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Economic Assessments of Austrian Companies in the Second Wave of the COVID-19 Pandemic. Results of the WIFO-Konjunkturtest Quarterly Survey of January 2021

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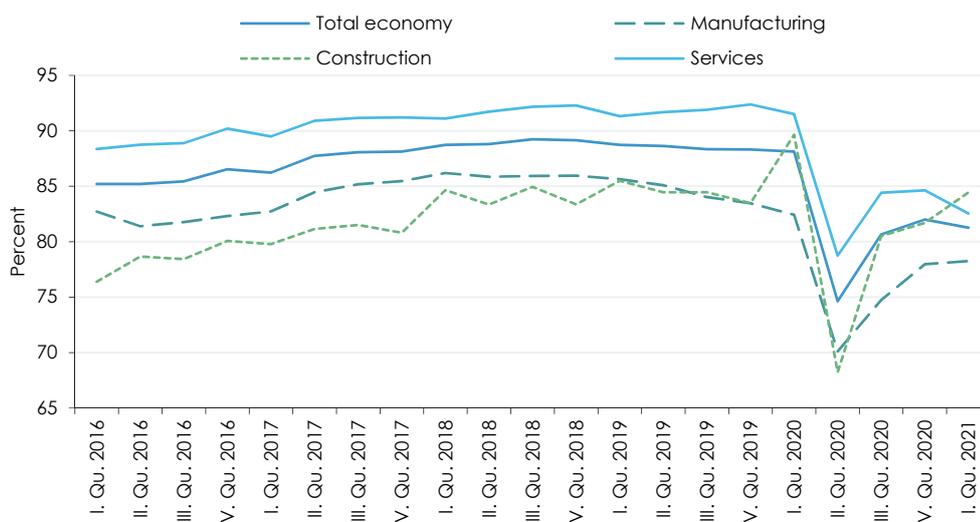
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- Most of the companies that participated in the survey were still sceptical about the economic situation in January 2021, especially in sectors whose business activity was directly restricted by policy measures to fight the pandemic.
- Only in the construction industry the economic indices were at pre-crisis levels, while in the other sectors they remained below-average.
- Firms' expectations hint at a very sluggish recovery of the business climate, the WIFO-Konjunkturampel (economic traffic light) – an early indicator for turning points – pointed to yellow.
- Firms' uncertainty remained above average in all sectors.
- Since the quarterly survey in October 2020 the utilisation level deteriorated in the service sector, while stagnating in manufacturing and rising in construction.
- Companies named "insufficient demand" followed by "other obstacles" as the most important obstacles to their business activities.

Capacity utilisation by sectors



"While capacity utilisation in construction rose to an above-average 84.4 percent, it remained weak in manufacturing at 78.3 percent. In the service sector it fell to 82.5 percent, the second lowest rate of capacity utilisation ever recorded."

The sectoral development of the degree of utilisation of production capacities has been heterogeneous since the COVID-19 shock in spring 2020 (Source: WIFO-Konjunkturtest).

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The economic assessments by Austrian companies in the last quarter were determined by the second wave of the COVID-19 pandemic. Only in the construction industry were the economic indices in the January survey in positive territory. The WIFO-Konjunkturampel (economic traffic light) confirms this picture, showing yellow, indicating an interruption of the recovery process from summer and autumn. Accordingly, uncertainty remains high in all sectors. Capacity utilisation improved differently between sectors, but remained at low levels with the exception of the construction sector. Companies named "insufficient demand" as the most important obstacle to their activity, followed by "other obstacles".

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The results of the WIFO-Konjunkturtest (business cycle survey)¹ show a deterioration in January 2021 compared to the survey results from autumn 2020. Compared to October, the WIFO Business Climate Index fell by 1.7 points to -11.3 points (Table 1). Thus, the index was around 20 points below the value in January 2020. Compared to October 2020, the decline of the index was mainly determined by the drop of the index of the current business assessments (-4.5 points); this indicator continued to be at a below-average level of -13.9 points reflecting the sceptical mood of the enterprises because

of the second COVID-19 wave. With -8.8 points in January, the index of business expectations was slightly above the value of October 2020 (+1.1 points). As a result of the extension of the official restrictions to contain the infection, the majority of Austrian companies expect little economic momentum for the coming months.

