WIFO REPORTS ON AUSTRIA
5/2024

International Economic Slowdown Hits Austria Hard. The Austrian Economy in 2023

Josef Baumgartner, Jürgen Bierbaumer, Sandra Bilek-Steindl, Benjamin Bittschi, Christian Glocker, Margit Schratzenstaller

International Economic Slowdown Hits Austria Hard

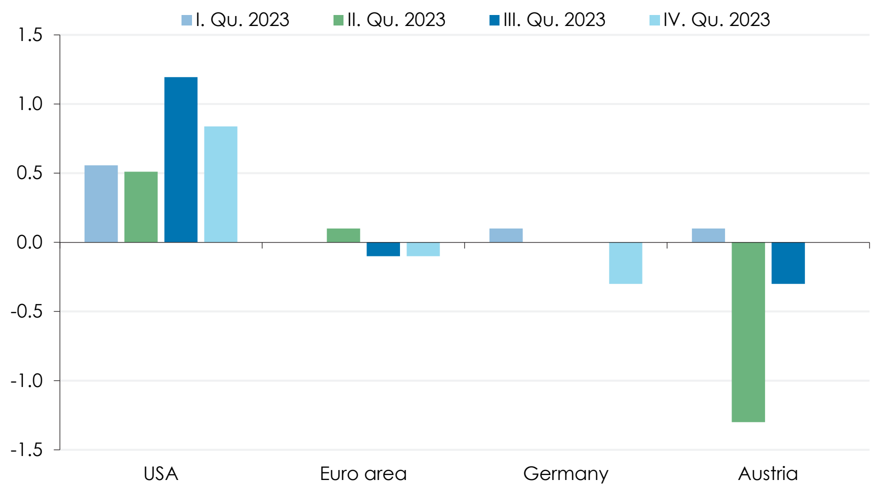
The Austrian Economy in 2023

Josef Baumgartner, Jürgen Bierbaumer, Sandra Bilek-Steindl, Benjamin Bittschi, Christian Glocker, Margit Schratzenstaller

- In addition to the subsiding energy crisis, geopolitical turmoil continued to shape the global economic environment.
- While the USA economy expanded robustly, the business cycle in the euro area remained weak. The industrial and construction sectors in particular were sluggish.
- The Austrian economy went through a recession; GDP contracted particularly sharply in the second quarter of 2023. In total, economic output fell by 0.8 percent in 2023.
- Although inflation weakened, at 7.8 percent it remained significantly higher than in the euro area. Inflation weighed on the purchasing power of private households, resulting in a decline in consumer demand in real terms.
- Gross real income stagnated in 2023, while net income is likely to have risen by 0.8 percent due to government support measures.

International comparison of economic growth in 2023

Real GDP, seasonally adjusted, percentage change from previous quarter



In the USA, the business cycle was robust in 2023; in the euro area, however, it was significantly weaker and GDP fell slightly in the second half of the year. In Austria, economic output contracted in the second and third quarters, in Germany in the fourth quarter (source: U.S. Bureau of Economic Analysis – BEA, Eurostat, Macrobond).

"While the USA economy grew strongly over the course of 2023, GDP in the euro area contracted at times. In Austria and Germany, industry and construction went through a recession."

International Economic Slowdown Hits Austria Hard

The Austrian Economy in 2023

Josef Baumgartner, Jürgen Bierbaumer, Sandra Bilek-Steindl, Benjamin Bittschi, Christian Glocker, Margit Schratzenstaller

May 2024

International Economic Slowdown Hits Austria Hard. The Austrian Economy in 2023

In addition to the easing of the energy crisis, geopolitical turmoil continued to shape global economic developments in 2023. Economic activity was heterogeneous from region to region. Among the industrialised countries, the USA recorded strong economic growth. Western European countries, on the other hand, were weak, with some even slipping into recession. This also applies to Austria, with value added falling in manufacturing and some service sectors. Inflation weighed on household purchasing power, leading to a decline in consumer demand. As a result of the rise in consumer prices, gross wages and salaries stagnated in real terms, while net wages and salaries per capita are likely to have risen slightly as a result of government support measures. At 7.8 percent, inflation remained very high by historical standards for the second year in a row.

JEL-Codes: E32, E66 • **Keywords:** Economic development in Austria

This article analyses economic developments in Austria and worldwide with a focus on domestic wage, consumption and price trends. A detailed analysis of the money and financial markets can be found in Pekanov (2024). Reports on the development of industry, foreign trade and the labour market will follow in issue 5/2024 of the WIFO-Monatsberichte.

Scientific referee: Stefan Schiman-Vukan • **Research assistence:** Martina Einsiedl (martina.einsiedl@wifo.ac.at), Ursula Glauninger (ursula.glauninger@wifo.ac.at), Christine Kaufmann (christine.kaufmann@wifo.ac.at), Martha Steiner (martha.steiner@wifo.ac.at), Doris Steininger (doris.steininger@wifo.ac.at), Andrea Sutrich (andrea.sutrich@wifo.ac.at) • **Cut-off date:** 19 April 2024

Contact: Josef Baumgartner (josef.baumgartner@wifo.ac.at), Jürgen Bierbaumer (juergen.bierbaumer@wifo.ac.at), Sandra Bilek-Steindl (sandra.bilek-steindl@wifo.ac.at), Benjamin Bittschi (benjamin.bittschi@wifo.ac.at), Christian Glocker (christian.glocker@wifo.ac.at), Margit Schratzenstaller (margit.schratzenstaller@wifo.ac.at)

Imprint: Publisher: Gabriel Felbermayr • Editor-in-Chief: Hans Pitlik (hans.pitlik@wifo.ac.at) • Editorial team: Tamara Fellinger, Christoph Lorenz, Tatjana Weber • Media owner (publisher), producer: Austrian Institute of Economic Research • 1030 Vienna, Arsenal, Objekt 20 • Tel. (+43 1) 798 26 01-0, https://reportsonaustria.wifo.ac.at/ • Place of publishing and production: Vienna • 2024/RoA/7496

1. Regionally heterogeneous global economy in 2023

The global economy was in a weak phase in 2023. In addition to the subsiding energy crisis, geopolitical turmoil continued to shape the environment for global economic activity. Although energy prices fell sharply over the course of the year, new geopolitical conflicts in the Red Sea increased economic uncertainty in the second half of the year. This had a particular impact on the global movement of goods in the fourth quarter. The rerouting of cargo ships bound for European ports via the Cape of Good Hope resulted in a sharp rise in freight costs and impacted global trade.

The negative effects of climate change were also felt in 2023. Low rainfall led to extremely low water levels in the Panama Canal, which impaired cargo shipping. As a result of lower demand and higher transport costs, global industrial production and global trade in goods expanded only weakly.

The global economy grew by around 2.7 percent in 2023. This increase was low compared to the previous year and the long-term average. However, the trend was very heterogeneous: while growth in the industrialised countries declined significantly (2022 +2.5 percent, 2023 +1.6 percent), it accelerated to 4.8 percent in the emerging markets (2022 +3.5 percent).

Among the industrialised countries, the USA continued to expand strongly. In contrast, the growth of real GDP in Western European countries remained weak, with some even experiencing a recession in 2023. Within the emerging markets, the BRICS countries (with the exception of South Africa) in particular recorded high growth rates. The other economies of Latin America and Southeast Asia grew more slowly, but still more strongly than most industrialised countries. Developments were also heterogeneous at sector level: stagnation in global industrial production contrasted with continued expansion in market services.

During the year, growth in the USA accelerated significantly in the second half, while it slowed in the EU, the UK and Japan. A similar pattern was also evident within the BRICS countries. While China's economy grew robustly throughout 2023, growth in the other BRICS countries weakened slightly.

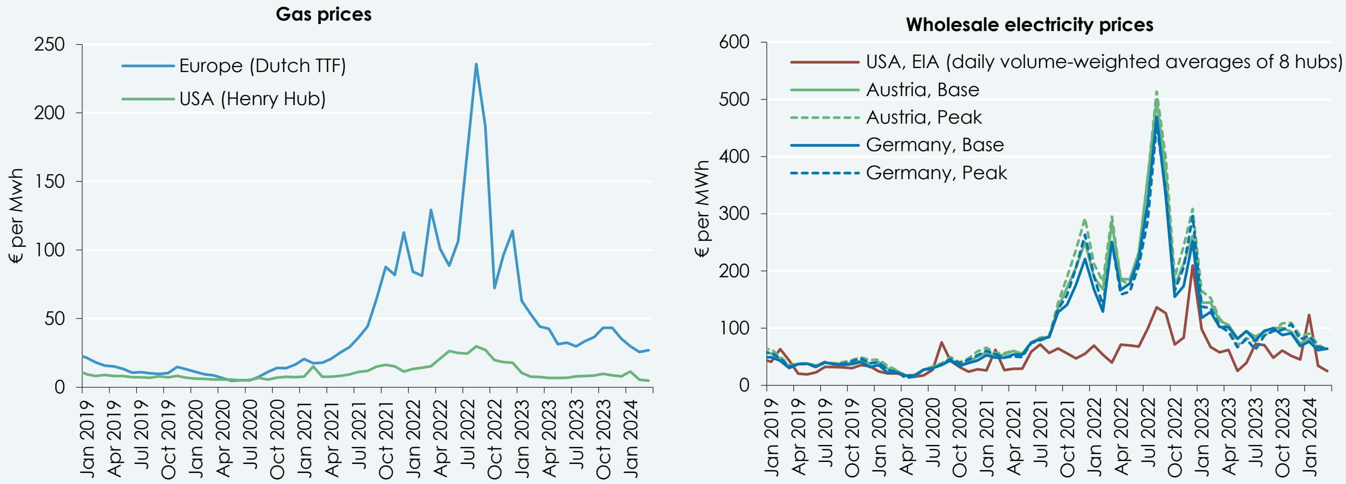
The weakness of the global economy, which had already set in during the second half of 2022, significantly dampened commodity prices due to the decline in demand. The subdued demand was also reflected in numerous company surveys, particularly those conducted by the European Commission. In these surveys, companies from the manufacturing and construction sectors rated weak demand as the most important obstacle to production, replacing the shortage of materials and labour force.

As a consequence of the weak demand, inflation rates based on the consumer price index fell significantly over the course of 2023, particularly in industrialised countries. In some countries, producer prices even fell (deflation). Their decline was mainly due to a strong dampening contribution from energy prices (Figure 1). Consumer prices usually react with a considerable delay to the development of producer prices. However, falling energy prices had already resulted in a noticeable levelling off of consumer price inflation and an improvement in the terms of trade by the end of 2022, particularly in Western Europe.

The global business cycle was more stable during the year than in 2022 but was characterised by contrasting regional developments.

The global economic weakness had a significant dampening effect on commodity prices.

