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New Lockdown Delays Economic Recovery in Austria. Economic Outlook for 2021 to 2023

Stefan Ederer, Stefan Schiman

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Economic Outlook for 2021 to 2023

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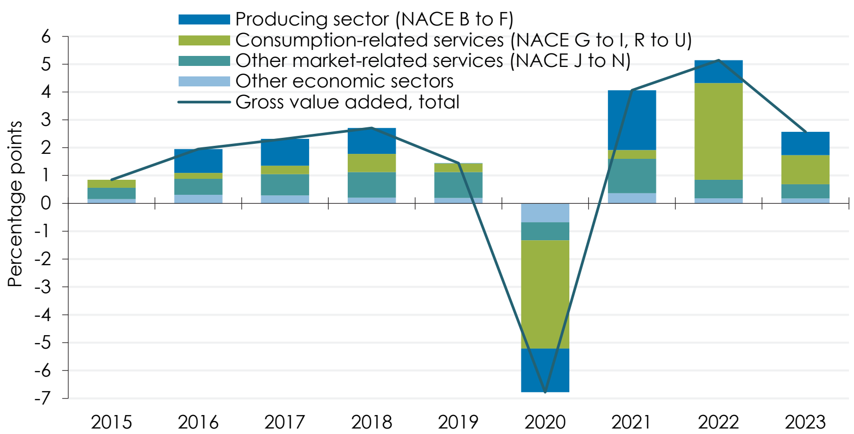
- Regional differences in the course of the COVID-19 pandemic, supply bottlenecks and high commodity prices slow down the global economic recovery in 2021. The obstacles will gradually dissipate in 2022. The global economy will continue to grow strongly in 2022 and 2023.
- The Austrian economy recovered rapidly in spring and summer 2021. In the fourth quarter, however, GDP is expected to decline significantly due to the lockdown.
- In spring 2022, the economy is expected to recover quickly while supply bottlenecks are gradually resolved. GDP grows strongly in 2022. In 2023, the domestic economy swings to a moderate growth path.
- The labour market also develops favourably in the forecast period. The unemployment rate falls below its pre-crisis level in 2022.
- Inflation will remain high in 2022. In 2023, the easing of commodity prices clearly dampens the upward pressure on prices.

Growth contribution of economic sectors to gross value added, volume



The contribution of consumer-related services (trade, transport, accommodation and food services, other services) to growth is high in 2022, as these sectors will recover rapidly after the lifting of the COVID-19 restrictions. The upswing in industry continues, but there is little catch-up potential left (source: WIFO, Statistics Austria. 2021 to 2023: forecast).

"In 2022, those sectors that were affected by regulatory restrictions in 2021 will grow strongly, especially retail trade, accommodation and food services, and other consumer-related services. The upswing in industry will continue as supply bottlenecks gradually dissipate. However, the catch-up potential here has already been exhausted."

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January 2022

New Lockdown Delays Economic Recovery in Austria. Economic Outlook for 2021 to 2023
The strong economic recovery in Austria in spring and summer 2021 is slowing down in the second half due to the renewed lockdown, persistent supply bottlenecks and high commodity prices. In 2022, the economy should recover quickly after the restrictions are lifted. Strong growth is expected for 2022 as a whole due to the gradual unwinding of the barriers. In 2023, the Austrian economy then swings to a moderate growth path. The labour market develops favourably in the forecast period. Inflation will remain high in 2022.

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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The Austrian economy will grow strongly in 2021. However, the renewed official restrictions to contain the COVID-19 pandemic, persistent supply bottlenecks and high commodity prices will dampen the recovery in the second half of the year. GDP is expected to contract in the fourth quarter.

The upswing should nevertheless continue in 2022. As in past opening phases, private household consumption expenditure will increase strongly after the restrictions are lifted. Supply bottlenecks should also gradually ease in the course of 2022, removing obstacles to production and allowing planned investment projects to be implemented. From the second half of 2022, the Austrian economy will shift to a moderate growth path. After 4.1 percent in 2021, GDP will grow by 5.2 percent in 2022 and by 2.5 percent in 2023.

The favourable development on the labour market will continue in the forecast period. Employment is expected to continue to rise and the unemployment rate to decline. In 2022, the unemployment rate will be below its pre-crisis level again.

Although commodity prices will remain high well into 2022, they are expected to gradually decline due to the slowdown in global demand, dampening domestic inflation. In 2023, inflation will approach the European Central Bank's target of 2 percent.

The general government fiscal balance in 2021 will again be marked by high spending to address the healthcare crisis and government aid programmes, and will be clearly negative. Automatic stabilisers and the expiry of numerous support measures will contribute to a significant improvement in the balance in 2022 and 2023, despite the revenue shortfall from the tax reform.

This forecast is based on the assumption that the lifting of restrictions in Austria announced in mid-December will be implemented accordingly. It is also assumed that the introduction of compulsory vaccination will lead to an increase in the vaccination rate, so that the dampening effect on economic activity of the restrictions still in place for the unvaccinated will gradually weaken. A possible renewed flare-up of the pandemic, for example by the omicron variant of the SARS-CoV-2 virus, and possible renewed restrictions on economic activity, on the other hand, were not taken into account in this forecast.

Table 1: **Main results**

	2018	2019	2020	2021	2022	2023
	Percentage changes from previous year					
Gross domestic product, volume	+ 2.5	+ 1.5	– 6.7	+ 4.1	+ 5.2	+ 2.5
Manufacturing	+ 4.3	+ 0.6	– 7.0	+ 8.6	+ 3.2	+ 3.5
Wholesale and retail trade	+ 4.2	+ 2.0	– 4.2	+ 5.6	+ 5.4	+ 3.5
Private consumption expenditure[1], volume	+ 1.1	+ 0.7	– 8.5	+ 3.4	+ 6.3	+ 2.9
Consumer durables	+ 1.0	+ 0.3	– 2.6	+ 11.0	+ 4.0	+ 3.0
Gross fixed capital formation, volume	+ 4.4	+ 4.8	– 5.2	+ 5.7	+ 4.8	+ 1.8
Machinery and equipment[2]	+ 3.4	+ 5.5	– 6.5	+ 6.3	+ 6.5	+ 1.7
Construction	+ 5.6	+ 4.0	– 3.7	+ 4.9	+ 2.8	+ 1.9
Exports, volume	+ 5.1	+ 3.4	– 10.8	+ 10.2	+ 8.5	+ 4.2
Exports of goods, fob	+ 4.7	+ 2.7	– 7.8	+ 14.0	+ 5.0	+ 3.8
Imports, volume	+ 5.3	+ 2.0	– 9.4	+ 12.6	+ 6.1	+ 3.9
Imports of goods, fob	+ 4.1	– 0.0	– 6.4	+ 14.5	+ 4.3	+ 3.5
Gross domestic product, value	+ 4.3	+ 3.1	– 4.6	+ 5.8	+ 8.1	+ 4.6
billion €	385.42	397.52	379.32	401.15	433.81	453.84
Current account balance as a percentage of GDP	0.9	2.1	1.9	– 0.8	0.8	0.8
Consumer prices	+ 2.0	+ 1.5	+ 1.4	+ 2.8	+ 3.3	+ 2.2
Three-month interest rate percent	– 0.3	– 0.4	– 0.4	– 0.6	– 0.4	0.4
Long-term interest rate[3] percent	0.7	0.1	– 0.2	– 0.1	0.1	0.5
General government financial balance, Maastricht definition as a percentage of GDP	0.2	0.6	– 8.3	– 6.2	– 1.8	– 0.6
Persons in active dependent employment[4]	+ 2.5	+ 1.6	– 2.0	+ 2.4	+ 1.9	+ 1.7
Unemployment rate						
Eurostat definition[5]	5.2	4.8	6.0	6.4	4.8	4.4
National definition[6]	7.7	7.4	9.9	8.0	7.2	6.8