There are clear differences between the sectors: in manufacturing, the WIFO Business Climate Index rose by 2.9 points compared to the previous quarter, but at -7.9 points the index was still below the index value of 0

¹ The WIFO-Konjunkturtest (business cycle survey) is a monthly survey of Austrian companies on their current economic situation and the development in the coming months. Once a quarter, the questionnaire of the WIFO-Konjunkturtest (business cycle survey) is extended by additional questions ("quarterly questions"), which provide relevant information on the business cycle but are not included in the monthly indices of the WIFO-Konjunkturtest (business cycle survey). The current results of the WIFO-Konjunkturtest (business cycle survey) are available on the WIFO website (https://www.wifo.ac.at/en/research_priorities/wifo-konjunkturtest/publications) and on the Business Cycle

Analyses topic page at WIFO (https://www.wifo.ac.at/en/topics/business_cycle or <https://www.konjunkturtest.at>). Hölzl – Schwarz (2014) provide an overview of the WIFO-Konjunkturtest (business cycle survey). Detailed results on the subsectors of manufacturing and services can be downloaded as a graphical appendix (in German) from the project homepage (https://www.wifo.ac.at/en/research_priorities/wifo-konjunkturtest/publications).

that separates positive from negative assessments². Compared to October the index of the current business situation (8.1 points) improved by 2.1 points in January 2021. The

index of business expectations grew more strongly by +3.7 points and reached -7.8 points in January.

Figure 1: WIFO Business Climate Indices



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

Table 1: Indices of the WIFO-Konjunkturtest (business cycle survey)

	January	April	July	2020			2021	
	January	April	July	October	November	December	January	January
	Index points							
Total economy								
WIFO Business Climate Index	10.1	- 32.3	- 15.2	- 9.6	- 15.0	- 11.0	- 11.3	- 1.7
Index of current business situation	11.2	- 28.5	- 22.7	- 9.3	- 13.1	- 13.7	- 13.9	- 4.5
Index of business expectations	9.0	- 36.1	- 7.6	- 9.9	- 16.8	- 8.2	- 8.8	+ 1.1
Manufacturing								
WIFO Business Climate Index	- 1.7	- 32.9	- 19.1	- 10.8	- 14.5	- 6.5	- 7.9	+ 2.9
Index of current business situation	- 2.7	- 23.7	- 25.8	- 10.2	- 11.6	- 7.9	- 8.1	+ 2.1
Index of business expectations	- 0.7	- 42.1	- 12.5	- 11.4	- 17.3	- 5.0	- 7.8	+ 3.7
Construction industry								
WIFO Business Climate Index	23.7	- 10.5	3.3	8.1	4.8	12.7	11.1	+ 3.1
Index of current business situation	35.4	- 11.6	4.1	9.3	7.3	17.7	18.2	+ 9.0
Index of business expectations	12.0	- 9.2	2.5	6.8	2.4	7.7	4.1	- 2.8
Service sector								
WIFO Business Climate Index	15.1	- 36.2	- 16.3	- 12.4	- 19.3	- 18.6	- 18.1	- 5.6
Index of current business situation	15.5	- 34.8	- 26.0	- 12.5	- 18.3	- 23.8	- 24.0	- 11.5
Index of business expectations	14.7	- 37.5	- 6.5	- 12.4	- 20.3	- 13.4	- 12.1	+ 0.2

Source: WIFO-Konjunkturtest (business cycle survey).

² The increase was mainly concentrated in the intermediate goods and capital goods sectors, while the

index fell significantly in the consumer goods sectors, which are particularly restricted by the authorities.

The deterioration in the economic outlook is mainly due to the service sectors, which are heavily affected by regulatory restrictions. In the manufacturing and construction industries, on the other hand, the assessments improved slightly.

The slump in the construction industry due to the COVID-19 pandemic was less pronounced than in other economic sectors. The WIFO Business Climate Index has improved by 3.1 points since October and was clearly positive at 11.1 points; while the index of the current business situation in the construction industry grew strongly (+9.0 points), the index of business expectations declined by 2.8 points. Both sub-indices remained positive, though.

