

# WIFO ■ REPORTS ON AUSTRIA

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### **Economic Sentiment Deteriorates.**

Results of the WIFO-Konjunkturtest  
Quarterly Survey of July 2023

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Michael Klien, Agnes Kügler

# Economic Sentiment Deteriorates

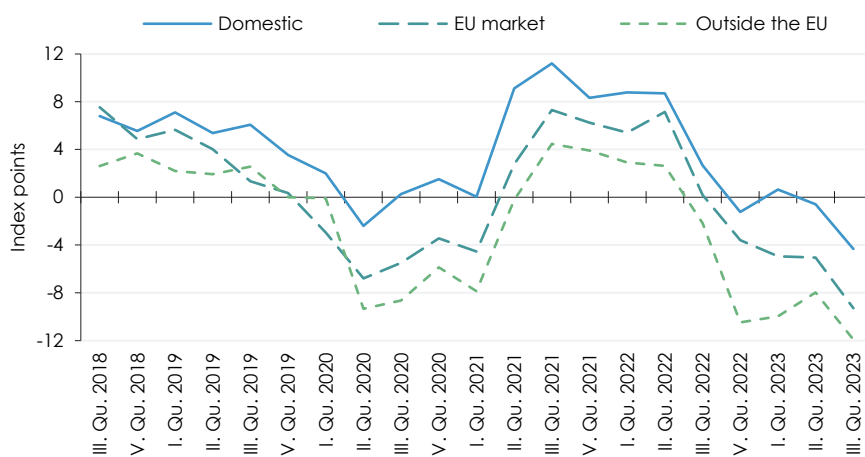
## Results of the WIFO-Konjunkturtest Quarterly Survey of July 2023

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- Austrian enterprises were noticeably more pessimistic about the economic situation in July than in previous months. Accordingly, the WIFO-Konjunkturampel (economic traffic light) showed red.
- Economic assessments were particularly sceptical in manufacturing. Accordingly, industrial companies' assessments of their competitive position continued to deteriorate.
- Business uncertainty increased again recently and was above average in all sectors.
- Total economy capacity utilisation was still average at 86.2 percent in July, but declined quarter-on-quarter in all sectors.
- As in the previous quarters, many companies reported impairments to their business activities. Overall, the "shortage of labour force" remained the most frequently mentioned obstacle, just ahead of the "insufficient demand", which has recently become much more important.
- Sales price expectations continued to weaken. On balance, around 18 percent of enterprises expected in July to raise prices in the coming months.

### Change in competitive position in manufacturing

Balance as a percentage of all reports



**"Companies' assessment of their competitive position in the surveys has further deteriorated in the wake of the slowdown in the industrial economy, especially with regard to export markets."**

The change in the competitive position is shown by means of balances: the share of enterprises that reported an improvement in their competitive position in the last three months is subtracted from the share of enterprises that reported a deterioration in the competitive position (source: WIFO-Konjunkturtest, seasonally adjusted).

# Economic Sentiment Deteriorates

## Results of the WIFO-Konjunkturtest Quarterly Survey of July 2023

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August 2023

### **Economic Sentiment Deteriorates.** Results of the WIFO-Konjunkturtest Quarterly Survey of July 2023

The results of the WIFO-Konjunkturtest (business cycle survey) in July show a significant deterioration of economic assessments across all sectors. Economic assessments and expectations were particularly sceptical in manufacturing. Capacity utilisation declined in all sectors. In the total economy, as in previous quarters, the "shortage of labour force" was the most important obstacle to business activity, although "insufficient demand" increased further in importance. Sales price expectations continue to show a downward trend.

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**Economic sentiment deteriorated significantly across all sectors in a quarterly comparison.**

The results of the WIFO-Konjunkturtest (business cycle survey)<sup>1</sup> for July 2023 (beginning of the third quarter) show a deterioration in companies' economic assessments. The WIFO Business Climate Index lost 15.9 points quarter-on-quarter and was 15.5 points below the previous year's value at -5.1 points (Table 1). The index of current business situation assessments lost 14.5 points compared to April and was at -1.9 points below the zero line separating negative from positive economic assessments for the first time since March 2021. Business expectations have also deteriorated noticeably in recent months: at -8.1 points, the corresponding sub-index in July was clearly below the level of the spring (April 2023: 9.2 points).

By sector, the deterioration in sentiment was observable in all four sub-sectors, but with varying degrees of intensity. In addition, there are still differences in levels: in energy-intensive manufacturing, the WIFO Business Climate Index dropped significantly (-12.9 points compared to April 2023) and was far below zero at -12.6 points most recently. The index of current business situation assessments lost 9.9 points and was at -11.1 points lower in negative territory. The index of business expectations even fell by 16.0 points to a value of -14.3 points.

