

Global Economic Downturn Hits Austria

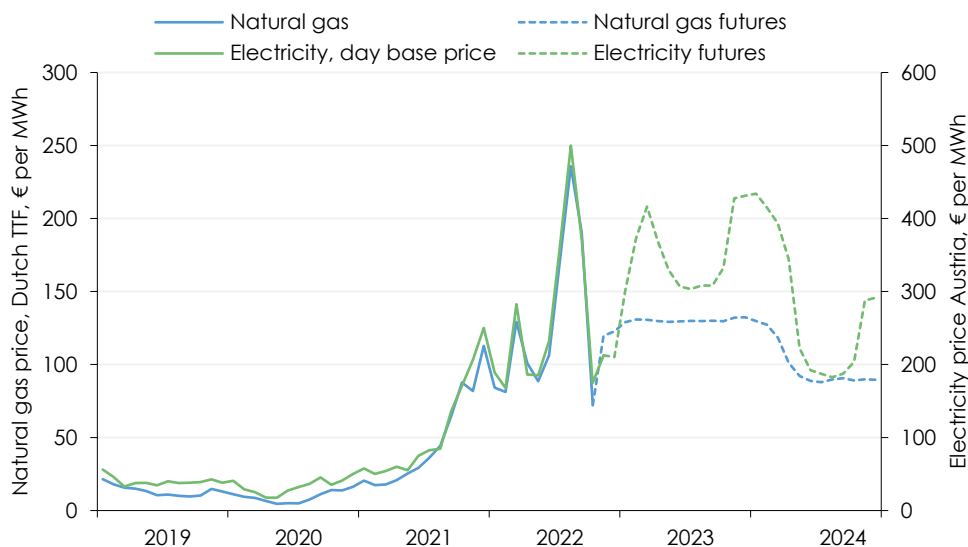
Economic Outlook for 2022 to 2024

The international economic downturn also affected the Austrian economy in the second half of 2022. GDP is expected to decline in the winter half-year. Stimulus from foreign trade is expected to revive in spring 2023. The gradual easing on the energy markets is dampening inflation and should contribute to an improvement in sentiment over time and a pick-up in economic activity. In 2022, Austria's economic output will grow by 4.7 percent. In 2023, GDP is expected to largely stagnate (+0.3 percent), while in 2024 growth will increase to 1.8 percent.

"The situation on the energy markets eased noticeably in autumn. On the futures markets, prices are expected to be significantly lower in 2023 than in summer 2022. However, there is still a risk of a renewed sharp increase in prices," says Stefan Ederer, one of the authors of the current WIFO forecast.

The global economy is currently in a weak phase. High energy and commodity prices are driving consumer price inflation in many countries and prompting a rapid tightening of monetary policy. Sentiment has deteriorated in many places and uncertainty about future developments is high. The economic downturn, which had already started earlier in the USA, is now also clearly evident in the euro area and is likely to lead to a decline in economic output there in the winter.

Development of energy prices



Energy prices have fallen significantly since summer 2022. On the futures markets, natural gas for 2023 is currently trading at prices similar to those seen in spring 2022 (Source: International Monetary Fund, Intercontinental Exchange, European Energy Exchange, WIFO).

However, the situation on the commodity markets has eased somewhat recently. The oil price has already been falling since the summer; in autumn, higher-than-expected inventories dampened European natural gas prices. Nevertheless, these will remain elevated for the time being and will not fall noticeably until the second half of 2023. Tighter global monetary conditions will dampen demand over the forecast period, which, together with the slowdown in commodity prices, should curb inflation. This in turn should lift household and business sentiment and support economic activity. However, global economic growth will be weak in 2023 and will not pick up noticeably until 2024.

