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**Economic Recovery Loses Momentum.**  
Economic Outlook for 2022 and 2023

Christian Glocker, Stefan Schiman

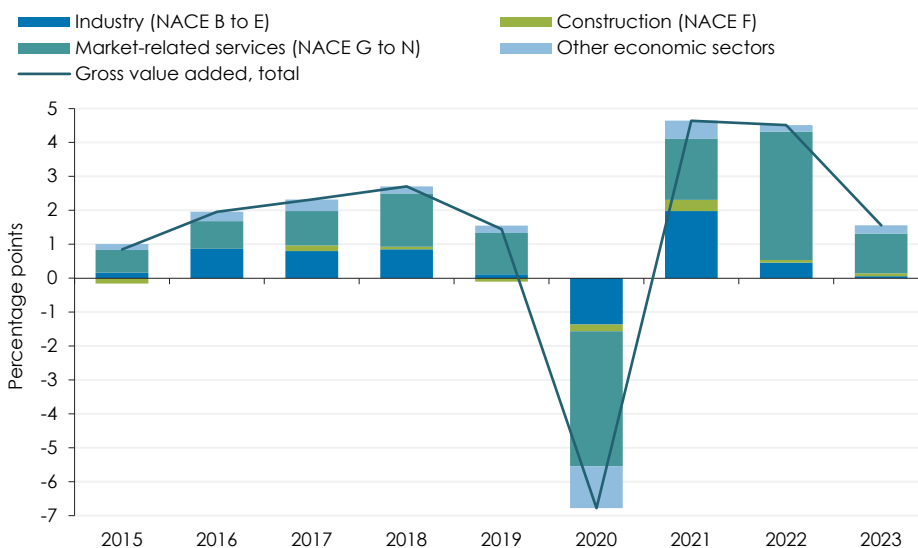
# Economic Recovery Loses Momentum

## Economic Outlook for 2022 and 2023

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- The domestic economy will weaken in the forecast period: After the significant recovery in the previous year (+4.8 percent), GDP is expected to grow by 4.3 percent in 2022 and by 1.6 percent in 2023.
- While the lively industrial economy shaped the overall economic upswing in 2021, tourism in particular will contribute disproportionately to growth in the current year.
- The fiscal balance will improve in both forecast years.
- As employment grows more strongly than labour supply, the unemployment rate falls.
- Greenhouse gas emissions (measured in CO<sub>2</sub> equivalents) are expected to decrease over the forecast period due to the economic cycle.

### Growth contribution of economic sectors to gross value added, volume



**"While the buoyant industrial activity shaped the overall economic expansion in the previous year, market services will contribute disproportionately to growth in 2022, mainly due to the revival of tourism."**

The growth contributions indicate the extent to which the three components (industry, construction and market services) contribute to overall economic growth. The amount of a component's growth contribution is calculated by dividing the absolute change of the component compared to the previous period by the value of gross value added in the previous period (source: WIFO, Statistics Austria. 2022 and 2023: forecast).

# Economic Recovery Loses Momentum

## Economic Outlook for 2022 and 2023

Christian Glocker, Stefan Schiman

July 2022

### Economic Recovery Loses Momentum. Economic Outlook for 2022 and 2023

The economic outlook has clouded worldwide since the last WIFO forecast. This also has consequences for the expected recovery in Austria. Leading indicators point to an economic slowdown that will predominantly affect industry in 2022. In contrast, tourism will contribute disproportionately to economic growth in 2022. After +4.8 percent in the previous year, WIFO expects real GDP growth of 4.3 and 1.6 percent for 2022 and 2023, respectively.

**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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## 1. Introduction

The recovery of the global economy will be dampened by several factors in both forecast years. These include the aftermath of the COVID-19 crisis, the Ukraine war, continued upward pressure on prices, ongoing supply chain disruptions and monetary tightening by central banks. Any one of these factors could, in and of itself, be detrimental to global expansion. In the current environment, however, they appear jointly. As a result, growth in the global economy will slow down.

This development affects the Austrian economy in two ways via foreign trade. On the one hand, the weakening of the global economy is dampening the outlook for domestic goods exports and thus for industry. On the other hand, the marked increase in world market prices for raw materials and intermediate goods represents a negative terms-of-trade shock, which shapes domestic price buoyancy and weighs on real household incomes. However, this is contrasted by an extremely strong recovery in tourism, which is accompanied by high

growth in service exports and thus in the value added of market services.

Against this backdrop, the Austrian economy is expected to expand by 4.3 percent in 2022, weaker than in the previous year. Due to the sectoral shift in growth – slowdown in industry, strong expansion in market services – Austria's economy can still largely escape the cooling of the global industrial economy in 2022. In 2023, however, the overall economic momentum is likely to slow down more strongly (+1.6 percent).

The favourable development on the labour market will continue in both forecast years. For 2022, active dependent employment is expected to increase by 3.0 percent, for 2023 by 0.9 percent. Due to the buoyant demand for labour, unemployment has been declining year-on-year since March 2021. This trend will continue in the forecast period. The unemployment rate will fall to 6.3 percent in 2022 and stagnate in 2023 (2021: 8.0 percent).

The expected flattening of economic growth should not have a dampening effect on inflation until 2023. According to the Harmonised Index of Consumer Prices (HICP), headline inflation will initially rise to 7.9 percent in 2022 (2021: 2.8 percent). The main

reason for this is the passing on of high prices for raw materials, agricultural and intermediate goods to consumers. In 2023, inflation will slow to 5.3 percent. However, it will still be significantly above the long-term average.

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	+ 4.8	+ 4.3	+ 1.6	
Manufacturing	+ 4.3	+ 0.6	- 7.0	+ 8.9	+ 2.2	+ 0.2	
Wholesale and retail trade	+ 4.2	+ 2.0	- 4.2	+ 7.4	+ 4.2	+ 3.2	
Private consumption expenditure <sup>1</sup> , volume	+ 1.1	+ 0.7	- 8.5	+ 3.5	+ 4.1	+ 2.2	
Consumer durables	+ 1.0	+ 0.3	- 2.6	+ 10.9	- 2.5	+ 3.0	
Gross fixed capital formation, volume	+ 4.4	+ 4.8	- 5.2	+ 4.3	+ 2.2	+ 2.4	
Machinery and equipment <sup>2</sup>	+ 3.4	+ 5.5	- 6.5	+ 5.0	+ 3.3	+ 3.6	
Construction	+ 5.6	+ 4.0	- 3.7	+ 3.4	+ 1.1	+ 1.2	
Exports, volume	+ 5.1	+ 3.4	- 10.8	+ 13.9	+ 8.1	+ 3.2	
Exports of goods, fob	+ 4.7	+ 2.7	- 7.8	+ 18.9	+ 5.0	+ 3.0	
Imports, volume	+ 5.3	+ 2.0	- 9.4	+ 16.7	+ 5.8	+ 3.2	
Imports of goods, fob	+ 4.1	- 0.0	- 6.4	+ 18.6	+ 5.2	+ 3.0	
Gross domestic product, value	+ 4.3	+ 3.1	- 4.6	+ 6.2	+ 9.6	+ 6.0	
	billion €	385.42	397.52	379.32	402.71	441.44	468.14
Current account balance as a percentage of GDP	0.9	2.1	1.9	- 0.5	- 1.0	- 1.2	
Consumer prices	+ 2.0	+ 1.5	+ 1.4	+ 2.8	+ 7.8	+ 5.3	
Three-month interest rate	percent - 0.3	- 0.4	- 0.4	- 0.5	0.1	2.0	
Long-term interest rate <sup>3</sup>	percent 0.7	0.1	- 0.2	- 0.1	1.5	3.2	
General government financial balance, Maastricht definition as a percentage of GDP	0.2	0.6	- 8.0	- 5.9	- 3.0	- 1.2	
Persons in active dependent employment <sup>4</sup>	+ 2.5	+ 1.6	- 2.0	+ 2.5	+ 3.0	+ 0.9	
Unemployment rate							
Eurostat definition <sup>5</sup>	5.2	4.8	6.0	6.2	4.5	4.5	
National definition <sup>6</sup>	7.7	7.4	9.9	8.0	6.3	6.3	
Greenhouse gas emissions <sup>7</sup>							
CO <sub>2</sub> equivalents	- 4.0	+ 1.5	- 7.7	+ 5.1	- 1.8	- 1.1	
Emissions intensity <sup>8</sup>	- 6.5	+ 0.1	- 1.0	+ 0.4	- 6.0	- 2.6	

