

WIFO

1030 WIEN, ARSENAL, OBJEKT 20
TEL. 798 26 01 • FAX 798 93 86

 **ÖSTERREICHISCHES INSTITUT FÜR
WIRTSCHAFTSFORSCHUNG**

**First Increase in Private Consumption
in Three Years**

Economic Outlook for 2016 and 2017

Marcus Scheiblecker

September 2016



First Increase in Private Consumption in Three Years Economic Outlook for 2016 and 2017

September 2016

Austrian Institute of Economic Research

Abstract

Demand and output in Austria should grow by 1.7 percent in 2016, significantly above the pace recorded for the last four years and closing the growth gap vis-à-vis Germany and the euro area average. While the contribution of net trade is dragging down growth this year, domestic demand is rising substantially. Investment is lively and private households, for the first time in three years, are spending more on consumption in real terms. In 2017, stronger exports should offset some slackening in internal demand, keeping real GDP growth at 1.5 percent.

Please refer to: Marcus.Scheiblecker@wifo.ac.at

2016/298/SPE/WIFO project no: 28491

© 2016 Austrian Institute of Economic Research

Medieninhaber (Verleger), Herausgeber und Hersteller: Österreichisches Institut für Wirtschaftsforschung,
1030 Wien, Arsenal, Objekt 20 • Tel. (+43 1) 798 26 01-0 • Fax (+43 1) 798 93 86 • <http://www.wifo.ac.at/> • Verlags- und Herstellungsort: Wien

Verkaufspreis: 16,00 € • Download 16,00 €: <http://www.wifo.ac.at/wwa/pubid/59057>

First Increase in Private Consumption in Three Years

Economic Outlook for 2016 and 2017

Demand and output in Austria should grow by 1.7 percent in 2016, significantly above the pace recorded for the last four years and closing the growth gap vis-à-vis Germany and the euro area average. While the contribution of net trade is dragging down growth this year, domestic demand is rising substantially. Investment is lively and private households, for the first time in three years, are spending more on consumption in real terms. In 2017, stronger exports should offset some slackening in internal demand, keeping real GDP growth at 1.5 percent.

For the first time in three years, private consumption is set to increase in 2016, providing with an expected rate of +1.5 percent in real terms a major impulse to GDP growth. Major drivers of demand are the tax reform and the wave of immigration; with both factors abating in 2017, consumption growth is likely to slow down to +1.2 percent.

Private investment had strengthened already in 2015, notably purchases of machinery and equipment. Despite subdued business expectations, the momentum was unabated in the first half of 2016, suggesting that firms' main motives are the replacement of obsolete production equipment rather than capacity-expanding capital formation.

Construction activity also seems to have passed its trough in late 2015 and remained upward bound in the first half of 2016, benefitting also from favourable weather conditions in the first quarter. The positive trend was confined to the building sector, in particular the non-residential construction. Also residential construction has expanded, even if the latest government initiatives have not yet been implemented. Activity in civil engineering has remained sluggish so far. Construction investment overall is projected to gain 1.6 percent in volume in 2016 and 1.4 percent in 2017.

The weakness of global business conditions is weighing on domestic activity in 2016. GDP growth in the USA has been trailing that of the EU since autumn 2015. The economic situation remains fragile also in the emerging markets, even though some early signs point to an imminent recovery. Austrian exports are likely to expand by only 2.8 percent in real terms in the current year, after +3.6 percent in 2015. The momentum will remain at a moderate +2.8 percent also in 2017, given that export market growth will be no higher than in 2015 (2016 +2.7 percent, 2017 +3.0 percent). The outcome of the Brexit referendum in the UK has undermined market confidence only for a short while; the present forecast expects little overall impact on business activity in Austria, which would show up in 2017 rather than in 2016.

Inflation remains at a very low 1 percent in 2016, although significantly exceeding the euro area average. Oil prices are assumed to rebound in 2017 from their retreat during the last few years, driving headline inflation up to an annual average 1.7 percent.

The anticipated pick-up in GDP growth will keep overall employment in Austria on an upward trend. The number of persons in active dependent employment is rising by 1.4 percent in the current year (after +1 percent in 2015) and by over 1 percent again in 2017. Still, the momentum of job creation will not keep pace with labour supply growth, even if unemployment should rise less than in recent years. The rate of unemployment, on national definitions, will ratchet up from 9.1 percent last year to 9.2 percent in 2016 and 9.4 percent in 2017.

