WIFO REPORTS ON AUSTRIA
1/2023

Global Economic Downturn Hits Austria.

Economic Outlook for 2022 to 2024

Stefan Ederer, Christian Glocker

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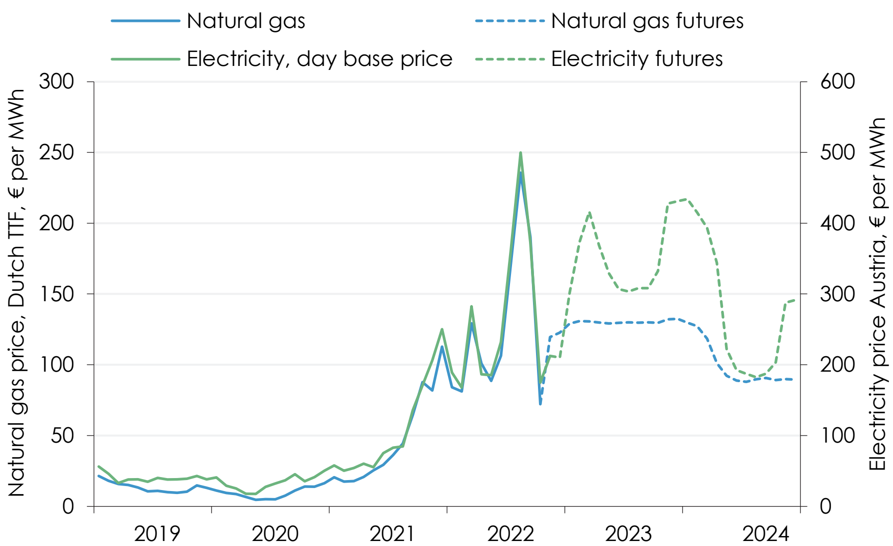
- The global economic downturn affects the Austrian economy in the second half of 2022. GDP is expected to decline in the winter of 2022-23.
- Due to the strong first half of the year, economic output grows by 4.7 percent in 2022 overall. In 2023, GDP largely stagnates (+0.3 percent). In 2024, growth increases to 1.8 percent.
- The situation on the labour market is expected to deteriorate only temporarily. The unemployment rate falls to 6.3 percent in 2022, rises slightly to 6.5 percent in 2023, and falls back to 6.2 percent in 2024.
- Inflation has probably passed its peak and is expected to reach 8.5 percent in 2022 as a whole. In the following years, it will slow down to 6.5 percent (2023) and 3.2 percent (2024).
- In 2022, the public fiscal balance amounts to –3.3 percent of GDP. In 2023 and 2024, the deficit falls well below the Maastricht limit of 3 percent.

Development of energy prices



Energy prices have fallen significantly since summer 2022. On the futures markets, natural gas for 2023 is currently trading at prices similar to those seen in spring 2022 (Source: International Monetary Fund, Intercontinental Exchange, European Energy Exchange, WIFO).

"The situation on the energy markets eased noticeably in autumn. On the futures markets, prices are expected to be significantly lower in 2023 than in summer 2022. However, there is still a risk of a renewed sharp increase in prices."

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January 2023

Global Economic Downturn Hits Austria. Economic Outlook for 2022 to 2024
The international economic downturn also affected the Austrian economy in the second half of 2022. GDP is expected to decline in the winter half-year. Stimulus from foreign trade is expected to revive in spring 2023. The gradual easing on the energy markets is dampening inflation and should contribute to an improvement in sentiment over time and a pick-up in economic activity. In 2022, Austria's economic output will grow by 4.7 percent. In 2023, GDP is expected to largely stagnate (+0.3 percent), while in 2024 growth will increase to 1.8 percent.

JEL-Codes: E32, E66 • **Keywords:** Business cycle, economic outlook, forecast

All staff members of the Austrian Institute of Economic Research contribute to the Economic Outlook. For definitions used see "Methodological Notes and Short Glossary", https://www.wifo.ac.at/wwadocs/form/WIFO-BusinessCycleInformation-Glossary.pdf

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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 • 2023/RoA/7496

1. Introduction

The global economy is currently in a weak phase. High energy and commodity prices are driving consumer price inflation in many countries and prompting a rapid tightening of monetary policy. Sentiment has deteriorated in many places and uncertainty about future developments is high. The economic downturn, which had already started earlier in the USA, is now also clearly evident in the euro area and is likely to lead to a decline in economic output there in the winter.

However, the situation on the commodity markets has eased somewhat recently. The oil price has already been falling since the summer; in autumn, higher-than-expected inventories dampened European natural gas prices. Nevertheless, these will remain elevated for the time being and will not fall noticeably until the second half of 2023. Tighter global monetary conditions will dampen demand over the forecast period, which, together with the slowdown in commodity prices, should curb inflation. This in turn should lift household and business sentiment and support economic activity. However, global economic growth will be weak in 2023 and will not pick up noticeably until 2024.

The global economic downturn also affected Austria in the third quarter of 2022. Exports and the value added of domestic industry contracted, while aggregate output stagnated. In the winter half-year 2022-23, GDP is expected to decline noticeably. Persistently high energy prices, strong price dynamics and uncertainty about future developments are depressing sentiment. Subsequently, however, the Austrian economy should recover. From spring 2023 onwards, noticeable impulses can be expected again from abroad. In addition, private consumption and investments will stabilise as uncertainty recedes and the situation on the energy markets gradually eases. The development of real wages per capita will also contribute to the revival of the economy: after declining in 2021 and 2022, they will rise again in 2023.

