

Marcus Scheiblecker

Strongest Economic Growth in Six Years

Economic Outlook for 2017 and 2018

Strongest Economic Growth in Six Years. Economic Outlook for 2017 and 2018

After an acceleration of economic activity in the first half of 2017, latest business surveys do not suggest a further strengthening for Austria. GDP is expected to grow by 2.8 percent in 2017, the highest rate in six years. Despite the appreciation of the euro and a slowing growth momentum in third countries, the euro area should keep a firm upward trend in 2018, driven by the expansionary monetary policy of the ECB and a still untightened fiscal stance. The Austrian economy may grow in 2018 at the same rate as in 2017. From a cyclical perspective, further extension of the current expansionary fiscal policy would not be appropriate.

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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", <http://www.wifo.ac.at/wwadocs/form/WIFO-BusinessCycleInformation-Glossary.pdf> • Cut-off date: 27 September 2017.

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ISSN 1605-4709 • © Austrian Institute of Economic Research 2017

Impressum: Herausgeber: Christoph Badelt • Chefredakteur: Michael Böheim (michael.boeheim@wifo.ac.at) • Redaktionsteam: Tamara Fellinger, Ilse Schulz, Tatjana Weber • Medieninhaber (Verleger) und Redaktion: Österreichisches Institut für Wirtschaftsforschung • 1030 Wien, Arsenal, Objekt 20 • Tel. (+43 1) 798 26 01-0 • Fax (+43 1) 798 93 86 • <http://bulletin.wifo.ac.at> • Verlags- und Herstellungsort: Wien

The Austrian business sector expresses great optimism on current economic conditions and the outlook for the months to come. Also in the USA and in other European countries, sentiment indicators have climbed to high levels. While the US economy has now reached an advanced stage of the business cycle, demand and output are still gathering pace in Europe, where the upswing is spreading across regions and sectors.

Business conditions in the emerging markets are more uneven. While the situation is improving in Brazil and Russia, activity is unlikely to strengthen further in China in 2018, where the current investment boom is uncertain to last.

In 2016, the Austrian economy has benefitted mainly from domestic demand forces. The tax reform helped to overcome the backlog emerged from the sluggishness of private consumption of past years, and investment recovered from the extended slackness. Only towards the end of 2016, foreign demand regained strong momentum, which continued in early 2017.

The current upswing in Austria is broadly based across economic sectors. Apart from the cyclically sensitive manufacturing industry, it is also supported by construction, trade and business-related services. The tourism sector also benefits from lively economic activity in Austria and abroad.

In spite of the high utilisation of the capital stock and lively labour demand, inflationary pressure arises for the time being neither in the USA nor in the euro area. Central banks in both regions hesitate to steer monetary policy back to a normal course. Austria's inflation rate remains high by EU standards.

With the cyclical recovery, the situation on the Austrian labour market is improving. The stronger pace of job creation in 2017 should broadly be maintained in 2018. The "Employment Bonus" and the Initiative 20,000 will provide additional stimulus.

Table 1: Main results

	2013	2014	2015	2016	2017	2018	
	Percentage changes from previous year						
Gross domestic product, volume	+ 0.0	+ 0.8	+ 1.1	+ 1.5	+ 2.8	+ 2.8	
Manufacturing	+ 0.3	+ 2.5	+ 0.6	+ 1.3	+ 5.7	+ 4.9	
Wholesale and retail trade	- 2.3	+ 2.7	+ 3.1	+ 1.4	+ 2.8	+ 2.8	
Private consumption expenditure ¹ , volume	- 0.1	+ 0.3	+ 0.5	+ 1.5	+ 1.5	+ 1.7	
Consumer durables	- 3.5	- 1.0	+ 2.8	+ 3.3	+ 2.5	+ 1.5	
Gross fixed capital formation, volume	+ 1.6	- 0.7	+ 1.2	+ 3.7	+ 4.2	+ 3.0	
Machinery and equipment ²	+ 1.7	- 1.6	+ 1.5	+ 8.6	+ 6.0	+ 4.0	
Construction	- 1.6	- 0.1	+ 1.1	+ 1.1	+ 2.8	+ 1.5	
Exports, volume	+ 0.6	+ 3.0	+ 3.1	+ 1.9	+ 5.5	+ 4.8	
Exports of goods	- 0.8	+ 2.9	+ 3.1	+ 1.3	+ 6.1	+ 5.3	
Imports, volume	+ 0.7	+ 2.9	+ 3.1	+ 3.1	+ 5.1	+ 3.9	
Imports of goods	- 2.0	+ 2.1	+ 3.7	+ 3.2	+ 5.7	+ 4.2	
Gross domestic product, value	+ 1.6	+ 2.8	+ 3.4	+ 2.6	+ 4.8	+ 4.8	
	billion €	323.91	333.06	344.49	353.30	370.08	387.71
Current account balance	as a percentage of GDP	1.9	2.5	1.9	2.1	2.7	2.9
Consumer prices		+ 2.0	+ 1.7	+ 0.9	+ 0.9	+ 1.9	+ 1.8
Three-month interest rate	percent	0.2	0.2	- 0.0	- 0.3	- 0.3	- 0.1
Long-term interest rate ³	percent	2.0	1.5	0.7	0.4	0.7	1.0
General government financial balance according to Maastricht definition							
As a percentage of GDP		- 2.0	- 2.7	- 1.0	- 1.6	- 0.6	- 0.3
Persons in active dependent employment ⁴		+ 0.6	+ 0.7	+ 1.0	+ 1.6	+ 2.0	+ 1.8
Unemployment rate							
Eurostat definition ⁵		5.4	5.6	5.7	6.0	5.6	5.4
National definition ⁶		7.6	8.4	9.1	9.1	8.5	8.1

Source: WIFO. 2017 and 2018: 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.

Higher tax revenues resulting from stronger economic activity provide relief for the government accounts. The general government deficit in the Maastricht definition is set to narrow to 0.6 percent of GDP in 2017 and will be reduced further in 2018. However, the benign outlook is entirely due to the cyclical "bonus" and favourable financing conditions, rather than being the result of a lasting improvement in budgetary fundamentals. A tightening of the fiscal stance that would restore budgetary leeway and create scope for investment in favour of future-oriented areas would not put at risk the resilience of the current cyclical upswing.

