

# **WIFO ■ REPORTS ON AUSTRIA**

## **8/2021**

### **Strong Economic Upswing in Austria.**

#### Economic Outlook for 2021 and 2022

Christian Glocker

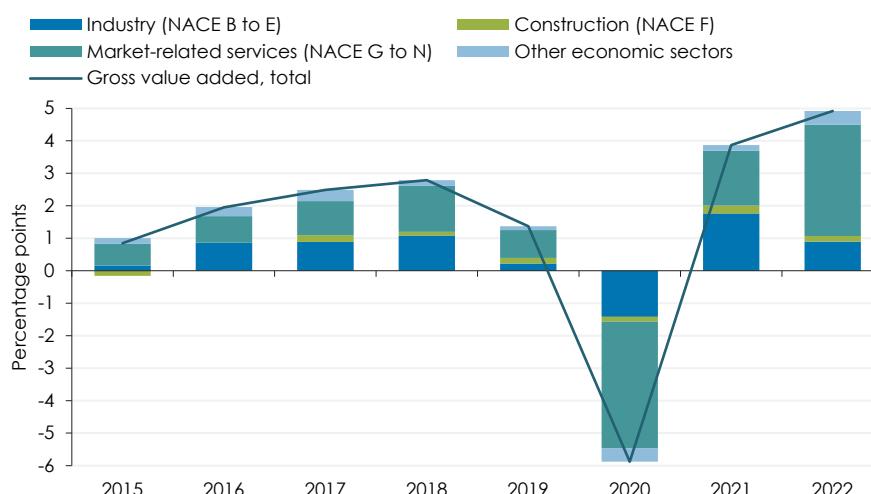
# Strong Economic Upswing in Austria

## Economic Outlook for 2021 and 2022

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- The domestic economy is expected to recover strongly in the forecast period: after the crisis-related slump in the previous year (-6.3 percent), GDP will grow by 4 percent in 2021 and by 5 percent in 2022.
- In the current year, the favourable industrial activity is shaping the overall economic upswing; in 2022, tourism in particular will contribute disproportionately to growth.
- Austria's economic output is expected to return to pre-crisis levels as early as the third quarter of 2021.
- Due to the cyclical upturn, the public sector's financing balance will improve, especially in 2022.
- Despite strong employment gains, the unemployment rate is still expected to be higher at the end of 2022 than before the outbreak of the COVID-19 pandemic.

### Growth contribution of economic sectors to gross value added, volume



"The buoyant industrial activity is shaping the overall economic expansion, especially in the current year. In 2022, however, market-related services will contribute disproportionately to growth, especially due to the recovery in tourism."

The growth contributions indicate the extent to which the three components (industry, construction and market-related services) contribute to overall economic growth (increase in gross value added). The amount of a component's contribution to growth is calculated by dividing the absolute change of the component compared to the previous period by the value of gross value added in the previous period (source: WIFO, Statistics Austria. 2021 and 2022: forecast).

# Strong Economic Upswing in Austria

## Economic Outlook for 2021 and 2022

Christian Glocker

July 2021

### Strong Economic Upswing in Austria. Economic Outlook for 2021 and 2022

The global economic outlook has improved significantly since the last forecast. This also has consequences for the expected recovery in Austria. Leading indicators point to the beginning of a boom phase, which in 2021 will be mainly driven by the favourable industrial economy. In 2022, tourism will contribute disproportionately to domestic economic growth. After the decline in the previous year (-6.3 percent), WIFO expects real GDP growth of 4 and 5 percent for 2021 and 2022, respectively.

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

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### 1. Introduction

The Austrian economy is overcoming the COVID-19 crisis much faster than previously expected and is at the beginning of an upswing phase. In this context, the rapid progress of the vaccination campaign is the main factor shaping the economic outlook, as the accompanying lifting of official restrictions enables the resumption of economic activity. In addition to the strengthening of private consumption, a high investment dynamic, driven by public investment incentives as well as increasing capacity bottlenecks, and the strong expansion of exports contribute to the economic upswing. Domestic exports are benefitting from the recovery of the global economy.

Against this background, the real gross domestic product of the Austrian economy will expand by 4 percent in 2021 and by about 5 percent in 2022. The pre-crisis level will already be reached in the course of summer 2021. The overall economic capacity utilisation (output gap) should already be above average again in 2022. From today's

perspective, by the end of 2022 the Austrian economy should have returned to the growth path that WIFO had forecast before the outbreak of the COVID-19 pandemic.

The economic upswing is expected to have a significant impact on prices. The inflation rate according to the Harmonised Index of Consumer Prices (HICP) will rise to 2.3 percent in 2021 (2020: 1.4 percent). In addition to strong consumer demand, this will be driven by the pass-through of high prices for commodities and intermediate goods. Price inflation is also expected to remain high at 2.1 percent in 2022, not least due to the above-average capacity utilisation of the overall economy, which is primarily driving domestic price dynamics.

The favourable development on the labour market is likely to continue in 2022. However, as employment already returned to pre-crisis levels in spring 2021, growth is expected to slow down: dependent active employment will expand by 2.1 percent in 2021 and by

1.6 percent in 2022. In parallel, unemployment is expected to decline significantly, bringing the unemployment rate down to 8.5 percent in 2021 and 8.0 percent in 2022.

This means that the pre-crisis level of 2019 (7.4 percent) will not be reached in the forecast period.