Table 1: **Main results**

	2019	2020	2021	2022	2023	2024
	Percentage changes from previous year					
Gross domestic product, volume	+ 1.5	– 6.5	+ 4.6	+ 4.7	+ 0.3	+ 1.8
Manufacturing	+ 1.0	– 5.8	+ 9.5	+ 3.0	– 2.2	+ 1.5
Wholesale and retail trade	+ 3.0	– 5.9	+ 3.7	+ 2.5	+ 2.6	+ 2.5
Private consumption expenditure[1], volume	+ 0.5	– 8.0	+ 3.6	+ 3.8	+ 1.3	+ 1.7
Consumer durables	+ 0.2	– 2.2	+ 4.4	– 2.5	+ 2.6	+ 2.0
Gross fixed capital formation, volume	+ 4.5	– 5.3	+ 8.7	– 1.0	+ 0.2	+ 2.2
Machinery and equipment[2]	+ 5.3	– 7.0	+ 11.3	– 2.0	+ 0.0	+ 3.6
Construction	+ 3.6	– 3.4	+ 5.8	± 0.0	+ 0.3	+ 0.7
Exports, volume	+ 4.0	– 10.7	+ 9.6	+ 8.8	+ 0.3	+ 3.3
Exports of goods, fob	+ 3.5	– 7.3	+ 12.9	+ 6.0	– 0.1	+ 3.5
Imports, volume	+ 2.1	– 9.2	+ 13.7	+ 5.1	+ 0.9	+ 3.2
Imports of goods, fob	+ 0.3	– 6.2	+ 14.2	+ 3.1	+ 0.1	+ 3.0
Gross domestic product, value	+ 3.1	– 4.1	+ 6.6	+ 9.9	+ 5.5	+ 5.8
billion €	397.17	381.04	406.15	446.31	471.05	498.34
Current account balance as a percentage of GDP	2.4	3.0	0.4	0.0	– 0.4	0.2
Consumer prices	+ 1.5	+ 1.4	+ 2.8	+ 8.5	+ 6.5	+ 3.2
GDP deflator[3]	+ 1.5	+ 2.6	+ 1.9	+ 5.0	+ 5.2	+ 3.9
Three-month interest rate percent	– 0.4	– 0.4	– 0.5	0.4	4.0	4.7
Long-term interest rate[4] percent	0.1	– 0.2	– 0.1	1.7	4.4	5.7
General government financial balance, Maastricht definition as a percentage of GDP						
Persons in active dependent employment[5]	0.6	– 8.0	– 5.9	– 3.3	– 2.0	– 1.6
Unemployment rate						
Eurostat definition[6]	4.8	6.0	6.2	4.6	4.7	4.5
National definition[7]	7.4	9.9	8.0	6.3	6.5	6.2
Greenhouse gas emissions[8]	+ 1.5	– 7.7	+ 4.3	– 3.0	– 1.2	+ 0.3
million t CO_2 equivalent	79.74	73.59	76.77	74.47	73.61	73.83

Source: WIFO, ECB, Environmental Agency Austria, Federation of Social Insurances, OeNB, Public Employment Service Austria, Statistics Austria. 2022 to 2024: forecast. – [1] Including non-profit institutions serving households. – [2] Including weapons systems. – [3] Measures purely domestic inflation. – [4] 10-year central government bonds (benchmark). – [5] Excluding persons in valid employment contract receiving child care benefit or being in military service. – [6] As a percentage of total labour force, Labour Force Survey. Due to a revision of the Labour Force Survey methodology planned for the end of June, a forecast of this indicator is currently waived. – [7] As a percentage of dependent labour force. – [8] From 2021: forecast.

In 2022, Austria's GDP will grow by 4.7 percent due to the strong economic activity in the first half of the year. In 2023, however, economic output will largely stagnate (+0.3 percent) and only return to significant growth in 2024 (+1.8 percent).

The situation on the labour market remains favourable and is expected to deteriorate only temporarily as a result of the economic downturn. After a significant decline in 2022 (6.3 percent), the unemployment rate will rise slightly to 6.5 percent in 2023 due to weaker employment dynamics and fall back to 6.2 percent in 2024.

Inflation is likely to have already peaked. Consumer prices will rise by 8.5 percent in 2022. In 2023, inflation will slow to 6.5 percent. The gradual decline in energy prices dampens inflation despite high wage increases; in 2024, consumer prices will thus only rise by 3.2 percent.

The favourable labour market situation and the expiry of the COVID-19 support measures improve the fiscal balance in 2022. In the following years, the deficit is expected to fall well below the Maastricht limit of 3 percent of GDP again, as a number of support measures to cushion the rise in energy prices are discontinued and economic activity gradually picks up again.

2. Global economic conditions

2.1 International business cycle in a downturn

Global economic growth has weakened since the beginning of 2022. Geopolitical tensions caused energy prices to skyrocket in many places. At the same time, intense heat waves and droughts in Europe and Central and South Asia drove up food prices. Against this backdrop, consumer price inflation reached long-term highs in many countries, leading to a rapid tightening of monetary policy. Although the impact of the COVID-19 pandemic has lessened in most countries, repeated waves of infection continue to affect economic activity, especially in China.

The slowdown is affecting both manufacturing and services and affects both developed and emerging economies. Although global industrial production increased in the third quarter, partially offsetting the decline in the previous quarter, sentiment indicators suggest that the consequences of the gradual decline in demand will soon be felt more strongly. This applies equally to market-related services.

In the euro area, economic output increased only marginally in the third quarter of 2022, after having expanded in the first half of the year. While the services sector had still benefitted from the extensive lifting of the COVID-19 measures in the spring, it increasingly suffered from the strong price increases from the summer onwards. According to surveys, the business climate has deteriorated further across the board; consumer confidence has even reached a multi-year low.

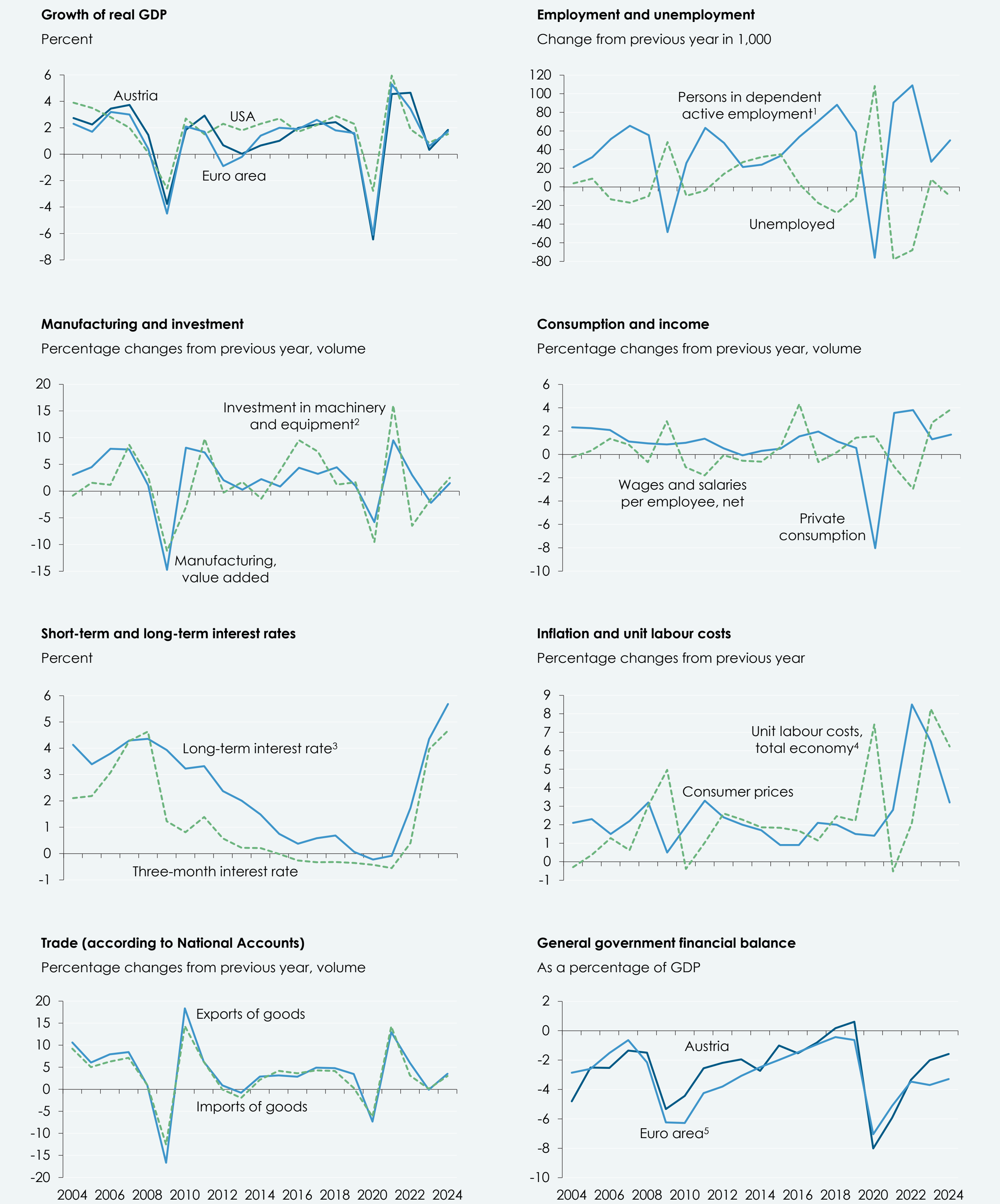
The US economy expanded most recently after GDP fell in the first two quarters of 2022. Growth was largely driven by strong foreign business. On the domestic front, however, the picture was mixed. The ongoing tightening of monetary policy weighed on interest-dependent investment in private residential and industrial construction. Private consumer spending, on the other hand, expanded moderately – supported by the good labour market situation.