Source: WIFO, ECB, Federation of Social Insurances, OeNB, Public Employment Service Austria, Statistics Austria. 2021 to 2023: 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. Due to a revision of the Labour Force Survey methodology planned for the end of June, a forecast of this indicator is currently waived. – [6] As a percentage of dependent labour force.

1. Pandemic, high commodity prices and supply bottlenecks slow down the global economy in 2021

Regionally varying increases in the number of infections, supply bottlenecks and high raw material prices have been slowing down the global economic upswing since summer 2021.

The development of the global economy continues to be largely determined by the COVID-19 pandemic. Although economic activity in the USA was hardly affected in the winter of 2020-21, the acceleration in the spread of infections dampened economic activity in the third quarter of 2021. In Japan, COVID-19 outbreaks also slowed growth in the summer. In the euro area, on the other hand, the economy recovered quickly in the summer half-year from the pandemic-induced stagnation in the winter of 2020-21. While GDP in the USA in the third quarter of 2021 was higher in seasonally adjusted terms than in the fourth quarter of 2019, before the outbreak of the pandemic, it was still lower in the euro area and Japan. In China, GDP had already exceeded its pre-crisis level in 2020. Local COVID-19 outbreaks there repeatedly lead to sometimes drastic, albeit regionally limited, official restrictions. However, China's economic weakness in the third quarter of 2021 is mainly due to the problems in the real estate sector and the decline in construction investment, both of which are related to the tightening of financing regulations for real estate companies.

Although global industrial production suffered from the far-reaching closures in spring 2020, since then it has hardly been affected by the pandemic. The slump at that time was quickly compensated – faster than in the financial and economic crisis of 2008-09 – so that the level of world industrial production in the third quarter of 2021 was significantly above the pre-crisis level. However, the rapid and strong recovery in global demand for goods resulted in supply bottlenecks, which in turn led to strong price increases for raw materials, intermediate products and finished goods. Independent of the high demand for goods, regional bottlenecks emerged in international shipping, widening the gap between global supply and demand for goods. Combined with other impediments such as port closures in China, this led to stagnation in global industrial production for much of 2021 and a decline in trade in goods.

Table 2: **International economy**

	Percentage shares 2020: Austria's exports of goods	Percentage shares 2020: World GDP[1]	2018	2019	2020	2021	2022	2023
			GDP volume, percentage changes from previous year					
EU 27	67.6	15.0	+ 2.1	+ 1.8	– 5.9	+ 5.1	+ 4.2	+ 2.6
Euro area	52.0	12.1	+ 1.8	+ 1.6	– 6.4	+ 5.2	+ 4.2	+ 2.4
Germany	30.5	3.4	+ 1.1	+ 1.1	– 4.6	+ 2.8	+ 4.2	+ 2.0
Italy	6.2	1.9	+ 0.9	+ 0.4	– 8.9	+ 6.4	+ 4.7	+ 2.2
France	4.3	2.3	+ 1.9	+ 1.8	– 7.9	+ 6.8	+ 3.8	+ 2.0
CEEC 5[2]	14.9	1.8	+ 4.7	+ 4.1	– 3.7	+ 4.8	+ 4.7	+ 4.1
Hungary	3.5	0.2	+ 5.4	+ 4.6	– 4.7	+ 7.0	+ 5.2	+ 4.0
Czech Republic	3.6	0.3	+ 3.2	+ 3.0	– 5.8	+ 2.8	+ 4.6	+ 3.5
Poland	3.9	1.0	+ 5.4	+ 4.7	– 2.5	+ 5.0	+ 4.7	+ 4.4
USA	6.5	15.8	+ 2.9	+ 2.3	– 3.4	+ 5.5	+ 4.4	+ 2.2
Switzerland	5.5	0.5	+ 2.9	+ 1.2	– 2.4	+ 3.6	+ 3.3	+ 1.5
UK	2.9	2.2	+ 1.7	+ 1.7	– 9.7	+ 6.9	+ 5.4	+ 2.4
China	2.7	18.3	+ 6.7	+ 6.0	+ 2.3	+ 8.3	+ 5.4	+ 5.3
Total[3]								
PPP-weighted[4]		52	+ 4.0	+ 3.4	– 2.3	+ 6.4	+ 4.7	+ 3.4
Export weighted[5]	85		+ 2.4	+ 1.9	– 5.4	+ 5.2	+ 4.3	+ 2.6
Market growth[6]			+ 4.0	+ 1.7	– 6.1	+ 11.0	+ 5.0	+ 4.0
Forecast assumptions								
Crude oil prices								
Brent, $ per barrel			71.0	64.3	41.7	71	69	66
Exchange rate								
$ per €			1.181	1.120	1.141	1.18	1.12	1.08
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	0.4	– 0.3	– 0.5	– 0.4

Source: WIFO, Bureau of Economic Analysis, Eurostat, EIA, ECB, IMF, OECD, Statistics Austria. 2021 to 2023: 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 2020. – [5] Weighted by shares of Austrian goods exports in 2020. – [6] Real import growth of trading partners, weighted by shares of Austrian goods exports. – [7] Minimum bid rate.

Both the demand overhang and the supply-side problems are driving up prices. Commodity and energy prices rose rapidly and were far above their pre-crisis levels in November 2021. In the area of industrial raw materials, inflation peaked in spring 2021, since when prices have been gradually declining due to the slowdown in economic activity. Energy prices, on the other hand, have yet to show a clear decline. The price increases for raw materials had a direct impact on consumer prices; inflation rose strongly in the euro area and in the USA.

