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Austria is in its Third Year of Recession.

Economic Outlook for 2025 and 2026

Marcus Scheiblecker, Stefan Ederer

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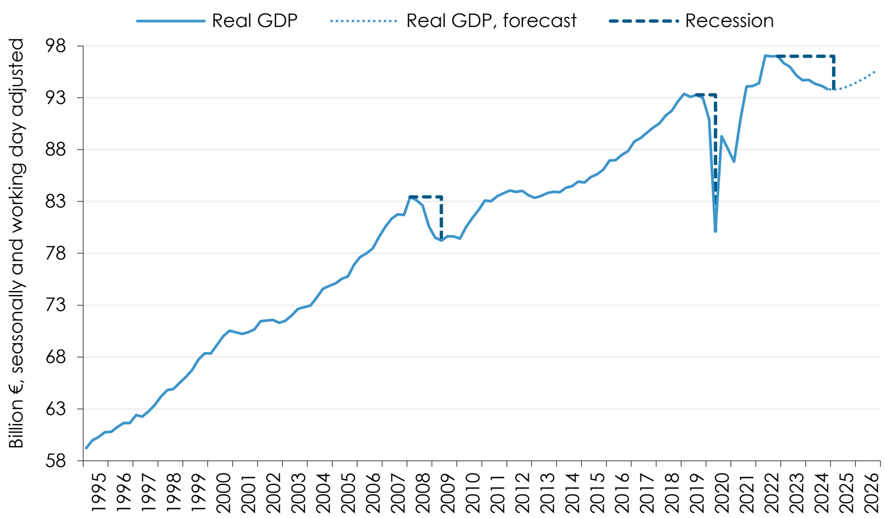
- Since the beginning of 2024, economic development in Austria has been significantly less favourable than underlying the WIFO Economic Outlook of December 2024, according to preliminary calculations. The current year is negatively impacted by the acceleration of the economic downturn in the second half of 2024.
- Domestic industry continues to lament the dire economic situation and the gloomy outlook but should benefit from an improving economic environment in the EU from mid-2025 onwards.
- The construction sector bottomed out at the beginning of the year and is expected to gain momentum. Private household consumption should expand slightly despite fiscal consolidation measures.
- Inflation will gradually ease after the marked rise at the beginning of the year. The labour market is proving to be relatively robust given the duration of the recession, although unemployment will continue to rise in 2025.
- Erratic changes in international economic policy make forecasting more difficult. The new fiscal policy stimuli in Germany and the EU add to the uncertainty of the forecast.

Recessions in Austria since 1995



The most severe recessions of the last 20 years were the 2008-09 financial market and economic crisis, the COVID-19 crisis in 2020 and the current recession (source: Statistics Austria, WIFO. Forecast from the first quarter of 2025).

"The domestic economy will overcome the longest recession after the World War II by mid-2025. The intensity of the recovery depends primarily on the uncertain international environment."

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The decline in industrial production in the euro area, which has been observed since the beginning of 2023, continues to affect Austria. Surveys among manufacturing companies do not yet point to a turnaround. The announced increase in tariffs of the USA on EU export goods is also weighing on sentiment. By contrast, construction and consumer demand are expected to trend upwards. Inflation rose significantly at the beginning of 2025 but is forecasted to fall back in the course of the year. The labour market is proving relatively resilient given the duration and severity of the recession, although unemployment will continue to rise in 2025. WIFO expects GDP to fall by 0.3 percent in 2025. The Austrian economy will pick up momentum again in 2026 (+1.2 percent).

JEL-Codes: E32, E66 • **Keywords:** 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/wp-content/uploads/2024/01/WIFO-BusinessCycle Information-Glossary.pdf

Research assistance: Astrid Czaloun (astrid.czaloun@wifo.ac.at), Martha Steiner (martha.steiner@wifo.ac.at) • The text and data in this forecast reflect the situation at the time of going to press on 25 March 2025. The revised sector accounts for private households and the government account for 2023 to 2024 published on 31 March 2025 could not be taken into account. The resulting revised budget projection is presented in the article by Loretz and Pitlik (2025, in this issue).

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1. Introduction

The Austrian economy suffered another setback last year. After a decline of 1 percent in 2023, GDP contracted again sharply by 1.2 percent in 2024. The downturn even accelerated in the second half of the year. The unfavourable environment continues to weigh on domestic industry. The resilience of many industries will still be severely tested in 2025. From the middle of the year onwards, however, the economic activity in the EU should regain momentum and export demand should pick up somewhat. As a result, the Austrian economy should also emerge from its protracted recession and return to a moderate growth trajectory.

However, the economic recovery expected for the second half of the year will not be sufficient to achieve GDP growth in 2025 as a whole. WIFO expects economic output to fall again by 0.3 percent. Only in 2026, as soon the euro area economy benefits from the planned fiscal stimuli in Germany and the EU, the Austrian economy will grow again for the first time in three years (+1.2 percent), albeit at a slower rate than the German economy (+1.5 percent).

The domestic construction industry will bottom out in the first half of 2025. The government's housing initiative adopted in 2024 will support demand in the second half of 2025 and unfold its full effect in 2026. WIFO also expects interest rates to continue to decrease moderately. Against this backdrop, construction should provide a boost to the total economy in 2026.

Apart from construction, real investment will decline again in 2025 as low capacity utilisation will continue to result in mere replacement rather than expansion investments.

The household savings rate[1], which rose sharply last year, will gradually be reduced in 2025, allowing for slight growth in private consumption despite the negative impact of the austerity package.