Cut-off date: 28 September 2016

For more details please contact

Marcus Scheiblecker, Tel. (1) 798 26 01/245, Marcus.Scheiblecker@wifo.ac.at

Methodological Notes and Short Glossary

Ongoing reports on business cycle developments are among the key products provided by WIFO. In order to facilitate their understanding, in-depth explanations on definitions and technical terms are, whenever possible, combined in this glossary rather than supplied in the analytical part.

Contact: Astrid.Czaloun@wifo.ac.at, Christine.Kaufmann@wifo.ac.at, Maria.Riegler@wifo.ac.at, Martha.Steiner@wifo.ac.at

Period comparisons

Time-series comparisons with the previous period, e.g., the previous quarter, are adjusted for seasonal effects. They also include effects that result from a different number of working days in the period (e.g., Easter). Unlike the "seasonally and calendar-adjusted" changes of quarterly GDP as communicated to Eurostat and released by Statistics Austria, WIFO in addition adjusts the series for irregular variations. The WIFO series labelled "trend-cycle component" exhibits a smoother path and offers a better interpretation of the cyclical profile.

The phrase "changed compared with a year before . . .", on the other hand, describes a change compared with the same period a year before and refers to unadjusted time series.

The analysis of the seasonally and working day adjusted development provides more precise information about the actual course of economic activity and shows turning points sooner. However, the data are subject to additional revisions as seasonal adjustment is based on statistical methods.

Carry-over (in economic growth)

The carry-over identifies the impact of the dynamics of a series (in seasonally adjusted figures) during one year (t_n) on the annual percentage change in the following year (t_1). It is defined as the annual percentage change in year t_1 , if GDP in t_1 remains constant at the level of the fourth quarter of year t_0 (in seasonally adjusted terms).

Average rates of change

The time given refers to the initial and the final value of the period of computation: hence the average rate 2005-2010 comprises as the first rate of change that from 2005 to 2006, and as the last that from 2009 to 2010.

Real and nominal values

In principle, the values shown must be understood as real values, i.e., adjusted for price effects. Whenever values are shown as nominal values (e.g., foreign trade statistics), this is specifically mentioned.

Production Sector

This term comprises the NACE-2008 sections B, C and D (Mining and Quarrying, Manufacturing, Energy Supply) and is here used in an international comparison.

Inflation, CPI und HICP

The inflation rate measures changes in consumer prices compared with a year before. The Consumer Price Index (CPI) is a measure of national inflation. The Harmonised Index of Consumer Prices (HICP) is the basis for comparable measurement of inflation in the EU and for the evaluation of price stability in the euro area (see <http://www.statistik.at/>).

Core inflation as a monetary policy indicator is not clearly defined. WIFO follows the common practice of using the inflation rate excluding the product categories unprocessed food and energy for core inflation. Thus over 87 percent of the goods and services contained in the consumer price index (CPI 2015) are included in the calculation of core inflation.

WIFO Business Cycle Survey and WIFO Investment Survey

The WIFO Business Cycle Survey is a monthly survey in which around 1,500 Austrian firms are asked to assess their current and future economic situation. The WIFO Investment Survey is conducted twice a year, asking companies about their investment activity (<http://www.konjunkturtest.at/>). The indicators are balances between the positive and negative responses expressed as a percentage of the total number of firms sampled.

Unemployment rate

Austrian national definition: The number of persons registered as job seekers with the Public Employment Service expressed as a percentage of the dependent labour force. Labour force is the sum of the unemployed and the persons in dependent employment (measured in standard employment relationships). Database: registrations with the Public Employment Service (AMS) and Association of Austrian social insurance agencies.

Definition according to ILO and Eurostat: Any person who is not gainfully employed and is actively seeking work is considered unemployed. Gainfully employed persons comprise all persons who during the reference week worked for at least one hour in a self-employed capacity or in paid employment. Persons receiving child-care benefit and apprentices are classified as gainfully employed, whereas persons in military service or persons carrying out alternative service are not. The unemployment rate is the number of unemployed persons expressed as a percentage of the total labour force (unemployed persons plus gainfully employed persons). Database: data from household surveys ("Mikrozensus").

Terms used in connection with the national definition of the unemployment rate

Persons in training: Persons who at a set date are enrolled in AMS (Public Employment Service) training programmes. When calculating the unemployment rate, their number is not taken into account either in the denominator or in the numerator.

