

Modest economic downturn in Austria on the back of a slowing global economy

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Cutoff date: September 13, 2019

Amid weakening global growth, economic activity in Austria has also been slowing down, albeit only moderately thanks to robust domestic demand. Based on the results of its Economic Indicator, the Oesterreichische Nationalbank (OeNB) expects real GDP to expand (quarter on quarter) by 0.2% in the third quarter and by 0.3% in the fourth quarter of 2019. This implies a downward revision of 0.2 percentage points from the OeNB's Economic Indicator of May 2019. Real GDP is, however, still expected to grow by 1.5% in 2019 as a whole, as real GDP data for the beginning of 2019 have been revised slightly upward.

In its most recent inflation forecast of September 2019, the OeNB anticipates HICP inflation to decline from 2.1% in 2018 to 1.6% in 2019, and to remain at this level in both 2020 and 2021. Compared with the OeNB's June 2019 outlook, this represents downward revisions of 0.1 percentage points for each of the years from 2019 to 2021. In 2019, the decline in inflation has been driven by lower energy price inflation, which is masking persistently high wage pressures and robust domestic demand, both of which are not expected to decrease before 2020. As a result, core inflation (excluding food and energy) is projected to reach 1.8% in 2019 and 2.0% in 2020, before dropping to 1.7% in 2021, given the cyclical downturn in Austria.

1 Economic activity has slowed in the first half of 2019

In recent months, Austria's economy has been facing strong headwinds stemming from the external economic environment. Political developments in the U.K. have significantly increased – at least temporarily – the likelihood of a no-deal Brexit, adding to higher levels of overall uncertainty. At the same time, the trade dispute between the U.S.A. and China has escalated further. In Europe, both the political (and economic) future of major EU countries such as Italy continue to be shrouded in uncertainty. And recently, concerns about prospective developments in Germany, Austria's main trading partner, have intensified as well. In fact, after having contracted in the second quarter of 2019, the German economy could – according to leading indicators – enter a technical recession (i.e. two successive quarters of negative growth).

In light of these developments, Austria's economy has proved to be resilient in the year to date. While the pace of growth slowed down in the first two quarters (+0.4% and +0.3%), it was still above the levels recorded for Germany and the euro area. However, since its peak in late 2017/early 2018, economic growth has weakened gradually, dipping below its average growth rate of the past 20 years (+0.42%).

In the second quarter of 2019, growth was supported by domestic demand, whose contribution came to 0.4 percentage points in that period. Posting an increase of 0.5%, private consumption continued to be an important driver of growth as well. At 0.5%, investment growth decelerated on the previous quarter (+0.8%) but remained above its long-term average of 0.4%. Investment growth was broad based, the only exception being nonresidential construction investment, which

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Table 1

National accounts data for Austria as on August 30, 2019

	GDP	Private consumption	Government consumption	Gross fixed capital formation	Exports	Imports	Domestic demand (excluding changes in inventories)	Net exports	Changes in inventories	Statistical discrepancy	
	Change on previous period in %						Contribution to GDP growth in percentage points				
Q3 18	+0.4	+0.2	+0.3	+0.8	+1.0	+0.7	0.4	0.2	-0.1	-0.0	
Q4 18	+0.5	+0.3	+0.3	+0.8	+0.8	+0.7	0.4	0.1	-0.0	-0.0	
Q1 19	+0.4	+0.5	+0.2	+0.8	+0.9	+0.7	0.5	0.1	-0.0	-0.2	
Q2 19	+0.3	+0.5	+0.3	+0.5	+0.5	+0.4	0.4	0.1	-0.1	0.0	
2016	+2.0	+1.4	+1.7	+4.2	+3.0	+4.0	2.1	-0.4	0.3	0.1	
2017	+2.7	+1.7	+1.4	+3.8	+4.6	+4.4	2.0	0.3	0.3	0.1	
2018	+2.7	+1.5	+0.4	+3.5	+4.4	+3.2	1.7	0.8	0.4	-0.2	

Source: WIFO, authors' calculations.

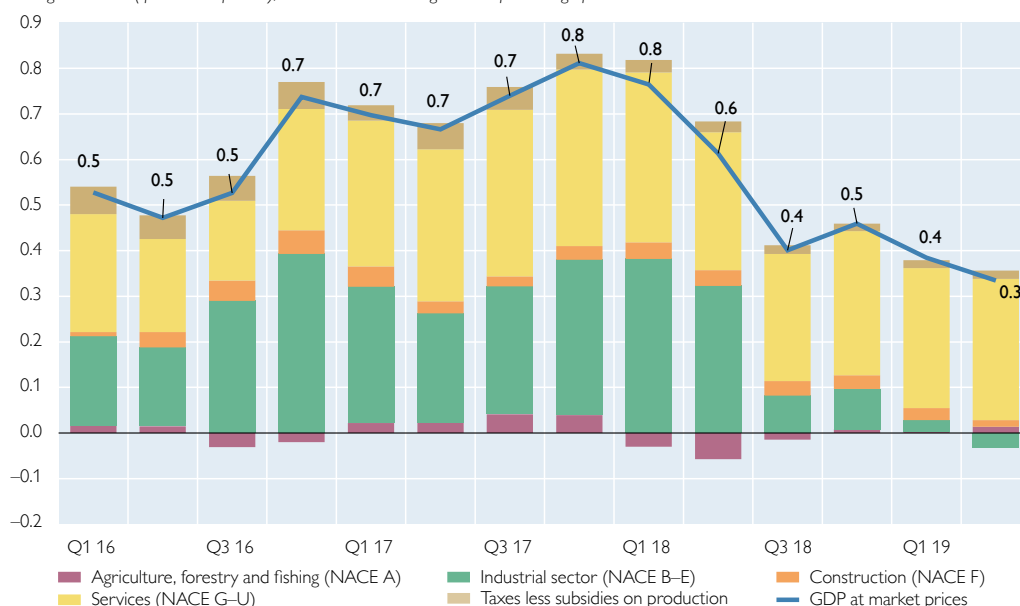
stagnated in the second quarter of 2019. By contrast, residential construction investment remained – in addition to private consumption – the key driver of domestic growth, increasing by as much as 0.8%.

