

Stagflation in Austria

Economic Outlook for 2022 and 2023

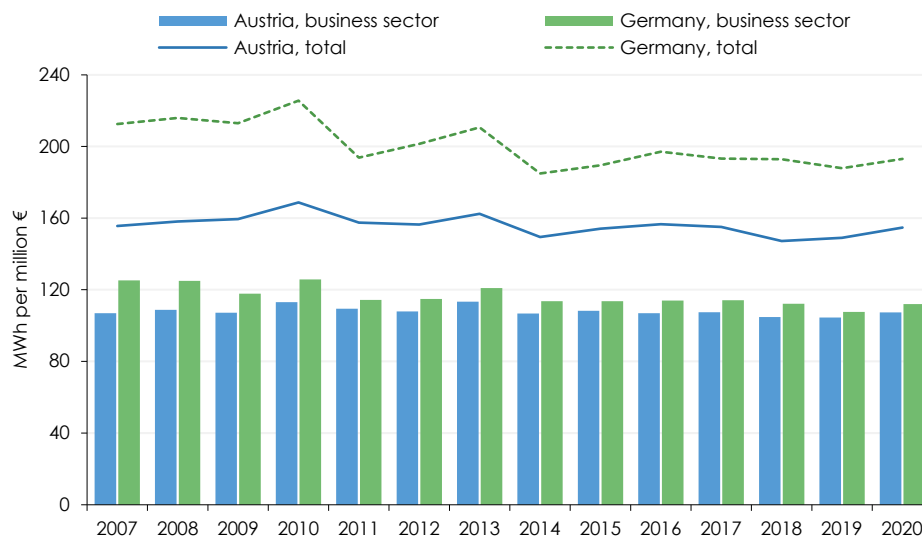
After the strong expansion in the first half of 2022, the Austrian economy is now in a downturn phase. The economic slowdown is spreading to all value adding sectors; the manufacturing sector is even likely to slip into recession. Real GDP is expected to grow by 4.8 percent in 2022 and roughly stagnate in the following year (2023 +0.2 percent). With inflation remaining high in 2023, Austria's economy is heading for stagflation for the first time since the 1970s.

"Due to its higher natural gas intensity, rationing as a result of possible supply shortages is likely to hit the German economy harder than the Austrian economy", says Christian Glocker, one of the authors of the current WIFO forecast.

In the first half of 2022, the Austrian economy was still in a phase of boom, which had already begun in autumn 2020. However, a downturn is now setting in, which will be strong according to leading indicators. This is likely to bring the economic upswing of the last two years to an abrupt end.

Natural gas intensity of the Austrian and German economy

Final energy use of natural gas in relation to real GDP



In 2020, the natural gas intensity of the Austrian economy was almost 25 percent lower than that of the German economy. In the corporate sector, the gap is somewhat smaller (source: Eurostat, Energy Balances; WIFO calculations. Business sector: industry, transport, trade, public services, agriculture and forestry excluding private households).

The widespread lifting of the COVID-19 measures by the authorities has temporarily given a strong boost to the services sector and to private consumption in particular. This effect is now expiring. Now the dampening forces from the international environment will have a stronger impact on the overall economy. On the one hand, the weakening of the global economy is

clouding the outlook for domestic goods exports and thus for industry and investment. On the other hand, the marked increase in world market prices for raw materials, energy and intermediate goods represents a negative terms-of-trade shock. It keeps domestic price inflation high and causes real income losses that dampen private consumption. However, government spending to support consumption counteracts this.

