

# Purchasing Power Increases After Mild Recession

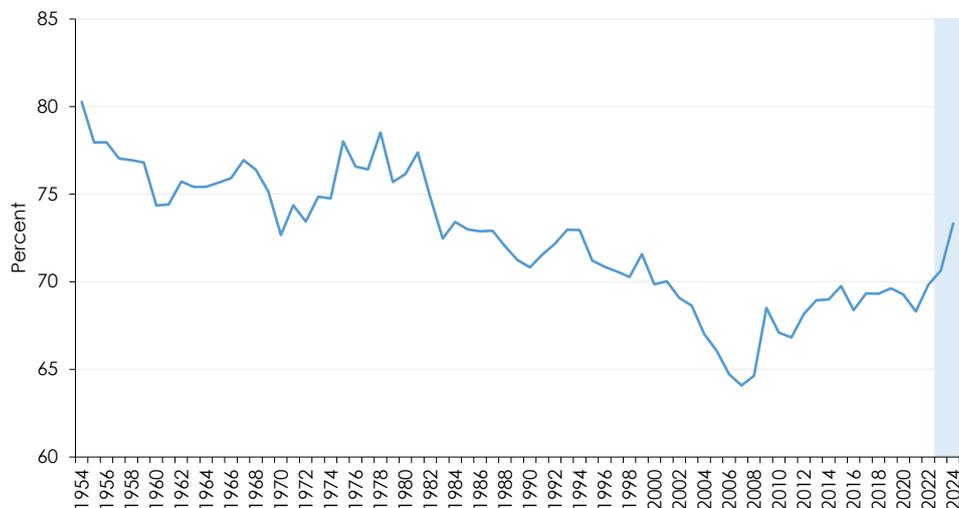
## Economic Outlook for 2023 and 2024

Subdued purchasing power, high energy prices and sharp interest rate increases lead to a mild recession in Austria in 2023; real GDP is expected to contract by 0.8 percent. In 2024, strong real income growth and a pick-up in world trade will ensure an economic recovery (real GDP +1.2 percent). In construction, however, the recession will intensify.

"Although the projected wage increases only compensate for inflation, the wage share is increasing as outflows to commodity-exporting countries dampened national income growth," says Stefan Schiman-Vukan, one of the authors of the current WIFO Economic Outlook.

### Development of the wage share

Adjusted for the change in the share of employees in total employment compared to the base year 2015



The wage share is the share of compensation of employees in national income, the other part being essentially profits (capital income minus depreciation). The long-term downward trend of the wage share ended after the financial market and economic crisis in 2009, since then it has been trending upwards (source: Statistics Austria, WIFO. 2023 and 2024: forecast).

Value added in Austria shrank in the summer half-year 2023. Industry is already in recession, but many service sectors have also lost significant momentum. In the construction industry, the strong key interest rate increases have accelerated the trend reversal in residential construction.

Except for the decline in job vacancies, the economic slowdown is hardly reflected in the labour market so far. Employment growth has only slowed in 2023, while unemployment is rising

mainly due to higher labour supply. One reason for the robust labour market is the decline in per capita working hours since the COVID-19 pandemic. Furthermore, companies seem to be more likely to retain workers in the downturn to avoid costly recruitment in the upturn.