Source: WIFO, ECB, Environmental Agency Austria, Federation of Social Insurances, OeNB, Public Employment Service Austria, Statistics Austria, 2022 and 2023: forecast. – <sup>1</sup> Including non-profit institutions serving households. – <sup>2</sup> Including weapons systems. – <sup>3</sup> 10-year central government bonds (benchmark). – <sup>4</sup> Excluding persons in valid employment contract receiving child care benefit or being in military service. – <sup>5</sup> 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. – <sup>6</sup> As a percentage of dependent labour force. – <sup>7</sup> From 2021: forecast. – <sup>8</sup> CO<sub>2</sub> equivalents per euro of gross value added, volume.

## 2. The starting position

After the slump in Austrian economic output in the crisis year 2020, GDP grew by 4.8 percent in 2021 compared to the previous year (nominally +6.2 percent). Economic activity fluctuated significantly during the year. It followed the wave-like course of the COVID-19 pandemic, which determined the respective official containment measures in force. At the same time, the domestic economy experienced expansive impulses from the global economic upswing.

On the demand side, private household consumption expenditure in particular reacted sensitively to the official restrictions and their lifting in 2021. Nevertheless, private consumption made a significant contribution to economic growth in 2021. Against the backdrop of the expanding global

economy, domestic goods exports increased. Although the accompanying increase in imports dampened the rise in GDP in purely arithmetical terms, it reflects the recovery in domestic demand, especially since companies also expanded their demand in addition to private households.

On the supply side, the volatile course of gross value added in body-related services, accommodation and food services, as well as in the leisure and culture sector in particular shaped the development of the overall economy in 2021. It was a side effect of the regulatory COVID-19 measures. In contrast, the less contact-intensive service industries and the construction industry expanded comparatively strongly. Industry recorded a strong recovery in 2021, mainly due to high

growth in goods exports, and dominated the growth of the overall economy.

The overall economic expansion left clear marks on the labour market. Employment already reached the pre-crisis level of 2019 in May, unemployment only in autumn, as the economic upswing also led to an increase in the labour supply. This was exclusively due to people aged 50 and over, whereas the labour supply of younger people declined.

### 3. The framework conditions

This forecast is based on the information available as of mid-June 2022 with regard to assumptions about the direction of economic policy and the development of the global economy, exchange rates, commodity prices and interest rates. The forecast period extends from the second quarter of 2022 to the fourth quarter of 2023.

With regard to the COVID-19 pandemic, it is assumed that no new regulatory closures will be necessary during the forecast period. In addition, it is assumed that new virus variants will not significantly reduce the effectiveness of the vaccines and thus there will be no major health-related setbacks for the global economy.

With regard to the Ukraine war, it is assumed that the conflict will not intensify further, but that the economic sanctions against Russia will remain in force until the end of 2023. The assumptions on the influx of refugees from Ukraine concern the net inflow, the integration of refugees into the labour market and the fiscal costs. Net immigration from Ukraine is expected to amount to 150,000 persons by the end of 2023, 60 percent of whom are of working age. This increases the labour supply by about 30,000 – spread over both forecast years – with 50 percent assumed to be employed and 50 percent unemployed. The annual fiscal costs are estimated at 0.45 billion € in 2022 and 0.9 billion € in the following year and take into account increasing labour market integration.

#### 3.1 The international economic environment

The growth of global industrial production and world trade, which had accelerated in the winter starting from China, has increasingly slowed down since the beginning of 2022; the global economy expanded only weakly in the first quarter of 2022. Pandemic-related restrictions, together with supply-side production constraints and the resulting price increases, led to an economic slowdown that affected both industrialised and emerging economies.

Consumer confidence in the euro area has declined since the outbreak of war in

Headline inflation was still subdued in 2021 (+2.8 percent, according to the CPI), but strengthened in the course of the year and thus mirrored the rise in producer prices with a lag. Consumer price inflation was mainly due to the strong increase in the price of energy (petroleum products from spring, natural gas and electricity from summer and autumn 2021) and (durable) consumer goods.

Ukraine. In contrast, the mood in the service sector remained optimistic. The momentum there is largely driven by recovery effects after the pandemic-related closures and is proving to be a pillar of economic activity. Manufacturing, on the other hand, is suffering from price increases and ongoing supply chain problems. While production expectations had already deteriorated in March 2022, the situation assessments of European industrial companies also deteriorated for the first time in May. Both indicators point to a weakening of the industrial economy in the further course of the year. Overall, GDP in the euro area is expected to grow by 3.3 percent in 2022 and by 2.7 percent in 2023.

In the USA, the domestic economy is still robust. The tension on the labour market is increasing more and more, so that wages are rising strongly. Accordingly, more goods and services are affected by strong price increases in the USA than in the euro area, while commodity price increases play a lesser role. Inflation in the USA is less driven by adverse supply shocks than in the euro area. Accordingly, the Federal Reserve is tightening monetary policy more rapidly than the ECB. A few more interest rate steps will follow in the forecast period. This will dampen economic activity and overall economic growth (to +2.4 percent in 2022 and +2.0 percent in 2023).

In China, the strict regulatory measures, especially in Shanghai, have had a strong impact on the economy recently. Normalisation will take some time. Nevertheless, the Chinese government continues to pursue a zero-COVID policy, albeit with exemptions for quarantined areas to shorten the duration of restrictions. However, government spending, especially on infrastructure projects, is likely to support the economy. In contrast to most developed countries, monetary policy in China is tending to loosen after having been tightened in 2021 as a result of the real estate boom. Overall, China's economy is expected to grow by 3.8 percent in 2022 and 5.3 percent in 2023.

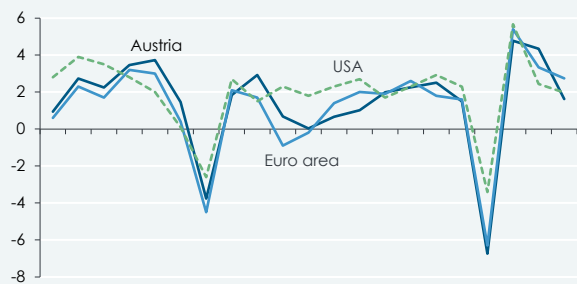
**The recovery of the global economy is being dampened by the Ukraine war. In addition, there is high price pressure worldwide, which reduces the purchasing power of households. Austrian export markets should nevertheless expand in both forecast years, although the momentum is weakening.**

**China's economic recovery will be affected by repeated local COVID-19 measures in 2022. In 2023, China's economy is expected to grow more strongly again.**