In the construction sector, too, the WIFO Business Climate Index deteriorated significantly compared to April (-15.6 points to

<sup>1</sup> The WIFO-Konjunkturtest is a monthly survey of Austrian companies on their current economic situation and the development in the coming months. Once a quarter, the questionnaire of the WIFO-Konjunkturtest is extended by additional questions ("quarterly questions"), which provide relevant information on the business cycle but are not included in the monthly indices of the WIFO-Konjunkturtest. The current results of the WIFO-Konjunkturtest are available on the WIFO website (<https://www.wifo.ac.at/en/publications/>

[wifo-konjunkturtest](https://www.wifo.ac.at/en/research_priorities/business_cycle_and_forecasting_or_wifo_konjunkturtest)) and on the business cycle analyses topic page at WIFO ([https://www.wifo.ac.at/en/research\\_priorities/business\\_cycle\\_and\\_forecasting\\_or\\_wifo\\_konjunkturtest](https://www.wifo.ac.at/en/research_priorities/business_cycle_and_forecasting_or_wifo_konjunkturtest)). Hölzl and Schwarz (2014) provide an overview of the WIFO-Konjunkturtest. Detailed results on the subsectors of manufacturing and services can be downloaded as a graphical appendix from the project homepage [https://www.wifo.ac.at/en/research\\_priorities/wifo-konjunkturtest/publications](https://www.wifo.ac.at/en/research_priorities/wifo-konjunkturtest/publications).

0.1 points). The index of current business situation assessments dropped by 15.4 points and stood at -0.3 points in July. The index of business expectations also fell sharply (-14.9 points to 1.1 points). Meanwhile, this also reflects construction price expectations,

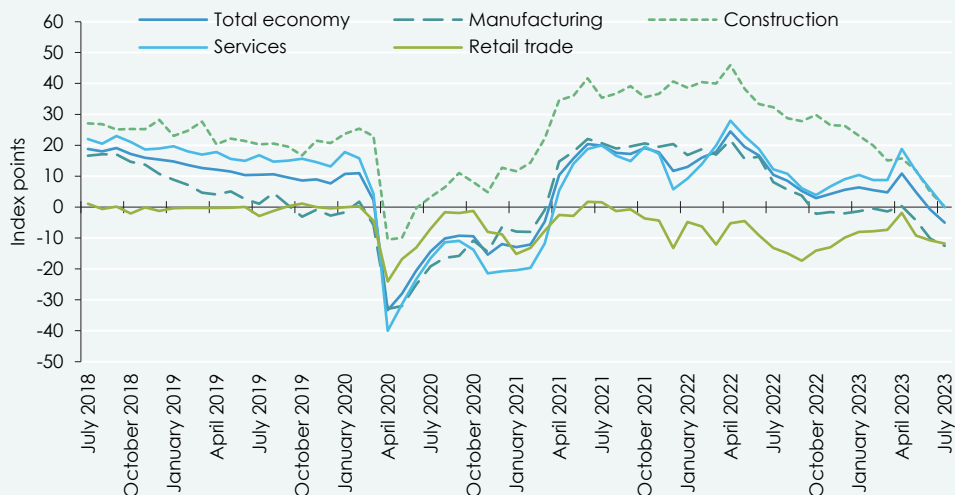
which have declined significantly in recent months. The majority of construction companies have assessed their own business situation in the next six months as unfavourable since May 2022.

Table 1: **Indices of the WIFO-Konjunkturtest**

	2022				2023				July Change compared to April (previous quarter)
	July	October	January	April	May	June	July		
<b>Total economy</b>									
WIFO Business Climate Index	10.4	2.9	6.4	10.9	4.8	- 0.8	- 5.1	- 15.9	
index of current business situation	16.7	7.8	11.4	12.7	9.5	3.8	- 1.9	- 14.5	
index of business expectations	4.2	- 2.0	1.3	9.2	0.2	- 5.2	- 8.1	- 17.4	
<b>Manufacturing</b>									
WIFO Business Climate Index	8.1	- 2.2	- 1.3	0.3	- 4.3	- 10.2	- 12.6	- 12.9	
index of current business situation	15.8	5.8	2.6	- 1.2	- 3.0	- 8.8	- 11.1	- 9.9	
index of business expectations	0.4	- 10.1	- 5.4	1.7	- 5.6	- 11.6	- 14.3	- 16.0	
<b>Construction</b>									
WIFO Business Climate Index	32.3	29.8	23.1	15.7	11.8	4.8	0.1	- 15.6	
index of current business situation	28.6	23.6	17.9	15.1	16.0	9.3	- 0.3	- 15.4	
index of business expectations	36.2	35.9	27.8	16.0	8.2	1.3	1.1	- 14.9	
<b>Services</b>									
WIFO Business Climate Index	12.2	3.9	10.4	18.8	11.6	5.7	- 0.1	- 18.9	
index of current business situation	20.0	8.9	17.0	21.1	17.2	11.4	2.9	- 18.2	
index of business expectations	4.5	- 1.2	3.7	16.6	6.2	0.3	- 2.9	- 19.6	
<b>Retail trade</b>									
WIFO Business Climate Index	-1 3.2	- 14.1	- 8.0	- 1.9	- 9.2	- 10.8	- 11.8	- 9.9	
index of current business situation	- 8.1	- 8.2	2.2	8.4	2.1	- 2.0	0.5	- 7.9	
index of business expectations	- 18.3	- 20.0	- 18.3	- 12.3	- 20.6	- 19.6	- 24.2	- 11.9	