Table 2: **International economy**

	Percentage shares 2021		2019	2020	2021	2022	2023	2024
	Austria's exports of goods	World GDP[1]	GDP volume, percentage changes from previous year					
EU 27	67.6	14.9	+ 1.8	– 5.7	+ 5.4	+ 3.6	+ 0.6	+ 1.9
Euro area	51.8	12.0	+ 1.6	– 6.1	+ 5.3	+ 3.4	+ 0.6	+ 1.7
Germany	30.1	3.3	+ 1.1	– 3.7	+ 2.6	+ 1.8	– 0.1	+ 1.6
Italy	6.8	1.9	+ 0.5	– 9.0	+ 6.7	+ 3.8	+ 0.4	+ 1.0
France	3.8	2.3	+ 1.8	– 7.8	+ 6.8	+ 2.6	+ 0.6	+ 1.5
CEEC 5[2]	15.4	1.7	+ 4.0	– 3.3	+ 6.0	+ 4.8	+ 0.3	+ 2.8
Hungary	3.7	0.2	+ 4.9	– 4.5	+ 7.1	+ 5.0	– 0.4	+ 3.3
Czech Republic	3.6	0.3	+ 3.0	– 5.5	+ 3.5	+ 2.5	– 0.4	+ 2.3
Poland	4.0	1.0	+ 4.4	– 2.0	+ 6.8	+ 5.9	+ 0.6	+ 2.6
USA	6.7	15.7	+ 2.3	– 2.8	+ 5.9	+ 1.9	+ 0.9	+ 1.5
Switzerland	5.2	0.5	+ 1.1	– 2.4	+ 4.2	+ 2.0	+ 0.2	+ 2.1
UK	2.7	2.3	+ 1.6	– 11.0	+ 7.5	+ 4.4	– 0.9	+ 0.8
China	2.9	18.6	+ 6.0	+ 2.2	+ 8.1	+ 3.4	+ 4.5	+ 4.8
Total[3]								
PPP-weighted[4]		52	+ 3.4	– 2.2	+ 6.6	+ 3.0	+ 2.0	+ 2.8
Export weighted[5]	86		+ 1.9	– 5.1	+ 5.5	+ 3.4	+ 0.7	+ 1.9
Market growth[6]			+ 1.7	– 6.1	+ 10.8	+ 4.7	+ 0.8	+ 3.5
Forecast assumptions								
Crude oil prices								
Brent, $ per barrel			64.1	43.3	70.7	99	83	79
Natural gas price								
Dutch TTF, € per MWh			13.6	9.5	45.9	127	130	100
Electricity price Austria								
Base, € per MWh			40.1	33.2	107.2	257	351	278
Peak, € per MWh			43.1	36.0	116.8	272	440	362
Exchange rate								
$ per €			1.120	1.141	1.184	1.04	1.01	1.12
Key interest rate								
ECB main refinancing rate[7], percent			0.0	0.0	0.0	0.0	0.0	0.6
10-year government bonds yields Germany, percent			0.4	– 0.3	– 0.3	– 0.5	– 0.4	1.2

Source: WIFO, Bureau of Economic Analysis, European Energy Exchange, Eurostat, ECB, HWWI, IMF, Intercontinental Exchange, OECD, Statistics Austria. 2022 to 2024: forecast. – [1] PPP-weighted. – [2] Czech Republic, Hungary, Poland, Slovenia, Slovakia. – [3] EU 27, UK, USA, Switzerland, China. – [4] Weighted by GDP at purchasing power parities in 2021. – [5] Weighted by shares of Austrian goods exports in 2021. – [6] Real import growth of trading partners, weighted by shares of Austrian goods exports. – [7] Minimum bid rate.

Figure 1: **Indicators of economic performance**



Source: WIFO. 2022 to 2024: forecast. – [1] Excluding persons in valid employment contract receiving child care benefit or being in military service, and unemployed persons in training; break in 2007-08 due to changes in the employment statistics. – [2] Including weapons systems. – [3] 10-year central government bonds (benchmark). – [4] Including short-time work grants. – [5] Source: European Commission.

In China, economic activity increased noticeably in the third quarter, especially since the measures to contain the SARS-CoV-2 virus were confined to a much smaller part of the country than in the spring. However, the strong growth of real GDP is unlikely to continue in the fourth quarter of 2022. In recent weeks, new COVID-19 cases have led to a tightening of containment measures in many places. As a result, social unrest has increased recently, dampening consumer sentiment and thus weighing on consumption. In addition, the situation on the real estate market remains tense. The short-term economic outlook is further clouded by the slowdown in exports.

The prices of many commodities have fallen in recent months against the backdrop of the global economic slowdown. This is especially true for industrial raw materials, but also for crude oil. OPEC's decision to curb crude oil production from November 2022 only temporarily interrupted the downward trend in crude oil prices. European natural gas and electricity prices were recently significantly lower than at their peak at the end of August. The sharp increase in natural gas prices during the summer months has already been offset. European natural gas storage facilities are sufficiently full for the winter months of 2022-23, even though Russia has significantly reduced its supplies.

