WIFO ■ BULLETIN

No. 4/2018
April 2018

Stefan Ederer

Austria's Economy Stays on the Growth Path

Economic Outlook for 2018 and 2019

Austria's Economy Stays on the Growth Path. Economic Outlook for 2018 and 2019
Lively business activity abroad is driving Austria's export industry and raises productive capacity utilisation, giving rise to buoyant investment. Private consumption will continue to support domestic production as income growth is set to pick up over the forecast period. Austrian GDP is projected to grow by 3.2 percent for this year and by 2.2 percent in 2019.

Contact:

Stefan Ederer: WIFO, 1030 Vienna, Arsenal, Objekt 20, stefan.ederer@wifo.ac.at

JEL-Codes: E32, E66 • **Keywords:** Business Cycle, Economic Outlook, Forecast

All staff members of the Austrian Institute of Economic Research contribute to the Economic Outlook. For definitions used see "Methodological Notes and Short Glossary", http://www.wifo.ac.at/wwadocs/form/WIFO-BusinessCycleInformation-Glossary.pdf • Cut-off date: 16 March 2018.

Data processing: Astrid Czaloun (astrid.czaloun@wifo.ac.at), Maria Riegler (maria.riegler@wifo.ac.at)

ISSN 1605-4709 • © Austrian Institute of Economic Research 2018
Impressum: Herausgeber: Christoph Badelt • Chefredakteur: Michael Böheim (michael.boeheim@wifo.ac.at) • Redaktionsteam: Tamara Fellinger, Ilse Schulz, Tatjana Weber • Medieninhaber (Verleger) und Redaktion: Österreichisches Institut für Wirtschaftsforschung • 1030 Wien, Arsenal, Objekt 20 • Tel. (+43 1) 798 26 01-0 • Fax (+43 1) 798 93 86 • http://bulletin.wifo.ac.at • Verlags- und Herstellungsort: Wien

The world economy is currently enjoying strong economic growth. The upswing in the USA is keeping its strong pace, although the cyclical risks are rising. The unemployment rate is close to its historical low, and the household saving rate has fallen to the level last recorded before the onset of the financial market crisis. Likewise, the increase in consumer credits and high stock market values may lead to a gradual deceleration of US growth. Economic policy nevertheless remains expansionary. Business activity in the euro area is lively, with strong output gains in the first half of 2018. The cyclical boom has also reached the economies in CEE and most of the emerging market countries.

The buoyant external environment has led to a strong increase in Austrian exports which in turn has stimulated manufacturing output and employment in 2017, with capacity utilisation rising to new highs. As a consequence, firms are stepping up investment in machinery and equipment to enhance production capacity. Private consumption also lends firm support to GDP growth.

These trends suggest that the pace of expansion in the first half of 2018 will be close to the one recorded in 2017. Thereafter, the gradual slowdown in international business activity may dampen somewhat economic growth in Austria. Slackening exports will also weigh on firms' propensity to invest, although high capacity utilisation will still keep it up for some time. Private consumption will stay firm over the projection horizon, without however providing additional stimulus.

Strong output growth also leads to a major improvement of the Austrian labour market. Substantial gains in employment of last year further accelerated in early 2018. Once domestic output growth abates, job creation will also subside. Lively demand for labour is accompanied by a steady decline in unemployment. A further factor is a slower increase in the labour force, such that employment growth translates more directly into falling unemployment than in earlier years. Although more favourable employment prospects will reinforce wage dynamics, inflation is set to remain moderate.

Table 1: Main results

		2014	2015	2016	2017	2018	2019
		Percentage changes from previous year					
Gross domestic product, volume		+ 0.8	+ 1.1	+ 1.5	+ 2.9	+ 3.2	+ 2.2
Manufacturing		+ 2.5	+ 0.6	+ 1.3	+ 6.7	+ 7.8	+ 3.4
Wholesale and retail trade		+ 2.7	+ 3.1	+ 1.4	+ 2.4	+ 2.9	+ 2.5
Private consumption expenditure[1], volume		+ 0.3	+ 0.5	+ 1.5	+ 1.4	+ 1.8	+ 1.6
Consumer durables		− 1.0	+ 2.8	+ 3.3	+ 1.0	+ 2.0	+ 1.0
Gross fixed capital formation, volume		− 0.7	+ 1.2	+ 3.7	+ 4.8	+ 3.5	+ 2.5
Machinery and equipment[2]		− 1.6	+ 1.5	+ 8.6	+ 7.9	+ 6.0	+ 3.5
Construction		− 0.1	+ 1.1	+ 1.1	+ 2.6	+ 1.6	+ 1.5
Exports, volume		+ 3.0	+ 3.1	+ 1.9	+ 5.7	+ 5.5	+ 4.5
Exports of goods		+ 2.9	+ 3.1	+ 1.3	+ 6.1	+ 6.0	+ 4.8
Imports, volume		+ 2.9	+ 3.1	+ 3.1	+ 5.4	+ 4.6	+ 3.8
Imports of goods		+ 2.1	+ 3.7	+ 3.2	+ 5.0	+ 4.8	+ 4.0
Gross domestic product, value		+ 2.8	+ 3.4	+ 2.6	+ 4.5	+ 4.9	+ 4.0
	billion €	333.06	344.49	353.30	369.22	387.29	402.84
Current account balance	as a percentage of GDP	2.5	1.9	2.1	2.1	2.3	2.6
Consumer prices		+ 1.7	+ 0.9	+ 0.9	+ 2.1	+ 1.9	+ 1.9
Three-month interest rate	percent	0.2	− 0.0	− 0.3	− 0.3	− 0.3	− 0.1
Long-term interest rate[3]	percent	1.5	0.7	0.4	0.6	0.8	1.1
General government financial balance, Maastricht definition	as a percentage of GDP	− 2.7	− 1.0	− 1.6	− 0.8	− 0.3	0.1
Persons in active dependent employment[4]		+ 0.7	+ 1.0	+ 1.6	+ 2.0	+ 1.9	+ 1.1
Unemployment rate							
Eurostat definition[5]		5.6	5.7	6.0	5.5	5.2	5.0
National definition[6]		8.4	9.1	9.1	8.5	7.7	7.3