Source: WIFO-Konjunkturtest (business cycle survey).

Figure 1: **WIFO Business Climate Indices**



Source: WIFO-Konjunkturtest (business cycle survey), seasonally adjusted.

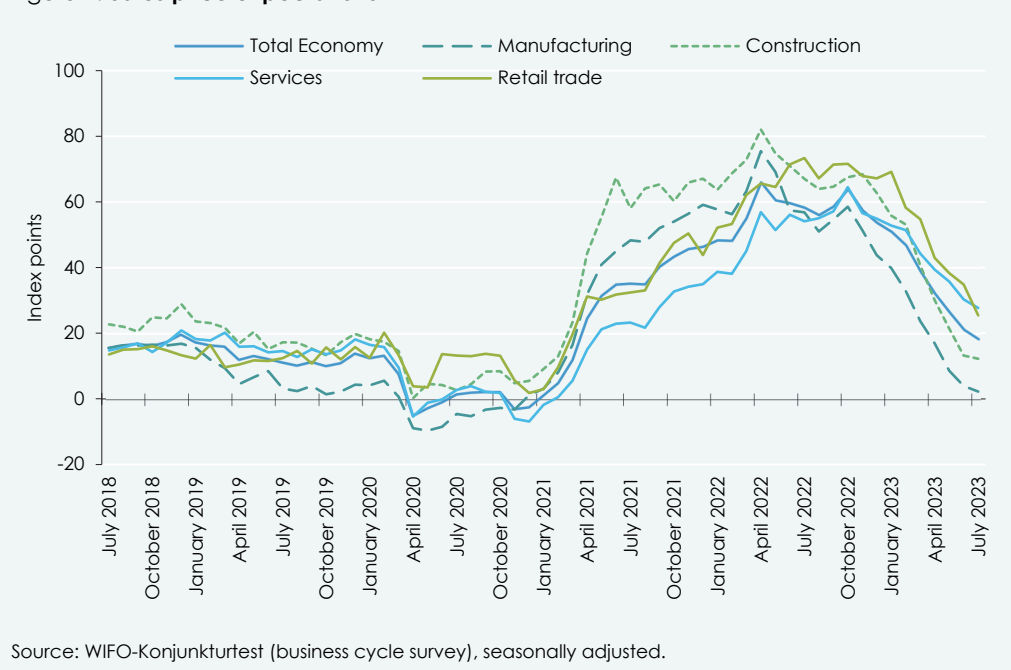
In the services sector, the indices also indicate a downward trend. The WIFO Business Climate Index fell by 18.9 points compared to April 2023 and stood at -0.1 points at the zero line. In addition to the index of current business situation (-18.2 points to 2.9 points), the index of business expectations also deteriorated further (-19.6 points to -2.9 points).

The business cycle indicators for the retail trade, which WIFO calculates on the basis of surveys by Austrian Institute for SME Research, also lost further ground compared to the previous quarter: the corresponding WIFO Business Climate Index in July was 9.9 points below the April 2023 value and fell well below the zero line (-11.8 points). The index of current business situation lost 7.9 points quarter-on-quarter, but was still just above zero at 0.5 points. The index of business expectations fell by 11.9 points. The -24.2 points recorded in July are very weak even for the retail trade.

The longer-term view of the WIFO Business Climate Indices shows the decline due to the COVID-19 crisis, the recovery until spring 2022, the economic slowdown due to the energy price increase and the Ukraine war until winter 2023 and the downturn in recent months (Figure 1).

The Ukraine war triggered the strongest energy price increase since the oil price shocks of 1973 and 1979-80. The result was significant price effects that drove not only inflation but also the sales price expectations of Austrian companies<sup>2</sup>. The latter had already risen in 2021 in the wake of the economic recovery and supply bottlenecks. The Ukraine war and the increase in the price of electricity and natural gas in the summer of 2022 further exacerbated the price dynamics. Only since the beginning of 2023 have there been clear declines in sales price expectations.

Figure 2: Sales price expectations



Sales price expectations have been falling in all sectors since the beginning of 2023.

