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Strong Growth Prospects for Austria's Economy

Economic Outlook for 2017 to 2019

Strong Growth Prospects for Austria's Economy. Economic Outlook for 2017 to 2019
Austria's manufacturing sector is benefitting from buoyant international business activity. The high degree of productive capacity utilisation provides major stimulus for domestic investment. Private consumption also lends continued support to output growth, even if it does not give a strong additional momentum at the advanced stage of the cyclical upswing, as income growth remains moderate.

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The Austrian economy enjoys strong GDP growth in 2017, driven by lively activity abroad and the implicit stimulus to foreign trade. The upturn of the US economy continues, although the rate of unemployment is close to its all-time low and high stock market values hold a certain cyclical risk. In the euro area, buoyant GDP growth rests on a broad-base and should extend well into 2018 before gradually abating.

The major beneficiary of Austria's swiftly expanding foreign trade is the manufacturing industry, with output picking up markedly in the second half of 2017 and capacity utilisation rising to new highs. As a consequence, firms increasingly step up investment in machinery and equipment to create new production facilities. Private consumption also provides continued support to GDP growth.

Lively business activity is set to extend into early 2018, given the strong confidence prevailing in the corporate sector as well as with private households, underpinned by a steady improvement in labour market conditions. With international business activity gradually slackening in the course of the year, GDP growth in Austria will also shift into lower gear. The momentum of investment will ease, while private consumption, though supported by somewhat stronger income gains, is unlikely to give a strong additional impetus to the cyclical upswing in its late stage.

A retarding element is the persistently high, albeit declining, unemployment rate and the fact that not all parts of the labour force benefit equally from the creation of new jobs. Wage gains are therefore likely to remain moderate. Inflation is nevertheless higher in Austria than on average in the euro area. The lately observed unexpected hike in the prices of non-energy industrial goods and the unabated upward pressure from housing rents, food and catering services will still feed into headline inflation in 2018.

In all, Austria's economy is projected to grow by 3 percent in 2018, the same rate as in 2017, and by 2.2 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	+ 3.0	+ 2.2
Manufacturing		+ 2.5	+ 0.6	+ 1.3	+ 6.4	+ 6.8	+ 3.4
Wholesale and retail trade		+ 2.7	+ 3.1	+ 1.4	+ 2.8	+ 2.8	+ 2.5
Private consumption expenditure[1], volume		+ 0.3	+ 0.5	+ 1.5	+ 1.5	+ 1.7	+ 1.6
Consumer durables		– 1.0	+ 2.8	+ 3.3	+ 2.5	+ 1.5	+ 1.0
Gross fixed capital formation, volume		– 0.7	+ 1.2	+ 3.7	+ 5.3	+ 3.3	+ 2.4
Machinery and equipment[2]		– 1.6	+ 1.5	+ 8.6	+ 8.5	+ 5.0	+ 3.3
Construction		– 0.1	+ 1.1	+ 1.1	+ 3.0	+ 1.5	+ 1.4
Exports, volume		+ 3.0	+ 3.1	+ 1.9	+ 5.5	+ 5.0	+ 4.3
Exports of goods		+ 2.9	+ 3.1	+ 1.3	+ 5.8	+ 5.5	+ 4.5
Imports, volume		+ 2.9	+ 3.1	+ 3.1	+ 5.4	+ 4.2	+ 3.4
Imports of goods		+ 2.1	+ 3.7	+ 3.2	+ 5.2	+ 4.5	+ 3.9
Gross domestic product, value		+ 2.8	+ 3.4	+ 2.6	+ 4.8	+ 4.8	+ 4.0
	billion €	333.06	344.49	353.30	370.16	387.88	403.51
Current account balance	as a percentage of GDP	2.5	1.9	2.1	2.2	2.4	2.7
Consumer prices		+ 1.7	+ 0.9	+ 0.9	+ 2.1	+ 2.0	+ 1.9
Three-month interest rate	percent	0.2	– 0.0	– 0.3	– 0.3	– 0.3	– 0.1
Long-term interest rate[3]	percent	1.5	0.7	0.4	0.6	0.6	0.9
General government financial balance, Maastricht definition	as a percentage of GDP	– 2.7	– 1.0	– 1.6	– 0.6	– 0.4	– 0.1
Persons in active dependent employment[4]		+ 0.7	+ 1.0	+ 1.6	+ 2.0	+ 1.8	+ 1.1
Unemployment rate							
Eurostat definition[5]		5.6	5.7	6.0	5.6	5.4	5.3
National definition[6]		8.4	9.1	9.1	8.5	7.9	7.7

Source: WIFO. 2017 to 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.

1. Unabated lively activity in the USA despite a far advanced labour market recovery

The upswing in the US economy continues while the unemployment rate has fallen to a 15-year low. However, financial market risks are on the rise.

International business activity remains buoyant. US GDP growth continued unabated in the second half of 2017. The hurricane in September hardly affected overall output, which gained 0.8 percent in the third quarter. However, the rate contained a substantial increase in inventories, probably partly caused by sales delayed by the storm. In the following, the clearing of damages and repair works boost activity in the fourth quarter. For the whole year 2017, US GDP grows by 2.3 percent.

Prospects for the first half of 2018 remain upbeat, with companies as well as private households holding optimistic expectations. Although the Fed took another move towards monetary tightening in December and further interest rate hikes may follow in 2018, business activity should receive support from the tax reform due to take effect in February, even if the tax cuts may largely benefit higher-income households with a rather low marginal consumption ratio.

