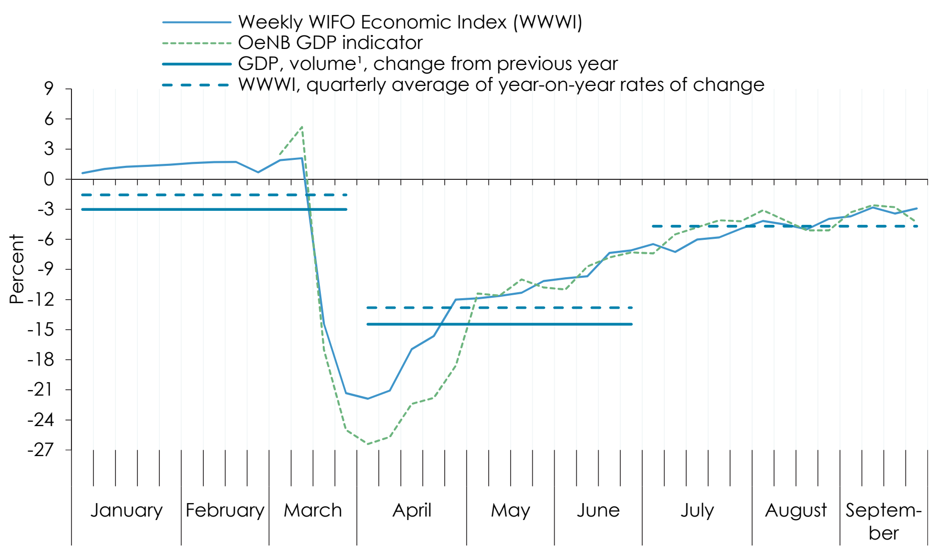
Subdued Recovery After Strong Rebound

Economic Outlook for 2020 and 2021

Stefan Schiman

- **The severe economic slump in spring was followed by a strong rebound in Austria in summer.**
- **About half of the increase in unemployment due to the crisis was reduced by September.**
- **The economic momentum will slow down markedly in the fourth quarter.**
- **Overall, GDP is projected to fall by 6.8 percent in 2020 compared to 2019 and rise by 4.4 percent in 2021.**
- **A new lockdown in autumn could result in a 4.5 percent loss in value added by the end of the forecast period**

Weekly indicators of economic activity



The weekly GDP indices show the hypothetical GDP change rate compared to the previous year under the assumption that the conditions of the respective week apply to the whole corresponding quarter (Source: WIFO, OeNB, Statistics Austria. – [1] Seasonally and working-day adjusted according to Eurostat).

"The measures to contain the COVID-19 pandemic in Austria in spring 2020 were strict by international standards and caused a massive loss of value added. The generous easing in the summer enabled a strong rebound, especially the consumption backlog largely unwound."

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In spring, the global economy suffered a massive slump due to the pandemic-related protective measures. The loss in value added was partially made up in the summer; in Austria, value added in the third quarter is likely to have grown by more than 10 percent compared with the previous quarter. About half of the crisis-related rise in unemployment was reduced by September. In the fourth quarter, however, economic momentum will slow down markedly as a result of expiring rebound effects (the unwinding of the consumption backlog) and an increase in the number of infections. For 2020, GDP is forecast to fall by 6.8 percent overall compared with 2019, and rise by 4.4 percent in 2021. A new lockdown in autumn could reduce these rates by 2.5 and 4.0 percentage points respectively.

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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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The massive slump in the global economy in spring 2020 was partially offset in the summer. Austria had taken measures to contain the COVID-19 pandemic that were particularly stringent by international standards – and then eased them particularly generously. Accordingly, the recession in spring was deep and short.

In the third quarter of 2020, real economic output already started to expand strongly again; it is estimated to have increased by more than 10 percent quarter-on-quarter (second quarter –12.1 percent). The strong rebound was due on the one hand to the economic policy measures, but above all to the fact that the consumption backlog from the spring was unwound by the generous relaxation of the lockdown. Investment, with the exception of construction, and foreign trade probably recovered less quickly, as economic uncertainty and longer lead times play a greater role in this areas.

Following the rapid recovery in the summer, a marked slowdown in economic momentum is expected for the rest of the year. For the fourth quarter of 2020, WIFO is forecasting economic growth of only 0.8 percent compared to the previous quarter, resulting in an overall GDP decline of 6.8 percent for 2020 compared to 2019.

One reason for the economic slowdown is that the rebound effects – above all the unwinding of the consumption backlog – are fading out. On the other hand, a rise in COVID-19 infection figures and the recent (moderate) tightening of containment measures are dampening economic activity. In industry, however, processes are now likely to have adapted to a greater degree of social distancing, so that production is no longer affected as strongly.

Parallel to economic output, the volume of work will slump in 2020. Much of the decline will be due to a reduction in working time per capita as a result of the active use of COVID-19 short-time work. Nevertheless, the decline in employment and the increase in unemployment are also significant. Up to and including September, about half of the increase in unemployment due to the crisis was reduced.

In addition, economic crises have a catalytic effect on structural change, so that more jobs are now being cut in industry. This will continue in 2021, when total employment is already rising again. The situation in tourism also remains tense, with the number of overnight stays in spring 2021 expected to be a quarter below pre-crisis levels, even if the travel warnings issued by some countries to Austrian destinations are lifted in time for the start of the winter season.

The forecast assumes – as did the latest WIFO forecasts – that containment measures will be tightened, but that no new lockdown will be imposed. A second lockdown would have severe consequences for the economy. If shops and factories were to close again from November onwards and travel opportunities were to be drastically reduced, and if such a lockdown were to continue until after the Christmas holidays, economic performance in the fourth quarter of 2020 could fall back to the level of the second quarter. For the full year of 2020, this would represent a further dampening of GDP growth by 2.5 percentage points compared to 2019, followed by stagnation in 2021.

