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**Delayed Recovery in Case of Renewed
Lockdown.** Economic Outlook for 2021
and 2022

Stefan Ederer

Delayed Recovery in Case of Renewed Lockdown

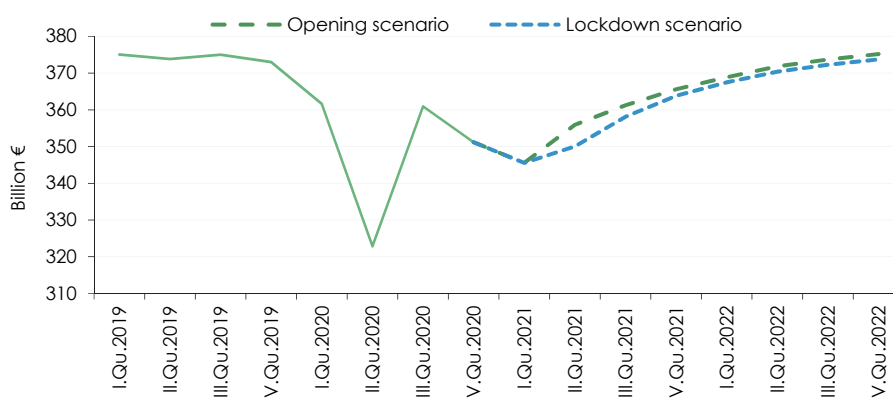
Economic Outlook for 2021 and 2022

Stefan Ederer

- To account for the uncertainty about the regulatory environment for the economy, the forecast outlines two scenarios.
- The opening scenario assumes the lifting of the current regulatory measures in spring.
- The lockdown scenario assumes a renewed closure of retail and personal services in April.
- GDP grows by 2.3 percent in the first scenario in 2021 and by 4.3 percent in 2022. In the second scenario, it grows by 1.5 percent and 4.7 percent, respectively.
- Foreign trade in goods, industry and construction are hardly affected by the domestic COVID-19 measures.
- Private consumption and travel will remain below pre-crisis levels in 2022.
- On the labour market, the crisis leaves its mark in the longer term, unemployment remains high.
- Inflation is not accelerating.
- The fiscal balance is gradually improving as the burdens of the crisis diminish.

GDP development in both scenarios

GDP volume, seasonally and working day adjusted according to Eurostat, annualised



"The further course of economic activity depends to a large extent on the COVID-19 measures taken by the authorities. A new lockdown in April would dampen growth in 2021 by almost 1 percentage point. In 2022, the recovery would be stronger."

A new lockdown in April ("lockdown scenario") would result in a noticeable delay in the economic recovery. Growth in 2021 would be lower in this case, but higher in 2022. In both scenarios, GDP would only reach the level of 2019 at the end of the forecast period (source: WIFO, Statistics Austria. Realised values until the fourth quarter of 2020.).

Delayed Recovery in Case of Renewed Lockdown

Economic Outlook for 2021 and 2022

Stefan Ederer

April 2021

Delayed Recovery in Case of Renewed Lockdown. Economic Outlook for 2021 and 2022

Economic activity is currently heavily dependent on the measures taken to contain the COVID-19 pandemic. To frame the range of future economic development, this forecast outlines two scenarios: in the opening scenario, the restrictions are completely lifted in the course of spring. The lockdown scenario, on the other hand, assumes a renewed closure of retail and personal services in April 2021. In the first scenario, economic activity picks up already in spring, with GDP expected to grow by 2.3 percent in 2021 and 4.3 percent in 2022. In the lockdown scenario, the recovery is delayed, with growth of 1.5 percent in 2021 and 4.7 percent in 2022. Private consumption and travel are still weaker in 2022 than before the COVID-19 pandemic. In the labour market, the crisis will remain visible for some time.

JEL-Codes: E32, E66 • **Keywords:** Business Cycle, 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/wwadocs/form/WIFO-BusinessCycleInformation-Glossary.pdf>

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Economic activity in Austria is currently heavily influenced by the regulatory restrictions to contain the COVID-19 pandemic. At this juncture (March 2021), both opening and closing measures are being discussed. The present forecast takes into account the uncertainty about the further regulatory conditions by means of two different scenarios. The first scenario ("opening scenario") assumes that there will be no new tightening or lockdown measures, and that the regulations currently in force will be gradually lifted in spring 2021. The second scenario ("lockdown scenario"), by contrast, assumes a new four-week closure of retail and personal services in April. In this case, the re-opening in the areas of food services, accommodation and events is delayed. The calculation of the economic effects of the measures assumed in the two scenarios is based on the weekly WIFO estimates of economic activity (WWWI) and on the findings from the previous closure and opening phases.

Austrian goods exports and manufacturing were hardly affected by the lockdown measures in autumn and winter and recovered noticeably by the end of 2020. Both sectors benefitted significantly from the recovery in global industrial production and trade in goods. This development is expected to continue in 2021, even if it is currently driven by Asia and the USA, and is delayed in the European Union countries which are important for Austrian exports. In 2022, this pattern is expected to reverse: while European sales markets are expected to grow strongly, the recovery outside Europe is likely to weaken. The construction industry also suffered little from regulatory restrictions and is expected to expand steadily over the forecast period.

On the other hand, the closure measures in November and December 2020 as well as in the first quarter of 2021 significantly dampened both household consumption expenditure and travel, causing economic activity in the retail, food services, accommodation

and other services sectors to plummet. In the event that the restrictions are lifted in spring ("opening scenario"), the level of economic activity in these sectors should increase noticeably. In the case of renewed closures ("lockdown scenario"), economic activity will remain weak in spring and the recovery will start later. In the second scenario, private consumption, travel and value added of the affected economic sectors will therefore grow significantly weaker in 2021 than in the case of relaxations. In any case, the COVID-19 crisis is likely to have a longer-lasting impact: private consumption and travel will be lower in 2022 in both scenarios than before the crisis.

After the sharp slump in economic output in winter, both scenarios expect moderate growth in 2021, followed by a strong recovery in 2022. A new lockdown would significantly dampen economic activity and thus GDP growth in 2021, but due to the delayed recovery, growth would be correspondingly stronger in 2022. In the opening scenario, the Austrian economy is expected to grow by 2.3 percent in 2021 and by 4.3 percent in 2022. In the lockdown scenario, growth amounts to 1.5 percent in 2021 and 4.7 percent in 2022.

In the labour market, the consequences of the COVID-19 crisis will be visible for longer. Although employment is expected to increase significantly over the forecast period, this is only partly due to the hiring of unemployed. In the opening scenario, the unemployment rate falls to 9.2 percent in 2021 and to 8.4 percent in 2022, in the lockdown scenario to 9.3 percent and 8.5 percent, respectively. In 2022, it is thus about 1 percentage point higher in both scenarios than in the pre-crisis year 2019.

