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Headwinds Keep Austria's Economy Close to Stagnation in 2024. Economic Outlook for 2024 and 2025

Marcus Scheiblecker, Stefan Ederer

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Economic Outlook for 2024 and 2025

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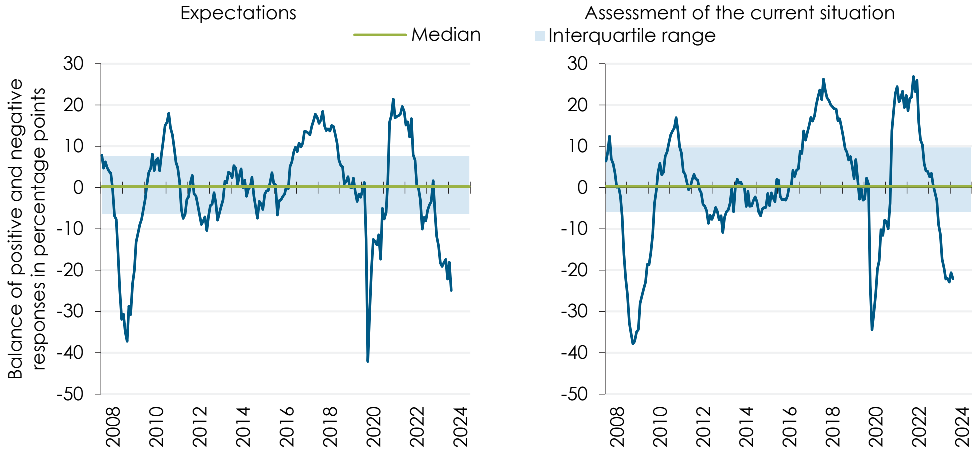
- High interest rates are dampening demand for capital goods and residential construction across Europe. The Austrian economy will therefore only grow by 0.2 percent in 2024.
- The significant progress made in reducing inflation in the euro area will allow the ECB to ease monetary policy from mid-2024 onwards, allowing the business cycle in the EU to recover from the second half of 2024.
- Economies with a large industrial sector, such as Germany and Austria, should benefit from this upturn in particular. After several years of contraction, construction is likely to bottom out this year. Austria's economy will expand by 1.8 percent in 2025.
- The inflation rate in Austria will continue to fall in both forecast years. Employment growth will slow due to the weak economy, while unemployment will continue to rise. The labour market situation should improve again in 2025 as the economy strengthens.

Austrian manufacturing sentiment indicators



"The upturn originally expected for early 2024 is delayed. Surveys of domestic industrial companies showed a further deterioration in sentiment in February 2024."

Both the situation assessments and the expectations of Austrian manufacturing companies are currently almost as pessimistic as they were during the 2008-09 financial market and economic crisis and most recently during the COVID-19 pandemic (source: WIFO-Konjunkturtest).

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Economic Outlook for 2024 and 2025

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April 2024

Headwinds Keep Austria's Economy Close to Stagnation in 2024. Economic Outlook for 2024 and 2025
The economic weakness in the EU is particularly affecting Germany and Austria, which are specialised in capital goods production. The high interest rates are weighing on investment demand as well as demand for construction services. Economic activity in both the euro area and Austria should pick up again around mid-2024 when the ECB is expected to ease its monetary policy. For the year as a whole, WIFO expects real GDP growth to remain weak at just 0.2 percent. It will accelerate to 1.8 percent in 2025.

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 high interest rates in the euro area are significantly dampening demand for capital goods. In the fourth quarter of 2023, investment in machinery and equipment as well as construction investment contracted (in real terms, compared to the previous quarter) in this economic area.

The economies of Germany and Austria, which are specialised in the production of machinery, are particularly suffering from this decline in demand. In both countries, where business sentiment is currently gloomy, economic growth in 2024 will again be weaker than the euro area average. For Austria, WIFO expects growth of just 0.2 percent.

The inflation rate in the euro area fell much faster and from a higher level than in the USA, reaching 2.8 percent in January and falling further to 2.6 percent in February, approaching rapidly the ECB's 2 percent target. This, as well as the weak business cycle, should allow the ECB to start easing monetary policy from mid-2024. Germany and Austria, in particular, should benefit from the subsequent revival in investment demand. As the economic situation improves, Austria's GDP should expand from mid-2024 and grow by 1.8 percent in 2025.

Inflation in Austria is expected to slow down further. After 7.8 percent in the previous year, it will fall to 3.8 percent this year and drop to 2.7 percent in 2025.

The labour market is reacting to the economic downturn with a delay. After the number of persons in active dependent employment rose by 1.2 percent in 2023 despite the recession, an increase of only 0.4 percent is expected in 2024. Based on the forecasted economic recovery, employment will post a stronger increase in 2025 (+1.1 percent). In turn, the unemployment rate should fall to 6.5 percent after a temporary increase to 6.7 percent in 2024 (2023: 6.4 percent; according to the national calculation method).

The weak business cycle, particularly in the energy-intensive industry, and the warmer-than-average February are contributing to a larger reduction in greenhouse gas emissions than calculated in the last WIFO Economic Outlook. A decrease of 2.5 percent is expected for 2024. In this forecast, WIFO predicts for the first time key figures on income distribution (see box "Beyond GDP: Indicators of income distribution) and expects a slight increase in the relative risk of poverty from 2023 onwards, while distribution inequality will tend to decrease.

Table 1: **Main results**

		2020	2021	2022	2023	2024	2025
		Percentage changes from previous year					
Gross domestic product, volume		− 6.6	+ 4.2	+ 4.8	− 0.8	+ 0.2	+ 1.8
Manufacturing		− 7.3	+ 12.7	+ 4.1	− 2.7	− 1.5	+ 3.3
Wholesale and retail trade		− 3.3	− 1.1	+ 2.1	− 5.8	+ 1.5	+ 2.0
Private consumption expenditure[1], volume		− 8.5	+ 4.2	+ 5.7	− 0.3	+ 1.2	+ 2.1
Consumer durables		− 2.6	+ 3.7	− 0.3	− 3.6	+ 0.5	+ 2.0
Gross fixed capital formation, volume		− 5.5	+ 6.1	+ 0.1	− 2.4	− 2.0	+ 2.2
Machinery and equipment[2]		− 7.1	+ 9.9	+ 2.0	+ 0.7	− 0.3	+ 2.8
Construction		− 3.6	+ 1.8	− 2.0	− 5.9	− 4.0	+ 1.5
Exports, volume		− 10.6	+ 9.1	+ 11.2	− 0.2	+ 1.2	+ 3.3
Exports of goods, fob		− 7.7	+ 12.3	+ 7.1	+ 0.7	+ 1.2	+ 3.8
Imports, volume		− 10.0	+ 14.3	+ 7.9	− 1.8	+ 1.6	+ 3.5
Imports of goods, fob		− 7.2	+ 15.2	+ 5.1	− 2.7	+ 1.5	+ 3.8
Gross domestic product, value		− 4.1	+ 6.4	+ 10.4	+ 6.7	+ 4.6	+ 4.4
	billion €	380.89	405.24	447.22	477.25	498.97	521.17
Current account balance	as a percentage of GDP	3.4	1.6	− 0.3	2.2	2.4	2.4
Consumer prices		+ 1.4	+ 2.8	+ 8.6	+ 7.8	+ 3.8	+ 2.7
GDP deflator		+ 2.7	+ 2.1	+ 5.3	+ 7.6	+ 4.4	+ 2.6
General government net lending, Maastricht definition	as a percentage of GDP	− 8.0	− 5.8	− 3.5	− 2.4	− 2.9	− 2.7
Persons in active dependent employment[3]		− 2.0	+ 2.5	+ 3.0	+ 1.2	+ 0.4	+ 1.1
Unemployment rate, national definition[4]		− 6.6	+ 4.2	+ 4.8	− 0.8	+ 0.2	+ 1.8
Command-based GDP per capita[5]		0	8.0	6.3	6.4	6.7	6.5
At-risk-of-poverty rate[6]	percent	− 6.8	+ 3.5	+ 1.3	− 0.3	+ 0.0	+ 1.6
Income quintile ratio[7]	ratio	14.7	14.8	13.8	14.2	14.3	14.4
Greenhouse gas emissions[8]		4.08	4.27	4.02	4.10	4.06	3.97
	million t CO_2 equivalent	− 7.6	+ 4.6	− 5.7	− 4.6	− 2.5	+ 0.1

