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INTERIM ECONOMIC OUTLOOK FOR AUSTRIA

September 2024

Austrian economy remains in recession, inflation shock comes to an end

Security through stability

2024/17

Austrian economy remains in recession, inflation shock comes to an end

Cutoff date: September 5, 2024

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1. Summary

Austria's economy has been in a recession for nearly two years. After peaking in the second quarter of 2022, economic output had dropped by a total of 2.1% by the second quarter of 2024. This decline was driven by two key factors: an industrial recession and weak growth in private consumption. The OeNB's September 2024 Economic Indicator signals that real GDP will continue to contract – by 0.2% – in the third quarter of 2024 and stagnate in the fourth quarter. Compared to the June outlook, the forecast for real GDP growth was lowered by 1 percentage point to –0.7% for 2024 and by 0.8 percentage points to 1.0% for 2025. The downward revision reflects weaker-than-expected GDP growth in recent quarters, the GDP contraction in the second quarter of 2024, and a lower GDP growth forecast for the second half of 2024. Potential changes in historical growth rates as a result of a major revision of the national accounts methodology at the end of September may lead to further adjustments of the forecasts for 2024 and 2025. Given the weaker economic outlook, we expect higher unemployment rates: 7.1% in 2024, 7.5% for 2025 and 7.3% for 2026.

Inflation as measured by the Harmonized Index of Consumer Prices (HICP) peaked at 11.6% in January 2023. Since then, inflation has come down steadily, reaching 2.5% in August 2024, according to a flash estimate by Statistics Austria. Core inflation peaked at 8.3% in April 2023, and declined to 3.7% by July 2024. According to the present inflation forecast, annual HICP inflation will fall to 2.9% in 2024, down from 7.7% in 2023. This is due to the weak economy and a moderation in producer prices. In subsequent years, the decline in inflation is likely to slow, as fiscal policy measures in the energy sector are being phased out, among other things. For 2025 and 2026, we expect inflation rates of 2.3% and 2.2%, respectively.

Table 1

OeNB September 2024 Interim Economic Outlook for Austria

	Q3 24	Q4 24	2023	2024	2025	2026	Revisions since June 2024: 2024	2025	2026
							Percentage points		
Real GDP growth (compared to previous period in %)	−0.2	0.0	−0.7	−0.7	1.0	1.5	−1.0	−0.8	0.0
HICP inflation (year on year in %)	2.5	1.9	7.7	2.9	2.3	2.2	−0.4	−0.4	−0.4
Unemployment rate (national definition in %)	7.2	7.4	6.4	7.1	7.5	7.3	0.4	1.0	0.9

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

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2. Economic output continued to contract in the first half of 2024

Austria's economy has been in near-constant recession for two years. After peaking in the second quarter of 2022, economic output had dropped by a total of 2.1% by the second quarter of 2024. Since the second quarter of 2022, only three quarters have seen real GDP growth at a fractional rate of 0.1% each (compared to the previous quarter, seasonally and working-day adjusted). In 2023, output contracted by 0.7%. In the second quarter of 2024, the Austrian economy shrank by 0.4% compared to the previous quarter.

This decline was driven by two key factors: an industrial recession and weak growth in private consumption. Industrial activity has been dampened mainly by a weakness in foreign demand. The Austrian economy has been affected particularly strongly by very sluggish growth in Germany, given the close economic ties between the two countries. Austrian exports grew until early 2023 but slumped after the first quarter of 2023. Compared to its peak in early 2023, exports fell by 9% in the second quarter of 2024 (seasonally and working-day adjusted). This decrease was mainly driven by a decline in exports to Germany.