Due to a rise in commodity prices, consumer prices increase by 1.8 percent in both 2021 and 2022. However, inflationary pressure remains subdued due to weak wage development.

Fiscal policy support measures for companies and private individuals put pressure on public budgets. The recovery of the economy reduces the fiscal balance from –8.9 percent (2020) to –7.1 percent (2021) and –3.7 percent (2022) of GDP according to the opening scenario, and to –7.7 percent and –4 percent in the lockdown scenario.

Table 1: **Main results**

	2019	2020	2021	2022	2021	2022	
			Opening scenario		Lockdown scenario		
	Percentage changes from previous year						
Gross domestic product, volume	+ 1.4	– 6.6	+ 2.3	+ 4.3	+ 1.5	+ 4.7	
Manufacturing	+ 0.7	– 7.2	+ 4.8	+ 4.0	+ 4.5	+ 4.0	
Wholesale and retail trade	+ 0.6	– 5.6	+ 3.5	+ 2.5	+ 2.5	+ 3.0	
Private consumption expenditure ¹ , volume	+ 0.8	– 9.6	+ 2.4	+ 4.0	+ 1.1	+ 4.6	
Consumer durables	– 0.4	– 0.5	+ 3.5	+ 2.5	+ 3.5	+ 2.5	
Gross fixed capital formation, volume	+ 4.0	– 4.9	+ 4.0	+ 4.0	+ 3.5	+ 4.4	
Machinery and equipment ²	+ 4.3	– 6.2	+ 5.3	+ 5.7	+ 4.5	+ 6.6	
Construction	+ 3.6	– 3.3	+ 2.5	+ 2.0	+ 2.3	+ 1.9	
Exports, volume	+ 2.9	– 10.4	+ 2.8	+ 7.2	+ 2.3	+ 7.8	
Exports of goods, fob	+ 2.1	– 6.9	+ 5.0	+ 4.7	+ 5.0	+ 4.7	
Imports, volume	+ 2.4	– 10.2	+ 3.9	+ 6.0	+ 3.5	+ 6.5	
Imports of goods, fob	+ 1.1	– 7.4	+ 4.5	+ 5.0	+ 4.2	+ 5.3	
Gross domestic product, value	+ 3.2	– 5.5	+ 3.5	+ 6.1	+ 2.7	+ 6.5	
	billion €	397.58	375.56	388.77	412.31	385.87	410.91
Current account balance as a percentage of GDP	2.8	2.6	1.4	2.1	1.3	2.1	
Consumer prices	+ 1.5	+ 1.4	+ 1.8	+ 1.8	+ 1.8	+ 1.8	
Three-month interest rate	percent – 0.4	– 0.4	– 0.5	– 0.3	– 0.5	– 0.3	
Long-term interest rate ³	percent 0.1	– 0.2	– 0.2	– 0.1	– 0.2	– 0.1	
General government financial balance, Maastricht definition	as a percentage of GDP	0.7	– 8.9	– 7.1	– 3.7	– 7.7	– 4.0
Persons in active dependent employment ⁴	+ 1.6	– 2.0	+ 1.1	+ 2.2	+ 0.9	+ 2.3	
Unemployment rate							
Eurostat definition ⁵	4.5	5.4	5.0	4.8	5.1	4.8	
National definition ⁶	7.4	9.9	9.2	8.4	9.3	8.5	

Source: WIFO. 2021 and 2022: forecast. – ¹ Including non-profit institutions serving households. – ² Including weapons systems. – ³ 10-year central government bonds (benchmark). – ⁴ Excluding persons in valid employment contract receiving child care benefit or being in military service. – ⁵ As a percentage of total labour force, Labour Force Survey. – ⁶ As a percentage of dependent labour force, unemployed persons according to Public Employment Service Austria.

The recovery of the global economy is currently being driven by the USA and Asia. In the European countries, the economy is not expected to gain momentum until the summer.

1. Recovery of the global economy continues

The global economy recovered strongly in the second half of 2020, with world trade and global industrial production already exceeding their pre-crisis levels by the end of the year, according to the Centraal Planbureau (CPB). Starting from China, where the recovery had already begun in the second quarter, global demand for industrial goods and raw materials picked up significantly, which was reflected in a marked increase in crude oil and food prices. In the fourth quarter of 2020, however, the recovery lost some of its momentum: in the USA, GDP rose only moderately compared to the previous quarter and remained significantly below the level of the previous year. In the euro area,

where many countries had reacted to a rise in new infections with renewed restrictions in autumn, economic output even declined.

However, the global recovery is expected to continue in the forecast period. Industry and goods trade were hardly affected by the renewed restrictions in autumn and winter. As the vaccination of the population in many industrialised and emerging countries continues, tourism and other service sectors should also regain momentum. In addition, fiscal policy measures are supporting the economy, above all the 1.9 trillion \$ programme adopted in the USA in March.

Table 2: International economy

	Percentage shares 2019		2017	2018	2019	2020	2021	2022
	Austria's exports of goods	World GDP ¹	GDP volume, percentage changes from previous year					
EU 27	66.7	15.4	+ 2.8	+ 2.1	+ 1.6	- 6.2	+ 3.8	+ 4.2
Euro area	51.5	12.5	+ 2.6	+ 1.9	+ 1.3	- 6.6	+ 3.9	+ 4.3
Germany	29.3	3.5	+ 2.6	+ 1.3	+ 0.6	- 4.9	+ 2.8	+ 3.4
Italy	6.4	2.0	+ 1.7	+ 0.9	+ 0.3	- 8.9	+ 4.0	+ 4.0
France	4.4	2.4	+ 2.3	+ 1.8	+ 1.5	- 8.1	+ 4.8	+ 4.0
CEEC 5 ²	14.7	1.8	+ 4.7	+ 4.7	+ 3.8	- 3.9	+ 3.4	+ 3.7
Hungary	3.6	0.2	+ 4.3	+ 5.4	+ 4.6	- 5.0	+ 3.6	+ 3.3
Czech Republic	3.5	0.3	+ 5.2	+ 3.2	+ 2.3	- 5.6	+ 2.5	+ 3.5
Poland	3.4	1.0	+ 4.8	+ 5.4	+ 4.5	- 2.7	+ 3.1	+ 3.6
USA	6.7	15.9	+ 2.3	+ 3.0	+ 2.2	- 3.5	+ 6.0	+ 3.0
Switzerland	5.0	0.5	+ 1.6	+ 3.0	+ 1.1	- 2.9	+ 2.7	+ 3.3
UK	2.9	2.4	+ 1.7	+ 1.3	+ 1.4	- 9.9	+ 5.0	+ 5.2
China	2.9	17.4	+ 6.9	+ 6.7	+ 6.0	+ 2.3	+ 8.4	+ 5.2
Total ³								
PPP-weighted ⁴		52	+ 3.9	+ 3.8	+ 3.2	- 2.7	+ 6.1	+ 4.2
Export weighted ⁵	84		+ 2.8	+ 2.3	+ 1.7	- 5.7	+ 4.1	+ 4.1
Market growth ⁶			+ 6.5	+ 4.4	+ 1.4	- 6.5	+ 6.0	+ 5.0
Forecast assumptions								
Crude oil prices								
Brent, \$ per barrel			54.3	71.0	64.3	41.7	63	59
Exchange rate								
\$ per €			1.129	1.181	1.120	1.141	1,20	1,20
Key interest rate								
ECB main refinancing rate ⁷ , percent			0,0	0,0	0,0	0,0	0,0	0,0
10-year government bonds yields Germany, percent			0,3	0,4	- 0,3	- 0,5	- 0,5	- 0,4

