

Austria's economy maintains growth momentum in first half of 2018

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Austria's economy grew by 3% in 2017 and will sustain its strong pace of growth at least until mid-2018, benefiting from the strong international economy and robust domestic demand. As a consequence, employment has augmented markedly, while unemployment has declined. Short-term indicators decreased somewhat in early 2018, but remain close to their historical highs. Based on its quarterly forecasting exercise, the Oesterreichische Nationalbank (OeNB) therefore expects real GDP in Austria to continue to expand substantially by 0.8% (quarter on quarter) both in the first and second quarters of 2018. For 2018 as a whole, Austria's economy is anticipated to grow at least at the same rate as in 2017. The OeNB forecasts annual HICP inflation in Austria to come to 2.0% in 2018 and to reach 1.9% and 2.0%, respectively, in 2019 and 2020. The decline in inflation – in 2017, inflation was still at 2.2% – is driven above all by lower commodity prices and the appreciation of the euro. At the same time, the inflation of industrial goods prices (excluding energy and services) is set to remain persistently high or to rise on account of the favorable growth prospects. As a result, core inflation (excluding energy and food) will remain almost stable, at or above 2.0%, from 2018 to 2020.

1 Austria's economy grew by 3% in 2017

The Austrian economy maintained its strong growth momentum up to the end of 2017. At 0.9% (quarter on quarter; in real terms; trend-cycle component adjusted for seasonal and working-day effects), real GDP growth in the fourth quarter continued almost unabated compared with the previous quarters. For 2017 as a whole, economic growth comes to 3.0% (2.9% non-seasonally adjusted).

The expansion of the Austrian economy is broad-based. Private consumption expenditure rose by 0.4% quarter on quarter in real terms over the last three quarters of 2017. For the year as a whole, overall household consumption increased by 1.5% against 2016. Despite losing some of its vigor in the second half of the year, investment activity remained stronger than forecast in the December 2017 outlook. In the fourth quarter of 2017, real gross fixed capital formation was 0.8% higher than in the third quarter, bringing the annual growth rate for 2017 to 4.8%. The steady, yet relatively moderate growth of construction investment (+2.4% in 2017) contrasts with an equipment investment cycle that continues to be robust (+8.6% in 2017). The need for expansion investments, particularly investment in machinery, remains high (+9% in 2017). This reflects the optimistic sentiment of businesses and thereby points to a continuation of the favorable economic developments in the first half of 2018.

In 2017, Austrian exporters benefited from robust external conditions. In the fourth quarter, exports of goods and services rose by 1.9% quarter on quarter, bringing full-year growth to 5.9%. As forecast by the OeNB's Export Indicator, goods exports stood out with a particularly marked increase (+2.4%) in the fourth quarter. Ultimately, in the fourth quarter of 2017, the contribution of net exports was only slightly positive at 0.4 percentage points (0.5 percentage points in 2017 as a whole), as strong investment also resulted in high import growth.

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Table 1

National accounts data for Austria

	GDP	Private consumption	Government consumption	Gross fixed capital formation	Exports	Imports	Domestic demand (excluding changes in inventories)	Net exports	Changes in inventories	Statistical discrepancies	
	Change on previous period in %						Contribution to GDP growth in percentage points				
Q1 17	+0.9	+0.3	+0.1	+1.5	+2.1	+2.0	+0.5	+0.2	-0.0	+0.2	
Q2 17	+0.8	+0.4	+0.2	+1.5	+1.5	+1.5	+0.6	+0.1	+0.1	-0.0	
Q3 17	+0.9	+0.4	+0.5	+1.2	+1.3	+1.1	+0.6	+0.2	+0.1	-0.0	
Q4 17	+0.9	+0.4	+0.6	+0.8	+1.9	+1.3	+0.5	+0.4	+0.1	-0.0	
2014	+0.8	+0.3	+1.0	-0.5	+3.1	+2.8	+0.2	+0.2	+0.3	+0.1	
2015	+1.1	+0.5	+1.3	+1.0	+3.0	+3.0	+0.7	+0.1	+0.2	+0.0	
2016	+1.5	+1.5	+2.0	+3.8	+2.4	+3.6	+2.1	-0.5	+0.1	-0.1	
2017	+3.0	+1.5	+1.3	+4.8	+5.9	+5.2	+2.2	+0.5	+0.1	+0.2	

Source: WIFO, OeNB calculations.

