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Quarterly Survey of April 2023

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Heterogeneous Development of Economic Assessments

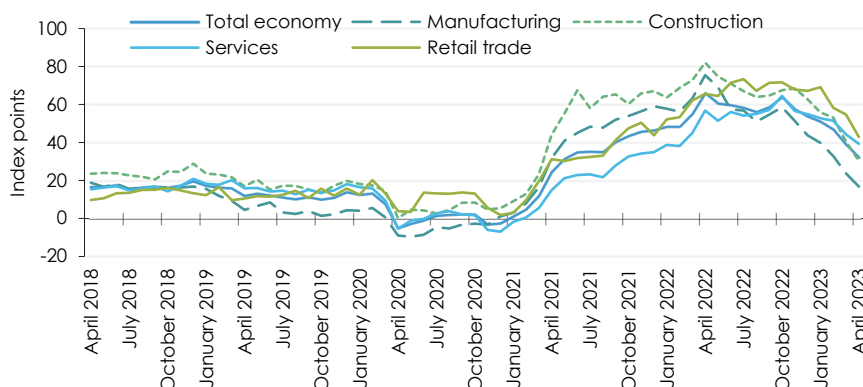
Results of the WIFO-Konjunkturtest Quarterly Survey of April 2023

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- Austrian companies were somewhat more confident about the economic situation in April than in the previous months. Accordingly, the WIFO-Konjunkturampel (economic traffic light) turned green.
- However, there are differences between sectors of the economy. In the services and in retail trade, economic assessments have improved significantly. In manufacturing and in construction, a similar optimism is hardly noticeable so far.
- Business uncertainty declined recently but remained above average in most sectors.
- Capacity utilisation in the total economy was at a high level (89.8 percent) in April and increased quarter-on-quarter in all sectors.
- As in the previous quarters, many companies reported impairments to their business activities. Overall "shortage of labour force" remained the most important obstacle mentioned by companies, ahead of "insufficient demand".
- Sales price expectations continued to weaken. On balance, around 32 percent of enterprises expected in April to raise prices in the coming months.

Sales price expectations in the total economy and the sectors

Balance in percent of all messages



"Sales price expectations, which had risen sharply in 2021 as a result of the upturn and supply bottlenecks, have weakened in all sectors in recent months."

Sales price expectations are presented as balances: from the share of companies indicating that expect to raise their sales prices in the coming months, the share of those planning to lower sales prices is subtracted (source: WIFO-Konjunkturtest (business cycle survey), seasonally adjusted).

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June 2023

Heterogeneous Development of Economic Assessments. Results of the WIFO-Konjunkturtest Quarterly Survey of April 2023

The results of the WIFO-Konjunkturtest (business cycle survey) in April point to an improvement in the total economy but reveal an uneven development of economic assessments in the individual sectors. Overall, the business activity indices point upward, with the trend being driven primarily by services and retail trade. In contrast, capacity utilisation slightly increased in all sectors. Similar to previous results, the "shortage of labour force" was the main obstacle to business activity in the Austrian economy in the last quarter, although the "insufficient demand" continued to gain in importance. Sales price expectations have been showing a downward trend for several months.

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Economic sentiment improved quarter-on-quarter, especially in services and retail trade. The expectations index climbed back into positive territory in most sectors.

The results of the WIFO-Konjunkturtest (business cycle survey)¹ for April 2023 (beginning of the second quarter) point to an improvement in the business cycle. The WIFO Business Cycle Index increased by 4.6 points quarter-on-quarter, but at 11.0 points was around 13.5 points below the previous year's value (Table 1). The index of current business situation assessments rose slightly by 1.3 points compared to January and at 12.7 points was still clearly above the zero line that separates negative from positive economic assessments. Business expectations have improved markedly in recent months: at 9.4 points, the corresponding sub-index in April was clearly above the

autumn level (October 2022 –2.0 points, January 2023 +1.3 points).

The indices for the total economy mask the heterogeneity across sectors: in the energy-intensive manufacturing sector, the WIFO Business Climate Index barely gained momentum compared to the previous quarter (+1.7 points) and was only just in positive territory at 0.3 points. While the index of current business situation assessments dropped again (–4.0 points to –1.4 points), the index of business expectations improved significantly and just crossed the zero line (+7.4 points to 2.0 points).

¹ The WIFO-Konjunkturtest (business cycle survey) is a monthly survey of Austrian companies on their current economic situation and the development in the coming months. Once a quarter, the questionnaire of the WIFO-Konjunkturtest is extended by additional questions ("quarterly questions"), which provide relevant information on the business cycle but are not included in the monthly indices of the WIFO-Konjunkturtest. The current results of the WIFO-Konjunkturtest (business cycle survey) are available on the WIFO website (<https://www.wifo.ac.at/en/publications/wifo->

[konjunkturtest](https://www.wifo.ac.at/en/publications/wifo-konjunkturtest)) and on the business cycle analyses topic page at WIFO (https://www.wifo.ac.at/en/research_priorities/business_cycle_and_forecasting_or_www.konjunkturtest.at). Hölzl and Schwarz (2014) provide an overview of the WIFO-Konjunkturtest (business cycle survey). Detailed results on the sub-sectors of manufacturing and services can be downloaded as a graphical appendix from the project homepage (https://www.wifo.ac.at/en/research_priorities/wifo-konjunkturtest/publications).