Table 1: **Main results**

		2016	2017	2018	2019	2020	2021
		Percentage changes from previous year					
Gross domestic product, volume		+ 2.0	+ 2.4	+ 2.6	+ 1.4	– 6.8	+ 4.4
Manufacturing		+ 4.4	+ 3.7	+ 5.3	+ 0.7	– 11.0	+ 6.0
Wholesale and retail trade		+ 0.6	+ 0.1	+ 2.9	+ 0.6	– 6.5	+ 5.5
Private consumption expenditure[1], volume		+ 1.5	+ 1.9	+ 1.1	+ 0.8	– 6.8	+ 5.5
Consumer durables		+ 2.7	+ 2.0	+ 1.1	– 0.4	– 16.0	+ 6.0
Gross fixed capital formation, volume		+ 4.3	+ 4.1	+ 3.9	+ 4.0	– 5.6	+ 3.7
Machinery and equipment[2]		+ 7.8	+ 5.4	+ 4.1	+ 4.3	– 7.9	+ 4.7
Construction		+ 0.3	+ 2.5	+ 3.6	+ 3.6	– 2.8	+ 2.5
Exports, volume		+ 3.0	+ 4.9	+ 5.5	+ 2.9	– 12.4	+ 6.1
Exports of goods, fob		+ 2.9	+ 4.9	+ 5.4	+ 2.1	– 10.7	+ 6.5
Imports, volume		+ 3.7	+ 5.3	+ 5.0	+ 2.4	– 10.6	+ 5.6
Imports of goods, fob		+ 3.6	+ 4.4	+ 3.8	+ 1.1	– 9.2	+ 6.0
Gross domestic product, value		+ 3.9	+ 3.3	+ 4.3	+ 3.2	– 5.0	+ 6.1
	billion €	357.61	369.34	385.36	397.58	377.54	400.70
Current account balance	as a percentage of GDP	2.7	1.4	1.3	2.8	2.3	2.8
Consumer prices		+ 0.9	+ 2.1	+ 2.0	+ 1.5	+ 1.3	+ 1.5
Three-month interest rate	percent	– 0.3	– 0.3	– 0.3	– 0.4	– 0.4	– 0.4
Long-term interest rate[3]	percent	0.4	0.6	0.7	0.1	– 0.2	– 0.2
General government financial balance, Maastricht definition	as a percentage of GDP	– 1.5	– 0.8	0.2	0.7	– 9.4	– 4.7
Persons in active dependent employment[4]		+ 1.6	+ 2.0	+ 2.5	+ 1.6	– 1.9	+ 1.3
Unemployment rate							
Eurostat definition[5]		6.0	5.5	4.9	4.5	5.4	5.0
National definition[6]		9.1	8.5	7.7	7.4	9.8	8.8

Source: WIFO. 2020 and 2021: forecast. – [1] Including non-profit institutions serving households. – [2] Including weapons systems. – [3] 10-year central government bonds (benchmark). – [4] Excluding persons in valid employment contract receiving child care benefit or being in military service. – [5] As a percentage of total labour force, Labour Force Survey. – [6] As a percentage of dependent labour force, unemployed persons according to Public Employment Service Austria.

1. Heterogeneous recovery of the global economy

The COVID-19 pandemic and the associated lockdown measures (shop closures, border closures, factory closures, etc.) as well as social distancing resulted in a drastic decline in economic output worldwide in the first half of 2020. Compared to 2019, trade in goods fell by 8.8 percent and industrial production by 7.3 percent. Although the entire global economy is affected by the consequences of the pandemic, the extent of the effects varies. There is a correlation between the increase in the intensity of the lockdown in a country and the severity of the economic slump (Figure 1): the sharper the lockdown, the stronger the economic slump tended to be.

A pandemic-related lockdown includes many measures that have either a direct or indirect impact on economic development. Factory and business closures and the cancellation of events cause direct loss of value added. Indirectly, school closures can also have a negative impact if this interferes with parents' work from home. Curfews and restrictions on traffic and assemblies also disrupt habitual social behaviour and the economic cycle. Moreover, travel restrictions hamper tourism.

Table 2: **International economy**

	Percentage shares 2019: Austria's exports of goods	Percentage shares 2019: World GDP[1]	2016	2017	2018	2019	2020	2021
			GDP volume, percentage changes from previous year					
EU 27	66.7	13.8	+ 2.0	+ 2.8	+ 2.1	+ 1.5	– 6.9	+ 4.9
Euro area	51.5	11.2	+ 1.9	+ 2.6	+ 1.8	+ 1.3	– 7.5	+ 5.3
Germany	29.3	3.1	+ 2.2	+ 2.6	+ 1.3	+ 0.6	– 5.2	+ 3.8
Italy	6.4	1.7	+ 1.3	+ 1.7	+ 0.8	+ 0.3	– 9.5	+ 6.4
France	4.4	2.2	+ 1.1	+ 2.3	+ 1.8	+ 1.5	– 10.1	+ 6.9
CEEC 5[2]	14.7	1.6	+ 2.8	+ 4.5	+ 4.6	+ 3.7	– 4.4	+ 3.5
Hungary	3.6	0.2	+ 2.2	+ 4.3	+ 5.1	+ 4.9	– 5.8	+ 4.0
Czech Republic	3.5	0.3	+ 2.5	+ 5.2	+ 3.2	+ 2.3	– 5.3	+ 4.3
Poland	3.4	0.9	+ 3.1	+ 4.9	+ 5.3	+ 4.1	– 3.2	+ 2.7
USA	6.7	15.1	+ 1.7	+ 2.3	+ 3.0	+ 2.2	– 4.0	+ 3.2
Switzerland	5.0	0.4	+ 1.7	+ 1.8	+ 2.8	+ 0.9	– 4.3	+ 3.7
UK	2.9	2.2	+ 1.9	+ 1.9	+ 1.3	+ 1.5	– 10.9	+ 6.2
China	2.9	19.3	+ 6.8	+ 6.9	+ 6.7	+ 6.1	+ 1.4	+ 9.4
Total[3]								
PPP-weighted[4]		51	+ 3.6	+ 4.1	+ 4.1	+ 3.4	– 3.0	+ 6.2
Export weighted[5]	84		+ 2.1	+ 2.8	+ 2.3	+ 1.7	– 6.3	+ 4.9
Market growth[6]			+ 3.5	+ 6.5	+ 4.4	+ 1.4	– 9.0	+ 7.5
Forecast assumptions								
Crude oil prices								
Brent, $ per barrel			43.7	54.3	71.0	64.3	42	43
Exchange rate								
$ per €			1.107	1.129	1.181	1.120	1.14	1.17
Key interest rate								
ECB main refinancing rate[7], percent			0.0	0.0	0.0	0.0	0.0	0.0
10-year government bonds yields Germany, percent			0.1	0.3	0.4	– 0.3	– 0.5	– 0.5

Source: WIFO. 2020 and 2021: 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 2019. – [5] Weighted by shares of Austrian goods exports in 2019. – [6] Real import growth of trading partners, weighted by shares of Austrian goods exports. – [7] Minimum bid rate.

The stricter the lockdown, the stronger the economic slump. However, this correlation varies from country to country.

