

Austrian economy to slow down after strong first half

Friedrich Fritzer, Martin Schneider, Richard Sellner, Alfred Stiglbauer, Klaus Vondra¹

In the second half of 2022, the war in Ukraine and ensuing high inflation are set to deal a major blow to Austria's economy. In the first half, robust economic growth was still carried by consumers' pent-up demand and strong exports. As a result, economic growth will still come to about 5% in 2022 as a whole. Yet, in the summer, first signs of a trend reversal became evident in the Austrian labor market. Unemployment rates are already edging up, starting from lower levels than before the COVID-19 pandemic, and the number of people in employment and vacancies are edging down. HICP inflation had increased sharply since the beginning of the year, but in August lower fuel prices caused it to move sideways. For the rest of the year, inflation is, however, expected to remain high.

1 After strong first half, economic growth to weaken notably in second half

Austria's economic performance in 2022 reflects two very different developments. In the first half, the economy grew strongly due to catching-up effects both on the demand side – in private consumption and foreign trade – and on the supply side, namely in industry, wholesale and retail trade as well as food services. In the second half, we expect economic growth to weaken considerably amid high uncertainty related to the war in Ukraine and a spurt in inflation.

According to the quarterly national accounts data released by Statistics Austria, the Austrian economy grew by 1.5% in the second quarter of 2022 (quarter on quarter; in real terms, seasonally and working-day adjusted). Economic growth had thus been revised upward considerably against the end-July national accounts flash estimate (+0.5%) published by the Austrian Institute of Economic Research (WIFO) on July 29, 2022. In addition, growth figures were also revised upward for the third quarter of 2021 (+0.3 percentage points) and the first quarter of 2022 (+0.4 percentage points). As a result, the GDP forecast for 2022 overall was mechanically revised upward by 1.6 percentage points from +3.8% (OeNB's economic assessment of June 2022) to +5.4%. In the same vein, quarter-on-quarter growth rates were also revised upward, some even considerably, in Germany (Q1 22), Italy (Q1 and Q2 22), Spain (Q2 22) and the Netherlands (Q1 and Q2 22). As a consequence, the euro area as a whole is set to record an annual growth rate that exceeds expectations before the summer.

¹ Oesterreichische Nationalbank, Business Cycle Analysis Section, friedrich.fritzer@oenb.at, martin.schneider@oenb.at, richard.sellner@oenb.at, alfred.stiglbauer@oenb.at, klaus.vondra@oenb.at.

Table 1

National accounts data for Austria (Q2 data published on September 1, 2022)

	GDP	Private consumption	Government consumption	Gross fixed capital formation	Exports	Imports	Domestic demand (without inventories)	Net exports	Changes in inventories	Statistical discrepancy	Inventories and statistical discrepancy	
	Change on previous period in %						Contribution to GDP growth in percentage points					
Q3 21	+3.7	+9.0	+1.9	-4.4	+1.3	+0.6	3.6	0.4	-1.0	0.7	-0.3	
Q4 21	-0.9	-3.6	+4.0	+1.7	+2.0	+1.9	-0.6	0.1	-0.2	-0.3	-0.4	
Q1 22	+1.9	+1.6	-3.2	+0.1	+6.8	+5.2	0.1	1.0	0.6	0.1	0.7	
Q2 22	+1.5	+0.8	+0.9	-1.0	+2.4	-0.3	0.3	1.7	0.1	-0.6	-0.5	
2020	-6.9	-8.4	-0.4	-5.0	-11.5	-9.5	-5.6	-1.6	0.1	0.3	0.4	
2021	+4.8	+3.6	+8.5	+8.7	+9.7	+13.3	5.8	-1.6	0.5	0.1	0.6	

Revisions compared to flash Q2 national accounts data (published on July 29, 2022)

	Percentage points							Percentage points				
Q3 21	+0.3	-1.2	+0.1	-1.7	+0.4	-0.7	-1.0	+0.6	-	-	-	-1.1
Q4 21	-0.1	+0.2	-0.4	+1.7	+0.1	-0.9	+0.4	+0.5	-	-	-	-1.4
Q1 22	+0.4	+0.8	-0.2	-1.5	+4.6	+1.6	+0.0	+1.8	-	-	-	-0.3
Q2 22	+1.0	+2.7	+0.9	-2.2	-0.3	-0.8	+1.0	+0.3	-	-	-	0.0
2021	-0.1	+0.3	+0.2	+4.5	-4.8	-3.1	+1.3	-1.0	-	-	-	0.0

Source: Statistics Austria, WIFO.