Table 1: **Main results**

	2021	2022	2023	2024	2025	2026
	Percentage changes from previous year					
Gross domestic product, volume	+ 4.8	+ 5.3	– 1.0	– 1.2	– 0.3	+ 1.2
Manufacturing	+ 10.9	+ 6.7	– 1.8	– 5.5	– 3.0	+ 2.3
Wholesale and retail trade	+ 4.5	+ 0.7	– 5.7	– 1.7	± 0.0	+ 1.4
Private consumption expenditure[1], volume	+ 4.8	+ 4.9	– 0.5	+ 0.1	+ 0.2	+ 1.4
Consumer durables[2]	+ 6.4	– 4.5	– 5.4	+ 0.6	+ 0.5	+ 1.5
Gross fixed capital formation, volume	+ 6.0	+ 0.4	– 3.2	– 3.4	– 0.7	+ 1.8
Machinery and equipment[3]	+ 7.7	+ 1.9	+ 2.4	– 1.8	– 1.6	+ 1.9
Construction	+ 4.1	– 1.3	– 9.3	– 5.4	+ 0.5	+ 1.6
Exports, volume	+ 9.5	+ 10.0	– 0.4	– 4.3	– 0.9	+ 1.7
Exports of goods, fob	+ 12.4	+ 6.0	– 0.4	– 5.9	– 1.5	+ 1.0
Imports, volume	+ 14.1	+ 7.1	– 4.6	– 5.0	– 0.2	+ 2.1
Imports of goods, fob	+ 14.8	+ 3.0	– 7.4	– 7.1	– 1.2	+ 2.0
Gross domestic product, value	+ 6.8	+ 10.3	+ 5.6	+ 1.8	+ 2.2	+ 3.3
billion €	406.23	448.01	473.23	481.94	492.37	508.50
Current account balance as a percentage of GDP	1.7	– 0.9	1.3	2.2	1.9	1.4
Consumer prices	+ 2.8	+ 8.6	+ 7.8	+ 2.9	+ 2.7	+ 2.1
GDP deflator	+ 1.9	+ 4.8	+ 6.6	+ 3.1	+ 2.4	+ 2.0
Persons in active dependent employment[4]	+ 2.5	+ 3.0	+ 1.2	+ 0.2	+ 0.3	+ 0.8
Unemployment rate, national definition[5]	8.0	6.3	6.4	7.0	7.3	7.1
Command-based GDP per capita[6]	+ 3.8	+ 1.1	– 1.9	– 0.9	– 0.6	+ 0.9
At-risk-of-poverty rate[7] percent	14.8	14.9	15.4	15.5	16.0	16.0
Income quintile ratio[8] ratio	4.3	4.3	4.5	4.5	4.5	4.6
Greenhouse gas emissions[9]	+ 4.7	– 6.0	– 5.9	– 2.8	– 1.8	– 1.4
million t CO_2 equivalent	77.53	72.84	68.55	66.61	65.43	64.53

Source: WIFO, Public Employment Service Austria, Federation of Social Insurances, OeNB, Statistics Austria, Environment Agency Austria. 2025 and 2026: forecast. – [1] Including non-profit institutions serving households. – [2] WIFO calculation based on the shares of consumer durables according to the domestic concept. – [3] Including weapons systems and other investment. – [4] Excluding persons in valid employment contract receiving child care benefit or being in military service. – [5] As a percentage of dependent labour force, national definition. – [6] Nominal GDP deflated by the implicit price index of domestic demand. – [7] Share of persons living in private households with an equivalised disposable income below the at-risk-of-poverty threshold (60 percent of the national median equivalised disposable income). From 2023: forecast. – [8] S80/S20: ratio of total equivalised disposable income received by the population living in private households in the top income quintile to that received by the population in the bottom quintile. From 2023: forecast. – [9] 2023: estimate according to Environmental Agency Austria. From 2024: forecast.

In 2024, the inflation rate fell sharply to 2.9 percent (according to the CPI). However, the pace of decline is likely to slow significantly in the current year. Due to the expiry of the administrative electricity price brake, higher network charges and increased CO_2 pricing, the inflation rate rebounded at the beginning of 2025 and will decline only slowly over the course of the year. It is expected to average 2.7 percent in 2025 and 2.1 percent in 2026.

Notwithstanding the prolonged recession, employment increased only slightly in 2024, which is also expected for 2025. However, the number of hours worked per job fell significantly in 2024, resulting in a contraction in the volume of hours worked. This trend will continue in 2025. Only next year, dependent employment will pick up again by 0.8 percent, entailing a rise of the volume of hours worked. The unemployment rate will increase slightly to 7.3 percent in 2025 and fall only modestly in 2026 (7.1 percent).

The decline in greenhouse gas emissions continues in 2025 (–1.8 percent), but less dynamic than in the previous year (–2.8 percent). On the one hand, industrial production shrinks less and on the other hand, emissions in 2024 were curbed by the mild winter. Although ongoing decarbonisation trends will reduce emissions in 2026, industrial production will pick up again, reducing the decline in emissions to –1.4 percent.

[1] As figures for the private household sector account were not published before the editorial deadline, no numerical values are given for the savings rate in Table 1, "Main results". Please refer to the box "Updated sector account shows higher savings rate".

Updated sector accounts show higher savings rate

At the same time as publishing the data on the public sector following the release of the WIFO Economic Outlook in March 2025, Statistics Austria also updated the sector accounts for private households for 2023 and 2024. The new data show a sharp increase in the private household savings rate of 3 percentage points from 8.7 percent (2023) to 11.7 percent in 2024. This increase was even more pronounced than assumed in the WIFO Economic Outlook (10.6 percent).

According to the new national accounts data, disposable income of private households rose by 6.8 percent in 2024 compared with the previous year, which was also stronger than assumed in the WIFO Economic Outlook of March 2025 (+5.7%). Income from entrepreneurial activity in particular developed significantly better than previously expected (+4.3 versus. –1.8 percent).

In line with its previous forecast, WIFO also expects the high savings rate to fall by around ½ percentage point in the current year on the basis of the new data. Despite the budget consolidation measures, this will enable a gradual expansion of private household consumption expenditure. As a result of the forecast economic recovery and its impact on the labour market, consumer sentiment will improve. This should also lead to a gradual reduction in the above-average savings rate in the coming years and stabilise consumer spending.

2. Global economic conditions

2.1 USA trade policy fuels global uncertainty

Uncertainty about the global economic environment has increased further in recent months. Trade policy in the USA changes almost daily. An outright trade war between the USA and Canada, and tariffs raised on imports from China by 10 percentage points to an average of around 30 percent, has been triggered. For the EU, Donald Trump is threatening tariffs on all kinds of goods.

The economy in the USA will grow less dynamically in 2025 than in the previous year due to a slowdown in private consumption.

Against the backdrop of these uncertain economic conditions, the underlying forecast assumes that the USA will impose import tariffs of 25 percent on all Canadian and Mexican goods with the exception of energy, from the second quarter of 2025 and that the tariff on Chinese goods will increase by a further 10 percentage points. At the same time, the affected trading partners will impose retaliatory tariffs on imports from the USA. An increase in import tariffs of 10 percentage points has been assumed for all goods traded from the EU to the USA and vice versa.

In Germany, the potential coalition partners agreed in March on a significant fiscal stimulus. On the one hand, a debt-financed special fund totalling 500 billion € is to be created to enable public investment in infrastructure over a period of 10 years. In addition, Germany wants to exempt military spending that exceeds 1 percent of GDP from the debt brake. Both measures were passed by the Bundestag in mid-March. This German fiscal package has also been taken into account in this forecast, albeit only partially. The special fund is assumed to be reflected in an increase in public investment from mid-2026 and over the next 10 years.

2.2 Signs of an economic slowdown in the USA

The economy in the USA remained robust until the end of 2024. In particular, household consumption had once again risen considerably in the fourth quarter of 2024. However, at the beginning of 2025, sentiment deteriorated noticeably, especially among consumers and the production of services.

