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Economic Assessments Begin to Stabilise.

Results of the WIFO-Konjunkturtest Quarterly Survey of April 2024

Werner Hölzl, Jürgen Bierbaumer, Michael Klien, Agnes Kügler

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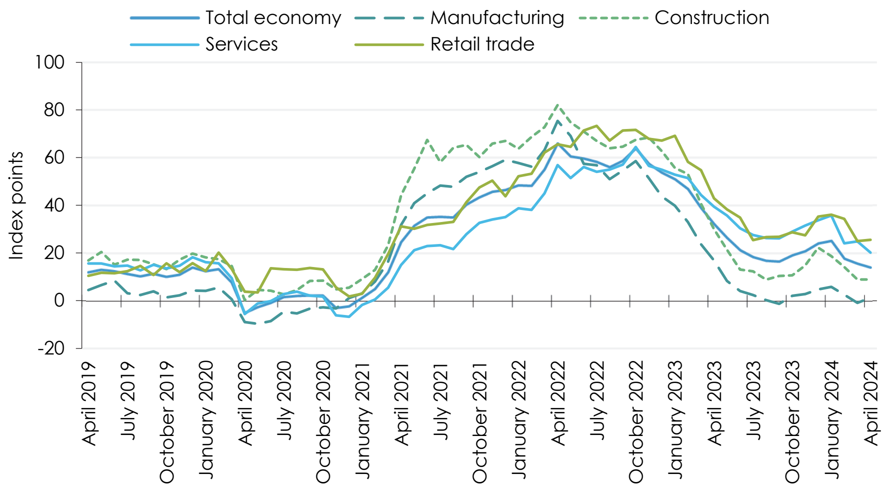
- Austria's companies have recently been less pessimistic about the economic situation than at the beginning of the year. The WIFO-Konjunkturampel (economic traffic light) turned green again in April.
- Despite improvements, economic assessments in manufacturing remained very sceptical.
- Business uncertainty fell slightly once again but remained above average in manufacturing and construction.
- Capacity utilisation stagnated in April. Capacity utilisation in manufacturing and construction remains below average.
- As in previous quarters, many companies reported restrictions on their business activities. "Insufficient demand" has been the most frequently cited obstacle since October 2023.
- Sales price expectations fell further compared to January 2024. On balance, around 14 percent of companies expected to have to raise their prices in the coming months in April.

Sales price expectations in the total economy and the sectors

Balance as a percentage of all reports



The sales price expectations are presented as balances: the proportion of companies that state that they will have to raise their sales prices in the coming months is subtracted from the proportion of companies that plan to lower their sales prices (source: WIFO-Konjunkturtest, seasonally adjusted).

"Sales price expectations have fallen in all sectors in recent months and are now only significantly above average in the retail trade."

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June 2024

Economic Assessments Begin to Stabilise. Results of the WIFO-Konjunkturtest Quarterly Survey of April 2024
Despite improvements, sceptical economic assessments continued to prevail in April. Sentiment remained particularly subdued in the manufacturing sector. Accordingly, capacity utilisation rose slightly in all sectors except manufacturing. Uncertainty decreased in all sectors in a quarter-on-quarter comparison. As in the previous quarter, "insufficient demand" was the most frequently cited obstacle to business activity, ahead of "shortage of labour force". Sales price expectations have fallen in recent months and are now only above average in the retail trade sector.

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Situation assessments improved in the spring in the service and retail trade sectors. In manufacturing, the situation index stagnated at a very low level.

The results of the WIFO-Konjunkturtest (business cycle survey)[1] for April 2024 (beginning of the second quarter) show an improvement in companies' economic assessments compared to the beginning of 2024. The WIFO Business Climate Index gained 3.3 points quarter-on-quarter but remained 14.3 points below the previous year's value at –3.4 points (Table 1). The index of current business situation rose by 2.4 points compared to January, but at –2.9 points remained below the zero line that separates negative from positive economic assessments. Business expectations also improved: at –3.9 points, the corresponding index was 4.1 points higher in April than at the beginning of the year.

There are still clear differences between sectors, both in terms of the level of the indices and their development: In energy-intensive manufacturing, the WIFO business cycle climate index improved again compared to the previous quarter (+2.6 points) but remained deeply pessimistic at –16.6 points. The index of current business situation remained almost unchanged (–0.2 points) and was well below zero at –20.8 points. The index of business expectations improved significantly compared to January (+5.5 points), but at –12.6 points still signals a very sceptical outlook for the coming months.

