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Economic Recovery to set in in the Second Half of 2023. Economic Outlook for 2023 and 2024

Marcus Scheiblecker, Stefan Ederer

Economic Recovery to set in in the Second Half of 2023

Economic Outlook for 2023 and 2024

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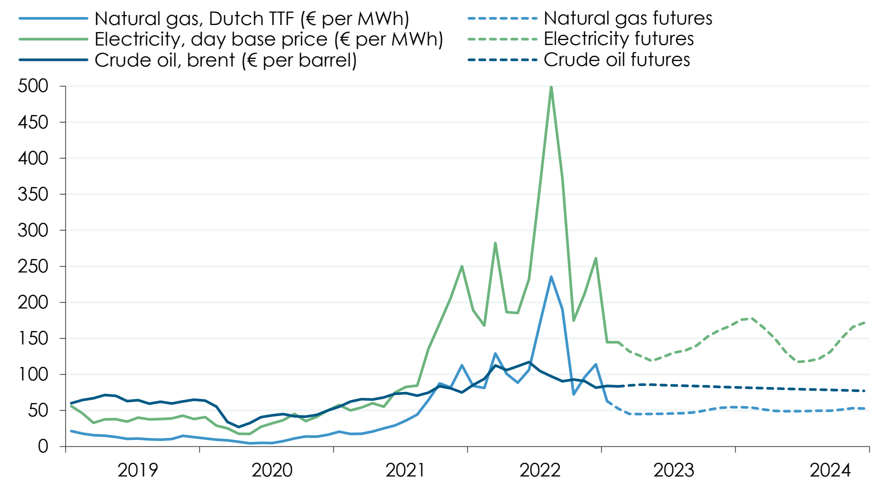
- In the second half of 2022, the slowdown in international economic activity dampened domestic real GDP growth. This adverse effect will continue in the first half of 2023.
- In Austria, economic activity will not pick up again until mid-2023, with GDP growth being subdued for the entire year (2023 +0.3 percent, real). For 2024, WIFO expects a growth of real GDP of 1.8 percent.
- Despite of easing price pressure on the energy markets, the inflation rate in Austria exceeded the previous high of 11 percent in January 2023. Although gradually decelerating, inflation will remain high for 2023 as a whole (7.1 percent). In 2024, the inflation rate is expected to fall to 3.8 percent.
- The weak economy is also reflected in the labour market. A slight temporary increase in unemployment and a slowdown in employment growth are expected in 2023. In 2024, in the wake of an improved business cycle the labour market will also regain momentum.
- Due to high inflation, tax revenues grow almost as strongly as nominal GDP in 2023. As government spending does not increase at the same pace, the deficit-to-GDP ratio falls significantly to 1.8 percent in 2023 and 2024 (–0.4 percent of GDP).

Development of energy prices



Since the last forecast in December 2022, energy prices have fallen further significantly (source: Barchart, International Monetary Fund, Intercontinental Exchange, European Energy Exchange, HWWI, WIFO).

"While the recent price drops on international energy markets are supporting economic activity, core inflation remains more persistent than expected. This is prompting central banks to tighten monetary policy more significantly, making the approaching economic upswing subdued."

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April 2023

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The international economic downturn, which unfolded in the second half of 2022 and has also affected the Austrian economy, will continue to dampen GDP growth in the first half of 2023. Around the middle of the year, the economy is forecasted to regain momentum, both in the euro area and in Austria. For the year as a whole, WIFO expects weak real GDP growth of a mere 0.3 percent. In 2024 it is projected to accelerate to 1.8 percent. Due to the significant easing of prices on the energy markets, business and household sentiment has brightened somewhat. However, domestic tariffs for household energy and thus inflation will abate with some delay.

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

International economic activity has not gained momentum since the last WIFO Economic Outlook in December 2022. In the euro area, the downturn observed in the second half of 2022 continued after the turn of the year. While world market prices for energy commodities are falling, significantly higher interest rates – as a result of a more restrictive monetary policy – are dampening economic expectations.

Atypical for the current stage of the economy is the robustness of the labour markets in the USA and Europe. In both regions, despite weaker economic output, employment momentum has slowed only slightly, keeping unemployment at a low level so far. This, along with the gradual return of business and household confidence, points to a pick-up in the international business cycle from mid-2023 onwards. In industry, order books have recently stabilised in some countries, so that industrial production will pick up momentum in the near future.

In this environment, the Austrian economy will also be able to regain its footing from the second half of the year onwards and expand production. For 2023 as a whole, however, only weak GDP growth of 0.3 percent in real terms is forecasted. Growth will accelerate to 1.8 percent in 2024.

The export-driven economic recovery is expected to spill over into many areas of the domestic economy. The construction industry, however, will not profit from this positive development. There, high price increases and the more difficult financing environment are causing demand to shrink further, especially in residential construction. WIFO therefore expects a further decline in construction investments in 2023 (–0.8 percent, real), which will even accelerate somewhat in 2024 (–1.4 percent).

Table 1: **Main results**

		2019	2020	2021	2022	2023	2024
		Percentage changes from previous year					
Gross domestic product, volume		+ 1.5	– 6.5	+ 4.6	+ 5.0	+ 0.3	+ 1.8
Manufacturing		+ 1.0	– 5.8	+ 9.5	+ 3.5	– 1.9	+ 1.6
Wholesale and retail trade		+ 3.0	– 5.9	+ 3.7	+ 2.4	+ 2.4	+ 2.7
Private consumption expenditure[1], volume		+ 0.5	– 8.0	+ 3.6	+ 4.1	+ 1.3	+ 2.0
Consumer durables		+ 0.2	– 2.2	+ 4.4	– 3.9	+ 3.0	+ 2.0
Gross fixed capital formation, volume		+ 4.5	– 5.3	+ 8.7	– 0.9	+ 0.0	+ 1.0
Machinery and equipment[2]		+ 5.3	– 7.0	+ 11.3	– 0.8	+ 0.8	+ 3.2
Construction		+ 3.6	– 3.4	+ 5.8	– 1.0	– 0.8	– 1.4
Exports, volume		+ 4.0	– 10.7	+ 9.6	+ 11.1	+ 2.0	+ 3.3
Exports of goods, fob		+ 3.5	– 7.3	+ 12.9	+ 7.5	+ 0.3	+ 3.5
Imports, volume		+ 2.1	– 9.2	+ 13.7	+ 5.7	+ 2.1	+ 3.2
Imports of goods, fob		+ 0.3	– 6.2	+ 14.2	+ 2.8	+ 0.3	+ 3.0
Gross domestic product, value		+ 3.1	– 4.1	+ 6.6	+ 10.2	+ 7.4	+ 6.1
	billion €	397.17	381.04	406.15	447.65	480.63	509.89
Current account balance	as a percentage of GDP	2.4	3.0	0.4	0.5	1.6	2.1
Consumer prices		+ 1.5	+ 1.4	+ 2.8	+ 8.6	+ 7.1	+ 3.8
GDP deflator[3]		+ 1.5	+ 2.6	+ 1.9	+ 5.0	+ 7.1	+ 4.2
Three-month interest rate	percent	– 0.4	– 0.4	– 0.5	0.3	3.9	4.7
Long-term interest rate[4]	percent	0.1	– 0.2	– 0.1	1.7	4.1	6.0
General government financial balance, Maastricht definition	as a percentage of GDP	0.6	– 8.0	– 5.9	– 2.5	– 1.8	– 0.4
Persons in active dependent employment[5]		+ 1.6	– 2.0	+ 2.5	+ 3.0	+ 0.8	+ 1.3
Unemployment rate							
Eurostat definition[6]		4.8	6.0	6.2	4.8	4.7	4.5
National definition[7]		7.4	9.9	8.0	6.3	6.4	6.1
Greenhouse gas emissions[8]		+ 1.5	– 7.7	+ 4.8	– 4.8	– 0.7	– 0.0
	million t CO_2 equivalent	79.74	73.59	77.14	73.44	72.92	72.92