Sales price expectations are presented in the WIFO-Konjunkturtest as balances, i.e. as the difference between the share of positive and the share of negative responses in all reports. They have a range of values from -100 to +100 points. As the July 2023 results show, price dynamics have weakened further. Nevertheless, many of the companies surveyed expect to have to raise their sales prices further in the coming months (Figure 2). For the total economy, the balance

of sales price expectations most recently stood at 18.2 points, 13.8 points below the comparable figure for April 2023, and also below the long-term average of 25.3 points. The decline was observable in all sectors, but in construction (-17.9 points to 12.2 points) and manufacturing (-14.7 points to 2.2 points) the index reached lower levels than in services (-11.7 points to 27.6 points) and retail trade (-17.5 points to 25.4 points).

<sup>2</sup> The results of a special survey conducted as part of the WIFO-Konjunkturtest in November 2022 (Hözl et al., 2022) provide more insight into the effects of the energy price shock. 72 percent of Austrian enterprises reported that their business activities had been

impaired; the most frequently cited cause was the increase in the price of energy and intermediate inputs. Accordingly, most firms reported a decline in profit margins; 64 percent said they had increased sales prices because of higher input prices.

## Indices of the WIFO-Konjunkturtest

The indices of the WIFO-Konjunkturtest are calculated monthly at sector level for manufacturing, construction, services and retail trade. The surveys are conducted monthly by WIFO (manufacturing, construction and services) and Austrian Institute for SME Research (retail trade). Based on the sector indices, the "total economy indices" are calculated by weighting (weights: services 0.5, manufacturing 0.3, construction and retail trade 0.1 each). The summary WIFO Business Climate Index aggregates two sub-indices, which are shown separately:

- The index of current business situation assessments is based on the monthly surveys on the assessment of the current situation and the development in the last three months. It is designed as a concurrent index, which is ahead of the official short-term statistics solely due to its early availability (about two months before the current data of the official statistics).
- The index of business expectations summarises those monthly questions that refer to the development in the following months of the survey. It is designed as a leading indicator.

Details on the indices are provided by Hölzl and Schwarz (2014).

## 1. Economic traffic light shows red

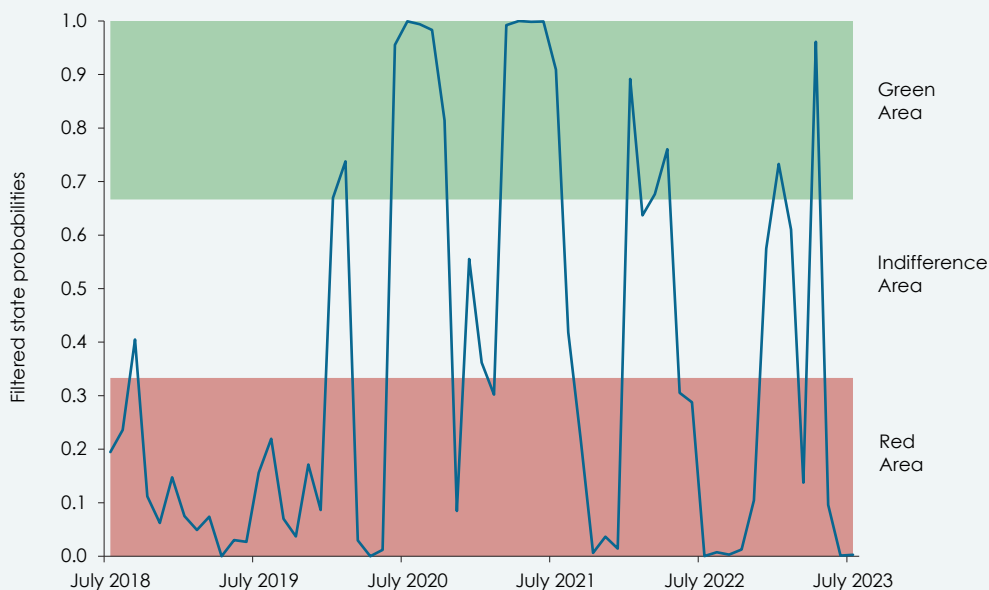
Using a Markov regime switching model, the WIFO-Konjunkturampel (economic traffic light) calculates the probability with which the current values of the WIFO-Konjunkturtest indicators correspond to an improvement or deterioration in economic assessments compared to the previous period (Glocker & Hölzl, 2015)<sup>3</sup>. The determined probability can fall into one of three categories, which are collectively referred to as the "economic traffic light":

- In the "green area" (improvement), the probability is over two-thirds that the

change in the current index values compared to the previous measuring point reflects an improvement in economic assessments.

- In the "red area" (deterioration), the probability is less than one third that the current index value represents an improvement over the previous measuring point.
- Between the "green" and the "red" area lies the indifference area. In this case, the development of the business cycle assessments cannot be clearly assigned.