Figure 1: Indicators of economic performance

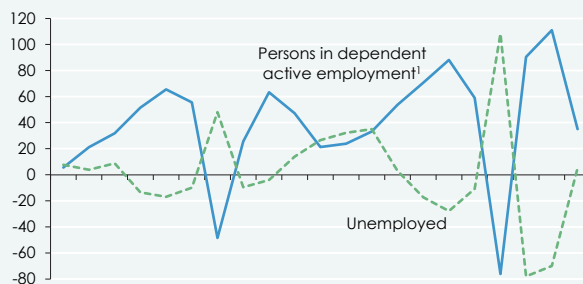
**Growth of real GDP**

Percent



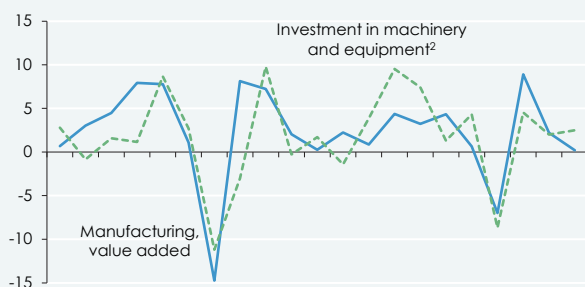
**Employment and unemployment**

Change from previous year in 1,000



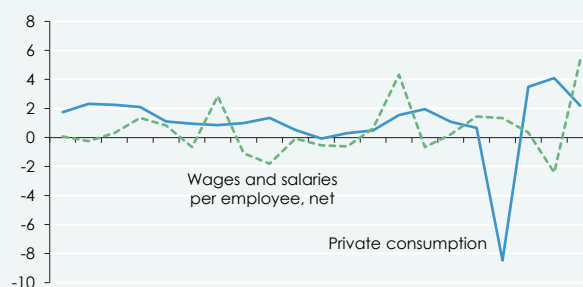
**Manufacturing and investment**

Percentage changes from previous year, volume



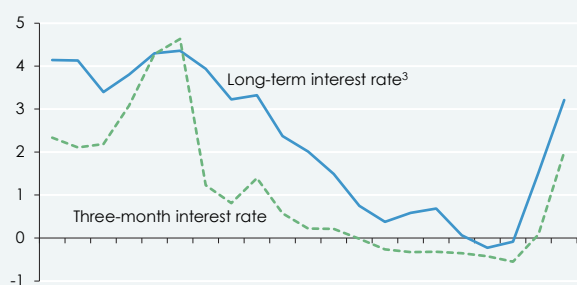
**Consumption and income**

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. 2022 and 2023: forecast. – <sup>1</sup> 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. – <sup>2</sup> Including weapons systems. – <sup>3</sup> 10-year central government bonds (benchmark). – <sup>4</sup> Including short-time work grants. – <sup>5</sup> Source: European Commission.

Commodity prices remain at very high levels. Crude oil and unprocessed food were almost twice as expensive in May 2022 as in 2019. The price of natural gas, which had already been very volatile in the past, was about two and a half times higher in May 2022 than at the end of 2018 during the last high-price period. The cooling of the global

economy is likely to dampen commodity prices. However, this continues to be offset by short-term supply constraints and potential upward price effects due to geopolitical upheavals. WIFO expects a crude oil price (Brent) of around 109 \$ per barrel for 2022 (2023: 97 \$), after 70.7 \$ in 2021.

Table 2: **International economy**

	Percentage shares 2021		2018	2019	2020	2021	2022	2023
	Austria's exports of goods	World GDP <sup>1</sup>						
EU 27	67.6	14.9	+ 2.1	+ 1.8	- 5.9	+ 5.4	+ 3.6	+ 2.7
Euro area	51.8	12.0	+ 1.8	+ 1.6	- 6.3	+ 5.4	+ 3.3	+ 2.7
Germany	30.1	3.3	+ 1.1	+ 1.1	- 4.6	+ 2.9	+ 2.5	+ 3.6
Italy	6.8	1.9	+ 0.9	+ 0.5	- 9.0	+ 6.6	+ 3.2	+ 2.2
France	3.8	2.3	+ 1.9	+ 1.8	- 7.8	+ 6.8	+ 2.4	+ 1.8
CEEC 5 <sup>2</sup>	15.4	1.7	+ 4.7	+ 4.1	- 3.5	+ 5.4	+ 5.1	+ 2.5
Hungary	3.7	0.2	+ 5.4	+ 4.6	- 4.5	+ 7.1	+ 6.0	+ 3.4
Czech Republic	3.6	0.3	+ 3.2	+ 3.0	- 5.8	+ 3.3	+ 2.6	+ 3.0
Poland	4.0	1.0	+ 5.4	+ 4.7	- 2.2	+ 5.9	+ 6.0	+ 2.0
USA	6.7	15.7	+ 2.9	+ 2.3	- 3.4	+ 5.7	+ 2.4	+ 2.0
Switzerland	5.2	0.5	+ 2.9	+ 1.2	- 2.4	+ 3.7	+ 2.5	+ 1.4
UK	2.7	2.3	+ 1.7	+ 1.7	- 9.3	+ 7.4	+ 3.6	+ 1.4
China	2.9	18.6	+ 6.7	+ 6.0	+ 2.2	+ 8.1	+ 3.8	+ 5.3
Total <sup>3</sup>								
PPP-weighted <sup>4</sup>		52.0	+ 4.0	+ 3.4	- 2.4	+ 6.5	+ 3.3	+ 3.4
Export weighted <sup>5</sup>	85.6		+ 2.3	+ 1.9	- 5.3	+ 5.5	+ 3.5	+ 2.7
Market growth <sup>6</sup>			+ 4.0	+ 1.7	- 6.1	+ 11.2	+ 4.5	+ 3.5
<b>Forecast assumptions</b>								
Crude oil prices								
Brent, \$ per barrel			71.0	64.3	41.7	70.7	109	97
Exchange rate								
\$ per €			1.181	1.120	1.141	1.184	1.07	1.08
Key interest rate								
ECB main refinancing rate <sup>7</sup> , percent			0.0	0.0	0.0	0.0	0.3	1.7
10-year government bonds yields Germany, percent			0.4	- 0.3	- 0.5	- 0.4	1.1	2.9

Source: WIFO, Bureau of Economic Analysis, Eurostat, EIA, ECB, IMF, OECD, Statistics Austria. 2022 and 2023: forecast. – <sup>1</sup> PPP-weighted. – <sup>2</sup> Czech Republic, Hungary, Poland, Slovenia, Slovakia. – <sup>3</sup> EU 27, UK, USA, Switzerland, China. – <sup>4</sup> Weighted by GDP at purchasing power parities in 2021. – <sup>5</sup> Weighted by shares of Austrian goods exports in 2021. – <sup>6</sup> Real import growth of trading partners, weighted by shares of Austrian goods exports. – <sup>7</sup> Minimum bid rate.

### 3.2 The economic policy framework

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

#### 3.2.1 Monetary policy

The ECB's monetary policy continues to be caught in a field of tension: on the one hand, it wants to continue to have an expansionary effect on the economy in order to keep the debt service of highly indebted euro countries low and thus prevent a renewed debt crisis. On the other hand, inflation in the euro area is now very high, which

would justify a much tighter monetary policy stance.

The key interest rates have not been changed since autumn 2019. The main refinancing rate is 0 percent, the marginal lending rate is 0.25 percent and the deposit rate is -0.5 percent. However, inflationary pressures have intensified, with price increases affecting a wide range of goods and services. As a result, the Governing Council recently decided on several measures. For example, net purchases under the Asset Purchase Programme (APP) will end on 1 July 2022. Under the Pandemic Emergency Purchase Programme (PEPP), principal payments from maturing securities will continue to be reinvested until at least the end of

2024. The Governing Council also intends to raise the key interest rates by 25 basis points in July 2022.

WIFO assumes a further tightening of the monetary policy framework for the forecast period. Both interest rates for the private sector and those on government bonds are likely to rise more strongly than assumed in the WIFO forecast of March 2022. On the one hand, the tightening of monetary policy will be significant, but on the other hand it will take place in an environment of economic slowdown, which will be intensified by the ECB measures.

