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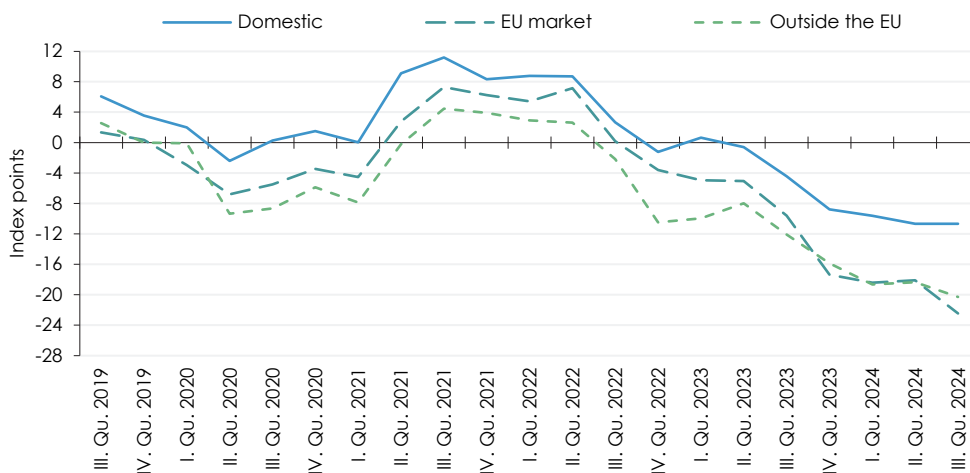
Results of the WIFO-Konjunkturtest Quarterly Survey of July 2024

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- Austria's companies have recently taken a more sceptical view of the economic situation. The WIFO-Konjunkturampel (economic traffic light) showed red again in July.
- Despite a sideways movement in the index, economic assessments manufacturing remain pessimistic.
- Economic uncertainty rose slightly in the economy as a whole, and was above average in the manufacturing and construction.
- Economic capacity utilisation fell in July. Manufacturing and construction in particular have low capacity utilisation rates.
- As in previous quarters, many companies reported important hampering factors affecting their business activities. "Insufficient demand" was in August the most frequently mentioned obstacle in all sectors.
- Sales price expectations fell further compared to April 2024.

Change in the competitive position in manufacturing

Balance as a percentage of all reports



"Companies' self-assessment of their competitive position has deteriorated further in the last three months, particularly on export markets."

The WIFO-Konjunkturtest (business cycle survey) analyses the changes in the competitive position of Austrian manufacturing companies on a quarterly basis. The change is shown by means of balances: the proportion of companies that reported that their competitive position has improved in the last three months is subtracted from the proportion of companies that reported a deterioration (source: WIFO-Konjunkturtest, seasonally adjusted).

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August 2024

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In July, sceptical economic assessments once again predominated. Index declines were particularly evident in the assessments of the current situation and by sector in services and retail. Manufacturing enterprises continue to be particularly sceptical. Capacity utilisation fell in all sectors and uncertainty rose slightly in a quarter-on-quarter comparison. "Insufficient demand" continued to gain in importance as an obstacle to business activity and was the most frequently cited obstacle in all sectors in July.

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Scientific referee: Christian Glocker • **Research assistance:** Birgit Agnezy (birgit.agnezy@wifo.ac.at), Tobias Bergsmann (tobias.bergsmann@wifo.ac.at), Alexandros Charos (alexandros.charos@wifo.ac.at), Anna Strauss-Kollin (anna.strauss-kollin@wifo.ac.at) • **Cut-off date:** 31 July 2024

Contact: Werner Hölzl (werner.hoelzl@wifo.ac.at), Jürgen Bierbaumer (jueergen.bierbaumer@wifo.ac.at), Michael Klien (michael.klien@wifo.ac.at), Agnes Kügler (agnes.kuegler@wifo.ac.at)

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Situation assessments deteriorated in the summer, particularly in the service and retail sectors. In manufacturing, the situation index remained at a very low level.

The results of the WIFO-Konjunkturtest (business cycle survey)¹ for July 2024 (beginning of the third quarter) show a slight deterioration in companies' economic assessments compared to the spring. The WIFO Business Climate Index lost 4.8 points quarter-on-quarter and, at -8.1 points, was also 2.9 points below the previous year's value (Figure 1). The index of current situation assessments fell by 6.6 points compared to April and, at -9.5 points, was well below the zero line that separates negative from positive economic assessments. Business expectations also deteriorated: at -6.7 points, the corresponding index in July was 2.9 points lower than in April.

