

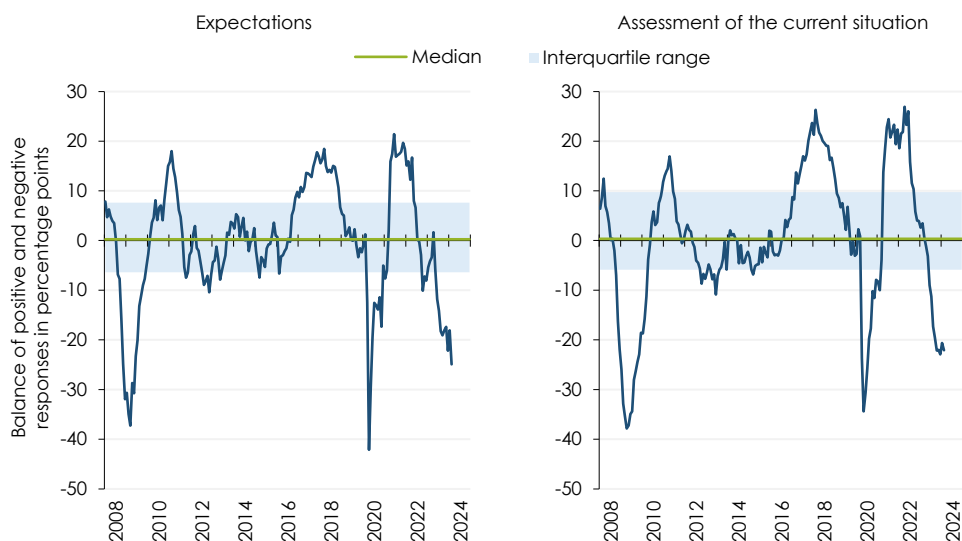
Headwinds Keep Austria's Economy Close to Stagnation in 2024

Economic Outlook for 2024 and 2025

The economic weakness in the EU is particularly affecting Germany and Austria, which are specialised in capital goods production. The high interest rates are weighing on investment demand as well as demand for construction services. Economic activity in both the euro area and Austria should pick up again around mid-2024 when the ECB is expected to ease its monetary policy. For the year as a whole, WIFO expects real GDP growth to remain weak at just 0.2 percent. It will accelerate to 1.8 percent in 2025.

"The upturn originally expected for the beginning of 2024 is being delayed. Surveys of domestic industrial companies showed a further deterioration in sentiment in February 2024", says Marcus Scheiblecker, one of the authors of the current WIFO Economic Outlook.

Figure 1: Austrian manufacturing sentiment indicators



Both the situation assessments and the expectations of Austrian manufacturing companies are currently almost as pessimistic as they were during the financial market and economic crisis 2008-09 and most recently during the COVID-19 pandemic (source: WIFO-Konjunkturtest).

The high interest rates in the euro area are significantly dampening demand for capital goods. In the fourth quarter of 2023, investment in machinery and equipment as well as construction investment contracted (in real terms, compared to the previous quarter) in this economic area.

The economies of Germany and Austria, which are specialised in the production of machinery, are particularly suffering from this decline in demand. In both countries, where business

sentiment is currently gloomy, economic growth in 2024 will again be weaker than the euro area average. For Austria, WIFO expects growth of just 0.2 percent.