The tariff hikes imposed by the USA and the corresponding countermeasures taken by its trading partners were more drastic than assumed in the WIFO Economic Outlook of December 2024. In particular, the tariffs were implemented earlier than assumed. They are likely to result in a jump in the prices of many goods, which will reduce the real income of private households in the USA. The increase in the price of food imports from Canada and Mexico is likely to hit low-income households particularly hard. In addition, reports of planned job cuts in the public sector in the USA are fuelling uncertainty, although the job losses will have little impact on the still very robust labour market.

Global supply chains will also adjust to the changed trade environment. Companies in the USA will be more reluctant to invest, at least in the short term, as higher inflation makes it unlikely that the Federal Reserve Bank will cut key interest rates as quickly as recently assumed. As a result of these factors, economic activity in the USA should slow down in the current year. However, the 2017 tax cuts, which are due to expire soon, are likely to be extended. In total, the USA's GDP will continue to grow in the forecast period (2025 +1.8 percent, 2026 +1.9 percent), but at a much slower rate than before.

2.3 Boost to the German economy from 2026

Germany's economic output fell slightly in 2024 and is currently stagnating. Industry and construction in particular remain in recession, but private household consumption has also weakened recently. Although some economic indicators suggest that German GDP may have risen slightly at the beginning of the year, there is no end in sight to the economic downturn. In addition, the USA tariffs on goods from the EU are likely to slow down German exports and delay a recovery in industry, as the USA is Germany's most important export market. WIFO calculations using the Oxford Economic Forecasting (OEF) Global Macroeconomic Model show that a reciprocal increase in the tariff rate would reduce German economic growth by 0.05 percentage points in 2025 and by around ¼ percentage point in 2026.

Table 2: **International economy**

	Percentage shares 2023		2021	2022	2023	2024	2025	2026
	Austria's exports of goods	World GDP[1]	GDP volume, percentage changes from previous year					
EU 27	68.4	14.7	+ 6.3	+ 3.5	+ 0.4	+ 1.1	+ 1.3	+ 1.5
Euro area	52.4	10.3	+ 6.3	+ 3.5	+ 0.4	+ 0.9	+ 0.8	+ 1.2
Germany	29.1	3.2	+ 3.7	+ 1.4	– 0.3	– 0.2	+ 0.0	+ 1.5
Italy	6.1	1.9	+ 8.9	+ 4.7	+ 0.7	+ 0.5	+ 0.3	+ 0.5
France	3.6	2.3	+ 6.9	+ 2.6	+ 0.9	+ 1.2	+ 0.5	+ 0.8
Spain	1.6	1.4	+ 6.7	+ 6.2	+ 2.7	+ 3.2	+ 2.6	+ 1.5
CEEC 5[2]	15.0	2.2	+ 6.3	+ 4.1	+ 0.2	+ 2.1	+ 3.0	+ 3.1
Poland	3.7	1.0	+ 6.9	+ 5.3	+ 0.1	+ 2.9	+ 3.8	+ 3.4
Hungary	3.6	0.2	+ 7.1	+ 4.3	– 0.9	+ 0.5	+ 1.5	+ 3.1
Czech Republic	3.6	0.3	+ 4.0	+ 2.8	– 0.1	+ 1.1	+ 2.5	+ 2.6
USA	7.3	15.0	+ 6.1	+ 2.5	+ 2.9	+ 2.8	+ 1.8	+ 1.9
Switzerland	5.2	0.4	+ 5.6	+ 3.0	+ 0.7	+ 1.3	+ 0.9	+ 1.1
UK	2.7	2.2	+ 8.6	+ 4.8	+ 0.4	+ 0.9	+ 1.0	+ 1.4
China	2.5	18.7	+ 8.4	+ 3.0	+ 5.2	+ 5.0	+ 4.5	+ 3.9
Total[3]								
PPP-weighted[4]		51	+ 7.1	+ 3.1	+ 2.9	+ 3.0	+ 2.6	+ 2.5
Export weighted[5]	86		+ 5.2	+ 2.6	+ 0.7	+ 1.0	+ 1.1	+ 1.5
Market growth[6]			+ 11.0	+ 5.7	– 3.2	+ 0.4	+ 2.0	+ 1.8
Forecast assumptions								
Crude oil prices								
Brent, $ per barrel			70.8	98.9	82.2	80	72	69
Natural gas price								
Dutch TTF, € per MWh			45.9	121.5	40.6	34	45	36
Electricity price Austria								
Base, € per MWh			107.2	261.6	102.2	82	102	89
Peak, € per MWh			116.8	275.5	103.9	81	107	99
Exchange rate								
$ per €			1.184	1.054	1.082	1.08	1.04	1.04
Key interest rate								
ECB main refinancing rate[7], percent			0.0	0.6	3.8	4.2	2.5	2.4
10-year government bonds yields Germany, percent			– 0.4	1.1	2.4	2.3	2.8	2.8

Source: WIFO, Bureau of Economic Analysis, European Energy Exchange, Eurostat, ECB, HWWI, IMF, Intercontinental Exchange, OECD, Statistics Austria. 2025 and 2026: forecast. – [1] PPP-weighted. – [2] Czech Republic, Hungary, Poland, Slovenia, Slovakia. – [3] EU countries, UK, USA, Switzerland, China. – [4] Weighted by GDP at purchasing power parities in 2023. – [5] Weighted by shares of Austrian goods exports in 2023. – [6] Real import growth of trading partners, weighted by shares of Austrian goods exports. – [7] Fixed rate.

The recently adopted fiscal stimulus measures should significantly increase public investment in 2026 and support real GDP growth. According to an estimate using the OEF model, German economic output would increase by an additional 1 percentage point in 2026 if the stimulus measures begin to take effect from mid-2025. All in all, the German economy is likely to stagnate in the current year and expand by around 1½ percent in 2026.

2.4 Subdued economic activity in the euro area

The expansive fiscal policy will boost the German economy from 2026.

Germany's infrastructure-focused fiscal stimulus will primarily benefit the domestic construction industry. However, some of the additional funds are also likely to be spent on other capital goods, thereby boosting European industrial production via an increase in German goods imports.

Figure 1: **Indicators of economic performance**

Source: WIFO. 2025 and 2026: 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.

However, the tariffs imposed by the USA and assumed in the forecast will affect all EU countries and cloud the outlook for the crisis-hit industrial sector in particular. Accordingly, the growth of real GDP in the euro area will accelerate only slightly in the forecast period. However, domestic demand has so far been robust in some countries, especially Spain. In addition, the situation on the labour market remains favourable in many places and real household incomes will continue to rise. This should support private consumption in the EU, even if the high level of economic policy uncertainty has so far prevented a significant decline in savings rates.

