

Press conference

Four-year economic downturn to end in 2016

The OeNB's Economic Outlook for Austria for 2015 to 2017; June 2015

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Governor, Oesterreichische Nationalbank (OeNB)

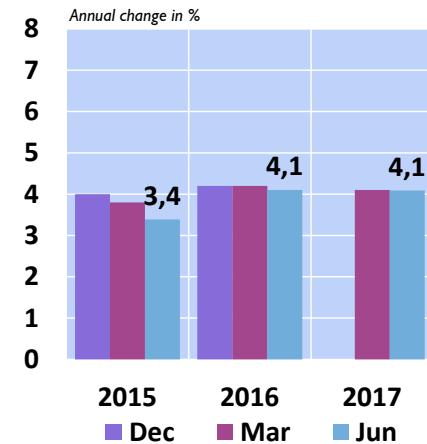
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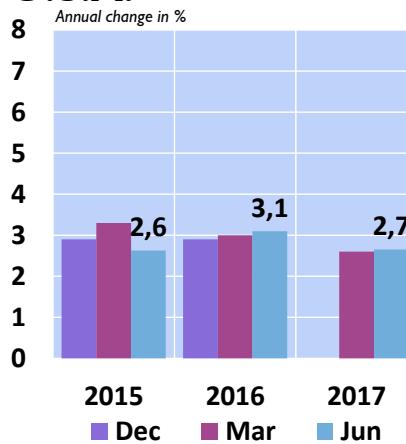
June 6, 2015

World economic growth (excluding the euro area) in 2015 weaker than expected

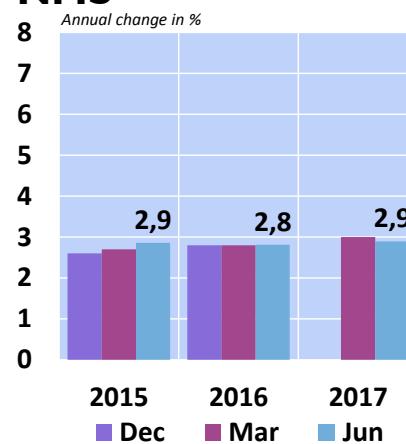
World excl. euro area



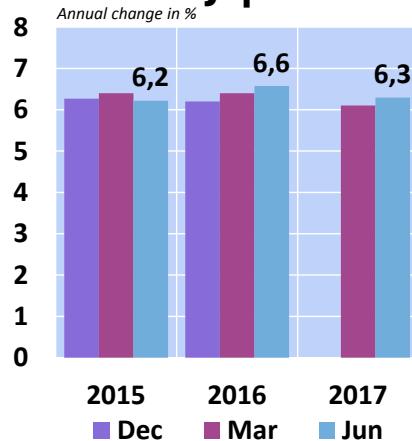
U.S.A.



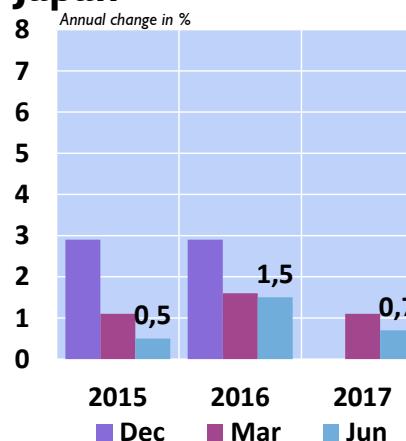
NMS¹⁾



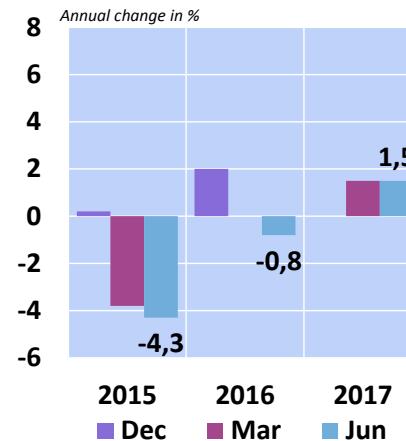
Asia excl. Japan



Japan



Russia

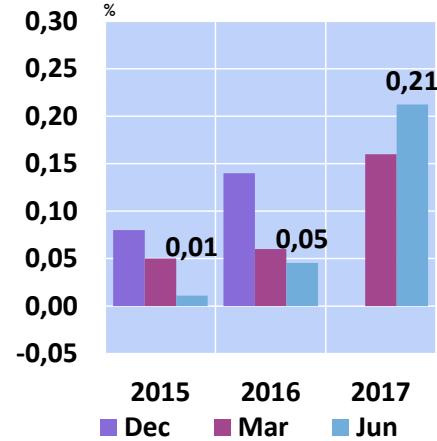


- Downward revision of **economic growth** in the U.S.A., Japan and Asia dampens outlook for world economic growth
- **U.S.A.** on solid growth path despite weak first quarter
- Heterogeneous developments in **Asia**
Japan: comprehensive monetary and fiscal policy measures
China: growth slowing down progressively
- Growth advantage of **NMS¹⁾** to euro area of around 1%
- Recession in **Russia**

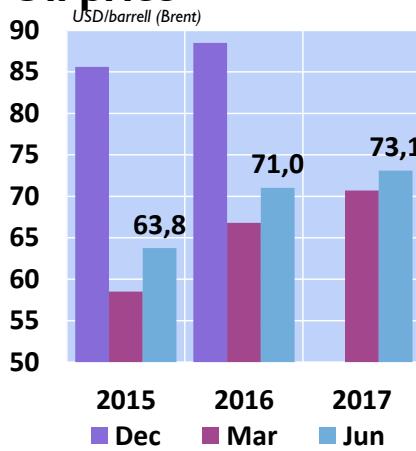
Source: Eurosystem. 1) New member states : Bulgaria, Croatia , Czech Republic , Hungary, Poland and Romania.

Eurosystem's Asset Purchase Programme is showing the desired effect

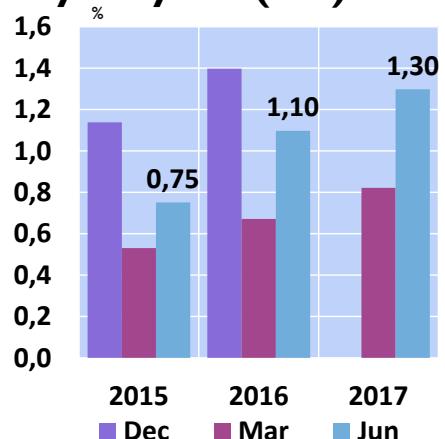
3-month interest rate



Oil price

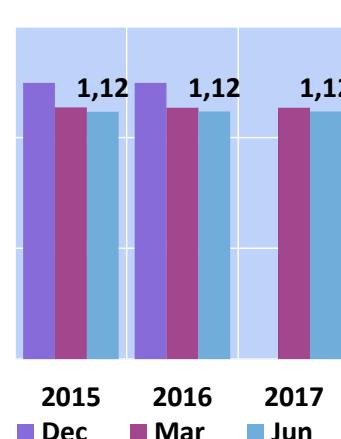


10-year yield (AT)



Source: Eurosystem.

USD/EUR



- Asset Purchase Programme (APP) is an unusual measure in unusual times
- APP leads to **falling yields**, euro **depreciation** and a rise in **inflation expectations**
- This **supports** euro area **growth**. The counter-movement recently observed for yields constitutes a normalization
- Eurosystem will **continue APP as planned**
- Lower **oil price** also has positive effect on euro area

Growth expectations in the euro area are improving

	Forecast June			Revision against March		
	2015	2016	2017	2015	2016	2017
Real GDP	+1.5%	+1.9%	+2.0%	0.0 pp	0.0 pp	-0.1 pp
HICP inflation	+0.3%	+1.5%	+1.8%	+0.3 pp	0.0 pp	0.0 pp

Source: Eurosystem forecast of June 2015.