In addition to weak external demand, many industries – especially manufacturers of intermediate goods and construction-related industries – are also facing a negative trend in domestic demand. Weak demand, in combination with rising costs due to a temporary spike in energy prices that resulted in strong wage growth, and, more recently, high financing costs, caused investment activity to remain slow for two years now. Manufacturing output fell by 6% between January 2022 and June 2024. Energy-intensive industries, such as wood, paper, glass and ceramics as well as manufacture of basic metals, saw outsized declines. Their output dropped by 13%, more than double the rate of the entire manufacturing industry. By contrast, consumer-oriented industries, such as food, beverages and clothing, as well as high-tech industries, such as the manufacture of pharmaceutical products, were above average.

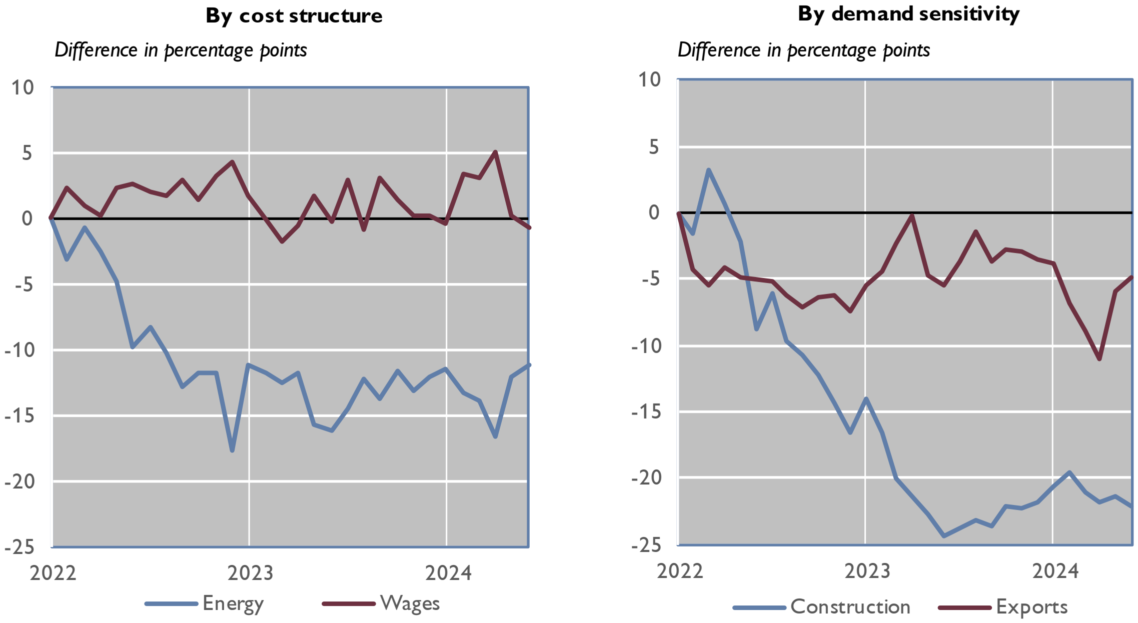
Chart 1 shows the evolution of industrial production for various industry aggregates. The left-hand panel shows industrial production of energy- and wage-intensive industries relative to industries that are not energy and wage intensive.[2] Energy-intensive industries performed much worse than industries that are not energy intensive. By contrast, industries with higher proportions of wage costs did not show a weaker performance than industries that are not wage intensive.

The right-hand panel shows two industry aggregates according to demand sensitivity. Based on data from the 2019 input-output table, the industries were aggregated according to the share of the construction industry and exports relative to total demand. The data show that the wood, glass and ceramics and mining industries, which are heavily reliant on demand from the construction industry, recorded a 25% decline in output between January 2022 and June 2024. The impact on industries that are heavily reliant on exports was also above average, albeit slightly.

[2] The lines in the left-hand panel of chart 1 show the difference in index values between intensive and non-intensive industries, starting in January 2022.

Chart 1

Industrial production for industry aggregates



Source: Statistics Austria, authors' calculations.