Source: WIFO, Environmental Agency Austria, Federation of Social Insurances, OeNB, Public Employment Service Austria, Statistics Austria. 2024 and 2025: forecast. – [1] Including non-profit institutions serving households. – [2] Including weapons systems and other investment. – [3] Excluding persons in valid employment contract receiving child care benefit or being in military service. – [4] As a percentage of dependent labour force. – [5] Nominal GDP deflated by the implicit price index of domestic demand. – [6] Share of people living in private households with an equivalised disposable income below the at-risk-of-poverty threshold (60 percent of the national median equivalised disposable income), from 2022: forecast. – [7] S80/S20: Ratio of total equivalised disposable income received by the population living in private households in the top income quintile to that received by the population in the bottom quintile, from 2022: forecast. – [8] 2022: Environmental Agency Austria estimate, from 2023: forecast.

2. Global economic conditions

In the USA, the economy remains on course for expansion. Global industrial production is showing signs of recovery in the emerging markets, but this has not yet spread to the industrialised countries.

The global economy proved to be robust in some regions in 2023, but a broad-based upturn has yet to materialise. High energy prices, a loss of purchasing power among private households and higher interest rates weighed on the business cycle, particularly in Europe. Restrained demand for capital and consumer durables weakened industry and trade in goods worldwide. Although industrial production in the emerging markets has recently shown an upward trend, this has not yet spread to the industrialised countries and global trade in goods. The partial interruption of sea trade through the Suez Canal has also led to delays in deliveries and an increase in transport costs, which primarily affect trade from Asia to Europe, but the effects of which are still manageable.

2.1 Robust business cycle in the USA

In the USA, the economy expanded more strongly than many expected in 2023, as fiscal policy provided strong impetus. Consumer demand from private households rose significantly and has not yet slowed down. Gross fixed capital formation also increased significantly in 2023, most recently even in residential construction, where high interest rates had previously led to a significant decline. Consumer confidence remains high, boosted by the good labour market situation and the rise in real incomes. The strong business cycle is probably also contributing to the fact that inflation in the USA has hardly slowed down recently; at the beginning of 2024, it was over 3 percent. However, the Federal Reserve Bank considers the change in the deflator for private consumption to be its relevant target figure for measuring inflation. At +2.4 percent in January compared to the previous year, this was well below that of the consumer price index (+3.1 percent).

Table 2: **International economy**

	Percentage shares 2021		2020	2021	2022	2023	2024	2025
	Austria's exports of goods	World GDP[1]	GDP volume, percentage changes from previous year					
EU 27	68.7	14.9	– 5.6	+ 6.0	+ 3.4	+ 0.4	+ 0.9	+ 2.0
Euro area	52.0	10.4	– 6.1	+ 5.9	+ 3.4	+ 0.4	+ 0.7	+ 1.7
Germany	29.8	3.3	– 3.8	+ 3.2	+ 1.8	– 0.3	+ 0.2	+ 1.5
Italy	6.8	1.9	– 9.0	+ 8.3	+ 4.0	+ 0.9	+ 0.6	+ 1.2
France	4.0	2.3	– 7.5	+ 6.4	+ 2.5	+ 0.7	+ 0.5	+ 1.6
CEEC 5[2]	15.9	2.2	– 3.3	+ 6.2	+ 4.2	+ 0.0	+ 2.2	+ 3.1
Hungary	4.0	0.2	– 4.5	+ 7.1	+ 4.6	– 0.9	+ 2.3	+ 2.9
Poland	3.8	1.0	– 2.0	+ 6.9	+ 5.3	+ 0.2	+ 2.6	+ 3.2
Czech Republic	3.6	0.3	– 5.5	+ 3.6	+ 2.4	– 0.5	+ 1.0	+ 3.1
USA	6.6	15.5	– 2.2	+ 5.8	+ 1.9	+ 2.5	+ 2.3	+ 1.7
Switzerland	5.4	0.5	– 2.1	+ 5.4	+ 2.6	+ 0.7	+ 1.3	+ 1.5
China	2.7	18.4	+ 2.2	+ 8.4	+ 3.0	+ 5.2	+ 4.4	+ 4.0
UK	2.6	2.3	– 10.4	+ 8.7	+ 4.3	+ 0.1	+ 0.2	+ 1.7
Total[3]								
PPP-weighted[4]		52	– 2.0	+ 6.9	+ 2.8	+ 2.8	+ 2.6	+ 2.6
Export weighted[5]	86		– 5.0	+ 6.1	+ 3.3	+ 0.8	+ 1.1	+ 2.0
Market growth[6]			– 6.1	+ 11.0	+ 5.7	– 2.5	+ 1.5	+ 4.0
Forecast assumptions								
Crude oil prices								
Brent, $ per barrel			43.2	70.8	98.9	82.2	80	75
Natural gas price								
Dutch TTF, € per MWh			9.5	45.9	121.5	40.6	27	29
Electricity price Austria								
Base, € per MWh			33.2	107.2	261.6	102.2	69	78
Peak, € per MWh			36.0	116.8	275.5	103.9	74	86
Exchange rate								
$ per €			1.141	1.184	1.054	1.082	1.08	1.08
Key interest rate								
ECB main refinancing rate[7], percent			0.0	0.0	0,0	0,0	0,6	3,8
10-year government bonds yields Germany, percent			– 0.5	– 0.4	–0,5	–0,4	1,1	2,4

Source: WIFO, Bureau of Economic Analysis, European Energy Exchange, Eurostat, ECB, HWWI, IMF, Intercontinental Exchange, OECD, Statistics Austria. 2024 and 2025: 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] Fixed rate.

