WIFO ■ REPORTS ON AUSTRIA
11/2024

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Economic Outlook for 2024 and 2025

Stefan Schiman-Vukan, Stefan Ederer

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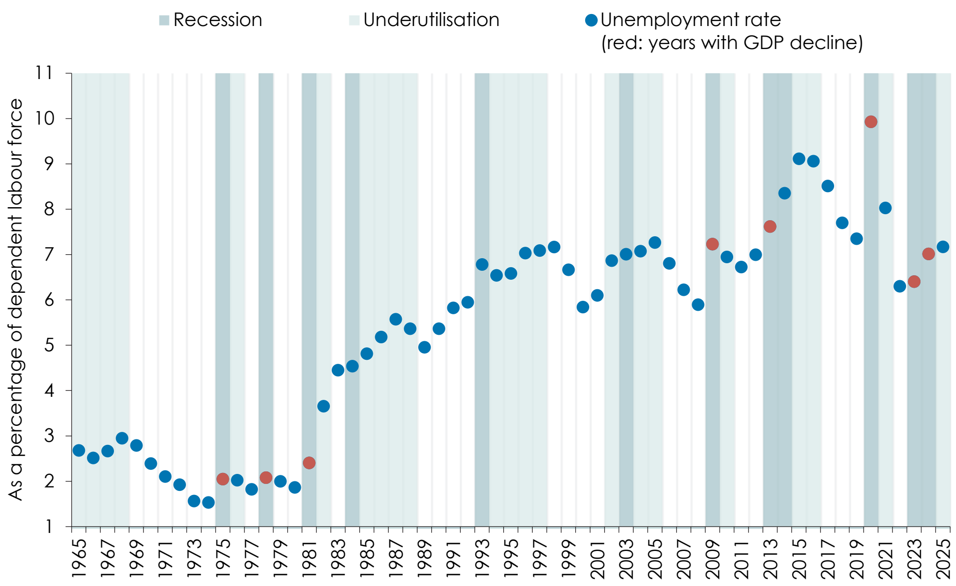
- The Austrian economy will remain in recession in 2024. WIFO expects a stimulus from abroad from 2025 onwards.
- While investment in machinery and equipment will decline throughout the entire forecast period, construction investment will benefit from the construction stimulus package in 2025.
- Inflation is falling and real incomes are rising.
- Unemployment continues to increase, private consumption is slowly recovering.
- The government deficit continues to rise, meaning that a sustainable fiscal path is being missed.

Recessions in Austria



Underutilisation occurs when economic output falls below its potential. A recession results when output falls particularly rapidly below its potential. During such periods, the unemployment rate tends to rise (source: Statistics Austria, Public Employment Service Austria, WIFO).

"The current recession has lasted for two calendar years, which is an unusually long time."

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October 2024

Recession in Austria Persists Stubbornly. Economic Outlook for 2024 and 2025

Austria's economy will remain in recession in 2024, with real GDP expected to fall by 0.6 percent. In 2025, WIFO expects an economic impulse from abroad. While investment in machinery and equipment will shrink over the entire forecast period, construction investment will benefit from the construction stimulus package in the coming year. Inflation will fall, real incomes will rise, and consumer demand will pick up, meaning that GDP will grow by 1 percent in 2025. However, unemployment will continue to rise. The public budget deficit is increasingly moving away from the Maastricht targets.

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

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Imprint: Publisher: Gabriel Felbermayr • Editor-in-Chief: Hans Pitlik (hans.pitlik@wifo.ac.at) • Editorial team: Tamara Fellinger, Christoph Lorenz, Tatjana Weber • Media owner (publisher), producer: Austrian Institute of Economic Research • 1030 Vienna, Arsenal, Objekt 20 • Tel. (+43 1) 798 26 01-0, https://reportsonaustria.wifo.ac.at/ • Place of publishing and production: Vienna • 2024/RoA/7496

The Austrian economy remains in recession. After –1 percent in the previous year, real GDP will shrink by 0.6 percent in 2024. Like Germany, Austria is suffering from the investment slump and weak demand for capital goods and machinery. Exports of goods to Germany fell significantly in the current year. However, the weakness in exports has been protracted, and with interest rates falling, an improvement in financing conditions is in sight. In 2025, foreign demand should pick up somewhat and provide an impulse to the Austrian economy, which will also revive private consumer demand.

However, overall economic activity will initially only grow by a modest 1 percent. Investment in machinery and equipment will continue to shrink in 2025, not least because companies' profits have deteriorated due to the recession and increases in wages and commodity prices. The unemployment rate will continue to rise in 2025 as a result of the recession. The budget deficit is increasingly moving away from a sustainable path, and not only because of the economic situation.

A key assumption of this forecast is that foreign demand will pick up again in 2025, particularly from Germany. However, if demand for capital goods remains as weak as it currently is, Austria could enter a third year of recession. In this case, unemployment would rise more sharply than expected and private households' propensity to consume would remain subdued. Another risk to the euro area economy is that of too rapid fiscal consolidation, when European fiscal rules come into effect.

Conversely, there are also positive aspects and upside risks: for example, gas supplies appear to be secure even if Russian natural gas stops flowing to Austria from 2025. Consumption could be stronger than expected if the financial situation of private households improves to such an extent that they start spending more again. In addition, targeted investment support from the public sector could stimulate replacement investments in more environmentally friendly production methods and thus trigger positive multiplier effects.

