

Economic Outlook for 2018 and 2019: Continued Strong Growth Amidst a Riskier Environment

After the strong expansion in the previous year, demand and output in Austria should maintain a similar pace in 2018, with GDP growth expected at 3.2 percent. Leading indicators nevertheless foreshadow an increasing slowdown in momentum. GDP growth will be noticeably weaker in 2019 (+2.2 percent). Heightened uncertainty concerning the external policy environment amplifies the downward risks from the economic outlook of March 2018.

Austria's economy currently enjoys the second year of cyclical boom. Real GDP is expected to gain 3.2 percent in 2018, up from +3.0 percent last year. Despite buoyant investment activity, the high degree of productive capacity utilisation is set to increase further, exacerbating constraints to output growth that have started to emerge. Leading indicators suggest that the cyclical upswing may have reached its turning point and that growth will decelerate over the forecast period. Hence, annual GDP growth for 2019 is projected to abate to +2.2 percent.

Since last year, the pace of expansion exceeds the growth of trend output. Thus, the already positive output gap may widen further in 2019. The implicit inflationary pressure manifested itself in 2017 mainly for industrial goods and, together with higher energy prices, drove consumer prices up by 2.1 percent. The present upward revision of the inflation outlook for 2018 and 2019 mirrors the unexpectedly strong increase in crude oil prices. The consumer price index (CPI) is expected to rise by 2.0 percent in both 2018 and 2019.

Growth of Austria's GDP is broadly based, sustained both by domestic and foreign demand. Among the domestic demand components, investment in machinery and equipment and private consumption are the key drivers. The current investment cycle had started in 2015 and was in its early stages confined mainly to the replacement of productive capital. With bottlenecks increasingly arising, capacity-enhancing investment is now playing the major role. Indeed, the latest Economic Barometer issued by the Austrian Economic Chambers points out that the intention to make capacity expanding investments remains very high among companies.

Next to domestic demand, exports should further contribute to GDP growth, although the momentum may weaken somewhat in line with business conditions abroad. Although the upturn in the global economy remains intact, increasing capacity bottlenecks in many countries on the one hand and a general deterioration in sentiment due to mounting risks on the other will dampen growth rates.

On the Austrian labour market, the recent positive trend should persist over the forecast period. The number of persons in active dependent employment is expected to increase by 2.0 percent in 2018, slowing down slightly in 2019 with the slackening of economic activity. As labour supply is set to expand markedly over the entire projection horizon, the decline in unemployment will be comparatively modest. The unemployment rate (according to national definition) will ease from 8.5 percent of the dependent labour force in 2017 to 7.6 percent in 2018 and 7.2 percent in 2019.

Table 1: Main results

	2014	2015	2016	2017	2018	2019	
	Percentage changes from previous year						
Gross domestic product, volume	+ 0.8	+ 1.1	+ 1.5	+ 3.0	+ 3.2	+ 2.2	
Manufacturing	+ 2.5	+ 0.6	+ 1.3	+ 6.8	+ 7.8	+ 3.4	
Wholesale and retail trade	+ 2.7	+ 3.1	+ 1.4	+ 2.5	+ 2.9	+ 2.8	
Private consumption expenditure ¹ , volume	+ 0.3	+ 0.5	+ 1.5	+ 1.4	+ 1.8	+ 1.8	
Consumer durables	- 1.0	+ 2.8	+ 3.3	+ 0.8	+ 2.0	+ 1.5	
Gross fixed capital formation, volume	- 0.7	+ 1.2	+ 3.7	+ 4.9	+ 4.1	+ 2.8	
Machinery and equipment ²	- 1.6	+ 1.5	+ 8.6	+ 8.2	+ 7.3	+ 4.2	
Construction	- 0.1	+ 1.1	+ 1.1	+ 2.6	+ 2.0	+ 1.4	
Exports, volume	+ 3.0	+ 3.1	+ 1.9	+ 5.6	+ 5.3	+ 4.0	
Exports of goods, fob	+ 2.9	+ 3.1	+ 1.3	+ 6.1	+ 6.3	+ 4.8	
Imports, volume	+ 2.9	+ 3.1	+ 3.1	+ 5.7	+ 4.8	+ 4.0	
Imports of goods, fob	+ 2.1	+ 3.7	+ 3.2	+ 5.1	+ 5.2	+ 4.2	
Gross domestic product, value	+ 2.8	+ 3.4	+ 2.6	+ 4.6	+ 4.9	+ 4.2	
	billion €	333.06	344.49	353.30	369.69	387.81	403.96
Current account balance	as a percentage of GDP	2.5	1.9	2.1	1.9	1.8	1.9
Consumer prices		+ 1.7	+ 0.9	+ 0.9	+ 2.1	+ 2.0	+ 2.0
Three-month interest rate	percent	0.2	- 0.0	- 0.3	- 0.3	- 0.3	- 0.2
Long-term interest rate ³	percent	1.5	0.7	0.4	0.6	0.8	1.1
General government financial balance, Maastricht definition	as a percentage of GDP	- 2.7	- 1.0	- 1.6	- 0.7	- 0.1	0.2
Persons in active dependent employment ⁴		+ 0.7	+ 1.0	+ 1.6	+ 2.0	+ 2.0	+ 1.2
Unemployment rate							
Eurostat definition ⁵		5.6	5.7	6.0	5.5	5.1	5.0
National definition ⁶		8.4	9.1	9.1	8.5	7.6	7.2

Source: WIFO. 2018 and 2019: forecast. – ¹ Including non-profit institutions serving households. – ² Including weapons systems. – ³ 10-year central government bonds (benchmark). – ⁴ Excluding persons in 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, 29 June 2018, until 1 p.m.

Christian Glocker, Tel. (1) 798 26 01/303, christian.glocker@wifo.ac.at

For definitions used see "Methodological Notes and Short Glossary",

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