Source: WIFO. 2021 and 2022: forecast. – ¹ PPP-weighted. – ² Czech Republic, Hungary, Poland, Slovenia, Slovakia. – ³ EU 27, UK, USA, Switzerland, China. – ⁴ Weighted by GDP at purchasing power parities in 2019. – ⁵ Weighted by shares of Austrian goods exports in 2019. – ⁶ Real import growth of trading partners, weighted by shares of Austrian goods exports. – ⁷ Minimum bid rate.

However, the recovery is likely to vary from region to region. In the USA, consumption should be significantly stimulated by the measures of the American Rescue Plan already in spring and summer 2021. These include one-off payments to low- and middle-income households as well as the extension of the unemployment benefit top-up. In China, the economy is now back on a

growth path similar to that before the crisis. In the EU countries, on the other hand, a renewed rise in the number of infections and the associated official restrictions are delaying the recovery of the economy. In addition, EU countries are making slower progress on vaccinations than other countries. Household consumption and travel in the EU are therefore not expected to pick up

noticeably until the summer. While GDP growth in the USA and China will weaken in 2022 due to the gradual slowdown in the

recovery, it is likely to be higher than in 2021 in several EU member countries.

2. Overall economic production in Austria noticeably subdued since autumn 2020

In Austria, renewed pandemic restrictions in November and December 2020 impaired economic activity. GDP in the fourth quarter was significantly lower than in the previous quarter. Total economic production in 2020 was 6.6 percent below the previous year's level. The renewed slump from autumn onwards partially reversed the recovery during the summer months. Thus, private household consumption expenditure in the fourth quarter of 2020 was 11 percent lower than in the previous year. Exports were also around 8½ percent lower. The official restrictions particularly affected trade, transport, accommodation and food service activities as well as other services. Manufacturing, on the other hand, benefitted from the global recovery that began in the summer, as a result of which value added there in the fourth quarter of 2020 was only slightly lower than in the previous year.

The regulations in force as of 26 December 2020, which mainly affected trade, personal services as well as accommodation and food service activities, also hampered economic activity at the beginning of 2021. According to the Weekly WIFO Economic Index (WWWI), Austrian GDP was 9¾ percent below the previous year's level on average in the first ten weeks of 2021. Since the partial lifting of the official measures at the beginning of February, the situation has gradually improved, but economic activity remains limited. As results of the WIFO-Konjunkturtest (monthly business cycle survey) show, sentiment among Austrian companies is still noticeably subdued, although it has brightened somewhat recently. GDP in the first quarter of 2021 is again expected to be lower than in the previous quarter (Figures 1 and 2). Household consumption expenditure is expected to be much weaker than in the previous year, as parts of the economy (food services, accommodation, events) continue to be constrained by the official closure measures. Tourism also came to a virtual standstill during the winter.

2.1 Further development essentially dependent on the regulatory environment

The further development in the forecast period depends largely on the course of the COVID-19 pandemic and the related regulatory restrictions. While the Austrian federal government still held out the prospect of early relaxations at the beginning of March and the first opening steps have already been taken in Vorarlberg, the rising infection figures at the end of March speak in favour

of renewed closure measures. The present forecast therefore contains two alternative scenarios that differ in their assumptions about the regulatory framework.

2.1.1 Opening scenario

This scenario assumes that there will be no further restrictions on economic activity in Austria beyond the status quo (22 March 2021) and that the measures currently in place will be fully lifted by the end of June. It is based on the following assumptions:

- Restaurants and accommodation facilities will be open from mid-April.
- Travel warnings are gradually lifted between the end of April and the end of June. Travel from abroad gradually picks up by summer. Important source markets lift their travel warnings for Austria in mid-May.
- Events will be possible again from the beginning of May. However, events and cultural activities will not return to normal until autumn 2021, with a number of events (especially larger ones) being cancelled in the second and third quarter due to the necessary lead time.

2.1.2 Lockdown scenario

This scenario assumes new regulatory restrictions in addition to the existing measures. The assumptions are:

- Retail and personal services will be closed for four weeks from the beginning of April.
- Restaurants only open from mid-May, accommodation facilities only from the end of May.
- Travel warnings will be lifted gradually from mid-May until the end of June. Major source markets lift their travel warnings for Austria in mid-June.
- Events will be possible again from the end of May. Events and cultural activities will only return to normal from autumn 2021 onwards, with a number of events (especially larger ones) being cancelled in the second and third quarter due to the necessary lead time.
- There will be no school closures.

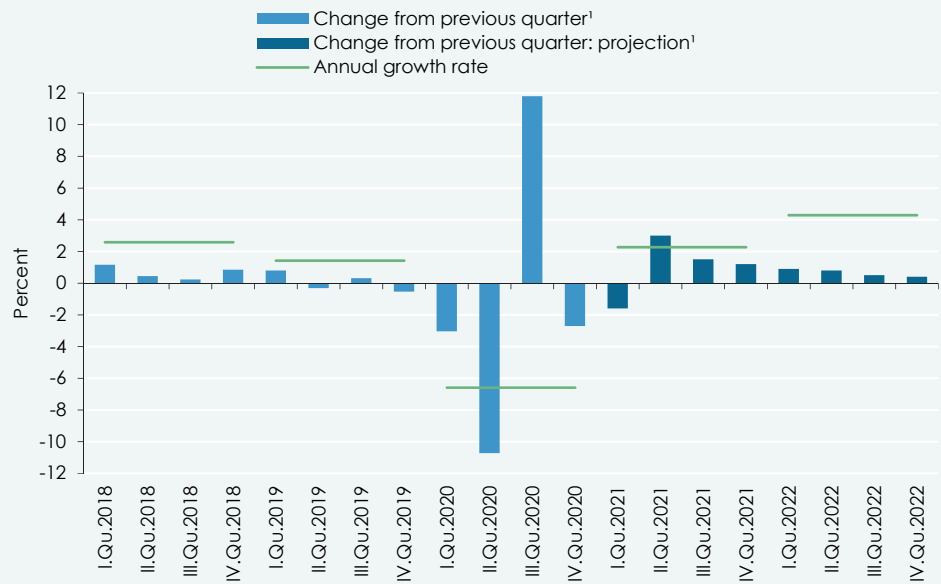
In both scenarios, the estimates of the macroeconomic effects are based on economic monitoring using the Weekly WIFO Economic Index (WWWI) and on the experience gained during the closure and opening phases of 2020.

