

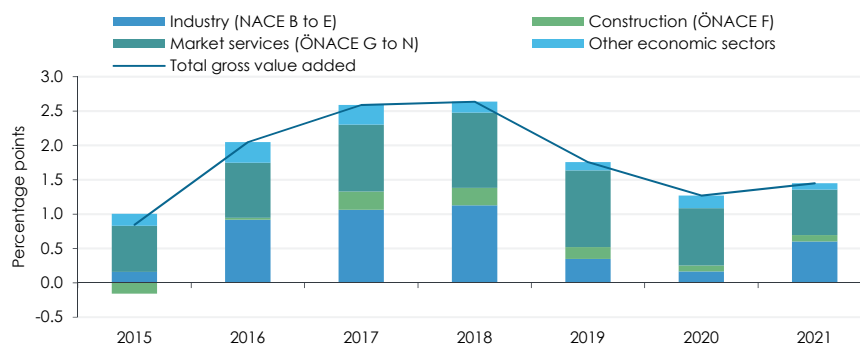
Global Economic Weakness Dampens Activity in Austria

Economic Outlook for 2020 and 2021

Christian Glocker

- The Austrian economy is currently in a phase of moderate growth.
- WIFO forecasts GDP growth of 1.2 percent for 2020 and 1.4 percent for 2021.
- The weakness of foreign trade is a burden on the export-oriented Austrian economy, while the still solid domestic economy is supporting growth.
- Recently, the domestic business activity has been characterised by a striking dichotomy: a subdued development in industry contrasted with a strong increase in value added by market services and the construction sector.
- This dichotomy will continue in 2020, but should weaken in 2021.
- Due to the moderate economic situation, the increase in employment will flatten out and the reduction in unemployment will come to a halt.
- Downside risks to the forecast arise primarily from the international environment.

Growth contributions to total gross value added, volume, by economic activity



The growth contributions indicate the extent to which the three components (industry, construction and market services) contribute to overall economic growth (increase in gross value added). The growth contribution of a component is calculated by dividing the absolute change of the component compared to the previous period by the value of total gross value added in the previous period (Source: WIFO, 2019 to 2021: forecast).

"While the domestic industry is in a technical recession, domestic business activity in the form of market services and the construction sector is supporting the economy. On the demand side, the sustained growth is being driven above all by strong consumption, bolstered by the good situation on the labour market, and construction investments."

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Global Economic Weakness Dampens Activity in Austria. Economic Outlook for 2020 and 2021

Economic growth in Austria lost considerable momentum in recent months. A major reason is the current phase of weakness in the global trade cycle that weighs on exports and industrial output. Persistently favourable financing conditions, fiscal incentives and resilient consumer demand remain supportive to domestic business activity. After an increase of 1.7 percent in 2019, GDP is projected to grow by 1.2 percent in 2020 and 1.4 percent in 2021.

JEL-Codes: E32, E66 • **Keywords:** Business Cycle, Economic Outlook, Forecast

All staff members of the Austrian Institute of Economic Research contribute to the Economic Outlook. For definitions used see "Methodological Notes and Short Glossary", <https://www.wifo.ac.at/wwadocs/form/WIFO-BusinessCycleInformation-Glossary.pdf>

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From a period of cyclical boom, economic growth in Austria has weakened markedly since spring 2018. Adverse external forces are restraining exports and have driven the manufacturing sector into recession. By contrast, domestic demand forces like construction and services act as cyclical stabilisers.

Over the forecast period, global economic growth looks set to remain subdued, even if a worldwide recession appears unlikely. Loose monetary policy keeps financing conditions benign, while in several countries fiscal policy is already providing stimulus and private consumption remains generally buoyant.

In such scenario, Austria's economy is projected to grow by 1.2 percent in 2020, less than the 1.7 percent expected for 2019. With investment keeping its upward trend, the above-average utilisation of overall productive capacity will not rise further, preventing existing bottlenecks from exacerbating. In 2021, the expected GDP growth rate of 1.4 percent should converge towards the longer-term trend.

The cyclical slowdown will dampen employment growth and bring the fall in unemployment to a halt. The same trend should

prevail in 2021. Although the creation of new jobs will extend over the entire forecast period, this will no longer be sufficient to continue the cyclical reduction in unemployment in the light of the continued expansion of labour supply. The number of persons in active dependent employment is expected to grow by 1.1 percent each in 2020 and 2021. Unemployment may stay at a constant ratio of 7.4 percent in both years, having declined markedly during the previous years.

The external risks to the forecast have further tilted to the downside. Apart from the uncertainty surrounding future barriers to commercial trade with the USA, economic policy settings and geo-political risks are clouding the outlook. Domestic risks, for their part, are on balance upward bound, as the gains in employment and private income may fuel private consumption above expectations. Yet, given the downturn in the manufacturing sector, Austria's economy may prove particularly vulnerable to external disruption. On the whole therefore, the downward risks emanating from the external environment prevail. From a fiscal policy perspective, the present scenario does not suggest a need for counter-cyclical stimulus beyond the operation of automatic stabilisers.