Consumer price inflation gained further momentum worldwide in the third quarter, despite the already declining trend in commodity prices. The persistent inflationary pressure led to a rapid and synchronised tightening of the monetary policy framework in many places. The ECB Governing Council decided in September and November 2022 to raise the key interest rates by 75 basis points each. The tightening of monetary policy caused long-term interest rates on many government bonds to rise. The interest rate spread of French, Italian and Spanish government bonds over German bonds has widened somewhat; however, the comparatively small spread indicates that the scaling back of loose monetary policy is not threatening to fragment the euro area as it did in 2011-12. Nevertheless, uncertainty on the stock markets is above average; share prices are trending downwards, not least because of the gloomy economic outlook.

While COVID-19 support benefits are being scaled back, many countries have adopted additional spending programmes due to the rise in energy and food prices in 2022. In the euro area, governments have increased measures to subsidise the energy consumption of low-income households and introduced additional transfers. In some countries, taxes on fuel were reduced, subsidies to companies were increased and social benefits and public sector wages were raised. In addition, the Ukraine war resulted in an increase in military spending and investments to secure energy supply.

In the USA, government support measures introduced during the pandemic have largely expired. The impact of the Inflation Reduction Act on demand will be limited over the forecast period. The costs of a number of climate and energy initiatives and the expansion of health care subsidies are expected to be largely offset by the introduction of a minimum corporate income tax. Overall, fiscal policy in the USA is likely to be less expansionary in 2023 and 2024 than before.

2.2 Slight easing on the commodity and energy markets

This forecast assumes that the sanctions against Russia will continue, but that natural gas supplies from Russia to Europe will not be completely stopped. Nevertheless, prices on the spot and futures markets will remain high for the time being. On the basis of futures markets quotations, a gradual decline in European natural gas prices is not expected until the second half of 2023.

The tighter monetary policy framework worldwide will have a restraining effect on economic activity and dampen demand, which should weaken inflationary dynamics. Cheaper commodities should also slow consumer price inflation. Moreover, in many places prices for intermediate goods barely rose or even fell in October compared to the previous month. However, wage growth has strengthened in some industrialised countries, which could slow the decline in inflation. In addition, fiscal policy continues to provide expansionary impulses in many countries.

In the euro area, real GDP is expected to contract in the winter half of 2022-23, before recovering slightly later in 2023. On the supply side, high input prices are constraining production, especially in energy-intensive sectors. On the demand side, high inflation in particular is dampening real incomes and thus – despite considerable support from fiscal policy – private household consumption. At the same time, the slowdown in export market growth and rising interest rates are weighing on private investments. Public investment will increase strongly in 2023, while inflation will gradually decline as commodity prices stabilise. Therefore, both real income growth and growth of real GDP should pick up in 2023 and 2024. However, the recovery will remain subdued as the support measures related to the energy crisis are gradually phased out and the impact of higher real interest rates increasingly feeds through to economic activity.

The US economy will grow at a much slower pace in 2023 than in 2022. The decline in real disposable household income continues to weigh on consumer demand, and higher interest rates are dampening investment. Business surveys point to a further weakening of industrial activity. This is likely to have an increasingly negative impact on investment in machinery and equipment, while construction investment has been declining for some time, especially in residential construction. The weak economic activity is likely to gradually feed through to the labour market, especially in 2023, and eventually dampen wage growth. Inflationary pressures will therefore slowly abate, also supported by lower energy prices.

In China, the expected gradual lifting of the strict COVID-19 restrictions will have a positive impact on economic activity over the forecast period. Although normalisation will take some time, it will lead to significantly stronger overall economic growth as early as 2023. Government spending, especially on infrastructure projects, will support the economy. Monetary policy is also providing expansionary impulses, especially as China, unlike most advanced economies, has tended to loosen its monetary policy after it was tightened in the wake of the real estate boom.

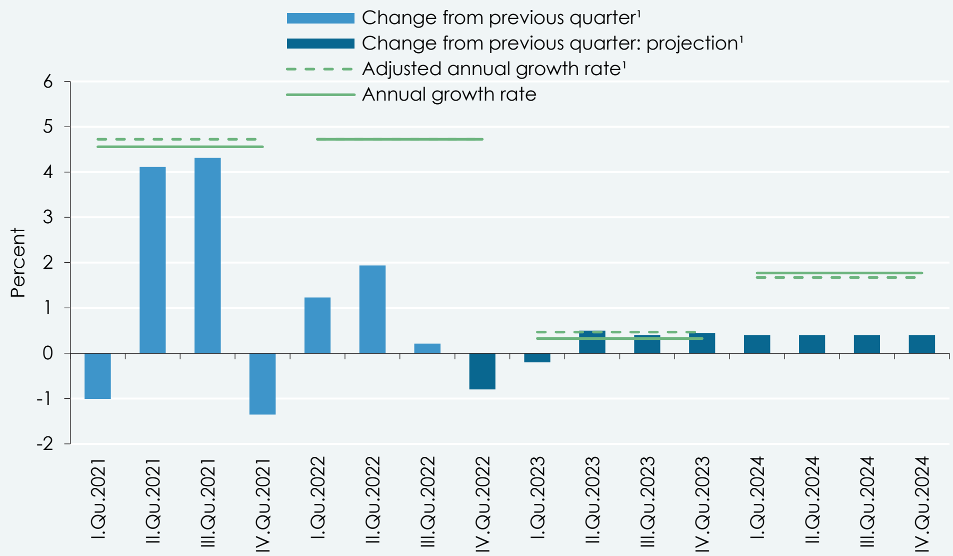
3. Weak global demand slows down economic activity in Austria

3.1 Decline in economic output in winter

The Austrian economy grew strongly until the summer of 2022. On the one hand, this was due to the rapid recovery from the COVID-19 crisis, which in 2021 had still affected the service sectors in particular. On the other hand, Austrian goods exports expanded strongly from the beginning of 2021 as a result of the global economic momentum. This particularly benefitted industrial production, which expanded strongly until the summer of 2022. In line with global developments, however, the Austrian economy abruptly lost momentum in the third quarter of 2022. Compared to the previous quarter not only exports but also value added in the manufacturing sector declined. Moreover, high energy prices and increased uncertainty dampened private household consumption expenditure and investments. The global economic downturn thus also affected the Austrian economy in the summer; the economic boom phase has come to an end for the time being.

Figure 2: **Cyclical profile of Austria**

GDP volume



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

In the winter half-year 2022-23, economic output is likely to decline noticeably. According to the WIFO-Konjunkturtest (business cycle survey), companies in many sectors still assess the current situation as favourable, but expectations have become much more subdued. Persistently high energy prices, strong price dynamics and uncertainty about future developments are dampening the sentiment. Nevertheless, business indicators seem to stabilise somewhat towards the end of the year. Commodity markets are easing slightly, supply chain problems are dissipating over time as demand weakens and inflation is likely to have peaked.

The Austrian economy is therefore expected to recover gradually from 2023 onwards.

Tangible impulses should come from abroad again from spring onwards. Private consumption and investment will also stabilise as uncertainty diminishes and the energy markets gradually ease. However, the ongoing geopolitical conflict with Russia could repeatedly lead to renewed tensions and delay the recovery. The rise in interest rates as a result of monetary tightening will also dampen aggregate demand. Nevertheless, the domestic economy should return to a moderate growth path in the second half of 2023. The development of real per capita wages will also contribute to this. After declining in 2021 and 2022, they will rise again in 2023.