2. Recovery of the global economy continues

The COVID-19 pandemic and supply bottlenecks will continue to determine the development of the global economy in the forecast period. The pandemic is quite heterogeneous worldwide. While in summer 2021 the USA and parts of Southeast Asia were affected, in Europe it only accelerated in the autumn. Many European countries have already reintroduced health policy measures that restrict economic and social activities. However, the resulting economic slump in Europe should be followed by a strong recovery, as experience from previous COVID-19 waves shows.

Supply bottlenecks and material shortages have also not yet dissipated. The share of companies that perceive a shortage of materials as an obstacle to production rose in many places in autumn. However, adjustments in production processes, a gradual subsiding of the pandemic and price adjustments should ease the demand overhang by the end of the forecast period. This is also indicated by the optimistic mood of the majority of companies in most countries. Thus, the partly very high order backlogs should lead to a significant acceleration of investment dynamics. In addition, private consumption, especially of services, will also pick up strongly as soon as the savings accumulated during the COVID-19 crisis are reduced. The robust growth of the global economy in the forecast period is also the result of accommodative monetary and fiscal policies.

The currently high inflation dynamics will subside with the reduction of the demand overhang and thus not significantly affect monetary policy. This will rather be shaped by the development of the real economy. Due to the far advanced recovery in the USA, the Federal Reserve Bank will reduce the purchase of securities. Interest rates are likely to be raised only slightly in 2022, as the Federal Reserve Bank of the USA is aiming for a further improvement in the labour market situation. Although the crisis-induced increase in unemployment has been virtually offset, the labour force participation in the USA is still significantly below the pre-crisis level. The ECB is likely to end the PEPP (Pandemic Emergency Purchase Programme), the bond-buying programme set up specifically to tackle the crisis, in March 2022 as planned. Other purchase programmes that have been in place for some time will continue beyond this date; an interest rate step is not expected until the beginning of 2023.

Restrictions on economic activity as a result of the COVID-19 pandemic are accompanied by government support measures in most countries. As the pandemic experience so far shows, the resulting protection of private household incomes contributes to a strong recovery after the restrictions are lifted. As government restrictions are likely to be withdrawn as the vaccination progresses, the use of support programmes will also decrease. At the same time, however, new expansionary fiscal policy stimulus will be put in place, especially in the USA. Based on the "Infrastructure and Investment Jobs Act", 550 billion $ in new spending is to be made there over the next 10 years. The "Build Back Better Plan", which includes elements of the "American Jobs Plan" and the "American Families Plan", is expected to provide further fiscal stimulus. The two initiatives are expected to increase US GDP by 1½ percent to 2 percent over the forecast period. Global GDP, after growing strongly in 2021, is expected to increase by 4.7 percent in 2022 and 3.4 percent in 2023 (purchasing power weighted); in the euro area, growth is expected to be 4.2 percent and 2.4 percent, respectively.

The impediments to the global economy are expected to last into 2022, but should gradually dissipate around the middle of the year. High commodity prices will slowly decline over the course of 2022, bringing down inflation globally. Monetary and fiscal policy will support the continuation of the economic recovery over the forecast period.

3. Austria's economy in the interplay of opening and closing phases

The economy in Austria in 2021 was characterised by an interplay of opening and closing phases. After the lifting of the official COVID-19 measures in spring, the economy recovered quickly – as it did in 2020. In the third quarter, GDP again rose strongly (+3.8 percent compared to the previous quarter) and reached the pre-crisis level of the fourth quarter of 2019 for the first time in seasonally adjusted terms. Since the summer, however, there have been increasing signs of weakening growth: supply bottlenecks and high commodity prices are slowing down the strong activity in the industrial and construction sectors. The renewed restrictions in November and December as a result of the steep rise in new infections are further slowing the economic upswing. In addition, domestic winter tourism has been largely absent so far, due to Austria's classification as a high-risk area for travellers from Germany and the continuing uncertainty about the further course of the pandemic. GDP is therefore likely to fall in the fourth quarter of 2021 compared to the previous quarter. Although the lockdown was shorter than in the previous year, it started somewhat later, which had a stronger impact on Christmas business in the retail sector. In addition, the restrictions met with weaker underlying economic momentum: value added in industry and construction, which had risen in the fourth quarter of 2020, is likely to largely stagnate in the fourth quarter of 2021. The decline in GDP is therefore likely to be stronger than in the previous year[1]. For 2021 as a whole, GDP growth of 4.1 percent is nevertheless expected due to the strong recovery in the summer half-year.

As experience shows that the lifting of the COVID-19 measures is followed by a rapid recovery, strong catch-up effects can be expected in the first half of 2022, especially in those sectors of the economy that are

The Austrian economy recovered strongly in spring and summer 2021. In the fourth quarter, however, GDP is expected to decline due to the new lockdown. Due to the catch-up effects, GDP should grow strongly in 2022. In 2023, the domestic economy should turn to a moderate growth path.

[1] A possible downward revision of the quarterly National Accounts for the third quarter would mean that, with an unchanged annual growth rate, the economic slump in the fourth quarter would not be as severe as assumed in the forecast.

heavily restricted by the authorities. In summer 2022, supply bottlenecks are expected to ease and commodity prices to gradually become cheaper, so that value added in industry and the construction sector is likely to rise strongly. Accordingly, GDP should increase by 5.2 percent in 2022.

As the catch-up effects fade, the domestic economy will gradually shift to a moderate growth path in the second half of 2022. GDP growth of 2.5 percent is expected for 2023.

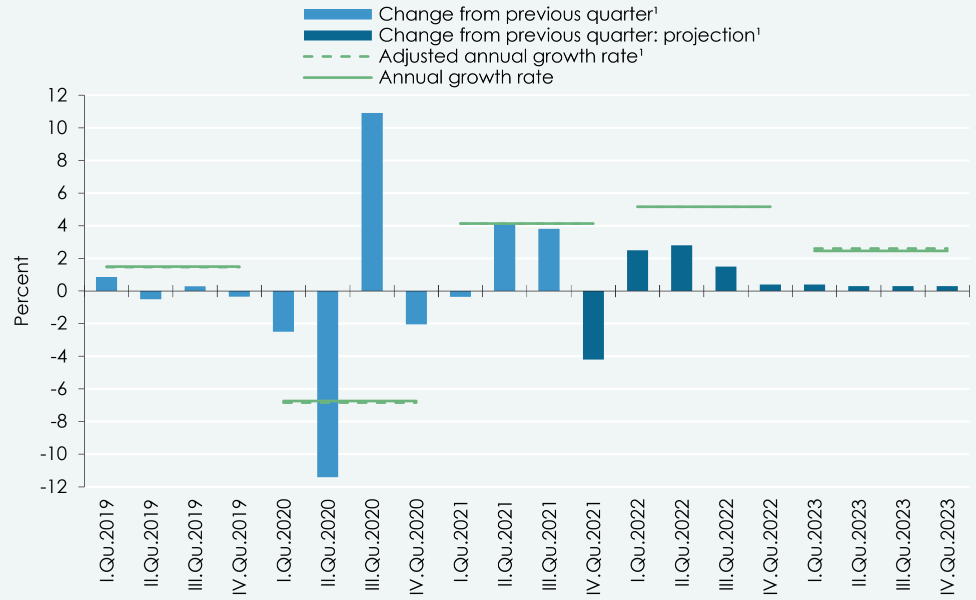
Table 3: **Technical breakdown of the real GDP growth forecast**