High consumer confidence is driven by extremely favourable labour market conditions. The extended cyclical upswing sent the jobless rate in autumn 2017 down to a 15-year low. The retreat in long-term unemployment and underemployed part-time work also indicates that the improvement on the labour market has reached an advanced stage. In response, the wage drift may accelerate, leading to higher private consumption and giving a final boost to the cyclical upturn. Yet, the labour force participation ratio is still 4 percentage points below the mark recorded in 2007, suggesting the persistence of some margin of capacity slack and possibly explaining the absence of inflationary pressure so far. At a projected rate of 2.4 percent, GDP growth is expected to remain lively in 2018. As from the middle of the year, activity may lose momentum, abating to an annual growth rate of 1.8 percent in 2019.

One risk for the cyclical profile relates to financial market developments. The S&P-500 stock market index has climbed strongly since the Presidential Elections of November 2016, exceeding in late 2017 by far its level of 2007. This may to some extent reflect higher profit expectations from the envisaged cut in the corporate tax rate, although share prices have been trending up for a much longer time. A downward correction cannot be ruled out for the near future, even if imbalances are less severe than they were before the crisis of 2007: the rise in real estate values has been more moderate in the present instance, and indebtedness of US private households in relation to GDP has hardly increased so far.

Table 2: International economy

	Percentage shares 2016		2014	2015	2016	2017	2018	2019
	Austria's exports of goods	World GDP[1]	GDP volume, percentage changes from previous year					
EU	69.5	16.7	+ 1.8	+ 2.3	+ 1.9	+ 2.5	+ 2.4	+ 1.9
UK	3.1	2.3	+ 3.1	+ 2.3	+ 1.8	+ 1.5	+ 1.5	+ 1.6
Euro area	51.7	11.8	+ 1.3	+ 2.1	+ 1.8	+ 2.3	+ 2.4	+ 1.9
Italy	30.5	3.3	+ 1.9	+ 1.7	+ 1.9	+ 2.3	+ 2.6	+ 1.8
France	6.4	1.9	+ 0.1	+ 1.0	+ 0.9	+ 1.6	+ 1.9	+ 1.6
CEEC 5[2]	4.1	2.3	+ 0.9	+ 1.1	+ 1.2	+ 1.8	+ 2.2	+ 1.7
Czech Republic	14.1	1.6	+ 3.2	+ 4.0	+ 2.8	+ 4.2	+ 3.4	+ 2.9
Hungary	3.7	0.3	+ 2.7	+ 5.3	+ 2.6	+ 4.5	+ 3.3	+ 2.4
Poland	3.3	0.2	+ 4.2	+ 3.4	+ 2.2	+ 3.8	+ 3.4	+ 2.4
USA	3.0	0.9	+ 3.3	+ 3.8	+ 2.9	+ 4.4	+ 3.5	+ 3.2
Switzerland	6.7	15.5	+ 2.6	+ 2.9	+ 1.5	+ 2.3	+ 2.4	+ 1.8
China	5.9	0.4	+ 2.4	+ 1.2	+ 1.4	+ 0.7	+ 1.8	+ 1.9
Total[3]								
PPP-weighted[4]		50	+ 4.0	+ 4.1	+ 3.5	+ 3.9	+ 3.8	+ 3.3
Export weighted[5]	85		+ 2.1	+ 2.4	+ 2.0	+ 2.5	+ 2.4	+ 2.0
Market growth[6]			+ 3.6	+ 3.1	+ 3.1	+ 6.0	+ 5.5	+ 4.3
Forecast assumptions								
Crude oil prices								
Brent, $ per barrel			99.0	52.5	43.7	54	62	60
Exchange rate								
$ per €			1.329	1.110	1.107	1.13	1.18	1.18
Key interest rate								
ECB main refinancing rate[7], percent			0.6	0.2	0.2	0.1	0.0	0.0
10-year government bonds yields Germany, percent			1.6	1.2	1.2	0.5	0.1	0.3

Source: WIFO. 2017 to 2019: forecast. – [1] PPP-weighted. – [2] Czech Republic, Hungary, Poland, Slovenia, Slovakia. – [3] EU, USA, Switzerland, China. – [4] Weighted by GDP at purchasing power parities in 2016. – [5] Weighted by shares of Austrian goods exports in 2016. – [6] Real import growth of trading partners, weighted by shares of Austrian goods exports. – [7] Minimum bid rate.

2. Cyclical upswing in the euro area to last throughout 2018

Business activity in the euro area remains robust. The labour market still holds substantial reserves for further growth.

The rebound of business activity in the euro area has become broad-based, with almost all countries enjoying strong GDP growth. In the third quarter of 2017, this was particularly the case in Germany, France, Italy and Spain, the four largest euro area economies. Business and consumer confidence are high across the board and were heading further up towards the end of the year. Euro area GDP growth for the whole year 2017 is estimated at 2.3 percent.

One reason for business and consumer optimism is the steady improvement on labour markets. The jobless rate has abated to the lowest level in nearly eight years. Also broader measures of labour slack and hidden unemployment confirm the positive trend. The unemployment rate for the entire euro area is nevertheless still 1½ percentage points above its pre-crisis level, and in some countries by even more. Hence, idle labour reserves are still important, as confirmed also by the absence of inflationary pressure so far. Despite central bank bond purchases being gradually scaled down, monetary policy remains expansionary. A first step towards rising key interest rates is unlikely to occur before autumn 2019. Likewise, fiscal policy will hardly restrain business activity over the forecast period. The cyclical upswing in the euro area will therefore extend well into 2018 before losing momentum, following the profile of the US economy with a certain lag. Annual GDP growth is projected at 2.4 percent for 2018 and 1.9 percent for 2019.