Source: WIFO, ECB, Environmental Agency Austria, Federation of Social Insurances, OeNB, Public Employment Service Austria, Statistics Austria. 2023 and 2024: forecast. – [1] Including non-profit institutions serving households. – [2] Including weapons systems. – [3] Measures purely domestic inflation. – [4] 10-year central government bonds (benchmark). – [5] Excluding persons in valid employment contract receiving child care benefit or being in military service. – [6] 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. – [7] As a percentage of dependent labour force. – [8] From 2021: forecast.

Tourism, which had suffered particularly from the COVID-19 pandemic, recovered strongly in 2022. The recovery will continue in 2023, but at a slower pace. Demand from abroad should have a supporting effect, while that from the locals is likely to fall slightly due to high inflation, which is depressing household incomes in real terms. For 2024, WIFO expects a further revival in tourism demand. While demand from abroad will hardly further increase in 2024, domestic demand should expand more strongly due to declining inflation.

Despite the significant decline in import prices for energy commodities, consumer prices will continue to rise strongly in 2023 – driven by core inflation. For the year as a whole, WIFO expects the CPI to rise by 7.1 percent. As prices for consumer goods usually react with a time lag, a noticeable slowdown of the general upward price trend should set in from the second half of 2023. In 2024, consumer price inflation is forecasted to drop to 3.8 percent.

In line with the weaker business cycle, employment will grow by 0.8 percent in 2023 (+1.3 percent in 2024). Unemployment is expected to rise by 6,000 persons in 2023 and to resume its downward trend in 2024 (–10,000 persons). Correspondingly, the unemployment rate (according to national calculations) will rise from 6.3 percent (2022) to 6.4 percent (2023) and should fall to 6.1 percent in 2024. This would put it at its lowest level since 2008.

In 2023, persistently high inflation again leads to a significant increase in tax revenues, especially from value-added tax. As a result, total government revenue grows almost as strongly as nominal GDP, consequently, the revenue-to-GDP ratio falls only slightly. Expenditure, however, does not increase at the same rate. As a result, the budget deficit falls to 1.8 percent of nominal GDP in 2023 (2022 –2.5 percent). A further decline to 0.4 percent of GDP is forecasted for 2024.

2. Development of the global economy

2.1 Monetary policy dampens economic expectations

Since the last WIFO Economic Outlook in December 2022, prices for internationally traded energy commodities have fallen further. For 2023 and 2024, WIFO expects international wholesale prices for natural gas and electricity to be only half as high as in its last forecast. The forecasted price of crude oil were left essentially unchanged at 84 $ and 80 $ per barrel, but the projected appreciation of the euro against the dollar reduces the price in euro terms.

Austria's trading partners will see only weak growth of real GDP in 2023.

Despite falling energy prices, which were responsible for rising global inflation and weak economic growth, WIFO also largely maintains its assumptions regarding the international environment. Real GDP in the USA, China, the EU and the euro area has been adjusted only slightly, by a maximum of 0.1 percentage point, for 2023 and 2024. This still assumes a very weak development of the trading partners. While energy prices have become less important as a driver of inflation, core inflation has accelerated markedly. Energy prices are being passed through to other goods and services faster and more strongly than assumed in the last forecast. This is prompting central banks to raise their key interest rates more sharply, which is dampening the economy. In addition to negative effects of this on investment, the tightening of monetary policy is also weighing on demand for consumer goods.

Table 2: **International economy**

	Percentage shares 2021		2019	2020	2021	2022	2023	2024
	Austria's exports of goods	World GDP[1]	GDP volume, percentage changes from previous year					
EU 27	68.1	14.8	+ 1.8	− 5.6	+ 5.4	+ 3.5	+ 0.6	+ 1.8
Euro area	51.9	10.5	+ 1.6	− 6.1	+ 5.4	+ 3.5	+ 0.7	+ 1.6
Germany	30.2	3.3	+ 1.1	− 3.7	+ 2.6	+ 1.8	− 0.1	+ 1.7
Italy	6.8	1.9	+ 0.5	− 9.0	+ 7.0	+ 3.7	+ 0.6	+ 1.0
France	3.8	2.3	+ 1.8	− 7.8	+ 6.8	+ 2.6	+ 0.8	+ 1.4
CEEC 5[2]	15.3	2.2	+ 4.0	− 3.3	+ 6.0	+ 4.1	− 0.3	+ 2.7
Hungary	3.7	0.2	+ 4.9	− 4.5	+ 7.1	+ 4.6	− 0.5	+ 2.9
Czech Republic	3.6	0.3	+ 3.0	− 5.5	+ 3.6	+ 2.4	− 0.5	+ 2.7
Poland	4.0	1.0	+ 4.4	− 2.0	+ 6.8	+ 4.9	− 0.4	+ 2.7
USA	6.7	15.7	+ 2.3	− 2.8	+ 5.9	+ 2.1	+ 1.0	+ 1.5
Switzerland	5.2	0.5	+ 1.1	− 2.4	+ 4.2	+ 2.1	+ 0.6	+ 2.0
UK	2.7	2.3	+ 1.6	− 11.0	+ 7.6	+ 4.0	− 0.5	+ 1.2
China	2.9	18.6	+ 6.0	+ 2.2	+ 8.4	+ 3.0	+ 4.3	+ 5.0
Total[3]								
PPP-weighted[4]		52	+ 3.4	− 2.2	+ 6.7	+ 2.9	+ 2.0	+ 2.8
Export weighted[5]	86		+ 1.9	− 5.1	+ 5.6	+ 3.3	+ 0.7	+ 1.9
Market growth[6]			+ 1.7	− 6.1	+ 10.8	+ 5.6	+ 0.6	+ 3.7
Forecast assumptions								
Crude oil prices								
Brent, $ per barrel			64.1	43.3	70.7	98.7	84	80
Natural gas price								
Dutch TTF, € per MWh			13.6	9.5	45.9	121.5	50	51
Electricity price Austria								
Base, € per MWh			40.1	33.2	107.2	261.6	140	148
Peak, € per MWh			43.1	36.0	116.8	275.5	160	177
Exchange rate								
$ per €			1.120	1.141	1.184	1.054	1.09	1.20
Key interest rate								
ECB main refinancing rate[7], percent			0.0	0.0	0.0	0.6	4.0	4.5
10-year government bonds yields Germany, percent			− 0.3	− 0.3	− 0.5	− 0.4	1.1	3.5