Meanwhile, global headwinds have clearly taken their toll on Austria's industrial and export sectors. In the second quarter of 2019, export growth declined further to 0.5%, with net exports contributing only marginally (+0.1 percentage points) to real GDP growth. On the output side, the industrial sector's growth momentum had already decelerated substantially in the second half of 2018, and continued to do so in the first half of 2019. In the second quarter of 2019, the industrial sector's

Chart 1

Contributions to GDP growth

GDP growth in % (quarter on quarter); contributions to GDP growth in percentage points



Source: WIFO.

contribution to growth turned negative for the first time, which meant that economic growth was almost entirely driven by the services sector.

Since the introduction of the European System of Accounts (ESA) 2010, the Austrian Institute of Economic Research (WIFO) releases two different sets of seasonally adjusted GDP series. For the second quarter of 2019, the seasonally and working day-adjusted GDP series, which fluctuates more sharply and is also published by Eurostat, indicates a quarter-on-quarter growth rate of 0.2% (Q1 19: +0.4%). It thus points to cyclical dynamics that are similar to those of the trend-cycle series, which exhibits a smoother trend and is used by WIFO and the OeNB.

2 Export growth continues to slow down

The current economic downturn in Austria was triggered by global developments. Since mid-2018, growth in both global trade and global industrial production has been decelerating substantially, which has caused Austria's external trade to lose considerable momentum as well. Thanks to well-filled order books, though, the downturn in Austria seems to have set in with some lag.

According to Statistics Austria, nominal goods exports still rose by 3.3% in the first six months of 2019, while exports to the euro area developed less dynamically, posting an increase of 2.2%. The latter is largely ascribable to the weak growth in exports to Germany (+0.1%) and Italy (+0.6%). Among Austria's top ten export destinations, exports to Hungary (+13.0%), to the U.K. (+10.4%) and to France (+7.5%) recorded the most pronounced growth rates. Conversely, the greatest decline was observed for exports to Turkey (-17.3%). Corresponding to a mere 0.9% in Austria's total exports, exports to Turkey only play a subordinate role for Austria's exporters. A breakdown by sectors shows that exports of fuel and energy (+21.9%), vehicles (+10.1%) and chemicals (+6.8%) picked up notably, whereas exports of manufactured goods contracted slightly (-1.2%).

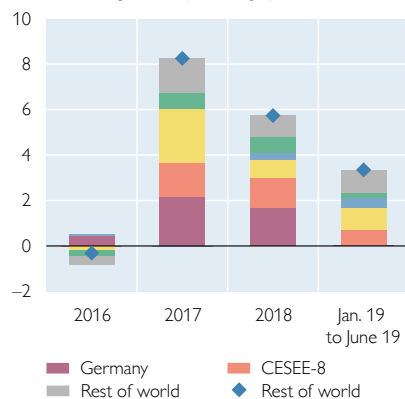
The most recent figures of the OeNB's Export Indicator, which is based on truck mileage data, indicate positive year-on-year growth rates, namely 4.0% for

Chart 2

Growth composition of Austrian goods exports and imports by region

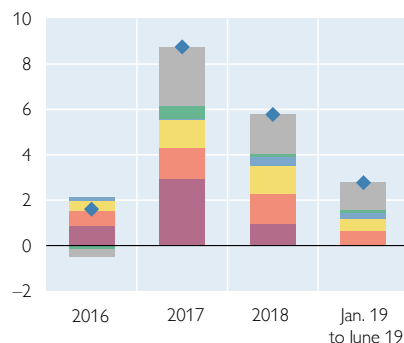
Exports

Annual change in % (in nominal terms); contribution to growth in percentage points



Imports

Annual change in %



Source: Statistics Austria.

Note: CESEE-8: Bulgaria, Czech Republic, Croatia, Hungary, Poland, Romania, Slovenia, Slovakia.

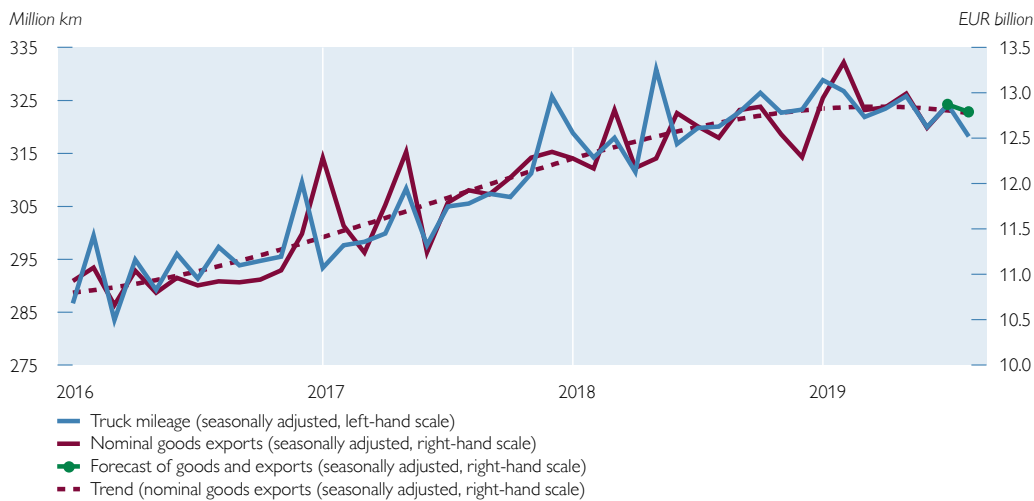
July and 0.2% for August. This increase is exclusively due to the dynamic development of exports in the second half of 2018 and in the first two months of 2019. Export volumes peaked in February 2019; since then, nominal goods exports, adjusted for seasonal and working day effects, have been decreasing somewhat (see dashed line in chart 3.1).