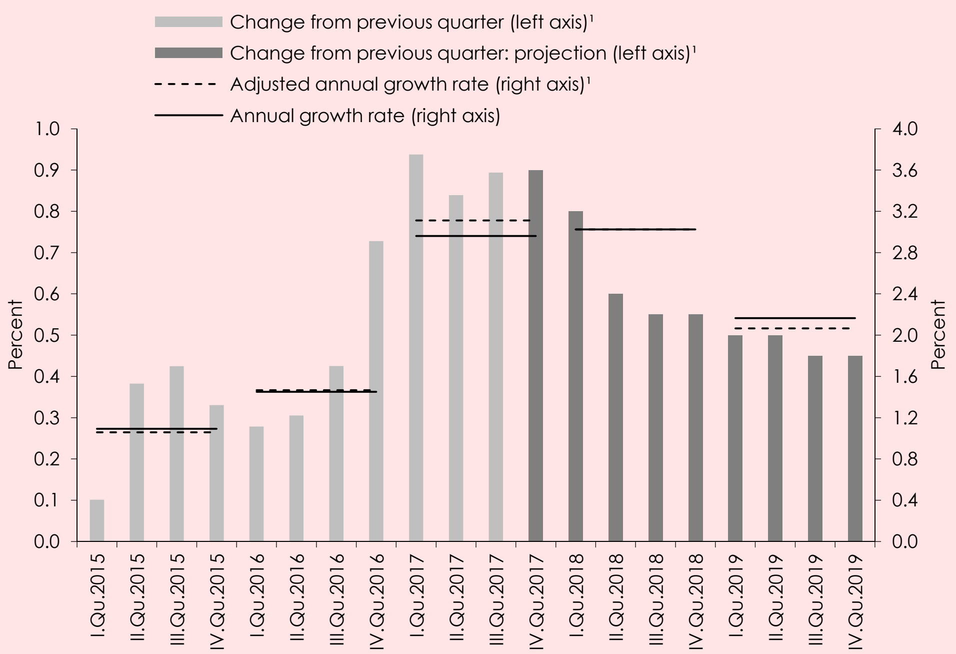
3. Strong cyclical upswing in Austria

Austria's economy is growing by 3 percent each in 2017 and 2018. Activity is driven by lively exports, strong investment and private consumption.

Business activity in Austria is buoyant at the end of 2017. Total output has been expanding swiftly since late 2016 and should maintain its lively momentum in the fourth quarter of 2017. The strengthening of international activity has fuelled Austrian exports, and domestic demand has also increased markedly. Private consumption has posted sizeable gains even after the stimulating effects of the tax reform 2015-16 had waned, and business fixed investment kept the solid pace recorded in the last two years. In all, Austria's GDP is likely to have grown by 3 percent in 2017.

Figure 1: Cyclical profile Austria

GDP volume



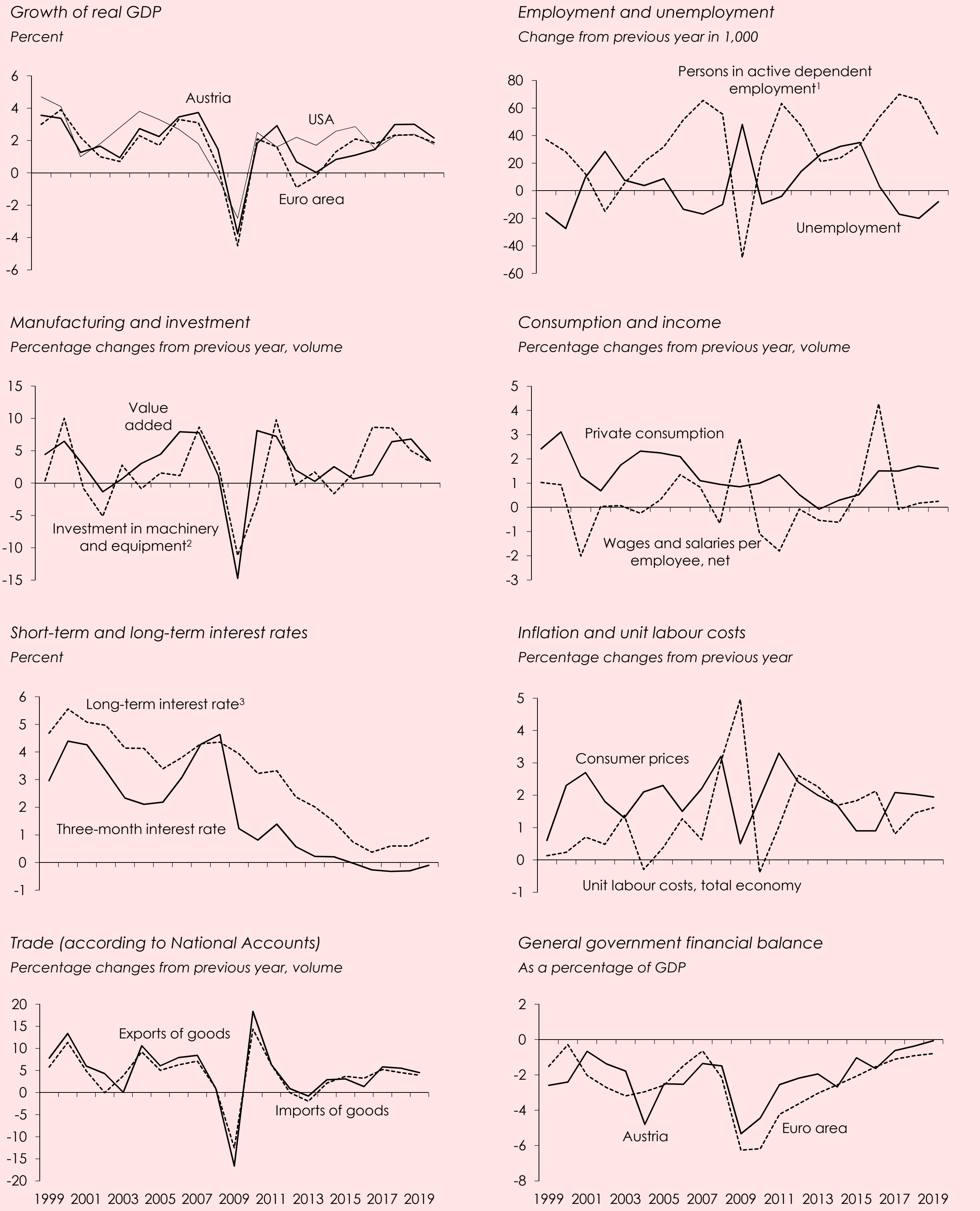
Source: WIFO. – [1] Trend-cycle component.