Table 1: Main results

	2017	2018	2019	2020	2021	2022	
	Percentage changes from previous year						
Gross domestic product, volume	+ 2.4	+ 2.6	+ 1.4	- 6.3	+ 4.0	+ 5.0	
Manufacturing	+ 3.7	+ 5.3	+ 0.7	- 7.1	+ 9.2	+ 4.2	
Wholesale and retail trade	+ 0.1	+ 2.9	+ 0.6	- 4.8	+ 6.0	+ 5.0	
Private consumption expenditure <sup>1</sup> , volume	+ 1.9	+ 1.1	+ 0.8	- 9.2	+ 5.0	+ 5.5	
Consumer durables	+ 2.0	+ 1.1	- 0.4	+ 0.7	+ 5.0	+ 2.5	
Gross fixed capital formation, volume	+ 4.1	+ 3.9	+ 4.0	- 5.7	+ 6.9	+ 4.3	
Machinery and equipment <sup>2</sup>	+ 5.4	+ 4.1	+ 4.3	- 7.9	+ 10.0	+ 5.9	
Construction	+ 2.5	+ 3.6	+ 3.6	- 3.1	+ 3.5	+ 2.4	
Exports, volume	+ 4.9	+ 5.5	+ 2.9	- 10.0	+ 5.2	+ 8.7	
Exports of goods, fob	+ 4.9	+ 5.4	+ 2.1	- 6.4	+ 8.4	+ 5.5	
Imports, volume	+ 5.3	+ 5.0	+ 2.4	- 9.6	+ 8.7	+ 7.1	
Imports of goods, fob	+ 4.4	+ 3.8	+ 1.1	- 6.8	+ 9.4	+ 5.4	
Gross domestic product, value	+ 3.3	+ 4.3	+ 3.2	- 5.1	+ 6.5	+ 7.4	
	billion €	369.34	385.36	397.58	377.30	401.76	431.66
Current account balance as a percentage of GDP	1.4	1.3	2.8	2.5	0.2	0.4	
Consumer prices	+ 2.1	+ 2.0	+ 1.5	+ 1.4	+ 2.2	+ 2.0	
Three-month interest rate	percent	- 0.3	- 0.3	- 0.4	- 0.4	- 0.5	- 0.3
Long-term interest rate <sup>3</sup>	percent	0.6	0.7	0.1	- 0.2	0.0	0.0
General government financial balance, Maastricht definition	as a percentage of GDP	- 0.8	0.2	0.6	- 8.8	- 6.6	- 2.3
Persons in active dependent employment <sup>4</sup>		+ 2.0	+ 2.5	+ 1.6	- 2.0	+ 2.1	+ 1.6
Unemployment rate							
Eurostat definition <sup>5</sup>		5.5	4.9	4.5	5.4		
National definition <sup>6</sup>		8.5	7.7	7.4	9.9	8.5	8.0

Source: WIFO, ECB, Federation of Social Insurances, OeNB, Public Employment Service Austria, Statistics Austria. 2021 and 2022: forecast. –<sup>1</sup> Including non-profit institutions serving households. –<sup>2</sup> Including weapons systems. –<sup>3</sup> 10-year central government bonds (benchmark). –<sup>4</sup> Excluding persons in valid employment contract receiving child care benefit or being in military service. –<sup>5</sup> As a percentage of total labour force, Labour Force Survey. Due to a revision of the Labour Force Survey methodology planned for the end of June, a forecast of this indicator is currently waived. –<sup>6</sup> As a percentage of dependent labour force.

## 2. The starting position

As a result of the COVID-19 pandemic, Austria's economic output fell by 6.3 percent in real terms in 2020 compared to the previous year. The GDP decline was thus even stronger than in 2009 during the global financial market and economic crisis (-3.8 percent). The development during the year followed the undulated course of the pandemic and depended significantly on the restrictions imposed by the authorities to contain the virus.

On the demand side, consumer spending by private households in particular reacted sensitively to the official restrictions in 2020 and contributed significantly to the reduction in economic output. A strong decline in exports of services – due to losses in tourism – intensified this effect. Against the backdrop of the global economic crisis, domestic goods exports also fell in 2020. The equally pronounced decline in imports stabilised

aggregate demand for goods in purely arithmetical terms, but primarily reflects the slump in domestic demand. Domestic companies also restricted their demand in 2020: gross fixed capital formation fell compared to the previous year, mainly due to a significant reduction in investment in machinery and equipment. Construction investments and investments in other equipment, on the other hand, declined only slightly.

On the supply side, the slump in value added in body-related services, accommodation and food service activities as well as in the leisure and culture sector in particular shaped the development of the economy as a whole. By contrast, the less contact-intensive service sectors and the construction industry proved to be comparatively crisis-resistant. Industry recorded losses, mainly due to the slump in exports.

Figure 1: Indicators of economic performance

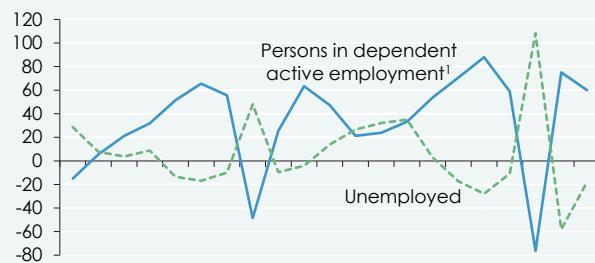
#### Growth of real GDP

Percent



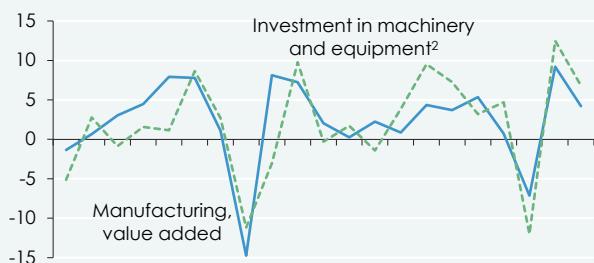
#### Employment and unemployment

Change from previous year in 1,000



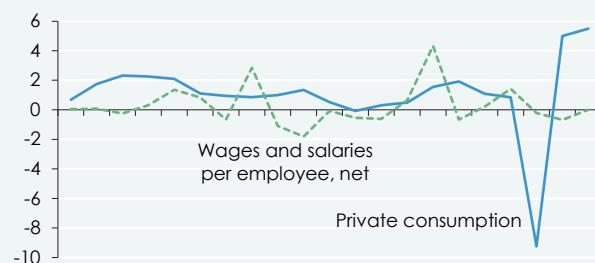
#### Manufacturing and investment

Percentage changes from previous year, volume



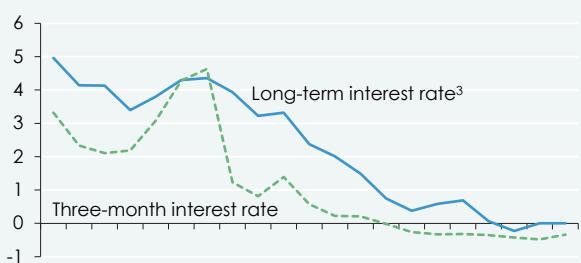
#### Consumption and income

Percentage changes from previous year, volume



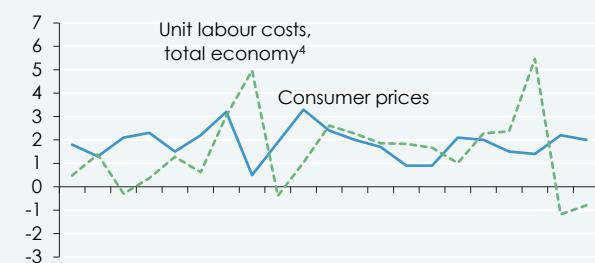
#### Short-term and long-term interest rates

Percent



#### Inflation and unit labour costs

Percentage changes from previous year



#### Trade (according to National Accounts)

Percentage changes from previous year, volume



#### General government financial balance

As a percentage of GDP



Source: WIFO. 2021 and 2022: forecast. –<sup>1</sup> 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. –<sup>2</sup> Including weapons systems. –<sup>3</sup> 10-year central government bonds (benchmark). –<sup>4</sup> Including short-time work grants. –<sup>5</sup> Source: European Commission.