Economic output in the euro area is likely to grow at a similarly weak rate in 2024 as in the previous year. Industry and trade in goods will gain momentum in the second half of the year. The fall in natural gas prices will dampen inflation.

In view of these factors, the economy of the USA will continue to expand in 2024. Although growth is likely to be slightly lower than in the second half of 2023, there are no signs of a significant slowdown in the business cycle. The Federal Reserve in the USA is also likely to start lowering interest rates before the summer and continue to do so until the end of the forecast period. This will also contribute to GDP in the USA growing by 2.3 percent in 2024 and 1.7 percent in 2025.

2.2 Cautious outlook for the euro area

The business cycle in the euro area has yet to gain momentum, with total economy output stagnating for five consecutive quarters until the end of 2023. In France and Italy, GDP remained unchanged in the second half of 2023, while the economies of many smaller euro area countries barely grew or even contracted. By contrast, the business cycle remained strong in Spain, where expansion even accelerated slightly in the fourth quarter. Private and public consumption had a particularly supportive effect there, whereas exports and investments – similar to other euro countries – generated hardly any momentum.

Industrial production has recently stabilised somewhat in some euro area economies, partly also in the energy-intensive sectors, whose production had previously collapsed due to the sharp rise in the price of natural gas. Business sentiment and consumer confidence have also remained largely stable in recent months, although they remain weak in some countries and sectors. In addition, natural gas prices in Europe fell sharply at the beginning of 2024 and are currently at a similar level to the beginning of 2023 or the end of 2018. This should further dampen inflation and give the ECB room to manoeuvre to continuously lower key interest rates from the summer.

Nevertheless, the business cycle in the euro area will not gain noticeable momentum until the second half of 2024, as soon as industry and trade in goods pick up again. Private consumption is likely to contribute to strengthening total economy demand somewhat earlier, as real incomes are now rising again due to the significant decline in inflation. All in all, GDP in the euro area will grow by 0.7 percent in 2024, a similarly weak rate as in the previous year (+0.4 percent). In 2025, the recovery of the business cycle will be reflected in a higher growth rate (+1.7 percent).

2.3 Germany caught in an economic slump

The German economy will largely stagnate in 2024. The downward trend in industry is affecting many sectors and is only likely to reverse slowly.

At the end of 2023, the economic situation in Germany was worse than in the other major euro area economies. GDP fell in the fourth quarter, having previously stagnated for several consecutive quarters. Exports and investments in particular contributed to the decline in economic output. The downturn in industry is affecting many sectors. In manufacturing and construction, value added shrank significantly in the second half of 2023. However, the economic downturn also affected some service sectors at the end of the year, with value added in trade, transportation and hospitality falling noticeably in the fourth quarter.

Leading indicators do not yet point to a turnaround. Business sentiment remains pessimistic, particularly in the industrial and construction sectors. The order situation has deteriorated until recently and the majority of order backlogs are considered to be too low. The German economy will therefore hardly grow at all in the first half of 2024; WIFO has lowered its forecast for the current year from +0.9 to +0.2 percent. The German industry should only gradually gain momentum in the wake of the global economy from the middle of the year onwards, which should result in GDP growth of 1.5 percent in 2025.

3. Austria: business cycle will remain weak in 2024

The Austrian economy will experience another weak year in 2024: after GDP shrank by 0.8 percent in 2023, growth is only just above stagnation at 0.2 percent.

In Austria, all key demand components of GDP shrank in real terms in 2023. Exports fell by 0.2 percent, as the slight increase in exports of goods was offset by a significant decline in exports of services. Demand for capital goods declined the most. Gross fixed capital formation shrank by 2.4 percent in 2023. In addition to investments in machinery and equipment (–1.7 percent), demand for construction investments also slumped (–5.9 percent).

Private consumption, which usually cushions fluctuations in the business cycle, also failed to have a supportive effect in 2023. The high inflation rate reduced the volume of private households' disposable income, resulting in a 0.3 percent decline in consumer spending. Public consumption also shrank (–0.4 percent).

However, the weakness in domestic demand not only affected domestic production, but also reduced the need for imports. As a result, imports fell by 1.8 percent in volume in 2023. While imports of goods decreased (–2.7 percent), imports of services increased (+0.9 percent).

3.1 International economic recovery stimulates exports from mid-2024

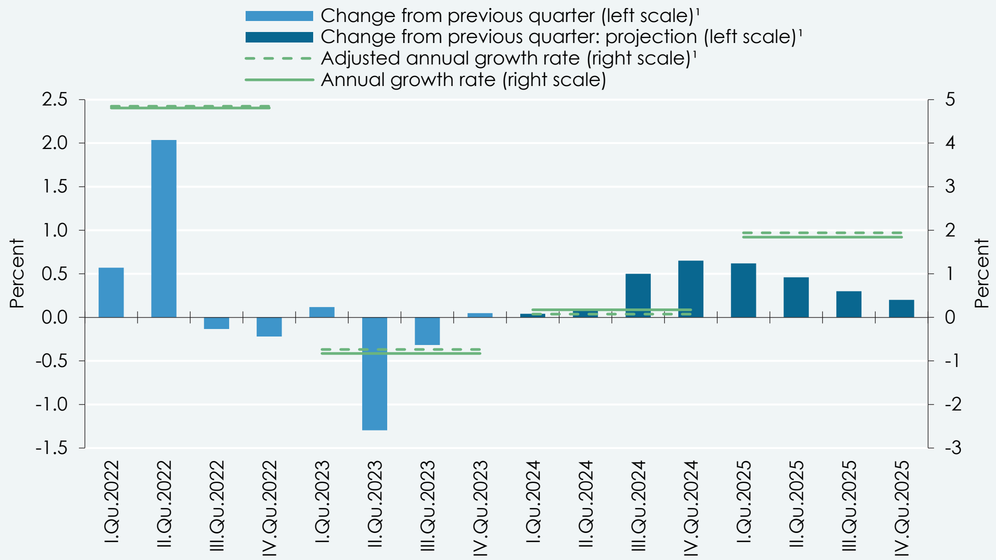
Following special effects in the previous year, which led to an increase in goods exports in the fourth quarter of 2023 compared to the previous quarter, the weak growth in this demand component is likely to continue into spring 2024. According to the WIFO-Konjunkturtest, both the assessment of total order books and expectations for export orders in manufacturing have deteriorated again at the start of 2024. The further deterioration in sentiment in the first quarter, particularly in the capital goods industry, which is important for exports, does not point to a rapid recovery in 2024.

The economic weakness will continue in the first half of 2024.

The sluggish industrial and investment economy in the euro area, which is reflected in Germany's extremely weak growth of real GDP, is also weighing on growth in Austria's export markets. In addition, Austria's inflation gap with important trading partners and the associated higher energy prices are worsening its competitive price position. Accordingly, domestic industrial companies recently assessed their competitive position as significantly worse than in previous WIFO-Konjunkturtest surveys, both in comparison to competitors in the EU and to competitors in third countries.