Persons in dependent active employment: "Persons in dependent employment" include persons receiving child-care benefit, as well as persons in military service with a valid employment contract. By deducting their number one arrives at the number of "persons in dependent active employment".

Main results

		Forecasts						
		2012	2013	2014	2015	2016	2017	
Percentage changes from previous year								
GDP								
Volume		+ 0.7	+ 0.1	+ 0.6	+ 1.0	+ 1.7	+ 1.5	
Value		+ 2.7	+ 1.7	+ 2.4	+ 2.9	+ 3.6	+ 3.1	
Manufacturing¹, volume								
Wholesale and retail trade, volume								
Private consumption expenditure, volume								
Gross fixed investment, volume								
Machinery and equipment ²		+ 0.6	+ 2.4	- 1.0	+ 3.6	+ 5.0	+ 3.0	
Construction		+ 2.2	- 0.9	- 0.1	- 1.2	+ 1.6	+ 1.4	
Other Investment ³		+ 0.6	+ 9.2	- 2.4	+ 0.6	+ 4.7	+ 3.0	
Exports of goods⁴								
Volume		+ 0.5	+ 2.8	+ 2.7	+ 3.7	+ 2.8	+ 3.0	
Value		+ 1.5	+ 1.8	+ 1.8	+ 2.7	+ 1.7	+ 3.8	
Imports of goods⁴								
Volume		- 0.9	- 0.2	+ 0.7	+ 5.7	+ 4.5	+ 3.0	
Value		+ 0.7	- 1.0	- 0.7	+ 2.8	+ 1.9	+ 4.5	
Current balance		€ bn	+ 4.73	+ 6.29	+ 6.38	+ 8.64	+ 9.82	+ 9.47
		as a percentage of GDP	+ 1.5	+ 2.0	+ 1.9	+ 2.5	+ 2.8	+ 2.6
Long-term interest rate⁵		percent	2.4	2.0	1.5	0.7	0.3	0.3
Consumer prices			+ 2.4	+ 2.0	+ 1.7	+ 0.9	+ 1.0	+ 1.7
Unemployment rate								
Eurostat definition ⁶	percent	4.9	5.4	5.6	5.7	6.0	6.1	
National definition ⁷	percent	7.0	7.6	8.4	9.1	9.2	9.4	
Persons in active dependent employment⁸			+ 1.4	+ 0.6	+ 0.7	+ 1.0	+ 1.4	+ 1.1
General government financial balance								
according to Maastricht definition								
as a percentage of GDP			- 2.2	- 1.4	- 2.7	- 1.0	- 1.6	- 1.5

¹ Value added, including mining and quarrying. ² Including weapons systems. ³ Mainly intellectual property products (research and develop computer programs, copyrights). ⁴ According to Statistics Austria. ⁵ 10-year central government bonds (benchmark). ⁶ According to Eurostat I ⁷ Public Employment Service Austria, percent of total labour force excluding self employed. ⁸ Excluding parental leave and military service.

WIFO

Projections - September 2016

World economy

	Forecasts					
	2012	2013	2014	2015	2016	2017
	Percentage changes from previous year					
Real GDP						
World	+ 3.5	+ 3.3	+ 3.4	+ 3.1	+ 3.0	+ 3.3
USA	+ 2.2	+ 1.7	+ 2.4	+ 2.6	+ 1.5	+ 2.2
Japan	+ 1.7	+ 1.4	- 0.0	+ 0.5	+ 0.5	+ 0.5
EU	- 0.5	+ 0.2	+ 1.5	+ 2.2	+ 1.8	+ 1.6
Euro area	- 0.9	- 0.3	+ 1.1	+ 2.0	+ 1.6	+ 1.5
CEE5 ¹	+ 0.4	+ 0.9	+ 3.0	+ 3.6	+ 2.4	+ 2.8
China	+ 7.7	+ 7.7	+ 7.3	+ 6.9	+ 6.4	+ 6.2
World trade, volume	+ 1.6	+ 2.6	+ 2.8	+ 1.5	+ 0.5	+ 2.0
Market growth²	+ 0.6	+ 1.8	+ 3.5	+ 3.0	+ 2.7	+ 3.0
Crude oil prices						
Brent, USD per barrel	111.6	108.7	99.0	52.5	45	57
Exchange rate						
USD per euro ³	1.286	1.328	1.329	1.110	1.10	1.10

¹ Poland, Slovakia, Slovenia, Czech Republic, Hungary.