1. US economy in an advanced stage of the cyclical upturn

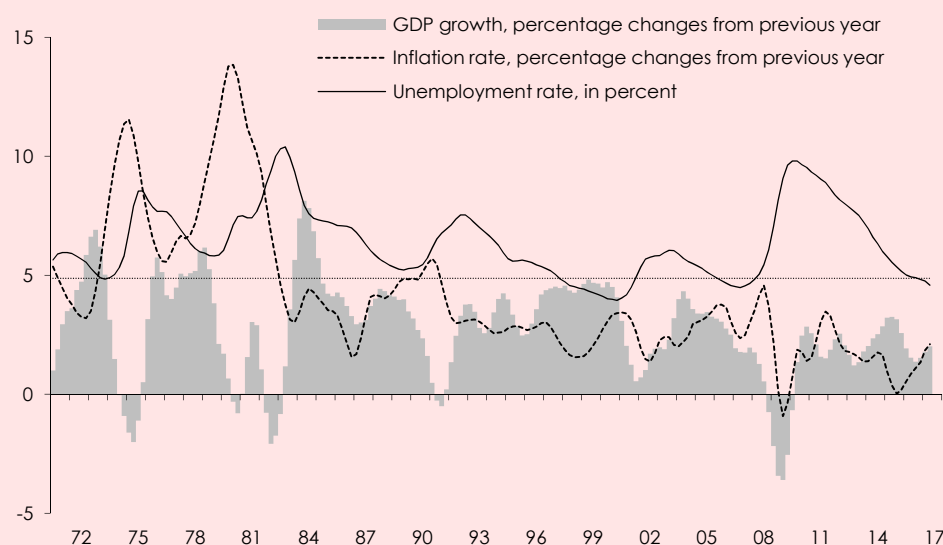
2017 marks already the eighth year of the current cyclical upturn of the US economy. While inflationary pressure suggesting imminent overheating is still absent, the unemployment rate is at the lower end in historical perspective, hitting 4.3 percent in August. A reading below 4 percent has been recorded only once, at the pre-2001 business cycle peak (Figure 1).

At such a low rate of unemployment, labour reserves have been largely exhausted in the past. In the event, overall output slowed down, before heading towards recession. Although labour force participation is at present still below the level reached in the last economic boom in 2007, it may prove difficult to mobilise the remaining idle capacity.

From a slow start into 2017, US GDP growth accelerated to a quarterly rate of 0.8 percent between April and June. Business sentiment and consumer confidence show no signs of weakening for the months to come. While output in September may have suffered in a number of regions from the hurricanes, the subsequent repair works and catching up of output losses should boost overall production.

Figure 1: Output cycle and labour market in the USA

Seasonally adjusted, 3-quarter moving averages



Source: Bureau of Economic Analysis, Bureau of Labor Statistics, Macrobond. The horizontal line represents the average of the cyclical lows of the unemployment rate.

Table 2: International economy

	Percentage shares 2016		2013	2014	2015	2016	2017	2018
	Austria's exports of goods	World GDP ¹	GDP volume, percentage changes from previous year					
EU	69.5	16.7	+ 0.3	+ 1.7	+ 2.2	+ 1.9	+ 2.5	+ 2.4
UK	3.1	2.3	+ 1.9	+ 3.1	+ 2.2	+ 1.8	+ 1.7	+ 1.5
Euro area	51.7	11.8	- 0.2	+ 1.3	+ 2.0	+ 1.8	+ 2.3	+ 2.4
Italy	6.4	1.9	- 1.7	+ 0.1	+ 0.8	+ 0.9	+ 1.6	+ 2.1
France	4.1	2.3	+ 0.6	+ 0.9	+ 1.1	+ 1.2	+ 1.9	+ 2.4
CEEC 5 ²	14.2	1.6	+ 1.0	+ 3.2	+ 4.0	+ 2.6	+ 4.3	+ 3.5
Czech Republic	3.7	0.3	- 0.5	+ 2.7	+ 5.3	+ 2.6	+ 4.8	+ 3.6
Hungary	3.3	0.2	+ 2.1	+ 4.0	+ 3.1	+ 2.0	+ 3.9	+ 3.1
Poland	3.0	0.9	+ 1.4	+ 3.3	+ 3.8	+ 2.7	+ 4.4	+ 3.7
USA	6.7	15.5	+ 1.7	+ 2.6	+ 2.9	+ 1.5	+ 2.2	+ 2.1
Switzerland	5.9	0.4	+ 1.8	+ 2.0	+ 0.8	+ 1.3	+ 1.2	+ 1.8
China	2.5	17.8	+ 7.8	+ 7.3	+ 6.9	+ 6.7	+ 6.6	+ 6.1
Total ³								
PPP-weighted ⁴		50	+ 3.4	+ 3.9	+ 4.1	+ 3.5	+ 3.9	+ 3.6
Export weighted ⁵	85		+ 0.7	+ 2.0	+ 2.3	+ 2.0	+ 2.5	+ 2.4
Market growth ⁶			+ 1.6	+ 3.6	+ 3.1	+ 3.1	+ 6.0	+ 5.0
<i>Forecast assumptions</i>								
Crude oil prices								
Brent, \$ per barrel			108.7	99.0	52.5	43.7	53	53
Exchange rate								
\$ per €			1.328	1.329	1.110	1.107	1.12	1.15
Key interest rate								
ECB main refinancing rate ⁷ , percent			0.6	0.2	0.6	0.2	0.1	0.0
10-year government bonds yields Germany, percent			1.6	1.2	1.6	1.2	0.5	0.1

Source: WIFO. 2017 and 2018: forecast. – ¹ PPP-weighted. – ² Czech Republic, Hungary, Poland, Slovenia, Slovakia. – ³ EU, USA, Switzerland, China. – ⁴ Weighted by GDP at purchasing power parities in 2016. – ⁵ Weighted by shares of Austrian goods exports in 2016. – ⁶ Real import growth of trading partners, weighted by shares of Austrian goods exports. – ⁷ Minimum bid rate.