In construction, however, the WIFO Business Climate Index deteriorated slightly compared to January and remained 1.7 points

[1] The WIFO-Konjunkturtest is a monthly survey of Austrian companies on their current economic situation and developments over the coming months. Once a quarter, the catalogue of questions in the WIFO-Konjunkturtest is expanded to include additional questions ("quarterly questions"), which provide relevant information on the business cycle but are not included in the monthly indices of the WIFO-Konjunkturtest. The current results of the WIFO-Konjunkturtest are available on the WIFO website https://www.wifo.ac.at/en/publications/wifo-konjunkturtest) and on the business cycle and forecasts page (https://www.wifo.ac.at/en/research_priorities/business_cycle_and_forecasting or www.konjunkturtest.at). Hölzl and Schwarz (2014) provide an overview of the WIFO-Konjunkturtest (business cycle survey). Detailed results on the subsectors of manufacturing and services can be downloaded as a graphic appendix from the project website.

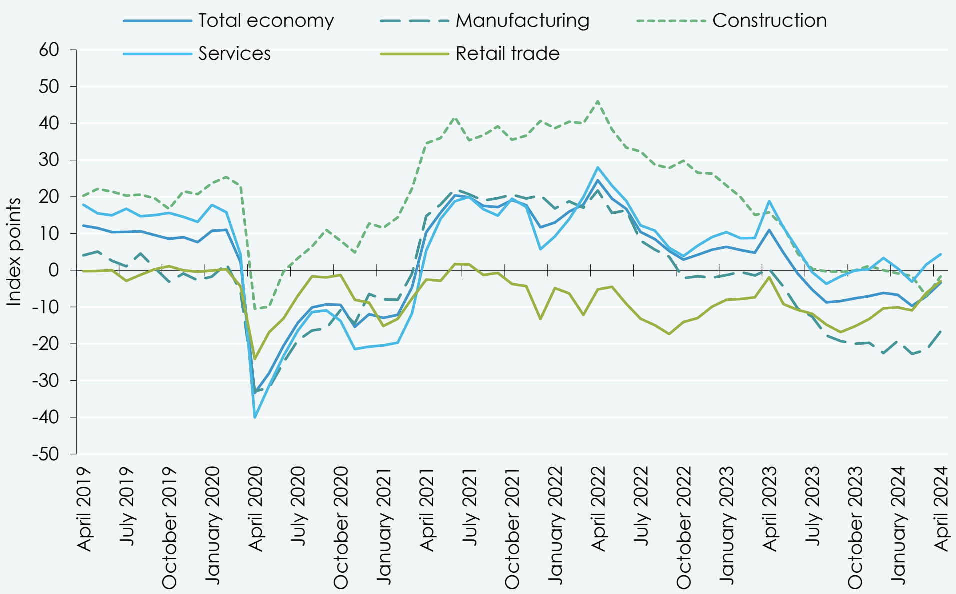
below the zero line (–0.8 points). The index of current business situation lost 0.7 points and stood at –3.5 points in April. The index of business expectations also fell (–1.1 to –0.2 points). The deterioration is also due to construction price expectations, which have fallen significantly in recent months. Despite an improvement, construction companies' expectations regarding their own business situation and production remain subdued.

In the services sector, the indices paint a much more positive picture. The WIFO Business Climate Index rose by around 3.9 points compared to January 2024 and was clearly above the zero line again at 4.3 points. In addition to the index of current business situation (+2.6 to 5.5 points), the index of business expectations also increased (+5.1 to 3.2 points).

The economic indices for the retail trade, which WIFO calculates on the basis of surveys conducted by the Austrian Institute for SME Research, gained noticeable ground again compared to the previous quarter: at –3.0 points, the corresponding WIFO Business Climate Index was 7.1 points higher in April than in January 2024 and only just below the zero line. The index of current business situation rose by a full 13.3 to 10.0 points quarter-on-quarter. In comparison, the index of business expectations barely improved (+1.3 points) and remained clearly pessimistic at –15.8 points.

The longer-term development of the WIFO Business Climate Indices reflects the decline as a result of the COVID-19 crisis, the recovery until spring 2022, the economic slowdown due to the energy price shock and the war in Ukraine until winter 2022-23 and the downturn since summer 2023. At the current margin, there are signs of stabilisation and an incipient trend reversal (Figure 1).