There are still differences between sectors. This applies both to the levels of the indices

and to the changes compared to the previous quarter. In energy-intensive manufacturing, the WIFO Business Climate Index remained almost unchanged compared to April (-0.2 points), but remained deep in pessimistic territory at -16.6 points. The index of current situation assessments deteriorated slightly (-1.6 points) and was well below zero at -22.2 points. The weak industrial economy is also reflected in companies' assessments of changes in their competitive position (see chart on p. 1). They have deteriorated further in recent months and are at historic lows. Although the index of business expectations improved slightly compared to April (+0.8 points), at -11.6 points it still signals a sceptical outlook for the coming months.

¹ The WIFO-Konjunkturtest (business cycle survey) is a monthly survey of Austrian companies on their current economic situation and developments over the coming months. Once a quarter, the catalogue of questions in the WIFO-Konjunkturtest is expanded to include additional questions ("quarterly questions"), which provide relevant information on the economy but are not included in the monthly indices of the WIFO Business Survey. The current results of the WIFO-Konjunkturtest are available on the WIFO website

(<https://www.wifo.ac.at/en/publications/wifo-konjunkturtest>) and on the business cycle and forecasts page (<https://www.wifo.ac.at/en/research-priorities/business-cycle-and-forecasting-or-wifo-konjunkturtest.at>). Hölzl and Schwarz (2014) provide an overview of the WIFO Business Survey. Detailed results on the subsectors of manufacturing and services can be downloaded as a graphic appendix from the project homepage.

In the construction industry, the WIFO Business Climate Index deteriorated by 2.5 points compared to the previous quarter to -4.2 points. The index of current situation assessments lost 1.6 points and stood at -5.2 points in July. The index of business expectations also fell (by 3.2 points to -3.3 points), reflecting the continued subdued expectations of construction companies regarding their own business situation and production.

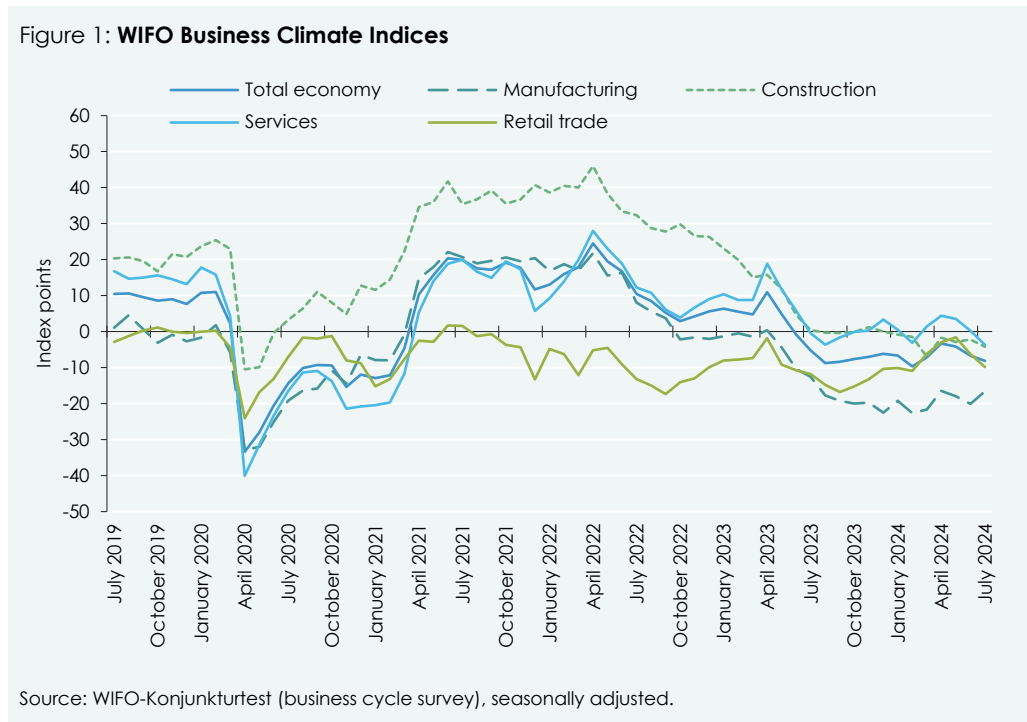
The indices in the services sector did not paint a positive picture in July either. The WIFO Business Climate Index fell by around 8.1 points compared to April 2024 and fell below the zero line again at -3.7 points. In addition to the index of current situation assessments, which fell by 10.1 points to -4.6 points, the index of business expectations also lost ground (-5.7 to -2.4 points).

The economic indices for the retail sector, which WIFO calculates on the basis of surveys conducted by KMU Forschung Austria,

developed similarly unfavourably to the services sector. At -9.9 points in July, the corresponding WIFO Business Climate Index was 6.9 points below the April 2024 value and therefore well below the zero line. The index of current situation assessments lost a full 10.1 points in a quarter-on-quarter comparison. At -0.1 points, positive and negative assessments of the situation recently balanced each other out again. Retailers' expectations also give little cause for optimism: the corresponding sub-index fell by 4.3 points compared to April to a weak -20.1 points.

