

Deep, But Short Recession in Austria

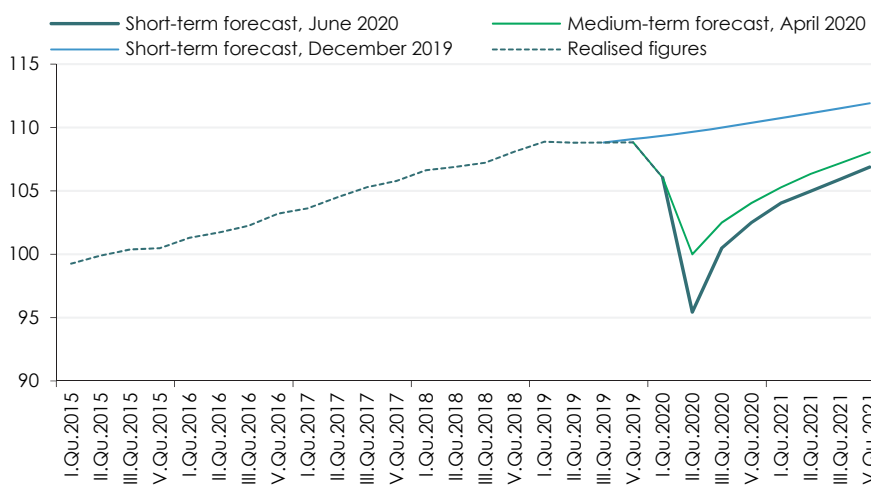
Economic Outlook for 2020 and 2021

Christian Glocker

- The COVID-19 pandemic and the measures taken to contain it plunged the Austrian economy into a deep recession.
- The recession is limited to two quarters and is therefore short in historical comparison. Nevertheless, it will be extremely deep – economic output is expected to collapse by 7 percent in 2020.
- A strong recovery is expected in 2021, resulting in GDP growth of 4.3 percent.
- Even though this catch-up process is dynamic by historical standards, economic output is unlikely to have reached pre-crisis levels by the end of the forecast horizon.

Development of real GDP – comparison of recent WIFO forecasts

Average level 2015 = 100



The current markedly high level of uncertainty is reflected in the extensive forecast revisions of the past months. According to the latest estimates, the pre-crisis level will not be reached by the end of the forecast horizon (Source: WIFO. Based on seasonally and working-day adjusted values according to Eurostat.).

"The extensive restrictions imposed in order to limit the spreading of COVID-19 infections have triggered a global recession. In Austria, this is the deepest recession since World War II, as a result of the simultaneous incidence of a negative supply (lock-down) and demand shock (restraint of consumption and investment spending, severe drop in foreign demand)."

Deep, But Short Recession in Austria

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Deep, But Short Recession in Austria. Economic Outlook for 2020 and 2021

The measures adopted to contain the COVID-19 pandemic give rise to a recession in Austria. With a slump by 7.0 percent year-on-year, demand and output will contract even more sharply in 2020 than during the economic and financial market crisis of 2008-09. Since the trough now appears to have been passed, the recession promises to be short. Nevertheless, GDP will still not be back to its pre-crisis level by the end of the projection horizon (end of 2021).

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. Summary

The massive restrictions imposed in order to contain the spreading of COVID-19 infections have triggered a global recession. Within a few weeks, the economic outlook has changed fundamentally. The stepwise withdrawal of the containment measures will allow economic activity to resume. Since the rebound is deferred in time across countries and regions, the adverse effects of the pandemic on the world economy are protracted, making for a hesitant global recovery.

In line with the global economy, Austria slipped into a recession that, although essentially confined to the first half of 2020 and thus rather short, is extraordinarily severe. By now, the trough should have been passed and activity is heading up; still, the further trend is subject to high uncertainty. The main reason is the evolution of the pandemic, the required containment measures and their implicit economic repercussions.

After a fall by 7.0 percent in 2020, GDP is expected to rebound by 4.3 percent in 2021. While such a recovery would be vigorous by historical standards, economic activity by

the end of the projection period would still fall short of its pre-crisis level. The manufacturing sector and market-related services (particularly transport, hotel and catering services) are shaping the profile of the slump on the supply side, exports, investment (notably in machinery and business equipment) as well as private consumption on the demand side.

The cyclical setback has a major impact on the labour market. The long-standing increase in employment abruptly came to a halt in March 2020 and unemployment rose markedly. Recourse to short-time work with the aim of maintain work contracts through the crisis in the interest of a subsequent speedy recovery, mitigate the adverse effects of the health-policy motivated measures on the labour market. The unemployment rate will nevertheless jump from 7.4 percent in 2019 to 9.7 percent in 2020. After an employment increase by 1.6 percent in 2019, WIFO expects a decline of 2.1 percent in 2020, while hours worked fall more sharply due to the short-time work option. With the expected recovery, labour market problems should ease during 2021.

Table 1: **Main results**

	2016	2017	2018	2019	2020	2021	
	Percentage changes from previous year						
Gross domestic product, volume	+ 2.1	+ 2.5	+ 2.4	+ 1.6	- 7.0	+ 4.3	
Manufacturing	+ 4.6	+ 4.7	+ 5.1	+ 0.9	- 13.0	+ 7.0	
Wholesale and retail trade	+ 0.4	+ 0.3	+ 1.9	+ 0.8	- 9.0	+ 8.0	
Private consumption expenditure ¹ , volume	+ 1.6	+ 1.4	+ 1.1	+ 1.4	- 5.5	+ 4.5	
Consumer durables	+ 2.9	+ 2.2	+ 0.4	- 1.7	- 15.0	+ 5.0	
Gross fixed capital formation, volume	+ 4.1	+ 4.0	+ 3.9	+ 2.7	- 6.5	+ 4.8	
Machinery and equipment ²	+ 7.2	+ 4.5	+ 4.1	+ 2.9	- 8.4	+ 5.9	
Construction	+ 0.5	+ 3.3	+ 3.7	+ 2.4	- 4.2	+ 3.6	
Exports, volume	+ 3.1	+ 5.0	+ 5.9	+ 2.9	- 14.8	+ 9.5	
Exports of goods, fob	+ 2.7	+ 5.4	+ 6.4	+ 2.1	- 13.5	+ 7.1	
Imports, volume	+ 3.7	+ 5.0	+ 4.6	+ 2.7	- 11.1	+ 8.9	
Imports of goods, fob	+ 3.4	+ 4.4	+ 4.0	+ 1.9	- 10.5	+ 7.0	
Gross domestic product, value	+ 3.8	+ 3.6	+ 4.2	+ 3.4	- 5.8	+ 5.4	
	billion €	357.30	370.30	385.71	398.68	375.52	395.96
Current account balance	as a percentage of GDP	2.7	1.6	2.3	2.6	0.2	1.0
Consumer prices		+ 0.9	+ 2.1	+ 2.0	+ 1.5	+ 0.6	+ 0.9
Three-month interest rate	percent	- 0.3	- 0.3	- 0.3	- 0.4	- 0.5	- 0.5
Long-term interest rate ³	percent	0.4	0.6	0.7	0.1	- 0.1	0.2
General government financial balance, Maastricht definition	as a percentage of GDP	- 1.5	- 0.8	0.2	0.7	- 10.3	- 6.0
Persons in active dependent employment ⁴		+ 1.6	+ 2.0	+ 2.5	+ 1.6	- 2.1	+ 1.3
Unemployment rate							
Eurostat definition ⁵		6.0	5.5	4.9	4.5	5.5	5.2
National definition ⁶		9.1	8.5	7.7	7.4	9.7	8.9

Source: WIFO. 2020 and 2021: forecast. – ¹ Including non-profit institutions serving households. – ² Including weapons systems. – ³ 10-year central government bonds (benchmark). – ⁴ Excluding persons in valid employment contract receiving child care benefit or being in military service. – ⁵ As a percentage of total labour force, Labour Force Survey. – ⁶ As a percentage of dependent labour force, unemployed persons according to Public Employment Service Austria.

