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EUROSYSTEM

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INTERIM ECONOMIC OUTLOOK FOR AUSTRIA

March 2024

Falling inflation drives moderate economic recovery

Security through stability.

2024/2

Falling inflation drives moderate economic recovery

Cutoff date: March 4, 2024

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Summary

Real GDP in Austria contracted by 0.7% on a seasonally and working-day adjusted basis in 2023, according to national accounts data published on February 29, 2024. Growth was negative in agriculture, industry, construction and most service sectors. The OeNB's March 2024 Economic Indicator signals slight growth of 0.2% for the first quarter of 2024 and 0.4% for the second quarter (both figures are on a quarter-to-quarter basis). The OeNB's new Interim Economic Outlook predicts that GDP will grow by 0.5% in 2024 and by 1.8% in 2025. This is largely in line with the OeNB's December 2024 forecast. The forecast update is informed by new national accounts data, recent international developments and the housing stimulus package announced by the Austrian government. The unemployment rate remained unchanged, compared to the December 2023 forecast.

HICP inflation fell sharply over the course of 2023, from 11.6% in January to 5.7% in December. This downward trend continued in early 2024. According to a flash estimate by Statistics Austria, the HICP inflation rate fell to 4.2% in February, the lowest level since early 2022. According to the present inflation forecast, annual average HICP inflation will fall to 3.6% in 2024, thus contracting to less than half the rate of the previous year. In the following years, the inflation rate is expected to decline at a slower pace. Compared to the December 2023 forecast, inflation projections were revised downward as energy commodity prices were assumed to be lower. The downward revisions apply to the entire forecast horizon, and especially for 2024.

Table 1

OeNB March 2024 Interim Economic Outlook for Austria

	Q1 24	Q2 24	2023	2024	2025	Revision since December 2023: 2024	Revision since December 2023: 2025
						Percentage points	
Real GDP growth, compared to previous period in %	0.2	0.4	−0.7	0.5	1.8	−0.1	0.1
HICP, year-on-year inflation in %	4.5	4.0	7.7	3.6	2.7	−0.4	−0.3
Unemployment rate in % (national definition)	6.7	6.8	6.4	6.8	6.5	0.0	0.0

Source: 2023: Statistics Austria; 2024–2025: OeNB.

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1. Recent economic developments: Austrian economy contracted by 0.7% in 2023

With real GDP declining by 0.7%[2] in 2023, the Austrian economy had one of the lowest growth rates in the euro area. This was due to a combination of factors: a significant reduction in business inventory accumulation, falling investments, particularly in residential construction, flat private consumption and a cooling export economy. Looking at growth by industry, we can see that this trend was reflected in declining value added in agriculture, industry, construction and most service sectors.

Export growth slowed down significantly in 2023

The global economy, which is crucial for a small open economy like Austria, has been very weak. Total Austrian export growth slowed down significantly in 2023, compared to the two previous years. In real terms, exports were almost flat year on year (+0.3%) and actually declined during the year. In addition to the war in Ukraine, inventory accumulation slowed down sharply in 2023, weighing on international trade. Manufacturers reduced their inventories to cut costs as international supply chain disruptions eased significantly in 2023.

Although its exports were almost flat, Austria is one of the few euro area countries whose export growth was positive in 2023. Austria ranks among the top euro area countries in terms of both nominal and real export growth. The development of goods and services diverged, however. In the first eleven months of 2023, especially exports of chemical products, machinery and vehicles expanded strongly. Importantly, Austrian exporters did not pass the high domestic inflation on to their customers abroad and accepted lower profit margins instead. This is shown by both the producer price index for nondomestic markets and the goods exports deflator. These indicators increased at a pace that was in line with the euro area average in 2023. In contrast, domestic inflation gauges such as consumer prices, the GDP deflator and unit labor costs increased at significantly higher rates. The OeNB's export indicator, which is based on truck mileage data of the highway operator ASFINAG, shows that goods exports continued to move sideways in December 2023 and January 2024. Services exports and especially tourism will be discussed in more detail below.

Weakness in industry and construction

Austria's export-oriented industry was particularly hard hit by the slowdown in the global economy. Although manufacturing output fell only slightly (–1.9%) in 2023 as a whole, the decline accelerated over the course of the year. Companies in basic industries such as wood, metal, rubber and plastics saw outsized declines. Toward the end of 2023, a significant 10–15% decline in production was recorded by makers of metal products, electronic and electrical equipment as well as manufacturers of machinery and equipment. Only manufacturers of pharmaceutical products bucked the trend, expanding their output significantly. Industrial activity was also weighed down by weakness in investment and increased investment costs. Sentiment indicators for

[2] The –0.7% growth rate is based on seasonally adjusted quarterly data. Based on seasonally unadjusted national accounts data from Statistics Austria for the fourth quarter of 2023, real GDP grew by 0.8% in the full year of 2023.

industry remain at low levels, but leading indicators suggest that the trend is bottoming out. Incoming order data surveyed by Statistics Austria and UniCredit/Bank Austria are starting to show signs of a recovery.