Figure 1: **Cyclical profile Austria**

GDP, volume



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

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

		2022	2023	2024	2025
Growth carry-over[1]	percentage points	+ 2.8	+ 0.3	– 0.5	+ 0.8
Growth rate during the year[2]	percent	+ 2.3	– 1.4	+ 1.3	+ 1.6
Annual growth rate	**percent**	**+ 4.8**	**– 0.8**	**+ 0.2**	**+ 1.8**
Adjusted annual growth rate[3]	percent	+ 4.8	– 0.7	+ 0.1	+ 1.9
Calendar effect[4]	percentage points	– 0.1	– 0.1	+ 0.1	– 0.1

Source: WIFO. 2024 and 2025: 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

		2024	2025
WIFO Economic Outlook December 2023	percent	+ 0.9	+ 2.0
Data revisions[1]	percentage points	+ 0.1	– 0.0
Forecast error for the fourth quarter of 2023[2]	percentage points	– 0.2	+ 0.0
Forecast revision	percentage points	– 0.6	– 0.1
WIFO Economic Outlook March 2024	**percent**	**+ 0.2**	**+ 1.8**

Source: WIFO. – [1] Revision of the Quarterly National Accounts by Statistics Austria compared to the data used for the WIFO Economic Outlook of October 2023. – [2] At the time of preparing the WIFO Economic Outlook of October 2023, no values were available from Statistics Austria for this quarter.

Table 5: **Expenditure on GDP**

Volume (chain-linked series)

	2022	2023	2024	2025	2022	2023	2024	2025
	Billion € (reference year 2015)				Percentage changes from previous year			
Final consumption expenditure	269.00	268.13	270.67	275.37	+ 4.0	– 0.3	+ 0.9	+ 1.7
Households[1]	192.28	191.76	194.06	198.13	+ 5.7	– 0.3	+ 1.2	+ 2.1
General government	76.73	76.39	76.62	77.23	+ 0.0	– 0.4	+ 0.3	+ 0.8
Gross capital formation	98.08	92.88	91.01	93.33	– 0.7	– 5.3	– 2.0	+ 2.5
Gross fixed capital formation	93.02	90.79	88.99	90.97	+ 0.1	– 2.4	– 2.0	+ 2.2
Machinery and equipment[2]	29.78	29.27	28.39	28.90	– 0.4	– 1.7	– 3.0	+ 1.8
Construction	39.49	37.18	35.69	36.23	– 2.0	– 5.9	– 4.0	+ 1.5
Other investment[3]	23.90	24.78	25.53	26.55	+ 5.0	+ 3.7	+ 3.0	+ 4.0
Domestic demand	367.39	360.66	362.06	369.08	+ 2.9	– 1.8	+ 0.4	+ 1.9
Exports	234.54	234.19	236.98	244.73	+ 11.2	– 0.2	+ 1.2	+ 3.3
Travel	13.11	14.28	14.58	14.89	+ 96.2	+ 8.9	+ 2.1	+ 2.1
Minus imports	221.75	217.84	221.30	229.06	+ 7.9	– 1.8	+ 1.6	+ 3.5
Travel	8.21	9.77	9.89	9.95	+ 57.0	+ 19.0	+ 1.2	+ 0.6
Gross domestic product	380.56	377.40	378.09	385.06	+ 4.8	– 0.8	+ 0.2	+ 1.8
Value	447.22	477.25	498.97	521.17	+ 10.4	+ 6.7	+ 4.6	+ 4.4

Source: WIFO, Statistics Austria. 2024 and 2025: forecast. – [1] Including non-profit institutions serving households. – [2] Including weapon systems. – [3] Mainly intellectual property products (research and development, computer programmes, copyrights).

The export outlook will improve from mid-2024.

This difficult environment will only allow export growth of around 1.2 percent in 2024 (goods according to the national accounts). With the international economic recovery, Austria's export economy should return to a growth path from mid-2024, although the composition of the target countries and goods will initially still have an inhibiting effect.

The revival of the business cycle in the most important trading partners over the course of 2024 and the expected increase in investment demand and industrial production in the main export markets in the EU, should also boost Austria's imports in addition to exports. WIFO expects the export markets to grow by 4 percent in 2025. Assuming slight shifts in market share due to a deterioration in the volume-effective exchange rate, growth rates of just under 4 percent should be achievable in both goods exports and imports in 2025.

3.2 Industrial goods production hit hard by recession

The recession in 2023 hit Austria's goods production particularly hard. Over the year as a whole, the value added in this economic sector shrank by 2.7 percent in volume terms. In a comparison of previous periods, declines were recorded in all quarters.

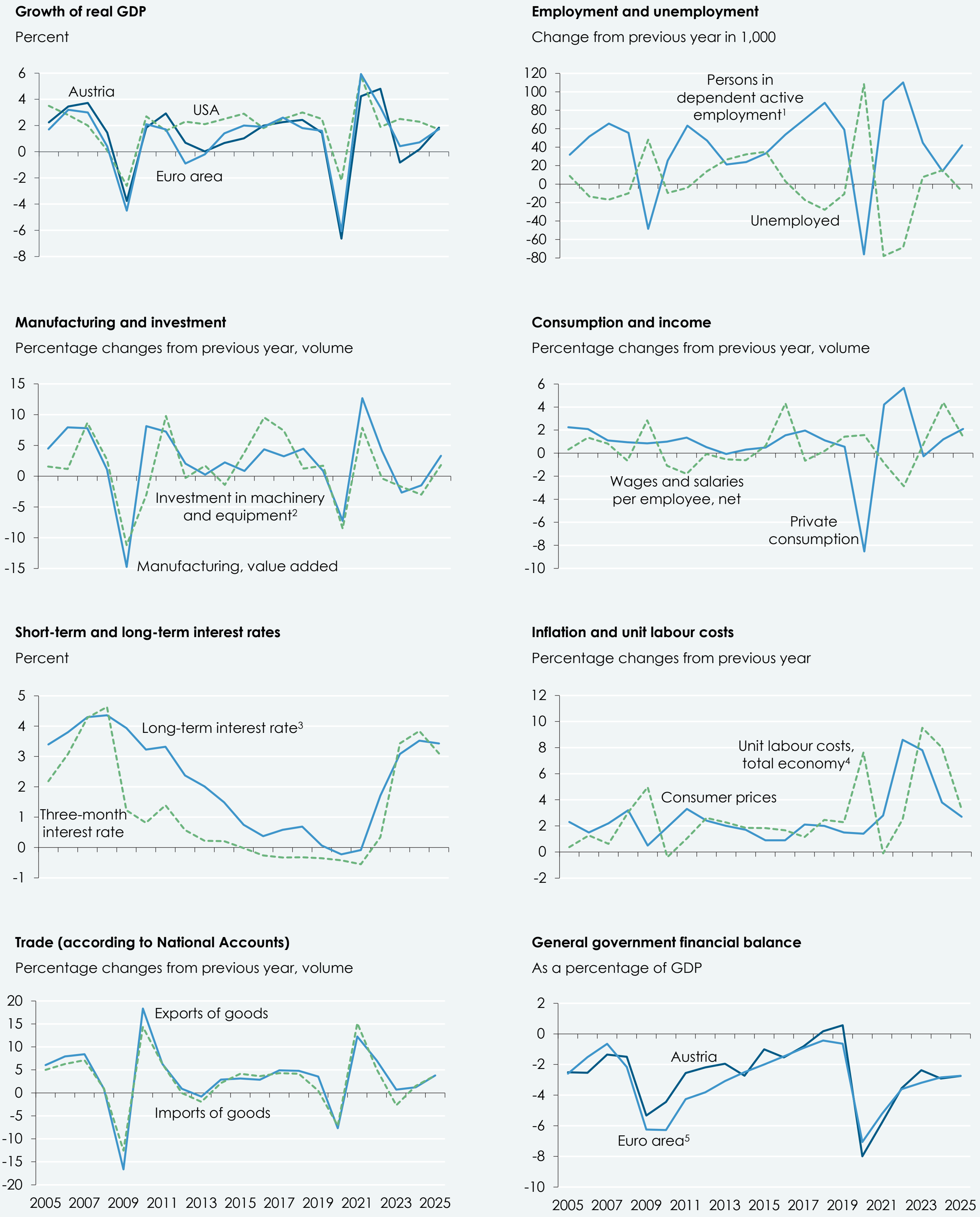
Due to the weak fourth quarter and the disappointing development of the leading indicators, WIFO had to significantly reduce its forecast for industry for the current year by 1 percentage point to –1.5 percent. The year-on-year deterioration is reflected in Statistics Austria's indicators for incoming orders. In November and December, the order index fell by 9.3 and 5.6 percent respectively compared to the same month of the previous year. It largely stagnated in January (+0.5 percent). However, these values are unadjusted and in nominal terms, which means that they neglect the price dynamics of the past year and seasonal patterns. In a European comparison, the economic sentiment indicator for industry in Austria was recently below average (February 2024: Austria –15, EU –9, euro area –10, Germany –18). According to the Purchasing Managers' Index (PMI), the Austrian industrial economy is also very weak. This was also revealed by the WIFO-Konjunkturtest: economic expectations deteriorated again in February. The corresponding index was well in sceptical territory and at its lowest level since May 2020.