2. The starting situation

Overshadowed by weak international demand, growth of Austria's economy eased from the boom of 2017 and 2018 to a rate of 1.6 percent in volume in 2019. Throughout the year, the main driving force was internal demand, both consumption and gross fixed investment, while foreign trade gradually slackened, notably exports of manufactured goods.

From the supply side, growth in 2019 was largely sustained by services and construction. The manufacturing sector slipped into recession in the second quarter, without recovering until the end of 2019.

From the perspective of the distribution of GDP, wage incomes continued to rise markedly, fuelled by continued lively job creation and substantial gains of negotiated wages. Capital income (gross operating surplus and

mixed income) also increased in 2019, though less than before under the impact of the cyclical slowdown. Usually, capital income is more cyclically sensitive than wage income that is largely determined by contract and hence exhibiting a lagged response. As a consequence, the wage ratio, i.e. the share of national income going to dependent labour, edged up slightly.

Labour market developments remained benign in 2019, largely an echo-effect of the earlier boom, although employment growth and the fall in unemployment both decelerated during the year.

The general government account benefited from buoyant tax revenues, allowing the budget balance to stay in surplus and public debt to keep a downward trend.

Already in the first quarter of 2020, economic activity in Austria fell sharply and on a broad base, due to the measures taken to contain the COVID-19 pandemic. Yet, the momentum of growth had slackened ever since the beginning of 2019, as weakening demand from abroad dampened exports and output of domestic manufacturers.

3. The framework conditions

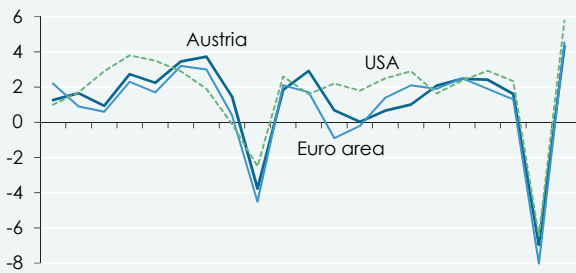
The present forecast includes information on global economic trends, commodity prices, exchange rates and interest rates available

up to mid-June 2020. The projection horizon stretches from the second quarter of 2020 to the fourth quarter of 2021.

Figure 1: Indicators of economic performance

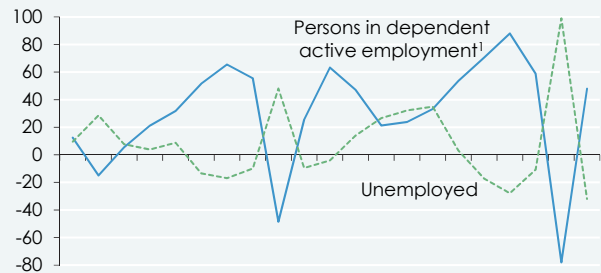
Growth of real GDP

Percent



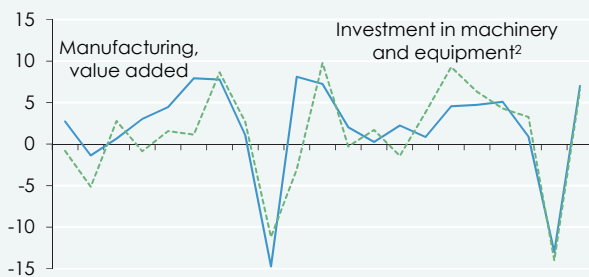
Employment and unemployment

Change from previous year in 1,000



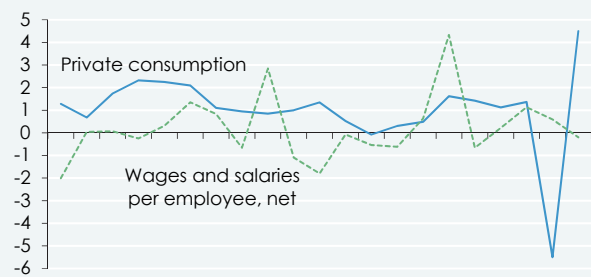
Manufacturing and investment

Percentage changes from previous year, volume



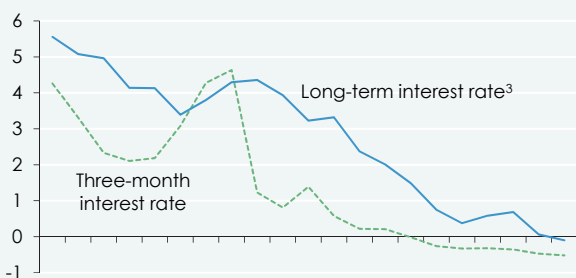
Consumption and income

Percentage changes from previous year, volume



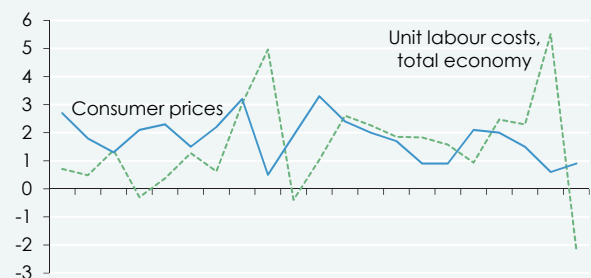
Short-term and long-term interest rates

Percent



Inflation and unit labour costs

Percentage changes from previous year



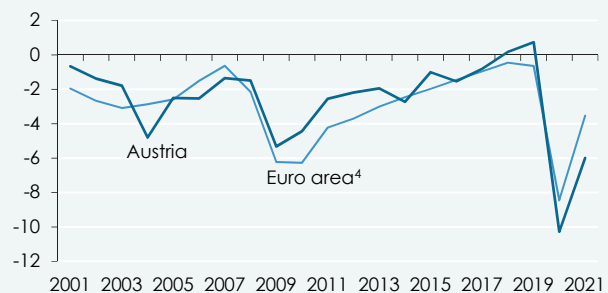
Trade (according to National Accounts)

Percentage changes from previous year, volume



General government financial balance

As a percentage of GDP



Source: WIFO. 2020 and 2021: 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 Source: European Commission.