The revisions of the national accounts data point to a much more favorable economic development than the flash estimate of July 29. At +0.8%, private consumption now posts a positive growth rate, as opposed to the strong decline (-1.9%) in the flash estimate. Government consumption was likewise revised upward, while investments were revised downward to -1.0%.

From a production-side perspective, both the industry sector (+1.3%) and the services sector (+1.6%) expanded significantly. At +19%, the strongest recovery was recorded for accommodation and food service activities (NACE I; not shown separately in table 2). In the second quarter of 2022, the value added of this sector amounted to 81% of the pre-crisis level (2019). It had already stood at 89% in the third quarter of 2021, before dropping again to 63% because of the lockdown in the fourth quarter of 2021.

Table 2

National accounts data for Austria (production-side data published on September 1, 2022)

	GDP	Gross value added	Agriculture (NACE A)	Industry (NACE B–E)	Manufacturing (NACE C)	Construction (NACE F)	Services, total (NACE G–U)	Services, private (NACE G–N)
<i>Change on previous period in %</i>								
Q3 21	+3.7	+3.6	-1.0	+0.8	+0.7	-2.0	+5.1	+6.2
Q4 21	-0.9	-1.1	-2.4	+1.4	+0.5	-1.0	-1.8	-2.5
Q1 22	+1.9	+2.3	+2.1	+1.8	+2.1	+2.8	+2.3	+3.4
Q2 22	+1.5	+1.4	-2.0	+1.3	+1.3	-0.7	+1.6	+1.6
2020	-6.9	-6.9	-2.8	-6.5	-7.0	-2.9	-7.5	-8.1
2021	+4.8	+4.2	+7.9	+7.7	+9.1	+3.2	+3.2	+2.7

Revisions compared to national accounts data (Q2 flash data published on July 29, 2022)

	<i>Percentage points</i>							
Q1 21	-0.3	-	-	-1.1	-0.2	-1.1	-0.6	-1.4
Q2 21	+0.0	-	-	+0.2	+0.9	-0.2	+0.2	+0.1
Q3 21	+0.3	-	-	-1.0	-0.8	-1.0	+0.6	+0.7
Q4 21	-0.1	-	-	+0.8	+0.1	-0.7	-0.5	-0.9
Q1 22	+0.4	-	-	+0.6	+0.7	+1.2	+0.2	+0.7
Q2 22	+1.0	-	-	+0.6	+1.1	-0.8	+1.3	+1.3
2020	-0.0	-	-	-0.0	+0.0	+0.0	-0.0	-0.0
2021	-0.1	-	-	-1.4	+0.5	-1.7	-0.3	-1.4

Source: Statistics Austria, WIFO.

Table 2 continued

National accounts data for Austria (production-side data published on September 1, 2022)

	Trade, transport/storage, hospitality (NACE G–I)	Information and communication (NACE J)	Financial and insurance services (NACE K)	Real estate activities (NACE L)	Scientific and technical activities (NACE M–N)	Public services (NACE O–U)	Public administration (NACE O–Q)	Other services (NACE R–U)
<i>Change on previous period in %</i>								
Q3 21	+15.0	+1.2	+0.2	+0.5	-0.1	+2.5	+1.7	+8.9
Q4 21	-6.2	+1.2	+1.6	+0.5	-0.8	-0.1	+0.9	-7.2
Q1 22	+5.6	+0.8	-1.6	+1.0	+4.8	-0.4	-1.0	+4.6
Q2 22	+3.8	+0.1	-1.5	+0.4	+0.3	+1.6	+1.6	+1.6
2020	-15.5	-1.7	+4.7	+0.3	-8.0	-5.8	-3.6	-19.5
2021	+1.2	+3.5	+2.4	+1.1	+7.0	+4.5	+4.8	+2.3

Revisions compared to national accounts data (Q2 flash data published on July 29, 2022)

