

Economic Outlook for 2018 and 2019: International Economic Activity Abating from Strong Growth in 2018

Leading indicators still point to favourable cyclical conditions in Austria until the end of 2018. GDP growth for the year as a whole is set to reach 3 percent. Currency crises in some emerging market countries, lack of clarity about the further course of US trade policy, and uncertainty surrounding the terms of Brexit increasingly strain international trade and with it business activity in highly export-oriented economies. These factors will dampen GDP growth also in Austria, which is expected to recede to 2 percent in 2019.

Demand and output growth has been further accelerating in Austria; after +2.0 percent in 2016 and +2.6 percent last year, real GDP is expected to gain 3.0 percent in 2018. In an international perspective, domestic business activity has so far proved remarkably robust, while in major euro area countries it has been clouded since early this year by slackening foreign trade. Although the growth cycle should have passed its peak also in Austria, the slowdown has so far been contained. Industrial production and exports still expanded markedly in the first half of the year. Currency crises in several emerging market economies, the trade policy strategy in the USA and the so far inconclusive search for a viable solution for the UK withdrawal from the EU in 2019 currently overshadow world trade. Austria is therefore also likely to face slower export growth in 2019, which may weaken firms' readiness to invest. Private consumption should continue to lend support to aggregate demand, without however fully compensating the shortfall of demand from abroad. GDP growth in Austria is expected to moderate to an annual rate of 2 percent.

The rate of inflation remains at a stable 2.1 percent in 2018. The moderate pace, given the strong cyclical drive, is only slightly in excess of the ECB's target for the entire euro area (below, but close to 2 percent). In the current year it is mainly energy cost that is pushing up the consumer price level. In 2019, inflation may remain unchanged at an annual 2.1 percent.

The labour market continues to benefit from lively output growth. Overall employment is expected to increase by 88,000 persons (+2.5 percent) in 2018, the number of unemployed registered with the Public Employment Service Austria (AMS) keeps falling (-28,000 on annual average 2018). Monthly figures suggest the downward trend coming to a halt since summer, the main reason is a decline in training activities. The overall positive trend is set to persist until the end of the year. In 2019, the pace of job creation is expected to decelerate and progress towards lower unemployment will be more limited than in 2018. The unemployment rate is projected to ease to an average 7.3 percent.

Table 1: Main results

	2014	2015	2016	2017	2018	2019	
	Percentage changes from previous year						
Gross domestic product, volume	+ 0.7	+ 1.1	+ 2.0	+ 2.6	+ 3.0	+ 2.0	
Manufacturing	+ 2.2	+ 1.3	+ 3.5	+ 4.8	+ 6.2	+ 3.2	
Wholesale and retail trade	+ 2.2	+ 1.9	+ 1.2	+ 1.1	+ 1.8	+ 1.6	
Private consumption expenditure ¹ , volume	+ 0.3	+ 0.4	+ 1.4	+ 1.4	+ 1.8	+ 1.7	
Consumer durables	– 0.3	+ 1.9	+ 3.0	+ 0.5	+ 1.0	+ 0.5	
Gross fixed capital formation, volume	– 0.4	+ 2.3	+ 4.3	+ 3.9	+ 3.4	+ 2.7	
Machinery and equipment ²	– 1.4	+ 3.9	+10.6	+ 4.6	+ 4.7	+ 4.0	
Construction	+ 0.3	+ 0.1	+ 0.4	+ 3.5	+ 2.3	+ 1.5	
Exports, volume	+ 2.9	+ 3.5	+ 2.7	+ 4.7	+ 4.9	+ 3.7	
Exports of goods, fob	+ 2.9	+ 3.5	+ 2.1	+ 4.9	+ 5.6	+ 4.5	
Imports, volume	+ 3.0	+ 3.6	+ 3.4	+ 5.1	+ 4.0	+ 3.5	
Imports of goods, fob	+ 2.1	+ 4.1	+ 3.2	+ 4.2	+ 4.4	+ 4.0	
Gross domestic product, value	+ 2.9	+ 3.3	+ 3.5	+ 3.8	+ 4.7	+ 4.1	
	billion €	333.15	344.26	356.24	369.90	387.36	403.21
Current account balance	as a percentage of GDP	2.5	1.7	2.5	2.0	1.9	2.0
Consumer prices		+ 1.7	+ 0.9	+ 0.9	+ 2.1	+ 2.1	+ 2.1
Three-month interest rate	percent	0.2	– 0.0	– 0.3	– 0.3	– 0.3	– 0.2
Long-term interest rate ³	percent	1.5	0.7	0.4	0.6	0.7	1.0
General government financial balance, Maastricht definition	as a percentage of GDP	– 2.7	– 1.0	– 1.6	– 0.8	– 0.1	0.2
Persons in active dependent employment ⁴		+ 0.7	+ 1.0	+ 1.6	+ 2.0	+ 2.5	+ 1.5
Unemployment rate							
Eurostat definition ⁵		5.6	5.7	6.0	5.5	4.8	4.5
National definition ⁶		8.4	9.1	9.1	8.5	7.7	7.3

Source: WIFO. 2018 and 2019: 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.

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For definitions used see "Methodological Notes and Short Glossary",

<https://www.wifo.ac.at/wwadocs/form/WIFO-BusinessCycleInformation-Glossary.pdf>