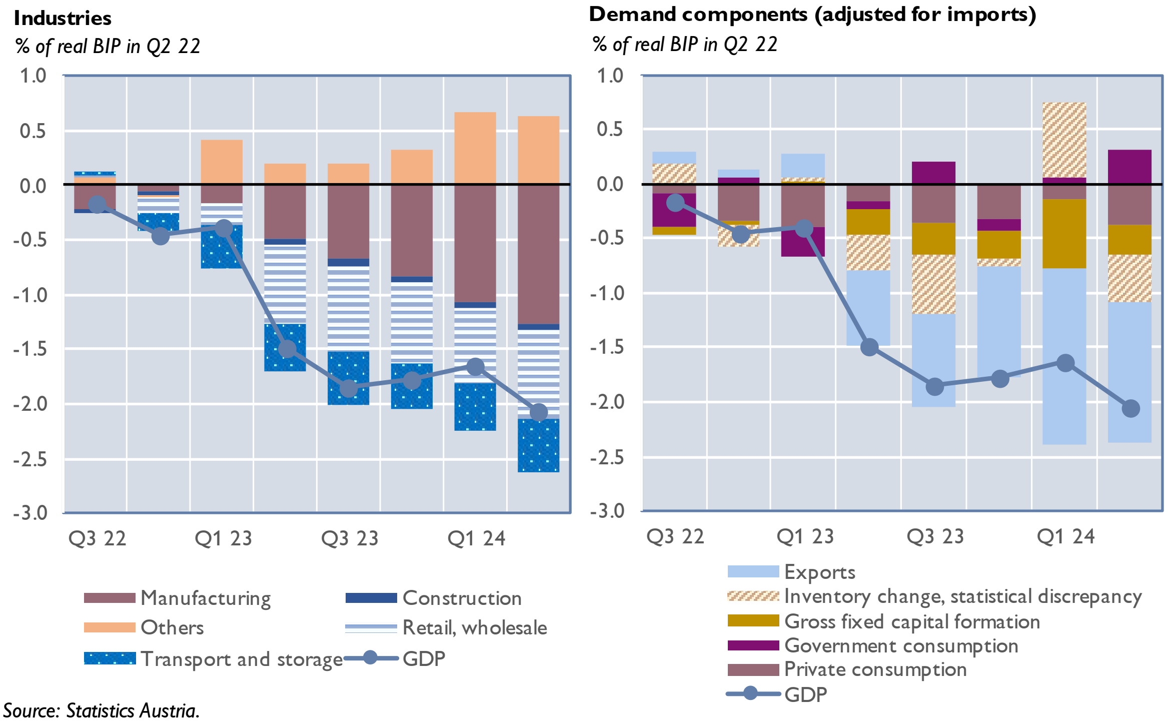
In the construction industry, building construction output slumped, while civil engineering remained solid. Even before interest rates rose, a decline in the number of building permits indicated that the residential construction boom was coming to an end. 46,600 permits were granted for homes in 2023, a decline by almost half, compared to the 84,890 permits issued in 2019. The first quarter of 2024 saw a slight increase in permits. Sentiment in the construction industry has been deteriorating steadily since 2021. Construction companies are now much more pessimistic about their order books and sales price expectations (economic sentiment indicator). By contrast, expectations for construction activity and employment are bottoming out. The results of the latest bank lending survey also show a slight increase in demand for housing loans, indicating that residential construction activity has reached a bottom. New orders, revenue, production indexes and real value added in construction compiled by Statistics Austria indicate a broadly stable situation in the construction industry so far. This could be interpreted as a risk that a correction might yet take place or that future revisions of the data may resolve these inconsistencies.

Chart 2 shows the contributions of industries and demand components to the 2.1% decline in real GDP between its peak in the second quarter of 2022 and the second quarter of 2024. The decrease was driven by manufacturing, wholesale and retail trade, and transportation and storage. Construction did not make a significant negative contribution as its real value added decline was unexpectedly small at 1.2%, and because construction only accounts for 5% of total economic output. Positive contributions to growth were mainly driven by the public sector. On the demand side[3], the decline was largely due to exports but also attributable to gross fixed capital formation.