The longer-term development of the WIFO economic climate indices shows the decline as a result of the COVID-19 crisis, the recovery until spring 2022, the economic slowdown due to the energy price shock and the war in Ukraine until winter 2022-23 and the downturn since summer 2023. After stabilising slightly in spring, a renewed deterioration can be seen at the current margin (Figure 1).

Figure 1: WIFO Business Climate Indices



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

As a result of the war in Ukraine, energy prices rose more sharply than during the oil price shocks of 1973 and 1979-80, resulting in significant price effects that were also reflected in sales price expectations. The rapid upturn after the COVID-19 crisis was overcome, the war in Ukraine, the rise in electricity and natural gas prices in summer 2022 and accelerated inflation further exacerbated price momentum. However, sales price expectations have fallen significantly since mid-2023.

Sales price expectations are presented in the WIFO-Konjunkturtest as balances, i.e. as

the difference between the proportion of positive and the proportion of negative responses to all reports. They have a value range of -100 to +100 points. The latest results once again show a slowdown in price momentum compared to the previous quarter (Figure 2). For the economy as a whole, the balance of sales price expectations most recently stood at 10.9 points, 3.1 points below the comparative value from April 2024 and below the long-term average (25.8 points). In recent months, sales price expectations have fallen in all sectors. In the construction industry (July 2024: 6.5 points, -2.4 points compared to April)

and manufacturing (July 2024: 0.8 points, –0.3 points compared to April), the balances continued to be significantly lower than in services (July 2024:

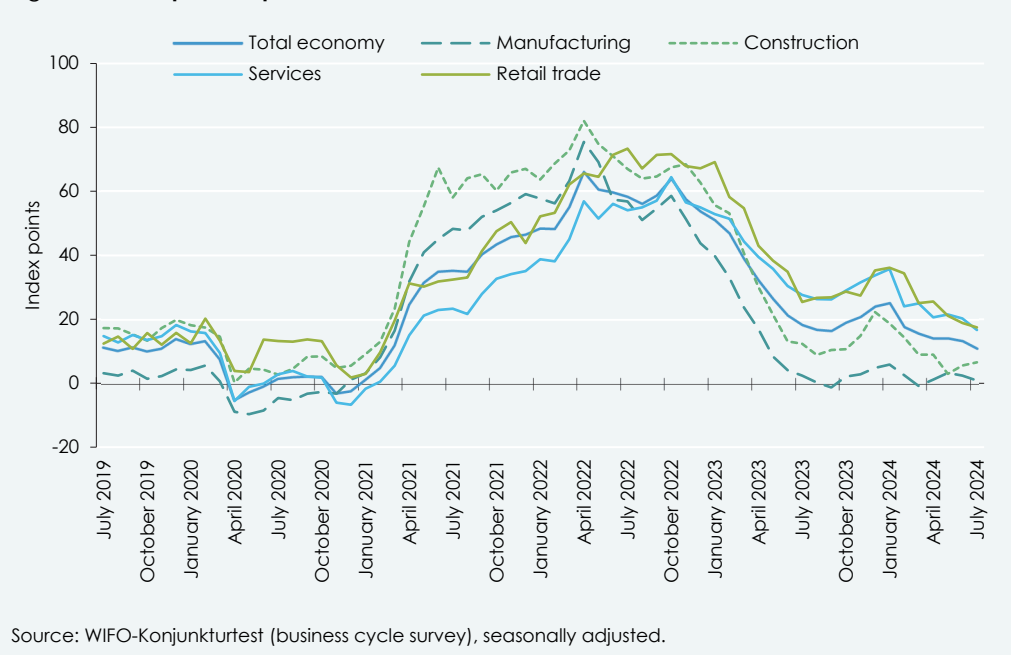
16.6 points, –4.0 points compared to April) and retail (July 2024: 17.4 points, –8.1 points compared to April).