Source: WIFO, Bureau of Economic Analysis, European Energy Exchange, Eurostat, ECB, HWWI, IMF, Intercontinental Exchange, OECD, Statistics Austria. 2023 and 2024: forecast. – [1] PPP-weighted. – [2] Czech Republic, Hungary, Poland, Slovenia, Slovakia. – [3] EU 27, UK, USA, Switzerland, China. – [4] Weighted by GDP at purchasing power parities in 2021. – [5] Weighted by shares of Austrian goods exports in 2021. – [6] Real import growth of trading partners, weighted by shares of Austrian goods exports. – [7] Minimum bid rate.

2.2 Continued economic weakness in the first half of 2023

Since the second half of 2022, economic output has barely increased or has even declined in many economic areas. In the euro area, GDP largely stagnated in the fourth quarter of 2022. Both private household consumption expenditure and gross fixed capital formation declined significantly. The energy crisis and the accompanying high inflation dampened consumer sentiment noticeably from spring 2022 onwards, causing private households to cut back on spending. Rising interest rates led to a sharp decline in construction investment, especially in residential construction. Export momentum also weakened markedly. In Germany, overall economic output declined in the fourth quarter.

In the USA, however, economic output continued to grow in the second half of 2022, with GDP rising strongly again in the fourth quarter. Private household consumption lost some momentum but continued to contribute to real GDP growth, while exports and investment declined. Construction in particular contracted significantly in the second half of 2022. As in the euro area, higher interest rates dampened residential investment in the USA. The fact that GDP still grew in the fourth quarter can also be attributed to a high inventory build-up and the sharp decline in imports, which cushioned the effects on production of other demand components. However, leading indicators point to a period of weakness ahead.

In China, the economy continued to be severely impacted by the COVID-19 pandemic in 2022. After strong growth in the summer, reflecting a rebound from the restrictions in spring, GDP stagnated in the fourth quarter. The Chinese government's zero-COVID policy led to widespread restrictions on mobility and disruptions to production also in October and November. Only towards the end of the year did the government reversed its course and lifted most of the restrictions. As a result, the number of infections increased drastically in December 2022, also because the Chinese population's vaccination coverage was low. This again led to production losses and contributed to the stagnation of economic output in the fourth quarter.

The slowdown of the global economy and especially the stagnation in China resulted in a marked moderation in world trade in the second half of 2022. According to the Centraal Planbureau (CPB), international trade in goods even contracted significantly in the fourth quarter. Global industrial production also declined, but less sharply than global trade. The supply chain problems that had hampered the global economy in 2020 and 2021 largely dissipated in the second half of 2022, and logistics prices also fell to almost the same level as in 2019. This allows companies to reduce their still high order backlogs, now.

2.3 Falling energy prices and weak economic activity slow inflation

World market prices for energy and raw materials (according to the HWWI), which had risen markedly from the second quarter of 2021, have sharply receded from autumn 2022 onwards. Natural gas prices in particular, which had been volatile as a result of the Ukraine war, have recently fallen back to levels similar to those seen in summer 2021. The low consumption of natural gas in recent months due to the mild winter, which left storage facilities unusually full for spring, was a major factor in the fall in prices. In addition, natural gas supplies from Russia via Ukraine remained upright, while some countries developed alternative sources of supply for natural gas. Crude oil, food and industrial commodities have also become somewhat cheaper since the summer of 2022. This likely reflects lower global demand for commodities as a result of the economic slowdown.

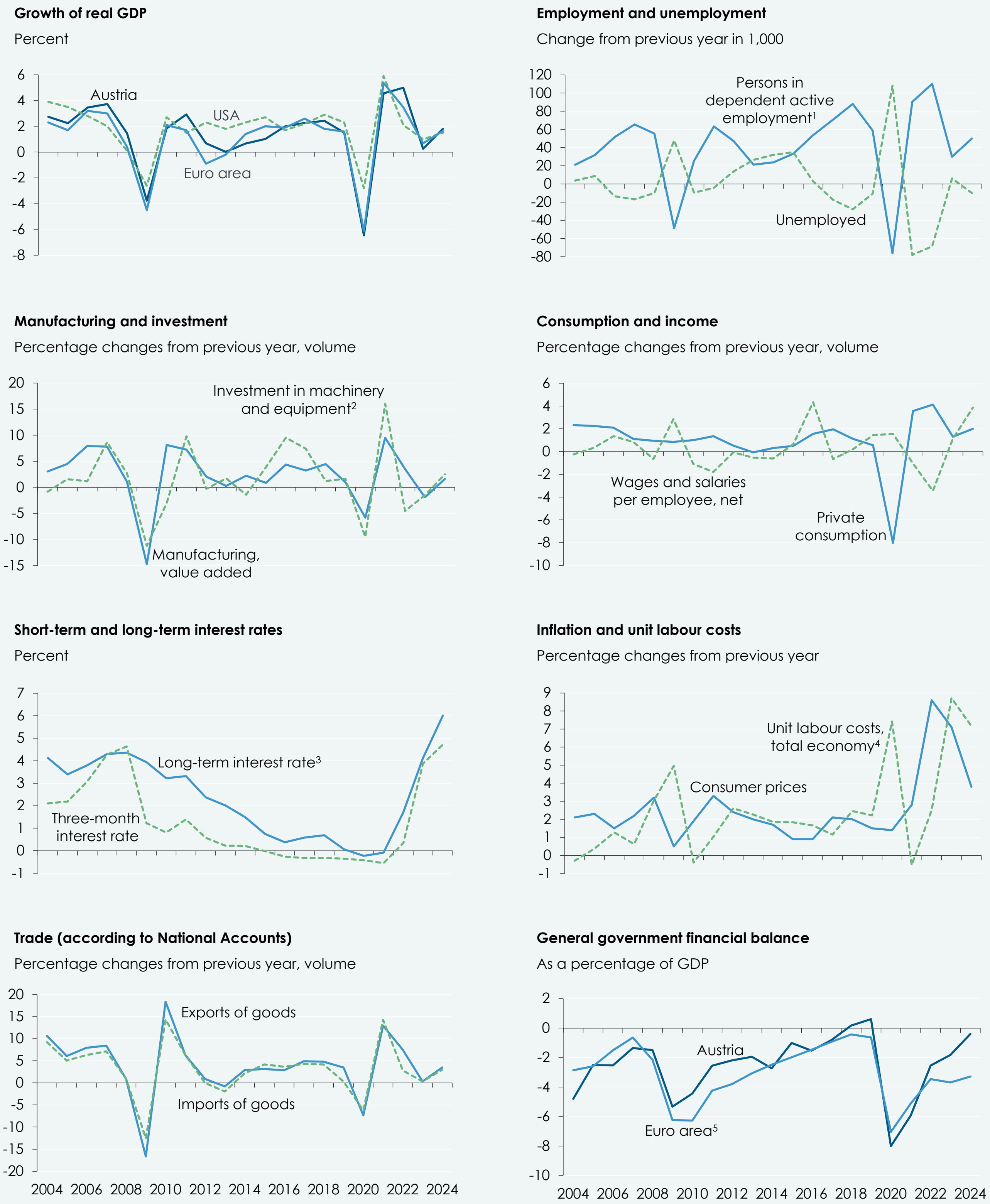
Leading indicators point to an imminent period of weakness in the USA.