Figure 1: **Energy price development**



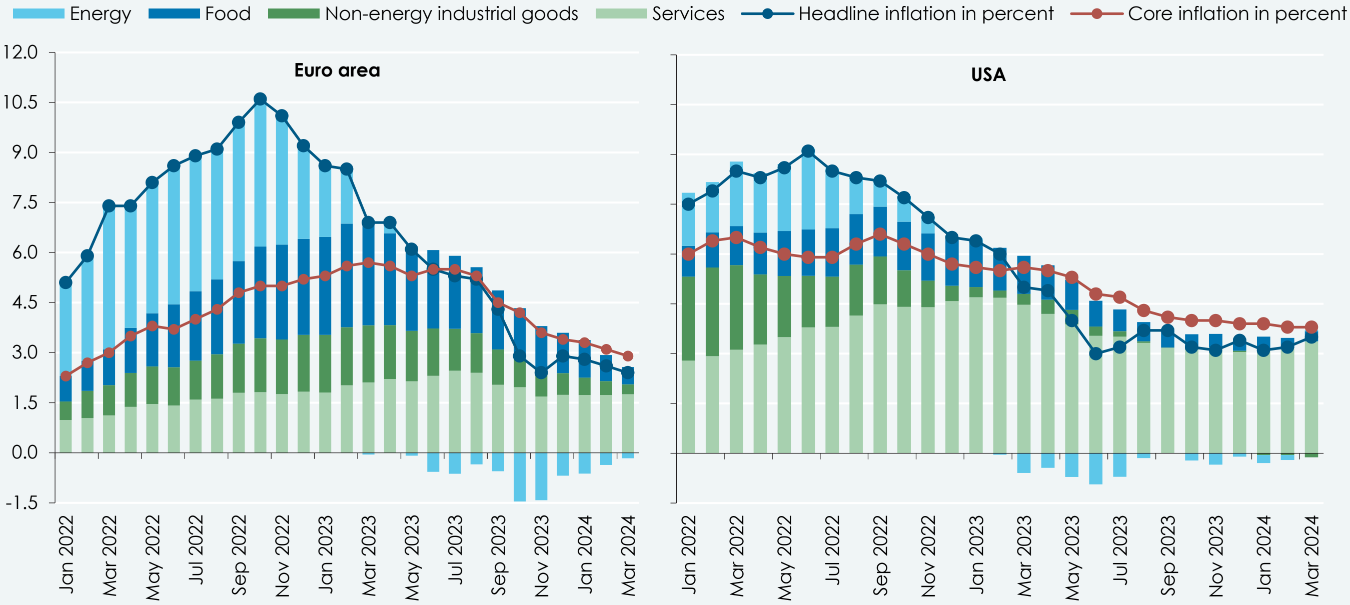
Source: European Energy Exchange, ECB, IMF, U.S. Energy Information Administration.

The price-dampening effect caused by the slump in demand was intensified in many countries by the tightening of monetary policy, among other things. Raising key interest rates generally reduces demand (especially for capital goods) and thus restricts upward pressure on prices. In 2023, the central banks of industrialised countries in particular raised key interest rates further in order to curb the still high core inflation. In the second half of 2022, inflation rates in many euro countries and the USA had reached a level that even exceeded the high inflation phases of the 1970s and early 1980s.

In the EU, inflation weakened rapidly over the course of 2023, with the average rate in the euro countries standing at 2½ percent in the first quarter of 2024. By contrast, inflation in the USA remained at around 3¼ percent in the second half of 2023 and at the beginning of 2024. The two economic blocs also differ markedly in terms of the composition of inflation: in the euro area, price pressure in 2022 was primarily driven by energy prices and was characterised by high core inflation in 2023, which was almost equally attributable to services and industrial goods. In the USA, on the other hand, energy prices only contributed more strongly to inflation in the first half of 2022, after which it was driven almost exclusively by services (Figure 2).

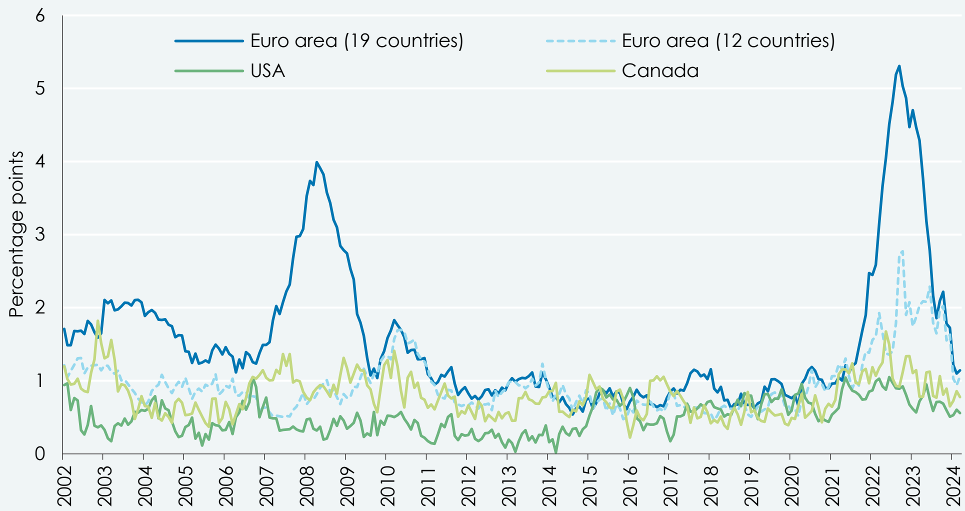
Figure 2: **Inflation in the euro area and the USA by component**

Contribution to headline inflation in percentage points



Source: Eurostat, Macrobond.

Figure 3: **International comparison of standard deviations for regional inflation rates**



Source: Eurostat, U.S. Bureau of Labor Statistics, Statistics Canada, Macrobond. Standard deviation: average deviation of regional inflation rates from the mean. Euro area (12 countries): unweighted standard deviation of the 12 member countries in 2002. Euro area (19 countries): unweighted standard deviation of the 19 member countries in 2015. USA: standard deviation of the 4 regions until 2019, then of the 9 Census Divisions. Canada: unweighted standard deviation of the 13 territories.

In the euro area, the levelling off of inflation in 2023 mitigated a development that was extremely worrying, especially from a monetary policy perspective: the sharp rise in consumer price indices in 2022 was accompanied by a massive spread in inflation rates between the euro countries (Figure 3; Baumgartner et al., 2022). Compared to other federal economic areas, such as the USA and Canada, the spread in the euro area was particularly pronounced. However, it narrowed significantly over the course of 2023, although it was still above its long-term average at the end of the year. The high spread was due to various factors. In addition to differences in the data collection (see section 2.5) and the weighting structure of the CPI baskets, these include different sources of energy supply and differences in economic policy measures to mitigate or cushion inflation: while some euro countries took measures that had a dampening effect on energy prices and thus on CPI-based inflation rates, other countries relied on income support measures to maintain purchasing power, which tended to further increase inflationary pressure.

The monetary tightening implemented in many countries also led to higher mortgage costs, refinancing challenges for companies, lower availability of credit and weaker corporate and residential construction investment (see Figure 3 in Pekanov, 2024). The commercial property sector in particular has come under pressure in many places, as higher borrowing costs have further exacerbated the structural change triggered by the COVID-19 pandemic. Due to the slowdown in inflation, market participants expected key interest rate cuts, which resulted in a decline in longer-term interest rates and rising prices on the equity markets over the course of 2023. Nevertheless, long-term borrowing costs remain high in both industrialised and emerging economies. This is partly due to the increase in government debt. In addition, the central banks' key interest rate decisions are increasingly asynchronous. In some countries, such as Brazil and Chile, where central banks tightened their monetary policy earlier than elsewhere, interest rates have been falling since the second half of 2023. In China, where inflation is close to zero, the central bank has eased monetary policy. The Japanese central bank kept short-term interest rates close to 0 percent in 2023.

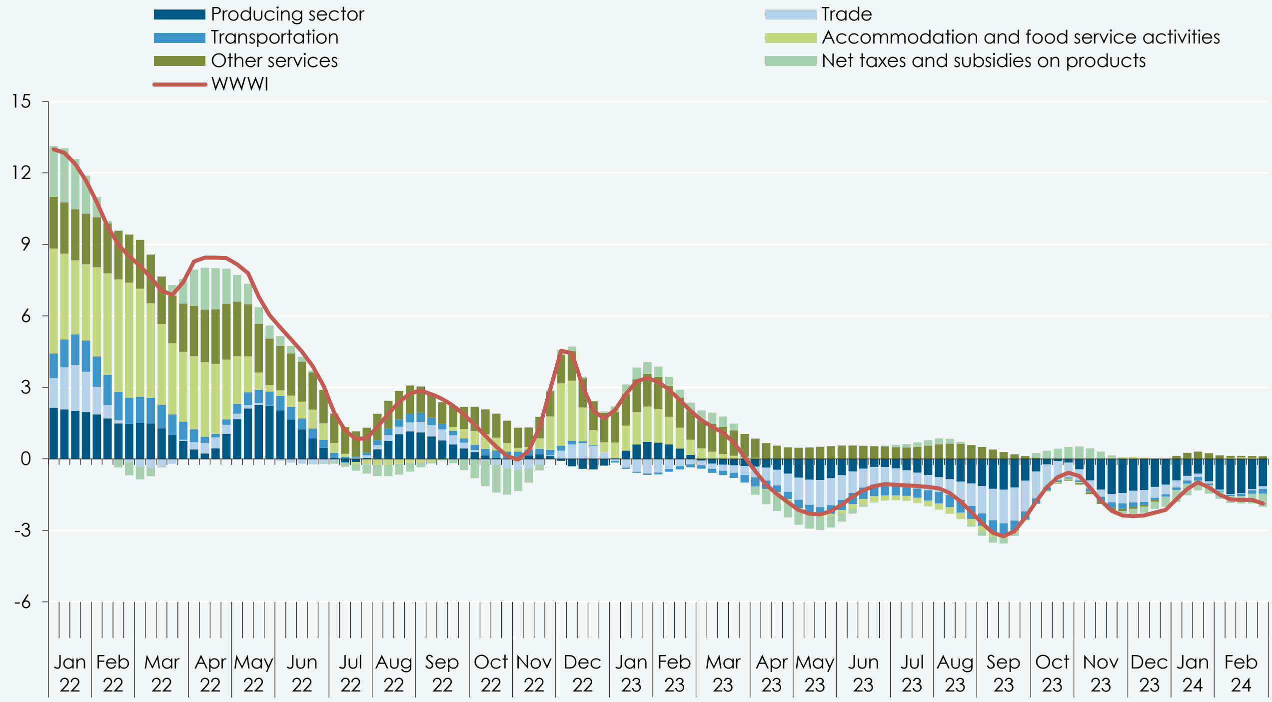
2. Austria's economy in recession

2.1 International business cycle slowdown hit Austria hard

In Austria, the business cycle already cooled in the second half of 2022. The slowdown in international demand, together with the high price increases for energy, dampened industrial activity, while overall inflation reduced household incomes in real terms and weighed on consumer demand. As a result, the Austrian total economy lacked momentum from the third quarter of 2022 onwards. In the second quarter of 2023, economic output fell noticeably (–1.3 percent compared to the previous quarter). It fell again in the following quarter (–0.3 percent) and stagnated in the fourth quarter. In total, GDP in 2023 was 0.8 percent below the previous year's level in real terms (+6.7 percent in nominal terms).

Figure 4: **Weekly WIFO Economic Index (WWWI) – sub-components of the production side**

Year-on-year percentage change (overall index) or growth contribution in percentage points (components)



Source: Statistics Austria, WIFO. Producing sector (NACE 2008, sections A to F), Trade (NACE 2008, section G), transportation (NACE 2008, section H), accommodation and food service activities (NACE 2008, section I), other services (NACE 2008, sections J to T). The sum of the growth contributions of the sub-components may differ from the estimated GDP growth (residual).

Declines in value added in the manufacturing and trade sectors slowed down total economy development in 2023.

Compared to the previous year, economic output declined from April 2023. As the Weekly WIFO Economic Index (WWWI) shows, the manufacturing sector, trade and accommodation and food service activities were still providing positive impetus at the beginning of the year. Thereafter, value added also shrank in these sectors. The other service sectors continued to make a slightly positive contribution to the development of the total economy until September. Economic activity in most sectors remained weak at the start of 2024 (Figure 4).