Table 1: **Main results**

	2020	2021	2022	2023	2024	2025
	Percentage changes from previous year					
Gross domestic product, volume	– 6.3	+ 4.8	+ 5.3	– 1.0	– 0.6	+ 1.0
Manufacturing	– 7.5	+ 10.9	+ 6.7	– 1.8	– 4.1	+ 0.6
Wholesale and retail trade	– 2.9	+ 4.5	+ 0.7	– 5.7	– 1.7	+ 1.2
Private consumption expenditure[1], volume	– 7.6	+ 4.8	+ 4.9	– 0.5	+ 0.1	+ 1.2
Consumer durables[2]	– 1.6	+ 6.4	– 4.5	– 5.4	+ 1.0	+ 2.0
Gross fixed capital formation, volume	– 5.3	+ 6.0	+ 0.4	– 3.2	– 2.8	+ 0.2
Machinery and equipment[3]	– 6.9	+ 7.7	+ 1.9	+ 2.4	– 1.5	– 0.6
Construction	– 3.5	+ 4.1	– 1.3	– 9.3	– 4.4	+ 1.1
Exports, volume	– 10.5	+ 9.5	+ 10.0	– 0.4	– 2.3	+ 2.4
Exports of goods, fob	– 7.6	+ 12.4	+ 6.0	– 0.4	– 3.5	+ 2.3
Imports, volume	– 9.6	+ 14.1	+ 7.1	– 4.6	– 1.9	+ 2.2
Imports of goods, fob	– 6.6	+ 14.8	+ 3.0	– 7.4	– 4.0	+ 2.3
Gross domestic product, value	– 3.9	+ 6.8	+ 10.3	+ 5.6	+ 3.7	+ 3.1
billion €	380.32	406.23	448.01	473.23	490.73	506.04
Current account balance as a percentage of GDP	3.4	1.7	– 0.9	1.3	1.6	1.7
Consumer prices	+ 1.4	+ 2.8	+ 8.6	+ 7.8	+ 3.1	+ 2.2
GDP deflator	+ 2.6	+ 1.9	+ 4.8	+ 6.6	+ 4.3	+ 2.1
General government net lending, Maastricht definition as a percentage of GDP	– 8.2	– 5.7	– 3.3	– 2.6	– 3.7	– 4.0
Persons in active dependent employment[4]	– 2.0	+ 2.5	+ 3.0	+ 1.2	+ 0.2	+ 0.7
Unemployment rate, national definition[5]	9.9	8.0	6.3	6.4	7.0	7.2
Command-based GDP per capita[6]	– 6.3	+ 3.8	+ 1.1	– 1.9	– 0.5	+ 0.7
At-risk-of-poverty rate[7] percent	14.7	14.8	14.9	15.4	15.7	15.6
Income quintile ratio[8] ratio	4.0	4.3	4.3	4.4	4.5	4.5
Greenhouse gas emissions[9]	– 7.6	+ 4.9	– 6.0	– 6.4	– 3.6	– 1.0
million t CO_2 equivalent	73.91	77.53	72.84	68.15	65.68	65.04

Source: WIFO, Public Employment Service Austria, Federation of Social Insurances, OeNB, Statistics Austria, Environment Agency Austria. 2024 and 2025: 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.

1. Global economy gradually regaining momentum

The global economy continues to develop unevenly. In the USA, economic activity remained robust in the first half of 2024. In China, the crisis on the property market and private consumption put the brakes on expansion. In the euro area, by contrast, demand picked up somewhat. Services were the main driver of global economic growth. However, industrial production and world trade also picked up slightly in the first half of the year. As a result, commodities became slightly more expensive at the beginning of the year. Overall, global output expanded at a similar pace in the first half of 2024 as in the decade before the outbreak of the COVID-19 pandemic.

In the USA, private consumption continued to grow strongly in the spring. By contrast, construction investment, which had previously supported the economy for several quarters, declined. There are also signs of a slowdown on the labour market. Employment growth has slowed, while the unemployment rate has risen since the beginning of 2024. Inflation is falling and was recently just above 2½ percent. In September, the Federal Reserve initiated a turnaround on interest rates, cutting the federal funds rate by ½ percentage point.

The business cycle in the USA is likely to have peaked.

GDP in the euro area rose by ¼ percent quarter on quarter in each of the first two quarters of 2024. Exports in particular contributed to this, whereas private consumption barely increased and investment declined significantly. While economic output expanded strongly in Spain in the spring, it increased only moderately in France and Italy. In Germany, it even fell slightly. Industry in the euro area is still in a downturn. In contrast, the labour market is proving robust despite the continuing economic weakness, with the unemployment rate remaining

In the euro area, Germany in particular is weakening, while Spain's economy is booming.

stable so far. However, employment growth is tending to weaken. Inflation, which had temporarily stagnated this year, fell again in August and even dropped to 1.8 percent in September.

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	68.4	14.5	– 5.6	+ 6.2	+ 3.3	+ 0.4	+ 1.1	+ 1.7
Euro area	52.4	10.1	– 6.1	+ 6.2	+ 3.3	+ 0.4	+ 0.8	+ 1.4
Germany	29.1	3.2	– 4.1	+ 3.7	+ 1.4	– 0.3	– 0.0	+ 0.9
Italy	6.1	1.8	– 9.0	+ 8.3	+ 4.0	+ 0.9	+ 0.8	+ 1.1
France	3.6	2.2	– 7.4	+ 6.9	+ 2.6	+ 0.9	+ 1.2	+ 1.3
CEEC 5[2]	15.0	2.1	– 3.2	+ 6.2	+ 4.5	+ 0.2	+ 2.4	+ 3.2
Poland	3.7	1.0	– 2.0	+ 6.9	+ 5.6	+ 0.2	+ 3.2	+ 3.5
Hungary	3.6	0.2	– 4.5	+ 7.1	+ 4.6	– 0.9	+ 1.6	+ 3.0
Czech Republic	3.6	0.3	– 5.3	+ 4.0	+ 2.8	– 0.1	+ 1.2	+ 2.9
USA	7.3	15.6	– 2.2	+ 6.1	+ 2.5	+ 2.9	+ 2.5	+ 1.8
Switzerland	5.2	0.4	– 2.1	+ 5.6	+ 3.0	+ 0.7	+ 1.4	+ 1.3
UK	2.7	2.2	– 10.4	+ 8.7	+ 4.3	+ 0.1	+ 1.1	+ 1.8
China	2.5	18.7	+ 2.2	+ 8.4	+ 3.0	+ 5.2	+ 4.6	+ 4.2
Total[3]								
PPP-weighted[4]		51.4	– 1.9	+ 7.1	+ 3.0	+ 2.9	+ 2.8	+ 2.6
Export weighted[5]	86.1		– 5.0	+ 6.3	+ 3.3	+ 0.8	+ 1.3	+ 1.8
Market growth[6]			– 6.1	+ 11.0	+ 5.7	– 3.2	+ 0.7	+ 3.8
Forecast assumptions								
Crude oil prices								
Brent, $ per barrel			43.2	70.8	98.9	82	80	72
Natural gas price								
Dutch TTF, € per MWh			9.5	45.9	121.5	41	33	39
Electricity price Austria								
Base, € per MWh			33.2	107.2	261.6	102	79	94
Peak, € per MWh			36.0	116.8	275.5	104	81	103
Exchange rate								
$ per €			1.141	1.184	1.054	1.08	1.11	1.11
Key interest rate								
ECB main refinancing rate[7], percent			0.0	0.0	0.6	3.8	4.1	3.1
10-year government bonds yields Germany, percent			– 0.5	– 0.4	1.1	2.4	2.4	2.1