For 2022 as a whole, Austria's GDP is expected to grow by 4.7 percent due to the strong first half of the year. In 2023, the weak economic activity in the winter half-year will lead to a stagnation of economic output (+0.3 percent). In 2024, growth will then pick up again significantly to 1.8 percent.

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

		2021	2022	2023	2024
Growth carry-over[1]	percentage points	+ 0.8	+ 2.1	− 0.0	+ 0.7
Growth rate during the year[2]	percent	+ 6.1	+ 2.6	+ 1.2	+ 1.6
Annual growth rate	**percent**	**+ 4.6**	**+ 4.7**	**+ 0.3**	**+ 1.8**
Adjusted annual growth rate[3]	percent	+ 4.7	+ 4.7	+ 0.5	+ 1.7
Calendar effect[4]	percentage points	+ 0.0	± 0.0	− 0.1	+ 0.1

Source: WIFO. 2022 to 2024: forecast. – [1] Impact of year-earlier growth dynamics on growth in the current year. Equals the annual growth rate in the current year, if the level of GDP in the current year remains constant from the fourth quarter of the previous year; seasonally and calendar adjusted according to Eurostat. – [2] Reflects the growth dynamics during a calendar year. Equals the year-on-year growth rate for the fourth quarter; seasonally and calendar adjusted according to Eurostat. – [3] Seasonally and calendar adjusted according to Eurostat. Comparative figure to the OeNB's economic forecast. – [4] Impact of the annual number of working days and the leap day. The sum of the adjusted annual growth rate and calendar effect may differ from the value of the unadjusted annual growth rate as it also includes seasonal and irregular effects.

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

GDP, volume

		2022	2023
WIFO Economic Outlook October 2022	percent	+ 4.8	+ 0.3
Data revisions[1]	percentage points	− 0.1	+ 0.0
Forecast error for the third quarter of 2022[2]	percentage points	+ 0.0	+ 0.0
Forecast revision	percentage points	− 0.1	+ 0.1
WIFO Economic Outlook December 2022	**percent**	**+ 4.7**	**+ 0.5**

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

3.2 Foreign trade in goods drives economic activity

Austria's foreign trade in goods expanded strongly in the first half of 2022. The global economic upswing boosted export demand for machinery and manufactured goods. High order backlogs in the foreign capital goods industry, for which Austria is an important supplier, should have had a positive effect. Increased stockpiling to hedge against price increases for intermediate goods may also have played a role. The Austrian automotive industry, on the other hand, contributed little to export growth – probably mainly because of the crisis in the German automotive industry.

However, the strong export momentum came to an abrupt end in the third quarter. The weakening of the global economy resulted in a decline in goods exports in the summer compared to the previous quarter. For the fourth quarter of 2022, the results of the WIFO-Konjunkturtest (business cycle survey) point to a renewed decline. Even though order backlogs are still above average, negative export expectations now clearly predominate. Austrian goods exports will still grow strongly in 2022, but are expected to stagnate in price-adjusted terms in 2023. Important trading partners are experiencing an economic downturn, which is likely to lead to a recession in several countries in the winter half-year 2022-23. Austrian market growth will therefore remain subdued in 2023. The deterioration in price competitiveness due to high energy prices is also dampening goods exports, as this makes it more difficult to maintain market shares, especially in energy-intensive parts of the export industry (chemical industry, paper and steel production). Exports will not noticeably improve again until 2024, when the international economic activity picks up.

Table 5: **Expenditure on GDP**

Volume (chain-linked series)

	2021	2022	2023	2024	2021	2022	2023	2024
	Billion € (reference year 2015)				Percentage changes from previous year			
Final consumption expenditure	258.78	267.20	270.43	274.14	+ 4.8	+ 3.3	+ 1.2	+ 1.4
Households[1]	181.82	188.73	191.18	194.43	+ 3.6	+ 3.8	+ 1.3	+ 1.7
General government	76.86	78.40	79.18	79.66	+ 7.8	+ 2.0	+ 1.0	+ 0.6
Gross capital formation	99.91	100.38	100.33	103.00	+ 11.4	+ 0.5	– 0.1	+ 2.7
Gross fixed capital formation	95.38	94.39	94.54	96.65	+ 8.7	– 1.0	+ 0.2	+ 2.2
Machinery and equipment[2]	31.79	29.73	29.28	30.01	+ 16.0	– 6.5	– 1.5	+ 2.5
Construction	41.97	41.97	42.09	42.39	+ 5.8	± 0.0	+ 0.3	+ 0.7
Other investment[3]	21.66	22.64	23.09	24.24	+ 5.1	+ 4.5	+ 2.0	+ 5.0
Domestic demand	358.97	368.09	370.72	377.10	+ 6.5	+ 2.5	+ 0.7	+ 1.7
Exports	211.50	230.16	230.79	238.50	+ 9.6	+ 8.8	+ 0.3	+ 3.3
Travel	6.32	12.00	11.79	12.52	– 32.5	+ 89.9	– 1.7	+ 6.2
Minus imports	205.92	216.35	218.40	225.38	+ 13.7	+ 5.1	+ 0.9	+ 3.2
Travel	5.34	7.92	7.88	7.96	+ 60.0	+ 48.4	– 0.6	+ 1.1
Gross domestic product	365.16	382.17	383.41	390.47	+ 4.6	+ 4.7	+ 0.3	+ 1.8
Value	406.15	446.31	471.05	498.34	+ 6.6	+ 9.9	+ 5.5	+ 5.8

Source: WIFO, Statistics Austria. 2022 to 2024: forecast. – [1] Including non-profit institutions serving households. – [2] Including weapon systems. – [3] Mainly intellectual property products (research and development, computer programmes, copyrights).

Austrian imports of goods are also rising strongly in 2022, with price increases for energy and intermediate goods having a significant impact. However, the import momentum slowed noticeably over the course of the year. The boom in consumer durables, which began during the COVID-19 crisis, still contributed noticeably to import growth at the beginning of the year. In spring 2022, the strongest impetus is likely to have come from the export industry, which worked off its high order backlogs and thus increased demand for intermediate goods. Weak investment activity, on the other hand, dampened real import momentum, as did the decline in the volume of imported energy from spring onwards. These developments are likely to continue, leading to a further decline in imports in the winter of 2022-23. Only then will they increase again somewhat.

Due to the high price increases for energy and intermediate goods, the current account balance deteriorated significantly in 2022. It is expected to turn negative again for the first time in 2023 and to improve only in 2024 as the economy recovers. The terms of trade will deteriorate again in 2023, even if no further pressure from energy prices is expected, and will only recover in the following year.