		2020	2021	2022	2023
Growth carry-over[1]	percentage points	– 0.2	+ 0.5	– 0.4	+ 1.7
Growth rate during the year[2]	percent	– 6.1	+ 3.2	+ 7.4	+ 1.3
Annual growth rate	**percent**	**– 6.7**	**+ 4.1**	**+ 5.2**	**+ 2.5**
Adjusted annual growth rate[3]	percent	– 6.8	+ 4.1	+ 5.2	+ 2.6
Calendar effect[4]	percentage points	+ 0.0	± 0.0	± 0.0	– 0.1

Source: WIFO. 2021 to 2023: 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.

Figure 1: **Cyclical profile of Austria**

GDP volume



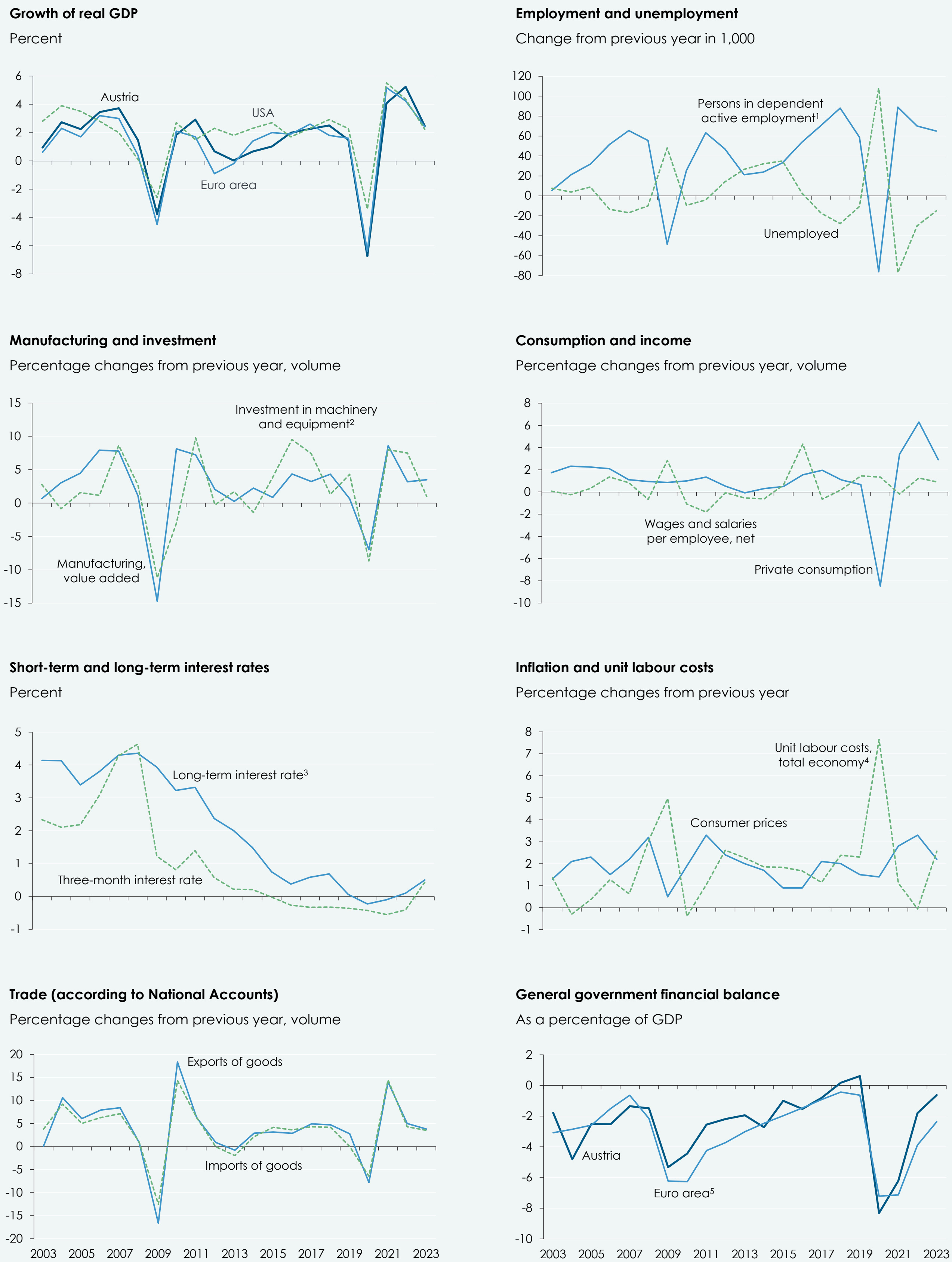
Source: WIFO, Statistics Austria. – [1] Seasonally and working-day adjusted according to Eurostat.

3.1 Private consumption restricted by lockdown

The lockdown in November and December 2021 again restricted private consumption. By contrast, consumer demand should recover strongly in 2022.

Household consumption expenditure was subject to strong fluctuations in 2021 due to the opening and closing phases. Although the regulatory measures clearly restrict consumption possibilities, the recovery effects after their removal are also strong. Thus, private consumption rose strongly in the second and third quarters after having slumped in the first quarter. However, the recovery is not yet complete: consumer spending in the third quarter was still noticeably below its pre-crisis level. In addition, there was a shift in private consumption towards durable consumer goods due to limited service consumption.

Figure 2: **Indicators of economic performance**



Source: WIFO. 2021 to 2023: 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.

