

EXPORT RECOVERY AND TAX REFORM ACCELERATING THE PACE OF GROWTH

ECONOMIC OUTLOOK FOR 1999 AND 2000

WIFO is upholding its forecast for real GDP growth in 1999 at 2.2 percent, unchanged since last March. Next year, growth is projected to accelerate to a rate of 2¾ percent. Exports and industrial activity have turned around at the beginning of the year and are now heading upward, confirming earlier expectations. Continued strength of domestic demand and reinforced labour market policy action will make for a noticeable decline in unemployment. Inflation should remain subdued, despite rising oil prices. The tax reform and higher family benefits, while adding to private disposable income next year, will drive up the general government deficit to 2½ percent of GDP.

The first half of 1999 was marked in Austria by weakness of exports and manufacturing output. Domestic demand, on the other hand, developed more favourably. Overall GDP in the second quarter rose by 1.7 percent from the year-earlier level (first quarter +1.2 percent) and nearly 1 percent from the previous period.

The cyclical trend in Europe and business expectations in Austria suggest for the second half of this year stronger momentum of both exports and industrial production. In the crisis areas of the world economy the situation is stabilising, and activity in the USA remains strong. The European economy is recovering under the impact of both a weaker Euro and robust domestic demand in major EU member states. Demand and output are relatively lively in particular in France, Spain and a number of smaller EU countries, while Germany and Italy are lagging behind.

Conditions for exports are improving in two regards: on the one hand, growth of Austrian export markets is picking up – estimated at 3½ percent in 1999 and 5½ percent in 2000; and, on the other, productivity increases in manufacturing should lead to gains in market shares. While on average 1999, merchandise exports may still rise moderately (+4½ percent in volume), they should gain strong momentum next year (+7 percent). Production in manufacturing is likely to follow a similar trend: with the regular WIFO business survey showing a

Main results

	1996	1997	1998	1999	2000	
	Percentage changes from previous year					
GDP						
Volume	+ 2.0	+ 2.5	+ 3.3	+ 2.2	+ 2.8	
Value	+ 3.7	+ 4.1	+ 4.3	+ 3.1	+ 3.9	
Manufacturing ¹⁾ , volume	+ 1.2	+ 5.0	+ 4.4	+ 2.0	+ 4.0	
Private consumption, volume	+ 2.0	+ 0.7	+ 1.7	+ 2.0	+ 2.5	
Gross fixed investment, volume	+ 2.5	+ 2.8	+ 4.7	+ 3.7	+ 3.9	
Machinery and equipment	+ 3.3	+ 5.0	+ 7.8	+ 6.5	+ 6.5	
Construction	+ 2.4	+ 1.3	+ 2.6	+ 1.3	+ 1.5	
Exports of goods²⁾						
Volume	+ 5.4	+15.6	+ 8.4	+ 4.5	+ 7.0	
Value	+ 5.5	+16.8	+ 8.4	+ 4.8	+ 8.1	
Imports of goods²⁾						
Volume	+ 6.1	+ 9.4	+ 8.2	+ 5.2	+ 6.5	
Value	+ 6.7	+10.9	+ 6.6	+ 5.7	+ 8.1	
Trade balance ²⁾	(billion ATS)	-100.6	-75.2	-67.4	-78.3	-84.9
	(billion Euro)				- 5.7	- 6.2
Current balance	(billion ATS)	- 50.8	-64.1	-56.8	-60.8	-59.7
	(billion Euro)				- 4.4	- 4.3
As a percentage of GDP	(%)	- 2.1	- 2.6	- 2.2	- 2.2	- 2.1
Yield of long-term government bonds³⁾						
	(%)	6.3	5.7	4.7	4.6	5.1
Consumer prices		+ 1.9	+ 1.3	+ 0.9	+ 0.6	+ 1.2
Unemployment rate						
Percent of total labour force ⁴⁾	(%)	4.3	4.4	4.7	4.4	4.2
Percent of dependent labour force ⁵⁾	(%)	7.0	7.1	7.2	6.8	6.6
Dependent employment ⁶⁾		- 0.6	+ 0.4	+ 1.0	+ 1.2	+ 1.0

¹⁾ Value added, including mining and quarrying. - ²⁾ According to Central Statistical Office. - ³⁾ 10-year central government bonds (benchmark). - ⁴⁾ According to Eurostat. - ⁵⁾ According to Labour Market Service. - ⁶⁾ Excluding parental leave and military service.

marked rise in industrial confidence, real output growth is expected to accelerate from 2 percent this year to 4 percent in 2000.

Lively investment and consumer demand drove up imports in the first six months of this year. In the second half and in 2000, higher oil prices will add to the upward drift, pushing the trade deficit to around ATS 80 billion. While part of the widening gap will be covered by a higher surplus on tourism and other services, the strongly negative balances on factor incomes and transfers will nevertheless make for a current account deficit of some ATS 60 billion, equivalent to 2 percent of GDP.

Oil prices have increased substantially since early 1999, weakening the terms of trade of the industrialised countries, thereby exerting inflationary pressure on the producer and the consumer level, and potentially constraining output growth. Nevertheless, price stability in Austria is set to remain high. For 1999, the rate of inflation is projected at a low 0.6 percent, as the effect of higher fuel prices will be offset by a fall in food prices and a levelling-off of rising housing costs. In 2000, consumer prices are projected to edge up by 1.2 percent on average, due to increases in both fuel and food prices.

Domestic demand is offering a solid base to business activity. Net disposable income from earnings and social transfers is growing markedly, due to strong employment gains, contractual wage increases, continued price stability and in the coming year also due to an expansionary fiscal policy. This provides scope for an advance in private consumption by 2 percent in 1999 and 2½ percent in 2000, assuming a slight increase in the savings ratio. In spite of export sluggishness in the first half of 1999, many companies see a need to renew and expand their capital stock: hence their ambitious investment plans, as reflected in the latest WIFO survey. Construction activity, however, can expect only slow overall growth, given a marked decline in the building of new homes.

Developments on the labour market appear even better than projected last June. Employment (excluding military service and parental leave) is set to expand by 36,000 (+1.2 percent) in 1999; however, the bulk of this gain are part-time workers in service jobs. The number of unemployed may average 225,000, lower by 12,000 than in 1998. The decline is due not only to stronger labour demand, but also to the reinforcement of labour market programmes in the context of the National Action Plan for employment. The unemployment rate (on Eurostat definitions) will decline to 4.4 percent in 1999 and 4.2 percent in 2000. Yet, the objective of bringing it down to 3.5 percent by 2002 would still appear to be ambitious.

General government net borrowing has been reduced significantly since 1995; in the current year, it is projected at a ratio of 2 percent of GDP. In 2000, the tax reform and new family benefits will put a new burden on public finances. Adding substantially to private households' disposable income, both measures will support business activity and employment growth; at the same time, however, they will make for an increase in the general government deficit to 2½ percent of GDP, even assuming expenditure to remain firmly under control.

In October, the Austrian Statistical Office (ÖSTAT) will submit National Accounts for the years 1995 to 1998 which follow the classification system ESA 1995. The change-over to the new system implies considerable modifications in concepts and will affect both the level and rates of increase of overall GDP and its components. WIFO will adjust to the new data base at the next revision of projections in December.

Cut-off date: 5 October 1999.