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Economic Recovery Delayed.

Economic Outlook for 2023 to 2025

Stefan Ederer, Stefan Schiman-Vukan

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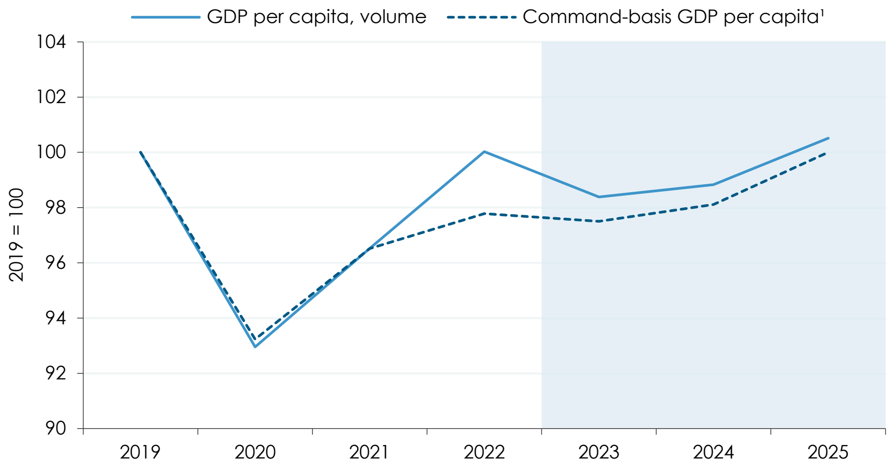
- Private consumption supports the economy in the USA in 2023. In the euro area, however, GDP is stagnating. Rising real incomes and an upturn in industrial production will allow the European economy to regain momentum in 2024.
- Austria's economic output is expected to fall by 0.8 percent in 2023. The business cycle is expected to bottom out at the end of 2023, so that GDP will grow by 0.9 percent in 2024 and by 2 percent in 2025.
- Rising real incomes will support private consumption in 2024 and 2025, while industry will not recover until the second half of 2024.
- Labour market conditions will only deteriorate temporarily.
- Inflation will slow to 4 percent in 2024 and to around 3 percent in 2025. Energy prices will dampen inflation only slightly in 2024.
- The general government fiscal balance in relation to GDP will decline to –2 percent by 2025, while the debt ratio will fall to just under 74 percent of GDP.

Wealth development in Austria



"Prosperity in Austria grew less strongly in 2022 than real GDP per capita indicates because high import prices reduced purchasing power. The command-basis GDP better reflects the development. It also shows that economic prosperity will not fall as sharply in 2023 as a recession would suggest"

To calculate the command-basis GDP, nominal GDP per capita is price-adjusted using the deflator for domestic demand (instead of the GDP deflator). This indicator is more suitable for measuring prosperity than real GDP per capita because it takes into account domestic purchasing power (source: Statistics Austria, WIFO. 2023 to 2025: forecast).

Economic Recovery Delayed

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Stefan Ederer, Stefan Schiman-Vukan

January 2024

Economic Recovery Delayed. Economic Outlook for 2023 to 2025

The Austrian economy will contract by 0.8 percent in 2023. Lower real incomes as a result of high inflation and global weakness in industry are weighing on economic development. The recovery of industrial production in Austria will be delayed, so that GDP will only grow by 0.9 percent in 2024. GDP growth is expected to reach 2 percent in 2025. Inflation will fall to 4 percent in 2024 and to around 3 percent in 2025. The labour market will deteriorate only temporarily.

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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Austria's GDP contracted in the summer half of 2023. Overall economic output is expected to fall by 0.8 percent in 2023 as a whole. Inflation is weighing on the purchasing power of private households, leading to stagnation in consumer spending. The global slump in the production and trade of goods, together with the after-effects of the energy price shock, also affect the Austrian industry, whose value added falls sharply in 2023.

The trough of economic activity is likely to be passed by the end of 2023. Rising real incomes will support private consumption in 2024 and 2025. By contrast, the recovery in industry will be somewhat delayed and is expected to gather pace from the second half of the year. Austria's economy will therefore only grow by 0.9 percent in 2024. GDP is expected to increase by 2 percent in 2025.

Due to the delayed recovery and a high negative growth carry-over from the previous year, industrial value added will also contract slightly in 2024 and will not expand strongly again until 2025. In contrast, construction is not expected to bottom out until 2024. The services sector is characterised by opposing trends, but overall, it is expected to grow noticeably in both 2024 and 2025.

The number of persons in active dependent employment rises significantly in 2023 due to a strong start to the year. The unemployment rate, on the other hand, will increase, partly because displaced persons from Ukraine have been included in the unemployment statistics since spring 2023. In the remainder of the forecast period, the labour market will temporarily cloud over due to the weak economy. Employment momentum will slow in 2024, but should pick up again in 2025. The unemployment rate will remain unchanged at 6.4 percent in 2024 and fall to 6 percent in 2025.

Inflation is expected to decline significantly in 2024 to an annual average of 4 percent. The fall in natural gas prices on the European wholesale market and the extension of the electricity price cap will dampen household energy prices in 2024. In 2025, inflation will fall further to an annual average of 3.1 percent. Energy prices are no longer likely to dampen inflation in 2025, while the upward trend in prices for industrial goods, food and, above all, services will remain persistent.

The public budget balance will improve significantly in 2023 due to the discontinuation of pandemic-related support measures. The general government deficit is reduced to 2 percent of GDP by 2025. Public debt decreases by around 5 percentage points over the forecast period and amounts to 73½ percent of economic output in 2025.