2. Uneven performance of emerging market countries

In Russia and Brazil, recession seems to have been overcome. While the EU sanctions still weigh on developments in Russia, they do not drag down growth any longer. Since the fourth quarter 2016, GDP growth has turned positive on a year-on-year basis, gaining strength in spring of this year. In Brazil, the downward trend of GDP observed in 2015 and 2016 has come to a halt and growth should resume in 2017, as signalled by the OECD Composite Leading Indicators for this country.

Although trend growth in China further decelerated in 2017, the latest cyclical revival will keep annual GDP growth close to the rate recorded for 2016. Nevertheless, the economy struggles with a number of distortions that cast doubt on the sustainability of the recovery. Real estate markets may develop a price bubble, and the high amount of outstanding loans also puts a lasting expansion at risk. Against this background, the investment boom seems to hit against a ceiling, which should lead to slower GDP growth in 2018.

3. Growth in CEECs regaining momentum

The catching-up process of the central and eastern European countries (CEEC 5) towards the EU average virtually ground to a halt after the crisis of 2008-09, with the exception of 2011. 2014 saw a revival of the positive growth margin, followed by a relapse in 2016, when growth in the region of 2.6 percent exceeded the EU average (+1.9 percent) only by little, due to a sharp fall in investment early in the year. In 2017, the growth advantage will once again widen to almost 2 percentage points. With the exception of Slovakia, Austria's important export markets of this country group all enjoy more dynamic growth in the current year. At a projected GDP growth rate of 3.5 percent, buoyancy should continue in 2018, even if the lead over the EU average may narrow from 2017. Lively final demand will be accompanied by a lagged rise of investments, from which Austrian capital goods manufacturers should benefit in 2018.

The growth momentum is spreading also within the euro area. Whereas in the last few years, growth was driven by demand and output in Germany, Spain and Ireland, 2017 saw a clear improvement of conditions also in France, Italy and Greece – a tendency that will attenuate the internal imbalances of the euro zone. The cyclical upswing will thereby rest on a more solid footing, relying less on external stimulus. In Germany, the composition of growth may shift from domestic demand towards intra-EU exports.

4. Austria's economy makes up for past years' growth lag

The euro area average rate of GDP growth for 2014 and 2015 was biased downwards by the belated rebound in Spain and Ireland after the crises. The export-oriented German economy, for its part, staged a recovery driven by domestic demand forces, from which Austria however, despite its close trade links with Germany, did not benefit. Hence, GDP growth in Austria clearly lagged behind the euro area average in both years.

In 2016, domestic demand rebounded also in Austria. Private consumption, having virtually stagnated for three years despite a growing population, picked up posting a substantial gain of 1.5 percent. The tax reform helped to unwind pent-up demand. Gross fixed capital formation also rebounded from sluggishness in the previous years, rising by 3.7 percent in volume. However, exports of goods and services (+1.9 percent at constant prices) lost momentum from 2014 and 2015.

As from late 2016, however, external demand strengthened significantly. In the first six months of 2017, merchandise exports rose 8 percent above the year-earlier level. Gains extended widely across destinations, with deliveries to EU and euro area countries being somewhat more buoyant than those to third countries. Within the

Austria's economic growth, having lagged clearly behind the euro-area average in 2014 and 2015, has nearly managed to close the gap in 2016. In 2017 and 2018, real GDP is expected to grow above the average rates for the EU as well as for the euro area.

EU, demand for Austrian goods increased notably from Germany, France and Italy, as well as from Hungary, Czech Republic and Slovenia.

Table 3: Earnings, international competitiveness

	2013	2014	2015	2016	2017	2018
	Percentage changes from previous year					
<i>Wages and salaries per employee¹</i>						
Nominal, gross	+ 1.9	+ 1.7	+ 2.1	+ 2.3	+ 2.0	+ 2.5
Real ²						
Gross	- 0.1	- 0.0	+ 1.2	+ 1.3	+ 0.1	+ 0.7
Net	- 0.5	- 0.6	+ 0.7	+ 4.3	- 0.0	+ 0.3
<i>Wages and salaries per hour worked¹</i>						
Real, net ²	+ 0.4	- 0.2	+ 2.4	+ 3.8	+ 0.0	+ 0.6
	Percent					
Wage share, adjusted ³	68.5	68.6	69.0	69.2	67.8	66.9
	Percentage changes from previous year					
<i>Unit labour costs, nominal⁴</i>						
Total economy	+ 2.3	+ 1.7	+ 1.8	+ 2.1	+ 0.9	+ 1.7
Manufacturing	+ 2.0	- 0.1	+ 1.5	+ 2.1	- 1.5	- 0.8
<i>Effective exchange rate – manufactured goods⁵</i>						
Nominal	+ 1.8	+ 1.2	- 2.9	+ 1.2	+ 0.7	+ 0.6
Real	+ 2.1	+ 1.5	- 2.9	+ 1.3	+ 0.8	+ 0.6

Source: WIFO. 2017 and 2018: 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 per employed persons' hours worked). – ⁵ Weighted by exports and imports, real value adjusted by relative HCPI.

The revival of foreign demand mainly stimulated domestic production of machinery and motor vehicle components. According to the Quarterly National Accounts, total volume exports rose by nearly 5 percent year-on-year. For 2017 as a whole, export growth is projected at 5.5 percent (merchandise exports +6.1 percent). The strong rebound in demand for investment and consumer goods also boosted imports which in the first half of 2017 went up by 4.7 percent in volume from the year-earlier level. For the whole year, real import growth is expected at 5.1 percent (merchandise imports +5.7 percent).

Slower growth in East-Central Europe and Asia, together with a moderate appreciation of the euro against the dollar, will put a brake on the expansion of Austria's foreign trade in 2018, when exports may gain no more than 4.8 percent in real terms. Since import growth should decelerate even more with the slackening of investment of machinery and equipment, the external contribution to GDP growth may turn out somewhat higher than in 2017.

