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Downturn Continues.

Results of the WIFO-Konjunkturtest
Quarterly Survey of October 2022

Werner Hölzl, Jürgen Bierbaumer, Michael Klien, Agnes Kügler

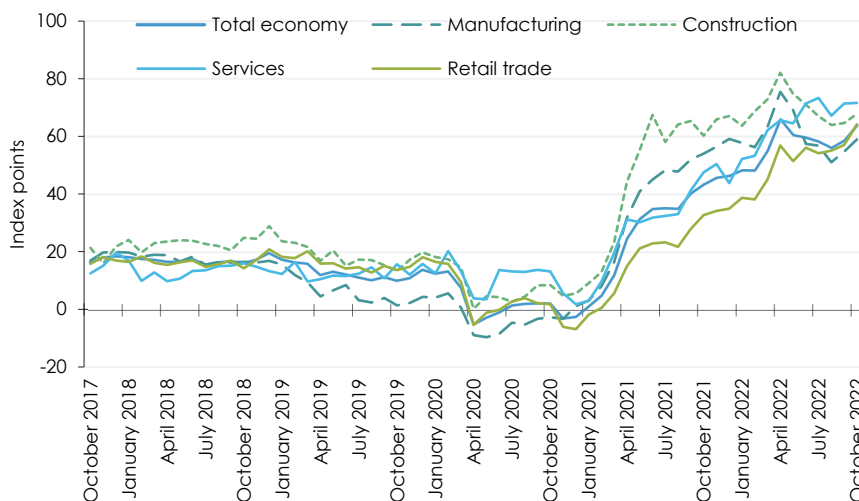
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- Domestic companies were less confident about the economic situation in October than in July.
- The business expectations index is already in negative territory in most sectors. This points to a further weakening of the economy. Accordingly, the WIFO-Konjunkturampel (economic traffic light) continues to show red.
- Business uncertainty has further increased and is above average in all sectors.
- Capacity utilisation averaged 87.7 percent in the economy as a whole in October, but is down in all sectors.
- As in the previous quarters, most companies reported impairments in their business activities. In the overall economy, "shortage of labour force" remained the most important constraint, ahead of "insufficient demand" and "shortage of material and/or capacity".
- The majority of companies expect to have to raise prices further in the coming months.

Sales price expectations in the overall economy and the sectors



"Sales price expectations, which had already risen significantly in 2021 as a result of the recovery and supply constraints, remained above average across all sectors."

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

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The results of the WIFO-Konjunkturtest (business cycle survey) of October show a quarter-on-quarter weakening of economic assessments and a further deterioration of economic expectations for all sectors. Capacity utilisation also declined in all sectors, but still remained at average levels. As in previous quarters, the "shortage of labour force" was the most important constraint on business activity in the Austrian economy, although the "insufficient demand" is gaining in importance. Business uncertainty has risen for the last months. Sales price expectations has also remained above average.

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Economic assessments worsened in all sectors in a quarterly comparison. The majority of economic expectations was already pessimistic due to the increased uncertainty.

1. Economic indices

The results of the WIFO-Konjunkturtest (business cycle survey)¹ for October 2022 (beginning of fourth quarter) point to a further weakening of the economy. The WIFO Business Climate Index fell by 7.6 points quarter-on-quarter to 2.9 points and was thus approximately 16.2 points lower than in October 2021 (Table 1). The assessments of the current situation deteriorated by 8.8 points compared to July, but the corresponding index remained above the zero line separating negative from positive economic assessments at 7.9 points. In contrast, the majority of economic expectations is now pessimistic: the business expectations index was

2.2 points below zero in October, well below the level in summer (July 2022: 4.2 points).