² Real import growth of trading partners (according to Oxford Economics) weighted by Austrian export shares.

³ Annual averages on the basis of monthly averages.

Table 1: **Key policy indicators**

	2012	2013	2014	2015	F o r e c a s t s	
					2016	2017
Fiscal policy						
					As a percentage of GDP	
General government financial balance						
according to Maastricht definition	-2.2	-1.4	-2.7	-1.0	-1.6	-1.5
General government primary balance	0.5	1.2	-0.3	1.3	0.5	0.4
Monetary policy						
					Percent	
3-month interest rate	0.6	0.2	0.2	-0.0	-0.3	-0.3
Long-term interest rate ¹	2.4	2.0	1.5	0.7	0.3	0.3
					Percentage changes from previous year	
Effective exchange rate						
Nominal	-1.5	+1.7	+1.2	-2.8	+1.1	+0.1
Real	-1.5	+2.1	+1.5	-2.7	+1.2	-0.3

¹ 10-year central government bonds (benchmark).

Table 2: **Productivity**

	2012	2013	2014	2015	Forecasts	
					2016	2017
	Percentage changes from previous year					
Total economy						
Real GDP	+ 0.7	+ 0.1	+ 0.6	+ 1.0	+ 1.7	+ 1.5
Hours worked ¹	- 0.3	- 0.6	+ 0.3	- 0.6	+ 0.7	+ 0.7
Productivity per hour	+ 1.1	+ 0.7	+ 0.3	+ 1.6	+ 1.0	+ 0.9
Employment ²	+ 1.1	+ 0.5	+ 1.0	+ 0.7	+ 1.3	+ 1.1
Manufacturing						
Production ³	+ 2.4	+ 0.3	+ 1.6	+ 1.8	+ 2.5	+ 2.3
Hours worked ¹	+ 1.1	- 1.1	- 0.0	+ 0.3	+ 0.9	+ 0.3
Productivity per hour	+ 1.3	+ 1.4	+ 1.6	+ 1.5	+ 1.6	+ 2.0
Employees ¹	+ 1.5	- 0.6	+ 0.3	+ 0.7	+ 0.7	+ 0.3

¹ According to National Accounts definition.² Dependent and self-employed according to National Accounts definition (jobs).³ Value added, volume.

Table 3: **Private consumption, income and prices**

	2012	2013	2014	2015	Forecasts	
					2016	2017
Percentage changes from previous year, volume						
Private consumption expenditure	+ 0.5	- 0.1	- 0.3	- 0.0	+ 1.5	+ 1.2
Durables	+ 0.8	- 3.0	+ 0.1	- 0.6	+ 2.5	+ 2.0
Non-durables and services	+ 0.5	+ 0.2	- 0.3	+ 0.1	+ 1.4	+ 1.1
Household disposable income	+ 1.9	- 2.1	+ 0.5	- 1.0	+ 2.1	+ 1.3
As a percentage of disposable income						
Household saving ratio						
Including adjustment for the change in net equity of households in pension fund reserves	9.2	7.3	7.8	6.9	7.5	7.6
Excluding adjustment for the change in net equity of households in pension fund reserves	8.5	6.6	7.0	6.1	6.6	6.7
Percentage changes from previous year						
Direct lending to domestic non-banks¹	+ 0.0	- 1.2	+ 0.3	+ 2.0	+ 1.5	+ 2.5
Consumer prices						
National	+ 2.4	+ 2.0	+ 1.7	+ 0.9	+ 1.0	+ 1.7
Harmonised	+ 2.6	+ 2.1	+ 1.5	+ 0.8	+ 1.0	+ 1.7
Core inflation ²	+ 2.3	+ 2.3	+ 1.9	+ 1.7	+ 1.4	+ 1.6

¹ End of period.² Excluding unprocessed food (meat, fish, fruits, vegetables) and energy items.