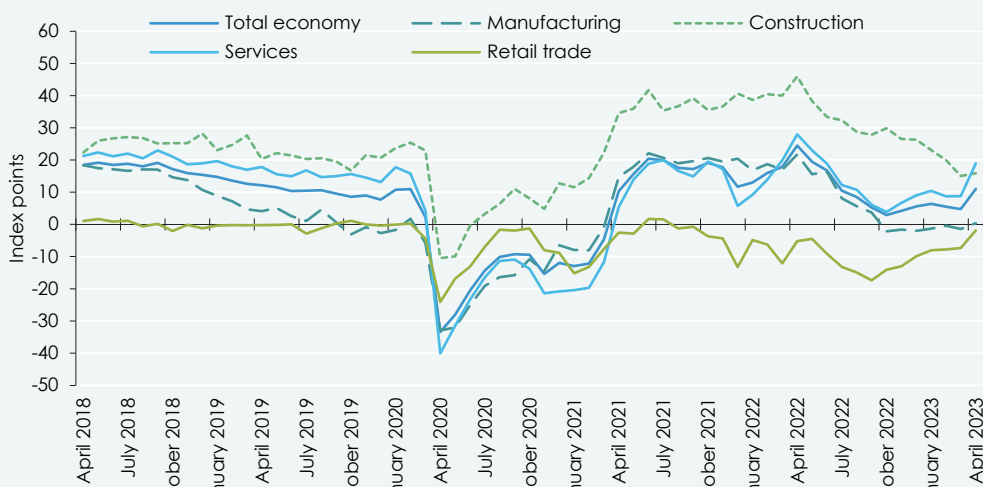
In construction, the WIFO Business Climate Index deteriorated compared to January (–7.2 points to 15.9 points). The index of current business situation lost 2.8 points and stood at 15.2 points in April. The index of business expectations fell sharply (–11.6 points to 16.3 points), but still reflects above-average construction price expectations. Most construction companies have assessed their own business situation in the next six months as unfavourable since May 2022.

In the services sector, however, the indices show a clear upward tendency. The WIFO Business Climate Index rose by 8.5 points compared to January 2023 and was again well above the zero line at 19.0 points. In addition to the index of current business situation assessments (+4.3 points to 21.4 points), the index of business expectations brightened further (+13.0 points compared to January 2023 to 16.7 points).

The business tendency indices for the retail trade, which WIFO calculates based on surveys by Austrian Institute for SME Research, also increased compared to the previous quarter: the corresponding WIFO Business Climate Index in April was 6.2 points above the value for January 2023, but still remained just below the zero line (–1.9 points). The index of current business situation significantly rose quarter-on-quarter (+6.2 points) and was in positive territory at 8.4 points. The index of business expectations also increased (+6.1 points), but at –12.3 points it remained at a low level even for the retail trade.

A longer-term view of the WIFO Business Climate Indices shows the decline due to the COVID-19 crisis, the recovery until spring 2022, the economic slowdown due to the rise in energy prices and the Ukraine war until winter 2023, and the sectorally heterogeneous upward trend in recent months (Figure 1).

Figure 1: WIFO Business Climate Indices



Source: WIFO-Konjunkturtest (business cycle survey), seasonally adjusted.

The Ukraine war triggered the strongest energy price increase since the oil price shocks of 1973 and 1979-80. The result was significant price effects that drove not only inflation but also the sales price expectations of Austrian companies². The latter had already risen in 2021 in the wake of the economic recovery and supply bottlenecks. The Ukraine war and the increase in the price of electricity and natural gas in the summer further exacerbated the price dynamics.

Sales price expectations are presented in the WIFO-Konjunkturtest (business cycle survey) as balances, i.e. as the difference between the share of positive and the share of negative responses in all reports. They have a range of values from –100 to +100 points. As the April 2023 results show, although price dynamics are declining, many of the companies surveyed expect to have to raise their sales prices further in the coming months (Figure 2). For the total economy, the balance of sales price expectations

² The results of a special survey conducted as part of the WIFO-Konjunkturtest (business cycle survey) in November 2022 (Hözl et al., 2022) provide more insight into the effects of the energy price shock. 72 percent of Austrian enterprises reported that their business activities had been impaired; the most frequently cited

cause was the increase in the price of energy and intermediate inputs. Accordingly, most companies reported a decline in profit margins; 64 percent said they had increased sales prices because of higher input prices.

recently stood at 32.0 points, 18.7 points below the comparable figure for January 2023, but still above the long-term average of 25.3 points. By sector, sales price expectations declined everywhere, but reached