Table 1: **Main results**

	2016	2017	2018	2019	2020	2021	
	Percentage changes from previous year						
Gross domestic product, volume	+ 2.1	+ 2.5	+ 2.4	+ 1.7	+ 1.2	+ 1.4	
Manufacturing	+ 4.6	+ 4.7	+ 5.1	+ 1.1	+ 0.4	+ 3.0	
Wholesale and retail trade	+ 0.4	+ 0.3	+ 1.9	+ 1.0	+ 1.3	+ 1.5	
Private consumption expenditure ¹ , volume	+ 1.6	+ 1.4	+ 1.1	+ 1.5	+ 1.6	+ 1.6	
Consumer durables	+ 2.9	+ 2.2	+ 0.4	- 2.0	+ 2.0	+ 1.5	
Gross fixed capital formation, volume	+ 4.1	+ 4.0	+ 3.9	+ 3.1	+ 1.6	+ 1.7	
Machinery and equipment ²	+ 7.2	+ 4.5	+ 4.1	+ 3.5	+ 1.8	+ 2.0	
Construction	+ 0.5	+ 3.3	+ 3.7	+ 2.6	+ 1.3	+ 1.4	
Exports, volume	+ 3.1	+ 5.0	+ 5.9	+ 2.8	+ 2.3	+ 2.9	
Exports of goods, fob	+ 2.7	+ 5.4	+ 6.4	+ 2.3	+ 2.4	+ 3.0	
Imports, volume	+ 3.7	+ 5.0	+ 4.6	+ 3.2	+ 2.4	+ 2.8	
Imports of goods, fob	+ 3.4	+ 4.4	+ 4.0	+ 2.4	+ 2.3	+ 2.9	
Gross domestic product, value	+ 3.8	+ 3.6	+ 4.2	+ 3.5	+ 3.0	+ 3.1	
	billion €	357.30	370.30	385.71	399.31	411.32	423.88
Current account balance	as a percentage of GDP	2.7	1.6	2.3	1.9	1.8	1.7
Consumer prices		+ 0.9	+ 2.1	+ 2.0	+ 1.5	+ 1.5	+ 1.6
Three-month interest rate	percent	- 0.3	- 0.3	- 0.3	- 0.4	- 0.5	- 0.5
Long-term interest rate ³	percent	0.4	0.6	0.7	0.1	- 0.1	0.3
General government financial balance, Maastricht definition	as a percentage of GDP	- 1.5	- 0.7	0.2	0.6	0.3	0.4
Persons in active dependent employment ⁴		+ 1.6	+ 2.0	+ 2.5	+ 1.6	+ 1.1	+ 1.1
Unemployment rate							
Eurostat definition ⁵		6.0	5.5	4.9	4.6	4.7	4.7
National definition ⁶		9.1	8.5	7.7	7.3	7.4	7.4

Source: WIFO. 2019 to 2021: 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. The starting situation

After a period of cyclical boom, economic growth in Austria has gradually decelerated since spring 2018. Having reached 2.4 percent in 2018, real GDP has advanced but modestly during 2019. With a gain of 0.2 percent from the previous period and 1.5 percent year-on-year, the pace in the third quarter was in line with the projection of last October. While WIFO had already in December 2018 expected the underlying cyclical momentum to be subdued in 2019, the lately observed dichotomy of domestic activity has further exacerbated: the manufacturing sector has slipped into recession, whereas construction and services continue to enjoy robust expansion.

This cyclical dichotomy is also visible on the demand side: on the one hand, exports are growing more slowly under the impact of sluggish global trade; benign financing conditions and the favourable labour market situation, on the other hand, lend firm support to domestic demand. The cyclical pattern is

therefore similar to the one prevailing during the years of the European debt crisis 2012–2014: resilient internal activity accompanied by external demand slack.

Private income advanced strongly both in 2018 and 2019. Thanks to gains in nominal wages and salaries and increasing employment, compensation of employees in the third quarter of 2019 rose 4.2 percent above the year-earlier level. At the same time, gross operating surplus and gross mixed income grew by 2.7 percent, markedly less than the year before.

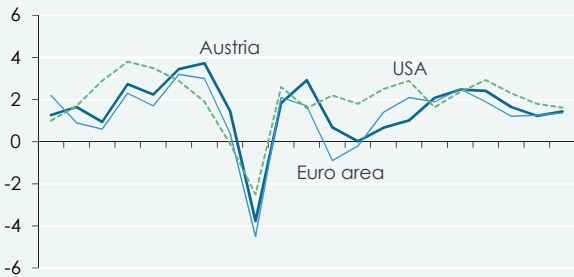
In line with the cyclical profile, the labour market is no longer improving; while employment has been further expanded, the decline in unemployment has come to a halt.

The cyclical slowdown is also reflected by the dynamics of inflation which has abated from an average 2.0 percent in 2018 to 1.1 percent in October 2019.

Figure 1: Indicators of economic performance

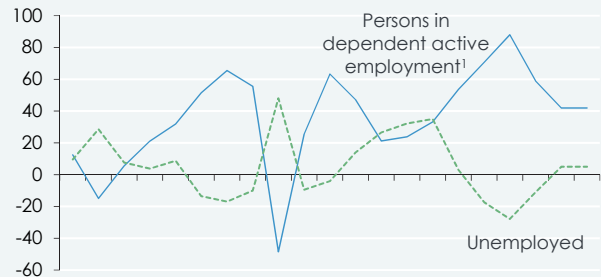
Growth of real GDP

Percent



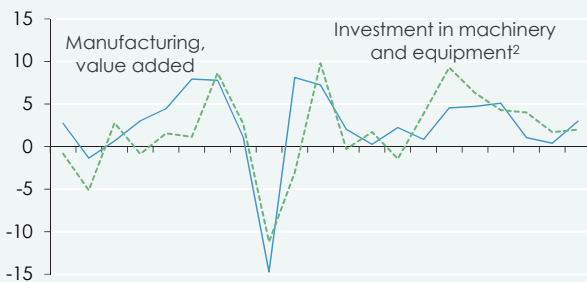
Employment and unemployment

Change from previous year in 1,000



Manufacturing and investment

Percentage changes from previous year, volume



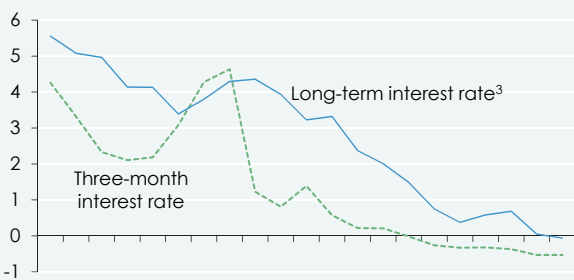
Consumption and income

Percentage changes from previous year, volume



Short-term and long-term interest rates

Percent



Inflation and unit labour costs

Percentage changes from previous year



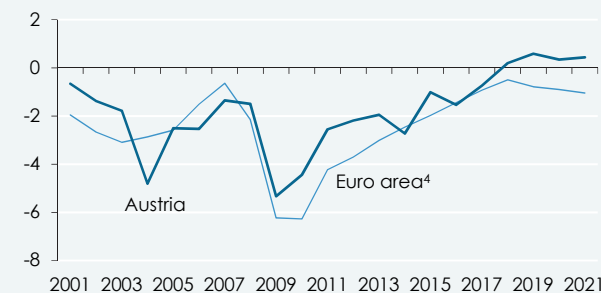
Trade (according to National Accounts)

Percentage changes from previous year, volume



General government financial balance

As a percentage of GDP



Source: WIFO. 2019 to 2021: 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). – ⁴ Source: European Commission.