	<i>Percentage points</i>							
Q1 21	-2.8	+0.0	-0.6	-0.1	-1.1	+1.4	+1.5	+0.7
Q2 21	+0.1	+0.4	+0.3	-0.4	+0.7	+0.5	+0.6	+0.0
Q3 21	+2.1	-0.1	-1.3	-0.8	+1.2	+0.5	+0.6	+0.3
Q4 21	-0.6	-0.2	-1.4	-0.2	-2.1	+0.4	+0.3	+0.4
Q1 22	+2.2	-0.9	-1.7	-0.1	+0.4	-1.1	-1.1	-1.3
Q2 22	+3.7	+0.3	-2.3	+0.1	-0.8	+1.2	+1.6	-1.2
2020	-0.0	-0.0	-0.1	-0.0	-0.0	+0.0	+0.0	+0.0
2021	-2.5	-0.0	-1.8	-0.8	-0.2	+2.3	+2.5	+1.2

Source: Statistics Austria, WIFO.

In the second half of 2022, this brisk growth will level off markedly, however. Among others, the EU economic sentiment indicator (ESI) produced by the European Commission, the WIFO business climate index and the purchasing managers' index recorded significant declines in July and August, indicating an economic slowdown in Austria in the coming months. While the situation in summer was still predominantly deemed stable in most areas, firms' expectations for the future are deteriorating. Especially order volumes, also from abroad, started downtrending. Consumer confidence even hit a historic low in July 2022, and retail trade confidence likewise dropped considerably, namely from -9.7 in July to -23.6 in August. In the construction sector, confidence, while at a high level, had already been shaken in the second quarter. The expected rise in interest rates and stricter housing

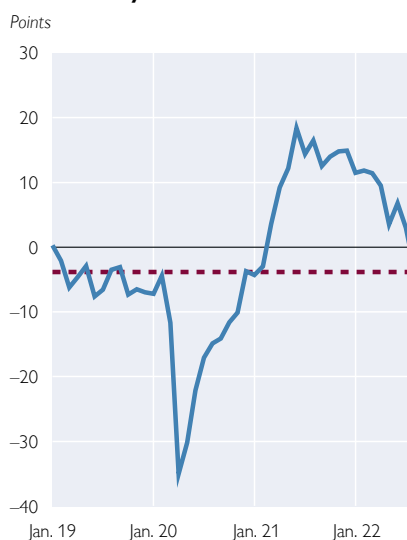
Chart 1

EU economic sentiment indicator (ESI)

