

## Economic Outlook for 2018 and 2019: Austria's Economy Stays on the Growth Path

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*Lively business activity abroad is driving Austria's export industry and raises productive capacity utilisation, giving rise to buoyant investment. Private consumption will continue to support domestic production as private income growth is set to pick up over the forecast period.*

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The world economy is currently enjoying strong economic growth. The upswing in the USA is keeping its strong pace, although the cyclical risks are rising. The unemployment rate is close to its historical low, and the household saving rate has fallen to the level last recorded before the onset of the financial market crisis. Likewise, the increase in consumer credits and high stock market values may lead to a gradual deceleration of US growth. Economic policy nevertheless remains expansionary. Business activity in the euro area is lively, with strong output gains in the first half of 2018. The cyclical boom has also reached the economies in East-central Europe and most of the emerging market countries.

The buoyant external environment has led to a strong increase in Austrian exports which in turn has stimulated manufacturing output and employment in 2017, with capacity utilisation rising to new highs. As a consequence, firms are stepping up investment in machinery and equipment to enhance production capacity. Private consumption also lends firm support to GDP growth.

These trends suggest that the pace of expansion in the first half of 2018 will be close to the one recorded in 2017. Thereafter, the gradual slowdown in international business activity may dampen somewhat economic growth in Austria. Slackening exports will also weigh on firms' propensity to invest, although high capacity utilisation will still keep it up for some time. Private consumption will stay firm over the projection horizon, without however providing additional stimulus.

Strong output growth also leads to a major improvement of the Austrian labour market. Substantial gains in employment of last year further accelerated in early 2018. Once domestic output growth abates, job creation will also subside. Lively demand for labour is accompanied by a steady decline in unemployment. A further factor is a slower increase in the labour force, such that employment growth translates more directly into falling unemployment than in earlier years. Although more favourable employment prospects will reinforce wage dynamics, inflation is set to remain moderate.

Given the strong momentum during the first half of 2018, Austrian GDP is projected to grow by 3.2 percent for the year as a whole. The pace of expansion will soften in the latter part of the year and in 2019, when annual GDP is projected to rise by 2.2 percent.

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	+ 2.9	+ 3.2	+ 2.2	
Manufacturing	+ 2.5	+ 0.6	+ 1.3	+ 6.7	+ 7.8	+ 3.4	
Wholesale and retail trade	+ 2.7	+ 3.1	+ 1.4	+ 2.4	+ 2.9	+ 2.5	
Private consumption expenditure <sup>1</sup> , volume	+ 0.3	+ 0.5	+ 1.5	+ 1.4	+ 1.8	+ 1.6	
Consumer durables	– 1.0	+ 2.8	+ 3.3	+ 1.0	+ 2.0	+ 1.0	
Gross fixed capital formation, volume	– 0.7	+ 1.2	+ 3.7	+ 4.8	+ 3.5	+ 2.5	
Machinery and equipment <sup>2</sup>	– 1.6	+ 1.5	+ 8.6	+ 7.9	+ 6.0	+ 3.5	
Construction	– 0.1	+ 1.1	+ 1.1	+ 2.6	+ 1.6	+ 1.5	
Exports, volume	+ 3.0	+ 3.1	+ 1.9	+ 5.7	+ 5.5	+ 4.5	
Exports of goods, fob	+ 2.9	+ 3.1	+ 1.3	+ 6.1	+ 6.0	+ 4.8	
Imports, volume	+ 2.9	+ 3.1	+ 3.1	+ 5.4	+ 4.6	+ 3.8	
Imports of goods, fob	+ 2.1	+ 3.7	+ 3.2	+ 5.0	+ 4.8	+ 4.0	
Gross domestic product, value	+ 2.8	+ 3.4	+ 2.6	+ 4.5	+ 4.9	+ 4.0	
	billion €	333.06	344.49	353.30	369.22	387.29	402.84
Current account balance	as a percentage of GDP	2.5	1.9	2.1	2.1	2.3	2.6
Consumer prices		+ 1.7	+ 0.9	+ 0.9	+ 2.1	+ 1.9	+ 1.9
Three-month interest rate	percent	0.2	– 0.0	– 0.3	– 0.3	– 0.3	– 0.1
Long-term interest rate <sup>3</sup>	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	– 0.8	– 0.3	0.1
Persons in active dependent employment <sup>4</sup>		+ 0.7	+ 1.0	+ 1.6	+ 2.0	+ 1.9	+ 1.1
Unemployment rate							
Eurostat definition <sup>5</sup>		5.6	5.7	6.0	5.5	5.2	5.0
National definition <sup>6</sup>		8.4	9.1	9.1	8.5	7.7	7.3

Source: WIFO. 2018 and 2019: forecast. – <sup>1</sup> Including non-profit institutions serving households. – <sup>2</sup> Including weapons systems. – <sup>3</sup> 10-year central government bonds (benchmark). – <sup>4</sup> Excluding persons in valid employment contract receiving child care benefit or being in military service. – <sup>5</sup> As a percentage of total labour force, Labour Force Survey. – <sup>6</sup> As a percentage of dependent labour force, unemployed persons according to Public Employment Service Austria.

Cyclical risks have increased in the last few months, as witnessed by higher stock market volatility. Sudden price corrections triggered by changing expectations may occur at any time, and even a major slump in asset prices with adverse repercussions for the real economy cannot be ruled out. Moreover, trade disputes have lately become sharper. The USA has already introduced punitive tariffs on certain steel and aluminium imports, with further trade restrictions being envisaged. The EU has announced to take retaliation measures on imports from the USA. The short-term effects of such trade restrictions are difficult to judge, but they are likely to be harmful for the global economy.

There are nevertheless also upward cyclical risks: the increase in public investment agreed between the new German coalition partners should give a further boost to business activity in

Germany. Also policy in the USA may act to prolong the cyclical upswing once again. Business and consumer expectations worldwide and in Austria are still highly optimistic. Against this background, the upswing may extend further into the second half of the year than currently anticipated. In the event, GDP growth in 2018 and more so in 2019 may significantly surprise on the positive side.

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*For definitions used see "Methodological Notes and Short Glossary",  
<http://www.wifo.ac.at/wwadocs/form/WIFO-BusinessCycleInformation-Glossary.pdf>*