The healthy growth of exports has also been a major stimulus to the domestic manufacturing industry. Measured in terms of gross value added, industrial production grew by 3% against the previous quarter in the last three months of 2017, expanding about three times as fast as the economy as a whole. For the full year 2017, industrial production went up by 7%. Such buoyant industrial activity is typical of boom periods. Similarly steep growth rates were recorded in 2000, 2006–2007 and 2010–2011.

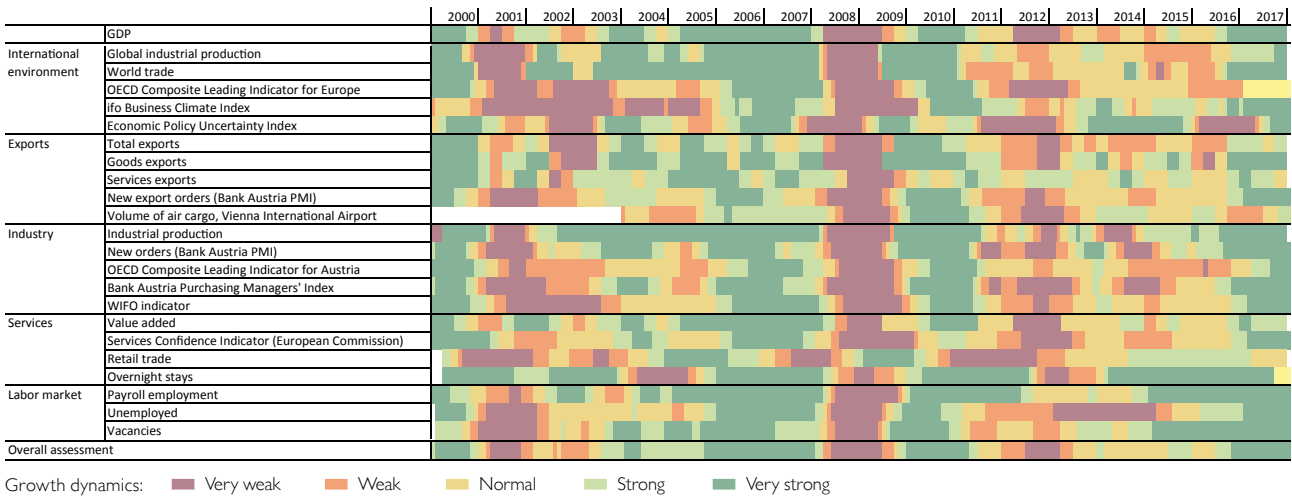
2 Economic indicators just below historical highs – upswing seems to have peaked

Available leading indicators suggest that the Austrian economy will continue to grow at a vigorous pace over the next few months. A heat map of the state of the Austrian economy (chart 1) concisely depicts a range of key indicator results for five areas: international environment, exports, industry, services and the labor market. The overwhelming majority of indicators is green, signaling that the current upswing has reached all major parts of the Austrian economy.

Several key leading indicators reached historical highs at end-2017: In December, the European Commission's Economic Sentiment Indicator (ESI) climbed to its highest value since 1990, and the Purchasing Managers' Index (PMI) compiled by Bank Austria hit an all-time high in the same month. In early 2018, these confidence indicators and their subindices receded somewhat (chart 2), but in February both the ESI and the PMI still pointed to very strong growth, standing at 117.8 and 59.2 points, respectively. The same holds true for the ifo Business Climate Index published by the ifo Institute, which has good leading indicator properties also for the Austrian economy. The expectations component of the ifo Business Climate Index dropped slightly three times in a row recently – albeit from a very high level – but these corrections are still too weak to be interpreted as a signal of a potential turning point in economic activity. That said, the declines hint that the peak of the current economic cycle has already been reached.

Chart 1

Economic heat map for Austria

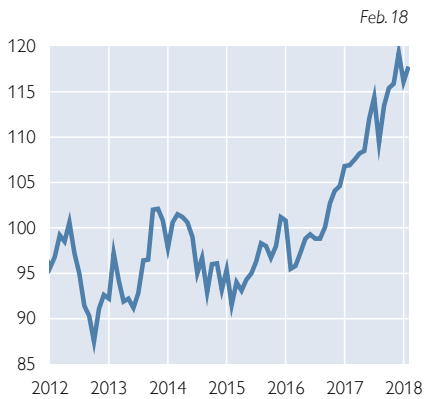


Source: CPB, OECD, ifo, EPU, Statistics Austria, WIFO, Vienna International Airport, European Commission, Eurostat, AMS.

