

Economic Recovery Loses Momentum

Economic Outlook for 2022 and 2023

The economic outlook has clouded worldwide since the last WIFO forecast. This also has consequences for the expected recovery in Austria. Leading indicators point to an economic slowdown that will predominantly affect industry in 2022. In contrast, tourism will contribute disproportionately to economic growth in 2022. After +4.8 percent in the previous year, WIFO expects real GDP growth of 4.3 percent and 1.6 percent for 2022 and 2023, respectively.

"While the buoyant industrial activity shaped the overall economic expansion in the previous year, market services will contribute disproportionately to growth in 2022, mainly due to the revival of tourism", says Christian Glocker, one of the authors of the current WIFO forecast.

The recovery of the global economy will be dampened by several factors in both forecast years. These include the aftermath of the COVID-19 crisis, the Ukraine war, continued upward pressure on prices, ongoing supply chain disruptions and monetary tightening by central banks. Any one of these factors could, in and of itself, be detrimental to global expansion. In the current environment, however, they appear jointly. As a result, growth in the global economy will slow down.

This development affects the Austrian economy in two ways via foreign trade. On the one hand, the weakening of the global economy is dampening the outlook for domestic goods exports and thus for industry. On the other hand, the marked increase in world market prices for raw materials and intermediate goods represents a negative terms-of-trade shock, which shapes domestic price buoyancy and weighs on real household incomes. However, this is contrasted by an extremely strong recovery in tourism, which is accompanied by high growth in service exports and thus in the value added of market services.

Against this backdrop, the Austrian economy is expected to expand by 4.3 percent in 2022, weaker than in the previous year. Due to the sectoral shift in growth – slowdown in industry, strong expansion in market services – Austria's economy can still largely escape the cooling of the global industrial economy in 2022. In 2023, however, the overall economic momentum is likely to slow down more strongly (+1.6 percent).

The favourable development on the labour market will continue in both forecast years. For 2022, active dependent employment is expected to increase by 3.0 percent, for 2023 by 0.9 percent. Due to the buoyant demand for labour, unemployment has been declining year-on-year since March 2021. This trend will continue in the forecast period. The unemployment rate will fall to 6.3 percent in 2022 and stagnate in 2023 (2021: 8.0 percent).

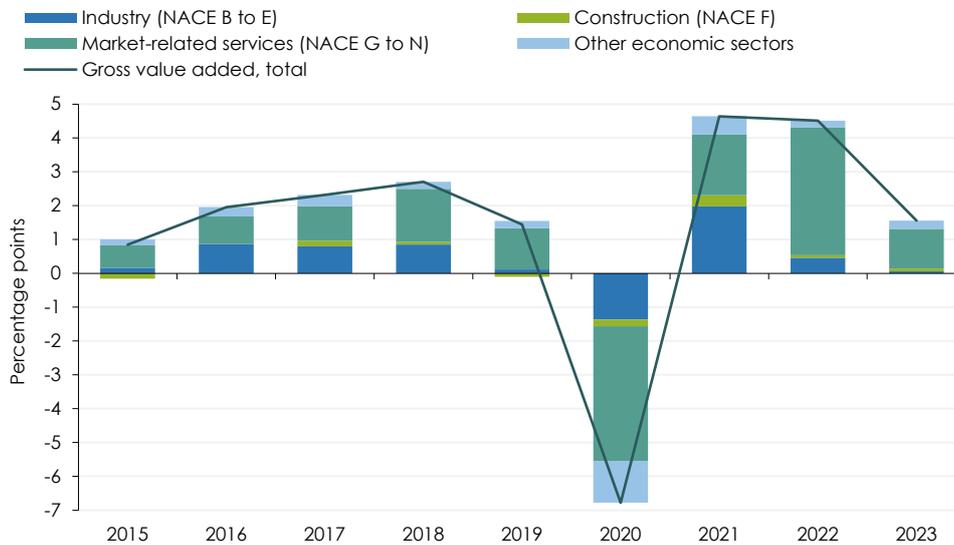
The expected flattening of economic growth should not have a dampening effect on inflation until 2023. According to the Harmonised Index of Consumer Prices (HICP), headline inflation will initially rise to 7.9 percent in 2022 (2021: 2.8 percent). The main reason for this is the passing on of high prices for raw materials, agricultural and intermediate goods to consumers. In 2023, inflation will slow to 5.3 percent. However, it will still be significantly above the long-term average.