Table 1: Indices of the WIFO-Konjunkturtest

	2023			2024				July Change compared to April (previous quarter)
	July	October	January	April Index points	May	June	July	
Total economy								
WIFO Business Climate Index	– 5.2	– 7.6	– 6.7	– 3.3	– 4.2	– 6.7	– 8.1	– 4.8
Index of current business situation	– 2.1	– 8.0	– 5.3	– 2.9	– 1.9	– 6.9	– 9.5	– 6.6
index of business expectations	– 8.3	– 7.4	– 8.1	– 3.8	– 6.3	– 6.4	– 6.7	– 2.9
Manufacturing								
WIFO Business Climate Index	– 12.6	– 20.0	– 19.2	– 16.5	– 18.0	– 20.1	– 16.6	– 0.2
Index of current business situation	– 11.3	– 22.2	– 20.6	– 20.7	– 19.7	– 24.7	– 22.2	– 1.6
Index of business expectations	– 14.2	– 18.1	– 18.1	– 12.5	– 16.3	– 15.6	– 11.6	0.8
Construction								
WIFO Business Climate Index	0.4	– 0.1	– 0.8	– 1.8	– 2.9	– 2.2	– 4.2	– 2.5
Index of current business situation	0.2	– 0.4	– 2.9	– 3.7	– 3.2	– 2.6	– 5.2	– 1.6
Index of business expectations	1.2	0.5	1.0	– 0.2	– 3.1	– 2.2	– 3.3	– 3.2
Services								
WIFO Business Climate Index	– 0.5	– 0.1	0.5	4.4	3.5	0.2	– 3.7	– 8.1
Index of current business situation	2.6	– 1.3	2.9	5.5	6.7	1.3	– 4.6	– 10.1
Index of business expectations	– 3.4	1.1	– 2.0	3.3	0.6	– 0.6	– 2.4	– 5.7
Retail trade								
WIFO Business Climate Index	– 11.8	– 15.3	– 10.1	– 3.0	– 1.6	– 6.3	– 9.9	– 6.9
Index of current business situation	0.5	– 5.8	– 3.3	10.0	11.4	1.6	– 0.1	– 10.1
Index of business expectations	– 24.2	– 24.8	– 17.1	– 15.8	– 14.6	– 14.4	– 20.1	– 4.3

Source: WIFO-Konjunkturtest (business cycle survey).

Figure 2: Sales price expectations



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

Indices of the WIFO Business Survey

The WIFO-Konjunkturtest indices are calculated at sector level for manufacturing, construction, services and retail. The surveys are conducted monthly by WIFO (manufacturing, construction and services) and KMU Forschung Austria (retail trade). The "overall economic indices" are calculated by weighting the sector indices (weights: services 0.5, manufacturing 0.3, construction and retail 0.1 each). The summarised WIFO Business Climate Index aggregates two sub-indices, which are shown separately:

- The index of current situation assessments is based on the monthly surveys on the assessment of the current situation and developments over the last three months. It is designed as a synchronised index that is ahead of the official economic statistics simply due to its early availability (around two months before the current data from the official statistics).
- The index of business expectations summarises those monthly questions that relate to developments in the months following the survey. It is designed as a leading indicator.

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

1. Economic traffic light shows red

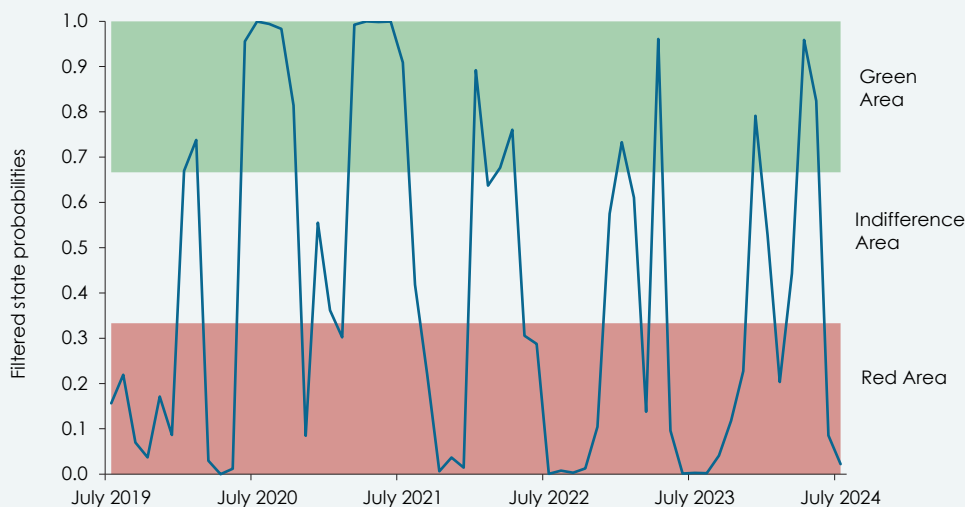
Using a Markov regime switching model, the WIFO-Konjunkturampel (economic traffic light) calculates the probability with which the current values of the WIFO-Konjunkturtest indicators correspond to an improvement or deterioration in economic assessments compared to the previous period (Glocker & Hözl, 2015)². The probability determined can fall into one of three categories, which are summarised as an "economic traffic light":

- In the "green zone" (improvement), the probability is over two thirds that the

change in the current index values compared to the previous measurement point reflects an improvement in economic assessments.

