

Global Recovery and Stable Domestic Economic Conditions Support Moderate Upswing

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

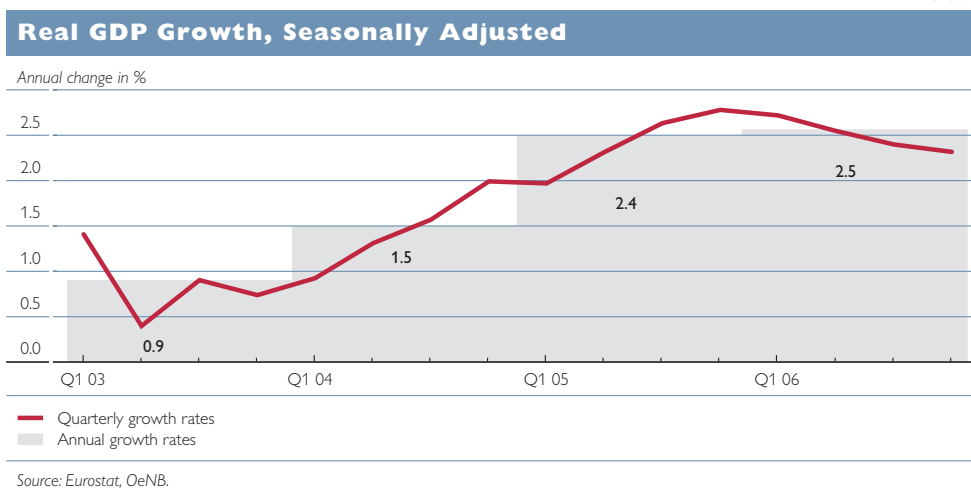
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I Summary

According to the spring 2004 economic outlook of the Oesterreichische Nationalbank (OeNB), Austria's real gross domestic product (GDP) is projected to increase by 1.5% in 2004. Economic growth is expected

to accelerate to 2.4% in 2005 and to 2.5% in 2006. Inflation as measured by the Harmonised Index of Consumer Prices (HICP) will be 1.7% in 2004, driven to some extent by increased oil prices, and 1.5% and 1.6% in the subsequent years.

Chart 1



In 2003, the Austrian economy grew by 0.9% (seasonally and working-day adjusted).¹ This growth is attributable to strong domestic demand in the first half of the year. Investment in particular grew at a fast pace in early 2003. Demand for investment was fueled by a need for replacement investment, favorable financing conditions and the investment tax credit.

Despite a relatively small increase in disposable income and tight labor market conditions, consumer demand proved to be quite robust in the first half of 2003. According to preliminary national accounts data, Austria – contrary to the euro area – will experience an economic slowdown in the second half of 2003. However, these data are generally prone to major revisions. If future data releases in the second half of the year confirm sluggish growth, expectations for the

2004 growth rate will have to be revised downwards.

Sluggish global economic growth and the appreciation of the euro caused exports to nearly stagnate in 2003. While reduced price competitiveness, induced by the appreciation of the euro, will cause Austrian exporters to lose some of their market share in 2004, the dynamic recovery of the world economy should offset this trend and noticeably stimulate Austrian foreign trade already at the beginning of 2004. Against this background, export growth is expected to accelerate in 2005 and 2006. Stepped-up domestic demand will also fuel a rise in imports. Consequently, the contribution of net exports to GDP growth will be negative (–0.2%) in 2004. As of 2005, the contribution of net exports to GDP is expected to be slightly positive.

¹ Not seasonally and working-day adjusted the economic growth in Austria in 2003 was 0.7% (source: Eurostat).

Table 1

OeNB Spring Fall Outlook for 2004 – Key Results

	2003	2004	2005	2006
<i>Annual change in % (real)</i>				
Economic activity				
Gross domestic product	+0.9	+1.5	+2.4	+2.5
Private consumption	+1.4	+1.4	+2.1	+2.1
Government consumption	+0.7	+0.5	+0.3	+0.3
Gross fixed capital formation	+4.4	+3.3	+4.2	+4.7
Exports of goods and services	+0.8	+4.0	+6.4	+7.5
Imports of goods and services	+2.5	+4.5	+6.5	+7.4
<i>% of nominal GDP</i>				
Current account balance	-0.9	-1.2	-1.1	-0.9
<i>Percentage points</i>				
Contribution to real GDP growth				
Private consumption	+0.8	+0.8	+1.2	+1.2
Government consumption	+0.1	+0.1	+0.1	+0.0
Gross fixed capital formation	+1.0	+0.8	+1.0	+1.1
Domestic demand (excl. changes in inventories)	+1.9	+1.6	+2.2	+2.3
Net exports	-0.8	-0.2	+0.1	+0.2
Changes in inventories (incl. statistical discrepancy)	-0.2	+0.1	+0.2	+0.0
<i>Annual change in %</i>				
Prices				
Harmonised Index of Consumer Prices (HICP)	+1.3	+1.7	+1.5	+1.6
Private consumption expenditure (PCE) deflator	+1.5	+1.6	+1.6	+1.7
Deflator des Bruttoinlandsprodukts	+1.5	+1.5	+1.4	+1.6
GDP deflator	+1.7	+0.8	+0.7	+1.0
Compensation per employee (at current prices)	+2.4	+2.1	+2.5	+2.7
Productivity (whole economy)	+0.7	+1.2	+1.8	+1.6
Compensation per employee (at 1995 prices)	+0.8	+0.4	+0.9	+1.1
Import prices	-0.8	+0.3	+0.7	+0.6
Export prices	-0.1	+0.1	+0.6	+0.8
Terms of Trade	+0.7	-0.2	-0.1	+0.2
Income and savings¹				
Real disposable household income	+1.0	+1.0	+2.4	+2.2
<i>% of nominal disposable household income</i>				
Saving ratio	7.9	7.7	8.1	8.3
<i>Annual change in %</i>				
Labor market				
Payroll employment	+0.3	+0.3	+0.7	+1.0
<i>%</i>				
Unemployment rate (Eurostat definition)	4.4	4.5	4.4	4.1
<i>% of nominal GDP</i>				
Budget				
Budget balance (Maastricht definition)	-1.3	-1.4	-1.9	-1.7
Government debt	65.4	64.8	64.0	63.0

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

¹ 2003: OeNB estimate.

In view of lackluster employment growth, moderate wage settlements and rising inflation, real household disposable income is set to rise at a very subdued rate in 2004, despite the effects of the first stage of the tax reform. Therefore, consumer spending is not expected to accelerate

in 2004. The second stage of the tax reform, however, will bring about a substantial relief for households in 2005, which will boost both consumption growth and the saving ratio.

Labor market conditions are not expected to brighten before 2005. In 2004, total employment will grow at

a rate of 0.2%, as it did in 2003. Payroll employment will expand by a slightly higher 0.3%. Labor supply will expand relatively robustly over the entire forecast horizon. Several structural factors such as the increase in marginal employment, the rising number of foreign workers and the greater labor force participation of mature workers will contribute to this growth. The unemployment rate (Eurostat definition) will therefore keep increasing slightly to 4.5% in 2004. In 2005, employment growth will still not have enough momentum to noticeably reduce the unemployment rate. Unemployment is not expected to decline until 2006.

After recording a surplus of 0.2% of GDP in 2002, the current account switched into deficit in 2003 but can, with a shortfall of -0.9%, still be considered close to balance. This small deficit was mainly induced by the balance of trade, which will continue to determine current account developments over the forecast horizon. The income and transfer accounts are expected to remain unchanged. The current account balance in 2004, 2005 and 2006 is expected to be -1.2%, -1.1% and -0.9%, respectively.

After recording an increase of 1.3% in the HICP in 2003, the OeNB expects inflation to rise to 1.7% in 2004. Inflation is set to quicken in the wake of the surge in oil prices since spring 2003, which has only partially been offset by exchange rate developments. The rise in energy taxes effective from January 1, 2004, will contribute 0.16 percentage point to total inflation in 2004. Prices are not expected to be subject to wage or demand pressures in 2004 and 2005. Inflation is projected to edge down to 1.5% in 2005, in line with assumed sinking oil prices. The output gap is

presumed to close at the beginning of 2006 and to subsequently turn slightly positive. The ensuing cost and price pressures will push inflation insignificantly higher (1.6%) in 2006.