Figure 3: WIFO-Konjunkturampel (economic traffic light)



Source: WIFO-Konjunkturtest (business cycle survey). The WIFO-Konjunkturampel (economic traffic light) for Austria shows the monthly probability for the phases "improvement of economic assessments" ("green area") and "deterioration of economic assessments" ("red area"). In the indifference area, the development of the business cycle assessments cannot be clearly classified.

<sup>3</sup> Deterioration is defined as the opposite state of the "improvement" state: The probability of being in the

"improvement" state ( $q$ ) is 1 minus the probability of being in the "deterioration" state ( $p = 1 - q$ ).

The probability of being in an improvement regime was assessed by the model as very low in July 2023, at 0.003. Thus, after May and June, the WIFO-Konjunkturampel also showed red in July, after still showing green in April 2023. This deterioration reflects the

sensitive gloom in sentiment in all sectors. The development of business expectations does not yet show a turnaround. Despite the decline in energy prices, all sectors continue to face high economic risks.

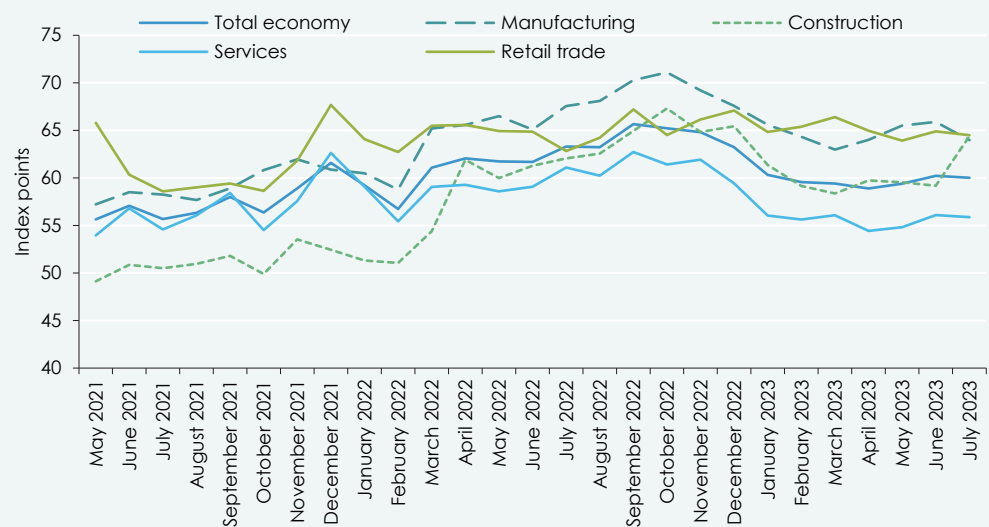
## 2. Uncertainty rises again

Since the 1980s, the WIFO-Konjunkturtest has surveyed companies' assessment of the uncertainty of the future business situation, which has an influence on companies' investment and employment decisions (Glocker & Hölzl, 2022). In May 2021, the wording of the corresponding question was changed in the course of its inclusion in the

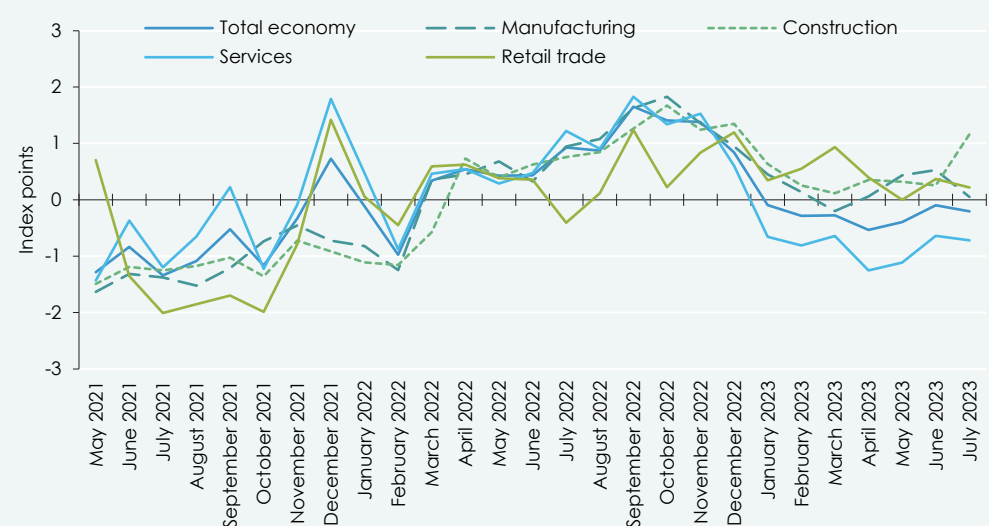
Joint Harmonised EU Programme of Business and Consumer Surveys. In addition, the question on uncertainty has since then been asked monthly instead of quarterly. Due to these changes, comparisons over time to date are only possible to a limited extent (Figure 4).