Country results: European Commission Forecast (May 2015)

Real GDP				HICP inflation			Unemployment rate				
%	2014	2015	2016	%	2014	2015	2016	%	2014	2015	2016
Germany	+1,6	+1,9	+2,0	Germany	+1,6	+1,9	+2,0	Germany	5,0	4,6	4,4
France	+0,4	+1,1	+1,7	France	+0,4	+1,1	+1,7	France	10,3	10,3	10,0
Italy	-0,4	+0,6	+1,4	Italy	-0,4	+0,6	+1,4	Italy	12,7	12,4	12,4
Spain	+1,4	+2,8	+2,6	Spain	+1,4	+2,8	+2,6	Spain	24,5	22,4	20,5
Netherlands	+0,9	+1,6	+1,7	Netherlands	+0,9	+1,6	+1,7	Netherlands	7,4	7,1	6,9
Belgium	+1,0	+1,1	+1,5	Belgium	+1,0	+1,1	+1,5	Belgium	8,5	8,4	8,1
Austria	+0,3	+0,8	+1,5	Austria	+0,3	+0,8	+1,5	Austria	5,6	5,8	5,7
Greece	+0,8	+0,5	+2,9	Greece	+0,8	+0,5	+2,9	Greece	26,5	25,6	23,2
Finland	-0,1	+0,3	+1,0	Finland	-0,1	+0,3	+1,0	Finland	8,7	9,1	9,0
Ireland	+4,8	+3,6	+3,5	Ireland	+4,8	+3,6	+3,5	Ireland	11,3	9,6	9,2
Portugal	+0,9	+1,6	+1,8	Portugal	+0,9	+1,6	+1,8	Portugal	14,1	13,4	12,6
Slovakia	+2,4	+3,0	+3,4	Slovakia	+2,4	+3,0	+3,4	Slovakia	13,2	12,1	10,8
Luxembourg	+3,1	+3,4	+3,5	Luxembourg	+3,1	+3,4	+3,5	Luxembourg	5,9	5,7	5,4
Slovenia	+2,6	+2,3	+2,1	Slovenia	+2,6	+2,3	+2,1	Slovenia	9,7	9,4	9,2
Lithuania	+2,9	+2,8	+3,3	Lithuania	+2,9	+2,8	+3,3	Lithuania	10,7	9,9	9,1
Latvia	+2,4	+2,3	+3,2	Latvia	+2,4	+2,3	+3,2	Latvia	10,8	10,4	9,4
Estonia	+2,1	+2,3	+2,9	Estonia	+2,1	+2,3	+2,9	Estonia	7,4	6,2	5,8
Cyprus	-2,3	-0,5	+1,4	Cyprus	-2,3	-0,5	+1,4	Cyprus	16,1	16,2	15,2
Malta	+3,5	+3,6	+3,2	Malta	+3,5	+3,6	+3,2	Malta	5,9	5,9	5,9
Euro area (19)	+0,9	+1,5	+1,9	Euro area (19)	+0,9	+1,5	+1,9	Euro area (19)	11,6	11,0	10,5

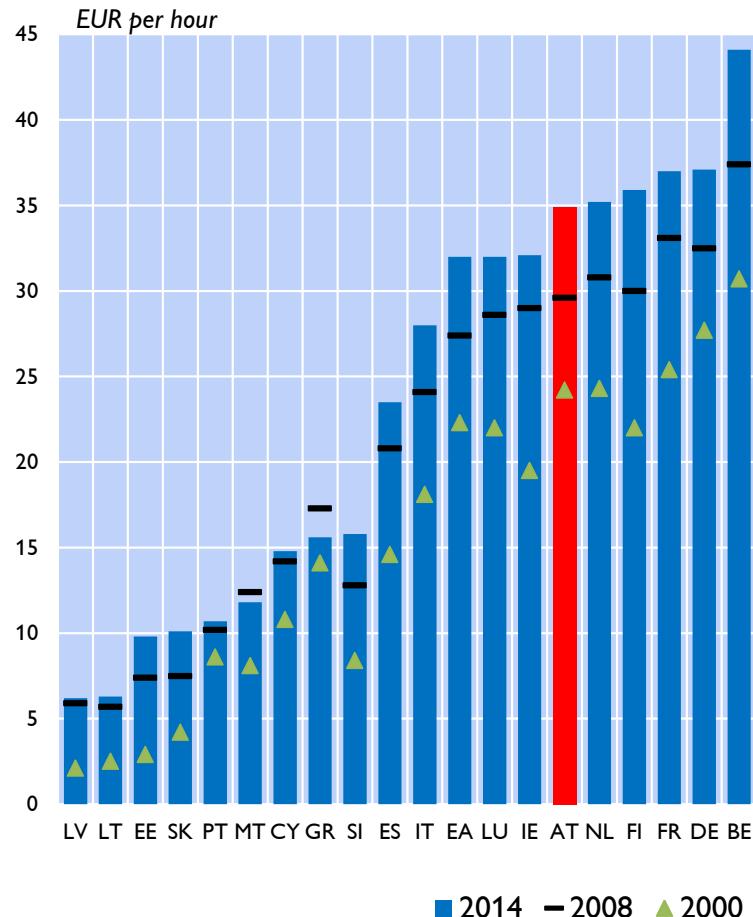
Source: European Commission.

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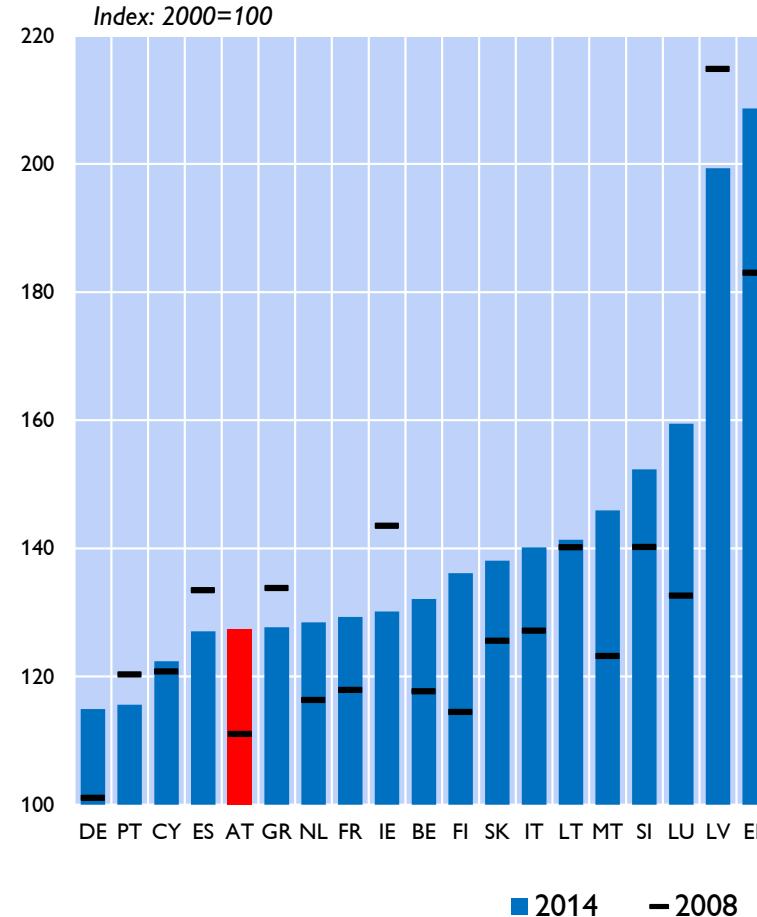
Source: European Commission.