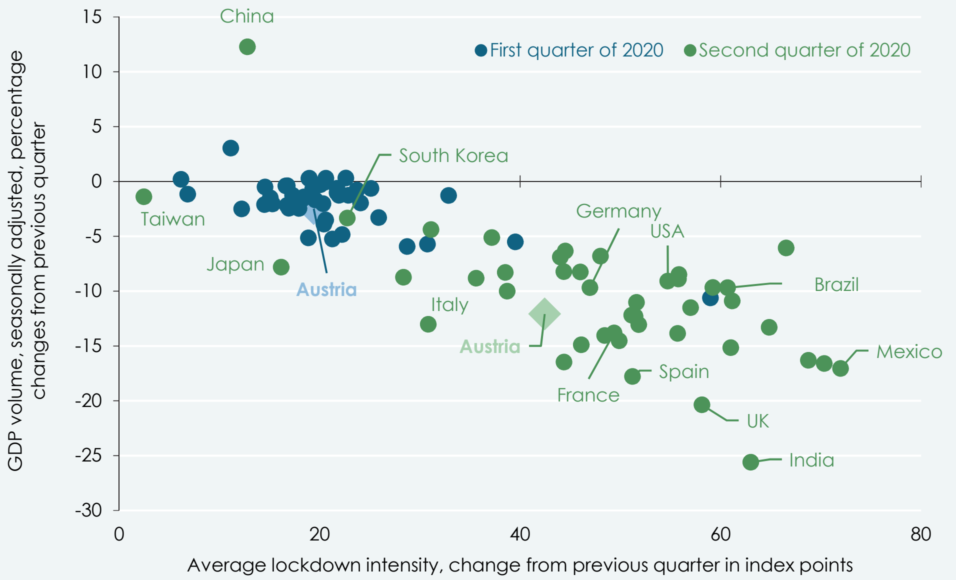
Within the negative correlation between lockdown intensity and economic performance, there is a relatively wide dispersion. In France, for example, the lockdown measures were intensified less stringent in the second quarter than in Mexico, but the GDP decline was similar. Conversely, Brazil and the UK tightened their measures to a similar extent, but the economic slump in Brazil was just nearly half as deep as in the UK.

Overall, the intensity of the lockdown was thus an important factor determining the depth of the recession in the first half of 2020, but country-specific factors also played an important role. The assumptions on the international economy in the present forecast are based on this fact. Since the second quarter, pandemic containment measures have been relaxed in many countries and economic indicators show that the peak of the crisis was reached during the second quarter.

Accordingly, the present forecast assumes that the global economy expanded strongly in the summer and two thirds of the crisis-related slump – i.e. the decline in GDP in the first half of 2020 compared to the fourth quarter of 2019 – has already been compensated. This assumption is made for all countries except China, where strong growth in the second quarter already compensated for the crisis-related slump in the first quarter.

For countries where relatively rigid pandemic containment measures were still in place in summer 2020, such as the UK or Spain, the assumed economic pattern is rather optimistic. For countries whose lockdown intensity has already been reduced to an above-average extent, such as the Netherlands or Poland, the assumption is rather pessimistic. However, the correlation between the change in the lockdown intensity in the third quarter and the assumed GDP increase is within the plausible range for all countries, i.e. within the range observed in the first and second quarter of 2020 (Figure 1).

Figure 1: **GDP growth and change of lockdown intensity**



Source: Oxford Economics; University of Oxford, Blavatnik School of Government; WIFO. Lockdown intensity, as measured by the stringency index of the Blavatnik School of Government, is a composite indicator that combines various parameters of restrictions on public life and the intensity of public information campaigns (https://www.bsg.ox.ac.uk/research/research-projects/coronavirus-government-response-tracker).

The global economic recovery is expected to slow down in the fourth quarter of 2020 and the first quarter of 2021. This assumption is based on the fact that COVID-19 infection rates are rising again in many countries and therefore a further easing of social distancing cannot be expected from today's perspective. Nevertheless, it is expected that growth will be achieved in the fourth quarter of 2020, as capacities are still heavily underutilised despite the rebound in the summer. Since processes in industry are increasingly adapting to the new framework conditions (learning effects), the maintenance of production and (cross-border) trade is guaranteed even with a certain degree of social distancing, so that the economy – at least in more capital-intensive sectors – is likely to be more resilient to measures to contain the pandemic than in spring 2020.

A further acceleration of economic growth is not expected until the second quarter of 2021. This assumption is based on the anticipation that an effective vaccine against SARS-CoV-2 will be widely available by then. Under these conjunctures, economic output at the end of 2021 would still be lower than before the outbreak of the crisis in fourth quarter of 2019 in all countries except China, despite the acceleration of economic recovery from spring onwards.

The forecast assumes that two-thirds of the GDP slump caused by the crisis was compensated for in the summer and that the recovery will slow down in the winter half-year. Global economic growth is not expected to accelerate again until the second quarter of 2021, when a SARS-CoV-2 vaccine will become available.