Value added in wholesale and retail trade fell particularly sharply in 2023 (–5.8 percent in real terms). Adjusted for prices, the slump was even sharper than in 2020, the year of the COVID-19 crisis (–3.3 percent). Value added also fell sharply in the transportation sector, which suffered from weak demand and the slump in industrial activity (–6.1 percent in real terms). In contrast, tourism performed significantly better. As preliminary data for the 2023 summer season shows, the number of guest arrivals was close to the pre-crisis level of 2019 for the first time, while the number of overnight stays was even higher (Burton & Ehn-Fragner, 2023). The value added by accommodation and food service activities grew by 2.6 percent in volume in 2023 compared to the previous year. Other service sectors such as information and communication (+3.1 percent), real estate activities (+1.3 percent) and other services (+6.2 percent) also recorded growth.

In construction, on the other hand, the weak phase continued and value added fell for the fifth year in a row (2023 –1.1 percent). In addition to the rise in construction costs, which had characterised the momentum in 2022, the tightening of lending guidelines in combination with interest rate increases had a dampening effect. These had a particularly negative impact on new residential construction (Klien & Weingärtler, 2024).

Table 1: **Gross value added at basic prices**
Volume (chain-linked series)

	2020	2021	2022	2023
	Percentage changes from previous year			
Agriculture, forestry and fishing	– 7.5	+ 6.4	+ 6.6	– 2.9
Total industry[1]	– 6.4	+ 10.8	+ 4.1	– 2.2
Manufacturing	– 7.3	+ 12.7	+ 4.1	– 2.7
Construction	– 1.8	– 1.1	– 1.2	– 1.1
Wholesale and retail trade	– 3.3	– 1.1	+ 2.1	– 5.8
Transportation and storage	– 11.5	– 0.2	+ 10.9	– 6.1
Accommodation and food service activities	– 39.6	– 14.2	+ 55.3	+ 2.6
Information and communication	– 0.7	+ 5.9	+ 2.8	+ 3.1
Financial and insurance activities	+ 1.1	+ 3.1	– 1.2	– 0.3
Real estate activities	+ 0.0	+ 0.5	+ 2.2	+ 1.3
Other business activities[2]	– 5.9	+ 5.0	+ 3.8	– 0.7
Public administration[3]	– 4.2	+ 4.8	+ 3.1	+ 1.6
Other service activities[4]	– 18.2	+ 1.3	+ 18.9	+ 6.2
Total gross value added[5]	– 6.5	+ 3.5	+ 5.2	– 1.0
Gross domestic product at market prices	– 6.6	+ 4.2	+ 4.8	– 0.8

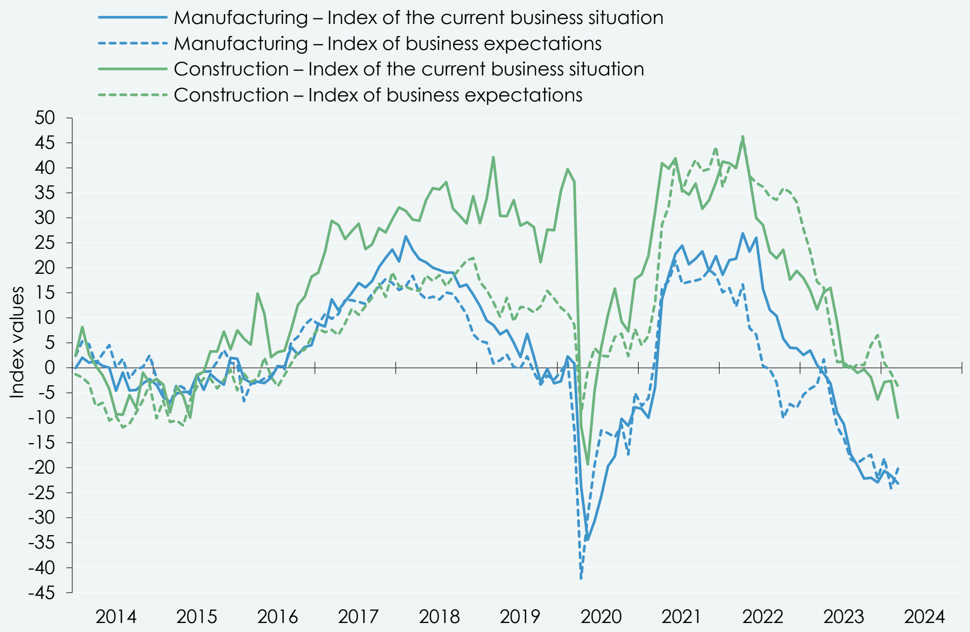
Source: Statistics Austria; WDS – WIFO Data System, Macrobond. – [1] Mining and quarrying; manufacturing; electricity, gas, steam and air conditioning supply; water supply; sewerage, waste management and remediation activities (NACE 2008, sections B to E). – [2] Professional, scientific and technical activities; administrative and support service activities (NACE 2008, sections M and N). – [3] Including compulsory social security, defence; education; human health and social work activities (NACE 2008, Sections O to Q). – [4] Including arts, entertainment and recreation; personal services; private households (NACE 2008, Sections R to U). – [5] Before deduction of subsidies on products and attribution of taxes on products.

The export-orientated domestic industry suffered from weak international demand in 2023. The value added in manufacturing fell by 2.7 percent in real terms (2022 +4.1 percent), while that of industry-related other economic services fell by 0.7 percent. The downturn in the industrial economy was also reflected in the sentiment of domestic manufacturing companies. According to the WIFO-Konjunkturtest (business cycle survey), both their assessments of the current situation and their expectations deteriorated significantly. Both indices fell in 2023 and reached their lowest level since the COVID-19 pandemic at the beginning of 2024 (Figure 5). Among the obstacles to production, material and capacity shortages lost ground compared to the two previous years. By contrast, the shortage of demand and financial constraints gained in importance. The importance of the latter continued to increase in January 2024.

A similar picture emerged in the construction industry. Both the situation index and the expectations index deteriorated almost continuously over the course of 2023. As in industry, financial constraints became more relevant than the shortage of materials and/or capacity.

Figure 5: **Business climate in manufacturing and construction**

Seasonally adjusted



Source: WIFO-Konjunkturtest (business cycle survey). Index values range from –100 to +100, with positive values signalling an optimistic business climate and negative values a pessimistic one.

On the expenditure side, almost all demand components declined in 2023.

Consumer demand fell by 0.3 percent in 2023 due to the decline in private households' disposable income in real terms. The high price increases had a dampening effect on demand. Demand for durable consumer goods in particular was curbed, while demand for non-durable consumer goods and services stagnated. According to the WWWI, private consumption provided positive impetus during the year, particularly in the summer months, but dampened GDP growth in most weeks of 2023. Following the high pandemic-related expenditure in previous years, public consumer demand also fell slightly on average in 2023 (–0.4 percent). This meant that consumption fell by 0.3 percent in total.

Table 2: **Development of aggregate demand**

Volume (chain-linked series)

	2020	2021	2022	2023
	Percentage changes from previous year			
Final consumption expenditure	– 6.3	+ 5.2	+ 4.0	– 0.3
Households[1]	– 8.5	+ 4.2	+ 5.7	– 0.3
General government	– 0.4	+ 7.5	+ 0.0	– 0.4
Gross capital formation	– 5.4	+ 10.8	– 0.7	– 5.3
Gross fixed capital formation	– 5.5	+ 6.1	+ 0.1	– 2.4
Machinery and equipment[2]	– 8.5	+ 7.9	– 0.4	– 1.7
Construction	– 3.6	+ 1.8	– 2.0	– 5.9
Other investment[3]	– 5.2	+ 12.6	+ 5.0	+ 3.7
Domestic demand	– 6.2	+ 6.7	+ 2.9	– 1.8
Exports	– 10.6	+ 9.1	+ 11.2	– 0.2
Imports	– 10.0	+ 14.3	+ 7.9	– 1.8
Gross domestic product	– 6.6	+ 4.2	+ 4.8	– 0.8

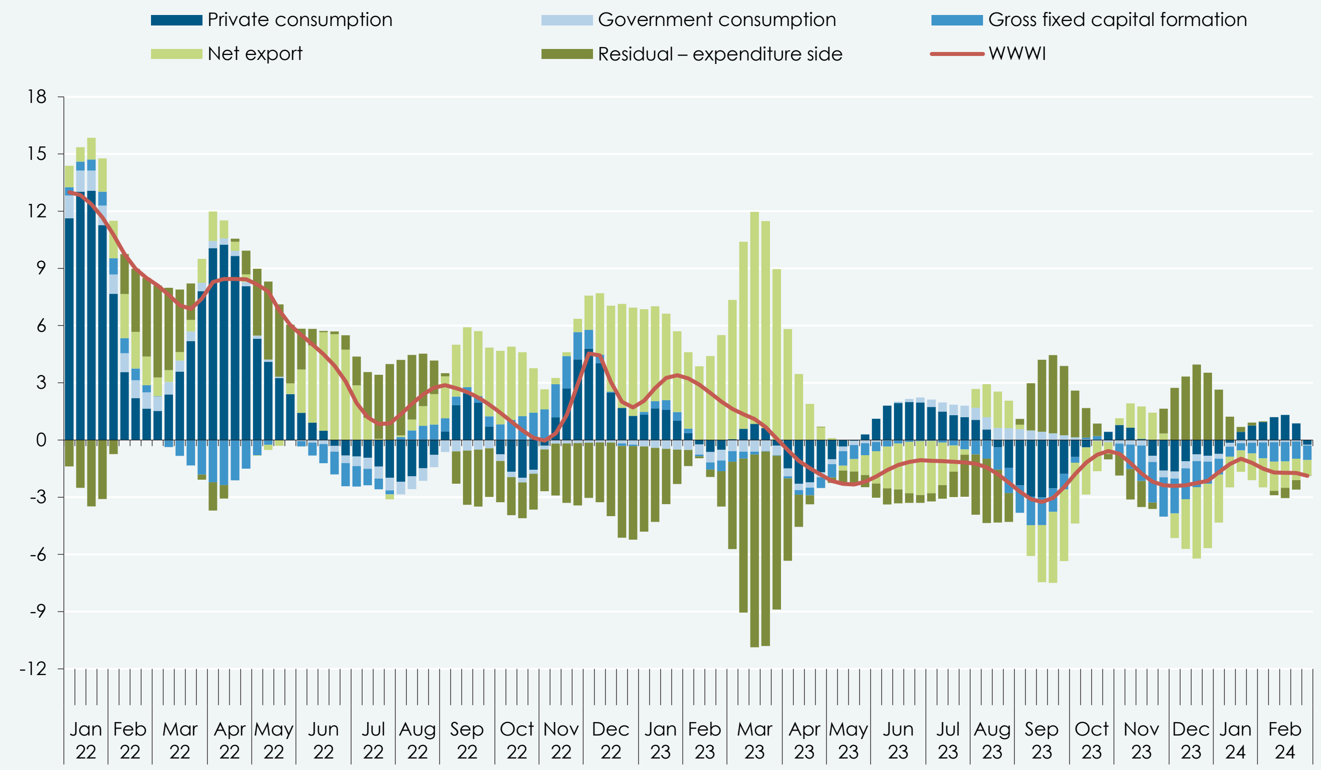
Source: Statistics Austria; WDS – WIFO Data System, Macrobond. – [1] Including non-profit institutions serving households. – [2] Including weapon systems. – [3] Mainly intellectual property products (research and development, computer programmes, copyrights).

Investment demand also dampened GDP growth in 2023 (gross fixed capital formation –2.4 percent). Both machinery and equipment as well as construction investment shrank, while the less cyclically sensitive other investments – mainly intellectual property products such as research and development as well as computer programmes and copyrights – continued to expand in line with the trend.