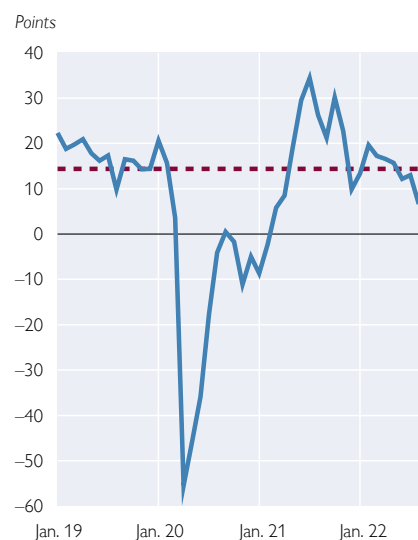
ESI overall



ESI: industry confidence



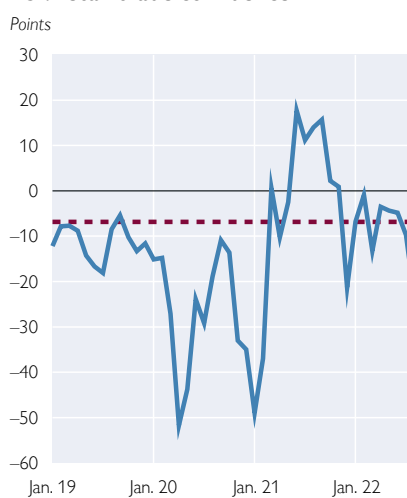
ESI: services confidence



ESI: construction confidence



ESI: retail trade confidence



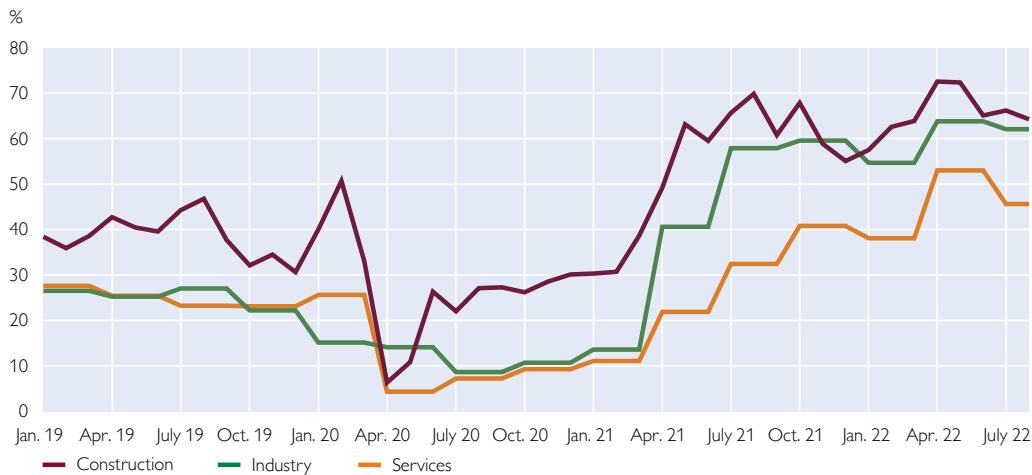
ESI: consumer confidence



Source: European Commission (DG ECFIN).

Note: Includes data for August 2022. Dotted lines reflect long-run averages (1999 to 2019).

Chart 2

Share of Austrian firms reporting labor or material/capacity shortages

Source: European Commission (DG ECFIN).

loan criteria may continue to drive the slowdown in construction activity. In the services sector, confidence dropped below its long-term average in August, suggesting that catching-up effects due to the reopening of restaurants and tourism services are petering out.

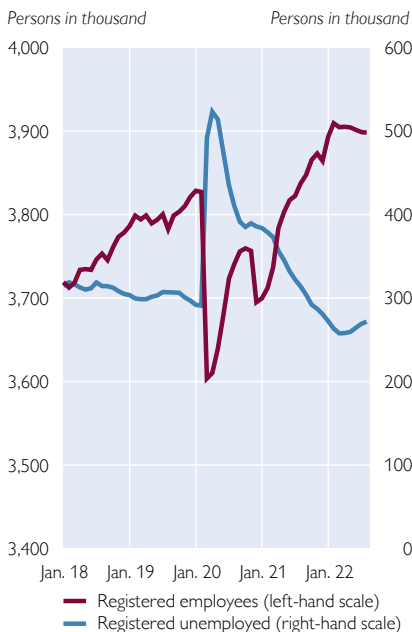
On the demand side, persistently high inflation keeps slowing income growth and, by extension, consumption. Given a worldwide tightening of monetary policy that goes hand in hand with rapidly rising interest rates, refinancing costs are going up. This in turn puts a damper on the willingness to invest, which has already been diminishing due to the currently high uncertainty. Production expectations are being revised downward considerably, especially in Germany and some countries in Central, Eastern and Southeastern Europe (CESEE), as the war in Ukraine is expected to continue and uncertainty about Russia's gas supplies to Europe remains high. The chance of a recession is rising not only in the USA but also in Germany, and thus in the entire euro area. The slowing economy is mirrored in the decline of global supply chain pressures as measured by the Federal Reserve Bank New York. Although many firms still report labor/material shortages or capacity constraints, we expect economic tensions to ease in the second half of 2022.

2 Labor market remains tight due to labor shortages; wage pressure rises

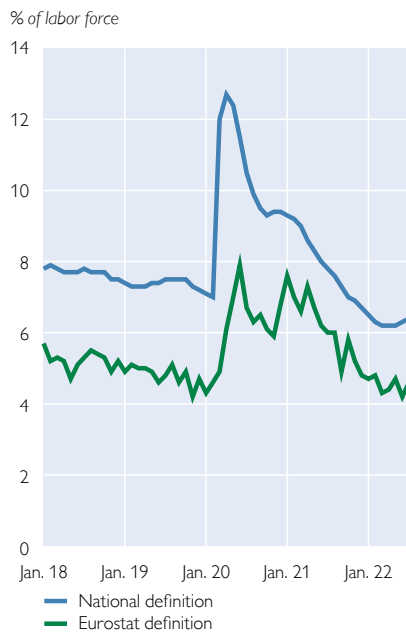
The Austrian labor market remained tight during summer. Seasonally adjusted employment well exceeded its pre-pandemic level but had not increased further since February 2022. The national unemployment rate provided by the Public Employment Service Austria (AMS) rose from its low of 6.1% in March 2022 to 6.5% in August, still remaining below its pre-crisis level of 7.0% in February 2020. The Eurostat unemployment rate stood at 4.3% in July 2022 (February 2020: 4.6%). Having hit a record high of almost 130,000 in February 2022, immediate vacancies sank to about 122,000 in August. Yet, the recent rise in unemployment and decrease in vacancies have increased the number of job seekers per

