

Economic report Austria for the year 2008

General economic situation

Recession has hit the global, as well as the Austrian economy. Almost all industrialized nations registered a sharp setback in business activity. After an expected growth of 1.8% in 2008, the Austrian economy, too, will suffer a major slump, supposed to affect mainly exports and investments. Thanks to measures designed to support economic activity, consumption is recovering slightly, the deficit however will rise sharply in 2009.

The erroneous monetary and regulation policies of the USA resulted in a massive instability of financial markets and an unprecedented loss of confidence. This circumstance triggered the recession which directly affects European and Asian markets. The financial crisis aggravates the downward trend of global economies. The same holds true for Austria. Due to the partially delayed effect of two economic stimulus packages and a fiscal reform, in 2009 there is to be expected a reduction of the GDP. 2010 should offer better prospects.

WIFO (Austrian Institute for Economic Research) and IHS (Institute for Advanced Studies) agree that the economic growth (in real terms) in 2008 amounted to 1.8%; for 2009 both institutions predict a decline of overall production (IHS -2.7%; WIFO -2.2%). The Austrian economy is expected to recover in 2010.

Some general remarks on the WIFO forecast

- As a small, export-based economy, Austria is unable to steer clear of this downward trend and registers a fall in incoming orders, especially from abroad.
- The Austrian economic policy fights recession with a massive increase of public expenditure and tax reductions. These measures result in a consolidation of the consumption of private households, which grows 1%. Food production benefits more from this growth than material goods.
- In 2009 the inflation rate (+0.6%) shows a considerable decrease, affecting positively the available household income (in real terms), as well as private consumption.

- Due to the economic situation, the worsening of business sentiment and negative growth forecasts, investment demand will suffer a drastic decline (-5,9%).
- Nearly all business branches will be affected by the crisis, however at different moments and to different extents.
- Demand for labour force is steadily going down. Therefore in 2009, employment will drop 1.2%, mainly in the production of material goods and the construction industry.

Main results WIFO economic forecast March 2009

Percentage changes from previous year	2008	2009	2010	2008	2009
		December-forecast		March-forecast	
GDP (real terms)	+1.8	-0.5	+0.9	-2.2	+0.5
Manufacturing (real terms)	+3.5	-2.8	+2.0	-5.5	+0.5
Gross fixed capital formation (real terms)	+4.8	-3.4	+0.5	-5.9	-0.6
Exports of goods (real terms)	+1.5	-0.5	+1.5	-7.0	+0.5
Consumption expenditure of households (real terms)	+0.9	+1.0	+1.0	+0.4	+0.8
Consumer prices	+3.2	+1.2	+1.5	+0.6	+1.1
Active dependent employment	+2.4	-0.4	+0.2	-1.2	-0.6
Financial balance (in % of GDP)	-0.3	-2.8	-3.2	-3.5	-4.0

Situation of the foundry industry

Despite the beginning economic recession in 2008, Austria managed to keep the global production at the level of the preceding year. Total sales of the branch dropped 2.6% to a volume of 1,327 million EUR. The total production amounts to about 358,000 tons.

The production volume of iron castings stayed more or less at the previous level and amounted in 2008 to about 222,000 tons. Sales increased 3.8% to about 500 million EUR, due to changes in several areas and high material surcharges.

Fortunately, ductile iron castings continued to grow and registered a production volume of about 153,000 tons.

Steel castings maintained the excellent level of 2007, with a volume of about 21,000 tons.

Less satisfactory is the reduction of grey castings to a volume of about 48,000 tons (-5.5%).

The situation of non-ferrous castings is irregular: light alloy castings increased by 1.7% to about 120,000 tons. On the other hand heavy metal castings fell about 1.9% to a volume of roughly 15,000 tons.

PRODUCTION OF CASTINGS

2008 : 2007

	t	t	%	value in €		%
	2008	2007		2008	2007	
Grey cast iron	48,370	51,196	-5.5			
Ductile cast iron	153,026	150,893	1.4			
Steel castings	20,756	21,019	-1.3			
Iron castings	222,152	223,108	-0.4	501,586,306	483,321,810	3.8
<u>Heavy-metal castings</u>	<u>15,387</u>	<u>15,690</u>	<u>-1.9</u>			
whereof:						
zinc die-castings	12,740	13,188	-3.4			
<u>Light-alloy castings</u>	<u>120,194</u>	<u>118,215</u>	<u>1.7</u>			
whereof:						
Aluminium die-castings	51,429	52,129	-1.3			
Permanent mould aluminium castings	58,880	56,454	4.3			
Aluminium sand-castings	1,846	1,390	32.8			
Magnesium castings	8,039	8,242	-2.5			
Metal castings	135,581	133,905	1.3	825,867,090	879,504,053	-6.1
Total	357,733	357,013	0.2	1,327,453,396	1,362,825,863	-2.6

Incoming Orders

Until summer/autumn of 2008 we registered an excellent order intake and till the end of the 2nd quarter/start of the 3rd quarter of 2008, the Austrian foundries were working to capacity. Then, as the crisis hit the economies, the volume of incoming orders dropped, depending on the branches. During the 3rd quarter, the whole car component industry suffered a drastic decline of incoming orders. Depending on branches and products, a time-shifted decline spread to the whole sector and resulted in a significant drop of orders.

2.2. Employment

Despite the shortage of orders, until the end of the year there was practically no change of the level of employment. The total labour-force was 7,997, which is the same level as in 2007. The number of unskilled workers increased, whereas the number of semiskilled workers went down. The number of apprentices went up by 8.7% to 376. The proportion of foreign workers increased by 9.5%. Towards the end

of the year, however, workers on temporary loan were dismissed and other employments were terminated by notice, which has had an impact during the 1st quarter of 2009.