2. Framework conditions

The present forecast incorporates information on developments in the world economy, commodity prices, exchange rates and interest rates that has become available until mid-December 2019. The forecast horizon stretches from the fourth quarter of 2019 to the fourth quarter of 2021.

2.1 The international scenario

Growth of merchandise trade and industrial production has been slowing worldwide since early 2018. The global economy is thus

amidst a period of synchronised cyclical downswing, for which several factors are responsible: higher tariffs and lasting uncertainty about future trade policy settings weigh on investment and demand for capital goods. The motor car industry is also struggling with idiosyncratic shocks such as the introduction of new exhaust emission standards in the euro area and in China. Hence, growth of global trade volumes was unusually weak in the first half of 2019. Unlike world trade and industrial output, the service sector flourishes in many countries.

After a strong upswing of the global economy from 2016 to 2018, the industrialised economies as well as the emerging markets find themselves in a synchronised downturn. The latter weakens primarily industrial output and merchandise world trade, while demand and production of services keep growing, thereby stabilising international business conditions.

Table 2: International economy

	Percentage shares 2018		2016	2017	2018	2019	2020	2021
	Austria's exports of goods	World GDP ¹						
			GDP volume, percentage changes from previous year					
EU 28			+2.0	+2.6	+2.0	+1.6	+1.5	+1.6
EU 27	67.1	14.0	+2.1	+2.7	+2.1	+1.6	+1.5	+1.6
Euro area	52.0	11.4	+1.9	+2.5	+1.9	+1.2	+1.3	+1.4
Germany	30.1	3.2	+2.2	+2.5	+1.5	+0.5	+1.2	+1.4
Italy	6.5	1.8	+1.3	+1.7	+0.8	+0.2	+0.4	+0.8
France	4.3	2.2	+1.1	+2.3	+1.7	+1.3	+1.3	+1.5
CEEC 5 ²	14.6	1.6	+2.8	+4.5	+4.5	+3.9	+3.1	+3.0
Czech Republic	3.8	0.3	+2.5	+4.4	+3.0	+2.6	+2.4	+2.6
Hungary	3.4	0.2	+2.2	+4.3	+5.1	+4.9	+3.2	+2.6
Poland	3.2	0.9	+3.1	+4.9	+5.1	+4.3	+3.5	+3.3
USA	7.1	15.2	+1.6	+2.4	+2.9	+2.3	+1.8	+1.6
Switzerland	5.0	0.4	+1.7	+1.8	+2.8	+0.9	+1.5	+1.1
UK	2.8	2.2	+1.9	+1.9	+1.4	+1.3	+1.1	+1.9
China	2.7	18.7	+6.7	+6.8	+6.6	+6.2	+5.8	+5.6
Total ³								
PPP-weighted ⁴		51	+3.6	+4.0	+4.0	+3.5	+3.2	+3.1
Export weighted ⁵	85		+2.2	+2.7	+2.3	+1.7	+1.6	+1.7
Market growth ⁶			+3.5	+6.5	+4.5	+1.8	+2.5	+3.0
Forecast assumptions								
Crude oil prices								
Brent, \$ per barrel			43.7	54.3	71.0	64	60	58
Exchange rate								
\$ per €			1.107	1.129	1.181	1.12	1.11	1.11
Key interest rate								
ECB main refinancing rate ⁷ , percent			0.0	0.0	0.0	0.0	0.0	0.0
10-year government bonds yields Germany, percent			0.1	0.3	0.4	-0.3	-0.4	-0.1

Source: WIFO. 2019 to 2021: forecast. – ¹ PPP-weighted. – ² Czech Republic, Hungary, Poland, Slovenia, Slovakia. – ³ EU 27, UK, USA, Switzerland, China. – ⁴ Weighted by GDP at purchasing power parities in 2018. – ⁵ Weighted by shares of Austrian goods exports in 2018. – ⁶ Real import growth of trading partners, weighted by shares of Austrian goods exports. – ⁷ Minimum bid rate.

In the USA, the current cyclical high has lasted for more than ten years. At present, however, a certain slowdown has appeared on the horizon. New trade restrictions introduced last September add to confidence losses, and growing uncertainty is weighing on corporate investment and industrial production. The effects of the new trade measures will also dampen private consumption growth and temporarily rekindle

inflation. Overall, these elements will significantly slow US GDP growth in 2020 and 2021.

In the EU economies, demand and output growth decelerated under the impact of sluggish merchandise trade and manufacturing, largely due to adverse external conditions. Yet, first signs of weakening domestic demand are also discernible, mainly on the part of investment. Services and private

consumption have so far kept strong momentum; their resilience closely hinges on labour market conditions which have so far held up well. In many countries, domestic demand receives support from fiscal expansion and further relaxation of financing conditions. Overall GDP growth in the EU is set to marginally edge down from 1.6 percent in 2019 to 1.5 percent in 2020. A cyclical stabilisation is expected for 2021, as world trade picks up and past impediments to growth in a number of countries should be overcome.

The ECB resumes earlier-terminated measures of "quantitative easing" in order to provide expansionary incentives.