Table 1: **Main results**

	2020	2021	2022	2023	2024	2025	
	Percentage changes from previous year						
Gross domestic product, volume	- 6.6	+ 4.2	+ 4.8	- 0.8	+ 0.2	+ 1.8	
Manufacturing	- 7.3	+12.7	+ 4.1	- 2.7	- 1.5	+ 3.3	
Wholesale and retail trade	- 3.3	- 1.1	+ 2.1	- 5.8	+ 1.5	+ 2.0	
Private consumption expenditure ¹ , volume	- 8.5	+ 4.2	+ 5.7	- 0.3	+ 1.2	+ 2.1	
Consumer durables	- 2.6	+ 3.7	- 0.3	- 3.6	+ 0.5	+ 2.0	
Gross fixed capital formation, volume	- 5.5	+ 6.1	+ 0.1	- 2.4	- 2.0	+ 2.2	
Machinery and equipment ²	- 7.1	+ 9.9	+ 2.0	+ 0.7	- 0.3	+ 2.8	
Construction	- 3.6	+ 1.8	- 2.0	- 5.9	- 4.0	+ 1.5	
Exports, volume	-10.6	+ 9.1	+11.2	- 0.2	+ 1.2	+ 3.3	
Exports of goods, fob	- 7.7	+12.3	+ 7.1	+ 0.7	+ 1.2	+ 3.8	
Imports, volume	-10.0	+14.3	+ 7.9	- 1.8	+ 1.6	+ 3.5	
Imports of goods, fob	- 7.2	+15.2	+ 5.1	- 2.7	+ 1.5	+ 3.8	
Gross domestic product, value	- 4.1	+ 6.4	+10.4	+ 6.7	+ 4.6	+ 4.4	
	billion €	380.89	405.24	447.22	477.25	498.97	521.17
Current account balance as a percentage of GDP	3.4	1.6	- 0.3	2.2	2.4	2.4	
Consumer prices	+ 1.4	+ 2.8	+ 8.6	+ 7.8	+ 3.8	+ 2.7	
GDP deflator	+ 2.7	+ 2.1	+ 5.3	+ 7.6	+ 4.4	+ 2.6	
General government net lending, Maastricht definition as a percentage of GDP	- 8.0	- 5.8	- 3.5	- 2.4	- 2.9	- 2.7	
Persons in active dependent employment ³	- 2.0	+ 2.5	+ 3.0	+ 1.2	+ 0.4	+ 1.1	
Unemployment rate ⁴	9.9	8.0	6.3	6.4	6.7	6.5	
Command-basis GDP per capita ⁵	- 6.8	+ 3.5	+ 1.3	- 0.3	+ 0.0	+ 1.6	
At-risk-of-poverty rate ⁶	percent	14.7	14.8	13.8	14.2	14.3	14.4
Income quintile share ratio ⁷	ratio	4.08	4.27	4.02	4.10	4.06	3.97
Greenhouse gas emissions ⁸	- 7.6	+ 4.6	- 5.7	- 4.6	- 2.5	+ 0.1	
	Million t CO ₂ equivalents	73.91	77.33	72.95	69.57	67.85	67.94

Source: WIFO, Public Employment Service Austria, Federation of Social Insurances, OeNB, Statistics Austria, Environment Agency Austria. 2024 and 2025: forecast. – ¹ Including non-profit institutions serving households. – ² Including weapons systems and other investment. – ³ Excluding persons in valid employment contract receiving child care benefit or being in military service. – ⁴ As a percentage of dependent labour force, national definition. – ⁵ Nominal GDP deflated by the implicit price index of domestic demand. – ⁶ Share of persons living in private households with an equivalised disposable income below the at-risk-of-poverty threshold (60 percent of the national median equivalised disposable income). From 2022: forecast. – ⁷ S80/S20: ratio of total equivalised disposable income received by the population living in private households in the top income quintile to that received by the population in the bottom quintile. From 2022: forecast. – ⁸ 2022: estimate according to Environmental Agency Austria. From 2023: forecast.

The inflation rate in the euro area fell much faster and from a higher level than in the USA, reaching 2.8 percent in January and falling further to 2.6 percent in February, approaching rapidly the ECB's 2 percent target. This, as well as the weak business cycle, should allow the ECB to start easing monetary policy from mid-2024. Germany and Austria, in particular, should benefit from the subsequent revival in investment demand. As the economic situation improves, Austria's GDP should expand from mid-2024 and grow by 1.8 percent in 2025.

Inflation in Austria is expected to slow down further. After 7.8 percent in the previous year, it will fall to 3.8 percent this year and drop to 2.7 percent in 2025.

The labour market is reacting to the economic downturn with a delay. After the number of persons in active dependent employment rose by 1.2 percent in 2023 despite the recession, an increase of only 0.4 percent is expected in 2024. Based on the forecasted economic recovery, employment will post a stronger increase in 2025 (+1.1 percent). In turn, the unemployment rate should fall to 6.5 percent after a temporary increase to 6.7 percent in 2024 (2023: 6.4 percent; according to the national calculation method).

The weak business cycle, particularly in the energy-intensive industry, and the warmer-than-average February are contributing to a larger reduction in greenhouse gas emissions than calculated in the last WIFO Economic Outlook. A decrease of 2.5 percent is expected for 2024. In this forecast, WIFO predicts for the first time key figures on income distribution (see box "Beyond GDP: Indikatoren zur Einkommensverteilung", in [WIFO-Konjunkturprognose 1/2024](#)) and expects a slight increase in the relative risk of poverty from 2023 onwards, while distribution inequality will tend to decrease.

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For further information, please contact on Friday, 22 March 2024, from 1 to 3 p.m.
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For definitions, see "Methodological notes and brief glossary",
<https://www.wifo.ac.at/wwadocs/konjunktur/WIFO-BusinessCycleInformation-Glossary.pdf>