Total labor costs and unit labor costs in Finland, Austria and Germany have increased clearly since 2008...

Total labor costs (industry)



Change in unit labor costs (total economy)

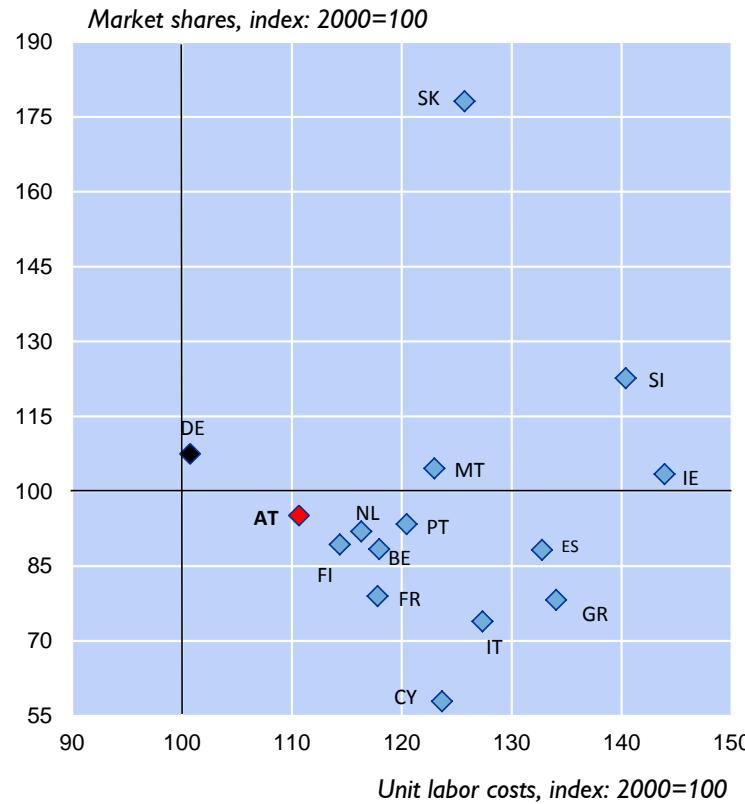


Source: Eurostat.

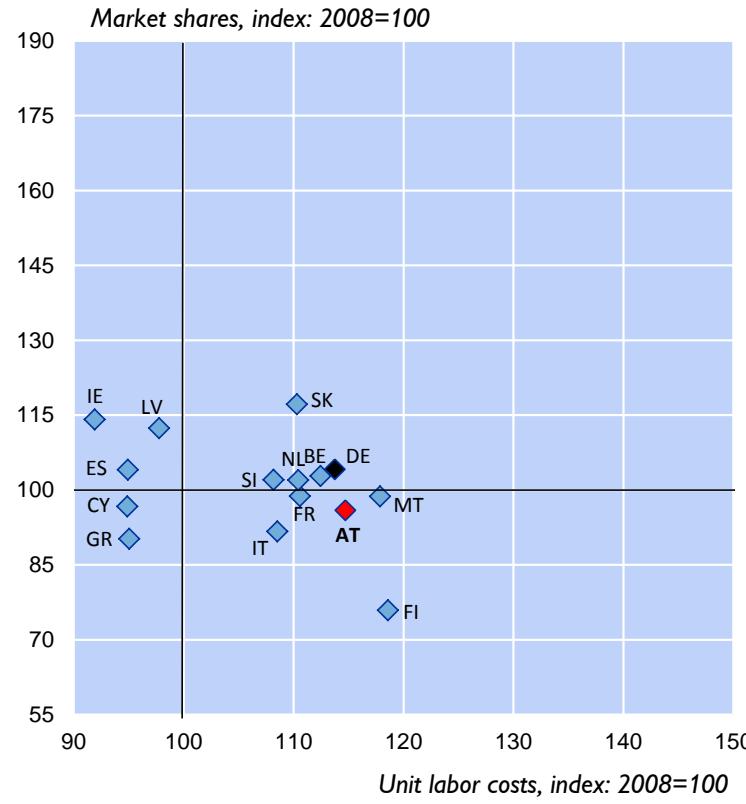
... associated with market share losses for Finland and Austria, but not for Germany

Unit labor costs: clear correction since 2008

Development before the crisis: 2000–08



Development since the onset of the crisis: 2008–14

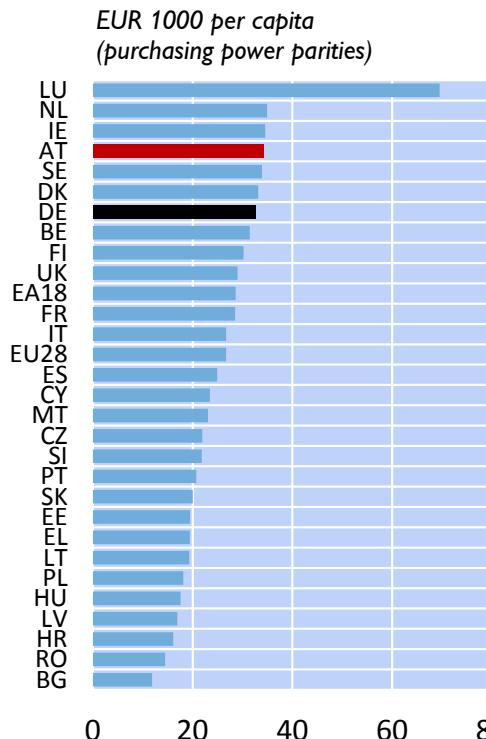


Source: Eurostat, ECB.

Austria: High GDP level, but lower growth dynamics than Germany and the euro area since 2013

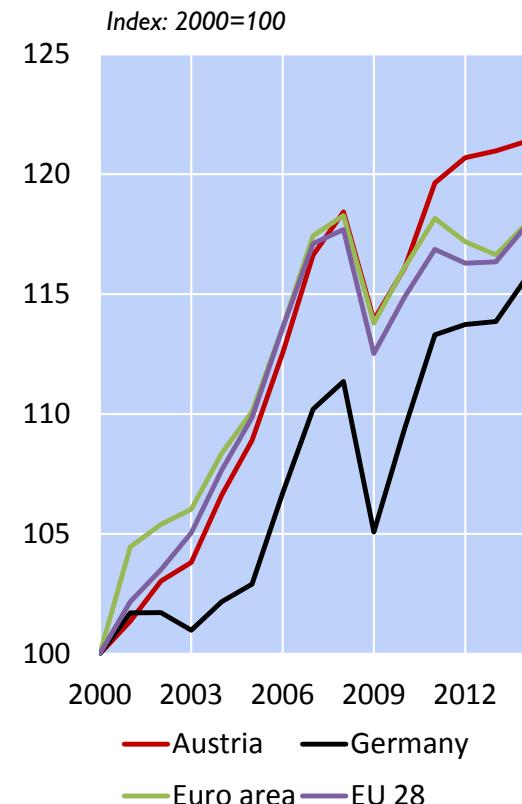
GDP development by international comparison

GDP per capita (2013)

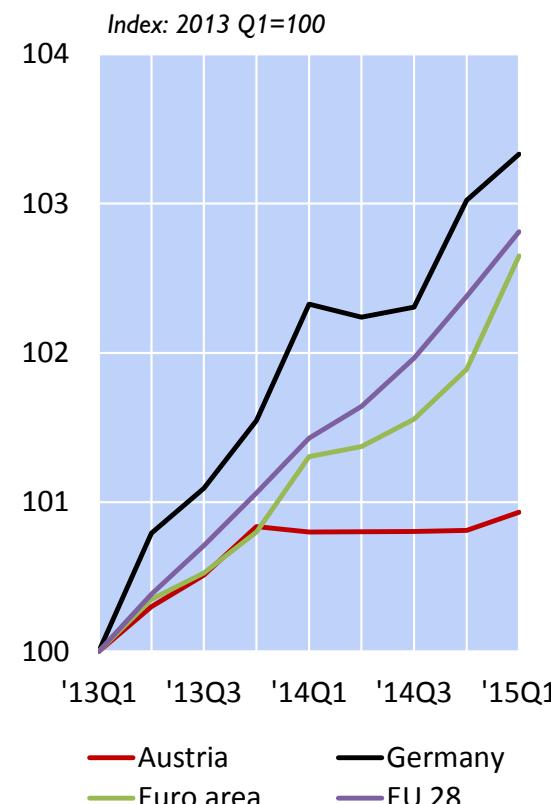


Source: Eurostat.