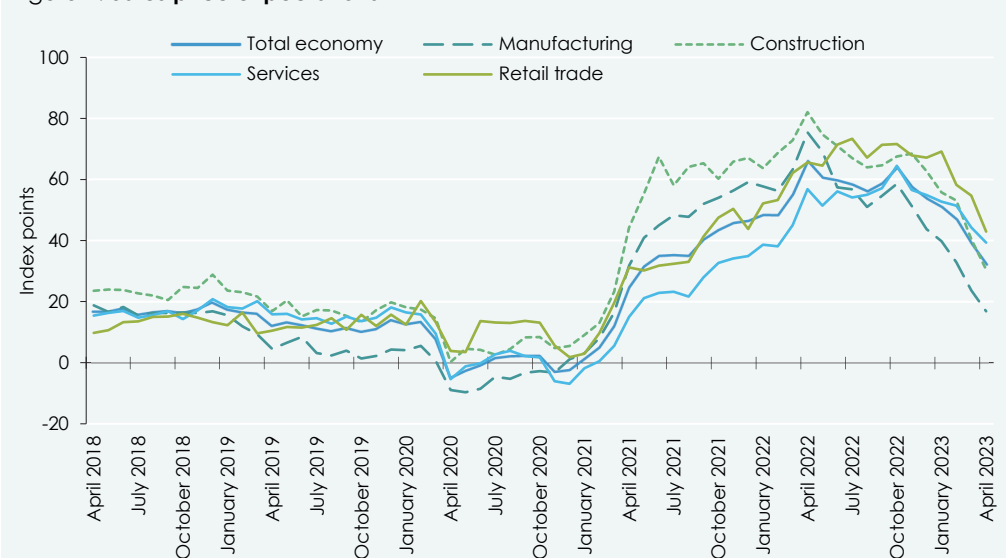
lower levels in construction (-25.3 points to 30.5 points) and manufacturing (-23.0 points to 16.8 points) than in services (-13.4 points to 39.3 points) and retail trade (-26.2 points to 42.9 points).

Table 1: Indices of the WIFO-Konjunkturtest (business cycle survey)

	April	2022 July	October	January Index points	February	2023 March	April	April Change compared to January (previous quarter)
Total economy								
WIFO Business Cycle Index	24.5	10.4	2.9	6.4	5.5	4.8	11.0	+ 4.6
index of current business situation	27.4	16.7	7.8	11.4	10.9	7.7	12.7	+ 1.3
index of business expectations	21.7	4.2	- 2.0	1.3	0.3	2.0	9.4	+ 8.1
Manufacturing								
WIFO Business Cycle Index	21.7	8.1	- 2.2	- 1.3	- 0.4	- 1.4	0.3	+ 1.7
index of current business situation	26.9	15.8	5.8	2.6	3.5	0.6	- 1.4	- 4.0
index of business expectations	16.7	0.4	- 10.1	- 5.4	- 4.2	- 3.4	2.0	+ 7.4
Construction								
WIFO Business Cycle Index	46.0	32.3	29.8	23.1	19.9	15.0	15.9	- 7.2
index of current business situation	45.8	28.6	23.6	17.9	15.5	11.6	15.2	- 2.8
index of business expectations	46.3	36.2	35.9	27.8	23.3	17.2	16.3	- 11.6
Services								
WIFO Business Cycle Index	28.0	12.2	3.9	10.4	8.7	8.8	19.0	+ 8.5
index of current business situation	31.0	20.0	8.9	17.0	15.7	11.9	21.4	+ 4.3
index of business expectations	25.1	4.5	- 1.2	3.7	1.9	5.9	16.7	+ 13.0
Retail trade								
WIFO Business Cycle Index	- 5.2	- 13.2	- 14.1	- 8.0	- 7.8	- 7.4	- 1.9	+ 6.2
index of current business situation	- 7.3	- 8.1	- 8.2	2.2	2.8	2.1	8.4	+ 6.2
index of business expectations	- 3.2	- 18.3	- 20.0	- 18.3	- 18.5	- 16.9	- 12.3	+ 6.1

Source: WIFO-Konjunkturtest (business cycle survey).

Figure 2: Sales price expectations



Source: WIFO-Konjunkturtest (business cycle survey), seasonally adjusted.

Indices of the WIFO-Konjunkturtest (business cycle survey)

The indices of the WIFO-Konjunkturtest (business cycle survey) are calculated monthly at sector level for manufacturing, construction, services and retail trade. The surveys are conducted monthly by WIFO (manufacturing, construction and services) and Austrian Institute for SME Research (retail trade). Based on the sector indices, the "total economy indices" are calculated by weighting (weights: services 0.5, manufacturing companies 0.3, construction and retail trade 0.1 each). The summary WIFO Business Climate Index aggregates two sub-indices, which are shown separately:

- The index of current business situation assessments is based on the monthly surveys on the assessment of the current situation and the development in the last three months. It is designed as a concurrent index, which is ahead of the official short-term statistics solely due to its early availability (about two months before the current data of the official statistics).
- The index of business expectations summarises those monthly questions that refer to the development in the following months of the survey. It is designed as a leading indicator.

Details on the indices are provided by Hölzl and Schwarz (2014).