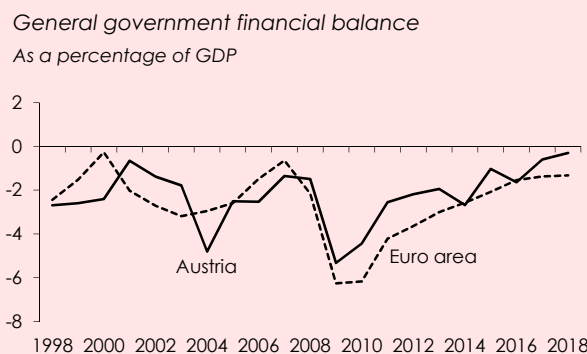
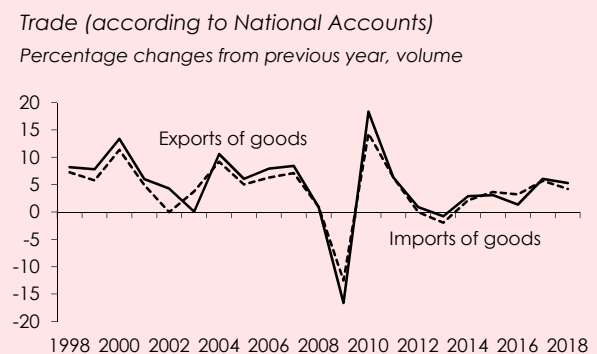
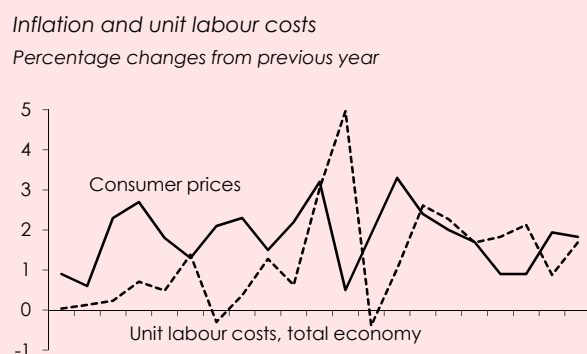
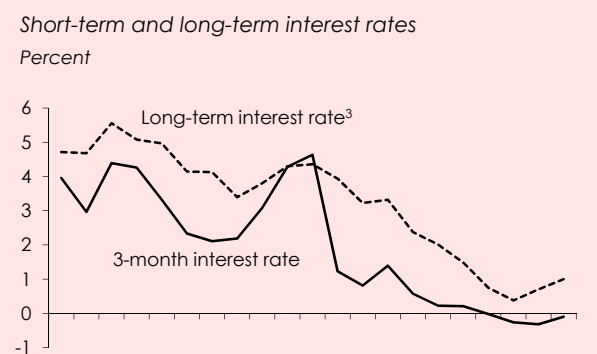
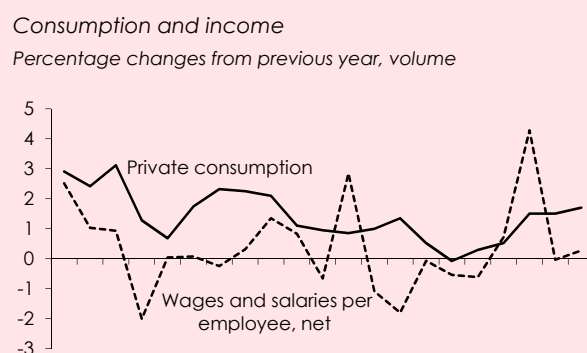
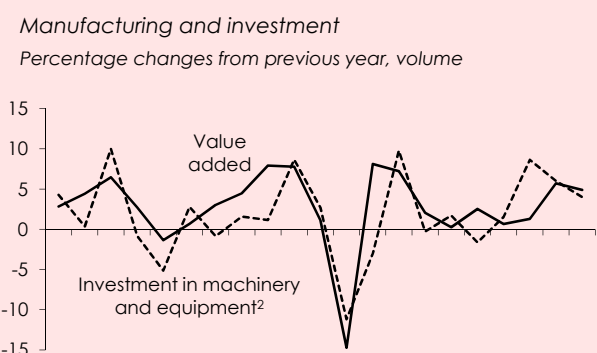
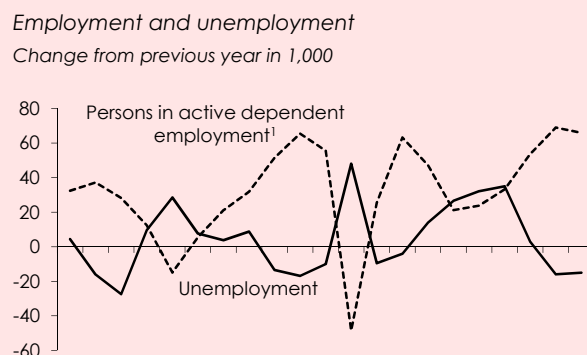
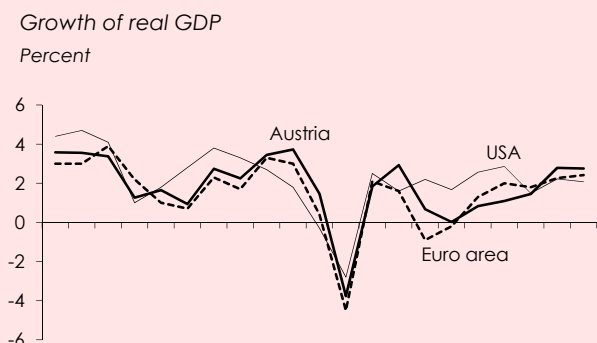
Business confidence, as mirrored by the regular WIFO-Konjunkturtest (business cycle survey), improved steadily until July, concerning both the current business situation and the short-term outlook. Optimism dominated not only the cyclically-sensitive manufacturing sector, but also the construction industry and the service sector. In some cases, indicators are already at a par with the peak of earlier booms, making further increases unlikely. Indeed, the upward trend came to a halt in August and September, suggesting that Austria's GDP growth may now have reached its climax, though not necessarily a turning point yet. In earlier episodes of cyclical upswing, growth normally maintained a strong pace for about one year before heading more moderately towards its peak at which capacity utilisation reached a maximum. WIFO projects manufacturing output (value added) to expand by 5.7 percent in real terms in 2017, abating to nearly 5 percent in 2018 due to slower export growth.