Real GDP (2000–2014)



Real GDP (2013 Q1–2015 Q1)



Main results of the OeNB's June Economic Outlook for Austria

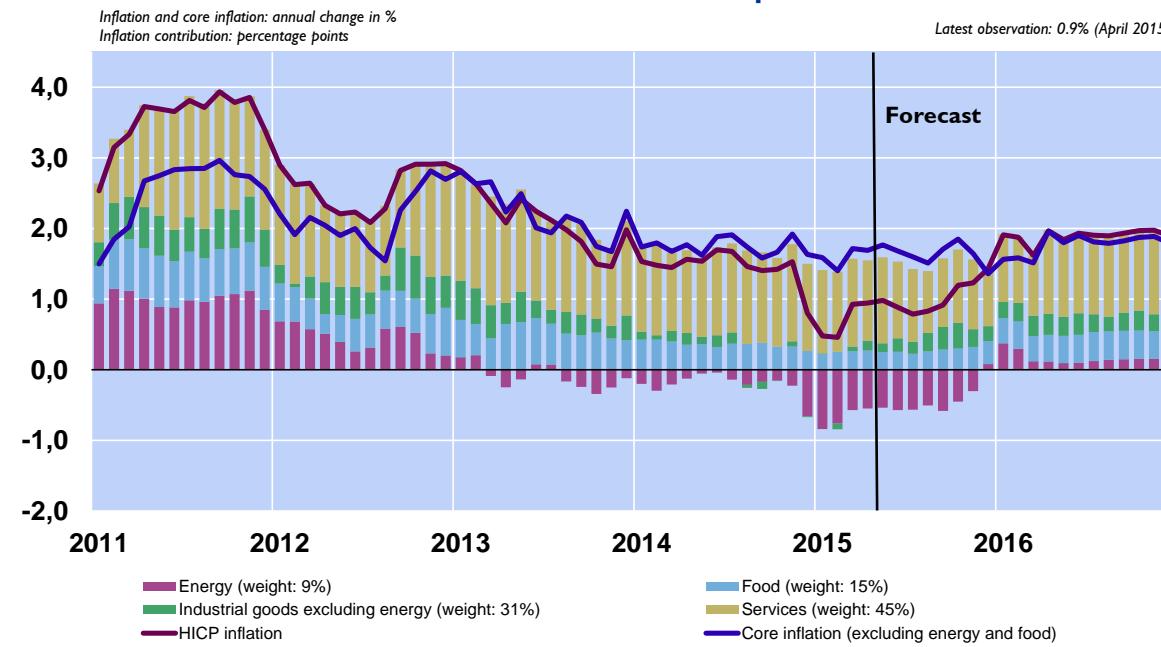
	2014	2015	2016	2017
	Annual change in %			
Real GDP	0.4	0.7	1.9	1.8
Private consumption	0.2	0.7	1.8	1.6
Government consumption	1.0	0.9	0.9	1.1
Gross fixed capital formation	-0.1	-1.9	1.7	2.6
Exports	1.8	2.8	4.8	4.8
Imports	2.2	2.0	4.7	5.1
Contributions to real GDP growth				
Domestic demand (excluding inventories)	0.3	0.1	1.5	1.6
Net exports	-0.1	0.5	0.2	0.1
Changes in inventories (+ statistical discrepancy)	0.3	0.0	0.1	0.1
HICP	1.5	0.9	1.9	2.0
Unemployment rate (%. EU definition)	5.6	5.7	5.7	5.5
Payroll employment	0.8	0.8	1.1	1.0
	% of nominal GDP			
Current account	0.8	1.3	2.1	2.8
Budget balance	-2.4	-1.8	-1.8	-1.4
Government debt	84.5	85.7	83.8	81.6

- **2015:** No revision against December Economic Outlook:
 - Austria-specific confidence shock tempers growth, but will fade out in the course of the year
 - External environment (monetary policy, oil prices) supports growth – crisis not over yet, however
- **2016/17:** Expected upswing mainly driven by domestic demand:
 - 2016: Private consumption picking up considerably (tax reform)
 - 2017: Investment growth accelerating
- Employment growth continues to be robust despite weak economic activity; unemployment to decline only in 2017
- Inflation accelerating quickly and remaining relatively high

Austrian HICP inflation normalizes from 0.9% in 2015 to 2.0% in 2017

	2014	2015	2016	2017
	Annual change in %			
HICP inflation	1.5	0.9	1.9	2.0
Core inflation	1.7	1.6	1.8	1.8

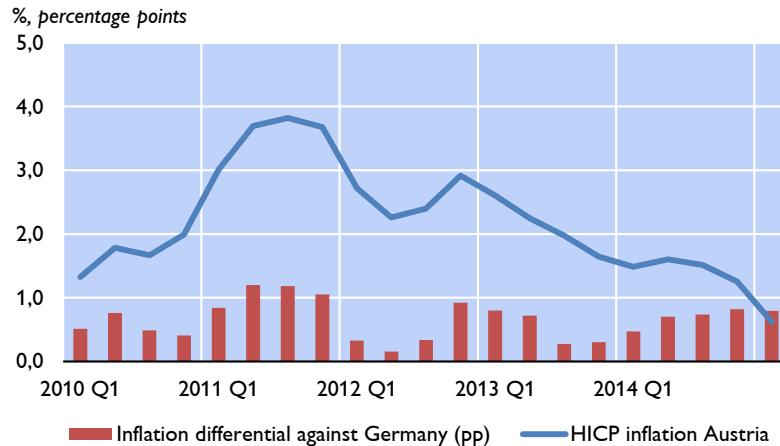
Austrian HICP inflation and contribution of subcomponents



- Decline in HIPC inflation to 0.6% in 2015 Q1 owing to pronounced drop in energy prices
- Clear rise in inflation as of mid-2015:
 - Increasing import prices (for raw materials in particular)
 - high loan growth
 - tax reform
 - faster GDP growth
- Tax reform drives up inflation by 0.2 percentage points (2016 and 2017 cumulative)
- Public sector contribution to inflation rises from 0.3 percentage points in 2015 to 0.5 percentage points in 2016

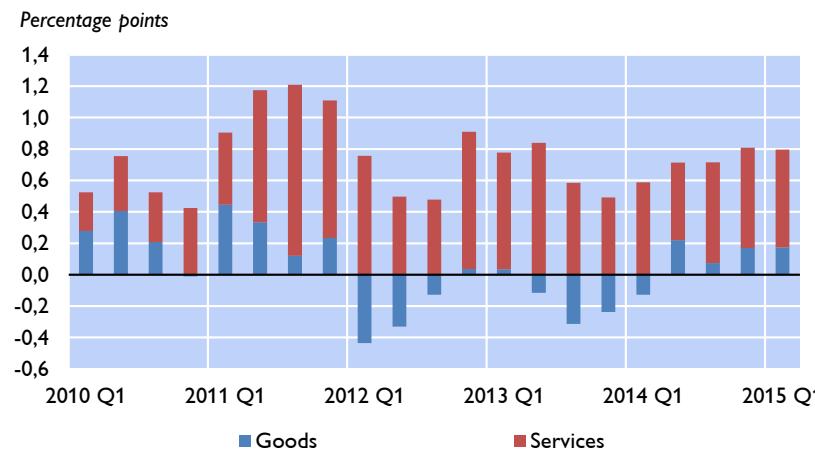
Inflation differential vis-à-vis Germany determined by services