Table 1: **Main results**

	2018	2019	2020	2021	2022	2023	
	Percentage changes from previous year						
Gross domestic product, volume	+ 2.4	+ 1.5	– 6.5	+ 4.6	+ 4.8	+ 0.2	
Manufacturing	+ 4.5	+ 1.0	– 5.8	+ 9.5	+ 3.3	– 2.0	
Wholesale and retail trade	+ 4.0	+ 3.0	– 5.9	+ 3.7	+ 3.5	+ 2.4	
Private consumption expenditure ¹ , volume	+ 1.1	+ 0.5	– 8.0	+ 3.6	+ 3.8	+ 1.0	
Consumer durables	+ 1.0	+ 0.2	– 2.2	+ 4.4	– 4.0	+ 3.5	
Gross fixed capital formation, volume	+ 4.4	+ 4.5	– 5.3	+ 8.7	– 0.5	+ 0.8	
Machinery and equipment ²	+ 3.4	+ 5.3	– 7.0	+11.3	– 1.1	+ 0.7	
Construction	+ 5.6	+ 3.6	– 3.4	+ 5.8	+ 0.2	+ 1.0	
Exports, volume	+ 5.2	+ 4.0	–10.7	+ 9.6	+ 9.4	+ 0.9	
Exports of goods, fob	+ 4.8	+ 3.5	– 7.3	+12.9	+ 8.0	+ 0.1	
Imports, volume	+ 5.3	+ 2.1	– 9.2	+13.7	+ 6.0	+ 0.9	
Imports of goods, fob	+ 4.2	+ 0.3	– 6.2	+14.2	+ 5.2	+ 0.1	
Gross domestic product, value	+ 4.3	+ 3.1	– 4.1	+ 6.6	+11.1	+ 6.0	
	billion €	385.27	397.17	381.04	406.15	451.27	478.25
Current account balance	as a percentage of GDP	0.9	2.4	3.0	0.4	0.8	– 0.1
Consumer prices		+ 2.0	+ 1.5	+ 1.4	+ 2.8	+ 8.3	+ 6.5
GDP deflator ³		+ 1.8	+ 1.5	+ 2.6	+ 1.9	+ 6.0	+ 5.7
Three-month interest rate	percent	– 0.3	– 0.4	– 0.4	– 0.5	0.3	3.9
Long-term interest rate ⁴	percent	0.7	0.1	– 0.2	– 0.1	1.7	4.1
General government financial balance, Maastricht definition	as a percentage of GDP	0.2	0.6	– 8.0	– 5.9	– 3.5	– 1.7
Persons in active dependent employment ⁵		+ 2.5	+ 1.6	– 2.0	+ 2.5	+ 2.7	+ 0.5
Unemployment rate							
Eurostat definition ⁶		5.2	4.8	6.0	6.2	4.6	4.7
National definition ⁷		7.7	7.4	9.9	8.0	6.4	6.7
Greenhouse gas emissions ⁸		– 4.0	+ 1.5	– 7.7	+ 4.6	– 2.2	– 2.0
	Million t CO ₂ equivalents	78.56	79.74	73.59	77.00	75.30	73.83

Source: WIFO, Public Employment Service Austria, Federation of Social Insurances, ECB, OeNB, Statistics Austria, Environment Agency Austria. 2022 and 2023: 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.

Under these conditions, Austria's economy will still expand by 4.8 percent in 2022 and thus grow more strongly than in the previous year (2021 +4.6 percent). In addition to moderate industrial activity, services in particular will contribute to overall economic growth in 2022. In the following year, however, the momentum is likely to slow down considerably (2023 +0.2 percent).

In 2022, economic activity still leads to a favourable development on the labour market. In addition to a significant increase in employment (+2.7 percent), unemployment is expected to fall despite an expansion in labour supply (–19.6 percent compared to the previous year). For

2023, by contrast, only weak employment growth (+0.5 percent) and an increase in the unemployment rate to 6.7 percent are expected (2022: 6.4 percent).

The forecast flattening of economic momentum will only have a delayed impact on prices. The inflation rate according to the Harmonised Index of Consumer Prices (HICP) will rise to 8.4 percent in 2022 (2021: 2.8 percent). In 2023, inflation will weaken slightly to 6.6 percent, but remain elevated compared to the long-term average. Consequently, high inflation and at the same time stagnation of the real economy are expected for 2023. Austria is thus heading for stagflation for the first time since the 1970s.

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For definitions used see "Methodological Notes and Short Glossary",
<https://www.wifo.ac.at/wwadocs/form/WIFO-BusinessCycleInformation-Glossary.pdf>