In a quarterly comparison, the deterioration in business sentiment was visible in all sectors: the WIFO Business Climate Index was at a level of 2.1 points in manufacturing, down 10.2 points from the previous quarter; it was in negative territory for the first time since March 2021. The index of current situation assessments deteriorated noticeably compared to July (-10.0 points), but remained above zero at 5.8 points. The index of business expectations also fell sharply (-10.3 points), but at -10.0 points it was

¹ The WIFO-Konjunkturtest (business cycle survey) is a monthly survey of Austrian companies on their current economic situation and the development in the coming months. Once a quarter, the questionnaire of the WIFO-Konjunkturtest (business cycle survey) is extended by additional questions ("quarterly questions") that provide relevant information on the business cycle but are not included in the monthly indices of the WIFO-Konjunkturtest (business cycle survey). The current results of the WIFO-Konjunkturtest (business cycle survey) are available on the WIFO website

(<https://www.wifo.ac.at/publikationen/wifo-konjunkturtest>) and on the business cycle analyses topic page at WIFO (<https://www.wifo.ac.at/themen/konjunktur> or www.konjunkturtest.at). Hölzl and Schwarz (2014) provide an overview of the WIFO-Konjunkturtest (business cycle survey). Detailed results on the subsectors of manufacturing and services can be downloaded as a graphical appendix from the project homepage (<https://www.wifo.ac.at/themen/wifo-konjunkturtest/publications>).

already well below zero, the threshold that separates optimistic from pessimistic expectations.

In the construction industry the WIFO Business Climate Index deteriorated compared to July as well (-2.6 points to 29.8 points). While the index of current situation assessments dropped by 4.9 points to 23.7 points, the index of business expectations fell only slightly by 0.4 points to 35.8 points. However, the expectations index also reflects the still high construction price expectations, which currently allow few conclusions to be drawn about the economy – the business situation in the next six months has already been assessed as unfavourable by the majority since May 2022.

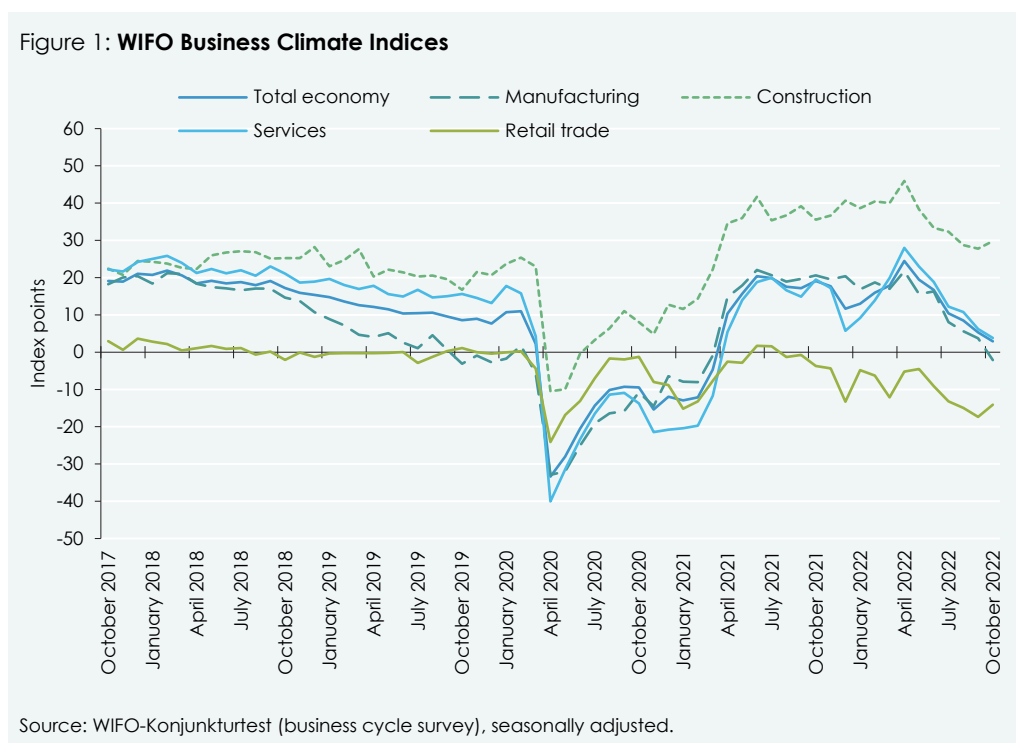
In the service sector, the indices also declined. The WIFO Business Climate Index fell by 8.4 points compared to July 2022, but was still just in positive territory at 3.8 points. The index of current situation assessments deteriorated by 10.8 points to 9.1 points in a quarter-on-quarter comparison. The index of business expectations lost 6.1 points

compared with July and at -1.5 points was already just below the zero line. Accordingly, pessimistic expectations outweighed optimistic ones.