HICP inflation in Austria as compared to Germany



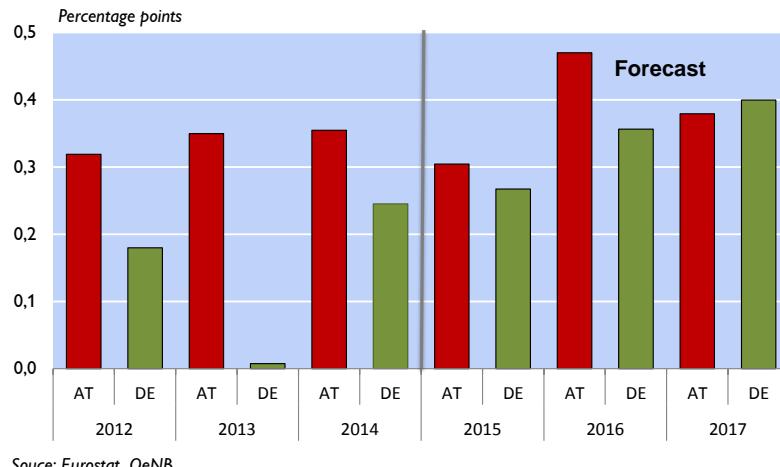
Source: Eurostat.

Austria's inflation differential vis-à-vis Germany



Source: Eurostat.

Public sector contribution to inflation



Source: Eurostat, OeNB.

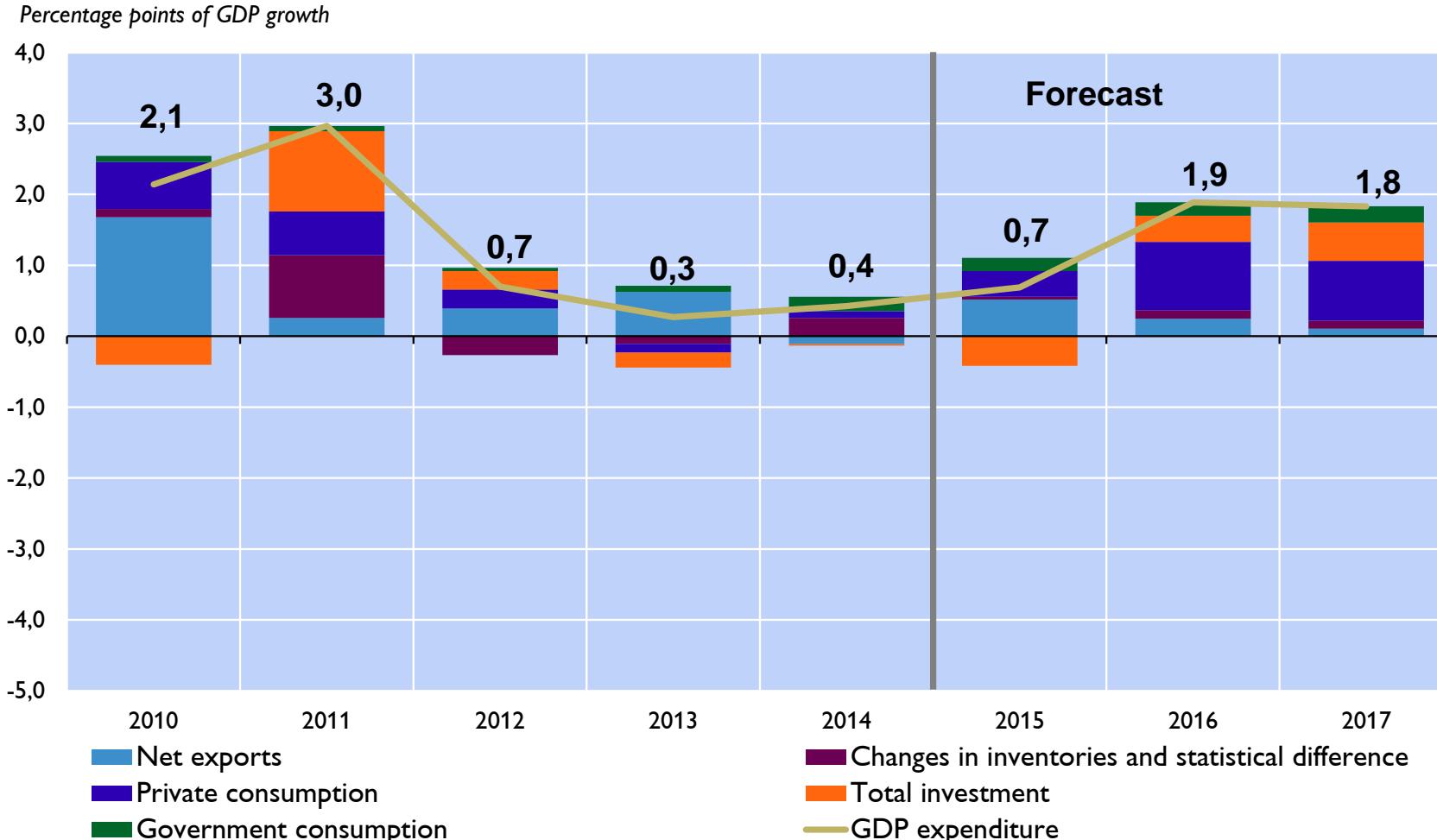
- Inflation differential vis-à-vis Germany rather stable lately at around 0.8 percentage points
- Differential attributable to services price inflation rather than goods price inflation, in particular:
 - tourism services
 - financial services
 - administered services prices (education, hospital services)
- Public sector contribution to inflation in Austria higher than in Germany