The usual assumptions underlying a short-term forecast need in the present context to be amended by ad-hoc ones concerning the course of the COVID-19 pandemic. In this respect, WIFO assumes that new hikes of infections will repeatedly occur, but can be kept under control such that any large-scale "second wave" be avoided. While this assumption implies the partially successful containment of COVID-19 diseases, it explicitly anticipates that further measures of

restriction will need to be taken from time to time in order to prevent a major revival of infections. On the other hand, we also expect that learning effects or medical progress in dealing with infection risks will gradually restore confidence of economic agents and facilitate the recovery. These additional assumptions relate both to the international environment and to the projections for the Austrian economy.

Table 2: **International economy**

	Percentage shares 2019		2016	2017	2018	2019	2020	2021
	Austria's exports of goods	World GDP ¹						
	GDP volume, percentage changes from previous year							
EU 27	66.8	13.8	+ 2.1	+ 2.7	+ 2.1	+ 1.5	- 7.4	+ 4.7
Euro area	51.5	11.2	+ 1.9	+ 2.5	+ 1.9	+ 1.3	- 8.0	+ 4.5
Germany	29.4	3.1	+ 2.2	+ 2.5	+ 1.5	+ 0.6	- 6.4	+ 4.5
Italy	6.3	1.7	+ 1.3	+ 1.7	+ 0.8	+ 0.3	- 11.4	+ 3.5
France	4.4	2.2	+ 1.1	+ 2.3	+ 1.8	+ 1.5	- 10.5	+ 4.0
CEEC 5 ²	14.7	1.6	+ 2.8	+ 4.5	+ 4.6	+ 3.7	- 5.1	+ 5.4
Hungary	3.7	0.2	+ 2.2	+ 4.3	+ 5.1	+ 4.9	- 4.1	+ 5.9
Czech Republic	3.5	0.3	+ 2.5	+ 4.4	+ 2.8	+ 2.6	- 8.0	+ 5.1
Poland	3.4	0.9	+ 3.1	+ 4.9	+ 5.3	+ 4.1	- 4.6	+ 5.2
USA	6.7	15.1	+ 1.6	+ 2.4	+ 2.9	+ 2.3	- 6.5	+ 5.8
Switzerland	5.0	0.4	+ 1.7	+ 1.8	+ 2.8	+ 0.9	- 5.8	+ 5.6
UK	2.9	2.2	+ 1.9	+ 1.9	+ 1.3	+ 1.4	- 8.3	+ 6.1
China	2.9	19.3	+ 6.8	+ 6.9	+ 6.7	+ 6.1	+ 0.6	+ 8.6
Total ³								
PPP-weighted ⁴		51	+ 3.6	+ 4.1	+ 4.0	+ 3.5	- 4.1	+ 6.6
Export weighted ⁵	84		+ 2.2	+ 2.7	+ 2.3	+ 1.7	- 7.0	+ 5.1
Market growth ⁶			+ 3.5	+ 6.5	+ 4.4	+ 1.4	- 11.0	+ 7.5
Forecast assumptions								
Crude oil prices								
Brent, \$ per barrel			43.7	54.3	71.0	64.3	41	43
Exchange rate								
\$ per €			1.107	1.129	1.181	1.120	1.09	1.11
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			0.1	0.3	0.4	+ 0.3	+ 0.4	+ 0.2

Source: WIFO. 2020 and 2021: forecast. – ¹ PPP-weighted. – ² Czech Republic, Hungary, Poland, Slovenia, Slovakia. – ³ EU 27, UK, USA, Switzerland, China. – ⁴ Weighted by GDP at purchasing power parities in 2019. – ⁵ Weighted by shares of Austrian goods exports in 2019. – ⁶ Real import growth of trading partners, weighted by shares of Austrian goods exports. – ⁷ Minimum bid rate.

3.1 Global economic slump

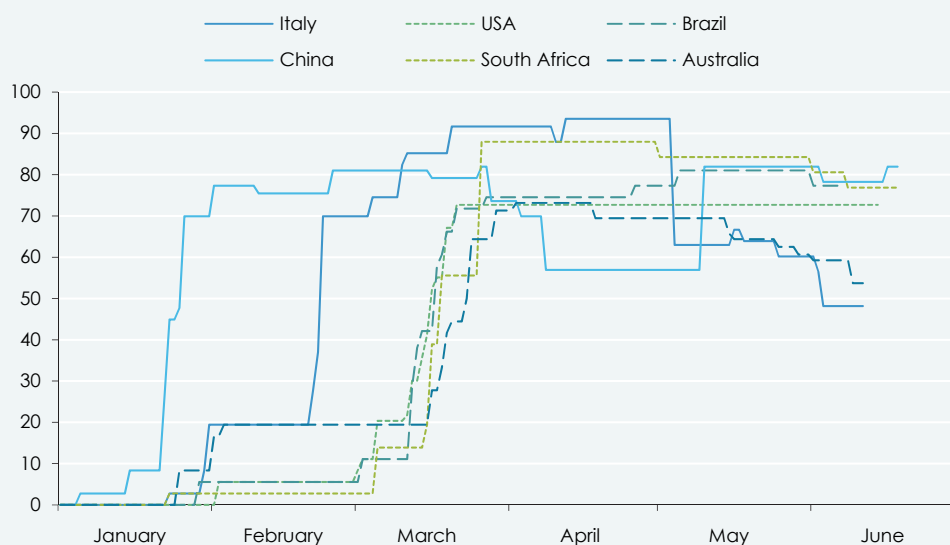
The measures to contain the COVID-19 pandemic, while successful in slowing the spreading of infections, have severely and at short notice disrupted business activity worldwide. Second-round effects in terms of waning confidence and tighter financial conditions deepened the slump, pushing the global economy into its worst post-war recession. What is noteworthy is the highly synchronised downward trend in many countries which exacerbates the recession via network and multiplier effects.

As the state of emergency on the health front subsides, the containment measures have meanwhile been gradually relaxed in many countries, thereby facilitating the resumption of demand and production. However, the fact that this takes place in a time-delayed manner protracts the adverse impact of the pandemic on the world economy. Hence, the recovery promises to be tentative and gradual. Moreover, social unrest emerging in many countries complicates the recovery by hampering the catching-up of output losses as well as by undermining confidence of consumers and investors.

In the face of soaring numbers of infections worldwide, economic activity in many countries was drastically restricted in the first and even more in the second quarter. With the gradual relaxation of containment measures, demand and output should gradually revive during the second half of 2020.

Figure 2: Development of government measures to contain the COVID-19 pandemic since the beginning of 2020 in selected countries

Government Response Stringency Index



Source: Blavatnik school of Government, University of Oxford. The index is calculated as a composite measure on school closures, workplace closures, cancellation of public events, restrictions on gatherings, closure of public transport, public information campaigns, stay at home, restrictions on internal movement, international travel controls.