Looking ahead, survey data point to a further weakening in export activity over the next few months. According to the Bank Austria Purchasing Managers' Index (PMI), estimates for new export orders increased slightly in August 2019, but, at 47.3 points, remained below the expansion threshold of 50 points. By contrast,

Chart 3.1

OeNB Export Indicator and leading indicators for external trade

Truck mileage and goods exports

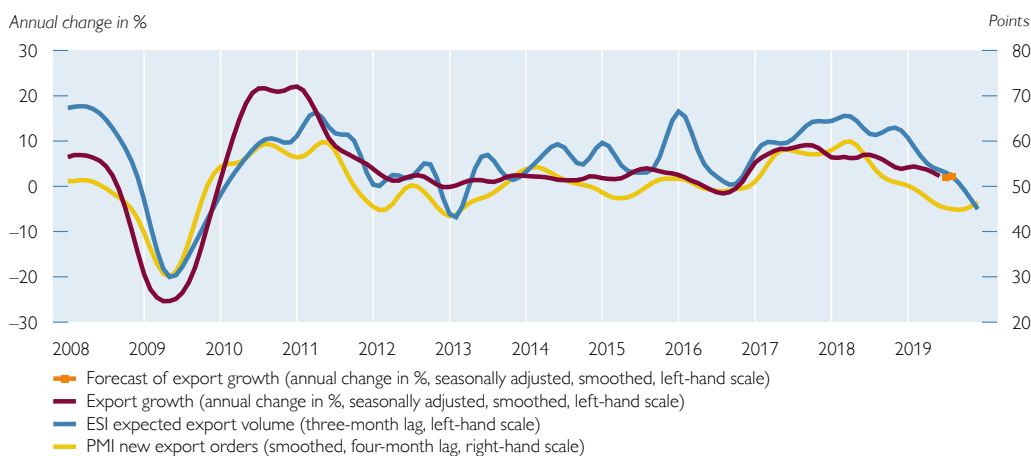


Source: Austrian highway authority (ASFINAG), OeNB.

Chart 3.2

OeNB Export Indicator and leading indicators for external trade

Leading indicators for external trade



Source: Eurostat, Statistics Austria, Austrian highway authority (ASFINAG), Bank Austria, OeNB.

data on export expectations gathered by the European Commission suggest a steady decline in the months to come (see chart 3.2).

Growth of goods imports stood at 2.8% in the first six months of 2019 and thus lagged behind growth of goods exports. Goods imports from the most significant country of origin, Germany, which accounts for 36% of Austrian total imports, edged down by 0.1% and were therefore largely responsible for the subdued import growth.

Exports in the services sector expanded by 5.3% over the first six months of 2018, and thus grew much stronger than the goods sector. Tourism was once again the main driver of growth in the services sector. The number of overnight stays by visitors from abroad rose by 1.1% in the first seven months of 2019, reaching an all-time high of 71.6 million

The current account surplus declined by EUR 1.8 billion year on year in the first half of 2018, reaching EUR 4.4 billion, or 2.4% of GDP mainly due to a worsening of the goods balance. Amid higher commodity prices, the surplus in the goods balance decreased significantly by EUR 1.3 billion.

3 Industrial production growth turned negative in the second quarter of 2019

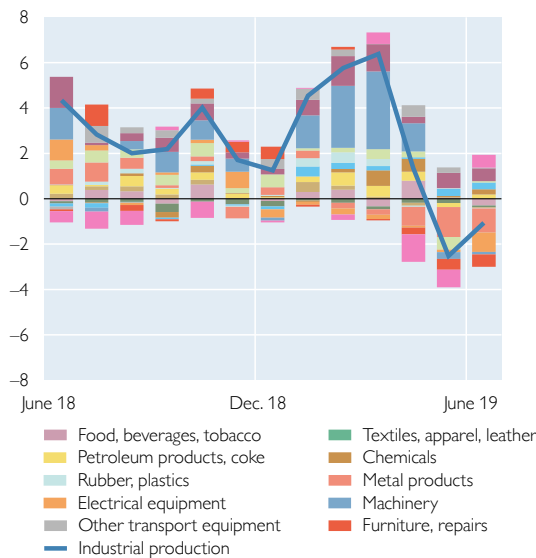
Leading indicators available for Austria’s industry suggested early on that domestic industrial activity would moderate. According to the European Commission, industrial confidence has been below its long-term average since the end of the first quarter of 2019. Similarly, the Bank Austria Purchasing Managers’ Index has been below the expansion threshold of 50 points since April, signaling that industrial production is expected to decline. In May, growth in industrial production turned negative (–2.5% year on year) and continued to contract also in June (–1.1%).

