

Austria: Economic Growth in 2014 at 0.4%

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1 Austria's Economic Growth in 2014 Disappointing

Despite geopolitical tensions, the euro area managed to overcome the recession in 2014. Inflation slowed quickly from mid-2014 due to falling crude oil and food prices and dipped into negative territory at the turn of the year. Monetary policy makers reacted with additional interest rate cuts and an asset purchasing program and supplied further long-term liquidity to the banking sector. At +0.4%, Austria's economic growth was disappointing, however, lagging behind the euro area (+0.9%) and Germany (+1.6%). Austria thus registered real GDP growth of less than 1% for the third consecutive year in 2014.

Growth in 2014 was borne by expansion in the second half of 2013 and first half of 2014, as the Austrian economy stagnated in the second half of 2014. Consumer spending did not increase in any quarter of 2014, and gross fixed capital formation started to contract in the second quarter and then

declined at a more pronounced pace in the third and fourth quarters. By contrast, exports showed positive growth rates in all four quarters. Since imports decreased in the second half, net exports in that period contributed positively to GDP growth, but that was offset by a negative contribution from domestic demand and changes in inventories.

Industrial production including construction contracted slightly in 2014 (−0.5%). This decline is attributable to the energy and construction sectors (−10.6% and −1.5%, respectively). On the other hand, industrial production (industrial production excluding steam and air conditioning supply, which is not sensitive to the economic cycle: NACE B–D excluding D353) increased slightly (+0.7%). Developments in the course of the year exhibited an upward trend toward the end of 2014 (+0.4% in the fourth quarter), while the energy and construction sectors continued to shrink in the fourth quarter.

Table 1

National Accounts

	GDP	Private consumption	Government consumption	Gross fixed capital formation	Exports	Imports	Domestic demand (excluding inventories)	Net exports	Inventory changes and statistical differences	
	Quarterly and annual changes in % (seasonally adjusted trend-cycle series)						Contributions to GDP growth in percentage points			
Q3 13	+0.2	+0.1	+0.2	+0.5	−0.2	+1.1	+0.2	−0.6	+0.7	
Q4 13	+0.2	+0.1	+0.1	+0.2	+0.4	+1.0	+0.1	−0.3	+0.4	
Q1 14	+0.1	+0.0	+0.1	+0.4	+0.8	+0.8	+0.1	+0.1	−0.1	
Q2 14	+0.1	−0.0	+0.1	−0.1	+0.1	+0.2	−0.0	−0.0	+0.1	
Q3 14	−0.0	+0.0	+0.2	−1.0	+0.2	−0.4	−0.2	+0.3	−0.1	
Q4 14	+0.0	+0.0	+0.2	−1.1	+0.2	−0.5	−0.2	+0.4	−0.1	
2012	+0.7	+0.5	+0.2	+1.2	+1.5	+0.7	0.6	0.4	−0.3	
2013	+0.3	−0.2	+0.3	−1.0	+1.3	+0.1	−0.3	+0.6	−0.1	
2014	+0.4	+0.1	+0.5	−0.0	+1.5	+1.9	+0.2	−0.2	+0.4	

Source: Austrian Institute of Economic Research (WIFO).

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2 Moderate Economic Recovery in 2015: Situation Better than Sentiment

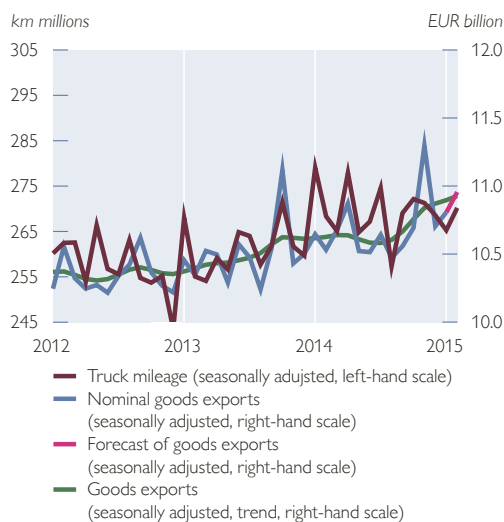
A mixed picture for the Austrian economy emerges from the indicators in the beginning of 2015. The confidence indicators show a significant worsening of sentiment among domestic consumers and businesses in February. But this decline appears to exaggerate the current situation somewhat, since the framework for an economic upswing is certainly intact. In addition to a positive fourth quarter in 2014, growth of industrial output was also slightly positive in January 2015. The trend in goods exports is likewise headed upward. The OeNB export indicator, based on truck mileage data from the Austrian highway authority ASFINAG, points to an upward trend of exports for January and February of this year. The prospects for consumer spending have also improved. The retail sector recorded significant increases in December 2014 and January 2015. Real wages have risen more than at any time in over five years due to the slowing of