In Austria, the COVID-19 measures significantly dampened economic activity in the fourth quarter of 2020 and the first quarter of 2021.

To narrow the range of possible regulatory framework conditions, this forecast outlines two scenarios. The first assumes further opening steps, the second a renewed lockdown.

Figure 1: **Cyclical profile Austria – Opening scenario**

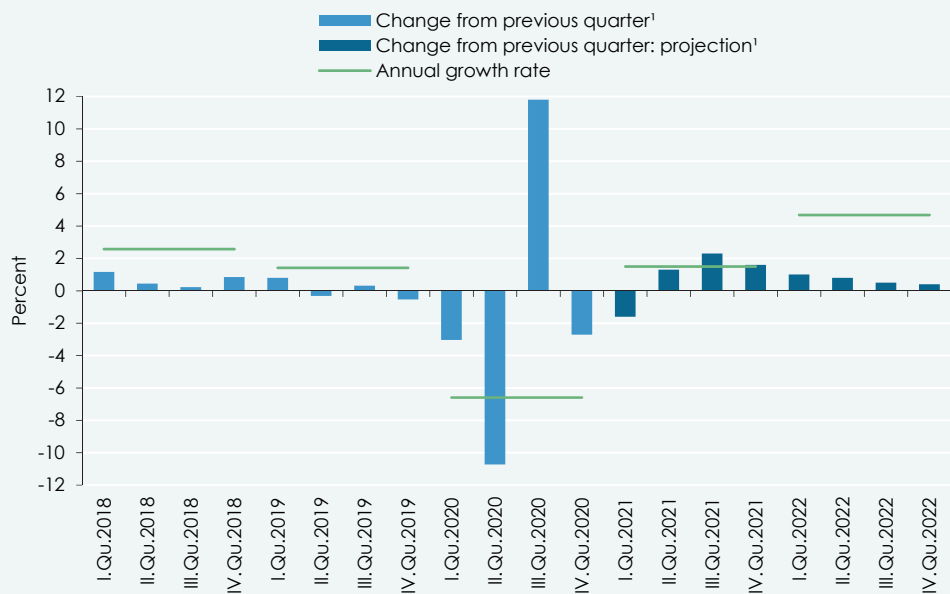
GDP volume



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

Figure 2: **Cyclical profile Austria – Lockdown scenario**

GDP volume



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

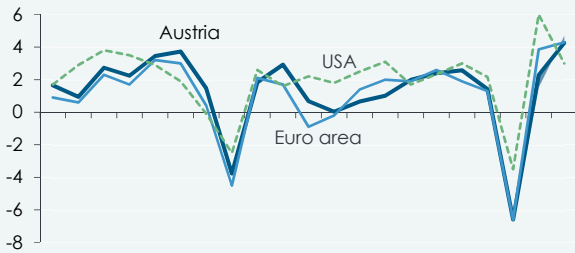
In the **opening scenario**, a strong recovery should already occur in spring and continue through summer and autumn (Figure 1). Private consumption and tourism are slow to gain momentum and only partially recover by the end of 2022. The weakness in consumption is partly offset by the ongoing

recovery of the global economy and buoyant investment activity. However, economic activity is expected to return to pre-crisis levels only by the end of the forecast period. According to the opening scenario, GDP will grow by 2.3 percent year-on-year in 2021 and by 4.3 percent in 2022.

Figure 3: Indicators of economic performance

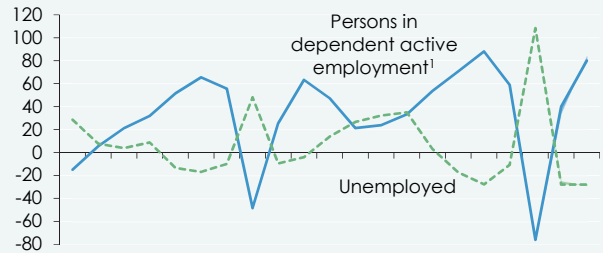
Growth of real GDP

Percent



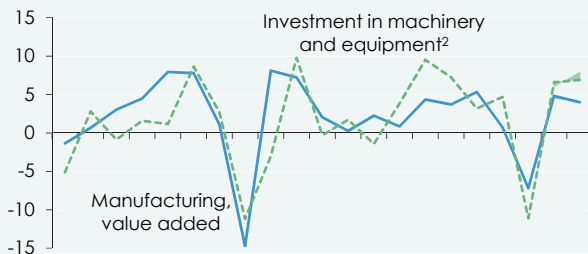
Employment and unemployment

Change from previous year in 1,000



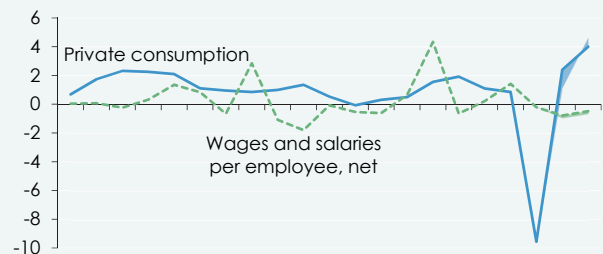
Manufacturing and investment

Percentage changes from previous year, volume



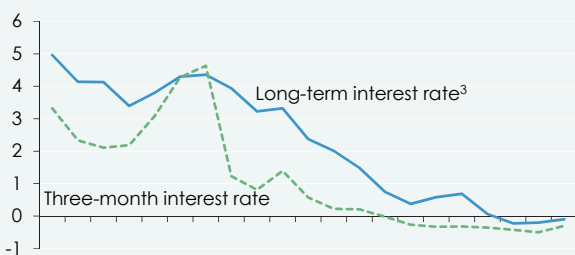
Consumption and income

Percentage changes from previous year, volume



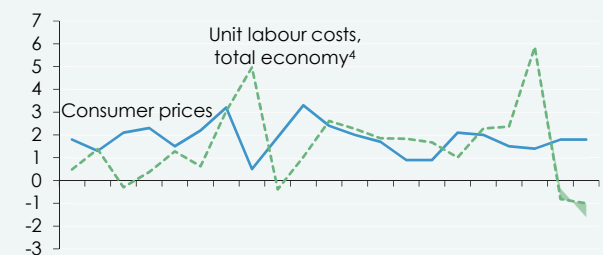
Short-term and long-term interest rates

Percent



Inflation and unit labour costs

Percentage changes from previous year



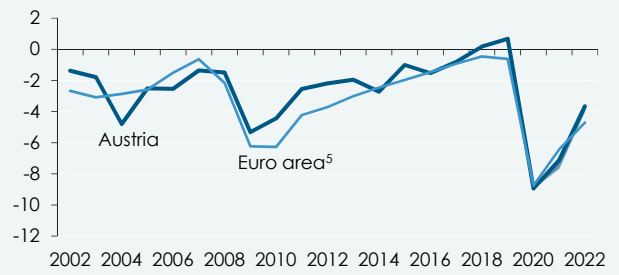
Trade (according to National Accounts)

Percentage changes from previous year, volume



General government financial balance

As a percentage of GDP



Source: WIFO. 2021 and 2022: forecast. The lockdown scenario is represented by shaded areas. – 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.