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	+ 0.9	+ 2.0
Manufacturing		– 7.3	+ 12.7	+ 4.1	– 2.2	– 0.5	+ 3.5
Wholesale and retail trade		– 3.3	– 1.1	+ 2.1	– 5.5	+ 1.6	+ 2.2
Private consumption expenditure[1], volume		– 8.5	+ 4.2	+ 5.7	± 0.0	+ 1.6	+ 2.0
Consumer durables		– 2.6	+ 3.7	– 0.3	– 4.5	+ 1.5	+ 2.5
Gross fixed capital formation, volume		– 5.5	+ 6.1	+ 0.1	– 2.0	– 1.0	+ 2.5
Machinery and equipment[2]		– 7.1	+ 9.9	+ 2.0	– 0.6	+ 1.7	+ 4.2
Construction		– 3.6	+ 1.8	– 2.0	– 3.5	– 4.0	+ 0.5
Exports, volume		– 10.6	+ 9.1	+ 11.2	+ 1.2	+ 2.2	+ 3.2
Exports of goods, fob		– 7.7	+ 12.3	+ 7.1	+ 1.9	+ 2.2	+ 3.5
Imports, volume		– 10.0	+ 14.3	+ 7.9	– 1.3	+ 2.6	+ 3.6
Imports of goods, fob		– 7.2	+ 15.2	+ 5.1	– 2.8	+ 2.5	+ 3.5
Gross domestic product, value		– 4.1	+ 6.4	+ 10.4	+ 7.8	+ 5.4	+ 5.0
	billion €	380.89	405.24	447.22	482.27	508.51	533.71
Current account balance	as a percentage of GDP	3.4	1.6	– 0.3	2.6	2.6	2.7
Consumer prices		+ 1.4	+ 2.8	+ 8.6	+ 7.9	+ 4.0	+ 3.1
GDP deflator		+ 2.7	+ 2.1	+ 5.3	+ 8.7	+ 4.5	+ 2.9
General government net lending, Maastricht definition	as a percentage of GDP	– 8.0	– 5.8	– 3.5	– 2.3	– 2.4	– 2.0
Persons in active dependent employment[3]		– 2.0	+ 2.5	+ 3.0	+ 1.1	+ 0.7	+ 1.4
Unemployment rate, national definition[4]		+ 9.9	+ 8.0	+ 6.3	+ 6.4	+ 6.4	+ 6.0
Command-based GDP per capita[5]		– 7.6	+ 4.9	– 6.3	– 4.2	– 1.4	– 0.5
Greenhouse gas emissions[6]		73.91	77.53	72.62	69.55	68.61	68.28
	million t CO_2 equivalent	– 6.6	+ 4.2	+ 4.8	– 0.8	+ 0.9	+ 2.0

Source: WIFO, Environmental Agency Austria, Federation of Social Insurances, OeNB, Public Employment Service Austria, Statistics Austria. 2023 to 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. – [5] Nominal GDP deflated by the implicit price index of domestic demand – [6] 2022: Environmental Agency Austria estimate, from 2023: forecast.

1. Global slump in industry weakens business cycle in Europe

Industrial activity is sluggish worldwide and economic output in the euro area is stagnating. In the USA, however, GDP is growing strongly in 2023.

The global industrial economy is in a weak phase. Although industrial production stabilised in the summer according to the Centraal Planbureau (CPB) and global trade in goods contracted less sharply than before, there have been no signs of a recovery so far. Private household consumption patterns have normalised in many countries following the end of the COVID-19 pandemic, and demand for services rather than goods is increasing, which is having a negative impact on global trade. In addition, as supply chain problems have been resolved, companies have reduced their inventories of intermediate goods, some of which were high.

Nevertheless, global economic expansion accelerated in summer 2023. Against all expectations, the economy of the USA is still robust. Private household consumption continued to support demand in the third quarter. Consumer confidence remains stable despite restrictive monetary policy, supported by rising real incomes. Monetary policy has not yet had a dampening effect on consumption. This may be due to the fact that the majority of existing housing loans in the USA have low fixed interest rates and long maturities. Moreover, fiscal policy was highly expansive in 2023. The robust economy has also contributed to the fact that the inflation rate has so far remained above 3 percent. Nevertheless, the Federal Reserve Bank is unlikely to raise key interest rates any further as inflation has already fallen sharply. China's real GDP growth also accelerated in the third quarter. Although the property crisis is weighing on private households, government intervention is supporting economic activity there.

In the euro area, consumer demand from private households has weakened in the face of unfavourable real wage developments. In addition, the global weakness of industrial activity is primarily affecting the industrial regions of Central Europe. GDP in the euro area remained broadly unchanged from the fourth quarter of 2022 to the third quarter of 2023. Nevertheless, the labour markets remain robust. The demographically induced shortage of labour is increasing search costs and reducing companies' recruitment opportunities. Employees are therefore more likely to be retained by companies despite underutilisation. The inflation rate has recently fallen rapidly thanks to the reduction in household energy prices. At 2.4 percent in November 2023, it was only slightly above the European Central Bank's (ECB) target value. It can therefore be assumed that key interest rates in the euro area have also peaked.

Table 2: **International economy**

	Percentage shares 2021		2020	2021	2022	2023	2024	2025
	Austria's exports of goods	World GDP[1]	GDP volume, percentage changes from previous year					
EU 27	68.7	14.9	– 5.6	+ 6.0	+ 3.4	+ 0.5	+ 1.2	+ 1.8
Euro area	52.0	10.4	– 6.1	+ 5.9	+ 3.4	+ 0.6	+ 1.0	+ 1.5
Germany	29.8	3.3	– 3.8	+ 3.2	+ 1.8	– 0.3	+ 0.9	+ 1.3
Italy	6.8	1.9	– 9.0	+ 8.3	+ 3.7	+ 0.7	+ 0.6	+ 1.2
France	4.0	2.3	– 7.5	+ 6.4	+ 2.5	+ 0.8	+ 0.7	+ 1.2
CEEC 5[2]	15.9	2.2	– 3.3	+ 6.2	+ 4.2	+ 0.3	+ 2.1	+ 2.9
Hungary	4.0	0.2	– 4.5	+ 7.1	+ 4.6	– 0.6	+ 2.6	+ 3.3
Poland	3.8	1.0	– 2.0	+ 6.9	+ 5.3	+ 0.5	+ 2.5	+ 2.9
Czech Republic	3.6	0.3	– 5.5	+ 3.6	+ 2.4	– 0.5	+ 0.7	+ 3.0
USA	6.6	15.5	– 2.2	+ 5.8	+ 1.9	+ 2.4	+ 1.3	+ 1.5
Switzerland	5.4	0.5	– 2.1	+ 5.4	+ 2.6	+ 0.7	+ 1.2	+ 1.5
China	2.7	18.4	+ 2.2	+ 8.4	+ 3.0	+ 5.6	+ 4.3	+ 4.0
UK	2.6	2.3	– 10.4	+ 8.7	+ 4.3	+ 0.6	+ 0.4	+ 1.1
Total[3]								
PPP-weighted[4]		51.6	– 2.0	+ 6.9	+ 2.8	+ 2.9	+ 2.3	+ 2.4
Export weighted[5]	86.0		– 5.0	+ 6.1	+ 3.3	+ 0.9	+ 1.2	+ 1.8
Market growth[6]			– 6.1	+ 11.0	+ 5.7	– 1.5	+ 2.5	+ 3.5
Forecast assumptions								
Crude oil prices								
Brent, $ per barrel			43.2	70.8	98.9	83	80	76
Natural gas price								
Dutch TTF, € per MWh			9.5	45.9	121.5	42	44	42
Electricity price Austria								
Base, € per MWh			33.2	107.2	261.6	105	111	111
Peak, € per MWh			36.0	116.8	275.5	108	128	127
Exchange rate								
$ per €			1.141	1.184	1.054	1.08	1.08	1.08
Key interest rate								
ECB main refinancing rate[7], percent			0.0	0.0	0.6	3.8	4.3	3.5
10-year government bonds yields Germany, percent			– 0.5	– 0.4	1.1	2.5	3.4	3.2