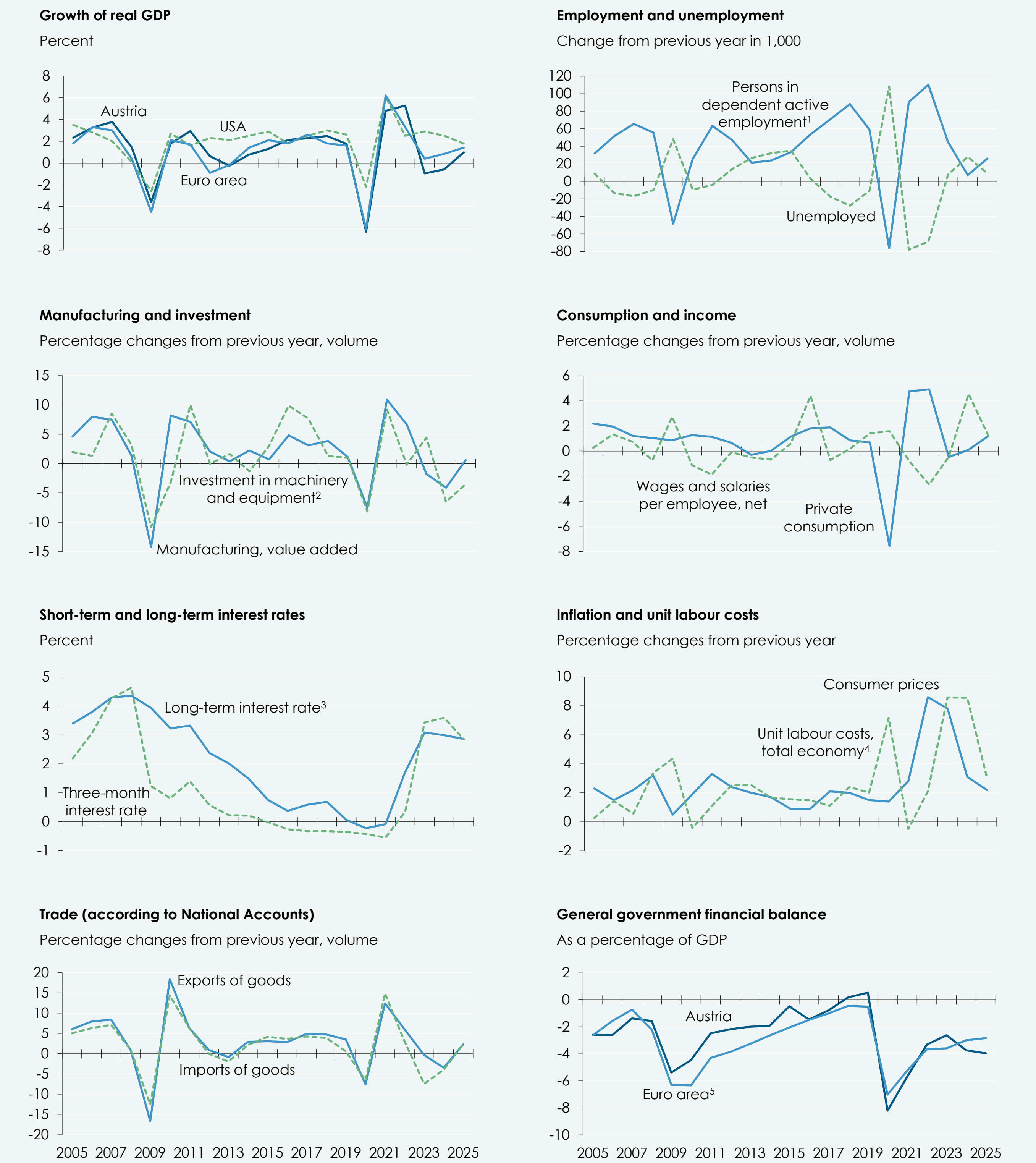
Source: WIFO, Bureau of Economic Analysis, European Energy Exchange, Eurostat, ECB, HWWI, IMF, Intercontinental Exchange, OECD, Statistics Austria. 2024 and 2025: forecast. – [1] PPP-weighted. – [2] Czech Republic, Hungary, Poland, Slovenia, Slovakia. – [3] EU 27, UK, USA, Switzerland, China. – [4] Weighted by GDP at purchasing power parities in 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.

1.1 Outlook: economic slowdown in the USA, recovery in the euro area

The global economy is likely to gain momentum only slowly over the forecast period. The economy in the USA is likely to cool somewhat. Not only is the labour market losing momentum, but real wage growth has also slowed somewhat recently. At the same time, inflation is falling and consumer confidence remains high, so private consumption should remain an important pillar of growth. Investment should also increase further, while fiscal policy is unlikely to provide much stimulus in view of the high budget deficit. All in all, economic output in the USA is set to grow by 1.8 percent in 2025, slightly less than in the current year.

Domestic demand in China remains subdued, while buoyant export growth continues to provide support. Chinese companies now appear to be producing more intermediate goods for domestic production themselves than in the years before the COVID-19 pandemic. In addition, the energy crisis in Europe and low capacity utilisation in China have improved the competitiveness of Chinese companies relative to their European competitors. Overall, however, the Chinese economy is unlikely to grow by more than 5 percent in either 2024 or 2025.

Figure 1: **Indicators of economic performance**



Source: WIFO. 2024 and 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.

In the euro area, real wage growth should gradually translate into a pick-up in private consumption. The robust labour market and lower inflation are contributing to this. However, industrial activity will pick up only slowly, partly because investment is only gradually recovering. Fiscal policy is unlikely to provide any economic stimulus over the forecast period, as many of the support measures adopted in previous years have

Strong income growth is allowing consumption to expand in the euro area.

expired and economic policy is again becoming more focused on the partly high levels of government debt. Overall, GDP growth in the euro area will be only 0.8 percent in 2024 and 1.4 percent in 2025.

In Germany, output will stagnate in 2024 and grow by just 0.9 percent in 2025, as the German industry in particular suffers from the weak global demand for goods. However, rising real incomes should also support consumer demand in Germany.

2. Economic policy parameters

This forecast takes into account economic policy measures that have already been adopted or sufficiently specified and are therefore considered likely to be implemented.

2.1 Monetary policy is gradually being eased

The key interest rate remains above the cyclically neutral level.