Chart 4

Contributions to industrial production growth by sector

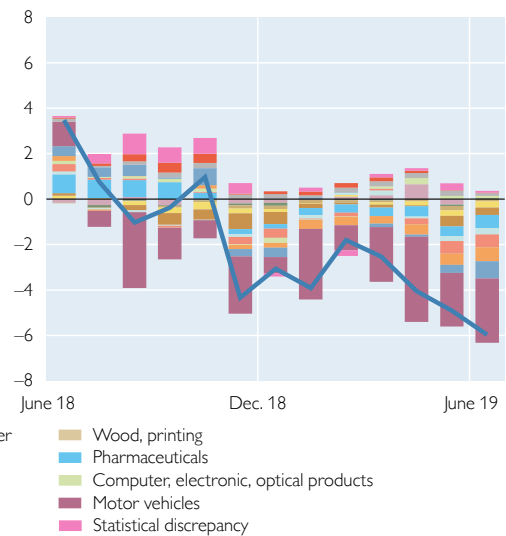
Austria

Annual change in %, contributions to growth in percentage points



Germany

Annual change in %, contributions to growth in percentage points



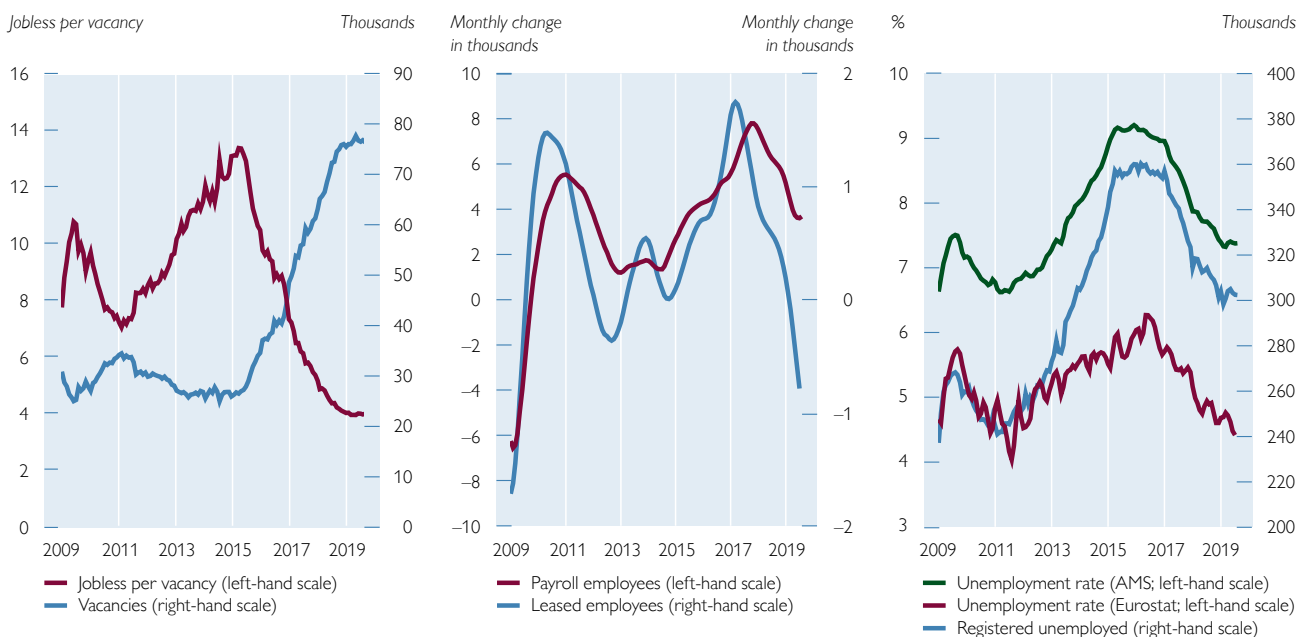
Source: Eurostat.

This brought a long-lasting boom period of Austria’s industry to an end. From 2015 to 2018, industrial production increased by at least 2% per year, with growth averaging as much as 3.5% in that period. In late 2018 and early 2019, developments in Austria’s industrial sector continued to be astonishingly resilient, so that average production growth equaled 4.5% in the first quarter of 2019. Looking at the sectoral composition, growth was broad based, with the machinery and automotive industries being major pillars of growth. As a result, Austria’s industry for quite some time bucked the downward trend observable for Germany’s industry. In Germany, adverse spillovers from its struggling automotive industry triggered a recession in the country’s industrial sector, which has gradually deepened since September 2018. Austria’s industrial sector, on the contrary, benefited from growth stimuli coming from Central, Eastern and Southeastern European (CESEE) countries as well as from order backlogs accumulated during the boom years, which had not yet been depleted.

As remarkable as Austria’s decoupling from developments in Germany may have been in recent months, Austria’s industry has not been able to escape contagion after all. However, even though Austria’s industrial production in mid-2019 dropped for the first time during the current cycle, industrial activity declined significantly less in Austria (–1.1% in June 2019) than in Germany, where output plunged by 6%. Besides the developments in Germany, the CESEE countries’ growth prospects have deteriorated recently, and the outlook for global trade has remained subdued. In view of this difficult global environment, Austria’s export-oriented industry is facing challenging conditions in the second half of 2019.

Chart 5

Labor market indicators for Austria



Source: Public Employment Service Austria (AMS), Main Association of Austrian Social Security Institutions (HSV), Eurostat.
 Note: All data are seasonally adjusted.