In the service sector, which was particularly affected by restrictive policy measures to contain the pandemic, the WIFO Business Climate Index fell by 5.6 points compared to the previous quarter and was clearly

negative at -18.1 points³. Service sector companies were much more sceptical about the current situation than in the previous quarter (-11.5 points), the corresponding index fell to -24.0 points. Business expectations remained almost unchanged (+0.2 points compared to the previous quarter) at a very low value of -12.0 points mirroring the persistent pessimistic mood among Austrian service firms.

Long-term comparisons of the WIFO Business Climate Indices (Figure 1) reveal the historical dimension of the decline induced by the COVID-19 pandemic and the heterogeneous effects between sectors.

Indices of the WIFO-Konjunkturtest

The indices of the WIFO-Konjunkturtest (business cycle survey) are calculated monthly at the sector level for manufacturing, construction and services. Based on these sector indices, the "macroeconomic indices" are calculated by weighting them with the gross value added of the respective sector. The WIFO Business Climate Index aggregates two sub-indices that are reported separately:

- The index of current business situation is based on the monthly survey asking firms to assess their current economic situation as well as the development for the last three months. It is designed as a concurrent index which, due to its early availability (about two months before the current data of the official statistics), is ahead of the official short-term statistics.
- The Index of business expectations summarises the monthly questions that refer to the expected economic development in the three upcoming months. Thus, it is designed as a leading indicator.

Details on the indices are provided by *Hölzl – Schwarz (2014)* or *Hölzl – Klien – Kügler (2019)*.

1. WIFO-Konjunkturampel (economic traffic light) jumps to yellow – pessimistic assessments still predominate

Using a Markov regime switching model, the probability with which the current values of the indicators of the WIFO-Konjunkturtest (business cycle survey) correspond to an improvement or deterioration of the business cycle estimates compared to the previous period is calculated in the WIFO-Konjunkturampel (economic traffic light) model (*Glocker – Hölzl, 2015*)⁴. The determined probability can fall into one of three categories, which are collectively referred to as the "WIFO-Konjunkturampel":

- In the "green area" (improvement), the probability is over two-thirds that the change in the current index values compared to the previous results reflects an improvement in economic assessments.
- In the "red area" (deterioration), the probability is less than one third that the current index value represents an improvement compared to the previous reference point.

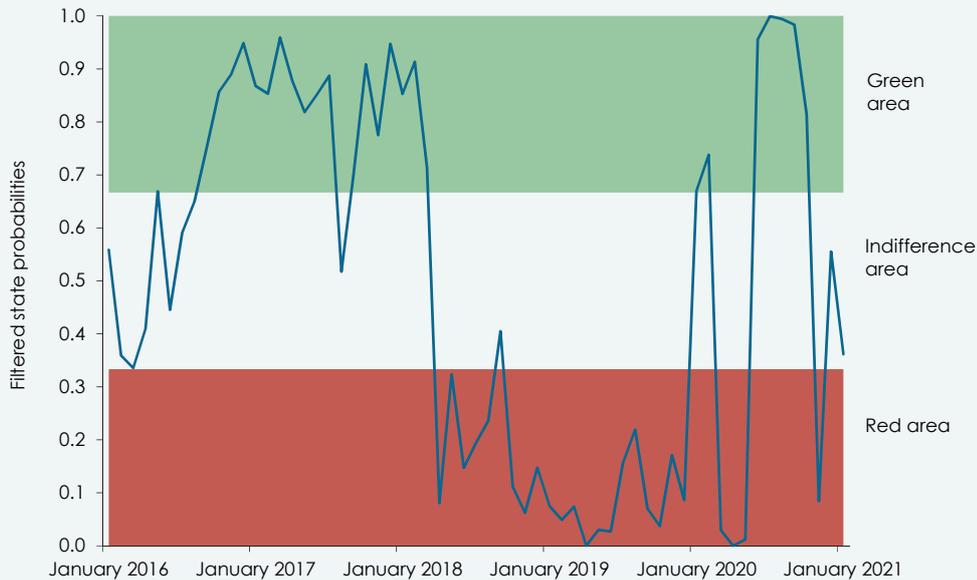
- Between the "green" and the "red" area lies the indifference area. In this case, the development of the economic assessments cannot be clearly assigned.