Figure 1: **WIFO Business Climate Indices**



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

WIFO-Konjunkturtest (business cycle survey) indices

The WIFO-Konjunkturtest indices 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). The "total economy indices" are calculated by weighting the sector indices (weights: services 0.5, manufacturing 0.3, construction and retail trade 0.1 each). The summarised 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 developments over the last three months. It is designed as a synchronised index that is ahead of the official economic statistics simply due to its early availability (around two months before the current data from the official statistics).
- The index of business expectations summarises those monthly questions that relate to developments in the months following the survey. It is designed as a leading indicator.

Hölzl and Schwarz (2014) provide details on the indices.

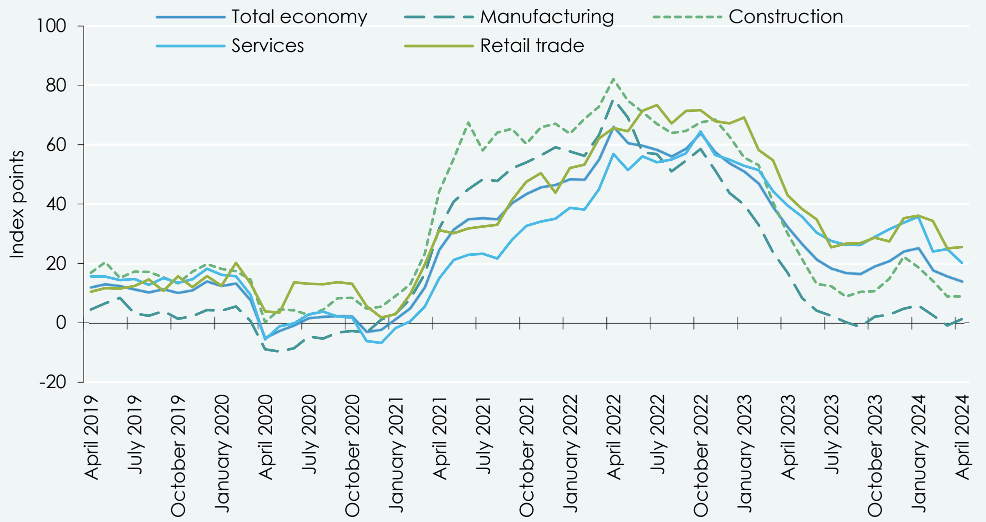
As a result of the war in Ukraine, energy prices rose more sharply than during the oil price shocks of 1973 and 1979-80, resulting in significant price effects that were also reflected in sales price expectations. The rapid economic upturn after the COVID-19 crisis was overcome and accelerated inflation further exacerbated price momentum. Only since mid-2023 have there been signs of a significant decline in sales price expectations.

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

	2023			2024				
	April	July	October	January	February	March	April	April
				Index points				Change compared to January (previous quarter)
Total economy								
WIFO Business Climate Index	10.9	– 5.2	– 7.6	– 6.7	– 9.7	– 7.1	– 3.4	+ 3.3
Index of current business situation	12.7	– 2.1	– 8.0	– 5.3	– 6.6	– 6.8	– 2.9	+ 2.4
index of business expectations	9.3	– 8.3	– 7.4	– 8.1	– 12.8	– 7.4	– 3.9	+ 4.1
Manufacturing								
WIFO Business Climate Index	0.3	– 12.6	– 20.0	– 19.2	– 22.7	– 21.7	– 16.6	+ 2.6
Index of current business situation	– 1.1	– 11.3	– 22.2	– 20.6	– 21.6	– 23.3	– 20.8	– 0.2
Index of business expectations	1.7	– 14.2	– 18.1	– 18.1	– 24.1	– 20.2	– 12.6	+ 5.5
Construction								
WIFO Business Climate Index	15.7	0.4	– 0.1	– 0.8	– 1.6	– 7.1	– 1.7	– 0.8
Index of current business situation	15.1	0.2	– 0.4	– 2.9	– 2.3	– 10.3	– 3.5	– 0.7
Index of business expectations	16.0	1.2	0.5	1.0	– 1.1	– 4.0	– 0.2	– 1.1
Services								
WIFO Business Climate Index	18.8	– 0.5	– 0.1	0.5	– 3.1	1.6	4.3	+ 3.9
Index of current business situation	21.2	2.6	– 1.3	2.9	1.0	1.9	5.5	+ 2.6
Index of business expectations	16.7	– 3.4	1.1	– 2.0	– 7.2	1.2	3.2	+ 5.1
Retail trade								
WIFO Business Climate Index	– 1.9	– 11.8	– 15.3	– 10.1	– 10.9	– 6.2	– 3.0	+ 7.1
Index of current business situation	8.4	0.5	– 5.8	– 3.3	– 3.7	2.7	10.0	+ 13.3
Index of business expectations	– 12.3	– 24.2	– 24.8	– 17.1	– 18.3	– 15.1	– 15.8	+ 1.3

Source: WIFO-Konjunkturtest (business cycle survey).