Labor market developments in Austria since 2018

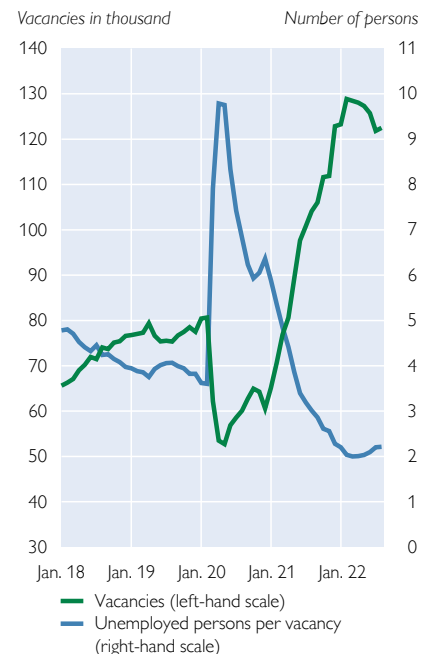
Employment and unemployment



Unemployment rates



Vacancies



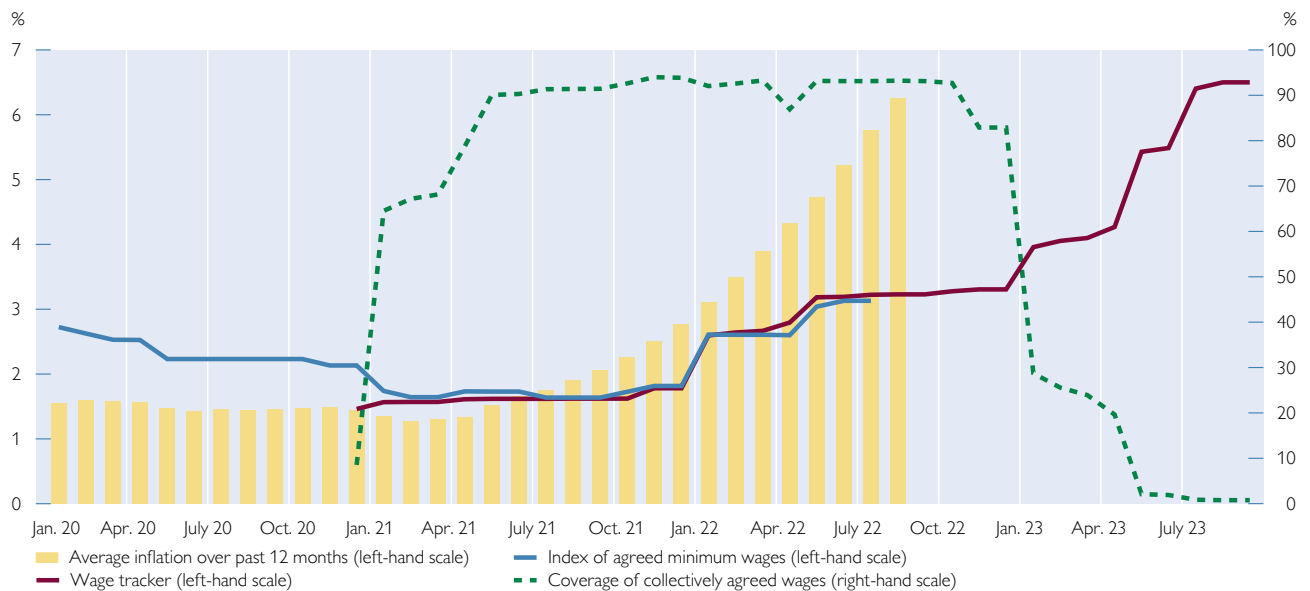
Source: AMS (Public Employment Service Austria), OeNB.

Note: Seasonally adjusted data until end-July 2022.

vacancy only slightly. On average, the number of job seekers per job opening amounts to only 2.2; before the pandemic, this number was twice as high. In other words, labor shortages remain high. In July, labor shortages were cited as the main reason for limited production by 24% of companies in the industrial sector (long-term average: 7%), 35% in the construction sector (12%) and almost 37% in the services sector (11%).

