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High Uncertainty Keeps Austria's Economy in Stagnation. Economic Outlook for 2024 and 2025

Christian Glocker, Stefan Ederer

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Economic Outlook for 2024 and 2025

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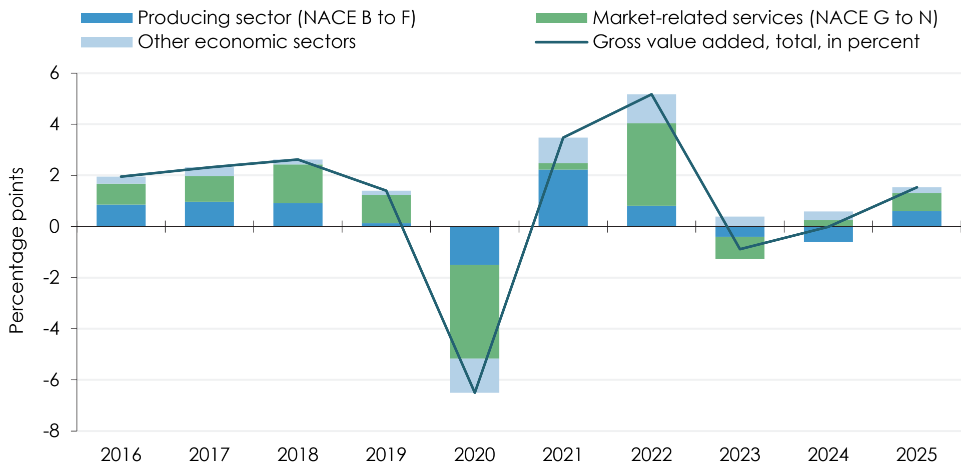
- After the recession in the previous year (–0.8 percent), Austria's GDP will stagnate in 2024 and grow by 1.5 percent in 2025.
- In 2024, the economic development is characterised by a dichotomy: a recession in manufacturing and construction contrasts with growth in value added in market-related services.
- Weak demand in the current year is dampening producer and consumer price inflation.
- Surveys suggest that both private households and companies remain highly uncertain.
- As labour supply continues to grow and employment growth flattens out, WIFO expects unemployment to rise in 2024.
- Due to the continued expansionary fiscal policy, the budget deficit will exceed the 3 percent mark in both forecast years.

Growth contribution of economic sectors to gross value added, volume



The growth contributions indicate the extent to which the two components (manufacturing and market-related services) contribute to the increase in gross value added at basic prices. The growth contribution of a component is calculated by dividing the absolute change in the component compared to the previous period by the value of gross value added at basic prices in the previous period (source: WIFO; Statistics Austria; WDS – WIFO Data System, Macrobond. 2024 and 2025: forecast).

"The economy in 2024 will be characterised by a dichotomy: an expansion in market-related services will be offset by a continuing recession in the producing sector."

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July 2024

High Uncertainty Keeps Austria's Economy in Stagnation. Economic Outlook for 2024 and 2025

Following the recession in the previous year, the Austrian economy will stagnate in 2024. Leading indicators still do not point to an imminent economic recovery. It is only from 2025 onwards that a slightly more favourable trend could emerge, when exports pick up in line with the global economy, thereby reinforcing the impetus from domestic demand. After the decline in 2023 (–0.8 percent) and stagnation in 2024, GDP will therefore not grow significantly again until 2025 (+1.5 percent).

JEL-Codes: E32, E66 • **Keywords:** 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/wp-content/uploads/2024/01/WIFO-BusinessCycleInformation-Glossary.pdf

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1. Introduction

The Austrian economy has been in a weak phase since the end of the second quarter of 2022. Expansionary impulses from both domestic and foreign sources are lacking. Sluggish domestic and export demand pushed manufacturing and construction into recession, while the unfavourable order situation combined with declining final demand and depressed sentiment dampened the willingness to invest.

Leading indicators do not point to an economic recovery in 2024 either – in some cases, they have even deteriorated again recently. There is much to suggest that the domestic economy will remain sluggish. An upward trend has already started among market-related service providers, which should be consolidated by a moderate recovery in private consumption. However, this is being counteracted by the ongoing recession in the manufacturing sector and construction. The domestic economic environment is therefore likely to remain vulnerable to setbacks. At the same time, however, there are no signs of a recession in the aggregate economy.

Against this background, Austria's GDP will stagnate in 2024. Manufacturing value added is not expected to increase again until 2025, as exports should also pick up in line with international demand. However, higher growth rates than in the euro area are not expected, especially as exporters are likely to lose market share over the forecast period due to the increasingly unfavourable price position in the competitive environment. The overall economy will therefore remain underutilised in 2025.

Inflation is expected to slow down significantly, especially in 2024, due to weak demand. In the previous year, the price of domestically produced goods and services rose by 7.8 percent (according to the GDP deflator); GDP inflation is expected to reach 4.3 percent in 2024 (2025 +2.6 percent). Assuming that there is no renewed price shock for imported energy, WIFO expects a similar trend for consumer prices (2024 +3.4 percent, 2025 +2.5 percent, after +7.8 percent in 2023; according to the CPI).

Given the economic slowdown, the labour market is proving robust. After +1.2 percent in 2023, active dependent employment will continue to grow over the forecast period (2024 +0.4 percent, 2025 +0.9 percent), driven primarily by the services sector. However, due to the strong expansion of the labour supply, unemployment will also continue to rise. The unemployment rate (according to the national definition) is expected to reach 6.9 percent in 2024 and to fall to 6.7 percent in 2025 (2023: 6.4 percent).

Despite the more favourable economic outlook for 2025, the public finances will not improve over the forecast horizon. The general government budget balance is projected to deteriorate from –2.6 percent of GDP in 2023 to –3.2 and –3.1 percent respectively, thus exceeding the Maastricht target in both forecast years.

Table 1: **Main results**

	2020	2021	2022	2023	2024	2025
	Percentage changes from previous year					
Gross domestic product, volume	– 6.6	+ 4.2	+ 4.8	– 0.8	+ 0.0	+ 1.5
Manufacturing	– 7.3	+ 12.7	+ 4.1	– 2.6	– 2.0	+ 2.8
Wholesale and retail trade	– 3.3	– 1.1	+ 2.1	– 6.1	+ 0.4	+ 1.7
Private consumption expenditure[1], volume	– 8.5	+ 4.2	+ 5.7	– 0.2	+ 1.1	+ 1.8
Consumer durables	– 2.6	+ 3.7	– 0.3	– 5.5	± 0.0	+ 1.5
Gross fixed capital formation, volume	– 5.5	+ 6.1	+ 0.1	– 1.3	– 2.4	+ 2.1
Machinery and equipment[2]	– 7.1	+ 9.9	+ 2.0	+ 1.8	– 0.9	+ 3.0
Construction	– 3.6	+ 1.8	– 2.0	– 4.7	– 4.2	+ 1.1
Exports, volume	– 10.6	+ 9.1	+ 11.2	– 0.2	+ 0.7	+ 2.5
Exports of goods, fob	– 7.7	+ 12.3	+ 7.1	+ 0.7	+ 0.8	+ 3.2
Imports, volume	– 10.0	+ 14.3	+ 7.9	– 2.3	+ 0.6	+ 2.9
Imports of goods, fob	– 7.2	+ 15.2	+ 5.1	– 3.9	+ 0.1	+ 3.2
Gross domestic product, value	– 4.1	+ 6.4	+ 10.4	+ 6.9	+ 4.3	+ 4.2
billion €	380.89	405.24	447.22	478.19	498.77	519.49
Current account balance as a percentage of GDP	3.4	1.6	– 0.3	2.7	3.0	3.0
Consumer prices	+ 1.4	+ 2.8	+ 8.6	+ 7.8	+ 3.4	+ 2.5
GDP deflator	+ 2.7	+ 2.1	+ 5.3	+ 7.8	+ 4.3	+ 2.6
General government net lending, Maastricht definition as a percentage of GDP	– 8.0	– 5.8	– 3.3	– 2.6	– 3.2	– 3.1
Persons in active dependent employment[3]	– 2.0	+ 2.5	+ 3.0	+ 1.2	+ 0.4	+ 0.9
Unemployment rate, national definition[4]	9.9	8.0	6.3	6.4	6.9	6.7
Command-based GDP per capita[5]	– 6.8	+ 3.5	+ 1.3	– 0.4	– 0.1	+ 1.4
At-risk-of-poverty rate[6] percent	14.7	14.8	14.9	15.4	15.7	15.7
Income quintile ratio[7] ratio	4.00	4.25	4.28	4.41	4.50	4.47
Greenhouse gas emissions[8]	– 7.6	+ 4.6	– 5.7	– 4.6	– 2.7	– 0.2
million t CO_2 equivalent	73.91	77.33	72.96	69.59	67.69	67.57