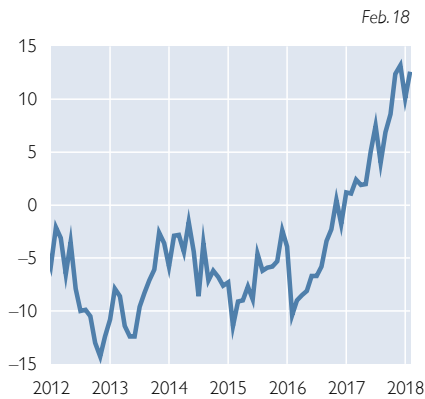
Chart 2

Confidence indicators for the Austrian economy

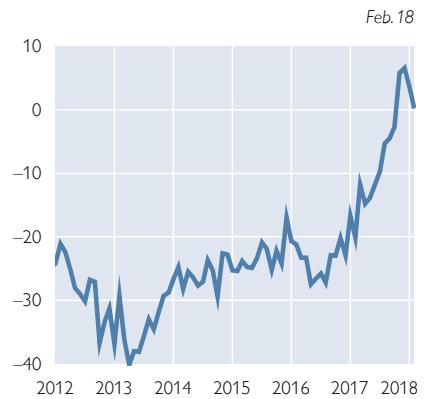
Economic Sentiment Indicator (ESI)



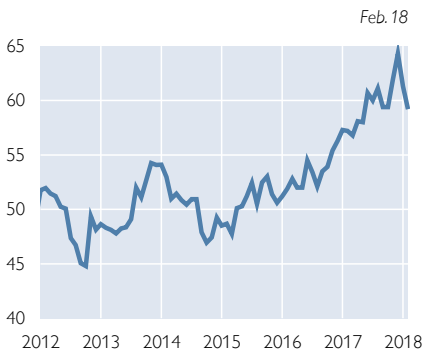
ESI: industrial confidence



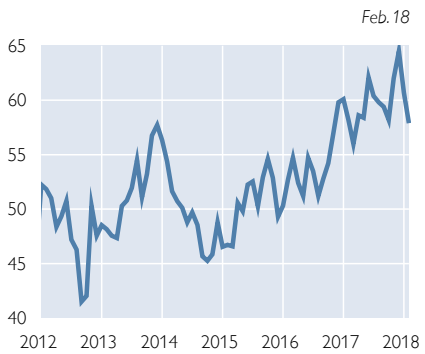
ESI: export order books



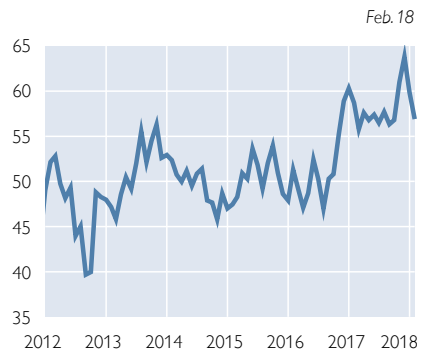
Purchasing Managers' Index (PMI)



PMI: new orders



PMI: new export orders



Source: European Commission, Bank Austria.

3 Strong export growth

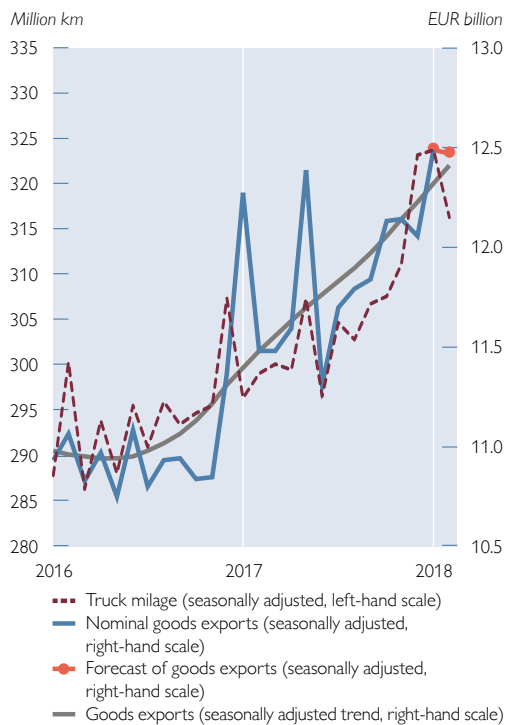
Austrian export growth was very strong in 2017, with goods exports outpacing last year's growth rate by 8.2%, according to Statistics Austria's latest figures. This means that the goods trade stagnation seen in 2016 (when nominal goods exports fell by 0.3%) has been overcome. Austrian exporters took the chances that a globally synchronized economic upswing and a concomitant expansion of world trade were offering. In particular, healthy demand in Austria's key export markets – the euro area and CESEE – provided important momentum. Thanks to the strongly synchronized global upswing, the expansion in exports is broad-based across regions and sectors. Exports to the euro area and CESEE each picked up by 9%, which is slightly above average. A contraction was observed only for exports to the U.K. and Switzerland (by 5% and 2%, respectively). A breakdown by goods categories shows that exports of chemicals, vehicles and processed goods grew by more than 10%. Exports of machinery accelerated only in the second half of the year and, as a result, did not grow beyond 6% for the full year 2017.