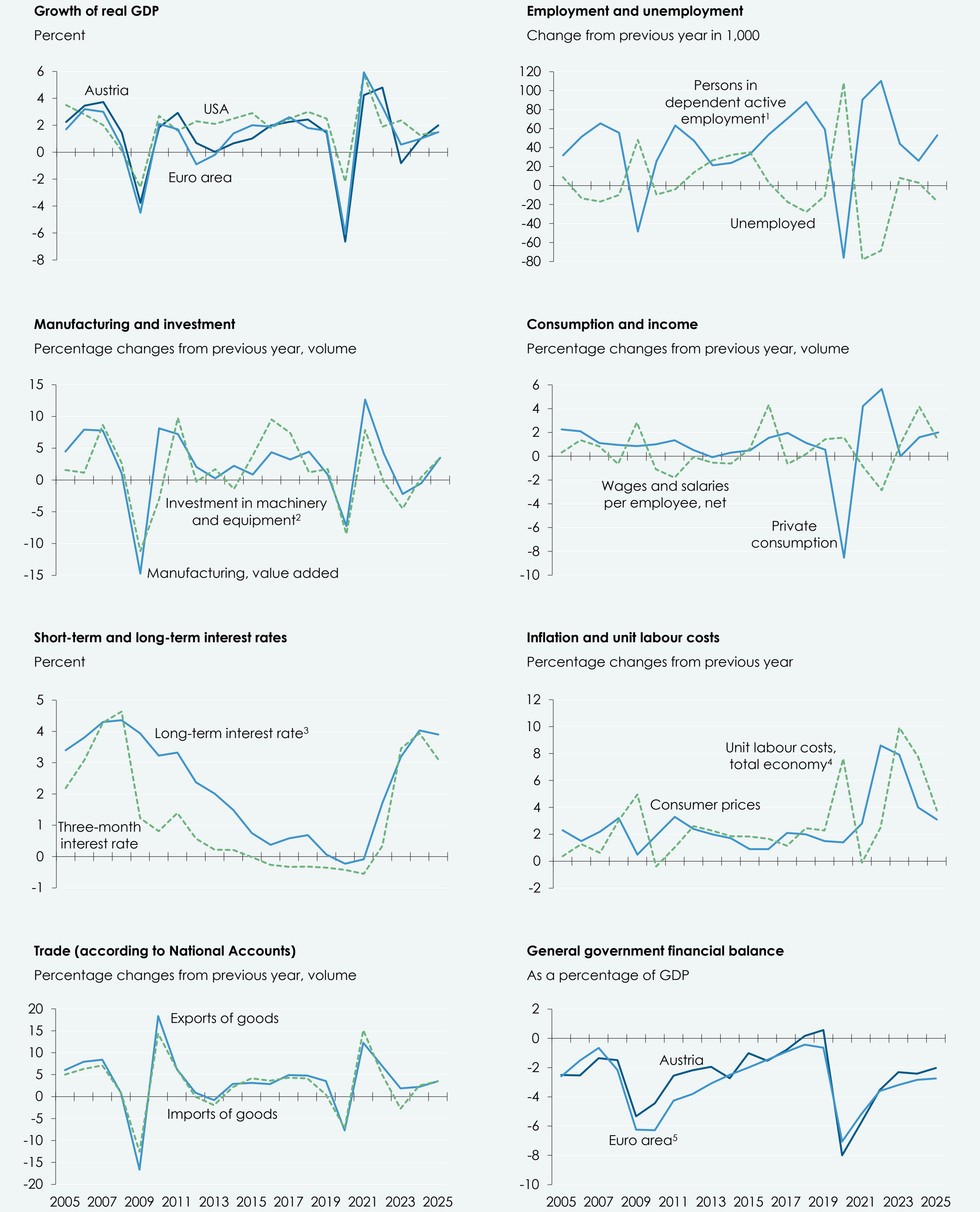
Source: WIFO, Bureau of Economic Analysis, European Energy Exchange, Eurostat, ECB, HWWI, IMF, Intercontinental Exchange, OECD, Statistics Austria. 2023 and 2024: forecast. – [1] PPP-weighted. – [2] Czech Republic, Hungary, Poland, Slovenia, Slovakia. – [3] EU 27, UK, USA, Switzerland, China. – [4] Weighted by GDP at purchasing power parities in 2021. – [5] Weighted by shares of Austrian goods exports in 2021. – [6] Real import growth of trading partners, weighted by shares of Austrian goods exports. – [7] Minimum bid rate.

2. Rising real incomes support demand in industrialised countries

Inflation will fall and real incomes will rise in industrialised countries in 2024 and 2025. Industrial activity is also expected to gain momentum.

The global economy is likely to expand only moderately in the winter half-year 2023-24. The weakness in the industrial economy will persist in the coming months, especially as order books and business expectations in industry remain unfavourable. High interest rates are dampening demand in many industrialised countries, particularly in residential construction. Moreover, parts of production in European industry are likely to have been permanently halted as a result of the energy price shock. The wholesale price of natural gas on the European exchanges will remain above the pre-crisis level of 2019 throughout the forecast period. This will reduce competitiveness compared to other regions of the world, especially the USA.

Figure 1: **Indicators of economic performance**



Source: WIFO. 2023 to 2025: forecast. – [1] Excluding persons in valid employment contract receiving child care benefit or being in military service, and unemployed persons in training; break in 2007-08 due to changes in the employment statistics. – [2] Including weapons systems. – [3] 10-year central government bonds (benchmark). – [4] Including short-time work grants. – [5] Source: European Commission.