2. Recession in Austria deep but short

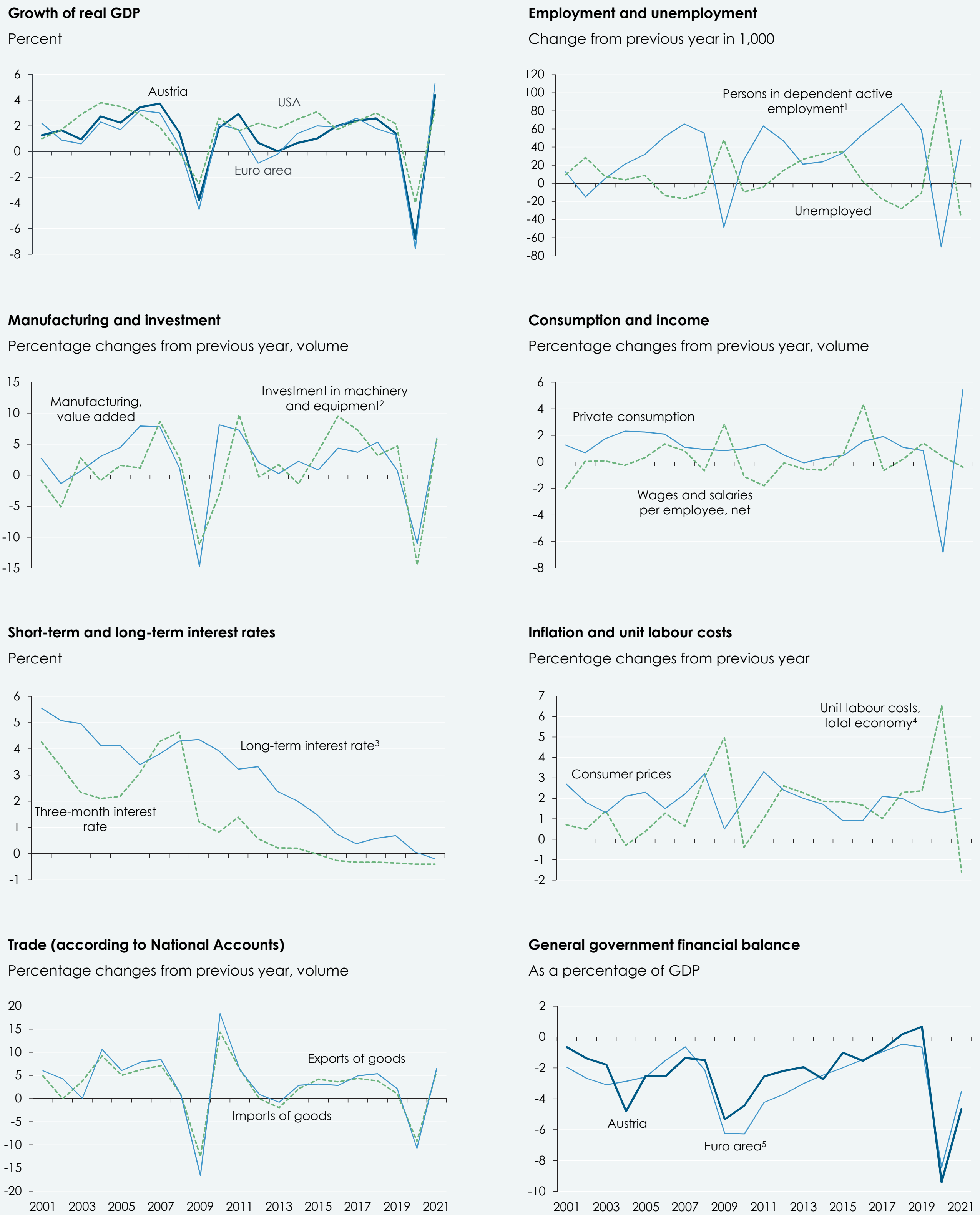
The intensity of the lockdown in Austria from mid-March to mid-April 2020 was very high – also in international comparison –, the indicator for measuring the lockdown intensity of the Blavatnik School of Government at Oxford University was 85.2 of 100 points[1]. Accordingly, the loss in value added was strongest in the second half of March and early April. With the opening of small shops from 14 April, the lockdown intensity in Austria decreased continuously and the economy started to recover, as the weekly GDP indicators of WIFO and the Oesterreichische Nationalbank (OeNB) show.

In addition to the economic policy measures to support the economy, further losses in value added in Austria were prevented above all by the relatively rapid easing of the lockdown. In May, the indicator already fell below 60, and in June and again in July the measures were further eased so that the

[1] https://www.bsg.ox.ac.uk/research/research-projects/coronavirus-government-response-tracker.

indicator remained at only 31.5 over the summer. After the sharp lockdown at the beginning of the pandemic, Austria was thus among the countries with the least stringent measures.

Figure 2: **Indicators of economic performance**



Source: WIFO. 2020 and 2021: 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.

Accordingly, the recession in Austria was deep but short. According to the weekly WIFO economic index, the decline in economic output began with the lockdown in March. The quarterly national accounts of Statistics Austria also recorded a decline in economic output already in the first quarter of 2020 due to the losses in March, with the majority of the slump then falling in the second quarter.

Compared to 2019 as a whole, average economic output in the first half of 2020 fell by 8.7 percent. This affected both the production of goods and the provision of services. Foreign demand slumped slightly more than domestic demand, mainly because exports of services and travel fell sharply. However, exports of goods also contracted sharply, to a similar extent as investment in machinery and equipment, including other equipment, and private consumption. The slump in domestic demand was only dampened by the relatively small decline in construction investment and by public consumption.

In March and April, Austria took strong measures to contain the pandemic, but these were subsequently eased considerably. Accordingly, the recession in Austria was deep but short.

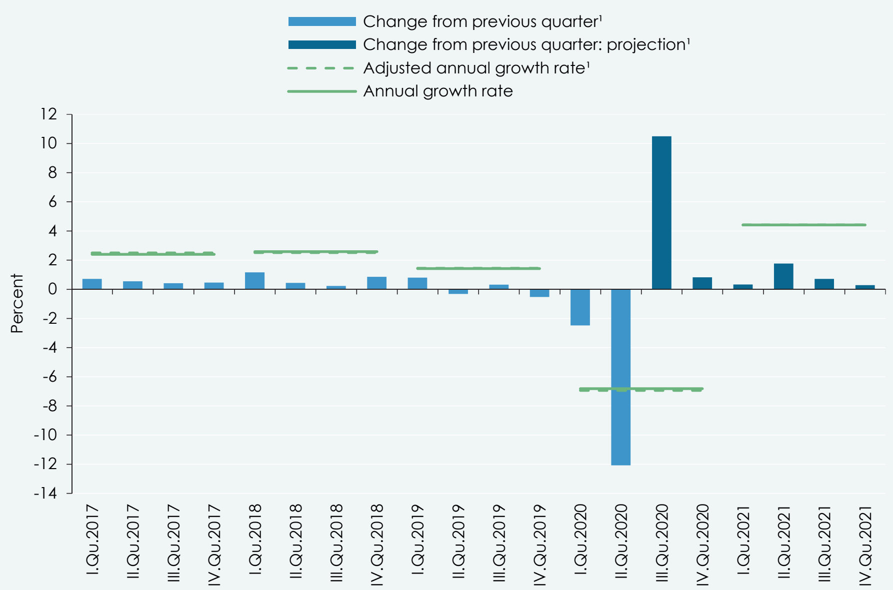
Table 3: **Technical breakdown of the real GDP growth forecast**

		2018	2019	2020	2021
Growth carry-over[1]	percentage points	+ 0.7	+ 0.9	– 0.3	+ 2.3
Growth rate during the year[2]	percent	+ 2.7	+ 0.2	– 4.5	+ 3.1
Annual growth rate	**percent**	**+ 2.6**	**+ 1.4**	**– 6.8**	**+ 4.4**
Adjusted annual growth rate[3]	percent	+ 2.5	+ 1.4	– 6.9	+ 4.4
Calendar effect[4]	percentage points	+ 0.1	– 0.0	+ 0.1	± 0.0

Source: WIFO. 2020 and 2021: 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; trend-cycle data. – [2] Reflects the growth dynamics during a calendar year. Equals the year-on-year growth rate for the fourth quarter; trend-cycle data. – [3] Trend-cycle data. Corresponding figure to OeNB short-term forecast. – [4] Impact of the annual number of working days and the leap day. The sum of the adjusted annual growth rate and the calendar effect may deviate from the unadjusted annual rate, since the latter also includes seasonal and irregular effects.

