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STRONG GROWTH IN MANUFACTURING AND SIZABLE EMPLOYMENT GAINS

ECONOMIC OUTLOOK FOR 1998 AND 1999

Driven by strong exports of goods and lively industrial activity and investment, the Austrian economy is set to grow by 3 percent in volume this year. In 1999, with private consumption becoming a major force of expansion, GDP growth should accelerate further, to an average rate of 3.2 percent. Output strength will stimulate demand for labor and push employment to a new high, while allowing unemployment to recede in 1999 for the first time since 1994.

In 1998, growth of the Austrian economy is being supported mainly by merchandise exports and investment in machinery and equipment. The noticeable cyclical recovery in the EU, by now extending also to the German and the Italian economy, and the continued strong pace of expansion in East-Central Europe translate into a substantial increase in Austria's foreign markets. These favorable prospects should leave overall exports largely unaffected by repercussions of the severe crisis in Asia. Stable exchange rates and high productivity gains make for a significant improvement in the price competitiveness of Austrian goods: relative unit labor costs in manufacturing by 1999 are estimated at being more than 10 percent below their level in 1995. Austria can therefore expect to gain foreign market shares, and volume exports may rise by around 10 percent, both this year and next. Imports will trail exports by some margin, particularly when measured in current values, due to the slump in oil prices. Both the trade and the current account deficit will thereby narrow, the latter by ATS 10 billion in 1998 to a ratio of 1.4 percent of GDP. Moreover, developments in tourism signal a turnaround: in 1999, for the first time in years, receipts from foreign visitors will grow faster than spending of Austrian travelers abroad.

Stimulated by lively demand, external as well as domestic, manufacturing output is rising strongly, by a projected 6 percent this year. This is more than what may be accommodated with the present workforce, despite the important productivity gains being achieved. The optimistic sales outlook and the generally favorable financial situation of firms augur well for business fixed investment. Purchases of machinery and vehicles could grow by 7½ percent in volume this year.

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

Main results

		1995	1996	1997	1998	1999
		Percentage changes from previous year				
GDP						
Volume		+ 2.1	+ 1.6	+ 2.5	+ 3.0	+ 3.2
Value		+ 4.2	+ 3.7	+ 3.9	+ 4.4	+ 4.7
Manufacturing[1], volume		+ 1.0	+ 1.2	+ 4.3	+ 6.0	+ 5.0
Private consumption, volume		+ 2.9	+ 2.4	+ 0.7	+ 1.9	+ 2.2
Gross fixed investment, volume		+ 1.9	+ 2.4	+ 3.6	+ 4.2	+ 4.1
Machinery and equipment		+ 3.1	+ 3.7	+ 4.2	+ 7.5	+ 6.5
Construction		+ 0.6	+ 2.8	+ 3.2	+ 1.5	+ 2.0
Exports of goods[2]						
Volume		+12.1	+ 5.3	+14.9	+10.0	+ 9.5
Value		+13.2	+ 5.5	+16.4	+11.7	+10.9
Imports of goods[2]						
Volume		+ 5.7	+ 6.1	+ 7.9	+ 8.3	+ 8.5
Value		+ 6.2	+ 6.7	+ 9.5	+ 8.6	+10.5
Trade balance[2]	(billion ATS)	–88.0	–100.6	–68.1	–52.5	–54.2
Current balance	(billion ATS)	–47.0	– 43.4	–47.7	–35.8	–38.3
As a percentage of GDP	(%)	– 2.0	– 1.8	– 1.9	– 1.4	– 1.4
Yield of long-term government bonds[3]	(%)	7.1	6.3	5.7	5.0	5.5
Consumer prices		+ 2.2	+ 1.9	+ 1.3	+ 1.2	+ 1.5
Unemployment rate						
Percent of total labor force[4]	(%)	3.9	4.3	4.4	4.5	4.3
Percent of dependent labor force[5]	(%)	6.6	7.0	7.1	7.3	7.0
Dependent employment[6]		+ 0.0	– 0.6	+ 0.4	+ 1.1	+ 1.1

[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.

Given such strong advances in both investment and labor productivity, capacity constraints are unlikely to occur at the overall level.

Construction activity is set to grow moderately throughout the projection period, in the order of 1½ to 2 percent annually. While being strong as far as renovation and civil engineering are concerned (owing to tax incentives in the first, and to new ways of project financing in the latter case), residential building is leveling off as expected. Still in 1996, nearly 60,000 dwellings had been completed, 15,000 more than corresponding to the long-term average; but demand has since been slackening quickly.

Business activity in 1999 will be increasingly supported by domestic demand forces. With disposable income expected to post sizable gains, private consumption should rise markedly (2¼ percent in real terms), in particular purchases of durables. Wages and salaries, currently lagging somewhat behind, mirroring the effects of various measures to make labor markets more flexible, are likely to catch up as the recovery gains momentum. Inflation will remain subdued. For this year, the average rate is projected at 1.2 percent, held down also by low energy prices; in 1999, with the cyclical strengthening of activity, it may edge up to 1½ percent.

Strong growth of output also brightens the outlook for the labor market. In the current year, 32,000 (+1.1 percent) new jobs are likely to be created, more than half of which, however, on a part-time basis. Labor supply is being boosted by women seeking service jobs, the shortening of paid maternity leave, and other cuts in social benefits. Registered unemployment may thus rise by an average 7,000 persons. The projection for the rate of unemployment remains unchanged, at 7.3 percent of the dependent labor force (according to the conventional national method of calculation), or 4.5 percent on standard EU definitions. In 1999, with the recovery continuing at a strong pace, employment will rise unabated, allowing the jobless rate to moderate to 7.0 and 4.3 percent, respectively.

By way of a positive fallout from rising employment and incomes, government revenues will be boosted, notably wage taxes and social contributions. However, yields from value added tax appear to remain below expectations. More generous family benefits, favoring in particular the low-income brackets, will add to transfer obligations. General government net borrowing will change little, projected at 2.4 percent of GDP both in 1998 and 1999. This ratio is relatively high, considering the possibility of a cyclical slowdown beyond the projection period.

Cut-off date: July 1, 1998.