Table 3: Technical breakdown of the real GDP growth forecast

		2016	2017	2018	2019
Growth carry-over[1]	percentage points	+ 0.6	+ 0.8	+ 1.3	+ 0.8
Growth rate during the year[2]	percent	+ 1.7	+ 3.6	+ 2.5	+ 1.9
Annual growth rate	*percent*	*+ 1.5*	*+ 3.0*	*+ 3.0*	*+ 2.2*
Adjusted annual growth rate[3]	percent	+ 1.5	+ 3.1	+ 3.0	+ 2.1
Calendar effect[4]	percentage points	+ 0.2	– 0.2	± 0.0	+ 0.1

Source: WIFO. 2017 to 2019: forecast. – [1] Impact of year-earlier growth dynamics on growth in the current year. Equals the annual growth rate in the current year, if the level of GDP in the current year remains constant from the fourth quarter of the previous year; trend-cycle component. – [2] Reflects the growth dynamics during a calendar year. Equals the year-on-year growth rate for the fourth quarter; trend-cycle component. – [3] Trend-cycle component. – [4] Impact of the annual number of working days and the leap day.

Figure 2: Indicators of economic performance



Source: WIFO. 2017 to 2019: forecast. – [1] Excluding persons in valid employment contract receiving child care benefit or being in military service, and unemployed persons in training; break in 2007-08 due to changes in the employment statistics. – [2] Including weapons systems. – [3] 10-year central government bonds (benchmark).

Latest indicators suggest that the economy will maintain its clear upward trend in the first half of 2018. The manufacturing sector in particular expressed further rising confidence in late 2017, both as regards firms' current business conditions as well as the short-term outlook. Austrian companies keep benefitting from the benign external environment. Investment in the enlargement of now highly utilised productive capacities will sustain domestic demand for still some time. The gradual slackening of global demand may subsequently dampen Austria's GDP growth in the course of 2018. This is confirmed by business expectations which in the latest survey have stabilised at a high level. The deceleration of external demand will gradually slow the pace of business fixed investment. Private consumption, normally supporting business activity in the later stages of a cyclical upswing, may pick up somewhat in 2018 from the previous year, but is nevertheless unlikely to provide substantial fresh stimulus given the limited gains in household disposable income. Despite the slackening pace of demand and output, Austria's GDP is expected to grow by 3 percent on annual average 2018, due to the strong forward momentum prevailing early in the year (Figure 1, Table 3). In 2019, growth is expected to abate to an annual rate of 2.2 percent.

3.1 Exports stimulate industrial production

Austrian exports grow swiftly in 2017 and 2018, thereby stimulating notably manufacturing output. High import prices dampen the increase in the current account surplus.

With the revival of global activity, Austrian exports expanded strongly in 2017. During the first nine months of the year, cumulated export growth was substantial vis-à-vis almost all major trading partners, with deliveries only to Switzerland and the UK having dropped markedly year-on-year. Reasons for the latter have probably been the sluggish growth of the Swiss economy and the uncertainty and subdued expectations in the UK after the "Brexit" referendum. Real exports of goods and services in 2017 are expected to have risen by 5.5 percent above the year-earlier level.

Table 4: Gross value added

At basic prices

	2016	2017	2018	2019	2016	2017	2018	2019
	Billion € (reference year 2010)				Percentage changes from previous year			
Volume (chain-linked series)								
Agriculture, forestry and fishing	4.05	4.01	4.11	4.15	+ 2.7	– 1.0	+ 2.5	+ 1.0
Manufacturing including mining and quarrying	57.14	60.80	64.93	67.14	+ 1.3	+ 6.4	+ 6.8	+ 3.4
Electricity, gas and water supply, waste management	8.35	9.39	9.58	9.77	+ 1.2	+12.5	+ 2.0	+ 2.0
Construction	16.23	16.72	16.98	17.22	+ 0.6	+ 3.0	+ 1.6	+ 1.4
Wholesale and retail trade	36.61	37.64	38.69	39.66	+ 1.4	+ 2.8	+ 2.8	+ 2.5
Transportation	15.21	15.63	16.26	16.83	+ 0.2	+ 2.8	+ 4.0	+ 3.5
Accommodation and food service activities	13.66	13.93	14.24	14.58	+ 2.5	+ 2.0	+ 2.2	+ 2.4
Information and communication	9.61	9.75	9.99	10.19	+ 1.2	+ 1.5	+ 2.5	+ 2.0
Financial and insurance activities	12.23	12.35	12.51	12.60	+ 0.3	+ 1.0	+ 1.2	+ 0.8
Real estate activities	26.13	26.41	27.07	27.62	+ 1.6	+ 1.1	+ 2.5	+ 2.0
Other business activities[1]	26.99	27.91	29.03	29.90	+ 1.9	+ 3.4	+ 4.0	+ 3.0
Public administration[2]	48.90	49.49	50.08	50.58	+ 1.7	+ 1.2	+ 1.2	+ 1.0
Other service activities[3]	7.78	7.84	7.96	8.07	– 0.7	+ 0.7	+ 1.5	+ 1.5
Total gross value added[4]	282.78	291.52	300.83	307.62	+ 1.3	+ 3.1	+ 3.2	+ 2.3
Gross domestic product at market prices	317.15	326.62	336.42	343.68	+ 1.5	+ 3.0	+ 3.0	+ 2.2

Source: WIFO. 2017 to 2019: forecast. – [1] Professional, scientific and technical activities; administrative and support service activities (NACE M and N). – [2] Including defence, compulsory social security, education, human health and social work activities (NACE O to Q). – [3] Arts, entertainment and recreation; other service activites; activities of households (NACE R to U). – [4] Before deduction of subsidies and attribution of taxes on products.