- In the "red zone" (deterioration), the probability that the current index value represents an improvement compared to the previous measurement point is less than one third.
- The indifference range lies between the "green" and "red" areas. In this case, the development of the economic assessments cannot be clearly assigned.

Figure 3: WIFO-Konjunkturampel (economic traffic light)



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

The probability of being in an improvement regime was estimated by the model to be very low at 0.02 in July 2024. As in June, the WIFO-Konjunkturampel is therefore showing red. This primarily reflects the weakening of

economic indicators in the last two months, which affected both situation assessments and business expectations. The economic risks remain high.

² Deterioration is defined as the opposite state of the "improvement" state: The probability of being in the

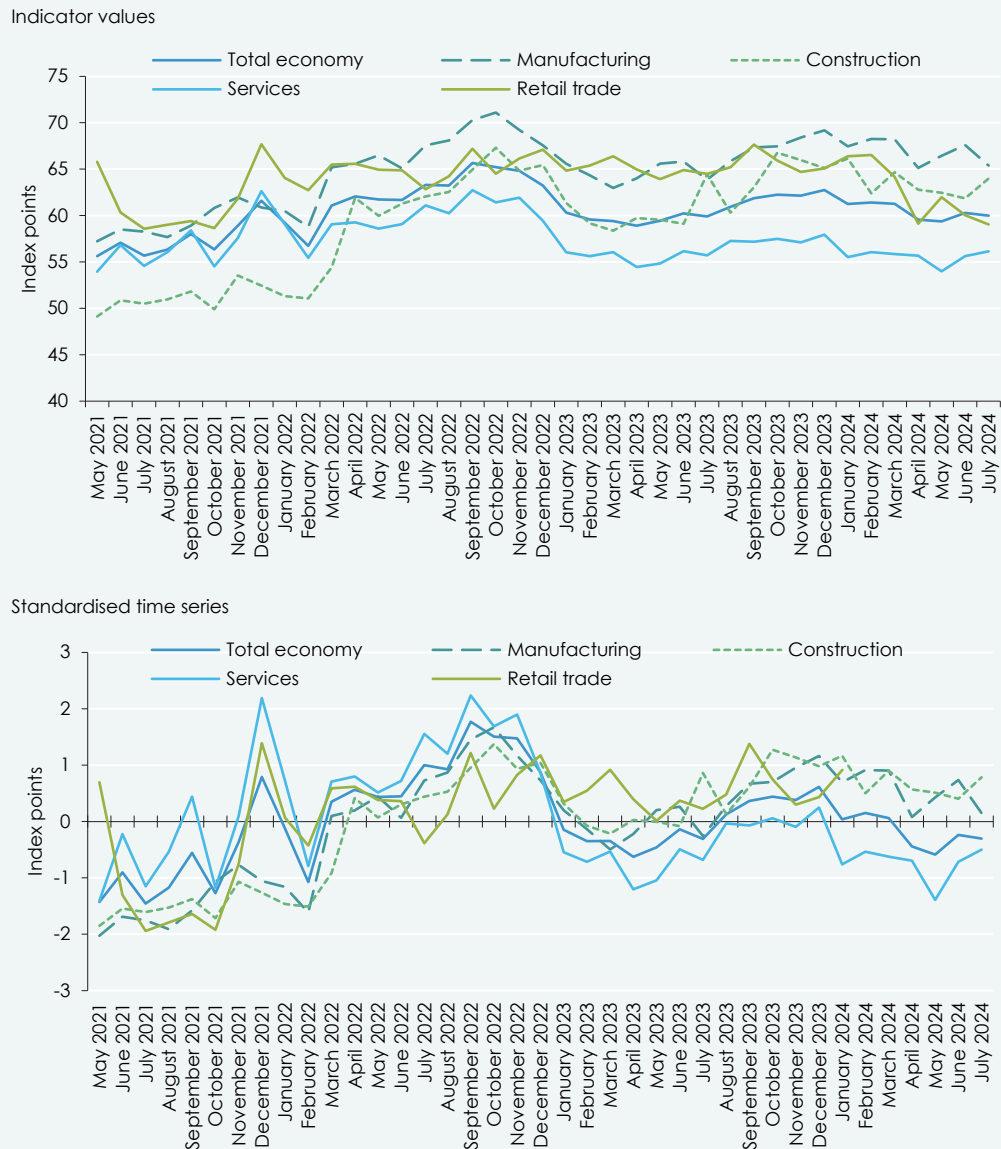
"improvement" state (q) is 1 minus the probability of being in the "deterioration" state ($p = 1 - q$).