Figure 2: **Sales price expectations**



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

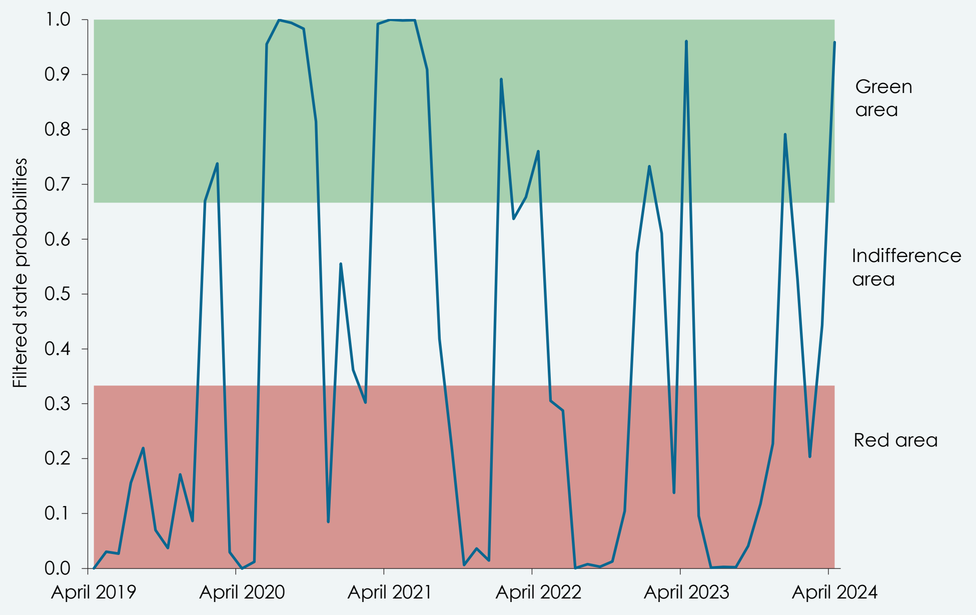
The sales price expectations are presented in the WIFO-Konjunkturtest as balances, i.e. as the difference between the proportion of positive and the proportion of negative responses to all reports. They have a value range of –100 to +100 points. Compared to the previous quarter, the latest results once again show a slowdown in price momentum (Figure 2). For the total economy, the balance of sales price expectations was most recently 13.9 points, 11.2 points below the comparative value from January 2024 and below the long-term average (25.8 points). In recent months, sales price expectations have fallen in all sectors. In construction (April 2024: 8.9 points, –9.8 points compared to January) and manufacturing (–4.6 to 1.2 points), however, the balances were still significantly lower than in services (–15.5 to 20.2 points) and retail trade (–10.6 to 32.7 points).

1. Economic traffic light shows green again

A Markov regime switching model is used in the WIFO-Konjunkturampel (economic traffic light) to calculate the probability with which the current values of the WIFO-Konjunkturtest indicators correspond to an improvement or deterioration in economic assessments compared to the previous period (Glocker & Hölzl, 2015)[2]. The probability determined can fall into one of three categories, which are summarised as an "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 that the current index value represents an improvement compared to the previous measurement point is less than one third.
- the indifference area lies between the "green" and "red" areas. In this case, the development of the economic assessments cannot be clearly assigned.