Since the credit-to-GDP gap remains negative in Austria, the Financial Market Stability Board (FMSB) in charge of macro-prudential regulation is not expected to tighten conditions by raising the countercyclical capital buffer.

In spite of the business cycle slowdown, the general government account remains in surplus.

The key markets for Austrian exporters in the East-central European member countries continue to benefit from a cyclical high. Apart from buoyant consumption, underpinned by substantial real income gains and rising employment, investment growth maintains a strong pace. Indeed, the current upswing increasingly faces supply bottlenecks, mainly due to a declining working-age population and scarcity of qualified labour. GDP growth in the CEEC 5 is projected at 3.9 percent for 2019, 3.1 percent for 2020 and 3.0 percent for 2021.

For Austrian companies' most important export markets, WIFO expects purchasing-power-weighted growth of 3.5 percent for 2019, 3.2 percent and 3.1 percent for 2020 and 2021 respectively.

2.2 Economic policy settings

The projection incorporates all policy measures already adopted or sufficiently specified, such that their implementation is deemed likely.

Given the subdued inflationary pressure and the cyclical slowdown in the euro area, the European Central Bank (ECB) sees a need to maintain its unusually expansionary monetary stance. Lately, the Bank lowered the negative deposit rate by 10 basis points to -0.5 percent and introduced a two-tier system for the compensation of excess liquidity with the aim of lowering the cost for commercial banks. Likewise, net asset purchases to the tune of 20 billion € per month were resumed in November for an unspecified period. The ECB also gave clear forward-looking indications for interest rates and the monetary stance by announcing its

intention to keep rates at the present or even lower level as long as the inflation outlook has "robustly converged to a level sufficiently close to, but below 2 percent". In doing so, the ECB switched from calendar-based to condition-dependent forward guidance.

The proportion of new real estate loans exhibiting an unfavourable ratio of debt service cost to the income of a credit borrower remained high in the first half of 2019. However, loan-to-value ratios and maturities of new loans declined somewhat. Besides, loans to domestic borrowers are not growing excessively in Austria, as the credit-to-GDP gap¹ remains negative. Against this background, the FMSB decided to keep the countercyclical capital buffer unchanged at 0 percent of the risk-weighted assets.

For 2019, WIFO expects a general government surplus (Maastricht definition) of 0.6 percent of nominal GDP. In 2019 and 2020, the government budget will once again benefit from low debt service cost. The slackening industrial activity does not substantially dampen the buoyancy of tax revenue. In both years, the receipts from taxes and particularly from social contributions mirror generous wage settlements and the persistently benign labour market situation.

Although the output gap is still positive, a large number of expansionary policy measures have recently been taken, part of which will take effect from 2020. Among others, low retirement benefits will be revalued and social security contributions of self-employed cut. The "family bonus" will still dampen tax revenue in 2020, and so will tax benefits for low-income earners. On the expenditure side, social benefits in kind are boosted by the abolition of the recovery of nursing care cost from patients' relatives ("Pflegerregress"), even if the implicit cost may turn out lower than anticipated. Finally, bonus payments to civil servants in recognition of earlier services will raise spending. The budgetary surplus for 2020 may thus turn out lower, at an equivalent of 0.3 percent of GDP. From today's perspective, the budget balance will change little in 2021².

¹ The credit-to-GDP gap is calculated as the difference between the actual relation of total credit volume to GDP and its trend. A positive gap (i.e. an actual lending-to-GDP ratio above trend) indicates excessive credit growth according to the Basel Committee on Banking Supervision (BCBS) method (<https://www.fmsg.at/en/publications/warnings-and-recommendations/2019/recommendation-fmsg-3-2019.html>).

² The present forecast incorporates only those fiscal measures that have already been adopted or have

at least been sufficiently specified. WIFO forecasts are based on a no-policy-change assumption that generally incorporates only legal acts already adopted. In certain cases, measures not yet formally decided are included, e.g., if negotiations or legislation processes have reached an advanced stage (draft legal acts in evaluation, Ministerial Council decisions, if a stable parliamentary majority makes their adoption likely) and the proposals are sufficiently specified to allow a quantitative assessment.

Table 3: Fiscal and monetary policy – key figures

	2016	2017	2018	2019	2020	2021
	As a percentage of GDP					
Fiscal policy						
General government financial balance ¹	- 1.5	- 0.7	0.2	0.6	0.3	0.4
General government primary balance	0.5	1.1	1.8	2.0	1.7	1.7
General government total revenue	48.6	48.4	48.8	48.7	48.5	48.4
General government total expenditure	50.1	49.1	48.6	48.2	48.2	48.0
	Percent					
Monetary policy						
Three-month interest rate	- 0.3	- 0.3	- 0.3	- 0.4	- 0.5	- 0.5
Long-term interest rate ²	0.4	0.6	0.7	0.1	- 0.1	0.3

Source: WIFO. 2019 to 2021: forecast. – ¹ According to Maastricht definition. – ² 10-year central government bonds (benchmark).