The outlook for goods exports is characterized by very positive leading indicators in the short run and heightened (economic) policy risks in the medium term. Leading indicators like new export orders are not pointing to an imminent

Chart 3

OeNB Export Indicator and leading indicators for foreign trade signal strong export growth

Truck milage and goods exports (seasonally and working-day adjusted)



Leading indicators for foreign trade



Source: ASFINAG, Eurostat, Statistics Austria, Bank Austria, OeNB.

slowdown in exports. Also, current results of the OeNB's Export Indicator, which is based on truck mileage data, show nominal goods export rates of 5% and 9% for January and February 2018, respectively. This means that export momentum subsided somewhat after the peaks seen in October (15%) and November (11%) but has remained very strong. Over the medium term, restrictive trade policies, such as the tariffs on imports recently imposed by the U.S. administration, are a downward risk to export activity. The direct macroeconomic effects of the U.S. levying a 25% tariff on steel imports and a 10% tariff on aluminum imports on the Austrian economy are likely to be small. Steel and aluminum exports to the U.S.A. amount to no more than 0.2% and 0.1%, respectively, of Austria's total goods exports, or less than EUR 0.5 billion in total. However, since 4% of Austria's total steel exports and 7% of Austria's total aluminum exports would still be affected, some domestic companies may end up feeling the impact of the new U.S. tariffs. From a macroeconomic perspective, the actual macroeconomic risk consists in a further escalation of the trade war, however.

Turning to the services sector, next to transport and other business-related services, tourism performed particularly well in 2017. The number of overnight stays increased by 2.5%, reaching an unprecedented high of 144 million. An above-average contribution to this record figure came from the number of nights spent in Austria by visitors from abroad, which rose by 3% (106 million overnight stays). This trend continued into January 2018, which saw a 5.4% increase in overnight stays (and a 5.7% increase in the number of nights visitors from abroad spent in Austria).

In sum, both goods and services export growth is expected to remain robust in the first half of 2018.

4 Strong employment growth and higher wage growth support private consumption in 2018

Modest productivity growth and low inflation in 2016 prompted relatively moderate wage settlements for 2017. Negotiated wages went up by 1.5% in 2017 – an increase that was lower than the HICP inflation rate of 2.2%. Wage growth is expected to accelerate significantly in 2018 in view of the economic boom. The wage settlements that have been concluded so far point to a rise in negotiated wages by more than 2½% in 2018. As a consequence, real wage growth will be robust and support additional private consumption expenditure.

At the same time, employment has been growing particularly fast. In 2017, the number of persons in payroll employment increased by 68,400. In the first two months of 2018, annual payroll employment growth continued to accelerate sharply to 94,000 persons on average. Employment growth is broad-based across sectors. Major contributions to employment growth have been coming from private sector services (NACE G to N, +44,600 jobs), industry (NACE C to E, +24,100 jobs) and public services (NACE O to R, + 23,300 jobs). The sharp increase in the number of registered job vacancies indicates that employment dynamics will remain robust over the next few months.

