

## Economic Outlook for 2017 and 2018: Strongest Economic Growth in Six Years

*After an acceleration of economic activity in the first half of 2017, latest business surveys do not suggest a further strengthening for Austria. GDP is expected to grow by 2.8 percent in 2017, the highest rate in six years. Despite the appreciation of the euro and a slowing growth momentum in third countries, the euro area should keep a firm upward trend in 2018, driven by the expansionary monetary policy of the ECB and a still untightened fiscal stance. The Austrian economy may grow in 2018 at the same rate as in 2017. From a cyclical perspective, further extension of the current expansionary fiscal policy would not be appropriate.*

The Austrian business sector expresses great optimism on current economic conditions and the outlook for the months to come. Also in the USA and in other European countries, sentiment indicators have climbed to high levels. While the US economy has now reached an advanced stage of the business cycle, demand and output are still gathering pace in Europe, where the upswing is spreading across regions and sectors.

Business conditions in the emerging markets are more uneven. While the situation is improving in Brazil and Russia, activity is unlikely to strengthen further in China in 2018, where the current investment boom is uncertain to last.

In 2016, the Austrian economy has benefitted mainly from domestic demand forces. The tax reform helped to overcome the backlog emerged from the sluggishness of private consumption of past years, and investment recovered from the extended slackness. Only towards the end of 2016, foreign demand regained strong momentum, which continued in early 2017.

The current upswing in Austria is broadly based across economic sectors. Apart from the cyclically sensitive manufacturing industry, it is also supported by construction, trade and business-related services. The tourism sector also benefits from lively economic activity in Austria and abroad.

In spite of the high utilisation of the capital stock and lively labour demand, inflationary pressure arises for the time being neither in the USA nor in the euro area. Central banks in both regions hesitate to steer monetary policy back to a normal course. Austria's inflation rate remains high by EU standards.

With the cyclical recovery, the situation on the Austrian labour market is improving. The stronger pace of job creation in 2017 should broadly be maintained in 2018. The "Employment Bonus" and the Initiative 20,000 will provide additional stimulus.

Higher tax revenues resulting from stronger economic activity provide relief for the government accounts. The general government deficit in the Maastricht definition is set to narrow to

0.6 percent of GDP in 2017 and will be reduced further in 2018. However, the benign outlook is entirely due to the cyclical "bonus" and favourable financing conditions, rather than being the result of a lasting improvement in budgetary fundamentals. A tightening of the fiscal stance that would restore budgetary leeway and create scope for investment in favour of future-oriented areas would not put at risk the resilience of the current cyclical upswing.

Table 1: Main results

		2013	2014	2015	2016	2017	2018
		Percentage changes from previous year					
Gross domestic product, volume		+ 0.0	+ 0.8	+ 1.1	+ 1.5	+ 2.8	+ 2.8
Manufacturing		+ 0.3	+ 2.5	+ 0.6	+ 1.3	+ 5.7	+ 4.9
Wholesale and retail trade		- 2.3	+ 2.7	+ 3.1	+ 1.4	+ 2.8	+ 2.8
Private consumption expenditure <sup>1</sup> , volume		- 0.1	+ 0.3	+ 0.5	+ 1.5	+ 1.5	+ 1.7
Consumer durables		- 3.5	- 1.0	+ 2.8	+ 3.3	+ 2.5	+ 1.5
Gross fixed capital formation, volume		+ 1.6	- 0.7	+ 1.2	+ 3.7	+ 4.2	+ 3.0
Machinery and equipment <sup>2</sup>		+ 1.7	- 1.6	+ 1.5	+ 8.6	+ 6.0	+ 4.0
Construction		- 1.6	- 0.1	+ 1.1	+ 1.1	+ 2.8	+ 1.5
Exports, volume		+ 0.6	+ 3.0	+ 3.1	+ 1.9	+ 5.5	+ 4.8
Exports of goods		- 0.8	+ 2.9	+ 3.1	+ 1.3	+ 6.1	+ 5.3
Imports, volume		+ 0.7	+ 2.9	+ 3.1	+ 3.1	+ 5.1	+ 3.9
Imports of goods		- 2.0	+ 2.1	+ 3.7	+ 3.2	+ 5.7	+ 4.2
Gross domestic product, value		+ 1.6	+ 2.8	+ 3.4	+ 2.6	+ 4.8	+ 4.8
	billion €	323.91	333.06	344.49	353.30	370.08	387.71
Current account balance	as a percentage of GDP	1.9	2.5	1.9	2.1	2.7	2.9
Consumer prices		+ 2.0	+ 1.7	+ 0.9	+ 0.9	+ 1.9	+ 1.8
Three-month interest rate	percent	0.2	0.2	- 0.0	- 0.3	- 0.3	- 0.1
Long-term interest rate <sup>3</sup>	percent	2.0	1.5	0.7	0.4	0.7	1.0
General government financial balance, Maastricht definition							
As a percentage of GDP		- 2.0	- 2.7	- 1.0	- 1.6	- 0.6	- 0.3
Persons in active dependent employment <sup>4</sup>		+ 0.6	+ 0.7	+ 1.0	+ 1.6	+ 2.0	+ 1.8
Unemployment rate							
Eurostat definition <sup>5</sup>		5.4	5.6	5.7	6.0	5.6	5.4
National definition <sup>6</sup>		7.6	8.4	9.1	9.1	8.5	8.1

Source: WIFO. 2017 and 2018: forecast. – <sup>1</sup> Including non-profit institutions serving households. – <sup>2</sup> Including weapons systems. – <sup>3</sup> 10-year central government bonds (benchmark). – <sup>4</sup> Excluding persons with valid employment contract receiving child care benefit or being in military service. – <sup>5</sup> As a percentage of total labour force, Labour Force Survey. – <sup>6</sup> As a percentage of dependent labour force, unemployed persons according to Public Employment Service Austria.

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For definitions used see "Methodological Notes and Short Glossary", <http://www.wifo.ac.at/wwadocs/form/WIFO-BusinessCycleInformation-Glossary.pdf>