Figure 4: **Business uncertainty indicator for the total economy and the sectors**

Indicator values



Standardised time series



Source: WIFO-Konjunkturtest (business cycle survey), not seasonally adjusted. 0 . . . no uncertainty, 100 . . . highest uncertainty. Standardised presentation: normalisation of all indicators to a mean of 0 and a standard deviation of 1. This facilitates the assessment of the business cycle of the uncertainty indicator.

The indicator of uncertainty about the future business situation has a value range from 0 (no uncertainty) to 100 (highest uncertainty). For the total economy, the value in July (third quarter of 2023) was 60.0 points. The indicator was thus 1.1 points higher than in April (58.9 points), but lower than in July of the previous year (63.3 points).

The Ukraine war, the rise in energy prices and uncertainty about energy supply caused uncertainty to rise in all sectors from March 2022, especially in export-oriented

manufacturing. There, business uncertainty remained above average in July 2023 at 64.0 points, although not higher than in the previous quarter. In construction, on the other hand, the indicator rose significantly in recent months (+4.7 points to 64.4 points). In the retail trade sector, uncertainty declined slightly (-0.5 points to 64.5 points), but also remained above average. Only in the service industries (55.9 points) was the uncertainty indicator below the total economy average (July 2023: 60.0 points) despite an increase of 1.4 points.

**Business uncertainty was higher in July 2023 than in the spring.**

### 3. Capacity utilisation declines

#### 3.1 Decline in capacity utilisation in all sectors

Especially in sectors with high capital intensity and high capacity adjustment costs, capacity utilisation is an important business cycle indicator (Hözl et al., 2019). It is therefore surveyed as part of the WIFO-Konjunkturtest in all sectors except retail trade. Total economy capacity utilisation fell by 3.7 percentage points to 86.2 percent in July 2023 compared to April (long-term average:

85.8 percent). A quarter-on-quarter comparison showed a deterioration in all sectors: in construction, capacity utilisation fell by 4.7 percentage points to 82.1 percent, below the long-term average of 84.1 percent. In manufacturing, capacity utilisation also declined (-3.9 percentage points to 81.3 percent; long-term average 82.3 percent). In the services sector (-3.4 percentage points to 90.1 percent) it remained above the long-term average (88.3 percent) despite the decline.

**Capacity utilisation in July was lower than in April 2023 in all sectors.**

Figure 5: Capacity utilisation by sector



Source: WIFO-Konjunkturtest (business cycle survey), seasonally adjusted.

#### 3.2 Secured production time decreases

The assured production duration – measured in months – is surveyed as part of the quarterly survey of the WIFO-Konjunkturtest in manufacturing and construction (Figure 6). In July, both sectors showed deteriorations.

In construction, firms reported that their production activity is assured for the next 4.9 months (-0.9 months compared to April 2023). In manufacturing, the average assured production duration decreased by 0.2 months to 4.3 months.



Figure 6: Average secured production time in manufacturing and construction



Source: WIFO-Konjunkturtest (business cycle survey).

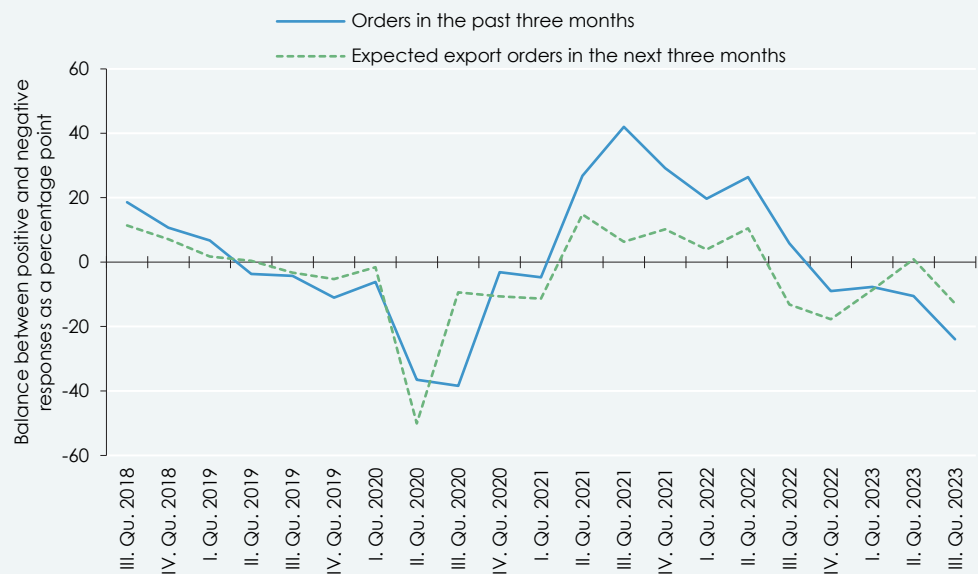
### 3.3 Order situation in manufacturing remains weak

In manufacturing, order books deteriorated further recently, as did expectations for foreign order intake.