2. Uncertainty continues to vary from sector to sector

Since the 1980s, the WIFO-Konjunkturtest has surveyed companies' assessment of the uncertainty of the future business situation, which has an influence on companies' investment and employment decisions (Glocker & Hölzl, 2022). In May 2021, the wording of the corresponding question was

changed as part of its inclusion in the EU's Joint Harmonised EU Programme of Business and Consumer Surveys (European Commission, 2023). In addition, the question on uncertainty is now asked monthly instead of quarterly (Figure 4).

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



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

Business uncertainty increased in July, particularly in the construction and services sectors. In addition to the construction industry, it was also above average in manufacturing.

The indicator of uncertainty regarding the future business situation ranges from 0 (no uncertainty) to 100 (highest uncertainty). A value of 60.0 points was recorded for the economy as a whole in July (beginning of the third quarter of 2024). The indicator was therefore 0.4 points higher than in April (59.6 points).

The war in Ukraine and the subsequent energy price shock caused business uncertainty to rise from March 2022, particularly in export-oriented manufacturing. Uncertainty increased there until the end of 2023; after moving sideways in the first half of 2024, the indicator stood at 65.4 points in July, still slightly above the long-term average of 64.8 points. In the construction industry, the

indicator rose by 1.2 points compared to April 2024 to 64.0 points (long-term average 59.6 points). A slight increase to 56.1 points was observed in the service sectors, although the uncertainty indicator had

already been below the long-term average (57.3 points) in the previous quarters. In the retail sector, on the other hand, uncertainty fell slightly compared to April (-0.1 points to 59.0 points; long-term average 63.9 points).

3. Declining capacity utilisation

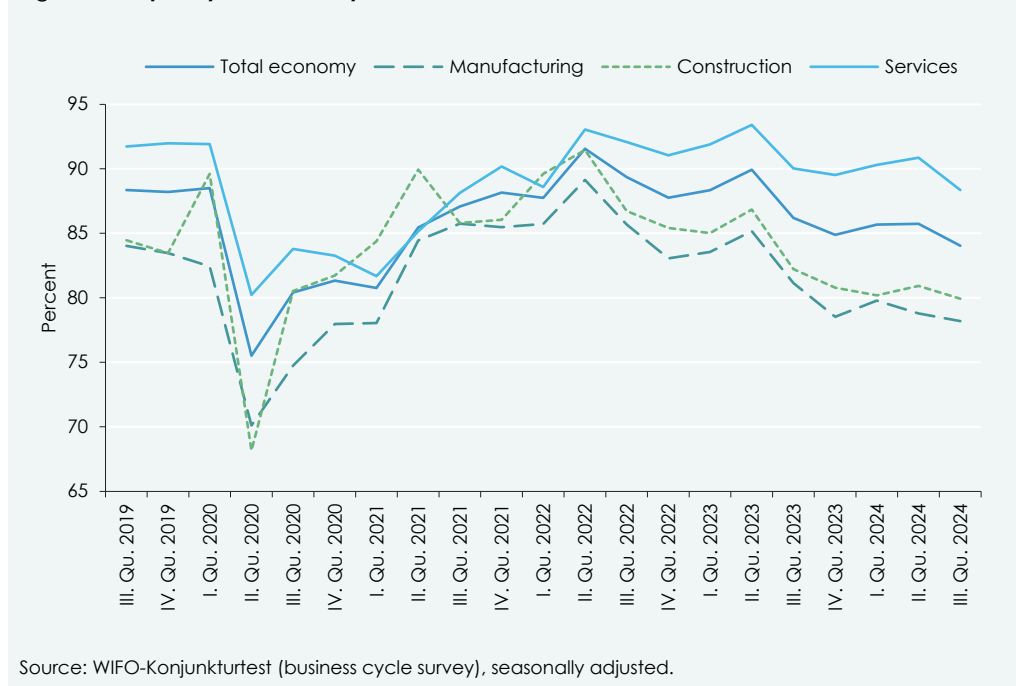
3.1 Decline in overall economic capacity utilisation

Capacity utilisation is an important economic indicator, particularly in sectors with high capital intensity and high capacity adjustment costs (Hölzl et al., 2019). It is therefore surveyed as part of the WIFO-Konjunkturtest in all sectors except retail. Overall economic capacity utilisation stood at 84.0 percent in July 2024 and was therefore 1.7 percentage points lower than in April

(long-term average: 85.9 percent). A quarter-on-quarter comparison showed a deterioration in all sectors: in addition to the construction industry (-1.0 percentage points to 79.9 percent, long-term average: 84.0 percent), the services sector (-2.5 percentage points to 88.4 percent, long-term average: 88.9 percent) and manufacturing (-0.6 percentage points to 78.2 percent; long-term average: 81.7 percent) also suffered declines in capacity utilisation.