Table 2

National accounts, real, seasonally and working-day adjusted

	GDP	Demand side					Supply side				
		Private consumption	Government consumption	Investments	Exports	Imports	Gross value added	Industry (B–E)	Construction (F)	Services, private (G–N)	Services, public (O–U)
	Change to previous quarter in %										
Q1 23	+0.1	+0.5	–2.0	–1.9	+0.5	–1.1	–0.2	–0.1	+0.5	–0.1	–0.2
Q2 23	–1.3	–0.4	+1.3	–1.7	–3.9	–0.4	–1.1	–1.1	–1.4	–1.8	+0.9
Q3 23	–0.3	–0.7	+1.1	–1.2	–1.2	–1.5	–0.4	–1.4	–0.6	–0.5	+0.6
Q4 23	+0.0	–0.2	–1.4	+0.9	+3.9	+3.5	+0.2	–0.1	–0.7	+0.1	+0.5
	Change to previous year in %										
2022	+4.8	+5.8	+0.1	+0.3	+11.7	+8.1	+5.2	+4.3	–1.1	+6.4	+5.0
2023	–0.7	–0.2	–0.4	–2.2	+0.3	–1.4	–0.8	–1.9	–0.8	–1.4	+2.3

Source: Statistics Austria.

The situation in the construction sector deteriorated markedly over the course of 2023. Construction output fell noticeably in the second half of the year. The decline was driven by residential construction, which had come under pressure from a combination of factors. The number of building permits granted has been declining since early 2020, signaling that the residential construction boom will fade. In other words, the trend had started to reverse long before interest rates were raised and lending standards were tightened. Residential construction in Austria peaked in 2022, when 77,300 dwellings were completed. 2023 data show that residential construction investment declined by 8.8% in real terms. Civil engineering, on the other hand, was stable in 2023, with output expanding slightly.

Subdued trend in services and services exports

Real value added in the service sector dropped by a total of 0.4% in 2023. Wholesale and retail trade (–5.7%) as well as transport and storage (–6.3%) were among the worst performers. After a strong rebound following the COVID-19 pandemic, the accommodation and food services sector reported another marked increase in nominal value added. The increase was, however, mainly due to higher prices. In real terms, the sector posted only marginal growth for the full year of 2023.

In terms of nominal services export growth, Austria ranked in the mid-range of euro area countries. However, this is entirely due to the sharp rise in export prices. In real terms, services exports shrank by 2% in 2023. A breakdown of nominal services exports, based on current account data for the first three quarters of 2023, reveals the following trends: The increase of EUR 3.9 billion, or 6.8%, was driven almost exclusively by tourism. Due to strong demand coupled with supply shortages, tourism prices rose sharply. The number of overnight stays by foreign tourists in this period was slightly below the previous year's level, which indicates stagnation in real terms. In 2023, real value added in the accommodation and food services sector remained 17% below 2019, i.e. pre-pandemic, levels.

Economic downturn has filtered through to the labor market

The Austrian labor market was very robust in 2023. However, the latest labor market data from end-February 2024 show that the economic downturn has now filtered through to the labor market. For roughly half a year, seasonally adjusted payroll employment has stagnated at a level of around 3,960,000 people, according to administrative data from Austria's social insurance institutions and the Austrian Public Employment Service (AMS). Unemployment, in turn, has recently increased at a moderate pace. Based on a wider definition of unemployment that includes people taking AMS training courses, the number of unemployed people increased steadily from around 330,000 in January 2023 to 360,000 in the most recent dataset. Recently, the number of registered vacancies went down significantly, dropping to just under 96,000. This figure is well below the highs of 2022, as illustrated by 127,000 registered vacancies in December 2022.The OeNB's Economic Indicator points to moderate growth in early 2024

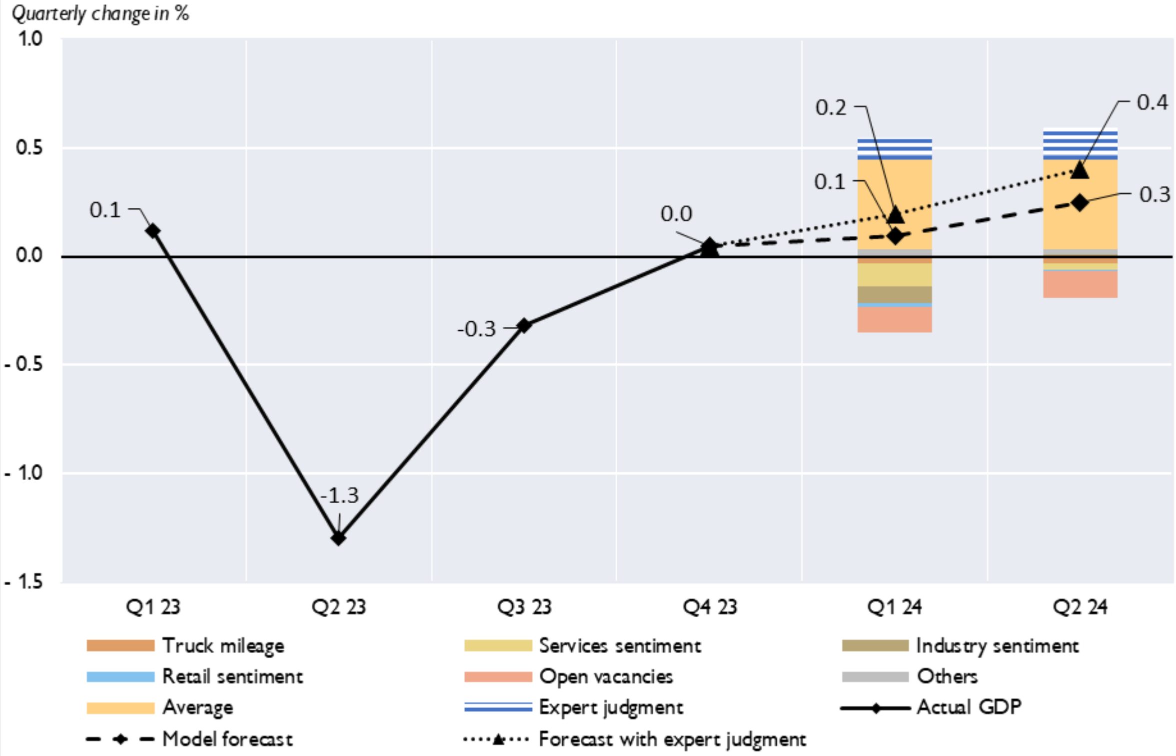
2. OeNB Economic Indicator: Moderate growth in first half of 2024

As of March 4, 2024, the OeNB's Economic Indicator[3] shows real GDP growth of 0.1% for the first quarter of 2024 and 0.3% for the second quarter.