Macroeconomic conditions remain benign, as the ECB does not signal an early tightening of monetary policy. The three-month interest rate on inter-bank loans stays around -0.3 percent in 2017 and will remain in negative territory in 2018.

Business confidence remains at a high level.

International leading indicators do not point to an imminent cyclical downturn. In many euro area countries economic activity may even strengthen further. WIFO therefore expects GDP growth for Austria to stay at a lively 2.8 percent in 2018, unchanged from the current year.

Figure 2: Indicators of economic performance



Source: WIFO. 2017 and 2018: 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).

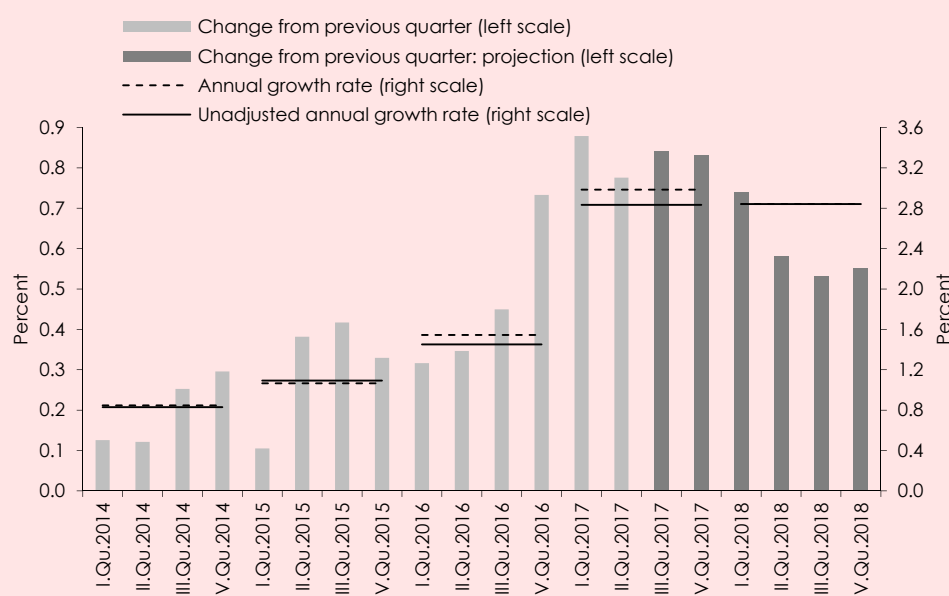
Table 4: Productivity

	2013	2014	2015	2016	2017	2018
	Percentage changes from previous year					
<i>Total economy</i>						
Real GDP	+ 0.0	+ 0.8	+ 1.1	+ 1.5	+ 2.8	+ 2.8
Hours worked ¹	- 0.6	+ 0.3	- 0.8	+ 1.9	+ 1.7	+ 1.6
Productivity ²	+ 0.6	+ 0.5	+ 1.9	- 0.4	+ 1.1	+ 1.1
Employment ³	+ 0.6	+ 1.0	+ 0.7	+ 1.5	+ 1.5	+ 1.5
<i>Manufacturing</i>						
Production ⁴	+ 0.3	+ 2.5	+ 0.6	+ 1.3	+ 5.7	+ 4.9
Hours worked ⁵	- 0.6	- 0.2	- 0.2	+ 0.7	+ 1.6	+ 0.9
Productivity ²	+ 0.8	+ 2.7	+ 0.8	+ 0.6	+ 4.0	+ 4.0
Employees ⁶	- 0.2	+ 0.1	+ 0.5	+ 0.8	+ 1.6	+ 1.2

Source: WIFO. 2017 and 2018: 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).

Figure 3: Cyclical profile Austria

GDP volume, trend-cycle component



Source: WIFO.

Table 5: Technical note to the projection of real GDP growth

		2015	2016	2017	2018
Growth carry-over ¹	percentage points	+ 0.4	+ 0.6	+ 0.9	+ 1.2
Growth rate during the year ²	percent	+ 1.2	+ 1.9	+ 3.4	+ 2.4
<i>Annual growth rate</i>	<i>percent</i>	<i>+ 1.1</i>	<i>+ 1.5</i>	<i>+ 2.8</i>	<i>+ 2.8</i>
Adjusted annual growth rate ³	percent	+ 1.1	+ 1.5	+ 3.0	+ 2.8
Calendar effect ⁴	percentage points	+ 0.1	+ 0.2	- 0.2	± 0.0

Source: WIFO. 2017 and 2018: 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 component. – ² Reflects the growth dynamics during a calendar year. Equals the year-on-year growth rate for the fourth quarter; trend-cycle component. – ³ Trend-cycle component. – ⁴ Impact of the annual number of working days and the leap day.

4.1 Investment gradually losing momentum

An untypical feature of the current cyclical upswing is the pacemaker role played by domestic gross fixed capital formation. Already in 2016, when overall growth was still subdued, investment picked up from protracted sluggishness, gaining 3.7 percent in volume terms. Most lively was firms' demand for new machinery and equipment, which increased by 8.6 percent in real terms. After several years of self-restraint, companies mainly sought to replace production facilities that had become obsolete. Corporate investment stays lively in 2017 (+6 percent in real terms), but is expected to slacken in 2018.