The decline in inflation and its delayed impact on wage growth will lead to strong real income growth in many places over the forecast period. Private household consumption will thus become the central pillar of the economic recovery. WIFO assumes that both the Federal Reserve in the USA and the ECB will begin to lower their key interest rates in 2024. Companies have also largely reduced their increased inventories of primary products, so global trade in goods and industrial production should regain momentum. On the other hand, there is still a dampening effect from the weak economic development in China, where the crisis in the real estate sector is weighing on private household incomes due to the high importance of this sector for the overall economy. In Germany, the budget crisis resulting from a Supreme Court judgement in connection with the government debt brake is clouding the outlook. In many countries, real interest rates also remain higher than before the COVID-19 pandemic.

All in all, growth of total economic output of Austria's most important trading partners is likely to decrease: from just under 3 percent in 2023 to less than 2½ percent in the following two years. Compared to the economic forecast of autumn 2023, WIFO has revised its assumptions slightly upwards, mainly because the outlook for the USA and China has brightened. In the euro area, however, growth is expected to be somewhat weaker than previously assumed. Weighted by the shares of Austrian foreign trade, growth in the most important trading partners will increase from just under 1 percent in 2023 to 1.2 percent in 2024 and 1.8 percent in 2025.

Inflation will continue to fall over the forecast period, albeit at different rates in different regions. In view of the high storage levels, Europe's natural gas supply should be secure in the winter of 2023-24 and energy prices should not spike again. In line with prices on the futures markets, WIFO expects the price of natural gas to remain slightly above the current level until the end of 2025 and thus higher than before the sharp price increase in summer 2021. Inflation rates are likely to be close to 2 percent towards the end of the forecast period in both the USA and the euro area.

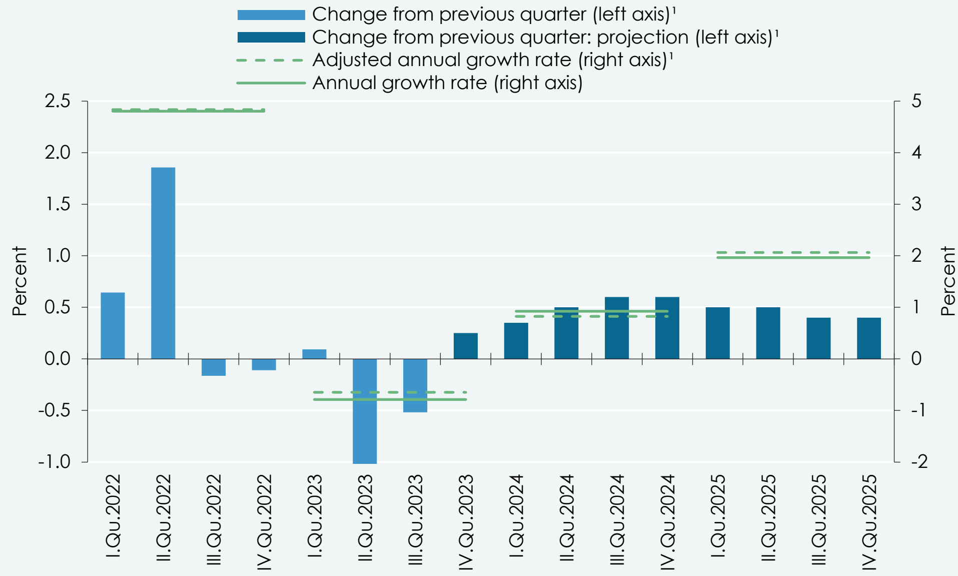
3. Slow economic recovery in Austria from 2024 onwards

Austria's economic output will fall by 0.8 percent in 2023. By the end of the year, the business cycle should have bottomed out, with GDP growing by 0.9 percent in 2024 and 2 percent in 2025.

The Austrian economy is in recession. According to Statistics Austria's national accounts data, the economic downturn had already begun in the previous year and intensified considerably in the summer half of 2023. Economic output fell again in the third quarter, having already contracted significantly in the previous three months. This was on the one hand due to weak global demand for goods, which dampened foreign trade and industrial activity in Austria. On the other hand, the inflation triggered by the energy price shock reduced the purchasing power of private households, causing them to cut back sharply on consumer spending. In addition, the downturn in construction continued. All in all, GDP will fall by about ¾ percent in 2023.

Figure 2: **Cyclical profile of Austria**

GDP, volume



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

Table 3: **Revision of the growth forecast**

GDP, volume

		2023	2024
WIFO Economic Outlook October 2023	percent	– 0.8	+ 1.2
Data revisions[1]	percentage points	– 0.3	– 0.1
Forecast error for the third quarter of 2023[2]	percentage points	+ 0.2	+ 0.2
Forecast revision	percentage points	+ 0.1	– 0.3
WIFO Economic Outlook December 2023	**percent**	**– 0.8**	**+ 0.9**

Source: WIFO. – [1] Revision of the Quarterly National Accounts by Statistics Austria compared to the data used for the WIFO Economic Outlook of October 2023. – [2] At the time of preparing the WIFO Economic Outlook of October 2023, no values were available from Statistics Austria for this quarter.

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

		2022	2023	2024	2025
Growth carry-over[1]	percentage points	+ 2.8	+ 0.3	– 0.4	+ 0.9
Growth rate during the year[2]	percent	+ 2.2	– 1.3	+ 2.1	+ 1.8
Annual growth rate	**percent**	**+ 4.8**	**– 0.8**	**+ 0.9**	**+ 2.0**
Adjusted annual growth rate[3]	percent	+ 4.8	– 0.6	+ 0.8	+ 2.1
Calendar effect[4]	percentage points	– 0.1	– 0.1	+ 0.1	– 0.1

Source: WIFO. 2023 to 2025: forecast. – [1] Impact of year-earlier growth dynamics on growth in the current year. Equals the annual growth rate in the current year, if the level of GDP in the current year remains constant from the fourth quarter of the previous year; seasonally and calendar adjusted according to Eurostat. – [2] Reflects the growth dynamics during a calendar year. Equals the year-on-year growth rate for the fourth quarter; seasonally and calendar adjusted according to Eurostat. – [3] Seasonally and calendar adjusted according to Eurostat. Comparative figure to the OeNB's economic forecast. – [4] Impact of the annual number of working days and the leap day. The sum of the adjusted annual growth rate and calendar effect may differ from the value of the unadjusted annual growth rate as it also includes seasonal and irregular effects.