Export growth should maintain a strong pace during the next few months, as domestic firms are highly satisfied with their foreign order levels. Later in the year, the gradual slackening of external demand will lead to slower export growth. Overall export growth for 2018 is projected at 5 percent, followed by +4.3 percent in 2019. At the same time, higher oil prices have fuelled import price inflation in the first half of 2017, which keeps the increase in the current account surplus in check.

Austria's manufacturing sector is the main beneficiary of lively foreign trade. This is mirrored by firms' judgements in the regular WIFO-Konjunkturtest (business cycle survey) which have further improved in the last months. Capacity utilisation has by now returned to highs last recorded in 2007. Manufacturing value added gains a strong 6.4 percent in 2017 and is expected to rise by no less than 6.8 percent in 2018. The momentum may decelerate as from the second half of 2018, to a projected annual rate of +3.4 percent in 2019.

3.2 High capacity utilisation sustains lively investment

On the back of a high degree of productive capacity utilisation, investment in machinery and equipment will keep in 2018 the strong pace of expansion observed in the previous year.

Thanks to the high degree of capacity utilisation by now achieved and to the persistently positive business outlook, investment in machinery and equipment will keep growing strongly in 2018. In the current cyclical upswing, investment has picked up at an unusually early stage. A main (special) factor were pre-emptive purchases of motor vehicles in 2016 ahead of the tax reform[1]. The strong expansion of corporate spending on machinery and business equipment in 2017 suggests that the enlargement of productive capacity has moved to the fore as investment motive. According to the Business Barometer compiled by the Austrian Federal Economic Chamber, the share of companies planning capacity-enhancing investment projects is at a par with companies envisaging replacement of obsolete facilities. Likewise, in the regular WIFO-Konjunkturtest (business cycle survey) more and more companies report operating close to capacity limits. Production capacities should therefore be further expanded. Nevertheless, after rates of +8.6 percent in 2016 and +8.5 percent in 2017, machinery and equipment investment growth will moderate in 2018 and 2019, all the more so as international business activity is set to subside. Investment in machinery and equipment is projected to increase by 5 percent in 2018 and 3.3 percent in 2019.

Table 5: Expenditure on GDP

Volume (chain-linked series)

	2016	2017	2018	2019	2016	2017	2018	2019
	Billion € (reference year 2010)				Percentage changes from previous year			
Final consumption expenditure	228.80	232.04	235.73	239.21	+ 1.7	+ 1.4	+ 1.6	+ 1.5
Households[1]	164.90	167.38	170.22	172.95	+ 1.5	+ 1.5	+ 1.7	+ 1.6
General government	63.92	64.69	65.53	66.28	+ 2.1	+ 1.2	+ 1.3	+ 1.2
Gross capital formation	75.99	81.45	85.60	87.30	+ 3.5	+ 7.2	+ 5.1	+ 2.0
Gross fixed capital formation	72.77	76.66	79.18	81.08	+ 3.7	+ 5.3	+ 3.3	+ 2.4
Machinery and equipment[2]	25.27	27.41	28.79	29.74	+ 8.6	+ 8.5	+ 5.0	+ 3.3
Construction	32.60	33.58	34.08	34.56	+ 1.1	+ 3.0	+ 1.5	+ 1.4
Other investment[3]	14.99	15.83	16.54	17.04	+ 2.0	+ 5.6	+ 4.5	+ 3.0
Domestic demand	306.31	315.07	322.96	328.21	+ 2.1	+ 2.9	+ 2.5	+ 1.6
Exports	177.45	187.23	196.54	204.95	+ 1.9	+ 5.5	+ 5.0	+ 4.3
Travel	13.48	13.61	13.78	13.94	+ 2.3	+ 1.0	+ 1.2	+ 1.2
Minus Imports	166.57	175.62	182.91	189.20	+ 3.1	+ 5.4	+ 4.2	+ 3.4
Travel	6.76	6.92	7.02	7.08	+ 3.1	+ 2.4	+ 1.5	+ 0.8
Gross domestic product	317.15	326.62	336.42	343.68	+ 1.5	+ 3.0	+ 3.0	+ 2.2
Value	353.30	370.16	387.88	403.51	+ 2.6	+ 4.8	+ 4.8	+ 4.0

Source: WIFO. 2017 to 2019: forecast. – [1] Including non-profit institutions serving households. – [2] Including weapon systems. – [3] Mainly intellectual property products (research and development, computer programmes, copyrights).

Unlike with investment in machinery and equipment, spending on construction already shows first signs of deceleration. While business sentiment in the sector is still highly upbeat, it is no longer rising. Notably for residential construction no further expansion should be expected, given the currently high number of building permits. After the healthy increase of 3 percent in 2017, growth of construction investment may turn out distinctly slower in 2018 and 2019, at +1.5 percent and +1.4 percent respectively.

[1] Schiman, St., "Solid Domestic Demand Set To Last Awhile. Economic Outlook for 2017 and 2018", WIFO Bulletin, 2017, 22(1), pp. 1-12, http://bulletin.wifo.ac.at/59280.