Table 6: Expenditure on GDP

Volume (chain-linked series)

	2015	2016	2017	2018	2015	2016	2017	2018
	Billion € (reference year 2010)				Percentage changes from previous year			
Final consumption expenditure	225.03	228.80	231.98	235.41	+ 0.8	+ 1.7	+ 1.4	+ 1.5
Households ¹	162.46	164.90	167.38	170.22	+ 0.5	+ 1.5	+ 1.5	+ 1.7
General government	62.58	63.92	64.62	65.20	+ 1.5	+ 2.1	+ 1.1	+ 0.9
Gross capital formation	73.43	75.99	80.33	83.86	+ 2.0	+ 3.5	+ 5.7	+ 4.4
Gross fixed capital formation	70.20	72.77	75.85	78.10	+ 1.2	+ 3.7	+ 4.2	+ 3.0
Machinery and equipment ²	23.26	25.27	26.78	27.85	+ 1.5	+ 8.6	+ 6.0	+ 4.0
Construction	32.25	32.60	33.51	34.02	+ 1.1	+ 1.1	+ 2.8	+ 1.5
Other investment ³	14.69	14.99	15.69	16.40	+ 1.0	+ 2.0	+ 4.7	+ 4.5
Domestic demand	300.13	306.31	313.87	320.89	+ 1.0	+ 2.1	+ 2.5	+ 2.2
Exports	174.11	177.45	187.23	196.13	+ 3.1	+ 1.9	+ 5.5	+ 4.8
Travel	13.17	13.48	13.76	13.94	+ 4.2	+ 2.3	+ 2.1	+ 1.3
Minus Imports	161.49	166.57	175.02	181.85	+ 3.1	+ 3.1	+ 5.1	+ 3.9
Travel	6.56	6.76	6.82	6.86	+ 1.1	+ 3.1	+ 1.0	+ 0.5
Gross domestic product	312.61	317.15	325.98	334.96	+ 1.1	+ 1.5	+ 2.8	+ 2.8
Value	344.49	353.30	370.08	387.71	+ 3.4	+ 2.6	+ 4.8	+ 4.8

Source: WIFO. 2017 and 2018: forecast. – ¹ Including non-profit institutions serving households. – ² Including weapon systems. – ³ Mainly intellectual property products (research and development, computer programmes, copyrights).

Even weaker was the performance of construction investment in the last few years. After two years of decline, a tentative pick-up by an annual 1.1 percent was recorded in 2015 and 2016 respectively, although residential building was virtually flat in 2016. In the first six months of 2017, construction investment rebounded by over 3 percent. For the second half of the year, WIFO expects further solid, but less dynamic demand for construction services, yielding an increase by 2.8 percent for the year as a whole.

In 2018, investment growth will abate to 1.5 percent. One reason is that the "residential building campaign" (Wohnbauoffensive) announced some time ago by the federal government has still not taken off. Although the residential investment bank WBIB has been founded, it cannot proceed with the objective of creating 30,000 housing units, due to unsettled issues concerning compatibility with EU legislation. Within the framework of the "second" residential building package providing for the creation of 10,000 dwellings by the Federal Real Estate Agency (BIG), construction of only one-fifth of the total has been started and only 600 units have been completed so far.

4.2 Rebound of private consumption

After the tax reform had taken effect in 2016, households caught up on purchases temporarily delayed. Such pick-up in private consumption is untypical for an early stage of recovery: for an export-oriented economy like Austria, initial stimulus usually comes from foreign trade, subsequently spilling over towards private investment and via an improving labour market eventually driving up consumption.

Although the positive incentives from the tax reform are fading, real private consumption in 2017 will grow at the same 1.5 percent rate as in 2016. The recovery is boosting employment growth which in turn raises household disposable income. At the same time, lower unemployment makes job losses less likely, thereby strengthen-

The steady improvement of labour market conditions raises private incomes and boosts consumer confidence. Private household consumption is set to gradually gather pace.

ing consumer confidence and households' readiness to spend. With the saving rate heading down, private consumption will drive the economy forward also in 2018. In addition, the envisaged environmental premium ("Ökoprämie") for changeovers towards low-emission motor vehicles ("Dieselgipfel") may give impetus to new car sales and thus stimulate readiness to buy durable consumer goods.

Table 7: Private consumption, income and prices

	2013	2014	2015	2016	2017	2018
	Percentage changes from previous year, volume					
Private consumption expenditure ¹	- 0.1	+ 0.3	+ 0.5	+ 1.5	+ 1.5	+ 1.7
Durable goods	- 3.5	- 1.0	+ 2.8	+ 3.3	+ 2.5	+ 1.5
Non-durable goods and services	+ 0.3	+ 0.4	+ 0.3	+ 1.3	+ 1.4	+ 1.7
Household disposable income	- 1.8	+ 0.4	+ 0.3	+ 2.6	+ 1.1	+ 1.4
	As a percentage of disposable income					
Household saving ratio						
Including adjustment for the change in pension entitlements	7.1	7.1	6.9	7.9	7.6	7.3
Excluding adjustment for the change in pension entitlements	6.3	6.5	6.2	7.2	6.9	6.6
	Percentage changes from previous year					
Direct lending to domestic non-banks (end of period)	- 1.2	+ 0.3	+ 2.0	+ 1.8	+ 2.2	+ 2.8
	Percent					
Inflation rate						
National	2.0	1.7	0.9	0.9	1.9	1.8
Harmonised	2.1	1.5	0.8	1.0	2.0	1.9
Core inflation ²	2.3	1.9	1.7	1.5	2.0	2.0

Source: WIFO. 2017 and 2018: forecast. Household disposable income and saving rate: 2013 to 2016 WIFO estimate based on provisional values. – ¹ Private households including non-profit institutions serving households. – ² Excluding energy and unprocessed food (meat, fish, fruits, vegetables).

4.3 Good results for the Austrian tourism industry in the summer season

The Austrian tourism sector once again achieved good results in the current year. The business cycle upswing in Europe raised consumers' willingness to travel. In view of the spreading danger of terrorist attacks, Austria benefits from its reputation as safe destination. Favourable weather conditions during the high season in July and August were also conducive to the good results achieved by the providers of tourism services.

Value added of accommodation and food service activities is expected to increase by over 3 percent in real terms in 2017, after +2.5 percent in 2016. Assuming no further one-off effects for 2018, output should grow by 2.7 percent in 2018 on the back of the positive overall business outlook.

While many Austrians were inclined to spend their holidays within the country rather than travelling to politically unstable regions like Turkey, the main driver of output growth was demand from foreign customers. The earlier decline in overnight stays of Russian tourists turned around and is heading firmly up since the beginning of the year. Otherwise, the strongest gains in overnight stays were recorded for holiday-makers from Poland, Romania, Hungary and the USA. Exports of tourism services (as recorded by the National Accounts) are projected to increase by over 2 percent in volume in 2017 and a further 1.3 percent in 2018.