Chart 1

OeNB Economic Indicator: short-term forecast of real GDP growth, seasonally and working-day adjusted

Quarterly change in %



Source: OeNB Economic Indicator. Data as at March 4, 2024.

[3] For details on the methodology of the OeNB's Economic Indicator, see OeNB's Economic Indicator – Oesterreichische Nationalbank (OeNB) (German).

Based strictly on the model forecast, growth remains below average in the first half of the year, as sentiment indicators for industry, services and retail trade remain weak and job vacancies have declined sharply.

However, due to strong growth in real net household incomes, the OeNB expects consumption growth to be somewhat stronger than the model alone would suggest. As this is not sufficiently reflected in the dataset of the Economic Indicator, we use our expert judgment to increase the model growth forecast to 0.2% for the first quarter and 0.4% for the second quarter.

3. 2024 growth forecast slightly revised downward on account of weaker short-term outlook and export market trends

The growth forecast for 2024 and 2025 is a technical update of the OeNB's December 2023 outlook. In a first step, we included recent national accounts data for the fourth quarter of 2023. Next, we used the OeNB's macroeconomic model (Austrian Quarterly Model – AQM) to simulate the impact of changes in global macroeconomic factors, such as export demand, energy and commodity prices, exchange rates and interest rates, that had occurred since December. For the first two quarters of 2024, we drew on the results of the OeNB's Economic Indicator. In addition, we considered the expected growth impact of the housing stimulus package that the Austrian government announced at the end of February 2024. The package encompasses measures aimed at supporting the housing market and the construction sector. The measures, which will apply between 2024 and 2026, include subsidies for residential construction, more favorable depreciation rules and affordable loans. OeNB estimates show that the package will boost GDP growth by 0.1 percentage points in 2024 and by 0.15 percentage points in 2025. In addition, we estimate that it will add 6,000 jobs in 2024 and 12,000 jobs in 2025, with the construction sector accounting for about half of this job growth.

Compared to the December 2023 outlook, the forecast for real GDP growth in 2024 was lowered slightly, namely by 0.1 percentage points, to +0.5%. This downward revision is mainly due to the weaker outlook for GDP growth in the first two quarters of 2024, according to the OeNB's Economic Indicator ("OeNB assessment": –0.2 percentage points). In addition, the somewhat less favorable global macroeconomic situation ("external assumptions": –0.1 percentage points) reduces the growth prospects for 2024.

Table 3

Real GDP growth outlook

	Mar. 2024	Dec. 2023	Revision Total	... due to new data	... due to external assumptions	... due to OeNB assessment
	Annual change in %		*Percentage points*			
2023	–0.7	–0.7	–0.0	–0.0	0.0	0.0
2024	0.5	0.6	–0.1	0.2	–0.1	–0.2
2025	1.8	1.7	0.1	0.0	0.0	0.1

Source: Statistics Austria, OeNB.

Taking into account the national accounts for the fourth quarter of 2023 boosts projected GDP growth in 2024 by 0.2 percentage points ("new data"). This is due to slightly higher growth in the fourth quarter of 2023, compared to the December outlook, and a slight upward revision to growth in the third quarter.

These effects result in a higher base for 2024 and therefore higher growth going forward. The housing stimulus package provides a further boost. As a result, we raised the forecast for 2025 slightly from +1.7% to +1.8%.

Increase in geopolitical tensions puts growth at risk

The greatest risk to economic growth in Austria comes from a further increase in geopolitical tensions. The key risk factors are attacks on international shipping in the Red Sea and an escalation in the wars in Ukraine and the Middle East, which could disrupt global supply chains and raise commodity prices. Domestic risks to Austrian economic growth are also tilted to the downside. Austria's high inflation differential with the euro area could reduce its price competitiveness. The most important downside risk in Austria is the real estate sector. While the housing stimulus package adopted by the government supports residential construction, the situation in the commercial real estate sector remains highly uncertain.

4. Current inflation trends: sharp fall in HICP inflation in recent months

In 2023 as a whole, Austria's HICP[4] inflation rate was 7.7%, slightly lower than in 2022 (8.6%). Over the course of 2023, however, inflation more than halved, from 11.6% in January to 5.7% in December. The decline was largely driven by energy prices. In addition, inflation in food (including alcohol and tobacco) and nonenergy industrial goods also slowed down. The drop in energy inflation was also due to fiscal measures such as the electricity price cap and the subsidy for the charge for system losses. Only services inflation bucked the trend and remained high, with the December 2023 rate slightly exceeding the rate in January 2023. This was mainly due to price trends in hotels and restaurants as well as package tours. Core inflation, which excludes energy and food, was 7.3% in 2023 (2022: 5.1%). After rising to 8.3% in April 2023, the highest level since the start of European monetary union, it dropped to 5.9% by December 2023.

The downward trend in inflation continued in January and February 2024. The HICP inflation rate came to 4.3% in January. According to a flash estimate by Statistics Austria, HICP inflation fell to 4.2% in February,[5] the lowest level since early 2022. The decline was also largely driven by energy inflation. In addition, services inflation also dropped significantly in January 2024. Core inflation fell to 5.3% in January.