3.3 Consumer spending supporting activity in 2018

Despite the stimulating effects of the 2016 tax reform fading, consumer spending rose by a strong 1.5 percent in 2017. The gradual decline in unemployment reduces the individual risk of losing a job, which considerably boosts consumer confidence and induces private households to spend more. Lively job creation leads in the aggregate to higher disposable income, even if gains remained limited in 2017. In 2018, however, benign employment conditions should lead to higher wage gains. In addition, incomes from property, after having fallen over the past years, should pick up with the turnaround in interest rates in 2018 and 2019. These trends should provide some support for private consumption into 2019. Nevertheless, they are unlikely to give major stimulus to aggregate demand in the late stage of the business cycle, since wage gains may remain lean in real terms, given the still high level of unemployment, the change in the sectoral composition of employment, the sizeable expansion of labour supply and the comparatively high inflation. Private consumption is therefore expected to move up by 1.7 percent in 2018 and 1.6 percent in 2019. The private household saving ratio which in 2016 had jumped with the net income gains from the tax reform, will gradually moderate as households will adjust their spending to the new income situation.

With the steady improvement on the labour market, consumer sentiment is trending up, driving private household spending. Income growth, on the other hand, remains subdued.

Table 6: Earnings, international competitiveness

	2014	2015	2016	2017	2018	2019
	Percentage changes from previous year					
Wages and salaries per employee[1]						
Nominal, gross	+ 1.7	+ 2.1	+ 2.3	+ 2.1	+ 2.6	+ 2.7
Real[2]						
Gross	– 0.0	+ 1.2	+ 1.3	+ 0.0	+ 0.6	+ 0.7
Net	– 0.6	+ 0.7	+ 4.3	– 0.1	+ 0.2	+ 0.3
Wages and salaries per hour worked[1]						
Real, net[2]	– 0.2	+ 2.4	+ 3.8	– 0.3	+ 0.5	+ 0.2
	Percent					
Wage share, adjusted[3]	68.6	69.0	69.0	68.0	67.0	66.7
	Percentage changes from previous year					
Unit labour costs, nominal[4]						
Total economy	+ 1.7	+ 1.8	+ 2.1	+ 0.8	+ 1.4	+ 1.6
Manufacturing	– 0.1	+ 1.5	+ 2.1	– 2.1	– 2.4	+ 0.6
Effective exchange rate – manufactured goods[5]						
Nominal	+ 1.2	– 2.9	+ 1.2	+ 1.4	+ 0.7	+ 0.4
Real	+ 1.5	– 2.9	+ 1.3	+ 1.7	+ 0.9	+ 0.1

Source: WIFO. 2017 to 2019: forecast. – [1] National Accounts definition. – [2] Deflated by CPI. – [3] Compensation of employees as a percentage of national income, adjusted for the change in the share of employees in total employment from base year 1995. – [4] Labour costs in relation to productivity (hourly compensation per employees divided by GDP per employed persons' hours worked). – [5] Weighted by exports and imports, real value adjusted by relative HCPI.

3.4 Unemployment remains high, despite lively job creation

Lively business activity is being reflected on the domestic labour market. Job creation markedly accelerated in the second half of 2017, extending across most economic sectors. The number of persons in active dependent employment has increased by some 2 percent in 2017, with the group of foreign workers commuting into Austria posting particularly strong gains. With the expected slowdown of demand and output growth in the course of 2018, job creation is set to lose pace. The projected year-on-year increase in the number of persons in dependent active employment is 1.8 percent for 2018 and 1.1 percent for 2019.

The strong increase in overall employment will go on, keeping unemployment on a downward path. The jobless rate remains nevertheless high, as certain groups benefit only to a limited extent from the improving labour market conditions.

The brisk demand for new labour has brought unemployment onto a gradual downward trend. Since the middle of 2016, the jobless rate has receded significantly on a seasonally adjusted basis, supported also by slower labour force growth, such that new hiring now translates into lower unemployment to a larger extent than in the previous years. The number of persons in job training organised by the Public Employment Service Austria (AMS) will keep rising, due inter alia to the earlier inclusion of recognised refugees into the AMS records. The unemployment rate, according to the national definition, will decline from 8.5 percent in 2017 to 7.9 percent in 2018 and 7.7 percent in 2019.

Table 7: Private consumption, income and prices

	2014	2015	2016	2017	2018	2019
	Percentage changes from previous year, volume					
Private consumption expenditure[1]	+ 0.3	+ 0.5	+ 1.5	+ 1.5	+ 1.7	+ 1.6
Durable goods	– 1.0	+ 2.8	+ 3.3	+ 2.5	+ 1.5	+ 1.0
Non-durable goods and services	+ 0.4	+ 0.3	+ 1.3	+ 1.4	+ 1.7	+ 1.7
Household disposable income	+ 0.2	+ 0.4	+ 2.7	+ 0.9	+ 1.4	+ 1.6
	As a percentage of disposable income					
Household saving ratio						
Including adjustment for the change in pension entitlements	6.8	6.9	7.9	7.4	7.2	7.1
Excluding adjustment for the change in pension entitlements	6.2	6.2	7.3	6.8	6.5	6.5
	Percentage changes from previous year					
Direct lending to domestic non-banks (end of period)	+ 0.3	+ 2.0	+ 1.8	+ 2.2	+ 2.8	+ 2.8
	Percent					
Inflation rate						
National	1.7	0.9	0.9	2.1	2.0	1.9
Harmonised	1.5	0.8	1.0	2.2	2.0	1.9
Core inflation[2]	1.9	1.7	1.5	2.2	2.1	2.0

Source: WIFO. 2017 to 2019: forecast. – [1] Private households including non-profit institutions serving households. – [2] Excluding energy and unprocessed food (meat, fish, fruits, vegetables).