Figure 3: **Cyclical profile Austria**

GDP volume, percentage change



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

2.1 Strong recovery in summer

The cyclical pattern of the global economy – a large part of the slump in the first half of the year was made up in the third quarter – also appears plausible for Austria. The weekly WIFO economic index, which takes into account recent developments in the areas of industry, consumption, business sentiment and the labour market, shows a strong recovery in the summer months[2]. Other economic models – from theory-driven DSGE models to data-based factor models – also forecast a decline in GDP in 2020 in a range of 6½ percent to 7 percent.

The recovery in the third quarter was strong. However, it was probably also particularly strongly supported by consumption, as the consumption backlog and forced saving that had accompanied the lockdown were reduced when shops and restaurants were opened. By contrast, investment and foreign trade in goods, which is heavily dependent on international demand for capital goods, recovered less rapidly as the implementation of investment projects requires longer lead times.

Table 4: **Expenditure on GDP**
Volume (chain-linked series)

	2018	2019	2020	2021	2018	2019	2020	2021
	Billion € (reference year 2015)				Percentage changes from previous year			
Final consumption expenditure	260.45	263.11	250.93	261.44	+ 1.1	+ 1.0	– 4.6	+ 4.2
Households[1]	189.75	191.36	178.35	188.16	+ 1.1	+ 0.8	– 6.8	+ 5.5
General government	70.70	71.75	72.57	73.28	+ 1.2	+ 1.5	+ 1.1	+ 1.0
Gross capital formation	94.07	94.79	86.73	90.00	+ 5.3	+ 0.8	– 8.5	+ 3.8
Gross fixed capital formation	88.16	91.68	86.55	89.73	+ 3.9	+ 4.0	– 5.6	+ 3.7
Machinery and equipment[2]	30.33	31.75	27.15	28.78	+ 3.2	+ 4.7	– 14.5	+ 6.0
Construction	38.81	40.22	39.10	40.07	+ 3.6	+ 3.6	– 2.8	+ 2.5
Other investment[3]	19.03	19.72	20.21	20.82	+ 5.7	+ 3.6	+ 2.5	+ 3.0
Domestic demand	355.33	359.24	338.91	352.74	+ 2.2	+ 1.1	– 5.7	+ 4.1
Exports	208.41	214.54	187.99	199.47	+ 5.5	+ 2.9	– 12.4	+ 6.1
Travel	16.32	17.34	11.50	14.60	+ 4.1	+ 6.2	– 33.7	+ 27.0
Minus imports	194.94	199.72	178.54	188.47	+ 5.0	+ 2.4	– 10.6	+ 5.6
Travel	9.01	9.13	4.55	6.54	+ 7.3	+ 1.3	– 50.2	+ 43.8
Gross domestic product	368.82	374.05	348.58	363.90	+ 2.6	+ 1.4	– 6.8	+ 4.4
Value	385.36	397.58	377.54	400.70	+ 4.3	+ 3.2	– 5.0	+ 6.1

Source: WIFO. 2020 and 2021: forecast. – [1] Including non-profit institutions serving households. – [2] Including weapon systems. – [3] Mainly intellectual property products (research and development, computer programmes, copyrights).

2.2 External trade in goods marked by economic uncertainty

In foreign trade in goods, market share is expected to be lost this year as a result of negative product and country structure effects: on the one hand, the COVID-19 recession is hitting some of Austria's main markets (France, Italy) harder than average, and on the other hand, it is hitting above all the most important product groups for Austrian exports, namely machinery and transport equipment, capital goods and manufactures of metals. In the second quarter of 2020, exports of machinery reached only about three quarters of the previous year's level, while exports of the automotive industry were only about half as high. In addition, there is a high degree of uncertainty in the industrial sector regarding the future course of the economy.

As a result, goods exports slumped at an above-average rate, and the existing uncertainty and longer lead times are delaying the recovery, especially in the export of capital goods. In the automotive sector, and especially in the partly highly specialised automotive supply industry, adjustment processes due to technological change (e-mobility) are having an impact in addition to the effects of the COVID-19 crisis.

2.3 Stabilisation of investment demand still to come

As the special surveys conducted in April, May and August as part of the WIFO-Konjunkturtest (business cycle survey) show, companies' reluctance to invest decreased over time. The share of companies that cancelled investments was around 20 percent in April and May and fell to 14 percent in August. The share of those enterprises postponing investment fell from 52 percent in April to 39 percent in May and 35 percent in August. The WKO Economic Barometer shows similar results: 34 percent of the companies surveyed in summer 2020 did not plan any investments (summer 2019: 17 percent), while about half of the small companies reported no intention to make investments.

[2] The weekly WIFO economic index includes information on the volume of truck mileage on motorways, Google mobility data and air traffic data, sentiment indicators from the WIFO-Konjunkturtest (business cycle survey), credit card transactions and payment transaction data, employment, job vacancies and unemployment, electricity consumption, air pollutants and industrial production.

Investment activity is supported by the investment premium, which promotes new non-climate damaging tangible and intangible investments in fixed assets from September 2020 to February 2021. This triggers deadweight effects, but also anticipatory effects that dampen the decline in investment. Moreover, some projects that have already been cancelled are likely to be realised after all now, as the investment premium provides a considerable investment incentive (7 percent of the investment volume plus 7 percent for investments in the areas of health, digitisation and greening).

