

## Economic Outlook for 2018 to 2020: Cyclical Slackening from High Level of Activity

*From the current strong pace driven by industrial output, construction and services, economic growth in Austria is set to ease somewhat in 2019. While business investment is showing early signs of weakening, private household income and consumption will benefit from solid wage increases and a lower tax burden. With fewer jobs being created, the reduction of unemployment will lose momentum. The general government balance will turn to a surplus in the years to come.*

Austria's economy is currently in a stage of cyclical boom. Growth of GDP will reach 2.7 percent in 2018, markedly exceeding the euro area average. While industrial production is setting the pace, most other sectors also enjoy lively business activity. Firms express optimism also with respect to the short-term outlook, although the output cycle has now passed its peak, as witnessed by a gradual slackening of investment. Imports and inventory accumulation have been subdued in 2018. The cyclical downturn of aggregate demand is confirmed by different kinds of business cycle models. WIFO therefore expects robust, though decelerating GDP growth of 2.0 percent for 2019 and 1.8 percent for 2020.

Private households will enjoy substantial income gains over the forecast period: settlements in the 2018 autumn wage round turned out somewhat higher than anticipated, while an expansionary fiscal stance, notably the introduction of the "family bonus" will reduce the tax burden. Hence, private consumption should become the major force supporting GDP growth. In addition, foreign demand will provide reliable stimulus to domestic output growth, as euro area GDP is set to grow moderately, but steadily. The US economy will advance strongly also in 2019, thanks to an expansionary fiscal stance, and activity should stay lively also in Eastern Europe. Developments in Austria should even be little affected in the event of a "disorderly" withdrawal of the UK from the EU; the risk of major economic turbulence in Italy seems to have abated recently.

The present cyclical high is shaping the performance of the labour market, with employment and job vacancies rising swiftly and unemployment receding. With the projected slowdown of output growth, the outlook is turning more clouded. In addition, job search remains difficult, notably due to the continued inflow of workers from Eastern Europe and rising domestic labour force participation. Despite continued employment growth, the number of jobseekers will still be close to 300,000 in 2020. Besides the labour market, the government household is benefitting from the presently benign cyclical situation. Thanks to buoyant tax revenues, the general government budget should be in balance already in 2018, turning to a surplus in 2019 and 2020.

Table 1: Main results

	2015	2016	2017	2018	2019	2020	
	Percentage changes from previous year						
Gross domestic product, volume	+1.1	+2.0	+2.6	+2.7	+2.0	+1.8	
Manufacturing	+1.3	+3.5	+4.8	+5.0	+3.0	+2.4	
Wholesale and retail trade	+1.9	+1.2	+1.1	+1.2	+1.5	+1.8	
Private consumption expenditure <sup>1</sup> , volume	+0.4	+1.4	+1.4	+1.7	+1.7	+1.8	
Consumer durables	+1.9	+3.0	+0.5	-0.5	+1.0	+2.5	
Gross fixed capital formation, volume	+2.3	+4.3	+3.9	+3.5	+2.6	+2.0	
Machinery and equipment <sup>2</sup>	+4.3	+7.8	+4.2	+3.9	+3.1	+2.4	
Construction	+0.1	+0.4	+3.5	+3.1	+2.0	+1.6	
Exports, volume	+3.5	+2.7	+4.7	+4.7	+3.9	+3.8	
Exports of goods, fob	+3.5	+2.1	+4.9	+5.2	+4.2	+4.2	
Imports, volume	+3.6	+3.4	+5.1	+3.0	+3.4	+3.2	
Imports of goods, fob	+4.1	+3.2	+4.2	+2.9	+3.6	+3.4	
Gross domestic product, value	+3.3	+3.5	+3.8	+4.4	+4.1	+3.9	
	billion €	344.26	356.24	369.90	386.12	402.07	417.73
Current account balance	as a percentage of GDP	1.7	2.5	2.0	2.3	2.3	2.4
Consumer prices		+0.9	+0.9	+2.1	+2.0	+2.1	+2.0
Three-month interest rate	percent	-0.0	-0.3	-0.3	-0.3	-0.3	0.2
Long-term interest rate <sup>3</sup>	percent	0.7	0.4	0.6	0.7	1.0	2.0
General government financial balance, Maastricht definition	as a percentage of GDP	-1.0	-1.6	-0.8	±0.0	0.4	0.5
Persons in active dependent employment <sup>4</sup>		+1.0	+1.6	+2.0	+2.5	+1.5	+1.2
Unemployment rate							
Eurostat definition <sup>5</sup>		5.7	6.0	5.5	4.9	4.6	4.6
National definition <sup>6</sup>		9.1	9.1	8.5	7.7	7.3	7.2

Source: WIFO. 2018 to 2020: forecast. – <sup>1</sup> Including non-profit institutions serving households. – <sup>2</sup> Including weapons systems and other investment. – <sup>3</sup> 10-year central government bonds (benchmark). – <sup>4</sup> Excluding persons in 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",

<https://www.wifo.ac.at/wwadocs/form/WIFO-BusinessCycleInformation-Glossary.pdf>