Source: WIFO. 2018 and 2019: forecast. – [1] Including non-profit institutions serving households. – [2] Including weapons systems. – [3] 10-year central government bonds (benchmark). – [4] Excluding persons in valid employment contract receiving child care benefit or being in military service. – [5] As a percentage of total labour force, Labour Force Survey. – [6] As a percentage of dependent labour force, unemployed persons according to Public Employment Service Austria.

Given the strong momentum during the first half of 2018, Austrian GDP is projected to grow by 3.2 percent for the year as a whole. The pace of expansion will soften in the latter part of the year and in 2019, when annual GDP is projected to rise by 2.2 percent.

Cyclical risks have increased in the last few months, as witnessed by higher stock market volatility. Sudden price corrections triggered by changing expectations may occur at any time, and even a major slump in asset prices with adverse repercussions for the real economy cannot be ruled out. Moreover, trade disputes have lately become sharper. The USA has already introduced punitive tariffs on certain steel and aluminium imports, with further trade restrictions being envisaged. The EU has announced to take retaliation measures on imports from the USA. The short-term effects of such trade restrictions are difficult to judge, but they are likely to be harmful for the global economy.

There are nevertheless also upward cyclical risks: the increase in public investment agreed between the new German coalition partners should give a further boost to business activity in Germany. Also policy in the USA may act to prolong the cyclical upswing once again. Business and consumer expectations worldwide and in Austria are still highly optimistic. Against this background, the upswing may extend further into the second half of the year than currently anticipated. In the event, GDP growth in 2018 and more so in 2019 may significantly surprise on the positive side.

1. Lively business activity in the USA, but mounting risks

Global business activity remains robust. The US economy expanded strongly also in the fourth quarter 2017, though somewhat less than in the previous periods. Growth is driven by buoyant private consumption and investment. The high level of confidence of private households and companies does not point to an imminent cyclical slowdown.

The extended upswing of the US economy is still ongoing, despite the advanced stage that the recovery has reached on the labour market. Risks of a cyclical turnaround are nevertheless rising.

Policy is likely to continue supporting US economic activity. While the Fed is expected to raise interest rates further in 2018, the tax reform should provide stimulus, even if the positive effect may prove limited. The income tax cuts largely benefit high income earners of comparatively low consumption propensity. The reduction of the corporate tax rate, however, should boost business fixed investment.

One reason for consumer optimism in the USA is the persistently favourable labour market situation. The extended cyclical upswing has taken the unemployment rate down to its lowest level in over fifteen years. Likewise, the fall in long-term unemployment and involuntary part-time work indicates the highly advanced stage to which the labour market recovery has moved. Some labour reserves may nevertheless still exist, since wage dynamics in the USA has hardly accelerated so far. Still, wage growth should pick up over the forecast period and give some momentum to the cyclical upswing in its final stage.