For the first half of 2020, we expect a marked decline of demand and output in Austria's major trading partners. In China, where the pandemic presumably originated, GDP contracted by 10 percent in the first quarter of 2020 from the previous period. Among the large industrialised economies, production receded more sharply in the euro area than in the USA and Japan, mainly because many European countries had introduced measures to curb infection chains at an earlier stage. Leading indicators in many cases fell to new lows in the second quarter, particularly in the services branches and contrary to the usual pattern observed in recessions. The slump in activity was thus probably more severe between April and June than in the months before. Going forward, key leading indicators already signal an improvement.

Against this background, WIFO anticipates for most of Austria's trading partners a highly volatile cyclical profile. From a deep slump in the second quarter, activity should rebound already as from mid-year. Austria's key export destinations may suffer a fall in GDP of no less than 7.0 percent (export-weighted), sharper and deeper than during the financial market and economic crisis as well as the great recession of 2008-09. The euro area economies are likely to be more negatively affected than those in central and eastern Europe.

The global recovery will be underpinned by low oil prices. In spring, spot market prices

collapsed on account of clouding demand prospects and a structural excess supply of oil. The implicit gains in purchasing power in oil-importing countries will stimulate domestic demand, while net oil exporters suffer income losses. Quotations for futures point to a pick-up in prices that will be supported by the global recovery and latest OPEC decisions for a supply restraint. For the present projection, WIFO assumes a reference price of 41 \$ per barrel on annual average 2020 and of 43 \$ for 2021, down from 64 \$ in 2019.

3.2 Policy taking expansionary action

The forecast includes all policy measures already adopted or sufficiently specified if their implementation is deemed likely.

3.2.1 Monetary policy

At its latest meeting on 4 June 2020, the ECB Governing Council left the main refinancing rate as well as the marginal lending facility and deposit facility rates unchanged at 0.00 percent, 0.25 percent and -0.50 percent respectively. The recently introduced Pandemic Emergency Purchase Programme (PEPP) was raised by 600 billion € to a total 1,350 billion €. In addition, the deadline for net purchases under PEPP was extended to at least June 2021. It was also decided to continue the net purchases under the Asset Purchase Programme (APP) to the tune of 20 billion € per month together with the purchases within the higher temporary ceiling of 120 billion € until the end of 2020. The

The reinforcement of unconventional monetary measures in response to the pandemic-driven decline in inflation makes for a further relaxation of the overall monetary policy stance, thereby easing financial conditions for the real economy, notably firms and private households.

largest part of both unconventional sets of measures goes to euro area government bonds. In total, the funds add up to 1.710 trillion € or 14.1 percent of expected nominal euro area GDP. The implicit monetary stimulus is thus substantially larger than the one provided during the global financial market and economic crisis of 2008-09.

3.2.2 Macprudential management

At its second meeting in 2020 on 15 June, the Financial Market Stability Board (FMSB) reiterated its earlier decision to keep the countercyclical capital buffer at 0 percent of the risk-weighted assets, given that the main indicator, the credit-to-GDP gap, is still negative and hence gives no sign of excessive credit growth. With its assessment that

the systemic risks from residential real estate financing are steadily rising, the Board fore-shadows a potential tightening in certain financial sectors; the resilience of the domestic banking sector is nevertheless distinctly greater in present circumstances than in the run-up to the financial market and economic crisis of 2008-09. On the one hand, with the systemic risk buffer (SyRB) and the other systemically important institution (O-SII) buffer, banks have sustainable lending capital at their disposal; on the other, liquidity shortages as have occurred in the context of the global financial market crisis, should currently not pose an imminent risk for the maintenance of domestic banks' credit flows, mainly in view of their current important stock of excess reserves.

Table 3: **Fiscal and monetary policy – key figures**

	2016	2017	2018	2019	2020	2021
	As a percentage of GDP					
Fiscal policy						
General government financial balance ¹	- 1.5	- 0.8	0.2	0.7	- 10.3	- 6.0
General government primary balance	0.5	1.0	1.8	2.2	- 8.9	- 4.6
General government total revenue	48.6	48.4	48.8	48.9	48.2	46.9
General government total expenditure	50.1	49.2	48.7	48.2	58.5	52.9
	Percent					
Monetary policy						
Three-month interest rate	- 0.3	- 0.3	- 0.3	- 0.4	- 0.5	- 0.5
Long-term interest rate ²	0.4	0.6	0.7	0.1	- 0.1	0.2

Source: WIFO. 2020 and 2021: forecast. – ¹ According to Maastricht definition. – ² 10-year central government bonds (benchmark).

3.2.3 Fiscal policy

The present forecast incorporates the discretionary measures adopted since March 2020 to the extent that they have been sufficiently specified by the cut-off date. Meanwhile, expansionary measures have been taken in all EU member countries. Since they have been implemented on a virtually synchronous schedule, they provide a powerful stimulus to the real economy. In Austria, the fiscal measures include, next to the Corona support "package", the cyclical stimulus "package" decided by the federal government in June 2020. The former offers transfer payments (short-time work and fixed-cost subsidies, disbursements from the dedicated hardship case fund), tax concessions (reduction of the corporate and income tax advances) and to a minor extent investment spending for communal and healthcare projects. The latter provides for further subsidies and transfers (negative income tax, one-off unemployment benefit, child bonus, extension of the fixed cost subsidy), tax relief measures (cut in the bottom marginal income tax rate carried forward, loss carry back to 2018-19, temporary VAT rate cut for the catering trade) and primarily further investment incentives (investment premium,

degressive depreciation allowance, climate protection, broadband network extension, school development programme). In our assessment, the aggregate impulse adds up to nearly 31 billion € in National Accounts terms for 2020 and 8 billion € in 2021, the larger part deriving from extra spending and to a lesser extent from revenue shortfalls.

Uncertainty relates mainly to the eventual amount of short-time work and fixed-cost subsidies. The latest budget projection foresees 8.2 billion € in short-time work and 7.8 billion € in fixed-cost subsidies, which would still be well below the budgeted ceilings of 12 billion € each. Apart from the discretionary measures, the operation of the automatic stabilisers (via unemployment benefits, progressive income tax schedule etc.) will shape the budgetary performance. In sum, WIFO expects the general government balance to swing from small surpluses of 0.2 percent of GDP in 2018 and 0.7 percent in 2019 to a deficit equivalent to 10.3 percent of GDP in 2020. With the expiry of the COVID-19 measures and the projected cyclical recovery, the government deficit should moderate to 6 percent of GDP in 2021.