Source: WIFO, Public Employment Service Austria, Federation of Social Insurances, OeNB, Statistics Austria, Environment Agency Austria. 2024 and 2025: forecast. – [1] Including non-profit institutions serving households. – [2] Including weapons systems and other investment. – [3] Excluding persons in valid employment contract receiving child care benefit or being in military service. – [4] As a percentage of dependent labour force, national definition. – [5] Nominal GDP deflated by the implicit price index of domestic demand. – [6] Share of persons living in private households with an equivalised disposable income below the at-risk-of-poverty threshold (60 percent of the national median equivalised disposable income). From 2023: forecast. – [7] S80/S20: ratio of total equivalised disposable income received by the population living in private households in the top income quintile to that received by the population in the bottom quintile. From 2023: forecast. – [8] 2022: estimate according to Environmental Agency Austria. From 2023: forecast.

2. The initial situation

The Austrian economy cooled in mid-2022. The slowdown in international demand and high energy price increases dampened industrial production, while general inflation reduced the real income of private households and weighed on consumer demand. These developments led to a 0.8 percent decline in economic output in 2023.

On the supply side, gross value added fell in 2023 in trade, transport, construction, manufacturing and other business services. However, some market-related services developed more favourably, e.g., accommodation and food service activities, information and communication, and real estate activities.

On the demand side, both consumption and investment contributed to the decline in domestic demand (2023 –2.1 percent). Exports also fell. Due to a significant reduction in imports, foreign trade made a positive contribution to GDP in purely arithmetical terms and curbed its decline.

On the distribution side, wage income rose strongly (compensation of employees +9.0 percent), while capital income increased only moderately (gross operating surplus and mixed income +3.8 percent). The latter reflects the difficult profit situation of many companies. In real terms, investment income shrank by just under 4.0 percent (price-adjusted using the GDP deflator), which explains the significant decline in equipment investment.

Inflation eased noticeably in the course of 2023. Producer prices fell increasingly from the middle of the year, partly due to the year-on-year reduction in energy and intermediate goods prices. Consumer prices according to the CPI also fell, with inflation in the services sector remaining broadly constant.

Employment continued to expand in 2023, albeit at a slower pace than in the previous two years. The number of employees in construction, financial and insurance services and other business services declined. The unemployment rate increased from 6.3 percent (2022) to 6.4 percent. The number of job vacancies fell, which meant that labour market tightness increased significantly compared to 2022, but was still at a low level at the end of the year.

3. The framework conditions for the forecast

This forecast is based on the information available in mid-June 2024 with regard to assumptions about the direction of economic policy and the development of the global economy, exchange rates, commodity prices and interest rates. The forecast period covers the second quarter of 2024 to the fourth quarter of 2025.

With regard to the geopolitical environment, it is assumed that existing military conflicts will continue, but will not escalate further. It is also assumed that the EU sanctions against China, Iran and Russia will remain in place, but will not be extended.

3.1 Global economic environment

The global economy expanded at the beginning of 2024. While value added rose sharply in China in the first quarter and also increased in the euro area, real GDP growth slowed in the USA. Global industrial production remained weak, but global trade in goods picked up again in the winter half-year after contracting previously.

Commodity prices have been trending upwards since the beginning of 2024. Increasing geopolitical uncertainties and ongoing disruptions to maritime trade through the Suez and Panama canals have contributed to rising food, industrial raw materials and energy prices, and high price volatility.

The global economic outlook is improving.

The global economy is expected to pick up in 2024. Business sentiment improved in the spring. Easing inflation in industrialised countries and rising real incomes are supporting consumer demand. Global trade in goods and global industrial production should continue to recover, particularly from the second half of 2024. A gradual revival in investment, supported by monetary easing in industrialised countries, will also contribute. The global economy is expected to grow by 2½ percent in both 2024 and 2025. After declining in 2023, global trade should increase by around 1½ percent in the current year and by just under 3 percent in 2025.

In the USA, private consumption will continue to support demand, although growth will be weaker than in 2023. However, the conditions for robust growth in consumer demand remain in place. The labour market has hardly deteriorated so far and real incomes are rising, albeit at a slower pace. Investment should gain momentum towards the end of 2024. Residential construction will also continue to expand over the forecast period. Fiscal policy, however, is likely to be more cautious in view of the high budget deficit. At +2.2 percent, overall economic growth in the USA will be lower in 2024 than in the previous year (2025 +1.8 percent).

The euro area economy gained momentum in the first quarter of 2024. While consumer spending by private households barely increased, exports picked up somewhat. Industrial production has stagnated recently, partly because the natural gas price shock in 2022 continues to weigh heavily on energy-intensive sectors. However, the labour market situation remains favourable and real incomes have risen noticeably since autumn 2023. Inflation, on the other hand, has fallen significantly in recent months to around 2½ percent in spring 2024. Economic activity in the euro area is likely to improve further in the summer half of 2024. On the one hand, the continued rise in real incomes, which is stimulating private consumption, will contribute to this. On the other hand, the still robust labour market also points to strong domestic demand. The easing of monetary policy and the pick-up in global trade will also support demand, although exports and investment are not expected to gain momentum until the end of 2024. Total economic output in the euro area is expected to grow by just under

1 percent in 2024. WIFO forecasts stronger growth of just under 2 percent for 2025.

In China, real GDP growth is projected to slow somewhat in the summer half of 2024. Demand for industrial goods will decline due to the strong inventory build-up at the beginning of the year. Consumer demand will remain weak. However, as global industrial production picks up, China is likely to expand its exports of goods significantly. All in all, China's GDP will grow by 4.8 percent in 2024 and 4.2 percent in 2025.

Table 2: **International economy**

	Percentage shares 2021		2020	2021	2022	2023	2024	2025
	Austria's exports of goods	World GDP[1]	GDP volume, percentage changes from previous year					
EU 27	68.7	14.8	– 5.6	+ 6.0	+ 3.4	+ 0.5	+ 1.1	+ 2.1
Euro area	52.0	10.4	– 6.1	+ 5.9	+ 3.4	+ 0.5	+ 0.9	+ 1.8
Germany	29.8	3.3	– 3.8	+ 3.2	+ 1.8	– 0.2	+ 0.4	+ 1.5
Italy	6.8	1.9	– 9.0	+ 8.3	+ 4.0	+ 0.9	+ 0.9	+ 1.2
France	4.0	2.2	– 7.4	+ 6.9	+ 2.6	+ 0.9	+ 1.0	+ 1.8
CEEC 5[2]	15.9	2.2	– 3.3	+ 6.2	+ 4.4	+ 0.1	+ 2.1	+ 3.4
Hungary	4.0	0.2	– 4.5	+ 7.1	+ 4.6	– 0.9	+ 2.3	+ 3.0
Poland	3.8	1.0	– 2.0	+ 6.9	+ 5.6	+ 0.2	+ 2.4	+ 3.9
Czech Republic	3.6	0.3	– 5.5	+ 3.6	+ 2.4	– 0.3	+ 1.1	+ 2.8
USA	6.6	15.6	– 2.2	+ 5.8	+ 1.9	+ 2.5	+ 2.2	+ 1.8
Switzerland	5.4	0.5	– 2.1	+ 5.4	+ 2.6	+ 0.7	+ 1.5	+ 1.5
China	2.7	18.4	+ 2.2	+ 8.4	+ 3.0	+ 5.2	+ 4.8	+ 4.2
UK	2.6	2.3	– 10.4	+ 8.7	+ 4.3	+ 0.1	+ 0.8	+ 2.0
Total[3]		51.6	– 2.0	+ 6.9	+ 2.8	+ 2.8	+ 2.8	+ 2.7
PPP-weighted[4]	86.0		– 5.0	+ 6.1	+ 3.3	+ 0.8	+ 1.3	+ 2.1
Export weighted[5]			– 6.1	+ 11.0	+ 5.7	– 3.2	+ 1.3	+ 4.0
Market growth[6]	68.7	14.8	– 5.6	+ 6.0	+ 3.4	+ 0.5	+ 1.1	+ 2.1
Forecast assumptions								
Crude oil prices								
Brent, $ per barrel			43.2	70.8	98.9	82	83	78
Natural gas price								
Dutch TTF, € per MWh			9.5	45.9	121.5	41	34	38
Electricity price Austria								
Base, € per MWh			33.2	107.2	261.6	102	82	100
Peak, € per MWh			36.0	116.8	275.5	104	86	110
Exchange rate								
$ per €			1.141	1.184	1.054	1.08	1.09	1.09
Key interest rate								
ECB main refinancing rate[7], percent			0.0	0.0	0.6	3.8	4.3	3.6
10-year government bonds yields Germany, percent			– 0.5	– 0.4	1.1	2.4	2.8	2.6