Table 5: **Gross value added**

At basic prices

	2018	2019	2020	2021	2018	2019	2020	2021
	Billion € (reference year 2015)				Percentage changes from previous year			
Volume (chain-linked series)								
Agriculture, forestry and fishing	4.33	4.30	4.21	4.21	+ 3.5	– 0.8	– 2.0	± 0.0
Manufacturing including mining and quarrying	66.66	67.07	59.69	63.27	+ 5.1	+ 0.6	– 11.0	+ 6.0
Electricity, gas and water supply, waste management	9.85	10.21	9.19	9.74	+ 3.8	+ 3.6	– 10.0	+ 6.0
Construction	20.14	20.69	20.07	20.63	+ 1.8	+ 2.7	– 3.0	+ 2.8
Wholesale and retail trade	38.87	39.10	36.56	38.57	+ 2.9	+ 0.6	– 6.5	+ 5.5
Transportation	18.63	18.92	17.21	17.90	+ 1.4	+ 1.6	– 9.0	+ 4.0
Accommodation and food service activities	16.28	16.62	12.78	14.70	+ 1.3	+ 2.1	– 23.1	+ 15.0
Information and communication	12.67	13.14	13.27	13.67	+ 9.8	+ 3.7	+ 1.0	+ 3.0
Financial and insurance activities	14.63	15.08	15.44	15.57	+ 2.9	+ 3.0	+ 2.4	+ 0.8
Real estate activities	30.94	31.31	31.94	32.42	+ 1.1	+ 1.2	+ 2.0	+ 1.5
Other business activities[1]	32.30	32.98	29.18	30.94	+ 3.6	+ 2.1	– 11.5	+ 6.0
Public administration[2]	55.70	56.05	56.17	56.45	+ 0.8	+ 0.6	+ 0.2	+ 0.5
Other service activities[3]	8.90	8.96	7.17	7.74	– 0.4	+ 0.7	– 20.0	+ 8.0
Total gross value added[4]	329.76	334.29	312.89	325.76	+ 2.8	+ 1.4	– 6.4	+ 4.1
Gross domestic product at market prices	368.82	374.05	348.58	363.90	+ 2.6	+ 1.4	– 6.8	+ 4.4

Source: WIFO. 2020 and 2021: 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 activites; activities of households (NACE R to U). – [4] Before deduction of subsidies and attribution of taxes on products.

2.4 After a levelling off, higher losses in tourism again

The massive drop in overnight stays in the preseason (May to June –70 percent year-on-year) flattened significantly (to –14 percent) in the summer peak season (July to August). However, demand from overseas is almost completely absent due to air traffic restrictions. In autumn, the inflow of travellers will slow down again due to the increase in COVID-19 infections and the increase in travel alerts. In 2020 as a whole, the number of overnight stays will be around 30 percent below the previous year's level.

Losses are also to be expected for the coming winter season. The travel warning issued by Germany in September for Vienna, Tyrol and Vorarlberg and travel warnings issued by other countries (e.g. the Netherlands) pose a significant risk to winter tourism. The present forecast assumes that they will be lifted by the end of the year at the latest, so winter tourism will not be significantly affected. Nevertheless, overnight stays in spring 2021 are still expected to be a quarter below pre-crisis levels.

2.5 Solid development in the construction industry

According to the WIFO-Konjunkturtest (business cycle survey), the construction industry has already overcome the COVID-shock, and the majority of companies are again optimistic about the current business situation and future development. Value added in the construction industry is thus likely to decline less sharply in 2020 than it did during the financial market and economic crisis of 2008-09.

The development in 2021 is strongly dependent on the investment activity of the Länder and municipalities. In past crises, this has been curbed by the massive decline in tax revenues and shares of revenues. The federal government's municipal investment package (1 billion €) has a partially compensatory effect here.

2.6 Wage increases are slowing down

The conclusions of the Autumn 2019 wage negotiations for 2020 foresaw wage increases of 2.2 percent to 2.7 percent. In the negotiations following the outbreak of the COVID-19 crisis, agreed wage increases fell to as low as 1.6 percent. In the September 2020 wage setting round in the metal industry, which is decisive for many sectors, a 1.45 percent increase in per capita wages was agreed. The wage forecast for 2020 also takes into account that the development of per capita wages will be dampened by the reduction of working hours per capita – through short-time work and the reduction of overtime.

In 2021, collective wage increases will continue to flatten out, as the agreement for the metalworking industry shows. The predicted increase in working hours will counteract this decline. Net wages will increase in 2020 due to the reduction of the basic income tax rate from 25 percent to 20 percent and the delayed effect of the family bonus via the employee tax assessment. In 2021, they will be dampened by the effect of fiscal drag and the expiry of COVID-19 short-time work.

Table 6: **Earnings, international competitiveness**

	2016	2017	2018	2019	2020	2021
	Percentage changes from previous year					
Wages and salaries per employee[1]						
Nominal, gross	+ 2.3	+ 1.6	+ 2.7	+ 2.9	+ 1.4	+ 1.5
Real[2]						
Gross	+ 1.4	– 0.5	+ 0.7	+ 1.3	+ 0.1	± 0.0
Net	+ 4.3	– 0.7	+ 0.2	+ 1.4	+ 0.4	– 0.4
Wages and salaries per hour worked[1]						
Real, net[2]	+ 3.5	+ 0.2	+ 0.3	+ 0.9	+ 5.2	– 2.7
	Percent					
Wage share, adjusted[3]	67.9	68.9	68.8	68.3	69.7	69.8
	Percentage changes from previous year					
Unit labour costs, nominal[4]						
Total economy	+ 1.7	+ 1.0	+ 2.3	+ 2.4	+ 6.5	– 1.6
Manufacturing	– 1.3	– 0.9	+ 0.6	+ 3.8	+12.7	– 4.1
Effective exchange rate – manufactured goods[5]						
Nominal	+ 1.2	+ 0.7	+ 1.7	– 0.7	+ 1.2	+ 0.6
Real	+ 1.3	+ 1.0	+ 1.7	– 1.0	+ 1.3	+ 0.3

Source: WIFO. 2020 and 2021: 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.

2.7 Restrained recovery on the labour market

Most of the reduction in the volume of working time is due to a reduction in working time per capita as a result of the active use of COVID-19 short-time work. However, the decline in employment and the rise in unemployment are also striking in historical comparison.

In 2020, the total volume of working time in the economy as a whole is expected to decrease at the same rate as real GDP. Due to the high take-up of COVID-19 short-time work, this decline will mainly take place through a reduction in working time per capita. In contrast, the number of employees (including marginal employment) will fall by "only" 2.3 percent or 94,000. Extended unemployment (including persons in training) will rise by about the same amount.

In 2021, the volume of working time is expected to grow somewhat less strongly than economic output, resulting in a slight increase in productivity. However, it will expand at a faster pace than the number of employees, as the use of COVID-19 short-time work will decrease by 94 percent in annual equivalents and working time per capita will increase accordingly. By contrast, employment in manufacturing will continue to shrink in 2021.

As before the crisis, employment in 2021 will be only partly expanded by hiring unemployed people, as additional workers will enter the labour market at the same time. On the one hand, the net inflow of foreign workers, which was interrupted by the crisis, will regain momentum in 2021. On the other hand, those who have postponed their career start due to the crisis will push into the labour market.