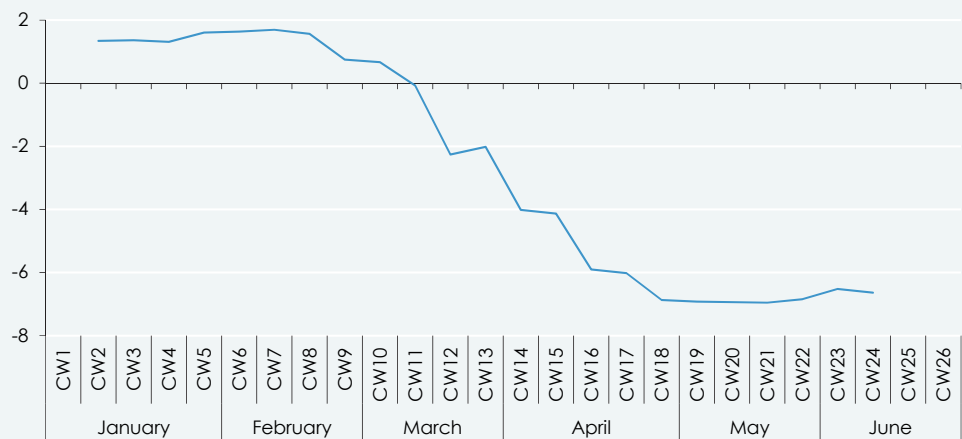
4. Perspectives for the Austrian economy

Due to the COVID-19 containment measures, economic activity in Austria receded on a broad front in the first quarter 2020. The setback hit the economy at a point when it was just about to recover from earlier sluggishness. Real GDP fell by a seasonally and calendar-adjusted 2.6 percent from the fourth quarter of 2019. The decline

is noteworthy since the effects of the pandemic significantly impaired activity as from mid-March and thus only in the last two weeks of the first quarter. From the sound cyclical data for the weeks before one can infer that overall output may have caved in by up to 25 percent in the second half of March.

Figure 3: **Weekly model estimates for economic growth in 2020**

GDP volume, percentage change



Source: WIFO. CW . . . Calendar week.

The measures adopted to contain the COVID-19 pandemic have pushed Austria's economy into a recession that proves still deeper than the Great Recession in the wake of the financial market crisis of 2008-09, but should be comparatively short. The restrictions imposed are now being gradually relaxed; their complete revocation will allow a speedy recovery, even if demand and output may not have returned to their pre-crisis level by the end of 2021.

The development is confirmed by all leading indicators. Those from the regular WIFO-Konjunkturtest (business cycle survey) dropped to new lows in March and April. Despite the seasonally adjusted WIFO Business Climate Index heading up in May, domestic companies were still in a crisis mood. The index of current business conditions for the whole economy dropped once again (seasonally adjusted), hitting its all-time low, while forward-looking expectations improved. The Economic Barometer of the Austrian Economic Chamber ("WKÖ-Wirtschaftsbarometer") shows a marked decline in business expectations, notably with regard to order-book levels and investment. Two-thirds of the firms sampled report declines in demand, in the tourism sector even 85 percent. Only one out of four companies expect stable or rising sales, while half of them anticipate losses between 20 and 30 percent.

The sharp drop of leading indicators suggests that the fall of GDP has accelerated from the first to the second quarter. The measures to stem the pandemic were

largely maintained during April and only gradually relaxed thereafter.

4.1 Short, but deep recession

The further prospects for the Austrian economy are subject to high uncertainty. Current settings argue in favour of an early recovery. In particular, the stepwise revocation of containment measures should allow economic activity to resume. Also, private households and companies should learn to cope with the pandemic and its implicit constraints and adjust their behaviour and business practices accordingly. Furthermore, containment policy may be able to increasingly rely on measures less obstructive to the economy. Finally, the massive fiscal support provided will have a stabilising impact. In view of the counter-cyclical effect of fiscal multipliers, the synchronous fiscal response in all euro area countries and the accommodating monetary policy, this impact should prove powerful at this juncture.

WIFO's weekly GDP indicator¹ and the future outlook built-upon are the base for the pre-

¹ Baumgartner, J., Kaniovski, S., Bierbaumer-Polly, J., Glocker, Ch., Huemer, U., Loretz, S., Mahringer, H., Pitlik, H., "Die Wirtschaftsentwicklung in Österreich im

Zeichen der COVID-19-Pandemie. Mittelfristige Prognose 2020 bis 2024", WIFO-Monatsberichte, 2020, 93(4), pp. 239-265, <https://monatsberichte.wifo.ac.at/65916>.

sent projection of GDP growth until 2021. After a marked decline in March and April, the projected annual growth rate for 2020 in the model estimations has now become stable, implying a slump of GDP in the second quarter from the previous period, followed by a swift rebound in the third and fourth quarter.

Under the prevailing international conditions and policy settings, real GDP, adjusted for seasonal and calendar effects, will swing from growth of +1.5 percent in 2019 to a fall of 7.1 percent in the current year, rebounding by +4.3 percent in 2021. On an unadjusted basis, the 2020 annual decline of -7.0 percent is slightly milder due to a

higher number of working days, whereas in 2021 the calendar effect is neutral. The sharp fall in 2020 is largely due to the downturn of -5.8 percent when measured from the beginning to the end of the year, in the absence of a carry-over from 2019. Hence, the GDP profile is shaped by the trend during the year, essentially the fall in the first and second quarter. This should give way to a strong recovery in the second half of 2020, gradually converging towards trend GDP growth during 2021. In that year, a still above-average rate of intra-year growth plus a strong carry-over from 2020 determine the annual figure.

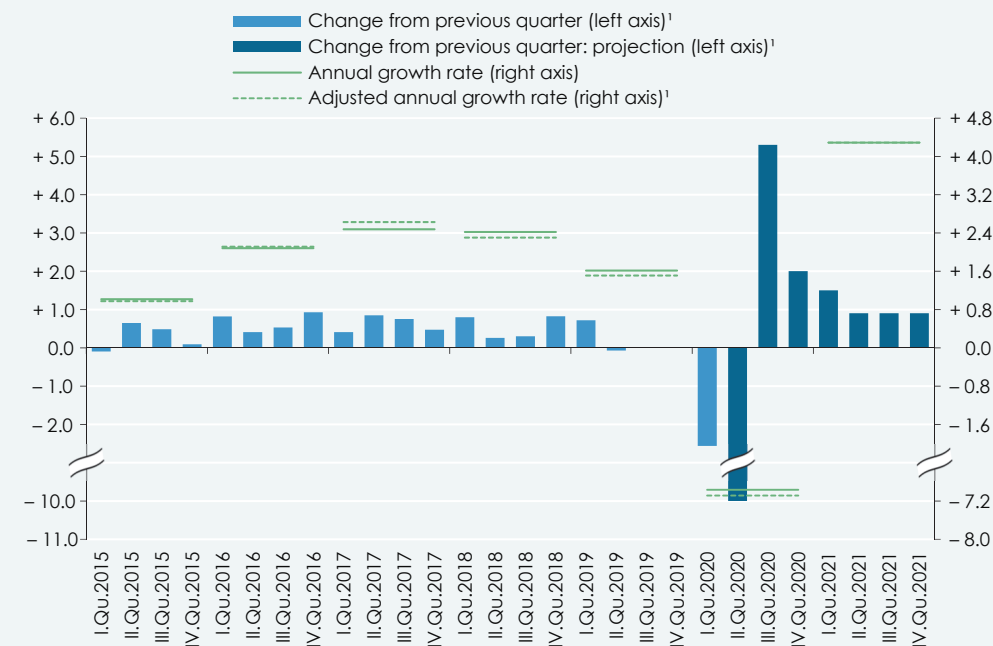
Table 4: **Technical breakdown of the real GDP growth forecast**