inflation. Employment has also continued to climb in the beginning of 2015, but that has been accompanied by a growing supply of labor and hence a rising unemployment rate.

Overall, however, the impetus should be strong enough to result in a moderate economic upswing in Austria. The OeNB's current short-term forecast calls for real GDP growth in the first and second quarters of 2015 of +0.2% and +0.3% (seasonally and working-day adjusted, compared with the previous quarter). But Austria's growth is likely to remain below that of Germany and the euro area. The Austrian economy will benefit in the first half of 2015 from the recovery in the euro area, significantly lower energy prices compared with last year, and depreciation of the euro against the U.S. dollar and Swiss franc. While the tax reform will not give households relief

Chart 1

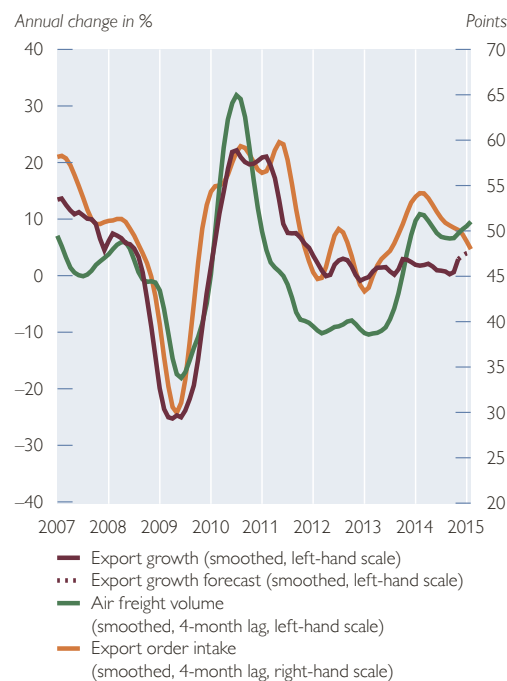
Truck Mileage and Goods Exports



Source: Austrian highway authority ASFINAG, OeNB.

Chart 2

Leading Indicators for External Trade



Source: Statistics Austria, Austrian highway authority ASFINAG, OeNB.

Chart 3

Short-Term Outlook for Austria's Real GDP for the First and Second Quarter of 2015

Change on previous quarter/year in % (seasonally and working-day adjusted trend-cycle series)



Source: OeNB Economic Indicator from March 2015, Eurostat.

¹ Forecast.

until 2016, it could bolster confidence and thus trigger anticipatory effects.

According to the Austrian results of the April 2015 round of the Bank Lending Survey, Austrian banks tightened their credit standards for loans to enterprises as well as for consumer loans to households marginally in the first quarter

of 2015, whereas standards for housing loans remained stable. Corporate loan demand increased slightly, according to the respondents, as did demand of households for housing loans, whereas demand for consumer loans fell somewhat.