In the winter half-year 2020-21, domestic economic output suffered from the

<sup>1</sup> See, among others, Furceri, D., Gansmeier, M., Ostry, J. D., & Yang, N. (2021). Initial Output Losses

renewed official restrictions that had been taken due to the increase in new infections<sup>1</sup>.

from the Covid-19 Pandemic: Robust Determinants. IMF Working Papers, 2021(018).

Compared to spring 2020, however, the losses in value added were significantly lower than in the previous quarter and were limited to the sectors directly restricted by

the authorities. In trade, value added even expanded despite the officially ordered shop closures.

### 3. The framework conditions

This forecast is based on the information available as of mid-June 2021 with regard to assumptions about the direction of economic policy and the development of the global economy, exchange rates, commodity prices and interest rates. The forecast period extends from the second quarter of 2021 to the fourth quarter of 2022.

With regard to the COVID-19 pandemic, it is assumed that the vaccination coverage of

the population will progress rapidly both in Austria and among important trading partners, so that the official restrictions will be gradually eased in the further course of the year and will be largely lifted by the end of 2021. In addition, it is assumed that the virus mutations will not significantly reduce the effectiveness of the vaccines and that there will therefore be no major health-related setbacks in the global economic recovery.

Table 2: International economy

	Percentage shares 2020	Austria's exports of goods	World GDP <sup>1</sup>	GDP volume, percentage changes from previous year					
				2017	2018	2019	2020	2021	2022
EU 27	67.5	15.0	+ 2.8	+ 2.1	+ 1.6	- 6.1	+ 4.3	+ 4.4	
Euro area	52.1	12.1	+ 2.6	+ 1.9	+ 1.3	- 6.5	+ 4.2	+ 4.5	
Germany	30.5	3.4	+ 2.6	+ 1.3	+ 0.6	- 4.8	+ 3.4	+ 4.3	
Italy	6.2	1.9	+ 1.7	+ 0.9	+ 0.3	- 8.9	+ 4.6	+ 4.2	
France	4.3	2.3	+ 2.3	+ 1.8	+ 1.5	- 8.1	+ 5.0	+ 3.9	
CEEC <sup>2</sup>	14.7	1.8	+ 4.7	+ 4.7	+ 4.0	- 3.9	+ 4.3	+ 4.7	
Hungary	3.5	0.2	+ 4.3	+ 5.4	+ 4.6	- 5.0	+ 6.5	+ 4.5	
Czech Republic	3.5	0.3	+ 5.2	+ 3.2	+ 2.3	- 5.6	+ 3.0	+ 4.5	
Poland	3.8	1.0	+ 4.8	+ 5.4	+ 4.7	- 2.7	+ 4.3	+ 4.9	
USA	6.6	15.9	+ 2.3	+ 3.0	+ 2.2	- 3.5	+ 6.7	+ 3.8	
Switzerland	5.5	0.5	+ 1.6	+ 3.0	+ 1.1	- 2.9	+ 3.7	+ 3.2	
UK	2.9	2.2	+ 1.7	+ 1.3	+ 1.4	- 9.8	+ 5.9	+ 5.0	
China	2.8	18.3	+ 6.9	+ 6.7	+ 6.0	+ 2.3	+ 8.7	+ 5.6	
Total <sup>3</sup>									
PPP-weighted <sup>4</sup>	51.9	+ 3.9	+ 3.9	+ 3.2	- 2.4	+ 6.7	+ 4.7		
Export weighted <sup>5</sup>	85.2	+ 2.8	+ 2.3	+ 1.8	- 5.5	+ 4.6	+ 4.3		
Market growth <sup>6</sup>		+ 5.6	+ 4.0	+ 1.7	- 6.1	+ 9.5	+ 5.6		
<b>Forecast assumptions</b>									
Crude oil prices									
Brent, \$ per barrel			54.3	71.0	64.3	41.7	68	67	
Exchange rate									
\$ per €			1.129	1.181	1.120	1.141	1.20	1.15	
Key interest rate									
ECB main refinancing rate <sup>7</sup> , percent			0.0	0.0	0.0	0.0	0.0	0.0	
10-year government bonds yields Germany, percent			0.3	0.4	- 0.3	- 0.5	- 0.3	- 0.2	

Source: WIFO, Bureau of Economic Analysis, Eurostat, EIA, ECB, IMF, OECD, Statistics Austria. 2021 and 2022: forecast. –<sup>1</sup> PPP-weighted. –<sup>2</sup> Czech Republic, Hungary, Poland, Slovenia, Slovakia. –<sup>3</sup> EU 27, UK, USA, Switzerland, China. –<sup>4</sup> Weighted by GDP at purchasing power parities in 2020. –<sup>5</sup> Weighted by shares of Austrian goods exports in 2020. –<sup>6</sup> Real import growth of trading partners, weighted by shares of Austrian goods exports. –<sup>7</sup> Minimum bid rate.

#### 3.1 Global economy recovers faster than expected

The economic outlook has improved significantly worldwide since the last WIFO forecast in March, both in industrialised and emerging economies. However, the recovery is likely to be asynchronous and uneven

between and within regions, mainly due to the different courses of the COVID-19 pandemic in various parts of the world. The development of the global economic activity in 2021 and 2022 will largely depend on the success of the vaccination programmes and on how quickly the regulatory restrictions can be withdrawn.

**The global economy continues to recover. The catching-up process is proceeding much faster than previously expected, but the speed of recovery varies greatly from region to region.**

In the USA, the economy is expected to grow strongly in the two forecast years, mainly due to the rapid progress in vaccination coverage and the extensive fiscal policy programmes. Total value added could reach pre-crisis levels as early as mid-2021, significantly earlier than in many other industrialised countries. In addition to the existing support programmes, a number of other fiscal policy packages are about to be introduced, such as an investment programme, an infrastructure programme (American Jobs Plan) and a family package (American Families Plan).

China quickly brought the COVID-19 epidemic under control in 2020, allowing its economy to recover rapidly. It should continue to grow dynamically thanks to buoyant demand for goods on the global market. Many other emerging economies, however, are in a more difficult situation due to their limited fiscal and monetary policy space. Moreover, the limited availability of vaccines makes it difficult to overcome the COVID-19 pandemic. Many emerging economies will therefore have to resort to alternative approaches to contain the infection, which could dampen their economic performance and slow down the recovery.