4.4 Agricultural output declining due to adverse weather conditions

In 2017, agricultural production is shaped by weather conditions in a similar way as last year, though with a different seasonal pattern. Fruit- and wine-production should yield better results than in 2016, even if remaining far below those of years with good harvests. Corn, maize and other crops suffered from drought – this being the third-most hot summer of the last ten years – and hailstorm – up to September, damage amounted to 207 million €, after 270 million € in 2016. As prices have recovered, milk

Benign weather conditions, the strengthening of business activity abroad and Austria's reputation as safe holiday destination were major factors for the strong performance of the Austrian tourism industry in 2017.

production will be raised somewhat in 2017, as well as that of butter. Meat production, however, may turn out lower than last year.

Table 8: Gross value added

At basic prices

	2015	2016	2017	2018	2015	2016	2017	2018
	Billion € (reference year 2010)				Percentage changes from previous year			
<i>Volume (chain-linked series)</i>								
Agriculture, forestry and fishing	3.95	4.05	3.85	4.02	- 0.6	+ 2.7	- 5.0	+ 4.5
Manufacturing including mining and quarrying	56.39	57.14	60.40	63.36	+ 0.5	+ 1.3	+ 5.7	+ 4.9
Electricity, gas and water supply, waste management	8.25	8.35	9.18	9.36	- 1.9	+ 1.2	+10.0	+ 2.0
Construction	16.13	16.23	16.68	16.94	- 1.3	+ 0.6	+ 2.8	+ 1.5
Wholesale and retail trade	36.10	36.61	37.64	38.69	+ 3.1	+ 1.4	+ 2.8	+ 2.8
Transportation	15.18	15.21	15.66	16.29	+ 0.3	+ 0.2	+ 3.0	+ 4.0
Accommodation and food service activities	13.33	13.66	14.09	14.48	+ 1.7	+ 2.5	+ 3.2	+ 2.7
Information and communication	9.49	9.61	9.75	9.99	+ 1.0	+ 1.2	+ 1.5	+ 2.5
Financial and insurance activities	12.20	12.23	12.23	12.54	+ 4.5	+ 0.3	± 0.0	+ 2.5
Real estate activities	25.72	26.13	26.52	27.18	- 1.0	+ 1.6	+ 1.5	+ 2.5
Other business activities ¹	26.50	26.99	27.74	28.85	+ 2.3	+ 1.9	+ 2.8	+ 4.0
Public administration ²	48.09	48.90	49.44	50.03	+ 0.7	+ 1.7	+ 1.1	+ 1.2
Other service activities ³	7.84	7.78	7.85	7.96	+ 0.6	- 0.7	+ 0.8	+ 1.5
Total gross value added ⁴	279.07	282.78	290.76	299.26	+ 0.9	+ 1.3	+ 2.8	+ 2.9
Gross domestic product at market prices	312.61	317.15	325.98	334.96	+ 1.1	+ 1.5	+ 2.8	+ 2.8

Source: WIFO. 2017 and 2018: 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.

Developments in 2018 are expected to keep close to the average for the last few years. Cuts in the area of cultivable land will largely be offset by higher yields per hectare. With the overall harvest increase, demand for intermediate inputs will also rise. Milk production is expected to expand and will compensate the moderately weakening output of pork and beef.

4.5 Labour market improving further

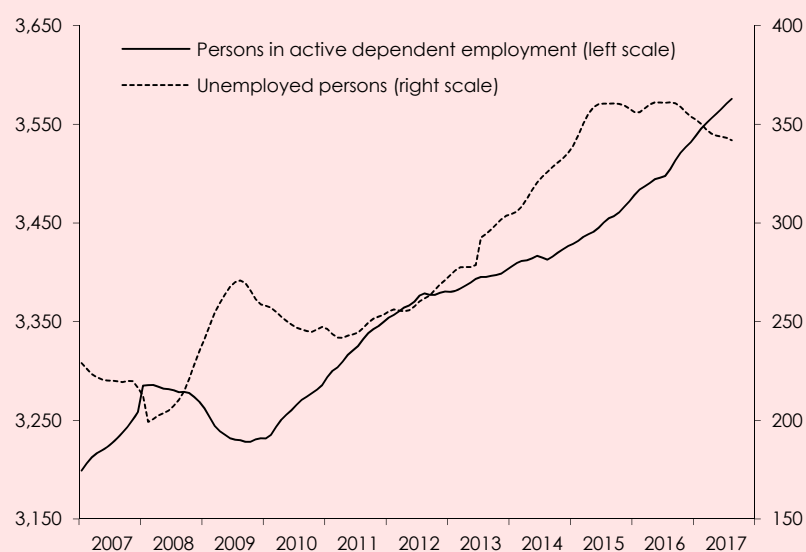
The strong increase in overall output stimulates the demand for labour across all economic sectors. Particularly noteworthy is that also more full-time jobs are being offered.

The number of persons in dependent active employment is rising by 2 percent in 2017, up from a rate of 1.6 percent in 2016. A slight deceleration to +1.8 percent is expected for 2018, despite the employment policy measures taken this year. Regardless of a lively response to the introduction of the "employment bonus" (up to September 2017 almost 6,000 applications were filed with the Austrian Wirtschaftsservice GmbH – AWS), the measure is unlikely to create many new jobs due to high deadweight losses. The Initiative 20,000 starting these days should meet strong demand, leading to an estimated additional employment effect of between 6,000 and 8,000 on average in 2018, i.e., adding 0.2 percentage point to overall employment growth. This should also be reflected by a noticeable decline in the unemployment rate.

Up to 2015, the swift expansion of labour supply, both domestic and from abroad, prevented the unemployment rate from edging down, despite steady employment growth. The turnaround came only with the cyclical upturn as from mid-2016. Since that time, unemployment is firmly heading down. In 2017, the unemployment rate, calculated according to the national definition, will subside from 9.1 percent last year to 8.5 percent, and further to 8.1 percent in 2018.

Figure 4: Developments on the Austrian labour market

1,000 persons, seasonally adjusted



Source: Main Association of Austrian Social Security Institutions; Public Employment Service Austria; WDS – WIFO-Data-System, Macrobond.