		2018	2019	2020	2021
Growth carry-over ¹	percentage points	+ 0.9	+ 0.8	- 0.0	+ 1.4
Growth rate during the year ²	percent	+ 2.2	+ 0.7	- 5.8	+ 4.3
Annual growth rate	percent	+ 2.4	+ 1.6	- 7.0	+ 4.3
Adjusted annual growth rate ³	percent	+ 2.3	+ 1.5	- 7.1	+ 4.3
Calendar effect ⁴	percentage points	+ 0.0	+ 0.1	+ 0.1	± 0.0

Source: WIFO. 2020 and 2021: forecast. – ¹ Impact of year-earlier growth dynamics on growth in the current year. Equals the annual growth rate in the current year, if the level of GDP in the current year remains constant from the fourth quarter of the previous year; trend-cycle data. – ² Reflects the growth dynamics during a calendar year. Equals the year-on-year growth rate for the fourth quarter; trend-cycle data. – ³ Trend-cycle data. Corresponding figure to OeNB short-term forecast. – ⁴ Impact of the annual number of working days and the leap day. The sum of the adjusted annual growth rate and the calendar effect may deviate from the unadjusted annual rate, since the latter also includes seasonal and irregular effects.

Figure 4: **Cyclical profile Austria**

GDP volume, percentage change



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

The output gap measuring productive capacity utilisation in the overall economy remains negative over the entire forecast period. The gap will narrow, notably as from 2021, without completely closing. The

forecast also implies that, despite the recovery taking hold from mid-2020 onwards, Austria's economy will not have returned to its pre-crisis level by the end of 2021.

Table 5: **Expenditure on GDP**
Volume (chain-linked series)

	2018	2019	2020	2021	2018	2019	2020	2021
	Billion € (reference year 2015)				Percentage changes from previous year			
Final consumption expenditure	259.65	262.68	254.10	262.57	+ 1.1	+ 1.2	- 3.3	+ 3.3
Households ¹	189.03	191.61	181.07	189.22	+ 1.1	+ 1.4	- 5.5	+ 4.5
General government	70.62	71.08	73.00	73.34	+ 0.9	+ 0.6	+ 2.7	+ 0.5
Gross capital formation	92.28	94.47	86.73	91.64	+ 3.6	+ 2.4	- 8.2	+ 5.7
Gross fixed capital formation	87.85	90.22	84.36	88.41	+ 3.9	+ 2.7	- 6.5	+ 4.8
Machinery and equipment ²	30.31	31.30	26.92	28.67	+ 4.3	+ 3.3	- 14.0	+ 6.5
Construction	39.19	40.13	38.44	39.83	+ 3.7	+ 2.4	- 4.2	+ 3.6
Other investment ³	18.36	18.80	18.90	19.84	+ 3.9	+ 2.4	+ 0.5	+ 5.0
Domestic demand	352.79	357.87	341.33	354.80	+ 1.6	+ 1.4	- 4.6	+ 3.9
Exports	209.49	215.53	183.57	201.10	+ 5.9	+ 2.9	- 14.8	+ 9.5
Travel	16.39	16.89	10.22	15.17	+ 4.2	+ 3.0	- 39.5	+ 48.5
Minus imports	193.38	198.51	176.54	192.28	+ 4.6	+ 2.7	- 11.1	+ 8.9
Travel	9.15	9.27	6.47	10.22	+ 9.9	+ 1.3	- 30.2	+ 58.0
Gross domestic product	368.86	374.81	348.74	363.85	+ 2.4	+ 1.6	- 7.0	+ 4.3
Value	385.71	398.68	375.52	395.96	+ 4.2	+ 3.4	- 5.8	+ 5.4

Source: WIFO. 2020 and 2021: forecast. – ¹ Including non-profit institutions serving households. – ² Including weapon systems. – ³ Mainly intellectual property products (research and development, computer programmes, copyrights).

4.2 Exports decline heavily in world-wide recession

Under current assumptions for the international environment, exports are set to recede strongly in 2020. Global demand for Austrian manufactures dropped sharply in the first six months. The disruption of international supply chains and trade flows is another inhibiting factor. With these constraints abating, exports should revive as from the third quarter and strengthen during 2021 in line with global activity. Exports of goods and services, after an increase of 2.9 percent in 2019 (exports of goods +2.1 percent), are projected to fall by 14.8 percent (-13.5 percent) in 2020, before regaining 9.5 percent (+7.1 percent) in 2021. Exports being a major driver of domestic industrial production and investment in machinery and equipment, the latter will follow a similar path: after a sluggish performance in 2019, manufacturing output may drop by 13 percent in 2020, before rising by 7 percent in 2021, still falling short of the pre-crisis level by the end of the forecast period.

Investment growth, while easing in 2019, was still broadly based. The supplementary question in the WIFO-Konjunkturtest² (business cycle survey) of last May revealed that 41 percent of firms, particularly the larger ones, have put on hold investment plans. 21 percent of all companies reported having cancelled projects outright. The retreat was lowest in the construction industry (9 percent), substantially higher in services (23 percent) and manufacturing (22 percent), where it also concerned larger firms to an above-average extent (26 percent). Major investment barriers are the uncertain business outlook, lack of demand and hence low capacity utilisation, whereas financing conditions remain favourable. After an increase in 2019, WIFO expects gross fixed capital formation to drop by 6.5 percent in 2020, followed by a rebound of 4.8 percent in 2021. Whereas spending on machinery and equipment may prove rather volatile, construction investment should ease only moderately and other investment (mainly intellectual property products) remain broadly stable.

² Hölzl, W., Klien, M., Kügler, A., Liquiditätssengpässe und Erwartungen bezüglich der Normalisierung. Ergebnisse der zweiten Sonderbefragung zur COVID-19-

Krise im Rahmen des WIFO-Konjunkturtests vom Mai 2020, WIFO, Wien, 2020, <https://www.wifo.ac.at/wwa/pubid/66032>.