The probability of being in an improvement regime was estimated by the model at 0.36 in January 2021. During April and May 2020 the traffic light jumped to red. The catch-up process in summer and autumn last year resulted in a green traffic light, only to switch to red again reflecting the second COVID-19 wave in November. In December and January, the traffic light displayed yellow (Figure 2). This development shows the tense economic situation that companies face since the second wave of the COVID-19 pandemic. According to the index values, this is especially true for the services sectors.

³ As the detailed results by sector show, the WIFO Business Climate Index fell particularly sharply in accommodation and catering, transport and other services.

⁴ 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 ($p = 1 - q$).

Figure 2: 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 of business assessments" ("green area") and "deterioration of business assessments" ("red area"). In the indifference area, the development of the assessments cannot be clearly classified.

2. Uncertainty remains above average

Since the 1980s, the WIFO-Konjunkturtest (business cycle survey) has surveyed companies' assessment of the uncertainty of the future business situation, which has an influence on companies' investment and employment decisions (Glocker – Hölzl, 2019).

The indicator of economic uncertainty (about the future business situation) has a value domain from 0 (no uncertainty) to 100 (highest uncertainty; Figure 3). Looking at the total economy, the indicator rose by 1.2 points to 56.2 points in January 2021 (first quarter). Even though the indicator was 9.0 points below the peak value of April 2020, this was still 17.2 points higher than in the first quarter of 2020 and well above the values of previous years (Figure 3).

In April 2020 the COVID-19 shock accelerated uncertainty in all sectors, however, since last summer heterogeneous sectoral development has been observed (Figure 3): uncertainty increased again in the service sector, while it declined steadily in the construction industry and stagnated at a high level in manufacturing. In January, it was highest among service providers. This includes companies in the catering, tourism and events industries – sectors that were hit comparatively hard by the COVID-19 crisis. In manufacturing, uncertainty stagnated compared to the previous quarter, and in construction it decreased. In all sectors, firms continued to report higher uncertainty than before the COVID-19 crisis. With the crisis-related increase in uncertainty, investment demand also flattened out (Friesenbichler – Hölzl, 2021).

Economic uncertainty remains high.

3. Capacity utilisation and order books remain below average

3.1 Capacity utilisation lower than in October

Especially in sectors with high capital intensity, high adjustment costs and long adjustment periods, capacity utilisation is an important business cycle indicator. Therefore, respective questions are part of the WIFO-Konjunkturtest (business cycle survey) for all sectors (Hölzl – Klien – Kügler, 2019). Overall capacity utilisation fell compared to October by 0.7 percentage points to

81.3 percent. The decline is mainly driven by the development in the service sector, especially by the extensive cancellation of the winter season in tourism.

Most service providers have low capacity adjustment costs (investment costs). Important exceptions are tourism, catering and transport. Therefore, after the drop in demand in April 2020, capacity utilisation in many service sectors improved rather quickly. In January 2021, however, another