4 Austria's labor market responds with a lag to economic downturn

So far, Austria's labor market still appears to have been largely unaffected by the cooling economy. In August 2019, payroll employment rose by almost 60.000 persons year on year. The Austrian unemployment rate (national definition) ran to 7.4% in August 2019, while unemployment calculated according to the Eurostat definition stood at 4.4%, which represented a decline of 0.3 and 0.5 percentage points (year on year), respectively.

However, the growth rates observed in the year to date indicate that on the labor market, too, the cyclical peak has been passed. Since the beginning of 2019, there has been scarcely any increase in the number of vacancies, and the number of job seekers per position has stopped declining. Moreover, the number of persons registered as unemployed at the Public Employment Service Austria (AMS) has stagnated at around 300,000 (seasonally adjusted) since the turn of the year. Likewise, the seasonally adjusted unemployment rate (national definition) has remained at 7.4% since January 2019. By contrast, the unemployment rate published by Eurostat has decreased by 0.3 percentage points since early 2019; yet, Eurostat's latest unemployment figures have often been prone to revision in the past. Recently, employment

Chart 6

Confidence indicators for the Austrian economy

Economic Sentiment Indicator (ESI)



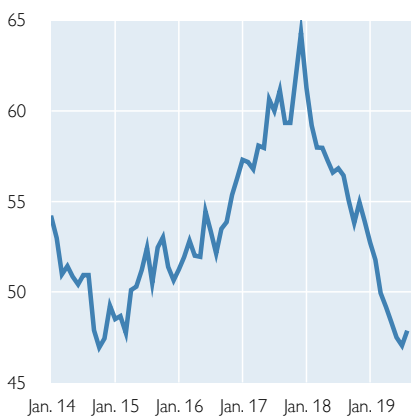
ESI: industrial confidence



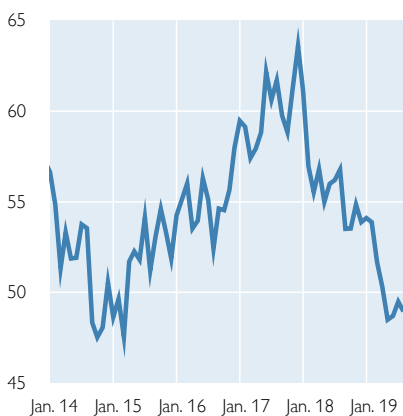
ESI: export order books



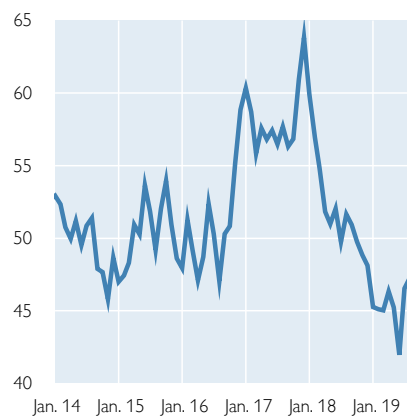
Purchasing Managers' Index (PMI)



PMI: new orders



PMI: new export orders



Source: European Commission, Bank Austria.

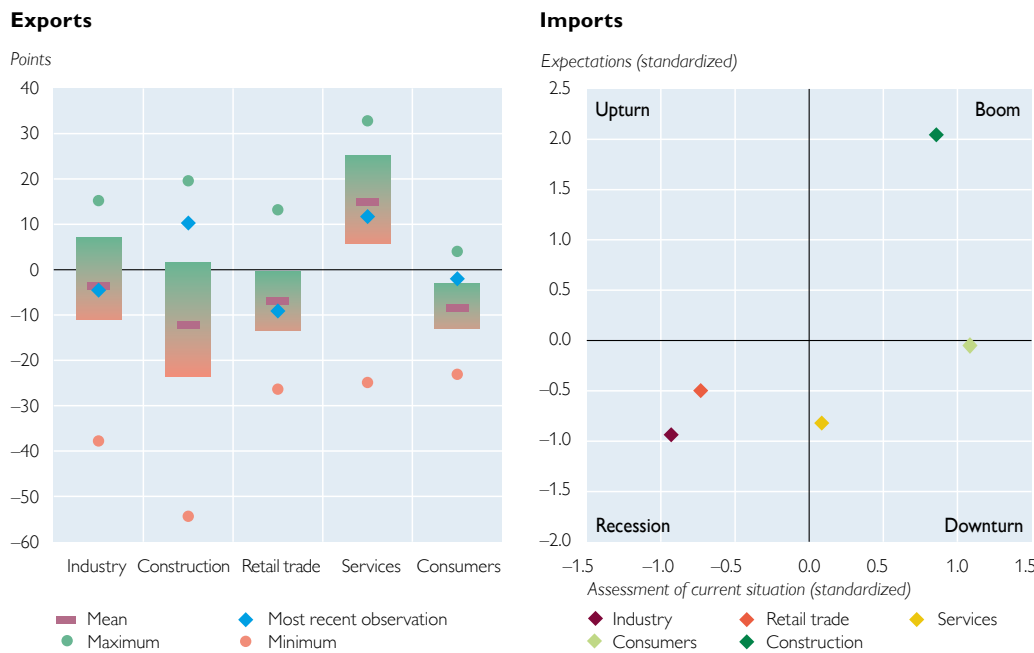
growth has also slowed markedly, even if seasonally adjusted values for August 2019 continue to point to a month-on-month increase in the number of payroll employees. The number of leased employees, a reliable leading indicator for the entire labor market, has in turn been declining since March 2019 already. This signals more muted developments in employment in the months ahead and reflects the low growth environment prevalent in Austria’s industrial sector, which is the main employer of leased staff.