Collective wage agreements in the last months show an upward trend. Still, the index of agreed minimum wages is rising only slowly, given the lesser weight in the index of recent agreements. To better capture the current uptrend in collective wage agreements, the OeNB developed an alternative indicator, the so-called wage tracker. Currently, it is based on 336 collective wage agreements that have been concluded since September 2020. The index is calculated as a monthly average of collectively agreed wage increases weighted by employment. Chart 4 shows that, in recent months, the wage tracker (red line) was closely in sync with the increasing index of agreed minimum wages (blue line). For the near future, the wage tracker shows wage increases of over 6% owing to certain favorable agreements recently concluded, which extend to mid-2023 (e.g. meat industry: +5.7%, clothing industry: +5.4%, mill industry: +5.5%, animal feed industry: +6.0%, bakery trade: +6.5%). Collective wage agreements in Austria are, as a rule, concluded for a period of 12 months. Rising wages depicted by the wage tracker are roughly in line with the inflation measure usually used in collective bargaining (average inflation over past 12 months; yellow columns in chart 4). Though only a small number of

Chart 4

OeNB wage tracker: current and future collectively agreed wages in Austria

Source: Statistics Austria, Austrian Trade Union Federation, Austrian Ministry of Labour, OeNB.

Note: Latest data point: September 2023.

employed persons has experienced high wage increases (see dashed green line reflecting the coverage of collective wages in chart 4), we expect wage increases to remain high overall in fall 2022, provided no major macroeconomic changes will occur.

3 Inflation continues to rise unabated in the third quarter of 2022²

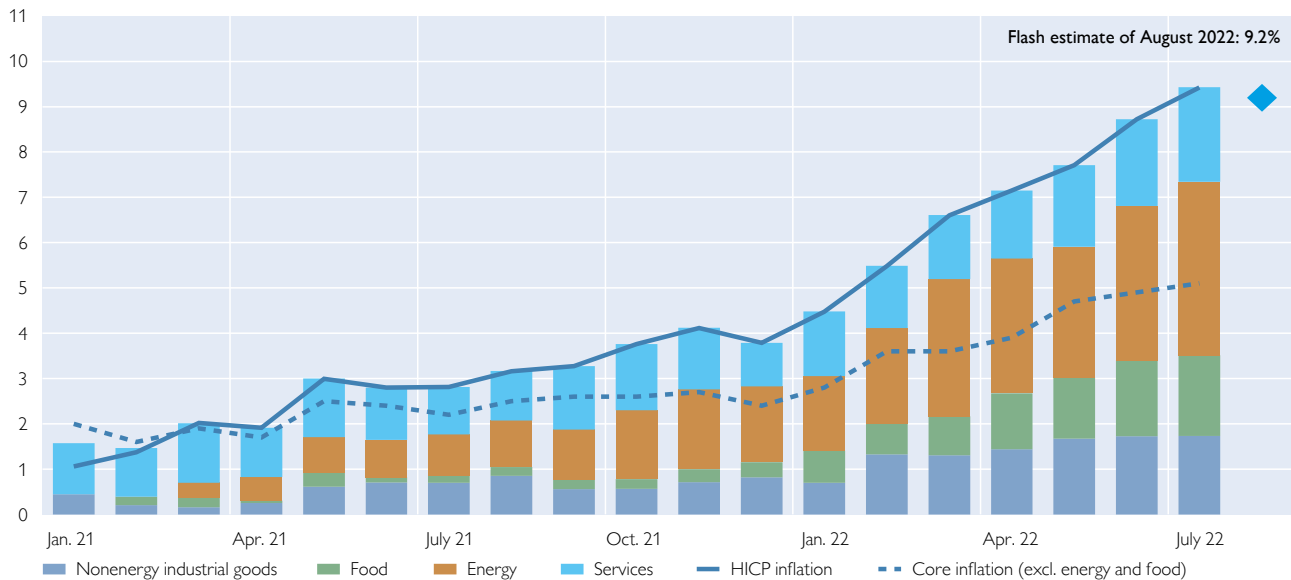
Inflation as measured by the Harmonised Index of Consumer Prices (HICP) continued to rise sharply in Austria in recent months, reaching 9.4% in July 2022. Such a high level was last seen in Austria in the mid-1970s, when oil prices had soared in the wake of the first crude oil price crisis. In its flash estimate for August, Statistics Austria expected HICP inflation to inch down to 9.2%.³ August is, however, unlikely to have brought a trend reversal as major energy providers (EVN and Wien Energie, the utility providers serving Austria's largest province and Vienna) had announced substantial electricity price increases for September 2022. From December onward, we expect the electricity price cap adopted by the Austrian government in early September to bring down inflation. The price cap is set to ensure that households will pay no more than 10 cent per kilowatt hour (kWh) for electricity up to a volume of about 2,900 kWh; beyond that, market prices will kick in.