Table 6: **Gross value added**
At basic prices

	2018	2019	2020	2021	2018	2019	2020	2021
	Billion € (reference year 2015)				Percentage changes from previous year			
Volume (chain-linked series)								
Agriculture, forestry and fishing	4.34	4.38	4.07	4.07	+ 4.1	+ 0.9	- 7.0	± 0.0
Manufacturing including mining and quarrying	67.31	67.82	59.00	63.13	+ 5.1	+ 0.8	- 13.0	+ 7.0
Electricity, gas and water supply, waste management	10.12	10.41	9.47	9.85	+ 5.4	+ 2.9	- 9.0	+ 4.0
Construction	20.87	21.38	20.42	21.20	+ 3.9	+ 2.4	- 4.5	+ 3.8
Wholesale and retail trade	38.50	38.81	35.32	38.14	+ 1.9	+ 0.8	- 9.0	+ 8.0
Transportation	19.21	20.02	18.02	18.92	+ 4.5	+ 4.2	- 10.0	+ 5.0
Accommodation and food service activities	16.55	16.94	12.79	15.99	+ 3.0	+ 2.3	- 24.5	+ 25.0
Information and communication	11.91	12.22	12.22	12.47	+ 2.7	+ 2.6	± 0.0	+ 2.0
Financial and insurance activities	13.71	14.29	14.24	14.34	- 0.5	+ 4.2	- 0.4	+ 0.7
Real estate activities	30.71	31.25	30.62	30.84	+ 0.9	+ 1.8	- 2.0	+ 0.7
Other business activities ¹	32.34	32.99	31.67	32.21	+ 3.0	+ 2.0	- 4.0	+ 1.7
Public administration ²	55.59	55.91	57.03	57.03	+ 0.7	+ 0.6	+ 2.0	± 0.0
Other service activities ³	8.85	8.91	7.57	7.95	- 0.4	+ 0.7	- 15.0	+ 5.0
Total gross value added ⁴	329.91	335.22	312.65	326.30	+ 2.6	+ 1.6	- 6.7	+ 4.4
Gross domestic product at market prices	368.86	374.81	348.74	363.85	+ 2.4	+ 1.6	- 7.0	+ 4.3

Source: WIFO. 2020 and 2021: 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.

Table 7: **Productivity**

	2016	2017	2018	2019	2020	2021
	Percentage changes from previous year					
Total economy						
Real GDP	+ 2.1	+ 2.5	+ 2.4	+ 1.6	- 7.0	+ 4.3
Hours worked ¹	+ 2.1	+ 1.0	+ 2.0	+ 1.1	- 7.0	+ 4.0
Productivity ²	- 0.0	+ 1.4	+ 0.4	+ 0.5	+ 0.0	+ 0.3
Employment ³	+ 1.5	+ 1.7	+ 1.9	+ 1.2	- 2.5	+ 1.2
Manufacturing						
Production ⁴	+ 4.6	+ 4.7	+ 5.1	+ 0.9	- 13.0	+ 7.0
Hours worked ⁵	+ 0.4	+ 1.1	+ 2.7	+ 0.7	- 8.3	+ 4.7
Productivity ²	+ 4.2	+ 3.6	+ 2.3	+ 0.2	- 5.1	+ 2.2
Employees ⁶	+ 0.5	+ 1.3	+ 3.0	+ 1.7	- 1.4	+ 0.3

Source: WIFO. 2020 and 2021: 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).

Private consumption enjoyed stable growth of above 1 percent p.a. over the last few years. 2020 is likely to see an extraordinarily sharp decline, with households stepping up their saving significantly. The reasons are on the one hand "forced" saving, i.e. the lack of spending options during the lockdown period, and the wish to accumulate reserves due to higher uncertainty on the other, i.e.

precautionary saving. The latter reflects the critical labour market situation and the precarious outlook for private income growth. Both elements drive the household saving ratio significantly up. As a result, private consumption will lose -5.5 percent in 2020. As soon as uncertainty subsides, the appetite for saving is likely to relapse, allowing consumption to pick up strongly in 2021.

Table 8: **Earnings, international competitiveness**

	2016	2017	2018	2019	2020	2021
	Percentage changes from previous year					
Wages and salaries per employee ¹						
Nominal, gross	+ 2.3	+ 1.6	+ 2.7	+ 2.8	+ 0.9	+ 1.1
Real ²						
Gross	+ 1.4	- 0.5	+ 0.7	+ 1.2	+ 0.3	+ 0.2
Net	+ 4.3	- 0.7	+ 0.2	+ 1.1	+ 0.6	- 0.2
Wages and salaries per hour worked ¹						
Real, net ²	+ 3.5	+ 0.1	+ 0.3	+ 1.2	+ 5.2	- 3.1
	Percent					
Wage share, adjusted ³	68.0	68.5	68.0	68.3	68.4	70.0
	Percentage changes from previous year					
Unit labour costs, nominal ⁴						
Total economy	+ 1.6	+ 0.9	+ 2.5	+ 2.3	+ 5.5	- 2.2
Manufacturing	- 1.5	- 2.0	+ 1.0	+ 4.0	+14.5	- 4.4
Effective exchange rate – manufactured goods ⁵						
Nominal	+ 1.2	+ 0.7	+ 1.7	- 0.7	+ 0.2	+ 0.5
Real	+ 1.3	+ 1.0	+ 1.7	- 1.0	- 0.3	- 0.3

Source: WIFO. 2020 and 2021: 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). – ⁵ Weighted by exports and imports, real value adjusted by relative HCPI.

Table 9: **Private consumption, income and prices**

	2016	2017	2018	2019	2020	2021
	Percentage changes from previous year, volume					
Private consumption expenditure ¹	+ 1.6	+ 1.4	+ 1.1	+ 1.4	- 5.5	+ 4.5
Durable goods	+ 2.9	+ 2.2	+ 0.4	- 1.7	- 15.0	+ 5.0
Non-durable goods and services	+ 1.5	+ 1.3	+ 1.2	+ 1.7	- 4.5	+ 4.5
Household disposable income	+ 2.6	+ 1.1	+ 1.4	+ 2.2	+ 0.8	+ 1.0
	As a percentage of disposable income					
Household saving ratio						
Including adjustment for the change in pension entitlements	7.7	7.3	7.7	8.3	14.1	11.1
Excluding adjustment for the change in pension entitlements	7.0	6.7	7.0	7.7	13.5	10.5
	Percentage changes from previous year					
Loans to domestic non-banks (end of period)	+ 1.8	+ 0.7	+ 4.9	+ 4.4	+ 1.1	+ 2.6
	Percent					
Inflation rate						
National	0.9	2.1	2.0	1.5	0.6	0.9
Harmonised	1.0	2.2	2.1	1.5	0.6	0.9
Core inflation ²	1.5	2.2	1.9	1.6	1.1	1.1

Source: WIFO. 2020 and 2021: forecast. – ¹ Private households including non-profit institutions serving households. – ² Excluding energy and unprocessed food (meat, fish, fruits, vegetables).

4.3 Unemployment rate rises swiftly despite widespread recourse to short-time work

The outbreak of the COVID-19 pandemic brought the benign trend on the domestic labour market to an abrupt halt. Since 2016, the number of jobs had risen steadily and nearly pari passu with the number of hours

worked. In this vein, the rate of unemployment fell markedly, bottoming out at 7.4 per cent in 2019, the lowest reading since the outburst of the global financial market crisis in 2008 and the ensuing great recession. In March and April, the measures to contain the COVID-19 pandemic drove unemployment figures to new all-time highs. Most negatively affected were accommodation and

food service activities, other business activities such as the cyclically highly volatile employment activities as well as all services requiring close physical contact. The coincident fall in the number of job vacancies further added to the labour market imbalance.