Table 4: Gross value added

At basic prices

	2018	2019	2020	2021	2018	2019	2020	2021
	Billion € (reference year 2015)				Percentage changes from previous year			
Volume (chain-linked series)								
Agriculture, forestry and fishing	4.34	4.34	4.34	4.34	+ 4.1	± 0.0	± 0.0	± 0.0
Manufacturing including mining and quarrying	67.31	68.02	68.30	70.34	+ 5.1	+ 1.1	+ 0.4	+ 3.0
Electricity, gas and water supply, waste management	10.12	10.62	10.94	11.05	+ 5.4	+ 5.0	+ 3.0	+ 1.0
Construction	20.87	21.41	21.69	22.00	+ 3.9	+ 2.6	+ 1.3	+ 1.4
Wholesale and retail trade	38.50	38.88	39.38	39.97	+ 1.9	+ 1.0	+ 1.3	+ 1.5
Transportation	19.21	20.17	20.78	20.98	+ 4.5	+ 5.0	+ 3.0	+ 1.0
Accommodation and food service activities	16.55	16.85	17.06	17.31	+ 3.0	+ 1.8	+ 1.3	+ 1.4
Information and communication	11.91	12.27	12.58	12.70	+ 2.7	+ 3.0	+ 2.5	+ 1.0
Financial and insurance activities	13.71	14.03	14.02	14.26	- 0.5	+ 2.3	- 0.1	+ 1.7
Real estate activities	30.71	31.26	31.82	32.05	+ 0.9	+ 1.8	+ 1.8	+ 0.7
Other business activities ¹	32.34	33.15	33.75	34.36	+ 3.0	+ 2.5	+ 1.8	+ 1.8
Public administration ²	55.59	55.89	56.45	56.71	+ 0.7	+ 0.5	+ 1.0	+ 0.5
Other service activities ³	8.85	8.94	8.98	9.03	- 0.4	+ 1.0	+ 0.5	+ 0.5
Total gross value added ⁴	329.91	335.70	339.97	344.89	+ 2.6	+ 1.8	+ 1.3	+ 1.4
Gross domestic product at market prices	368.86	374.95	379.56	385.03	+ 2.4	+ 1.7	+ 1.2	+ 1.4

Source: WIFO. 2019 to 2021: 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 activities; activities of households (NACE R to U). – ⁴ Before deduction of subsidies and attribution of taxes on products.

3. Austria's economy shaped by cyclical dichotomy

The trajectory of domestic economic activity has recently been shaped by two elements: first, demand and output growth has clearly lost momentum since spring 2018 and the slowdown is still ongoing; second, sectoral performance shows a clear dichotomy, with manufacturing industry in recession and the service sector still enjoying healthy growth. Meanwhile, the discrepancy between the two has lasted unusually long, raising the question of whether and when manufacturing sluggishness may spill over to the services branches. Several leading indicators from the regular WIFO-Konjunkturtest (business cycle survey) like judgements on the current situation and

expectations in the service sector have eased, although the upbeat responses still dominate. Hence, the benign development should continue. Manufacturing firms' assessments, on the contrary, have deteriorated significantly, both with respect to the current situation and the short-term outlook. Meanwhile, the pessimistic expectations prevail. The Purchasing Managers' Index of UniCredit Bank Austria draws a similarly adverse picture. Despite a latest tentative uptick, the low level suggests that the recession in manufacturing may extend to spring 2020. This is confirmed by shrinking order levels, as conveyed not only by the Purchasing Managers' Index, but also by the Creditreform

Austria's economy is amidst a period of subdued growth. On the demand side, this is mirrored by slower expansion of exports and investment, while private consumption continues to lend reliable support. On the supply side, manufacturing output is the focus of weak performance. The underlying cyclical path remains upward bound, albeit at a more moderate pace and in line with developments abroad.

Klimabarometer (SME-business barometer), the WIFO-Konjunkturtest (business cycle survey) and the WKÖ-Wirtschaftsbarometer (business barometer). Hence, the cyclical

dichotomy may persist during 2020, implying further subdued growth for the overall economy.

Table 5: **Productivity**

	2016	2017	2018	2019	2020	2021
	Percentage changes from previous year					
Total economy						
Real GDP	+ 2.1	+ 2.5	+ 2.4	+ 1.7	+ 1.2	+ 1.4
Hours worked ¹	+ 2.1	+ 1.0	+ 2.0	+ 1.2	+ 1.0	+ 1.0
Productivity ²	- 0.0	+ 1.4	+ 0.4	+ 0.4	+ 0.2	+ 0.4
Employment ³	+ 1.5	+ 1.7	+ 1.9	+ 1.3	+ 0.9	+ 1.0
Manufacturing						
Production ⁴	+ 4.6	+ 4.7	+ 5.1	+ 1.1	+ 0.4	+ 3.0
Hours worked ⁵	+ 0.4	+ 1.1	+ 2.7	+ 0.7	- 0.5	+ 0.2
Productivity ²	+ 4.2	+ 3.6	+ 2.3	+ 0.4	+ 0.9	+ 2.8
Employees ⁶	+ 0.5	+ 1.3	+ 3.0	+ 1.7	- 0.1	+ 0.1

Source: WIFO. 2019 to 2021: 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).

The weaker results from leading indicators suggest modest economic growth throughout the forecast period.

3.1 Moderate cyclical momentum in the first half of 2020

Economic growth in Austria is expected to pick up only gradually. For spring 2020, no sustained revival is yet in sight. On the other hand, there are no hints for a slip into recession of the overall economy. Under the current international circumstances and policy conditions, adjusted annual growth of real GDP will abate from 1.6 percent in 2019 to 1.0 percent in 2020 and stabilise at 1.4 percent in 2021. The unadjusted rate of growth in 2019 and 2020 is set to turn out somewhat higher, at 1.7 percent and 1.2 percent respectively, due to a higher number of working days. In 2021, there will be no influence from calendar effects. The moderate growth rate in 2019 benefits from a substantial carry-over of 0.8 percentage points from 2018, whereas GDP growth during the year is 1.1 percent, markedly lower than the 2.1 percent of 2018. The pattern is similar for 2020: the pace will still be subdued in the first six months, in line with the international trend. From mid-year onwards, a recovery should take hold, with growth gradually converging towards its trend rate in 2021. In the latter year, the annual rate will be boosted by a somewhat higher intra-annual rate.

With activity in the overall economy subdued, capacity utilisation is unlikely to keep rising further over the projection period; the positive output gap will narrow, but not close entirely. From the present perspective, the economy remains in a period of slightly above-average capacity utilisation. This assessment emerges from the WIFO method of estimating the output gap as well as from the method applied by the European Commission.