### 3.2.2 Macroprudential policy

For the banks, there are still risks from possible crisis-related insolvencies of companies or private individuals in the wake of the COVID-19 pandemic. This affects parts of the commercial real estate market, especially in the retail and tourism sectors. In the survey on credit conditions as part of the WIFO-Konjunkturtest (business cycle survey) in May 2022, the companies surveyed reported a decline in demand for credit on the one hand and significantly higher credit hurdles on the other. Of the companies with credit demand (excluding retail), around 25.5 percent had to cut back on the amount or conditions compared to their expectations. This value is above the average of the last five years (18.4 percent).

The credit-to-GDP gap indicator – the threshold of 2 percentage points was

exceeded in both the third and fourth quarters of 2021 – suggests that the Counter-cyclical Capital Buffer (CCyB) should be activated. Nevertheless, the Financial Market Stability Board (FMSG) recommended to the Financial Market Authority (FMA) to leave it unchanged at 0 percent of risk-weighted assets. This recommendation is probably due, among other things, to the fact that the committee had already proposed tightening in the form of a reduction of the Loan-to-Value Ratio (LTV), the Debt Service to Income Ratio (DSTI) and the maturity for residential real estate loans at its meeting in March, which will take effect via a FMA regulation from August 2022.

### 3.2.3 Fiscal policy

The expiry of pandemic-related support payments will significantly relieve the national budget in 2022. In addition, public consumption will decline in 2022 in price-adjusted terms after the strong increase in the previous year, especially since spending on tests and vaccinations will fall in particular. The expiry of the temporary VAT concession in the areas of accommodation, gastronomy and culture and the strong increase in private consumption at current prices due to inflation increase the revenue from indirect taxes in 2022. In addition, the national budget benefits from the continued economic recovery. Revenues from the CO<sub>2</sub> tax, on the other hand, will be significantly lower than expected in 2022, as the introduction of this measure has been postponed.

The pandemic-related support programmes are being scaled back, but tax cuts and inflation compensation continue to provide expansionary impulses.

Table 3: Fiscal and monetary policy – key figures

	2018	2019	2020	2021	2022	2023
	As a percentage of GDP					
<b>Fiscal policy</b>						
General government financial balance <sup>1</sup>	0.2	0.6	- 8.0	- 5.9	- 3.0	- 1.2
General government primary balance	1.8	2.0	- 6.7	- 4.8	- 2.0	- 0.3
General government total revenue	48.9	49.2	49.0	50.1	49.0	48.6
General government total expenditure	48.7	48.6	57.0	56.0	51.9	49.8
	Percent					
<b>Monetary policy</b>						
Three-month interest rate	- 0.3	- 0.4	- 0.4	- 0.5	0.1	2.0
Long-term interest rate <sup>2</sup>	0.7	0.1	- 0.2	- 0.1	1.5	3.2

Source: WIFO, ECB, OeNB, Statistics Austria. 2022 and 2023: forecast. – <sup>1</sup> According to Maastricht definition. – <sup>2</sup> 10-year central government bonds (benchmark).

Additional expenditure in the forecast period results from the climate bonus (increased as part of the latest inflation package), payments to replenish natural gas reserves, expenses for refugees, various measures to cushion the sharp rise in inflation and the COVID-19 investment premium. The packages to compensate for inflation are extensive with a total volume of around 10 billion € in 2022 and 2023 and relieve not only private households but also businesses.

The reduction of income tax rates in the 2nd and 3rd tax bracket, the increase of family benefits ("family bonus plus" and additional child benefit) as well as the reduction of accident insurance contributions and contributions to the FLAF reduce government revenues. After a general government net lending or borrowing of -5.9 percent of GDP in the previous year, this is expected to improve to -3.0 percent in 2022 and to -1.2 percent in 2023.



## 4. Prospects for the Austrian economy

The sectoral structure of the Austrian economy, which was disadvantageous in the COVID-19 crisis, favours the recovery. However, the increasing headwinds from the cooling of the global economy are likely to slow down the recovery, especially in 2023.

In 2020, the Austrian economy had suffered greatly from the COVID-19 pandemic in international comparison due to its supply-side sectoral structure. However, this same economic structure favours the recovery from the crisis. The overall economy benefitted from this in 2021 in the form of high foreign demand. It stimulated Austria's exports of goods and thus the value added of domestic industry. In 2022, the advantages of Austria's economic structure are reflected in the resurgence of tourism, especially foreign tourism. The expected strong increase in service exports boosts the value added in the area of market services. These favourable developments are contrasted on the one hand by the weakening of the global economy, which is likely to dampen the dynamics of domestic goods exports in particular and thus of industrial production. On the other hand, the marked increase in world market prices for raw materials, agricultural and intermediate goods represents a negative terms-of-trade shock that is shaping domestic price inflation. Inflation weighs on real household incomes, dampens private consumption and consequently overall demand. However, fiscal policy measures to offset inflation will provide expansionary impulses and support demand in both forecast years.

Leading indicators deteriorated slightly recently, but continue to point to expansion. The mood of Austrian companies clouded over further in June. As in May, the WIFO Business Climate Index was below the value of the previous month, but still in positive territory. While the assessments of the economic situation deteriorated only slightly, the economic expectations recently turned out to be significantly more pessimistic. This applies to almost all sectors. Business uncertainty remained high due to the war in Ukraine.

Companies in the manufacturing sector again named the lack of materials and capacity as well as the lack of qualified personnel as the two most important obstacles to production. In contrast, the lack of demand and difficulties in accessing external financing were only of secondary importance.

In addition to the WIFO Business Climate Index, the UniCredit Bank Austria Purchasing Managers' Index (PMI) also deteriorated in May compared to the previous month. This was due to the first decline in new orders in almost two years, which is mainly attributed to falling export demand: the index of export orders reached its lowest level since mid-2020 in May. Nevertheless, the PMI paints a positive picture and points to a continuation of the expansion in industry.

The sub-indicator on expected unemployment (over the next 12 months), which is meaningful for the economy as a whole and is surveyed in the European Commission's Consumer Confidence Survey, expressed a tendency towards negative sentiment in May as in the previous month. Consumers are increasingly concerned about the continuation of their employment. Rising income uncertainty could lead to precautionary saving – with unfavourable knock-on effects for private consumption.

### 4.1 Economy weakens

Despite the recent deterioration, leading indicators continue to point to sustained economic growth. The outlook for Austria's economy thus remains favourable. Under the described international and economic policy framework conditions, it should still have grown significantly in the second quarter of 2022, albeit noticeably weaker than in the previous quarter. However, the first quarter was marked by the lifting of the COVID-19 restrictions, which resulted in strong growth compared to the fourth quarter of 2021. In addition to the leading indicators, the Weekly WIFO Economic Index (WWWI) also points to a slowdown in economic activity. From the third quarter of 2022 onwards, growth is expected to lose momentum steadily due to cyclical factors and to roughly correspond to potential growth by the end of 2023. It is assumed that, on the one hand, the extent of the autocorrelation of the currently acting shocks is low and, on the other hand, no new shocks occur until the end of the forecast period.