Table 8: Labour market

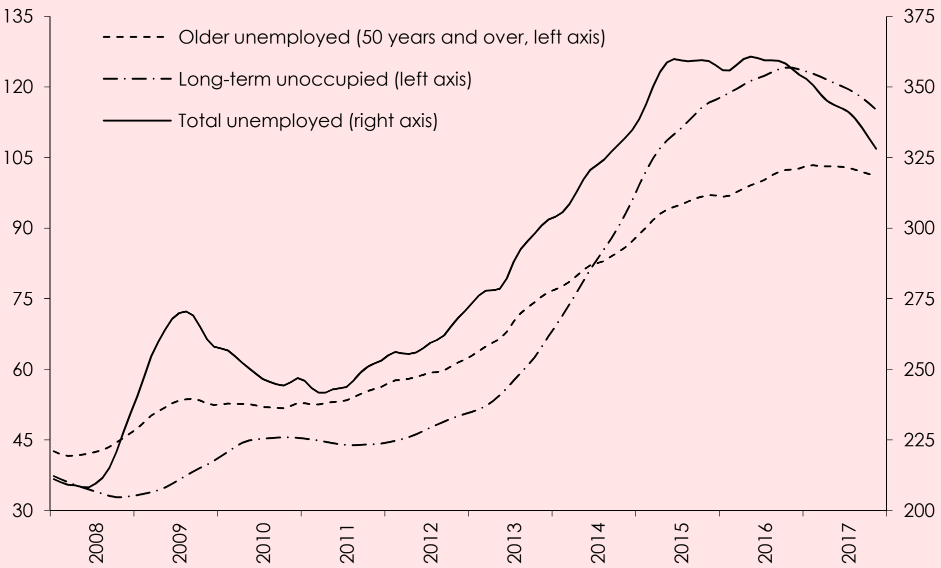
	2014	2015	2016	2017	2018	2019
	Change from previous year in 1,000					
Demand for labour						
Persons in active employment[1]	+ 31.8	+ 42.5	+ 60.1	+ 77.0	+ 73.0	+ 47.0
Employees[1,2]	+ 23.8	+ 33.2	+ 53.7	+ 70.0	+ 66.0	+ 40.0
National employees	– 8.1	+ 6.3	+ 17.7	+ 24.0	+ 22.0	+ 10.0
Foreign employees	+ 32.0	+ 27.0	+ 36.0	+ 46.0	+ 44.0	+ 30.0
Self-employed[3]	+ 8.0	+ 9.3	+ 6.4	+ 7.0	+ 7.0	+ 7.0
Labour supply						
Population of working age 15 to 64 years	+ 33.1	+ 52.3	+ 65.8	+ 24.3	+ 16.1	+ 13.7
Labour force[4]	+ 64.0	+ 77.5	+ 63.1	+ 60.0	+ 53.0	+ 39.0
Labour surplus						
Unemployed[5]	+ 32.2	+ 35.0	+ 3.0	– 17.0	– 20.0	– 8.0
Unemployed persons in training	+ 1.8	– 10.2	+ 2.1	+ 5.0	+ 5.0	± 0.0
	Percent					
Unemployment rate						
As a percentage of total labour force (Eurostat)[6]	5.6	5.7	6.0	5.6	5.4	5.3
As a percentage of total labour force[5]	7.4	8.1	8.1	7.6	7.1	6.8
As a percentage of dependent labour force[5]	8.4	9.1	9.1	8.5	7.9	7.7
	Percentage changes from previous year					
Labour force[4]	+ 1.5	+ 1.8	+ 1.5	+ 1.4	+ 1.2	+ 0.9
Persons in active dependent employment[1,2]	+ 0.7	+ 1.0	+ 1.6	+ 2.0	+ 1.8	+ 1.1
Unemployed[5]	+ 11.2	+ 11.0	+ 0.8	– 4.8	– 5.9	– 2.5
Persons (in 1,000)	319.4	354.3	357.3	340.3	320.3	312.3

Source: WIFO. 2017 to 2019: forecast. – [1] Excluding persons in valid employment contract receiving child care benefit or being in military service. – [2] According to the Organisation of Austrian Social Security. – [3] According to WIFO, including liberal professions and unpaid family workers. – [4] Persons in active employment plus unemployed. – [5] According to Public Employment Service Austria. – [6] Labour Force Survey.

With the strong increase in unemployment during the recession, a "hard core" of jobseekers has developed that has so far poorly benefitted from the cyclical upturn. Members of this group often combine certain personal features compromising their employability: low qualifications, health constraints, advanced age and/or long time spent out of work. Although a positive trend reversal has been observed also for this group, progress is more hesitant than for other groups (Figure 3).

Figure 3: Unemployment in Austria

1,000 persons, seasonally adjusted



Source: Public Employment Service Austria (AMS), WIFO calculations. Long-term unoccupied: Registered with the Public Employment Service Austria (AMS) for more than a year. This definition, in contrast to "long-term unemployment" as reported e.g. by Eurostat, not only includes registered unemployment but also other preregistration states such as seeking apprenticeship, in training, check of work ability and others. All such successive episodes (regardless of interruptions of 62 days or less) are merged into a single business case. If the business case duration exceeds 365 days, the respective person is classified as "long-term unoccupied".