The number of unemployed persons declined by 17,300 to 340,000 in 2017. This positive trend continued in early 2018. January and February 2018 saw a substantial year-on-year drop in unemployment. The number of persons participating in AMS (Public Employment Service Austria) training programs, i.e. persons not deemed to be unemployed, continued to rise, however, coming to 79,800 in

Table 2

Key indicators for the Austrian labor market

	Payroll employment		Unemployed persons		Unemployment rate in %			Registered job vacancies		Persons in training programs	
	Thousands	Annual change in thousands	Thousands	Annual change in %	AMS definition (NSA ¹)	AMS definition (SA ²)	EU definition (SA ²)	Persons	Annual change in %	Persons	Annual change in %
2015	3,535	+31	354.3	+11.0	9.1	9.1	5.7	29,251	+11.1	65,126	-13.5
2016	3,587	+52	357.3	+0.8	9.1	9.1	6.0	40,277	+37.7	67,210	+3.2
2017	3,655	+68	340.0	-4.9	8.5	8.5	5.5	56,854	+41.2	72,098	+7.3
Q1 17	3,579	+59	392.3	-1.8	9.9	8.8	5.7	49,230	+39.3	74,481	+8.2
Q2 17	3,646	+65	320.0	-4.8	8.1	8.6	5.5	58,812	+41.0	74,426	+7.0
Q3 17	3,723	+70	307.2	-5.4	7.6	8.5	5.4	63,117	+46.3	66,196	+6.8
Q4 17	3,673	+79	340.4	-7.7	8.5	8.2	5.5	56,255	+37.5	66,196	+6.8
Sep. 17	3,705	+61	302.8	-6.3	7.6	8.4	5.4	62,445	+46.9	72,092	+4.9
Oct. 17	3,689	+78	315.7	-7.4	7.9	8.3	5.4	59,202	+44.5	77,307	+8.6
Nov. 17	3,683	+78	326.9	-8.1	8.2	8.2	5.5	54,745	+37.2	77,823	+5.9
Dec. 17	3,646	+81	378.7	-7.7	9.4	8.1	5.5	54,818	+31.0	64,740	+6.6
Jan. 18	3,649	+102	379.2	-10.2	9.4	8.0	5.5	59,103	+30.9	76,651	+7.1
Feb. 18	3,662	+86	364.7	-9.0	9.1	7.9	x	62,867	+27.3	79,776	+6.1

Source: Main Association of Austrian Social Security Institutions, AMS, Eurostat, OeNB.

¹ NSA = non-seasonally adjusted.

² SA = seasonally adjusted.

February 2018. This uptrend is attributable to the increasing number of foreign workers, in particular recognized asylum seekers and persons eligible for subsidiary protection, who participate in these training programs.

In 2017, Austria's unemployment rate (national definition) decreased by 0.6 percentage points to 8.5% year on year. In February, it came to 7.9% (seasonally adjusted). In January, the unemployment rate (Eurostat definition) remained unchanged against 2017 as a whole, at 5.5%.

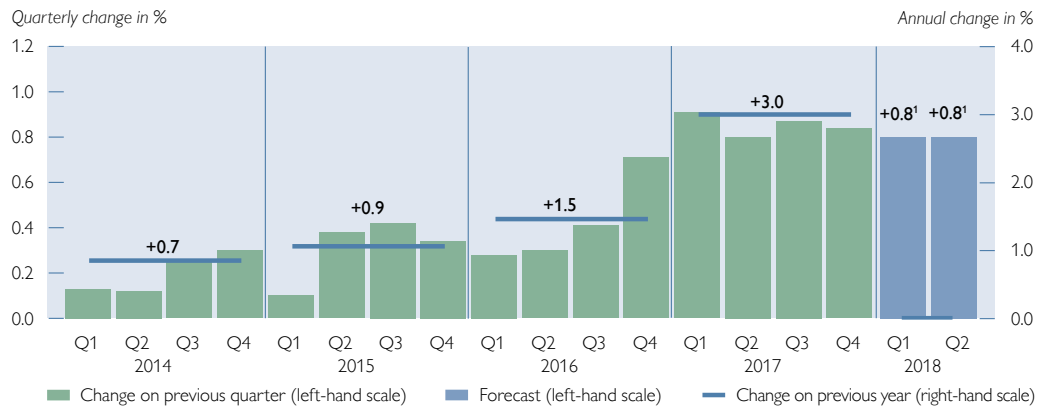
5 OeNB's Economic Indicator of February 2018: economic momentum to continue in first half 2018

On the back of strong domestic and external demand, the current boom period will continue in the first six months of 2018. Austrian exporters will be able to boost their sales of goods and services further, given their high level of competitiveness and favorable international economic activity. In Austria, strong employment growth and rising wages will leave scope for additional private consumption. Against this backdrop and in view of the fact that capacity utilization continues to be well above average, domestic companies will have to invest in expanding their production capacities also in early 2018. While currently investments are made above all in new machinery, construction investment has also been increasing steadily. Obviously, the extended period of weak growth following the crisis brought about an investment backlog, which now makes for a particularly pronounced investment cycle.