After the strong recovery in 2021 (+4.8 percent), GDP is expected to grow by 4.3 percent in 2022 and by 1.6 percent in 2023 (Figure 2, Table 4). Thus, the domestic economic recovery continues despite the considerable international headwinds. Although the growth surplus from the previous year is significant (+2.1 percentage points), the expansion in 2022 results predominantly from the high annual growth rate (+2.8 percent). This is mainly characterised by the strong growth in the first quarter. The situation is similar in 2023, although both the growth surplus and the annual growth rate are likely to be lower for cyclical reasons. Due to the same number of working days, calendar effects do not play a role in 2022. In the following year, there is a negative calendar effect of 0.1 percent due to the lower number of working days.

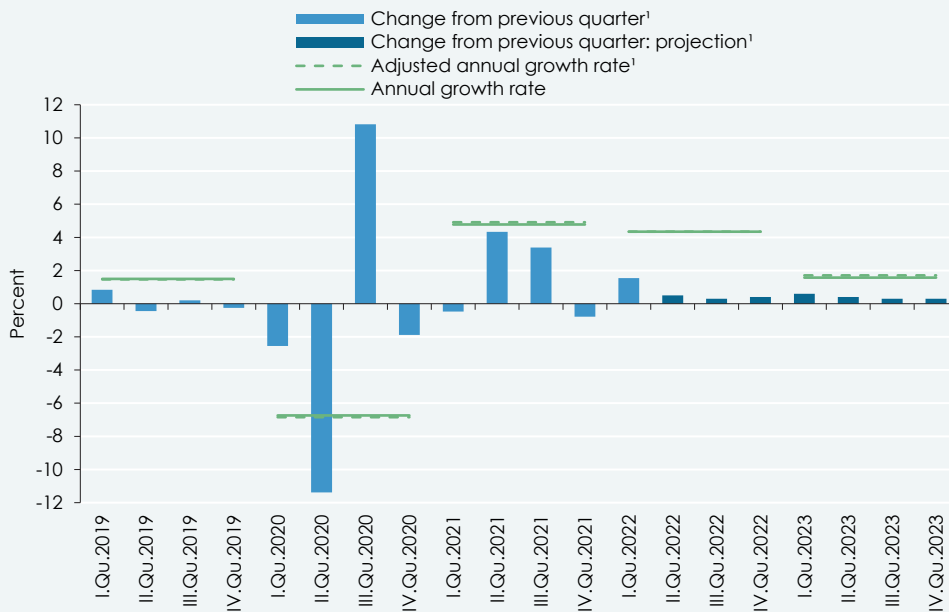
Since the domestic economy already reached the pre-crisis level in the course of 2021 and the negative output gap thus narrowed significantly in 2021 as a whole, overall economic capacity utilisation will again be above average in 2022. Potential output

is expected to grow by 1.7 percent in 2022 and by 1.6 percent in 2023. This results in a positive output gap, which indicates an increasing overutilisation of production capacities. This is reflected, among other things, in the strong upward pressure on

prices and the increasing labour shortage. However, it is currently unclear whether the changed geopolitical and global economic conditions will also affect the longer-term performance and thus the potential growth of the Austrian economy.

Figure 2: Cyclical profile of Austria

GDP volume



Source: WIFO. – <sup>1</sup> Seasonally and calendar adjusted according to Eurostat.

Table 4: Technical breakdown of the real GDP growth forecast

		2020	2021	2022	2023
Growth carry-over <sup>1</sup>	percentage points	- 0.2	+ 0.6	+ 2.1	+ 0.6
Growth rate during the year <sup>2</sup>	percent	- 6.1	+ 6.5	+ 2.8	+ 1.6
<b>Annual growth rate</b>	<b>percent</b>	<b>- 6.7</b>	<b>+ 4.8</b>	<b>+ 4.3</b>	<b>+ 1.6</b>
Adjusted annual growth rate <sup>3</sup>	percent	- 6.8	+ 4.9	+ 4.3	+ 1.7
Calendar effect <sup>4</sup>	percentage points	- 0.0	+ 0.1	± 0.0	- 0.1

Source: WIFO. 2022 and 2023: forecast. – <sup>1</sup> 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. – <sup>2</sup> 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. – <sup>3</sup> Seasonally and calendar adjusted according to Eurostat. Comparative figure to the OeNB's economic forecast. – <sup>4</sup> 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.

## 4.2 Economic upswing broadly supported

On the supply side, the strong recovery in tourism is driving the momentum in the current year. Growth impulses are coming primarily from accommodation and food services. Although this sector in itself only accounts for a small share of total gross value added, its strong interconnectedness is providing expansionary impulses for numerous other sectors, such as trade, transport

and other services. While trade still benefited from pent-up purchases in 2021, the recovery in tourism in particular favours its expansion in 2022, especially in wholesale trade.

After the strong increases in the previous year, growth is expected to weaken in 2022 in both industry and construction. The cooling of the industrial activity results from the expected flattening of goods exports due to

the weaker global economy. The lower growth in value added in the construction sector is due on the one hand to the high construction costs, which can sometimes only be passed on to sales prices to a limited extent. The high construction prices reduce the willingness to implement already planned projects. On the other hand, it is a consequence of the weaker demand for real estate, which is decreasing due to the strong increase in real estate prices and the macroprudential tightening. Recent results

of the WIFO-Konjunkturtest (business cycle survey) show increasing obstacles to expansion for both sectors, industry and construction, due to a lack of personnel and materials. The shortage of materials is likely to be influenced, among other things, by the Forrester effect<sup>1</sup>. With the expected weakening of demand, the supply difficulties should subside and no longer have a dampening effect on industrial and construction activity from 2023.

Table 5: **Gross value added**

At basic prices

	2020	2021	2022	2023	2020	2021	2022	2023
	Billion € (reference year 2015)				Percentage changes from previous year			
<b>Volume (chain-linked series)</b>								
Agriculture, forestry and fishing	4.20	4.48	4.48	4.48	- 3.1	+ 6.5	± 0.0	± 0.0
Manufacturing including mining and quarrying	61.37	66.91	68.39	68.52	- 7.1	+ 9.0	+ 2.2	+ 0.2
Electricity, gas and water supply, waste management	9.67	10.69	10.91	11.02	- 1.4	+ 10.6	+ 2.0	+ 1.0
Construction	18.98	19.88	20.08	20.32	- 3.0	+ 4.7	+ 1.0	+ 1.2
Wholesale and retail trade	38.40	41.22	42.95	44.33	- 4.2	+ 7.4	+ 4.2	+ 3.2
Transportation	16.36	17.41	18.80	19.18	- 13.0	+ 6.4	+ 8.0	+ 2.0
Accommodation and food service activities	9.79	8.15	12.99	13.25	- 40.1	- 16.8	+ 59.5	+ 2.0
Information and communication	13.21	13.66	13.94	14.22	- 1.7	+ 3.4	+ 2.0	+ 2.0
Financial and insurance activities	16.08	16.78	17.73	18.71	+ 5.1	+ 4.4	+ 5.7	+ 5.5
Real estate activities	31.17	31.78	32.16	32.32	+ 0.3	+ 1.9	+ 1.2	+ 0.5
Other business activities <sup>1</sup>	30.98	33.14	34.63	35.32	- 8.1	+ 7.0	+ 4.5	+ 2.0
Public administration <sup>2</sup>	54.30	55.55	56.11	56.67	- 3.7	+ 2.3	+ 1.0	+ 1.0
Other service activities <sup>3</sup>	7.23	7.32	7.36	7.58	- 19.7	+ 1.3	+ 0.5	+ 3.0
Total gross value added <sup>4</sup>	311.08	325.52	340.20	345.50	- 6.8	+ 4.6	+ 4.5	+ 1.6
Gross domestic product at market prices	348.36	365.01	380.85	387.04	- 6.7	+ 4.8	+ 4.3	+ 1.6

Source: WIFO, Statistics Austria. 2022 and 2023: forecast. – <sup>1</sup> Professional, scientific and technical activities; administrative and support service activities (NACE M and N). – <sup>2</sup> Including defence, compulsory social security, education, human health and social work activities (NACE O to Q). – <sup>3</sup> Arts, entertainment and recreation; other service activities; activities of households (NACE R to U). – <sup>4</sup> Before deduction of subsidies and attribution of taxes on products.