Table 4: **Private consumption, income and prices**

	2018	2019	2020	2021	2022	2023
	Percentage changes from previous year					
Private consumption expenditure[1]	+ 1.1	+ 0.7	– 8.5	+ 3.4	+ 6.3	+ 2.9
Durable goods	+ 1.0	+ 0.3	– 2.6	+ 11.0	+ 4.0	+ 3.0
Non-durable goods and services	+ 1.1	+ 0.7	– 9.1	+ 2.5	+ 6.6	+ 2.9
Private household disposable income	+ 1.2	+ 1.6	– 2.0	– 0.2	+ 2.2	+ 2.6
	As a percentage of disposable income					
Household saving ratio						
Including adjustment for the change in pension entitlements	7.7	8.5	14.4	11.4	7.8	7.5
Excluding adjustment for the change in pension entitlements	7.0	7.9	13.9	10.8	7.2	6.9
	Percentage changes from previous year					
Loans to domestic non-banks (end of period)	+ 4.9	+ 4.4	+ 3.8	+ 4.7	+ 3.7	+ 3.1
Consumer prices						
National	+ 2.0	+ 1.5	+ 1.4	+ 2.8	+ 3.3	+ 2.2
Harmonised	+ 2.1	+ 1.5	+ 1.4	+ 2.8	+ 3.4	+ 2.2
Core inflation[2]	+ 1.9	+ 1.6	+ 2.0	+ 2.2	+ 2.8	+ 2.3

Source: WIFO, OeNB, Statistics Austria. 2021 to 2023: forecast. – [1] Private households including non-profit institutions serving households. – [2] Excluding energy and unprocessed food (meat, fish, fruits, vegetables).

Table 5: **Earnings, international competitiveness**

	2018	2019	2020	2021	2022	2023
	Percentage changes from previous year					
Wages and salaries per employee[1]						
Nominal, gross	+ 2.7	+ 2.9	+ 2.0	+ 2.9	+ 3.1	+ 3.3
Real[2]						
Gross	+ 0.7	+ 1.4	+ 0.6	+ 0.1	– 0.2	+ 1.1
Net	+ 0.2	+ 1.4	+ 1.3	– 0.2	+ 1.3	+ 0.9
Wages and salaries per hour worked[1]						
Real, net[2]	+ 0.3	+ 0.9	+ 9.2	– 4.1	– 1.1	+ 0.6
	Percent					
Wage share, adjusted[3]	68.8	69.1	70.2	70.7	69.8	70.1
	Percentage changes from previous year					
Unit labour costs, nominal[4]						
Total economy	+ 2.4	+ 2.3	+ 7.6	+ 1.1	– 0.1	+ 2.6
Manufacturing	+ 1.7	+ 3.3	+ 6.2	– 3.7	+ 0.5	+ 0.1
Effective exchange rate – manufactured goods[5]						
Nominal	+ 1.7	– 0.7	+ 1.4	+ 0.6	+ 0.4	+ 0.2
Real	+ 1.7	– 1.1	+ 1.8	+ 0.4	+ 1.0	+ 0.5

Source: WIFO, Statistics Austria. 2021 to 2023: 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.

The lockdown in the fourth quarter of 2021 again restricted consumption possibilities. This particularly affected trade, accommodation and food services, leisure, events and recreation, transport and body-related services sectors. However, consumption is expected to recover strongly after the official restrictions are lifted. In addition, a larger share of income than usual is saved during the lockdown. This increases the potential for expanding consumption, shifting demand into 2022. With the end of the lockdown, demand for services is likely to increase again and the brisk momentum in consumer durables is likely to subside.

Private household disposable incomes in price-adjusted terms, which fell sharply in 2020, are expected to remain largely stable in 2021 due to government support. In 2022 and 2023, wage increases and the enactment of the tax reform will lead to noticeable income increases despite high inflation. The savings accumulated during the crisis support private consumption, so that the savings rate already falls below its pre-crisis level in 2022.

3.2 The 2021-22 winter season is largely cancelled

Tourism demand in the 2021 summer season was higher than in the previous year and in some regions of Austria was even above the pre-crisis level in terms of overnight stays. Overall, however, the level of overnight stays in the summer season was significantly lower than before the COVID-19 crisis. Due to the absence of long-distance travellers, the guest structure shifted: domestic travellers and important local markets such as Germany and the Netherlands gained in importance.

Due to the rise in infection figures and the imposition of travel warnings – especially by Germany – the outlook for domestic winter tourism became increasingly gloomy in October and November. With the entry into force of official restrictions in Austria, touristic activity finally came to a virtual standstill. Uncertainties about the further development of the spread of infections and the official measures at home and abroad are likely to lead to a number of guests skipping their winter holidays. City tourism continues to suffer from the absence of long-distance travellers, the cancellation of events and the decline in business trips.

The new lockdown, the high level of uncertainty about the further development of the pandemic and the classification of Austria as a high-risk area for travellers from Germany are paralysing domestic winter tourism.

The aforementioned uncertainties are likely to remain even after the lifting of the restrictions and therefore affect the entire winter season 2021-22. In winter, domestic tourism will therefore be dominated by domestic travellers. Foreign demand is not expected to recover until spring and summer 2022. Demand from distant source markets such as Asia or North America, on the other hand, is not expected to recover until 2023. The number of business trips will probably decline permanently.

Risk scenario: Extension of travel warnings

This forecast assumes that the travel warnings for Austria will also be lifted in January 2022 with the slowdown in the incidence of infection, especially by Germany. Should Austria instead remain classified as a high-risk area until the end of the winter season 2021-22, many guests from abroad are likely to stay away. In this case, it is estimated that 3.5 million fewer overnight stays will be recorded in the winter season 2021-22 than in the baseline scenario (–2.5 percent). This estimate is based on the assumption that there will be no regional differentiation of travel warnings between provinces.

Even in the baseline scenario of the forecast, it is assumed that there will be no regular winter season in Austria in 2021-22: on the one hand, unvaccinated persons are largely excluded from winter tourism in Austria due to the 2-G regulation (only vaccinated or convalescent persons) in ski resorts as well as in accommodation and food services. On the other hand, vaccinated persons continue to be affected by restrictions. The more restrictive assumption of the risk scenario thus additionally affects above all families with unvaccinated children under 12 years of age, who are required to go into quarantine in Germany after their return from Austria. However, with increasing vaccination coverage also of children, the corresponding loss of overnight stays decreases over time. The possibility of a winter holiday could provide a certain incentive for families to have children vaccinated earlier. In addition, instead of families, more guests could come who do not usually spend their winter holidays in Austria. This should increase expenditure per capita, as travellers without children tend to spend more money on their holidays.

Under these assumptions, the loss of value added in 2022 in accommodation and food service activities is estimated at about 400 million € compared to the baseline scenario. However, the decline in overnight stays also dampens the value added in the areas of trade, transport and personal services. In total, the direct loss of value added in Austria is estimated at about 700 million €. Taking indirect effects into account, GDP growth in 2022 in the risk scenario is about ¼ percentage point lower than in the baseline scenario.

3.3 Supply bottlenecks dampen foreign trade in goods

Austria's foreign trade in goods had expanded strongly from the middle of 2020, but the recovery came to a halt in summer 2021. On the one hand, the catch-up potential in global trade has been largely exhausted, and on the other hand, supply bottlenecks and material shortages are slowing down production worldwide. The automotive industry, which is particularly affected by a shortage of semiconductors, is an important sub-sector of the Austrian export economy. In addition, the heavy impact on German industry is now being reflected with a time lag in Austria's foreign trade in goods. Export growth is therefore likely to weaken in the fourth quarter. Nevertheless, the strong international economy will lead to high growth in 2021 overall. A favourable investment climate in Austria's most important EU trading partners has a positive effect here, as it directs demand towards those goods that are of high importance in Austrian exports.