The business cycle indices for the retail trade, which WIFO calculates on the basis of surveys by Austrian Institute for SME Research, fell only slightly compared to the previous quarter: the corresponding WIFO Business Climate Index in October was 0.9 points below the value of July, but remained clearly below zero (-14.1 points). While the index of current situation assessments stagnated (-0.1 points to -8.2 points), the index of business expectations deteriorated further by 1.8 points to -20.0 points. It was thus at a very low level even for the retail sector.

A longer-term view of the WIFO Business Climate Indices shows the extent of the decline due to the COVID-19 crisis, the significant improvement in the course of 2021 and the gradual slowdown in economic activity since the outbreak of the Ukraine war (Figure 1).

Figure 1: WIFO Business Climate Indices



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

The Ukraine war triggered a strong rise in energy prices, as a result of which, the sales price expectations of Austrian companies also increased². The latter had already risen in 2021 in the course of the economic recovery and as a result of supply bottlenecks. The

Ukraine war has further accelerated the lively price dynamics.

Sales price expectations are presented in the WIFO-Konjunkturtest (business cycle survey) as balances, i.e. as the difference

² The results of a special survey conducted as part of the WIFO-Konjunkturtest (business cycle survey) in May (Hözl et al., 2022) provide more insight into the effects of the Ukraine war. The majority of Austrian companies (55 percent) reported being adversely affected by

the Ukraine war, at least in the form of rising energy and input prices. On average, companies affected by the Ukraine war had more pessimistic economic and higher sales price expectations than non-affected companies.

between the share of positive and negative responses in all reports. They have a range of values from –100 to +100 points. As the October 2022 results show, a majority of the companies surveyed expected sales prices to rise in the coming months. For the economy as a whole, the balance of sales price expectations reached 63.7 points. This value is 5.6 points above the July 2022 level and

well above the long-term average of 20.2 points. Increases were recorded in all sub-sectors (construction +0.8 to 67.8 points, manufacturing +2.1 to 58.9 points, services +10.1 to 64.2 points), with the exception of retail trade, where the balance declined by 1.8 points to 71.6 points compared to July. Sales price expectations nevertheless remained above average in all sectors.

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

	2021 October	January	April	July Index points	2022 August	September	October	October Change compared to July (previous quarter)
Total economy								
WIFO Business Climate Index	19.1	13.0	24.5	10.4	8.5	5.3	2.9	– 7.6
Index of current business situation	20.6	14.0	27.4	16.7	13.1	9.7	7.9	– 8.8
Index of business expectations	17.6	12.0	21.7	4.2	3.8	1.0	– 2.2	– 6.3
Manufacturing								
WIFO Business Climate Index	20.6	16.8	21.7	8.1	5.6	3.7	– 2.1	– 10.2
Index of current business situation	23.3	18.6	26.9	15.8	11.6	10.5	5.8	– 10.0
Index of business expectations	17.9	15.1	16.7	0.4	– 0.3	– 3.0	– 10.0	– 10.3
Construction								
WIFO Business Climate Index	35.5	38.6	46.0	32.3	28.7	27.8	29.8	– 2.6
Index of current business situation	31.8	41.2	45.8	28.6	23.2	21.9	23.7	– 4.9
Index of business expectations	39.4	36.2	46.3	36.2	34.2	33.6	35.8	– 0.4
Services sector								
WIFO Business Climate Index	19.5	9.2	28.0	12.2	10.8	6.2	3.8	– 8.4
Index of current business situation	21.2	9.4	31.0	20.0	16.5	10.6	9.1	– 10.8
Index of business expectations	17.8	9.1	25.1	4.5	5.0	1.9	– 1.5	– 6.1
Retail trade								
WIFO Business Climate Index	– 3.7	– 4.8	– 5.2	– 13.2	– 15.0	– 17.4	– 14.1	– 0.9
Index of current business situation	– 1.7	– 3.1	– 7.3	– 8.1	– 9.9	– 10.6	– 8.2	– 0.1
Index of business expectations	– 5.7	– 6.5	– 3.2	– 18.3	– 20.1	– 24.2	– 20.0	– 1.8

Source: WIFO-Konjunkturtest (business cycle survey).

