# Economic Outlook for 2017 and 2018: Strong Stimulus from World Trade Fuelling Economic Activity in Austria

*The acceleration of world trade growth originating from East Asia has reached Austria in 2017. In addition, exports benefitted from clearing the investment backlog in East-Central Europe. While the external stimulus may ease somewhat in 2018, private consumption will continue to provide firm support to business activity. In spite of GDP growth projected at a solid 2.4 percent in 2017 (+2.6 percent when adjusted for calendar effects) and 2.0 percent in 2018, unemployment will likely remain rather high, as many vacancies are not filled by domestic jobseekers. The general government deficit narrows markedly in the current year, even if the fiscal stance on the revenue side remains expansionary.*

In early 2017, Austria's GDP growth recorded the highest rate in six years, benefitting from a benign combination of external factors. First, China's demand for imports has picked up since 2016, which provided stimulus not only to its East Asian neighbours and commodity exporters like Russia, but also to advanced economies like Austria (mainly via supplies to German companies), since domestic manufacturers of machinery and other investment goods are closely integrated into global value chains. Second, the investment backlog in East-Central Europe caused by delays in the disbursement of EU subsidies in 2016, is gradually being cleared. Indeed, Austrian exports are currently advantaged on several fronts, as investment in early 2017 has rebounded strongly also in the USA, with positive repercussions for Austrian manufacturers.

These benign incentives are expected to last for the remainder of the current year, as companies are highly satisfied with their current business situation and optimistic for the months to come. Beyond 2017, investment behaviour in East-Central Europe should return to normal, and policy in the USA looks set to favour tax cuts rather than embarking on large-scale investment projects. It is also doubtful whether the investment boom in China will continue; information received in recent months suggests that the momentum of world trade has weakened. For this reason, the pace of growth in Austria is expected to decelerate over the forecast period.

Overall, demand and output will nevertheless remain on a firm upward path in 2018, thanks to robust domestic demand. Although the stimulating effects of the tax cuts on private consumption are wearing off, the decline in unemployment will strengthen disposable income and demand of private households. It would nevertheless be too soon to sound the all-clear for the labour market, since the bulk of the newly created jobs will not be filled by the domestic labour reserve. The inflow of foreign workers is unabated notably from those East-Central European countries for which access to the Austrian labour market has been liberalised in

2011 and 2013. Older and low-qualified jobseekers remain longer on the unemployment register and add to the structural component of unemployment.

*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 | + 2.4 | + 2.0 |
| Manufacturing | | + 0.3 | + 1.6 | + 1.8 | + 1.6 | + 4.8 | + 4.0 |
| Wholesale and retail trade | | – 2.1 | + 2.0 | + 0.6 | + 2.1 | + 2.5 | + 2.3 |
| Private consumption expenditure[1], volume | | – 0.1 | – 0.3 | – 0.0 | + 1.5 | + 1.4 | + 1.5 |
| 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 | + 3.4 | + 3.2 | + 2.4 |
| Machinery and equipment[2] | | + 2.4 | – 1.0 | + 3.6 | + 7.5 | + 4.5 | + 3.5 |
| Construction | | – 0.9 | – 0.1 | – 1.2 | + 1.4 | + 1.8 | + 1.3 |
| Exports, volume | | + 0.5 | + 2.3 | + 3.6 | + 1.6 | + 4.2 | + 3.6 |
| Exports of goods | | – 0.7 | + 2.2 | + 3.5 | + 1.2 | + 4.9 | + 4.0 |
| Imports, volume | | + 0.7 | + 1.3 | + 3.4 | + 3.1 | + 3.4 | + 3.1 |
| Imports of goods | | – 2.0 | + 0.8 | + 4.2 | + 3.3 | + 4.0 | + 3.3 |
| Gross domestic product, value | | + 1.7 | + 2.4 | + 2.9 | + 2.8 | + 3.9 | + 3.7 |
| | billion € | 322.54 | 330.42 | 339.90 | 349.34 | 363.12 | 376.46 |
| Current account balance | as a percentage of GDP | 2.0 | 2.4 | 1.9 | 1.7 | 2.2 | 2.3 |
| Consumer prices | | + 2.0 | + 1.7 | + 0.9 | + 0.9 | + 1.8 | + 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 | 0.7 | 1.2 |
| General government financial balance, Maastricht definition | | | | | | | |
| As a percentage of GDP | | – 1.4 | – 2.7 | – 1.1 | – 1.6 | – 0.7 | – 0.5 |
| Persons in active dependent employment[4] | | + 0.6 | + 0.7 | + 1.0 | + 1.6 | + 1.8 | + 1.4 |
| Unemployment rate | | | | | | | |
| Eurostat definition[5] | | 5.4 | 5.6 | 5.7 | 6.0 | 5.7 | 5.6 |
| National definition[6] | | 7.6 | 8.4 | 9.1 | 9.1 | 8.6 | 8.4 |

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.

The general government deficit will turn out significantly lower in 2017 than last year. Major reasons are higher GDP growth, one-off factors related to the tax reform (anticipation effects 2015 which dampened capital gains tax revenues in 2016) and to retirement benefits (lump-sum payment of 100 € per head in 2016), the phasing out of subsidies for banks in distress, and a further decline in debt service cost. On the revenue side, the fiscal stance remains expansionary in 2017, since part of the tax cuts have taken effect only this year and the employers' contribution to the Family Benefit Fund has been lowered. For 2018, a major uncertainty relates to the general election carried forward to October 2017; it is likely that, in the first instance, a provisional budget will extrapolate current expenditure trends.

The forecast risks for GDP growth are on balance upward bound. The "Initiative 20,000" could make a contribution towards reducing structural unemployment, while the "Employment Bonus" may trigger additional investment. Moreover, the positive stimulus to foreign trade may last longer than assumed in the projection. On the other hand, the global situation holds a number of downside risks, such as the "Brexit" negotiations or the high stock market values worldwide, where a downward correction may unsettle the fragile European financial sector. Looming military conflicts in the Middle East pose a risk to oil prices since Iran is in control of large parts of daily crude oil shipments.

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