High energy prices also drove consumer price inflation in the euro area. It accelerated significantly from the summer of 2021 and reached its preliminary peak of 10.6 percent in October 2022. Since then, inflation has declined by around 2 percentage points until February 2023. As raw materials and energy commodities became cheaper, the contribution of the energy components to consumer price inflation declined steadily. In contrast, price increases for food, industrial goods and services accelerated markedly, pushing core inflation in the euro area up further to 5.6 percent at last count.

In the USA, on the other hand, the rise in inflation already started in spring 2021 and was primarily driven by the prices of industrial goods and services. This was mainly due to the strong demand for consumer goods during the COVID-19 pandemic. Inflation in the USA had already peaked in June 2022; since then, consumer price inflation has slowed by around 2½ percentage points. Core inflation, on the other hand, has been falling only slowly since the summer of 2022 and stood at 5.5 percent in February 2023.

Commodities and energy futures prices have dropped significantly since the summer of 2022. Futures prices for natural gas (Title Transfer Facility – TTF) for the period from March 2023 to the end of 2024 are around 50 € per MWh, while those for Brent crude oil are below 80 $ per barrel. Wholesale electricity prices on the European market, which had risen in line with natural gas prices, have also fallen significantly since autumn 2022. This dampens consumer price inflation over the forecast period.

Figure 1: **Indicators of economic performance**



Source: WIFO. 2023 and 2024: forecast. – [1] 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. – [2] Including weapons systems. – [3] 10-year central government bonds (benchmark). – [4] Including short-time work grants. – [5] Source: European Commission.

2.4 Strong rise in interest rates in the industrialised countries

In the face of high inflation, central banks in industrialised countries tightened monetary policy significantly in 2022. In the USA, the federal funds rate was already raised at the beginning of March 2022 and has since risen by 4.75 percentage points. The European Central Bank did not raise its main refinancing rate until July 2022, followed by interest rate steps of 0.5 and 0.75 percentage points each in September, November and December 2022, as well as in February and March 2023, to 3.5 percent at last count. In addition, the ECB decided to reduce the Eurosystem's holdings of securities under its asset purchase programmes. Net purchases under the Pandemic Emergency Purchase Programme (PEPP) were already discontinued at the end of April 2022.

The increase in key interest rates led to a rise in secondary market yields in the euro area. In addition, the interest rate differentials between the countries of the monetary union widened noticeably until the summer of 2022. However, they narrowed again in the second half of the year and remained largely stable since then. This is likely to be partly attributable to the newly introduced Transmission Protection Instrument (TPI), which has been available since July 2022 to prevent unwarranted and disorderly market dynamics. It aims to prevent excessive interest rate differentials between the euro countries, like those observed between 2010 and 2012 in the wake of the financial market and sovereign debt crisis. So far, however, no purchases of securities have been made within the framework of the TPI; rather, its announcement is likely to have calmed the markets.

The latest monetary policy decision of the European Central Bank is based on the expectation that inflation in the euro area will decline noticeably in the course of 2023 due to falling energy prices. However, the ECB is expected to continue raising key interest rates in spring and summer of 2023. The US Federal Reserve is also expected to set at least one more interest rate step in 2023. The only slow decline in inflation, especially core inflation, is unlikely to create room for lowering policy rates until the end of 2024.

2.5 Improvement in the international business cycle as of mid-2023

Private household and business sentiment, which had deteriorated dramatically since spring 2022, brightened somewhat towards the end of the year as the economy performed better than expected in many places. In the European countries, the security of natural gas supplies and the absence of energy rationing may also have played a role.

Labour markets have been robust since the second half of 2022 despite economic weakness. Unemployment rates, which had fallen after the COVID-19 pandemic ended, have not yet risen again in most euro countries. This may indicate that the current economic slowdown is regarded as temporary. Companies are trying to retain their workforce to avoid having to recruit again in an environment of continued labour shortages.

Interest rates will remain high in the medium term.

In many euro area countries, the economy is to be expected to have barely grown or even contracted in the first quarter of 2023. Although inflation will continue to decelerate, due to the significant reduction in energy prices in 2023 and 2024, interest rates will remain high for a longer period of time. Moreover, energy commodities are likely to remain more expensive than in the years before the outbreak of the COVID-19 pandemic until the end of the forecast period.

With labour markets robust and business and household confidence gradually recovering, economic activity should pick up from mid-2023 onwards. Especially in industry, order books have recently stabilised in some countries, implying that this sector is gaining momentum as well.

From the middle of the year, the USA should emerge from the weak phase expected for the first half of 2023, too. However, this will depend crucially on monetary policy and thus on core inflation. Although core inflation has declined significantly since peaking in September 2022, the decline in January and February 2023 was only modest. Given the high interest rate level, the economic recovery is likely to be only weak. For the USA, WIFO expects a real GDP growth of 1 percent in 2023, barely more than in the euro area (+0.7 percent). In 2024, the two economies are forecasted to grow at roughly the same pace (USA +1.5 percent, euro area +1.6 percent).

In China, the economy is expected to pick up significantly from this spring onwards, as the last remaining COVID-19 measures are lifted and the wave of infections subsides. Global trade in goods is accelerating, supported by the resolution of supply chain problems.