Figure 3: **WIFO-Konjunkurampel (economic traffic light)**



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

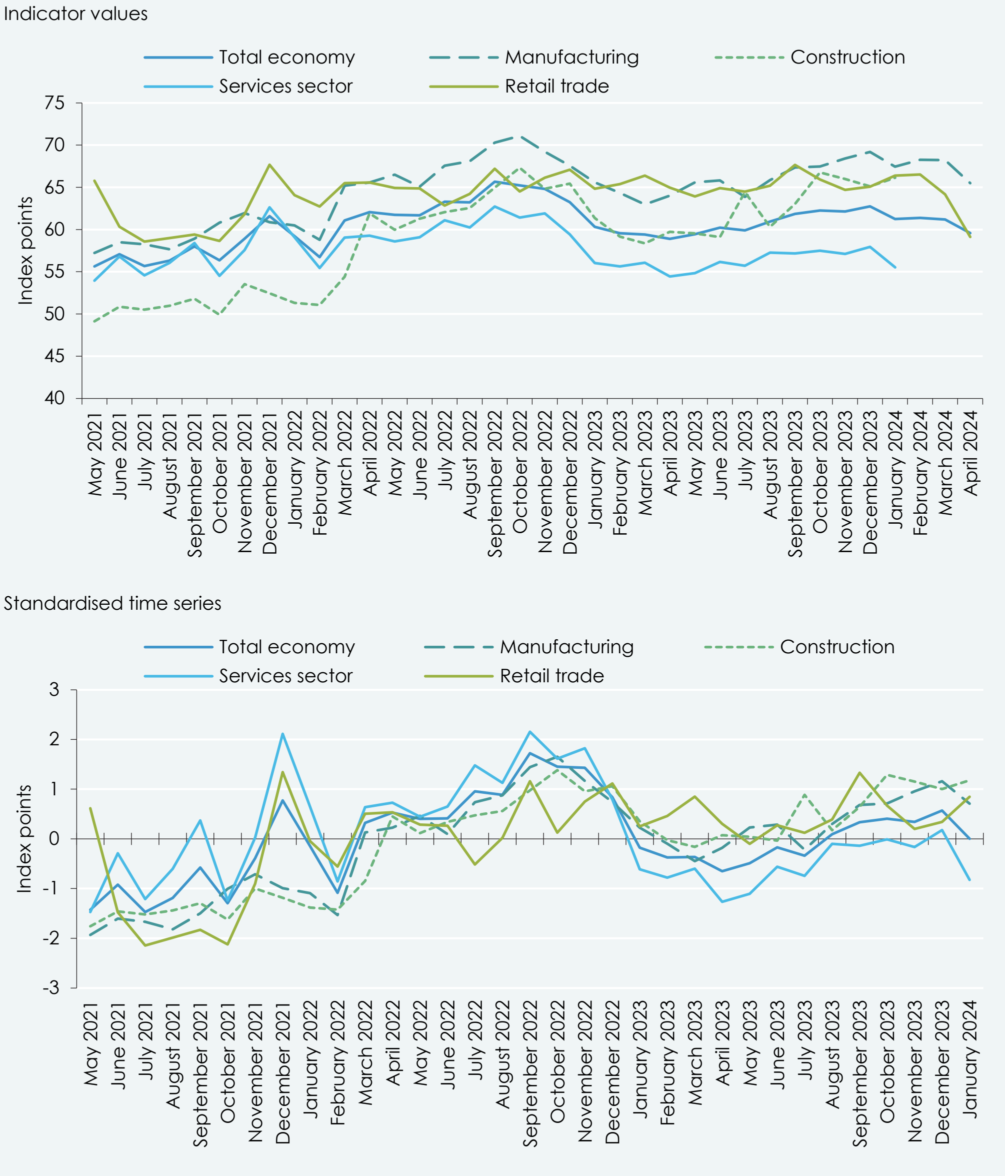
The probability of being in an improvement regime was assessed by the model as very high at 0.96 in April 2024. This means that the WIFO-Konjunkturampel (economic traffic light) is green again for the first time since December 2023. The improvement primarily reflects the upward trend in economic indicators in April, which affects both situation assessments and business expectations. However, the economic risks remain high.

[2] 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 ($p = 1 - q$).

2. Uncertainty continues to vary from sector to sector

Since the 1980s, the WIFO-Konjunkturtest has surveyed companies' assessment of 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 as part of its inclusion in the EU's Joint Harmonised EU Programme of Business and Consumer Surveys (European Commission, 2023). In addition, the question on uncertainty is now asked monthly instead of quarterly. Due to these changes, comparisons over time to date are only possible to a limited extent (Figure 4).

Figure 4: **Indicator of business uncertainty for the total economy and the sectors**



Source: WIFO-Konjunkturtest (business cycle survey), not seasonally adjusted. 0 . . . no uncertainty, 100 . . . highest uncertainty. Standardised presentation: normalisation of all indicators to a mean value of 0 and a standard deviation of 1. This makes it easier to assess the economic trend of the uncertainty indicator.

Business uncertainty decreased in April, particularly in the retail trade, but remained above average in the construction and manufacturing sectors.