The European Central Bank is expected to cut its key interest rates further in the forecast period. Although inflation has risen in many countries at the start of 2025 due to higher energy prices and the introduction of tariffs is also expected to push up prices, the more moderate wage growth should lead to a further decline in inflation in the forecast period. Fiscal policy, on the other hand, is ambivalent: some EU countries, including France and Italy, are in deficit procedures and are therefore required to improve their fiscal balances. At the same time, the EU member countries are currently considering significant increases in their military spending. While some of this spending will probably result in higher imports, particularly from the USA, countries such as Germany and France have well-developed defence industries. For these reasons, the economy in the euro area should grow by around 1 percent in both forecast years.

3. Austria: Economy will not grow again until 2026

The Austrian economy will experience its third consecutive year of recession in 2025. Economic activity is not expected to pick up until the middle of the year. Consumer demand will also increase slightly, but will remain subdued due to budget consolidation.

In Austria, the economy contracted more sharply in 2024 than in the previous year. The volume of GDP decreased by 1.2 percent (2023 –1 percent). Austria thus recorded the deepest recession of all EU countries. Latvia (–0.4 percent) took second-last place, well ahead of Austria.

The German economy, which has a similarly high industrial share as Austria, also contracted for the second consecutive year in 2024. The decline was 0.3 percent in 2023 and 0.2 percent in 2024, meaning that Germany performed significantly better than Austria. As a comparison between the two countries shows (see box "Why did the Austrian economy grow significantly more slowly than the German economy in 2023 and 2024?"), only a small part of the difference in 2023 was due to industry (0.2 percentage points). Compared to Germany, the construction industry, trade, transport, accommodation and food service activities and other market-related services were the main areas that dampened the result in Austria. In 2024, around half of the difference in GDP development was attributable to industry, while trade, transport, accommodation and food service activities accounted for the other half.

The downturn in the domestic economy even accelerated towards the end of 2024 (according to Statistics Austria). Following a contraction of GDP in real terms of 0.3 percent in the third quarter compared to the previous period, economic output fell by 0.4 percent in the fourth quarter. This weak development also has an impact on the beginning of 2025. In addition, business surveys in January and February did not indicate any improvement in the situation. Expectations do not point to an imminent turnaround either. A tentative improvement is expected only in the second half of the year, when both the external economic environment and domestic economic activity will brighten.

However, this recovery will come too late for a positive result for the year as a whole, meaning that GDP will shrink by 0.3 percent in 2025. WIFO does not expect growth until 2026 (+1.2 percent).

3.1 External stimulus to start in mid-2025

The threat of US tariffs on imports from the EU is creating a high degree of uncertainty, especially as the USA is the largest export market for the EU and Germany, and the second largest for Austria. Nevertheless, the investment climate in the euro area will improve from mid-2025 due to the continued easing of monetary policy and the downward trend in inflation. Consumer demand is also expected to grow again, more in line with income developments. Towards the end of 2025, increased infrastructure and defence spending will also boost demand in Germany. This should also have some impact on the Austrian economy in 2026.

In terms of GDP growth, Austria was the worst performer in the EU in 2024.

Following a decline in Austrian goods exports of almost 6 percent in volume terms according to National Accounts in 2024, a further reduction of 1.5 percent is expected for 2025. For 2026, WIFO expects an increase of 1.0 percent. Total exports (goods and services) are also expected to decline in volume terms in 2025 (–0.9 percent), but to increase by 1.7 percent in 2026.

As import prices rose more strongly than export prices between 2021 and 2023, the terms of trade deteriorated considerably over this period. However, in the previous year they improved by 2.3 percent. In 2025 and 2026, the price trend for exports and imports will be more uniform, meaning that the terms of trade are unlikely to change significantly (2025 –0.5 percent, 2026 +0 percent).

Table 3: **Gross value added**

At basic prices

	2023	2024	2025	2026	2023	2024	2025	2026
	Billion € (reference year 2015)				Percentage changes from previous year			
Volume (chain-linked series)								
Agriculture, forestry and fishing	4.42	4.53	4.53	4.53	– 2.7	+ 2.4	± 0.0	± 0.0
Manufacturing including mining and quarrying	72.39	68.55	66.50	68.03	– 2.3	– 5.3	– 3.0	+ 2.3
Electricity, gas and water supply, waste management	10.21	9.36	9.41	9.50	+ 8.1	– 8.3	+ 0.5	+ 1.0
Construction	16.34	15.63	15.71	15.96	– 7.5	– 4.4	+ 0.5	+ 1.6
Wholesale and retail trade	39.88	39.21	39.21	39.76	– 5.7	– 1.7	± 0.0	+ 1.4
Transportation	18.69	18.34	18.34	18.53	– 2.5	– 1.9	± 0.0	+ 1.0
Accommodation and food service activities	10.70	10.28	10.46	10.69	+ 5.4	– 3.9	+ 1.8	+ 2.2
Information and communication	16.10	16.51	16.59	16.75	+ 3.0	+ 2.5	+ 0.5	+ 1.0
Financial and insurance activities	16.85	17.61	17.52	17.70	– 8.1	+ 4.5	– 0.5	+ 1.0
Real estate activities	31.33	31.52	31.52	31.52	+ 0.5	+ 0.6	± 0.0	± 0.0
Other business activities[1]	36.20	35.54	35.33	35.93	– 0.7	– 1.8	– 0.6	+ 1.7
Public administration[2]	59.89	61.10	61.10	61.41	+ 2.2	+ 2.0	± 0.0	+ 0.5
Other service activities[3]	8.92	8.89	8.91	9.00	+ 4.7	– 0.3	+ 0.3	+ 1.0
Total gross value added[4]	340.92	336.23	334.66	338.72	– 1.2	– 1.4	– 0.5	+ 1.2
Gross domestic product at market prices	381.39	376.91	375.92	380.58	– 1.0	– 1.2	– 0.3	+ 1.2

Source: WIFO, Statistics Austria. 2025 and 2026: 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 4: **Technical breakdown of the real GDP growth forecast**

		2023	2024	2025	2026
Growth carry-over[1]	percentage points	+ 0.7	– 0.9	– 0.5	+ 0.3
Growth rate during the year[2]	percent	– 2.4	– 0.9	+ 0.5	+ 1.5
Annual growth rate	**percent**	**– 1.0**	**– 1.2**	**– 0.3**	**+ 1.2**
Adjusted annual growth rate[3]	percent	– 0.9	– 1.3	– 0.3	+ 1.2
Calendar effect[4]	percentage points	– 0.1	+ 0.2	– 0.1	+ 0.0

Source: WIFO. 2025 and 2026: 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.