In the EU, the regulatory measures were already eased in the course of the second quarter. In view of the progress made in vaccination coverage, this forecast assumes that the restrictions will be almost completely lifted in the second half of 2021. By 2022, large parts of the population will already be fully immunised, so that the SARS-CoV-2 virus should no longer pose a significant threat to public health. Against this background, economic output in the EU is expected to grow by 4.3 percent in 2021 and by around 4.4 percent in 2022. In the partner countries most important for Austria's export industry, GDP is expected to grow by 4.6 percent and 4.3 percent respectively (export-weighted).

Thus, WIFO now expects a stronger recovery than in the March forecast. The brighter outlook is largely explained by the fact that global economic activity and global trade in goods are expanding more strongly than previously expected. Moreover, the fiscal support programmes are likely to have a much stronger impact than recently assumed due to high goods market multipliers. As rarely before, fiscal policy worldwide is expansive and supported by accommodative monetary policy. This globally synchronous stimulus is currently having a particularly strong effect, as it is encountering an environment in which the dampening effects of increased imports (expansion of domestic demand as a result of the fiscal policy stimulus at home) are being overcompensated by additional exports (expansion of foreign demand as a result of the fiscal

policy stimulus abroad). However, the still considerable differences in the speed of recovery of the individual economies harbour significant downside risks (cf. Section 5).

The global economic recovery is causing a strong increase in commodity prices, which will be further accelerated in the short term by supply bottlenecks. For crude oil, WIFO expects a price of around 68 \$ per barrel (2021) and 67 \$ (2022), after around 42 \$ in 2020.

### 3.2 The economic policy framework

The forecast takes into account all economic policy measures that have already been adopted or sufficiently specified and whose implementation is thus considered likely.

#### 3.2.1 Monetary policy

The ECB's monetary policy increasingly has to deal with conflicting priorities. On the one hand, it still aims at having an expansionary effect on the economy in order to support the recovery. On the other hand, however, inflationary tendencies are becoming increasingly apparent, which would certainly justify a less accommodative monetary policy course.

The key interest rates have not been changed since autumn 2019. The main refinancing rate is 0 percent, the marginal lending rate is 0.25 percent and the deposit rate is -0.5 percent.

The ECB continues to make an interest rate hike and thus a tightening of the monetary policy stance dependent firstly on the difference between the inflation outlook and the inflation target of 2 percent and secondly on the extent of the sectoral dispersion of price increases. The second point in particular seems to be gaining in importance, especially since the ECB leadership has recently repeatedly emphasised symmetry in connection with the achievement of the inflation target. Against this background, no monetary policy reactions by the ECB are to be expected in response to a short-term overshooting of the inflation target. WIFO therefore continues to assume favourable financing conditions for the forecast period. Both interest rates for the private sector and those on government bonds are expected to rise only slowly.

#### 3.2.2 Macroprudential policy

Banks continue to face risks from possible crisis-related insolvencies of companies or individuals. For example, the COVID-19 pandemic hit parts of the commercial real estate market particularly hard, especially in the retail and tourism sectors. In the WIFO-Konjunkturtest (business cycle survey) of May

2021 on credit conditions, the majority of businesses continued to report rather restrictive credit conditions. Of the companies with credit needs, 18.1 percent had to accept cutbacks in terms of the amount or

conditions. This figure corresponds to the average of the last five years (18 percent). At 23.1 percent, the share of companies that did not receive a loan despite needing one is still above average.

**Table 3: Fiscal and monetary policy – key figures**

	2017	2018	2019	2020	2021	2022
	As a percentage of GDP					
<b>Fiscal policy</b>						
General government financial balance <sup>1</sup>	– 0.8	0.2	0.6	– 8.8	– 6.6	– 2.3
General government primary balance	1.0	1.8	2.0	– 7.5	– 5.4	– 1.3
General government total revenue	48.5	48.9	49.2	48.8	48.1	47.6
General government total expenditure	49.3	48.7	48.6	57.6	54.7	49.9
Percent						
<b>Monetary policy</b>						
Three-month interest rate	– 0.3	– 0.3	– 0.4	– 0.4	– 0.5	– 0.3
Long-term interest rate <sup>2</sup>	0.6	0.7	0.1	– 0.2	0.0	0.0

Source: WIFO, ECB, OeNB, Statistics Austria. 2021 and 2022: forecast. – <sup>1</sup> According to Maastricht definition. – <sup>2</sup> 10-year central government bonds (benchmark).

While the Financial Market Stability Board (FMSB) maintained its recommendation to leave the countercyclical capital buffer at 0 percent, it emphasised the risks in the area of mortgage loans as well as mortgage-backed corporate loans, which have a comparatively high and increasing share in the balance sheet total of Austrian banks. For this forecast, it was assumed that the macroprudential policy environment will remain largely unchanged until the end of 2022.

### 3.2.3 Fiscal policy

The focus of fiscal policy is likely to gradually shift from immediate crisis aid to measures that support economic recovery. In this context, both national instruments and those at the EU level are important. The national measures to cushion the effects of the crisis will still significantly burden the national budget in 2021. While subsidies for enterprises and expenditure on short-time work will be lower in 2021 than in the previous year, the strong take-up of the investment premium (6.5 billion € by 2025) will increase net-lending in both forecast years. The investments envisaged in the climate and school packages will additionally burden the budget. On the revenue side, support measures in the area of income tax, corporate income tax and VAT (declining balance depreciation, adjustments to loss offsetting, temporary reduction of the VAT rate for gastronomy and culture) will continue to lead to losses. The discontinuation of one-off

payments (child bonus, family hardship compensation, unemployment benefits) and increased tax revenue as a result of the economic recovery will already contribute to budget relief in the current year. Government consumption will subside again from 2022. Due to the unchanged favourable refinancing conditions, a further decrease in the interest expenditure burden is expected.

The EU-level measures are mainly aimed at economic recovery from the COVID-19 crisis. Under the Recovery and Resilience Facility (RRF), the EU is providing 672.5 billion € in grants and loans to support reforms and investments in member countries until 2026. While progress has been made in recent months on the Austrian Recovery and Resilience Plan (RRP)<sup>2</sup>, it is not expected to be implemented until 2022, so the economic impact of the RRF will only be visible in the medium term. The RRF programmes are expected to have an immediate, direct impact on GDP by stimulating aggregate demand through an increase in public and private investment<sup>3</sup>.