Going forward, uncertainty relates not only to the access of recognised refugees to the AMS register, but also to the further course of labour market policy. Hence, the continuation of certain measures adopted in 2017 and their effectiveness is doubtful. Despite a high number of claims, the "employment bonus" is unlikely to create new jobs in net terms due to high deadweight losses. The "Initiative 20,000" was launched in July 2017 on a regional trial basis, to be extended to the whole of Austria as from the beginning of 2018. By mid-November, according to the Federal Ministry of Labour, Social Affairs, Health and Consumer Protection (BMASK), the initiative has brought some 1,550 long-term unemployed persons above the age of 50 into gainful employment, with nearly 1,000 further vacancies being reported to the AMS. The target of 20,000 jobs is equivalent to 40 percent of all long-term unoccupied[2] over 50 registered at the end of 2017 and would seem difficult to achieve. The forecast implies an employment effect between 5,000 and 6,000 jobs for 2018.

[2] Registered with the Public Employment Service Austria (AMS) for more than a year. This definition, in contrast to "long-term unemployment" as reported e.g. by Eurostat, not only includes registered unemployment but also other preregistration states such as seeking apprenticeship, in training, check of work ability and others. All such successive episodes (regardless of interruptions of 62 days or less) are merged into a single business case. If the business case duration exceeds 365 days, the respective person is classified as "long-term unoccupied".

3.5 Prices of non-energy industrial commodities rising above expectations

The increase in oil prices and the surprisingly strong hikes of non-energy industrial goods are fuelling domestic inflation.

In September 2017, consumer prices went up more strongly than anticipated. This was the result of higher oil prices on the one hand, and of stronger upward pressure on prices of non-energy industrial goods like clothing or audio-visual, photographic and information processing equipment, on the other. Major price hikes were also recorded for housing rents, food, catering services, air tickets and package holidays. The annual inflation rate for 2017 of 2.1 percent (HICP +2.2 percent) is therefore substantially higher than in the previous year and well above the euro area average.

Oil prices for 2018 and 2019 are projected to increase from 2017, although the feed-through to domestic prices will be dampened by the slight appreciation of the euro against the dollar. The price hikes for non-energy industrial goods will extend into part of 2018. Wage dynamics is expected to gradually pick up as unemployment recedes. The advance of unit labour cost, the benchmark for domestic wage pressure, will nevertheless be moderated by productivity gains. Headline inflation is projected at 2 percent on annual average 2018, edging down to 1.9 percent in 2019.

Table 9: Productivity

	2014	2015	2016	2017	2018	2019
	Percentage changes from previous year					
Total economy						
Real GDP	+ 0.8	+ 1.1	+ 1.5	+ 3.0	+ 3.0	+ 2.2
Hours worked[1]	+ 0.3	– 0.8	+ 1.9	+ 2.0	+ 1.5	+ 1.1
Productivity[2]	+ 0.5	+ 1.9	– 0.4	+ 1.0	+ 1.5	+ 1.0
Employment[3]	+ 1.0	+ 0.7	+ 1.5	+ 1.8	+ 1.7	+ 1.1
Manufacturing						
Production[4]	+ 2.5	+ 0.6	+ 1.3	+ 6.4	+ 6.8	+ 3.4
Hours worked[5]	– 0.2	– 0.2	+ 0.7	+ 1.9	+ 1.1	+ 0.4
Productivity[2]	+ 2.7	+ 0.8	+ 0.6	+ 4.4	+ 5.6	+ 3.0
Employees[6]	+ 0.1	+ 0.5	+ 0.8	+ 1.2	+ 1.0	+ 0.6

Source: WIFO. 2017 to 2019: forecast. – [1] Total hours worked by persons employed, National Accounts definition. – [2] Production per hour worked. – [3] Employees and self-employed, National Accounts definition (jobs). – [4] Gross value added, volume. – [5] Total hours worked by employees. – [6] National Accounts definition (jobs).

3.6 Strong business activity lowers general government deficit

High tax revenues from lively business activity improve the balance of government accounts.

The strong upturn in demand and output growth generates higher revenues for government households. Total tax revenues for the period from January to October 2017 exceeded the year-earlier level by 5.1 percent. Higher receipts were notably recorded for capital gains tax, corporate tax and VAT, while the intake from wage and assessed income tax fell somewhat short of expectations. The general government deficit for 2017 narrows to 0.6 percent of GDP, an improvement by 1 percentage point from the previous year.

Table 10: Fiscal and monetary policy – key figures

	2014	2015	2016	2017	2018	2019
	As a percentage of GDP					
Fiscal policy						
General government financial balance[1]	– 2.7	– 1.0	– 1.6	– 0.6	– 0.4	– 0.1
General government primary balance	– 0.2	1.3	0.5	1.2	1.2	1.3
General government total revenue	49.6	49.9	49.1	48.6	48.1	47.8
General government total expenditure	52.3	51.0	50.7	49.2	48.4	47.9
	Percent					
Monetary policy						
Three-month interest rate	0.2	– 0.0	– 0.3	– 0.3	– 0.3	– 0.1
Long-term interest rate[2]	1.5	0.7	0.4	0.6	0.6	0.9

Source: WIFO. 2017 to 2019: forecast. – [1] According to Maastricht definition. – [2] 10-year central government bonds (benchmark).

Although government revenues will be boosted by lively economic growth also in 2018, the measures decided in October 2017 (inter alia changes to unemployment assistance benefits, support for social inclusion and the abolition of duties on the conclusion of rent contracts) delay the reduction of the budget deficit. Moreover, the earlier-decided increase in the research premium, the "employment bonus", the "Initiative 20,000" and higher social retirement outlays exert upward pressure on expenditure. On the revenue side, the government balance is burdened by the waiving of the recovery of nursing care costs from a patient's relatives ("Pflegeregress"), the cut in the employer's contribution to the Family Burden Equalisation Fund and the 50-percent-reduction of the air transport levy. Public debt service cost is likely to decline given that the effective interest rate on government debt keeps heading down and the stock of public debt decreases noticeably in relation to GDP. The general government balance is projected at –0.4 percent of GDP for 2018, narrowing to –0.1 percent in 2019.