# AUSTRIA

## PRESENTATION OF THE COUNTRY

| Economic Indicators | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|
| Population (in 1000s) | 8.175 | 8.233 | 8.282 | 8.319 | 8.353 |
| GDP in PPP (in Billions €)1) | 221,57 | 226,08 | 233,55 | 241,58 | 247,28 |
| GDP per capita2) | 27,10 | 27,46 | 28,20 | 29,04 | 29,60 |
| Economic growth (%) | 2,3 | 2,0 | 3,3 | 3,4 | 2,4 |
| Inflation (%) | 2,0 | 2,1 | 1,7 | 1,9 | 2,0 |
| Government deficit (%) | -1,2 | -1,6 | -1,1 | -0,4 | -0,5 |
| Exports (in Billions €)3) | 119,60 | 125,33 | 134,71 | 145,85 | 154,61 |
| Imports (in Billions €)4) | 111,44 | 115,19 | 121,69 | 131,09 | 139,61 |
| Current account position | 1,7 | 2,1 | 3,2 | 3,5 | 3,7 |
| Employment rate | 67,8 | 68,6 | 70,2 | 70,8 | 70,9 |
| Unemployment rate | 4,8 | 5,2 | 4,8 | 4,3 | 4,2 |
| R&D rate (part of GDP spent for R&D) | 2,23 | 2,42 | 2,47 | 2,54 | n.a.5) |

[1)] Gross Domestic Product at previous year's prices [2)] Gross domestic product at previous year's prices per head of population [3)] Exports of goods and services previous year's prices [4)] Imports of goods and services previous year's prices [5)] not available – forecasts only for one year

In 2007 Austria's economy developed much better than expected by the business community as well as by experts. In fact the economy expanded by 3.4%, while only 2.5% were forecasted. The economic upturn, which was expected to slow down this year lasted a year longer and culminated in 2007. The strong business activity is sustained by exports and investments. However experts do not expect an enduring economic boom since the weakness of the consumer demand will continue. Along with the damping effects of the financial market crises economic growth will slow down next year (+2.4%).

Due to the high economic growth employment increased sharply (+1.9%), as well as the supply of additional labour force. This development creates not only part-time but also full-time jobs. However the number of unemployed remained high, particulary long-term unemployed did not benefit from the economic upturn. The unemployment rate is expected to remain stable at 4.2% in 2008.

Exports remain the basis for the good economic situation. Commodity demand in the Euro-Area -above all in Germany – remained on a stable level as well as in OPEC-countries. However exports to the USA and Great Britain decreased.
Imports increased slower than expected due to the economic situation. The weak consumer demand causes fewer imports of automobiles as well as lower expenditures of Austrian tourists abroad.

Investments in buildings have expanded much stronger since 2006 than in the years before. High contribution to this increase comes from industrial construction. Additionally the demand for dwellings rises due to immigration. Finally underground engineering benefits from public investments in infrastructure and contributes to a markedly growth in employment.
Disposable income is augmenting moderately due to an increase in employment and savings have grown continuously since 2001. For 2008 experts expect a slight pick up in consumer demand. The slow increase affects mainly retail turnover.
Budget deficit decreased this year due to higher tax revenues, and will remain on a level of half a percent of GDP in 2008.

## DETAILED ANALYSIS OF THE ECONOMIC INDICATORS

### TURNOVER

Previous development: Economic research institutes as well as the business community were surprised by the upturn Austria's economy faced this year. Expectations were high last year, nevertheless they were easily outperformed by the actual development. Economic growth in Austria benefited from the excellent development of exports to and investments in Western and Eastern Europe. The positive balance for Austria amounts to 62.6. The balance of 52.1 for the production sector declined somewhat compared to the previous year, but the balance of
76.2 for the service sector is even higher than last year's value.
Expectations for the coming year: The expectations for 2008 are positive, however they reflect a higher cautiousness of the business community. The balances resemble the values of last year's expectations, only the service sector expects a better development in all regions than in 2007. The growth of turnover will decline due to a worsening of the international economic development, especially in the USA, and the instability of the financial markets. Domestic consumer demand still did not rise as expected and is going to grow slightly next year according to forecasts. The balance is 52.6 and as we observed in the last two years, this comes from a weaker balance in the production sector (39.9) and a very positive balance in the service sector (69.2).
Regional development: Expectations this year have pretty much the same structure as last year. However it is worth mentioning that the South of Austria does not share the cautious attitude of the production sector in the other regions. In contrary it has quite a high balance as the service sector.

### NATIONAL SALES

Previous development: The expectations of the EES 2007 were almost met in the development in 2007. Only the production sector faced a more moderate incline than expected in two regions. The expectations of the service sector were exceeded by far. The balance amounts very positively to 51.9, this means almost no change in the balance compared to the previous year. National institutes of economic research as well as companies were again surprised by the actual strength of economic growth this year. As the balance results in 34.9 in the production sector and 74.0 in the service sector we observe the same gap between the values in national sales as in the last two years.