In manufacturing, order backlogs and expectations of incoming foreign orders are asked once a quarter as relevant indicators. The answers to these questions are aggregated into balances between the share of positive and the share of negative answers. As Figure 7 shows, the development of order books in July was again weaker than in the previous months, with the corresponding

indicator falling to a value of -24.0 points. On balance, this reflects a significant decline in new orders in the three months prior to the survey. Expectations for incoming foreign orders also deteriorated and were again below zero on balance: the share of pessimistic voices expecting a decline in foreign orders in the coming months increased significantly compared to April, with negative reports outweighing positive ones by around 13 percentage points.

Figure 7: Development of overall orders and expected export orders in manufacturing



Source: WIFO-Konjunkturtest (business cycle survey).

## 4. Shortage of labour force still the most important obstacle to business activity

In the WIFO-Konjunkturtest, the most important obstacles to the business activity of the companies surveyed are surveyed on a quarterly basis. The companies have the option of reporting no impairment of their economic activity or to choose the most important obstacle from a predefined list:

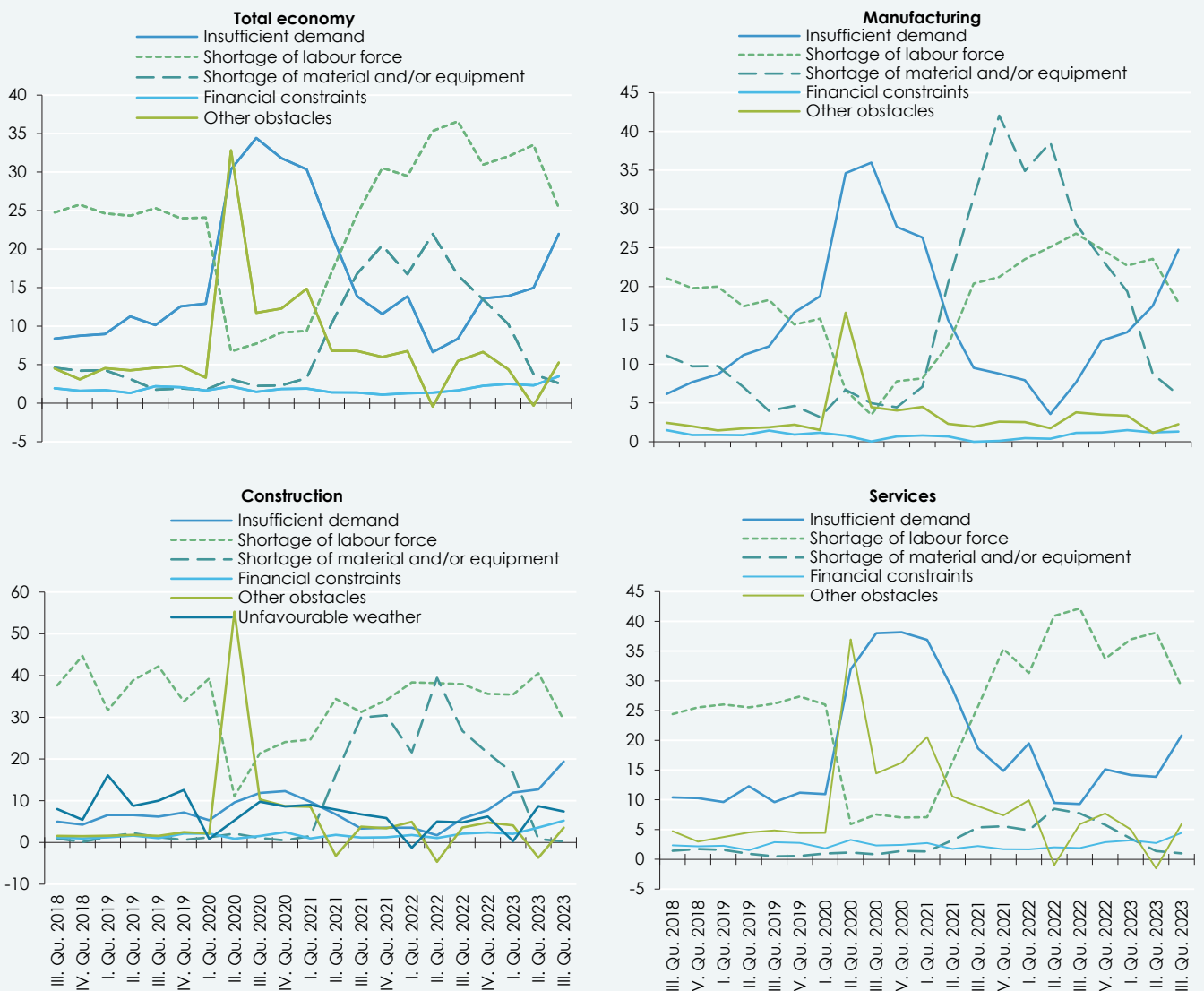
- insufficient demand (services and manufacturing) or lack of orders (construction),
- shortage of labour force,