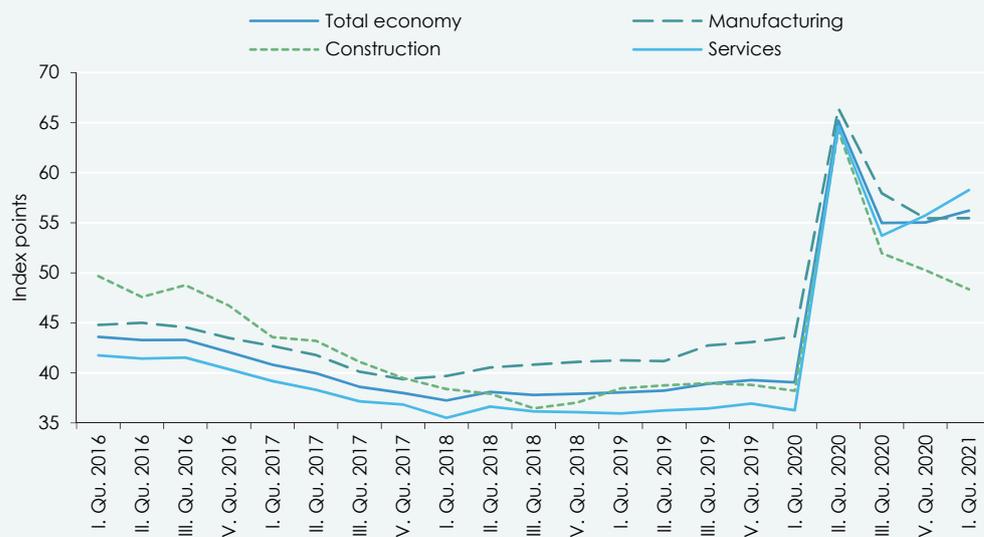
Compared to October, capacity utilisation declined in the service sector. It improved in construction and remained low in manufacturing.

decline in the degree of utilisation in the service sector is observed (-2.1 percentage points compared to October). For the first time since this indicator is collected the capacity utilisation of the service sector (82.5 percent) was not the highest of all sectors. With 84.4 percent the highest value was

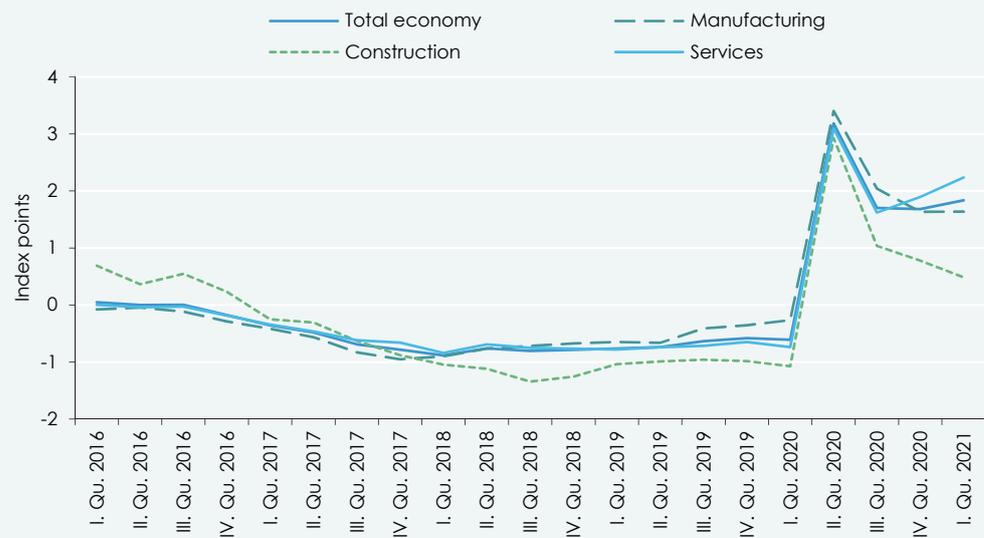
recorded in construction (+2.8 percentage points compared to October); its utilisation rate has largely returned to normal. In contrast, capacity utilisation in manufacturing remains below average at 78.3 percent despite an increase of 0.3 percentage points since October.

Figure 3: **Aggregate and sectoral economic uncertainty indicators**

Indicator values



Standardised time series



Source: WIFO-Konjunkturtest (business cycle survey), seasonally adjusted. 0 . . . no uncertainty, 100 . . . highest uncertainty. Standardised representation: normalisation of all indicators to a mean of 0 and a standard deviation of 1. This facilitates the comparison of the uncertainty indicator across sectors.