Against the backdrop of sluggish international demand, foreign trade was weak in 2023. According to the WWWI, net exports were still positive at the start of the year, but largely turned negative as the year progressed. Exports fell by 0.2 percent in 2023 and imports by 1.8 percent. In nominal terms, exports rose by 2.2 percent, while imports fell by 1.9 percent. After energy prices stabilised over the course of 2023, import prices stagnated on average compared to the previous year. With export prices rising, the terms of trade thus improved again after deteriorating significantly in 2022.

Figure 6: **Weekly WIFO Economic Index (WWWI) – subcomponents of the expenditure side**

Year-on-year percentage change (overall index) or growth contribution in percentage points (components)



Source: Statistics Austria, WIFO.

2.2 Extensive government measures to cushion high inflation

The relief measures at federal level in 2022-2026 total 41.9 billion € (1.7 percent p.a. of nominal GDP).

In order to counteract the undesirable economic and social effects of the energy price and inflation crisis, extensive relief measures have been implemented at federal level. The federal government has adopted measures totalling 41.9 billion € for the period from 2022 to 2026 (as of the end of March 2024; Table 3)[1]. Of this, 18.3 billion € is attributable to additional expenditure and 23.6 billion € to revenue-side (primarily tax) relief. The scope of the measures affecting the budget totalled 40.5 billion €[2]. At 7 billion €, the volume of temporary measures in 2023 was slightly higher than in the previous year (6.9 billion €). Taking into account the permanent structural measures (e.g. compensation for fiscal drag, reduction in non-wage labour costs), Austria has implemented one of the most voluminous relief packages in the EU[3]. Relief measures for private households are estimated at 7.2 billion € in 2023, of which 5.3 billion € is attributable to short-term measures and 1.9 billion €

[1] Added to this is the loss of revenue from the extension of the temporary reduction in energy tax rates until the end of 2024, for which no published estimates are available.

[2] The suspension of the flat-rate subsidy for renewable energies and contribution, as well as the reduction in the accident insurance contribution, have no impact on the budget.

[3] See Sgaravatti et al. (2023) for an EU comparison.

to permanent structural measures. Companies as well as agriculture and forestry receive 2.2 billion € in relief in 2023 (1.7 billion € temporary, 0.5 billion € permanent).

The extensive support measures are one of the reasons for the 5.0 percent (+11.9 billion €) increase in government spending, alongside the equally rising interest expenditure – which increased by 1.4 billion € or 32.4 percent from 2022 to 2023. However, the government spending ratio fell from 53.0 percent (2022) to 52.1 percent of GDP due to the strong growth in economic output in nominal terms (+6.7 percent in 2023). Government revenue increased by 6.2 percent or 13.9 billion € in 2023, but the government revenue ratio also fell slightly from 49.7 to 49.5 percent of GDP due to the GDP denominator effect.

The Maastricht deficit of the general government, which had amounted to 3.3 percent of economic output in 2022, fell further to 2.7 percent[4]. Government debt increased further by 20.4 billion € to a total of 371.1 billion €. The debt ratio fell by 0.6 percentage points to 77.8 percent of economic output in 2023 (after 78.4 percent in 2022), while nominal GDP increased.

The general government deficit fell to 2.7 percent of GDP in 2023.

2.3 Stagnation in real wage development

The economic situation in 2023 had no supporting effects for the development of earned income. The decline in GDP was accompanied by a slight increase in the unemployment rate to 6.4 percent and a further increase of persons in active dependent employment to 3.88 million. Above all, however, high inflation of 7.8 percent caused a stagnation of real incomes despite strong nominal increases.

In wage negotiations, the realised inflation of the past 12 months (rolling inflation) is usually used as the starting point for the particular wage round. In times of rapidly rising inflation rates, such as 8.6 percent in 2022, current inflation is therefore significantly higher than the wage agreements. The turning point in this development was reached in 2023, when current and rolling inflation roughly corresponded. At the end of 2023, rolling inflation was already above current inflation.

The wage agreements from autumn 2022 and January 2023 relevant for 2023, were therefore not yet based in part on the maximum inflation rates from the end of 2022. Against this background, the social partners agreed on wage increases of around 7.0 to 7.5 percent in the 2022 autumn wage round. Specifically, the trade unions agreed with the trade associations in the metal industry, whose wage settlement traditionally kicks off the autumn wage round, on a 5.4 percent increase in actual nominal wages and salaries for 2023, plus a fixed amount of 75 €, resulting in an average wage increase of around 7.44 percent. In the public sector, the settlement achieved 7.32 percent on average, while in trade 7.31 percent on average. The inflation peaks at the turn of the year 2022-23 were then incorporated into the settlements of the spring wage round, which led to a further increase in wage agreements and nominal increases of between 9 and 10 percent (construction industry and building trade +9.5 percent, electrical and electronics industry +9.9 percent).

On a weighted average, the wage settlements led to an increase in the Index of Agreed Minimum Wages of 7.6 percent and were therefore in line with the annual inflation rate of 7.8 percent. This was more than double the previous year's figure (Table 4). The public sector, which is included in the index with a weight of around one-sixth, recorded an increase of 7.6 percent, while in industry (weight also about one-sixth) it was 7.3 percent. In the service areas, the rates of increase ranged from 7.1 percent in transport to 8.0 percent in banking and insurance.

The collective wage agreements determine the development of the collectively agreed minimum wages. However, actual wages and salaries can deviate from this. This so-called wage drift weakened significantly in 2023 compared to the two previous years (Table 5). In total, nominal gross wages and salaries per capita rose by 7.8 percent in 2023, almost in line with the collectively agreed minimum wages (wage drift +0.2 percentage points). However, the enormous rise in consumer prices resulted in a stagnation of real gross wages and salaries, while net wages and salaries per capita are likely to have risen by around 0.8 percent in price-adjusted terms due to government support measures, according to the WIFO Economic Outlook of March 2024.

[4] According to the Maastricht notification of 28 March 2024, which was not yet known when the WIFO Economic Outlook of March 2024 was prepared.

Table 3: **Overview of federal anti-inflationary measures**

	2022	2023	2024	2025	2026	2022-2026
			Million €			
Total	**6,901**	**9,366**	**9,250**	**7,194**	**9,162**	**41,872**
Total private households	**5,790**	**7,186**	**5,412**	**6,687**	**8,625**	**33,699**
Short-term measures	**5,790**	**5,285**	**1,549**	**30**	**10**	**12,664**
One-off payment to compensate for inflation in relief package I	211	.	.	.	.	211
One-off payment to top up inflation compensation in relief package III	148	.	.	.	.	148
One-off payment for pensioners and equalisation supplement recipients	452	540	.	.	.	992
Anti-inflation package for families and the financially disadvantaged May 2023	.	325	276	15	.	616
One-off negative tax-deductible inflation relief	.	750	.	.	.	750
Residential umbrella including extensions 2023	8	45	65	15	10	143
Energy cost equalisation	351	50	.	.	.	401
Suspension of the flat-rate subsidy for renewables and subsidy contribution[1]	400	.	.	.	.	400
Subsidies for energy efficiency measures	15	.	.	.	.	15
Reduction in electricity and natural gas levy including extension until the end of 2023[2]	280	442	.	.	.	722
Charitable food distribution	.	5	5			10
Increase in commuter allowance, euro, increased transport tax credit	120	220	80	.	.	420
Anti-inflation bonus and increase in the climate bonus	2,734	110	.	.	.	2,844
One-off payment of family allowance	341	.	.	.	.	341
Bringing forward the Family Bonus Plus, increasing and bringing forward the additional child allowance	100	250	.	.	.	350
Postponement of introduction of CO_2 pricing from July to October 2022	250	.	.	.	.	250
Tax and duty-free cost-of-living bonus for employees[3]	380	380	.	.	.	760
Electricity cost subsidy	.	896	1,073	.	.	1,969
Compensation for grid loss costs[4]	.	447	50	.	.	497
Increase in heating cost subsidies federal provinces via the federal government	.	450	.	.	.	450
Increase in housing and heating cost subsidies	.	225	.	.	.	225
"Fee brake" – special-purpose subsidy from the federal government to the federal provinces		150	.	.	.	150
Structural, permanent measures	**0**	**1,901**	**3,863**	**6,657**	**8,615**	**21,035**
Abolition of fiscal drag[5]	.	1,480	2,840	5,300	7,050	16,670
Indexation of social benefits	.	363	815	1,079	1,287	3,544
Increase in additional child allowance	.	50	50	50	50	200
Tax exemption for e-mobility for employees[6]	.	8	8	8	8	30
Facilitation of the aliquotisation of pension adjustments	.	.	150	220	220	590
Total companies and agriculture and forestry	**1,111**	**2,180**	**3,833**	**507**	**537**	**8,173**
Total company	**987**	**2,050**	**3,825**	**497**	**527**	**7,886**
Short-term measures	**987**	**1,567**	**3,326**	**– 15**	**.**	**5,865**
Suspension of the flat-rate subsidy for renewable energies and subsidy contribution[1]	500	.	.	.	.	500
Reduction in electricity and natural gas levy including extension until the end of 2023[2]	320	528	– 190	– 100	.	558
Energy independence investment offensive	30	55	55	55		195
Rapid switch to alternative decarbonised forms of propulsion	60	60	.	.	.	120
Electricity price compensation, Electricity Consumption Reduction Act	,	285	.	.	.	285
Energy cost subsidy 1	77	561	.	.	.	638
Energy cost subsidy 2[6]	.	.	3,461	30	.	3,491
One-off health insurance contribution credit	.	78	.	.	.	78
Structural, permanent measures	**0**	**483**	**499**	**512**	**527**	**2,021**
Reduction of the FLAF contribution rate	.	353	369	382	397	1,501
Reduction in the accident insurance contribution rate[1]	.	130	130	130	130	520
Total agriculture and forestry	**124**	**130**	**13**	**10**	**10**	**287**
Short-term measures	**124**	**120**	**3**	**.**	**.**	**247**
Agricultural diesel cost equalisation	14	16	3	.	.	33
Pension insurance contribution for agriculture	110	.	.	.	.	110
Electricity cost subsidy for agriculture and forestry	.	104	.	.	.	104
Structural, permanent measures	**0**	**10**	**10**	**10**	**10**	**40**
Increase in flat-rate limits for agriculture and forestry	.	10	10	10	10	40

Source: Federal Ministry of Finance (2023), Budget Service (2024), updated WIFO compilation based on Kettner et al. (2023). 2022 and partly also 2023 actual data, 2024 to 2026 planning data; rounding differences. – [1] Off-budget. – [2] The extension until the end of 2024 is not included, as published estimates of the expected loss of revenue are not available. – [3] Is allocated entirely to employees due to a lack of further information. – [4] Due to a lack of further information, this is allocated entirely to private households. – [5] Payment effectiveness of the full progression equalisation. – [6] 2024: 1,881.4 million € in subdivision 40 (UG), 60 million € in UG 17, 20 million € in UG 24 and 1,500 million € authorisation according to the Federal Medium-Term Expenditure Framework Act in UG 40.

The growth in dependent employment slowed significantly compared to previous years, to 1.2 percent. Despite this, the effective per capita working time hardly changed. Across all sectors, the average weekly working time of dependent employees in 2023 was 27.6 hours – a slight increase of 0.1 percent compared to 2022.

If the working hour is chosen as the reference point for the analysis of income development, the gross figure for 2023 again shows a slight real wage loss of 0.1 percent and the net figure a gain of 0.7 percent (according to the WIFO Economic Outlook of March 2024). This means that the high real wage losses in 2021 and 2022 could not yet be offset in 2023. However, this circumstance will probably determine wage development in 2024.