The general government budget balance deteriorated to –8.8 percent of GDP in 2020 (2019: 0.6 percent), reflecting the impact of automatic stabilisers and extensive discretionary fiscal measures. The expiry of COVID-19 measures and the economic recovery are expected to reduce the deficit to 6.6 percent of GDP in 2021 and 2.3 percent in 2022.

**Domestic fiscal policy is supporting the economic recovery. The fiscal balance will thus also be strongly negative in the current year. Cyclical effects and the expiry of numerous support measures will contribute to a significant improvement in public finances in 2022.**

<sup>2</sup> For details see Zorell, N. & Tordoir, S. (2021). Towards an effective implementation of the EU's recovery package. *ECB Economic Bulletin*, 2, 80-83.

<sup>3</sup> For an assessment see e.g. Bańkowski, K., Ferdinandusse, M., Hauptmeier, S., Jacquinot, P., &

Valenta, V. (2021). The macroeconomic impact of the Next Generation EU instrument on the euro area. *ECB Occasional Paper*, (255).

## 4. Prospects for the Austrian economy

For Austria, most leading indicators point to a rapid economic recovery. In some areas of the economy, especially in parts of industry, they reached long-term highs.

Leading indicators herald a boom phase, mainly driven by favourable industrial activity.

The Austrian economy was in recession in the winter half-year. The official COVID-19 measures shaped the economic development in the fourth quarter of 2020 and the first quarter of 2021. Although the GDP decline was also high in the first quarter, the outlook already brightened considerably. This positive trend will continue in the second quarter.

The results of the WIFO-Konjunkturtest (business cycle survey) of May again show an improvement in the sentiment of domestic companies: both the assessments of the situation and the expectations were more optimistic than recently. The fact that the business assessments did not improve as significantly as in the previous months is probably primarily due to the already high level of the indicators: in May, the WIFO business climate index reached its highest value since October 2018.

In the Austrian manufacturing sector, the index of current assessments was again higher in May than in the previous month. On balance, those companies that reported an expansion of their production activity predominated. Order books also improved compared to April. The index of business expectations also continued to rise in May. The UniCredit Bank Austria Purchasing Managers' Index also points to a positive development in domestic industry. In April, it had already reached its highest level since surveys began in 1998 and rose again in May. Since the second half of 2020, it has been at a level that indicates expansion in the manufacturing sector.

The current situation index also improved in the service sectors, some of whose economic activity remained constrained in May. It was most recently in positive territory for the first time since March 2020. The development of the expectations index also gives cause for optimism.

The WKÖ economic barometer also painted a favourable picture of late (May 2021): all expectation indicators were positive on balance and even above the pre-crisis level again. The improvement was particularly marked in industry. Differences in the business sentiment depended above all on the extent to which companies were affected by official restrictions and on their size: medium-sized and large companies were particularly optimistic, especially with regard to order and turnover expectations as well as new investments.

The consumer climate has tended to brighten since the beginning of 2021. Most recently, it was clearly above the long-term

average and roughly corresponded to the level of 2019. The sub-indicator on unemployment expectations, which is particularly meaningful for assessing the economic situation, fell again in May, thus continuing the favourable development.

### 4.1 Strong economic growth

The prospects for the Austrian economy are therefore very positive. Under the described international and economic policy framework conditions, it should already have grown strongly in the second quarter of 2021. In the third quarter, growth will be even higher due to the withdrawal of regulatory restrictions. From the fourth quarter of 2021 onwards, it should steadily lose momentum and roughly correspond to trend growth by the end of 2022.

After the slump in 2020 (−6.3 percent), GDP will increase by 4 percent in real terms in the current year and by 5 percent in 2022 (Figure 1, Table 1). Since the growth carry-over from the previous year is only moderate, the strong expansion in 2021 results mainly from the high intra-annual growth rate (+7.7 percent). In 2022, the situation is reversed: as the economy levels off, the intra-annual growth rate decreases, which means that growth is more strongly influenced by the high growth carry-over from the previous year. Due to the same number of working days, calendar effects do not play a role.

The domestic economy is expected to reach its pre-crisis level already in the course of this summer and overall economic capacity utilisation should be above average again as early as 2022. The output gap will initially close from the bottom up and be slightly positive at the end of the forecast period. From today's perspective, the Austrian economy should have returned to the growth path forecast before the COVID-19 crisis by the end of 2022.

### 4.2 Economic recovery driven by all demand and supply components

On the supply side, the extremely buoyant industrial economy is the main driver of aggregate growth in the current year. Industry continues to expand in 2022, but no longer as strongly. The slight weakening of the industrial activity is compensated by the strong recovery of tourism in 2022. The domestic economy will thus experience a further growth spurt in 2022, which will primarily come from accommodation and food services as well as from those sectors that are closely intertwined with tourism, such as trade, transport and other services. Trade is

likely to benefit primarily from the consumption backlog in 2021 and from the recovery in tourism in 2022, which will be felt

particularly by wholesale trade. Construction is also expected to grow at an above-average rate in both forecast years.

Figure 2: **Cyclical profile of Austria**

GDP volume



Source: WIFO, Statistics Austria. – <sup>1</sup> Seasonally and working-day adjusted according to Eurostat.

Table 4: **Technical breakdown of the real GDP growth forecast**

	2019	2020	2021	2022	
Growth carry-over <sup>1</sup>	percentage points	+ 0.9	- 0.3	+ 0.2	+ 3.7
Growth rate during the year <sup>2</sup>	percent	+ 0.2	- 5.9	+ 7.7	+ 1.7
<b>Annual growth rate</b>	<b>percent</b>	<b>+ 1.4</b>	<b>- 6.3</b>	<b>+ 4.0</b>	<b>+ 5.0</b>
Adjusted annual growth rate <sup>3</sup>	percent	+ 1.4	- 6.4	+ 4.0	+ 5.0
Calendar effect <sup>4</sup>	percentage points	- 0.0	+ 0.0	± 0.0	± 0.0

Source: WIFO. 2021 and 2022: forecast. – <sup>1</sup> 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; seasonally and calendar adjusted according to Eurostat. – <sup>2</sup> Reflects the growth dynamics during a calendar year. Equals the year-on-year growth rate for the fourth quarter; seasonally and calendar adjusted according to Eurostat. – <sup>3</sup> Seasonally and calendar adjusted according to Eurostat. Comparative figure to the OeNB's economic forecast. – <sup>4</sup> Impact of the annual number of working days and the leap day. The sum of the adjusted annual growth rate and calendar effect may differ from the value of the unadjusted annual growth rate as it also includes seasonal and irregular effects.