Detailed results of the OeNB's Economic Outlook

Doris Ritzberger-Grünwald

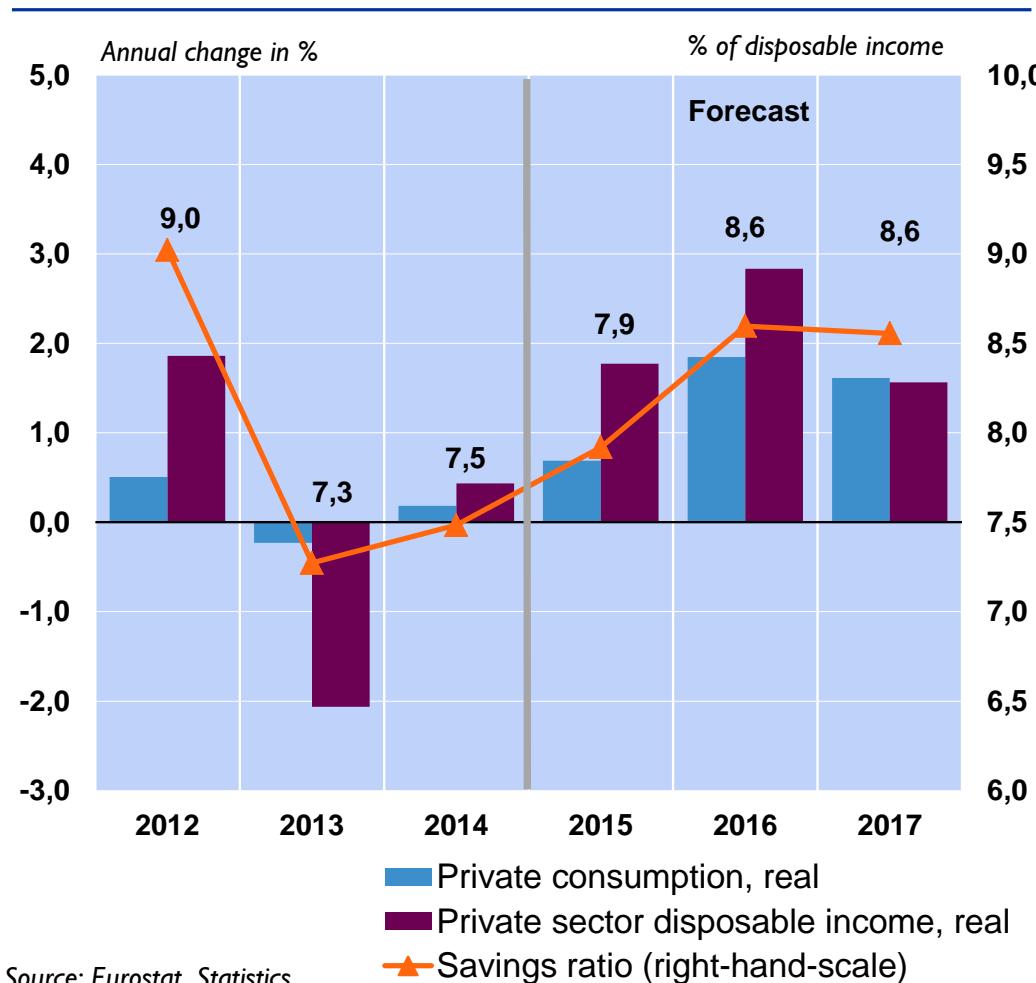
Director, Economic Analysis and Research Department,
Österreichische Nationalbank

Domestic economy provides primary impetus to growth

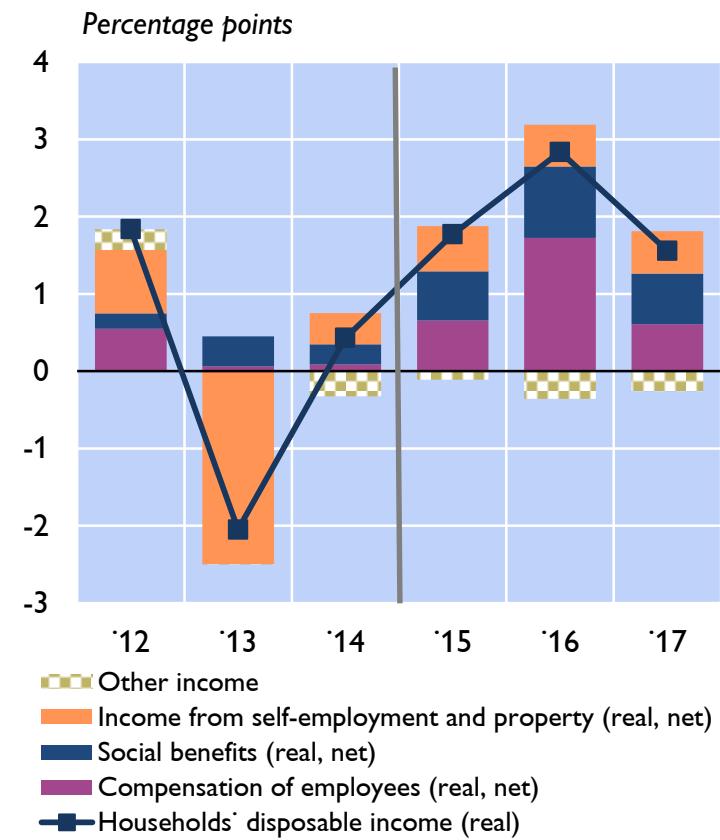


Source: Eurostat, OeNB.

Consumption benefits from lower inflation in 2015 and from income tax reform in 2016

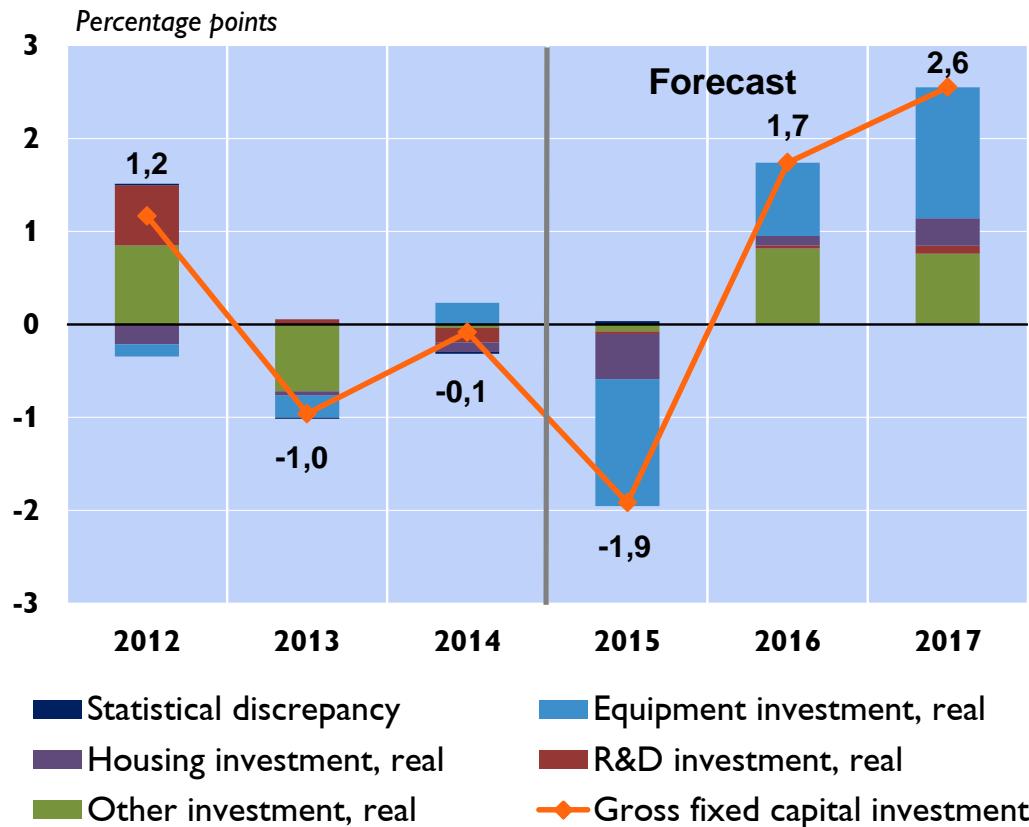


Contribution to households' real disposable income growth



Gross fixed capital formation growth accelerates in 2016

Growth contribution of gross fixed capital formation



Source: Eurostat, OeNB.