Table 5: **Revision of the growth forecast**

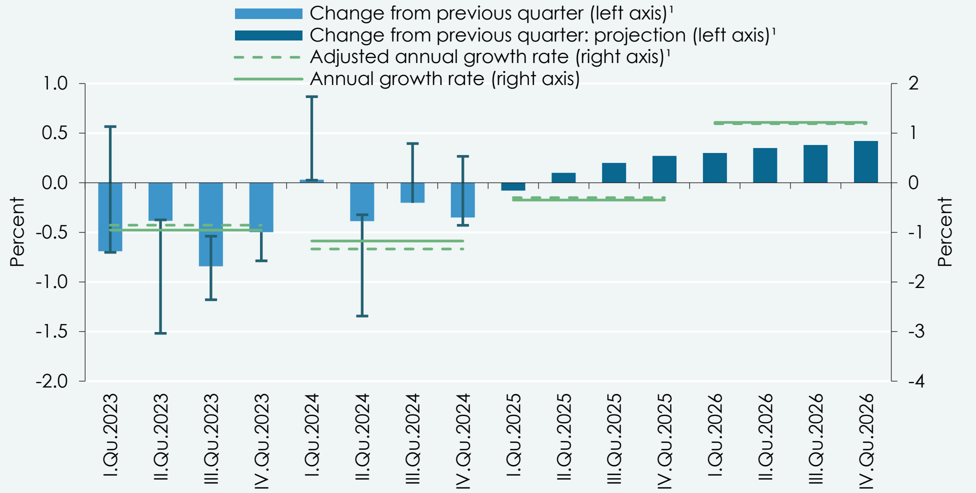
GDP, volume

		2025	2026
WIFO Economic Outlook December 2024	percent	+ 0.6	+ 1.2
Data revisions[1]	percentage points	– 0.1	– 0.0
Forecast error for the fourth quarter of 2024[2]	percentage points	– 0.3	+ 0.0
Forecast revision	percentage points	– 0.5	+ 0.0
WIFO Economic Outlook March 2025	**percent**	**– 0.3**	**+ 1.2**

Source: WIFO. – [1] Revision of the Quarterly National Accounts by Statistics Austria compared to the data used for the WIFO Economic Outlook of March 2024. – [2] At the time of the preparation of the WIFO Economic Outlook of December 2024, no values were available from Statistics Austria for this quarter.

Figure 2: **Cyclical profile Austria**

GDP, volume

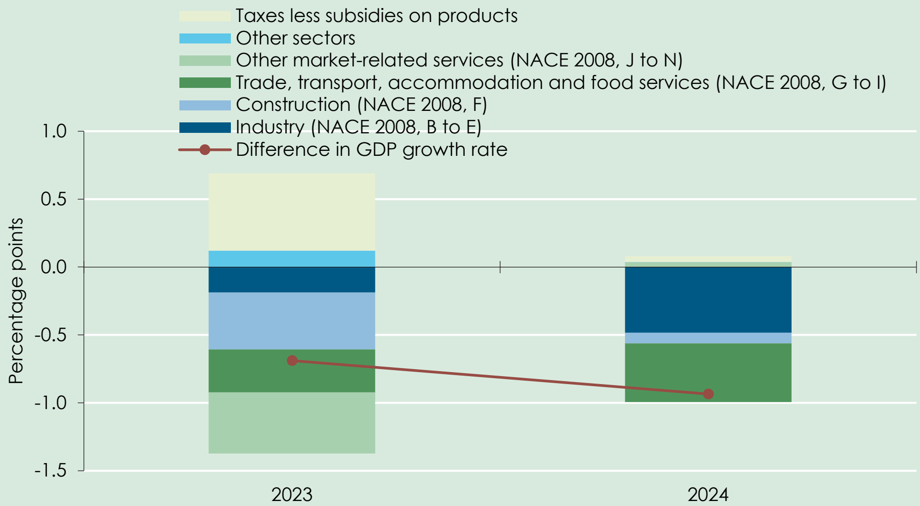


Source: WIFO. The error indicators show the range of previous revisions to realised values. – [1] Seasonally and calendar adjusted according to Eurostat.

Why did the Austrian economy grow significantly more slowly than the German economy in 2023 and 2024?

Both the German and the Austrian economies have a high share of industry. There are also many similarities in terms of industrial structure. In the past, the two economies have therefore often developed very similarly. As the economic crisis in the EU primarily affected cyclically sensitive industries, it is surprising that the German economy shrank less than the Austrian economy in both 2023 and 2024. In 2023, Austria's economic output fell by 1 percent, while Germany's declined by just 0.3 percent. This resulted in a growth difference of 0.7 percentage points, which is represented by a dot in Figure 3.

Figure 3: **Contributions to the growth differential between Austria and Germany**



Source: Eurostat, Macrobond, WIFO.

In 2024, Germany's economic output declined by only 0.2 percent, while in Austria it fell by 1.2 percent, resulting in an even higher growth differential of around 1 percentage point. Figure 3 shows the contributions to the growth differential for the main sectors of the economy. Industrial value added accounted just for a small part (0.2 percentage points) of the difference in 2023. Domestic construction performed significantly worse than in Germany in that year, contributing ½ percentage point to the difference. Market-related services (excluding trade, transport, accommodation and food service activities) weighed on the outcome to the same extent. In aggregate, trade, transport, accommodation and food service activities also performed significantly worse than in Germany. In contrast, taxes less subsidies on products performed much better than in the neighbouring country and supported GDP.

In 2024, industry and the trade, transport, accommodation and food service activities sector were clearly responsible for the growth difference of around 1 percentage point.

Table 6: **Expenditure on GDP**

Volume (chain-linked series)

	2023	2024	2025	2026	2023	2024	2025	2026
	Billion € (reference year 2015)				Percentage changes from previous year			
Final consumption expenditure	267.36	268.73	268.87	272.00	+ 0.0	+ 0.5	+ 0.1	+ 1.2
Households[1]	190.19	190.34	190.72	193.39	– 0.5	+ 0.1	+ 0.2	+ 1.4
General government	77.17	78.40	78.16	78.63	+ 1.2	+ 1.6	– 0.3	+ 0.6
Gross capital formation	90.43	83.72	82.95	84.78	– 13.0	– 7.4	– 0.9	+ 2.2
Gross fixed capital formation	90.50	87.40	86.82	88.35	– 3.2	– 3.4	– 0.7	+ 1.8
Machinery and equipment[2]	31.52	30.09	28.89	29.18	+ 4.4	– 4.5	– 4.0	+ 1.0
Construction	37.16	35.14	35.31	35.88	– 9.3	– 5.4	+ 0.5	+ 1.6
Other investment[3]	22.40	22.88	23.23	23.92	– 0.3	+ 2.2	+ 1.5	+ 3.0
Domestic demand	359.46	353.86	354.34	359.31	– 3.5	– 1.6	+ 0.1	+ 1.4
Exports	231.72	221.82	219.86	223.70	– 0.4	– 4.3	– 0.9	+ 1.7
Travel	16.01	16.25	16.46	16.73	+ 13.9	+ 1.4	+ 1.3	+ 1.7
Minus imports	210.61	199.98	199.58	203.71	– 4.6	– 5.0	– 0.2	+ 2.1
Travel	10.24	10.80	10.84	11.07	+ 14.8	+ 5.5	+ 0.4	+ 2.2
Gross domestic product	381.39	376.91	375.92	380.58	– 1.0	– 1.2	– 0.3	+ 1.2
Value	473.23	481.94	492.37	508.50	+ 5.6	+ 1.8	+ 2.2	+ 3.3