Table 2: International economy

	Percentage shares 2016		2014	2015	2016	2017	2018	2019
	Austria's exports of goods	World GDP[1]	GDP volume, percentage changes from previous year					
EU	69.5	16.7	+ 1.8	+ 2.3	+ 2.0	+ 2.4	+ 2.4	+ 2.0
UK	3.1	2.3	+ 3.1	+ 2.3	+ 1.9	+ 1.7	+ 1.6	+ 1.6
Euro area	51.7	11.8	+ 1.3	+ 2.1	+ 1.8	+ 2.3	+ 2.4	+ 1.9
Italy	30.5	3.3	+ 1.9	+ 1.7	+ 1.9	+ 2.2	+ 2.5	+ 1.8
France	6.4	1.9	+ 0.1	+ 1.0	+ 0.9	+ 1.5	+ 1.5	+ 1.5
CEEC 5[2]	4.1	2.3	+ 0.9	+ 1.1	+ 1.2	+ 1.8	+ 2.2	+ 1.8
Czech Republic	14.1	1.6	+ 3.2	+ 4.0	+ 2.8	+ 4.4	+ 3.5	+ 3.0
Hungary	3.7	0.3	+ 2.7	+ 5.3	+ 2.6	+ 4.3	+ 3.4	+ 2.6
Poland	3.3	0.2	+ 4.2	+ 3.4	+ 2.2	+ 4.0	+ 3.5	+ 2.5
USA	3.0	0.9	+ 3.3	+ 3.8	+ 2.9	+ 4.6	+ 3.6	+ 3.3
Switzerland	6.7	15.5	+ 2.6	+ 2.9	+ 1.5	+ 2.3	+ 2.5	+ 2.0
China	5.9	0.4	+ 2.4	+ 1.2	+ 1.4	+ 1.0	+ 2.0	+ 2.0
Total[3]								
PPP-weighted[4]		50	+ 4.0	+ 4.1	+ 3.5	+ 3.9	+ 3.9	+ 3.4
Export weighted[5]	85		+ 2.1	+ 2.4	+ 2.1	+ 2.4	+ 2.5	+ 2.1
Market growth[6]			+ 4.1	+ 3.9	+ 3.3	+ 6.0	+ 5.5	+ 4.6
Forecast assumptions								
Crude oil prices								
Brent, $ per barrel			99.0	52.5	43.7	54.3	67	63
Exchange rate								
$ per €			1.329	1.110	1.107	1.129	1.23	1.23
Key interest rate								
ECB main refinancing rate[7], percent			0.2	0.1	0.0	0.0	0.0	0.1
10-year government bonds yields Germany, percent			1.2	1.2	0.5	0.1	0.3	0.7

Source: WIFO. 2018 and 2019: forecast. – [1] PPP-weighted. – [2] Czech Republic, Hungary, Poland, Slovenia, Slovakia. – [3] EU, USA, Switzerland, China. – [4] Weighted by GDP at purchasing power parities in 2016. – [5] Weighted by shares of Austrian goods exports in 2016. – [6] Real import growth of trading partners, weighted by shares of Austrian goods exports. – [7] Minimum bid rate.

The strong increase in private consumption was driven not only by benign labour market conditions, but also by a decline in the household saving ratio that by early 2018 had dropped to a low not seen since 2005. Consumer credit volumes also increased significantly as a ratio of household disposable income. Both factors suggest a somewhat slower pace of expansion going forward. We project US annual GDP growth at 2.5 percent for 2018, moderating to 2 percent in 2019.

One cyclical risk relates to developments on financial markets. US share prices have increased strongly in 2017, to a level way above that of 2007, when the financial market crisis broke out. A slump in early February gave way to further ups and downs recorded on stock markets worldwide. The rise in stock market values in 2017 is deemed to partly reflect higher profit expectations as a result of the tax reform. Recent developments nevertheless show that changing expectations may trigger sudden price corrections at any time and that even a severe slump with adverse repercussions for the real economy cannot be ruled out. Still, the price-earnings ratio in the S&P-500 Index is at present significantly lower than back in 2002 or 2007.

2. Upswing in the euro area set to continue

The euro area is enjoying solid growth. The improving labour market situation adds to consumer confidence, while idle labour reserves remain substantial.

Also in the euro area, economic growth remained strong throughout 2017. Business activity is lively in Germany, France, Spain and many of the smaller countries, whereas in Italy it remains muted. Entrepreneurial and consumer confidence kept a high level at the beginning of the current year, without rising further.

The upbeat sentiment is supported by the labour market situation. The unemployment rate has fallen to an eight-year low, while still being 1½ percentage points above its pre-crisis level, and even more in Greece, Cyprus, Spain and Italy. The persistently moderate rate of inflation also suggests that important labour reserves still exist.

Monetary policy remains expansionary, despite the likely phasing-out of the bond purchase programme next September. A first increase in the main refinancing rate should not occur before autumn 2019. However, the deposit facility rate may already be raised by the end of 2018, taking lending rates onto a gradual upward path. Fiscal policy is unlikely to exert a restrictive impact over the projection period. In Germany, the implementation of the investment programme agreed by the new government coalition would even have a pronounced expansionary effect. The cyclical upswing in the euro area will thus extend well into 2018, before gradually abating in the wake of a cyclical downturn in the USA. We expect euro area GDP growth at 2.4 percent for 2018 and 1.9 percent in 2019.