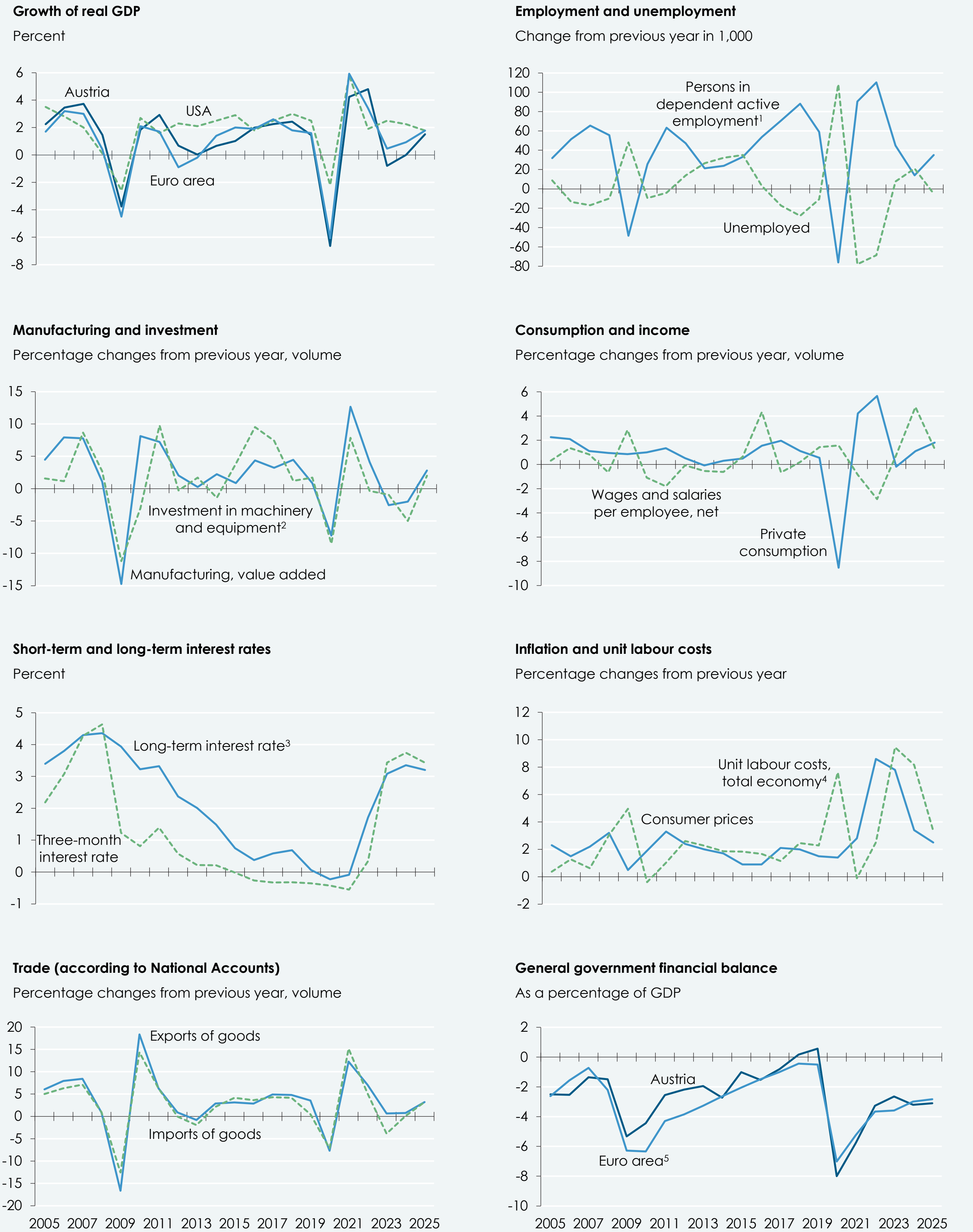
Source: WIFO, Bureau of Economic Analysis, European Energy Exchange, Eurostat, ECB, HWWI, IMF, Intercontinental Exchange, OECD, Statistics Austria. 2024 and 2025: forecast. – [1] PPP-weighted. – [2] Czech Republic, Hungary, Poland, Slovenia, Slovakia. – [3] EU 27, UK, USA, Switzerland, China. – [4] Weighted 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] Fixed rate.

Inflation will continue to fall in both the USA and the euro area over the forecast period. In some euro area countries, energy prices are unlikely to have a further dampening effect on consumer prices – particularly as European natural gas prices have risen recently and wholesale prices are expected to return to just below 40 € per MWh in the winter half-year 2024-25. At the same time, however, the slowdown in wage growth will gradually reduce the upward pressure on prices for services. In the USA, consumer prices are expected to rise by 3 percent in 2024 and by just under 2½ percent in 2025. In contrast, euro area inflation is expected to fall below 2 percent by the end of 2024.

3.2 Economic policy framework

This forecast takes into account all economic policy measures that have already been adopted or sufficiently specified and whose implementation is therefore considered likely.

Figure 1: **Indicators of economic performance**



Source: WIFO. 2024 and 2025: 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.

3.2.1 Monetary policy

The European Central Bank (ECB) cut its key deposit rate by 25 basis points to 3.75 percent in June 2024. The monetary easing is taking place in an environment where HICP growth (May: 2.6 percent) remains above the ECB's target value. Core inflation (May: 2.9 percent) also remains high and has recently increased again. At the same time, economic activity in the euro area has picked up again for the first time and leading indicators point to a continuation of the recovery. The improvement in the business cycle is primarily attributable to market-related services. Given that prices in this sector remain the largest contributor to the rise in the CPI and that the expected recovery in demand is likely to push up prices, the key interest rate cut comes as a surprise in view of the fundamental data. Even though the ECB has ruled out further easing measures in the near future in its external communications, the rate cut suggests a procyclical approach and thus a deviation from a traditional Taylor rule.

The key interest rate cut at the beginning of June 2024 suggests that the ECB is taking a procyclical approach.

3.2.2 Macroprudential policy

In Austria, the credit-to-GDP gap remained well below the critical threshold of 2 percentage points at –16.6 percentage points in the fourth quarter of 2023. In June 2024, the Financial Market Stability Board therefore recommended leaving the countercyclical capital buffer at 0 percent of risk-weighted assets.

In general, financial market stability has improved recently. On the one hand, the funding stability of domestic banks has increased. This is reflected in the loan-to-deposit ratio, which has fallen sharply, especially as deposits grew strongly while lending remained weak. On the other hand, as regards the foreign business of Austrian banks, financial market stability has improved due to the incipient economic recovery in the countries of Central, Eastern and South-Eastern Europe.