3. Austrian business cycle

After overcoming the COVID-19 crisis, the Austrian economy strongly recovered in 2021 and 2022. For the year as a whole, GDP grew by 5 percent (in real terms) and thus even slightly more than in 2021 (+4.6 percent). Domestic production strongly grew

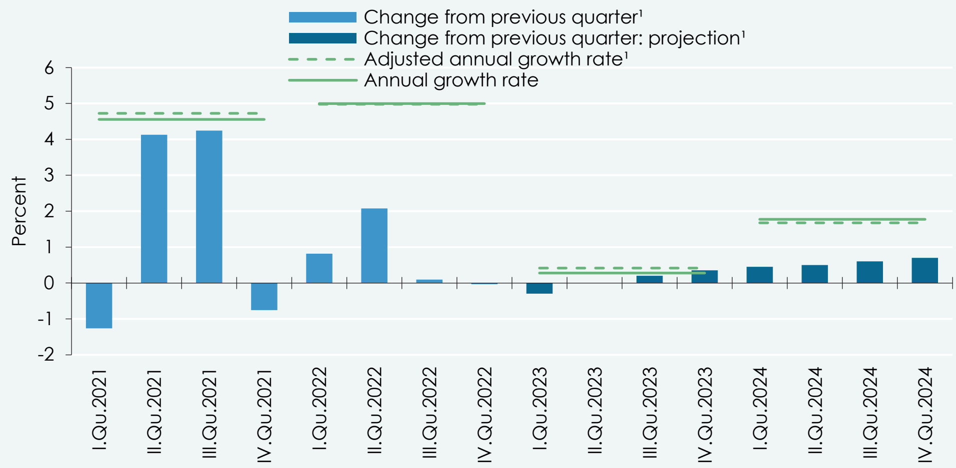
After two years of very strong growth, the domestic economy will expand only weakly in 2023.

until the middle of the year, but then suffered from the global economic downturn as a result of soaring inflation and the Ukraine war.

In the second quarter of 2022, Austria's GDP grew by 2.1 percent as compared to the previous period, but barely increased in the third quarter (+0.1 percent) and stagnated in the fourth quarter (0.0 percent). Although leading indicators have improved slightly recently, the domestic economy is likely to have contracted at the beginning of 2023. In the second quarter, however, economic activity is expected to stabilise and gradually recover is expected to set in.

Figure 2: **Cyclical profile of Austria**

GDP, volume



Source: WIFO. – [1] Seasonally and calendar adjusted according to Eurostat.

Table 3: **Technical breakdown of the real GDP growth forecast**

		2021	2022	2023	2024
Growth carry-over[1]	percentage points	+ 0.9	+ 2.5	+ 0.5	+ 0.4
Growth rate during the year[2]	percent	+ 6.4	+ 3.0	+ 0.2	+ 2.3
Annual growth rate	**percent**	**+ 4.6**	**+ 5.0**	**+ 0.3**	**+ 1.8**
Adjusted annual growth rate[3]	percent	+ 4.7	+ 5.0	+ 0.4	+ 1.7
Calendar effect[4]	percentage points	+ 0.0	– 0.1	– 0.1	+ 0.1

Source: WIFO. 2023 and 2024: forecast. – [1] 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. – [2] 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. – [3] Seasonally and calendar adjusted according to Eurostat. Comparative figure to the OeNB's economic forecast. – [4] 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.

Table 4: **Revision of the growth forecast**

GDP, volume

		2022	2023	2024
WIFO Economic Outlook December 2022	percent	+ 4.7	+ 0.5	+ 1.7
Data revisions[1]	percentage points	+ 0.1	– 0.0	± 0.0
Forecast error for the fourth quarter of 2022[2]	percentage points	+ 0.2	+ 0.6	± 0.0
Forecast revision	percentage points	.	– 0.6	+ 0.0
WIFO Economic Outlook March 2023	**percent**	**+ 5.0**	**+ 0.4**	**+ 1.7**

Source: WIFO. Based on seasonally and working-day adjusted values according to Eurostat. – [1] Revision of quarterly national accounts by Statistics Austria compared with the data available for the preparation of the December 2022 WIFO economic forecast. – [2] At the time of preparing the December 2022 WIFO economic forecast, no Statistics Austria figures had yet been published for this quarter.

3.1 First signs of a revival of the export economy

The marked slowdown in the global economy weighed on export demand and thus on Austrian domestic goods production in 2022. However, the slump in sentiment is only partially reflected in the production data. Value added in manufacturing was 1 percent lower in the third quarter than in the previous period, but stabilised in the fourth quarter.

While the WIFO-Konjunkturtest (business cycle survey) of March 2023 showed a slight deterioration in the assessment of the current situation in manufacturing companies, with the corresponding index tending to stagnate since November 2022, expectations have brightened again. This trend should continue. WIFO therefore expects production to pick up from mid-2023.

Given the difficult environment, goods exports are expected to grow by only 0.3 percent (in real terms) in 2023. In 2024, export growth accelerates to 3.5 percent. Accordingly, the value added of goods production falls by 1.9 percent in real terms in 2023 and rises again by 1.6 percent in 2024.

The international economic recovery will improve Austria's real GDP growth in 2024.

Table 5: **Expenditure on GDP**
Volume (chain-linked series)

	2021	2022	2023	2024	2021	2022	2023	2024
	Billion € (reference year 2015)				Percentage changes from previous year			
Final consumption expenditure	258.78	268.52	271.16	275.49	+ 4.8	+ 3.8	+ 1.0	+ 1.6
Households[1]	181.82	189.33	191.79	195.62	+ 3.6	+ 4.1	+ 1.3	+ 2.0
General government	76.86	79.11	79.26	79.74	+ 7.8	+ 2.9	+ 0.2	+ 0.6
Gross capital formation	99.91	97.87	96.36	98.33	+ 11.4	– 2.0	– 1.5	+ 2.0
Gross fixed capital formation	95.38	94.53	94.57	95.48	+ 8.7	– 0.9	+ 0.0	+ 1.0
Machinery and equipment[2]	31.79	30.35	29.90	30.64	+ 16.0	– 4.5	– 1.5	+ 2.5
Construction	41.97	41.55	41.22	40.64	+ 5.8	– 1.0	– 0.8	– 1.4
Other investment[3]	21.66	22.64	23.55	24.49	+ 5.1	+ 4.5	+ 4.0	+ 4.0
Domestic demand	358.97	366.03	367.17	373.49	+ 6.5	+ 2.0	+ 0.3	+ 1.7
Exports	211.50	234.99	239.66	247.48	+ 9.6	+ 11.1	+ 2.0	+ 3.3
Travel	6.32	11.81	13.07	13.10	– 32.5	+ 86.9	+ 10.7	+ 0.2
Minus imports	205.92	217.71	222.31	229.34	+ 13.7	+ 5.7	+ 2.1	+ 3.2
Travel	5.34	7.72	7.77	7.88	+ 60.0	+ 44.6	+ 0.5	+ 1.4
Gross domestic product	365.16	383.40	384.40	391.34	+ 4.6	+ 5.0	+ 0.3	+ 1.8
Value	406.15	447.65	480.63	509.89	+ 6.6	+ 10.2	+ 7.4	+ 6.1

Source: WIFO, Statistics Austria. 2023 and 2024: forecast. – [1] Including non-profit institutions serving households. – [2] Including weapon systems. – [3] Mainly intellectual property products (research and development, computer programmes, copyrights).