Source: WIFO, Statistics Austria. 2025 and 2026: forecast. – [1] Including non-profit institutions serving households. – [2] Including weapon systems. – [3] Mainly intellectual property products (research and development, computer programmes, copyrights).

3.2 Recovery in industrial production still to come

The multi-year decline in construction investment will end in 2025.

The continued weakness of the euro area industrial economy also led to a further contraction of domestic industry towards the end of 2024. Company surveys continue to reflect the poor economic situation and the gloomy outlook. In 2025, value added in manufacturing will therefore decline for the third year in a row. Following a decline of –1.8 percent in real terms in 2023 and a slump of 5.5 percent in the previous year, a further reduction of 3 percent is expected in 2025.

The weakness of domestic industry can hardly be attributed to individual sectors.

The poor performance of industry in 2023 and 2024 is difficult to attribute to individual sectors. For the largest manufacturing sectors, the industrial production index paints a rather heterogeneous picture for both Germany and Austria (Figure 3). Austria's most important industrial sectors, the manufacture of fabricated metal products (C25) and the manufacture of machinery and equipment n.e.c. (C28), have developed unevenly over the years.

3.3 Investments remain weak over the forecast horizon

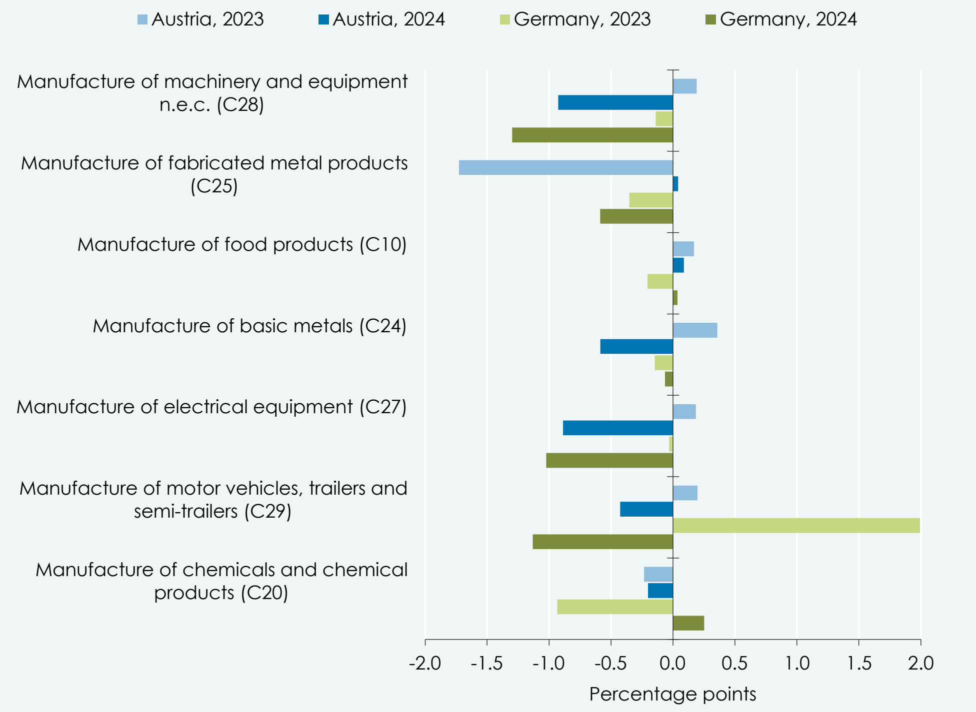
Domestic gross fixed capital formation had already barely increased in 2022 (+0.4 percent in real terms) and fell sharply in the following two years (2023 –3.2 percent, 2024 –3.4 percent). In 2025, a further decline of 0.7 percent is expected. Only in 2026 should investment activity pick up again and increase by 1.8 percent.

After three years of partly drastic losses, the Austrian construction industry enters a phase of stabilisation in 2025. Since the beginning of 2024, the results of the WIFO-Konjunkturtest (business cycle survey) for this industry have remained largely stable or even improved slightly, albeit at a low overall level.

By segment, residential construction will continue to lag non-residential construction, with the gap already narrowed in the course of 2024. The expected stabilisation of construction in the current year is largely due to the ECB's interest rate cuts since mid-2024. Additional interest rate cuts are expected in 2025, which will further reduce financing costs. New mortgage lending and property transactions have already been rising for several months. The easing of the macroprudential framework conditions as a result of the expiry of the regulation for sustainable lending standards for residential real estate financing (KIM regulation) from mid-2025 will also have a supportive effect. The federal government's housing initiative, which came into force in the previous year, should also have an increasingly stimulative effect in 2025, although its full impact is not expected to be felt until 2026. A restrained increase in construction investment of 0.5 percent in volume terms is therefore still expected for 2025, which will accelerate to 1.6 percent in 2026.

Demand for machinery and equipment also remains subdued over the forecast horizon. Here, the decline did not set in until 2024, two years later than for construction investment. After –1.8 percent in 2024, a further decline is expected in 2025. The continued considerable underutilisation of production capacities and geopolitical uncertainty are dampening investment activity. Investment momentum is therefore expected to remain weak in 2025. According to the WIFO-Investitionstest (investment survey) of autumn 2024, manufacturing companies are planning more cautiously than service providers. Both, large companies and small and mediumsized enterprises are likely to cut back on investment in 2025. Where investments are made, they are justified by the advancing technological development. At present, they are mostly used to replace outdated plant or machinery and equipment, while capacity expansions play a subordinate role in view of the economic downturn.

Figure 4: **Growth contributions of the most important industrial sectors**



Source: Eurostat, Macrobond, WIFO. Rates of change of the industrial production index, weighted with value added shares 2021 from the structural business statistics. The codes of the division in the NACE 2008 classification are given in brackets.