WIFO therefore expects a further decline in the value added of goods production at the beginning of 2024 and only a cautious stabilisation in the second quarter. According to the foreign trade forecast, the turnaround in the business cycle in the EU should lead to an improvement in the situation in industry from the second half of 2024. The value added of goods production should grow slightly in the third quarter. Growth will pick up significantly towards the end of the year. The volume of value added is expected to increase by 3.3 percent in 2025 (2024 –1.5 percent).

3.3 Construction will not grow again until 2025

In addition to the production of goods, construction has been particularly hard hit by the current recession. High interest rates are weighing on demand for residential construction throughout the euro area, where financing costs have risen considerably. Inflation has also led to a sharp rise in construction prices, which is having an additional dampening effect on demand.

Figure 2: **Indicators of economic performance**



Source: WIFO. 2024 and 2025: 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.

Table 6: **Gross value added**

At basic prices

	2022	2023	2024	2025	2022	2023	2024	2025
	Billion € (reference year 2015)				Percentage changes from previous year			
Volume (chain-linked series)								
Agriculture, forestry and fishing	4.37	4.24	4.24	4.24	+ 6.6	– 2.9	± 0.0	± 0.0
Manufacturing including mining and quarrying	72.17	70.00	68.95	71.22	+ 4.3	– 3.0	– 1.5	+ 3.3
Electricity, gas and water supply, waste management	9.98	10.15	10.15	10.26	+ 2.2	+ 1.7	± 0.0	+ 1.0
Construction	18.90	18.69	18.02	18.20	– 1.2	– 1.1	– 3.6	+ 1.0
Wholesale and retail trade	39.45	37.16	37.72	38.47	+ 2.1	– 5.8	+ 1.5	+ 2.0
Transportation	18.21	17.09	17.09	17.35	+ 10.9	– 6.1	± 0.0	+ 1.5
Accommodation and food service activities	12.97	13.31	13.61	13.88	+ 55.3	+ 2.6	+ 2.2	+ 2.0
Information and communication	14.30	14.73	15.03	15.33	+ 2.8	+ 3.1	+ 2.0	+ 2.0
Financial and insurance activities	15.85	15.81	15.96	16.16	– 1.2	– 0.3	+ 1.0	+ 1.2
Real estate activities	31.88	32.29	32.55	32.87	+ 2.2	+ 1.3	+ 0.8	+ 1.0
Other business activities[1]	34.37	34.12	34.29	35.14	+ 3.8	– 0.7	+ 0.5	+ 2.5
Public administration[2]	58.22	59.16	60.05	60.65	+ 3.1	+ 1.6	+ 1.5	+ 1.0
Other service activities[3]	8.93	9.48	9.58	9.72	+ 18.9	+ 6.2	+ 1.0	+ 1.5
Total gross value added[4]	339.09	335.86	336.82	342.83	+ 5.2	– 1.0	+ 0.3	+ 1.8
Gross domestic product at market prices	380.56	377.40	378.09	385.06	+ 4.8	– 0.8	+ 0.2	+ 1.8

Source: WIFO, Statistics Austria. 2024 and 2025: 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.

Table 7: **Productivity**

	2020	2021	2022	2023	2024	2025
	Percentage changes from previous year					
Total economy						
GDP, volume	– 6.6	+ 4.2	+ 4.8	– 0.8	+ 0.2	+ 1.8
Employment[1]	– 1.9	+ 2.4	+ 2.8	+ 1.0	+ 0.3	+ 1.0
Production per person employed	– 4.8	+ 1.8	+ 2.0	– 1.8	– 0.1	+ 0.8
Hours worked per person employed[2]	– 7.0	+ 2.3	– 0.3	– 0.1	– 0.7	+ 0.2
Hourly productivity[3]	+ 2.3	– 0.5	+ 2.3	– 1.7	+ 0.6	+ 0.6
Manufacturing						
GDP, volume	– 7.3	+12.7	+ 4.1	– 2.7	– 1.5	+ 3.3
Employment[1]	– 1.0	+ 0.5	+ 1.3	+ 1.3	– 0.5	+ 0.8
Production per person employed	– 6.4	+12.2	+ 2.8	– 3.9	– 1.0	+ 2.5
Hours worked per person employed[2]	– 4.9	+ 4.3	– 0.7	– 0.3	– 1.5	± 0.0
Hourly productivity[3]	– 1.6	+ 7.5	+ 3.6	– 3.6	+ 0.5	+ 2.5

Source: WIFO, Statistics Austria. 2024 and 2025: forecast. – [1] Employees and self-employed, National Accounts definition (jobs). – [2] National Accounts definition. – [3] Production per hour worked, National Accounts definition.