Table 4: **Earnings and international competitiveness**

	2012	2013	2014	2015	F o r e c a s t s	
					2016	2017
	Percentage changes from previous year					
Wages and salaries per employee¹						
Gross earnings	+ 2.7	+ 1.9	+ 1.7	+ 1.7	+ 1.4	+ 1.6
Gross real earnings²	+ 0.3	- 0.1	- 0.0	+ 0.8	+ 0.4	- 0.1
Net real earnings²	- 0.0	- 0.6	- 0.6	+ 0.2	+ 2.9	- 0.2
Unit labour costs						
Total economy	+ 3.0	+ 2.3	+ 2.1	+ 1.5	+ 1.0	+ 1.2
Manufacturing	+ 2.7	+ 2.3	+ 0.9	+ 1.2	+ 0.1	+ 0.1
Effective exchange rate - manufactures						
Nominal	- 1.7	+ 1.8	+ 1.2	- 2.7	+ 1.1	+ 0.1
Real	- 1.6	+ 2.2	+ 1.5	- 2.7	+ 1.2	- 0.3

¹ Employees according to National Accounts definition.² Deflated by CPI.

Table 5: Labour market

		Forecasts					
		2012	2013	2014	2015	2016	2017
		Changes from previous year (1,000s)					
Demand for labour							
Persons in active employment ¹		+ 50.1	+ 29.2	+ 31.8	+ 41.0	+ 53.0	+ 42.0
Employees ²		+ 47.2	+ 21.2	+ 23.8	+ 33.2	+ 48.0	+ 37.0
Percentage changes from previous year		+ 1.4	+ 0.6	+ 0.7	+ 1.0	+ 1.4	+ 1.1
Nationals		+ 9.0	- 8.5	- 8.1	+ 6.3	+ 13.0	+ 6.0
Foreign workers		+ 38.1	+ 29.7	+ 32.0	+ 27.0	+ 35.0	+ 31.0
Self-employed ³		+ 2.9	+ 8.0	+ 8.0	+ 7.8	+ 5.0	+ 5.0
Labour supply							
Population of working age	(15 to 64 years)	+ 18.0	+ 23.5	+ 33.1	+ 52.3	+ 37.8	+ 34.3
	(15 to 59 years)	+ 22.3	+ 27.2	+ 33.7	+ 44.6	+ 22.6	+ 15.3
Labour force ⁴		+ 64.0	+ 55.8	+ 64.0	+ 76.0	+ 60.0	+ 58.0
Surplus of labour							
Registered unemployed ⁵		+ 13.9	+ 26.6	+ 32.2	+ 35.0	+ 7.0	+ 16.0
	1,000 ⁵	260.6	287.2	319.4	354.3	361.3	377.3
Unemployed persons in training	1,000 ⁵	66.6	73.5	75.3	65.1	68.1	74.1
Unemployment rate							
Eurostat definition ⁶	percent	4.9	5.4	5.6	5.7	6.0	6.1
Percent of total labour force ⁵	percent	6.2	6.8	7.4	8.1	8.2	8.4
National definition ^{5,7}	percent	7.0	7.6	8.4	9.1	9.2	9.4
Employment rate							
Persons in active employment ^{1,8}	percent	67.2	67.4	67.6	67.7	68.2	68.5
Total employment (Eurostat) ^{6,8}	percent	71.4	71.4	71.1	71.1	71.4	71.6

¹ Excluding parental leave and military service. ² According to Federation of Austrian Social Security Institutions.

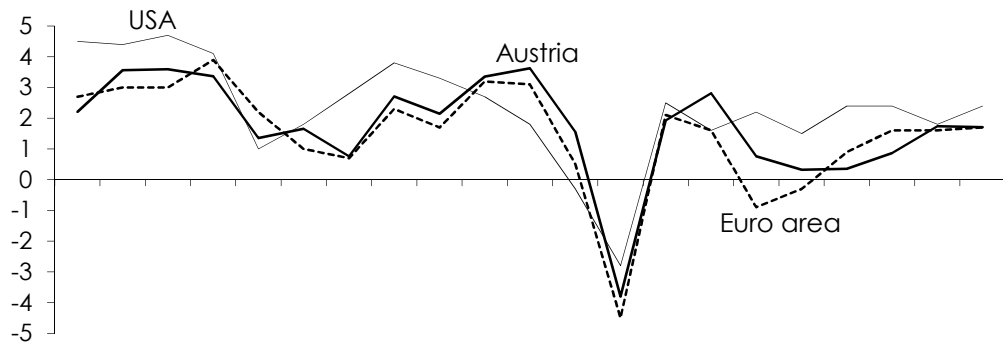
³ According to WIFO. ⁴ Persons in active employment plus unemployment.