On the demand side, business activity is driven by persistently lively domestic demand. Major support comes from private consumption on the back of stable growth of household disposable income over the entire forecast horizon. Wage and salary earners benefit from generous wage settlements for 2020; earners of cyclically highly sensitive capital income enjoy comparatively smaller gains in 2020, while prospects seem somewhat better for 2021. Next to higher income, the satisfactory labour market situation is conducive to higher private consumption since the implicit decline in income uncertainty lessens the need for precautionary saving. After an increase of 1.5 percent in 2019, private consumption is projected to expand by an annual 1.6 percent in 2020 and 2021.

Private investment is likely to slacken over the forecast period. Latest results from both the WIFO-Investitionstest (investment survey) and the WKÖ-Wirtschaftsbarometer suggest that mainly the big companies will maintain spending on new capital goods in the face of a weaker business outlook. Smaller companies with less than 50 employees, however, express greater caution. In sum, the survey results point to continued but lower investment growth prospects. Indeed, the pace has slowed already during 2019. While construction should hold up well (2020 +1.3 percent, 2021 +1.4 percent after +2.6 percent in 2019), the need for new machinery and other business equipment will become less important as the over-utilisation of productive capacity fades (2020 +1.8 percent, 2021 +2.0 percent after +3.5 percent in 2019). Overall, gross fixed investment growth is projected to decelerate from 3.1 percent in 2019 to 1.6 percent and 1.7 percent respectively in 2020 and 2021.

Table 6: **Technical breakdown of the real GDP growth forecast**

		2018	2019	2020	2021
Growth carry-over ¹	percentage points	+ 0.9	+ 0.8	+ 0.4	+ 0.5
Growth rate during the year ²	percent	+ 2.1	+ 1.1	+ 1.2	+ 1.4
Annual growth rate	percent	+ 2.4	+ 1.7	+ 1.2	+ 1.4
Adjusted annual growth rate ³	percent	+ 2.3	+ 1.6	+ 1.0	+ 1.4
Calendar effect ⁴	percentage points	+ 0.0	+ 0.1	+ 0.1	± 0.0

Source: WIFO. 2019 to 2021: 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 data. – ² Reflects the growth dynamics during a calendar year. Equals the year-on-year growth rate for the fourth quarter; trend-cycle data. – ³ Trend-cycle data. Corresponding figure to OeNB short-term forecast. – ⁴ Impact of the annual number of working days and the leap day. The sum of the adjusted annual growth rate and the calendar effect may deviate from the unadjusted annual rate, since the latter also includes seasonal and irregular effects.

Table 7: **Private consumption, income and prices**

	2016	2017	2018	2019	2020	2021
Percentage changes from previous year, volume						
Private consumption expenditure ¹	+ 1.6	+ 1.4	+ 1.1	+ 1.5	+ 1.6	+ 1.6
Durable goods	+ 2.9	+ 2.2	+ 0.4	– 2.0	+ 2.0	+ 1.5
Non-durable goods and services	+ 1.5	+ 1.3	+ 1.2	+ 1.9	+ 1.5	+ 1.6
Household disposable income	+ 2.6	+ 1.1	+ 1.4	+ 1.4	+ 1.6	+ 1.4
As a percentage of disposable income						
Household saving ratio						
Including adjustment for the change in pension entitlements	7.7	7.3	7.7	7.5	7.5	7.4
Excluding adjustment for the change in pension entitlements	7.0	6.7	7.0	6.9	6.9	6.8
Percentage changes from previous year						
Loans to domestic non-banks (end of period)	+ 1.8	+ 0.7	+ 4.9	+ 4.6	+ 1.9	+ 2.2
Percent						
Inflation rate						
National	0.9	2.1	2.0	1.5	1.5	1.6
Harmonised	1.0	2.2	2.1	1.4	1.5	1.6
Core inflation ²	1.5	2.2	1.9	1.5	1.6	1.6

Source: WIFO. 2019 to 2021: forecast. – ¹ Private households including non-profit institutions serving households. – ² Excluding energy and unprocessed food (meat, fish, fruits, vegetables).

3.2 Export growth muted over the forecast period

Austria's exports will continue to expand over the forecast horizon, albeit at a moderate pace. The slackening of activity abroad and the weakness in the German industrial sector left their marks on the results in 2019. Firms' reports in the WIFO-Konjunkturtest (business cycle survey) of more rapidly shrinking foreign orders in 2019 leave little hope for a strong rebound during 2020. Nevertheless, with a view to the international outlook, the lower turning point of the cycle should be reached in spring 2020, followed by a hesitant recovery, considering the cautious investment behaviour worldwide. After an increase of 2.8 percent in 2019, volume exports of goods and services are expected to gain 2.3 percent in 2020 and 2.9 percent in 2021.

With the slackening of exports and domestic investment in machinery and equipment – both demand components exhibit a high content of foreign value added –, Austrian import growth is projected to decelerate from 3.2 percent in 2019 to no more than 2.4 percent in 2020, followed by 2.8 percent in 2021.

Hence, net exports are unlikely to provide a substantial contribution to GDP growth in 2020; for 2021, a significantly positive foreign growth contribution is expected.

3.3 Unemployment stagnates despite continued employment growth

The cyclical slowdown is clearly reflected on the labour market. Already in the course of 2019, job creation gradually lost momentum and the decline in unemployment slowed. Another indication of the weakening labour

market is the rebound in unemployment among persons of age 55 and above and of jobseekers of reduced health status.

Likewise, the ratio of unemployed to job vacancies barely seems to decline further.