According to Statistics Austria's quarterly national accounts, construction investment contracted more strongly in 2023 than in the previous year (–5.9 percent after –2 percent, in real terms). In the fourth quarter, the year-on-year decline was even more pronounced than in the third quarter at –7.2 percent. The main reason for the slump in 2023 was residential construction investment (–10.2 percent), but non-residential construction investment (industrial construction, commercial construction, civil engineering, etc.) also declined (–4.7 percent).

The downturn will subsequently also affect the employment-intensive ancillary construction industry, which feels the impact of the slump in residential construction after a time lag following construction of buildings. After –0.2 percent in the third quarter, dependent employment in the construction industry as a whole only fell more significantly in the fourth quarter of 2023 (–0.9 percent). The decline of 2.6 percent in the first two months of 2024 underlines the downward trend.

The slump in demand is having a significant impact on value added in construction. In 2023, it shrank by 1.1 percent in volume terms. There was still no sign of an improvement in the situation towards the end of the year. According to the WIFO-Konjunkturtest, sentiment in the industry is becoming increasingly gloomy; business expectations for the next 6 months are predominantly pessimistic with a balance of –29 points (February 2024). In December 2023, the majority of construction companies surveyed rated the lack of orders as the most important obstacle to production for the first time in around 7 years. In previous years, the shortage of labour force had dominated.

Construction investment and value added in the construction industry will shrink again this year.

WIFO therefore expects construction investment to fall by a further 4 percent in 2024. The value added in the construction industry is expected to shrink by 3.6 percent. In order to stabilise the construction industry, the federal government presented a housing and construction programme at the end of February 2024. The volume of relief is estimated at over 2 billion €, although the construction industry is only likely to absorb part of the economic stimulus due to the broad spread of the measures and the expected knock-on effects. Due to the delay between the implementation of measures and actual construction activity, construction investment is not expected to pick up significantly until 2025. By contrast, the decline in residential construction expected for 2024 will only be slowed down by the package. Its effects will also depend on the extent to which the federal states invest the budget provided by the federal government in additional projects and assurances from their housing subsidy systems. The package is therefore only marginally reflected in this WIFO Economic Outlook for 2024. The full scope is not expected in 2025 either; it is not likely to be reached until 2026.

For 2025, WIFO expects construction investment to increase by 1.5 percent and construction value added to grow by 1.0 percent.

3.4 Inflation rate continues to fall

The inflation rate in Austria remains above the euro area average. In 2023, the EU-wide harmonised rate (according to the HICP) in Austria was 7.7 percent, 2.3 percentage points higher than in the euro area (5.4 percent).

Strong wage increases allow for an expansion in consumption with a simultaneous rise in the savings rate.

Nevertheless, inflation in Austria also fell significantly over the course of 2023, from 11.2 percent at the start of the year to 5.6 percent at the end of the year (according to the CPI). This positive trend continued at the start of 2024. In February 2024, the inflation rate fell to 4.3 percent after 4.6 percent in January.

The inflation rate will fall to 3.8 percent in 2024. A further decline to 2.7 percent is expected for 2025.

According to Statistics Austria, in addition to the reduction in the price of household energy, the slowdown in food prices also had a dampening effect on prices. Conversely, the strong price increases in hotel and restaurant services continue to drive up prices. Without this segment, inflation would be around 1 percentage point lower. As rents react to changes in inflation with a time lag, they also continued to drive up prices strongly in February. European wholesale prices for energy (natural gas and electricity) have fallen more sharply than expected in the last forecast. WIFO has therefore lowered its inflation forecast for 2024 to 3.8 percent. In 2025, inflation is expected to slow further to 2.7 percent.

3.5 Consumer demand from private households recovers in 2024

The supportive function of private consumption that is usually observed during periods of economic weakness did not materialise in 2023. On the contrary, the decline in this demand component exacerbated the negative effects of the international economic downturn and thus the recession in Austria. The high rates of price increases reduced the purchasing power of private households, causing their consumption to shrink in 2023 (–0.3 percent). Demand for furnishings fell the most. This gap in demand, which opened up as a result of the drastic increase in such purchases during the pandemic years of 2020 and 2021, is causing considerable problems for retailers. There was also a noticeable reluctance to spend on clothing in 2023.

The high inflation of the previous year was taken into account in the autumn 2023 wage rounds. This leads to a strong increase in household income in the following year. However, private households have so far been reluctant to spend money in view of the uncertain environment and rising unemployment. Compared to the previous year, a larger proportion of income growth will be saved in 2024.

WIFO expects private consumer spending to increase by 1.2 percent in volume this year. The savings rate (including company pension entitlements) will rise from 8.6 percent in 2023 to just under 10 percent. The recovery in consumer spending will also benefit trade. Its value added fell by almost 6 percent in 2023, but should rise again by 1.5 percent in 2024.

Private consumer spending is expected to increase at an accelerated rate of 2.1 percent in 2025. The improved labour market situation will result in a slight decline in the savings rate to 9.4 percent. In 2025, spending on consumer durables will once again grow at a similar rate to private final consumption expenditure for the first time. Value added in trade (+2 percent in 2025) will benefit not only from the momentum in foreign trade, which is important for wholesale, but also from stronger domestic demand.

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

	2020	2021	2022	2023	2024	2025
	Percentage changes from previous year					
Private consumption expenditure[1]	– 8.5	+ 4.2	+ 5.7	– 0.3	+ 1.2	+ 2.1
Durable goods	– 2.6	+ 3.7	– 0.3	– 3.6	+ 0.5	+ 2.0
Non-durable goods and services	– 9.2	+ 4.3	+ 6.3	+ 0.1	+ 1.3	+ 2.1
Private household disposable income, volume	– 2.8	+ 1.8	+ 3.3	– 0.9	+ 2.6	+ 1.7
	As a percentage of disposable income					
Household saving ratio						
Including adjustment for the change in pension entitlements	13.2	11.2	9.2	8.6	9.8	9.4
Excluding adjustment for the change in pension entitlements	12.7	10.6	8.5	7.9	9.2	8.8
	Percentage changes from previous year					
Loans to domestic non-banks (end of period)	+ 3.7	+ 6.6	+ 5.0	+ 0.7	+ 2.5	+ 2.8
Consumer prices						
National	+ 1.4	+ 2.8	+ 8.6	+ 7.8	+ 3.8	+ 2.7
Harmonised	+ 1.4	+ 2.8	+ 8.6	+ 7.7	+ 3.8	+ 2.7
Core inflation[2]	+ 2.0	+ 2.3	+ 5.1	+ 7.3	+ 4.8	+ 3.0

Source: WIFO, OeNB, Statistics Austria. 2024 and 2025: forecast. – [1] Private households including non-profit institutions serving households. – [2] Excluding energy, food, alcohol and tobacco.