- shortage of space or capacity (services) or lack of materials and/or capacity (manufacturing and construction),
- financial constraints and
- other reasons – this category reflects the impact of the COVID-19 pandemic and the public health measures to contain it, in addition to the weather impact.

In construction, the obstacle "unfavourable weather" is also surveyed<sup>4</sup>.

Figure 8: Factors limiting economic activity

Percentage of all reports



Source: WIFO-Konjunkturtest (business cycle survey), seasonally adjusted. In order to ensure the comparability of the time series during the year, seasonally adjusted values are shown. Negative values cannot be excluded due to the seasonal adjustment procedure "Dainties". These are statistical artefacts.

<sup>4</sup> In the calculation of total economy obstacles, "unfavourable weather" is classified under "other obstacles".

The COVID-19 pandemic, supply chain problems, the Ukraine war and the strong energy price increase caused the share of companies reporting obstacles to their business activities to jump from 2020. Most recently, the situation had eased somewhat. In July 2023, however, the share of construction companies reporting no obstacles to business activity declined again (–3 percentage points compared to April to 35 percent). In services (–7 percentage points to 39 percent), the decline was even more pronounced. In manufacturing, the share of firms reporting no adverse effects remained unchanged at 48 percent. In retail trade, on the other hand, it increased slightly (+2 percentage points to 38 percent of companies).

**The reports on the obstacles to business activity show a marked increase in the importance of "insufficient demand". However, the most important obstacle remains the "shortage of labour force", despite a decline in the number of mentions.**

In manufacturing, as in the previous quarter, "insufficient demand" was the most frequently cited obstacle to production activity in July 2023 (24.7 percent of all companies), ahead of "shortage of labour force" (17.9 percent). Around 6.0 percent of manufacturing firms reported a "shortage of materials and/or capacity" as the most important constraint, 2.3 percent "other reasons" and around 1.3 percent "financial constraints" (Figure 8). Compared to January 2023, the "shortage of materials and/or capacity" in particular has become significantly less important.

In the construction sector, 29.4 percent of the companies surveyed reported the "shortage of labour force" as the most important obstacle to production in July; for 19.4 percent it was the "insufficient demand". The

## 5. Summary

For the total economy, the results of the WIFO-Konjunkturtest of July 2023 show a significant deterioration of business cycle assessments. Compared to the same quarter of the previous year, the business cycle indices declined noticeably in all sectors. Assessments of the situation and expectations were particularly sceptical in manufacturing. Here, the order intake of the last few months and the expectations for future foreign order development also point to a continuation of the weak business cycle. The decline in capacity utilisation and the increase in business uncertainty point to continuing economic

lack of materials or capacity meanwhile only plays a subordinate role (0.3 percent of the companies). The "unfavourable weather" was named by 7.4 percent of the companies, 5.2 percent reported "financial constraints".

In the services sector, "shortage of labour force" (29.0 percent) remained the most important obstacle to business activity in July, despite a decline in mentions, ahead of "insufficient demand" (20.8 percent), other obstacles (5.9 percent) and "financial constraints" (4.5 percent).

In the retail trade, barriers to doing business have been surveyed since July 2021. In July 2023, 37.5 percent of retailers surveyed reported "insufficient demand" as the most important constraint, 7.9 percent "shortage of labour force", 6.6 percent "supply bottlenecks" and 4.8 percent "financial constraints".

In the total economy (excluding retail trade), the "shortage of labour force" was the most frequently cited obstacle to business activity in July, as in previous quarters (25.4 percent of companies), although its importance has declined recently. For 22.0 percent of the companies, it was above all the "insufficient demand" that impaired the course of business – with an upward trend. The "shortage of materials and/or capacity" (2.6 percent) lost further weight. Financial constraints were mentioned by 3.5 percent of the companies – this is the highest value in five years.

risks. Accordingly, the WIFO-Konjunkturampel remained at red in July.

The share of companies that expect to have to raise their sales prices in the coming months continued to decline recently. In manufacturing and construction, prices are not expected to rise further. The most frequently cited obstacle to business activity continues to be the shortage of labour force, although insufficient demand has gained significantly in importance.