This contrasts with a sharp reduction in the risk weights for corporate loans, which are dominated by commercial property loans. In addition, prices for residential property are falling, pushing up household debt ratios. Moreover, insolvencies are higher than before the COVID-19 pandemic.

3.2.3 Fiscal policy

According to the notification at the end of March, the general government budget deficit for 2023 was significantly higher than originally expected. This also has implications for the two forecast years: in 2024, the increase in the expenditure ratio (+0.6 percentage points to 52.6 percent of GDP) is partly due to the additional spending agreed in the new fiscal equalisation scheme, but also to continued discretionary measures to alleviate the energy and inflation crisis. In addition, there is an exceptionally large increase in the climate bonus. High inflation-related additional expenditure for pensions and valorised social benefits, advance payments and the federal government's personnel costs, which only react with a time lag to the high inflation rates of previous years, will continue to drive expenditure in 2024. The revenue ratio will remain constant at 49.4 percent of GDP due to the simultaneous flattening of revenue dynamics as a result of the latest tax reforms, gradually declining inflation and the weak economy. The general government budget balance will therefore deteriorate again in 2024. In 2025, the budgetary situation is unlikely to improve much, despite the more favourable business cycle, as energy packages and measures to compensate for inflation will continue to lead to high expenditure. The economic stimulus package to revive the construction sector and another municipal investment programme will also weigh on public finances.

Table 3: **Fiscal and monetary policy – key figures**

	2020	2021	2022	2023	2024	2025
			As a percentage of GDP			
Fiscal policy						
General government financial balance[1]	– 8.0	– 5.8	– 3.3	– 2.6	– 3.2	– 3.1
General government primary balance	– 6.6	– 4.7	– 2.3	– 1.5	– 1.9	– 1.7
General government total revenue	48.8	50.4	49.7	49.4	49.4	49.3
General government total expenditure	56.8	56.2	53.0	52.0	52.6	52.4
General government gross dept[1]	82.9	82.5	78.4	77.6	78.2	78.9
			Percent			
Monetary policy						
Three-month interest rate	– 0.4	– 0.5	0.3	3.4	3.7	3.4
Long-term interest rate[2]	– 0.2	– 0.1	1.7	3.1	3.4	3.2

Source: WIFO, ECB, OeNB, Statistics Austria. 2024 and 2025: forecast. – [1] According to Maastricht definition. – [2] 10-year central government bonds (benchmark).

Starting from –2.6 percent of GDP in 2023, the general government budget balance will deteriorate to –3.2 percent in 2024 and improve only slightly to –3.1 percent of GDP in 2025. Thus, a balanced general government budget (according to the Maastricht definition) and budget close to balance in structural terms will not be achieved.

4. Prospects for the Austrian economy

A favourable sectoral structure on the supply side will enable the Austrian economy to offset the recession in manufacturing and construction with higher growth in market-related services. Nevertheless, the total economy is expected to stagnate in 2024 and not to grow significantly again until 2025.

Real GDP growth in Austria is expected to accelerate only slowly. No significant economic upswing is in sight for 2024. However, there are also no signs of more pronounced recessionary trends in the total economy, although the results of the WIFO-Konjunkturtest (business cycle survey) from May show a deterioration in companies' economic assessments. Despite a slight improvement in situation assessments, the WIFO Business Cycle Index remained in the pessimistic range. The sub-index for the current situation rose in all sectors, but in some cases was well below average. Business expectations have recently deteriorated again, particularly among manufacturing companies, which on balance reported continued weak production activity in May. The level of order books is also low: only around 52 percent of manufacturing companies reported at least sufficient order backlogs (previous month: 51 percent, May 2023: 69 percent). Assessments of the current own business situation remained below average and as negative as last seen during the COVID-19 pandemic.

The seasonally adjusted UniCredit Bank Austria Manufacturing Purchasing Managers' Index largely confirms the assessment based on the WIFO-Konjunkturtest. Although the index rose in May, its level still points to a decline in production. In addition, the decline in new orders continues to cloud the outlook.

Consumer confidence has trended upwards recently, but is still below average. The sub-index for expected unemployment, which has continued to rise and is at an above-average level, points to a low propensity to spend. This reflects the high level of uncertainty among private households.

Leading indicators point to a continuation of the industrial recession. The lack of demand remains the main obstacle to production.

No significant macroeconomic shocks have occurred since the WIFO Economic Outlook of March 2024. However, past shocks continue to have an impact; there are now increasing signs that the energy price shock of 2022 and its aftermath will have stronger consequences than originally expected.

The energy price shock made an important production factor more expensive for domestic companies. This led to a decline in production and a sharp rise in producer and consumer prices. As collective wage increases in Austria are de facto linked to the past path of consumer prices, this resulted in substantial nominal wage increases, which, via the factor labour, led to a further significant increase in costs for companies.

While energy prices (especially for natural gas) have now fallen sharply and are no longer a major price driver, the strong wage increases are now having an even greater impact. By international standards, the recent wage increases in Austria have been particularly high compared to Western Europe. There is now growing evidence that Austria's export industry has lost price competitiveness vis-à-vis these countries as a result[1] (Figure 2). The WIFO-Konjunkturtest has indicated a very pessimistic assessment of the competitive position since mid-2022. The WKO Economic Barometer – the largest survey of Austrian trade and industry – showed similar results in May 2024: export companies see a deterioration of their price competitiveness on foreign markets in the past twelve months and expect a further deterioration. The main reason for this is high labour costs. Companies' pessimistic assessment of their competitive position reflects the appreciation of the real effective exchange rate. Austria's unit labour cost position has also deteriorated relative to the EU 15, but not relative to the countries of South-Eastern Europe.

The consequences of high wage increases for the real economy can be divided into short- and medium-term effects. In the short term, the loss of price competitiveness makes it more difficult to sell goods. In other words, the demand for domestically produced goods is weakened, resulting in a decline in production. Accordingly, Austrian industrial companies consider the lack of demand to be the most important obstacle to production. Furthermore, according to microeconomic theory on the firm, a reduction in production is the optimal response of (profit-maximising) firms to an increase in the price of a factor of production. Substantial wage increases therefore inhibit production in the short run.