5 Economic indicators have stabilized at low levels

Following record highs in early 2018, sentiment indicators and economic indicators for Austria have declined perceptibly. After reaching a trough in May and June 2019, several indicators have since recovered somewhat. The Economic Sentiment Indicator (ESI) rose from 102.3 points in June 2019 to 103.2 points in August 2019, which left it just above its long-term average of 100 points. Furthermore, the Purchasing Managers’ Index compiled by Bank Austria saw an increase of 0.7 points in August 2019. At 47.9 points, however, the index remains below the expansion threshold of 50 points, signaling a contraction of industrial production. Nevertheless, the downward trend of these confidence indicators seems to have come to an end and given way to stabilization, albeit at rather low levels. The same holds true for most of the indicators’ subcomponents, and also estimates for new (export) orders – which are crucial for further cyclical developments – have recovered somewhat. However, it remains to be seen over the coming months whether recent improvements will indeed lead to a real turnaround.

Chart 7

Growth composition of Austrian goods exports and imports by region



Source: Eurostat.

Note: Fluctuation interval in bars: 67%.

A breakdown of sentiment indicators by economic sectors presents a heterogeneous picture. In construction, optimism has remained buoyant, with confidence close to its historical highs. As indicated by the business cycle clock, which is based on both the assessment of the current situation and expectations for the months ahead, Austria’s construction industry is clearly experiencing a boom phase. Similarly, consumer sentiment has remained at an above-average level. Their expectations regarding the near future, however, have dropped to their average, which leaves current consumer confidence on the brink of a slowdown in the business cycle clock. As regards the industrial and services sectors as well as retail trade, confidence indicators posted below-average levels. In line with numerous other indicators, the business cycle clock indicates that Austria’s industrial sector is in the midst of a recession. Challenging external conditions have been weighing on the country’s export-oriented industry for a few months, and the August survey figures signal that the domestic economy, after a long period of resilience, shows first signs of contagion. According to the business cycle clock, the services sector has not yet entered the quadrant indicating a recession, whereas the retail sector has already slid into that territory. Given weak export and industrial activity, risks of spillover effects on the domestic economy have thus been rising.

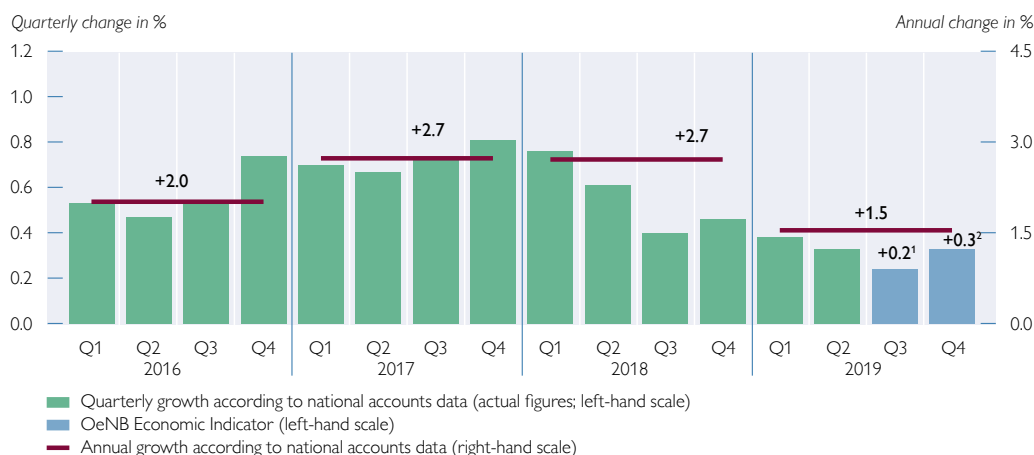
**6 Results of the OeNB’s Economic Indicator of August 2019:
Modest economic downturn on the back of a slowing global economy**

External conditions are set to remain challenging for Austria’s economy in the second half of 2019. Export growth is expected to be modest, given the subdued outlook for global trade, a possible recession in Germany and the economic slowdown in the CESEE countries. As outlined above, Austria’s export-oriented industry will also suffer from these developments.

By contrast, the results for the construction sector, which is largely decoupled from global developments, continue to point to a very favorable outlook. As in the past two years, investment in residential construction is forecast to continue its

Chart 8

Outlook for Austrian real GDP¹ for the third and fourth quarters of 2019



Source: OeNB-Konjunkturindikator (the OeNB’s short-term economic indicator), August 2019; WIFO.

¹ Seasonally and working-day adjusted trend-cycle component.

² Forecast.

robust expansion for the remainder of 2019, driven by benign financing conditions, rising real estate prices and buoyant demand. A slowdown in investment activity, as indicated by the trend in building permits, is not expected to materialize before 2020.

Private consumption is projected to remain the major pillar of growth. Recently, households have been spending much more confidently, while still being able to step up their savings. In the first quarter of 2019, the saving ratio rose to 7.9%, up 0.7 percentage points year on year, which leaves scope for additional private consumption in the future. In fact, households are expected to increase their spending further in the second half of the year thanks to strong real wage increases, robust – albeit moderating – employment growth and lagged effects resulting from the introduction of higher tax reliefs for families with children. However, the contribution of private consumption to growth is forecast to be somewhat weaker, as fewer new jobs will be created and unemployment rates will stop falling amid the slowing of economic activity.