The recent shortages of intermediate products are likely to dampen expansion in industry and construction only in the short term, especially since they are based only on supply chain problems. In logistics, the phenomenon that material orders tend to fluctuate more than demand signals is known as the

Forrester effect. Variability therefore increases the higher up the supply chain a company is<sup>4</sup>. With the expected stabilisation of demand, supply problems should also subside and no longer have a dampening effect on industrial and construction activity from the fourth quarter of 2021.

<sup>4</sup> Forrester, J.W. (1961). *Industrial Dynamics*. John Wiley & Sons.

Table 5: Expenditure on GDP

Volume (chain-linked series)

	2019	2020	2021	2022	2019	2020	2021	2022
	Billion € (reference year 2015)				Percentage changes from previous year			
Final consumption expenditure	263.11	247.08	257.27	266.20	+ 1.0	- 6.1	+ 4.1	+ 3.5
Households <sup>1</sup>	191.36	173.68	182.36	192.39	+ 0.8	- 9.2	+ 5.0	+ 5.5
General government	71.75	73.38	74.90	73.84	+ 1.5	+ 2.3	+ 2.1	- 1.4
Gross capital formation	94.79	89.50	97.97	103.37	+ 0.8	- 5.6	+ 9.5	+ 5.5
Gross fixed capital formation	91.68	86.41	92.41	96.38	+ 4.0	- 5.7	+ 6.9	+ 4.3
Machinery and equipment <sup>2</sup>	31.75	27.95	31.44	33.58	+ 4.7	- 12.0	+ 12.5	+ 6.8
Construction	40.22	38.98	40.34	41.31	+ 3.6	- 3.1	+ 3.5	+ 2.4
Other investment <sup>3</sup>	19.72	19.41	20.68	21.61	+ 3.6	- 1.5	+ 6.5	+ 4.5
Domestic demand	359.24	338.03	357.27	371.65	+ 1.1	- 5.9	+ 5.7	+ 4.0
Exports	214.54	193.08	203.08	220.83	+ 2.9	- 10.0	+ 5.2	+ 8.7
Travel	16.85	10.18	8.74	15.42	+ 3.1	- 39.6	- 14.1	+ 76.5
Minus imports	199.72	180.57	196.23	210.10	+ 2.4	- 9.6	+ 8.7	+ 7.1
Travel	9.11	3.23	3.81	8.44	+ 0.0	- 64.5	+ 17.7	+121.7
Gross domestic product	374.05	350.64	364.54	382.68	+ 1.4	- 6.3	+ 4.0	+ 5.0
Value	397.58	377.30	401.76	431.66	+ 3.2	- 5.1	+ 6.5	+ 7.4

Source: WIFO, Statistics Austria. 2021 and 2022: forecast. –<sup>1</sup> Including non-profit institutions serving households. –<sup>2</sup> Including weapon systems. –<sup>3</sup> Mainly intellectual property products (research and development, computer programmes, copyrights).

Table 6: Gross value added

At basic prices

	2019	2020	2021	2022	2019	2020	2021	2022
	Billion € (reference year 2015)				Percentage changes from previous year			
<b>Volume (chain-linked series)</b>								
Agriculture, forestry and fishing	4.30	4.31	4.31	4.31	- 0.8	+ 0.2	± 0.0	± 0.0
Manufacturing including mining and quarrying	67.07	62.28	68.01	70.86	+ 0.6	- 7.1	+ 9.2	+ 4.2
Electricity, gas and water supply, waste management	10.21	9.95	10.25	10.56	+ 3.6	- 2.5	+ 3.0	+ 3.0
Construction	20.69	20.25	20.92	21.42	+ 2.7	- 2.1	+ 3.3	+ 2.4
Wholesale and retail trade	39.10	37.22	39.45	41.42	+ 0.6	- 4.8	+ 6.0	+ 5.0
Transportation	18.92	16.31	16.80	18.48	+ 1.6	- 13.8	+ 3.0	+ 10.0
Accommodation and food service activities	16.62	10.72	10.51	14.71	+ 2.1	- 35.5	- 2.0	+ 40.0
Information and communication	13.14	13.39	13.59	13.86	+ 3.7	+ 1.9	+ 1.5	+ 2.0
Financial and insurance activities	15.08	15.92	16.51	17.12	+ 3.0	+ 5.6	+ 3.7	+ 3.7
Real estate activities	31.31	31.89	32.37	32.79	+ 1.2	+ 1.9	+ 1.5	+ 1.3
Other business activities <sup>1</sup>	32.98	29.11	30.85	32.39	+ 2.1	- 11.7	+ 6.0	+ 5.0
Public administration <sup>2</sup>	56.05	56.36	56.64	56.92	+ 0.6	+ 0.5	+ 0.5	+ 0.5
Other service activities <sup>3</sup>	8.96	7.32	7.53	8.51	+ 0.7	- 18.3	+ 3.0	+ 13.0
Total gross value added <sup>4</sup>	334.29	314.64	326.80	342.88	+ 1.4	- 5.9	+ 3.9	+ 4.9
Gross domestic product at market prices	374.05	350.64	364.54	382.68	+ 1.4	- 6.3	+ 4.0	+ 5.0

Source: WIFO, Statistics Austria. 2021 and 2022: forecast. –<sup>1</sup> Professional, scientific and technical activities; administrative and support service activities (NACE M and N). –<sup>2</sup> Including defence, compulsory social security, education, human health and social work activities (NACE O to Q). –<sup>3</sup> Arts, entertainment and recreation; other service activities; activities of households (NACE R to U). –<sup>4</sup> Before deduction of subsidies and attribution of taxes on products.

**Due to its high take-up, the investment premium is likely to provide a significant stimulus to the economy.**

On the demand side, all subcomponents are contributing to the upswing. In particular, private household consumption and machinery and equipment investment are expanding strongly. The withdrawal of government restrictions should provide strong catch-up effects in the case of private consumption. This will be reinforced by the reduction of savings from the previous year. Investment activity in both forecast years is likely to be driven in particular by the brisk expansion of equipment investment: the significant increase in capacity utilisation in industry requires not only replacement investments, but now above all expansion

investments. In addition, state premiums provide a strong incentive for investment. Machinery and equipment investment, which contracted by 12.0 percent in 2020, is expected to grow by 12.5 percent in 2021, slowing to 6.8 percent in 2022. Last but not least, exports, the largest demand component, also make significant contributions to growth. Domestic foreign trade is benefitting from the strong expansion of the global economy.

In view of the favourable development – both on the supply and demand side – the domestic economy should increasingly gain

momentum of its own. The recovery on the labour market and the improved income situation of private households also favour such a self-sustaining upswing. Leading

indicators give reason to assume that the economic upswing will be very strong, especially in 2021.