The budget balance (Maastricht definition) for 2004 is projected to be -1.4% of GDP, after coming to -1.3% in 2003. Due to the effects of the tax reform, the budget balance is forecast to deteriorate to -1.9% and -1.7% of GDP in 2005 and 2006, respectively, despite improved economic conditions.

2 Technical Assumptions

The OeNB compiled this forecast as its input for the Eurosystem's spring 2004 staff projections for macroeconomic trends in the euro area.

The forecast horizon ranges from the first quarter of 2004 to the fourth quarter of 2006. May 17, 2004, was the cutoff date for the underlying assumptions on global economic trends and for the technical assumptions on interest rates, exchange rates and crude oil prices.

The OeNB used its macroeconomic quarterly model to prepare the projections for Austria.

This forecast is based on the assumption that the monetary policy framework will remain unchanged. It therefore presupposes constant levels of both short-term nominal interest rates and the nominal effective exchange rate of the euro (euro area index) over the entire forecast horizon. The underlying short-term interest rate (three-month EURIBOR) is based on the two-week average prior to May 5, 2004. Long-term interest rates, which are in tune with market expectations for ten-year government bonds, are set at 4.27% (2004), 4.39% (2005) and 4.47% (2006). A constant rate of USD/EUR 1.189 is assumed

for future USD/EUR exchange rate trends. Taking exchange rate values to date into account, we arrive at an average rate for 2004 of USD/EUR 1.205. In the current year, the euro is thus expected to appreciate by 6.5% year on year relative to the U.S. dollar. The euro is forecast to appreciate less against other currencies on average. The nominal effective exchange rate used for the euro area projection is 1.7% higher in 2004 than it was in 2003. For the period of 2004 to 2006, we assume oil prices of USD 34.6, USD 31.8 and USD 29.2 per barrel of Brent in each successive year. The projected future trend in crude oil prices is based on futures prices. Oil prices in 2004 are USD 8.5 higher (+32%) than in the fall 2003 outlook.

3 Favorable International Environment

3.1 Global recovery gathering strength

The recovery of the global economy is gaining pace. Expectations on the extent of the global recovery have been revised upwards since the OeNB's fall 2003 outlook. In the second half of 2003, the world economy outside the euro area experienced 5.0% year-on-year growth, while the fall outlook had projected a growth rate of 4.1%. Expectations of fall 2003 for the first quarter of 2004 have been exceeded as well. The driving forces behind the expansion are the U.S.A. and Asia, currently the most dynamic regions in the global economy. While the U.S. upswing is fueled by domestic demand, Asian economies owe their economic boom not only to domestic demand, but also to net exports.

The U.S.A. is experiencing robust economic growth. Real GDP growth

is expected to reach 4.6% in 2004. In the subsequent years, growth is projected to lessen somewhat (2005: 3.6%, 2006: 3.0%), as the expansionary monetary policy is expected to phase out and the high budget deficit renders a continued loose fiscal policy unlikely. Currently, growth in the U.S.A. is chiefly driven by consumer and capital spending. The dynamic development of consumption is mainly attributable to the surge in disposable incomes, which was triggered by tax reductions. Employment should continue to expand, which will lead to a robust growth of real disposable income. This will enable private households to maintain their consumption levels and, at the same time, boost their saving ratio. Investment in plant and equipment has gathered great momentum. Vigorous demand and historically low financing costs coupled with fiscal incentives are expected to add further to investment growth this year. In 2005 and 2006, investment growth will be dampened by declining aggregate demand and higher interest rates. Net exports will not contribute significantly to growth. The U.S. current account deficit will remain at approximately 5% of GDP until the end of the forecast horizon.

In *Japan*, economic recovery is expected to continue. The effects of implemented structural reforms and subsiding deflationary trends will strengthen domestic demand. In 2004, real growth is projected to accelerate to 3.4% on the back of animated growth in the fourth quarter of 2003 and in the first quarter of 2004. Currently all demand components are making a positive contribution to growth. Private consumption will be bolstered by improved labor market conditions, while investment will benefit from reduced corporate indebted-

ness. In 2005 and 2006, however, growth might slow down marginally. Nevertheless, 2005 and 2006 are still presumed to be years of cyclical expansion for the Japanese economy. Asia excluding Japan will remain the fastest-growing economic area in 2004, which is mainly attributable to the boom in China.

In the *United Kingdom* current data show further consolidation of the economic upswing. In the first quarter of 2004, real GDP progressed by 0.6% (seasonally adjusted and quarter on quarter). The real estate market has remained stable. Solid growth of private consumption is expected to continue. The projected rise in inflation could have a downward effect on consumption expenditure towards the end of the forecast horizon. According to survey data, investment activity will experience a substantial boost in 2004. The expected surge in export demand will more than offset the dampening effect of the appreciation of the pound sterling on exports. Overall, economic growth from 2004 to 2006 will average approximately 3%.

In *Switzerland*, economic output dropped to 0.5% in 2003. Recent national accounts data show a return to positive growth rates in the second half of 2003. Survey data indicate further acceleration at the beginning of 2004. Given its close ties with the euro area, the Swiss economy will subsequently mirror euro area developments. The recovery will be driven by low inflation rates, expected improvements on the labor market and rising demand on Swiss export markets.

The average growth rate of the new *EU Member States (excluding Cyprus and Malta)* in 2003 amounted to 3.5% and was thus substantially

above the average growth rate in the euro area (0.5%). Growth even accelerated by 1.0 percentage point year on year. The economic outlook is consistently positive. The cyclical patterns of the new Member States, which are small open economies, are strongly determined by euro area developments. As the new Member States are currently in the process of catching up, their economic growth will substantially exceed average growth in the euro area over the entire forecast horizon. A considerable degree of uncertainty stems from the effects of consolidation measures on domestic demand and future trends on the foreign exchange markets.

Poland experienced a strong acceleration of growth in 2003. With the depreciation of the Polish zloty, domestic demand recovered and exports picked up immensely. Domestic demand is expected to advance further over the forecast horizon, whereas the impact of net exports on growth will gradually diminish. Investment activity will be stimulated additionally through tax measures. Average growth of real GDP from 2004 to 2006 will amount to almost 5%.

The growth rates of the *Czech Republic* and *Hungary* over the forecast horizon will be slightly lower at 3% and 4%. In *Hungary* fiscal policies introduced to stimulate the economy in 2003 were ineffective because imports rose. The expected economic upswing – driven by increased export demand and restored business confidence – will be fairly moderate. High interest rates and necessary consolidation measures in the government sector will dampen domestic demand.

In the *Czech Republic*, private consumption and in particular increased investment activity fueled an accelera-

tion of economic growth in 2003. Consolidation measures will depress private consumption growth somewhat in 2004 compared to 2003. Moreover, as the negative contribution of net exports to growth is projected to diminish, economic growth will remain at the 2003 level of 3.0%. Towards the end of the forecast horizon economic growth will accelerate to almost 4%.

3.2 Recovery in the euro area slowly gaining ground

The recovery in the euro area is slowly feeding through to all demand aggregates. Nevertheless, it still has little momentum compared to other regions. In the second half of 2003, domestic demand was lackluster and growth was mainly propelled by exports. There are, however, indications that domestic demand will rebound. Since the last quarter of 2003, investment growth has been positive again.

Real GDP growth in the first quarter of 2004, which was very strong (0.6%) according to preliminary estimates, was mainly driven by domestic demand. This forecast does, however, not expect this dynamic growth to hold throughout the rest of 2004.

Despite the deterioration of price competitiveness caused by the appreciation of the euro, exports play an important role in the recovery. In 2004, investment activity is presumed to pick up again. 2005 and 2006 will see a further expansion of investment activity due to accelerator effects. Private consumption will gather momentum amid the recovery, as disposable household incomes will resume stronger growth. The labor market outlook remains subdued for the time being. Employment is not expected to make much headway until 2005.