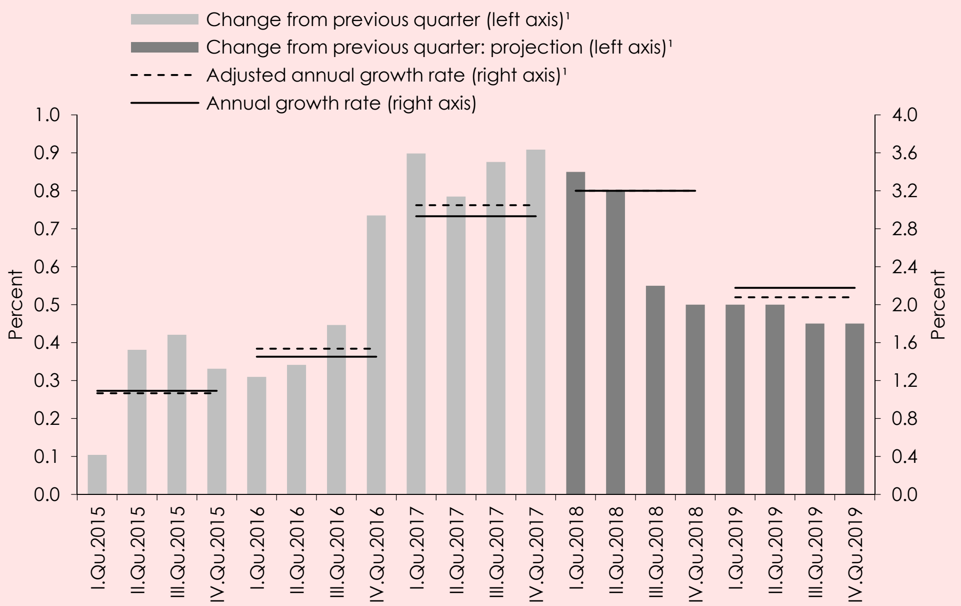
3. Strong expansionary momentum of the Austrian economy

Austria's GDP is projected to grow by 3.2 percent in 2018, driven by buoyant exports and investment. Private consumption also keeps sustaining business activity.

The Austrian economy is currently expanding at a high pace. Robust activity abroad is driving exports, benefitting notably manufacturing production. Domestic investment in machinery and equipment has been lively for the last two years, as firms seek to enlarge their productive capacity. Private consumption also keeps supporting output growth, partly due to the steady improvement on the labour market.

Figure 1: Cyclical profile Austria

GDP volume



Source: WIFO. – [1] Trend-cycle component.

These trends which have shaped the latter part of 2017 will extend into the first half of 2018, with the Austrian economy benefitting from lively foreign demand. Domestic demand is supported by capacity-enhancing business investment and resilient private consumption.

The gradual slowdown of international business activity is expected to dampen domestic output growth somewhat during the second half of 2018. An early indication in that sense is that firms' forward-looking expectations have stopped improving early this year. Once export growth slackens, investment will also abate somewhat, although high capacity utilisation will sustain it for some time. Private household consumption should prove solid up to the forecast horizon, though without providing fresh stimulus. Benefitting from the strong momentum in the first six months, Austria's GDP may grow by 3.2 percent in 2018. With the expected deceleration as from mid-2018, annual GDP growth in 2019 should moderate to 2.2 percent.

Table 3: Technical breakdown of the real GDP growth forecast

		2016	2017	2018	2019
Growth carry-over[1]	percentage points	+ 0.6	+ 0.9	+ 1.3	+ 0.8
Growth rate during the year[2]	percent	+ 1.8	+ 3.5	+ 2.7	+ 1.9
Annual growth rate	*percent*	*+ 1.5*	*+ 2.9*	*+ 3.2*	*+ 2.2*
Adjusted annual growth rate[3]	percent	+ 1.5	+ 3.0	+ 3.2	+ 2.1
Calendar effect[4]	percentage points	+ 0.2	− 0.3	± 0.0	+ 0.1

Source: WIFO. 2018 and 2019: forecast. – [1] Impact of year-earlier growth dynamics on growth in the current year. Equals the annual growth rate in the current year, if the level of GDP in the current year remains constant from the fourth quarter of the previous year; trend-cycle component. – [2] Reflects the growth dynamics during a calendar year. Equals the year-on-year growth rate for the fourth quarter; trend-cycle component. – [3] Trend-cycle component. – [4] Impact of the annual number of working days and the leap day.

3.1 Lively external demand fuels industrial production

Austrian exports expand strongly in 2018 and 2019. The major beneficiary is the manufacturing sector.

Vibrant international business activity is mirrored by Austria's foreign trade record. Commodity exports rose significantly to almost all major trading partners. Demand from the UK, however, is undermined by the uncertainty surrounding the terms of withdrawal from the EU; deliveries to Switzerland were also lower in 2017 than in the year before.

Export strength should continue in the next few months, as Austrian firms declare themselves highly satisfied with the inflow of foreign orders. With the expected cyclical slowdown at the international level, export growth is set to slacken in the further course of the year. For the whole of 2018, we expect total exports of goods and services (National Accounts definition) to gain 5.5 percent in real terms, followed by +4.5 percent in 2019. Austrian imports will expand swiftly in parallel, since about two-thirds of export volumes are based on foreign supplies of intermediate goods. The current account surplus will nevertheless widen over the forecast horizon.