Private consumption did not make any positive contributions to growth even though real income growth was strong at 4.5%, as households significantly increased their saving rate due to the prevailing uncertainty.

[3] The demand components are adjusted for their import content, according to the input-output table.

Contributions to decline in real GDP since Q2 22



Source: Statistics Austria.

The economic downturn has started to affect the labor market. While payroll employment (national definition) has remained stable at a level of around 3.96 million workers since the beginning of 2023 despite the weak economy, expectations for employment have deteriorated for industry, construction and retail, according to European Commission survey data. This means that employment in these industries, which has declined in recent months, is likely to continue to shrink. By contrast, services, in particular IT, the liberal professions, the public sector, education and healthcare, are characterized by rising employment and optimistic expectations for the future. The number of job vacancies has fallen sharply and stands at 87,000 on a seasonally adjusted basis, down from 128,000 in May 2022. The European Commission's survey data also indicate a significant easing of labor shortages. Registered unemployment (national definition) has risen continuously since the beginning of 2023, when 259,000 people were without a job, and stood at 302,000 as of the end of August 2024, on a seasonally adjusted basis. The seasonally adjusted registered unemployment rate (national definition) was 7.0% in the second quarter of 2024, roughly at the level before the COVID-19 crisis.

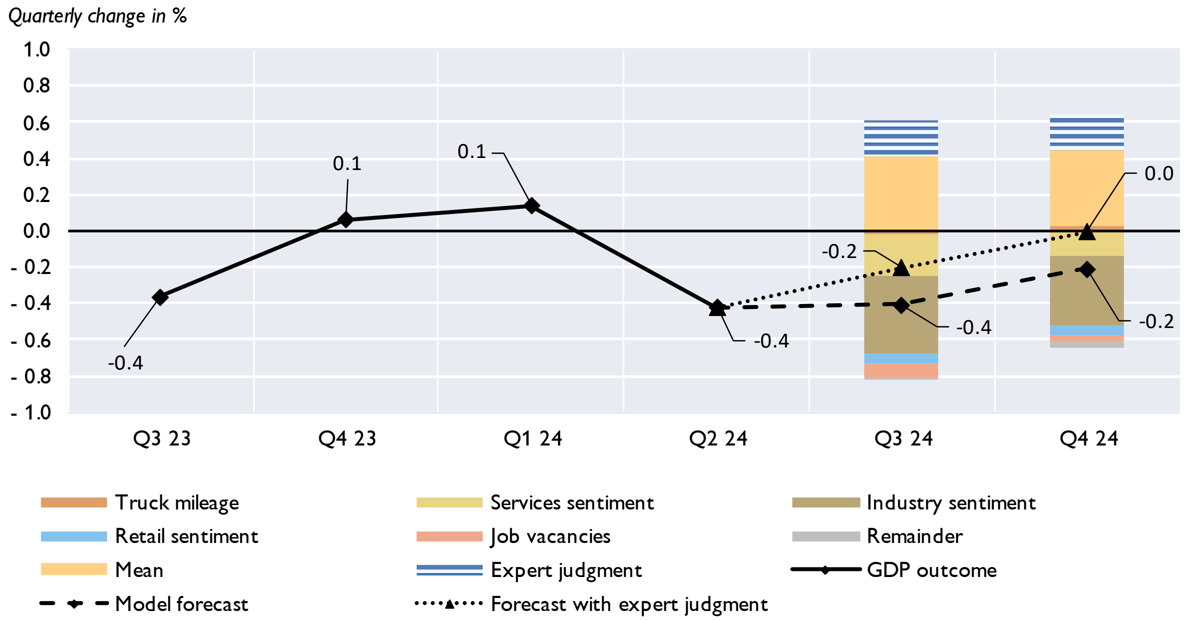
For 2024, the OeNB expects unemployment to increase to an average of 7.1%. Given the persistently weak growth outlook, the unemployment rate will rise to 7.5% in 2025, 1 percentage point higher than forecast in the June outlook.