Table 9: **Earnings, international competitiveness**

	2020	2021	2022	2023	2024	2025
	Percentage changes from previous year					
Wages and salaries per employee[1]						
Nominal, gross	+ 2.2	+ 2.7	+ 4.7	+ 7.8	+ 7.8	+ 4.1
Real[2]						
Gross	+ 0.8	– 0.1	– 3.6	– 0.0	+ 3.9	+ 1.4
Net	+ 1.6	– 0.9	– 2.9	+ 0.8	+ 4.4	+ 1.4
Wages and salaries per hour worked[1]						
Real, net[2]	+ 9.5	– 3.9	– 2.6	+ 0.7	+ 5.2	+ 1.3
	Percent					
Wage share, adjusted[3]	69.3	68.3	69.8	71.1	74.0	74.7
	Percentage changes from previous year					
Unit labour costs, nominal[4]						
Total economy	+ 7.6	– 0.1	+ 2.5	+ 9.5	+ 8.0	+ 3.3
Manufacturing	+ 6.2	– 7.6	+ 2.2	+11.8	+ 9.6	+ 1.7
Effective exchange rate – manufactured goods[5]						
Nominal	+ 1.4	+ 0.6	– 1.5	+ 1.9	+ 0.8	+ 0.9
Real	+ 1.7	+ 0.2	– 1.8	+ 3.4	+ 1.2	+ 0.9

Source: WIFO, Statistics Austria. 2024 and 2025: forecast. – [1] National Accounts definition (jobs). – [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 2015. – [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 Further increase in employment with a slight rise in unemployment

Dependent employment still grew strongly on average in 2023. However, momentum slowed significantly over the year (first quarter +1.7 percent compared to the previous year, fourth quarter 2023 +0.7 percent); in the first two months of 2024, growth was only 0.3 percent. The lively growth at the beginning of 2023 was largely driven by the core area of tourism: Accommodation and food service activities accounted for around a quarter of the total growth in the first quarter of 2023.

At the end of 2023 and the beginning of 2024, several key economic sectors saw a sharp slowdown in employment growth, in some cases even negative. Declines were recorded above all in construction (January/February 2024 –2.6 percent) and trade

(–0.5 percent). From January onwards, manufacturing also recorded a decline in employment for the first time (January/February –0.6 percent). Labour leasing has been confronted with employment losses since November 2022, which intensified significantly until February 2024 (–16.5 percent).

Construction, trade and goods production recorded a decline in employment at the beginning of 2024.

WIFO expects weak employment growth of 0.4 percent for 2024 as a whole. The downward revision compared to the December forecast is due to the changed economic assessment. Due to the later onset of the recovery, employment growth in 2025 will also be weaker at 1.1 percent (instead of 1.4 percent).

Unemployment has been rising again year-on-year since April 2023. In addition to the economic slowdown, the abolition of work permits for displaced persons from Ukraine is the main reason for the increase. Since 21 April 2023, displaced persons have had free access to the labour market. Prior to this, displaced persons registered with the AMS were not included in the unemployment statistics. With the opening of labour market access, they were gradually included in the official statistics. This transfer process was completed at the end of May 2023.

The rise in unemployment was slow in 2023, with growth of 5.8 percent in the third quarter of 2023 and 6.5 percent in the fourth quarter of 2023. It was dampened by the expansion of AMS training activities in autumn 2023. In the first two months of 2024, the number of unemployed was 8.9 percent higher than in the previous year.

Table 10: **Labour market**

	2020	2021	2022	2023	2024	2025
	Change from previous year in 1,000					
Demand for labour						
Persons in active employment[1]	– 76.6	+ 96.9	+ 116.2	+ 47.2	+ 15.0	+ 46.0
Employees[1]	– 76.1	+ 90.4	+ 110.2	+ 44.8	+ 14.0	+ 42.0
National employees	– 53.9	+ 28.1	+ 22.9	– 9.0	– 13.0	– 10.0
Foreign employees	– 22.2	+ 62.4	+ 87.4	+ 53.8	+ 27.0	+ 52.0
Self-employed[2]	– 0.5	+ 6.5	+ 6.0	+ 2.4	+ 1.0	+ 4.0
Labour supply						
Population of working age						
15 to 64 years	+ 9.9	+ 5.4	+ 48.6	+ 32.9	– 0.1	– 18.1
Labour force[3]	+ 31.7	+ 19.0	+ 47.6	+ 54.9	+ 30.0	+ 38.0
Labour surplus						
Unemployed	+ 108.3	– 77.9	– 68.6	+ 7.7	+ 15.0	– 8.0
Unemployed persons in training	– 4.9	+ 13.2	– 0.8	+ 1.0	+ 4.0	– 3.0
	Percent					
Unemployment rate						
As a percentage of total labour force (Eurostat)[4]	6.0	6.2	4.8	5.1	5.5	5.4
As a percentage of total labour force	8.9	7.2	5.6	5.7	6.0	5.8
As a percentage of dependent labour force	9.9	8.0	6.3	6.4	6.7	6.5
	Percentage changes from previous year					
Labour force[3]	+ 0.7	+ 0.4	+ 1.0	+ 1.2	+ 0.6	+ 0.8
Persons in active dependent employment[1]	– 2.0	+ 2.5	+ 3.0	+ 1.2	+ 0.4	+ 1.1
Unemployed	+ 35.9	– 19.0	– 20.7	+ 2.9	+ 5.5	– 2.8
Persons (in 1,000)	409.6	331.7	263.1	270.8	285.8	277.8

Source: WIFO, Eurostat, Federation of Social Insurances, Public Employment Service Austria, Statistics Austria. 2024 and 2025: forecast. – [1] Excluding persons in valid employment contract receiving child care benefit or being in military service. – [2] According to WIFO, including liberal professions and unpaid family workers. According to the Federation of Social Insurances. – [3] Persons in active employment plus unemployed. – [4] Labour Force Survey.

3.7 High national debt reduces budgetary room for manoeuvre

The general government budget balance will deteriorate significantly from –2.4 percent of economic output to –2.9 percent of GDP in 2024 and will only improve slightly to –2.7 percent in 2025.

On the one hand, this is due to the fact that tax revenue, which had increased considerably in the two previous years, will grow much more slowly as inflation gradually declines. The weaker growth in private consumption in value terms will noticeably dampen the revenue momentum from consumption taxes. As the inflation-linked adjustment of tax brackets in income and income tax (abolition of fiscal drag) has a delayed effect and corporate tax revenue is likely to develop weakly, revenue from direct taxes will barely increase in 2024 and will only rise modestly in 2025.

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

	2020	2021	2022	2023	2024	2025
	As a percentage of GDP					
Fiscal policy						
General government financial balance[1]	– 8.0	– 5.8	– 3.5	– 2.4	– 2.9	– 2.7
General government primary balance	– 6.6	– 4.7	– 2.6	– 1.2	– 1.6	– 1.3
General government total revenue	48.8	50.4	49.6	49.2	49.1	49.2
General government total expenditure	56.8	56.2	53.2	51.5	52.1	51.9
General government gross dept[1]	83.0	82.5	78.4	76.4	76.5	76.7
	Percent					
Monetary policy						
Three-month interest rate	– 0.4	– 0.5	0.3	3.4	3.8	3.1
Long-term interest rate[2]	– 0.2	– 0.1	1.7	3.1	3.5	3.4

Source: WIFO, ECB, OeNB, Statistics Austria. 2024 and 2025: forecast. – [1] According to Maastricht definition. – [2] 10-year central government bonds (benchmark).