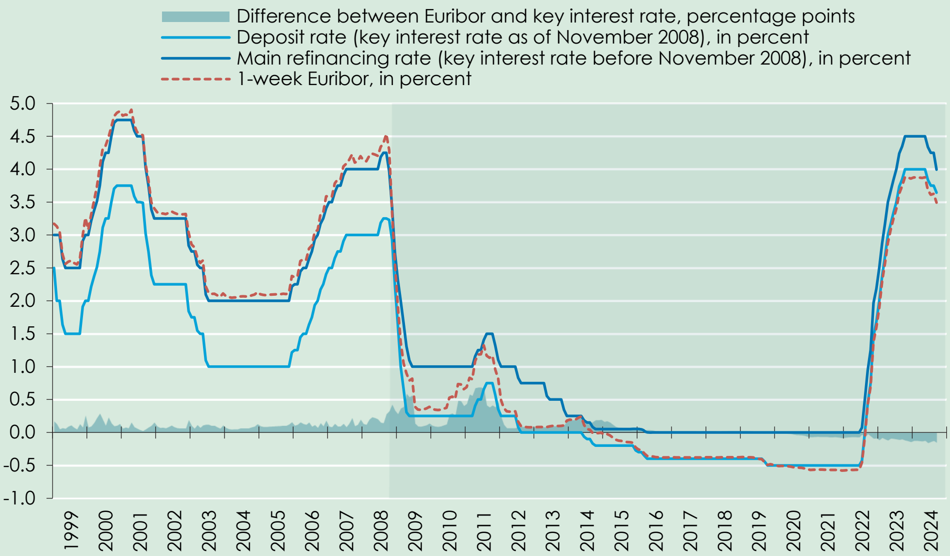
In June and September 2024, the ECB lowered the deposit rate, which had been raised by 4.5 percentage points since mid-2022, by 0.25 percentage points each to 3.5 percent in response to declining inflation and the economic weakness in the euro area. WIFO expects three further key interest rate cuts of 0.25 percentage points each in the forecast period, meaning that the deposit rate will be 2.75 percent at the end of 2025 and thus still slightly above the cyclically neutral equilibrium interest rate according to Holston-Laubach-Williams. In addition, the ECB will gradually reduce its government bond portfolio by no longer reinvesting principal payments. This quantitative tightening has not yet had any impact on yields and is unlikely to do so in the forecast period. Instead, the yield curve, measured by the main refinancing rate and the secondary market yield on German government bonds, remains inverted.

The ECB's asynchronous interest rate cut

The ECB operates with three short-term interest rates: the deposit rate, the main refinancing rate and the marginal lending rate. The marginal lending rate is largely irrelevant from a monetary policy point of view, as banks use the marginal lending facility mainly to meet their short-term liquidity requirements, e.g. to fulfil the average minimum reserve requirements.

Until the end of 2008, the money market rates relevant for monetary policy transmission followed the ECB's main refinancing rate. At the height of the financial market and economic crisis in 2008, the procedure for the allocation of central bank money was changed from a bidding procedure for limited funds with an uncertain outcome to a secure full allocation of all requested funds at a fixed interest rate. This led to excess liquidity in the money market and dampened competition for short-term funds. Since the end of 2008, money market rates have been aligned with the ECB's deposit rate. This represents an (elastic) lower limit, as it is generally not worthwhile for banks to lend money overnight on the interbank market at a rate lower than the rate at which they can safely deposit it with the ECB. In other words, from 1999 until the end of 2008, the main refinancing rate was the ECB's key interest rate; since then, it has been the deposit rate (see Figure 2).

Figure 2: **Interest rates in the euro area**



Source: ECB, European Money Markets Institute, Macrobond.

Recently, less and less banks have been participating in the ECB's main refinancing operations, as the interest rate is now high while there is still a lot of excess liquidity in circulation. In order to increase the attractiveness of central bank funds, the

ECB reduced the spread between the deposit rate and the main refinancing rate from 0.5 to 0.15 percentage points in September 2024 by cutting the latter by 0.6 percentage points, but the policy-relevant deposit rate by only 0.25 percentage points. The asynchronous reduction in the key interest rate is thus an attempt to increase the effectiveness of monetary policy in times of high excess liquidity.

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

	2020	2021	2022	2023	2024	2025
	As a percentage of GDP					
Fiscal policy						
General government financial balance[1]	– 8.2	– 5.7	– 3.3	– 2.6	– 3.7	– 4.0
General government primary balance	– 6.9	– 4.6	– 2.4	– 1.4	– 2.4	– 2.6
General government total revenue	49.1	50.3	49.7	50.1	50.7	50.7
General government total expenditure	57.3	56.0	53.0	52.7	54.5	54.7
General government gross dept[1]	83.2	82.4	78.4	78.6	80.1	82.4
	Percent					
Monetary policy						
Three-month interest rate	– 0.4	– 0.5	0.3	3.4	3.6	2.9
Long-term interest rate[2]	– 0.2	– 0.1	1.7	3.1	3.0	2.9

Source: WIFO, ECB, OeNB, Statistics Austria. 2024 and 2025: forecast. – [1] According to Maastricht definition. – [2] 10-year central government bonds (benchmark).

2.2 Public budgets moving further away from Maastricht targets

The government expenditure ratio, which amounted to 52.7 percent of GDP in 2023, will rise to 54.5 percent in the current year and to 54.7 percent of GDP in 2025. In contrast, the general government revenue ratio, at 50.7 percent of GDP in both forecast years, will be only slightly above the 2023 level (50.1 percent). This means that net lending will deteriorate significantly from –2.6 percent (2023) to –3.7 percent (2024) and –4.0 percent (2025) of GDP. Public debt is projected to increase from 78.6 percent (2023) to 80.1 percent (2024) and further to 82.4 percent of GDP in 2025, meaning that Austria will fall well short of the European Fiscal Compact targets. Although the additional burden from the flood disaster in September 2024 is not expected to be included in the assessment, the current budgetary path could lead to a deficit procedure on grounds of excessive debt.

The significant increase in the expenditure ratio in 2024 is partly due to the continuation of discretionary measures to cushion the energy and inflation crisis as well as the increase in the climate bonus. In addition, there are inflation-related increases in spending on pensions, valorised social benefits, advance payments and personnel costs, which react with a time lag to the high price increases of previous years. New obligations on the part of the federal provinces and municipalities as part of fiscal equalisation ("Zukunftsfonds") are also driving up expenditure. Despite falling interest rates, interest expenditure on public budgets will rise to 1.3 percent (2024) and 1.4 percent (2025) of GDP, narrowing the financial room for manoeuvre. The additional expenditure resulting from the flood disaster is currently difficult to estimate. The disaster fund has been increased to 1 billion € and will be supplemented by 0.5 billion € from the Cohesion Fund.

The slowdown in revenue momentum is mainly due to the decline in inflation and the weak economy. The subdued development of private consumption and weaker income growth will dampen revenues from excise duties and social contributions in 2025. With the abolition of fiscal drag by adjusting the tariff ceilings to inflation, the inflation-induced increase in wage and income tax revenues, which had often contributed to the consolidation of public budgets in the past, also ceased to exist. After several years of strong growth, corporate tax revenues will also stagnate due to the economic situation and the tariff reform.

The deficit in the national budget will continue to grow in 2025, and not only because of the economic situation.