Germany may post signs of a moderate improvement of the economic situation, but the upturn is still very

Table 2

Underlying Global Economic Conditions

	2003	2004	2005	2006
<i>Annual change in % (real)</i>				
Gross domestic product				
World GDP growth outside the euro area	+4.5	+5.3	+4.9	+4.8
U.S.A.	+3.1	+4.6	+3.6	+3.0
Japan	+2.7	+3.4	+2.1	+2.3
Asia excluding Japan	+7.2	+7.3	+6.4	+6.6
Latin America	+1.2	+3.6	+4.8	+4.7
United Kingdom	+2.2	+3.1	+2.9	+2.8
New EU Member States	+3.5	+4.2	+4.6	+4.7
Schweiz	-0.5	+1.6	+2.3	+2.2
Euro area ¹	0.5	1.4–2.0	1.7–2.7	x
World trade				
Imports of goods and services World economy	+5.4	+7.2	+7.6	+7.7
Non-euro area countries	+7.1	+8.2	+7.9	+7.7
Real growth of euro-area export markets	+5.8	+7.8	+8.0	+7.8
Real growth of Austria's export markets	+3.7	+6.1	+7.2	+7.6
Prices				
Oil price (in USD/barrel of Brent)	28.9	34.6	31.8	29.2
Three-month interest rate in %	2.3	2.1	2.1	2.1
Long-term interest rate in %	4.1	4.3	4.4	4.5
USD/EUR exchange rate	1.131	1.205	1.189	1.189
Nominal effective exchange rate (euro area index)	99.91	101.65	100.89	100.89

Source: ECB.

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

subdued. Currently, exports are the main contributor to growth, while domestic demand has not shown any indications of an upward trend. In view of the three-year slump in investment activity, there seems to be an increasing need for replacement investment. However, the investment cycle has apparently not gathered steam yet. Prospects for investment and private consumption chiefly depend on a stabilization of business and consumer confidence.

The most recent survey data for *France* indicate a stimulation of domestic demand. The most likely scenario is therefore a consolidation of the recovery. In *Italy* domestic demand developed surprisingly well in the first quarter of 2004. Nevertheless, it is the worldwide economic recovery that will constitute the driving force behind the projected Italian upswing.

4 Austrian Exports Benefit from Growth in World Trade

This forecast is based on the assumption of strong world trade growth, primarily powerful trade growth in

the U.S.A. and in Asia (excluding Japan). However, economic growth in Germany, Italy and Switzerland, all of which are important trade partners to Austria, will only be moderate. At the same time, the new EU Member States will provide a fast-growing target market for Austrian exports.

In 2003, Austrian exporters felt the negative effects of the unfavorable external trade environment. Euro exchange rate movements in tandem with the sluggish euro area economy led to near-stagnation (+0.8%) of Austrian real exports of goods and services in 2003. After declining in the first half of 2003, however, Austria's exports recovered in the second half, as was the case in the other euro area countries. Export growth is expected to reach 4.0% in 2004. As in 2003, however, price competition will entail a market share loss of over 2%. Although exports are expected to rise by 6.4% in 2005 and 7.5% in 2006, imports will grow commensurately with exports and domestic demand in 2004 and will even accelerate in 2005. Therefore, the contribution of

Table 3

Growth and Price Developments, Austrian External Trade					
	2002	2003	2004	2005	2006
Annual change in %					
Exports					
Competitors' prices in Austria's export markets	-2.5	-6.7	-1.4	+1.4	+1.2
Export deflator	-0.6	-0.1	+0.1	+0.6	+0.8
Changes in price competitiveness	-0.6	-5.9	-1.7	+0.8	+0.6
Import demand in Austria's export markets (real)	+0.7	+3.7	+6.1	+7.2	+7.6
Austrian exports of goods and services (real)	+4.0	+0.8	+4.0	+6.4	+7.5
Market share	+3.3	-2.9	-2.1	-0.9	-0.1
Imports					
International competitors' prices in the Austrian market	-1.1	-4.3	-1.1	+1.1	+1.1
Import deflator	-2.0	-0.8	+0.3	+0.7	+0.6
Austrian imports of goods and services (real)	+1.7	+2.5	+4.5	+6.5	+7.4
Terms of trade	+1.3	+0.7	-0.2	-0.1	+0.2
Percentage points					
Contribution of net exports to GDP growth	+1.2	-0.8	-0.2	+0.1	+0.2

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

Table 4

Austria's Current Account

	2002	2003	2004	2005	2006
	% of nominal GDP				
Balance of trade	2.0	1.1	0.8	0.8	1.0
Balance on goods	1.7	0.7	0.6	0.7	0.8
Balance on services	0.3	0.4	0.1	0.2	0.2
Euro area	-3.6	-4.7	-4.8	-4.7	-4.6
Non-euro area countries	5.6	5.8	5.5	5.5	5.6
Balance on income	-1.0	-1.1	-1.1	-1.1	-1.1
Balance on current transfers	-0.8	-0.9	-0.9	-0.9	-0.9
Current account	0.2	-0.9	-1.2	-1.1	-0.9

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

net exports to GDP growth will follow a fairly balanced trend over the forecast period.

In 2002 as well as 2003, Austria's current account balance remained within $\pm 1\%$ of GDP; thus the current account can be described as in balance. The slight surplus in 2002 (+0.2% of GDP) resulted from decreasing imports due to sluggish domestic demand, whereas the deficit in 2003 can be attributed to relatively strong growth in imports coupled with a weak export performance. On the basis of projected trade flows, Austria's trade surplus will shrink slightly in 2004.

The two components of the trade balance, goods and services, have followed opposing trends since the early 1990s. While the services surplus has diminished steadily, the goods account has shown continuous improvement (with the exception of 2003). This trend is expected to continue in a milder form over the forecast horizon. The geographical composition of Austria's trade balance, which is characterized by a negative balance with euro area countries and a sizeable surplus with countries outside the euro area, is not expected to change between now and 2006.

As in 2002, the income subaccount posted a shortfall, which came

to -1.1% of nominal GDP in 2003. The direct investments made in Austria in recent years are yielding increasing returns and thus offsetting the earnings growth of Austrian direct investments in Central and Eastern European economies. For the overall income subaccount (income from direct investments, from portfolio investments and from other investments), a stable balance equaling, -1.1% of GDP is projected for the years 2004 and 2005. The current transfers balance – which is mainly influenced by EU transactions – will remain constant at -0.9% of GDP over the forecast horizon. The overall current account balance will thus follow the development of the trade balance and amount to some -1% of GDP.

5 Rise in Inflation to be Determined by Energy Component in 2004

The year 2003 saw a sharp drop in inflation in the first half of the year, followed by a slight increase in the second half. In 2004 to date, inflation has augmented further to 1.5% (measured as the increase in the HICP), with the service sector showing especially pronounced price rises. As early as the second quarter of 2004, inflation is projected to quicken to 1.8%, a development which can

mainly be attributed to the energy subcomponent. Therefore, the projected overall increase in the HICP is 1.7% for 2004. The energy tax hike as of January 1, 2004, in the course of Austria's tax reform measures will contribute 0.16 percentage point to inflation over the year.

Assuming an oil price of USD 34.6 per barrel (Brent) in 2004, the energy subcomponent of the HICP is projected to surge by 4.4%. The futures prices from May 17, 2004, indicate that a steady decline in oil prices can be expected starting in the second quarter of 2004. The energy subcomponent's contribution to the overall

HICP inflation will thus fall from 0.30 percentage point in 2004 to 0.15 and -0.02 percentage point in 2005 and 2006, respectively. Prices are not expected to be subject to either wage or demand pressure, since further wage moderation has been assumed and the output gap will widen slightly.

In 2005, lower inflation in energy prices will cause the inflation rate to decline to 1.5%. The output gap is likely to be closed in early 2006, after which it will become positive. The resulting cost and price pressure will lead to a slightly higher rate of inflation (1.6%) in 2006.