Austria's manufacturing sector in particular benefits from the export boom, as output and employment post strong gains. The favourable situation is confirmed by results of the regular WIFO-Konjunkturtest (business cycle survey), where firms have substantially revised up their assessment in recent months and were highly optimistic at the beginning of the year. Capacity utilisation improved markedly in 2017, rising in the first quarter 2018 to a high comparable with the peaks of 2000, 2007 and 2011. This dynamic development should last unabated until the middle of the year, before gradually decelerating thereafter. In annual terms, manufacturing gross value added is projected to increase by 7.8 percent in 2018, moderating to +3.4 percent in 2019.

Figure 2: Indicators of economic performance

Source: WIFO. 2018 and 2019: forecast. – [1] Excluding persons in valid employment contract receiving child care benefit or being in military service, and unemployed persons in training; break in 2007-08 due to changes in the employment statistics. – [2] Including weapons systems. – [3] 10-year central government bonds (benchmark).

Table 4: Gross value added

At basic prices

	2016	2017	2018	2019	2016	2017	2018	2019
	Billion € (reference year 2010)				Percentage changes from previous year			
Volume (chain-linked series)								
Agriculture, forestry and fishing	4.05	3.96	4.06	4.10	+ 2.7	− 2.2	+ 2.5	+ 1.0
Manufacturing including mining and quarrying	57.14	60.97	65.73	67.96	+ 1.3	+ 6.7	+ 7.8	+ 3.4
Electricity, gas and water supply, waste management	8.35	9.27	9.50	9.69	+ 1.2	+11.0	+ 2.5	+ 2.0
Construction	16.23	16.64	16.97	17.21	+ 0.6	+ 2.5	+ 2.0	+ 1.4
Wholesale and retail trade	36.61	37.50	38.59	39.56	+ 1.4	+ 2.4	+ 2.9	+ 2.5
Transportation	15.21	15.58	15.99	16.31	+ 0.2	+ 2.5	+ 2.6	+ 2.0
Accommodation and food service activities	13.66	13.86	14.21	14.55	+ 2.5	+ 1.5	+ 2.5	+ 2.4
Information and communication	9.61	9.87	10.14	10.34	+ 1.2	+ 2.7	+ 2.8	+ 2.0
Financial and insurance activities	12.23	12.36	12.63	12.94	+ 0.3	+ 1.1	+ 2.2	+ 2.4
Real estate activities	26.13	26.44	26.97	27.51	+ 1.6	+ 1.2	+ 2.0	+ 2.0
Other business activities[1]	26.99	27.92	29.03	29.90	+ 1.9	+ 3.4	+ 4.0	+ 3.0
Public administration[2]	48.90	49.63	50.23	50.73	+ 1.7	+ 1.5	+ 1.2	+ 1.0
Other service activities[3]	7.78	7.84	7.92	8.00	− 0.7	+ 0.7	+ 1.0	+ 1.0
Total gross value added[4]	282.78	291.48	301.23	307.94	+ 1.3	+ 3.1	+ 3.3	+ 2.2
Gross domestic product at market prices	317.15	326.45	336.74	343.99	+ 1.5	+ 2.9	+ 3.2	+ 2.2

Source: WIFO. 2018 and 2019: forecast. – [1] Professional, scientific and technical activities; administrative and support service activities (NACE M and N). – [2] Including defence, compulsory social security, education, human health and social work activities (NACE O to Q). – [3] Arts, entertainment and recreation; other service activities; activities of households (NACE R to U). – [4] Before deduction of subsidies and attribution of taxes on products.

Table 5: Productivity

	2014	2015	2016	2017	2018	2019
	Percentage changes from previous year					
Total economy						
Real GDP	+ 0.8	+ 1.1	+ 1.5	+ 2.9	+ 3.2	+ 2.2
Hours worked[1]	+ 0.3	− 0.8	+ 1.9	+ 2.0	+ 1.7	+ 1.1
Productivity[2]	+ 0.5	+ 1.9	− 0.4	+ 0.9	+ 1.4	+ 1.0
Employment[3]	+ 1.0	+ 0.7	+ 1.5	+ 1.7	+ 1.7	+ 1.1
Manufacturing						
Production[4]	+ 2.5	+ 0.6	+ 1.3	+ 6.7	+ 7.8	+ 3.4
Hours worked[5]	− 0.2	− 0.2	+ 0.7	+ 2.6	+ 1.8	+ 0.4
Productivity[2]	+ 2.7	+ 0.8	+ 0.6	+ 4.0	+ 5.9	+ 3.0
Employees[6]	+ 0.1	+ 0.5	+ 0.8	+ 1.1	+ 1.0	+ 0.6

Source: WIFO. 2018 and 2019: forecast. – [1] Total hours worked by persons employed, National Accounts definition. – [2] Production per hour worked. – [3] Employees and self-employed, National Accounts definition (jobs). – [4] Gross value added, volume. – [5] Total hours worked by employees. – [6] National Accounts definition (jobs).

3.2 High capacity utilisation stimulates private investment

With the high degree of productive capacity utilisation and the encouraging business outlook, firms have since mid-2016 massively invested in new machinery and equipment, not only to replace outdated facilities, but increasingly to create additional capacity. Indeed, in the latest WIFO-Konjunkturtest (business cycle survey), more firms reported to operate close to capacity limits. Firms are thus likely to carry on with capacity-enhancing investment over the forecast horizon. The pace will slow somewhat as from mid-2018 with the cyclical slowdown. For the year as a whole, machinery and equipment investment is projected to increase by 6 percent, and by +3.5 percent in 2019.