1. Economic traffic light shows green

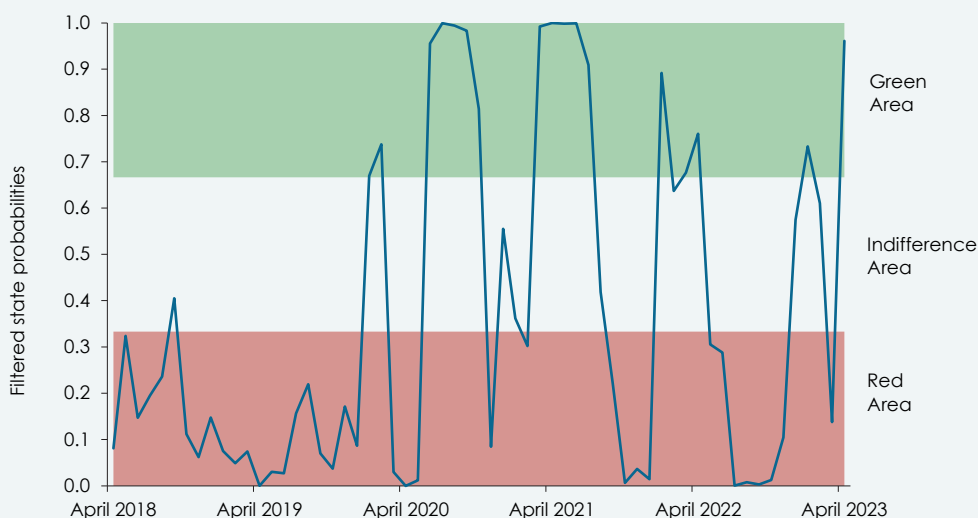
Using a Markov regime switching model, the WIFO-Konjunkturampel (economic traffic light) calculates the probability with which the current values of the WIFO-Konjunkturtest (business cycle survey) indicators correspond to an improvement or deterioration in economic assessments compared to the previous period (Glocker & Hölzl, 2015)³. The determined probability can fall into one of three categories, which are collectively referred to as the "economic traffic light":

- In the "green area" (improvement), the probability is over two-thirds that the

change in the current index values compared to the previous measuring point reflects an improvement in economic assessments.

- In the "red area" (deterioration), the probability is less than one third that the current index value represents an improvement over the previous measuring point.
- Between the "green" and the "red" area lies the indifference area. In this case, the development of the business cycle assessments cannot be clearly assigned.

Figure 3: WIFO-Konjunkturampel (economic traffic light)



Source: WIFO-Konjunkturtest (business cycle survey). The WIFO-Konjunkturampel (economic traffic light) for Austria shows the monthly probability for the phases "improvement of economic assessments" ("green area") and "deterioration of economic assessments" ("red area"). In the indifference area, the development of the business cycle assessments cannot be clearly classified.

The probability of being in an improvement regime was assessed as very high by the model at 0.96 in April 2023. This means that

the WIFO-Konjunkturampel (economic traffic light) jumped to green, after having shown red (March) and yellow (February) in the

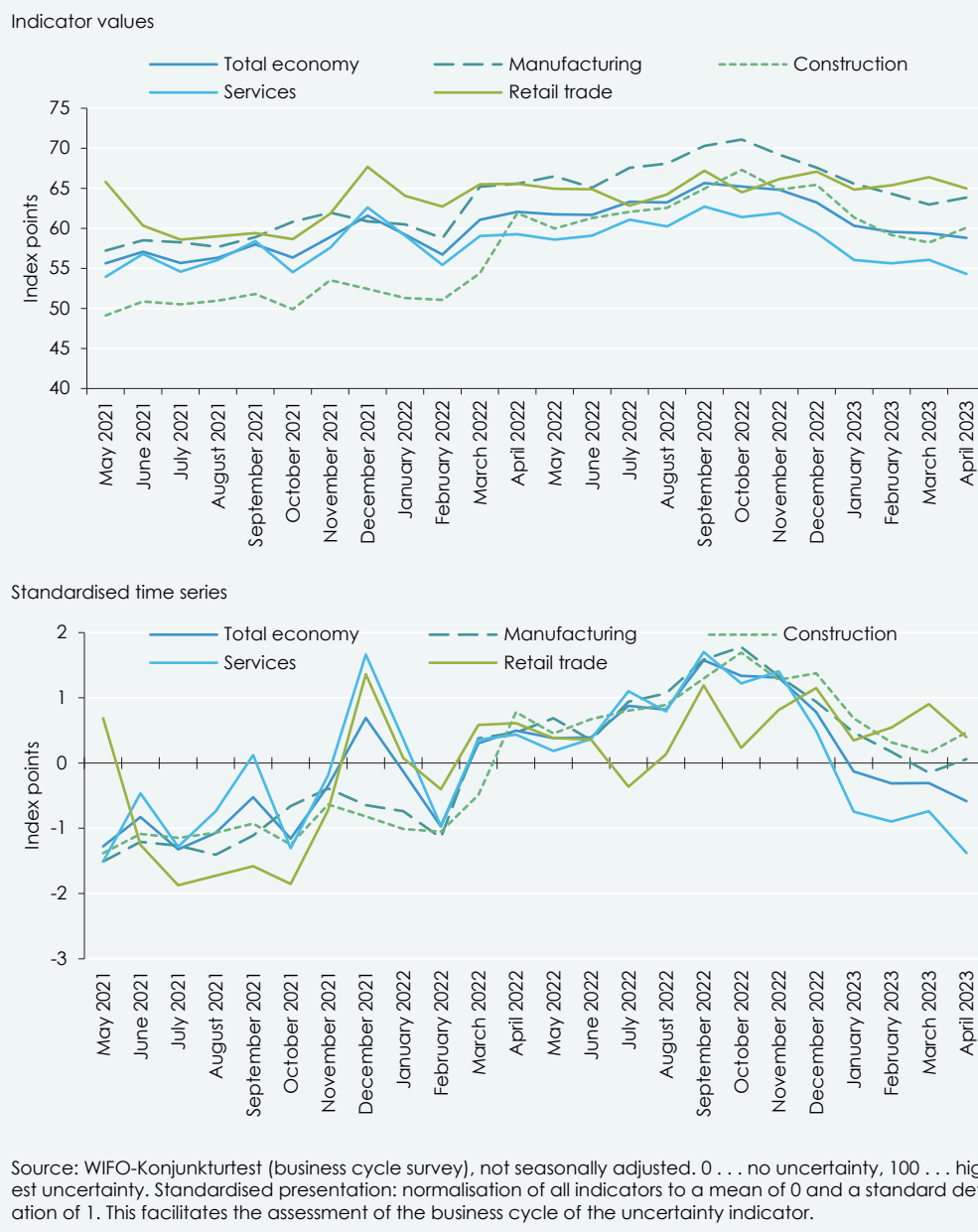
³ Deterioration is defined as the opposite state of the "improvement" state: the probability of being in the