In 2026, investments in machinery and equipment will grow again by just under 2 percent as a result of the economic recovery and more favourable financing conditions. However, much of this will be replacement investment.

3.4 Private consumption will not regain momentum until 2026

After private household consumption expenditure shrank in real terms in 2023 (–0.5 percent), it barely increased in 2024 despite the strong growth in disposable income (+0.1 percent). Unlike in previous crises, private consumption did not have a stabilising effect on the economy. Even population growth did not change the pronounced weakness of consumption.

Dynamic growth is not expected in 2025 either. At 2.7 percent, the inflation rate will be only slightly below that of the previous year and, together with the budget consolidation measures, will reduce real disposable income. In the lower income quintiles, the cuts in transfers provided for in the federal government's austerity package will largely reduce consumption. In the other quintiles, however, an increase in consumption is possible at the expense of the savings rate, which will fall in 2025. Despite the weak trend in real incomes, this will allow private consumption to grow slightly by 0.2 percent.

WIFO anticipates a further reduction in the savings rate. Favoured by the increase in real disposable income and the fall in the inflation rate, private consumption is therefore likely to grow somewhat more strongly again in the coming year (2026 +1.4 percent).

3.5 Inflation falling at a slower pace

In 2024, the inflation rate fell from 7.8 percent in the year before to 2.9 percent (according to the CPI). Due to the continuous decline over the course of 2024, monthly rates fell below the 2 percent mark in the final quarter.

Public budget consolidation measures will limit the scope for consumption in 2025 and 2026.

At the beginning of 2025, energy became significantly more expensive due to the expiry of the administrative electricity price brake, higher network charges and the increase in the CO_2 pricing. As a result, the

The decline in the inflation rate will continue at a slower pace in 2025 and accelerate again in 2026.

inflation rate exceeded 3 percent again in January and February. The contribution of services to inflation was still considerable at the beginning of the year.

WIFO therefore expects the CPI to rise by 2.7 percent in 2025. Inflationary pressures should abate further to 2.1 percent in 2026. Core inflation (total inflation excluding energy, food, alcohol and tobacco, according to the HICP) will decline faster than the overall CPI. After 3.9 percent in 2024, it will fall to 2.6 percent in 2025 and further to 2.0 percent in 2026.

Table 7: **Private consumption and prices**

	2021	2022	2023	2024	2025	2026
	Percentage changes from previous year					
Private consumption expenditure[1]	+ 4.8	+ 4.9	– 0.5	+ 0.1	+ 0.2	+ 1.4
Durable goods[2]	+ 6.4	– 4.5	– 5.4	+ 0.6	+ 0.5	+ 1.5
Non-durable goods and services[2]	+ 4.6	+ 6.0	+ 0.1	+ 0.0	+ 0.2	+ 1.4
Loans to domestic non-banks (end of period)	+ 6.6	+ 5.0	+ 0.7	+ 0.7	+ 1.0	+ 1.7
Consumer prices						
National	+ 2.8	+ 8.6	+ 7.8	+ 2.9	+ 2.7	+ 2.1
Harmonised	+ 2.8	+ 8.6	+ 7.7	+ 2.9	+ 2.8	+ 2.1
Core inflation[3]	+ 2.3	+ 5.1	+ 7.3	+ 3.9	+ 2.6	+ 2.0

Source: WIFO, OeNB, Statistics Austria. 2025 and 2026: forecast. – [1] Private households including non-profit institutions serving households. – [2] WIFO calculation based on the shares of consumer durables according to the domestic concept. – [3] Excluding energy, food, alcohol and tobacco.

Table 8: **Earnings, international competitiveness**

	2021	2022	2023	2024	2025	2026
	Percentage changes from previous year					
Wages and salaries per employee[1]						
Nominal, gross	+ 2.7	+ 4.9	+ 6.9	+ 8.3	+ 3.3	+ 2.6
Real[2]						
Gross	– 0.1	– 3.4	– 0.9	+ 5.3	+ 0.6	+ 0.5
Net	– 0.8	– 2.7	– 0.5	+ 5.3	+ 0.8	+ 0.3
Wages and salaries per hour worked[3]						
Real, net[2]	– 4.0	– 2.4	– 0.5	+ 6.9	+ 1.2	– 0.1
	Percent					
Wage share, adjusted[4]	62.4	62.1	63.5	67.9	69.7	69.7
	Percentage changes from previous year					
Unit labour costs, nominal[5]						
Total economy	– 0.5	+ 2.1	+ 8.6	+10.1	+ 4.0	+ 2.0
Manufacturing	– 6.5	– 0.4	+ 9.7	+12.4	+ 7.1	+ 0.2
Effective exchange rate – manufactured goods[6]						
Nominal	+ 0.6	– 1.5	+ 1.9	+ 1.1	– 0.2	+ 0.2
Real	+ 0.2	– 1.8	+ 3.4	+ 0.9	– 0.1	– 0.0

Source: WIFO, Statistics Austria. 2025 and 2026: forecast. – [1] National Accounts definition (jobs). – [2] Deflated by CPI. – [3] National Accounts definition. – [4] Compensation of employees relative to GDP at factor cost, adjusted for the share of employees in total employment (persons according to national accounts). – [5] 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. – [6] Weighted by exports and imports, real value adjusted by relative HCPI.

The inflation forecast was made against the backdrop of an uncertain environment of tariff increases, which could fuel domestic inflation through higher import prices for products from the USA. In addition, geopolitical uncertainties are having a significant impact on energy prices.

3.6 Further increase in employment with a slight rise in unemployment

Despite the recession, active dependent employment grew by 0.2 percent in 2024. In January and February 2025, the year-on-year increase was 0.3 percent, following a short-term rise of 0.6 percent in December. However, the latter is likely to have been due to the reporting behaviour of construction companies over the Christmas holidays[2].

Employment growth is currently being supported in particular by public services (NACE 2008, sections O to Q), which expanded by 2.6 percent year-on-year in the first two months of 2025. Employment growth at the beginning of the year was also reported in the transport sector, accommodation and food service activities, information and communication, financial and insurance activities and professional, scientific and technical activities.