Owing to relatively stable domestic demand, the OeNB expects the Austrian economy to continue to grow in the second half of 2019 despite adverse international conditions, and to do so at an only moderately slower pace than that observed in the first half of 2019. For the third quarter, real GDP is projected to grow by 0.2% quarter on quarter, which suggests that the Austrian economy is about to bottom out. The downward trend in leading indicators has let up recently, with key indicators even recording slight improvements, albeit largely at below-average levels. For the fourth quarter, real GDP growth is therefore anticipated to accelerate marginally to 0.3%. Compared with the figures of the OeNB's Economic Indicator of May 2019, growth expectations were revised downward by 0.2 percentage points for the third quarter of 2019. For the full year of 2019, however, real GDP growth is still forecast to reach 1.5%, as historical growth rates for both the fourth quarter of 2018 and the first quarter of 2019 have been revised slightly upward.

The risks to this forecast clearly point to the downside. Over the short term, external factors in particular (such as a hard Brexit, the further escalation of trade conflicts, the government crisis in Italy and the recession in Germany) may result in a stronger economic slowdown in Austria. Over the medium term, there is a risk that weak exports and industrial production will feed through more strongly to the domestic economy in general and the services sector in particular.

Table 2

Outlook for Austrian real GDP¹ for the third and fourth Quarters of 2019

Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18	Q1 19	Q2 19	Q3 19	Q4 19
Quarterly change in %											
+0.7	+0.7	+0.7	+0.8	+0.8	+0.6	+0.4	+0.5	+0.4	+0.3	+0.2 ²	+0.3 ²
Year-on-year change in %											
+2.5	+2.7	+2.9	+2.9	+3.0	+3.0	+2.6	+2.3	+1.9	+1.6	+1.4 ¹	+1.3 ²
2017				2018				2019			
Annual change in %											
+2.7				+2.7				+1.5			

Source: OeNB-Konjunkturindikator (the OeNB's short-term economic indicator), August 2019; WIFO.

¹ Seasonally and working day-adjusted trend-cycle component.

² Forecast.

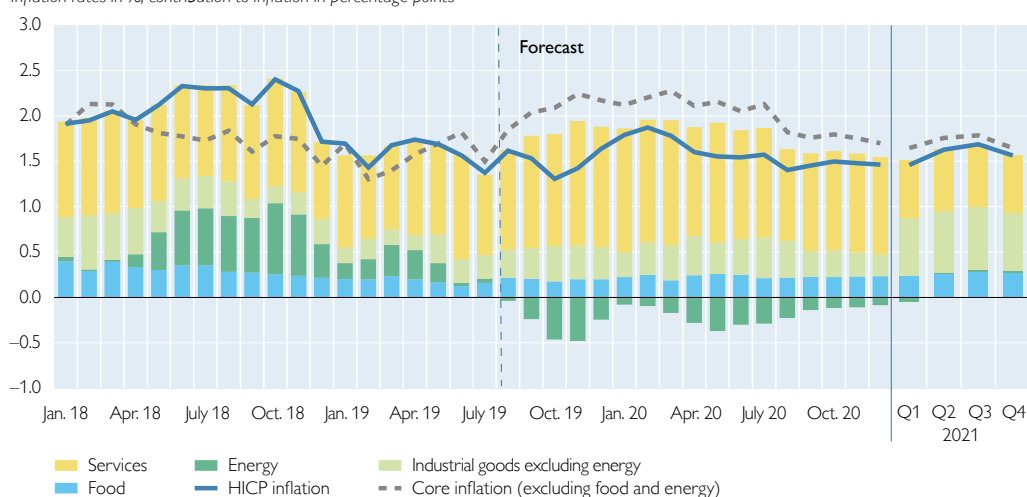
7 Inflation is set to remain constant until 2021

According to the OeNB's September 2019 inflation forecast, HICP inflation will come to 1.6% in 2019, and it will persist at this level in both 2020 and 2021. The year-on-year deceleration of HICP inflation vis-à-vis 2018 (2.1%) is mainly due to a decline in energy price inflation. By contrast, core inflation (excluding energy, food, alcohol and tobacco) is expected to increase from 1.8% in 2019 to 2.0% in 2020, before dropping to 1.7% in 2021 as a consequence of the slowdown in the Austrian economy. The pick-up in core inflation projected until early 2020 will be traceable to a comparatively sharp increase in unit labor costs. Additionally, robust

Chart 9

Contribution of components to Austrian HICP and core inflation

Inflation rates in %; contribution to inflation in percentage points



Source: Statistics Austria, OeNB.

Table 3

Assumptions of the OeNB inflation outlook of September 2019

	September 2019				Revisions since June 2019		
	2019	2020	2021	2019	2020	2021	
Energy and exchange rates							
<i>Change in %</i>							
Crude oil price (EUR/barrel Brent)	60.2	55.6	51.0	50.4	-8.2	-13.1	-10.0
USD/EUR exchange rate	1.2	1.1	1.1	1.1	-0.1	-0.3	-0.3
Nonenergy commodity prices							
<i>Index 2005=100</i>							
<i>Change in %</i>							
Total	133.7	129.4	133.8	138.7	0.2	-0.2	-0.4
of which: world market prices, food	140.5	136.1	142.5	149.8	-1.8	-4.9	-5.7
of which: world market prices, metallic raw materials	120.4	120.9	126.2	129.8	3.6	6.5	7.1
EU producer prices, food	107.0	108.9	107.3	107.5	-3.2	-6.6	-6.7
Interest rates							
<i>%</i>							
<i>Change in percentage points</i>							
Three-month interest rate	-0.3	-0.4	-0.6	-0.6	-0.1	-0.3	-0.4
Ten-year government bond yield	0.7	0.0	-0.2	-0.1	-0.3	-0.7	-0.7

Source: Eurosystem.