Table 2

Key Figures for the Austrian Labor Market

	Payroll employment		Unemployed persons		Unemployment rate in %			Registered job vacancies	
	Thousands	Annual change in %	Thousands	Annual change in %	AMS definition (not seasonally adjusted)	AMS definition (seasonally adjusted)	EU definition (seasonally adjusted)	Thousands	Annual change in %
2012	3,465	+1.3	260.6	+5.7	7.0	7.0	4.9	29,422	-8.9
2013	3,483	+0.5	287.2	+10.2	7.6	7.6	5.4	26,383	-10.3
2014	3,503	+0.6	319.4	+11.2	8.4	8.4	5.6	26,320	-0.2
Q1 14	3,448	+0.7	348.6	+9.5	9.2	8.0	5.6	24,495	-0.7
Q2 14	3,505	+0.7	293.3	+14.7	7.7	8.3	5.7	28,863	+2.6
Q3 14	3,566	+0.4	290.3	+11.5	7.5	8.5	5.7	27,647	-2.0
Q4 14	3,495	+0.6	345.2	+9.8	9.0	8.5	5.7	24,276	-0.9
Sep. 14	3,551	+0.5	292.1	+11.8	7.6	8.6	5.7	28,516	-0.5
Oct. 14	3,519	+0.5	310.3	+10.7	8.1	8.6	5.7	25,962	+1.6
Nov. 14	3,493	+0.6	331.8	+9.9	8.7	8.6	5.7	24,731	-0.0
Dec. 14	3,472	+0.7	393.7	+9.0	10.2	8.6	5.6	22,136	-4.5
Jan. 15	3,446	+0.6	406.2	+9.8	10.5	8.7	5.5	22,971	+5.6
Feb. 15	3,458	+0.4	397.6	+11.4	10.3	8.8	x	25,362	+3.3

Sources: Eurostat, Association of Social Insurance Providers, Public Employment Service Austria (AMS).

3 Unemployment Expected to Remain High

The employment trend was remarkably robust in 2014, as in the years before, despite the weak economic trend. The number of employed persons still showed positive rates of change. At the same time, however, unemployment continued to climb in view of rising labor participation rates among women and older workers as well as the continuing influx of foreign workers.

The data for the Eurostat unemployment rate were revised upward in March 2015, including historical figures.² Accordingly, the unemployment rate in 2014 was 5.6%, up by 0.2 percentage points compared with 2013. Because of the historical revisions, Austria's unemployment rate was no longer the lowest in the EU in 2013 and 2014, but rather

the second-lowest after Germany's (5.2% and 5.0%).

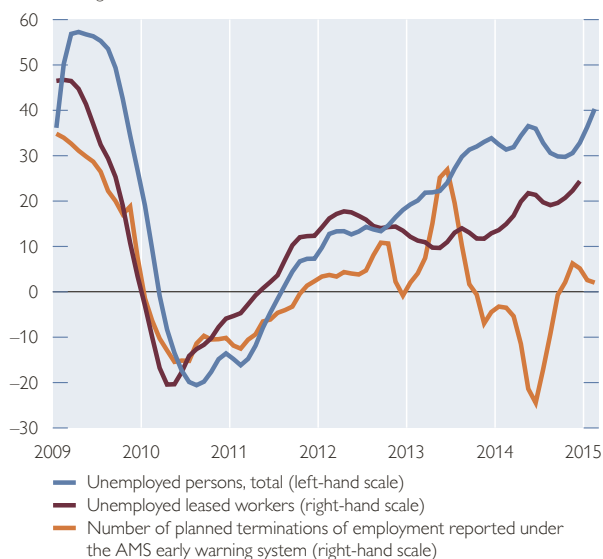
The trend of rising employment and labor supply and a stable seasonally adjusted unemployment rate appears likely to continue in the months ahead. The stabilization of job vacancies signals further employment growth in the course of the year, but the declining momentum in the number of leased workers suggests a slowdown. In the same vein, no clear signals are coming from the number of planned layoffs reported to the Public Employment Service Austria AMS under its early warning system. Overall, however, the still very weak economic environment suggests that employment growth will not be strong enough in the months ahead to allow unemployment to fall.

Chart 4

Leading Indicators

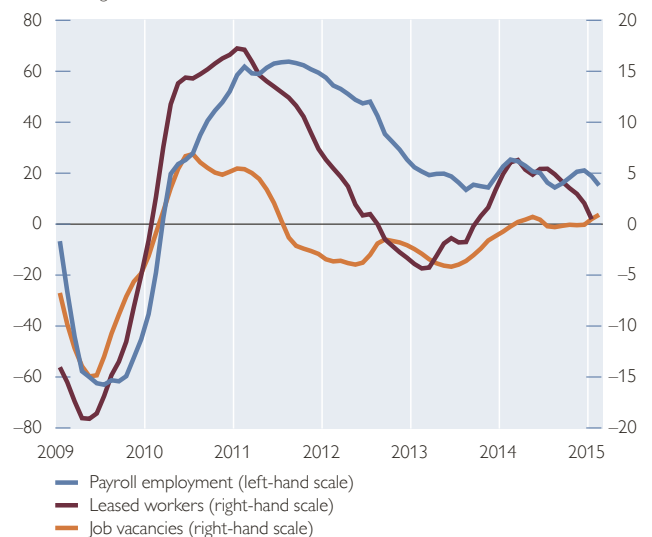
Unemployment

Annual change in thousands, smoothed



Employment

Annual change in thousands, smoothed



Source: Statistics Austria, Public Employment Service Austria (AMS).