3. Austria's economy remains in recession

The Austrian economy suffered another setback in the second quarter of 2024, with GDP falling by 0.4 percent in real terms compared to the previous period[1]. The

[1] The quarterly national accounts were published by Statistics Austria on 4 September 2024. In the meantime, the 2023 annual national accounts were also published on 30 September. A benchmark revision was carried out therein, which concerns the results from 1995 onwards. The revised quarterly accounts will be published on 18 October 2024. This means that the

Austria remains in recession, inflation is falling.

economic weakness observed since mid-2022 thus continued. In manufacturing, value added contracted for the sixth consecutive quarter. International demand for industrial goods remains extremely weak, with countries specialising in this sector, such as Austria and Germany, suffering particularly. However, value added in important service sectors such as trade and transportation has also fallen significantly over the past two years. Public services in particular, but also some less cyclical private services, have had a stabilising effect.

Inflation has slowed significantly in recent months and, according to Statistics Austria's flash estimate, was 1.8 percent in September, meaning that the inflation gap with the euro area has disappeared. However, as long as inflation in Austria does not fall below the euro area average, the price differences resulting from the overinflation of the past months will not be offset. This is having a negative impact on the price competitiveness of domestic industry; the real-effective exchange rate for industrial goods rose by 3.4 percent in 2023, the sharpest increase in 20 years. At the same time, corporate profitability has also deteriorated.

Table 4: **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	4.54	4.42	4.33	4.33	+ 6.8	− 2.7	− 2.0	± 0.0
Manufacturing including mining and quarrying	74.08	72.39	69.42	69.83	+ 6.4	− 2.3	− 4.1	+ 0.6
Electricity, gas and water supply, waste management	9.44	10.21	10.21	10.21	+ 2.7	+ 8.1	± 0.0	± 0.0
Construction	17.66	16.34	15.75	15.91	− 3.4	− 7.5	− 3.6	+ 1.0
Wholesale and retail trade	42.27	39.88	39.20	39.67	+ 0.7	− 5.7	− 1.7	+ 1.2
Transportation	19.17	18.69	18.50	18.60	+ 14.6	− 2.5	− 1.0	+ 0.5
Accommodation and food service activities	10.15	10.70	10.89	11.14	+ 79.0	+ 5.4	+ 1.8	+ 2.3
Information and communication	15.63	16.10	16.27	16.35	+ 3.6	+ 3.0	+ 1.0	+ 0.5
Financial and insurance activities	18.33	16.85	17.29	17.42	+ 5.9	− 8.1	+ 2.6	+ 0.7
Real estate activities	31.19	31.33	31.49	31.64	+ 2.3	+ 0.5	+ 0.5	+ 0.5
Other business activities[1]	36.47	36.20	35.91	36.27	+ 8.2	− 0.7	− 0.8	+ 1.0
Public administration[2]	58.62	59.89	61.39	62.01	+ 1.7	+ 2.2	+ 2.5	+ 1.0
Other service activities[3]	8.51	8.92	8.92	9.01	+ 20.5	+ 4.7	± 0.0	+ 1.0
Total gross value added[4]	344.99	340.92	338.94	341.80	+ 6.1	− 1.2	− 0.6	+ 0.8
Gross domestic product at market prices	385.07	381.39	379.16	382.83	+ 5.3	− 1.0	− 0.6	+ 1.0

Source: WIFO, Statistics Austria. 2024 and 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.

The high wage increases are a burden for companies but have not yet led to a revival in consumption.

The high wage settlements for 2024 are not only a burden for domestic companies, but have also not yet led to a significant increase in consumer spending – contrary to the WIFO Economic Outlook of June 2024. This is probably due to factors that were underestimated in the last forecast: first, precautionary saving increases as unemployment rises. Although consumer confidence has brightened in recent months, especially household's perceptions of their own financial situation, an increasing number of respondents expect unemployment to continue to rise.

Moreover, the higher interest rate level favours savings. Although the savings rate of more than 11 percent projected for the forecast period is almost 3 percentage points higher than in 2023, it is roughly equivalent to the level in 2007-08, just before the low-interest rate period began. A third possible explanation for the reluctance to spend is that private households do not consider the wage increases or government benefits to be sustainable and therefore prefer to save the additional income rather than spend it.

Employment is increasing only in the public sector.<<

Despite the sharp rise in unit labour costs, the labour market is still quite robust. However, significant employment growth has recently been seen only in the public and public-related sectors. Employment is expanding in public administration, but also in the health care, nursing and education sectors. In the

quarterly accounts used for this forecast are not compatible with the newly published annual data. Although the quarterly patterns were taken into account in the preparation of the forecast, WIFO does not present the cyclical profile or the table on the technical breakdown and revision of the GDP forecast in this forecast.

private sector, however, employment is shrinking. Although some less cyclical service industries are still creating additional jobs, these expansions are more than offset by contractions in other industries, particularly in the secondary sector.

3.1 Economic stimulus from abroad in 2025

In 2024, the Austrian economy will contract for the second year in a row and will be in a recession for just as long (see box "Growth of real GDP and recession"). After a decline of 1 percent in the previous year, real GDP will fall by 0.6 percent this year. Austria's exports will increase again in 2025 as foreign demand picks up. However, the export-driven recovery will still be weak in 2025 (real GDP +1.0 percent), as investment will stagnate and consumer demand will remain subdued.

Table 5: **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	267.35	267.36	267.78	270.69	+ 3.2	+ 0.0	+ 0.2	+ 1.1
Households[1]	191.09	190.19	190.38	192.66	+ 4.9	– 0.5	+ 0.1	+ 1.2
General government	76.27	77.17	77.41	78.02	– 0.6	+ 1.2	+ 0.3	+ 0.8
Gross capital formation	103.95	90.43	88.14	88.39	+ 4.9	– 13.0	– 2.5	+ 0.3
Gross fixed capital formation	93.51	90.50	87.95	88.09	+ 0.4	– 3.2	– 2.8	+ 0.2
Machinery and equipment[2]	30.18	31.52	29.47	28.44	– 0.2	+ 4.4	– 6.5	– 3.5
Construction	40.95	37.16	35.52	35.91	– 1.3	– 9.3	– 4.4	+ 1.1
Other investment[3]	22.46	22.40	23.64	24.34	+ 4.9	– 0.3	+ 5.5	+ 3.0
Domestic demand	372.68	359.46	358.35	361.51	+ 3.6	– 3.5	– 0.3	+ 0.9
Exports	232.70	231.72	226.46	231.78	+ 10.0	– 0.4	– 2.3	+ 2.4
Travel	14.05	16.01	16.17	16.53	+ 98.5	+ 13.9	+ 1.0	+ 2.2
Minus imports	220.75	210.61	206.68	211.32	+ 7.1	– 4.6	– 1.9	+ 2.2
Travel	8.92	10.24	10.53	10.56	+ 69.8	+ 14.8	+ 2.9	+ 0.3
Gross domestic product	385.07	381.39	379.16	382.83	+ 5.3	– 1.0	– 0.6	+ 1.0
Value	448.01	473.23	490.73	506.04	+ 10.3	+ 5.6	+ 3.7	+ 3.1

Source: WIFO, Statistics Austria. 2024 and 2025: forecast. – [1] Including non-profit institutions serving households. – [2] Including weapon systems. – [3] Mainly intellectual property products (research and development, computer programmes, copyrights).