2.3. Changes in capacity, number of plants

The number of member companies remains unchanged at 51.

As regards the structure of the foundry branch in Austria, it also remains unchanged and still is mainly characterized by medium-sized enterprises.

3 companies belong to the sector of 501 - 1,000 employees. The sector of 201 - 500 employees registered a slight increase with regard to the previous year. Most of our members have less than 100 employees, 7 companies less than 20 employees.

2.4. Investment plans

The high investment activity was maintained until autumn of 2008. Due to long times of delivery, many investment projects could not be implemented immediately and had to be realized at a later date. Rationalization technologies were at the centre of investment activities. When the crisis broke, investments declined.

2.5. Supply of raw materials and energy

Energy prices

With average increases of more than 30%, gas prices have been a problem. No easing of the price situation is to be expected, even if at the beginning of 2009 some price increases have been rolled back, however not in the same proportion. Electricity registered insignificant increases. Gasoline and heating oil followed the price trend of crude oil and recorded all-time highs before going down slightly at the end of the year.

Raw materials:

The enclosed graph shows that, parallel to the economic situation, raw material prices for all products rose briskly until summer and fell towards the 3rd quarter of the year.

Engineering casting scrap

Towards mid-year, the price of engineering casting scrap almost doubled the initial price from € 250.00 /ton to about € 450.00 / ton, before going down again at the end of the year to a level of € 170.00 / ton.

Cupola scrap

Cupola scrap more than doubled the price level registered at the start of the year (from € 230.00 / ton to about € 470.00 / ton at mid-year), before returning to the initial level at the end of 2008.

Cupola scrap for E-furnace

Similar to cupola scrap, cupola scrap for E-furnace also reached a record level of € 470.00 / ton towards mid-year. At the end of the year, the price dropped to € 290.00 / ton.

Hematite pig iron

Since the start of the year, the price of hematite pig iron doubled towards mid-year from an initial level of € 350.00 / ton before dropping again at the end of the year to € 380.00 / ton.

Foundry pig-iron

Prices of foundry pig-iron showed no such extreme fluctuations. However the value increased from € 340.00 / ton at the start of 2008 to about € 440.00 / ton and stabilized at € 360.00 / ton, towards the end of the year.

Foundry coke

Unlike other raw materials, prices of foundry coke increased steadily until the end of the year. From € 430.00 / ton at the beginning of the year, the price rose continuously to a high and constant level of about € 520.00 / ton at the end of the year.

Aluminium

Due to strong price fluctuations of raw materials in addition to the volatile dollar, the aluminium price in € has registered significant fluctuations during the whole year. The high was registered in summer with € 1.90 / kg, whereas the low was reached at the end of the year with about € 1.10 / kg.

Nickel

Like aluminium, nickel also registered a wide fluctuation range. The highest values were reached in March 2008, with a price of € 20.00 / kg. Towards the end of the year, the price reached its lowest level with almost € 8.00 / kg.

2.6. Cost development

2.6.1. Personnel cost

The economic situation complicated the negotiations of the annual collective wage agreement for the negotiating partners. On the one hand, results in 2007 had been excellent, and until summer of 2008 the branch registered a good order intake, on the other hand, the economic slowdown and negative trends due to the crisis could already be perceived. The labour unions showed little regard for the economic situation of the companies and insisted on compensation for the successful 2007. In addition, there had to be considered the excessive inflation rate for the calculation period of the last 12 months. After lengthy and difficult negotiations there was reached a deal, rather expensive from a present-day perspective. It was agreed to

increase actual wages and salaries by 3.8%, and 3.9% for the lower wage groups. The same applied to minimum wages and salaries.

Furthermore, there were established profit-related one-off payments, depending on the EBIT margin. At an EBIT margin with regard to the performance of > 8% the one-off payment amounts to € 250.00, between 4% and 8% € to 200.00, between 4% and 0% € to 100.00 and companies with negative performance are completely dispensed from the one-off payment.

The problem with these payments is, in case of companies in corporate groups, that they are calculated on the basis of the consolidated financial statements of the whole group. That is especially difficult for conglomerate groups, which frequently have a positive EBIT margin, even if several sectors register serious challenges. In such cases, this has a negative impact on location-related competition.

2.6.2. Energy cost

see item 2.5.

2.7. Problems in the field of environmental protection

Certainly, in 2008 the implementation of the REACH regulation and its impact on the foundry industry and all other branches was the biggest challenge. Even if - after many discussions and interpretations- negotiations resulted in the foundry branch being almost unaffected by the REACH regulation values, a cost increase triggered by the obligations of up- and downstream trade is not to be avoided. Nevertheless, many companies were asked by their customers to which extent foundry products were REACH relevant substances and received the full support of the Association and the Economic Chambers.

Another big problem is the implementation of the landfill decree. There were introduced new regulations and instructions for analysis, which will result in additional cost, related to organizational and analytical issues. The taking of samples itself will be more difficult, and the list of substances to be analyzed has become longer.

The implementation of the guideline on exposure to natural radiation sources is a huge success. The original draft of the Ministry had considered all foundry sands as radiation risks or possible radiation sources. Due to the activities of the Association, the contested passage could be eliminated and the actual national regulations are based on the real radiation and radiation intensity measured on-site and at the employees.

General foundry sands are therefore not affected by this regulation value.

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