² For the OeNB's latest inflation forecast see: <https://www.oenb.at/Publikationen/Volkswirtschaft/inflation-aktuell.html>. The next forecast update will be released on Oktober 14, 2022.

³ Detailed results became available only after the cutoff date for data; according to Statistics Austria, the decline in inflation in August was primarily driven by fuel prices.

Contributions to Austrian HICP inflation

Inflation in %; inflation contributions in percentage points



Source: Statistics Austria.

Since April 2022, the rise in inflation has mainly been driven by energy prices given surging crude oil and wholesale gas prices. Energy consumer prices account for close to 40% of the inflation spurt that occurred between April and July 2022, but the prices of all other HICP components have gone up as well. Services and food (including alcohol and tobacco) explain about one-quarter each of the increase observed from April to July, and nonenergy industrial goods slightly more than 10%. Core inflation, which excludes energy and food prices, totaled 5.1% in July 2022, having mounted by 1.2 percentage points from April 2022. The rise in core inflation is mainly attributable to ongoing price increases for durable consumer goods such as vehicles and furniture, but prices have been going up in the tourism industry as well.

Following a rate of 3.4% in April 2022, the pace of inflation in the services industry peaked at 4.8% in July 2022, the highest level since the euro area was created in 1999. Within the services sector, prices have soared above all for hospitality services. The increases in restaurant and café prices likewise reached a record high (9.3%) in July 2022, while the inflation rate for accommodation services (9.8%) fell just slightly short of the historical high (11.9%) recorded in May 2022. Last but not least, the prices for flight tickets and package tours have also seen exceptional price spikes of late. With demand remaining strong, many service providers appear to have been able to pass through higher costs resulting from rising energy and food prices to consumers.

Nonenergy industrial goods prices have also been going up considerably. With an inflation rate of 5.8% in July 2022, they well exceeded the long-term average (1% since 2001). These developments have been primarily driven by the prices for durable consumer goods, such as furniture and furnishings as well as vehicles. As

a case in point, in July 2022, used car prices exceeded the prices charged a year earlier by 25%. Demand for used cars is likely to have been pushed up by the global chip shortage and ensuing supply-chain bottlenecks in car manufacturing. Producers continued to face high input costs as commodity prices in both the energy and nonenergy segments were spiraling and supplies tightened further in the wake of Russia's war on Ukraine. While it had not been speeding up further in recent months, producer price inflation remained at elevated levels in June 2022 (27.7%) and just slightly below the peak observed in April 2022 (28.6%).

Energy price inflation, in contrast, accelerated to 46.9% in July (April 2022: 37.6%). Crude oil prices as well as gas and electricity wholesale prices spiked further recently, not least in anticipation of gas supply shortages. As a result, motor fuel prices have been surging: in July 2022, prices were 63% above the price level of July 2021. Heating oil prices even climbed 108% beyond the July 2021 level. Initially, the rise in energy prices was cushioned somewhat in May 2022, when taxes on electricity and natural gas were lowered considerably. However, gas and electricity prices are set to surge again in September 2022, given sharp price increases by the utility providers serving Lower Austria and Vienna.

Finally, food prices (including alcohol and tobacco) were up 10.2% in July 2022 compared with July 2021 (April 2022: 7.1%). Since April 2022, we have seen a sizable increase in prices in particular for meat, milk, eggs, cheese and oils and fats. To some extent, these developments reflect the rise in prices for agricultural commodities. After all, Russia's war on Ukraine has not only been driving up energy prices but has also been a major push factor in the global rise of food prices. In June 2022, agricultural commodity prices exceeded the year-earlier level by about 35%. At the same time, the high energy prices have been driving up the cost of agricultural production through higher transportation and input costs, given a year-on-year increase in fuel and fertilizer prices of 63% and 68% in July 2022.