Supply bottlenecks and production difficulties are dampening Austria's foreign trade in goods in the second half of 2021, but order backlogs from abroad remain high.

Orders from abroad remain at a high level. Export expectations also remain optimistic. The resolution of supply bottlenecks should again stimulate Austrian foreign trade in spring and summer 2022. In addition, growth in the most important export markets remains high; in Germany, however, demand is shifting in favour of consumer goods, clouding the outlook for the Austrian export industry, which specialises in capital goods. In 2023, growth in the most important trading partners slows down significantly, while it hardly declines in other non-EU countries. Austrian export growth therefore continues to weaken.

Table 6: **Expenditure on GDP**
Volume (chain-linked series)

	2020	2021	2022	2023	2020	2021	2022	2023
	Billion € (reference year 2015)				Percentage changes from previous year			
Final consumption expenditure	246.32	256.09	265.86	271.08	– 6.3	+ 4.0	+ 3.8	+ 2.0
Households[1]	174.88	180.83	192.22	197.80	– 8.5	+ 3.4	+ 6.3	+ 2.9
General government	71.41	75.20	73.73	73.44	– 0.5	+ 5.3	– 2.0	– 0.4
Gross capital formation	90.33	97.31	101.40	104.55	– 4.6	+ 7.7	+ 4.2	+ 3.1
Gross fixed capital formation	88.12	93.10	97.54	99.28	– 5.2	+ 5.7	+ 4.8	+ 1.8
Machinery and equipment[2]	28.40	30.67	32.97	33.30	– 8.7	+ 8.0	+ 7.5	+ 1.0
Construction	39.70	41.65	42.81	43.62	– 3.7	+ 4.9	+ 2.8	+ 1.9
Other investment[3]	19.97	20.77	21.81	22.40	– 3.2	+ 4.0	+ 5.0	+ 2.7
Domestic demand	337.18	354.29	368.18	376.57	– 5.8	+ 5.1	+ 3.9	+ 2.3
Exports	191.59	211.22	229.11	238.64	– 10.8	+ 10.2	+ 8.5	+ 4.2
Travel	9.38	7.07	13.76	15.07	– 43.9	– 24.6	+ 94.6	+ 9.5
Minus imports	180.59	203.34	215.79	224.25	– 9.4	+ 12.6	+ 6.1	+ 3.9
Travel	3.35	4.35	7.67	8.95	– 63.6	+ 30.0	+ 76.3	+ 16.7
Gross domestic product	348.36	362.58	381.58	391.00	– 6.7	+ 4.1	+ 5.2	+ 2.5
Value	379.32	401.15	433.81	453.84	– 4.6	+ 5.8	+ 8.1	+ 4.6

Source: WIFO, Statistics Austria. 2021 to 2023: forecast. – [1] Including non-profit institutions serving households. – [2] Including weapon systems. – [3] Mainly intellectual property products (research and development, computer programmes, copyrights).

Table 7: **Productivity**

	2018	2019	2020	2021	2022	2023
	Percentage changes from previous year					
Total economy						
Real GDP	+ 2.5	+ 1.5	– 6.7	+ 4.1	+ 5.2	+ 2.5
Hours worked[1]	+ 1.9	+ 1.6	– 8.7	+ 6.6	+ 4.5	+ 2.0
Productivity[2]	+ 0.5	– 0.1	+ 2.1	– 2.4	+ 0.7	+ 0.5
Employment[3]	+ 1.8	+ 1.3	– 1.9	+ 2.0	+ 1.8	+ 1.5
Manufacturing						
Production[4]	+ 4.3	+ 0.6	– 7.0	+ 8.6	+ 3.2	+ 3.5
Hours worked[5]	+ 2.4	+ 0.8	– 6.2	+ 5.9	+ 0.8	+ 0.7
Productivity[2]	+ 1.9	– 0.1	– 0.8	+ 2.5	+ 2.4	+ 2.8
Employees[6]	+ 2.8	+ 1.5	– 1.5	+ 0.5	+ 0.7	+ 0.5

Source: WIFO, Statistics Austria. 2021 to 2023: 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).

Supply bottlenecks are slowing down the strong economic upswing in industry. However, corporate sentiment and the favourable order situation point to a continuation of the recovery in 2022.

Domestic imports in 2021 were driven by strong demand for consumer durables. However, this subsides in the second half of 2021 and is expected to weaken further in 2022, even if the delivery of orders is delayed due to supply bottlenecks. In 2023, the slowdown in investment momentum due to the expiry of pull-forward effects also dampens import development. The strong price increase in goods imports in 2021 is due to high commodity and energy prices, and is expected to weaken gradually over the forecast period.

3.4 Supply bottlenecks and material shortages slow down industrial activity

In the manufacturing of goods, a strong upswing already began in 2020, which was hardly slowed down by the COVID-19 restrictions in Austria. Seasonally adjusted, value added in this sector already exceeded the pre-crisis level again in the first quarter of 2021. The pandemic-related shift in consumer demand from services to durable goods also contributed significantly to this. The rapid and strong recovery of global industrial production, however, increasingly led to supply bottlenecks also in Austria from spring 2021 onwards, resulting in production losses and delays. According to the WIFO-Konjunkturtest (business cycle survey) of October 2021, 43 percent of the manufactured goods producers surveyed reported that their production was limited by material or capacity shortages. The automotive industry is particularly affected due to supply problems with semiconductors. However, the shortage of materials is also clearly evident in many other sectors. Domestic industrial production is therefore unlikely to grow much in the fourth quarter of 2021. However, the high growth rates in the first three quarters will lead to a strong increase in value added in the manufacturing sector in 2021 overall.