3.3 International trade shaping industry

Austria's manufacturing output grew strongly in the first half of 2022 in the wake of the export boom. However, value added declined in the third quarter. The downward trend is likely to continue in the winter half-year 2022-23, although economic indicators have stabilised somewhat recently. Order backlogs shrank significantly in the second half of 2022 and expectations for future business development are mostly pessimistic. The economic slowdown is also reflected in the fact that an increasing number of manufacturing companies perceive the lack of demand as a major constraint on production, although shortages of labour force and intermediate goods continue to dominate. Uncertainty remains high, especially with regard to the future development of energy prices.

The Austrian industry is nevertheless in a good starting position. Order backlogs are still high despite significant declines. Many companies are now working off orders that have been delayed due to supply chain problems. Accordingly, capacity utilisation in autumn 2022 was still average. From spring 2023 onwards, industrial production should gradually recover in the wake of the international economic recovery, when energy prices start to fall again and uncertainty slowly decreases. This should also gradually revive investment activity, which had already slumped in spring 2022. As investment is heavily dependent on expectations about future business conditions, the increased uncertainty following the outbreak of the Ukraine war had a particularly negative impact. However, these dampening effects are overlaid by the stimulating effect of the investment premium. Even if the business situation gradually improves again in

2023, investment is likely to pick up only with a time lag, so that it will largely stagnate in 2023 as a whole and not increase significantly again until 2024. A number of other economic activities (e.g. advertising, projects in information and communication technology) that contribute to the value added of other business services are also likely to pick up again only after a delay.

Table 6: **Gross value added**

At basic prices

	2021	2022	2023	2024	2021	2022	2023	2024
	Billion € (reference year 2015)				Percentage changes from previous year			
Volume (chain-linked series)								
Agriculture, forestry and fishing	4.29	4.20	4.26	4.26	+ 4.5	– 2.0	+ 1.5	± 0.0
Manufacturing including mining and quarrying	68.46	70.51	68.96	69.99	+ 9.6	+ 3.0	– 2.2	+ 1.5
Electricity, gas and water supply, waste management	9.83	10.02	9.94	10.06	– 2.4	+ 2.0	– 0.8	+ 1.2
Construction	19.80	19.84	19.90	20.00	+ 2.6	+ 0.2	+ 0.3	+ 0.5
Wholesale and retail trade	39.44	40.43	41.48	42.52	+ 3.7	+ 2.5	+ 2.6	+ 2.5
Transportation	17.02	18.72	17.22	17.57	+ 2.5	+ 10.0	– 8.0	+ 2.0
Accommodation and food service activities	8.89	14.04	14.19	14.89	– 13.2	+ 58.0	+ 1.0	+ 5.0
Information and communication	13.37	13.84	13.91	14.02	+ 3.5	+ 3.5	+ 0.5	+ 0.8
Financial and insurance activities	15.21	15.13	15.54	16.17	+ 1.1	– 0.5	+ 2.7	+ 4.0
Real estate activities	31.35	32.03	32.36	32.52	+ 1.0	+ 2.2	+ 1.0	+ 0.5
Other business activities[1]	33.46	35.07	35.42	36.41	+ 6.8	+ 4.8	+ 1.0	+ 2.8
Public administration[2]	56.78	58.14	59.02	59.61	+ 5.2	+ 2.4	+ 1.5	+ 1.0
Other service activities[3]	7.56	7.86	7.98	8.05	+ 2.4	+ 4.0	+ 1.5	+ 0.8
Total gross value added[4]	324.35	339.81	340.44	346.34	+ 4.0	+ 4.8	+ 0.2	+ 1.7
Gross domestic product at market prices	365.16	382.17	383.41	390.47	+ 4.6	+ 4.7	+ 0.3	+ 1.8

Source: WIFO, Statistics Austria. 2022 to 2024: forecast. – [1] Professional, scientific and technical activities; administrative and support service activities (NACE M and N). – [2] Including defence, compulsory social security, education, human health and social work activities (NACE O to Q). – [3] Arts, entertainment and recreation; other service activities; activities of households (NACE R to U). – [4] Before deduction of subsidies and attribution of taxes on products.

Table 7: **Productivity**

	2019	2020	2021	2022	2023	2024
	Percentage changes from previous year					
Total economy						
Real GDP	+ 1.5	– 6.5	+ 4.6	+ 4.7	+ 0.3	+ 1.8
Hours worked[1]	+ 1.6	– 8.7	+ 4.8	+ 3.5	+ 0.2	+ 1.0
Productivity[2]	– 0.1	+ 2.5	– 0.2	+ 1.1	+ 0.1	+ 0.8
Employment[3]	+ 1.3	– 1.9	+ 2.4	+ 3.1	+ 0.7	+ 1.1
Manufacturing						
Production[4]	+ 1.0	– 5.8	+ 9.5	+ 3.0	– 2.2	+ 1.5
Hours worked[5]	+ 0.9	– 6.3	+ 5.1	+ 2.2	– 1.3	+ 0.6
Productivity[2]	+ 0.0	+ 0.5	+ 4.2	+ 0.8	– 0.9	+ 0.9
Employees[6]	+ 1.7	– 1.4	+ 0.4	+ 2.0	– 0.2	+ 0.8

Source: WIFO, Statistics Austria. 2022 to 2024: forecast. – [1] Total hours worked by persons employed, National Accounts definition. – [2] Production per hour worked. – [3] Employees and self-employed, National Accounts definition (jobs). – [4] Gross value added, volume. – [5] Total hours worked by employees. – [6] National Accounts definition (jobs).

3.4 Construction remains subdued

The domestic construction industry has been in a weak phase for some time. Residential construction investment has already been declining since mid-2021. In the third quarter of 2022, non-residential construction investment and value added in the construction industry also fell. The main reason for this slowdown is the high construction costs, which rose by 10 percent in both 2021 and 2022 and are now dampening demand.

While in 2021 the fringes of the construction industry's rapid recovery from the COVID-19 crisis were still pushing up prices, in 2022 it is mainly the high energy and commodity prices as well as the shortages of intermediate goods that are doing so. The gradual rise in interest rates is also likely to have a dampening effect on demand.

Leading indicators suggest that the construction industry will not recover in the fourth quarter of 2022 either, which means that construction investment will stagnate in 2022. With the gradual easing of energy prices, construction costs are expected to rise at a slower pace in the coming years, which will provide some stimulus to construction activity. Weak demand for new residential construction will be offset by increased investment in renovation due to high energy prices. Civil engineering, which is benefitting from the expansion of public transport, is also providing support. In addition, there will be investment in renewable energy and digital infrastructure.

3.5 Muted private consumption and tourism in 2023

Private household consumption already declined in spring 2022 compared to the previous quarter and continued to fall in the summer. The high catch-up potential after the lifting of the COVID-19 measures was already largely exhausted in the first quarter of 2022. From the second quarter onwards, the recovery was hampered by increased uncertainty as a result of the Ukraine war, the sharp rise in energy prices and rising consumer price inflation. These factors persist and continue to dampen consumer spending at the end of the year. In addition, the real disposable income of private households shrinks significantly in 2022 due to high inflation. However, this is cushioned by a decline in the savings rate. In 2022 as a whole, private consumption expenditure therefore increases, mainly due to the strong recovery at the beginning of the year. While consumption of services and non-durable consumer goods expanded in 2022, the boom in durable consumer goods observed in the COVID-19 crisis did not continue.