Table 6: **Productivity**

	2018	2019	2020	2021	2022	2023
	Percentage changes from previous year					
<b>Total economy</b>						
Real GDP	+ 2.5	+ 1.5	- 6.7	+ 4.8	+ 4.3	+ 1.6
Hours worked <sup>1</sup>	+ 1.9	+ 1.6	- 8.7	+ 5.1	+ 4.0	+ 1.5
Productivity <sup>2</sup>	+ 0.5	- 0.1	+ 2.1	- 0.3	+ 0.3	+ 0.1
Employment <sup>3</sup>	+ 1.8	+ 1.3	- 1.9	+ 2.5	+ 2.9	+ 0.9
<b>Manufacturing</b>						
Production <sup>4</sup>	+ 4.3	+ 0.6	- 7.0	+ 8.9	+ 2.2	+ 0.2
Hours worked <sup>5</sup>	+ 2.4	+ 0.8	- 6.2	+ 5.5	+ 1.9	- 0.5
Productivity <sup>2</sup>	+ 1.9	- 0.1	- 0.8	+ 3.2	+ 0.3	+ 0.7
Employees <sup>6</sup>	+ 2.8	+ 1.5	- 1.5	+ 0.6	+ 1.9	± 0.0

Source: WIFO, Statistics Austria. 2022 and 2023: forecast. – <sup>1</sup> Total hours worked by persons employed, National Accounts definition. – <sup>2</sup> Production per hour worked. – <sup>3</sup> Employees and self-employed, National Accounts definition (jobs). – <sup>4</sup> Gross value added, volume. – <sup>5</sup> Total hours worked by employees. – <sup>6</sup> National Accounts definition (jobs).

On the demand side, service exports in particular contribute to growth – a conse-

quence of high increases in travel exports. As goods exports will expand at a slower

<sup>1</sup> In logistics, the phenomenon that material orders tend to fluctuate more than demand signals is known

as the Forrester effect (Forrester, J. W. (1961). *Industrial Dynamics*. John Wiley & Sons).

rate in 2022 than in the previous year, exports are expected to increase by 8.1 percent overall. Net exports will make an above-average contribution to growth in 2022, despite continued high imports, which will decline significantly in 2023 due to the flattening of services export growth. The terms-of-trade shock mainly manifests itself in the form of a strong increase in nominal goods imports, as a result of which the current account balance remains negative in 2022 despite the high growth in services exports. Public consumption is expected to decline noticeably as a result of lower pan-

demically-related spending. Consumption by private households suffers above all from the significant loss of real income as a result of high consumer price inflation. Moreover, rising income insecurity due to the higher, subjectively perceived risk of job loss is likely to lead to precautionary saving. This also dampens private consumption. In 2022, it will nevertheless probably grow by 4.1 percent, as the fiscal packages to compensate for inflation have an immediate effect and the base year 2021 was still characterised by repeated closure phases and forced saving.

Table 7: **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	258.35	264.55	268.67	- 6.3	+ 4.9	+ 2.4	+ 1.6
Households <sup>1</sup>	174.88	180.98	188.40	192.54	- 8.5	+ 3.5	+ 4.1	+ 2.2
General government	71.41	77.26	76.10	76.10	- 0.5	+ 8.2	- 1.5	± 0.0
Gross capital formation	90.33	96.77	101.67	103.74	- 4.6	+ 7.1	+ 5.1	+ 2.0
Gross fixed capital formation	88.12	91.87	93.92	96.22	- 5.2	+ 4.3	+ 2.2	+ 2.4
Machinery and equipment <sup>2</sup>	28.40	29.69	30.28	31.04	- 8.7	+ 4.5	+ 2.0	+ 2.5
Construction	39.70	41.04	41.49	41.99	- 3.7	+ 3.4	+ 1.1	+ 1.2
Other investment <sup>3</sup>	19.97	21.12	22.17	23.28	- 3.2	+ 5.7	+ 5.0	+ 5.0
Domestic demand	337.18	357.20	367.94	373.92	- 5.8	+ 5.9	+ 3.0	+ 1.6
Exports	191.59	218.20	235.87	243.41	- 10.8	+ 13.9	+ 8.1	+ 3.2
Travel	9.38	6.59	12.66	13.03	- 43.9	- 29.7	+ 92.1	+ 2.9
Minus imports	180.59	210.83	222.98	230.23	- 9.4	+ 16.7	+ 5.8	+ 3.2
Travel	3.35	5.96	9.26	9.66	- 63.6	+ 78.0	+ 55.4	+ 4.3
Gross domestic product	348.36	365.01	380.85	387.04	- 6.7	+ 4.8	+ 4.3	+ 1.6
Value	379.32	402.71	441.44	468.14	- 4.6	+ 6.2	+ 9.6	+ 6.0

Source: WIFO, Statistics Austria. 2022 and 2023: forecast. – <sup>1</sup> Including non-profit institutions serving households. – <sup>2</sup> Including weapon systems. – <sup>3</sup> Mainly intellectual property products (research and development, computer programmes, copyrights).

The monetary environment in itself suggests that investment will be highly dynamic. It is true that nominal interest rates will be higher than originally assumed in both forecast years due to monetary policy tightening. At the same time, however, inflation is expected to be significantly higher than in previous forecasts. This results in a dampening effect on the real interest rate, which has already been negative for a long time, which should trigger additional investment incentives in both forecast years. Strong incentives continue to come from state premiums. On the other hand, the pro-cyclical character of investment has a dampening effect: the flattening of overall economic growth is likely to lead to a disproportionate weakening of investment activity, especially in equipment investment. The results of the WIFO Investment Survey also suggest only a restrained expansion of investments for 2022 (Friesenbichler & Hölzl, 2022)<sup>2</sup>. While small and medium-sized enterprises are increasingly reconsidering their investment plans, large enterprises are likely to stabilise

investment growth. The WKÖ Economic Barometer confirms these findings: on balance, investment expectations are in negative territory. While replacement investments dominate, 38 percent of the respondents are planning new investments. The main motives for the planned new investments are ecologisation or sustainability, digitalisation and innovation. At the same time, however, one fifth of the respondents plan to make no investments, especially small enterprises. The flattening of investment dynamics is evident in all categories, in equipment, infrastructure and intangible fixed asset investments. Equipment investment, which grew by 4.5 percent in 2021, is expected to grow by 2.0 and 2.5 percent in the forecast years.

### 4.3 Slow deceleration of the upward price trend

After 2.8 percent in 2021, head line inflation according to the consumer price index will be comparatively strong in both forecast years (2022 +7.8 percent, 2023 +5.3 percent). This is driven by both supply-side and

<sup>2</sup> Friesenbichler, K. S., & Hölzl, W. (2022). Unternehmensinvestitionen wachsen 2022 nur gedämpft. Ergebnisse der WIFO-Investitionsbefragung vom Frühjahr 2022.

WIFO-Monatsberichte, 95(6). <https://monatsberichte.wifo.ac.at/69703>.

