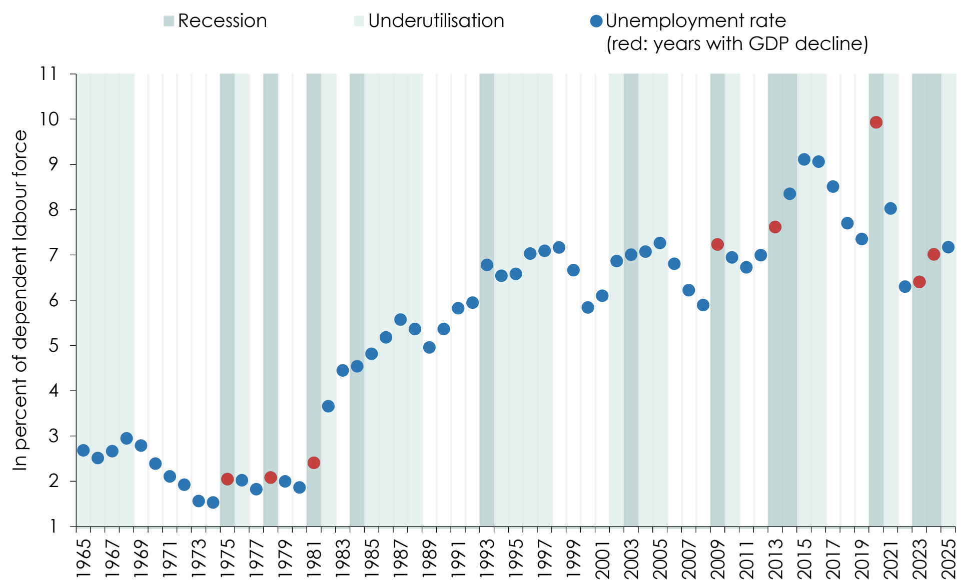
Recession in Austria Persists Stubbornly

Economic Outlook for 2024 and 2025

Austria's economy will remain in recession in 2024, with real GDP expected to fall by 0.6 percent. In 2025, WIFO expects an economic impulse from abroad. While investment in machinery and equipment will shrink over the entire forecast period, construction investment will benefit from the construction stimulus package in the coming year. Inflation will fall, real incomes will rise, and consumer demand will pick up, meaning that GDP will grow by 1 percent in 2025. However, unemployment will continue to rise. The public budget deficit is increasingly moving away from the Maastricht targets.

"The current recession has lasted for two calendar years, which is an unusually long time," says Stefan Schiman-Vukan, one of the authors of the current WIFO Economic Outlook.

Figure 1: **Recessions in Austria**



Underutilisation occurs when economic output falls below its potential. A recession results when output falls particularly rapidly below its potential. During such periods, the unemployment rate tends to rise (Source: Statistics Austria, Public employment service Austria, WIFO).

The Austrian economy remains in recession. After –1 percent in the previous year, real GDP will shrink by 0.6 percent in 2024. Like Germany, Austria is suffering from the investment slump and weak demand for capital goods and machinery. Exports of goods to Germany fell significantly in the current year. However, the weakness in exports has been protracted, and with interest rates falling, an improvement in financing conditions is in sight. In 2025, foreign demand should pick up somewhat and provide an impulse to the Austrian economy, which will also revive private consumer demand.