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

	2019	2020	2021	2022	2023	2024
	Percentage changes from previous year					
Private consumption expenditure[1]	+ 0.5	– 8.0	+ 3.6	+ 3.8	+ 1.3	+ 1.7
Durable goods	+ 0.2	– 2.2	+ 4.4	– 2.5	+ 2.6	+ 2.0
Non-durable goods and services	+ 0.6	– 8.6	+ 3.5	+ 4.5	+ 1.2	+ 1.7
Private household disposable income	+ 1.6	– 2.9	+ 1.9	– 1.4	+ 0.3	+ 3.8
	As a percentage of disposable income					
Household saving ratio						
Including adjustment for the change in pension entitlements	8.6	13.3	12.0	7.3	6.4	8.2
Excluding adjustment for the change in pension entitlements	8.0	12.8	11.4	6.7	5.8	7.7
	Percentage changes from previous year					
Loans to domestic non-banks (end of period)	+ 4.4	+ 3.8	+ 6.5	+ 7.2	+ 7.0	+ 5.8
Consumer prices						
National	+ 1.5	+ 1.4	+ 2.8	+ 8.5	+ 6.5	+ 3.2
Harmonised	+ 1.5	+ 1.4	+ 2.8	+ 8.6	+ 6.6	+ 3.0
Core inflation[2]	+ 1.7	+ 2.0	+ 2.3	+ 5.0	+ 5.3	+ 3.2

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

In 2023, private household consumption expenditure is expected to grow only moderately. Real disposable income will largely stagnate, partly because payments from the climate bonus will be significantly lower in 2023 than in the previous year. As in 2022, the savings rate should continue to decline in 2023. It is only in 2024 that incomes are expected to rise significantly again and consumer spending to pick up somewhat, despite a noticeable increase in the savings rate.

The upward pressure on prices and the high level of uncertainty are also weighing on Austrian tourism. Although travel exports and value added in accommodation and food service activities are expected to grow strongly in 2022, partly offsetting the slump in the previous two years, real tourism demand from abroad will decline slightly in 2023 as spending on holidays is more likely to be cut than on food or housing. Many guests may therefore shorten their holidays in order to save money, switch to cheaper accommodation, cut back on incidental expenditure during their trip (e.g. on catering and retail), or choose other destinations. Tourism will not increase significantly again until 2024.

3.6 Temporary gloom on the labour market

The labour market continues to develop favourably in 2022. Although employment growth lost momentum in the second half of the year, the number of persons in active dependent employment increased significantly on an annual average. The expansion of employment is broad-based across all sectors. In particular, accommodation and food service activities, which were severely restricted during the COVID-19 pandemic, show strong growth. Here, employment in the second half of 2022 is again well above the pre-crisis level of 2019. Only in other services is the number of persons in active dependent employment at the end of 2022 still significantly lower than before the outbreak of the COVID-19 pandemic. In addition to the strong employment growth, short-time work is further reduced in 2022, resulting in a strong increase in the volume of work.

In 2023, employment growth is expected to slow down noticeably in line with the business cycle and only to regain some momentum in 2024. Average hours worked per capita will fall slightly in both years, meaning that the volume of work will not return to the pre-crisis level of 2019 until 2024.

Table 9: **Labour market**

	2019	2020	2021	2022	2023	2024
	Change from previous year in 1,000					
Demand for labour						
Persons in active employment[1]	+ 61.4	− 76.6	+ 96.6	+ 114.0	+ 28.0	+ 53.0
Employees[1,2]	+ 58.9	− 76.1	+ 90.4	+ 109.0	+ 27.0	+ 50.0
National employees	+ 12.3	− 53.9	+ 28.1	+ 22.0	+ 5.0	+ 12.0
Foreign employees	+ 46.6	− 22.2	+ 62.4	+ 87.0	+ 22.0	+ 38.0
Self-employed[3]	+ 2.5	− 0.5	+ 6.2	+ 5.0	+ 1.0	+ 3.0
Labour supply						
Population of working age						
15 to 64 years	+ 11.4	+ 9.9	+ 5.4	+ 26.7	+ 10.5	+ 4.6
Labour force[4]	+ 50.6	+ 31.7	+ 18.7	+ 46.0	+ 36.0	+ 43.0
Labour surplus						
Unemployed[5]	− 10.8	+ 108.3	− 77.9	− 68.0	+ 8.0	− 10.0
Unemployed persons in training	− 6.8	− 4.9	+ 13.2	− 1.0	± 0.0	± 0.0
	Percent					
Unemployment rate						
As a percentage of total labour force (Eurostat)[6]	4.8	6.0	6.2	4.6	4.7	4.5
As a percentage of total labour force[5]	6.6	8.9	7.2	5.6	5.8	5.5
As a percentage of dependent labour force[5]	7.4	9.9	8.0	6.3	6.5	6.2
	Percentage changes from previous year					
Labour force[4]	+ 1.1	+ 0.7	+ 0.4	+ 1.0	+ 0.8	+ 0.9
Persons in active dependent employment[1, 2]	+ 1.6	− 2.0	+ 2.5	+ 2.9	+ 0.7	+ 1.3
Unemployed[5]	− 3.5	+ 35.9	− 19.0	− 20.5	+ 3.0	− 3.7
Persons (in 1,000)	301.3	409.6	331.7	263.7	271.7	261.7

Source: WIFO, Eurostat, Federation of Social Insurances, Public Employment Service Austria, Statistics Austria. 2022 to 2024: forecast. – [1] Excluding persons in valid employment contract receiving child care benefit or being in military service. – [2] According to the Federation of Social Insurances. – [3] According to WIFO, including liberal professions and unpaid family workers. – [4] Persons in active employment plus unemployed. – [5] According to Public Employment Service Austria. – [6] Labour Force Survey. Due to a revision of the Labour Force Survey methodology planned for the end of June, a forecast of this indicator is currently waived.

Unemployment falls significantly in 2022 and is thus lower than before the COVID-19 pandemic, but is expected to rise somewhat in 2023 due to weaker employment dynamics. This also reflects the increased transition of displaced Ukrainians to the Austrian labour market. The unemployment rate according to the national definition initially falls to 6.3 percent in 2022, increases to 6.5 percent in 2023, and falls again to 6.2 percent in 2024.

Per capita income growth will be much weaker than consumer price inflation in 2022. As in the previous year, there will therefore be a loss in net real wages after inflation. The wage settlements in autumn 2022 (trade, metal industry, public services, social economy, etc.) were partly above the (rolling) year-on-year price increase rates. With an annual inflation rate of over 9 percent expected by WIFO in spring, the upcoming wage agreements (construction, electrical industry, tourism, etc.) are also likely to be strong. These agreements will also take effect in the following year, which is why wage increases will exceed inflation in 2024.