Firms have been keen to invest in new machinery and equipment over the last two years, and should continue to do so over the forecast period. Construction investment, on the other hand, is expected to lose momentum.

Construction investment also expanded exceptionally strongly in 2017, particularly in the first half of the year, though slightly less thereafter. Unusually mild weather in January 2018 led to a considerable increase in output and employment, and to much more upbeat business expectations, as reported in the WIFO-Konjunkturtest (business cycle survey) of February. Construction prices have increased in parallel.

Given the high number of building permits granted so far and the interest rate turnaround on the horizon, residential building is unlikely to post further strong gains. Total construction investment is expected to increase by 1½ percent each in 2018 and 2019.

Table 6: Expenditure on GDP

Volume (chain-linked series)

	2016	2017	2018	2019	2016	2017	2018	2019
	Billion € (reference year 2010)				Percentage changes from previous year			
Final consumption expenditure	228.80	231.83	235.56	239.07	+ 1.7	+ 1.3	+ 1.6	+ 1.5
Households[1]	164.90	167.21	170.22	172.94	+ 1.5	+ 1.4	+ 1.8	+ 1.6
General government	63.92	64.65	65.36	66.14	+ 2.1	+ 1.1	+ 1.1	+ 1.2
Gross capital formation	75.99	80.64	85.07	86.92	+ 3.5	+ 6.1	+ 5.5	+ 2.2
Gross fixed capital formation	72.77	76.25	78.95	80.96	+ 3.7	+ 4.8	+ 3.5	+ 2.5
Machinery and equipment[2]	25.27	27.26	28.90	29.91	+ 8.6	+ 7.9	+ 6.0	+ 3.5
Construction	32.60	33.45	33.99	34.50	+ 1.1	+ 2.6	+ 1.6	+ 1.5
Other investment[3]	14.99	15.70	16.31	16.84	+ 2.0	+ 4.8	+ 3.9	+ 3.2
Domestic demand	306.31	314.42	322.62	328.02	+ 2.1	+ 2.6	+ 2.6	+ 1.7
Exports	177.45	187.61	197.89	206.77	+ 1.9	+ 5.7	+ 5.5	+ 4.5
Travel	13.48	13.70	13.94	14.11	+ 2.3	+ 1.6	+ 1.8	+ 1.2
Minus Imports	166.57	175.50	183.55	190.46	+ 3.1	+ 5.4	+ 4.6	+ 3.8
Travel	6.76	7.02	7.13	7.18	+ 3.1	+ 3.9	+ 1.5	+ 0.8
Gross domestic product	317.15	326.45	336.74	343.99	+ 1.5	+ 2.9	+ 3.2	+ 2.2
Value	353.30	369.22	387.29	402.84	+ 2.6	+ 4.5	+ 4.9	+ 4.0

Source: WIFO. 2018 and 2019: forecast. – [1] Including non-profit institutions serving households. – [2] Including weapon systems. – [3] Mainly intellectual property products (research and development, computer programmes, copyrights).

3.3 Solid increase in consumer spending in 2018 and 2019

Although the effect of the 2016 tax reform faded, private consumption grew strongly in 2017. The steady decline in unemployment boosted consumer confidence and households' readiness to spend despite a slight decline in real incomes. Demand for new motor cars maintained a high level. Benign employment conditions should lead to higher wage increases in 2018 and hence to gains in disposable income. Income from property will also rebound from the sharp fall of the last two years. Dividend earnings in particular should head up in 2018 and 2019, while interest income remains depressed by the low rates. All in all, the gains in disposable income will allow private household spending to rise by 1.8 percent in 2018 and 1.6 percent in 2019. The household saving rate, having jumped with the tax reform, abated markedly in 2017 and will edge down further in 2018, before heading up with rising incomes in 2019.

Private household consumption lends firm support to business activity over the projection period. Key factors are the improving labour market conditions and rising disposable income.

3.4 Lively job creation reduces unemployment

The swift growth of overall output is mirrored by a noticeable improvement on the Austrian labour market. In 2017, employment growth accelerated noticeably, extending to all economic sectors. The momentum increased again at the beginning of 2018. With the expected slowdown of activity later this year, job creation will also move to a slower pace. The number of persons in active dependent employment is projected to increase by 1.9 percent on annual average 2018, and by 1.1 percent in 2019.

Employment is rising strongly, allowing unemployment to decline. The further course of labour market policy is subject to uncertainty.

The strong demand for labour goes hand in hand with a steady decline in unemployment. The seasonally-adjusted unemployment rate has dropped by over 1 percentage point since the middle of 2016. A positive factor was the slower increase in the labour force, such that job creation at present translates more directly into lower unemployment than in earlier years. The jobless rate on national definitions is expected to fall to 7.7 percent in 2018 and 7.3 percent in 2019, still 1½ percentage points above the figure of 2008.