Table 7: Private consumption, income and prices

	2017	2018	2019	2020	2021	2022
	Percentage changes from previous year					
Private consumption expenditure <sup>1</sup>	+ 1.9	+ 1.1	+ 0.8	- 9.2	+ 5.0	+ 5.5
Durable goods	+ 2.0	+ 1.1	- 0.4	+ 0.7	+ 5.0	+ 2.5
Non-durable goods and services	+ 1.9	+ 1.1	+ 1.0	- 10.3	+ 5.0	+ 5.9
Private household disposable income	+ 1.6	+ 1.4	+ 1.3	- 3.0	+ 1.1	+ 2.0
As a percentage of disposable income						
Household saving ratio						
Including adjustment for the change in pension entitlements	7.5	7.8	8.2	14.5	10.8	7.8
Excluding adjustment for the change in pension entitlements	6.8	7.1	7.6	13.9	10.2	7.1
Percentage changes from previous year						
Loans to domestic non-banks (end of period)	+ 0.7	+ 4.9	+ 4.4	+ 3.8	+ 4.4	+ 3.7
Consumer prices						
National	+ 2.1	+ 2.0	+ 1.5	+ 1.4	+ 2.2	+ 2.0
Harmonised	+ 2.2	+ 2.1	+ 1.5	+ 1.4	+ 2.3	+ 2.1
Core inflation <sup>2</sup>	+ 2.2	+ 1.9	+ 1.6	+ 2.0	+ 2.0	+ 2.1

Source: WIFO, OeNB, Statistics Austria. 2021 and 2022: forecast. –<sup>1</sup> Private households including non-profit institutions serving households. –<sup>2</sup> Excluding energy and unprocessed food (meat, fish, fruits, vegetables).

Table 8: Productivity

	2017	2018	2019	2020	2021	2022
	Percentage changes from previous year					
<b>Total economy</b>						
Real GDP	+ 2.4	+ 2.6	+ 1.4	- 6.3	+ 4.0	+ 5.0
Hours worked <sup>1</sup>	+ 1.0	+ 2.0	+ 1.7	- 8.8	+ 4.5	+ 4.1
Productivity <sup>2</sup>	+ 1.4	+ 0.6	- 0.2	+ 2.8	- 0.5	+ 0.8
Employment <sup>3</sup>	+ 1.7	+ 1.8	+ 1.3	- 1.8	+ 1.7	+ 1.6
<b>Manufacturing</b>						
Production <sup>4</sup>	+ 3.7	+ 5.3	+ 0.7	- 7.1	+ 9.2	+ 4.2
Hours worked <sup>5</sup>	+ 1.0	+ 2.4	+ 0.7	- 6.4	+ 5.7	+ 0.7
Productivity <sup>2</sup>	+ 2.6	+ 2.9	- 0.0	- 0.7	+ 3.3	+ 3.5
Employees <sup>6</sup>	+ 1.3	+ 2.8	+ 1.3	- 1.4	+ 0.6	+ 0.5

Source: WIFO, Statistics Austria. 2021 and 2022: forecast. –<sup>1</sup> Total hours worked by persons employed, National Accounts definition. –<sup>2</sup> Production per hour worked. –<sup>3</sup> Employees and self-employed, National Accounts definition (jobs). –<sup>4</sup> Gross value added, volume. –<sup>5</sup> Total hours worked by employees. –<sup>6</sup> National Accounts definition (jobs).

#### 4.3 High demand creates inflationary pressure

In both forecast years, price inflation according to the consumer price index is likely to be comparatively high, starting from 1.4 percent in 2020 (2021 +2.2 percent, 2022 +2.0 percent). On the one hand, import prices for raw materials and goods rose more significantly than previously expected. This was taken into account in the present forecast. On the other hand, internal factors are shaping price dynamics: overall

economic capacity utilisation (output gap) is still below average in 2021 and will even be slightly above average again in 2022, which additionally contributes to inflation. Moderate wage growth in 2020, however, is likely to dampen inflation, especially in the current year. Wage inflation is expected to be 1.5 percent in 2021 and 2.2 percent in 2022 (gross wages per capita; 2020: 0.6 percent), but still low by pre-crisis standards. Thus, from today's perspective, there is no threat of a wage-price spiral.

Table 9: Earnings, international competitiveness

	2017	2018	2019	2020	2021	2022
	Percentage changes from previous year					
Wages and salaries per employee <sup>1</sup>						
Nominal, gross	+ 1.6	+ 2.7	+ 2.9	+ 0.6	+ 1.5	+ 2.2
Real <sup>2</sup>						
Gross	- 0.5	+ 0.7	+ 1.3	- 0.8	- 0.7	+ 0.2
Net	- 0.7	+ 0.2	+ 1.4	- 0.2	- 0.7	± 0.0
Wages and salaries per hour worked <sup>1</sup>						
Real, net <sup>2</sup>	+ 0.2	+ 0.3	+ 0.9	+ 7.5	- 3.6	- 2.1
Percent						
Wage share, adjusted <sup>3</sup>	68.9	68.8	68.3	69.6	69.0	67.5
Percentage changes from previous year						
Unit labour costs, nominal <sup>4</sup>						
Total economy	+ 1.0	+ 2.3	+ 2.4	+ 5.5	- 1.2	- 0.8
Manufacturing	- 0.9	+ 0.6	+ 3.8	+ 6.0	- 6.3	- 0.9
Effective exchange rate – manufactured goods <sup>5</sup>						
Nominal	+ 0.7	+ 1.7	- 0.7	+ 1.4	+ 0.7	+ 0.0
Real	+ 1.0	+ 1.7	- 1.1	+ 1.8	+ 0.6	+ 0.2

Source: WIFO, Statistics Austria. 2021 and 2022: forecast. –<sup>1</sup> National Accounts definition. –<sup>2</sup> Deflated by CPI. –<sup>3</sup> 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. –<sup>4</sup> Labour costs in relation to productivity (hourly compensation per employees divided by GDP and value added, respectively, per employed persons' hours worked), including short-time work grants. –<sup>5</sup> Weighted by exports and imports, real value adjusted by relative HCPI.