On the other hand, the high rates of price increases in 2022 and 2023 will have an impact on public spending (pensions, income in the public sector, index-linked social benefits). As a result, the decline in expenditure for temporary support measures to cushion the economic and social impact of the energy price and inflation crisis will not result in falling expenditure ratios. The housing package with a total volume of over 2 billion € (2024-2026) is unlikely to have an impact on the fiscal balance in the forecast period up to 2025 – also because it is assumed that not all funding instruments will have a deficit effect.

In total, the government revenue ratio will stagnate at just over 49 percent of GDP until 2025. The government expenditure ratio will increase by 0.6 percentage points year-on-year to 52.1 percent in 2024 and fall only slightly to 51.9 percent in 2025. The government debt ratio remains at over 76 percent of GDP and will not be reduced in the forecast period. This means that there is already a noticeable restriction on future budgetary room for manoeuvre. The interest expenditure ratio will rise to 1.5 percent of GDP by 2025.

3.8 Greenhouse gas emissions fall due to business cycle and weather conditions

The weaker business cycle also reduced the greenhouse gas emissions released in production in 2023. The production of energy-intensive industrial goods in particular fell significantly in the previous year. WIFO therefore expects greenhouse gas emissions to fall by 4.6 percent in 2023. The business cycle will also remain weak in 2024; the very warm February will lead to a similarly low demand for heating as in the warmer than average winter of 2022-23. Fuel sales are also not expected to increase. Petrol sales in 2023 were already at the 2019 level, while diesel sales are likely to remain below this level for the long term. In total, greenhouse gas emissions should also fall in 2024 as a result (–2.5 percent).

In 2025, two opposing trends will result in emissions stagnating (+0.1 percent). On the one hand, energy demand will increase due to the growth of real GDP and the assumed average winter. On the other hand, the ongoing decarbonisation of the energy system will curb greenhouse gas emissions.

3.9 Income distribution and poverty risk largely stable

The weak economy will cause the budget deficit to rise to 2.9 percent of GDP in 2024.

Based on the income quintile ratio, the income distribution data available up to 2021 shows a slight downward trend since 2007. This indicates a reduction in income inequality in Austria. For 2022, WIFO calculated a preliminary value of 4.02 for the ratio between the top and bottom quintile of the income distribution, i.e. the incomes in the top quintile were around four times as high as those in the bottom quintile. This is the lowest value since 2007. The ratio is expected to have risen again in 2023. However, WIFO expects declines for 2024 and 2025.

The at-risk-of-poverty rate also fell between 2007 and 2014, but has remained at an average level of 14.2 percent since then, with fluctuations. WIFO calculated a value of 13.8 percent for 2022. Following this significant decline, the rate is likely to rise again slightly to 14.4 percent over the forecast horizon, meaning that the at-risk-of-poverty rate will increase again slightly.

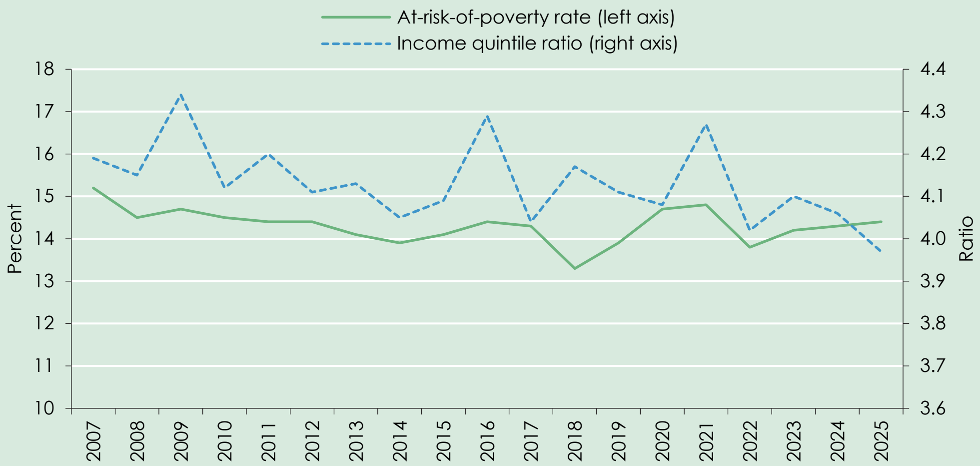
Beyond GDP: Indicators of income distribution

This forecast introduces two indicators for analysing the income distribution of private households in Austria for the first time: the ratio of the income of the top quintile to that of the bottom quintile (S80/S20) and the at-risk-of-poverty rate. These indicators are used both in the United Nations' 2030 Agenda for Sustainable Development and in the European Commission's European Pillar of Social Rights Action Plan as tools for monitoring progress in achieving the defined social policy goals.

The two indicators are based on disposable income according to the EU Statistics on Income and Living Conditions (EU-SILC). However, the data is only available with a delay of almost two years. The gross income components are forecast using weighting methods and microsimulation, taking into account external data on developments that have already occurred (e.g. employment and unemployment) as well as demographic forecasts and relevant WIFO forecasts (e.g. on the development of the labour market and earned income). A microsimulation of the tax and transfer system is then used to determine the other components for calculating disposable income, such as pensions, social transfers and deductions. These projected disposable incomes provide the basis for forecasting the at-risk-of-poverty rate and the S80/S20 income ratio.

For further details, see WIFO Research Brief 5/2024 (https://www.wifo.ac.at/wwa/pubid/71465).

Figure 3: **Indicators of income distribution**



Source: WIFO, Eurostat. From 2022: forecast. At-risk-of-poverty rate: Percentage of people in private households with an equivalised disposable income below the at-risk-of-poverty threshold (60 percent of the national median equivalised disposable income). Income quintile ratio: S80/S20 ratio of the total equivalised disposable income of the population in private households in the highest income quintile to that of the population in the lowest income quintile.

4. Forecast risks

The greatest risk to this forecast is a further delay in the economic upturn in the EU. However, the pent-up demand for renewal investments should dissipate as a result of the easing of monetary policy. This should benefit Austrian industry in particular. Although the markets are already anticipating the easing to some extent, it is uncertain how quickly it will be transferred to the real economy.

The geopolitical risks have increased somewhat since the last forecast. Increased attacks on ships in the Red Sea are causing more and more freight companies to avoid this route and accept longer transport routes. This is putting a strain on supply chains. Another sharp rise in transport costs would slow down the decline in inflation. This would once again put pressure on the real income of private households and force the ECB to exercise more restraint with regard to interest rate cuts.

There is also uncertainty regarding Russia's natural gas supplies beyond 2024. Ukraine has announced that it will cut off the pipelines crossing its territory in the course of 2024. Natural gas from Russia continues to be an important source of energy for domestic companies and private households. Although there are alternative sources of supply, it is questionable whether sufficient quantities can be obtained and at what price.