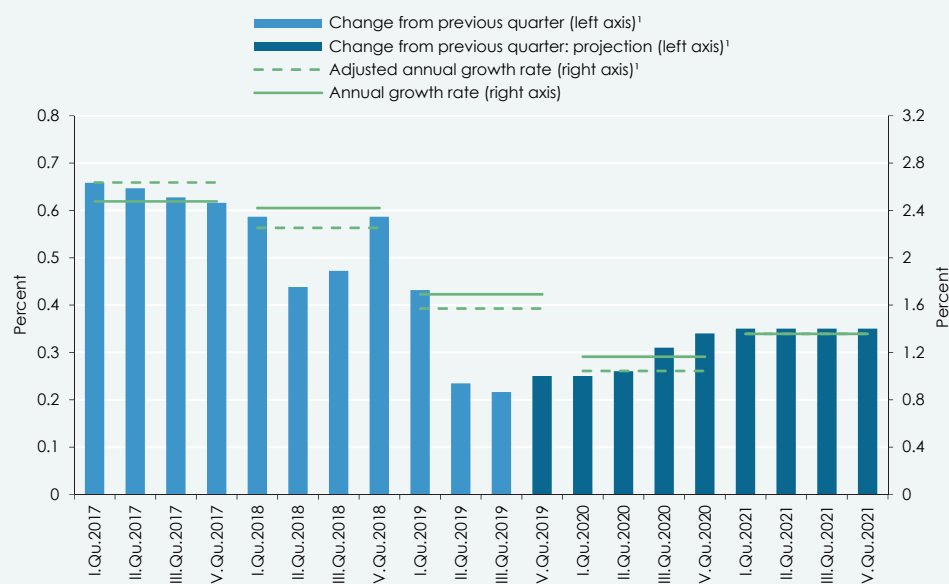
Table 8: **Earnings, international competitiveness**

	2016	2017	2018	2019	2020	2021
Percentage changes from previous year						
Wages and salaries per employee ¹						
Nominal, gross	+ 2.3	+ 1.6	+ 2.7	+ 2.9	+ 2.2	+ 2.0
Real ²						
Gross	+ 1.4	- 0.5	+ 0.7	+ 1.3	+ 0.7	+ 0.4
Net	+ 4.3	- 0.7	+ 0.2	+ 1.3	+ 0.7	+ 0.1
Wages and salaries per hour worked ¹						
Real, net ²	+ 3.5	+ 0.1	+ 0.3	+ 1.4	+ 0.8	+ 0.2
Percent						
Wage share, adjusted ³	68.0	68.5	68.0	68.3	68.5	68.6
Percentage changes from previous year						
Unit labour costs, nominal ⁴						
Total economy	+ 1.6	+ 0.9	+ 2.5	+ 2.4	+ 2.0	+ 1.6
Manufacturing	- 1.5	- 2.0	+ 1.0	+ 3.9	+ 2.3	- 0.1
Effective exchange rate – manufactured goods ⁵						
Nominal	+ 1.2	+ 0.7	+ 1.7	- 0.8	+ 0.3	+ 0.3
Real	+ 1.3	+ 1.0	+ 1.7	- 1.2	- 0.1	+ 0.0

Source: WIFO. 2019 to 2021: 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 and value added, respectively, per employed persons' hours worked). – ⁵ Weighted by exports and imports, real value adjusted by relative HCPI.

Figure 2: **Cyclical profile Austria**

GDP, volume



Source: WIFO. – ¹ Trend-cycle data.

Table 9: **Expenditure on GDP**
Volume (chain-linked series)

	2018	2019	2020	2021	2018	2019	2020	2021
	Billion € (reference year 2015)				Percentage changes from previous year			
Final consumption expenditure	259.65	263.00	266.66	270.11	+ 1.1	+ 1.3	+ 1.4	+ 1.3
Households ¹	189.03	191.94	194.93	197.97	+ 1.1	+ 1.5	+ 1.6	+ 1.6
General government	70.62	71.06	71.73	72.14	+ 0.9	+ 0.6	+ 0.9	+ 0.6
Gross capital formation	92.28	95.37	96.52	97.89	+ 3.6	+ 3.4	+ 1.2	+ 1.4
Gross fixed capital formation	87.85	90.58	92.02	93.61	+ 3.9	+ 3.1	+ 1.6	+ 1.7
Machinery and equipment ²	30.31	31.52	32.06	32.70	+ 4.3	+ 4.0	+ 1.7	+ 2.0
Construction	39.19	40.21	40.73	41.30	+ 3.7	+ 2.6	+ 1.3	+ 1.4
Other investment ³	18.36	18.87	19.25	19.63	+ 3.9	+ 2.8	+ 2.0	+ 2.0
Domestic demand	352.79	359.29	363.75	368.58	+ 1.6	+ 1.8	+ 1.2	+ 1.3
Exports	209.49	215.26	220.23	226.61	+ 5.9	+ 2.8	+ 2.3	+ 2.9
Travel	16.39	16.60	16.77	16.98	+ 4.2	+ 1.3	+ 1.0	+ 1.3
Minus imports	193.38	199.55	204.34	210.04	+ 4.6	+ 3.2	+ 2.4	+ 2.8
Travel	9.15	9.28	9.46	9.65	+ 9.9	+ 1.4	+ 2.0	+ 2.1
Gross domestic product	368.86	374.95	379.56	385.03	+ 2.4	+ 1.7	+ 1.2	+ 1.4
Value	385.71	399.31	411.32	423.88	+ 4.2	+ 3.5	+ 3.0	+ 3.1

Source: WIFO. 2019 to 2021: forecast. – ¹ Including non-profit institutions serving households. – ² Including weapon systems. – ³ Mainly intellectual property products (research and development, computer programmes, copyrights).