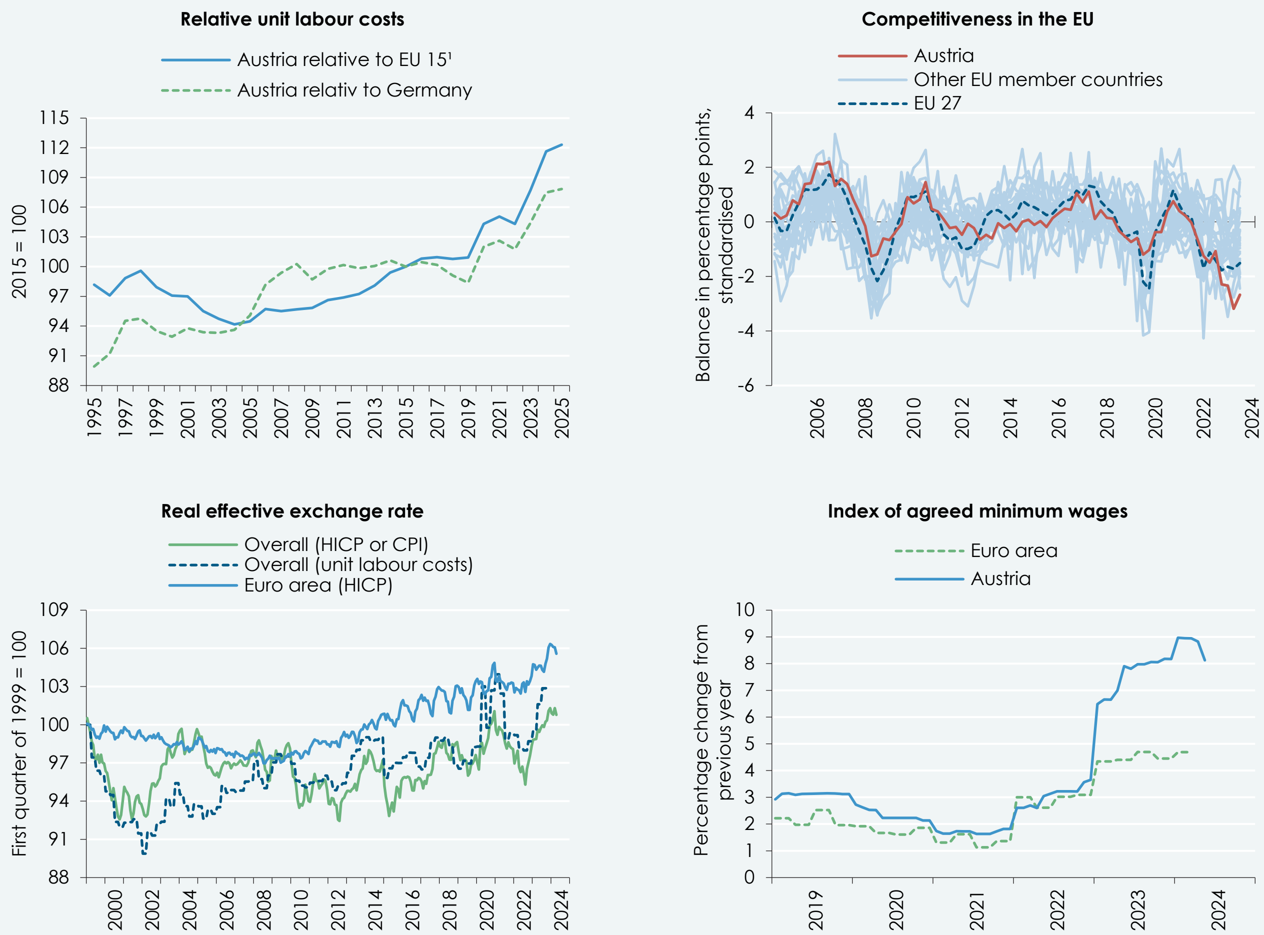
However, there are positive medium-term effects. If income rises more strongly than in other countries, the domestic labour market becomes more attractive, especially for skilled workers. Domestic skilled workers do not emigrate and foreign skilled workers are

[1] In assessing competitiveness, a distinction is made between a price and a non-price dimension. In the first case, price is the only relevant benchmark. Non-price competitiveness, on the other hand, takes into account factors such as delivery time, product quality or delivery reliability in long-term business relationships.

attracted. This aspect is particularly important, as the shortage of labour force, especially skilled labour, is another major obstacle to production in Austria, according to company surveys. High incomes counteract this, especially if wages in Austria are significantly higher than those in the foreign worker's country of origin. From today's perspective, however, these positive effects are likely to be felt only in the medium term.

Finally, high nominal wage increases can also have a positive impact on demand via real wage increases. The potential channel of impact is primarily through private consumption. However, this effect is likely to be largely negligible in the current environment, especially as the high and rising uncertainty at the consumer level encourages precautionary saving, thereby neutralising the effect of strong real wage growth on private consumption.

Figure 2: **Indicators of competitive position**



Source: European Commission; ECB; OeNB; Statistics Austria; WIFO; WDS – WIFO Data System, Macrobond. Unit labour costs: 2024 and 2025 forecast. Real effective exchange rate: export- and import-weighted; brackets indicate which deflation method was used. – [1] EU 15 without Austria and the UK(Belgium, Denmark, Germany, Finland, France, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Sweden, Spain): European Commission forecast, trade-weighted.

4.1 Economy divided in two in 2024

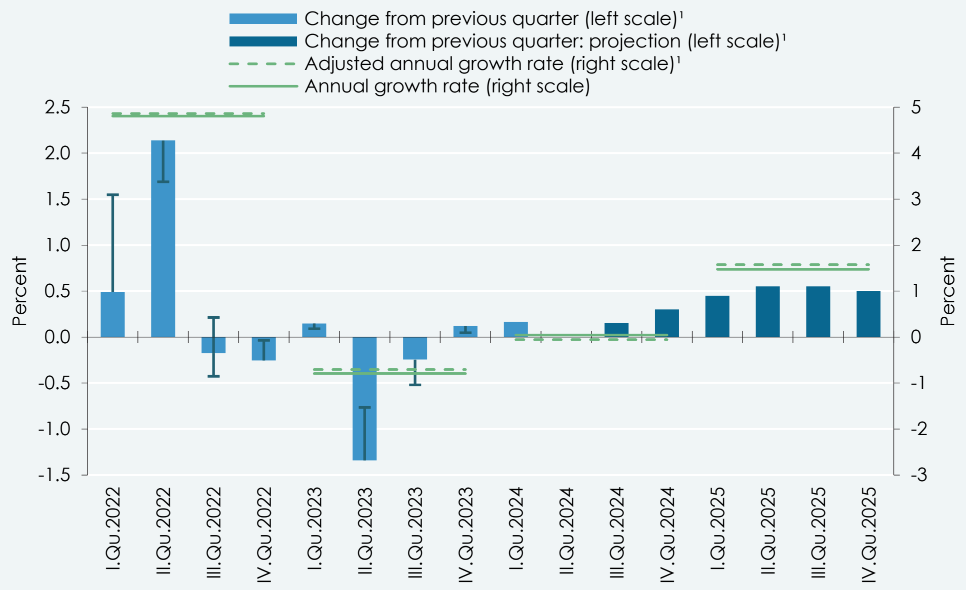
According to leading indicators, the recession in manufacturing and construction is set to continue, meaning that Austria's economic output is expected to stagnate in 2024, despite a stabilisation due to market-related services (+0.0 percent, Figure 3, Table 4). The weakness in manufacturing is likely to continue until the end of 2024, especially as new orders continue to decline. Only then is a cyclical recovery expected.

Although the cyclical fluctuations in gross value added in manufacturing and market-related services are both pronounced, their opposing trends neutralise the effects on GDP development and dampen the cyclical fluctuations in the overall economy. Quarterly GDP growth rates should therefore not increase again until 2025 and should roughly correspond to potential growth towards the end of the forecast period. This translates into overall real GDP growth of 1.5 percent in 2025.

An expansion in market-related services in 2024 will be offset by a continued recession in manufacturing and construction.

Figure 3: **Cyclical profile Austria**

GDP, volume



Source: WIFO. The error indicators show the range of previous revisions to realised values. – [1] Seasonally and calendar adjusted according to Eurostat.

Table 4: **Technical breakdown of the real GDP growth forecast**

		2022	2023	2024	2025
Growth carry-over[1]	percentage points	+ 2.9	+ 0.2	– 0.4	+ 0.3
Growth rate during the year[2]	percent	+ 2.2	– 1.3	+ 0.6	+ 2.1
Annual growth rate	**percent**	**+ 4.8**	**– 0.8**	**+ 0.0**	**+ 1.5**
Adjusted annual growth rate[3]	percent	+ 4.9	– 0.7	– 0.1	+ 1.6
Calendar effect[4]	percentage points	– 0.1	– 0.1	+ 0.1	– 0.1

Source: WIFO. 2024 and 2025: 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 5: **Revision of the growth forecast**

GDP, volume

		2024	2025
WIFO Economic Outlook March 2024	percent	+ 0.2	+ 1.8
Data revisions[1]	percentage points	+ 0.1	+ 0.0
Forecast error for the first quarter of 2024[2]	percentage points	+ 0.1	± 0.0
Forecast revision	percentage points	– 0.3	– 0.4
WIFO Economic Outlook June 2024	**percent**	**+ 0.0**	**+ 1.5**

Source: WIFO. – [1] Revision of the quarterly national accounts by Statistics Austria compared to the data used for the WIFO Economic Outlook of March 2024. – [2] At the time of the preparation of the WIFO Economic Outlook of March 2024, no values were available from Statistics Austria for this quarter.

The underlying quarterly pattern implies that the period of weakness that started in summer 2022 will continue into the second half of 2024, meaning that it would last for a total of around two and a half years. While the negative growth rate during the year contributed to the decline in GDP in 2023, the stagnation in 2024 is essentially the result of the higher inter-annual growth with a negative growth carry-over from the previous year. In 2025, both a high inter-annual growth rate and a positive growth carry-over from 2024 are expected to result in a positive annual growth rate (Table 4).