"improvement" state (q) is 1 minus the probability of being in the "deterioration" state ($p = 1 - q$).

previous months. This improvement reflects the strong service economy and the brightening of economic expectations. Whether it already indicates a turnaround remains open in view of the very heterogeneous development of business expectations, especially because the upswing has not yet

reached the economically important sectors of manufacturing and construction. Despite declines, energy costs remain high and continue to pose a major challenge to companies in energy-intensive sectors and pose economic risks.

Figure 4: **Business uncertainty indicator for the total economy and the sectors**



2. Uncertainty still above average despite decline

Business uncertainty was lower in April 2023 than at the beginning of the year. However, compared to the previous month, it increased again somewhat in manufacturing and construction.

Since the 1980s, the WIFO-Konjunkturtest (business cycle survey) has asked companies to assess the uncertainty of the future business situation, which has an influence on their investment and employment decisions (Glocker & Hölzl, 2022). In May 2021, the wording of the corresponding question was changed in the course of its inclusion in the Joint Harmonised EU Programme of Business and Consumer Surveys. In addition, the

question on uncertainty has been asked monthly instead of quarterly since May. Due to these changes, comparisons over time to date are only possible to a limited extent (Figure 4).

The indicator of uncertainty about the future business situation has a value range from 0 (no uncertainty) to 100 (highest uncertainty). For the total economy, the value in April

(second quarter of 2023) was 58.8 points. The indicator was thus 1.5 points lower than in January (60.3 points) and also lower than in April of the previous year (62.1 points).

Due to the war in Ukraine, the rise in energy prices and uncertainty about energy supply, uncertainty increased in all sectors from March 2022, especially in export-oriented manufacturing. There, business uncertainty

in April 2023 remained above average (63.8 points) despite a decline (-1.7 points compared to January). In construction, the indicator also declined slightly in recent months (-1.3 points to 60.1 points). In the retail trade it stagnated (+0.1 points to 64.9 points). In the services sector alone, the uncertainty indicator was below the total economy average at 54.3 points (January 2023: 56.0 points).

3. Capacity utilisation increases despite declining order backlogs

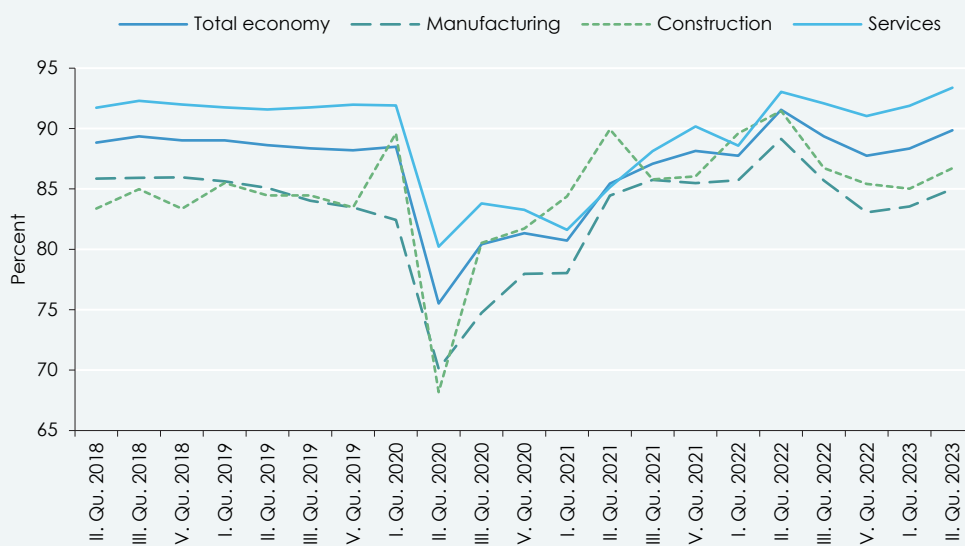
3.1 Slight increase in capacity utilisation in all sectors