Unemployment in the narrower sense will also be reduced in 2021 through the establishment of a labour foundation. This will lower the number of unemployed by an additional 6,000, while at the same time increasing the number of people in training. Overall, the decline in unemployment in 2021 will nevertheless remain moderate in view of the sharp rise in 2020.

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Table 7: **Labour market**

	2016	2017	2018	2019	2020	2021
	Change from previous year in 1,000					
Demand for labour						
Persons in active employment[1]	+ 62.2	+ 76.8	+ 91.5	+ 61.0	– 77.5	+ 45.5
Employees[1,2]	+ 53.7	+ 70.7	+ 88.0	+ 58.9	– 70.0	+ 48.0
National employees	+ 17.7	+ 23.8	+ 33.7	+ 12.3	– 50.0	+ 15.0
Foreign employees	+ 36.0	+ 46.8	+ 54.4	+ 46.6	– 20.0	+ 33.0
Self-employed[3]	+ 8.5	+ 6.1	+ 3.5	+ 2.1	– 7.5	– 2.5
Labour supply						
Population of working age						
15 to 64 years	+ 65.8	+ 23.0	+ 13.2	+ 11.4	+ 4.2	– 2.4
Labour force[4]	+ 65.2	+ 59.4	+ 63.7	+ 50.2	+ 24.5	+ 7.5
Labour surplus						
Unemployed[5]	+ 3.0	– 17.3	– 27.9	– 10.8	+102.0	– 38.0
Unemployed persons in training	+ 2.1	+ 4.9	– 3.4	– 6.8	– 5.0	+ 18.0
	Percent					
Unemployment rate						
As a percentage of total labour force (Eurostat)[6]	6.0	5.5	4.9	4.5	5.4	5.0
As a percentage of total labour force[5]	8.1	7.6	6.9	6.6	8.7	7.9
As a percentage of dependent labour force[5]	9.1	8.5	7.7	7.4	9.8	8.8
	Percentage changes from previous year					
Labour force[4]	+ 1.5	+ 1.4	+ 1.4	+ 1.1	+ 0.5	+ 0.2
Persons in active dependent employment[1, 2]	+ 1.6	+ 2.0	+ 2.5	+ 1.6	– 1.9	+ 1.3
Unemployed[5]	+ 0.8	– 4.9	– 8.2	– 3.5	+ 33.9	– 9.4
Persons (in 1,000)	357.3	340.0	312.1	301.3	403.3	365.3

Source: WIFO. 2020 and 2021: forecast. – [1] Excluding persons in valid employment contract receiving child care benefit or being in military service. – [2] According to the Organisation of Austrian Social Security. – [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.

Table 8: **Productivity**

	2016	2017	2018	2019	2020	2021
	Percentage changes from previous year					
Total economy						
Real GDP	+ 2.0	+ 2.4	+ 2.6	+ 1.4	– 6.8	+ 4.4
Hours worked[1]	+ 2.1	+ 1.0	+ 2.0	+ 1.7	– 6.8	+ 4.1
Productivity[2]	– 0.1	+ 1.4	+ 0.6	– 0.2	– 0.0	+ 0.3
Employment[3]	+ 1.5	+ 1.7	+ 1.8	+ 1.3	– 2.2	+ 1.3
Manufacturing						
Production[4]	+ 4.4	+ 3.7	+ 5.3	+ 0.7	–11.0	+ 6.0
Hours worked[5]	+ 0.4	+ 1.0	+ 2.4	+ 0.7	– 8.7	+ 4.1
Productivity[2]	+ 4.0	+ 2.6	+ 2.9	– 0.0	– 2.5	+ 1.8
Employees[6]	+ 0.5	+ 1.3	+ 2.8	+ 1.3	– 1.4	– 0.5

Source: WIFO. 2020 and 2021: 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).

2.8 Consumption backlog dissolves

Moderate wage growth and job losses will lead to a fall in compensation of employees in 2020. Mixed income and property income will also fall. The decline in primary income will be compensated by the income tax reduction. Together with the increase in monetary social transfers, disposable income will increase by 2 percent in nominal terms in 2020 compared with 2019. A large part of the loss of market income due to the crisis is thus compensated by the automatic stabilisers and discretionary fiscal measures.

Nevertheless, private consumption in 2020 as a whole is significantly lower than in 2019. This decline is due on the one hand to compulsory saving as a result of the lockdown in the spring and on the other hand to the still restrained demand in some areas. As a result, the saving rate will rise sharply in 2020. Although the consumption backlog was partially released in the third quarter, private consumption is not recovering as quickly as income development would allow due to increased precautionary saving. The saving rate will therefore still be above average in 2021.

Table 9: **Private consumption, income and prices**

	2016	2017	2018	2019	2020	2021
	Percentage changes from previous year, volume					
Private consumption expenditure[1]	+ 1.5	+ 1.9	+ 1.1	+ 0.8	– 6.8	+ 5.5
Durable goods	+ 2.7	+ 2.0	+ 1.1	– 0.4	– 16.0	+ 6.0
Non-durable goods and services	+ 1.4	+ 1.9	+ 1.1	+ 1.0	– 5.8	+ 5.5
Household disposable income	+ 2.7	+ 1.6	+ 1.4	+ 1.3	+ 0.6	+ 0.3
	As a percentage of disposable income					
Household saving ratio						
Including adjustment for the change in pension entitlements	7.8	7.5	7.8	8.2	15.0	10.6
Excluding adjustment for the change in pension entitlements	7.2	6.8	7.1	7.6	14.4	10.0
	Percentage changes from previous year					
Loans to domestic non-banks (end of period)	+ 1.8	+ 0.7	+ 4.9	+ 4.4	+ 3.7	+ 2.4
	Percent					
Inflation rate						
National	+ 0.9	+ 2.1	+ 2.0	+ 1.5	+ 1.3	+ 1.5
Harmonised	+ 1.0	+ 2.2	+ 2.1	+ 1.5	+ 1.3	+ 1.5
Core inflation[2]	+ 1.5	+ 2.2	+ 1.9	+ 1.6	+ 1.8	+ 1.6

Source: WIFO. 2020 and 2021: forecast. – [1] Private households including non-profit institutions serving households. – [2] Excluding energy and unprocessed food (meat, fish, fruits, vegetables).

2.9 Fiscal policy appropriately expansionary

The abrupt slowdown of economic activity, together with the rescue and support measures and the counter-cyclical steps taken during and after the lockdown in spring, have significant consequences for public finances, which will be felt not only in 2020 but also in subsequent years. The discretionary measures included in the budget forecast include the support programmes adopted at the beginning of the crisis, the June 2020 stimulus measures and decisions taken afterwards, such as the creation of a labour foundation and the 2021 pension increase.