3. Economy will not recover until 2025, according to OeNB Economic Indicator

After GDP contracted more than expected, by 0.4%, in the second quarter of 2024, the OeNB's Economic Indicator[4] (as of September 4, 2024) forecasts a further 0.2% decline in real GDP for the third quarter of 2024 and stagnation for the fourth quarter of 2024.

Chart 3

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



Source: OeNB Economic Indicator. Data as of September 4, 2024.

Based on the model forecast without expert judgment, growth rates are expected to be even lower than that, mainly reflecting weak sentiment indicators for industry. Indicators for the services sector and retail as well as the decline in job vacancies also signal a contraction in economic output compared to previous quarters.

Inflation has continued to decrease, while wages have already been negotiated and are therefore fixed, boosting real net household incomes. The OeNB therefore continues to expect a slightly stronger acceleration in private consumption. It also assumes that confidence effects, which have recently acted as a drag, will fade. To reflect these developments, which are not fully incorporated in the model forecast, we use our expert judgment to increase the growth forecast by 0.2 percentage points for both the third and the fourth quarters.

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

4. Significant downgrade of growth forecast

The growth forecast for 2024 and 2025 is a technical update of the OeNB's June 2024 outlook. In a first step, we included the latest national accounts data release up to the second quarter of 2024.[5] Next, we used the OeNB's macroeconomic model (Austrian Quarterly Model – AQM) to simulate the impact of changes in international assumptions, such as energy and commodity prices, exchange rates and interest rates, that had occurred since June 2024. For the second half of 2024, we drew on the results of the OeNB's Economic Indicator.

Compared to the June outlook, the forecast for real GDP growth in 2024 was cut by 1 percentage point to –0.7%. This means that Austria stays in a recession – albeit a shallow one – for the second year in a row. The downward revision reflects slightly weaker-than-expected GDP growth in recent quarters, the GDP contraction in the second quarter of 2024, and a lower GDP growth forecast for the second half of 2024. The latter also reduces the 2025 growth forecast by 0.8 percentage points to +1.0%, compared to the June outlook, as the economy enters the year at a lower base.

Table 2

Real GDP growth forecast

	Sept. 2024	June 2024	*Revision* Total	*due to* new data	external assumptions	OeNB assessment
	Annual change in %		*Percentage points*			
2023	−0.7	−0.7	−0.0	−0.0	0.0	0.0
2024	−0.7	0.3	−1.0	−0.6	−0.0	−0.4
2025	1.0	1.8	−0.9	−0.2	−0.1	−0.6
2026	1.5	1.5	−0.0	−0.0	0.0	−0.0

Source: Statistics Austria, OeNB.

Risks tilted to the downside amid high level of uncertainty

Global economic risks are mostly tilted to the downside. Potential risks are (1) a further weakening of the German economy, (2) international conflicts and war (Middle East, Sudan, Ukraine), with a possible impact on commodity prices and global trade, and (3) risks from geopolitical developments. These include the risk of a protectionist US trade policy after the presidential elections in November 2024 and a possible escalation of the conflict between China and Taiwan (supply disruptions related to Taiwan's leading position in the semiconductor industry). Domestic risks are also somewhat tilted to the downside. A significant downside risk is that the ongoing loss of price competitiveness caused by higher unit labor and energy costs could have a negative structural impact on Austrian industry. In addition, there is potential uncertainty associated with the Austrian general elections on September 29, 2024, as the results may make it difficult to form a new government.

The need for fiscal consolidation represents a medium-term downside risk to the economy that cannot be incorporated in the outlook, which assumes no policy change. Future consumption is subject to a high degree of uncertainty. We have seen that households saved higher shares of their real net incomes than we anticipated in previous outlooks. If consumers remain as cautious – or

[5] Statistics Austria publishes a large-scale methodological revision of the national accounts at the end of September. This could lead to significant revisions to the quarterly statistics, thus changing the economic picture.

become even more cautious – about spending, another downside risk will materialize. On the other hand, the saving rate could return to its historical average faster and more sharply than expected, which would contribute to a stronger economic recovery. The benchmark revision of the national accounts, which will be published by Statistics Austria on September 30, 2024, might lead to revisions of past data, influencing the forecasts for 2024 and 2025.