Due to the decline in GDP in 2023 and the stagnation in the current year, WIFO expects a negative output gap in 2024. In 2025, expected GDP growth is only slightly above potential growth of around 0.8 percent. Thus, the output gap is projected to narrow but not close by the end of 2025. The underutilisation of production factors will therefore persist and should contribute to a slowdown in inflation.

Table 6: **Gross value added**

At basic prices

	2022	2023	2024	2025	2022	2023	2024	2025
	Billion € (reference year 2015)				Percentage changes from previous year			
Volume (chain-linked series)								
Agriculture, forestry and fishing	4.37	4.20	4.20	4.20	+ 6.6	− 3.9	± 0.0	± 0.0
Manufacturing including mining and quarrying	72.17	70.18	68.78	70.71	+ 4.3	− 2.7	− 2.0	+ 2.8
Electricity, gas and water supply, waste management	9.98	10.39	10.44	10.55	+ 2.2	+ 4.1	+ 0.5	+ 1.0
Construction	18.90	18.75	18.08	18.26	− 1.2	− 0.8	− 3.6	+ 1.0
Wholesale and retail trade	39.45	37.03	37.18	37.81	+ 2.1	− 6.1	+ 0.4	+ 1.7
Transportation	18.21	16.94	16.77	16.94	+ 10.9	− 7.0	− 1.0	+ 1.0
Accommodation and food service activities	12.97	13.24	13.51	13.82	+ 55.3	+ 2.1	+ 2.0	+ 2.3
Information and communication	14.30	14.82	15.11	15.42	+ 2.8	+ 3.6	+ 2.0	+ 2.0
Financial and insurance activities	15.85	15.81	16.26	16.43	− 1.2	− 0.3	+ 2.9	+ 1.0
Real estate activities	31.88	32.29	32.29	32.45	+ 2.2	+ 1.3	± 0.0	+ 0.5
Other business activities[1]	34.37	34.14	33.96	34.61	+ 3.8	− 0.7	− 0.5	+ 1.9
Public administration[2]	58.22	59.16	60.05	60.65	+ 3.1	+ 1.6	+ 1.5	+ 1.0
Other service activities[3]	8.93	9.49	9.72	9.87	+ 18.9	+ 6.3	+ 2.5	+ 1.5
Total gross value added[4]	339.09	336.08	336.02	341.17	+ 5.2	− 0.9	− 0.0	+ 1.5
Gross domestic product at market prices	380.56	377.54	377.55	383.27	+ 4.8	− 0.8	+ 0.0	+ 1.5

Source: WIFO, Statistics Austria. 2024 and 2025: 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**

	2020	2021	2022	2023	2024	2025
	Percentage changes from previous year					
Total economy						
GDP, volume	− 6.6	+ 4.2	+ 4.8	− 0.8	+ 0.0	+ 1.5
Employment[1]	− 1.9	+ 2.4	+ 2.8	+ 1.0	+ 0.5	+ 0.8
Production per person employed	− 4.8	+ 1.8	+ 2.0	− 1.7	− 0.5	+ 0.7
Hours worked per person employed[2]	− 7.0	+ 2.3	− 0.3	− 0.1	− 0.8	+ 0.4
Hourly productivity[3]	+ 2.3	− 0.5	+ 2.3	− 1.6	+ 0.3	+ 0.3
Manufacturing						
Gross value added, volume	− 7.3	+12.7	+ 4.1	− 2.6	− 2.0	+ 2.8
Employment[1]	− 1.0	+ 0.5	+ 1.3	+ 1.3	− 0.6	+ 0.5
Production per person employed	− 6.4	+12.2	+ 2.8	− 3.8	− 1.4	+ 2.3
Hours worked per person employed[2]	− 4.9	+ 4.3	− 0.7	− 0.3	− 1.5	± 0.0
Hourly productivity[3]	− 1.6	+ 7.5	+ 3.6	− 3.5	+ 0.1	+ 2.3

Source: WIFO, Statistics Austria. 2024 and 2025: forecast. – [1] Employees and self-employed, National Accounts definition (jobs). – [2] National Accounts definition. – [3] Production per hour worked, National Accounts definition.

4.2 Foreign demand picks up

Foreign demand for Austrian goods and services is expected to pick up again somewhat in 2024 as the international economy recovers. The largest contribution to growth in total exports will come from exports of goods, although travel will expand the most. However, the current environment is characterised by the fact that the positive economic stimulus from goods exports is not generating the same boost to manufacturing value added as in previous years. Already in 2023, a 0.7 percent expansion in goods exports was contrasted by a 2.6 percent decline in manufacturing value added. This opposing trend is likely to continue in 2024 (for more details, see the box "The decoupling of manufacturing value added from goods exports")[2].

Imports are expected to increase by 0.6 percent in 2024, driven by private consumption and exports. In purely arithmetical terms, this means that foreign trade will make a positive contribution to GDP growth. In 2025, however, it will turn negative as investments, which have a high import content, will recover.

The decoupling of manufacturing value added from goods exports

For almost two years, Austria has seen a decoupling of the development of goods exports (continued slight expansion compared to the previous quarter) from that of gross value added in manufacturing (significant recession). This may come as a surprise, as this channel was important for the transmission of global economic shocks to the Austrian economy. In the following, the decoupling visible in the data is first econometrically substantiated. Some possible explanations are then offered.

The following "TVC-ARIMAX" model[1] is estimated:

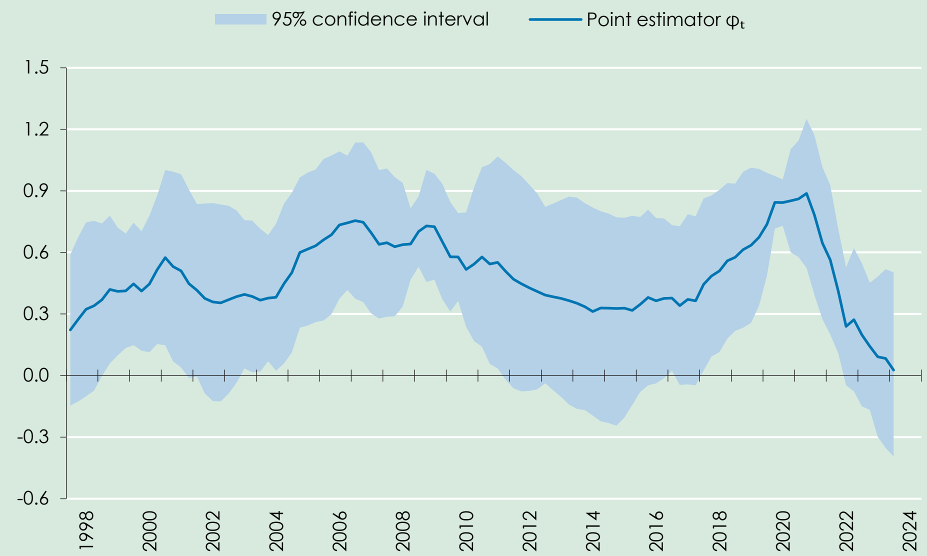
(1) $\xi(L)GVA_t = \zeta + \varphi_t GExp_{t-j} + \vartheta(L)u_t$, with $u_t \sim iid(0,\sigma^2)$

(2) $\varphi_t = \varphi_{t-1} + \eta_t$, with $\eta_t \sim iid(0,\varsigma^2)$,

whereby GVA_t and $GExp_t$ represent the previous year's changes in gross value added in manufacturing or exports of goods, and φ_t the strength of their correlation[2]. Figure 4 shows the development of the parameter φ_t over time together with a 95 percent confidence interval (based on $j = 0$). A positive, statistically significant and comparatively stable correlation can be seen for a long time. However, it collapses at the end. Not only does the correlation lose statistical significance, but the point estimate for φ_t falls to a meaningless level.