Gross real income per capita stagnated in 2023, but there was net growth of 0.8 percent.

Table 4: **Development of the collectively agreed minimum wages**

	Index of Agreed Minimum Wages 2016[1]		
	Weighting	Total employees	
		2022	2023
		Percentage changes from previous year	
Overall Index of Agreed Minimum Wages	1,000,000	+ 3.1	+ 7.6
Excluding civil servants	837,726	+ 3.1	+ 7.6
Craft and trades	196,327	+ 3.4	+ 7.8
Industry	163,994	+ 3.7	+ 7.3
Trade and commerce	127,187	+ 2.8	+ 7.5
Transport and traffic	54,763	+ 3.4	+ 7.1
Tourism and leisure	49,712	+ 2.9	+ 7.7
Banking and insurance	37,035	+ 2.9	+ 8.0
Information and consulting	67,321	+ 3.0	+ 7.5
Civil servants	162,274	+ 3.1	+ 7.6

Source: Statistics Austria; WDS – WIFO Data System, Macrobond; WIFO calculations based on the 2016 wage index. – [1] Due to rounding, the growth rates may differ slightly from the index values published by Statistics Austria.

Table 5: **Development of income and wages**

	2021	2022	2023
	Percentage changes from previous year		
Total income and salaries			
Gross	+ 4.9	+ 7.9	+ 9.1
Net[1]	+ 4.2	+ 8.7	+ 9.9
Employees[2]	+ 2.2	+ 3.1	+ 1.2
Income per capita[3]			
Gross value	+ 2.7	+ 4.7	+ 7.8
Gross volum[4]	– 0.1	– 3.6	– 0.0
Net value[1]	+ 1.9	+ 5.5	+ 8.7
Net volume[1,4]	– 0.9	– 2.9	+ 0.8
Hours worked per capita[3]	+ 3.2	– 0.2	+ 0.1
Income and wages per hour worked			
Gross value	– 0.5	+ 5.0	+ 7.7
Gross volume[4]	– 3.2	– 3.3	– 0.1
Net value[1]	– 1.2	+ 5.7	+ 8.6
Net volume[1,4]	– 3.9	– 2.6	+ 0.7

Source: Statistics Austria; WDS – WIFO Data System, Macrobond. – [1] 2023: according to the WIFO Economic Outlook of March 2024. – [2] Unemployed according to national accounts (jobs). – [3] Per dependent jobs. – [4] Deflated with the consumer price index (CPI).

Table 6: **Development of wages and salaries**

	2021	2022	2023
	Percentage changes from previous year		
Wages and salaries, total			
Gross	+ 4.9	+ 7.9	+ 9.1
Net[1]	+ 4.2	+ 8.7	+ 9.9
Employees[2]	+ 2.2	+ 3.1	+ 1.2
Wages and salaries per capita[3]			
Gross nominal	+ 2.7	+ 4.7	+ 7.8
Gross real[4]	− 0.1	− 3.6	− 0.0
Net nominal[1]	+ 1.9	+ 5.5	+ 8.7
Net real[1,4]	− 0.9	− 2.9	+ 0.8
Hours worked per capita[3]	+ 3.2	− 0.2	+ 0.1
Wages and salaries per hour worked			
Gross nominal	− 0.5	+ 5.0	+ 7.7
Gross real[4]	− 3.2	− 3.3	− 0.1
Net nominal[1]	− 1.2	+ 5.7	+ 8.6
Net real[1,4]	− 3.9	− 2.6	+ 0.7

Source: Statistics Austria; WDS – WIFO Data System, Macrobond. – [1] 2023: according to the WIFO Economic Outlook of March 2024. – [2] National Accounts definition(jobs). – [3] Per employee (according to National Accounts definition). – [4] Deflated by the Consumer Price Index (CPI).

Federal relief and anti-inflationary measures supported disposable household income. Real income fell slightly in 2023. The savings rate remained at a high level due to the pronounced uncertainty.

2.4 Consumer spending declines on a price-adjusted basis – inflation remains decisive

After consumer spending developed extremely robustly in 2022 (+5.7 percent in real terms) despite rising inflation due to catch-up effects following the COVID-19 pandemic, private consumer demand fell in 2023 amid persistently high inflation. According to preliminary data from Statistics Austria, spending by private households (including private non-profit organisations) was 0.3 percent below the 2022 level in real terms (Table 6). Growth was still recorded in the first quarter of 2023, but the trend turned clearly negative as the year progressed, especially in the third quarter.

The subdued business cycle, initial signs of a slowdown on the labour market and persistently high interest rates on loans, combined with an only slowly declining rate of inflation, dampened consumer sentiment. However, in nominal terms, i.e., including price increases, private consumption increased strongly on average in 2023 (+7.9 percent after +13.5 percent in 2022).

The spending scope of private households depends directly on disposable income, which in turn is determined by the development of income and property income, as well as government transfers such as monetary social benefits, income and wealth tax and social contributions. As in the previous year, monetary transfers to private households in 2023 included a considerable amount of funds from short-term relief and anti-inflation measures (see chapter 2.2). These included an electricity cost subsidy (900 million €), a one-off negative tax-deductible inflation relief (750 million €) and one-off payments to pensioners (540 million €). The federal government earmarked a total of 5.3 billion € for this. Including structural measures such as the abolition of fiscal drag, which permanently reduces the income tax burden (by 1.5 billion € in 2023), private households were relieved by an estimated 7.2 billion € in 2023.

Total disposable income rose by 7.6 percent (in nominal terms) in 2023, but fell by 0.5 percent in price-adjusted terms due to high inflation. The unfavourable real income trend was one of the reasons for the weak consumer demand. The fact that private households did not significantly reduce their savings reserves as a proportion of disposable income due to the high level of uncertainty also weighed on consumer demand. According to preliminary figures from Statistics Austria, the savings rate was 9.0 percent of disposable income (2022: 9.2 percent) and therefore still well above the long-term average before the COVID-19 pandemic.

Table 7: **Private consumption, personal disposable income, consumption rate**

	Private consumption[1]		Personal disposable income		Consumption rate[2]
	Nominal	Reale[3]	Volume	Real[3]	
	Year-to-year percentage changes				
Ø 2011-2015	+ 2.3	+ 0.3	+ 2.0	± 0.0	+ 0.3
Ø 2015-2019	+ 3.1	+ 1.3	+ 3.4	+ 1.6	– 0.3
Ø 2019-2023	+ 4.8	+ 0.1	+ 5.1	+ 0.4	– 0.3
2020	– 7.4	– 8.5	– 1.6	– 2.8	– 5.9
2021	+ 6.4	+ 4.2	+ 3.9	+ 1.8	+ 2.4
2022	+13.5	+ 5.7	+10.9	+ 3.3	+ 2.3
2023	+ 7.9	– 0.3	+ 7.6	– 0.5	+ 0.2

Source: Statistics Austria, WIFO calculations. – [1] National consumption including private non-profit organisations. – [2] Consumption as a percentage of personal disposable income. – [3] Chain-linked series.

The decline in the volume of consumer spending by private households was not evenly distributed across the entire basket of goods (Table 7). Among consumer goods, demand for semi-durable goods (e.g., clothing, shoes, home textiles or household items) fell the most (2023 –8.6 percent), but grew strongly in 2022 due to catch-up effects (+10.9 percent). Spending on non-durable consumer goods (–4.0 percent), which includes food and beverages as well as energy and fuels, also fell at an above-average rate. In response to the high prices, consumers are likely to have cut back on quantities or switched to cheaper alternatives wherever possible. Demand for consumer durables is typically highly sensitive to economic cycles. At 3.4 percent, the decline in this segment was still rather mild in view of income trends and the unfavourable total economy. A slight increase in new car registrations (+2.5 percent to around 74,900 units in 2023 as a whole, based on private households) had a supporting effect, after these had fallen every year since 2018. However, the marked reluctance to buy furniture and electrical appliances had a dampening effect and was responsible for the decline. On the one hand, consumers had invested heavily in improving their own four walls during the COVID-19 pandemic ("cocooning"), while on the other, the rapid rise in interest rates in 2022-23 weighed on the property market. This dampened demand for new furnishings, among other things.

Despite high inflation, spending on services provided positive consumer impetus in 2023.

In contrast to the consumption of goods, the high propensity to spend on services also triggered growth impetus in 2023 despite lively inflation. After strong growth in 2022 (+15.2 percent), consumption of services, such as accommodation and food service activities or recreational and leisure activities, also increased in 2023 (+3.4 percent). The long-term trend of a shift in private consumption towards services, which was only interrupted in the pandemic years 2020-21, thus continued.

Table 8: **Development of private consumption in a longer-term comparison**

In real terms, chain-linked series

	Ø 2011-2015	Ø 2015-2019	Ø 2019-2023	2020	2021	2022	2023
	Year-to-year percentage changes						
Domestic consumption	**+ 0.3**	**+ 1.2**	**– 0.3**	**– 9.4**	**+ 1.4**	**+ 8.0**	**– 0.4**
Durable consumer goods	– 0.9	+ 1.5	– 0.8	– 3.0	+ 3.5	– 0.3	– 3.4
Semi-durable consumer goods	+ 1.2	+ 1.0	– 1.5	– 10.4	+ 3.5	+ 10.9	– 8.6
Non-durable consumer goods	– 0.3	+ 1.0	– 0.9	+ 0.8	+ 2.7	– 2.8	– 4.0
Services	+ 0.7	+ 1.4	+ 0.3	– 15.0	– 0.1	+ 15.2	+ 3.4
Consumption by tourists in Austria	+ 1.6	+ 2.9	– 7.8[1]	– 44.0	– 28.6	+ 96.2	+ 11.8[2]
Consumption by Austrian residents abroad	– 0.1	+ 5.3	– 3.7[1]	– 63.7	+ 56.7	+ 57.0	+ 21.9[2]
National consumption	**+ 0.2**	**+ 1.3**	**+ 0.1**	**– 8.8**	**+ 4.2**	**+ 5.9**	**– 0.4**
Consumption by private non-profit organisations	+ 3.7	+ 1.6	+ 1.5	– 1.7	+ 5.1	+ 0.7	+ 2.1
National consumption including private non-profit organisations	**+ 0.3**	**+ 1.3**	**+ 0.1**	**– 8.5**	**+ 4.2**	**+ 5.7**	**– 0.3**
Durable consumer goods	– 0.9	+ 1.6	– 0.7	– 2.6	+ 3.7	– 0.3	– 3.6
National consumption excluding consumer durables	+ 0.5	+ 1.3	+ 0.2	– 9.2	+ 4.3	+ 6.3	+ 0.1

Source: Statistics Austria, WIFO calculations. National consumption . . . domestic consumption minus the consumption by tourists in Austria plus the consumption by Austrian residents abroad. – [1] 2019-2022. – [2] First to third quarter.

In contrast to the weak spending trend, consumer confidence rose again in 2023.

Trading turnover collapsed in 2023.

Consumer confidence (based on the seasonally adjusted balance of the harmonised EU Consumer Confidence Indicator) reached its lowest level to date in Austria in mid-2022 (July 2022 –34.3 points). Since then, the indicator has been trending upwards (December 2023 –17.8 points), both in terms of the current situation and expectations. The pessimistic assessments continue to predominate, but no longer as clearly. However, the improvement in sentiment contrasts with the weak momentum in consumer spending.