Investment in plant and equipment:

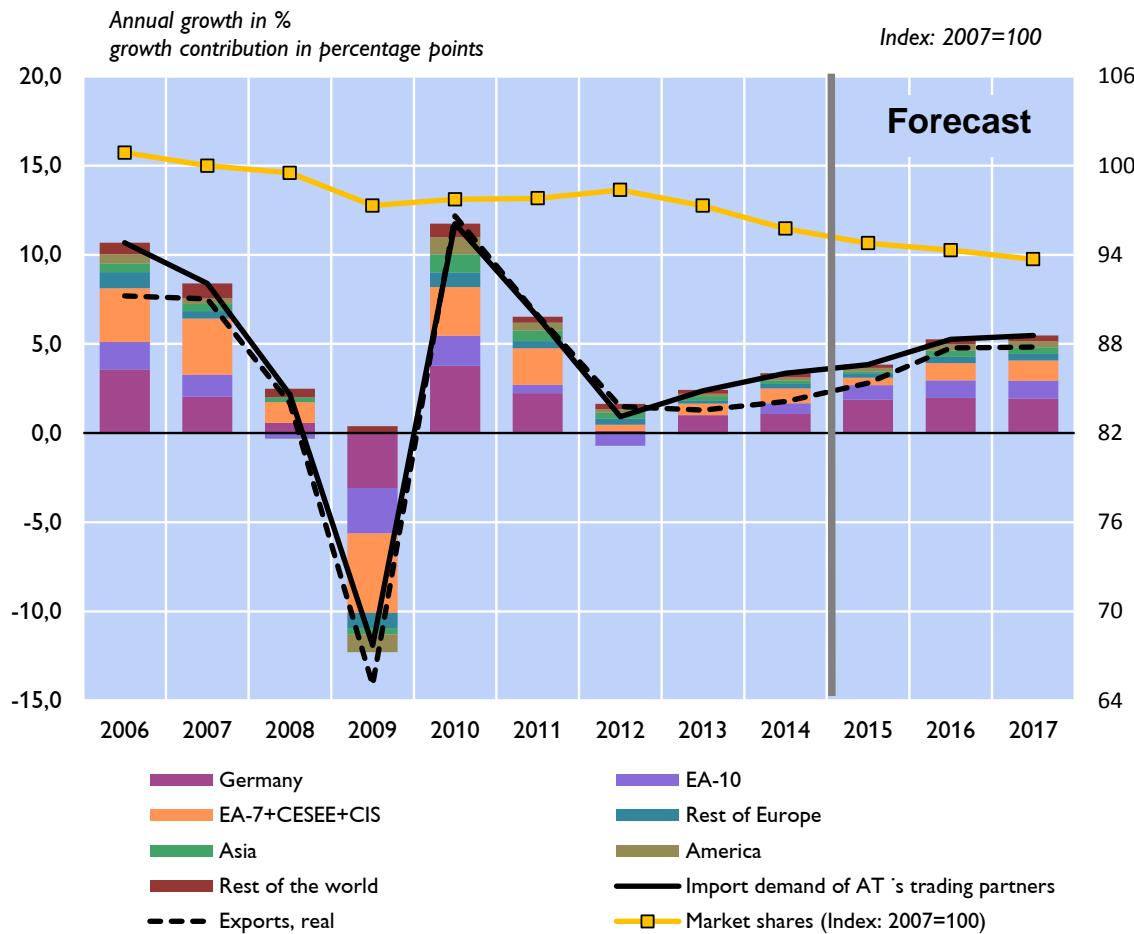
- Period of unexpectedly strong decline since 2014 Q3; surveys indicate improvement in order book levels and thus of investment perspectives
- Continued favorable financing situation should support investment growth
- Moderating investment activity since 2013 implies need for replacement investment

Construction investment:

- **Residential construction:** Declining since 2014 Q2; residential building permits indicate only slight improvement in 2015
- **Civil engineering:** Boost from public sector; share in total investment remains below 2008 figures

Export growth recovers only slowly and remains below pre-crisis growth rates (1999–2008: 6.2% p.a.)

Export growth and demand for export growth



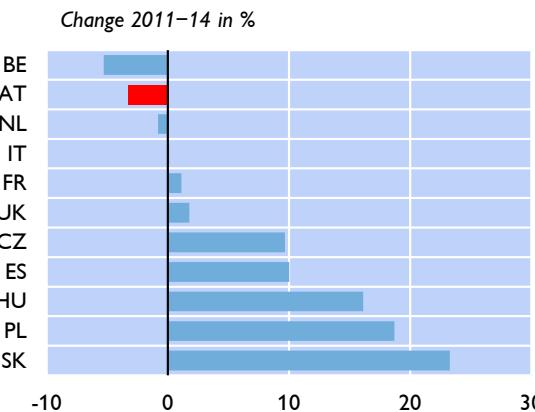
- Import demand of Austrian's trade partners recovers slightly over forecast horizon
- Demand mainly driven by European (in particular German) trade partners
- Structural problems of Austrian goods exports industry lead to further losses of market shares

Source: ECB, design and calculation: OeNB.

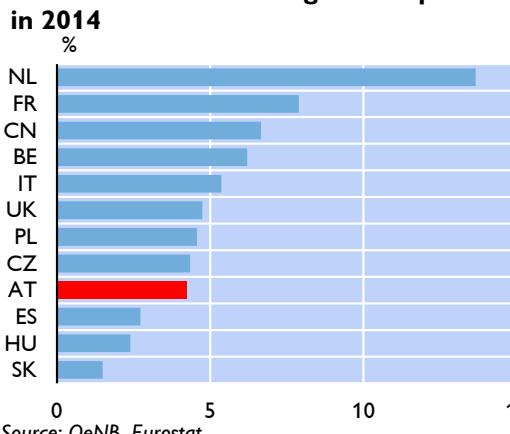
Export weakness predominantly attributable to sluggish goods exports to Germany (and Italy) ...

Market share development in Germany

Overall development since 2011



Share in total German goods imports in 2014



Source: OeNB, Eurostat.

Development of Austrian products' market share in Germany

Overall development

Change 2011–14 in %

	Overall development
Food and live animals (7,1%; SITC 0)	-3,3
Chemicals and related products (8,9%; SITC 5)	6,2
Manufactured goods (23,5%; SITC 6)	2,9
Machinery and transport equipment (39,7%; SITC 7)	-0,4
Other commodities (12,3%; SITC 8)	-2,9

Subcategory manufactured goods

Paper (3%; SITC 64)	6,9
Iron and steel / Non-ferrous metals (8,8%; SITC 67 und 68)	3,6
Manufactures of metals (6,6%; SITC 69)	-8,9

Subcategory machinery and transport equipment

Power-generating machinery (7,9%; SITC 71)	-0,3
Machinery specialized for particular industries (3,4%; SITC 72)	9,0
General industrial machinery and equipment (6,8%; SITC 74)	0,8
Electrical machinery (7,1%; SITC 77)	-1,1
Road vehicles (9,4%; SITC 78)	-11,9
Parts and accessories of motor vehicles (5,2%; SITC 784)	-14,5

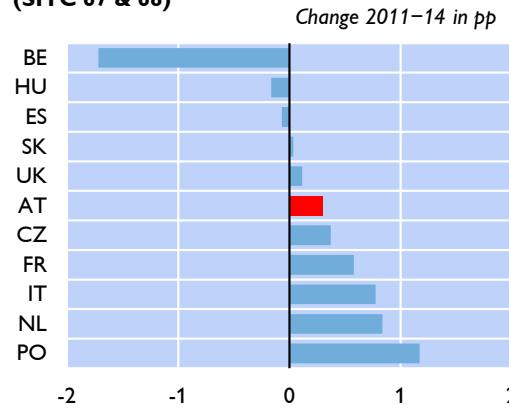
Source: Eurostat, OeNB calculations.

Note: Percentage figures in parentheses indicate the export share of each product category in total goods exports from Austria to Germany.