Especially in sectors with high capital intensity and high capacity adjustment costs, capacity utilisation is an important business cycle indicator (Hözl et al., 2019). It is therefore surveyed as part of the WIFO-Konjunkturtest (business cycle survey) in all sectors except retail trade. Total economy capacity utilisation rose by 1.5 percentage points to 89.8 percent in April 2023 compared to

January (long-term average: 86.8 percent). Quarter-on-quarter, all sectors showed an improvement: in construction, capacity utilisation increased by 1.7 percentage points and remained above the long-term average of 84.8 percent at 86.7 percent. The smallest increase was recorded in manufacturing (+1.4 percentage points to 85.0 percent). In the services sector, capacity utilisation rose by 1.5 percentage points and at 93.4 percent was well above the long-term average (89.4 percent).

Capacity utilisation was higher in April than in January 2023 in all sectors.

Figure 5: Capacity utilisation by sector



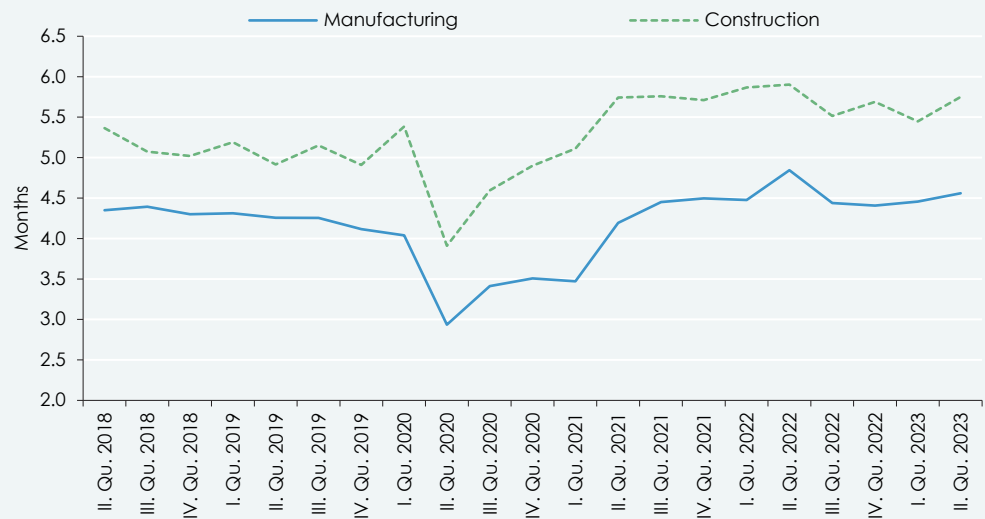
Source: WIFO-Konjunkturtest (business cycle survey), seasonally adjusted.

3.2 Secured production time stabilises

The assured production duration – measured in months – is surveyed within the framework of the quarterly survey of the WIFO-Konjunkturtest (business cycle survey) in the manufacturing and in the construction industries (Figure 6). In April, both sectors showed slight improvements.

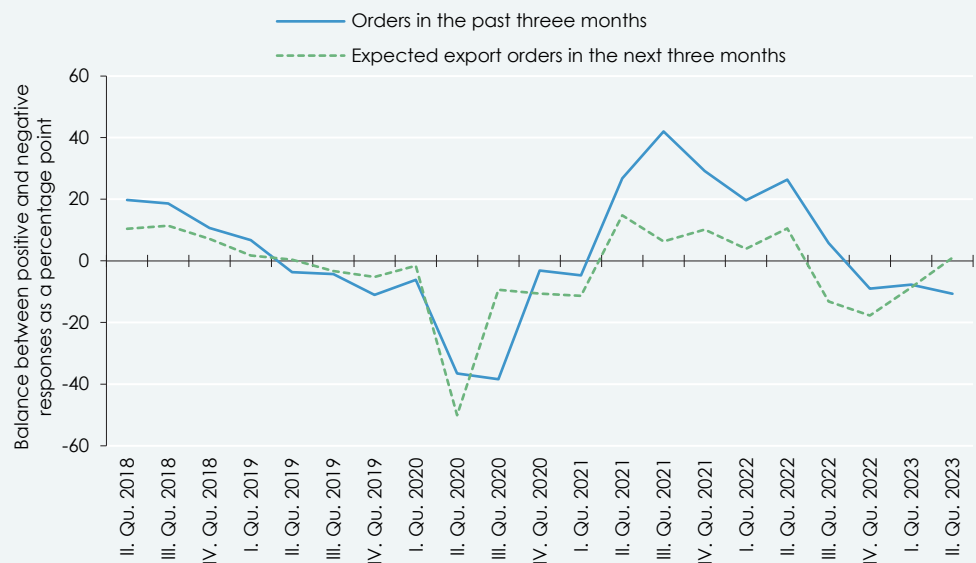
In construction, companies reported that their production activity is secured for the next 5.7 months (+0.3 months compared to January 2023). In manufacturing companies, the average assured production duration rose by 0.1 months to 4.6 months. The values in both sectors were thus above the long-term average.