Indices of the WIFO-Konjunkturtest (business cycle survey)

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

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

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

2. Economic traffic light still shows red

With the help of a Markov regime switching model, the probability with which the current values of the indicators of the WIFO-

Konjunkturtest (business cycle survey) correspond to an improvement or deterioration of the business cycle estimates compared to

the previous period is calculated in the WIFO-Konjunkturampel (economic traffic light) model (Glocker & Hölzl, 2015)³. The determined probability can fall into one of three categories, which are collectively referred to as the "economic traffic light":

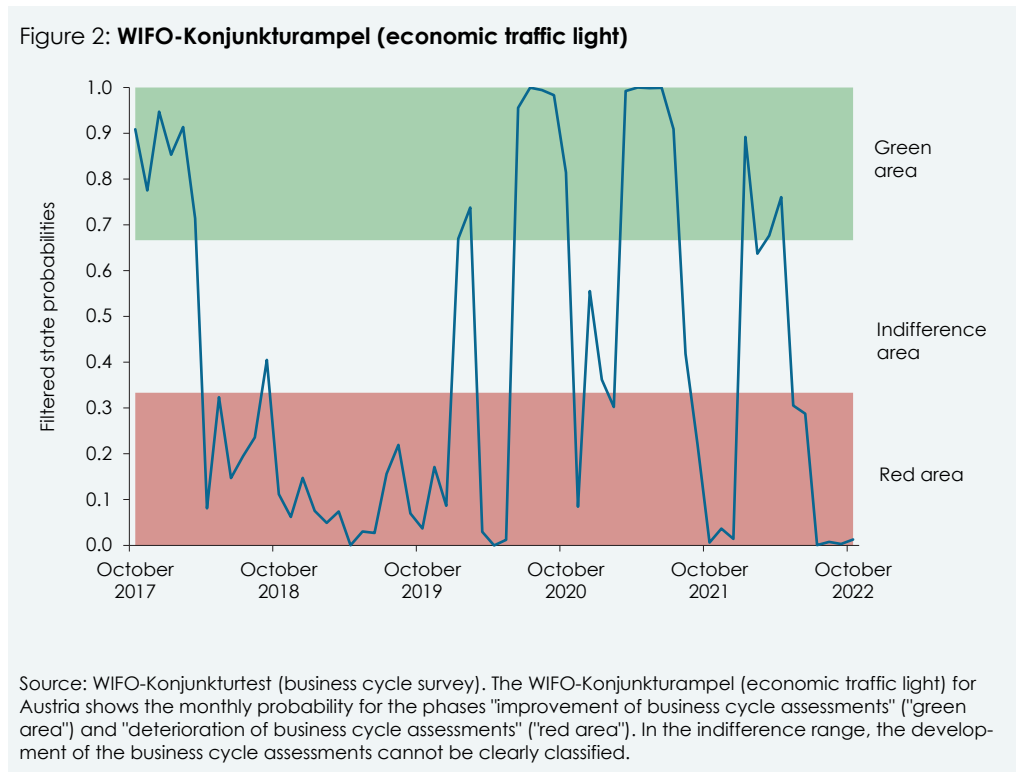
- In the "green area" (improvement), the probability is over two-thirds that the change in the current index values compared to the previous measuring point reflects an improvement in economic assessments.
- In the "red area" (deterioration), the probability is less than one third that the current index value represents an

improvement over the previous measuring point.

- Between the "green" and the "red" area lies the indifference area. In this case, the development of the economic assessments cannot be clearly assigned.

In October 2022, the probability of being in an improvement regime was estimated by the model to be very low at 0.01. This means that the WIFO-Konjunkturampel (economic traffic light) was red in October, as in previous months. The WIFO-Konjunkturampel (economic traffic light) thus showed red in October, as in previous months. The deterioration since April 2022 reflects the weakening of the economy.