3.2 Assured production stagnated in manufacturing and improved slightly in construction

The assured production by the current overall order books – measured in months – is surveyed in the framework of the quarterly survey of the WIFO-Konjunkturtest (business cycle survey) in manufacturing and in the

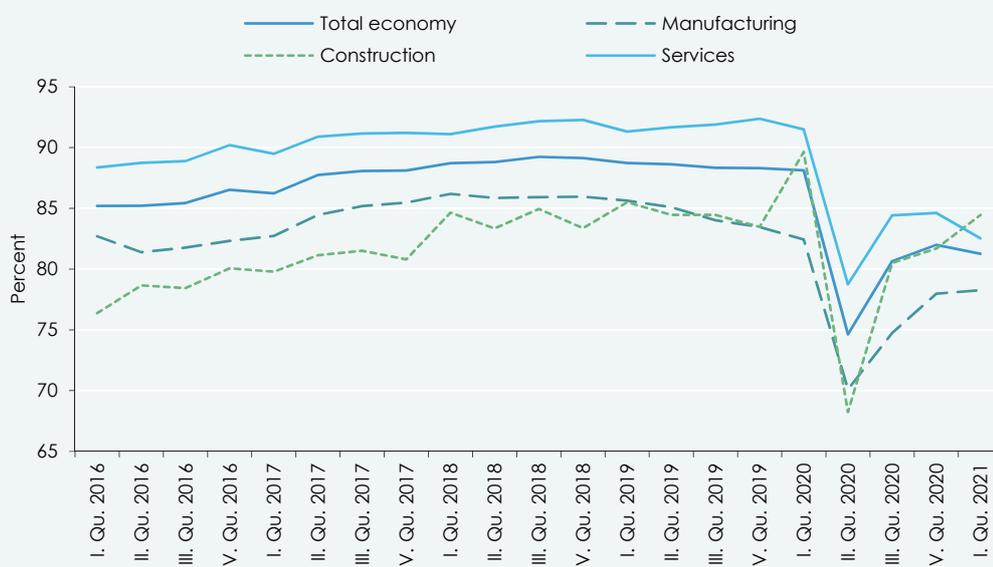
construction industry (Figure 4). In January, it stabilised at a low level in manufacturing; in construction it increased slightly compared to the previous quarter.

In the construction industry, companies reported that their production activity is assured for the next 5.1 months (+0.2 months compared to October 2020). Thus, they

were able to compensate for most of the order shortfall. In manufacturing, new orders continued to develop below average.

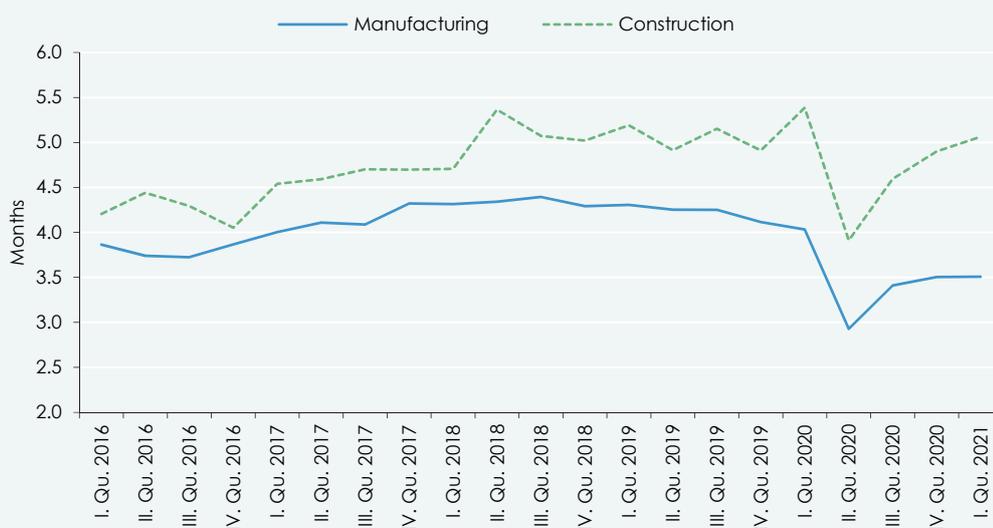
Assured production remained unchanged at 3.5 months.

Figure 4: Capacity utilisation by sectors



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

Figure 5: Assured average production in manufacturing and construction



Source: WIFO-Konjunkturtest (business cycle survey).