The indicator of uncertainty regarding the future business situation ranges from 0 (no uncertainty) to 100 (highest uncertainty). The value for the total economy in April (second quarter 2024) was 59.6 points. The indicator was therefore 1.6 points lower than in January (61.2 points) and only just above the previous year's level (58.9 points).

The war in Ukraine and the subsequent energy price shock caused business uncertainty to rise from March 2022, particularly in export-oriented manufacturing. Uncertainty increased there until the end of 2023 and, after moving sideways in the first quarter of 2024, only fell to 65.5 points in April, bringing it back close to the long-term average of

64.7 points for the first time since August 2023. In construction, the indicator fell by 3.3 points compared to January 2024 to 62.8 points (long-term average of 59.3 points). Only a slight decline to 55.5 points was observed in the service sectors, although the uncertainty indicator was already below the long-term average (57.5 points) in January. In the retail trade, on the other hand, uncertainty fell significantly compared to January (–7.3 to 59.1 points) and thus also fell below the long-term average of 64.2 points.

3. Capacity utilisation slightly higher than at the beginning of the year

3.1 Slight increase in total economy capacity utilisation

Capacity utilisation is an important economic indicator, especially in sectors with high capital intensity and high capacity adjustment costs (Hölzl et al., 2019). It is therefore surveyed as part of the WIFO-Konjunkturtest in all sectors except retail trade. In April 2024, total economy capacity utilisation was 85.9 percent, 0.2 percentage points higher than in January (long-term average: 86.2 percent). A quarter-on-quarter comparison showed a slight improvement in all sectors except manufacturing: both construction (+1.0 percentage points to 81.1 percent, long-term average: 84.1 percent) and services (+0.7 percentage points to 91.0 percent, long-term average: 89.1 percent) were able to increase their capacity utilisation slightly. In manufacturing, on the other hand, capacity utilisation fell by 0.9 percentage points to 78.9 percent, below the long-term average of 82.0 percent.

In April 2024, capacity utilisation was higher than at the start of the year in all sectors except manufacturing.

Figure 5 **Capacity utilisation by sector**

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

3.2 Average assured production duration remains stable

The secured production duration – measured in months – is surveyed as part of the quarterly survey of the WIFO-Konjunkturtest in manufacturing and the construction industry (Figure 6). In the construction industry, companies reported in the second quarter of 2024 that their production activities were secured for an average of 4.9 months (unchanged compared to January 2024). In manufacturing, the average duration of production secured by was 4.2 months (+0.1 months compared to January 2024).

3.3 Manufacturing companies struggle with persistently weak order situation

In manufacturing, order trends over the past three months and expectations regarding incoming orders from abroad are surveyed once a quarter as relevant indicators. The answers to these questions are aggregated into balances between the share of positive and the share of negative answers. As Figure 7 shows, the development of order backlogs at the start of the second quarter of 2024 was similarly weak as in the previous quarters. The latest value of –22.7 points signals a net decline in incoming orders in the

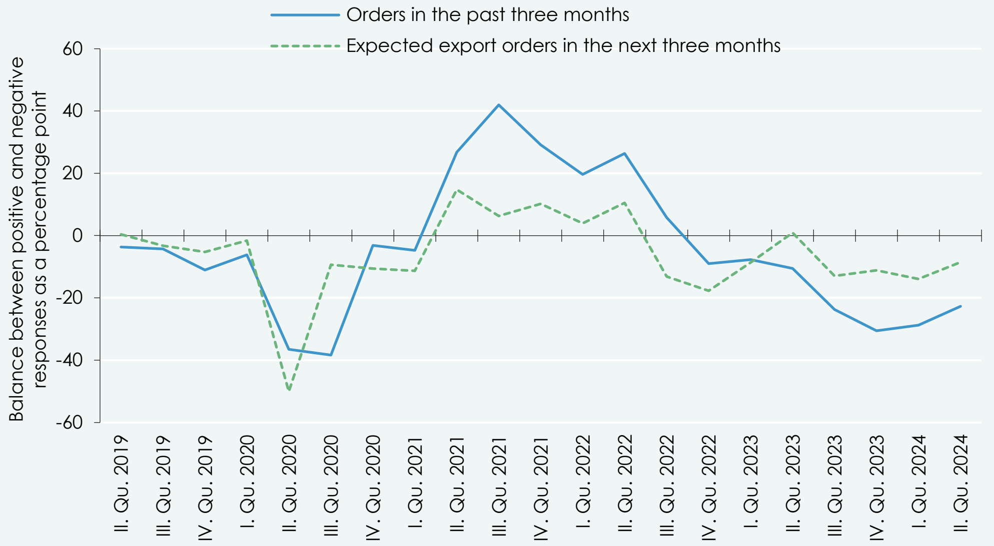
The order trend in manufacturing remained weak and expectations for incoming orders abroad also remained negative on balance.

last 3 months. Although expectations for future incoming orders from abroad improved slightly, they also remained negative on balance: the pessimistic voices, which expected a decline in foreign orders over the next three months, outweighed the positive reports by around 9 percentage points.