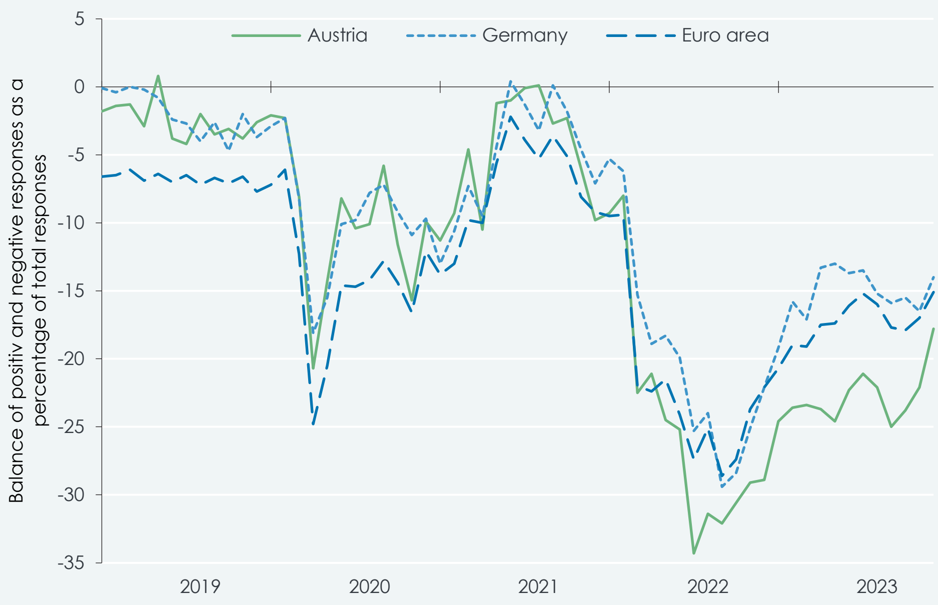
Compared to households in Germany and the euro area as a whole, domestic consumers were again somewhat more pessimistic in 2023, although the gap narrowed slightly towards the end of the year (Figure 7). The discrepancy between the increase in consumer confidence and the (partly declining) development of consumer spending in real terms can also be observed in these comparative regions.

In terms of sales and value added, Austria's trade sector recorded one of the most difficult years in recent decades in 2023, although the pandemic years 2020-21 and the subsequent moderate rebound had already been very subdued. The high level of inflation, which not only dampened demand for goods but also led to significantly higher costs, e.g., for rent or energy, dampened the mood in the trade sector.

Overall trade, sales were already declining in nominal terms in 2023, after double-digit growth rates had been achieved in the two previous years. Wholesale trade was responsible for the slump (–5.5 percent after +17 percent in 2022), which generates around half of the total sales volume. In contrast, retail trade (+2.9 percent; share of sales around one third) and motor vehicle trade (+11.8 percent) saw an increase in value. The strong increase in the motor vehicle trade can be attributed to the rise in new car registrations (private households and companies in total +11.2 percent compared to 2022).

After deducting price increases, which were again considerable in both the retail trade (+6.7 percent) and the motor vehicle trade (+7.1 percent; wholesale trade +0.3 percent, total +3.1 percent), the volume of sales in the trade sector as a whole fell by 3.6 percent in real terms (2022 –1.2 percent). This means that not only wholesalers suffered a volume decline in 2023 (–5.6 percent), but also the retail trade (–3.5 percent). Total value added in trade, after deducting intermediate consumption, shrank by 5.8 percent in real terms (–1.9 percent in nominal terms) and thus even more sharply than in the pandemic years 2020-21, according to preliminary figures from Statistics Austria.

Figure 7: **Development of the seasonally adjusted consumer confidence indicator**



Source: European Commission, WIFO. Arithmetic average of the balance of positive and negative responses as a percentage of total responses on the past and expected financial situation of households, the expected general economic situation and the intentions to make major purchases. Seasonally adjusted by Eurostat using Tramo-Seats.

Table 9: **Development in wholesale and retail trade**

	Wholesale and retail trade; repair of motor vehicles and motorcycles	Trade and repair of motor vehicles and motorcycles	Wholesale trade (except of motor vehicles and motorcycles)	Retail trade (except of motor vehicle and motorcycles)
	Percentage change from previous year			
Turnover, nominal				
2021	+ 11.2	+ 12.1	+ 14.9	+ 5.1
2022	+ 11.6	– 1.5	+ 17.0	+ 8.1
2023	– 0.8	+ 11.8	– 5.5	+ 2.9
Turnover, real				
2021	+ 4.7	+ 9.2	+ 4.6	+ 3.0
2022	– 1.2	– 10.8	+ 1.1	– 0.8
2023	– 3.6	+ 4.4	– 5.6	– 3.5
Prices (Ø 2015 = 100)				
2021	+ 6.1	+ 2.7	+ 9.7	+ 1.9
2022	+ 13.0	+ 10.3	+ 15.7	+ 9.0
2023	+ 3.1	+ 7.1	+ 0.3	+ 6.7
Employment				
2021	+ 0.7	– 0.6	+ 0.4	+ 1.1
2022	+ 1.5	+ 1.0	+ 2.2	+ 1.3
2023	– 0.2	+ 0.8	+ 0.8	– 0.9

Source: Statistics Austria, WIFO calculations.

Employment in the trade sector also declined in 2023 (–0.2 after +1.5 percent in the previous year). This was primarily attributable to the retail trade (–0.9 percent), which currently accounts for more than half of the approximately 550,000 jobs in the trade sector.

2.5 Inflation weaker than in 2022, but significantly higher than in the euro area

With an annual average of 7.8 percent in 2023, inflation in Austria was similar for the second consecutive year close to the level last seen in the mid-1970s (2022: 8.6 percent, Ø 1973-1976: 8.2 percent; Table 9). The supply chain and energy price shocks of previous years were still having an impact in 2023. The declining pass-through of energy price increases to goods and services over the course of the year and, of the economic policy measures, the electricity price brake in particular had a dampening effect on inflation. Inflation was pushed-up by price-wage-price effects and indexation (e.g., of rents, bank charges, insurance, mobile phone tariffs), which had a stronger impact compared with the previous year. Over the course of the year, consumer price inflation (according to the CPI) slowed from 11.2 percent in January 2023 to around 5½ percent by the end of the year. The decline in inflationary pressures continued in the first quarter of 2024; WIFO expects the inflation rate to continue to fall steadily in 2024-25.

While energy was still the main contributor to inflation in 2022[5] (+39.2 percent; inflation contribution of 2.8 percentage points with a weighting in the CPI of 7.43 percent), its contribution decreased significantly in 2023 (+4.9 percent; 0.4 percentage points). This is mainly due to the fall in the price of fuels, heating oil and pellets, the brake on electricity prices and base effects for natural gas and heat energy. Inflationary pressure on food and industrial goods also eased despite rising labour costs, as supply chains normalised and transport costs and raw material and commodity prices fell.

The average inflation rate in 2023 was 7.8 percent; during the year, it fell from 11.2 percent in January to around 5½ percent at the end of the year.

The largest contribution to inflation in 2023 came from services (+7.9 percent; 3.8 percentage points with a weight of 48.8 percent in the CPI basket of goods). Due to the higher inflation persistence[6], the high importance of labour costs in the labour-intensive service sectors (restaurants and hotels; repair, service and maintenance) and price indexation (rents, insurance premiums, mobile phone contracts, bank charges), price increases in the services sector accelerated compared to 2022 and only slowed down slightly in the second half of 2023. As a result,

[5] Price increases in percent and contributions to headline inflation in percentage points by special groups (according to CPI). 2022: energy +39.2 percent, 2.8 percentage points; services +4.6 percent, 2.2 percentage points; industrial goods +7.4 percent, 2.1 percentage points; food, alcohol and tobacco +9.0 percent, 1.3 percentage points. 2023: services +7.9 percent, 3.8 percentage points; industrial goods +7.6 percent, 2.2 percentage points; food including alcohol and tobacco +10.1 percent, 1.5 percentage points; energy +4.9 percent, 0.4 percentage points.
[6] Service prices are only rarely adjusted – in the majority of cases once a year, usually in January (Gautier et al., 2024).

core inflation (total inflation excluding food, beverages, tobacco and energy, 7.8 percent annual average) fell less sharply than headline inflation (from 8.5 percent in January to 5.8 percent in December).

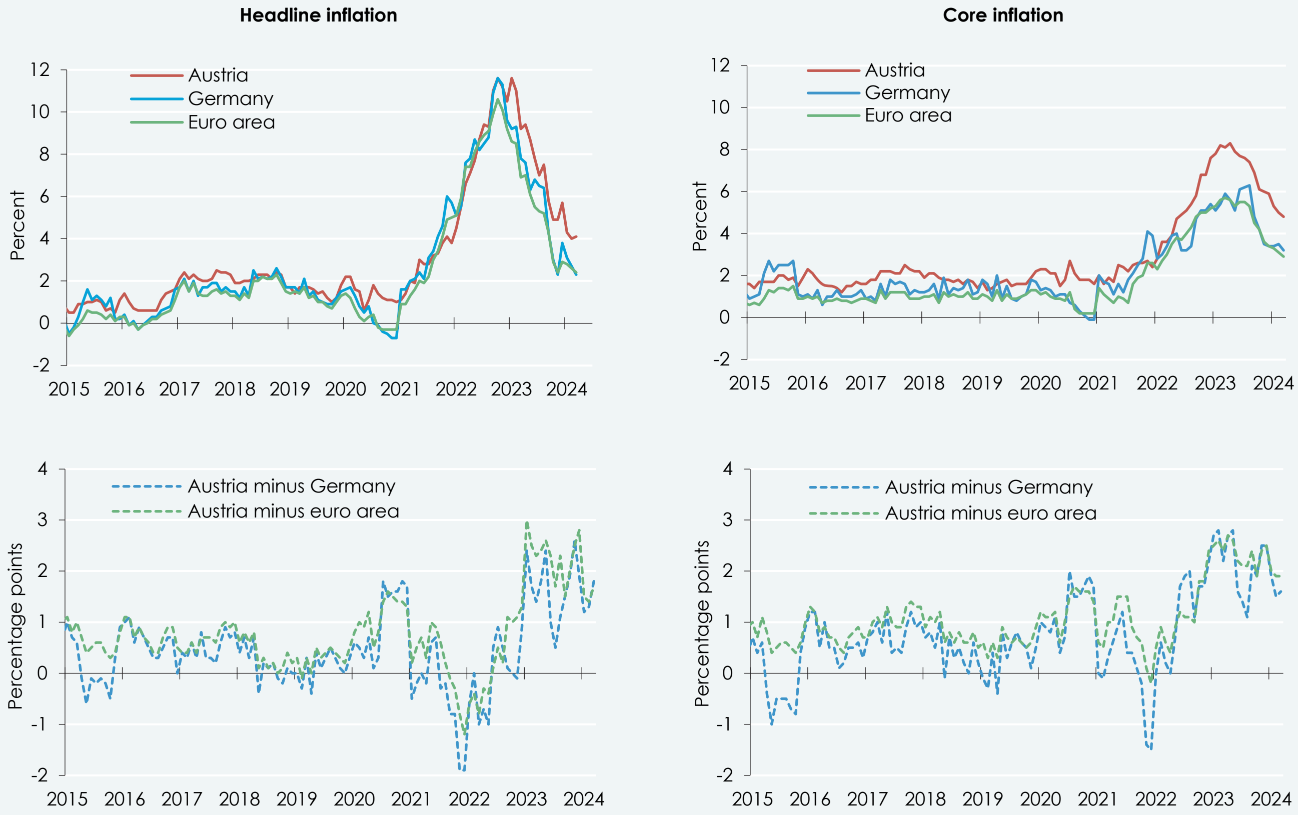
Table 10: **Development of the (harmonised) consumer price index**
Classification according to the purpose of consumption