Table 1: **Main results**

	2018	2019	2020	2021	2022	2023	
	Percentage changes from previous year						
Gross domestic product, volume	+ 2.5	+ 1.5	– 6.7	+ 4.8	+ 4.3	+ 1.6	
Manufacturing	+ 4.3	+ 0.6	– 7.0	+ 8.9	+ 2.2	+ 0.2	
Wholesale and retail trade	+ 4.2	+ 2.0	– 4.2	+ 7.4	+ 4.2	+ 3.2	
Private consumption expenditure ¹ , volume	+ 1.1	+ 0.7	– 8.5	+ 3.5	+ 4.1	+ 2.2	
Consumer durables	+ 1.0	+ 0.3	– 2.6	+10.9	– 2.5	+ 3.0	
Gross fixed capital formation, volume	+ 4.4	+ 4.8	– 5.2	+ 4.3	+ 2.2	+ 2.4	
Machinery and equipment ²	+ 3.4	+ 5.5	– 6.5	+ 5.0	+ 3.3	+ 3.6	
Construction	+ 5.6	+ 4.0	– 3.7	+ 3.4	+ 1.1	+ 1.2	
Exports, volume	+ 5.1	+ 3.4	–10.8	+13.9	+ 8.1	+ 3.2	
Exports of goods, fob	+ 4.7	+ 2.7	– 7.8	+18.9	+ 5.0	+ 3.0	
Imports, volume	+ 5.3	+ 2.0	– 9.4	+16.7	+ 5.8	+ 3.2	
Imports of goods, fob	+ 4.1	– 0.0	– 6.4	+18.6	+ 5.2	+ 3.0	
Gross domestic product, value	+ 4.3	+ 3.1	– 4.6	+ 6.2	+ 9.6	+ 6.0	
	billion €	385.42	397.52	379.32	402.71	441.44	468.14
Current account balance	as a percentage of GDP	0.9	2.1	1.9	– 0.5	– 1.0	– 1.2
Consumer prices		+ 2.0	+ 1.5	+ 1.4	+ 2.8	+ 7.8	+ 5.3
Three-month interest rate	percent	– 0.3	– 0.4	– 0.4	– 0.5	0.1	2.0
Long-term interest rate ³	percent	0.7	0.1	– 0.2	– 0.1	1.5	3.2
General government financial balance, Maastricht definition	as a percentage of GDP	0.2	0.6	– 8.0	– 5.9	– 3.0	– 1.2
Persons in active dependent employment ⁴		+ 2.5	+ 1.6	– 2.0	+ 2.5	+ 3.0	+ 0.9
Unemployment rate							
Eurostat definition ⁵		5.2	4.8	6.0	6.2	4.5	4.5
National definition ⁶		7.7	7.4	9.9	8.0	6.3	6.3
Greenhouse gas emissions ⁷							
CO ₂ equivalents		– 4.0	+ 1.5	– 7.7	+ 5.1	– 1.8	– 1.1
Emissions intensity ⁸		– 6.5	+ 0.1	– 1.0	+ 0.4	– 6.0	– 2.6

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 10-year central government bonds (benchmark). – ⁴ Excluding persons in valid employment contract receiving child care benefit or being in military service. – ⁵ As a percentage of total labour force, Labour Force Survey. – ⁶ As a percentage of dependent labour force. – ⁷ Forecast as of 2021. – ⁸ CO₂ equivalents per euro of gross value added, volume.

Figure 1: **Growth contribution of economic sectors to gross value added, volume**



The growth contributions indicate the extent to which the three components (industry, construction and market services) contribute to overall economic growth. The amount of a component's growth contribution is calculated by dividing the absolute change of the component compared to the previous period by the value of gross value added in the previous period (Source: WIFO, Statistics Austria. 2022 and 2023: forecast).

Vienna, 30 June 2022

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