Figure 6: Average secured production time in manufacturing and construction



Source: WIFO-Konjunkturtest (business cycle survey).

Figure 7: Development of overall orders and expected export orders in manufacturing



Source: WIFO-Konjunkturtest (business cycle survey).

In manufacturing, order books deteriorated recently. Expectations for foreign orders show a stabilisation at a low level.

3.3 Weak order situation in manufacturing

In manufacturing, order backlogs and expectations of incoming foreign orders are asked once a quarter as relevant indicators. The answers to these questions are aggregated into balances between the share of positive and the share of negative answers. As Figure 7 shows, the development of order books in April was weaker than in the previous months; the corresponding indicator fell

to a value of -10.7 points, thus signalling on balance a decline in new orders in the three months prior to the survey. By contrast, expectations for incoming foreign orders improved and were in positive territory on balance for the first time since April 2022: the share of pessimistic voices expecting a decline in foreign orders in the coming months fell compared to January, but the positive reports only just outweighed the negative ones by around 1 percentage point.

4. Shortage of labour force still the most important obstacle to business activity

In the WIFO-Konjunkturtest (business cycle survey), the most important obstacles to the business activity of the companies surveyed are surveyed on a quarterly basis. The companies have the option to report no impairment of their economic activity or to choose the most important obstacle from a given list:

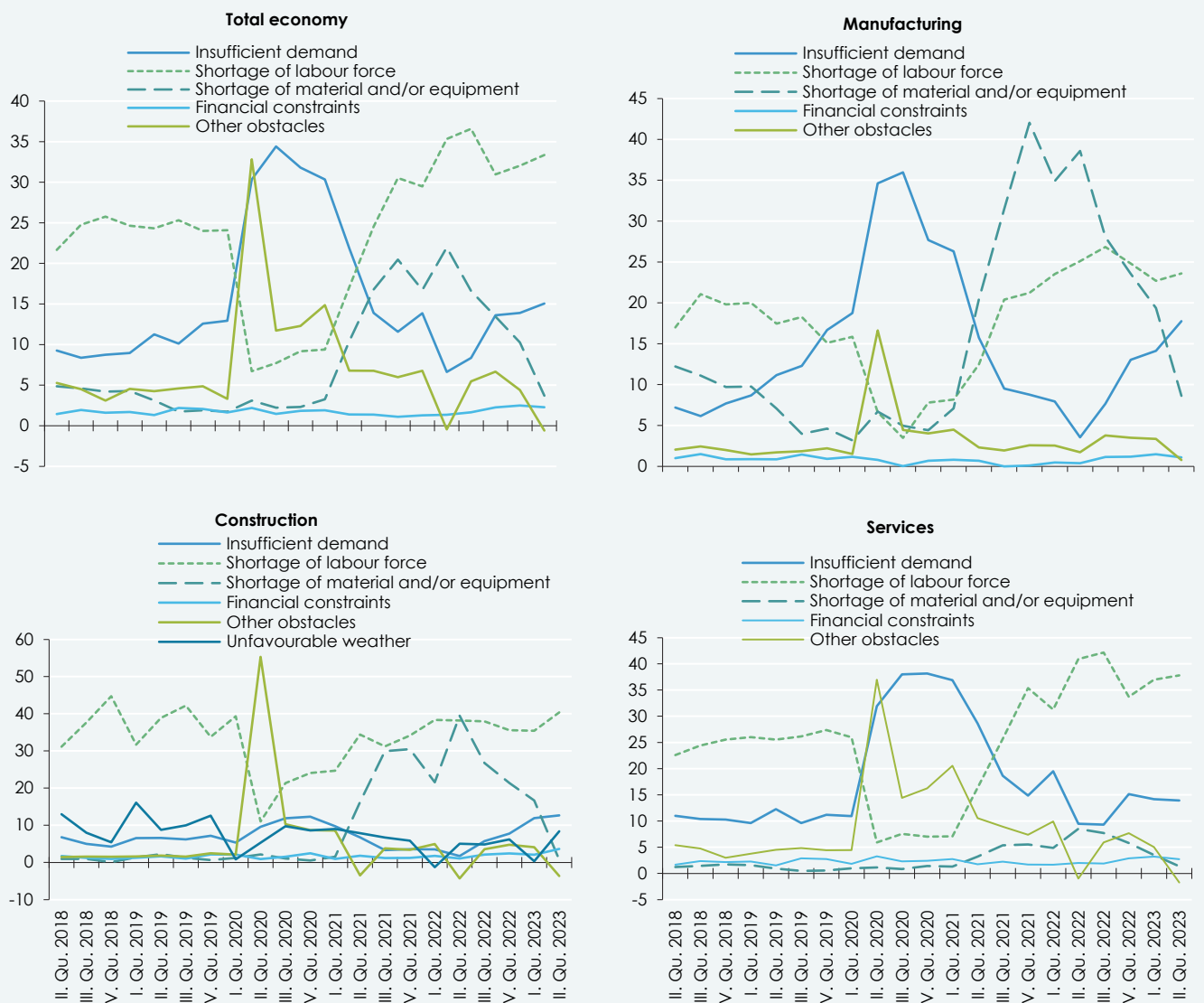
- insufficient demand (services and manufacturing companies) or lack of orders (construction),