**In addition to the sharp rise in the price of raw materials, supply bottlenecks are the main factor driving up prices. From autumn 2022 onwards, the upward pressure on prices should slowly subside. However, the inflation rate will remain high at around 5.3 percent in 2023.**

demand-side factors. The supply-side factors include, in addition to the strong increase in the price of raw materials, agricultural and intermediary goods, above all supply bottlenecks and material shortages. As the WKÖ Economic Barometer shows, companies are under high cost pressure. The reasons are in particular energy costs (90 percent), the prices of inputs or materials (79 percent) as well as wages and salaries (78 percent). According to the WIFO-Konjunkturtest (business cycle survey), the majority of companies surveyed still expect to have to raise their sales prices in the coming months as a result of the price increases for raw materials and intermediate products. At the same time, pressure from labour costs in particular is likely to increase in 2023.

Demand-side factors include, in particular, the continued expansion of domestic demand, which is also supported by the ongoing expansionary orientation of fiscal policy. In particular, the recent support measures aimed at mitigating real income losses from high consumer price inflation are likely to boost prices. A significant part of these measures consists of cash benefits to low-income households. Combined with goods market multipliers and the fact that these households have a high marginal propensity to consume, this should result in a noticeable expansion of aggregate demand, which reinforces price buoyancy. This also applies to the ongoing nominal-effective depreciation of the euro resulting from stronger monetary policy tightening in important trading partner countries outside the euro area.

**Table 8: Private consumption, income and prices**

	2018	2019	2020	2021	2022	2023
	Percentage changes from previous year					
Private consumption expenditure <sup>1</sup>	+ 1.1	+ 0.7	- 8.5	+ 3.5	+ 4.1	+ 2.2
Durable goods	+ 1.0	+ 0.3	- 2.6	+ 10.9	- 2.5	+ 3.0
Non-durable goods and services	+ 1.1	+ 0.7	- 9.1	+ 2.6	+ 4.9	+ 2.1
Private household disposable income	+ 1.2	+ 1.6	- 2.0	+ 0.5	- 1.1	+ 0.8
	As a percentage of disposable income					
Household saving ratio						
Including adjustment for the change in pension entitlements	7.7	8.5	14.4	11.8	7.3	6.0
Excluding adjustment for the change in pension entitlements	7.0	7.9	13.9	11.4	6.7	5.4
	Percentage changes from previous year					
Loans to domestic non-banks (end of period)	+ 4.9	+ 4.4	+ 3.8	+ 6.5	+ 5.9	+ 5.2
	Consumer prices					
National	+ 2.0	+ 1.5	+ 1.4	+ 2.8	+ 7.8	+ 5.3
Harmonised	+ 2.1	+ 1.5	+ 1.4	+ 2.8	+ 7.9	+ 5.3
Core inflation <sup>2</sup>	+ 1.9	+ 1.6	+ 2.0	+ 2.1	+ 5.1	+ 4.2

Source: WIFO, OeNB, Statistics Austria. 2022 and 2023: forecast. – <sup>1</sup> Private households including non-profit institutions serving households. – <sup>2</sup> Excluding energy and unprocessed food (meat, fish, fruits, vegetables).

As a result of strong consumer price inflation, higher wage settlements are expected, especially in 2023. Gross wages and salaries per employee will increase by 3.6 percent in 2022 and by 6.7 percent in 2023 (in nominal terms). Although wages will thus increase significantly, the high inflation will not be compensated for the time being, as it is assumed that the outflow of purchasing power due to terms-of-trade losses will only be partially compensated, so as not to jeopardise competitiveness and employment. Gross real wages per capita will fall by 3.9 percent in 2022 and are not expected to increase until 2023 (+1.3 percent).

#### **4.4 Recovery on the labour market continues**

The overall economic upswing is clearly leaving its mark on the labour market. The labour supply will continue to increase in both forecast years. This is due to several factors: first, the labour force participation rate of older workers is increasing as a result of past pension reforms. Second, the labour force participation of women is rising steadily. Third, the influx of foreign workers is expected to continue, mainly due to the influx of refugees from Ukraine in the forecast period. Last but not least, the good demand situation will also lead to a significant increase in labour supply.

Table 9: **Earnings, international competitiveness**

	2018	2019	2020	2021	2022	2023
	Percentage changes from previous year					
<b>Wages and salaries per employee<sup>1</sup></b>						
Nominal, gross	+ 2.7	+ 2.9	+ 2.0	+ 3.1	+ 3.6	+ 6.7
Real <sup>2</sup>						
Gross	+ 0.7	+ 1.4	+ 0.6	+ 0.2	- 3.9	+ 1.3
Net	+ 0.2	+ 1.4	+ 1.3	+ 0.3	- 2.4	+ 5.3
<b>Wages and salaries per hour worked<sup>1</sup></b>						
Real, net <sup>2</sup>	+ 0.3	+ 0.9	+ 9.2	- 2.9	- 3.6	+ 5.3
	Percent					
Wage share, adjusted <sup>3</sup>	68.8	69.1	70.2	70.1	69.7	70.8
	Percentage changes from previous year					
<b>Unit labour costs, nominal<sup>4</sup></b>						
Total economy	+ 2.4	+ 2.3	+ 7.6	+ 0.0	+ 2.0	+ 6.5
Manufacturing	+ 1.7	+ 3.3	+ 6.2	- 3.8	+ 4.9	+ 6.3
<b>Effective exchange rate – manufactured goods<sup>5</sup></b>						
Nominal	+ 1.8	- 0.7	+ 1.4	+ 0.6	- 1.6	+ 0.9
Real	+ 1.7	- 1.1	+ 1.7	+ 0.2	- 0.7	+ 3.7

Source: WIFO, Statistics Austria. 2022 and 2023: forecast. – <sup>1</sup> National Accounts definition. – <sup>2</sup> Deflated by CPI. – <sup>3</sup> 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. – <sup>4</sup> 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. – <sup>5</sup> Weighted by exports and imports, real value adjusted by relative HCPI.

Table 10: **Labour market**

	2018	2019	2020	2021	2022	2023
	Change from previous year in 1,000					
<b>Demand for labour</b>						
Persons in active employment <sup>1</sup>	+ 91.6	+ 61.4	- 76.7	+ 95.4	+ 115.0	+ 38.0
Employees <sup>1,2</sup>	+ 88.0	+ 58.9	- 76.1	+ 90.4	+ 111.0	+ 35.0
National employees	+ 33.7	+ 12.3	- 53.9	+ 28.1	+ 25.0	+ 6.0
Foreign employees	+ 54.4	+ 46.6	- 22.2	+ 62.4	+ 86.0	+ 29.0
Self-employed <sup>3</sup>	+ 3.6	+ 2.5	- 0.6	+ 5.0	+ 4.0	+ 3.0
<b>Labour supply</b>						
Population of working age						
15 to 64 years	+ 13.2	+ 11.4	+ 9.9	+ 5.4	+ 51.1	+ 41.1
Labour force <sup>4</sup>	+ 63.8	+ 50.6	+ 31.6	+ 17.5	+ 45.0	+ 43.0
<b>Labour surplus</b>						
Unemployed <sup>5</sup>	- 27.9	- 10.8	+ 108.3	- 77.9	- 70.0	+ 5.0
Unemployed persons in training	- 3.4	- 6.8	- 4.9	+ 13.2	- 2.0	- 2.0
	Percent					
Unemployment rate						
As a percentage of total labour force (Eurostat) <sup>6</sup>	5.2	4.8	6.0	6.2	4.5	4.5
As a percentage of total labour force <sup>5</sup>	6.9	6.6	8.9	7.2	5.6	5.6
As a percentage of dependent labour force <sup>5</sup>	7.7	7.4	9.9	8.0	6.3	6.3
	Percentage changes from previous year					
Labour force <sup>4</sup>	+ 1.4	+ 1.1	+ 0.7	+ 0.4	+ 1.0	+ 0.9
Persons in active dependent employment <sup>1,2</sup>	+ 2.5	+ 1.6	- 2.0	+ 2.5	+ 3.0	+ 0.9
Unemployed <sup>5</sup>	- 8.2	- 3.5	+ 35.9	- 19.0	- 21.1	+ 1.9
Persons (in 1,000)	312.1	301.3	409.6	331.7	261.7	266.7

Source: WIFO, Eurostat, Federation of Social Insurances, Public Employment Service Austria, Statistics Austria. 2022 and 2023: forecast. – <sup>1</sup> Excluding persons in valid employment contract receiving child care benefit or being in military service. – <sup>2</sup> According to the Federation of Social Insurances. – <sup>3</sup> According to WIFO, including liberal professions and unpaid family workers. – <sup>4</sup> Persons in active employment plus unemployed. – <sup>5</sup> According to Public Employment Service Austria. – <sup>6</sup> 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.

