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MARKED DECELERATION OF GROWTH DUE TO WEAKER EXTERNAL ENVIRONMENT

ECONOMIC OUTLOOK FOR 2001 AND 2002

Economic growth in Austria is set to slow from 3.2 percent last year to 2.2 percent in 2001, possibly keeping that pace in 2002. The deceleration is caused mainly by less favourable developments in the world economy, and in particular the significant downturn in the USA. A restrictive stance in Austrian budgetary policy will make for domestic growth lagging behind that of the euro area as a whole. Weaker cyclical activity will also make it more difficult to achieve budget balance in the general government accounts by 2002. Unemployment will edge down further in the current year, before stabilising at a rate of 3½ percent of the labour force.

In the last quarter 2000, the Austrian economy expanded by 2.6 percent in volume, year-on-year. The strength in exports led to substantial gains in machinery and equipment investment and in manufacturing output. Industrial production rose by more than 8 percent for the year as a whole, the strongest increase within the last three decades. The deterioration in the external economic environment will, however, now lead to a noticeable slowdown in cyclical activity. In the USA, growth has fallen sharply and may not exceed a meagre 1 percent this year. This will negatively affect trading partners in North and South America, whose economic situation is often fragile already now. Activity in Asia will be undermined further by the persistent stagnation in Japan.

GDP in the euro area is projected to rise by an inflation-adjusted 2.4 percent this year. Activity will, with a certain time-lag, be dampened by slackening foreign trade with the USA which in the more exposed economies accounts for 10 to 20 percent of the total. A possible appreciation of the euro may act as a further drag on exports. On the other hand, comprehensive and appropriately-timed tax cuts in several EU countries should contribute towards stabilising activity. Business cycle hopes in Europe are now directed towards consumer demand. The ECB is hesitating with cutting interest rates. The risks to the present projections derive from the external European environment: should domestic demand prove less robust than expected, growth could fall below the rates assumed here.

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

Main results

		1998	1999	2000	2001	2002
		Percentage changes from previous year				
GDP						
Volume		+ 3.3	+ 2.8	+ 3.2	+ 2.2	+ 2.1
Value		+ 4.0	+ 3.7	+ 4.5	+ 3.8	+ 3.6
Manufacturing[1]), volume		+ 4.4	+ 2.4	+ 8.2	+ 3.8	+ 3.0
Private consumption expenditure, volume		+ 2.9	+ 2.3	+ 2.7	+ 2.0	+ 2.0
Gross fixed investment, volume		+ 2.7	+ 3.2	+ 2.9	+ 2.1	+ 2.5
Machinery and equipment[2])		+ 5.2	+ 4.6	+ 5.1	+ 2.8	+ 3.8
Construction		+ 0.9	+ 2.2	+ 1.2	+ 1.5	+ 1.5
Exports of goods[3])						
Volume		+ 8.1	+ 7.7	+10.9	+ 6.2	+ 5.0
Value		+ 8.4	+ 7.0	+14.8	+ 8.1	+ 7.3
Imports of goods[3])						
Volume		+ 7.1	+ 6.9	+ 7.7	+ 5.8	+ 4.5
Value		+ 6.6	+ 6.7	+13.7	+ 7.2	+ 6.6
Current balance	(billion ATS)	−64.5	−75.1	−89.5	−85.8	−88.3
	(billion Euro)		− 5.5	− 6.5	− 6.2	− 6.4
As a percentage of GDP	(%)	− 2.5	− 2.8	− 3.2	− 2.9	− 2.9
Long-term interest rate[4])	(%)	4.7	4.7	5.6	4.7	4.7
Consumer prices		+ 0.9	+ 0.6	+ 2.3	+ 1.7	+ 1.3
Unemployment rate						
Percent of total labour force[5])	(%)	4.5	4.0	3.7	3.6	3.6
Percent of dependent labour force[6])	(%)	7.2	6.7	5.8	5.4	5.5
Dependent employment[7])		+ 1.0	+ 1.2	+ 1.0	+ 0.6	+ 0.5
General government financial balance						
As a percentage of GDP	(%)	− 2.3	− 2.1	− 1.1	− 0.4	± 0.0

[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.

Slackening activity in major trading partner countries is effectively constraining growth of domestic exports, despite price competitiveness remaining high. Goods exports may rise by only 6.2 percent in volume this year, with dampening consequences for machinery and equipment investment (+2.8 percent) and manufacturing output (+3.8 percent). The strong link between exports and imports, and the fall in oil prices will lead to weaker import growth. Thus, the deficits in the trade and in the current account balances may remain somewhat below the levels recorded last year.

Domestic demand is expected to advance at a notably more moderate pace than last year. The main reason is the large-scale increase in direct and indirect taxes. Growth in net real disposable income from employment and social transfers is set to abate from 2¼ percent in 2000 to only ½ percent. Assuming a sizeable decline in the household saving ratio, private consumption may still advance by 2 percent. Construction activity is expected to remain subdued (+1½ percent). New home building is falling, although somewhat less strongly than could be expected from the shrinking demand for dwellings. Developments are relatively better for the construction of office buildings and for civil engineering.

Public revenues increased strongly in 2000, due to lively economic activity and increases in indirect taxes; a further boost came from auction sales of UMTS licenses. The general government deficit was reduced to 1.1 percent of GDP. Sizeable tax increases as from early 2001 will cut the deficit ratio further to around 0.4 percent. The downward revision of GDP growth being mainly related to weaker exports, the implicit short-term impact on public finances is considered limited. Further progress in consolidation in 2002 will be much more difficult to achieve. While a number of expenditure restraint measures will take effect, costly new family benefits will be introduced, and weaker cyclical activity will leave its marks on the budget. Slower growth, as envisaged in the new projections, will burden the public sector balance by about 0.3 percent of GDP. Given the more favourable budgetary developments in the current year, the aimed-for budget balance in 2002 may still be achieved, provided strict control over expenditure is maintained, and activity does not turn out weaker than assumed in the present forecast.

Inflation is expected to recede from 2.3 percent last year to 1.7 percent in 2001, owing much to lower energy prices. Price rises of manufactures, on the other hand, are set to accelerate, and food prices may weaken less than anticipated, in view of a surprising increase in meat prices. Possible inflationary effects in the context of the change-over to euro notes and coins constitute a factor of uncertainty for price developments which, in all, should nevertheless stay calm in 2002.

The slowdown of growth will lead to somewhat smaller employment gains. In the private services sector, however, labour demand is set to remain strong. The number of dependent employees (excluding people on maternity leave and in military service) should rise by around 18,000 or 0.6 percent. Labour supply will be influenced by several factors working in different direction: the population of working age (15 to 59 years old) is shrinking significantly in 2001; labour force participation rates are also on a downward trend, particularly those of the upper age groups; activity of women is influenced by easier access of foreign women to the domestic labour market and, next year, also by the introduction of new childcare benefits. Average unemployment is expected to decline to 181,000 in 2001, corresponding to rates of unemployment of 3.6 percent of the labour force (EU Labour Force Survey) and 5.4 percent of dependent employment (national definitions), remaining broadly unchanged in 2002.

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