Measures such as the COVID-19 short-time-work subsidy with the aim of preserving employees' work contracts during the crisis and subsequently allow a swift recovery to mitigate the adverse labour market effects of the lockdown. To date, such subsidies have

been disbursed for 1.042 million jobs. Assuming an average cut in work hours by 43 percent (a figure derived from an Austrian Economic Chamber (WKO) survey commissioned by the Public Employment Service (AMS) to identify the uptake of the COVID-19 short-time-work subsidy), the implicit job loss via short-time work is some 171,000 full-time equivalents; the impact on the total number of hours worked is -3.9 percent.

The long-standing employment growth ended abruptly in March 2020 and gave way to a significant increase in unemployment. The larger part of the crisis-related labour market adjustment should nevertheless materialise via the reduction of hours worked.

Table 10: **Labour market**

	2016	2017	2018	2019	2020	2021
	Change from previous year in 1,000					
Demand for labour						
Persons in active employment ¹	+ 62.2	+ 76.8	+ 91.5	+ 61.0	- 85.5	+ 45.5
Employees ^{1,2}	+ 53.7	+ 70.7	+ 88.0	+ 58.9	- 78.0	+ 48.0
National employees	+ 17.7	+ 23.8	+ 33.7	+ 12.3	- 45.0	+ 15.0
Foreign employees	+ 36.0	+ 46.8	+ 54.4	+ 46.6	- 33.0	+ 33.0
Self-employed ³	+ 8.5	+ 6.1	+ 3.5	+ 2.1	- 7.5	- 2.5
Labour supply						
Population of working age						
15 to 64 years	+ 65.8	+ 23.0	+ 13.2	+ 10.6	+ 4.1	- 2.5
Labour force ⁴	+ 65.2	+ 59.4	+ 63.7	+ 50.2	+ 13.5	+ 13.5
Labour surplus						
Unemployed ⁵	+ 3.0	- 17.3	- 27.9	- 10.8	+ 99.0	- 32.0
Unemployed persons in training	+ 2.1	+ 4.9	- 3.4	- 6.8	- 5.0	+ 10.0
Percent						
Unemployment rate						
As a percentage of total labour force (Eurostat) ⁶	6.0	5.5	4.9	4.5	5.5	5.2
As a percentage of total labour force ⁵	8.1	7.6	6.9	6.6	8.7	8.0
As a percentage of dependent labour force ⁵	9.1	8.5	7.7	7.4	9.7	8.9
Percentage changes from previous year						
Labour force ⁴	+ 1.5	+ 1.4	+ 1.4	+ 1.1	+ 0.3	+ 0.3
Persons in active dependent employment ^{1,2}	+ 1.6	+ 2.0	+ 2.5	+ 1.6	- 2.1	+ 1.3
Unemployed ⁵	+ 0.8	- 4.9	- 8.2	- 3.5	+ 32.9	- 8.0
Persons (in 1,000)	357.3	340.0	312.1	301.3	400.3	368.3

Source: WIFO. 2020 and 2021: forecast. – ¹ Excluding persons in valid employment contract receiving child care benefit or being in military service. – ² According to the Organisation of Austrian Social Security. – ³ According to WIFO, including liberal professions and unpaid family workers. – ⁴ Persons in active employment plus unemployed. – ⁵ According to Public Employment Service Austria. – ⁶ Labour Force Survey.

After an increase by 1.6 percent in 2019, WIFO expects dependent active employment to decline by 2.1 percent in 2020. Due to the short-time-work option, the total number of hours worked will fall more strongly, by -7.0 percent. In 2021, hours worked should pick up by +4.6 percent, whereas "only" +1.3 percent new jobs may be created as workers on short-time work will return to normal hours. The unemployment rate is likely to rise to 9.7 percent on annual average 2020, abating to 8.9 percent in 2021.

4.4 Lower commodity and energy prices dampen inflation

From an annual average of 1.5 percent in 2019, inflation as measured by the consumer price index is likely to moderate further, to rates of +0.6 percent and +0.9 percent in 2020 and 2021 respectively. Upward price pressure will thus be significantly lower over the forecast period than during the last cyclical boom (2017: 2.1 percent, 2018: 2.0 percent). Both external and domestic factors are at work to keep inflation down. Prices of raw

materials as well as of manufactures imports are slackening, and the output gap will remain negative up to the projection horizon. The latter factor implies that in the COVID-19 crisis the negative demand shock proves

greater than the (negative) supply shock. On the other hand, the rather high settlements of the autumn 2019 wage round will have an upside effect on unit labour cost and overall inflation, notably in 2020.

5. Risks to the forecast

In the absence of experience with a crisis like the one at hand, the worldwide recession triggered by the COVID-19 pandemic carries an unprecedented degree of uncertainty for the economic outlook.

The synchronous time profile of the global recession triggered by the COVID-19 pandemic and the containment measures is unusual and without precedence in the modern era. In the absence of past empirical evidence, setting up an economic forecast is particularly difficult at the present juncture.

Uncertainty relates not only to extent and duration of the recession, but also to the direction of inflation: the shocks associated with the COVID-19 crisis reduce both aggregate supply and demand, thus have inflation-boosting and -dampening effects in parallel. The intensity, balance and reaction channels of such effects largely hinge on the evolution of the pandemic and, for the purpose of this projection, on the underlying assumptions.

Two sources of uncertainty will become more important over time: new waves of infection may once again require measures of social distancing as long as no vaccine and effective treatment of the disease are available. Moreover, the anticipated normalisation of public health conditions may not immediately lead to a speedy economic recovery, as it is assumed here. The longer normal operation is interrupted, the higher is the risk of lasting damages to the economy. The latter may arise for example in case that the emergency measures of corporate liquidity supply could still not rescue a larger number of firms from insolvency, which in turn would aggravate the labour market situation and add to structural unemployment, impairing the employability of jobless workers.

Such downward risks are among the concerns expressed by domestic firms in the regular WIFO-Konjunkturtest (business cycle survey); large manufacturers in particular deem a protracted period of slow growth not altogether unlikely.

On the other hand, an even speedier recovery than assumed in our main scenario may also appear plausible. Amidst the global financial market and economic crisis of 2008-09, the momentum of recovery was constrained by massive macroeconomic imbalances. With the latter having meanwhile been largely unwound and no new ones arising, the global economy may rebound more vigorously than projected. Such upward risk particularly relates to 2021.

Not least, an upside risk derives from the expansionary course of fiscal policy and a potential under-estimation of fiscal multipliers. It has rarely been observed before that fiscal policy is geared towards expansion on a global scale and on top supported by an accommodative stance of monetary policy. This synchronous global stimulus could prove substantially more powerful than expected, since in this context the dampening effect of higher imports, triggered by domestic fiscal incentives, may be more than offset by additional exports as a result of the corresponding incentives provided abroad.