In 2021, active dependent employment increased by 2.5 percent compared to the previous year. An increase of 3.0 percent is expected for 2022, and 0.9 percent for 2023. As a result of the expansion of employment and the declining use of short-time work, the volume of work of dependent employees is also expected to increase significantly. For 2022, an increase of 4.3 percent is forecast, which will weaken to 1.0 percent in the following year. Due to the brisk demand for labour, unemployment has already been declining year-on-year since March 2021. This trend will continue in the forecast period. The unemployment rate should fall significantly to 6.3 percent in 2022 and stagnate in 2023.

#### 4.5 Flattening of the industrial economy dampens greenhouse gas emissions

The flattening of the economy in the manufacturing industry dampens greenhouse gas emissions (measured in tons CO<sub>2</sub> equivalents). The effect is disproportionately strong, especially since the slowdown in the industrial economy affects numerous other sectors that are closely intertwined with industry, such as transport and construction. After an increase in CO<sub>2</sub> emissions of 5.1 percent (2021), WIFO expects a decline of 1.8 percent for 2022 (2023 –1.1 percent). Forecast uncertainties result not only from the industrial cycle, but also from volatile weather and temperature patterns.

### 5. The risk environment

The projection presented here describes the most likely scenario for economic growth from today's perspective under the assumptions made. However, the actual development may deviate from this due to a variety of factors.

Since economic forecasts are based on developments at the current margin, data revisions change their accuracy. The subsequent changes in the quarterly national accounts data by Statistics Austria have recently been substantial, which makes forecasting more difficult, especially due to the

uncertain starting position. For the present forecast, this results not only in uncertainty with regard to the growth rate of the first quarter of 2022 (+1.5 percent compared to the previous quarter), but also in a correction for 2022 as a whole due to statistical base effects. The revision of the previous year's quarters alone resulted in 0.6 percentage points higher growth for 2022. In contrast, the actual forecast revision was minor (2022 –0.2 percentage points). Table 11 illustrates the significance of data revisions for the current WIFO economic forecast.

Table 11: **Revision of the growth forecast**

GDP, volume

		2022	2023
WIFO economic outlook March 2022	percent	+ 3.9	+ 2.2
Data revisions <sup>1</sup>	percentage points	+ 0.6	± 0.0
Forecast error for the first quarter of 2022 <sup>2</sup>	percentage points	– 0.0	+ 0.0
Forecast revision	percentage points	– 0.2	– 0.5
<b>WIFO economic outlook June 2022</b>	<b>percent</b>	<b>+ 4.3</b>	<b>+ 1.7</b>

Source: WIFO. Based on seasonally and working-day adjusted values according to Eurostat. – <sup>1</sup> Revision of quarterly national accounts by Statistics Austria compared with the data available for the preparation of the March 2022 WIFO economic forecast. – <sup>2</sup> At the time of preparing the March 2022 WIFO economic forecast, no Statistics Austria figures had yet been published for this quarter.

For the present forecast, downside risks arise from several circumstances. An undersupply of oil and gas would have far-reaching consequences for the Austrian economy. A more pronounced deterioration in the terms of trade could intensify the upward pressure on prices caused by the Ukraine war. A further increase in import prices would translate into higher production costs and consumer prices, which in turn would dampen private household investment and consumption more than expected. In addition, numerous other supply-side factors pose forecast risks. In an environment of increased material and labour shortages, even small demand

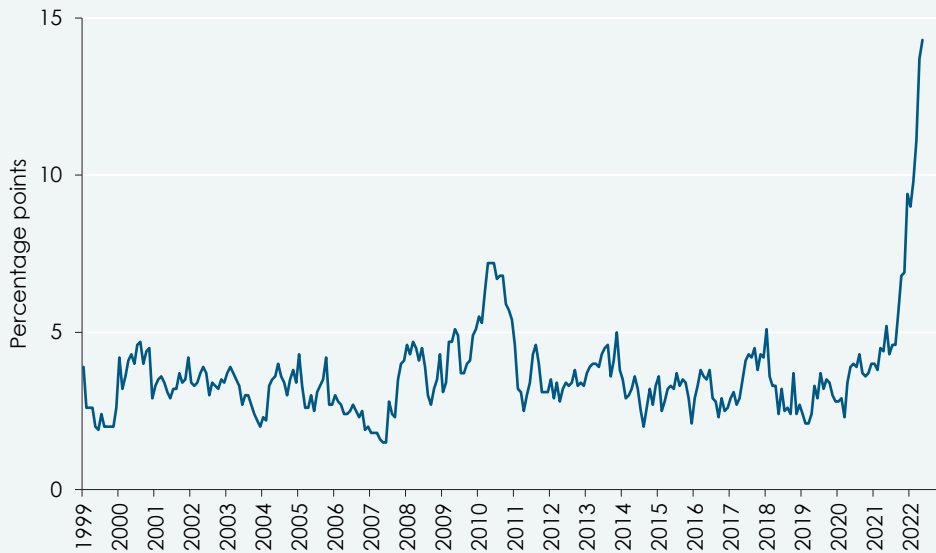
shocks can lead to sharp price changes. This poses further upside risks to the inflation forecast presented.

Stronger inflationary pressures would also be associated with increased risks to (re-)financing conditions. In the case of higher inflation, monetary tightening could be more pronounced than expected. However, the monetary policy risks also concern the effectiveness of ECB measures, which is increasingly reaching its limits. The inflation differential in the euro area, which had already widened noticeably to over 6 percentage points in the wake of the European debt

crisis, now stands at 14 percentage points. An abatement is not in sight. In this environment, the heterogeneity of the euro countries increasingly complicates the orientation and implementation of a homogeneous

monetary policy. This results not only in significant inflation risks for the individual countries, but also in uncertainties regarding the continuation of the monetary union in its current form.

Figure 3: **Cross country inflation differential in the euro area**



Source: Eurostat, WIFO calculations. Difference between the highest and lowest inflation rate (HICP) of all countries in the euro area.

The COVID-19 pandemic also remains a significant risk factor. A renewed flare-up of the pandemic cannot be ruled out and could cause new economic disruptions. This risk is even greater in other parts of the world than in Europe, where vaccination coverage rates remain low. In addition, China's zero-COVID policy continues to pose the risk of local restrictions.

However, some of the downside risks mentioned also result in upside risks. For example,

an early end to the Ukraine war would lead to a rapid normalisation in the energy and commodity markets, dampening upward price pressures and thus reducing real income losses. If saving for precautionary motives decreases, this would stimulate consumption and investment. If a larger share of private savings flows into consumption, domestic demand may prove more resilient to price increases than expected.