Figure 4: **Gross value added in manufacturing and exports of goods**

Relation between the respective rates of change over previous year



Source: WIFO calculations.

The question arises as to what is fuelling the growth in goods exports in the face of declining industrial production. One possible explanation is destocking. However, according to the WIFO-Konjunkturtest and the UniCredit Bank Austria Purchasing Managers' Index, inventories of finished goods were already largely depleted by mid-2022 and are therefore no longer a possible explanation.

Construction offers an alternative explanation. Construction investment has been declining for more than two years. The required intermediate products come primarily from the "intermediate goods" segment of manufacturing. Business surveys show a much worse situation for this segment across all sub-indicators than for the capital and consumer goods industry. Finally, the input-output tables show that the manufacturing is heavily dependent on the construction sector. Accordingly, a 1 percent fall in construction investment reduces gross value added by 0.1 percent in manufacturing. The slump in construction investment of just under 5 percent in 2023 thus leads to a contraction of 0.5 percent in industrial production. Accordingly, industries closely linked to construction, such as manufacture of wood and of products of wood and cork, except

[2] The authors of this section are Werner Hölzl, Michael Klien and Christian Glocker.

furniture; manufacture of articles of straw and plaiting materials (NACE 2008, division C16), manufacture of other non-metallic mineral products (C23) or manufacture of fabricated metal products, except machinery and equipment (C25), suffered the sharpest declines in production in 2023 (according to Statistics Austria's industrial production index). Although the impact channel via construction does not explain the full extent of the industrial recession with simultaneous expansion of goods exports, it does provide a partial explanation. This is all the more true as the energy price shocks of recent years have hit the energy-intensive construction supply industry particularly hard.

[1] TVC-ARIMAX: "Time-varying coefficient" and "autoregressive integrated moving average" model with exogenous variable (X). – [2] $\xi(L)$ and $\vartheta(L)$ are lag polynomial functions, ζ, σ, ς are constant parameters and φ_t is a time-varying parameter. It indicates the strength of the relationship between exports and manufacturing value added. Equation *(2) defines* the stochastic properties of the time-varying parameter φ_t. The model is estimated using quarterly data.

4.3 Domestic demand only slowly gaining momentum

Among the components of domestic demand, the significant decline in investment will continue to stand out in 2024. The reluctance to invest in machinery and equipment as well as in construction is a consequence of the ongoing recession in manufacturing and the noticeable decline in capital income, which the business situation indicators of the WIFO-Konjunkturtest have been pointing to for some time. The current WKO Economic Barometer from May 2024 confirms the reluctance of companies to invest. The share of companies planning new investments is at a low level compared to the long-term average. By contrast, investment in intangible assets should continue to expand in 2024.

Table 8: **Expenditure on GDP**

Volume (chain-linked series)

	2022	2023	2024	2025	2022	2023	2024	2025
	Billion € (reference year 2015)				Percentage changes from previous year			
Final consumption expenditure	269.00	268.54	270.88	274.99	+ 4.0	− 0.2	+ 0.9	+ 1.5
Households[1]	192.28	191.92	194.03	197.52	+ 5.7	− 0.2	+ 1.1	+ 1.8
General government	76.73	76.64	76.87	77.48	+ 0.0	− 0.1	+ 0.3	+ 0.8
Gross capital formation	98.08	92.09	89.48	91.57	− 0.7	− 6.1	− 2.8	+ 2.3
Gross fixed capital formation	93.02	91.84	89.62	91.52	+ 0.1	− 1.3	− 2.4	+ 2.1
Machinery and equipment[2]	29.78	29.51	28.03	28.59	− 0.4	− 0.9	− 5.0	+ 2.0
Construction	39.49	37.63	36.05	36.45	− 2.0	− 4.7	− 4.2	+ 1.1
Other investment[3]	23.90	25.14	26.15	27.19	+ 5.0	+ 5.2	+ 4.0	+ 4.0
Domestic demand	367.39	359.74	359.45	365.65	+ 2.9	− 2.1	− 0.1	+ 1.7
Exports	234.54	233.97	235.63	241.57	+ 11.2	− 0.2	+ 0.7	+ 2.5
Travel	13.11	14.38	14.61	14.92	+ 96.2	+ 9.7	+ 1.6	+ 2.1
Minus imports	221.75	216.60	217.90	224.31	+ 7.9	− 2.3	+ 0.6	+ 2.9
Travel	8.21	9.98	10.07	10.13	+ 57.0	+ 21.5	+ 1.0	+ 0.6
Gross domestic product	380.56	377.54	377.55	383.27	+ 4.8	− 0.8	+ 0.0	+ 1.5
Value	447.22	478.19	498.77	519.49	+ 10.4	+ 6.9	+ 4.3	+ 4.2

Source: WIFO, Statistics Austria. 2024 and 2025: forecast. – [1] Including non-profit institutions serving households. – [2] Including weapon systems. – [3] Mainly intellectual property products (research and development, computer programmes, copyrights).

Private consumption will only grow moderately in 2024 and more strongly in 2025. The consumption path is largely determined by the monetary policy stance and thus corresponds to the implications of an Euler equation. The high level of interest rates induces private households to save and thus to postpone consumption. A postponement of consumption into the future is also favoured by the high level of uncertainty, which encourages precautionary saving. This is reflected, among other things, in the high growth of savings deposits at domestic banks. Increased saving is likely to offset the stimulating effect of strong real wage growth on consumption, especially in 2024; the expansion in consumption in the current year is therefore primarily a result of the increase in employment. The rise in consumer spending projected for 2025 is due to the significant increase in employment, the continued easing of monetary policy and the (expected) decrease in uncertainty. The latter will dampen the propensity to save and thus allow a stronger expansion of private consumption.

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

	2020	2021	2022	2023	2024	2025
	Percentage changes from previous year					
Private consumption expenditure[1]	– 8.5	+ 4.2	+ 5.7	– 0.2	+ 1.1	+ 1.8
Durable goods	– 2.6	+ 3.7	– 0.3	– 5.5	± 0.0	+ 1.5
Non-durable goods and services	– 9.2	+ 4.3	+ 6.3	+ 0.4	+ 1.2	+ 1.8
Private household disposable income, volume	– 2.8	+ 1.8	+ 3.3	– 0.5	+ 2.8	+ 2.2
	As a percentage of disposable income					
Household saving ratio						
Including adjustment for the change in pension entitlements	13.2	11.2	9.2	9.0	10.4	10.7
Excluding adjustment for the change in pension entitlements	12.7	10.6	8.5	8.3	9.8	10.2
	Percentage changes from previous year					
Loans to domestic non-banks (end of period)	+ 3.7	+ 6.6	+ 5.0	+ 0.7	+ 2.5	+ 2.8
Consumer prices						
National	+ 1.4	+ 2.8	+ 8.6	+ 7.8	+ 3.4	+ 2.5
Harmonised	+ 1.4	+ 2.8	+ 8.6	+ 7.7	+ 3.4	+ 2.5
Core inflation[2]	+ 2.0	+ 2.3	+ 5.1	+ 7.3	+ 4.1	+ 2.6

Source: WIFO, OeNB, Statistics Austria. 2024 and 2025: forecast. – [1] Private households including non-profit institutions serving households. – [2] Excluding energy, food, alcohol and tobacco.

Table 10: **Earnings, international competitiveness**

	2020	2021	2022	2023	2024	2025
	Percentage changes from previous year					
Wages and salaries per employee[1]						
Nominal, gross	+ 2.2	+ 2.7	+ 4.7	+ 7.8	+ 7.8	+ 3.7
Real[2]						
Gross	+ 0.8	– 0.1	– 3.6	– 0.0	+ 4.2	+ 1.2
Net	+ 1.6	– 0.9	– 2.9	+ 0.8	+ 4.7	+ 1.3
Wages and salaries per hour worked[1]						
Real, net[2]	+ 9.5	– 3.9	– 2.6	+ 0.7	+ 5.5	+ 1.2
	Percent					
Wage share, adjusted[3]	62.9	62.5	62.1	63.3	66.3	66.9
	Percentage changes from previous year					
Unit labour costs, nominal[4]						
Total economy	+ 7.6	– 0.1	+ 2.5	+ 9.5	+ 8.2	+ 3.3
Manufacturing	+ 6.2	– 7.6	+ 2.2	+11.7	+10.2	+ 1.8
Effective exchange rate – manufactured goods[5]						
Nominal	+ 1.4	+ 0.6	– 1.5	+ 1.9	+ 1.0	+ 0.8
Real	+ 1.7	+ 0.2	– 1.8	+ 3.4	+ 1.2	+ 0.7

Source: WIFO, Statistics Austria. 2024 and 2025: forecast. – [1] National Accounts definition (jobs). – [2] Deflated by CPI. – [3] Compensation of employees relative to GDP at factor cost, adjusted for the share of employees in total employment (persons according to national accounts). – [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.