⁵ According to Public Employment Service Austria. ⁶ According to Eurostat Labour Force Survey.

⁷ Percent of total labour force excl. self-employed. ⁸ Percent of population of working age (15 to 64 years).

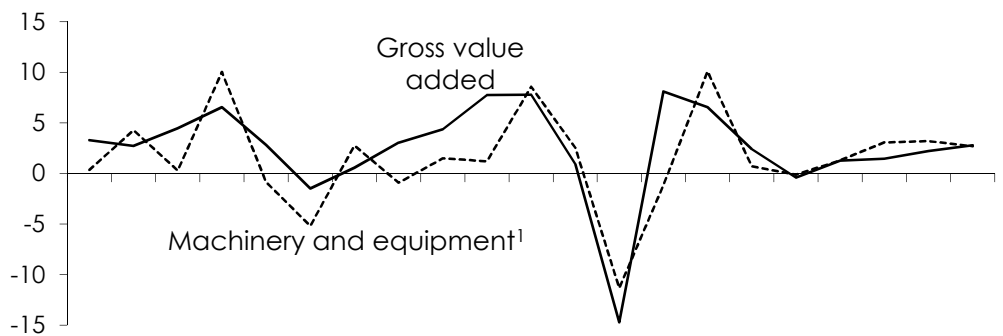
Growth of real GDP

Percent



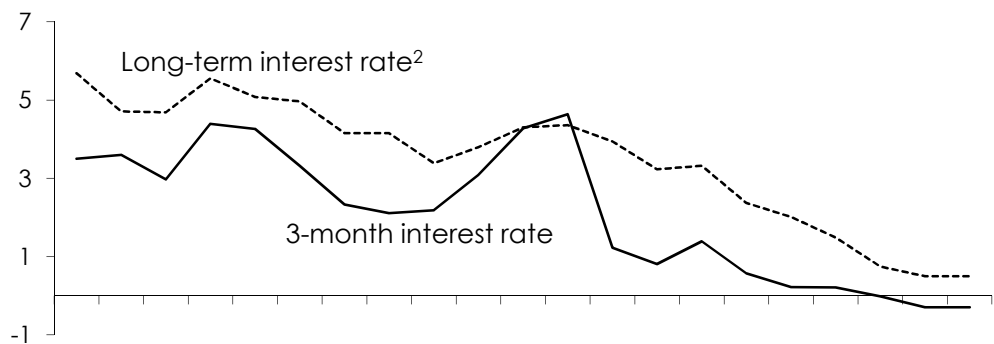
Manufacturing and investment

Percentage changes from previous year, volume



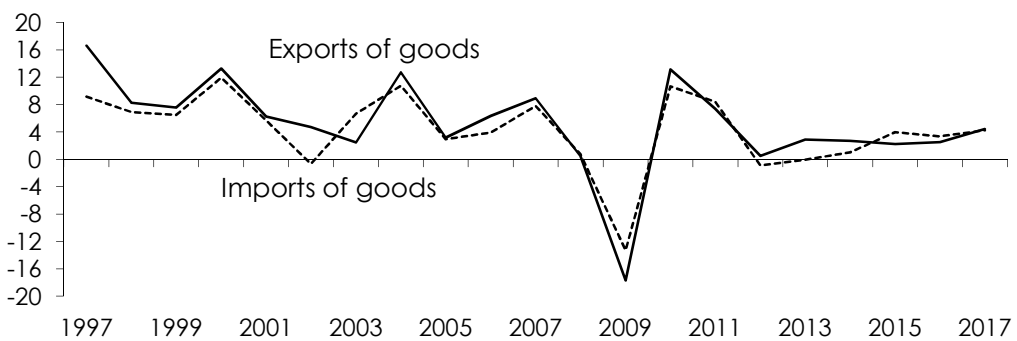
Short-term and long-term interest rates

Percent



Trade

Percentage changes from previous year, volume

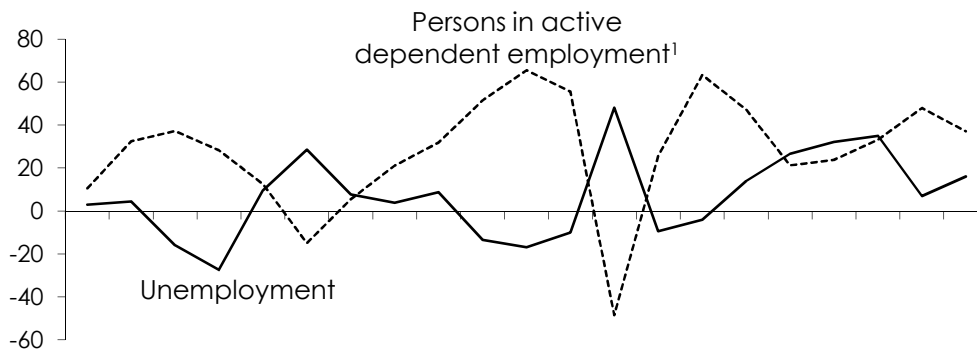