Table 10: **Labour market**

	2016	2017	2018	2019	2020	2021
	Change from previous year in 1,000					
Demand for labour						
Persons in active employment ¹	+ 62.3	+ 76.8	+ 91.6	+ 62.0	+ 44.0	+ 44.0
Employees ^{1,2}	+ 53.7	+ 70.7	+ 88.0	+ 59.0	+ 42.0	+ 42.0
National employees	+ 17.7	+ 23.8	+ 33.7	+ 12.0	+ 8.0	+ 8.0
Foreign employees	+ 36.0	+ 46.8	+ 54.4	+ 47.0	+ 34.0	+ 34.0
Self-employed ³	+ 8.6	+ 6.1	+ 3.6	+ 3.0	+ 2.0	+ 2.0
Labour supply						
Population of working age						
15 to 64 years	+ 65.8	+ 23.0	+ 13.2	+ 10.6	+ 4.1	– 2.5
Labour force ⁴	+ 65.3	+ 59.4	+ 63.8	+ 51.0	+ 49.0	+ 49.0
Labour surplus						
Unemployed ⁵	+ 3.0	– 17.3	– 27.9	– 11.0	+ 5.0	+ 5.0
Unemployed persons in training	+ 2.1	+ 4.9	– 3.4	– 7.0	+ 2.0	± 0.0
Percent						
Unemployment rate						
As a percentage of total labour force (Eurostat) ⁶	6.0	5.5	4.9	4.6	4.7	4.7
As a percentage of total labour force ⁵	8.1	7.6	6.9	6.5	6.6	6.6
As a percentage of dependent labour force ⁵	9.1	8.5	7.7	7.3	7.4	7.4
Percentage changes from previous year						
Labour force ⁴	+ 1.5	+ 1.4	+ 1.4	+ 1.1	+ 1.1	+ 1.1
Persons in active dependent employment ^{1,2}	+ 1.6	+ 2.0	+ 2.5	+ 1.6	+ 1.1	+ 1.1
Unemployed ⁵	+ 0.8	– 4.9	– 8.2	– 3.5	+ 1.7	+ 1.6
Persons (in 1,000)	357.3	340.0	312.1	301.1	306.1	311.1

Source: WIFO. 2019 to 2021: 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.

Despite the cyclical slowdown, labour supply is set to keep growing over the entire forecast period. Several structural factors are at work: apart from rising labour force

participation of older workers and women, foreign labour supply is likely to expand, mainly from other EU member countries. The number of persons in dependent active

employment will increase by 1.1 percent in 2020, down from +1.6 percent in 2019. With the economic recovery, employment growth should keep a stable upward trend of 1.1 percent in 2021. The unemployment rate (national definition) is likely to edge up to 7.4 percent in 2020 and 2021. With job creation broadly accommodating the growing labour supply, the unemployment rate will not move significantly up or down.

3.4 Inflation remains low

Starting from a rate of 1.5 percent in 2019, inflation as measured by the consumer price index should remain low, at 1.5 percent in 2020 and 1.6 percent in 2021. If confirmed,

the inflation rate would ratchet down from the last economic boom (2017: 2.1 percent, 2018: 2.0 percent). Both external and domestic factors contribute towards keeping the price level largely stable: upward pressure from import prices is easing, both for raw materials and manufactured goods. The output gap, while staying positive throughout the projection period, will narrow and thus keep a lid on price increases. However, the hefty rise in unit labour cost following the surprisingly high wage settlements of autumn 2019 will feed into consumer prices, mostly in 2020. Also the persistently stable growth of private consumption will maintain upward pressure on prices from the demand side.

4. The risk environment

The danger of a downright recession with negative GDP growth rates over several quarters appears minor from the present perspective, provided that the political risks will not grow more acute. The 75 percent confidence interval of the present forecast for GDP growth ranges from +0.3 percent to +1.8 percent in 2020, and in 2021 from +0.1 percent to +2.5 percent.

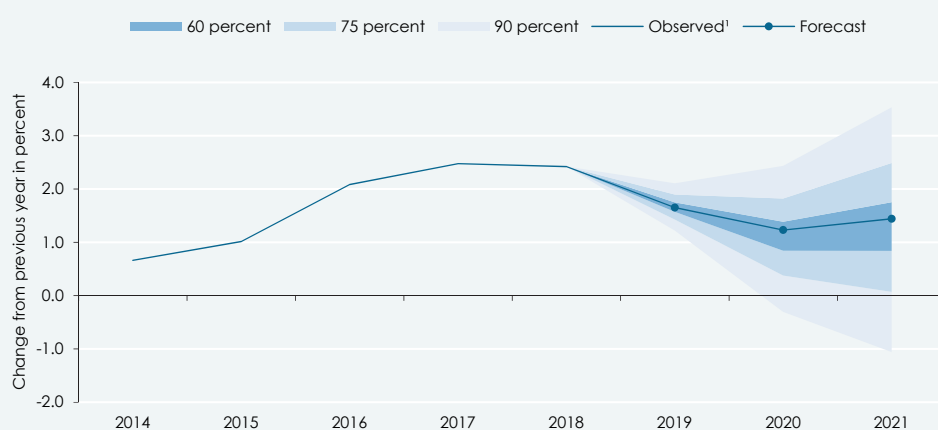
international trade and global business activity more than anticipated in the present scenario, with adverse repercussions on the Austrian economy. Moreover, as the latest results of the WKÖ-Wirtschaftsbarometer show, the sluggish activity in Europe and notably in Germany is a matter of concern for nearly half of the companies in Austria.

Domestic cyclical risks, for their part, are on balance upward-bound. A further benign performance of the labour market and the implicit growth of private income may fuel private consumption beyond present expectations. Besides, an income tax reform as announced by the previous federal government would strengthen household disposable income and stimulate private consumption. Nevertheless, the downward risks to economic growth deriving from the external environment are deemed to prevail in the overall assessment.

The external environment shapes the downward risks to the forecast, while the domestic economy holds certain upward risks.

The international environment holds important downside risks to the forecast. The trade conflict between the USA and China may rekindle at any time. Newly emerging trade conflicts between the USA on the one side and Argentina and Brazil on the other further add to uncertainty. In addition, the modalities of the withdrawal of the UK from the EU (orderly or "hard" Brexit) have still not become clear, despite the latest election result. Frequent outbreaks of social unrest in many countries also heighten the projection risks. All these elements may undermine

Figure 3: Margins of uncertainty for real GDP



Source: WIFO. Calculated on the basis of ex-post revealed forecast errors. For methodology see Kaniowski (2019) "Probability Intervals for STATEC Forecasts". – ¹ Uncertainty of measurement: ±0.28 percentage points.