Table 8: **Gross value added**

At basic prices

	2020	2021	2022	2023	2020	2021	2022	2023
	Billion € (reference year 2015)				Percentage changes from previous year			
Volume (chain-linked series)								
Agriculture, forestry and fishing	4.20	4.31	4.31	4.31	– 3.1	+ 2.5	± 0.0	± 0.0
Manufacturing including mining and quarrying	61.37	66.65	68.79	71.19	– 7.1	+ 8.6	+ 3.2	+ 3.5
Electricity, gas and water supply, waste management	9.67	10.54	10.75	11.02	– 1.4	+ 9.0	+ 2.0	+ 2.5
Construction	18.98	19.78	20.19	20.50	– 3.0	+ 4.2	+ 2.1	+ 1.5
Wholesale and retail trade	38.40	40.55	42.74	44.24	– 4.2	+ 5.6	+ 5.4	+ 3.5
Transportation	16.36	17.34	18.21	18.57	– 13.0	+ 6.0	+ 5.0	+ 2.0
Accommodation and food service activities	9.79	8.03	14.41	15.59	– 40.1	– 18.0	+ 79.5	+ 8.2
Information and communication	13.21	13.63	13.91	14.18	– 1.7	+ 3.2	+ 2.0	+ 2.0
Financial and insurance activities	16.08	16.49	17.04	17.47	+ 5.1	+ 2.6	+ 3.3	+ 2.5
Real estate activities	31.17	31.48	31.73	31.89	+ 0.3	+ 1.0	+ 0.8	+ 0.5
Other business activities[1]	30.98	33.77	34.95	35.89	– 8.1	+ 9.0	+ 3.5	+ 2.7
Public administration[2]	54.30	55.28	55.83	56.39	– 3.7	+ 1.8	+ 1.0	+ 1.0
Other service activities[3]	7.23	7.27	8.14	8.54	– 19.7	+ 0.5	+ 12.0	+ 5.0
Total gross value added[4]	311.08	323.71	340.36	349.11	– 6.8	+ 4.1	+ 5.1	+ 2.6
Gross domestic product at market prices	348.36	362.58	381.58	391.00	– 6.7	+ 4.1	+ 5.2	+ 2.5

Source: WIFO, Statistics Austria. 2021 to 2023: 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.

Sentiment among Austrian industrial companies remains positive, and order backlogs and capacity utilisation remain high. The supply bottlenecks should therefore only temporarily slow down the economic upswing in industry, because they are likely to dissipate around mid-2022 due to the slowdown in global growth momentum. Industrial production should then pick up speed again. However, the catch-up potential after the COVID-19 crisis is largely exhausted, partly because the lifting of regulatory restrictions will also bring service consumption back to the fore. The momentum in industry will therefore gradually weaken. In 2022 and 2023, growth is likely to be significantly lower than in 2021, but still high.

3.5 Investment projects are postponed

Investment has lost noticeable momentum since spring 2021. Supply bottlenecks in many economic sectors are delaying entire investment projects and led to a significant decline in machinery and equipment investment in the third quarter of 2021. This downward trend is likely to continue until the end of the year. In 2021 overall, however, machinery and equipment investment will expand strongly due to the strong momentum at the beginning of the year.

A large part of the investments postponed in 2021 are likely to be made up in subsequent years. In the case of machinery and equipment in particular, projects can be postponed relatively easily. Other fixed capital investments – to a large extent investments in research and development – will be made up to a lesser extent due to their intangible character. This also includes concessions and licences that are tied to specific time periods.

In 2023, investment is expected to slow down significantly as the pull-forward effects of the investment premium expire. At around 5 billion €, the take-up of the investment premium is likely to be lower than assumed in the last forecast; however, the premium should continue to bring about considerable additional and advance investments in 2021 and 2022.

Due to the shortage of primary products and materials, a number of investment projects are postponed until 2022. In 2023, the pull-forward effects of the investment premium will expire.

Material and labour force shortages are leading to a postponement of construction projects. However, construction activity remains robust and price dynamics high.

3.6 Lack of materials delays construction production

The construction industry continues to be characterised by developments that resemble a boom. Capacity utilisation and order backlogs are high, prices are rising strongly. In this sector, too, companies recently reported a shortage of materials and labour force, which is slowing down construction activity and contributing to the strong price increases. However, demand remains high, so these obstacles do not lead to permanent production shortfalls, but only to a postponement of production. In the fourth quarter of 2021, however, value added in the construction industry is likely to be largely stagnant. Price dynamics are likely to remain high and dampen growth in this sector.

Overall, value added in the construction industry will increase strongly in 2021. In the following years, however, growth will weaken somewhat; in 2023 it will be below 2 percent again.

The development on the labour market remains favourable in the forecast period. The unemployment rate falls below the pre-crisis level in 2022.

3.7 Favourable development on the labour market

The labour market develops extremely favourably in 2021. Although the employment dynamic lost noticeable momentum towards the end of the year, the average number of persons in dependent active employment will increase significantly and thus exceed the pre-crisis level. About two-thirds of the increase is accounted for by foreign workers. This trend is likely to continue in the following years, to which the demographically induced decline in the labour force will also contribute from 2023 onwards. In addition, the number of hours worked per employee increases markedly in 2021 and continues to rise until 2023. This is largely due to the lower utilisation of short-time work. However, the volume of working hours of employees does not exceed its pre-crisis level until 2022.

The unemployment rate according to the national definition falls by nearly 2 percentage points in 2021, but still remains significantly higher than in 2019. It is not until 2022 that it is expected to fall below the pre-crisis level, with a further slight decline by 2023. Only about one third of the increase in employment will be covered by unemployment.

High commodity and energy prices are driving inflation in 2021 and 2022. In 2023, the inflation rate should fall back towards the ECB target.

3.8 Inflation remains high until 2022

Inflation rose strongly in the course of 2021, driven by high commodity and energy prices and the resulting price increases of industrial goods. The upward trend in prices is likely to intensify somewhat in 2022 because the price-driving factors will persist and only gradually subside as the global economy slows down. In addition, electricity and gas prices will rise significantly at the beginning of 2022. Other price-driving factors are the planned re-increase of VAT, which was reduced in some areas in the course of the crisis, and the CO_2 pricing, which will take effect from July 2022. However, the peak of monthly inflation momentum is expected to be reached at the beginning of 2022 and to subside to 2 percent by the end of the year. No lasting acceleration in inflation is expected, as nominal unit labour costs are likely to stagnate for the most part in 2022 and only pick up somewhat in the following year. In 2023, the inflation rate is expected to be just above the European Central Bank's target of 2 percent.

Expenditures to cushion the economic consequences of the COVID-19 pandemic increase the deficit in 2021. Their elimination leads to a significant improvement in the budget situation in 2022 and 2023, despite the loss of revenue due to the tax reform.

3.9 Development of public budgets driven by pandemic and tax reform

As in the previous year, the development of public budgets in 2021 is primarily determined by the government programmes to cushion the economic consequences of the pandemic. On the expenditure side, in addition to the short-time work subsidies, the high support payments for affected companies (fixed cost subsidy, loss bonus, loss compensation) play a significant role. These were partly extended until spring 2022 in the course of the fourth lockdown. However, the subsidies contribute significantly to maintaining employment and securing the liquidity of companies, thus stabilising wage tax and social security revenues. Unemployment expenditure will nevertheless be very high in 2021. The increase in expenditure is somewhat slowed down by the discontinuation of one-off payments granted in 2020 (child bonus, family hardship compensation, unemployment benefit). The investment premium, the total volume of which is estimated at about 5 billion € until 2026, will primarily burden the budget in 2021 and 2022.