Table 1: **Main results**

| | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | |
|--|---------------------------------------|--------|--------|--------|--------|--------|--------|
| | Percentage changes from previous year | | | | | | |
| Gross domestic product, volume | + 1.5 | – 6.5 | + 4.6 | + 4.7 | + 0.3 | + 1.8 | |
| Manufacturing | + 1.0 | – 5.8 | + 9.5 | + 3.0 | – 2.2 | + 1.5 | |
| Wholesale and retail trade | + 3.0 | – 5.9 | + 3.7 | + 2.5 | + 2.6 | + 2.5 | |
| Private consumption expenditure ¹ , volume | + 0.5 | – 8.0 | + 3.6 | + 3.8 | + 1.3 | + 1.7 | |
| Consumer durables | + 0.2 | – 2.2 | + 4.4 | – 2.5 | + 2.6 | + 2.0 | |
| Gross fixed capital formation, volume | + 4.5 | – 5.3 | + 8.7 | – 1.0 | + 0.2 | + 2.2 | |
| Machinery and equipment ² | + 5.3 | – 7.0 | +11.3 | – 2.0 | + 0.0 | + 3.6 | |
| Construction | + 3.6 | – 3.4 | + 5.8 | ± 0.0 | + 0.3 | + 0.7 | |
| Exports, volume | + 4.0 | –10.7 | + 9.6 | + 8.8 | + 0.3 | + 3.3 | |
| Exports of goods, fob | + 3.5 | – 7.3 | +12.9 | + 6.0 | – 0.1 | + 3.5 | |
| Imports, volume | + 2.1 | – 9.2 | +13.7 | + 5.1 | + 0.9 | + 3.2 | |
| Imports of goods, fob | + 0.3 | – 6.2 | +14.2 | + 3.1 | + 0.1 | + 3.0 | |
| Gross domestic product, value | + 3.1 | – 4.1 | + 6.6 | + 9.9 | + 5.5 | + 5.8 | |
| | billion € | 397.17 | 381.04 | 406.15 | 446.31 | 471.05 | 498.34 |
| Current account balance | as a percentage of GDP | 2.4 | 3.0 | 0.4 | 0.0 | – 0.4 | 0.2 |
| Consumer prices | | + 1.5 | + 1.4 | + 2.8 | + 8.5 | + 6.5 | + 3.2 |
| GDP deflator ³ | | + 1.5 | + 2.6 | + 1.9 | + 5.0 | + 5.2 | + 3.9 |
| Three-month interest rate | percent | – 0.4 | – 0.4 | – 0.5 | 0.4 | 4.0 | 4.7 |
| Long-term interest rate ⁴ | percent | 0.1 | – 0.2 | – 0.1 | 1.7 | 4.4 | 5.7 |
| General government financial balance, Maastricht definition | as a percentage of GDP | 0.6 | – 8.0 | – 5.9 | – 3.3 | – 2.0 | – 1.6 |
| Persons in active dependent employment ⁵ | | + 1.6 | – 2.0 | + 2.5 | + 2.9 | + 0.7 | + 1.3 |
| Unemployment rate | | | | | | | |
| Eurostat definition ⁶ | | 4.8 | 6.0 | 6.2 | 4.6 | 4.7 | 4.5 |
| National definition ⁷ | | 7.4 | 9.9 | 8.0 | 6.3 | 6.5 | 6.2 |
| Greenhouse gas emissions ⁸ | | + 1.5 | – 7.7 | + 4.3 | – 3.0 | – 1.2 | + 0.3 |
| | million t CO ₂ equivalents | 79.74 | 73.59 | 76.77 | 74.47 | 73.61 | 73.83 |

Source: WIFO, Public Employment Service Austria, Federation of Social Insurances, ECB, OeNB, Statistics Austria, Environment Agency Austria. 2022 to 2024: forecast. – ¹ Including non-profit institutions serving households. – ² Including weapons systems and other investment. – ³ Measures purely domestic inflation. – ⁴ 10-year central government bonds (benchmark). – ⁵ Excluding persons in valid employment contract receiving child care benefit or being in military service. – ⁶ As a percentage of total labour force, Labour Force Survey. – ⁷ As a percentage of dependent labour force. – ⁸ Forecast as of 2021.

The global economic downturn also affected Austria in the third quarter of 2022. Exports and the value added of domestic industry contracted, while aggregate output stagnated. In the winter half-year 2022-23, GDP is expected to decline noticeably. Persistently high energy prices, strong price dynamics and uncertainty about future developments are depressing sentiment. Subsequently, however, the Austrian economy should recover. From spring 2023 onwards,

noticeable impulses can be expected again from abroad. In addition, private consumption and investments will stabilise as uncertainty recedes and the situation on the energy markets gradually eases. The development of real wages per capita will also contribute to the revival of the economy: after declining in 2021 and 2022, they will rise again in 2023.

In 2022, Austria's GDP will grow by 4.7 percent due to the strong economic activity in the first half of the year. In 2023, however, economic output will largely stagnate (+0.3 percent) and only return to significant growth in 2024 (+1.8 percent).

The situation on the labour market remains favourable and is expected to deteriorate only temporarily as a result of the economic downturn. After a significant decline in 2022 (6.3 percent), the unemployment rate will rise slightly to 6.5 percent in 2023 due to weaker employment dynamics and fall back to 6.2 percent in 2024.

Inflation is likely to have already peaked. Consumer prices will rise by 8.5 percent in 2022. In 2023, inflation will slow to 6.5 percent. The gradual decline in energy prices dampens inflation despite high wage increases; in 2024, consumer prices will thus only rise by 3.2 percent.

The favourable labour market situation and the expiry of the COVID-19 support measures improve the fiscal balance in 2022. In the following years, the deficit is expected to fall well below the Maastricht limit of 3 percent of GDP again, as a number of support measures to cushion the rise in energy prices are discontinued and economic activity gradually picks up again.

Vienna, 15 December 2022

For further information please contact on Thursday, 15 December 2022, from 2 to 4 p.m.,
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For definitions used see "Methodological Notes and Short Glossary",
<https://www.wifo.ac.at/wwadocs/form/WIFO-BusinessCycleInformation-Glossary.pdf>