 2007: OeNB December 2005 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 17

Current Account								
	2004	2005	2006	2007	2004	2005	2006	2007
	EUR million				% of nominal GDP			
Balance of trade	4,631.0	4,435.8	5,344.1	5,966.1	2.0	1.8	2.1	2.2
Balance on goods	2,498.4	2,343.5	2,821.0	3,314.7	1.1	0.9	1.1	1.2
Balance on services	2,132.6	2,092.3	2,523.1	2,651.4	0.9	0.8	1.0	1.0
Euro area	-11,980.6	-11,569.1	-12,090.6	-12,533.1	-5.1	-4.7	-4.7	-4.7
Non-euro area countries	16,611.6	16,004.9	17,434.8	18,499.1	7.0	6.5	6.8	6.9
Balance on income	-1,813.8	-1,998.5	-1,922.0	-1,816.0	-0.8	-0.8	-0.7	-0.7
Balance on transfers	-2,244.1	-2,115.8	-2,282.1	-2,360.1	-0.9	-0.9	-0.9	-0.9
Current account	573.1	321.5	1,140.0	1,790.0	0.2	0.1	0.4	0.7

Source: 2004: OeNB; 2005 to 2007: OeNB December 2005 outlook.

Quarterly Outlook Results

	2005	2006	2007	2005				2006				2007			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Annual change in %															
Prices, wages and costs															
HICP	+2.2	+1.9	+1.7	+2.4	+2.1	+2.2	+2.0	+2.0	+2.1	+1.9	+1.6	+1.6	+1.7	+1.7	+1.6
HICP (excluding energy)	+1.5	+1.5	+1.9	+1.9	+1.5	+1.3	+1.2	+1.1	+1.5	+1.7	+1.6	+1.8	+1.9	+1.9	+1.9
Private consumption expenditure (PCE) deflator	+2.0	+1.9	+1.8	+2.4	+2.1	+1.7	+1.8	+1.8	+1.9	+2.1	+1.9	+1.8	+1.7	+1.7	+1.8
Gross fixed capital formation deflator	+1.6	+1.5	+1.5	+1.7	+1.5	+1.6	+1.5	+1.4	+1.5	+1.5	+1.5	+1.5	+1.5	+1.5	+1.6
GDP deflator	+2.3	+1.6	+1.7	+3.0	+2.5	+2.3	+1.3	+1.4	+1.5	+1.4	+2.1	+1.7	+1.7	+1.7	+1.7
Unit labor costs	+0.8	+1.0	+0.9	+0.1	+0.8	+1.2	+1.2	+0.9	+1.0	+1.0	+1.1	+1.0	+1.0	+0.9	+0.9
Nominal wages per employee	+2.3	+2.6	+2.5	+2.3	+2.4	+2.4	+2.0	+2.4	+2.4	+2.5	+3.0	+2.6	+2.5	+2.4	+2.4
Productivity	+1.4	+1.6	+1.5	+2.1	+1.6	+1.2	+0.8	+1.4	+1.4	+1.4	+1.9	+1.6	+1.5	+1.5	+1.5
Real wages per employee	+0.2	+0.6	+0.7	-0.1	+0.3	+0.7	+0.1	+0.5	+0.5	+0.4	+1.1	+0.8	+0.7	+0.7	+0.6
Import deflator	+3.3	+2.0	+1.5	+3.1	+3.6	+3.6	+2.9	+2.3	+2.1	+1.9	+1.7	+1.6	+1.5	+1.5	+1.4
Export deflator	+1.8	+1.8	+1.7	+1.6	+2.7	+3.6	-0.7	+1.2	+1.2	+0.8	+4.2	+1.7	+1.6	+1.7	+1.8
Terms of trade	-1.5	-0.2	+0.2	-1.5	-0.9	+0.0	-3.4	-1.1	-0.9	-1.1	+2.5	+0.2	+0.1	+0.2	+0.3
Annual and/or quarterly changes in % (real)															
Economic activity															
GDP	+1.9	+2.3	+2.3	+0.1	+0.5	+0.6	+0.5	+0.6	+0.6	+0.6	+0.5	+0.6	+0.6	+0.6	+0.6
Private consumption	+1.3	+1.9	+2.1	+0.3	+0.4	+0.5	+0.4	+0.5	+0.5	+0.5	+0.5	+0.5	+0.5	+0.5	+0.5
Government consumption	+1.2	+1.2	+1.5	+0.3	+0.3	+0.3	+0.2	+0.3	+0.3	+0.4	+0.4	+0.4	+0.4	+0.4	+0.4
Gross fixed capital formation	+0.9	+3.2	+2.8	-0.2	+0.2	+0.3	+0.8	+1.1	+1.0	+0.8	+0.6	+0.7	+0.7	+0.7	+0.7
of which: Investment in plant and equipment	-1.7	+4.4	+3.9	-1.1	+0.1	+0.2	+1.3	+1.4	+1.4	+1.2	+0.9	+0.9	+0.9	+0.9	+0.9
Residential construction investment ¹⁾	+0.2	+1.4	+1.5	-0.6	+0.5	+0.6	+6.4	-4.4	+0.6	+0.5	+0.3	+0.2	+0.3	+0.3	+0.4
Exports	+3.2	+6.5	+6.6	-0.4	+0.7	+1.0	+6.1	-1.0	+1.5	+1.5	+1.6	+1.6	+1.6	+1.7	+1.7
Imports	+1.9	+6.6	+6.7	-0.3	+0.5	+0.8	+2.4	+1.8	+1.5	+1.6	+1.6	+1.6	+1.7	+1.7	+1.7
Contribution to real GDP growth in percentage points															
Domestic demand	+1.1	+1.9	+2.0	+0.2	+0.3	+0.4	+0.4	+0.5	+0.5	+0.5	+0.5	+0.5	+0.5	+0.5	+0.5
Net exports	+0.7	+0.3	+0.3	-0.1	+0.2	+0.1	+2.1	-1.5	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1
Changes in inventories	+0.0	+0.1	+0.0	+0.1	+0.0	+0.0	-2.0	+1.6	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0
%															
Labor market															
Unemployment rate (Eurostat definition)	5.2	5.2	5.1	5.0	5.1	5.2	5.3	5.3	5.3	5.2	5.2	5.1	5.1	5.1	5.1
Annual and/or quarterly changes in %															
Total employment	+0.4	+0.7	+0.8	+0.1	+0.1	+0.7	-0.1	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2
of which: Private sector employment	+0.5	+0.8	+0.9	+0.1	+0.1	+0.1	+0.8	-0.1	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2
Payroll employment	+1.1	+0.9	+1.1	+0.3	+0.3	+0.3	+0.7	-0.2	+0.2	+0.2	+0.2	+0.3	+0.3	+0.3	+0.3
Annual and/or quarterly changes in % (real)															
Additional variables															
Disposable household income	+2.7	+2.0	+1.8	+1.3	+0.6	+0.7	+0.3	+0.4	+0.6	+0.6	+0.5	+0.4	+0.4	+0.4	+0.3
% of real disposable household income (saving ratio) and % of real GDP (output gap)															
Household saving ratio	10.2	10.4	10.3	10.0	10.2	10.1	10.4	10.3	10.4	10.4	10.4	10.4	10.4	10.3	10.3
Output gap	-0.9	-0.5	-0.2	-1.0	-0.9	-0.7	-1.2	-0.8	-0.6	-0.4	-0.3	-0.3	-0.2	-0.2	-0.2

Source: OeNB December 2005 outlook. Quarterly values are seasonally adjusted.

¹⁾ Excluding other investment in construction and other investment.