However, the business cycle is likely to have bottomed out by the end of 2023. Although many indicators continue to point to weak development, they have not deteriorated further recently. WIFO estimates of weekly economic activity (WWWI) suggest that the business cycle was better in the fourth quarter than before. Business expectations have also brightened somewhat recently. Accordingly, a recovery in overall economic output is expected from the beginning of 2024, driven in particular by the decline in inflation and a substantial increase in real incomes as a result of wage settlements based on past inflation rates.

However, part of the economic recovery will only take place in the second half of 2024, as global industrial production and trade in goods will gain momentum somewhat later than assumed in the WIFO Economic Outlook of October 2023. Overall, the Austrian economy will therefore grow by just under 1 percent in 2024, which corresponds to a forecast revision of –0.3 percentage points. In 2025, the recovery effects should gradually fade, partly because real income growth will slow due to the further declining inflation. However, the more favourable business cycle, particularly in the second half of 2024, will be reflected in an increase in the annual growth rate to 2 percent in 2025.

3.1 Producing sector shrinks again in 2024

The recovery in industry is expected to be somewhat delayed, leading to strong annual growth rates in 2025. The construction industry will not reach its low point until 2024.

Value added in Austrian industry will fall significantly in 2023. The order situation and business sentiment worsened considerably over the course of the year. After an initial deterioration in the assessments of the intermediate goods sectors, sentiment also turned negative in the capital goods sectors in the second half of 2023. However, the production index rose again towards the end of the year, suggesting that manufacturing activity may be bottoming out. Intermediate goods production in particular has recently shown stronger momentum again, while weakness in the capital goods sector is likely to persist for some time. Due to the poor order situation and a significant negative growth carry-over from 2023, value added in Austrian industry will continue to shrink slightly overall in 2024. It will only pick up noticeably in the second half of 2024, so that strong growth can be expected in 2025.

Construction value added will also fall in 2023 and is likely to continue to decline sharply in 2024. High construction and financing costs are weighing on the building construction, especially residential construction, which is particularly sensitive to interest rates. Civil engineering and ancillary construction, on the other hand, have been stable so far. However, the order situation in the construction industry has steadily deteriorated over the course of 2023, as many projects have been completed and new orders have not materialised. As the weakness in residential construction is likely to gradually spill over to other parts of the construction sector, especially the ancillary sector, the through in domestic construction will not be reached until 2024. Construction output is expected to stabilise in 2025.

Table 5: **Gross value added**

At basic prices

	2022	2023	2024	2025	2022	2023	2024	2025
	Billion € (reference year 2015)				Percentage changes from previous year			
Volume (chain-linked series)								
Agriculture, forestry and fishing	4.37	4.11	4.11	4.11	+ 6.6	− 6.0	± 0.0	± 0.0
Manufacturing including mining and quarrying	72.17	70.58	70.23	72.68	+ 4.3	− 2.2	− 0.5	+ 3.5
Electricity, gas and water supply, waste management	9.98	10.03	10.08	10.18	+ 2.2	+ 0.5	+ 0.5	+ 1.0
Construction	18.90	18.61	17.96	17.96	− 1.2	− 1.5	− 3.5	± 0.0
Wholesale and retail trade	39.45	37.28	37.88	38.71	+ 2.1	− 5.5	+ 1.6	+ 2.2
Transportation	18.21	17.12	17.55	17.98	+ 10.9	− 6.0	+ 2.5	+ 2.5
Accommodation and food service activities	12.97	13.42	13.63	13.90	+ 55.3	+ 3.5	+ 1.5	+ 2.0
Information and communication	14.30	14.80	15.24	15.55	+ 2.8	+ 3.5	+ 3.0	+ 2.0
Financial and insurance activities	15.85	16.32	16.65	17.07	− 1.2	+ 3.0	+ 2.0	+ 2.5
Real estate activities	31.88	32.36	32.85	33.34	+ 2.2	+ 1.5	+ 1.5	+ 1.5
Other business activities[1]	34.37	34.37	34.89	35.76	+ 3.8	± 0.0	+ 1.5	+ 2.5
Public administration[2]	58.22	59.09	59.68	60.28	+ 3.1	+ 1.5	+ 1.0	+ 1.0
Other service activities[3]	8.93	9.51	9.70	9.80	+ 18.9	+ 6.5	+ 2.0	+ 1.0
Total gross value added[4]	339.09	337.02	339.67	346.21	+ 5.2	− 0.6	+ 0.8	+ 1.9
Gross domestic product at market prices	380.56	377.48	380.98	388.57	+ 4.8	− 0.8	+ 0.9	+ 2.0

Source: WIFO, Statistics Austria. 2023 to 2025: 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 6: **Productivity**

	2020	2021	2022	2023	2024	2025
	Percentage changes from previous year					
Total economy						
GDP, volume	− 6.6	+ 4.2	+ 4.8	− 0.8	+ 0.9	+ 2.0
Employment[1]	− 1.9	+ 2.4	+ 2.8	+ 1.0	+ 0.5	+ 1.2
Production per person employed	− 4.8	+ 1.8	+ 2.0	− 1.8	+ 0.4	+ 0.7
Hours worked per person employed[2]	− 7.0	+ 2.3	− 0.3	− 0.5	− 0.0	+ 0.2
Hourly productivity[3]	+ 2.3	− 0.5	+ 2.3	− 1.3	+ 0.4	+ 0.6
Manufacturing						
GDP, volume	− 7.3	+12.7	+ 4.1	− 2.2	− 0.5	+ 3.5
Employment[1]	− 1.0	+ 0.5	+ 1.3	+ 1.4	+ 0.1	+ 1.0
Production per person employed	− 6.4	+12.2	+ 2.8	− 3.6	− 0.6	+ 2.5
Hours worked per person employed[2]	− 4.9	+ 4.3	− 0.7	− 0.6	− 0.9	− 0.3
Hourly productivity[3]	− 1.6	+ 7.5	+ 3.6	− 3.0	+ 0.3	+ 2.8

Source: WIFO, Statistics Austria. 2023 to 2025: forecast. – [1] Employees and self-employed, National Accounts definition (jobs). – [2] National Accounts definition. – [3] Production per hour worked, National Accounts definition.