Table 7: Private consumption, income and prices

	2014	2015	2016	2017	2018	2019
	Percentage changes from previous year, volume					
Private consumption expenditure[1]	+ 0.3	+ 0.5	+ 1.5	+ 1.4	+ 1.8	+ 1.6
Durable goods	− 1.0	+ 2.8	+ 3.3	+ 1.0	+ 2.0	+ 1.0
Non-durable goods and services	+ 0.4	+ 0.3	+ 1.3	+ 1.4	+ 1.8	+ 1.7
Household disposable income	+ 0.2	+ 0.4	+ 2.7	− 0.2	+ 1.7	+ 2.1
	As a percentage of disposable income					
Household saving ratio						
Including adjustment for the change in pension entitlements	6.8	6.9	7.9	6.5	6.3	6.8
Excluding adjustment for the change in pension entitlements	6.2	6.2	7.3	5.8	5.7	6.2
	Percentage changes from previous year					
Direct lending to domestic non-banks (end of period)	+ 0.3	+ 2.0	+ 1.8	+ 1.3	+ 2.4	+ 2.7
	Percent					
Inflation rate						
National	1.7	0.9	0.9	2.1	1.9	1.9
Harmonised	1.5	0.8	1.0	2.2	2.0	2.0
Core inflation[2]	1.9	1.7	1.5	2.2	2.0	2.1

Source: WIFO. 2018 and 2019: forecast. – [1] Private households including non-profit institutions serving households. – [2] Excluding energy and unprocessed food (meat, fish, fruits, vegetables).

Table 8: Labour market

	2014	2015	2016	2017	2018	2019
	Change from previous year in 1,000					
Demand for labour						
Persons in active employment[1]	+ 31.8	+ 42.5	+ 62.3	+ 76.4	+ 74.0	+ 46.0
Employees[1,2]	+ 23.8	+ 33.2	+ 53.7	+ 70.7	+ 68.0	+ 40.0
National employees	− 8.1	+ 6.3	+ 17.7	+ 23.8	+ 22.0	+ 10.0
Foreign employees	+ 32.0	+ 27.0	+ 36.0	+ 46.8	+ 46.0	+ 30.0
Self-employed[3]	+ 8.0	+ 9.3	+ 8.6	+ 5.7	+ 6.0	+ 6.0
Labour supply						
Population of working age 15 to 64 years	+ 33.1	+ 52.3	+ 65.8	+ 24.3	+ 16.1	+ 13.7
Labour force[4]	+ 64.0	+ 77.5	+ 65.3	+ 59.0	+ 46.0	+ 31.0
Labour surplus						
Unemployed[5]	+ 32.2	+ 35.0	+ 3.0	− 17.3	− 28.0	− 15.0
Unemployed persons in training	+ 1.8	− 10.2	+ 2.1	+ 4.9	+ 4.0	± 0.0
	Percent					
Unemployment rate						
As a percentage of total labour force (Eurostat)[6]	5.6	5.7	6.0	5.5	5.2	5.0
As a percentage of total labour force[5]	7.4	8.1	8.1	7.6	6.9	6.5
As a percentage of dependent labour force[5]	8.4	9.1	9.1	8.5	7.7	7.3
	Percentage changes from previous year					
Labour force[4]	+ 1.5	+ 1.8	+ 1.5	+ 1.4	+ 1.0	+ 0.7
Persons in active dependent employment[1,2]	+ 0.7	+ 1.0	+ 1.6	+ 2.0	+ 1.9	+ 1.1
Unemployed[5]	+ 11.2	+ 11.0	+ 0.8	− 4.9	− 8.2	− 4.8
Persons (in 1,000)	319.4	354.3	357.3	340.0	312.0	297.0

Source: WIFO. 2018 and 2019: forecast. – [1] Excluding persons in valid employment contract receiving child care benefit or being in military service. – [2] According to the Organisation of Austrian Social Security. – [3] According to WIFO, including liberal professions and unpaid family workers. – [4] Persons in active employment plus unemployed. – [5] According to Public Employment Service Austria. – [6] Labour Force Survey.

Labour market policy has proceeded to a number of changes at the beginning of the year. The "Initiative 20,000" launched in July 2017 in several test regions and supposed to be extended to the whole of Austria as from January 2018, was suspended by the end of 2017. According to the Ministry of Social Affairs, the initiative has helped some 2,700 long-term unemployed persons over 50 years of age to find a job up to end of January, the total number of successful placements being estimated at

4,400. The present forecast builds upon this assumption. The "Employment Bonus", abolished by the end of January 2018, though having been frequently claimed, has hardly added to overall employment, due to high deadweight losses. However, the early termination in January has led to claims being carried forward. Uncertainty also relates to the envisaged budgetary cuts concerning active labour market policy, the future trend of foreign labour supply and the eligibility of people granted asylum or subsidiary protection status for benefits from the Public Employment Service Austria (AMS).