Figure 6: **Secured average production time in manufacturing and construction**

Source: WIFO-Konjunkturtest (business cycle survey).

Figure 7: **Development of order backlogs and expected development of foreign order backlogs in manufacturing**



Source: WIFO-Konjunkturtest (business cycle survey).

4. Lack of demand remains the most important obstacle to business activity

In the WIFO-Konjunkturtest, the most important obstacles to the business activities of the companies surveyed are determined on a quarterly basis. The companies have the option of reporting no impairment of their economic activity or selecting the most important obstacle from a predefined list:

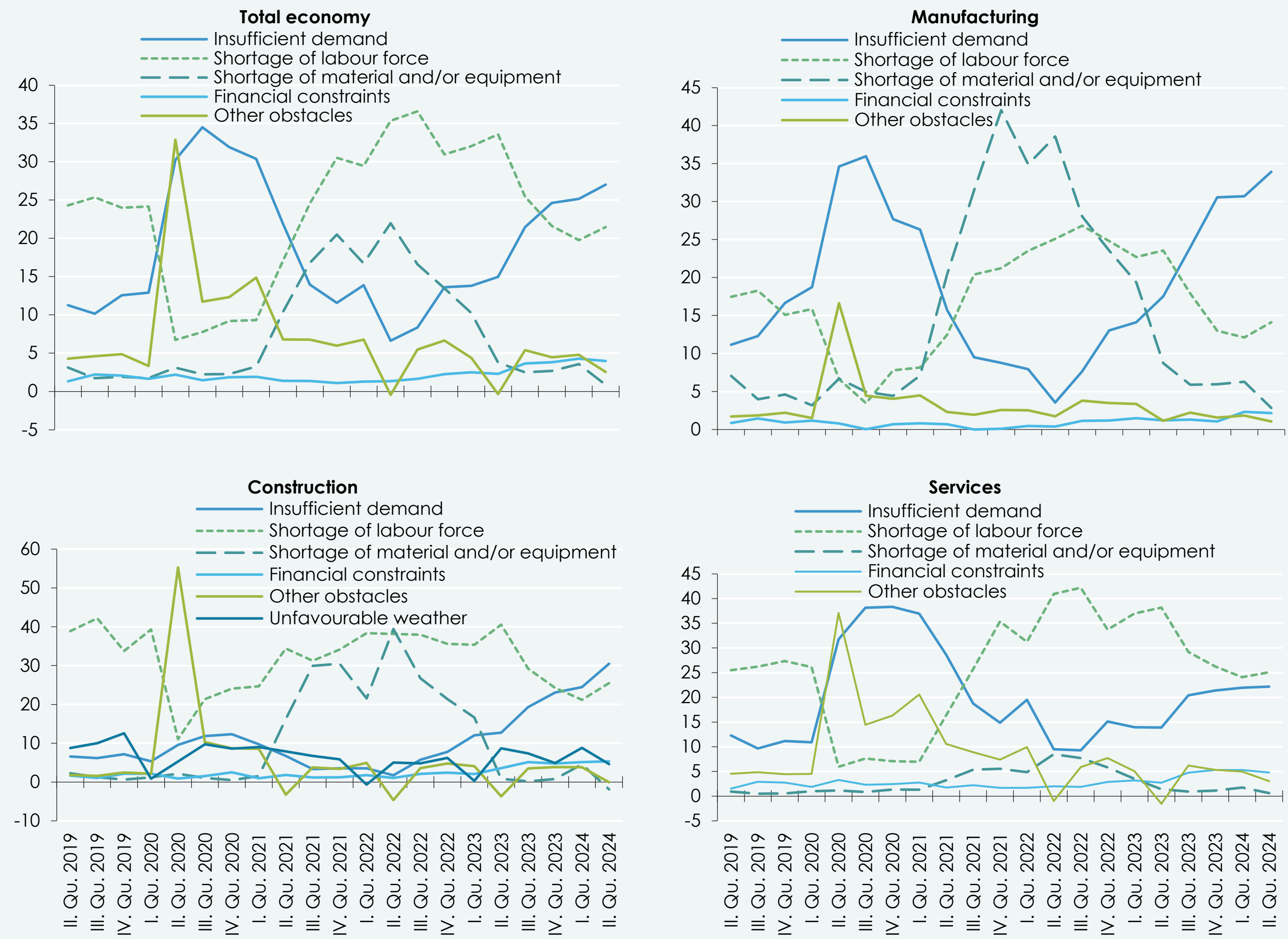
- insufficient demand (services and manufacturing) or lack of orders (construction),