Table 1: **Main results**

	2019	2020	2021	2022	2023	2024	
	Percentage changes from previous year						
Gross domestic product, volume	+ 1.5	- 6.6	+ 4.2	+ 4.8	- 0.8	+ 1.2	
Manufacturing	+ 0.8	- 7.3	+12.7	+ 4.1	- 2.7	+ 0.1	
Wholesale and retail trade	+ 2.9	- 3.3	- 1.1	+ 2.1	- 3.0	+ 1.9	
Private consumption expenditure <sup>1</sup> , volume	+ 0.5	- 8.5	+ 4.2	+ 5.7	+ 0.8	+ 1.8	
Consumer durables	+ 0.6	- 2.6	+ 3.7	- 0.3	- 3.6	+ 2.0	
Gross fixed capital formation, volume	+ 4.5	- 5.5	+ 6.1	+ 0.1	- 0.5	- 0.5	
Machinery and equipment <sup>2</sup>	+ 5.3	- 7.1	+ 9.9	+ 2.0	+ 1.5	+ 2.6	
Construction	+ 3.6	- 3.6	+ 1.8	- 2.0	- 2.7	- 4.1	
Exports, volume	+ 4.1	-10.6	+ 9.1	+11.2	+ 1.6	+ 2.6	
Exports of goods, fob	+ 3.6	- 7.7	+12.3	+ 7.1	+ 1.5	+ 2.5	
Imports, volume	+ 2.2	-10.0	+14.3	+ 7.9	+ 0.6	+ 2.7	
Imports of goods, fob	+ 0.5	- 7.2	+15.2	+ 5.1	- 1.9	+ 2.3	
Gross domestic product, value	+ 3.1	- 4.1	+ 6.4	+10.4	+ 7.1	+ 5.5	
	billion €	397.15	380.89	405.24	447.22	479.15	505.33
Current account balance	as a percentage of GDP	2.4	3.4	1.6	- 0.3	1.5	1.9
Consumer prices		+ 1.5	+ 1.4	+ 2.8	+ 8.6	+ 7.7	+ 4.0
GDP deflator <sup>3</sup>		+ 1.6	+ 2.7	+ 2.1	+ 5.3	+ 8.0	+ 4.2
Three-month interest rate	percent	- 0.4	- 0.4	- 0.5	0.3	3.5	4.4
Long-term interest rate <sup>4</sup>	percent	0.1	- 0.2	- 0.1	1.7	3.2	4.6
General government financial balance, Maastricht definition	as a percentage of GDP	0.6	- 8.0	- 5.8	- 3.5	- 2.4	- 1.6
Persons in active dependent employment <sup>5</sup>		+ 1.6	- 2.0	+ 2.5	+ 3.0	+ 1.0	+ 0.5
Unemployment rate							
Eurostat definition <sup>6</sup>		4.8	6.0	6.2	4.8	5.2	5.2
National definition <sup>7</sup>		7.4	9.9	8.0	6.3	6.5	6.6
Greenhouse gas emissions <sup>8</sup>		+ 1.4	- 7.6	+ 4.9	- 6.1	- 2.4	- 0.6
	Million t CO <sub>2</sub> equivalents	79.99	73.91	77.53	72.83	71.09	70.67

Source: WIFO, Public Employment Service Austria, Federation of Social Insurances, ECB, OeNB, Statistics Austria, Environment Agency Austria. 2023 and 2024: forecast. – <sup>1</sup> Including non-profit institutions serving households. – <sup>2</sup> Including weapons systems and other investment. – <sup>3</sup> Measures purely domestic inflation. – <sup>4</sup> 10-year central government bonds (benchmark). – <sup>5</sup> Excluding persons in valid employment contract receiving child care benefit or being in military service. – <sup>6</sup> As a percentage of total labour force, Labour Force Survey. – <sup>7</sup> As a percentage of dependent labour force. – <sup>8</sup> 2022: Estimate according to Environmental Agency Austria. Forecast as of 2023.

Like this so-called "labour hoarding", the downturn in industry is not only to be observed in Austria but worldwide, especially since the reduction of precautionary stocks is weighing on production and world trade. Now that inventories are being used up and energy prices have fallen, demand for new goods will rise again in the coming year. In the wake of the global economy, production in Austria will also recover. However, stronger impulses than from industry will come from private households in 2024, whose real incomes will increase strongly due to the delayed adjustment of wages and salaries, pensions and social benefits to inflation.

Austria's inflation differential with important trading partners will remain positive in 2024, but will narrow. Despite the worsened competitive price position, domestic exporters should gain market share in 2023, as they are less affected by the slump in demand for intermediate products

and have maintained their competitiveness in special niches. However, due to the delayed decline in demand for capital goods, market share losses are likely in 2024.

All in all, the Austrian economy experiences a mild recession in 2023 due to various exogenous shocks: high price increases as a result of the pandemic, additional energy price shocks due to the Ukraine war and sharp increases in key interest rates. The weakness in economic activity is intended from a monetary policy perspective, as it helps to reduce price pressures. The lagged increase in real incomes will boost purchasing power and provide growth impulses in 2024.

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For further information, please contact on Friday, 6 October 2023, from 1 to 3 p.m.  
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For definitions, see "Methodological notes and brief glossary",  
<https://www.wifo.ac.at/wwadocs/konjunktur/WIFO-BusinessCycleInformation-Glossary.pdf>