A key forecast assumption is that the German economy will pick up again in 2025. Austria and Germany are currently experiencing a very similar recession. As the comparable impact on the two countries and the differences to other neighbouring countries show, the global investment slump is at the root of the crisis. Uncertainty about the development of energy prices, imponderables in connection with new climate-friendly technologies and high financing costs are dampening investment worldwide, but especially in Europe. At least financing costs will come down with the ECB's gradual cuts in key interest rates in the coming year. Ifo, WIFO's partner institute in the Joint Economic Forecast for Germany, expects German GDP to grow by 0.9 percent in 2025, while the Joint Economic Forecast forecasts growth of 0.8 percent.

Foreign trade is benefitting from a revival in global investment demand.

Economic growth and recessions

For the first time in the Second Republic, the domestic economy will shrink in two consecutive calendar years in 2023 and 2024. Will Austria experience the longest recession in the post-war period? To answer this question, the term "recession" must first be defined.

Business cycle research basically recognises two approaches to measuring business cycles (cf. Breuer et al., 2018)[1]: the "classic" business cycle approach and the growth cycle approach. The classic approach distinguishes between two economic phases: Upswing and recession. For a recession to occur, there must be a significant decline in economic output. Upswings are periods in which economic output grows more or less strongly. Although the classic approach focuses on real GDP, it also takes into account other macroeconomic variables; the business cycle dating is therefore based on expert judgement. The Euro Area Business Cycle Network (EABCN) is the authoritative source for the euro area and the National Bureau of Economic Research (NBER) for the USA.

This approach is problematic when potential growth is high or volatile. Emerging economies generally have high potential growth; according to conventional logic, China or India would never be in a recession. Austria, on the other hand, is an example of an economy with volatile potential growth. At the beginning of the 1970s, it was still at a good 5 percent p.a., but 10 years– or two oil crises and a steel crisis – later it fell temporarily to below 2 percent p.a. In the early 1990s, potential growth recovered again and reached a good 3 percent p.a., before levelling off at a maximum of 1 percent p.a. after the benefits of globalisation had been exhausted and further crises had occurred.

Against this backdrop, the second approach to measuring business cycles, that of growth cycles, seems to be more appropriate for Austria. Here, econometric methods are used to determine the economy's growth potential and compare it with actual economic output. If the latter is lower, the economy is underutilised. A recession occurs when the output gap, i.e., the difference between actual and potential economic output, is not only negative but also increases rapidly, e.g., by two-thirds of potential growth in one year (German Council of Economic Experts, 2008, Table 1)[2].

If the European Commission's method for calculating Austria's growth potential is applied (such as in the WIFO medium-term forecasts), the result is a recession in 2023 and 2024, in line with the classic approach (figure "Recessions in Austria", p. 1). However, it can also be seen that a similarly long recessionary phase has already occurred in the recent past, namely in the calendar years 2013 and 2014 in the wake of the euro crisis. Another interesting observation is that periods of underutilisation are typically preceded by recessions. Aggregate underutilisation can therefore last even longer.

The fact that the current recession is not unprecedented in the history of the Second Republic can also be seen from the fact that the unemployment rate has not risen excessively so far. In the recession of 2013 and in the long period of underutilisation starting in 1984, the increases were more pronounced. However, the unemployment rate also reacts to non-cyclical factors such as high immigration, for example in the early 1990s, when the wars in Yugoslavia increased unemployment during the economic upturn, or in the years from 2012, when the eastward enlargement of the EU exacerbated the recession-related rise in unemployment.

To summarise, when dating a recession in Austria, it is important to consider not only the growth of real GDP, but also its relation to potential growth. On this basis, although the current recession is not yet the longest in recent history, it has already lasted an unusually long time.

[1] Breuer, S., Elstner, S., Kirsch, F., & Wieland, V. (2018). Datierung der deutschen Konjunkturzyklen – die Methode des Sachverständigenrates. Arbeitspapier 13/2018. Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung. – [2] Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung (2008). *Die Finanzkrise meistern – Wachstumskräfte stärken. Jahresgutachten 2008/09*.

Market shares in foreign trade will continue to decline.

Against this backdrop, Germany, the most important market for Austrian exports, is expected to provide a stimulus. The export markets (calculated on the basis of the import forecasts of Austria's most important trading partners), which shrank by 3.2 percent in 2023 and grew by just 0.7 percent in 2024, are expected to expand by 3.8 percent in the coming year. However, the competitiveness of domestic companies will continue to decline over the forecast period, following the significant deterioration in 2023. The real-effective exchange rate for industrial goods is expected to rise by 1.2 percent in 2024 and by 0.5 percent in 2025. This will lead to further losses in market share, meaning that exports will develop more weakly than foreign demand. Exports of goods will fall by 3.5 percent in 2024 and grow by 2.3 percent in the following year.

Investment in machinery and equipment will fall sharply in the forecast period.

3.2 Investment in machinery and equipment declines significantly

Nevertheless, the revival of foreign trade will initiate the upswing in the Austrian economy. Domestic investment in machinery and equipment, on the other hand, is not expected to provide any stimulus in the coming year. As past economic cycles have shown, investment does not pick up immediately after an economic turnaround, but only when the upswing has stabilised. There are several possible reasons for this: companies are waiting to see whether the increase in demand is sustainable, thus reducing the opportunity costs of investments. The strong cash-flow orientation of investment financing requires the availability of the necessary funds. After two years of recession and strong wage increases, companies' financial cushions are depleted; gross operating surpluses and mixed income are expected to shrink by more than 3 percent in 2024 and barely increase in 2025. Against this backdrop, investment in machinery and equipment will fall by a further 3.5 percent in the coming year, following a slump of 6.5 percent (2024). Intangible investment growth is likely to slow from 5.5 to 3 percent.

Construction investment will benefit from the construction stimulus package in 2025.

3.3 High interest rates weigh on construction

After 2023 (–9.3 percent), a significant decline in construction investment of 4½ percent is also expected for 2024. Residential construction remains the epicentre of the crisis, while the decline in non-residential construction (industrial, commercial and civil engineering) is significantly less pronounced. In addition, the downturn is increasingly spreading to the labour-intensive ancillary construction sector. Sentiment in the sector remains pessimistic, but the WIFO-Konjunkturtest (business cycle survey) at least does not point to any further deterioration. However, without the construction stimulus package adopted in spring 2024, there would be no investment growth in 2025 either. The effectiveness of this programme depends on the extent to which the federal states convert the funds provided by the federal government into additional projects and guarantees from their housing subsidy systems. In particular, the new construction of social housing made possible by this programme should lead to a slight increase in construction investment of 1.1 percent in 2025.