5. HICP inflation dropped to its lowest level since mid-2021

HICP inflation continued to come down in 2024: It declined from 4.3% in January 2024 to 2.5% in August 2024.[6] Core inflation was at 3.7% in July 2024, down from 5.3% in January 2024. According to the latest data, the contribution of services to inflation amounted to 2.6 percentage points (or 90% of HICP inflation). The inflation contributions from food (0.3 percentage points) and industrial goods excluding energy (0.2 percentage points) were only slightly in positive territory in July 2024, while energy helped to slow headline inflation.

The decline in the inflation rate from January 2024 to July 2024 was attributable in roughly equal measure to industrial goods excluding energy and food (accounting for –0.6 percentage points of the 1.4 percentage point decline in HICP inflation), and services (–0.5 percentage points).

Falling energy prices, significantly lower food and nonenergy industrial goods inflation

Energy inflation was –1.7% in July 2024. While annual inflation rates for gas, solid fuels and district heating have been deep in negative territory for some time, electricity inflation was positive in the two most recent months. The considerable decline in wholesale gas prices has been passed through, in part, to end customers since mid-2022. Electricity prices have been stable since the introduction of the electricity price cap in December 2022. They have not changed or increased even after electricity subsidies were cut in half in July 2024.

The inflation rate for industrial goods excluding energy has also come down from 2.7% in January 2024, and stood at just 0.5% in July 2024 (year-on-year). The decline was partly driven by producer prices for the domestic market that had been falling since July 2023. A detailed look at nonenergy industrial goods shows that inflation has been slowing, particularly in durable consumer goods, and especially furniture and furnishings, as well as in passenger cars, where inflation has been negative.

Food inflation was 1.6% in July 2024. Unprocessed food inflation has been negative, while processed food inflation was 2.3% in July 2024, a significant drop from 6.1% in January 2024.

Services inflation has also come down in recent months but remains well above the long-term average. Annual services inflation fell from 6.8% in January 2024 to 5.5% in July 2024. The persistently high inflation in the services sector has been driven mainly by accommodation and food services, and rents. A strong recovery in tourism has allowed companies to raise their prices. These price increases were at least partly due to higher costs. Inflationary pressure on rents will slow by around 0.2 percentage points in 2024, as the Austrian government decided in August 2023 to put in place a cap on rent increases. In the absence of the cap, some parts of the regulated rental market would have seen higher rent increases in April 2024.

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[6] According to a Statistics Austria flash estimate. More detailed data for August (core inflation, main components) will be released on September 18, 2024.

Inflation differential between Austria and the euro area dropped below long-term average

The inflation differential between Austria and the euro area has narrowed steadily since 2023, when HICP inflation was 7.7% in Austria, 2.3 percentage points above the euro area's 5.4%. In July and August 2024, Austria's inflation rate was only 0.3 percentage points above the euro area average. This means that the inflation differential is now below the long-term average of 0.6 percentage points. The recent significant narrowing is primarily attributable to energy, with that category accounting for more than half of the 2.0 percentage point contraction since 2023. To a lesser extent, industrial goods excluding energy, and services also contributed to the narrowing of the inflation differential, just like, more recently and less than in the previous year, food.

Austrian energy inflation has been lower than the euro area average in recent months, which was due to the decisions by some major euro area countries to end fiscal policy measures to offset energy price increases. For example, in the first half of 2024, Germany and Spain discontinued a VAT reduction for certain types of energy. In addition, Austrian energy suppliers have now passed on to consumers some of the price declines on the wholesale gas and district heating markets.