	2022	2023	First quarter of 2023	Second quarter of 2023	Third quarter of 2023	Fourth quarter of 2023
	Percentage changes from previous year					
National Consumer Price Index (CPI)	+ 8.6	+ 7.8	+ 10.4	+ 8.8	+ 6.8	+ 5.4
Core inflation rate[1]	+ 5.6	+ 7.8	+ 8.6	+ 8.7	+ 7.6	+ 6.3
Micro basket of goods and services (daily shopping	+ 10.2	+ 11.0	+ 14.9	+ 12.1	+ 9.6	+ 7.6
Mini basket of goods and services (weekly shopping	+ 13.7	+ 6.8	+ 10.1	+ 3.3	+ 3.1	+ 3.6
Administrated prices and tariffs	+ 2.2	+ 3.6	+ 3.8	+ 3.3	+ 3.9	+ 3.4
CPI COICOP main headings						
Food and non-alcoholic beverages	+ 10.7	+ 11.0	+ 15.9	+ 12.2	+ 9.6	+ 6.8
Alcoholic beverages and tobacco	+ 3.5	+ 6.5	+ 6.3	+ 7.1	+ 6.6	+ 6.1
Clothing and footwear	+ 1.8	+ 5.3	+ 6.5	+ 6.0	+ 6.2	+ 2.6
Housing, water, electricity, gas and other fuels	+ 12.6	+ 11.1	+ 16.7	+ 14.6	+ 8.4	+ 6.0
Furnishings,household equipment and routine maintenance of the house	+ 7.7	+ 7.2	+ 11.0	+ 8.7	+ 6.3	+ 3.5
Health	+ 2.8	+ 5.1	+ 5.1	+ 5.5	+ 5.3	+ 4.6
Transport	+ 16.2	+ 1.7	+ 8.6	– 0.2	– 1.0	– 0.0
Communication	– 0.6	– 3.9	– 4.8	– 3.4	– 3.0	– 4.7
Recreation and culture	+ 3.8	+ 7.3	+ 4.6	+ 8.5	+ 8.3	+ 7.9
Education	+ 2.7	+ 5.4	+ 4.4	+ 5.6	+ 5.8	+ 6.3
Restaurants and hotels	+ 8.9	+ 12.2	+ 13.0	+ 13.6	+ 11.9	+ 10.4
Miscellaneous goods and services	+ 3.0	+ 7.4	+ 7.2	+ 8.3	+ 7.6	+ 6.4
CPI special breakdown						
Food	+ 9.0	+ 10.1	+ 13.7	+ 11.0	+ 9.0	+ 6.7
Energy	+ 39.2	+ 4.9	+ 23.2	+ 6.1	– 2.5	– 3.4
Non-energy industrial goods	+ 7.4	+ 7.6	+ 10.5	+ 9.0	+ 6.9	+ 4.2
Services	+ 4.6	+ 7.9	+ 7.5	+ 8.6	+ 8.0	+ 7.6
Harmonised Index of Consumer Prices (HICP)						
Headline inflation						
Austria	+ 8.6	+ 7.7	+ 10.6	+ 8.6	+ 6.7	+ 5.1
Germany	+ 8.7	+ 6.0	+ 8.7	+ 6.9	+ 5.7	+ 3.0
Euro area	+ 8.4	+ 5.4	+ 8.0	+ 6.2	+ 5.0	+ 2.7
Core inflation[1]						
Austria	+ 5.1	+ 7.3	+ 8.0	+ 8.0	+ 7.3	+ 6.0
Germany	+ 3.9	+ 5.1	+ 5.5	+ 5.6	+ 5.8	+ 3.7
Euro area	+ 3.9	+ 4.9	+ 5.6	+ 5.5	+ 5.1	+ 3.7

Source: Macrobond, Statistics Austria, Eurostat, WIFO calculations. – [1] Excluding energy and food (including alcoholic beverages and tobacco).

The inflation gap with the euro area (HICP; GDP-weighted average of the 20 member countries of the euro area) widened considerably in 2023: while Austria was still among the euro countries with the lowest inflation rates in the first six months of 2022, it was one of the countries with the highest inflation rates in 2023 as a whole. The annual average inflation rate in Austria was 2.3 percentage points higher than in the euro area (Ø 1997-2010 –0.3 percentage points, Ø 2011-2021 +0.6 percentage points; Figure 8). The energy and services sectors were the main contributors to the large gap (Figures 8 and 9).

Figure 8: **Inflation in Austria, Germany and the euro area**



Source: Macrobond, Eurostat, WIFO calculations. Core inflation excluding energy and food (including alcoholic beverages and tobacco).

The elevated inflationary impact of household energy was primarily driven in particular by the prices of natural gas and heat energy. In contrast to the previous year, when the prices of natural gas and heat energy had risen more rapidly and to a greater extent in the other euro countries than in Austria, the reverse was observed in 2023. Conversely, in 2023, they declined in the euro area (with particularly pronounced declines in some countries) and made a clearly negative contribution to inflation[7]. In contrast, they either remained stable or declined only slightly in Austria (Figure 10).

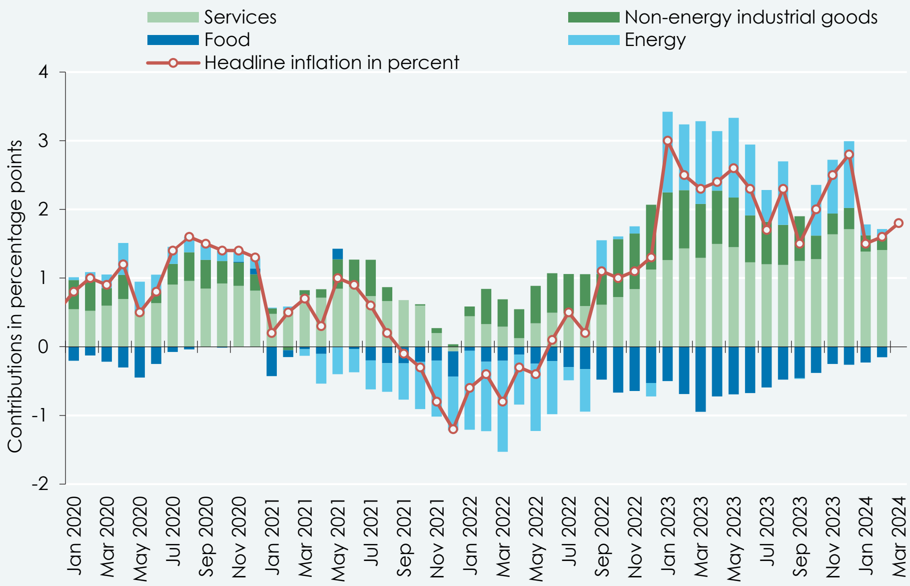
The second area that contributed significantly to the inflation differential compared to the euro area was services. In the labour-intensive service sectors, it was primarily the significantly higher increases in collectively agreed wages in Austria that influenced the price level (see Figures 11 and 12, left chart, green bars). Furthermore, the significantly higher weighting of restaurants and hotels in the HICP basket of goods in Austria (CP 11; Austria 15.8 percent, euro area 10.5 percent) contributed to a greater influence of these items on inflation. Additionally, rent increases were higher in Austria due to indexation, widening the inflation gap for services.

While a number of euro countries (particularly Spain, Portugal and France) intervened directly in the pricing of household energy tariffs in particular, Austria focused its measures on cushioning the impact of inflation on purchasing power. This was achieved by supporting disposable household income through offsetting fiscal drag and indexing social benefits (see chapters 2.2 and 2.4 above). The suspension of green electricity subsidies and the reduction in the energy tax for gas and electricity were extended until December 2024. This meant that there was no return to the previous level and no inflation-increasing effects in 2023. The introduction of the electricity price brake in December 2022 resulted in a dampening of inflation in 2023. According to WIFO estimates this dampening effect was approximately 1 percentage point at the beginning of the year and approximately ½ to ¾ percentage points at the end of the year, according to WIFO estimates. The

[7] This development was particularly pronounced in the Netherlands and Belgium. In this case, the discrepancy is likely attributable to different measurement methodologies employed in the Netherlands and Belgium (new customer tariffs) in contrast to Austria (existing customer tariffs predominantly with one-year fixed tariffs). In Belgium, the CPI sub-index for natural gas in April 2023 reached the level observed in spring 2021 prior to the energy price crisis, whereas in Austria it was more than 2½ times higher in 2023 as a whole than before the crisis.

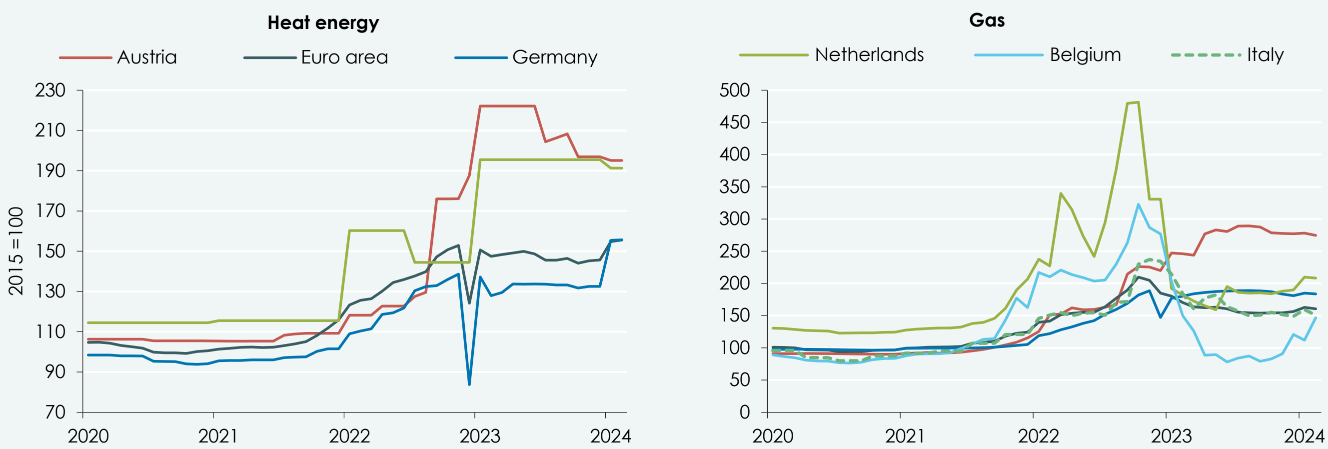
electricity price brake was also extended until the end of 2024, but lost its inflation-dampening effect in December 2023 due to a base effect, which contributed to the rise in the CPI at the end of 2023.

Figure 9: **Contributions to the inflation differential between Austria and the euro area**



Source: Eurostat, Macrobond.

Figure 10: **Inflation rates for heat energy and gas in selected euro area countries**



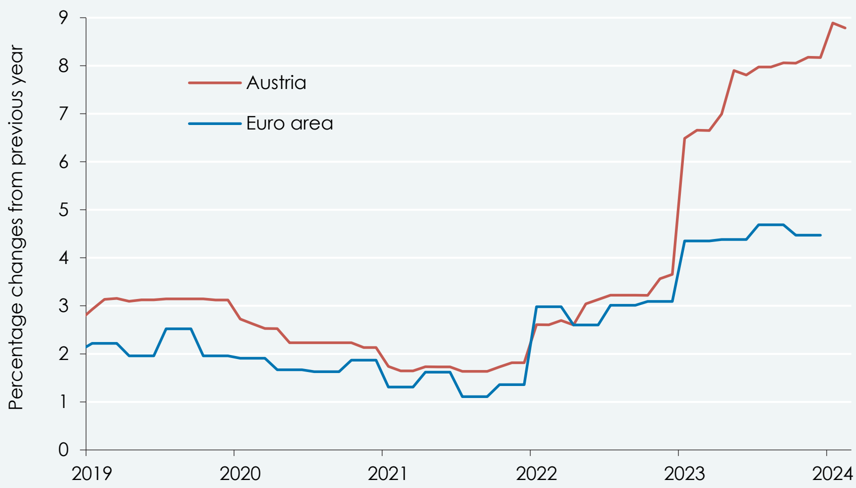
Source: Eurostat, Macrobond.