3.2 Continued deterioration in construction activity

Demand for construction investment had expanded strongly from 2017 onwards. In 2020, the upswing in construction was only briefly interrupted by the COVID-19 crisis, but it is likely to have ended in 2022. While construction demand still grew in the first quarter, it weakened significantly in the further course of the year. For 2022 as a whole, a decline of 1 percent in real terms was recorded. According to the WIFO-Konjunkturtest (business cycle survey), construction companies have become increasingly pessimistic about their current business situation since spring 2022. In the March 2023 survey, the assessment worsened again. Expectations are also much gloomier. Construction activity is therefore likely to deteriorate further. The weakness in residential construction in particular is having a negative impact.

On the one hand, the strong increase in construction prices on the supply side is dampening demand. On the other hand, financing conditions have worsened noticeably due to the rise in interest rates and the Regulation for sustainable lending standards for residential real estate financing (KIM-V), which has been in force since August 2022. WIFO therefore expects a further decline in real construction investments of 0.8 percent in 2023, which will even accelerate somewhat in 2024 (–1.4 percent).

3.3 Sluggish decline in the inflation rate

The inflation rate in Austria reached a new high of 11 percent in October 2022, fell in the following two months in line with the international trend, but shot up again to 11.2 percent in January 2023. This was followed by a slight decline to 10.9 percent in February.

According to Statistics Austria, one of the main price drivers is household energy, despite easing price pressure; it was a good 37 percent more expensive in February than in the previous year (January +51.9 percent). Gas in particular was significantly more expensive (+63.5 percent); the price of heating oil rose by almost 30 percent year-on-year.

High interest rates are weighing on domestic construction demand.

In the case of electricity, the price increase slowed down more strongly to 3.1 percent due to the electricity price brake, after the increase in January had still been over 13½ percent.

In addition to household energy, food also became considerably more expensive. In February, the year-on-year price increase was 16.5 percent. Restaurants and hotels (+13.4 percent) and transport (+10.9 percent) were also significantly more expensive. Fuels cost a good 13 percent more in February 2023, and flight tickets almost 60 percent more than a year earlier.

Table 6: **Productivity**

	2019	2020	2021	2022	2023	2024
	Percentage changes from previous year					
Total economy						
Real GDP	+ 1.5	– 6.5	+ 4.6	+ 5.0	+ 0.3	+ 1.8
Hours worked[1]	+ 1.6	– 8.7	+ 4.8	+ 2.9	+ 0.4	+ 1.0
Productivity[2]	– 0.1	+ 2.5	– 0.2	+ 2.0	– 0.1	+ 0.8
Employment[3]	+ 1.3	– 1.9	+ 2.4	+ 3.2	+ 0.7	+ 1.2
Manufacturing						
Production[4]	+ 1.0	– 5.8	+ 9.5	+ 3.5	– 1.9	+ 1.6
Hours worked[5]	+ 0.9	– 6.3	+ 5.1	+ 2.2	– 1.1	+ 0.6
Productivity[2]	+ 0.0	+ 0.5	+ 4.2	+ 1.3	– 0.8	+ 1.0
Employees[6]	+ 1.7	– 1.4	+ 0.4	+ 2.2	± 0.0	+ 0.6

Source: WIFO, Statistics Austria. 2023 and 2024: forecast. – [1] Total hours worked by persons employed, National Accounts definition. – [2] Production per hour worked. – [3] Employees and self-employed, National Accounts definition (jobs). – [4] Gross value added, volume. – [5] Total hours worked by employees. – [6] National Accounts definition (jobs).

Table 7: **Gross value added**

At basic prices

	2021	2022	2023	2024	2021	2022	2023	2024
	Billion € (reference year 2015)				Percentage changes from previous year			
Volume (chain-linked series)								
Agriculture, forestry and fishing	4.29	4.49	4.56	4.56	+ 4.5	+ 4.7	+ 1.5	± 0.0
Manufacturing including mining and quarrying	68.46	71.06	69.71	70.83	+ 9.6	+ 3.8	– 1.9	+ 1.6
Electricity, gas and water supply, waste management	9.83	10.22	10.14	10.26	– 2.4	+ 4.0	– 0.8	+ 1.2
Construction	19.80	20.08	19.88	19.58	+ 2.6	+ 1.4	– 1.0	– 1.5
Wholesale and retail trade	39.44	40.38	41.35	42.47	+ 3.7	+ 2.4	+ 2.4	+ 2.7
Transportation	17.02	18.86	17.35	17.70	+ 2.5	+ 10.8	– 8.0	+ 2.0
Accommodation and food service activities	8.89	13.38	13.66	14.20	– 13.2	+ 50.5	+ 2.1	+ 4.0
Information and communication	13.37	14.06	14.13	14.25	+ 3.5	+ 5.2	+ 0.5	+ 0.8
Financial and insurance activities	15.21	15.51	15.89	16.46	+ 1.1	+ 1.9	+ 2.4	+ 3.6
Real estate activities	31.35	32.04	32.36	32.52	+ 1.0	+ 2.2	+ 1.0	+ 0.5
Other business activities[1]	33.46	35.74	36.10	37.11	+ 6.8	+ 6.8	+ 1.0	+ 2.8
Public administration[2]	56.78	57.99	58.86	59.45	+ 5.2	+ 2.1	+ 1.5	+ 1.0
Other service activities[3]	7.56	8.03	8.15	8.21	+ 2.4	+ 6.1	+ 1.5	+ 0.8
Total gross value added[4]	324.35	341.52	342.07	346.34	+ 4.0	+ 5.3	+ 0.2	+ 1.5
Gross domestic product at market prices	365.16	383.40	384.40	390.47	+ 4.6	+ 5.0	+ 0.3	+ 1.8

Source: WIFO, Statistics Austria. 2023 and 2024: forecast. – [1] Professional, scientific and technical activities; administrative and support service activities (NACE M and N). – [2] Including defence, compulsory social security, education, human health and social work activities (NACE O to Q). – [3] Arts, entertainment and recreation; other service activities; activities of households (NACE R to U). – [4] Before deduction of subsidies and attribution of taxes on products.

So far, price pressures from abroad have been pushing up inflation. However, this will reverse in the current year. In contrast to the WIFO Economic Outlook of December 2022, wholesale prices for gas and electricity in 2023 are expected to be around 50 percent below the previous year's level on average. Although the price of crude oil on a dollar basis will remain as high as assumed in December, the appreciation of the euro against the dollar will lead to a price reduction. Overall, import prices for goods are projected to fall by 2½ percent in 2023 and further in 2024 (–1 percent). Export prices for goods will also decline, but to a lesser extent, which will improve the terms of trade again.