Table 5

Price and Cost Indicators for Austria

	2003	2004	2005	2006
	Annual change in %			
Harmonised Index of Consumer Prices (HICP)	+1.3	+1.7	+1.5	+1.6
HICP energy	+1.0	+4.4	+2.1	-0.3
HICP excl. energy	+1.3	+1.5	+1.5	+1.8
Private consumption expenditure (PCE) deflator	+1.5	+1.6	+1.6	+1.7
Investment deflator	+1.4	+1.5	+1.4	+1.5
Import deflator	-0.8	+0.3	+0.7	+0.6
Export deflator	-0.1	+0.1	+0.6	+0.8
Terms of trade	+0.7	-0.2	-0.1	+0.2
GDP deflator	+1.5	+1.5	+1.4	+1.6
Unit labor costs	+1.7	+0.8	+0.7	+1.0
Compensation per employee	+2.4	+2.1	+2.5	+2.7
Labor productivity	+0.7	+1.2	+1.8	+1.6
Collectively agreed wage settlements	+2.2	+2.0	+2.3	+2.4
Profit margins ¹	-0.2	+0.7	+0.7	+0.5

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

¹ GDP deflator divided by unit labor costs.

In 2003, the strength of the euro resulted in heightened price competition for exporters in euro area countries, a development which caused Austrian export prices to drop 0.1%. However, the import deflator dropped more sharply (-0.8%) than the export deflator. Sustained competitive pressure will prevent Austrian exporters from raising their prices considerably in 2004. In 2005 and 2006, however, external trade prices are expected to pick up more quickly.

Austria's terms of trade will not show any substantial changes between now and 2006.

As employment growth follows economic recovery with a time lag, productivity growth (real GDP per employee) is expected to improve in 2004 and 2005. However, employment growth will gain momentum in 2006, which will weaken productivity growth slightly. In 2003, businesses were forced to accept shrinking profit margins. From 2004 to 2006, how-

ever, corporate profit margins are expected to rebound, as unit wage costs will not keep pace with the GDP deflator due to the cyclical acceleration of labor productivity growth.

Wage settlements saw an increase of 2.2% in 2003, a year marked by high one-off payments to employees in the federal government and in manufacturing. Wage settlements in 2004 (+2.0%) will also be based on the principle of wage moderation. In 2005 and 2006, higher wage settlements are in the cards in view of the anticipated recovery of the Austrian economy. Payments in excess of the minimum wage will also rise in the wake of economic recovery.

6 Austrian Domestic Economy Set to Strengthen in 2004

6.1 Relief on the Labor Market and Tax Reforms to Boost Incomes in 2005

In 2003, household expenditure was affected by weak growth in real dispos-

able incomes (+1.0%), which rose 0.8 percentage point less than in the previous year. Austrian consumer spending expanded by 1.4%, which was stable considering the state of the economy, but could only be financed by a decrease in the saving ratio. The extraordinarily low level of interest rates appears to have brought about a shift from consumption to residential construction investments in 2003. Financial accounts data show an increase of 5.3% in housing development loans in 2003, while consumer loans fell by 1.3%. This trend was mainly observed in the second half of 2003 and may help to explain the contradiction between greater consumer confidence and simultaneously decreasing consumption growth in 2003. The confidence indicators published by the European Commission suggest that consumption growth will stabilize in 2004. Consumer confidence has now stabilized just below the level recorded in the second half of 2003, and retail confidence has improved markedly.

Table 6

Determinants of Nominal Household Income in Austria

	2003	2004	2005	2006
<i>Annual change in %</i>				
Compensation of employees	+2.6	+2.3	+3.2	+3.8
Employees	-0.3	+0.3	+0.7	+1.0
Wages per employee	+2.4	+2.1	+2.5	+2.7
Mixed income (net) of the self-employed and property income	+2.2	+3.9	+5.5	+6.0
Net transfers minus direct taxes ¹	-2.0	-3.1	-2.4	-7.8
<i>Contribution to disposable household income in percentage points</i>				
Compensation of employees	+2.2	+1.9	+2.7	+3.1
Mixed income (net) of the self-employed and property income	+0.7	+1.2	+1.7	+1.9
Net transfers minus direct taxes ¹	-0.3	-0.4	-0.3	-1.1
Disposable household income (nominal)	+2.6	+2.7	+4.0	+3.9

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

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

Due to the tight situation on the Austrian labor market, employment as well as employee compensation will only grow marginally in 2004. Therefore, real disposable incomes are also projected to edge up by just 1.0% in

2004. This means that Austrian households will have to cut their saving ratio marginally to maintain stable consumption growth (+1.4%). Starting in 2005, the second stage of Austria's tax reform will provide private house-

Table 7

Private Consumption in Austria				
	2003	2004	2005	2006
	<i>Annual change in %</i>			
Disposable household income (nominal)	+2.6	+2.7	+4.0	+3.9
Private consumption deflator	+1.5	+1.6	+1.6	+1.7
Disposable household income (real)	+1.0	+1.0	+2.4	+2.2
Private consumption (real)	+1.4	+1.4	+2.1	+2.1
	<i>% of nominal disposable household income</i>			
Saving ratio ¹	7.9	7.7	8.1	8.3

Source: 2003: Eurostat, 2004 to 2006: OeNB spring2004 outlook.
¹ Saving ratio (forecast from 2003).

holds with tax relief amounting to just over EUR 1 billion per year. In conjunction with economic recovery, this will lead to heady growth in household incomes in 2005, which will in turn boost consumption growth to 2.1% and enlarge the saving ratio by 0.4 percentage point.

6.2 Investment Backlog and Favorable Financing Conditions Boost Investment Activity

After two years of decline, investment activity surged at the beginning of 2003. The investment ratio (investments as a percentage of GDP) jumped from 21.8% in the fourth quarter of 2002 to 23.0% in the first quarter of 2003. However, this value still falls considerably below the high of 24.2% reached in the first quarter of 1998 as well as being below the overall average since 1995 (23.3%). During the remaining months of 2003, no marked additional increases in investment activity were recorded. On the whole, gross fixed capital formation rose by 4.4% in 2003. Investment activity is expected to pick up steadily from early 2004 onward. Favorable financing conditions, the extension of the investment tax credit and government sector investments in transport infrastructure will contribute to additional growth in investment activity. The robust

increase of 4.4% seen in 2003 is not likely to be matched in 2004; however, the projected rise by 3.3% still signals stable investment activity. Financial accelerators are expected to boost investment activity to 4.2% in 2005 and 4.7% in 2006.

In 2005, the reduction of the corporate tax rate in the second stage of Austrian tax reform will make Austria a more attractive location for foreign investors. However, this is not expected to have a marked effect on investment activity in the short term.

After six years of decline, residential construction investment finally began to climb in 2003 (by 1.7% in real terms), and this positive growth is expected to continue. The results of the survey of lending business conducted in the first quarter of 2004 show that demand for residential construction loans increased substantially in that period. In 2004, residential construction investment is expected to expand by 1.3% and to accelerate further to 2.3% and 2.5% in 2005 and 2006, respectively.

Inventory changes (including statistical discrepancy) will make a mildly positive contribution to GDP growth in 2004 and 2005, as businesses will begin to build up inventories again during the economic upswing.

6.3 Strong Growth in Labor Supply to Prevent Noticeable Decrease in Unemployment until 2006

In 2003, the Austrian labor market saw a slight increase in employment (0.2%) with simultaneously rising unemployment. Easier access to the labor market for non-EU citizens (since early 2003) and the pension reforms of the year 2000 have expanded Austria's labor supply by 0.4%. This development will continue in 2004, as unemployment will continue to mount despite modest growth in employment. In early 2004, positive signals were seen in the number of reported vacancies, which advanced in April 2004 for

the third consecutive time. This figure has traditionally been a sound leading indicator for employment trends.