The GDP deflator is an indicator of price changes in total economy production is expected to rise by 7½ percent in 2023 (2022 +5.3 percent, 2021 +2.1 percent)[8]. In 2022, approximately a quarter of the price increase was attributable to growth in compensation of employees and gross operating surpluses, while almost half was attributed to the item "production taxes minus subsidies". In 2023, the weighting shifted significantly in favour of compensation of employees (around 64 percent). In 2023 gross operating surpluses and net production taxes only accounted for 20 percent and 16 percent respectively (Figure 12; Fritzer et al., 2023; Schneider, 2024). The share of extended gross operating surpluses (including net production taxes) in value added

[8] According to preliminary data based on the Quarterly National Accounts for the fourth quarter of 2023, published on 29 February 2024 by Statistics Austria.

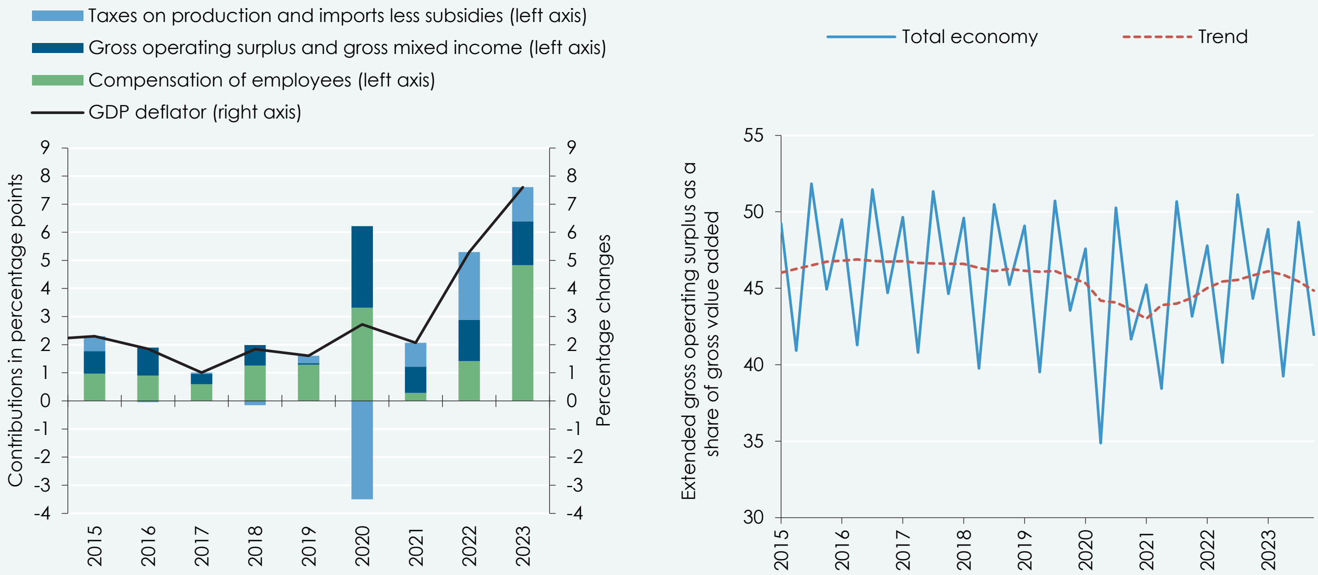
serves as a rough indicator of the earnings situation. In 2022, it was noteably higher in the energy sector (in the broad sense; NACE 2008, sections B, D and E), in construction (section F) and in agriculture and forestry (section A) in a long-term comparison[9]. This trend was sustained in the aforementioned sectors in 2023, although to a (somewhat) lesser extent. Additionally, financial and insurance activities exhibited a notable improvement in earnings following the ECB's interest rate turnaround in summer 2022. This trend continued into 2023 (Figure 13, right-hand graph, red dotted line).

Figure 11: **Wage development**



Source: ECB, Statistics Austria.

Figure 12: **Decomposition of the GDP deflator and importance of the gross operating surplus for value added in Austria**

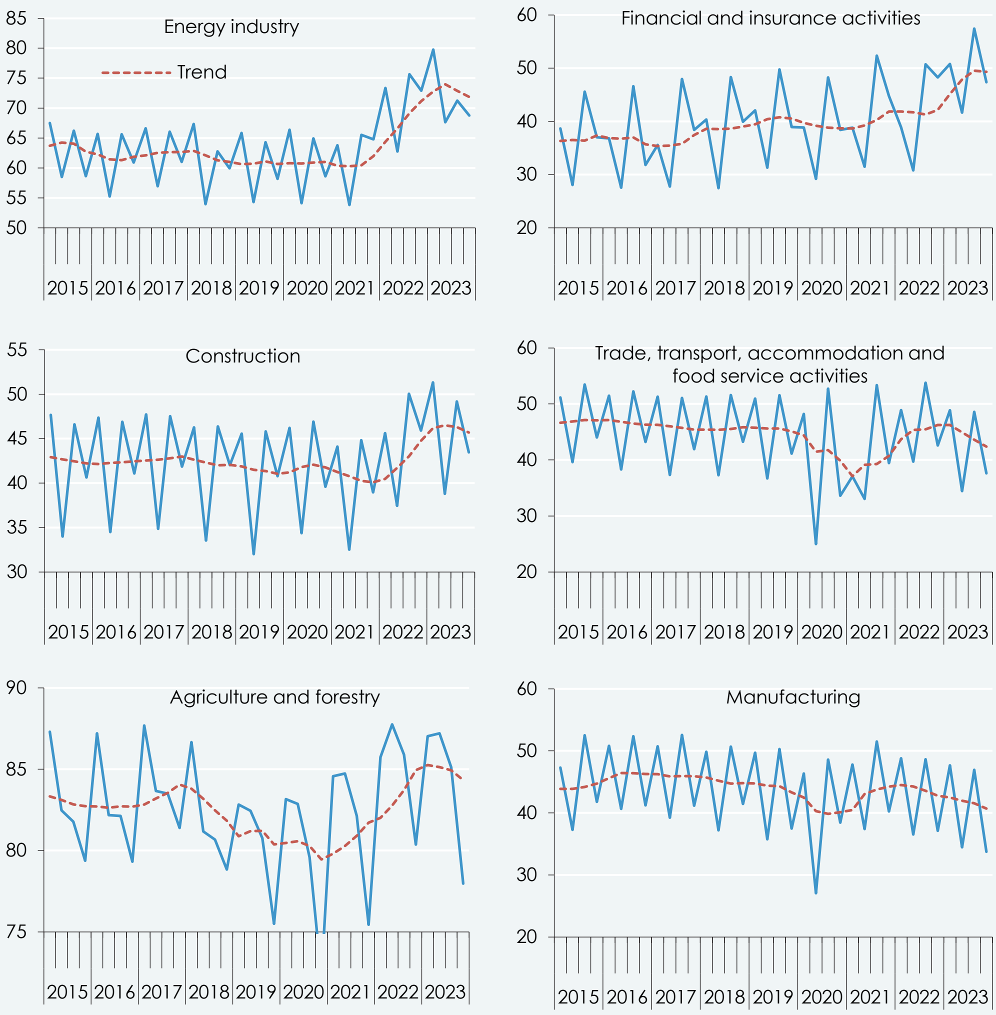


Source: Statistics Austria, WIFO calculations.

[9] It should be noted that the data in the Quarterly National Accounts will be revised several times before the annual accounts are presented in September 2024. In the past, the deflators of value added as well as taxes on products and subsidies on products have undergone the largest revisions. In the Quarterly National Accounts, only the value added and compensation of employees are published for the economic sectors.

Figure 13: **Extended gross operating surplus as a share of gross value added at basic prices in Austria**

Percent



Source: Statistics Austria, WIFO calculations. Gross operating surplus and mixed income including net taxes = gross value added less compensation of employees.

3. References

Baumgartner, J., Scheiblecker, M., & Url, T. (2022). Maintaining credibility is currently the top priority. *Monetary Dialogue Papers*. Europäisches Parlament. https://www.europarl.europa.eu/RegData/etudes/IDAN/2022/733995/IPOL_IDA(2022)733995_EN.pdf.

Budgetdienst (2024). *Budgetvollzug Jänner bis Dezember 2023. Analyse*. Budgetdienst des Österreichischen Parlaments. https://www.parlament.gv.at/dokument/budgetdienst/budgetvollzug/BD-Budgetvollzug-Jaenner-bis-Dezember-2023.pdf.

Bundesministerium für Finanzen – BMF (2023). *Strategiebericht 2024 bis 2027 gem. § 14 BHG. Budgetbericht 2024 gem. § 42 Abs. 3 BHG 2013*. https://www.bmf.gv.at/dam/jcr:492ea544-563c-4d74-a69f-124e8a1d0577/Strategiebericht_2024_bis_2027_Budgetbericht_2024.pdf.

Burton, A., & Ehn-Fragner, S. (2023). Tourismus trotz anhaltender Teuerung wieder deutlich erstarkt. *WIFO-Monatsberichte*, *96*(11), 765-777. https://monatsberichte.wifo.ac.at/71222.

Fritzer, F., Reiss, L., & Schneider, M. (2023, 19. September). Was treibt die Inflation in Österreich – Energieimporte, Profite oder Löhne?. *Thema im Fokus*. https://www.oenb.at/Presse/thema-im-fokus/2023/was-treibt-die-inflation-in-oesterreich-energieimporte-profite-oder-loehne.html.

Gautier, E., Conflitti, C., Faber, R. P., Fabo, B., Fadejeva, L., Jouvanceau, V., Menz, J.-O., Messner, T., Petroulas, P., Roldan-Blanco, P., Rumler, F., Santoro, S., Wieland, E., & Zimmer, H. (2024). New Facts on Consumer Price Rigidity in the Euro Area. *American Economic Journal – Macroeconomics* (forthcoming). https://www.aeaweb.org/articles?id=10.1257/mac.20220289&&from=f.

Kettner, C., Schratzenstaller, M., & Sutrich, A. (2023). Österreichs Anti-Teuerungsmaßnahmen 2022 bis 2026. Treffsicherheit und ökologische Aspekte. *WIFO Research Briefs*, (7). https://www.wifo.ac.at/publication/48888/.

Klien, M., & Weingärtler, M. (2024). Einbruch im europäischen Bauwesen. Euroconstruct-Prognose bis 2026. *WIFO-Monatsberichte*, 97(2), 87-98. https://www.wifo.ac.at/publication/182625/.

Pekanov, A., (2024). Deutliche Straffung der Geldpolitik dämpft Inflation im Euro-Raum. *WIFO-Monatsberichte, 97*(4), 233-244. https://www.wifo.ac.at/publication/264767/.

Sgaravatti, G., Tagliapietra, S., Trasi, C., & Zachmann, G. (2023). National policies to shield consumers from rising energy prices. Bruegel Datasets. https://www.bruegel.org/dataset/national-policies-shield-consumers-rising-energy-prices.

Schneider, M. (2024). What contributes to consumer price inflation? A novel decomposition framework with an application to Austria. *OeNB Working Paper*, (255). https://www.oenb.at/dam/jcr:69c7e1ef-4fe2-4420-9ef2-2ae896af2ab8/wp-255.pdf.