After peaking at the beginning of the year (around 11 percent), the inflation rate will fall in the further course of 2023, with the decline intensifying in the second half of the year. Mineral oil products are likely to make a negative contribution to inflation as early as March. For food and manufactured goods, inflation should start to ease in the middle of the year, as producer prices for consumer goods have already been declining since the end of 2022. Prices for household energy will recede noticeably from mid-2023 onwards. A comparatively stable inflation contribution is forecast for services. At the end of 2023, the inflation rate is assumed to be between 4 and 5 percent. For 2023 as a whole, WIFO expects the CPI to rise by 7.1 percent. Compared to 2022 (+8.6 percent), this initially means a slight easing. Only in 2024 the inflation rate should fall more sharply to 3.8 percent.

Table 8: **Private consumption, income and prices**

	2019	2020	2021	2022	2023	2024
	Percentage changes from previous year					
Private consumption expenditure[1]	+ 0.5	– 8.0	+ 3.6	+ 4.1	+ 1.3	+ 2.0
Durable goods	+ 0.2	– 2.2	+ 4.4	– 3.9	+ 3.0	+ 2.0
Non-durable goods and services	+ 0.6	– 8.6	+ 3.5	+ 5.0	+ 1.1	+ 2.0
Private household disposable income	+ 1.6	– 2.9	+ 1.9	+ 0.7	+ 0.2	+ 3.5
	As a percentage of disposable income					
Household saving ratio						
Including adjustment for the change in pension entitlements	8.6	13.3	12.0	8.9	8.0	9.3
Excluding adjustment for the change in pension entitlements	8.0	12.8	11.4	8.4	7.4	8.8
	Percentage changes from previous year					
Loans to domestic non-banks (end of period)	+ 4.4	+ 3.8	+ 6.5	+ 5.0	+ 5.2	+ 4.7
Consumer prices						
National	+ 1.5	+ 1.4	+ 2.8	+ 8.6	+ 7.1	+ 3.8
Harmonised	+ 1.5	+ 1.4	+ 2.8	+ 8.6	+ 7.3	+ 3.5
Core inflation[2]	+ 1.7	+ 2.0	+ 2.3	+ 5.1	+ 6.7	+ 5.0

Source: WIFO, OeNB, Statistics Austria. 2023 and 2024: forecast. The values for private household disposable income and the saving rate have been changed since the publication of the economic forecast on 7 October 2022 due to adjustments in the accounting of the climate bonus. – [1] Private households including non-profit institutions serving households. – [2] Excluding energy, food, alcohol and tobacco.

3.4 Recovery in tourism continues

Tourism, which was particularly hard hit by the COVID-19 pandemic, recovered noticeably in 2022. After the slump of real value added in accommodation and food service activities in 2020 and 2021, an increase of more than 50 percent followed in 2022. In 2023, the recovery is expected to continue, but at a much slower pace (+2.1 percent). Demand from abroad, which is forecasted to increase by more than 10 percent in real terms in 2023, should provide support. Domestic demand had already begun to recover in 2021. In 2023, however, the development of private households' real disposable income will be burdened by high inflation. This is also reflected in the weak growth of tourism imports (+0.5 percent, real).

For 2024, WIFO expects a further increase in tourism demand. While foreign demand will hardly increase in real terms, domestic demand should expand again due to weaker inflation. Value added of accommodation and food service activities is expected to grow by 4 percent in real terms in 2024.

3.5 Further increase in employment with a slight rise in unemployment

Dependent active employment grew strongly in 2022 (+3.0 percent). In tourism, which was almost completely shut down in the 2020-21 winter season and was still suffering from the COVID-19 crisis in the 2021-22 season, employment in February 2023 was already back above the level of February 2019 and only just below the pre-crisis level of February 2020.

Unemployment will temporarily rise slightly in 2023.

The first effects of the economic slowdown on the labour market were seen in construction and temporary employment. In construction, employment growth lost significant momentum at the end of 2022. In February 2023, employment was already down by 0.3 percent year-on-year. The temporary employment sector, on the other hand, has already been recording employment declines since November 2022, which are becoming more pronounced from month to month (February 2023 –6.0 percent).

In line with the business cycle, total employment growth is expected to slow in 2023 compared to the previous year. However, given a high carry-over from 2022[1] and the good performance at the beginning of the year, it will be stronger than real GDP growth.

In the course of the year, employment is expected to contract initially due to the economic situation, to stabilise in the third quarter and to grow in the fourth quarter of 2023 (seasonally adjusted). On an annual average, this results in an increase in employment of 0.8 percent compared to the previous year. In 2024, the increase amounts to 1.3 percent as economic activity improves.

The temporary weakness of the economy not only slows down employment growth, but also the decline in unemployment. In 2022, unemployment still fell by 20.7 percent year-on-year on average (–68,600 persons). However, based on seasonally adjusted data, the decline has tended to stagnate since April 2022. From March 2023 onwards, even a seasonally adjusted increase can be expected. WIFO expects a temporary increase in registered unemployment of 6,000 persons in 2023. In 2024, however, unemployment is forecasted to fall again by 10,000 persons. Accordingly, the unemployment rate (according to the national calculation) will initially rise slightly from 6.3 percent (2022) to 6.4 percent (2023) and fall to 6.1 percent in 2024. This would put it at its lowest level since 2008.

Table 9: **Labour market**

	2019	2020	2021	2022	2023	2024
	Change from previous year in 1,000					
Demand for labour						
Persons in active employment[1]	+ 61.4	– 76.6	+ 96.6	+ 115.9	+ 31.0	+ 53.0
Employees[1,2]	+ 58.9	– 76.1	+ 90.4	+ 110.2	+ 30.0	+ 50.0
National employees	+ 12.3	– 53.9	+ 28.1	+ 22.9	+ 3.0	+ 8.0
Foreign employees	+ 46.6	– 22.2	+ 62.4	+ 87.4	+ 27.0	+ 42.0
Self-employed[3]	+ 2.5	– 0.5	+ 6.2	+ 5.7	+ 1.0	+ 3.0
Labour supply						
Population of working age						
15 to 64 years	+ 11.4	+ 9.9	+ 5.4	+ 31.4	+ 13.1	+ 2.6
Labour force[4]	+ 50.6	+ 31.7	+ 18.7	+ 47.3	+ 37.0	+ 43.0
Labour surplus						
Unemployed[5]	– 10.8	+ 108.3	– 77.9	– 68.6	+ 6.0	– 10.0
Unemployed persons in training	– 6.8	– 4.9	+ 13.2	– 0.8	– 1.0	– 3.0
	Percent					
Unemployment rate						
As a percentage of total labour force (Eurostat)[6]	4.8	6.0	6.2	4.8	4.7	4.5
As a percentage of total labour force[5]	6.6	8.9	7.2	5.6	5.7	5.4
As a percentage of dependent labour force[5]	7.4	9.9	8.0	6.3	6.4	6.1
	Percentage changes from previous year					
Labour force[4]	+ 1.1	+ 0.7	+ 0.4	+ 1.0	+ 0.8	+ 0.9
Persons in active dependent employment[1,2]	+ 1.6	– 2.0	+ 2.5	+ 3.0	+ 0.8	+ 1.3
Unemployed[5]	– 3.5	+ 35.9	– 19.0	– 20.7	+ 2.3	– 3.7
Persons (in 1,000)	301.3	409.6	331.7	263.1	269.1	259.1