In 2005, employment growth will increase to 0.6% in the wake of economic recovery; however, the rate of unemployment will only decrease by 0.1 percentage point to 4.4%. The OeNB does not expect a noticeable reduction in the unemployment rate until 2006, when it is projected to drop to 4.1%.

Government-sector employment will continue to diminish in the coming years. The number of self-employed will stagnate in 2004, while a slight gain is projected for 2005 and 2006.

Table 8

Labor Market Developments in Austria

	2003	2004	2005	2006
	Annual change in %			
Total employment	+0.2	+0.2	+0.6	+0.8
<i>thereof:</i>				
Payroll employment	+0.3	+0.3	+0.7	+1.0
Self-employed	-0.1	+0.0	+0.1	+0.1
Public sector employment	-0.3	-0.3	-0.5	-0.8
Registered unemployment	+4.0	+2.2	-1.7	-3.7
Labor supply	+0.4	+0.3	+0.5	+0.6
	%			
Unemployment rate (Eurostat definition)	4.4	4.5	4.4	4.1

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

Austria's labor supply is expected to build over the entire forecast horizon. An increase of 0.3% is projected for 2004, and the figure is expected to continue rising in 2005 and 2006. This can be attributed in part to the fact that compared to other countries Austria's labor supply reacts more sensitively to the economy. In addition, various structural factors also contribute to labor supply growth. These factors include increases in marginal employment, the rising number of non-EU citizens gaining access to the labor market and the stepped-up labor force partic-

ipation of mature workers resulting from the pension reforms of 2000 and 2003.

7 Sustained Uncertainty in Forecasts Due to Oil Price Trends

This forecast presents the most likely scenario for economic development in Austria (until 2006) from the OeNB's perspective. The projected consolidation of the economic upswing in 2004 is essentially based on improvements in international economic conditions and a recovery of domestic demand. However, this fore-

cast is still characterized by a high degree of uncertainty, with risks primarily linked to developments in the international economic environment. Stalwart growth in the U.S.A. and higher than expected growth in the euro area in the first quarter of 2004 indicate that economic recovery could be stronger than anticipated. However, the recent jump in oil prices could also slow down global economic recovery and push up inflation rates. This forecast assumes a gradual decline in oil prices from USD 34.6 per barrel (Brent) in 2004 to USD 29.2 per barrel in 2006. The OeNB's macroeconomic model was also applied with a view to quantifying the effects of a constant oil price of USD 40 per barrel (Brent) over the entire forecast horizon. In this alternative scenario, the real GDP growth rate would be 0.03 percentage point lower than the baseline solution in 2004 and 0.19 percentage point lower in both 2005 and 2006. HICP inflation would increase by 0.11, 0.39 and 0.28 percentage point in 2004, 2005 and 2006, respectively. Another risk factor can be found in the currently stagnant consumer confidence. Consumer spending growth could suffer if consumer confidence deteriorates.

For the year 2004, there is a fairly large downside risk based on growth patterns in 2003. A number of reasons support the idea that in the second half of 2003 growth was actually stronger than reported in quarterly SNA figures. For example, euro area growth considerably outpaced growth in Austria. The clear improvement in confidence indicators points to more animated growth in the second half of 2003, as does the statistical discrepancy between the output and expenditure sides of GDP in the second half of that year. If data published or revised

in the future confirms weak growth in the second half of 2003, however, this will compromise growth development in 2004 (see annex 1).

For 2006, a slight downside risk can be seen in investments, as by then they will have shown heady growth for the fourth consecutive year. Although financial accelerators suggest that this will be the case, the investment ratio would rise to a new high of 24.4% of GDP.

8 Growth Forecasts Practically Unchanged Compared to Fall 2003 Outlook

The international economic environment has not changed significantly since the OeNB published its fall outlook in 2003. As expected, the fall of 2003 was marked by export-driven recovery in euro area countries. However, imports in euro area countries showed even more dynamic development. This will in turn lead to slightly stronger growth in Austrian export markets in 2004. For 2005, on the other hand, growth in these export markets is projected to undershoot the assumption in the fall outlook. The most important change since the publication of the OeNB's fall 2003 outlook is related to oil prices, which are significantly higher than assumed in that outlook. Both short-term and long-term interest rates have remained almost unchanged since the fall 2003 outlook. The U.S. dollar has also appreciated against the euro, whereas the nominal effective euro exchange rate has hardly changed.

Table 9 shows a breakdown of the reasons for these forecast revisions, which are explained by the impact of new data, the effects of changing external assumptions and other effects. In the case of GDP growth, the impact

of new data includes their influence as well as the influence of data revisions for 2003 on the carry-over effect², thus also on annual growth in 2004. The data available on the first few months of 2004 are included in the HICP as well. The effects of new

external assumptions were simulated using the OeNB's macroeconomic model. The item "Other" comprises various assumptions regarding the development of domestic variables (such as government consumption) as well as changes in assessments.

Table 9

Breakdown of Forecast Revisions

	GDP		HICP	
	2004	2005	2004	2005
	<i>Annual change in %</i>			
Spring 2004 outlook	+1.5	+2.4	+1.7	+1.5
Fall 2003 outlook	+1.6	+2.5	+1.6	+1.5
Difference	-0.1	-0.1	+0.1	+0.0
Due to:				
New data ¹	-0.3	-	-0.1	-
External assumptions	-0.1	-0.2	+0.3	+0.1
Other ²	+0.3	+0.1	-0.1	-0.1

Source: OeNB spring 2004 and fall 2003 outlooks.

¹ Effect of new and revised historic data for 2003.

² Different assumptions about trends in domestic variables such as wages, government consumption, effects of measures designed to support the economy, other rating changes and model changes.

The forecast for real GDP growth in 2004 has been revised slightly downward (from 1.6% to 1.5%). This change can be put down to revised historical growth rates and the availability of new data on the year 2003. As the new data indicate that growth in the year 2003 was heavily concentrated on the beginning of the year, the carry-over effect for growth in 2004 is substantially lower (see chart 2). Changes in external assumptions have likewise had a mildly negative effect on growth projections. Against this backdrop, the OeNB's marginal downward revision of the growth outlook for the year 2004 reflects an explicit correction of this implausible growth pattern in 2003.

For the year 2005, the GDP growth forecast was also revised downward by 0.1 percentage point. The dampening effects of the interna-

tional economic environment (-0.2 percentage point) are offset in part by the expected impact of Austria's tax reforms. The composition of GDP growth has also changed. In comparison to the fall 2003 outlook, higher consumption growth is expected in 2005, a development which can primarily be attributed to Austria's tax reforms. Investment growth, on the other hand, will be flatter due to the unexpectedly powerful advance in early 2003.

The inflation outlook has been revised slightly upward for 2004, and for 2005 it remains at the level indicated in the fall 2003 outlook. In the year 2004, the values reported to date have been lower than those projected in the fall 2003 outlook. For the remaining months of 2004 and for 2005, higher oil prices will lead to marginally higher inflation.

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

8.1 Comparison with Other Forecasts for Austria

The current forecasts of other national and international institutions for real GDP growth in 2004 range from 1.4% to 2.1%. Thus the OeNB is near the low end of this range with its projection of 1.5%. This can be attributed to our relatively cautious estimate of consumer spending (based on tepid employment growth) and to private households' increased propensity to save due to pension reforms in

recent years. Another reason can be found in the somewhat lower projected contribution of net exports to growth. Turning to HICP inflation rates, the other institutions projections range from 1.2% to 1.4% for 2004. The OeNB's higher estimate (1.7%) is probably due to newer historical data, including the recent oil price hike. No significant differences can be seen in the various forecasts for the year 2005.