Table 9: Labour market

	2013	2014	2015	2016	2017	2018
	Change from previous year in 1,000					
<i>Demand for labour</i>						
Persons in active employment ¹	+ 29.2	+ 31.8	+ 42.5	+ 60.1	+ 76.0	+ 73.0
Employees ^{1,2}	+ 21.2	+ 23.8	+ 33.2	+ 53.7	+ 69.0	+ 66.0
National employees	- 8.5	- 8.1	+ 6.3	+ 17.7	+ 21.0	+ 20.0
Foreign employees	+ 29.7	+ 32.0	+ 27.0	+ 36.0	+ 48.0	+ 46.0
Self-employed ³	+ 8.0	+ 8.0	+ 9.3	+ 6.4	+ 7.0	+ 7.0
<i>Labour supply</i>						
Population of working age						
15 to 64 years	+ 23.5	+ 33.1	+ 52.3	+ 65.8	+ 42.0	+ 35.3
Labour force ⁴	+ 55.8	+ 64.0	+ 77.5	+ 63.1	+ 60.0	+ 58.0
<i>Labour surplus</i>						
Unemployed ⁵	+ 26.6	+ 32.2	+ 35.0	+ 3.0	- 16.0	- 15.0
Unemployed persons in training	+ 6.9	+ 1.8	- 10.2	+ 2.1	+ 5.5	+ 6.0
Percent						
<i>Unemployment rate</i>						
As a percentage of total labour force (Eurostat) ⁶	5.4	5.6	5.7	6.0	5.6	5.4
As a percentage of total labour force ⁵	6.8	7.4	8.1	8.1	7.6	7.2
As a percentage of dependent labour force ⁵	7.6	8.4	9.1	9.1	8.5	8.1
Percentage changes from previous year						
Labour force ⁴	+ 1.4	+ 1.5	+ 1.8	+ 1.5	+ 1.4	+ 1.3
Persons in active dependent employment ^{1,2}	+ 0.6	+ 0.7	+ 1.0	+ 1.6	+ 2.0	+ 1.8
Unemployed ⁵	+ 10.2	+ 11.2	+ 11.0	+ 0.8	- 4.5	- 4.4
Persons (in 1,000)	287.2	319.4	354.3	357.3	341.3	326.3

Source: WIFO, 2017 and 2018; 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.

4.6 Government budget remains in deficit until 2018, despite buoyant activity

Lively economic activity has a positive impact also on the government accounts. In the first seven months of 2017, tax revenues rose by 5.3 percent year-on-year. Receipts from wage and income tax increased by a more moderate 2.9 percent,

whereas those from corporate tax (+12.7 percent), capital gains tax (+17.0 percent) and VAT (+4.8 percent) proved particularly dynamic. Overall, this may bring down the general government deficit ratio by 1 percentage point, from 1.6 percent of GDP in 2016 to 0.6 percent in 2017.

Although business activity promises to stay resilient in 2018, further deficit reduction will be constrained by a number of expansionary measures already adopted. The current WIFO projection is for a general government deficit of 0.3 percent of GDP in 2018; however, the eventual outcome will depend not only on business conditions, but importantly also on fiscal and budgetary policy decisions to be taken by the new government coming into office after the October general elections.

Unlike in Germany, where the general government balance is in surplus, Austria will continue to run budget deficits until 2018, despite comparatively stronger GDP growth.

Table 10: Fiscal and monetary policy – key figures

	2013	2014	2015	2016	2017	2018
	As a percentage of GDP					
<i>Fiscal policy</i>						
General government financial balance ¹	-2.0	-2.7	-1.0	-1.6	-0.6	-0.3
General government primary balance	0.7	-0.2	1.3	0.5	1.3	1.4
General government total revenue	49.7	49.6	49.9	49.1	48.7	48.1
General government total expenditure	51.6	52.3	51.0	50.7	49.3	48.4
	Percent					
<i>Monetary policy</i>						
Three-month interest rate	0.2	0.2	-0.0	-0.3	-0.3	-0.1
Long-term interest rate ²	2.0	1.5	0.7	0.4	0.7	1.0

Source: WIFO. 2017 and 2018: forecast. – ¹ According to Maastricht definition. – ² 10-year central government bonds (benchmark).

5. Risks to the forecast

Unchanged from the previous projection of June 2017, major risks for the global economy and for Austria derive from the further course of the negotiations for the UK withdrawal from the EU, and from a potential conflict between the USA, North Korea and Iran.

A further risk emanates from the euro appreciation against the dollar observed since early 2017, which may not only jeopardise growth of exports to the USA itself, but also harm the competitiveness of Austrian companies on third markets. Yet, the present forecast does not assume the exchange rate rising above 1.15 \$ per € on annual average 2018.

Another uncertainty relates to the short-term performance of the US economy. Although leading indicators do not yet point to an early end of the eight-year-long upswing, labour market conditions offer little scope for further output growth.

Likewise, the situation in China gives cause for concern. While the deceleration of trend GDP growth observed for some time comes to a halt due to the short-term revival in 2017, there are clear signs of imbalances in the financial sector and in investment behaviour which, if unwinding abruptly, may trigger an economic recession.

On the other hand, the upside risks attached to the forecast are comparatively minor. There is, however, the possibility of a stronger self-sustained upswing in the euro area driven by private consumption and investment. Supporting factors in this regard are the lasting expansionary stance of the ECB monetary policy and the widespread absence of fiscal restriction. Indeed, there is no historical evidence for the reaction of economic agents to such a macroeconomic setting in a period of cyclical upturn. Hence, the forecast assumes GDP growth for 2018 of 2.4 percent to stay below previous cyclical episodes although the latter had usually seen a clear move towards restriction of monetary and fiscal policy at that stage.

Should, for the reasons cited, economic growth in the euro area turn out significantly stronger, the Austrian economy would receive positive stimulus beyond the assumptions underlying the present projection.

In addition to the risks highlighted in the earlier projection, i.e., the possibility of a "hard Brexit" and geopolitical tensions between the USA and other countries, there are new ones deriving from the sustained euro appreciation against the dollar and from a cyclical reversal in the USA and China.