Table 10: **Earnings, international competitiveness**

	2019	2020	2021	2022	2023	2024
	Percentage changes from previous year					
Wages and salaries per employee[1]						
Nominal, gross	+ 2.9	+ 2.2	+ 2.5	+ 3.7	+ 7.9	+ 6.8
Real[2]						
Gross	+ 1.3	+ 0.8	– 0.3	– 4.4	+ 1.3	+ 3.5
Net	+ 1.4	+ 1.6	– 1.1	– 2.9	+ 2.7	+ 3.9
Wages and salaries per hour worked[1]						
Real, net[2]	+ 0.9	+ 9.4	– 4.1	– 3.3	+ 3.3	+ 4.1
	Percent					
Wage share, adjusted[3]	69.2	68.9	68.6	68.9	70.4	72.2
	Percentage changes from previous year					
Unit labour costs, nominal[4]						
Total economy	+ 2.2	+ 7.4	– 0.5	+ 2.1	+ 8.3	+ 6.2
Manufacturing	+ 3.2	+ 4.6	– 5.6	+ 4.2	+10.9	+ 5.2
Effective exchange rate – manufactured goods[5]						
Nominal	– 0.7	+ 1.4	+ 0.6	– 1.8	+ 2.1	+ 2.7
Real	– 1.1	+ 1.7	+ 0.2	– 2.0	+ 3.0	+ 4.1

Source: WIFO, Statistics Austria. 2022 to 2024: forecast. – [1] National Accounts definition. – [2] Deflated by CPI. – [3] Compensation of employees as a percentage of national income, adjusted for the change in the share of employees in total employment from base year 1995. – [4] Labour costs in relation to productivity (hourly compensation per employees divided by GDP and value added, respectively, per employed persons' hours worked), including short-time work grants. – [5] Weighted by exports and imports, real value adjusted by relative HCPI.

3.7 Inflation peak already passed

The sharp rise in commodity and energy prices from spring 2022 onwards pushed up the inflation rate in Austria to enormous heights. Towards the end of the year, however, there are signs of a stabilisation of consumer price inflation. This is mainly due to the slight easing on the commodity and energy markets. However, the higher energy prices have probably not yet been fully passed through to consumer prices. The electricity price brake will noticeably dampen inflation in 2023 (by about 1 percentage point).

Consumer price inflation is likely to have peaked and price dynamics should weaken in the course of 2023. Although wage increases will be much stronger in 2023 and 2024 than in previous years, the gradual decline in energy prices will dampen inflation. After 8.5 percent in 2022, it is expected to fall to 6.5 percent in 2023 and 3.2 percent in 2024. The GDP deflator, which tracks domestic inflation, rises by a good 5 percent in both 2022 and 2023, much less than consumer prices. The terms of trade deteriorate significantly in 2022 due to the sharp rise in import prices caused by energy prices and are expected to decline slightly further in 2023 before rising moderately again in 2024.

3.8 Improvement of public budgets despite numerous support measures

Public finances will be affected by several countervailing factors over the forecast period. On the one hand, a number of temporary support measures aimed at cushioning the impact of the COVID-19 pandemic and related restrictions will expire in 2022. This improves the fiscal balance. Moreover, the strong decline in unemployment reduces the corresponding costs for the public sector. On the other hand, measures to mitigate high inflation, such as the electricity price brake and inflation compensation, have been newly adopted or increased. In addition, the climate bonus was raised. An energy cost subsidy and electricity price compensation are granted to companies, which lead to higher expenditures, especially in 2023. The indexation of social and family benefits and the second part of the tax reform will also burden public budgets in 2022 to 2024. The increase in natural gas reserves noticeably boosts government spending in 2022. Finally, expenditures for the basic care of Ukraine's displaced persons and refugees from other countries are also rising. Rising interest rates are gradually reflected in higher spending, especially from 2023 onwards. Nevertheless, the interest expenditure ratio remains low at 1.3 percent (2024).

Overall, the fiscal balance improves significantly in 2022-2024. From just under 6 percent of GDP in 2021, the deficit is projected to fall to 1.6 percent by 2024. As a result, but mainly due to the strong growth in nominal GDP, the government debt ratio will also decline from around 82 percent (2021) to 74 percent (2024).

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

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

Source: WIFO, ECB, OeNB, Statistics Austria. 2022 to 2024: forecast. – [1] According to Maastricht definition. – [2] 10-year central government bonds (benchmark).

3.9 Economic slowdown reduces greenhouse gas emissions

In the first ten months of 2022, natural gas consumption in Austria was significantly lower than in the same period of the previous year due to price-related savings and the relatively mild autumn and winter months. With the decline in economic output in the fourth quarter, annual consumption is expected to be 10 percent lower than in 2021. Fuel consumption has also been subdued since the noticeable price increases in March 2022, so that annual sales should be slightly below those of the previous year. Lower fuel exports in the tank may also have played an important role, as fuel prices in Austria have long been higher than in neighbouring countries. In addition, slightly less coal and coke will be burned in 2022 as a result of lower steel production. Overall, greenhouse gas emissions should therefore fall by 3 percent in 2022.

In 2023, natural gas consumption and hydropower production will return to normal. Car mileage will remain relatively low in the face of high inflation. On the other hand, the economic downturn, which also affects steel production, entails a decline in greenhouse gas emissions by 1.2 percent in 2023. In 2024, the continuation of the trend towards higher energy efficiency and the further expansion of renewable electricity and heat generation are expected to dampen emissions. However, emissions will rise again as a result of the economic recovery – especially in steel production, which returns to around average levels – so that they will increase slightly in 2024 (+0.3 percent).

4. Downside risks predominate

The risks for the international and Austrian economy remain considerable. There are no signs of a rapid de-escalation in the Ukraine war. At the same time, economic relations between the EU and Russia are increasingly deteriorating. This is weighing on both the Russian and the European economies. A complete disruption of natural gas supplies from Russia is still on the cards and could push up natural gas prices further in spring 2023, when stock levels are low after the winter. Moreover, the EU's shift away from Russia as a commodity supplier poses inflation risks not only in the short term, but also in the medium term if member countries are unable to find sufficient substitutes on the world market, especially for natural gas. This is also true for the 60 $ price cap recently introduced by the EU for the global purchases of Russian crude oil, although its consequences are difficult to foresee from today's perspective.

There is also a risk that high inflation will be prolonged. While inflation is projected to cool significantly in 2023 and 2024, renewed shocks in energy and food prices could raise headline inflation in the longer term. This poses the risk of rising inflation expectations and an even tighter monetary policy response. So far, these risks appear to be contained, partly due to the more decisive tightening of monetary policy, but a sustained rise in input costs could prompt companies to pass on higher costs in order to preserve their profit margins.