3.4 Slump in industrial orders

The latest results of the WIFO-Konjunkturtest reflect the gloomy mood in domestic manufacturing. The pronounced pessimism has persisted for a good year now and is thus unprecedented since the survey began in 1996. Production expectations are also very gloomy. Order books remain low, especially as demand from both domestic and foreign markets is weakening. Capital goods manufacturers are particularly affected by the weak international economic situation. Assessments in this sub-sector of manufacturing have deteriorated significantly over the last two years. Expectations for the future business situation at least do not appear to be deteriorating any further. Producers of intermediate goods are also more pessimistic than average. The consumer goods industry is slightly more optimistic, but here too the majority of assessments are negative. Based on the gloomy indicators, the industrial recession is expected to continue; in 2024, value added in manufacturing is likely to shrink by 4.1 percent. WIFO does not expect a rapid recovery in the coming year either, but only a slight increase of 0.6 percent.

The industry will recover slowly.

Table 6: **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	+ 4.9	+ 6.9	+ 7.8	+ 3.4
Real[2]						
Gross	+ 0.8	– 0.1	– 3.4	– 0.9	+ 4.6	+ 1.2
Net	+ 1.6	– 0.8	– 2.7	– 0.5	+ 4.5	+ 1.2
Wages and salaries per hour worked[1]						
Real, net[2]	+ 9.5	– 4.0	– 2.4	– 0.5	+ 5.6	+ 1.5
	Percent					
Wage share, adjusted[3]	62.9	62.4	62.1	63.6	66.6	67.5
	Percentage changes from previous year					
Unit labour costs, nominal[4]						
Total economy	+ 7.2	– 0.5	+ 2.1	+ 8.6	+ 8.6	+ 3.1
Manufacturing	+ 7.1	– 6.5	– 0.4	+ 9.7	+12.4	+ 3.6
Effective exchange rate – manufactured goods[5]						
Nominal	+ 1.4	+ 0.6	– 1.5	+ 1.9	+ 1.2	+ 0.9
Real	+ 1.7	+ 0.2	– 1.8	+ 3.4	+ 1.2	+ 0.5

Source: WIFO, Statistics Austria. 2024 and 2025: forecast. – [1] National Accounts definition (jobs). – [2] Deflated by CPI. – [3] Compensation of employees relative to GDP at factor cost, adjusted for the share of employees in total employment (persons according to national accounts). – [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.

Table 7: **Productivity**

	2020	2021	2022	2023	2024	2025
	Percentage changes from previous year					
Total economy						
GDP, volume	– 6.3	+ 4.8	+ 5.3	– 1.0	– 0.6	+ 1.0
Employment[1]	– 1.9	+ 2.4	+ 2.7	+ 1.0	+ 0.1	+ 0.7
Production per person employed	– 4.5	+ 2.3	+ 2.5	– 2.0	– 0.6	+ 0.3
Hours worked per person employed[2]	– 7.0	+ 2.5	– 0.3	– 0.1	– 1.0	– 0.3
Hourly productivity[3]	+ 2.7	– 0.2	+ 2.8	– 1.9	+ 0.3	+ 0.6
Manufacturing						
Gross value added, volume	– 7.5	+10.9	+ 6.7	– 1.8	– 4.1	+ 0.6
Employment[1]	– 0.8	+ 0.6	+ 2.3	+ 1.2	– 1.0	± 0.0
Production per person employed	– 6.8	+10.2	+ 4.3	– 2.9	– 3.1	+ 0.6
Hours worked per person employed[2]	– 4.8	+ 4.3	– 0.8	– 0.3	– 2.1	+ 0.1
Hourly productivity[3]	– 2.1	+ 5.6	+ 5.1	– 2.6	– 1.1	+ 0.5

Source: WIFO, Statistics Austria. 2024 and 2025: forecast. – [1] Employees and self-employed, National Accounts definition (jobs). – [2] National Accounts definition. – [3] Production per hour worked, National Accounts definition.

3.5 Unabated rise in wages

Rolling inflation is the lower limit for wage increases.

The wage agreements for 2024 are essentially based on rolling inflation. In the metal industry, it was already agreed last year that gross wages per capita would rise by rolling inflation plus 1 percentage point. As per capita productivity in manufacturing will continue to fall by around 3 percent in 2024, the comparatively strong wage growth will result in a further increase in unit labour costs. Although the agreed minimum wages rose by 9 percent at the beginning of the year and by 8.3 percent in August, gross wages per capita will only increase by an annual average of 7.8 percent in 2024. The negative wage drift is partly due to industrial workers moving to lower-paid service sectors as a result of the recession. In 2025, in addition to rolling inflation, small productivity bonuses are likely to be included in wage settlements again. However, these will be limited. Overall, nominal gross wages per capita in 2025 will increase by 3.4 percent.

3.6 Inflation on a sustained decline

Inflation continues to fall despite the expiration of anti-inflationary measures.

Consumer price inflation is falling faster than assumed in the WIFO Economic Outlook of June 2024. It will average 3.1 percent in 2024 and only 2.2 percent in 2025. All components of the CPI will contribute to the slowdown in inflation, with only energy prices rising slightly again next year after falling in 2024. It should be noted that the electricity price brake and the energy tax reduction for gas and electricity will expire in January 2025 and the suspension of the subsidy premium and flat rate for renewable energy will be withdrawn. In addition, the CO_2 price will continue to rise. Overall, this will add ½ percentage point to the inflation rate in 2025. The so-called rent cap, which limits category, reference value and co-operative rents, will barely dampen inflation in 2024 and by around 0.1 percentage point in 2025.

3.7 Precautionary saving and high interest rates dampen propensity to consume

Private consumption will pick up as the economy recovers in 2025.

The strong rise in wages, together with the decline in inflation, lead to a significant increase in the volume of disposable income of private households of 3.2 percent in 2024. However, this will hardly boost consumer demand, as the deteriorating labour market and the rise in rates on savings deposits dampen private households' propensity to spend. With the onset of the economic upturn and the fall in interest rates on savings deposits, consumer demand is expected to regain some momentum in 2025 and expand by 1.2 percent. The savings rate will rise sharply from 8.7 to 11.4 percent in 2024 and will remain at a similarly high level in 2025, roughly corresponding to that of 2007-08 before the start of the low-interest phase.