Capacity utilisation in July 2024 was lower in all sectors than in spring and noticeably below average in manufacturing and construction.

Figure 5: Capacity utilisation by sector



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

3.2 Assured stable production time

The secured production duration – measured in months – is surveyed as part of the quarterly survey of the WIFO-Konjunkturtest in manufacturing and construction (Figure 6). In the construction industry, companies reported at the beginning of the third quarter of 2024 that their production activity was secured for an average of 4.9 months (unchanged compared to April 2024; long-term average 5.2 months). In manufacturing, the average secured production period was 4.1 months (-0.1 months compared to April 2024; long-term average 4.2 months).

3.3 Manufacturing struggles with persistently weak order situation

In manufacturing, the development of orders in the past three months and expectations regarding incoming orders from abroad are surveyed once a quarter as relevant indicators. The answers to these questions are aggregated into balances between the share of positive and the share of negative answers. As Figure 7 shows, the development of order backlogs at the start of the third quarter of 2024 was similarly weak as in previous quarters. The latest value of -24.7 points suggests a net decline in incoming orders in the last three months.

The order backlogs in manufacturing remained weak in summer and expectations for incoming orders from abroad remained negative on balance.

Expectations for future foreign order intake improved slightly, but also remained negative on balance: the pessimistic voices

expecting a decline in foreign orders over the next three months outweighed the positive reports by around 5 percentage points.

Figure 6: Average production time in manufacturing and the construction industry



Source: WIFO-Konjunkturtest (business cycle survey).

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



Source: WIFO-Konjunkturtest (business cycle survey).

4. Insufficient demand remains the most important obstacle to business activity

In the WIFO-Konjunkturtest, the most important obstacles to the business activities of the companies surveyed are determined on a quarterly basis. The companies have the

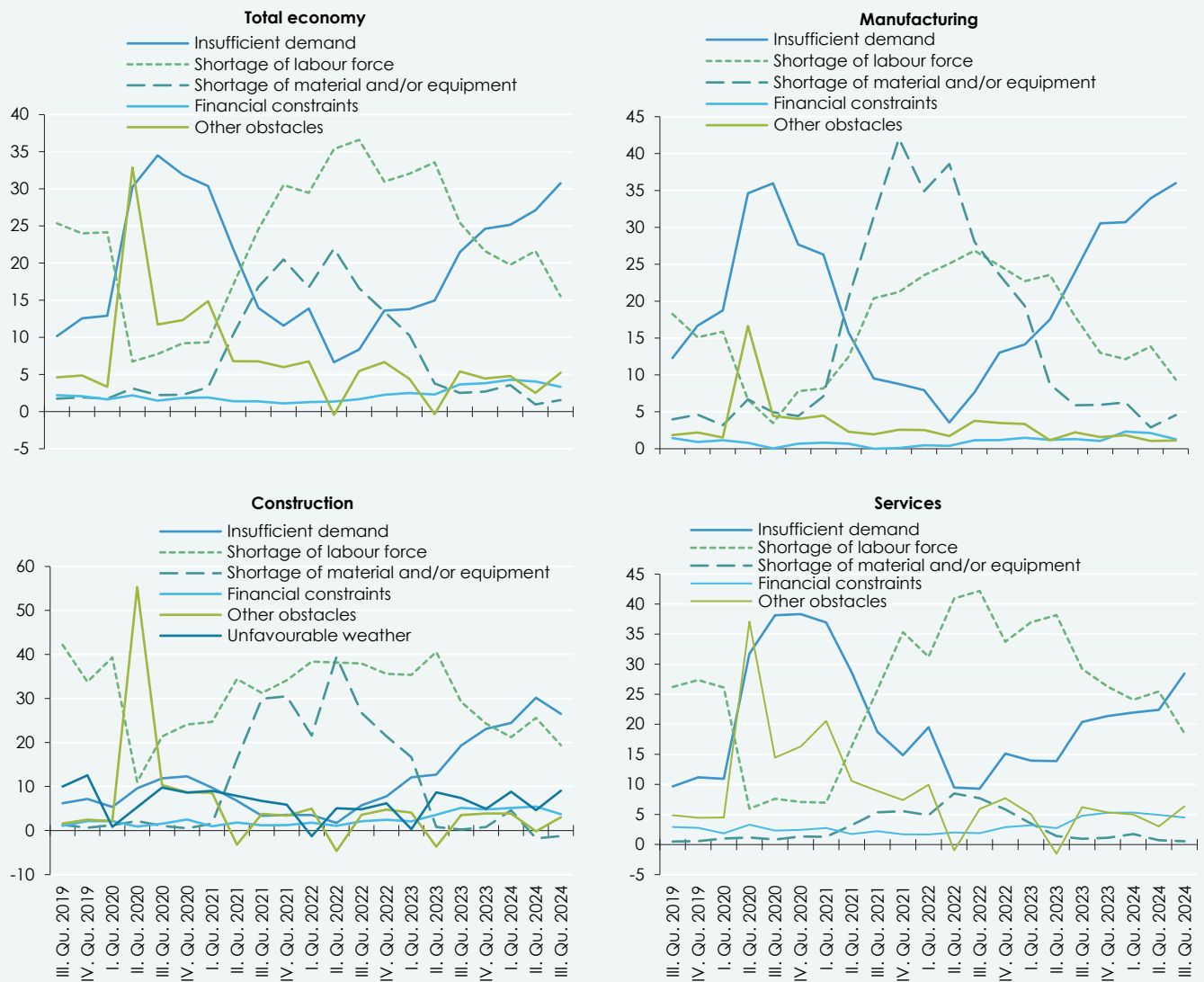
option of reporting no impairment of their economic activity or selecting the most important obstacle from a predefined list:

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

In the construction industry, the obstacle of "unfavourable weather" is also raised³.

Figure 8: **Barriers to economic activity**

As a percentage of all reports



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

The COVID-19 pandemic, supply chain problems, the war in Ukraine and the sharp rise in energy prices caused the proportion of companies reporting obstacles to their business activities to rise in 2020. The situation has recently eased somewhat. In July 2024, around 41 percent of construction compa-

nies reported no impairment of business activity (+3 percentage points compared to April). In the services sector, 42 percent of companies recently stated that they were not facing any obstacles (-2 percentage points compared to the previous quarter). In manufacturing, 48 percent of companies

³ When calculating the overall economic obstacles, "unfavourable weather" is classified under "other obstacles".

reported no obstacles in July, 2 percentage points more than in April 2024. In retail, the proportion of companies that reported no major obstacles to business activity fell significantly compared to the previous quarter (-6 percentage points to 42 percent of companies).

"Insufficient demand" has recently become even more important and has risen to become the most important obstacle in all sectors. "Shortage of labour force" remains also a challenge.

In the overall economy (excluding retail), "insufficient demand" remained the most frequently cited obstacle to business activity (July 2024: 30.7 percent of companies), ahead of "shortage of labour force" (15.5 percent), which has lost some of its importance again as a result of the economic downturn. The "shortage of materials and/or capacity" (1.5 percent) was only of minor importance compared to previous years. "Financial constraints" was cited by 3.3 percent of companies (Figure 8).

In manufacturing, "insufficient demand" has been the most frequently cited obstacle to production activity since the third quarter of 2023 (July 2024: 36.0 percent of all companies), ahead of "shortage of labour force" (9.4 percent). Around 4.6 percent of manufacturing firms reported a "shortage of materials and/or capacity" as the most important obstacle, around 1.3 percent "financial constraints" and 1.1 percent "other reasons".

5. Summary

For the economy as a whole, the results of the WIFO-Konjunkturtest from July 2024 again indicate a slight deterioration in economic assessments. The situation assessments deteriorated in all sectors in a quarterly comparison. Significant deterioration is evident in the services and retail sectors. The downward trend in expectations was less pronounced across the sectors, although the levels of the expectations index continue to reflect a sceptical outlook for the coming months. Accordingly, the WIFO-Konjunkturampel showed red in July.

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As in the previous quarter, "insufficient demand" (26.5 percent) was also the most frequently cited obstacle in the construction industry in July, ahead of "shortage of labour force" (19.4 percent). Most recently, 9.0 percent of companies cited "unfavourable weather" as the most important obstacle. 3.7 percent of construction companies reported "financial constraints".

In the service sectors, "insufficient demand" (28.5 percent) was the most important obstacle to business activity in July for the first time since April 2021. This was followed by "shortage of labour force" (18.5 percent), the importance of which has recently decreased significantly, "financial constraints" (4.5 percent) and "other obstacles" (6.4 percent).

In the retail sector, the barriers to business activity have been surveyed since July 2021. In April 2024, 39.5 percent of retailers surveyed reported "insufficient demand" as the most important obstacle, 9.5 percent "shortage of labour force", 2.6 percent "other obstacles", 3.7 percent "financial constraints" and 3.2 percent "supply bottlenecks".

The situation assessments and expectations manufacturing are still very subdued. Incoming orders in recent months and expectations regarding the future development of foreign orders point to a continuation of the weak industrial economy.

Capacity utilisation recently fell in all sectors and is at a below-average level. Business uncertainty rose again slightly. In terms of obstacles to business activity, "insufficient demand" was the most frequently cited obstacle in all sectors in July, ahead of "shortage of labour force".