Table 10

Comparison of Current Economic Forecasts for Austria													
Indicator	OeNB May 2004			WIFO April 2004		IHS April 2004		OECD May 2004		IMF April 2004		European Commission April 2004	
	2004	2005	2006	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005
<i>Annual change in %</i>													
Key results													
GDP (real)	+1.5	+2.4	+2.5	+1.5	+2.3	+2.1	+2.5	+1.5	+2.4	+1.4	+2.4	+1.8	+2.5
Private consumption (real)	+1.4	+2.1	+2.1	+1.7	+2.5	+1.9	+2.6	+1.3	+2.7	x	x	+1.8	+2.4
Government consumption (real)	+0.5	+0.3	+0.3	+0.0	+0.0	+0.0	+0.0	+0.7	+0.7	x	x	+0.4	+0.4
Gross fixed capital formation (real) ¹	+3.3	+4.2	+4.7	+2.7	+3.2	+3.3	+3.5	+3.3	+4.4	x	x	+4.3	+3.9
Exports (real)	+4.0	+6.4	+7.5	+4.4	+6.0	+4.1	+6.4	+4.7	+6.8	x	x	+4.4	+6.5
Imports (real)	+4.5	+6.5	+7.4	+4.0	+6.5	+3.9	+6.3	+4.3	+7.6	x	x	+5.1	+6.7
GDP per employee	+1.2	+1.8	+1.6	+1.0	+1.4	+1.7	+1.7	x	x	x	x	+1.4	+1.8
GDP deflator	+1.5	+1.4	+1.6	+1.8	+1.5	+1.7	+1.8	+1.6	+1.1	+1.4	+1.4	+1.5	+1.2
CPI	x	x	x	+1.6	+1.5	+1.5	+1.7	x	x	+1.3	+1.3	x	x
HICP	+1.7	+1.5	+1.6	+1.4	+1.3	x	x	+1.2	+1.1	x	x	+1.4	+1.3
Unit labor costs	+0.8	+0.7	+1.0	+1.2	+1.2	x	x	x	x	x	x	+1.2	+0.9
Payroll employment	+0.2	+0.6	+0.8	+0.5	+0.8	+0.3	+0.8	x	x	x	x	+0.4	+0.7
%													
Unemployment rate ²	4.5	4.4	4.1	4.5	4.5	4.4	4.3	5.9	5.8	4.4	4.1	4.5	4.3
% of nominal GDP													
Current account	-1.2	-1.1	-0.9	-0.4	-0.7	-0.5	-0.4	-0.2	-0.3	-0.2	-0.5	-0.4	-0.4
Government surplus/deficit	-1.4	-1.9	-1.7	-1.0	-1.5	-1.1	-1.5	-1.3	-1.9	-0.9	-1.7	-1.1	-1.9
External assumptions													
Oil price in USD/barrel of Brent	34.6	31.8	29.2	31.0	31.0	29.0	29.0	32.0	32.0	30.0	27.0	31.1	28.9
Short-term interest rate in %	2.1	2.1	2.1	2.0	1.8	2.2	2.4	1.7	1.8	2.1	2.6	x	x
USD/EUR	1.21	1.19	1.19	1.22	1.22	1.22	1.20	1.20	1.23	1.23	1.23	1.25	1.24
Annual change in %													
Euro area GDP (real)	1.4–2.0	1.7–2.7	x	+1.4	+2.0	x	x	+1.6	+2.4	+1.7	+2.3	+1.7	+2.3
U.S. GDP (real)	+4.6	+3.6	+3.0	+3.8	+2.5	+4.0	+3.0	+4.7	+3.7	+4.6	+3.9	+4.2	+3.2
World GDP (real)	+4.8	+4.6	+4.5	x	x	x	x	x	x	+4.6	+4.4	+4.5	+4.3
World trade	+7.2	+7.6	+7.7	+7.5	+6.0	+12.0	+8.0	+8.6	+10.2	+6.8	+6.6	+8.3	+7.8

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

¹ For IHS: Gross investment.

² Eurostat definition; for OECD: OECD definition.

Annex I: The Impact of the Carry-Over Effect on Annual GDP Growth Rates

In compiling its forecasts, the OeNB uses a macroeconomic model based on quarterly data. The forecasts place special emphasis on trends in the course of the year by taking quarterly growth rates into account, as annual growth rates can often conceal the dynamics of growth over the year. Our presentation of forecast results, how-

ever, is primarily based on growth in aggregate annual values. The average growth in one year compared to the previous year is not only determined by the development of quarterly growth rates, it is also based on the growth rates of the previous year. Mathematically, the annual growth rate for a macroeconomic indicator such as GDP for the year 2004 (ΔGDP_{2004}) can be approximated on the basis of quarterly growth rates using the following formula:

$$\begin{aligned} \Delta GDP_{2004} = & \frac{1}{4} \Delta GDP_{2003Q2} + \frac{2}{4} \Delta GDP_{2003Q3} + \frac{3}{4} \Delta GDP_{2003Q4} + \\ & + \frac{4}{4} \Delta GDP_{2004Q1} + \frac{3}{4} \Delta GDP_{2004Q2} + \frac{2}{4} \Delta GDP_{2004Q3} + \frac{1}{4} \Delta GDP_{2004Q4} \end{aligned} \quad (1)$$

As shown in equation (1), GDP growth in the year 2004 is not determined by quarterly growth rates in 2004 alone; 37.5% (= $\frac{1}{4}$ divided by $\frac{1}{6/4}$) of this figure is determined by the growth rate in 2003, with growth toward the end of 2003 playing a more important role than growth at the beginning of that year. The weighted total of quarterly growth rates (the first line in equation (1)) is also referred to as the *carry-over effect* on the 2004 annual growth rate. This effect indicates how high the 2004 annual growth rate would be if GDP were to remain at the same level as in the fourth quarter of 2003. If, for example, we assume that in each quarter of 2003 the economy expands by 0.5% over the previous quarter and then stagnates at it the level of the fourth quarter of 2003, then the carry-over effect alone implies an annual growth rate of 0.75% (= $\frac{1}{4} * 0.5 + \frac{2}{4} * 0.5 + \frac{3}{4} * 0.5$) for 2004.

Since 1988, the carry-over effect has ranged from 0.06% (for annual growth in 2002) to 1.95% (1990). The average carry-over effect comes to 0.96%. Apparently insignificant revisions of historical data which leave

the annual growth rate unchanged and only change the pattern of growth over a given year can have considerable effects on growth in the ensuing year. This situation arose when the SNA figures for 2003 were last revised in March 2004. In stark contrast to previous publications, real GDP growth in 2003 was almost entirely concentrated in the first quarter of the year. Accordingly, the carry-over effect for annual growth in 2004 is now more than 0.3 percentage point lower (see table 11 in this annex).

The *current quarterly development* of seasonally adjusted real GDP is characterized by a *high level of uncertainty*. Numerous indicators suggest that growth picked up in the second half of 2003, whereas it was fairly subdued the first half of the year. This pattern would also correspond more directly to the growth pattern in the euro area, which Austria has tracked closely in the past due to its high level of integration in this economic area. Austria's confidence indicators, which increased in line with the international trend in the second half of 2003, also point to recovering economic activity in the course of 2003. Likewise, pos-

itive signals from the financial markets are to be interpreted in a similar way. Equity indices rose markedly in the course of 2003, and lending seems to have bottomed out during the year

as well. The lending volume in Austria was lower year on year in the second quarter of 2003, whereas lending growth gained momentum steadily in the second half of 2003.

Table 11

Real GDP Growth Rates Published and Projected for 2003 on Various Dates

	June 2003 ¹	September 2003 ¹	December 2003 ¹	March 2004 ¹
<i>Quarterly growth rates in %</i>				
Q1 2003	0.17	0.02	0.12	0.51
Q2 2003	0.16 ²	0.26	0.34	0.01
Q3 2003	0.37 ³	0.37 ³	0.33	0.15
Q4 2003	0.29 ³	0.29 ³	0.29 ³	0.09
<i>Annual growth in %</i>				
2003	0.88	0.87	0.75	0.88
<i>Carry-over effect for annual growth in 2004</i>				
	0.44	0.46	0.46	0.14

Source: Eurostat, OeNB.

¹ As at the time of Publication.

² OeNB spring 2003 outlook.

³ OeNB fall 2003 outlook.

Note: Published data are shown in bold print.