² The basic data used to calculate the unemployment rate come from the European Union Labour Force Survey (EU LFS) conducted in the framework of the Austrian microcensus. The projections from this survey have undergone slight revisions in 2015 that go back to 2004. Among other things, "non-responses" have been reassigned and weighted. Before the revision, Austria's 2014 unemployment rate stood at 5.0%.

4 Inflation Declines to 0.5% in January and February 2015 Due to Falling Oil Prices; OeNB Expects Inflation Rate of 0.8% for 2015

Having fallen at the end of 2014 from 1.5% in November to 0.8% in December, Austria's HICP inflation rate continued to slow in January 2015 to 0.5%. It remained at that level also in February. The inflation rate had thus declined by 1 percentage point within a few months. By contrast, the core inflation rate (excluding energy and unprocessed food) dropped only slightly in the same period, to 1.5% in February 2015 (after 1.7% in January and 1.8% in December 2014). It is thus clear that the sharp decrease in recent months is due to the development of energy prices and especially fuel prices. The annual rate of change for energy prices went down from $-2.4%$ in November 2014 to

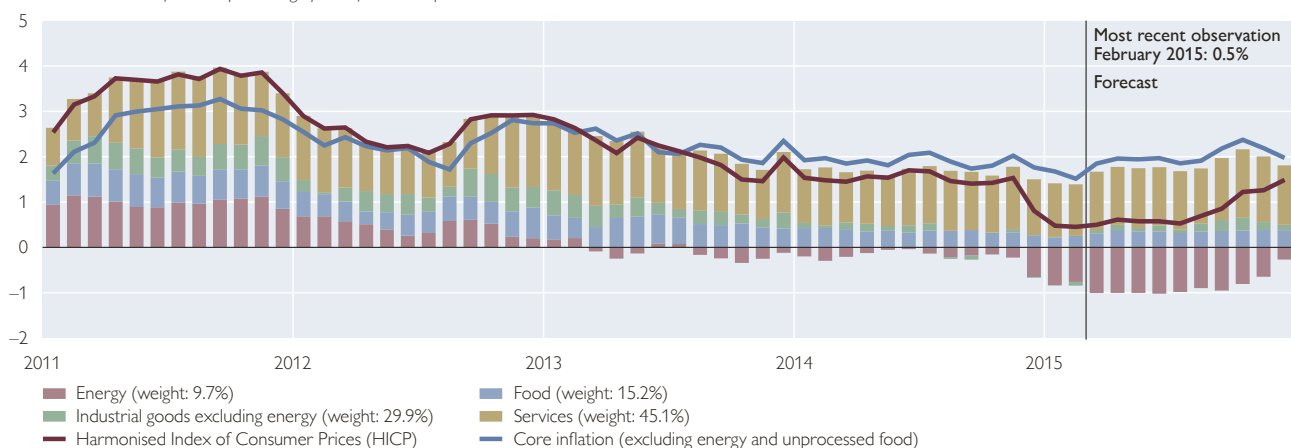
$-9.5%$ in January 2015 and back up slightly to $-8.6%$ in February due to advancing oil prices.

According to its latest forecast, the OeNB expects an average HICP inflation rate of 0.8% for 2015, particularly in light of falling energy prices. Inflation in the services sector and in the industrial goods sector excluding energy is expected to rise slightly during 2015, mainly thanks to the moderately better growth prospects. At 2.0%, the core inflation rate will therefore be significantly higher than headline inflation in 2015. The public sector's contribution to the headline inflation rate will amount to 0.3 percentage points in 2015 and thus decline only slightly compared with 2014. The further tobacco tax hike in April 2015 will add 0.1 percentage points to the HICP inflation rate.

Chart 5

Austrian HICP Inflation and Contributions of Subcomponents

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



Sources: OeNB, Statistics Austria.