Figure 2: WIFO-Konjunkturampel (economic traffic light)



3. Uncertainty remains very high

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

May instead of quarterly as before. Due to these changes, comparisons over time to date are only possible to a limited extent (Figure 3).

The indicator of uncertainty about the future business situation has a value range from 0 (no uncertainty) to 100 (highest uncertainty). For the economy as a whole, the value in October (fourth quarter of 2022) was 65.1 points. The indicator was thus 1.8 points higher than in July (63.3 points) and higher than in October of the previous year (56.4 points). According to the available monthly data, uncertainty in October 2022

Business uncertainty increased further compared to the summer. A month-on-month comparison also shows an increase in uncertainty for many sectors.

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

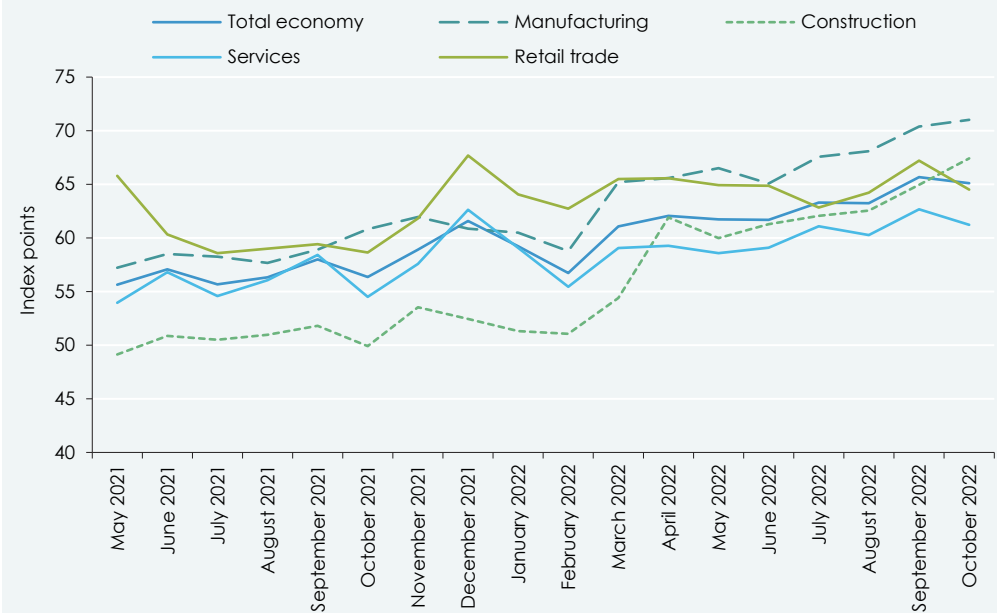
"improvement" state (q) is 1 minus the probability of being in the "deterioration" state ($p = 1 - q$).

was also significantly higher than during the lockdown in December 2021. The Ukraine war, the related energy price hike and uncertainty about energy supply already caused uncertainty to rise in all sectors in March 2022, especially in export-oriented manufacturing. Business uncertainty was above average in October (71.0 points). In the construction industry uncertainty has