High exports at the beginning of the year supported Austrian goods exports in 2023. Investments are not expected to pick up again until 2025, when the industrial economy will have gained momentum.

3.2 Exports of goods still growing strongly in 2023

Austrian goods exports were still robust at the beginning of 2023, with exports of machinery to the USA and Germany in particular increasing significantly. However, momentum slowed noticeably over the course of the year, particularly in Austria's main European markets, especially Germany. Sentiment and order books of capital goods exporters – which had driven export growth in the first half of the year – deteriorated. However, thanks to the successful start to the year, exports of goods will increase significantly in 2023 as a whole. As industrial activity recovers from mid-2024, export momentum is likely to accelerate again. However, global demand for capital goods will initially remain weak, preventing a rapid rebound in exports. Exports will not pick up strongly again until 2025.

Investment demand has collapsed in 2023. Deteriorating sentiment, sluggish order books and high financing costs are causing companies to postpone investment. In addition, energy prices in Europe remain high, which will lead to some production being relocated outside Europe in the medium term. Due to the now somewhat delayed recovery in industry, investment in machinery and equipment is expected to remain weak in 2024 and not pick up until 2025.

Table 7: **Expenditure on GDP**
Volume (chain-linked series)

	2022	2023	2024	2025	2022	2023	2024	2025
	Billion € (reference year 2015)				Percentage changes from previous year			
Final consumption expenditure	269.00	267.45	270.52	275.18	+ 4.0	– 0.6	+ 1.1	+ 1.7
Households[1]	192.28	192.28	195.36	199.27	+ 5.7	± 0.0	+ 1.6	+ 2.0
General government	76.73	75.20	75.20	75.95	+ 0.0	– 2.0	± 0.0	+ 1.0
Gross capital formation	98.08	92.38	92.68	96.05	– 0.7	– 5.8	+ 0.3	+ 3.6
Gross fixed capital formation	93.02	91.17	90.30	92.59	+ 0.1	– 2.0	– 1.0	+ 2.5
Machinery and equipment[2]	29.78	28.44	28.59	29.59	– 0.4	– 4.5	+ 0.5	+ 3.5
Construction	39.49	38.11	36.59	36.77	– 2.0	– 3.5	– 4.0	+ 0.5
Other investment[3]	23.90	24.90	25.65	26.93	+ 5.0	+ 4.2	+ 3.0	+ 5.0
Domestic demand	367.39	358.66	362.66	370.73	+ 2.9	– 2.4	+ 1.1	+ 2.2
Exports	234.54	237.39	242.68	250.48	+ 11.2	+ 1.2	+ 2.2	+ 3.2
Travel	13.11	14.29	14.67	15.00	+ 96.2	+ 9.0	+ 2.6	+ 2.2
Minus imports	221.75	218.86	224.49	232.62	+ 7.9	– 1.3	+ 2.6	+ 3.6
Travel	8.21	9.23	9.39	9.49	+ 57.0	+ 12.4	+ 1.8	+ 1.1
Gross domestic product	380.56	377.48	380.98	388.57	+ 4.8	– 0.8	+ 0.9	+ 2.0
Value	447.22	482.27	508.51	533.71	+ 10.4	+ 7.8	+ 5.4	+ 5.0

Source: WIFO, Statistics Austria. 2023 to 2025: forecast. – [1] Including non-profit institutions serving households. – [2] Including weapon systems. – [3] Mainly intellectual property products (research and development, computer programmes, copyrights).

3.3 Private consumption stagnates in 2023

High inflation as a result of the energy price shock is eroding household purchasing power and dampening demand. After two years of strong recovery from the COVID-19 crisis, private consumption is expected to largely stagnate in 2023. In particular, demand for consumer durables will fall significantly – probably also as a result of the normalisation of consumption patterns after the pandemic. However, spending on non-durable consumer goods and services will also barely increase in 2023.

Private household consumption stagnates in 2023. In 2024 and 2025, real incomes will rise significantly.

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

	2020	2021	2022	2023	2024	2025
	Percentage changes from previous year					
Private consumption expenditure[1]	– 8.5	+ 4.2	+ 5.7	± 0.0	+ 1.6	+ 2.0
Durable goods	– 2.6	+ 3.7	– 0.3	– 4.5	+ 1.5	+ 2.5
Non-durable goods and services	– 9.2	+ 4.3	+ 6.3	+ 0.5	+ 1.6	+ 2.0
Private household disposable income, volume	– 2.8	+ 1.8	+ 3.3	– 0.2	+ 2.6	+ 1.7
	As a percentage of disposable income					
Household saving ratio						
Including adjustment for the change in pension entitlements	13.2	11.2	9.2	8.9	9.8	9.5
Excluding adjustment for the change in pension entitlements	12.7	10.6	8.5	8.3	9.2	9.0
	Percentage changes from previous year					
Loans to domestic non-banks (end of period)	+ 3.7	+ 6.6	+ 5.0	+ 2.1	+ 2.8	+ 3.4
Consumer prices						
National	+ 1.4	+ 2.8	+ 8.6	+ 7.9	+ 4.0	+ 3.1
Harmonised	+ 1.4	+ 2.8	+ 8.6	+ 7.8	+ 3.8	+ 3.0
Core inflation[2]	+ 2.0	+ 2.3	+ 5.1	+ 7.4	+ 4.9	+ 2.9

Source: WIFO, OeNB, Statistics Austria. 2023 to 2025: forecast. – [1] Private households including non-profit institutions serving households. – [2] Excluding energy, food, alcohol and tobacco.

Table 9: **Earnings, international competitiveness**

	2020	2021	2022	2023	2024	2025
	Percentage changes from previous year					
Wages and salaries per employee[1]						
Nominal, gross	+ 2.2	+ 2.7	+ 4.7	+ 8.2	+ 7.8	+ 4.5
Real[2]						
Gross	+ 0.8	− 0.1	− 3.6	+ 0.3	+ 3.7	+ 1.4
Net	+ 1.6	− 0.9	− 2.9	+ 1.0	+ 4.2	+ 1.3
Wages and salaries per hour worked[1]						
Real, net[2]	+ 9.5	− 3.9	− 2.6	+ 1.4	+ 4.5	+ 1.2
	Percent					
Wage share, adjusted[3]	69.3	68.3	69.8	70.3	72.7	73.2
	Percentage changes from previous year					
Unit labour costs, nominal[4]						
Total economy	+ 7.6	− 0.1	+ 2.5	+ 9.9	+ 7.7	+ 3.8
Manufacturing	+ 6.2	− 7.6	+ 2.2	+10.9	+ 8.6	+ 1.9
Effective exchange rate – manufactured goods[5]						
Nominal	+ 1.4	+ 0.6	− 1.5	+ 1.1	+ 0.9	+ 0.5
Real	+ 1.7	+ 0.2	− 1.8	+ 2.6	+ 1.0	+ 0.9

Source: WIFO, Statistics Austria. 2023 to 2025: forecast. – [1] National Accounts definition (jobs). – [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 2015. – [4] Labour costs in relation to productivity (hourly compensation per employees divided by GDP and value added, respectively, per employed persons' hours worked), including short-time work grants. – [5] Weighted by exports and imports, real value adjusted by relative HCPI.