3.5 Inflation remains moderate

Although wages are set to increase somewhat faster in 2018 and 2019, inflation is not expected to accelerate in Austria. The positive gap vis-à-vis the euro area average should further diminish.

The headline rate of inflation eased markedly at the beginning of the year, but it still exceeds the euro area average by ½ percentage point. Main drivers are higher prices of oil, non-energy industrial commodities, housing rents and catering services.

Our projections assume oil prices on a dollar basis to be significantly higher in 2018 and 2019 than in 2017. Thanks to the appreciation of the euro against the dollar, the impact on domestic prices will be muted. With the decline in unemployment, wage dynamics is likely to pick up. The rise in unit labour cost will nevertheless be dampened by strong advances in productivity. Hence, overall inflation is unlikely to accelerate, remaining stable at an annual 1.9 percent over the forecast period (on HICP +2.0 percent, respectively). The positive inflation gap vis-à-vis the euro area average should gradually narrow.

Table 9: Earnings, international competitiveness

	2014	2015	2016	2017	2018	2019
	Percentage changes from previous year					
Wages and salaries per employee[1]						
Nominal, gross	+ 1.7	+ 2.1	+ 2.3	+ 2.0	+ 2.6	+ 2.7
Real[2]						
Gross	− 0.0	+ 1.2	+ 1.3	− 0.1	+ 0.7	+ 0.8
Net	− 0.6	+ 0.7	+ 4.3	− 0.2	+ 0.4	+ 0.4
Wages and salaries per hour worked[1]						
Real, net[2]	− 0.2	+ 2.4	+ 3.8	− 0.6	+ 0.4	+ 0.4
	Percent					
Wage share, adjusted[3]	68.6	69.0	69.0	67.8	67.0	66.8
	Percentage changes from previous year					
Unit labour costs, nominal[4]						
Total economy	+ 1.7	+ 1.8	+ 2.1	+ 0.3	+ 1.1	+ 1.6
Manufacturing	− 0.1	+ 1.5	+ 2.1	− 2.3	− 2.9	+ 0.5
Effective exchange rate – manufactured goods[5]						
Nominal	+ 1.2	− 2.9	+ 1.2	+ 0.7	+ 1.2	+ 0.4
Real	+ 1.5	− 2.9	+ 1.3	+ 1.0	+ 1.1	+ 0.2

Source: WIFO. 2018 and 2019: forecast. – [1] National Accounts definition. – [2] Deflated by CPI. – [3] Compensation of employees as a percentage of national income, adjusted for the change in the share of employees in total employment from base year 1995. – [4] Labour costs in relation to productivity (hourly compensation per employees divided by GDP per employed persons' hours worked). – [5] Weighted by exports and imports, real value adjusted by relative HCPI.

3.6 Strong business activity effaces budget deficit

High tax revenues on the back of buoyant activity improve the general government balance.

Lively growth of aggregate demand and output makes for higher public revenues. Tax receipts in 2017 rose by 4.5 percent year-on-year, in excess of ex-ante budgetary plans. In particular corporate tax revenues surprised on the upside, while the increase in capital yields tax and VAT fell short of plans. The intake of wage and assessed income tax also remained somewhat below expectations. On the expenditure side, retirement benefit outlays were distinctly lower in 2017 than budgeted. The general government deficit for 2017 is estimated at 0.8 percent of GDP.

Table 10: Fiscal and monetary policy – key figures

	2014	2015	2016	2017	2018	2019
			As a percentage of GDP			
Fiscal policy						
General government financial balance[1]	– 2.7	– 1.0	– 1.6	– 0.8	– 0.3	0.1
General government primary balance	– 0.2	1.3	0.5	1.0	1.3	1.5
General government total revenue	49.6	49.9	49.1	48.4	47.9	47.7
General government total expenditure	52.3	51.0	50.7	49.2	48.2	47.7
			Percent			
Monetary policy						
Three-month interest rate	0.2	– 0.0	– 0.3	– 0.3	– 0.3	– 0.1
Long-term interest rate[2]	1.5	0.7	0.4	0.6	0.8	1.1

Source: WIFO. 2018 and 2019: forecast. – [1] According to Maastricht definition. – [2] 10-year central government bonds (benchmark).

Also in 2018, government revenues will benefit from the continued lively business activity, although a number of measures decided in October 2017 will weigh on the budget balance. Due to the early phasing-out of the "Initiative 20,000" and the "Employment Bonus", the fiscal burden should nevertheless turn out lower than expected. Debt service cost will diminish, since the effective interest rate on government debt is easing further and the stock of general government debt is falling as a ratio of GDP. We project the general government balance for 2018 at –0.3 percent of GDP, swinging to a slight surplus of +0.1 percent of GDP in 2019. The forecast hinges on the assumption that public consumption will rise only moderately in view of the restrictive budgetary execution announced by the new government. Not included in the forecast are envisaged, but not yet decided measures such as the "Family Bonus" or the cut of the (reduced) VAT rate on hotel overnight stays from 13 percent to 10 percent – measures that, if actually implemented, would put substantial strain on government finances in 2019 and beyond.