Table 9: **Labour market**

	2021	2022	2023	2024	2025	2026
	Change from previous year in 1,000					
Demand for labour						
Persons in active employment[1]	+ 96.9	+116.2	+ 48.0	+ 10.4	+ 14.0	+ 37.0
Employees[1]	+ 90.4	+110.2	+ 44.8	+ 8.4	+ 11.0	+ 32.0
National employees	+ 28.1	+ 22.9	– 9.0	– 16.7	– 19.0	– 8.0
Foreign employees	+ 62.4	+ 87.4	+ 53.8	+ 25.0	+ 30.0	+ 40.0
Self-employed[2]	+ 6.5	+ 6.0	+ 3.2	+ 2.0	+ 3.0	+ 5.0
Labour supply						
Population of working age						
15 to 64 years	+ 5.4	+ 48.6	+ 36.9	– 2.5	– 20.3	– 22.1
Labour force[3]	+ 19.0	+ 47.6	+ 55.7	+ 37.4	+ 29.0	+ 29.0
Labour surplus						
Unemployed	– 77.9	– 68.6	+ 7.7	+ 27.1	+ 15.0	– 8.0
Unemployed persons in training	+ 13.2	– 0.8	+ 1.0	+ 5.0	+ 1.0	± 0.0
	Percent					
Unemployment rate						
As a percentage of total labour force (Eurostat)[4]	6.2	4.8	5.1	5.2	5.3	5.2
As a percentage of total labour force	7.2	5.6	5.7	6.2	6.5	6.3
As a percentage of dependent labour force	8.0	6.3	6.4	7.0	7.3	7.1
	Percentage changes from previous year					
Labour force[3]	+ 0.4	+ 1.0	+ 1.2	+ 0.8	+ 0.6	+ 0.6
Persons in active dependent employment[1]	+ 2.5	+ 3.0	+ 1.2	+ 0.2	+ 0.3	+ 0.8
Unemployed	– 19.0	– 20.7	+ 2.9	+ 10.0	+ 5.0	– 2.6
Persons (in 1,000)	331.7	263.1	270.8	297.9	312.9	304.9

Source: WIFO, Eurostat, Federation of Social Insurances, Public Employment Service Austria, Statistics Austria. 2025 and 2026: forecast. – [1] Excluding persons in valid employment contract receiving child care benefit or being in military service. – [2] According to WIFO, including liberal professions and unpaid family workers. According to the Federation of Social Insurances. – [3] Persons in active employment plus unemployed. – [4] Labour Force Survey.

By contrast, employment continued to decline in manufacturing, construction, trade and administrative and business service activities, especially in the temporary employment area. The latter is particularly sensitive to economic fluctuations. In November 2022, this sector was already facing job losses. In 2024 as a whole, the decline was 14.2 percent. In January and February 2025, a reduction of just under 10 percent year-on-year indicated that the business cycle remained tense.

For 2025, WIFO expects a weak increase in employment of 0.3 percent, which should accelerate slightly to 0.8 percent in 2026 due to the economic recovery.

Although employment continued to rise in 2024, the second year of the recession, working hours per employee fell by 1.4 percent (according to the National Accounts). A further decline of 0.4 percent is forecasted for the third year of the recession. Working hours per employee are not expected to increase again slightly by 0.3 percent until 2026.

Unemployment is expected to increase by 15,000 persons in 2025. The abolition of educational leave from 1 April 2025 will slightly increase the number. Compared to the previous month, unemployment will not fall again until the first quarter of 2026. For 2026, it is expected to fall by an average of 8,000 persons compared to the previous year.

The unemployment rate will reach its peak in 2025.

The unemployment rate rose slightly from 6.3 to 6.4 percent in 2023 due to the recession. In 2024, the increase accelerated to

[2] From January to November 2024, employment in construction fell by an average of 9,000 jobs (–3.1 percent) year-on-year. It stagnated in December, but fell again significantly in January 2025.

7.0 percent. A further increase to 7.3 percent is expected for 2025, which means that the peak of the current recession will be reached this year. Only in 2026, will the rate fall again to 7.1 percent as the economy improves.

3.7 The decline in greenhouse gas emissions is losing momentum

In 2025, two opposing trends will lead to a slight decrease in greenhouse gas emissions. On the one hand, energy demand is expected to decrease due to the negative economic outlook and the ongoing decarbonisation trends (electrification and replacement of fossil heating systems). On the other hand, the weather is likely to return to its long-term average, which would be colder than in 2024. Given the significant year-on-year increase in gas consumption in the first quarter of 2025, consumption will hardly fall in the current year. On this basis, emissions will only fall by 1.8 percent in 2025 (after –2.8 percent in 2024; preliminary estimate).

In 2026, measures to replace heating systems, the increase in electric mobility, the blending of non-fossil fuels and the expansion of renewable electricity generation will further reduce emissions. However, the production of goods will start to grow more strongly again. The projected upturn in the economy will reduce the decline in emissions to –1.4 percent.

Table 10: **Productivity**

	2021	2022	2023	2024	2025	2026
	Percentage changes from previous year					
Total economy						
GDP, volume	+ 4.8	+ 5.3	− 1.0	− 1.2	− 0.3	+ 1.2
Employment[1]	+ 2.4	+ 2.7	+ 1.0	+ 0.4	+ 0.2	+ 0.6
Production per person employed	+ 2.3	+ 2.5	− 2.0	− 1.6	− 0.5	+ 0.7
Hours worked per person employed[2]	+ 2.5	− 0.3	− 0.1	− 1.4	− 0.3	+ 0.3
Hourly productivity[3]	− 0.2	+ 2.8	− 1.9	− 0.2	− 0.2	+ 0.3
Manufacturing						
Gross value added, volume	+10.9	+ 6.7	− 1.8	− 5.5	− 3.0	+ 2.3
Employment[1]	+ 0.6	+ 2.3	+ 1.2	− 1.2	− 1.2	+ 0.5
Production per person employed	+10.2	+ 4.3	− 2.9	− 4.3	− 1.8	+ 1.8
Hours worked per person employed[2]	+ 4.3	− 0.8	− 0.3	+ 0.3	− 0.8	− 0.4
Hourly productivity[3]	+ 5.6	+ 5.1	− 2.6	− 4.7	− 1.0	+ 2.2

Source: WIFO, Statistics Austria. 2025 and 2026: forecast. – [1] Employees and self-employed, National Accounts definition (jobs). – [2] National Accounts definition. – [3] Production per hour worked, National Accounts definition.

4. Forecast risks

Developments in the international economy clearly harbour the greatest forecasting risks at present. Major economic policy changes have been announced in the USA, but no clear figures have yet emerged that would provide a reliable basis for a forecast. The tariff hike of 10 percentage points on goods purchased by the USA from the EU is expected to take effect from the second quarter of 2025.

The expansive measures announced by the EU in the military sector are also still rather vague in terms of their content and timing. Only Germany has been more specific about the scope of the agreed infrastructure and military measures as well as the timing of the funds. The German measures are unlikely to have an impact in 2025 and will only have a stimulating effect from 2026 onwards. The impact on the Austrian economy should be positive but muted.

With regard to the war in Ukraine, it was assumed that hostilities and EU sanctions against Russia would continue. However, the reorientation of the foreign policy in the USA has increased uncertainty.