Automatic stabilisers and discretionary fiscal policy measures will be an important pillar of disposable income in 2020.

According to current WIFO-estimation, the general government budget deficit will amount to 9.4 percent of GDP in 2020. The expected improvement compared to the June 2020 forecast (–10.3 percent) is based, among other things, on the reassessment of subsidies and government consumption, but is also to a large extent due to modifications of previous accounting practices.

Short-time working allowances and fixed cost grants are driving up subsidy expenditure, which will increase by more than 13 billion € or 3.5 percent of GDP compared to 2019. The COVID-19 short-time working allowance is estimated at 7.8 billion € and the fixed cost grants at 5 billion € due to a reassessment of their use. A massive rise of 5.5 billion € (1.5 percent of GDP) is also expected this year in the area of monetary social benefits (unemployment benefit, child bonus, negative tax, increase in emergency unemployment assistance, payments from the hardship fund, etc.). Investment measures such as the investment premium, the climate package, the expansion of the broadband network or the school development programme will for the most part have an effect on the budget from 2021. The low interest rates reduce the budget pressure a little. Some relief will also come from the unexpectedly weak public consumption in the first half of 2020.

The decline in government revenues caused by the economic situation is being exacerbated by discretionary measures. These include in particular the tax loss carry-back, the acceleration of depreciation, the reduction of the basic income tax rate and the temporary reduction of the VAT rate in the catering and cultural sector. Due to the COVID-19 short-time work regulations, the decline in social contribution revenues will be moderate.

The loss of direct tax revenue will only be partially offset in 2021, as the depreciation allowances and loss carry-back will continue to have an effect in subsequent years. However, a strong increase in indirect tax revenues is expected in 2021 due to the expiry of temporary schemes and the recovery of private consumption.

Table 10: **Fiscal and monetary policy – key figures**

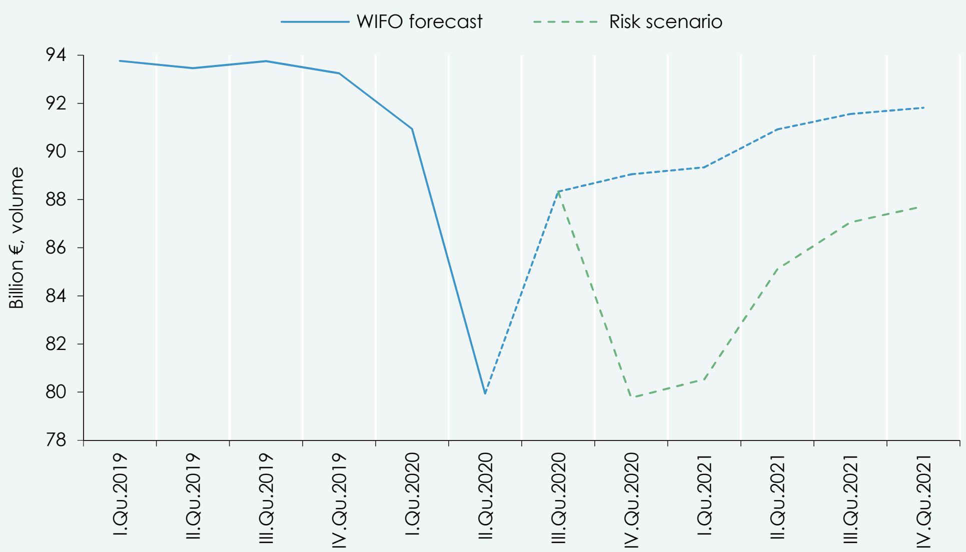
	2016	2017	2018	2019	2020	2021
			As a percentage of GDP			
Fiscal policy						
General government financial balance[1]	– 1.5	– 0.8	0.2	0.7	– 9.4	– 4.7
General government primary balance	0.5	1.0	1.8	2.1	– 8.1	– 3.4
General government total revenue	48.5	48.5	48.9	49.1	47.6	47.6
General government total expenditure	50.1	49.3	48.7	48.4	57.0	52.2
			Percent			
Monetary policy						
Three-month interest rate	– 0.3	– 0.3	– 0.3	– 0.4	– 0.4	– 0.4
Long-term interest rate[2]	0.4	0.6	0.7	0.1	– 0.2	– 0.2

Source: WIFO. 2020 and 2021: forecast. – [1] According to Maastricht definition. – [2] 10-year central government bonds (benchmark).

3. Forecasting risk: second lockdown

The most significant risk for the present WIFO forecast is that a new lockdown may be necessary due to an excessive increase in COVID-19 infection numbers. This includes in particular business and factory closures, travel restrictions, but also (partial) school closures that may interfere with parents' from home. In this risk scenario it is expected that the lockdown intensity, measured by the Blavatnik School of Government indicator, will rise above 70 again from November onwards, that the measures will be in force until after the Christmas holidays, and that they will then be relaxed more slowly than in summer 2020.

Figure 4: **Expected GDP effects of a second lockdown**



Source: WIFO. Realised values until the second quarter of 2020 according to Statistics Austria.

In this case, WIFO assumes that the value added in the fourth quarter of 2020 will be reduced to the level of the second quarter of 2020. Compared to the initial situation, the slump would therefore be less severe than during the lockdown in spring. The focus in this case is on the GDP level rather than the rate of change, as almost all sectors of the economy are still underutilised: The "drop heigth" in case of a new lockdown is lower than in spring.

A renewed lockdown could reduce economic output in the fourth quarter of 2020 to the level of the second quarter and cause a loss in value added of 4.5 percent over the entire forecast period.

Nevertheless, a new lockdown would have a severe effect on the real economy. A dampening of economic output in the fourth quarter to the level of the second quarter 2020 would mean a slump of 9.7 percent compared to the previous quarter (in the second quarter, value added fell by 12.1 percent compared to the previous quarter). For 2020 as a whole, real GDP would contract by 9.3 percent, i.e. 2.5 percentage points more than in the baseline scenario.

Furthermore, the recovery after a new lockdown would be slower than in summer 2020 because the measures would presumably be eased less quickly. Moreover, the risk scenario – like the baseline scenario – is based on the assumption that social and economic activities will not normalise until the second quarter of 2021, when a vaccine against SARS-CoV-2 will be available. Overall, economic output in 2021 on average would hardly exceed the annual average of 2020 and would be 4.5 percent below the level in the baseline scenario in the fourth quarter of 2021.