4.4 Strong real wage growth expected

The practice of basing nominal wage increases on price increases in the previous period enables strong real wage growth over the forecast period.

A slowdown in consumer price inflation and deflation in producer prices have been observed in Austria since spring 2023. According to the leading indicators for purchase and selling price expectations (according to the WIFO-Konjunkturtest and the UniCredit Bank Austria Purchasing Managers' Index), this is likely to continue. Only in the area of non-durable consumer goods are there increasing signs of a reverse trend. Nevertheless, WIFO expects significantly lower increases in all price measures in the forecast period than in 2022 and 2023. Inflation for domestically produced goods and services will slow noticeably in both forecast years to 4.3 percent (2024) and 2.6 percent (2025; 2023 +7.8 percent; according to the GDP deflator). Assuming that there will be no further shocks to the relative terms of trade over the forecast period, consumer price developments are expected to track the GDP deflator more closely again. According to the CPI, inflation should be around 3.4 percent in 2024, easing further to 2.5 percent in the following year. In addition to moderate price increases for food and industrial goods, price developments in services should also contribute to this.

From a macroeconomic perspective, the negative output gap in particular, which in itself reflects a pronounced underutilisation of capacity, is likely to make an important contribution to the further slowdown in inflation. However, this will be countered by cost increases as a result of the recent high nominal wage growth. Wage increases will exceed the actual rate of inflation in both forecast years, resulting in strong real wage growth (2024 +4.2 percent, 2025 +1.2 percent; gross).

4.5 Further employment growth with rising unemployment

The labour supply will continue to increase throughout the forecast period despite the economic slowdown. Several factors are responsible for this: the rise in the employment rate of older workers, partly due to past pension reforms[3], will increase the domestic labour supply. At the same time, a further increase in the supply of foreign labour is expected, especially from EU countries, but also from Ukraine.

The economic downturn is dampening employment growth. As the labour supply continues to grow, unemployment will rise in 2024.

Table 11: **Labour market**

	2020	2021	2022	2023	2024	2025
	Change from previous year in 1,000					
Demand for labour						
Persons in active employment[1]	– 76.6	+ 96.9	+ 116.2	+ 47.2	+ 15.0	+ 39.0
Employees[1]	– 76.1	+ 90.4	+ 110.2	+ 44.8	+ 14.0	+ 35.0
National employees	– 53.9	+ 28.1	+ 22.9	– 9.0	– 13.0	– 7.0
Foreign employees	– 22.2	+ 62.4	+ 87.4	+ 53.8	+ 27.0	+ 42.0
Self-employed[2]	– 0.5	+ 6.5	+ 6.0	+ 2.4	+ 1.0	+ 4.0
Labour supply						
Population of working age						
15 to 64 years	+ 9.9	+ 5.4	+ 48.6	+ 36.9	– 0.2	– 18.2
Labour force[3]	+ 31.7	+ 19.0	+ 47.6	+ 54.9	+ 36.0	+ 34.0
Labour surplus						
Unemployed	+ 108.3	– 77.9	– 68.6	+ 7.7	+ 21.0	– 5.0
Unemployed persons in training	– 4.9	+ 13.2	– 0.8	+ 1.0	+ 4.0	– 3.0
	Percent					
Unemployment rate						
As a percentage of total labour force (Eurostat)[4]	6.0	6.2	4.8	5.1	5.2	5.1
As a percentage of total labour force	8.9	7.2	5.6	5.7	6.1	6.0
As a percentage of dependent labour force	9.9	8.0	6.3	6.4	6.9	6.7
	Percentage changes from previous year					
Labour force[3]	+ 0.7	+ 0.4	+ 1.0	+ 1.2	+ 0.8	+ 0.7
Persons in active dependent employment[1]	– 2.0	+ 2.5	+ 3.0	+ 1.2	+ 0.4	+ 0.9
Unemployed	+ 35.9	– 19.0	– 20.7	+ 2.9	+ 7.8	– 1.7
Persons (in 1,000)	409.6	331.7	263.1	270.8	291.8	286.8

Source: WIFO, Eurostat, Federation of Social Insurances, Public Employment Service Austria, Statistics Austria. 2024 and 2025: forecast. – [1] Excluding persons in valid employment contract receiving child care benefit or being in military service. – [2] According to WIFO, including liberal professions and unpaid family workers. According to the Federation of Social Insurances. – [3] Persons in active employment plus unemployed. – [4] Labour Force Survey.

In 2024, the total number of persons in active dependent employment will be 0.4 percent higher than in the previous year; in 2025, the increase will be somewhat stronger at +0.9 percent (2023 +1.2 percent). The increase in employment in 2024 will not be sufficient to reduce unemployment, given the expansion in labour supply. According to national calculations, the unemployment rate was 6.4 percent in 2023. It is expected to rise to 6.9 percent in 2024, a rate of 6.7 percent is forecast for 2025.

[3] The employment rate will rise slightly, mainly as a result of the gradual increase in the statutory retirement age for women, starting in 2024. The continued rise in female labour force participation and the entry of better educated cohorts (higher education is on average associated with higher labour force participation) will also have a lifting effect.

4.6 Sustainable development indicators

The economic downturn is having a noticeable impact on the sustainable development indicators. The at-risk-of-poverty rate already rose significantly in 2023, will increase again in 2024 and stagnate in 2025. In addition, many income-supporting measures (including one-off payments for pensioners, cost-of-living allowances, housing and heating subsidies) will expire in 2024. The share of targeted instruments in the total volume of measures taken in the context of the eco-social tax reform and the inflation and energy crisis will also decrease significantly in 2024 compared to the previous year. At the same time, the climate bonus, the compensation of fiscal drag and the reduction in pay scales, which benefit broad income groups, gain in importance. The latter partly increase income inequality.

Greenhouse gas emissions are expected to fall in 2024 due to the weak economy, as value added declines particularly in energy-intensive sectors. Heating energy demand is likely to remain at the previous year's level due to the mild start to the year, even with an average winter in 2024-25. In 2025, two opposing trends will lead to stagnating emissions. On the one hand, demand for energy will increase due to the more favourable economic situation. On the other hand, the ongoing decarbonisation of the energy system will lead to a further decline in emissions.

5. The risk environment

The forecast presented here describes the most likely scenario for economic development from today's perspective under the assumptions made. A number of factors could cause actual developments to diverge.

Downside risks remain related to geopolitical tensions and uncertainties. In particular, the intensification of existing military conflicts could affect the supply of energy commodities in the global market and supply chains. This could result in higher import prices for energy and other goods, which would lead to a further significant price increases in Austria and have a negative impact on the economy. An escalation of trade conflicts or an acceleration of geopolitical fragmentation would have similar effects. A further, unexpectedly sharp rise in energy prices and incomes poses a risk to weakening inflation and international competitiveness. On the other hand, profit margins may prove to be more persistent and thus keep price pressures high for longer.

However, there are also upside risks. In the short term in particular, there could be a stronger revival in private consumption and corporate investment. Private consumption could rise faster than expected if cautionary motives lose importance more quickly. If business sentiment brightens much earlier than expected, corporate investment would also recover more quickly. All in all, these factors would be supportive of capacity utilisation in the economy. Especially, if domestic demand picks up more strongly, inflationary pressures would remain more persistent than assumed.