

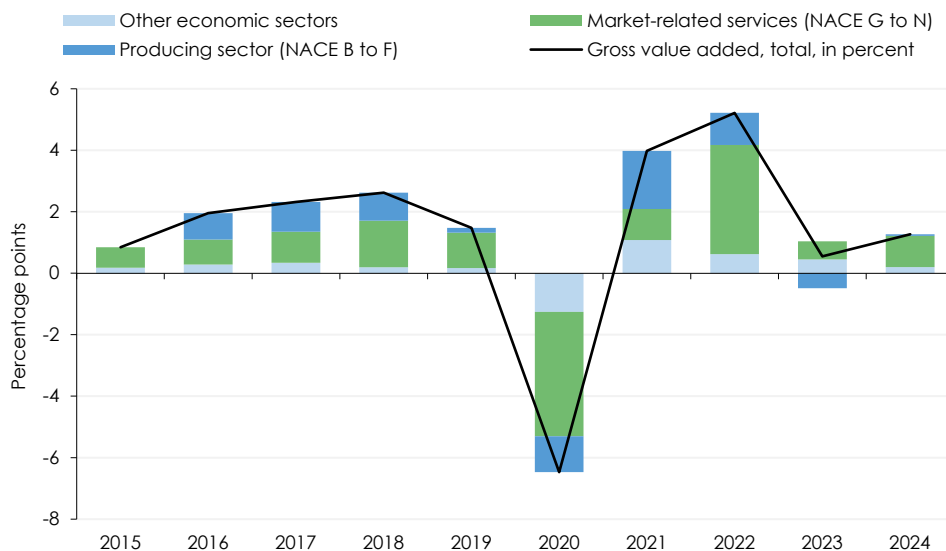
Weak Growth Amid High Uncertainty

Economic Outlook for 2023 and 2024

After strong growth in the first half of 2022, the Austrian economy entered a phase of stagnation that will continue in 2023. Manufacturing and closely related sectors are now in recession, while market-related services are expanding overall. This dichotomy in the business cycle is not expected to abate until 2024. After +0.3 percent in 2023, WIFO expects GDP growth of 1.4 percent in 2024. The upward pressure on prices will only subside slowly.

"While buoyant industrial economic activity still contributed to economic growth in 2022, industry will make a negative contribution to overall economic growth in 2023," says Christian Glocker, one of the authors of the current WIFO Economic Outlook.

Growth contribution of economic sectors to gross value added, volume



The growth contributions indicate the extent to which the two components (producing sector and market-related services) contribute to the change in gross value added. The size of a component's contribution to growth is calculated by dividing the absolute change of the component compared to the previous period by the value of gross value added in the previous period (source: WIFO, Statistics Austria, WDS – WIFO data system; Macrobond. – 2023 and 2024: forecast).

The Austrian economy is in a phase of stagnation, which had already begun in the summer of 2022 and is expected to continue in 2023. Leading indicators, which at the beginning of the year had still pointed to a broad improvement in the economic situation, have recently deteriorated significantly.