Energy prices are dropping, inflation of food and nonenergy industrial goods slowed down significantly

Energy inflation in January 2024 was –4.3%. In January 2024, the inflation rates for most energy components (motor vehicle fuels, liquid and solid fuels, electricity and district heating) were negative, with gas being the only exception. In the full year of 2023, prices for motor vehicle fuels, liquid fuels and electricity fell on average. In electricity prices, this development was driven primarily by fiscal measures, i.e. the electricity price cap and the subsidy for the charge for system losses. In gas, inflation rates declined from 2022 to 2023, but prices for end consumers did not go down.

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[4] Harmonised Index of Consumer Prices (HICP 2015).

[5] Detailed information is published by Statistics Austria on March 18, 2024.

Gas price inflation fell from 81% in 2022 to 54% in 2023 and amounted to 12.5% in January 2024. For consumers, gas prices thus were still significantly higher in January 2024 than at the start of Russia's war of aggression against Ukraine in February 2022. This is partly due to slow pass-through of lower wholesale prices to end customers resulting from relatively long contractual lock-in periods, consumers' reluctance to switch suppliers and the low level of competition.

Inflation in services averaged 7.8% in 2023 and fell to 6.8% in January 2024. While this is the lowest level for more than a year, it is still well above the inflation rates of the other HICP components. Inflation in the services sector remains high, driven mainly by accommodation and food services, package tours, health care services and rents. In 2023, the number of tourists almost returned to its pre-crisis level. The strong recovery in tourism therefore allowed companies to raise their prices. The price increases were at least partly due to higher costs in light of marked food price and wage increases. At the beginning of 2023, rent inflation started to rise, reaching 9% in January 2024. The uptrend was attributable to strong demand and the May 2023 increase in the reference value rents that determine the maximum rent for many apartments in houses built before 1945.

Food prices increased by 10% in 2023, which is the highest inflation rate of the HICP aggregates. However, after peaking in January 2023 at 14.1%, food inflation dropped steadily to 5.8% in January 2024. At 4.5% in January 2024, unprocessed food inflation was down two-thirds from its peak, and processed food inflation more than halved to 6.1%. Inflation rates fell particularly sharply for everyday food items such as bread and cereal products, dairy products and eggs.

Inflation of industrial goods excluding energy was 6.4% in 2023 as a whole, significantly down from its peak of 8.8% in January 2023. At 2.7% in January 2024, it was only 1.5 percentage points above its long-term average. The reduction was partly driven by wholesale prices and producer prices for the domestic market that had been declining since March and July 2023, respectively. A detailed look at nonenergy industrial goods shows that inflation is slowing, particularly in durable consumer goods, especially furniture and furnishings, as well as in passenger cars. Since November 2023, used cars have actually been cheaper than in the previous year.

Inflation differential with the euro area remains wide

At 7.7%, Austria's inflation rate was above the euro area's 2023 annual average of 5.5%; core inflation in 2023 (7.3%) was also significantly higher than in the euro area (5%). Only the Baltic states, Slovakia and Croatia had higher inflation rates. The inflation differential with the euro area average, slightly more than 2 percentage points, is primarily attributable to energy and services. Driven by the energy component, the inflation differential narrowed significantly to 1.5 percentage points in January 2024. According to the flash estimate for February 2024, the inflation differential between Austria and the euro area was 1.6 percentage points.

In the first half of 2022, the Austrian HICP inflation rate was below the euro area HICP inflation rate. Afterward, the situation reversed, partly because in Austria wholesale prices for household energy are passed through to end consumers in a sluggish manner. While the sharp rise in electricity and gas prices that started in mid-2021 did not lead to significant energy price increases for Austrian households until 2022, energy prices in the euro area rose more rapidly. The trend reserved after wholesale prices started to decline in late 2022: the pass-through to Austrian household energy prices was relatively slow. However, this is not only due to a lack of competition, long-term contracts between Austrian energy suppliers and their customers and the latter's reluctance to switch suppliers. It could also be due to differences in sampling methods. In Austria, household energy price data are based on both new and existing contracts, while in some other euro area countries, e.g. Italy, France and Belgium, only new contracts are considered. This means that price changes in the euro area aggregate are more quickly reflected in price statistics. Moreover, energy prices reflect differences between fiscal strategies. Compared to other euro area countries, Austrian policymakers did much less to intervene in energy prices.

The inflation differential in the services sector, an average of 2.9 percentage points in 2023, is attributable mostly to accommodation and food services. In January 2024, restaurant prices in Austria rose by 8.3%, a rate that remained well above the euro area average of 5.4%. In addition, at 16.7%, the category has a significantly higher weighting in the Austrian HICP basket of goods and services than in the euro area (11.2%). The rapid recovery in tourism demand may have allowed companies in Austria to raise their prices at a faster rate than in other euro area countries. Wage increases, which is a key cost factor in the services sector. also tend to be higher in Austria than in other euro area countries.