In the **lockdown scenario**, the recovery is delayed due to the new four-week lockdown in April. The closure of retail and personal services noticeably dampens private

consumption – as it did in autumn and winter. The opening steps for restaurants, accommodation facilities and events are delayed, so that economic activity in these

areas only gradually picks up again in the summer. The economic recovery and catch-up process shifts more strongly into

2022 (Figure 2). According to the lockdown scenario, GDP increases by 1.5 percent in 2021 and by 4.7 percent in 2022.

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

		2019	2020	2021	2022	2021	2022
		Opening scenario				Lockdown scenario	
Growth carry-over ¹	percentage points	+ 0.9	- 0.3	+ 0.6	+ 2.4	+ 0.6	+ 2.7
Growth rate during the year ²	percent	+ 0.2	- 5.9	+ 4.1	+ 2.6	+ 3.6	+ 2.7
Annual growth rate	percent	+ 1.4	- 6.6	+ 2.3	+ 4.3	+ 1.5	+ 4.7
Adjusted annual growth rate ³	percent	+ 1.4	- 6.7	+ 2.3	+ 4.3	+ 1.5	+ 4.7
Calendar effect ⁴	percentage points	- 0.0	+ 0.0	± 0.0	± 0.0	± 0.0	± 0.0

Source: WIFO. 2021 and 2022: forecast. – ¹ Impact of year-earlier growth dynamics on growth in the current year. Equals the annual growth rate in the current year, if the level of GDP in the current year remains constant from the fourth quarter of the previous year; trend-cycle data. – ² Reflects the growth dynamics during a calendar year. Equals the year-on-year growth rate for the fourth quarter; trend-cycle data. – ³ Trend-cycle data. Corresponding figure to OeNB short-term forecast. – ⁴ Impact of the annual number of working days and the leap day. The sum of the adjusted annual growth rate and the calendar effect may deviate from the unadjusted annual rate, since the latter also includes seasonal and irregular effects.

2.2 Foreign trade in goods hardly affected by domestic restrictions

Austrian goods exports are developing robustly as a result of the global economic recovery.

After the deep slump in the first half of 2020, goods exports increased noticeably in the summer months. The renewed wave of infections and the tightening of COVID-19 measures in many countries from autumn 2020 onwards slowed down this recovery somewhat; nevertheless, goods exports in the fourth quarter exceeded the previous

quarter and almost reached the level of 2019 again. Also in the first quarter of 2021 goods exports are likely to be only slightly affected by the domestic official restrictions; according to the WIFO-Konjunkturtest (monthly business cycle survey), companies' assessments of foreign order-book levels hardly deteriorated. The same development is therefore assumed for goods exports in both forecast scenarios.

Table 4: **Expenditure on GDP**

Volume (chain-linked series)

	2019	2020	2021		2022		2020		2021		2022	
	Opening scenario						Lockdown scenario					
	Billion € (reference year 2015)						Percentage changes from previous year					
Final consumption expenditure	263.11	246.00	251.16	259.12	248.92	257.84	- 6.5	+ 2.1	+ 3.2	+ 1.2	+ 3.6	
Households ¹	191.36	173.06	177.21	184.30	174.96	183.01	- 9.6	+ 2.4	+ 4.0	+ 1.1	+ 4.6	
General government	71.75	72.92	73.94	74.82	73.94	74.82	+ 1.6	+ 1.4	+ 1.2	+ 1.4	+ 1.2	
Gross capital formation	94.79	89.20	93.16	97.02	93.03	97.09	- 5.9	+ 4.4	+ 4.1	+ 4.3	+ 4.4	
Gross fixed capital formation	91.68	87.21	90.69	94.33	90.25	94.24	- 4.9	+ 4.0	+ 4.0	+ 3.5	+ 4.4	
Machinery and equipment ²	31.75	28.23	30.09	32.17	29.92	32.31	- 11.1	+ 6.6	+ 6.9	+ 6.0	+ 8.0	
Construction	40.22	38.88	39.86	40.65	39.78	40.53	- 3.3	+ 2.5	+ 2.0	+ 2.3	+ 1.9	
Other investment ³	19.72	20.04	20.74	21.57	20.54	21.47	+ 1.6	+ 3.5	+ 4.0	+ 2.5	+ 4.5	
Domestic demand	359.24	336.31	345.82	358.08	343.42	356.84	- 6.4	+ 2.8	+ 3.5	+ 2.1	+ 3.9	
Exports	214.54	192.26	197.62	211.94	196.65	212.00	- 10.4	+ 2.8	+ 7.2	+ 2.3	+ 7.8	
Travel	16.85	10.20	8.41	15.23	7.51	15.29	- 39.5	- 17.5	+ 81.0	- 26.3	+103.5	
Minus imports	199.72	179.27	186.24	197.50	185.53	197.60	- 10.2	+ 3.9	+ 6.0	+ 3.5	+ 6.5	
Travel	9.11	2.77	3.30	7.13	3.00	7.21	- 69.6	+ 19.4	+115.7	+ 8.5	+140.2	
Gross domestic product	374.05	349.40	357.40	372.61	354.74	371.35	- 6.6	+ 2.3	+ 4.3	+ 1.5	+ 4.7	
Value	397.58	375.56	388.77	412.31	385.87	410.91	- 5.5	+ 3.5	+ 6.1	+ 2.7	+ 6.5	

Source: WIFO. 2021 and 2022: forecast. – ¹ Including non-profit institutions serving households. – ² Including weapon systems. – ³ Mainly intellectual property products (research and development, computer programmes, copyrights).