Table 1: **Main results**

	2019	2020	2021	2022	2023	2024	
	Percentage changes from previous year						
Gross domestic product, volume	+ 1.5	- 6.5	+ 4.6	+ 4.9	+ 0.3	+ 1.4	
Manufacturing	+ 1.0	- 5.8	+ 9.5	+ 4.0	- 2.0	+ 0.8	
Wholesale and retail trade	+ 3.0	- 5.9	+ 3.7	+ 2.3	+ 1.2	+ 2.0	
Private consumption expenditure ¹ , volume	+ 0.5	- 8.0	+ 3.6	+ 4.8	+ 0.9	+ 1.8	
Consumer durables	+ 0.2	- 2.2	+ 4.4	- 1.0	+ 1.5	+ 2.0	
Gross fixed capital formation, volume	+ 4.5	- 5.3	+ 8.7	+ 0.3	- 0.6	+ 0.8	
Machinery and equipment ²	+ 5.3	- 7.0	+11.3	+ 1.9	- 0.1	+ 3.2	
Construction	+ 3.6	- 3.4	+ 5.8	- 1.4	- 1.2	- 1.8	
Exports, volume	+ 4.0	-10.7	+ 9.6	+12.6	+ 2.4	+ 3.1	
Exports of goods, fob	+ 3.5	- 7.3	+12.9	+ 8.7	+ 0.8	+ 3.0	
Imports, volume	+ 2.1	- 9.2	+13.7	+ 7.6	+ 2.4	+ 2.9	
Imports of goods, fob	+ 0.3	- 6.2	+14.2	+ 4.0	+ 0.5	+ 2.8	
Gross domestic product, value	+ 3.1	- 4.1	+ 6.6	+10.0	+ 7.6	+ 5.1	
	billion €	397.17	381.04	406.15	446.93	481.06	505.42
Current account balance	as a percentage of GDP	2.4	3.0	0.4	0.7	2.1	2.2
Consumer prices		+ 1.5	+ 1.4	+ 2.8	+ 8.6	+ 7.5	+ 3.8
GDP deflator ³		+ 1.5	+ 2.6	+ 1.9	+ 4.9	+ 7.3	+ 3.6
Three-month interest rate	percent	- 0.4	- 0.4	- 0.5	0.3	3.7	4.6
Long-term interest rate ⁴	percent	0.1	- 0.2	- 0.1	1.7	3.6	5.7
General government financial balance, Maastricht definition	as a percentage of GDP	0.6	- 8.0	- 5.8	- 3.2	- 2.2	- 1.2
Persons in active dependent employment ⁵		+ 1.6	- 2.0	+ 2.5	+ 3.0	+ 1.0	+ 1.0
Unemployment rate							
Eurostat definition ⁶		4.8	6.0	6.2	4.8	4.9	4.7
National definition ⁷		7.4	9.9	8.0	6.3	6.4	6.1
Greenhouse gas emissions ⁸		+ 1.4	- 7.6	+ 4.9	- 4.9	- 1.4	- 0.1
	Million t CO ₂ equivalents	79.99	73.91	77.53	73.73	72.72	72.67

Source: WIFO, Public Employment Service Austria, Federation of Social Insurances, ECB, OeNB, Statistics Austria, Environment Agency Austria. 2023 and 2024: forecast. – ¹ Including non-profit institutions serving households. – ² Including weapons systems and other investment. – ³ Measures purely domestic inflation. – ⁴ 10-year central government bonds (benchmark). – ⁵ Excluding persons in valid employment contract receiving child care benefit or being in military service. – ⁶ As a percentage of total labour force, Labour Force Survey. – ⁷ As a percentage of dependent labour force. – ⁸ Forecast as of 2022.

The global economy is expected to remain weak over the forecast period. Increasingly tight monetary policy is worsening financing conditions, while fiscal policy is already weighing on economic activity in some countries. Stubbornly high inflation is also dampening private household consumption in many places. Nevertheless, there are no signs of a global recession, especially since energy prices, which had risen sharply in 2022 and dampened economic activity, have recently fallen.

Under these conditions, Austria's economic output is expected to stagnate in 2023 (+0.3 percent). The economic upswing of the previous years thus ends abruptly. Manufacturing and closely related sectors are now in recession, while market-related services are expanding. This dichotomy in the business cycle continues in 2023, but should weaken in 2024, leading to a pick-up in overall economic growth to 1.4 percent.

The economic weakness leads to an unfavourable development on the labour market, especially in 2023. Alongside moderate employment growth (+1.0 percent), unemployment is ex-

pected to increase year-on-year (+2.3 percent), as the weak economic activity coincides with an expansion in labour supply. In 2024, the unemployment rate is expected to decline (2023 6.4 percent, 2024 6.1 percent).

The projected slowdown in the business cycle is expected to have only a slow impact on prices. The inflation rate according to the Harmonised Index of Consumer Prices (HICP) will initially fall only slightly to 7.4 percent in 2023 (+8.6 percent in 2022). In 2024, inflation will moderate significantly to 3.5 percent, but will remain buoyant compared to the long-term average.

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For further information, please contact on Wednesday, 28 June 2023, from 2 to 4 p.m.
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For definitions, see "Methodological notes and brief glossary",
<https://www.wifo.ac.at/wwadocs/konjunktur/WIFO-BusinessCycleInformation-Glossary.pdf>