3.3 Assessments of new orders and expected export orders in manufacturing deteriorated slightly

In manufacturing, firms are asked once in a quarter to provide an assessment of overall orders in the past three months and of expected export orders in the next three months. These assessments are aggregated into balances between the share of positive and the share of negative answers. Figure 5

shows that in January the assessment of orders in the past three months declined slightly compared to the previous quarter. The development of export order expectations was also slightly unfavourable: the share of pessimistic voices expecting a decline in export orders in the next months rose slightly in January. The negative reports outweighed the positive ones by 11.6 percentage points.

In manufacturing, new orders decline slightly. Export orders expectations also deteriorated.

Figure 6: **Development of overall orders and of expected export orders in manufacturing**



Source: WIFO-Konjunkturtest (business cycle survey).

4. Insufficient demand remains the most frequently reported obstacle to business activity

In the WIFO-Konjunkturtest (business cycle survey), obstacles to firms' business activities are also surveyed on a quarterly basis. The surveyed companies have the option to report no obstacle to their economic activities or to choose the most important obstacle from a predefined list:

- insufficient demand (services and manufacturing) or lack of orders (construction),
- shortage of labour force,
- shortage of space or capacity (services) or shortage of material and/or equipment (manufacturing and construction),
- financial constraints and
- other factors – in addition to the weather impact (construction), this category mainly reflects the impact of the COVID-19 crisis and the health policy measures to contain it.

Firms located in construction industries can report "unfavourable weather" as a separate, stand-alone obstacle⁵.

In January 2021, only about 53 percent of firms in manufacturing (-2 percentage points compared to October), about 46 percent of construction firms (+3 percentage points) and about 31 percent of firms in

services (-4 percentage points) reported that their activities were unaffected.

In manufacturing, "insufficient demand" was the most frequently reported obstacle (around 26 percent of all companies), ahead of "shortage of labour force" (around 8 percent). 7 percent of manufacturing firms reported a "shortage of material and/or equipment", 4.6 percent "other obstacles" and around 1 percent "financial constraints" (Figure 7). Compared to the October survey the share of companies facing an "insufficient demand" decreased slightly; the share of enterprises with a "shortage of labour force" increased somewhat; the share of enterprises with a "shortage of material and/or equipment" grew strongly.

In the construction industry about 25 percent of all companies reported a "shortage of labour force" as the most important obstacle to construction activity in January, ahead of an "insufficient demand" (about 10 percent), "unfavourable weather" (8.3 percent) and "other obstacles" (8.6 percent).

In the service sectors, "insufficient demand" (37 percent of firms) and "other obstacles" (21 percent) emerged as the main constraints on business activity. "Other obstacles"

Also in January 2021, "insufficient demand" was the most important obstacle to business activity, ahead of "other obstacles" and "shortage of labour force".

⁵ In the calculation of macroeconomic barriers, "adverse weather" is classified under "other barriers".