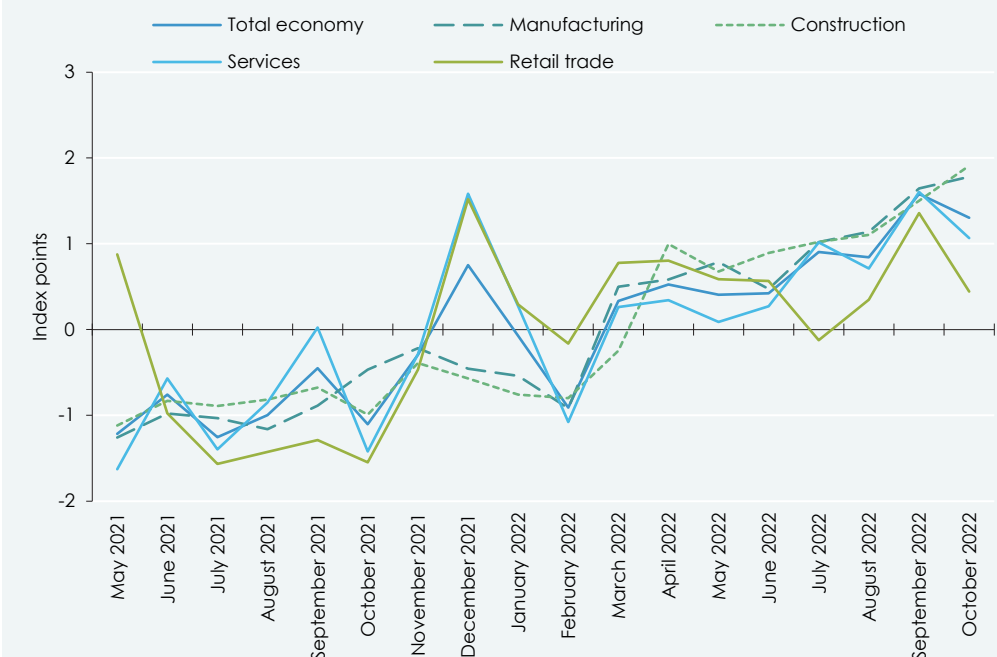
increased significantly in recent months too (to 67.4 points). In the service industries, the increase was weaker; at 61.2 points, uncertainty in October 2022 was similar to the level in December of the previous year. In the retail sector, the uncertainty indicator recently reached an above-average 64.5 points.

Figure 3: **Business uncertainty indicator for the economy as a whole and the sectors**

Indicator value



Standardised time series



Source: WIFO-Konjunkturtest (business cycle survey), not seasonally adjusted. 0 . . . no uncertainty, 100 . . . highest uncertainty. Standardised presentation: Normalisation of all indicators to a mean of 0 and a standard deviation of 1. This facilitates the assessment of the business cycle of the uncertainty indicator.

4. Capacity utilisation and order backlogs down

4.1 New decline in capacity utilisation in all sectors

Especially in sectors with high capital intensity and high capacity adjustment costs, capacity utilisation is an important business cycle indicator (Hözl et al., 2019). It is therefore surveyed as part of the WIFO-Konjunkturtest (business cycle survey) in all sectors except retail. Overall economic capacity utilisation fell by 1.6 percentage points to 87.7 percent in October 2022 compared to July (long-term average: 86.0 percent). Although the deterioration was observable in all sectors,

capacity utilisation remained slightly above the average of the last five years in all areas. The most significant decline was recorded in manufacturing (-2.6 percentage points to 83.1 percent). Capacity utilisation fell by 1.3 percentage points in construction and by 1.1 percentage points in services. So far, the Ukraine war, the related supply bottlenecks and the energy price hike have not yet led to a significant decline in capacity utilisation. However, business expectations for the next few quarters point to increasing capacity underutilisation.

Capacity utilisation in October was lower than in summer 2022 in all sectors.

Figure 4: Capacity utilisation by sectors



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

4.2 Secured production period unchanged

The assured production duration – measured in months – is surveyed in the framework of the quarterly survey of the WIFO-Konjunkturtest (business cycle survey) in manufacturing and in construction (Figure 5). In October, there were only minor changes in the average values in both sectors.

In construction, firms reported that their production activity is assured for the next 5.6 months (+0.1 months compared with July 2022). In manufacturing, the average assured production duration remained unchanged at 4.4 months. Both values are still above the long-term average.

4.3 Order situation in manufacturing deteriorates further

In manufacturing, order books and expectations for foreign orders are asked once a quarter as relevant indicators. The answers to these questions are aggregated into balances between the share of positive and negative answers. As Figure 6 shows, order books developed less dynamically in October than in previous months; the corresponding indicator fell to a value of -8.9 points, thus signalling on balance a decline in new orders in recent months. Expectations for incoming foreign orders also worsened and, on balance, were in negative territory for the second month in a row; the share of optimistic voices expecting an

The indicators for order backlogs and expected new export orders have been developing unfavourably since the third quarter of 2022.

increase in foreign orders in the coming months declined further compared to July,

with negative reports outweighing positive ones by a good 17 percentage points.