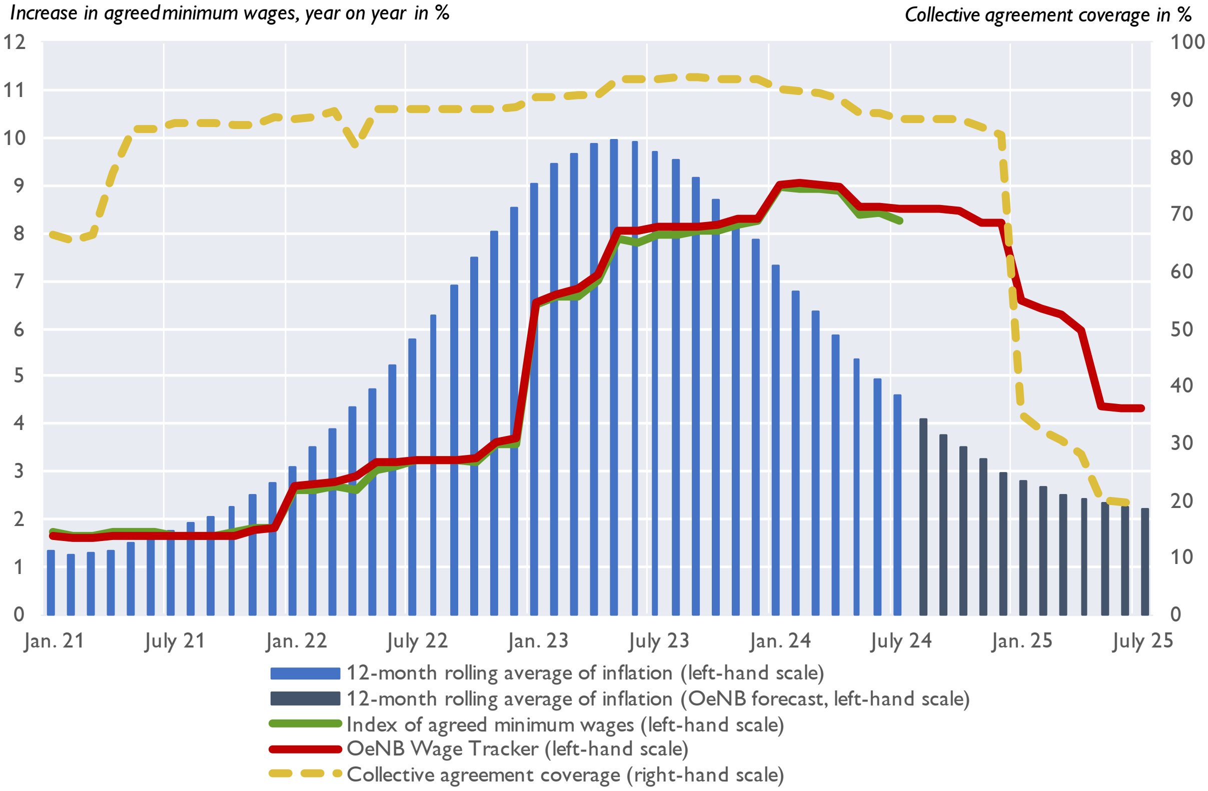
Recent data show that Austria's nonenergy industrial goods inflation was not only below that of the euro area, but also lower than the long-term average. In particular, Austria's inflation rates for durable consumer goods, such as cars and furniture, have fallen at a faster rate than in the euro area. Services inflation is about 1.5 percentage points higher in Austria than in the euro area. The differential has narrowed significantly since January 2024, with hotels and accommodation services as well as rents accounting for more than two-thirds of that decline. At 1.6%, Austria's food inflation (including alcohol and tobacco) was below that of the euro area in July.