The recovery of the global economy is expected to continue in the forecast period. This also favours Austrian foreign trade. However – especially in the euro area – economic growth of important trading partners is lower than in countries where Austrian

companies are less strongly represented. The development of world trade is likely to continue to be strongly driven by the growth of Asian countries. In addition, the Phase I agreement between the USA and China, which came into force at the beginning of

2021, harbours the risk of trade diversions, from which Austrian foreign trade could also suffer. On the other hand, the continuation of the global recovery should also boost international investment activity, from which domestic companies traditionally benefit. Exports of goods are therefore expected to increase by 5 percent in 2021. In 2022, the economic recovery will also be clearly reflected in the euro area, which should offset the weakening of global trade dynamics. Austrian goods exports are thus expected to rise by 4.7 percent in 2022 as well.

Due to the different development of economic activity, especially consumer demand, the forecast values for Austrian imports of goods differ between the two scenarios. However, the strong investment demand for machinery and equipment increases imports due to the high import share of these goods. Imports therefore grow more strongly in both scenarios in 2022 than in 2021.

2.3 Industrial and construction activity robust

Manufacturing of goods will also hardly be affected by the domestic regulatory restrictions in the forecast period – unlike in spring 2020. At the end of 2020, value added was no longer growing as strongly as in the summer, but had already almost returned to its pre-crisis level. Although the Weekly WIFO Economic Index (WWWI) points to a weak expansion at the beginning of 2021, the recent significant improvement in business confidence in the German and Italian manufacturing sectors suggests that the catch-up process will also continue in Austria. In the coming months, industrial activity is likely to regain momentum both in Austria and in other countries. For manufacturing, both forecast scenarios therefore anticipate a strong expansion.

Industry and construction are hardly affected by the lockdown measures.

Table 5: Productivity

	2019	2020	2021	2022	2021	2022
			Opening scenario		Lockdown scenario	
	Percentage changes from previous year					
Total economy						
Real GDP	+ 1.4	- 6.6	+ 2.3	+ 4.3	+ 1.5	+ 4.7
Hours worked ¹	+ 1.7	- 8.8	+ 4.2	+ 3.3	+ 3.3	+ 4.0
Productivity ²	- 0.2	+ 2.4	- 1.8	+ 0.9	- 1.7	+ 0.7
Employment ³	+ 1.3	- 1.8	+ 0.9	+ 1.9	+ 0.8	+ 2.0
Manufacturing						
Production ⁴	+ 0.7	- 7.2	+ 4.8	+ 4.0	+ 4.5	+ 4.0
Hours worked ⁵	+ 0.7	- 6.5	+ 4.4	+ 1.5	+ 4.4	+ 1.5
Productivity ²	- 0.0	- 0.7	+ 0.4	+ 2.5	+ 0.1	+ 2.5
Employees ⁶	+ 1.3	- 1.4	- 0.1	+ 0.5	- 0.1	+ 0.5

Source: WIFO. 2021 and 2022: forecast. – ¹ Total hours worked by persons employed, National Accounts definition. – ² Production per hour worked. – ³ Employees and self-employed, National Accounts definition (jobs). – ⁴ Gross value added, volume. – ⁵ Total hours worked by employees. – ⁶ National Accounts definition (jobs).

The construction industry had already recovered in summer 2020 from the slump in spring and almost reached the previous year's level again in the fourth quarter despite a slight slowdown. While there had been construction site closures in the course of the first lockdown, activity remained upright in autumn and winter, so construction was barely affected by the lockdown measures. Both scenarios therefore assume that value added in construction will grow steadily over the forecast period. However, the forecast is subject to some uncertainties, as the construction industry is heavily dependent on the investment activity of the federal provinces and municipalities. In previous crises, the loss of tax revenues and revenue shares had dampened the demand of these regional authorities.

2.4 High take-up of the investment premium

The COVID-19 crisis led to a drastic slump in gross fixed capital formation in 2020, driven in particular by the machinery and equipment segment. In 2021 and 2022, it is expected to increase strongly again, also due to the investment premium. The application period for the premium ended on 28 February 2021. Since no official information is yet available on the extent of take-up, but the number of applications is likely to have increased sharply towards the end of the deadline, the forecast assumes a total volume of the premium of 6.5 billion €, about a quarter of which will not become effective until 2023 to 2025. Assuming an average subsidy rate of 10 percent, this would mean an investment volume of 50 billion € for 2021 and 2022.

The investment premium is likely to have significant economic effects in the forecast period.

Table 6: **Gross value added**

At basic prices

	2019	2020	2021	2022	2021	2022	2020	2021	2022	2021	2022		
	Opening scenario				Lockdown scenario		Opening scenario					Lockdown scenario	
	Billion € (reference year 2015)						Percentage changes from previous year						
Volume (chain-linked series)													
Agriculture, forestry and fishing	4.30	4.18	4.18	4.18	4.18	4.18	- 2.9	± 0.0	± 0.0	± 0.0	± 0.0	± 0.0	
Manufacturing including mining and quarrying	67.07	62.25	65.23	67.84	65.05	67.65	- 7.2	+ 4.8	+ 4.0	+ 4.5	+ 4.0	+ 4.0	
Electricity, gas and water supply, waste management	10.21	9.72	9.91	10.06	9.91	10.03	- 4.8	+ 2.0	+ 1.5	+ 2.0	+ 1.2	+ 1.2	
Construction	20.69	20.21	20.62	20.93	20.58	20.89	- 2.3	+ 2.0	+ 1.5	+ 1.8	+ 1.5	+ 1.5	
Wholesale and retail trade	39.10	36.92	38.21	39.16	37.84	38.97	- 5.6	+ 3.5	+ 2.5	+ 2.5	+ 3.0	+ 3.0	
Transportation	18.92	15.99	16.47	17.46	16.15	17.44	- 15.5	+ 3.0	+ 6.0	+ 1.0	+ 8.0	+ 8.0	
Accommodation and food service activities	16.62	10.77	9.90	14.36	9.26	14.16	- 35.2	- 8.0	+ 45.0	- 14.0	+ 53.0	+ 53.0	
Information and communication	13.14	13.37	13.64	13.85	13.64	13.85	+ 1.8	+ 2.0	+ 1.5	+ 2.0	+ 1.5	+ 1.5	
Financial and insurance activities	15.08	15.45	15.76	16.00	15.76	15.92	+ 2.5	+ 2.0	+ 1.5	+ 2.0	+ 1.0	+ 1.0	
Real estate activities	31.31	31.90	32.37	32.76	32.37	32.70	+ 1.9	+ 1.5	+ 1.2	+ 1.5	+ 1.0	+ 1.0	
Other business activities ¹	32.98	29.15	30.60	32.75	29.96	32.36	- 11.6	+ 5.0	+ 7.0	+ 2.8	+ 8.0	+ 8.0	
Public administration ²	56.05	56.24	56.52	56.80	56.52	56.80	+ 0.3	+ 0.5	+ 0.5	+ 0.5	+ 0.5	+ 0.5	
Other service activities ³	8.96	7.21	7.49	8.09	7.39	8.12	- 19.6	+ 4.0	+ 8.0	+ 2.5	+ 10.0	+ 10.0	
Total gross value added⁴	334.29	313.03	320.23	334.08	317.83	332.91	- 6.4	+ 2.3	+ 4.3	+ 1.5	+ 4.7	+ 4.7	
Gross domestic product at market prices	374.05	349.40	357.40	372.61	354.74	371.35	- 6.6	+ 2.3	+ 4.3	+ 1.5	+ 4.7	+ 4.7	

Source: WIFO. 2021 and 2022: 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.