The SNA figures published for the expenditure side of GDP are a major factor in creating doubts as to the published quarterly profile. Weak growth in the second half of 2003 can essentially be put down to the statistical discrepancy's highly negative contribution to growth, which signals a large difference between the production and the expenditure side of GDP. The contribution of demand components to growth (domestic demand plus net exports), in contrast, rose 0.5 percentage point (to 1.1 percentage points) compared to the first half of 2003.

In *this forecast*, the growth pattern for 2003 has been corrected by increasing the carry-over effect for the year 2004 by 0.3 percentage point; this was done by increasing the quar-

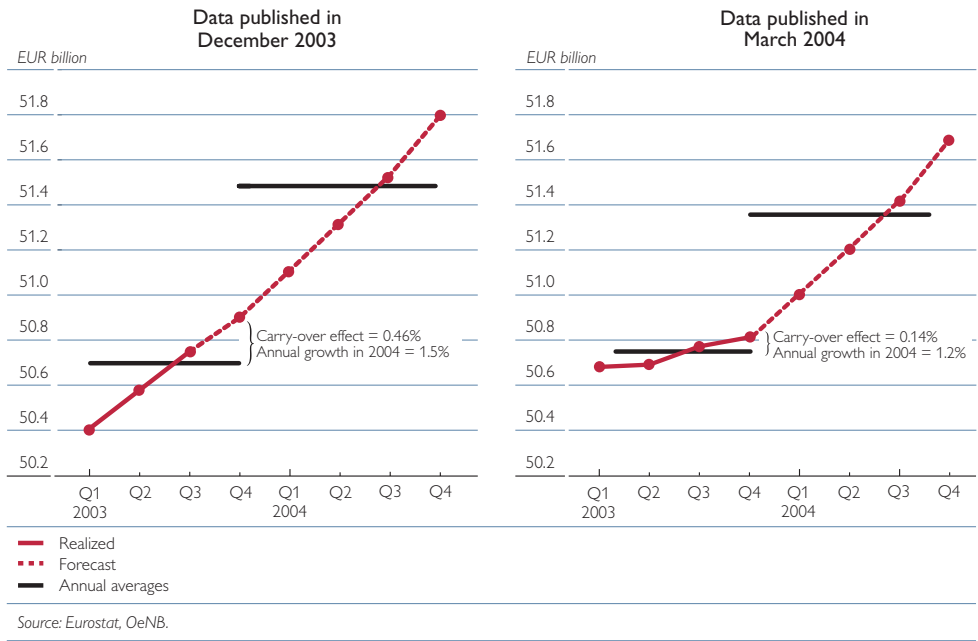
terly growth rate for the first forecast quarter accordingly.

Chart 2 illustrates the effects of this "data revision" on GDP growth in 2004. In the left-hand diagram, historical data up to the third quarter of 2003 (published in December 2003) are used in conjunction with the current forecast's quarterly growth rates from the fourth quarter of 2003 onward (without the correction in the first quarter of 2004). This results in an annual growth rate of 1.5% for 2004. Extrapolating the data published in March 2004 with the projected values for 2004 would yield a growth rate of only 1.2% for 2004 (right-hand diagram, chart 2). The difference of 0.3 percentage point is entirely based on the difference in carry-over effects.

Chart 2

Effects of the Data Published in March 2004 on Annual GDP

Growth in OeNB Forecasts



Annex 2: Detailed Result Tables

Table 12

Demand Components (Real Prices)								
at 1995 prices								
	2003	2004	2005	2006	2003	2004	2005	2006
	EUR million				Annual change in %			
Private consumption	114,256	115,808	118,221	120,701	+1.4	+1.4	+2.1	+2.1
Government consumption	36,911	37,081	37,192	37,290	+0.7	+0.5	+0.3	+0.3
Gross fixed capital formation	46,834	48,359	50,410	52,756	+4.4	+3.3	+4.2	+4.7
thereof: Investment in plant and equipment	19,194	19,950	20,946	22,073	+6.0	+3.9	+5.0	+5.4
Residential construction investment	9,061	9,174	9,386	9,686	+1.7	+1.3	+2.3	+3.2
Investment in other construction and other investment	18,579	19,234	20,078	20,997	+4.1	+3.5	+4.4	+4.6
Changes in inventories (incl. statistical discrepancy)	757	918	1,240	1,224	x	x	x	x
Domestic demand	198,757	202,166	207,063	211,971	+1.8	+1.7	+2.4	+2.4
Exports of goods and services	112,317	116,796	124,220	133,493	+0.8	+4.0	+6.4	+7.5
Imports of goods and services	108,051	112,965	120,259	129,143	+2.5	+4.5	+6.5	+7.4
Net exports	4,266	3,831	3,961	4,350	x	x	x	x
Gross domestic product	203,023	205,996	211,024	216,321	+0.9	+1.5	+2.4	+2.5

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

Table 13

Demand Components (Current Prices)								
	2003	2004	2005	2006	2003	2004	2005	2006
	EUR million				Annual change in %			
Private consumption	127,616	131,473	136,348	141,519	+3.0	+3.0	+3.7	+3.8
Government consumption	42,009	43,174	44,388	45,614	+3.3	+2.8	+2.8	+2.8
Gross fixed capital formation	51,188	53,663	56,750	60,260	+5.9	+4.8	+5.8	+6.2
Changes in inventories (incl. statistical discrepancy)	-2,001	-2,116	-2,464	-3,144	x	x	x	x
Domestic demand	218,812	226,194	235,023	244,249	+2.9	+3.4	+3.9	+3.9
Exports of goods and services	116,193	120,926	129,374	140,152	+0.7	+4.1	+7.0	+8.3
Imports of goods and services	112,743	118,174	126,669	136,905	+1.7	+4.8	+7.2	+8.1
Net exports	3,450	2,752	2,705	3,247	x	x	x	x
Gross domestic product	222,262	228,946	237,728	247,496	+2.4	+3.0	+3.8	+4.1

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

Table 14

Deflators of Demand Components								
	2003	2004	2005	2006	2003	2004	2005	2006
	1995 = 100				Annual change in %			
Private consumption	111.7	113.5	115.3	117.2	+1.5	+1.6	+1.6	+1.7
Government consumption	113.8	116.4	119.3	122.3	+2.6	+2.3	+2.5	+2.5
Gross fixed capital formation	109.3	111.0	112.6	114.2	+1.4	+1.5	+1.4	+1.5
Domestic demand (excl. changes in inventories)	111.5	113.4	115.4	117.4	+1.7	+1.7	+1.7	+1.7
Exports of goods and services	103.4	103.5	104.1	105.0	-0.1	+0.1	+0.6	+0.8
Imports of goods and services	104.3	104.6	105.3	106.0	-0.8	+0.3	+0.7	+0.6
Terms of trade	99.1	99.0	98.9	99.0	+0.7	-0.2	-0.1	+0.2
Gross domestic product	109.5	111.1	112.7	114.4	+1.5	+1.5	+1.4	+1.6

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

Table 15

Labor Market

	2003	2004	2005	2006	2003	2004	2005	2006
	1,000				Annual change in %			
Total employment	4,076.7	4,085.4	4,110.3	4,145.2	+0.2	+0.2	+0.6	+0.8
thereof: Private sector employment	3,554.9	3,565.4	3,592.8	3,632.1	+0.3	+0.3	+0.8	+1.1
Payroll employment (national accounts definition)	3,327.4	3,335.7	3,359.7	3,393.9	+0.3	+0.3	+0.7	+1.0
	%							
Unemployment rate (Eurostat definition)	4.4	4.5	4.4	4.1	x	x	x	x
	% of real GDP							
Unit labor costs (whole economy) ¹	69.3	69.8	70.3	71.0	+1.7	+0.8	+0.7	+1.0
	At 1995 prices, EUR 1,000							
Labor productivity (whole economy)	49.8	50.4	51.3	52.2	+0.7	+1.2	+1.8	+1.6
Real compensation per employee ²	30.9	31.0	31.3	31.6	+0.8	+0.4	+0.9	+1.0
	At current prices, EUR 1,000							
Gross compensation per employee	34.5	35.2	36.1	37.1	+2.4	+2.1	+2.5	+2.7
	At current prices, EUR million							
Total gross compensation of employees	114,801	117,465	121,254	125,811	+2.6	+2.3	+3.2	+3.8