Figure 5: Average secured production time in manufacturing and construction



Source: WIFO-Konjunkturtest (business cycle survey).

Figure 6: Development of overall orders and expected export orders in manufacturing



Source: WIFO-Konjunkturtest (business cycle survey).

5. Shortages of labour force remain the most important obstacle to business activity

In the WIFO-Konjunkturtest (business cycle survey), the most important obstacles to the business activity of the companies surveyed are surveyed on a quarterly basis. The companies have the option of not reporting any impairment of their economic activity or to

choose the most important obstacle from a predefined list:

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

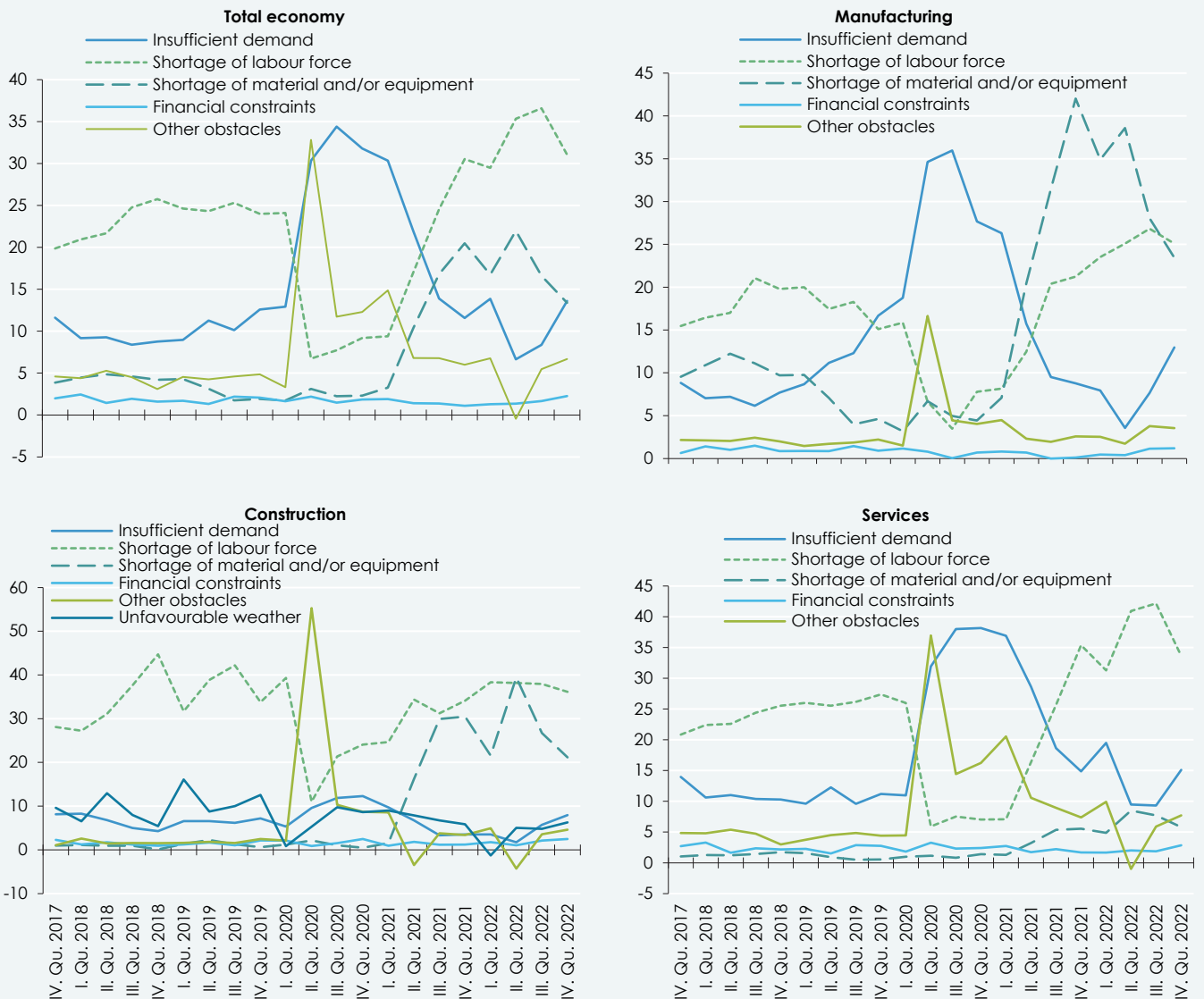
- shortage of labour force,
- shortage of space or capacity (services) or shortage of material and/or capacity (manufacturing and construction),
- financial constraints and
- other reasons – this category reflects the impact of the COVID-19 pandemic and

the public health measures to contain it, in addition to the weather impact.