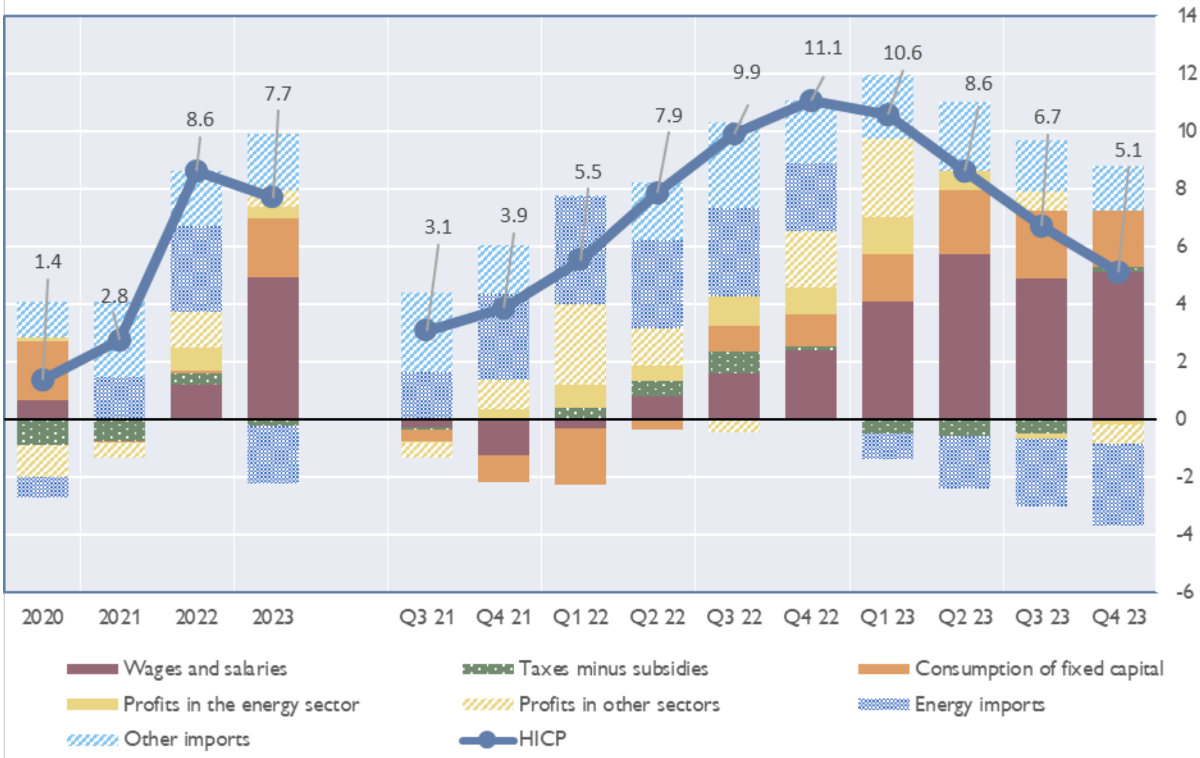
Although food inflation including alcohol and tobacco was very high in Austria in 2023, it nevertheless reduced Austria's inflation differential with the euro area. Food inflation in Austria was 0.9 percentage points lower than in the euro area in 2023.

Inflation decomposition shows major shifts in the role of cost components

Chart 2

Contributions of cost components to HICP inflation in Austria

Annual change in % for HICP; contributions to inflation in percentage points



Source: Statistics Austria, authors' calculations.

Breaking down HICP inflation by cost components shows that its composition in 2023 differed significantly from the two previous years. In 2021 and 2022, imports of both energy and other goods and services were the biggest drivers of inflation. Moreover, in 2022, a quarter of the revenue growth from the production of consumer goods went to corporate profits, and very little went to wages. In 2023, wages were the largest contributor (0.5 percentage points) to inflation as they are typically adjusted to inflation with a lag in Austria. Due to the decline in energy prices, energy imports reduced inflation, while imports of food and travel services made upward contributions.

Inflation indicators

To analyze other aspects of inflation trends, we use the OeNB's Wage Tracker and web scraping. The Wage Tracker provides information on recent wage trends and price pressure that might arise from wages. The OeNB's web scraping tool collects daily price updates from Austrian supermarket and food delivery websites to track price trends in the current month. Both indicators are important inputs for the OeNB's inflation forecast.

Wage Tracker: peak in January 2024 to be followed by a clear downward trend

Several collective wage agreements in the most recent round of wage negotiations took effect in January 2024. As usual, the negotiations kicked off by the metal industry, which had engaged in lengthy talks before an agreement was reached. In line with past trends, the wage agreements were largely based on the average inflation of the last twelve months ("rolling average inflation rate"). There were two exceptions to this: (1) Wages in the metal industry were raised by 8.6%. That increase was below the twelve-month rolling average inflation rate (+9.6%) that labor unions had used as a basis for their minimum demands on wages. In addition, the agreement contains a provision allowing companies where labor costs account for a large share of gross value added to reduce actual wage increases by up to 3 percentage points. (2) The average increase in minimum salaries for white-collar workers in wholesale and retail trade (+8.4%) was also below the rolling average inflation rate of 9.2%.