Expectations for the coming year: The expectations for the coming year are very similar to those of turnover, however slightly lower. This cautiousness results from the production sector, the expectations in the service sector are contrarily higher than last year. The rather restrained picture of next year of the production sector might come from the insecurity caused by the financial market crises. Moreover disposable income develops rather stable compared to former economic booms, so this might darken the expectations of the manufacturing sector. The balance amounts to

40.7 in total. Again the balance in the production sector of 22.9 differs considerably from the one of the service sector (64.0).

Regional development: It is noteworthy that expectations seem to be distinctively lower in the Western part of Austria for the year to come than in the other regions. This occurs not only in the service sector, where the tourism sector had to face a disappointing winter season last year, which might reflect in lower balances, but also in the production sector.

**EXPORTS**

Previous development: The balances of the previous development compared to the expectations of the EES 2007 show a very distinctive picture. The expected national balance was met quite closely, but a precise look at the values for sectors and regions shows varying developments. The expectations of the production sector underestimated the real figures for exports, whereas the companies in the service sector could not meet the high forecasts they made. Once again the economic growth was mainly exportsdriven, since demand in Western and Eastern Europe remained stable. The balance in the manufacturing sector (70.0) is even higher than last year, in the service sector (51.2) the balance declined by twenty percentage points. The overall balance results in 64.0, which is slightly above the expectations of last year (61.2).

Expectations for the coming year: The balances for the year to come are altogether lower than last year's values, which is mainly due to the fact that the world economy is slowing down and the demand for exports will decline next year. Austria's exporting companies have to face a high euro exchange rate to the US-

Dollar, which dampens the expectations to a moderate level. Furthermore the worsening of terms of financing caused by the financial market crises could lead to suspension of planed investments. The balances of the expectations range from 36.4 in the production sector, 51.0 in the service sector to 41.1 in total.

Regional development: Again the South of Austria anticipates much higher values than the other regions for next year's exports. The total balance for the South is more than twenty percentage points higher than the other figures, which shows that confidence in a good development is much stronger in this region.

**EMPLOYMENT**

Previous development: The good economic situation had an enormous effect on employment, 60.000 new jobs were created in 2007. The balances of last year's expectations of this indicator show that even the business community did not expect such a high increase in employment. But even with this strong growth in employment the unemployment rate declined little. This year's development was evaluated by the companies with 39.2, 13 percentage points higher than the estimates. The balance of the production sector with 38.5 is quite equal to the balance of the service sector (40.0).

Expectations for the coming year: Expectations for 2008 are much higher than last year in the production sector, but they declined markedly in the service sector, so we face a very distinctive picture of this indicator. The positive development of expectations in the manufacturing sector might come from the increase of investment demand, especially from construction investments. This is why a big part of the newly created jobs is full-time. The balances amount to 17.1 in the production sector and to 31.3 in the service sector. The total balance of employment expected for nextyear results in 23.2, which is slightly lower than last year.

Regional development: Southern and Western Austria show a more pleasant picture of this indicator than the East of Austria. Both expected values have increased since last year, which comes mainly from the service sector.

**INVESTMENT**

Previous development: The business cycle has reached the point where it is not only supported by exports, but also by investments. Investment demand rose considerably this year. This is reflected in the balances, which are higher than the expectations of last year's EES. The balance increased slightly compared to last year's development up to 33.0. The driving force behind this growth is investment in extension of companies like building and equipment. The development was slightly better in the service sector with a balance of 36.9 than in the production sector with 30.1.

Expectations for the coming year: The expectations are little lower than last year, which might result from the insecurity which arises from the turbulences at the financial markets. Since terms of financing are likely to degrade investments might be cancelled or postponed. However the balance for the indicator is close to last year's value at 19.7, which shows that the development of investments is still evaluated positively by the companies further on. The expectations of the production sector are more cautious with 16.6 than the ones of the service sector with 23.8.
Regional development: After two years of lower balances than in the other regions, this year the expectations of Southern Austria exceed the outlook of the other two areas in both sectors. The positive effect comes mainly from the service sector, which results in a balance that doubled compared to the expectations for 2007.

**BUSINESS CONFIDENCE**

Previous development: Although the expectations of the EES 2007 concerning this indicator were really high they were outbalanced by the developments of this year. In 2007 the Austrian economy faced another high growth, which was totally unexpected. All balances amount to double the value compared to last year's expectations. This development can be observed in both sectors, whereas the service sector's outcome (57.2) is even higher than in the manufacturing sector (42.5), so the service community underestimated the development rather strongly. The overall balance of the previous development was very high at 48.9
Expectations for the coming year: Since the forecasts of the national institutes for 2008 predict a decline in the economic situation and this year turned out surprisingly well, the business community seems convinced that next year the growth is going to slow down. The balance of the indicator, which was one of the most variable in the last years, changed from 20.7 in 2006 to 1.6 in 2007. This is a very strong sign which comes from the production sector, where the descent is

even stronger. Here we face the only negative balance of this year's survey with -9.4. In the service sector the balance remained at a high level with 16.0. This big difference might come from the insecurity of the financial markets that has a higher impact on capital intensive production.

Regional development: The overall balance composes of two different developments. On the one hand the estimations from the production sector in the Western part of Austria are very pessimistic, but on the other hand the expectations of the service sector in Eastern Austria are positive and just in the other direction. Like last year's results also this year the indicator is composed of very different expectations for the next year.