In the construction industry, the obstacle "unfavourable weather" is also raised⁴.

Figure 7: **Factors limiting economic activity**

Percentage shares of all reports



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

Due to the COVID 19 pandemic and related constraints, supply chain issues, the Ukraine war and strong energy price inflation, the share of companies reporting barriers to their business activity has jumped since 2020. In October 2022, only about 34 percent of manufacturing firms (+1 percentage points compared to April), about 21 percent of

construction firms (+2 percentage points), about 35 percent of service providers (+2 percentage points) and about 32 percent of retail firms (+1 percentage points) reported no impediments to their business activity. In "normal" years, these values are over 50 percent.

⁴ In the calculation of macroeconomic barriers, "adverse weather" is classified under "other barriers".

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

In manufacturing, "shortage of labour force" (25.1 percent of all firms) replaced "shortage of materials and/or capacity" (23.4 percent) as the most frequently cited obstacle to production activity in October 2022 for the first time since July 2019. Around 12.9 percent of tangible goods producers reported "insufficient demand" as the most important constraint, 3.5 percent "other reasons" and around 1.2 percent "financial constraints" (Figure 7). Compared to the previous quarter, especially the share of manufacturing firms facing "insufficient demand" increased significantly.

In the construction industry, 36.1 percent of the companies surveyed reported "shortage of labour force" as the most important obstacle to production in October, ahead of "shortage of materials and/or capacity" (21.2 percent), which became less important compared to the previous quarter. For 6.3 percent of the construction companies, "unfavourable weather" was the most important obstacle. 7.9 percent named "insufficient demand", 2.5 percent "financing problems" and 4.6 percent "other reasons".

In the service sectors, "shortage of labour force" (33.6 percent) was the dominant obstacle to business activity in October, well

ahead of "insufficient demand" (15.1 percent) and "shortage of material or capacity" (5.8 percent). In contrast, "other obstacles" (7.7 percent) and "financial constraints" (2.8 percent) were of secondary importance.

In the retail sector, barriers to doing business have been surveyed since July 2021. 28.2 percent of retailers surveyed in October 2022 reported "supply shortages" as the most important constraint, 20.8 percent an "insufficient demand" and 13.9 percent a "shortage of labour force".

In the economy as a whole (excluding retail trade), the "shortage of labour force" continued to be the most frequently cited obstacle to business activity in October (31.1 percent of companies). For 13.3 percent of companies, "shortage of material and/or capacity" was the main constraint on business activity. In the quarterly comparison, these two obstacles lost slightly in importance, while the share of firms reporting "insufficient demand" increased to 13.6 percent. 6.7 percent named "other obstacles" and 2.2 percent "financing problems" as the most important obstacles to their business activity.

6. Summary

The results of the WIFO-Konjunkturtest (business cycle survey) of October 2022 show a weakening of the economy for all sectors in a quarterly comparison. Although the current economic situation is still assessed positively by a slight majority of companies, their feedback on expectations shows that they expect the economy to slow down in the coming months. Accordingly, the economic traffic light continues to show red. Capacity utilisation fell again, but remained at an average level. As in previous quarters, labour shortages were the most frequently cited obstacle to business activity in October, ahead of shortages of materials or capacity

and the insufficient demand, which became more important in all sectors.

Business uncertainty, already high in July, increased further in October. As a result, economic expectations in all sectors were gloomier than in the previous quarter, signalling a pessimistic outlook. Despite the economic slowdown, the majority of companies expect a further rise in sales prices in the upcoming months. In manufacturing, both new orders in recent months and expectations for future foreign order development indicate declining momentum.

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