- shortage of labour force,
- shortage of space or capacity (services) or lack of materials and/or capacity (manufacturing and construction),
- financial constraints and
- other reasons – this category reflects the impact of the COVID-19 pandemic and the public health measures to contain it, in addition to the weather impact.

In construction, the obstacle "unfavourable weather" is also surveyed⁴.

Figure 8: **Factors limiting economic activity**

As a percentage of all reports



Source: WIFO-Konjunkturtest (business cycle survey), seasonally adjusted. In order to ensure the comparability of the time series during the year, seasonally adjusted values are shown. Negative values cannot be excluded due to the seasonal adjustment procedure "Dainties". These are statistical artefacts.

⁴ In the calculation of total economy obstacles, "unfavourable weather" is classified under "other obstacles".

The COVID-19 pandemic, supply chain problems, the Ukraine war and the strong energy price increase caused the share of companies reporting obstacles to their business activities to jump from 2020 onwards. Most recently, the situation improved somewhat. In April 2023, around 48 percent of manufacturing companies (+9 percentage points compared to January), around 38 percent of construction companies (+8 percentage points), around 46 percent of service providers (+9 percentage points) and around 36 percent of retail trade companies (+1 percentage points) reported no hindrance to their business activity. In the years before the COVID-19 crisis, these figures were generally above 50 percent.

The reports on obstacles to business activity show an increase in the importance of "insufficient demand", but the most important obstacle remains the "shortage of labour force".

In manufacturing, as in the previous quarter, "shortage of labour force" was the most frequently cited obstacle to production activity in April 2023 (23.6 percent of all companies), ahead of "insufficient demand" (17.7 percent). Around 8.6 percent of manufacturing companies reported a "shortage of materials and/or capacity" as the most important constraint, 0.8 percent "other reasons" and around 1.1 percent "financial constraints" (Figure 8). Compared to January 2023, the share of manufacturing companies confronted with a "shortage of materials and/or capacity" in particular decreased significantly.

In the construction sector, 40.3 percent of the companies surveyed reported the "shortage of labour force" as the most important obstacle to production in April; for 12.7 per-

cent it was the "insufficient demand". The importance of the lack of materials or capacity decreased further compared to the previous quarter to only about 1 percent of the companies. The "unfavourable weather" was mentioned by 8.4 percent of the companies, 3.6 percent reported "financial constraints".

In the service sector, "shortage of labour force" (37.8 percent) was the dominant constraint on business activity in April, well ahead of "insufficient demand" (13.9 percent) and "financial constraints" (2.7 percent).

In the retail trade, barriers to doing business have been surveyed since July 2021. In April 2023, 27.5 percent of retailers surveyed reported "insufficient demand" as the most important constraint, 15.2 percent "shortage of labour force", 12.3 percent "supply bottlenecks" and 2.5 percent "financial constraints".

In the total economy (excluding retail trade), the "shortage of labour force" was the most frequently cited obstacle to business activity in April, as in previous quarters (33.4 percent of companies). For 15.1 percent of the companies, it was above all the "insufficient demand" that impaired the course of business. In a quarterly comparison, the "shortage of materials and/or capacity" (3.7 percent) continued to lose significance. At 2.3 percent, financial constraints continued to be of only minor importance.

5. Summary

For the total economy, the results of the WIFO-Konjunkturtest (business cycle survey) of April 2023 show an improvement in the business cycle in a quarterly comparison; accordingly, the WIFO-Konjunkturampel (economic traffic light) jumped back to green. However, the economic assessments varied greatly from sector to sector. While the indices improved above all in the service industries and in retail trade, the assessments of the situation in manufacturing, which is particularly affected by the rise in energy prices, remained rather sceptical. In the construction sector, there is a slight weakening of economic activity. However, the order books are still well filled. Capacity utilisation remained slightly above average. As in previous quarters, the shortage of

labour force was the most frequently cited obstacle to business activity in April, ahead of insufficient demand. The shortage of materials and/or capacity has become much less important in all sectors.

The share of companies that expect to have to raise their sales prices in the coming months continues to decline. The decline in energy prices since late summer 2022 reduced business uncertainty, but their high level in most sectors points to continued economic risks. In manufacturing, new orders in recent months point to a continuation of the weak business cycle, although expectations for future foreign orders have stabilised again.

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