Travel only starts to pick up slowly from the summer onwards and does not fully recover in the forecast period.

The savings rate rose markedly during the COVID-19 crisis. By 2022, it will only partially decline again.

The premium has a twofold effect on the economy: on the one hand, it leads to additional investments that would not have been made without the premium. On the other hand, it has the effect that investments planned for later are brought forward and are therefore not made in the following years. As a special survey conducted as part of the WIFO-Konjunkturtest (monthly business cycle survey) in October 2020 shows, considerable deadweight losses are to be expected if the premium is used for investment projects that would have been implemented according to plan anyway. For the forecast period, an additional investment volume of 3.6 billion € is assumed as a result of the premium, which is made up of additional investments of 1.2 billion € and brought-forward investments of 2.4 billion €.

Under these assumptions, gross fixed capital formation increases by 4 percent in both 2021 and 2022 in the opening scenario. Due to the delayed recovery, the growth in the lockdown scenario is 3.5 percent (2021) and 4.4 percent (2022).

2.5 Slow recovery in tourism from summer onwards

As a result of the regulatory COVID-19 measures, the 2020-21 winter tourism season was almost completely cancelled. Travel exports and value added in the food services and accommodation sector are expected to decline again in 2021 after a sharp drop in the previous year. Despite a gradual

recovery in overall economic activity and the gradual lifting of restrictions, tourism will be slow to gain momentum in the summer. Especially in city tourism, the recovery is likely to be noticeably delayed and business travel is also likely to be limited for some time.

For 2022, on the other hand, strong growth is expected due to the low starting level. However, travel will not fully recover by the end of the forecast period.

2.6 Income development and savings dampen consumption in the longer term

The COVID-19 measures led to a sharp decline in household consumption expenditure in 2020, especially in non-durable goods and services. While household disposable income is also likely to have fallen significantly, the sharp increase in the savings rate suggests that the decline in consumption was at least partly forced.

In the forecast period, the savings rate is expected to fall significantly again. Although the disposable income of private households will most probably decline also in 2021 and only rise slightly in 2022, private consumption expenditure is likely to expand markedly in both years. Since a lockdown in spring 2021 would again restrict consumption and delay an opening of the consumption-relevant sectors of food services, accommodation and events, private consumption grows weaker in the lockdown

scenario than in the opening scenario. In the event of a lockdown, however, stronger recovery and catch-up effects can be expected in 2022. In both scenarios, the

savings rate remains higher than before the crisis in 2019, as the behaviour of private households will only gradually adjust to the improved income situation.

Table 7: **Private consumption, income and prices**

	2019	2020	2021	2022	2021	2022
			Opening scenario	Lockdown scenario		
	Percentage changes from previous year					
Private consumption expenditure ¹	+ 0.8	- 9.6	+ 2.4	+ 4.0	+ 1.1	+ 4.6
Durable goods	- 0.4	- 0.5	+ 3.5	+ 2.5	+ 3.5	+ 2.5
Non-durable goods and services	+ 1.0	- 10.5	+ 2.3	+ 4.2	+ 0.8	+ 4.9
Private household disposable income, volume	+ 1.3	- 2.2	- 0.9	+ 1.6	- 0.9	+ 1.7
	As a percentage of disposable income					
Household saving ratio						
Including adjustment for the change in pension entitlements	8.2	15.1	12.4	10.2	13.4	10.9
Excluding adjustment for the change in pension entitlements	7.6	14.6	11.7	9.6	12.8	10.3
	Percentage changes from previous year					
Loans to domestic non-banks (end of period)	+ 4.4	+ 3.8	+ 3.3	+ 3.8	+ 3.3	+ 3.8
	Consumer prices					
National	+ 1.5	+ 1.4	+ 1.8	+ 1.8	+ 1.8	+ 1.8
Harmonised	+ 1.5	+ 1.4	+ 1.9	+ 1.9	+ 1.9	+ 1.9
Core inflation ²	+ 1.6	+ 2.0	+ 1.8	+ 1.9	+ 1.8	+ 1.9

Source: WIFO. 2021 and 2022: forecast. – ¹ Private households including non-profit institutions serving households. – ² Excluding energy and unprocessed food (meat, fish, fruits, vegetables).

2.7 Crisis leaves its mark on the labour market in the longer term

The slump in economic activity in 2020 was reflected in a significant decline in employment and an increase in unemployment. In particular, the loss of winter tourism led to a strong increase in the number of unemployed. The total volume of working hours fell by 8.8 percent in 2020. The instrument of short-time work was able to mitigate the decline in employment. However, the working time per capita decreased significantly.

In the course of the gradual recovery of economic activity, the use of short-time work will decrease again and the volume of working hours will increase significantly. Employment will also expand noticeably again in the forecast period. However, the strong decline in the number of employed persons in the previous year will not be fully compensated for until 2022.

The increase in employment is only partly through hiring the unemployed. On the one hand, the influx of foreign workers, which was interrupted by the crisis, is likely to resume. On the other hand, new entrants to the labour market will also increase again. Although both scenarios assume significantly

falling unemployment figures for 2021 and 2022, the unemployment rate in both cases will still be markedly above the pre-crisis level in 2022.

2.8 Inflationary pressure is weak

Short-time work and high unemployment, especially in the sectors most affected by the crisis, dampened wage development in 2020: wages and salaries per capita hardly increased compared to 2019. This trend continues in 2021, whereas in 2022 the ongoing recovery is expected to lead to nominal wage increases again. However, real wages decline noticeably in both scenarios until 2022.

The weak wage development contributes to inflationary pressure remaining low over the forecast period. Although consumer prices will rise again somewhat more strongly in 2021 than in previous years due to the increase in commodity prices, the upward pressure on prices is unlikely to accelerate. In 2022, a lower increase in global commodity prices offsets the somewhat stronger nominal wage increases.

With the expected recovery of economic activity, employment is also increasing noticeably again. Unemployment, however, will remain high for some time.

Domestic consumer price inflation remains subdued due to weak wage developments. The effects of higher commodity prices fade away in 2022.