Table 1: **Main results**

	2020	2021	2022	2023	2024	2025
	Percentage changes from previous year					
Gross domestic product, volume	− 6.3	+ 4.8	+ 5.3	− 1.0	− 0.6	+ 1.0
Manufacturing	− 7.5	+10.9	+ 6.7	− 1.8	− 4.1	+ 0.6
Wholesale and retail trade	− 2.9	+ 4.5	+ 0.7	− 5.7	− 1.7	+ 1.2
Private consumption expenditure[1], volume	− 7.6	+ 4.8	+ 4.9	− 0.5	+ 0.1	+ 1.2
Consumer durables[2]	− 1.6	+ 6.4	− 4.5	− 5.4	+ 1.0	+ 2.0
Gross fixed capital formation, volume	− 5.3	+ 6.0	+ 0.4	− 3.2	− 2.8	+ 0.2
Machinery and equipment[3]	− 6.9	+ 7.7	+ 1.9	+ 2.4	− 1.5	− 0.6
Construction	− 3.5	+ 4.1	− 1.3	− 9.3	− 4.4	+ 1.1
Exports, volume	−10.5	+ 9.5	+10.0	− 0.4	− 2.3	+ 2.4
Exports of goods, fob	− 7.6	+12.4	+ 6.0	− 0.4	− 3.5	+ 2.3
Imports, volume	− 9.6	+14.1	+ 7.1	− 4.6	− 1.9	+ 2.2
Imports of goods, fob	− 6.6	+14.8	+ 3.0	− 7.4	− 4.0	+ 2.3
Gross domestic product, value	− 3.9	+ 6.8	+10.3	+ 5.6	+ 3.7	+ 3.1
billion €	380.32	406.23	448.01	473.23	490.73	506.04
Current account balance as a percentage of GDP	3.4	1.7	− 0.9	1.3	1.6	1.7
Consumer prices	+ 1.4	+ 2.8	+ 8.6	+ 7.8	+ 3.1	+ 2.2
GDP deflator	+ 2.6	+ 1.9	+ 4.8	+ 6.6	+ 4.3	+ 2.1
General government net lending, Maastricht definition as a percentage of GDP	− 8.2	− 5.7	− 3.3	− 2.6	− 3.7	− 4.0
Persons in active dependent employment[4]	− 2.0	+ 2.5	+ 3.0	+ 1.2	+ 0.2	+ 0.7
Unemployment rate[5]	9.9	8.0	6.3	6.4	7.0	7.2
Command-basis GDP per capita[6]	− 6.3	+ 3.8	+ 1.1	− 1.9	− 0.5	+ 0.7
At-risk-of-poverty rate[7] percent	14.7	14.8	14.9	15.4	15.7	15.6
Income quintile share ratio[8] ratio	4.0	4.3	4.3	4.4	4.5	4.5
Greenhouse gas emissions[9]	− 7.6	+ 4.9	− 6.0	− 6.4	− 3.6	− 1.0
Million t CO_2 equivalents	73.91	77.53	72.84	68.15	65.68	65.04

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] WIFO calculation based on the shares of consumer durables according to the domestic concept. – [3] Including weapons systems and other investment. – [4] Excluding persons in valid employment contract receiving child care benefit or being in military service. – [5] As a percentage of dependent labour force, national definition. – [6] Nominal GDP deflated by the implicit price index of domestic demand. – [7] 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. – [8] 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. – [9] 2023: estimate according to Environmental Agency Austria. From 2024: forecast.

However, overall economic activity will initially only grow by a modest 1 percent. Investment in machinery and equipment will continue to shrink in 2025, not least because companies' profits have deteriorated due to the recession and increases in wages and commodity prices. The unemployment rate will continue to rise in 2025 as a result of the recession. The budget deficit is increasingly moving away from a sustainable path, and not only because of the economic situation.

A key assumption of this forecast is that foreign demand will pick up again in 2025, particularly from Germany. However, if demand for capital goods remains as weak as it currently is, Austria could enter a third year of recession. In this case, unemployment would rise more sharply than expected and private households' propensity to consume would remain subdued. Another risk to the euro area economy is that of too rapid fiscal consolidation, when European fiscal rules come into effect.

Conversely, there are also positive aspects and upside risks: for example, gas supplies appear to be secure even if Russian natural gas stops flowing to Austria from 2025. Consumption could be stronger than expected if the financial situation of private households improves to such an extent that they start spending more again. In addition, targeted investment support from the public sector could stimulate replacement investments in more environmentally friendly production methods and thus trigger positive multiplier effects.

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For further information, please contact on Friday, 4 October 2024, from 1 p.m. to 3 p.m.,
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For definitions, see "Methodological notes and brief glossary", https://www.wifo.ac.at/wp-content/uploads/2024/01/WIFO-BusinessCycleInformation-Glossary.pdf