- shortage of labour force,
- lack of space or capacity (services) or shortage of materials and/or capacity (manufacturing and construction),
- financial constraints and
- other reasons – in addition to the influence of the weather (construction), this category also reflects other obstacles (e.g., health policy measures during the COVID-19 pandemic).

In construction, the obstacle of "unfavourable weather" is also raised[3].

Figure 8: **Barriers to economic activity**

As a percentage of all reports



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

The COVID-19 pandemic, supply chain problems, the war in Ukraine and the sharp rise in energy prices led to an increase in the proportion of companies reporting obstacles to their business activities in 2020. The situation has recently eased somewhat. In April 2024, around 36 percent of construction companies reported no obstacles to their business activities, 4 percentage points more than in January 2024. 44 percent of companies in the services sector recently stated that they were not facing any obstacles (+2 percentage points compared to the previous quarter). In manufacturing, 46 percent of companies reported no obstacles in April, 1 percentage point less than in January 2024. In retail trade, the proportion improved significantly compared to the previous quarter (+8 percentage points to 48 percent of companies).

In the total economy (excluding the retail trade), "insufficient demand" remained the most frequently cited obstacle to business activity (27.0 percent of companies), ahead of "shortage of labour force" (21.5 percent),

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

which again gained slightly in importance. The "shortage of materials and/or capacity" (0.8 percent) was only of secondary importance compared to previous years. "Financial constraints" were mentioned by 4.0 percent of companies (Figure 8).

The factor "insufficient demand" has recently become even more important. In addition, the "shortage of labour force" remains a major obstacle to business activity.

In manufacturing, "insufficient demand" has been the most frequently cited obstacle to production activity since the third quarter of 2023 (April 2024: 33.9 percent of all companies), ahead of "shortage of labour force" (14.1 percent). Around 2.8 percent of manufacturing companies reported a "shortage of materials and/or capacity" as the most important obstacle, 1.1 percent "other reasons" and around 2.2 percent "financial constraints".

As in the previous quarter, "insufficient demand" (30.5 percent) was the most frequently cited obstacle to construction activity in April, followed by "shortage of labour force" (25.5 percent). Most recently, 4.6 percent of companies cited "unfavourable weather" as the most important obstacle. 5.4 percent of construction companies reported "financial constraints".

In the service sectors, the "shortage of labour force" (25.1 percent) remained the most important obstacle to business activity in April. This was followed by "insufficient demand" (22.2 percent), "financial constraints" (4.8 percent) and "other obstacles" (3.0 percent).

In the retail trade, barriers to business activity have been surveyed since July 2021. In April 2024, 26.4 percent of retailers surveyed reported "insufficient demand" as the most important obstacle, 10.6 percent "shortage of labour force", 4.3 percent "other obstacles", 5.8 percent "financial constraints" and 5.3 percent "supply bottlenecks".

5. Summary

The results of the WIFO-Konjunkturtest of April 2024 indicate a slight upward trend for the total economy. Expectations have improved quarter-on-quarter in all sectors with the exception of construction. An upward trend was also evident on average in the situation assessments. Accordingly, the WIFO-Konjunkturampel (economic traffic light) turned green again in April.

Despite improvements, the situation assessments and expectations of manufacturing companies remain very sceptical. Incoming orders in recent months and expectations regarding the future development of foreign orders point to a continuation of the subdued industrial economy. Capacity utilisation rose slightly in all sectors with the exception of manufacturing. Business uncertainty declined in all sectors.

The proportion of companies that expect to have to raise their sales prices in the coming months fell further compared to the previous quarter. In terms of obstacles to business activity, "insufficient demand" remained the most frequently cited obstacle in April, ahead of "shortage of labour force".

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