Table 10: Labour market

	2017	2018	2019	2020	2021	2022
	Change from previous year in 1,000					
<b>Demand for labour</b>						
Persons in active employment <sup>1</sup>	+ 76.8	+ 91.6	+ 61.4	- 79.1	+ 74.0	+ 60.0
Employees <sup>1,2</sup>	+ 70.7	+ 88.0	+ 58.9	- 76.1	+ 75.0	+ 60.0
National employees	+ 23.8	+ 33.7	+ 12.3	- 53.9	+ 25.0	+ 15.0
Foreign employees	+ 46.8	+ 54.4	+ 46.6	- 22.2	+ 50.0	+ 45.0
Self-employed <sup>3</sup>	+ 6.1	+ 3.6	+ 2.5	- 3.0	- 1.0	± 0.0
<b>Labour supply</b>						
Population of working age						
15 to 64 years	+ 23.0	+ 13.2	+ 11.4	+ 9.9	+ 2.3	- 6.0
Labour force <sup>4</sup>	+ 59.4	+ 63.8	+ 50.6	+ 29.2	+ 16.0	+ 42.0
<b>Labour surplus</b>						
Unemployed <sup>5</sup>	- 17.3	- 27.9	- 10.8	+ 108.3	- 58.0	- 18.0
Unemployed persons in training	+ 4.9	- 3.4	- 6.8	- 4.9	+ 16.0	- 5.0
Unemployment rate						
As a percentage of total labour force (Eurostat) <sup>6</sup>	5.5	4.9	4.5	5.4		
As a percentage of total labour force <sup>5</sup>	7.6	6.9	6.6	8.9	7.6	7.1
As a percentage of dependent labour force <sup>5</sup>	8.5	7.7	7.4	9.9	8.5	8.0
Percentage changes from previous year						
Labour force <sup>4</sup>	+ 1.4	+ 1.4	+ 1.1	+ 0.6	+ 0.4	+ 0.9
Persons in active dependent employment <sup>1,2</sup>	+ 2.0	+ 2.5	+ 1.6	- 2.0	+ 2.1	+ 1.6
Unemployed <sup>5</sup>	- 4.9	- 8.2	- 3.5	+ 35.9	- 14.2	- 5.1
Persons (in 1,000)	340.0	312.1	301.3	409.6	351.6	333.6

Source: WIFO, Eurostat, Federation of Social Insurances, Public Employment Service Austria, Statistics Austria. 2021 and 2022: forecast. –<sup>1</sup> Excluding persons in valid employment contract receiving child care benefit or being in military service. –<sup>2</sup> According to the Federation of Social Insurances. –<sup>3</sup> According to WIFO, including liberal professions and unpaid family workers. –<sup>4</sup> Persons in active employment plus unemployed. –<sup>5</sup> According to Public Employment Service Austria. –<sup>6</sup> Labour Force Survey. Due to a revision of the Labour Force Survey methodology planned for the end of June, a forecast of this indicator is currently waived.

#### 4.4 Rapid recovery on the labour market

The high economic growth is clearly leaving its mark on the labour market. Labour supply will continue to increase in both forecast years. Several factors are decisive for this: firstly, the labour force participation rate of older workers is increasing as a result of past pension reforms. Second, the labour force participation of women is rising steadily. Third, the influx of foreign workers is likely to continue. Last but not least, the pro-cyclical effect of the economy should lead to a significant increase in labour supply.

Employment recovered rapidly recently, with the use of short-time work remaining high but clearly declining. In May, the number of employed persons was already 170,000 higher than in the previous year

(+4.8 percent); compared to May 2019 (pre-crisis level), the increase was around 21,000 (+0.6 percent). In the course of the economic recovery, the use of short-time work will also continue to decrease and the volume of working hours will increase. However, the latter will still be below the pre-crisis level, especially in 2021, due to the shortened working hours.

In 2020, dependent active employment shrank by 2.0 percent. An increase of 2.1 percent is expected for 2021, and 1.6 percent for 2022. Due to buoyant labour demand, unemployment has been declining year-on-year since March 2021 (unadjusted). This trend is expected to continue in the forecast period. The unemployment rate falls to 8.5 percent in 2021, and to 8.0 percent in 2022 (2020: 9.9 percent)<sup>5</sup>.

### 5. The risk environment

Forecasts of further economic development still depend to a large extent on projections of future infectious events. Uncertainty about the further course of the COVID-19 pandemic is still considerable<sup>6</sup>. Hence, throughout the forecast period, there is a risk of major setbacks should the virus mutate in a way that significantly reduces the effectiveness of current vaccines. From a medical perspective, the longer it takes to overcome the COVID-19 pandemic worldwide, the greater this risk. In this case, not only could foreign demand weaken, but public health policies could be reintroduced, affecting the recovery of the global economy and thus also the domestic economy<sup>7</sup>. Moreover, there is still uncertainty about the development of corporate solvency once public support programmes are scaled back and debt moratoria are ended. This could significantly increase the volume of non-performing loans and thus, in combination with minimum capital requirements, restrict banks' willingness and potential to lend. A downside risk also arises from the asymmetric recovery of the global economy, which is considerably exacerbated by monetary and fiscal policies that diverge strongly in some

cases. As has already happened several times in the past (e.g. euro crisis), it could lead to distortions on the financial markets with negative consequences for the real economy. A significant aggravation could result if an even stronger economic recovery of the leading economic areas (USA, UK, China) increases the already existing asymmetries. This in itself describes a downside risk for both the global and the domestic economy.

However, these downside risks are also offset by considerable upside risks. On the one hand, the recovery of the Austrian economy could be much stronger than expected, especially in the second and third quarters of 2021, as indicated by high-frequency indicators on GDP and numerous subcomponents. On the other hand, savings from the previous year could be reduced more quickly than assumed in this forecast. The resulting consumption impulse, in combination with multiplier effects, could enable a much more dynamic recovery. At the same time, however, the upward pressure on prices could also be significantly stronger than expected in this forecast.

<sup>5</sup> From 2021 onwards, methodological changes in the Labour Force Survey will take effect in all EU member countries. In particular, the number of unemployed and consequently the international unemployment rate will increase due to a change in the recording of seasonal unemployment. This will require adjustments to the previous time series. For this reason, no forecast of this key figure is made at present. Results of the labour force survey for the first quarter of 2021 will be published by Statistics Austria on 28 June 2021 ([http://www.statistik.at/web\\_de/presse/126127.html](http://www.statistik.at/web_de/presse/126127.html)).

<sup>6</sup> A recent study, for instance, designed a scenario with recurrent outbreaks (see Blanchard, O., & Pisani-

Ferry, J. (12 March 2021). Persistent COVID-19: Exploring potential economic implications. Bruegel Blog Post. <https://www.bruegel.org/2021/03/persistent-covid-19-exploring-potential-economic-implications/> (retrieved 10 May 2021).

<sup>7</sup> During the preparation of this forecast, there were increased problems in shipping container traffic around major Chinese ports due to official restrictions to contain the COVID-19 pandemic. These pose a threat to the global economic recovery, especially as supply bottlenecks are hampering production, which has a direct negative impact on real economic activity.