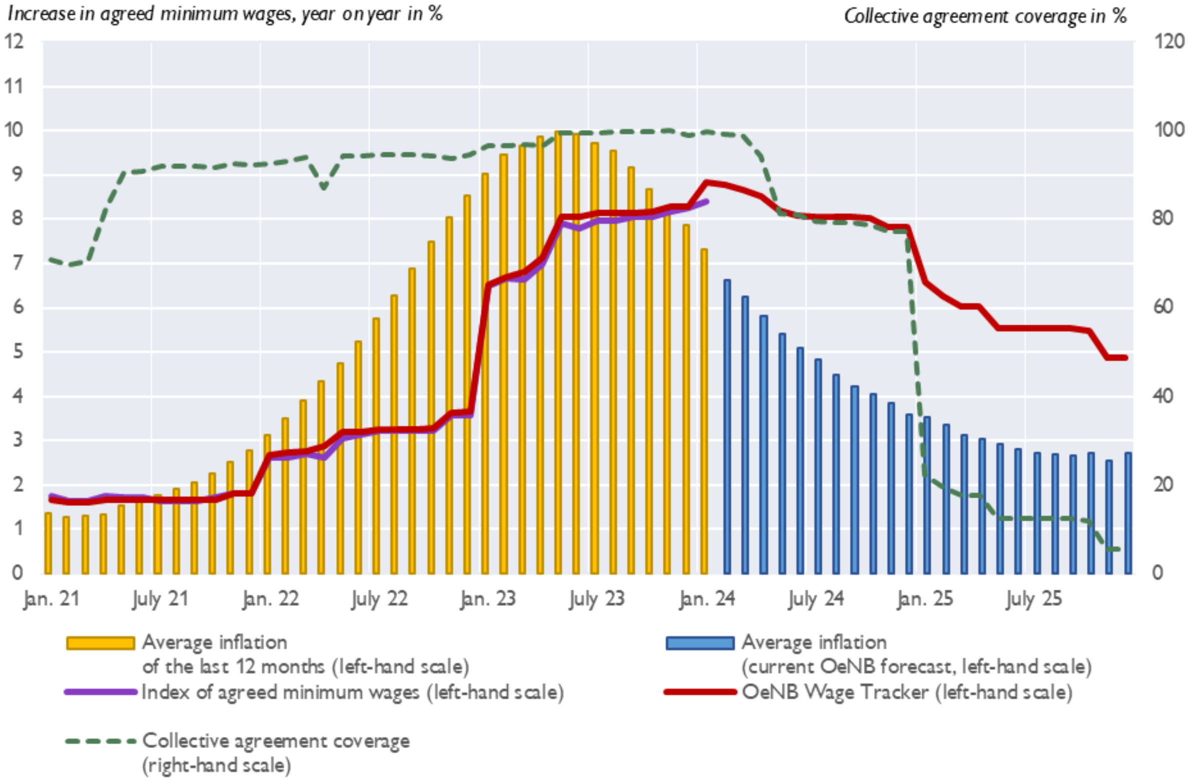
Other important agreements relate to the public sector (+9.3%), blue-collar workers in wholesale and retail trade (+9.3%), general trades(+8.9%), private childcare facilities (+9.3%), electricity suppliers and the mineral oil industry (+9.4% each) and personnel leasing (+8.5%). One-off payments played only a minor role even though they get preferential tax treatment and employers demanded them on repeated occasions.

The agreements that came into force in January 2024 provided for an average wage increase of 8.7%. As a result, and because of the large number of collective agreements that took effect in January, the OeNB's collective agreement Wage Tracker hit a record in January (see chart below). After that, the Wage Tracker shows a clear downward trend as the pay settlements that come into force between February and March 2024 are lower on average. As several important collective agreements were concluded for two years this time, we can feed forward-looking data into the Wage Tracker. Two-year agreements were concluded in the metal and metalworking industries and the IT sector as well as, already in spring 2023, in the construction sector and in the wood products and sawmill industries. Two-year agreements usually contain a specific nominal pay raise for the first year. The increase for the second year then takes the form of a certain amount on top of the rolling average inflation rate in the relevant period.[6] According to the Wage Tracker, collective agreement coverage will plunge from the beginning of 2025. From that point onward, only few employees will be covered by agreements that have already been concluded and determine future pay raises.

[6] For example, metal industry negotiators agreed that the wage increase in November 2024 would be 1 percentage point above the rolling average inflation rate as of August 2024.

Chart 3

Current and future trends in agreed minimum wages: the OeNB Wage Tracker



Source: Statistics Austria, Austrian Trade Union Federation, Austrian Federal Ministry of Labour and Economy, OeNB. Last data point: December 2025. As at February 27, 2024.

Food inflation continued to decline in February 2024, according to web scraping data

The OeNB's web scraping data suggest that price increases for food and beverages continued to slow in February 2024, compared to January. On a year-to-year basis, food inflation slowed by 2.7 percentage points in February, compared to January. The drop was 3.7 percentage points for nonalcoholic beverages and 2.3 percentage points for alcoholic beverages. The February 2024 declines in the year-on-year rates are driven by base effects, due to particularly strong price increases in February 2023, and by lower month-on-month price increases, compared to January 2024. In addition, the special aggregates saw further declines in the year-on-year rates of change in February, and month-on-month price increases were consistently lower than in January. Bread and cereal products are an exception, with a rate of change of +0.32% in February, compared to –0.12% in January. Month-on-month price increases were particularly pronounced for meat and fish (0.5%) and oils and fats (0.4%), while the month-on-month rates for these aggregates were higher in January. By contrast, prices for dairy products (–0.6%) and sugar, jam, honey, chocolate and confectionery (–0.6%) declined compared to January. Prices for dairy products were also 2.8% lower than in February 2023.

5. Inflation forecast: inflation to drop by more than half in 2024, compared to 2023

In its current inflation forecast,[7] the OeNB expects the HICP inflation rate to fall by more than half, from 7.7% in 2023 to 3.6% in 2024. Afterward, the inflation rate will continue to edge down, to 2.7% in 2025 and 2.3% in 2026, thus extending the trend of a significant inflation slowdown that began in 2023. The core inflation rate, i.e. HICP inflation excluding energy and food, will also drop significantly, to 4.2% in 2024 and 2.9% in 2026. It will, however, remain above HICP inflation over the entire forecast horizon.

The decline in the inflation rate in 2024 is largely due to lower inflation in energy prices, with energy inflation expected to be in deeply negative territory by the second half of the year at the latest. Falling energy prices – especially for household energy – should continue to have a slightly downward effect on the inflation rate also in subsequent years. Inflation rates for food and industrial goods excluding energy continue their downward trend over the forecast horizon, albeit at a much slower pace than in 2023. According to the OeNB forecast, services inflation peaked at the end of 2023. Starting from a high base in late 2023, it will, however, come down only slowly. The main reason for this is the sharp rise in wage costs due to lagged inflation compensation, which is particularly evident in the services sector. Given the modest decline in services inflation, core inflation, i.e. services and industrial goods excluding energy, will remain high over the entire forecast horizon.