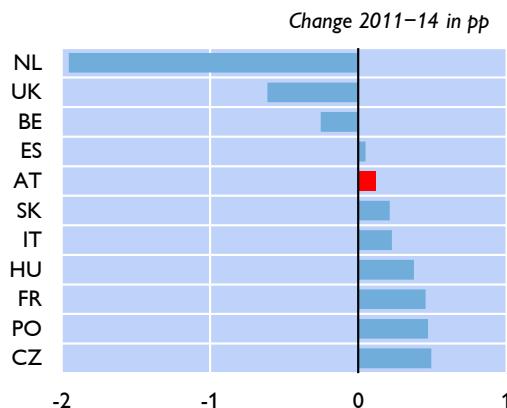
... Austria loses market shares in Germany to the Czech Republic, Hungary, Poland and Slovakia

Market share development in Germany

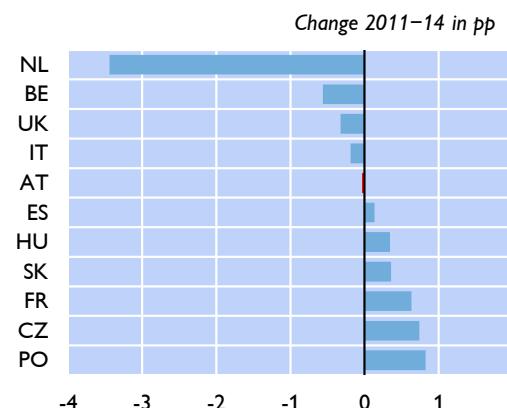
**Iron, steel and non-ferrous metals
(SITC 67 & 68)**



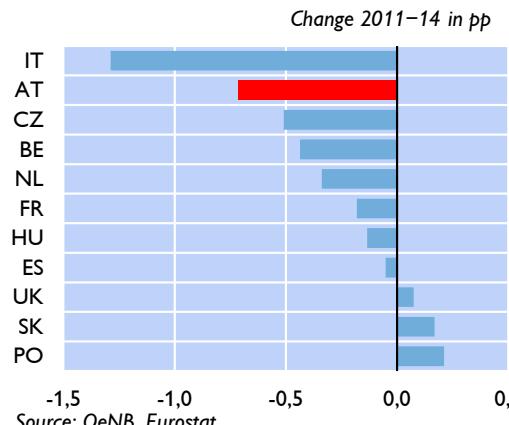
Machinery (SITC 71,72,74 & 77)



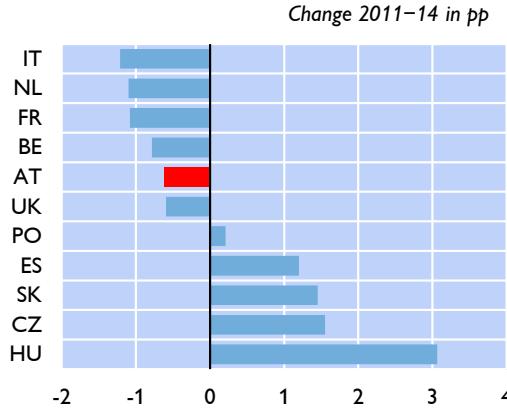
Electrical machinery (SITC 77)



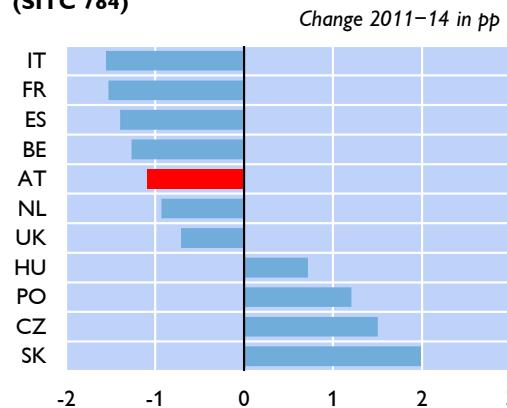
Manufactures of metals (SITC 69)



Road vehicles (SITC 78)

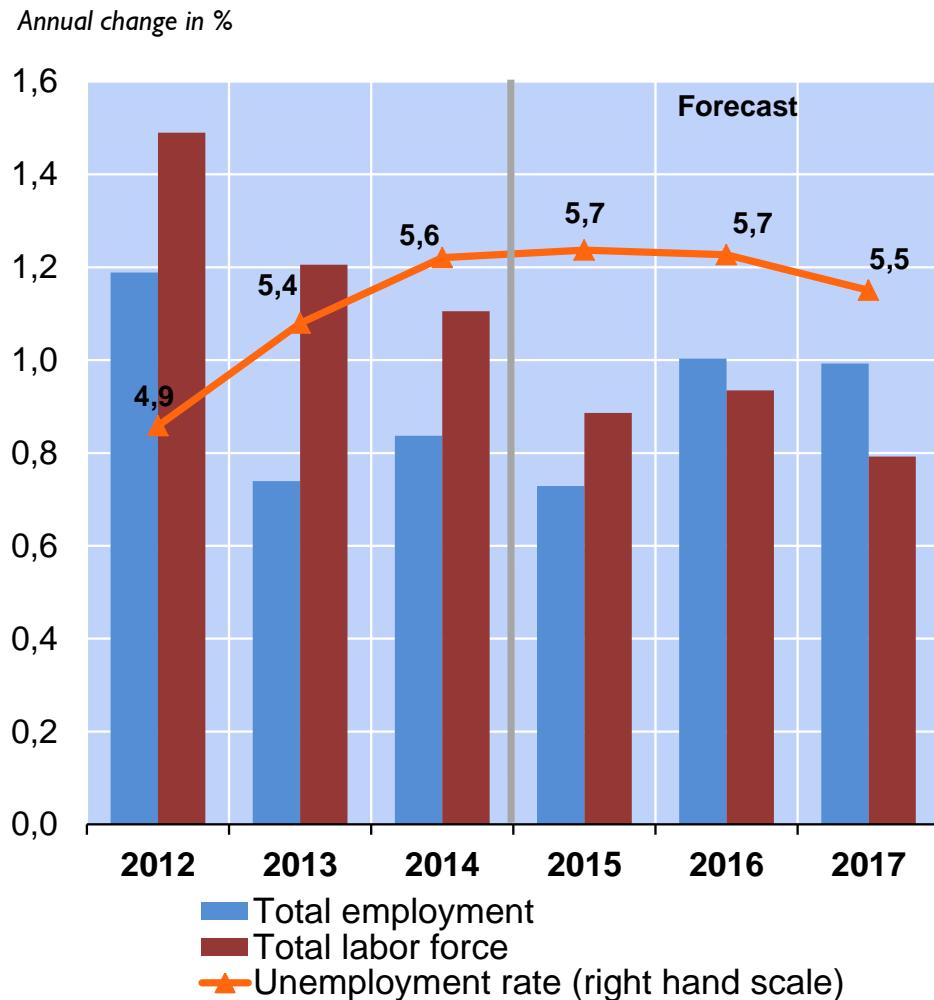


**Parts and accessories of motor vehicles
(SITC 784)**



Source: OeNB, Eurostat.

Unemployment rate remains historically high



- Unemployment rate (Eurostat definition)
 - ex post values revised upward; Austria no longer records lowest unemployment rate in the EU
- Unemployment rate (Eurostat definition) increases slightly also in 2015; decline to set in only in 2017
- Rise in national unemployment rate more pronounced (marginal employees, self-employed persons, foreign workers)
- Employment growth continues to be strong in 2015 (despite weak economic activity)
- Increase in labor supply (procyclical behavior, increasing labor participation of older persons, influx of foreign labor) remains strong

Summary

Austria's currently weak economic growth attributable to...

Private consumption:

- Relative increase in inflation
- Bracket creep

Investment:

- Sentiment in Austria
- Lack of demand perspectives

Exports:

- Loss of price competitiveness
- Structural problems in trade in goods (in particular trade with Germany)

... but OeNB expects upswing in 2016

- Boost based on **domestic demand** and supported by exports
2015: downward risk for GDP growth
- Currently **low inflation** and **tax reform** act to support uptrend
- Crucial: **end of confidence crisis**
- Inflation returns to 2% level

Press conference

2016 bringt Ende der vierjährigen Konjunkturschwäche

OeNB economic outlook 2015 bis 2017 vom Juni 2015

Univ.-Prof. Dr. Ewald Nowotny

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Dr. Doris Ritzberger-Grünwald

Director Economic Analysis and Research Department

June 6, 2015