Table 8: **Labour market**

	2019	2020	2021	2022	2021	2022
					Opening scenario	Lockdown scenario
					Change from previous year in 1,000	
Demand for labour						
Persons in active employment ¹	+ 61.4	- 79.1	+ 39.0	+ 80.0	+ 33.0	+ 84.0
Employees ^{1,2}	+ 58.9	- 76.1	+ 40.0	+ 80.0	+ 34.0	+ 84.0
National employees	+ 12.3	- 53.9	+ 14.0	+ 17.0	+ 12.0	+ 18.0
Foreign employees	+ 46.6	- 22.2	+ 26.0	+ 63.0	+ 22.0	+ 66.0
Self-employed ³	+ 2.5	- 3.0	- 1.0	± 0.0	- 1.0	± 0.0
Labour supply						
Population of working age						
15 to 64 years	+ 11.4	+ 12.7	+ 2.3	- 6.0	+ 2.3	- 6.0
Labour force ⁴	+ 50.6	+ 29.2	+ 11.0	+ 52.0	+ 8.0	+ 55.0
Labour surplus						
Unemployed ⁵	- 10.8	+ 108.3	- 28.0	- 28.0	- 25.0	- 29.0
Unemployed persons in training	- 6.8	- 4.9	+ 18.0	- 5.0	+ 18.0	- 5.0
Percent						
Unemployment rate						
As a percentage of total labour force (Eurostat) ⁶	4.5	5.4	5.0	4.8	5.1	4.8
As a percentage of total labour force ⁵	6.6	8.9	8.2	7.6	8.3	7.6
As a percentage of dependent labour force ⁵	7.4	9.9	9.2	8.4	9.3	8.5
Percentage changes from previous year						
Labour force ⁴	+ 1.1	+ 0.6	+ 0.2	+ 1.1	+ 0.2	+ 1.2
Persons in active dependent employment ^{1,2}	+ 1.6	- 2.0	+ 1.1	+ 2.2	+ 0.9	+ 2.3
Unemployed ⁵	- 3.5	+ 35.9	- 6.8	- 7.3	- 6.1	- 7.5
Persons (in 1,000)	301.3	409.6	381.6	353.6	384.6	355.6

Source: WIFO. 2021 and 2022: forecast. – ¹ Excluding persons in valid employment contract receiving child care benefit or being in military service. – ² According to the Organisation of Austrian Social Security. – ³ According to WIFO, including liberal professions and unpaid family workers. – ⁴ Persons in active employment plus unemployed. – ⁵ According to Public Employment Service Austria. – ⁶ Labour Force Survey.

Table 9: **Earnings, international competitiveness**

	2019	2020	2021	2022	2021	2022
					Opening scenario	Lockdown scenario
					Percentage changes from previous year	
Wages and salaries per employee¹						
Nominal, gross	+ 2.9	+ 0.6	+ 0.9	+ 1.5	+ 0.7	+ 1.3
Real ²						
Gross	+ 1.3	- 0.8	- 0.9	- 0.3	- 1.1	- 0.5
Net	+ 2.9	+ 0.6	+ 0.9	+ 1.5	+ 0.7	+ 1.3
Wages and salaries per hour worked¹						
Real, net ²	+ 0.9	+ 7.6	- 4.2	- 2.0	- 3.6	- 2.8
Percent						
Wage share, adjusted ³	68.3	70.2	71.1	70.2	71.3	70.1
Percentage changes from previous year						
Unit labour costs, nominal⁴						
Total economy	+ 2.4	+ 5.9	- 0.8	- 1.0	- 0.3	- 1.6
Manufacturing	+ 3.8	+ 6.1	- 3.7	- 1.5	- 3.4	- 1.5
Effective exchange rate – manufactured goods⁵						
Nominal	- 0.7	+ 1.4	+ 0.8	+ 0.3	+ 0.8	+ 0.3
Real	- 1.0	+ 1.8	+ 0.8	+ 0.4	+ 0.8	+ 0.4

Source: WIFO. 2021 and 2022: forecast. – ¹ National Accounts definition. – ² Deflated by CPI. – ³ Compensation of employees as a percentage of national income, adjusted for the change in the share of employees in total employment from base year 1995. – ⁴ Labour costs in relation to productivity (hourly compensation per employees divided by GDP and value added, respectively, per employed persons' hours worked), including short-time work grants. – ⁵ Weighted by exports and imports, real value adjusted by relative HCPI.

2.9 Fiscal support measures burden the budget

At present, it is still unclear how much the fiscal COVID-19 measures will burden public budgets. This even applies to 2020, as individual aid measures such as the fixed cost subsidy can still be applied for well into 2021, but the corresponding cash payments will affect the 2020 budget. For 2020, a fiscal balance of –8.9 percent of GDP is provisionally expected.

The COVID-19 fiscal policy measures to cushion the economic and social consequences of the crisis will also shape the 2021 and 2022 budgets. While subsidies for companies and the use of short-time work will be lower in 2021 than in the previous year, the strong use of the investment premium (6.5 billion €) will significantly increase the deficit in 2021 and 2022. Investment

measures from the climate and school package will also burden public budgets. On the revenue side, relief measures in the area of income, corporate and value added tax (declining balance depreciation, adjustments to loss offsetting, temporary reduction of the value added tax rate for gastronomy and culture) will also lead to losses in the forecast period. Revenue losses also result from the retroactively applicable income tax rate reform 2020. On the other hand, the discontinuation of one-off payments (child bonus, family hardship compensation, unemployment benefits) and increased tax revenue as a result of the economic recovery contribute to relief. The fiscal balance improves to –7.1 percent of GDP in 2021 and to –3.7 percent in 2022 (opening scenario). A new lockdown in April 2021 would delay these effects, so that the balance would be –7.7 percent in 2021 and –4.0 percent in 2022.

The gradual economic recovery dampens expenditure and increases government revenues. This lowers the burden on public budgets. The investment premium, on the other hand, will significantly add to the deficit.

Table 10: Fiscal and monetary policy – key figures

	2019	2020	2021	2022	2021	2022
			Opening scenario		Lockdown scenario	
	As a percentage of GDP					
Fiscal policy						
General government financial balance ¹	0.7	– 8.9	– 7.1	– 3.7	– 7.7	– 4.0
General government primary balance	2.1	– 7.6	– 5.9	– 2.6	– 6.4	– 2.9
General government total revenue	49.1	48.7	48.7	48.3	48.8	48.3
General government total expenditure	48.4	57.7	55.8	52.0	56.5	52.3
Percent						
Monetary policy						
Three-month interest rate	– 0.4	– 0.4	– 0.5	– 0.3	– 0.5	– 0.3
Long-term interest rate ²	0.1	– 0.2	– 0.2	– 0.1	– 0.2	– 0.1

Source: WIFO. 2021 and 2022: forecast. –¹ According to Maastricht definition. –² 10-year central government bonds (benchmark).