EWALD WALTERSKIRCHEN

SLOWDOWN IN ECONOMIC GROWTH

ECONOMIC OUTLOOK FOR 1999 AND 2000

After the prosperous year of 1998, which saw a growth rate of 3.3 percent, economic expansion in Austria will slow down to 2.4 percent as a result of adverse international conditions. Consumer spending will remain the backbone of the economy. The advance in economic activity is unlikely to be strong enough to significantly lower the unemployment rate.

1998 was a prosperous year for Austria's economy despite unfavourable external economic conditions. According to recent estimates, real GDP rose by 3.3 percent, the highest growth rate since 1991. Two-digit export gains in the first half of the year, and a steadily rising domestic demand provided the foundation for a remarkable expansion which clearly exceeded the EU average (+3 percent).

In the fall, however, signs of an impending slowdown in manufacturing and in the export sector appeared. The crises in Asia, Russia, and South America as well as the turbulence on the international financial markets acted as a break on the world economy and impaired the performance of Austria's exports as well. The plunge in international raw material prices hit the basic-goods industry particularly hard and worsened business and profits expectations. The pessimistic outlook for the manufacturing sector at the end of the year suggests that the dip in economic activity will extend at least into the first half of 1999.

The deceleration in economic activity resulting from the weakness in merchandise exports is being partially offset by the upturn in consumer spending. In 1998, expenditures of private households (adjusted for price increases) rose by 1.8 percent. In part, the rise in the purchasing power of private households was caused by the same factor which caused the sluggishness in export growth: the deep cut in prices of raw materials, particularly in energy prices.

In 1999, the dynamism of the economy will continue to shift from exports to domestic demand. This assessment is supported by the index of consumer climate, which continuously improved during the last few months owing to the rise in purchasing power, a more favourable employment situation, and lower inflation. Moreover, domestic demand is being buoyed by the persistent decline in interest rates. At the beginning of December 1998, the European central banks cut interest rates with the intention of warding off an economic slump.

All staff members of the Austrian Institute of Economic Research contribute to the Economic Outlook.

Given the deterioration in the international cyclical position, the forecast of economic growth in Austria for 1999 must be revised downwards from 2.8 to 2.4 percent; thus, the growth rate of real GDP is likely to approach the medium-term trend, largely due to the robustness of domestic demand. In view of the favourable economic conditions, of low inflation and interest rates as well as free capacities in particular, the temporary economic weakness triggered by the financial turmoil will probably be overcome in the year 2000.

The dynamism of Austria's economy in the year 1999 will not be strong enough to markedly reduce the unemployment rate. A slight decline from 4.5 to 4.4 percent (7.1 percent according to the traditional Austrian method) seems possible, however, because labour supply will rise at a slower pace than in 1998. Thanks to the vigorous increase in employment-intensive domestic demand, the number of jobs will rise by 24,000 in 1999. Thus, one half of the medium-term goal of the National Action Plan will be attained in the first two years of the five-year schedule. As long as the labour supply is on the rise, however, cutting unemployment will prove quite difficult.

The plunge in international prices of crude oil, food, and manufacturing raw materials continues to dampen inflation. In the year 1998, consumer prices in Austria rose by only 0.9 percent on average. A similar situation is likely to prevail in 1999 and 2000, with the inflation rate only marginally exceeding the mark of 1 percent.

The development of the current account has been dominated by the improvement in the tourism account. Having depressed the balance in the current account for several years, the tourism sector now has a strong positive impact. The timing of the turnaround in the tourism balance indicates that relative prices (exchange rates) do play an important role in directing tourism flows. An important contribution is also being made by structural improvements in Austria's tourism industry. Given favourable conditions, the surplus in the tourism account could improve by as much as ATS 15 billion between 1998 and 2000.

Main results

		1996	1997	1998	1999	2000
		Percentage changes from previous year				
GDP						
Volume		+ 2.0	+ 2.5	+ 3.3	+ 2.4	+ 2.7
Value		+ 3.7	+ 4.1	+ 4.5	+ 4.1	+ 4.0
Manufacturing[1]), volume		+ 1.2	+ 5.0	+ 5.5	+ 3.0	+ 4.0
Private consumption, volume		+ 2.0	+ 0.7	+ 1.8	+ 2.0	+ 2.2
Gross fixed investment, volume		+ 2.5	+ 2.8	+ 4.8	+ 3.2	+ 3.8
Machinery and equipment		+ 3.3	+ 5.0	+ 7.0	+ 4.5	+ 6.5
Construction		+ 2.4	+ 1.3	+ 3.0	+ 2.0	+ 1.5
Exports of goods[2])						
Volume		+ 5.4	+15.6	+ 8.3	+ 5.5	+ 7.0
Value		+ 5.5	+16.8	+ 8.3	+ 6.6	+ 8.1
Imports of goods[2])						
Volume		+ 6.1	+ 9.4	+ 8.2	+ 6.0	+ 7.0
Value		+ 6.7	+10.9	+ 7.1	+ 6.0	+ 8.1
Trade balance[2])	(billion ATS)	–100.6	–75.2	–72.1	–72.2	–78.0
Current balance	(billion ATS)	– 52.3	–61.4	–53.1	–45.4	–43.1
As a percentage of GDP	(%)	– 2.2	– 2.4	– 2.0	– 1.7	– 1.5
Yield of long-term government bonds[3])	(%)	6.3	5.7	4.7	4.3	4.8
Consumer prices		+ 1.9	+ 1.3	+ 0.9	+ 1.0	+ 1.2
Unemployment rate						
Percent of total labor force[4])	(%)	4.3	4.4	4.5	4.4	4.3
Percent of dependent labor force[5])	(%)	7.0	7.1	7.2	7.1	6.8
Dependent employment[6])		– 0.6	+ 0.4	+ 1.0	+ 0.8	+ 0.9

[1]) Value added, including mining and quarrying. – [2]) According to Central Statistical Office. – [3]) 10-year central government bonds (benchmark). – [4]) According to Eurostat. – [5]) According to labor exchange statistics. – [6]) Excluding parental leave and military service.

The revision of the growth forecast for 1999 is unlikely to pose additional problems to fiscal policy in Austria, because the changes refer only to exports, but not to domestic demand and the wage bill. The general government deficit in 1999 will amount to about 2 percent of GDP, as scheduled in the Stability Program. The budget situation will remain strained; this is indicated by the development expected for the year 2000: given the technical assumption of a tax reform with a net tax relief of ATS 10 billion, the general government deficit, without recourse to supplemental discretionary measures, is likely to rise to about 2¼ percent of GDP.

Cut-off date: December 16, 1998.