Source: WIFO, Eurostat, Federation of Social Insurances, Public Employment Service Austria, Statistics Austria. 2023 and 2024: forecast. – [1] Excluding persons in valid employment contract receiving child care benefit or being in military service. – [2] According to the Federation of Social Insurances. – [3] According to WIFO, including liberal professions and unpaid family workers. – [4] Persons in active employment plus unemployed. – [5] According to Public Employment Service Austria. – [6] 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.

[1] Even if employment stagnates in all months in 2023 (seasonally adjusted), the annual average would still be almost 1 percent above the previous year.

Table 10: **Earnings, international competitiveness**

	2019	2020	2021	2022	2023	2024
	Percentage changes from previous year					
Wages and salaries per employee[1]						
Nominal, gross	+ 2.9	+ 2.2	+ 2.5	+ 4.4	+ 8.1	+ 7.7
Real[2]						
Gross	+ 1.3	+ 0.8	− 0.3	− 3.9	+ 0.9	+ 3.8
Net	+ 1.4	+ 1.6	− 1.1	− 3.4	+ 1.1	+ 3.9
Wages and salaries per hour worked[1]						
Real, net[2]	+ 0.9	+ 9.4	− 4.1	− 3.2	+ 1.6	+ 4.1
	Percent					
Wage share, adjusted[3]	69.2	68.9	68.6	69.1	68.7	71.8
	Percentage changes from previous year					
Unit labour costs, nominal[4]						
Total economy	+ 2.2	+ 7.4	− 0.5	+ 2.5	+ 8.7	+ 7.2
Manufacturing	+ 3.2	+ 4.6	− 5.6	+ 5.0	+ 10.9	+ 5.8
Effective exchange rate – manufactured goods[5]						
Nominal	− 0.7	+ 1.4	+ 0.6	− 1.5	+ 2.0	+ 1.2
Real	− 1.1	+ 1.7	+ 0.2	− 1.7	+ 3.6	+ 2.8

Source: WIFO, Statistics Austria. 2023 and 2024: forecast. – [1] National Accounts definition. – [2] Deflated by CPI. – [3] 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. – [4] 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. – [5] Weighted by exports and imports, real value adjusted by relative HCPI.

3.6 High inflation boosts government revenues

The persistently high inflation will again lead to a significant increase in tax revenues in 2023, especially from value-added tax. In addition, stronger wage rises than assumed in the last forecast increase revenue from wage taxes, although the abolition of the fiscal drag caused by inflation reduces the amount of wage tax collected. As a result, total government revenue rises almost as strongly as nominal GDP, which means that the revenue-to-GDP ratio falls only slightly.

Expenditure also increases, but not to the same extent. The additional expenditure due to high energy prices is offset by the expiry of the COVID-19 aid measures in 2022. However, the decline in the expenditure ratio is also due to the strong increase in nominal GDP.

Consequently, the budget deficit falls from 2.5 percent of nominal GDP in 2022 to 1.8 percent in 2023 and is projected to fall further to 0.4 percent in 2024.

Table 11: **Fiscal and monetary policy – key figures**

	2019	2020	2021	2022	2023	2024
	As a percentage of GDP					
Fiscal policy						
General government financial balance[1]	0.6	− 8.0	− 5.9	− 3.3	− 2.0	− 1.6
General government primary balance	2.0	− 6.7	− 4.8	− 2.3	− 0.9	− 0.3
General government total revenue	49.2	48.7	50.0	49.5	49.4	49.3
General government total expenditure	48.6	56.7	56.0	52.8	51.4	50.9
	Percent					
Monetary policy						
Three-month interest rate	− 0.4	− 0.4	− 0.5	0.4	4.0	4.7
Long-term interest rate[2]	0.1	− 0.2	− 0.1	1.7	4.4	5.7

Source: WIFO, ECB, OeNB, Statistics Austria. 2023 and 2024: forecast. – [1] According to Maastricht definition. – [2] 10-year central government bonds (benchmark).

Greenhouse gas emissions are falling more slowly than would be necessary to meet the climate targets.

3.7 Cyclical decline in greenhouse gas emissions, foreign purchasing power of GDP rises again

The weaker economic activity also reduces greenhouse gas emissions from production in 2023. Therefore, a reduction in CO_2 emissions of 0.7 percent is expected for 2023. Although this effect will fade in the coming year, CO_2 emissions will not increase in 2024 – also due to the recent strong expansion of renewable energy sources. However, the projected stagnation is not sufficient to achieve the climate targets.

Due to the strong increase in energy prices, the prices of imported goods rose more strongly than export prices in 2022. Purchasing of the same amount of energy commodities from abroad therefore required more domestic labour in 2022. The resulting outflow of purchasing power abroad reduced welfare in Austria. Policymakers tried to shift the burden of this deterioration in exchange relations in foreign trade (terms of trade) into the future by means of transfers to firms and private households. Such a stabilisation strategy makes sense if it succeeds in skimming off the surpluses from a future improvement in the terms of trade through taxation.

In 2023, the terms of trade should improve again for the first time. The sharp fall in energy prices will cause the import deflator to shrink more than the export deflator. In 2024, this positive development should continue at a slower pace.

4. Forecast risks

The forecast risks are balanced in terms of the normal fluctuations that can be expected. However, certain developments that are unlikely from today's perspective could have a major impact if they materialise. An escalation of the Ukraine war would have consequences for the domestic economy that cannot yet be assessed. Conversely, a rapid cessation of the hostilities would have positive effects.

Second, the recent turmoil in the banking sector in the USA and Switzerland poses a downside risk that should not be underestimated. The experience from the global financial market and economic crisis of 2008-09 proves how quickly and persistently such problems can spill over into the real economy. From today's perspective, however, WIFO also considers this risk to be low.

Third, given the persistently high core inflation, central banks may feel compelled to raise policy rates more and to keep them high for longer than assumed in this forecast. Although energy commodities have become significantly cheaper since the last forecast, energy prices appear to be passing through to other goods more quickly and to a greater extent than widely expected. If monetary policy is tightened much more than assumed in this forecast, the global recovery could stall.