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

	2020	2021	2022	2023	2024	2025
	Percentage changes from previous year					
Private consumption expenditure[1]	– 7.6	+ 4.8	+ 4.9	– 0.5	+ 0.1	+ 1.2
Durable goods[2]	– 1.6	+ 6.4	– 4.5	– 5.4	+ 1.0	+ 2.0
Non-durable goods and services[2]	– 8.2	+ 4.6	+ 6.0	+ 0.1	+ 0.0	+ 1.1
Private household disposable income, volume	– 0.7	+ 2.1	+ 1.7	– 0.5	+ 3.2	+ 1.4
	As a percentage of disposable income					
Household saving ratio						
Including adjustment for the change in pension entitlements	13.6	11.4	8.8	8.7	11.4	11.5
Excluding adjustment for the change in pension entitlements	13.2	10.9	8.2	8.1	10.9	11.0
	Percentage changes from previous year					
Loans to domestic non-banks (end of period)	+ 3.7	+ 6.6	+ 5.0	+ 0.7	+ 2.3	+ 2.7
Consumer prices						
National	+ 1.4	+ 2.8	+ 8.6	+ 7.8	+ 3.1	+ 2.2
Harmonised	+ 1.4	+ 2.8	+ 8.6	+ 7.7	+ 3.1	+ 2.2
Core inflation[3]	+ 2.0	+ 2.3	+ 5.1	+ 7.3	+ 4.0	+ 2.4

Source: WIFO, OeNB, Statistics Austria. 2024 and 2025: 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.

3.8 Unemployment will continue to rise in 2025

Due to the decline in working hours per capita, employment remains stable.

Due to the robust public demand for labour, employment will continue to expand slightly even in 2024 (+0.2 percent). The number of hours worked will fall by 0.9 percent in line with the decline in GDP. The stability of employment is therefore also based on a decline in hours worked per capita. This has both a cyclical and a structural component. Demand for labour decreases during a downturn. This is reflected not only in the number of employees, but also in per capita working hours. But there has also been a structural downward trend for decades, which is closely linked to the rise in the labour force participation rate, particularly among women. It is also a consequence of rising material prosperity in Austria.

In addition to dependent employment, unemployment will also rise in 2024. On the one hand, this is a direct consequence of the recession and the associated weak demand for labour. However, the simultaneous increase in employment and unemployment also points to supply effects. These result in particular from the integration of war refugees into the labour market and the gradual increase in the retirement age for women from the beginning of 2024. The unemployment rate is expected to rise from 6.4 percent in the previous year to 7.0 percent and to increase further to 7.2 percent in 2025 as the recession continues to have an impact. Employment growth will accelerate to 0.7 percent in the coming year as the economy recovers. In contrast, the number of hours worked will increase only slightly, as per capita working hours continue to decline in line with the long-term trend.

The recession will still have an impact on unemployment in 2025.

Table 9: **Labour market**

	2020	2021	2022	2023	2024	2025
	Change from previous year in 1,000					
Demand for labour						
Persons in active employment[1]	– 76.6	+ 96.9	+ 116.2	+ 47.2	+ 10.0	+ 29.0
Employees[1]	– 76.1	+ 90.4	+ 110.2	+ 44.8	+ 7.0	+ 26.0
National employees	– 53.9	+ 28.1	+ 22.9	– 9.0	– 17.0	– 9.0
Foreign employees	– 22.2	+ 62.4	+ 87.4	+ 53.8	+ 24.0	+ 35.0
Self-employed[2]	– 0.5	+ 6.5	+ 6.0	+ 2.4	+ 3.0	+ 3.0
Labour supply						
Population of working age						
15 to 64 years	+ 9.9	+ 5.4	+ 48.6	+ 36.9	– 0.2	– 18.2
Labour force[3]	+ 31.7	+ 19.0	+ 47.6	+ 54.9	+ 38.0	+ 38.0
Labour surplus						
Unemployed	+ 108.3	– 77.9	– 68.6	+ 7.7	+ 28.0	+ 9.0
Unemployed persons in training	– 4.9	+ 13.2	– 0.8	+ 1.0	+ 4.0	– 4.0
	Percent					
Unemployment rate						
As a percentage of total labour force (Eurostat)[4]	6.0	6.2	4.8	5.1	5.2	5.3
As a percentage of total labour force	8.9	7.2	5.6	5.7	6.3	6.4
As a percentage of dependent labour force	9.9	8.0	6.3	6.4	7.0	7.2
	Percentage changes from previous year					
Labour force[3]	+ 0.7	+ 0.4	+ 1.0	+ 1.2	+ 0.8	+ 0.8
Persons in active dependent employment[1]	– 2.0	+ 2.5	+ 3.0	+ 1.2	+ 0.2	+ 0.7
Unemployed	+ 35.9	– 19.0	– 20.7	+ 2.9	+ 10.3	+ 3.0
Persons (in 1,000)	409.6	331.7	263.1	270.8	298.8	307.8

Source: WIFO, Eurostat, Federation of Social Insurances, Public Employment Service Austria, Statistics Austria. 2024 and 2025: 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.

4. Forecast risks

This forecast assumes that natural gas will continue to flow from Russia into the EU after 2024 or that Austria's supply can be secured in other ways, such as through natural gas imports from Norway or liquefied natural gas imports via Germany or Italy. On the one hand, this assumption is based on stable price signals on the financial markets. On the other hand, an analysis by the Austrian Energy Agency[2] shows that Austria's supply of natural gas would be secured even in the event of a complete loss of gas supplies from Russia. However, the price of natural gas is likely to rise in this case, affecting energy-intensive sectors of domestic industry.

There is no gas shortage in sight.

[2] https://www.bmk.gv.at/themen/energie/publikationen/szenarien_gasversorgung.html.

If export demand from Germany fails to materialise, a third year of recession could follow.

As mentioned above, the central assumption is that global demand for capital goods will pick up again, which means that the German economy will also expand again in 2025 and demand for Austrian products will rise again. If, however, there is still no turnaround in 2025, economic activity in Austria will be significantly weaker than forecast and a third year of recession will follow. In this case, not only would exports and the associated income growth be weaker than assumed, but unemployment would also rise more rapidly and consumer demand would be dampened again.

Consumer demand could be stronger if financial reserves are strengthened.

Conversely, private consumption in the coming year could also be stronger than forecast if the current weakness in demand is due less to precautionary saving than to a lack of financial resources on the part of private households. Although incomes have recently risen sharply, low-income households in particular may have been hit so hard by the inflationary surge that it will take them longer to rebuild their capital reserves or pay off their debts. Once household finances have been rebalanced, further income gains could lead to disproportionate consumption growth.

Government incentives to invest could trigger multiplier effects.

Investment could also develop better than expected if, for example, the next federal government introduces an investment-promoting measure such as a temporary investment premium, a temporary increase in the investment allowance or a highly degressive depreciation rule. Such subsidies could have a knock-on effect, especially on replacement investments in more climate-friendly production processes. In addition, the macroeconomic multiplier effects of an investment subsidy are likely to be above average due to the economic situation, although in the case of Austria some leakage abroad is to be expected.