Fiscal policy primarily influences energy and services inflation. The phasing-out of inflation support measures, in particular the subsidy for the charge for system losses, and the hike of the carbon tax put upward pressure on inflation in early 2024. The electricity price cap was extended from June 2024 until year-end, which is why the upward impact on inflation will only be felt in 2025. In addition, the Austrian government decided in August 2023 to limit rent increases and not to adjust certain government fees for inflation, which will slightly reduce services inflation in 2024 and in subsequent years.

Compared to December 2023, the OeNB forecast for 2024 was revised downward by 0.4 percentage points to 3.6% as wholesale energy prices are falling significantly and were revised downward from the December forecast. In addition, January inflation was unexpectedly low, which prompted a reassessment of the inflation outlook.

7 As the cutoff date of the inflation forecast was February 26, 2024, it does not incorporate the flash estimate for February that was published on March 1, 2024.

Table 4

OeNB March 2024 inflation forecast

	Forecast				Revisions compared to December 2023		
	2023	2024	2025	2026	2024	2025	2026
	Annual change in %				*Percentage points*		
HICP inflation	7.7	3.6	2.7	2.3	−0.4	−0.3	−0.2
Food	10.0	4.8	3.5	2.5	0.9	0.5	0.5
of which: unprocessed food	*7.6*	*3.4*	*x*	*x*	1.3	*x*	*x*
of which: processed food	*10.6*	*5.1*	*x*	*x*	0.8	*x*	*x*
Industrial goods excluding energy	6.4	2.4	*x*	*x*	−0.3	*x*	*x*
Energy	6.9	−3.5	−6.2	−2.3	−3.5	−8.0	−4.8
Services	7.8	5.3	*x*	*x*	−0.4	*x*	*x*
HICP excluding energy	7.8	4.3	3.5	2.8	−0.1	0.5	0.3
HICP excluding energy and food	7.3	4.2	3.5	2.9	−0.3	0.5	0.2

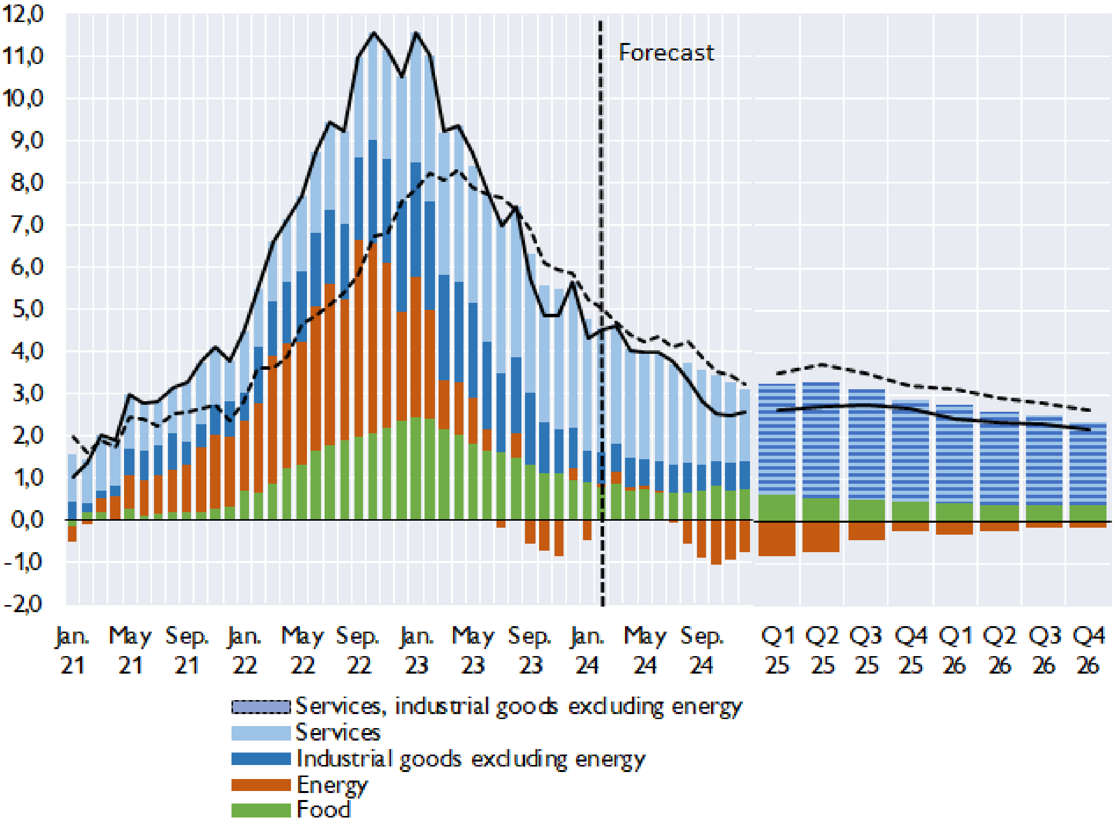
Source: OeNB, Statistics Austria.

The inflation forecast is subject to a number of risks that are tilted to the downside. First, according to the flash estimate, the inflation rate in February 2024 was lower than forecast. Second, the pass-through of falling wholesale energy prices to end customers could be stronger and faster than the forecast assumes. In contrast to these downside risks, Austria's dependence on Russian gas means that toward the end of the forecast horizon price pressures could be stronger than forecast. In addition, a potential increase in geopolitical tensions represents a significant upside risk to the inflation forecast.