Table 4

OeNB inflation outlook of September 2019

	Forecast				Revisions since June 2019		
	2018	2019	2020	2021	2019	2020	2021
	Annual change in %				Change in percentage points		
HICP inflation	2.1	1.6	1.6	1.6	-0.1	-0.1	-0.1
Unprocessed food	0.3	0.3	1.3	x	-0.5	-0.4	x
Processed food	2.5	1.5	1.6	x	-0.1	-0.1	x
Nonenergy industrial goods	1.2	0.9	1.1	x	0.0	0.0	x
Energy	5.3	-0.2	-2.5	0.1		-2.0	0.3
Services	2.2	2.3	2.5	x	-0.1	0.1	x
HICP excluding energy	1.9	1.7	1.9	1.7	0.0	0.0	-0.2
HICP excluding food and energy	1.8	1.8	2.0	1.7	0.0	0.1	-0.2
Public sector contribution to inflation	Percentage points				Change in percentage points		
Total	0.3	0.3	0.4	0.3	-0.1	0.1	0.0
of which: indirect taxes	0.0	-0.0	0.0	0.0	0.0	0.0	0.0
of which: administered prices	0.3	0.3	0.4	0.3	-0.1	0.1	0.0

Source: OeNB, Statistics Austria.

Note: The total contribution of the public sector to inflation was calculated based on rounded subcontributions.

domestic demand, particularly private consumption, will result in upward pressures on core inflation.

Compared with the OeNB's June 2019 inflation forecast, the projections for HICP inflation were revised downward by 0.1 percentage points for each of the years from 2019 to 2021. This string of downward revisions is attributable to the changed assumptions about global energy and food commodity prices. The assumptions about crude oil prices, which are informed by futures prices, in particular, but also those about food commodity prices were both revised downward from the June forecast (see table 3).

The OeNB expects the inflation rates of the services and nonenergy industrial goods components of core inflation to accelerate until 2020 (see table 4). This acceleration will be driven especially by benign labor market conditions and unit labor cost growth. In addition, consumption growth will remain at an above-average level. However, rising core inflation rates are projected to be balanced out by falling energy inflation rates, which means that, on the whole, HICP inflation will remain stable over the forecast horizon.

The recent decline in energy inflation is set to continue until November 2019, owing to expectations for plummeting oil prices and to an inflation-dampening base effect². In 2020, energy inflation rates will remain negative, before stagnating in 2021. The assumption that crude oil prices will weaken further is expected to put downward pressures on fuel prices in particular, as fuels account for 49% of the HICP's energy component. Moreover, increases in electricity and gas prices that were implemented in the fall of 2018 and in recent months³ are assumed to result in a base effect dampening inflation in the fall of 2019 and in 2020.

² In the second and third quarters of 2018, energy inflation accelerated notably.

³ In October 2018, the common German-Austrian electricity market was split. Since then, there have been restrictions on electricity trading, which contributed to the pick-up in electricity and gas prices.

The inflation rate for nonenergy industrial goods is expected to come to 0.9% for the full year of 2019. In 2020, it is projected to climb to 1.1%, therefore remaining above the post-2013 average of 0.8%. Above-average levels of inflation will be supported by favorable cyclical developments coupled with relatively robust private consumption growth rates. In addition, the rise in nonenergy commodity prices will drive up the inflation rate for nonenergy industrial goods.

Starting in mid-2018, the growth rate of food prices (including alcohol and tobacco) has declined until recently, and is projected to pick up moderately over the forecast horizon. For 2019 as a whole, food price inflation is expected to come to 1.3%, and to increase thereafter to 1.5% in 2020 and to 1.7% in 2021. This rise is mainly due to tobacco tax hikes announced for 2020 and 2021, which will cause food price inflation to edge up by 0.1 percentage points in 2020 and by 0.16 percentage points in 2021.⁴ Conversely, EU producer prices for food items are forecast to remain broadly unchanged (see table 3).

According to its current inflation forecast, the OeNB expects services inflation to rise from 2.3% in 2019 to 2.5% in 2020 due to the acceleration in unit labor costs, which will drive up inflation in market services⁵ in particular. After having fallen sharply in recent times, prices of airline tickets and package holidays are projected to normalize.

The public sector's contribution to inflation (as measured by developments in administered prices and indirect taxes)⁶ is assumed to range between 0.3 and 0.4 percentage points from 2019 to 2021. The OeNB's inflation forecast reflects all measures envisaged for the 2019 tax reform package for which legislative proposals have already been drafted (e.g. tobacco tax increases and VAT reductions on electronic media). However, these measures will only have a marginal impact on HICP inflation.

⁴ The legislative proposal put forward in May 2019 envisages increases in tobacco taxes in both 2020 and 2021.

⁵ According to the statistical classification of economic activities in the European Community (NACE), market services include NACE sections G to N. The sections most relevant to the HICP comprise accommodation and food service activities, information and communication, financial and insurance activities as well as professional, scientific and technical activities.

⁶ Administered prices are fully or mainly set by the government or national regulators. In Austria, the share of administered prices in the HICP basket is around 10%, with services prices accounting for the lion's share of administered prices. Moreover, inflation developments are influenced by the public sector through changes in indirect taxes such as VAT, mineral oil and tobacco taxes.