As a result of the reduction in subsidies, a return to a "normal" expenditure path is expected in 2022 and 2023. Annual increases in additional expenditure will result from 2022 onwards from the regional climate bonus. This will be introduced in the course of the eco-social tax reform to compensate for burdens on private households from CO_2 pricing, which will be levied from mid-2022 and increase annually.

Despite a large number of tax support measures (acceleration of depreciation, offsetting of losses, temporary reduction of the VAT rate in food services, accommodation and culture), there will be a strong increase in tax revenues again as early as 2021 due to the favourable employment trend, especially in direct taxes and social contributions. The planned relief for private households through the income tax reform (reduction of tax rates in the second and third bracket), the increase of the Family Bonus Plus and the reduction of health insurance contributions will dampen revenue growth from 2022 onwards; from 2023 onwards, the gradual reduction of the corporate income tax rate will cause revenue losses. The additional revenue from CO_2 pricing is likely to be rather moderate in 2022 and 2023 due to hardship schemes, carbon leakage compensation and reimbursement schemes for agriculture. With the economic recovery and the abolition of the sales tax concession from 2022, the revenue from indirect taxes will grow significantly.

Table 9: **Labour market**

	2018	2019	2020	2021	2022	2023
	Change from previous year in 1,000					
Demand for labour						
Persons in active employment[1]	+ 91.6	+ 61.4	− 76.7	+ 94.0	+ 74.0	+ 68.0
Employees[1,2]	+ 88.0	+ 58.9	− 76.1	+ 89.0	+ 70.0	+ 65.0
National employees	+ 33.7	+ 12.3	− 53.9	+ 31.0	+ 17.0	+ 15.0
Foreign employees	+ 54.4	+ 46.6	− 22.2	+ 58.0	+ 53.0	+ 50.0
Self-employed[3]	+ 3.6	+ 2.5	− 0.6	+ 5.0	+ 4.0	+ 3.0
Labour supply						
Population of working age						
15 to 64 years	+ 13.2	+ 11.4	+ 9.9	+ 11.8	+ 6.1	− 3.9
Labour force[4]	+ 63.8	+ 50.6	+ 31.6	+ 17.0	+ 44.0	+ 53.0
Labour surplus						
Unemployed[5]	− 27.9	− 10.8	+ 108.3	− 77.0	− 30.0	− 15.0
Unemployed persons in training	− 3.4	− 6.8	− 4.9	+ 13.0	− 2.0	± 0.0
	Percent					
Unemployment rate						
As a percentage of total labour force (Eurostat)[6]	5.2	4.8	6.0	6.4	4.8	4.4
As a percentage of total labour force[5]	6.9	6.6	8.9	7.2	6.5	6.1
As a percentage of dependent labour force[5]	7.7	7.4	9.9	8.0	7.2	6.8
	Percentage changes from previous year					
Labour force[4]	+ 1.4	+ 1.1	+ 0.7	+ 0.4	+ 1.0	+ 1.1
Persons in active dependent employment[1,2]	+ 2.5	+ 1.6	− 2.0	+ 2.4	+ 1.9	+ 1.7
Unemployed[5]	− 8.2	− 3.5	+ 35.9	− 18.8	− 9.0	− 5.0
Persons (in 1,000)	312.1	301.3	409.6	332.6	302.6	287.6

Source: WIFO, Eurostat, Federation of Social Insurances, Public Employment Service Austria, Statistics Austria. 2021 to 2023: forecast. – [1] Excluding persons in valid employment contract receiving child care benefit or being in military service. – [2] According to the Federation of Social Insurances. – [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. Due to a revision of the Labour Force Survey methodology planned for the end of June, a forecast of this indicator is currently waived.

Table 10: **Fiscal and monetary policy – key figures**

	2018	2019	2020	2021	2022	2023
	As a percentage of GDP					
Fiscal policy						
General government financial balance[1]	0.2	0.6	− 8.3	− 6.2	− 1.8	− 0.6
General government primary balance	1.8	2.0	− 7.0	− 5.1	− 0.8	0.3
General government total revenue	48.9	49.2	48.7	49.5	48.6	48.4
General government total expenditure	48.7	48.6	57.1	55.8	50.4	49.1
	Percent					
Monetary policy						
Three-month interest rate	− 0.3	− 0.4	− 0.4	− 0.6	− 0.4	0.4
Long-term interest rate[2]	0.7	0.1	− 0.2	− 0.1	0.1	0.5

Source: WIFO, ECB, OeNB, Statistics Austria. 2021 to 2023: forecast. – [1] According to Maastricht definition. – [2] 10-year central government bonds (benchmark).

After a deficit of 8.3 percent of GDP in the previous year, a negative general government balance of 6.2 percent is again expected for 2021. In the following years, however, a significant reduction of the budget deficit to 1.8 percent (2022) and

0.6 percent (2023) is expected. The continuing decline in interest expenditure will also contribute to an improvement in the budget position. The government debt ratio reaches a preliminary peak of 84.4 percent of economic output in 2021, but is expected to decline to 76.8 percent of GDP by 2023.

4. Forecast risks

The most important forecast risks include uncertainty about the further course of the pandemic and a continuation of supply bottlenecks.

Uncertainty about the further course of the COVID-19 pandemic remains extremely high. The incidence rate increased more strongly in autumn 2021 than expected in the last forecast, resulting in renewed regulatory restrictions of economic activity. However, with the increase in vaccination coverage, to which compulsory vaccination should also contribute significantly, the probability of a renewed flare-up of the pandemic decreases. It cannot be ruled out, however, that new viral mutations will appear, which would give the spread of infections a fresh boost and thus dampen the economic recovery. For example, it is still unclear to what extent the vaccines used so far are effective against the omicron variant of the SARS-CoV-2 virus.

Supply bottlenecks and material shortages could also last longer than assumed in this forecast. As a result, price pressures could also remain high for longer than expected. This would in turn present central banks with a difficult task, as tightening monetary policy would not only dampen inflation but also economic growth. Moreover, such tightening in the USA in the past led to strong capital inflows from emerging markets. This could lead to devaluation, accelerating inflation, foreign currency loan defaults or even recession in the affected countries.

It also remains to be seen how the solvency of crisis-ridden companies will develop once government support measures are scaled back. This could increase the volume of non-performing loans and restrict bank lending.

An expansion of production volumes, on the other hand, could sustainably dampen the currently very high crude oil prices. This would reduce the rise in consumer prices and thus allow the central banks to maintain their monetary policy course. This would probably also result in higher consumer spending, because the interest rate level for the assets saved during the crisis would thus remain low in the longer term.