In 2024 and 2025, the disposable income of private households will rise noticeably again. WIFO expects wage settlements to be in line with rolling inflation, i.e., the average inflation rate of the previous twelve months. Due to the slowdown in price momentum, this implies a noticeable increase in real disposable income. Private consumer spending will therefore increase significantly again in both years, and the savings rate will also rise again after declining in 2022 and 2023.

3.4 Tourism demand counter-cyclical to the business cycle

Demand for tourism is currently counter-cyclical to the economy as a whole. Trade and other economic services are suffering from the weakness in the producing sector.

Demand for tourism services has so far defied the economic downturn and high inflation in many countries. The 2023 summer season saw a record number of overnight stays in Austria, and the outlook for the winter season remains positive, although sentiment in the tourism industry has deteriorated in the meantime. In 2024 and 2025, demand is expected to remain high in volume terms, but guests' propensity to save will increase. Above-average price increases in accommodation and food service activities will also contribute to this. After a strong increase in 2023, value added in this sector and travel exports will grow at a noticeably slower pace. The tourism industry is therefore currently counter cyclical to the economy as a whole.

In 2023, other service sectors were also supported by recovery effects following the COVID-19 pandemic. In trade, however, value added collapsed. Turnover in retail trade is falling due to weak consumer demand, and in wholesale trade the slump in the producing sector is reflected in a sharp decline in sales. Value added in transport services is also expected to fall significantly due to the weakness of production and trade of goods. Other business services, which primarily provide services for manufacturing, construction and wholesale trade, stagnate in 2023. With the recovery in industry and the resurgence in consumer and investment demand, value added in most service sectors is likely to increase strongly again in 2024 and 2025.

3.5 Temporary clouding on the labour market

The labour market remains robust, partly because companies are hoarding workers. Nevertheless, unemployment will increase in 2023 and not fall again until 2025.

Dependent active employment is set to rise in 2023, with growth at the beginning of the year largely driven by the tourism sector. In the second half of the year, however, employment growth slowed significantly in several sectors, in some cases even turning negative. In trade and construction in particular, employment fell compared to the previous year. The temporary employment sector also lost employees throughout the year, especially towards the end of the year. Overall, WIFO expects employment to grow by 1.1 percent in 2023. Growth will roughly halve in 2024. The labour market is likely to react to the economic slowdown with a time lag, particularly because many companies are still trying to retain staff due to high recruitment costs.

Unemployment will increase in 2023. In addition to the weak economy, the inclusion of Ukrainians in the unemployment statistics in spring 2023 is contributing to this. The Austrian labour market was opened to displaced persons from Ukraine in April 2023, meaning that those who were already registered with the Public Employment Service (AMS) were now officially listed as unemployed. The unemployment rate is expected to be higher in 2023 and 2024 than in 2022, and to fall again in 2025 as a result of the economic recovery. However, there will be a partial shift from unemployment to training, the number of which is expected to increase in 2024. Foreign workers are expected to grow faster than total employment in the years 2023 to 2025, as a result of a demographic decline in domestic workers.

Table 10: **Labour market**

	2020	2021	2022	2023	2024	2025
	Change from previous year in 1,000					
Demand for labour						
Persons in active employment[1]	+ 61.4	– 76.6	+ 96.9	+ 115.6	+ 43.0	+ 23.0
Employees[1]	+ 58.9	– 76.1	+ 90.4	+ 110.2	+ 40.0	+ 20.0
National employees	+ 12.3	– 53.9	+ 28.1	+ 22.9	– 10.0	– 5.0
Foreign employees	+ 46.6	– 22.2	+ 62.4	+ 87.4	+ 50.0	+ 25.0
Self-employed[2]	+ 2.5	– 0.5	+ 6.5	+ 5.4	+ 3.0	+ 3.0
Labour supply						
Population of working age						
15 to 64 years	+ 11.4	+ 9.9	+ 5.4	+ 48.6	+ 13.0	+ 2.6
Labour force[3]	+ 50.6	+ 31.7	+ 19.0	+ 47.0	+ 53.0	+ 31.0
Labour surplus						
Unemployed	– 10.8	+ 108.3	– 77.9	– 68.6	+ 10.0	+ 8.0
Unemployed persons in training	– 6.8	– 4.9	+ 13.2	– 0.8	– 1.0	– 3.0
	Percent					
Unemployment rate						
As a percentage of total labour force (Eurostat)[4]	4.8	6.0	6.2	4.8	5.2	5.2
As a percentage of total labour force	6.6	8.9	7.2	5.6	5.8	5.9
As a percentage of dependent labour force	7.4	9.9	8.0	6.3	6.5	6.6
	Percentage changes from previous year					
Labour force[3]	+ 1.1	+ 0.7	+ 0.4	+ 1.0	+ 1.1	+ 0.7
Persons in active dependent employment[1]	+ 1.6	– 2.0	+ 2.5	+ 3.0	+ 1.0	+ 0.5
Unemployed	– 3.5	+ 35.9	– 19.0	– 20.7	+ 3.8	+ 2.9
Persons (in 1,000)	301.3	409.6	331.7	263.1	273.1	281.1

Source: WIFO, Eurostat, Federation of Social Insurances, Public Employment Service Austria, Statistics Austria. 2023 to 2025: forecast. – [1] Excluding persons in valid employment contract receiving child care benefit or being in military service. – [2] According to the Federation of Social Insurances. – [3] According to WIFO, including liberal professions and unpaid family workers. – [4] Persons in active employment plus unemployed.