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

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

Table 16

Current Account

	2003	2004	2005	2006	2003	2004	2005	2006
	EUR million				% of nominal GDP			
Balance of trade	2,477.7	1,737.4	1,929.7	2,473.6	1.1	0.8	0.8	1.0
Balance on goods	1,654.1	1,397.5	1,563.9	2,087.0	0.7	0.6	0.7	0.8
Balance on services	823.6	339.9	365.8	386.6	0.4	0.1	0.2	0.2
Euro area	-10,417.4	-10,908.9	-11,166.3	-11,267.2	-4.7	-4.8	-4.7	-4.6
Non-euro area countries	12,895.1	12,646.3	13,095.9	13,740.7	5.8	5.5	5.5	5.6
Balance on income	-2,457.6	-2,498.0	-2,540.0	-2,641.0	-1.1	-1.1	-1.1	-1.1
Balance on transfers	-2,065.0	-2,018.0	-2,098.8	-2,110.6	-0.9	-0.9	-0.9	-0.9
Current account	-2,044.9	-2,778.6	-2,709.2	-2,278.0	-0.9	-1.2	-1.1	-0.9

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

Table 17

Quarterly Forecast Results															
	2004	2005	2006	2004				2005				2006			
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<i>Annual change in %</i>															
Prices, wages and costs															
HICP	+1.7	+1.5	+1.6	+1.4	+1.8	+1.7	+1.8	+1.6	+1.4	+1.5	+1.5	+1.5	+1.6	+1.6	+1.6
HICP (excl. energy)	+1.5	+1.5	+1.8	+1.6	+1.5	+1.4	+1.4	+1.3	+1.3	+1.5	+1.6	+1.7	+1.8	+1.8	+1.9
Private consumption expenditure (PCE) deflator	+1.6	+1.6	+1.7	+1.3	+1.9	+1.6	+1.7	+1.7	+1.6	+1.5	+1.5	+1.5	+1.6	+1.7	+1.8
Gross fixed capital formation deflator	+1.5	+1.4	+1.5	+1.1	+1.5	+1.7	+1.8	+1.7	+1.5	+1.3	+1.3	+1.3	+1.4	+1.5	+1.6
GDP deflator	+1.5	+1.4	+1.6	+1.7	+1.6	+1.6	+1.2	+1.3	+1.4	+1.4	+1.4	+1.5	+1.5	+1.6	+1.7
Unit labor costs	+0.8	+0.7	+1.0	+1.5	+1.0	+0.6	+0.2	+0.6	+0.7	+0.7	+0.7	+0.8	+1.0	+1.2	+1.2
Nominal wages per employee	+2.1	+2.5	+2.7	+2.3	+2.2	+2.0	+1.9	+2.1	+2.4	+2.7	+2.8	+2.8	+2.7	+2.7	+2.7
Productivity	+1.2	+1.8	+1.6	+0.8	+1.2	+1.4	+1.7	+1.5	+1.7	+2.0	+2.1	+2.0	+1.7	+1.5	+1.4
Real wages per employee	+0.4	+0.9	+1.0	+0.9	+0.3	+0.4	+0.1	+0.4	+0.8	+1.1	+1.2	+1.2	+1.1	+1.0	+0.8
Import deflator	+0.3	+0.7	+0.6	+0.0	+0.4	+0.9	-0.3	+0.5	+0.7	+0.7	+0.8	+0.8	+0.7	+0.6	+0.5
Export deflator	+0.1	+0.6	+0.8	+0.9	+0.7	-0.6	-0.6	-0.1	+0.4	+0.9	+1.1	+1.0	+0.9	+0.7	+0.6
Terms of trade	-0.2	-0.1	+0.2	+0.8	+0.3	-1.5	-0.3	-0.5	-0.3	+0.2	+0.3	+0.2	+0.2	+0.2	+0.0
<i>At 1995 prices, annual and/or quarterly changes in %</i>															
Economic activity															
GDP	+1.5	+2.4	+2.5	+0.7	+0.4	+0.4	+0.5	+0.7	+0.7	+0.7	+0.6	+0.6	+0.6	+0.6	+0.6
Private consumption	+1.4	+2.1	+2.1	+0.9	+0.3	+0.4	+0.5	+0.5	+0.6	+0.6	+0.6	+0.5	+0.5	+0.5	+0.5
Government consumption	+0.5	+0.3	+0.3	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1	+0.1
Gross fixed capital formation	+3.3	+4.2	+4.7	+1.6	+0.9	+0.9	+1.0	+1.1	+1.1	+1.1	+1.1	+1.1	+1.1	+1.2	+1.2
<i>thereof: Investment in plant and equipment</i>	+3.9	+5.0	+5.4	+0.8	+0.8	+0.9	+1.0	+1.3	+1.5	+1.4	+1.4	+1.3	+1.3	+1.3	+1.2
<i>Residential construction investment¹</i>	+1.3	+2.3	+3.2	+2.0	+0.6	+0.5	+0.5	+0.5	+0.6	+0.6	+0.7	+0.8	+0.9	+0.9	+0.9
Exports	+4.0	+6.4	+7.5	+1.2	+1.3	+1.3	+1.4	+1.5	+1.7	+1.8	+1.8	+1.9	+1.8	+1.8	+1.8
Imports	+4.5	+6.5	+7.4	+2.6	+1.5	+1.5	+1.5	+1.5	+1.6	+1.7	+1.8	+1.8	+1.8	+1.9	+1.8
<i>Contribution to real GDP growth in percentage points</i>															
Domestic demand	+1.6	+2.2	+2.3	+0.9	+0.4	+0.5	+0.5	+0.6	+0.6	+0.6	+0.6	+0.6	+0.5	+0.6	+0.6
Net exports	-0.2	+0.1	+0.2	-0.7	-0.1	-0.1	+0.0	+0.0	+0.1	+0.1	+0.1	+0.1	+0.0	+0.0	+0.0
Changes in inventories	+0.1	+0.2	+0.0	+0.5	+0.1	+0.0	+0.0	+0.1	+0.1	+0.0	+0.0	+0.0	+0.0	+0.0	+0.0
<i>%</i>															
Labor market															
Unemployment rate (Eurostat definition)	4.5	4.4	4.1	4.5	4.5	4.5	4.4	4.4	4.4	4.3	4.3	4.3	4.2	4.1	4.0
<i>Annual and/or quarterly changes in %</i>															
Total employment	+0.2	+0.6	+0.8	+0.0	+0.1	+0.1	+0.1	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2	+0.2
<i>thereof: Private sector employment</i>	+0.3	+0.8	+1.1	+0.0	+0.1	+0.1	+0.2	+0.2	+0.2	+0.2	+0.2	+0.3	+0.3	+0.3	+0.3
Payroll employment	+0.3	+0.7	+1.0	+0.0	+0.1	+0.1	+0.1	+0.2	+0.2	+0.2	+0.2	+0.3	+0.3	+0.3	+0.3
<i>At 1995 prices, annual and/or quarterly changes in %</i>															
Additional variables															
Disposable household income	+1.0	+2.4	+2.2	+0.2	+0.2	+0.2	+0.4	+1.0	+0.6	+0.6	+0.5	+0.5	+0.5	+0.6	+0.6
<i>% of nominal disposable household income (saving ratio) and % of real GDP (output gap)</i>															
Household saving ratio	7.7	8.1	8.3	7.8	7.7	7.6	7.6	8.0	8.1	8.1	8.1	8.2	8.3	8.4	8.5
Output gap	-1.0	-0.3	0.4	-1.0	-1.0	-0.9	-0.8	-0.5	-0.3	-0.2	-0.1	0.1	0.3	0.5	0.7

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

¹ Excluding other investment in construction and other investment.