¹ Including weapons systems.

² 10-year central government bonds (benchmark).

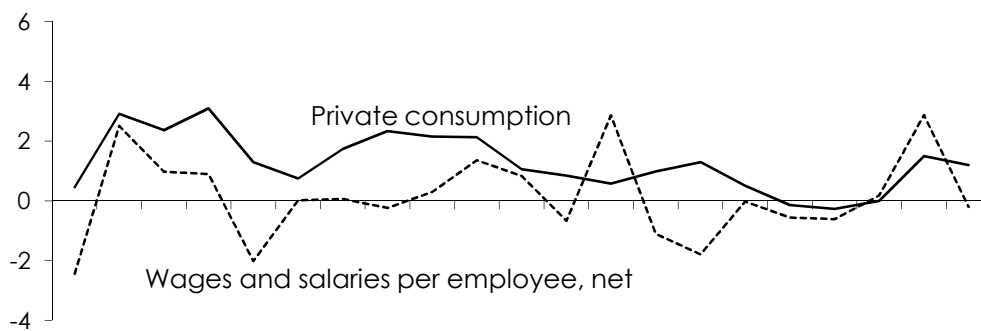
Employment and unemployment

1,000^s from previous year



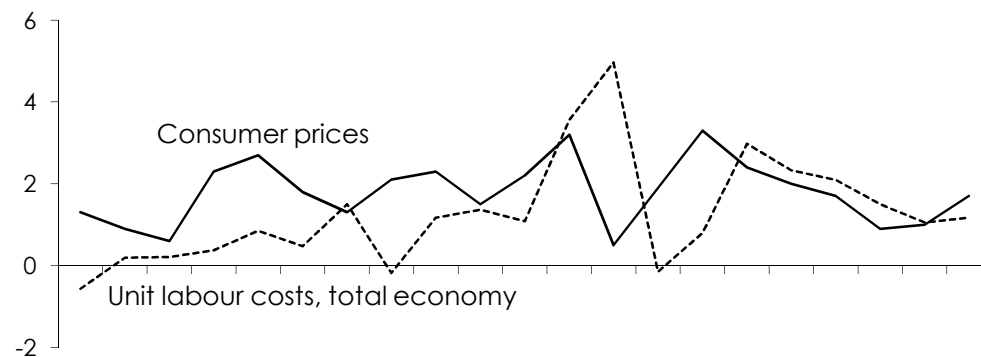
Consumption and income

Percentage changes from previous year, volume



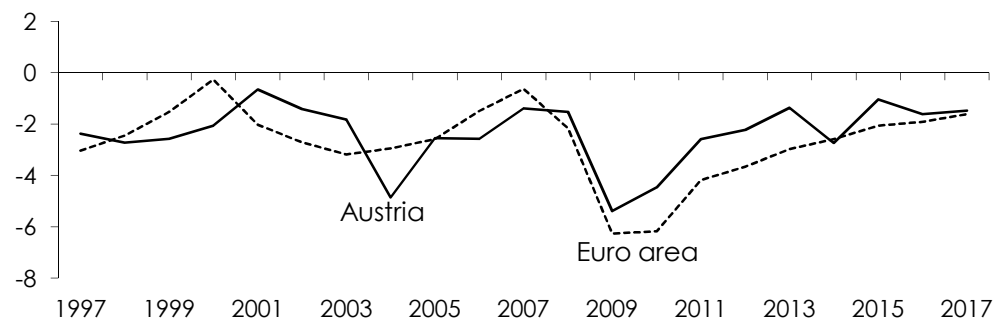
Inflation and unit labour costs

Percentage changes from previous year



General government financial balance

As a percentage of GDP



¹ Excluding parental leave, military service, and unemployed persons in training.