

Economic Outlook for 2017 and 2018: Business Cycle Upswing in Austria

From a rate of growth of 1.5 percent in 2016, demand and output in Austria are expected to accelerate significantly in 2017 and 2018. Leading indicators clearly suggest a further strengthening of business activity. Apart from lively internal demand benefitting from benign labour market conditions, foreign trade will rebound and contribute more strongly to GDP growth than in recent months. In this environment, the Austrian economy is expected to expand by 2.0 percent in the current year and 1.8 percent in 2018.

Austria's economy is enjoying a period of cyclical upswing. Support comes from domestic demand, driven by favourable labour market developments. Exports pick up in step with strengthening aggregate demand on foreign markets. Growth of the US economy is set to edge up notably in 2017, while activity in the euro area should stay on a firm upward path. With prices for raw materials rising on world markets, growth in commodity-exporting countries should regain momentum. Hence, exports should provide a distinctly stronger contribution to Austria's GDP growth than in recent periods, thereby supporting the healthy pace of domestic demand forces.

In this environment of a broad-based upward trend across demand components on the one hand and production across sectors on the other, business activity in Austria is bound to gather momentum. The favourable signs from forward-looking indicators also confirm the prospect of a sustained cyclical upturn over the entire forecast horizon. In the event, real GDP will gain 2.0 percent in the current year and 1.8 percent in 2018, exceeding in both years the rate of potential output growth. While overall productive capacity will likely be extended with the increase in demand and output, the output gap will still be negative by the end of 2018. The implicit dampening impact on inflation should nevertheless ebb and upward pressure on prices may gradually mount. After an annual increase of 0.9 percent in 2016, the consumer price index (CPI) is projected to climb by 1.7 percent each in 2017 and 2018. Oil price volatility remains a risk, notably for the inflation outlook, which is nevertheless deemed balanced, much as the risks to the overall growth forecast.

Public finances stand to benefit from lively economic activity and lower debt service cost, but the improvement in the fiscal balance is held back by a moderately expansionary policy stance. As the latter will gradually abate, 2017 and 2018 should see steady progress in deficit reduction. While the cyclical upswing will stimulate employment growth, the sustained expansion of labour supply will allow the jobless rate to fall only slightly this year and no further in 2018.

Table 1: Main results

	2013	2014	2015	2016	2017	2018	
	Percentage changes from previous year						
Gross domestic product, volume	+ 0.1	+ 0.6	+ 1.0	+ 1.5	+ 2.0	+ 1.8	
Manufacturing	+ 0.3	+ 1.6	+ 1.8	+ 1.7	+ 3.6	+ 2.9	
Wholesale and retail trade	- 2.1	+ 2.0	+ 0.6	+ 2.1	+ 2.5	+ 2.0	
Private consumption expenditure ¹ , volume	- 0.1	- 0.3	- 0.0	+ 1.5	+ 1.3	+ 1.2	
Consumer durables	- 3.0	+ 0.1	- 0.6	+ 3.1	+ 2.5	+ 1.0	
Gross fixed capital formation, volume	+ 2.2	- 0.9	+ 0.7	+ 2.9	+ 2.6	+ 2.4	
Machinery and equipment ²	+ 2.4	- 1.0	+ 3.6	+ 6.4	+ 4.0	+ 2.5	
Construction	- 0.9	- 0.1	- 1.2	+ 1.3	+ 1.6	+ 1.4	
Exports, volume	+ 0.5	+ 2.3	+ 3.6	+ 1.7	+ 3.6	+ 3.4	
Exports of goods	- 0.7	+ 2.2	+ 3.5	+ 1.5	+ 3.7	+ 3.6	
Imports, volume	+ 0.7	+ 1.3	+ 3.4	+ 2.8	+ 3.3	+ 3.0	
Imports of goods	- 2.0	+ 0.8	+ 4.2	+ 3.2	+ 3.3	+ 3.1	
Gross domestic product, value	+ 1.7	+ 2.4	+ 2.9	+ 2.8	+ 3.3	+ 3.3	
	billion €	322.54	330.42	339.90	349.49	361.18	372.95
Current account balance	as a percentage of GDP	2.0	2.4	1.8	1.6	1.6	1.6
Consumer prices		+ 2.0	+ 1.7	+ 0.9	+ 0.9	+ 1.7	+ 1.7
Three-month interest rate	percent	0.2	0.2	- 0.0	- 0.3	- 0.3	- 0.1
Long-term interest rate ³	percent	2.0	1.5	0.7	0.4	0.6	0.9
General government financial balance, Maastricht definition							
As a percentage of GDP		- 1.4	- 2.7	- 1.0	- 1.4	- 1.2	- 0.7
Persons in active dependent employment ⁴		+ 0.6	+ 0.7	+ 1.0	+ 1.6	+ 1.6	+ 1.3
Unemployment rate							
Eurostat definition ⁵		5.4	5.6	5.7	6.0	5.9	5.9
National definition ⁶		7.6	8.4	9.1	9.1	8.9	8.9

Source: WIFO: 2017 and 2018: forecast. – ¹ Including non-profit institutions serving households. – ² Including weapons systems. – ³ 10-year central government bonds (benchmark). – ⁴ Excluding persons with 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.

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For further information, please contact on Friday, 24 March 2017, between 10 a.m. and 2 p.m.
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For definitions used see "Methodological Notes and Short Glossary",

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