

# Austrian Economy

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Creditanstalt

Banking for success.

May 2007



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**Imprint**

**Published by Bank Austria Creditanstalt AG**

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15 May 2007

# Highlights

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- **In the first quarter exports, in particular, were more dynamic than we expected; we are therefore revising our forecast for 2007 upward from 2.8% to 3.1%.**
- While special effects (lower energy consumption levels) have so far prevented any acceleration of private consumption in the first quarter, retail sales have picked up considerably. The continued improvement in consumer sentiment should however lead to stronger private consumption in the next few quarters.
- In light of weaker exports, industrial output will probably grow more slowly in the next few months compared with the first quarter. While investment activity will also be less dynamic, investments will in 2007 again expand at a disproportionately strong rate in 2007.
- Unlike previous periods, the growth in employment in the last few months was for the first time attributable to marked increases in full-time employment. The growth rate will however slow down and unemployment will no longer decline as rapidly as before.
- Second-round effects are responsible for the modest rise in inflation, but the inflation rate is likely to remain under 2%.
- After growing by 3.1% in 2007, we expect the Austrian economy to slow towards a rate that corresponds to its potential growth; we forecast economic growth of just over 2% in Austria for 2008.

# Summary

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**In the first quarter of 2007, Austria's economic growth amounted to 3.4% (on the previous quarter, annualised). This slightly exceeded our expectations and is higher than the figure for the fourth quarter of 2006.** With a growth rate of 0.3% (on the previous quarter), private consumption has so far fallen short of expectations despite a favourable trend in retail sales. The lacklustre performance is attributable to special effects (lower energy consumption levels) and weaker passenger car sales. Export growth was however more dynamic than we expected, and the renewed positive contribution of net exports was responsible for the higher-than-expected economic growth. Although we still believe that external and industrial growth will weaken in the course of the year, while private consumption will pick up, the stronger first quarter results have prompted us to revise our forecast for 2007 upwards from 2.8% to 3.1%.

The labour market will remain dynamic, although the very strong growth in employment seen in the last few months is likely to taper off. In 2006, the growth in

employment has moreover clearly shifted from part-time to full-time employment, the latter accounting for 4/5 of the higher growth rate. The unemployment rate will again fall in 2007, even if the decline in the first three months was supported by the good weather.

The budget deficit in 2007 will probably again amount to around 1%.

The increase in the inflation rate is attributable less to energy prices than to second-round effects. Housing costs (running costs and rents), in particular, are pushing up inflation. In 2007, inflation will be somewhat higher than in 2006, but it will barely rise in the remaining part of the year.

We expect growth rates in 2008 to resemble those of the second half of 2007, about 0.6% on the previous quarter. Economic growth will therefore slow to an average 2.3% in 2008.

**2007 will see at least two further increases in short-term interest rates.**

## Austrian Economic Forecast

|  | 2002        | 2003        | 2004        | 2005        | 2006        | Forecast    |             |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|  |             |             |             |             |             | 2007        | 2008        |
| <b>Economic growth</b> (real, y/y in %)              | <b>0.9</b>  | <b>1.1</b>  | <b>2.4</b>  | <b>2.0</b>  | <b>3.2</b>  | <b>3.1</b>  | <b>2.3</b>  |
| Private consumption (real, y/y in %)                 | 0.1         | 1.3         | 1.9         | 1.7         | 1.8         | 2.2         | 2.3         |
| Investments (real, y/y in %)*                        | -6.0        | 5.9         | 0.6         | 0.3         | 4.9         | 4.3         | 2.8         |
| <b>Inflation rate</b> (change against prev. yr in %) | <b>1.8</b>  | <b>1.3</b>  | <b>2.1</b>  | <b>2.3</b>  | <b>1.5</b>  | <b>1.7</b>  | <b>1.8</b>  |
| <b>Unemployment rate</b> (national definition)       | <b>6.9</b>  | <b>7.0</b>  | <b>7.1</b>  | <b>7.3</b>  | <b>6.8</b>  | <b>6.2</b>  | <b>5.9</b>  |
| <b>Employment</b> (change against prev. yr in %)**   | <b>-0.5</b> | <b>0.2</b>  | <b>0.7</b>  | <b>1.0</b>  | <b>1.7</b>  | <b>1.8</b>  | <b>1.0</b>  |
| <b>Public-sector balance</b> (in % of GDP)           | <b>-0.5</b> | <b>-1.5</b> | <b>-1.1</b> | <b>-1.5</b> | <b>-1.1</b> | <b>-1.0</b> | <b>-0.9</b> |

\*) Gross fixed capital formation

\*\*) excluding maternity/paternity leave, military service and training programmes

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