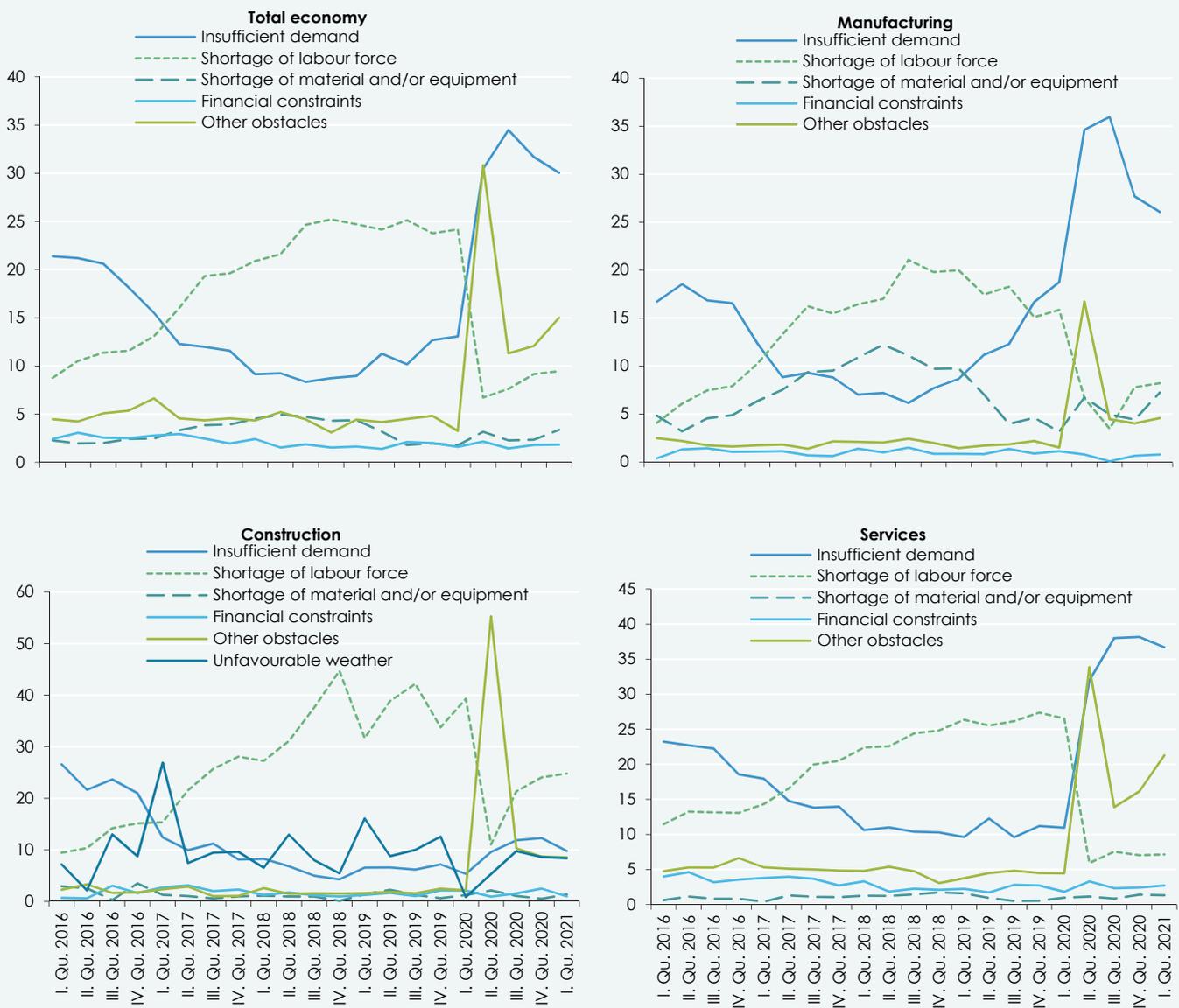
gained significantly of importance since October (+5 percentage points), also reflecting the impact of more restrictive policy measures to contain the COVID-19 pandemic.

The aggregate indicator for the total economy again shows a slight decline in the

factor "insufficient demand" to around 30 percent of companies in January. "Other obstacles" became more important as well and were the most relevant obstacle for 15 percent of companies in January. For about 9.5 percent of companies it was the "shortage of labour force", for 3.4 percent a "shortage of material and/or equipment".

Figure 7: **Factors limiting economic activity**

Percentage shares of all reports



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

5. Summary

In January, the indices of the WIFO-Konjunkturtest (business cycle survey) indicated a persistently tense economic situation. As a result of the second COVID-19 wave, firms' assessments of the current economic situation became more pessimistic. Especially in the service sector, but also in manu-

facturing, companies expect a difficult economic development in the upcoming months. Economic uncertainty remains high in all sectors and has recently increased slightly, only in construction uncertainty has it been declining continuously since April. Capacity utilisation deteriorated slightly in

January. The decline is mainly due to the deterioration of the utilisation rate in the service sector which has been particularly affected by restrictive policy measures to contain the pandemic. In all sectors but construction, capacity utilisation remained consistently below the long-term average. Since October, new orders in manufacturing have declined slightly and companies remained

sceptical about their export orders. Assured production increased slightly in construction and stagnated in manufacturing. Many companies reported obstacles to their economic activity, particularly due to insufficient demand, but also due to other obstacles, which include the impact of the policy measures to fight the COVID-19 pandemic.

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