3.6 Inflation continues to decline

Consumer price inflation declined significantly during 2023, ending the year at around half its starting level. However, the annual average inflation rate was only slightly lower than in the previous year, as price increases in the first half of 2022 were weaker than in the second half. While energy barely contributed to inflation in 2023 and even dampened it at the end of the year, prices for industrial goods, food and, above all, services were significantly higher than in the previous year. In addition, inflation in services has so far proved to be stubborn.

Inflation will continue to fall in 2024 and 2025. Although the wage agreements are based on past inflation rates, they are unlikely to give a new boost to inflation as past price increases have been partly reflected in higher profits and companies are now passing these on to employees through wage increases. Moreover, there is currently less scope for further price increases given the weak economic situation. Energy prices are likely to dampen inflation in 2024, as the fall in wholesale prices will be partially passed on to consumers. The electricity price cap, which has been extended until the end of 2024, will also help to dampen inflation. Overall, however, the negative contribution of energy prices to inflation is small, partly because the wholesale price of natural gas on the European market will remain significantly higher in the medium term than before its sharp rise in 2021. In contrast, the upward pressure on prices for industrial goods, food and services will be slow to

Inflation in Austria is projected to be almost 1 percentage point higher than in the euro area in 2024 and 2025.

abate, meaning that inflation will remain high in 2024 (4 percent). Inflation is expected to fall further in 2025 to an annual average of 3.1 percent. Energy prices will no longer have a dampening effect on inflation in 2025, partly because the brake on electricity prices will expire at the end of 2024.

Measured by the Harmonised Index of Consumer Prices (HICP), inflation in Austria will be around 2 percentage points higher than in the euro area on average in 2023. This inflation differential will narrow to less than 1 percentage point in 2024 and 2025. However, the inflation differential should have little impact on the price competitiveness of companies, but rather reduce profits, as exporters follow prices on their sales markets. The index for the real effective exchange rate for industrial goods will rise slightly over the forecast horizon.

3.7 Decline in government net lending and debt ratio

The budget deficit decreased significantly in 2023 and is expected to fall to 2 percent of GDP by 2025. The debt ratio will be just below 74 percent of GDP in 2025.

Government revenue will remain broadly constant in relation to GDP in the years 2023 to 2025, as the increase in nominal income will not result in an increase in the tax rate due to the automatic adjustment of tax brackets (abolition of fiscal drag). On the other hand, government expenditure as a share of GDP is projected to fall significantly in 2025. This is mainly due to the elimination of pandemic-related spending. In contrast, the extension of the electricity price brake will continue to weigh on public finances in 2024. In addition, the collective wage agreement in the public sector will increase spending on income and pensions. The rise in interest rates is also placing an increasing burden on the government budget; the interest expenditure ratio, which stood at 0.9 percent of GDP in 2022, is expected to rise to 1.5 percent by 2025.

Overall, general government net lending will improve significantly in 2023 and should be reduced to –2 percent of GDP by 2025. Public debt will therefore shrink to 73½ percent of GDP, which corresponds to a reduction of around 5 percentage points compared to 2022.

3.8 Reduction of greenhouse gas emissions over the forecast period

Greenhouse gas emissions will decrease significantly in 2023. This is due to falling fuel consumption, mild temperatures leading to lower heating requirement, and a significant reduction in the use of gas – particularly for electricity generation. Coal consumption also fell significantly in the second half of 2023. In 2024, the number of heating degree days is expected to return to the long-term trend and therefore heating demand will increase again. However, the average annual consumption of electricity and gas in 2024 will be lower than in the previous year due to the replacement of some energy systems, as indicated by the sharp drop in consumption in the second half of 2023. In combination with the weak economy, this will result in a further decline in emissions in 2024. With the economic recovery, particularly in industry, greenhouse gas emissions are then not expected to fall much further in 2025.

Table 11: **Fiscal and monetary policy – key figures**

	2020	2021	2022	2023	2024	2025
	As a percentage of GDP					
Fiscal policy						
General government financial balance[1]	– 8.0	– 5.8	– 3.5	– 2.3	– 2.4	– 2.0
General government primary balance	– 6.6	– 4.7	– 2.6	– 1.2	– 1.1	– 0.5
General government total revenue	48.8	50.4	49.6	48.8	48.7	48.7
General government total expenditure	56.8	56.2	53.2	51.1	51.2	50.8
General government gross dept[1]	83.0	82.5	78.4	75.5	74.5	73.6
	Percent					
Monetary policy						
Three-month interest rate	– 0.4	– 0.5	0.3	3.5	3.9	3.1
Long-term interest rate[2]	– 0.2	– 0.1	1.7	3.2	4.0	3.9

Source: WIFO, ECB, OeNB, Statistics Austria. 2023 to 2025: forecast. – [1] According to Maastricht definition. – [2] 10-year central government bonds (benchmark).

4. Risks

The conflict in the Gaza Strip has not yet had a direct impact on the global economy, but it could escalate with the intervention of other regional powers such as Iran. The risk of an oil price shock similar to the 1973 oil embargo imposed by the Arab OPEC members in response to Western support for Israel in the Yom Kippur War appears limited as the USA is now a net exporter of crude oil itself. However, a closure of important trade routes, such as the Suez Canal, is conceivable and could lead to renewed supply chain problems.

The war in Ukraine also continues to pose risks. In conjunction with an unusually cold winter, gas supplies in Europe could dwindle rapidly, especially as natural gas and crude oil are still imported from Russia. A shortage could trigger renewed price hikes for natural gas and fuel inflation if, for example, the gas transit agreement between Russia and Ukraine expires without a replacement at the end of 2024.

China also poses a risk to the global economy, where high levels of corporate and household debt are weighing on construction activity. China's economic weakness has also recently been reflected in falling prices, which could further dampen demand, as has long been the case in Japan.

In Austria, a prolonged slump in the industrial sector could lead to a reduction in the labour force, causing unemployment to rise more sharply than previously observed. This could reduce search costs and lead to a further decline in employment as it becomes more expensive to hoard labour. A resulting increase in unemployment could slow the economic upturn, which will be largely driven by private household consumption in 2024.

In contrast, a rapid decline in inflation in the euro area could prompt the European Central Bank to cut key interest rates more quickly than assumed in the forecast. This would immediately reduce financing costs for companies and private households and provide an additional boost to the economy. As a result, however, inflation in Austria could remain high for longer, which would lead to a deterioration in competitiveness vis-à-vis other euro area countries.