Chart 4

Contributions to HICP inflation

Inflation rates in %; contributions to inflation in percentage points



Source: OeNB, Statistics Austria.

Table 5

Assumptions underlying the OeNB March 2024 inflation forecast

		March 2024 assumptions			Revisions compared to December 2023		
	2023	2024	2025	2026	2024	2025	2026
Energy and exchange rates					%		
Oil price (EUR/barrel (Brent))	77.5	73.8	69.3	66.8	−0.2	−1.8	−1.6
Wholesale price of gas (EUR/MWh)	40.6	30.0	32.1	29.5	−36.7	−27.4	−19.9
Wholesale price of electricity (EUR/MWh)	102.9	74.4	78.3	71.3	−36.2	−29.4	−27.1
EUR/USD exchange rate	1.08	1.08	1.08	1.08	−0.3	−0.3	−0.3
Nonenergy commodity prices	*Index 2005 = 100*				%		
Total	184.7	185.8	189.6	189.7	3.4	3.0	1.4
of which: world market prices for food	214.1	212.6	210.5	202.9	2.3	2.1	−0.1
of which: world market prices for metallic raw materi	170.4	174.5	181.3	185.7	12.4	12.0	11.1
EU producer prices for food	173.7	174.4	175.5	175.7	4.4	4.9	5.3
Interest rates	%				*Percentage points*		
Three-month interest rate	3.4	3.4	2.4	2.4	−0.2	−0.4	−0.3
Yield on ten-year government bonds	3.1	2.9	3.0	3.1	−0.3	−0.3	−0.3

Source: Eurosystem.

The table above shows the most important external assumptions that the Eurosystem made in its inflation forecast. Significant downward revisions were made to wholesale prices for gas and electricity. The price of Brent crude oil was revised slightly downward despite tensions in the Middle East and the Red Sea. This is likely due to the slowdown of the global economy and the resulting decline in demand. By contrast, nonenergy commodity prices were revised upward.

Household energy prices are falling, but core inflation decline is slow

Energy

The inflation forecast assumes that the decline in wholesale household energy prices that started in mid-2022 will be passed through to Austrian consumers. We expect household energy prices to fall significantly in 2024, as the stock of high-priced contracts should be replaced by more affordable new contracts. In addition, the electricity price cap was extended until December 2024, albeit with some changes. From July 2024, the subsidy will amount to a maximum of 15 cents/kWh (instead of 30 cents/kWh), and it will be granted for the part of the electricity price that exceeds 10 cents/kWh. However, the overall impact of the changes is limited. We assume that due to price competition, electricity prices will not exceed the subsidy limit, which will be reduced in July. In addition, we expect that the significant reduction in electricity prices for consumers will cause the price index to increase only slightly when the electricity price cap expires in 2025.

Influenced by two additional factors, energy inflation will, however, remain slightly positive in the first half of the year. First, the carbon tax went up from EUR 32.5 per tonne of CO2 in 2023 to EUR 45/tonne CO2 in January 2024, which affects prices of liquid fuels. This will likely push energy inflation up by about +1.8 percentage points and HICP inflation by about +0.17 percentage points. Second, due to base effects, inflation will temporarily go up in March 2024.

A subsidy for the charge for system losses, which was provided for 2023 and first recorded by Statistics Austria in March 2023, reduced prices significantly. The expiry of this subsidy will therefore increase the inflation rate in March 2024.

Starting in the second half of the year, energy prices will have a disinflationary effect due to increased price competition in household energy as many fixed-term contracts expire starting in late summer. Overall, we expect a 2024 energy inflation rate of –3.5%. The further decline in household energy prices will cause energy price inflation to continue slowing down in 2025 and 2026.

Food including alcohol and tobacco

According to the inflation forecast, food inflation is expected to fall further in 2024, but will remain highly volatile. Due to base effects, the decline is stronger in the first half of the year. The inflation rates of both processed and unprocessed food are projected to be roughly half of the rates seen in 2023. The slight increase in prices for agricultural commodities and the above-average rise in wage costs mean that food inflation will recede much more slowly after 2024. At 2.5%, it will remain above its long-term average of 1.9% (2000–2019) in 2026.

Services

The persistently high inflation rates in the services sector are primarily attributable to tourism-related services like package tours, hotels and restaurants. Capacity utilization in the tourism sector is expected to remain high, which should allow companies to pass on the increased wage costs to consumers. In the OeNB forecast, we assume relatively high wage increases in 2024 and slightly lower pay raises in the following years. As a result, services inflation will moderate only slowly and remain at 5.3% in 2024. This forecast already takes into account the disinflationary impact of the measures that the Austrian government adopted in August 2023. Measures to limit rent increases and the decision not to adjust certain government fees for inflation will slightly reduce inflation in 2024 and 2025 (2024: 0.25 percentage points; 2025: 0.015).[8]

Industrial goods excluding energy

The significant decline in industrial goods inflation will continue in 2024. Producer price inflation fell into negative territory in July 2023. In addition, bottlenecks were eliminated and the economic slowdown should also reduce industrial goods inflation. Overall, the inflation rate will fall to around one-third of the previous year's level. Inflation is expected to be at 2.2% in the last quarter of 2024, which is only 1.3 percentage points above its long-term average.

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[8] See OeNB blog (German) on the impact of the Austrian government's measures to help people amid high inflation: Deckeln, bremsen, fixieren: Aktuelle Inflationsmaßnahmen der Regierung – Oesterreichische Nationalbank (OeNB).

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