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HIGHER OIL PRICES AND BUDGETARY CONSOLIDATION DAMPEN ECONOMIC GROWTH

ECONOMIC OUTLOOK FOR 2000 AND 2001

The rise in crude oil prices and more determined efforts to consolidate public finances will make for slower economic growth next year. Following a strong cyclical upswing in 2000 (+3.5 percent), activity is set to expand by a more moderate 2.8 percent in 2001.

The Austrian business cycle has attained a peak in the current year. Real GDP is expected to grow by 3½ percent, the highest rate since 1990. Buoyancy is extending to all components of demand: exports, investment and consumption.

In 2001, losses in disposable income stemming from higher oil prices and greater efforts at fiscal consolidation will slow the pace of growth to a projected 2.8 percent. According to the regular WIFO survey, the improvement in the business climate has levelled off in recent months.

The price of crude oil has moved up to over 30 $ per barrel in autumn, three times its low in late 1998. The raise in supply quotas decided by OPEC has so far had little dampening effect. If oil prices were to remain at that level for a longer period of time, a noticeable impact on economic developments should be expected. On cautious assumptions, GDP growth in 2001 may be reduced by ¼ percentage point. An early rise in exports to oil producing countries would mitigate the drag on purchasing power, but little such evidence was to be found until late summer.

The high oil prices evoke memories of the two price shocks of 1973-74 and 1979-80. Since that time, however, OECD countries have significantly reduced their dependency on oil imports. Moreover, in today's more competitive environment it would be more difficult to pass higher energy costs onto wages and consumer prices. Still, there can be no doubt that risks for global economic development have increased of late.

Further demand-restraining effects will derive next year from a tighter stance of fiscal consolidation. The government's new "savings package" will boost wage tax revenues by some ATS 10 billion, trim social benefits and raise advance payments on income and corporate tax by an amount of ATS 15 billion. In view

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

Main results

		1997	1998	1999	2000	2001
		Percentage changes from previous year				
GDP						
Volume		+ 1.2	+ 2.9	+ 2.1	+ 3.5	+ 2.8
Value		+ 2.8	+ 3.5	+ 3.0	+ 4.8	+ 4.2
Manufacturing[1]), volume		+ 3.8	+ 3.4	+ 2.3	+ 6.5	+ 4.8
Private consumption expenditure, volume		+ 0.1	+ 1.5	+ 2.7	+ 2.8	+ 2.0
Gross fixed investment, volume		+ 0.8	+ 6.8	+ 2.9	+ 4.4	+ 3.5
Machinery and equipment[2])		+ 4.6	+10.6	+ 5.5	+ 7.5	+ 6.5
Construction		− 1.6	+ 4.1	+ 1.0	+ 2.0	+ 1.0
Exports of goods[3])						
Volume		+16.5	+ 8.1	+ 6.9	+12.0	+ 7.5
Value		+16.8	+ 8.4	+ 7.0	+15.4	+10.2
Imports of goods[3])						
Volume		+ 9.4	+ 7.1	+ 5.4	+ 8.0	+ 6.0
Value		+10.9	+ 6.6	+ 6.7	+13.4	+ 8.1
Current balance	(billion ATS)	−79.2	−64.5	−75.1	−84.8	−70.4
	(billion Euro)			− 5.5	− 6.2	− 5.1
As a percentage of GDP	(%)	− 3.1	− 2.5	− 2.8	− 3.0	− 2.4
Long-term interest rate[4])	(%)	5.7	4.7	4.7	5.6	5.6
Consumer prices		+ 1.3	+ 0.9	+ 0.6	+ 2.3	+ 1.5
Unemployment rate						
Percent of total labour force[5])	(%)	4.4	4.5	3.8	3.5	3.4
Percent of dependent labour force[6])	(%)	7.1	7.2	6.7	5.9	5.3
Dependent employment[7])		+ 0.4	+ 1.0	+ 1.2	+ 1.0	+ 0.8
General government financial balance						
As a percentage of GDP	(%)	− 1.7	− 2.3	− 2.1	− 1.6	− 0.8

[1]) Value added, including mining and quarrying. – [2]) Including other products. – [3]) According to Statistics Austria. – [4]) 10-year central government bonds (benchmark). – [5]) According to Eurostat. – [6]) According to Labour Market Service. – [7]) Excluding parental leave and military service.

of the abolition of the investment premium as from 1 January 2001, firms will be encouraged to carry forward planned investments into the current year. To a similar extent, capital spending will be reduced in 2001.

The proposed expenditure cuts in the areas of old-age insurance and civil service personnel will dampen the rise of disposable income. On preliminary estimates, the "savings package" may take ¼ percentage point off GDP growth, both in 2001 and 2002. The general government deficit is projected to shrink to 0.8 percent of GDP. A financing gap of around 1½ percent of GDP for the Federal government will be partly offset by an overall 0.7 percent surplus for the Federal States, to be achieved by expenditure restraint and by transferring tasks "off budget". The government revenue/GDP ratio will rise to almost 46 percent in 2001.

In the USA, monetary policy will have a restrictive impact on demand. The Federal Reserve has tightened its stance in the face of mounting inflationary danger. The yield structure in the USA has been inverted for the last couple of months, i.e., short-term rates are exceeding long-term ones. In the past, such a constellation has, with a time lag, led to weaker activity. The European Central Bank (ECB), too, has raised interest rates substantially in the course of the year. However, short-term rates in the euro area are still below long-term rates, which should limit, for the time being, any dampening cyclical impact.

The rise in energy import values will put a heavy burden on this year's current account. The deficit is set to aggravate by some ATS 10 billion to a ratio of 3 percent of GDP. However, such a gap no longer causes any immediate concern for exchange rate policy, since Austria has become part of the euro area. More generally, the risk is also being rated lower since the booming and highly competitive U.S. economy has been accumulating large deficits. Moreover, the Austrian external deficit should narrow again in 2001, once oil prices start falling.

Assuming a fall in the oil price to around 27 $ per barrel and a rise in the euro exchange rate, the rate of inflation should abate to 1.5 percent in 2001 – mainly because the contribution from the energy component (adding 0.8 percentage point in 2000) will disappear. It is further assumed that, due to nowadays more competitive conditions, higher oil prices will feed through to consumer prices to a lower degree than in the past.

The projected slowdown in economic growth will also be reflected in the pace of job creation. Total employment is expected to rise by some 25,000 people next year (2000 +30,000). The rate of unemployment (as defined by the Labour Market Service) may nevertheless keep declining (from 5.9 to 5.3 percent), since a smaller part than so far of the new jobs should be filled by new entrants to the labour market. The demographic component of labour supply is shrinking. Also, the expansion of labour market measures in recent years (e.g., "job coaching") has allowed to better assess ability and willingness to work of people unemployed. Claims for unemployment benefits are now more often denied or suspended than before. For all these reasons, the unemployment rate following Eurostat definitions – on the basis of the labour market survey – will decline notably less than the one according to the labour exchange service.

Cut-off date: 4 October 2000.

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Gleichzeitig kommen die Verhandlungen für den Eintritt der Länder Ost-Mitteleuropas in die Union voran. Direktinvestitionen in diesen Ländern und die Modernisierung ihrer Wirtschaft werden Beschäftigung und Produktion auch in angrenzenden Regionen der EU – namentlich in Österreich – beeinflussen. Der damit einhergehende Wettbewerbsdruck eröffnet zusätzlichen Informationsbedarf auf der Ebene der Sektoren, Regionen und Städte.

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