This means that the cyclical momentum will continue to be particularly robust over the next few months. The OeNB expects the Austrian economy to grow by 0.8% (quarter on quarter) both in the first and second quarters of 2018; this would be around twice the long-term average growth rate observed since 2000. For 2018 as a whole, economic growth is expected to be at least as strong as in 2017.

Chart 4

Outlook for Austrian real GDP for the first and second quarters of 2018 (seasonally and working-day adjusted trend series)



Source: OeNB's Economic Indicator of February 2018.

* Forecast.

6 HICP inflation and core inflation down markedly since fall 2017

Austria's rates of HICP inflation and core inflation (excluding energy and food) peaked at 2.5% in September 2017 and have gone down markedly since. This decline was observed across all HICP components (services, industrial goods excluding energy, energy and food) and was attributable to an appreciation of the euro and, during the first two months of the year, a slowdown in commodity prices; the latter fed through to consumer prices via earlier stages of production (producers, wholesale trade). Although compensation of employees has clearly picked up again lately, strong productivity growth drove unit labor costs further down. Therefore, labor costs also had a downward impact on inflation in recent months.

7 Inflation outlook: energy and food prices dampen rate of inflation

The OeNB expects the average HICP inflation rate for Austria to come to 2.0% in 2018, 1.9% in 2019 and 2.0% in 2020 (chart 5). Unlike in the past, commodity prices have not continued to rise. Both commodity prices and a stronger euro have dampening effects on HICP inflation, which in turn are bound to impact the HICP's energy and food component in particular. However, the decline in inflation is constrained by domestic factors. Given favorable cyclical developments, production capacity utilization is high, which also helps improve the labor market situation. Therefore, unit labor costs are expected to keep increasing more strongly (starting from their currently low level). The resulting price pressures affect above all services and nonenergy industrial goods inflation.

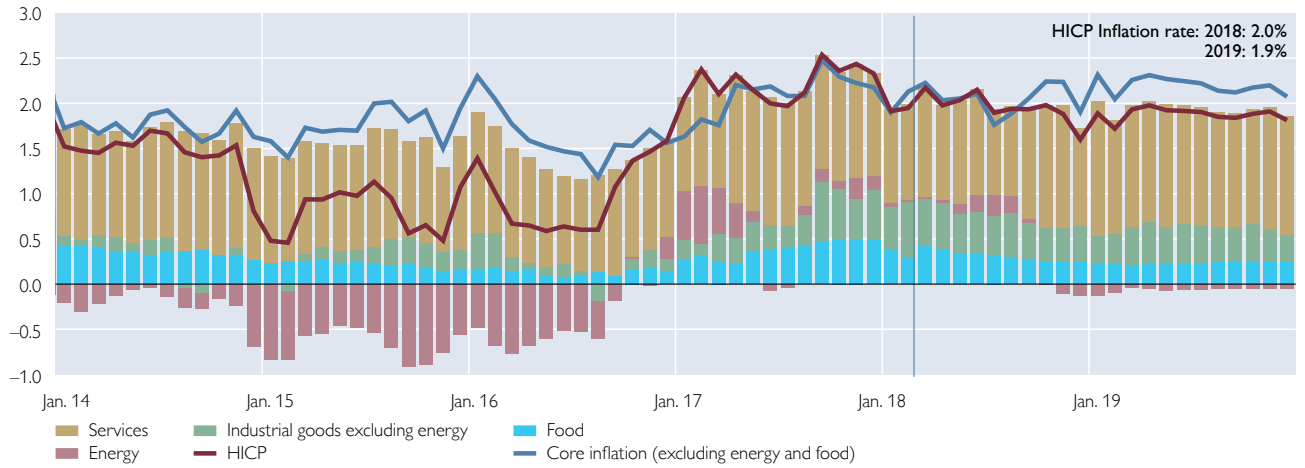
Core inflation (excluding energy and food) in Austria is thus expected to hover close to or above 2.0% over the forecast horizon (2018: 2.0%, 2019 and 2020: 2.2%).

Chart 5

Contribution of components to Austrian HICP and core inflation

Annual inflation rate; contribution to inflation in percentage points

Forecast: March 2018 to December 2019



Source: Statistics Austria, OeNB.