Wage Tracker: collective wage growth to go down slowly until year-end, decline at faster rate afterward

While collective agreements concluded in early 2024 meant high pay raises in the public sector (+9.3%), electricity companies and the oil industry (both +9.4%), the collective agreements signed in the following months delivered lower wage increases, in line with falling inflation. These included the financial sector (+8.3% from April), the electrical and electronics industry (+7.5% from May), the paper industry (+7.0% from May), the hospitality industry (+7.25% from May), the glass industry (+6.5% from June) and the clothing industry (+5.4% from July). In the construction industry, wages rose by 7.1% in May under a two-year collective agreement concluded in the previous year. In the healthcare sector, collective agreements delivered relatively strong wage growth, as shown by the private hospital industry (+9.15% from April) and private health spa and rehabilitation facilities (+8.3% from May).

Chart 4

Recent and future trends in collectively 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: July 2025. As of September 3, 2024.

As no other significant collective wage agreements are expected to be concluded until the end of the year, the trajectory of collective wage growth in 2024 is already, for the most part, predetermined. The metal industry, where wage increases take effect in November, concluded a two-year collective agreement late last year. This means that wages in the metal industry are likely to rise by about 5% from fall 2024, a number that corresponds to the rolling average inflation from September 2023 to August 2024 plus 1 percentage point. In general, the 2023/2024 wage negotiations resulted in the conclusion of an unusually large number of two-year collective agreements. In addition to the metal sectors, these longer-term agreements were concluded in the metalworking industry, the IT sector, the textile industry, private hospitals, logistics, the hospitality industry, and private health spa and rehabilitation facilities etc. The larger proportion of two-year agreements likely reflects an effort to reduce uncertainty in times of high inflation.

Chart 4, the OeNB's Wage Tracker, shows that collective wage growth was 9% at the beginning of the year and is set to slow to about 8% by year-end. After that, the Wage Tracker indicates a sharp decline. However, most of the agreements that will determine wage growth next year have not been concluded. The actual decrease in collective wage growth will likely be even more pronounced, as the agreements that take effect next January will be based on lower inflation. The rolling average inflation rate relevant for the public sector, and retail and wholesale trade negotiations (from October 2023 to September 2024) will be less than 4%.

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

The OeNB's web scraping data suggest that price increases for food and nonalcoholic beverages continued to slow in August 2024 compared to July, with the year-on-year inflation rate standing at 0.1%, compared to 0.9%. The decline was particularly pronounced for meat and fish, where prices fell by 2.0% (year on year) in August 2024. In comparison, the price increases for oils and fats remained relatively high at 2.8%. Dairy inflation was relatively low at –1.2%, but year-on-year inflation in this category has been trending up for several months.

6. Inflation forecast: inflation drops to 2.9% in 2024

In its current inflation forecast, the OeNB expects HICP inflation to decline from 7.7% in 2023 to 2.9% in 2024. In the following years, disinflation will slow, with inflation dropping to 2.3% in 2025 and 2.2% in 2026. Core inflation (HICP inflation excluding energy and food) will fall to 4.0% in 2024, down from 7.3% in 2023, a much slower decline than in headline inflation. Hence, core inflation will be significantly higher than HICP inflation in 2024. The inflationary impact of strong wage growth has been mitigated by the weak economy. As wage growth slows, core inflation will fall to 2.6% in 2025 and 2.3% in 2026. Near the end of the forecast horizon, it will only be slightly higher than headline inflation.

The decline in HICP inflation in 2024, compared to 2023, has been driven by all main components, especially by industrial goods excluding energy as well as energy and food, and mainly reflects weak demand and falling producer prices. In addition, household energy prices are expected to continue their decline in the second half of 2024. In the services sector, strong growth in labor costs is likely to prevent a steeper decline in the inflation rate.

Fiscal policy measures have primarily influenced energy and services inflation. At the beginning of 2025, the phaseout of fiscal policy measures to mitigate energy prices (removal of electricity price cap, reinstatement of the electricity, natural gas and renewables levy) and the increase in the carbon price will raise HICP inflation by around 0.6 percentage points, if viewed in isolation.[7] 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 June 2024, the OeNB forecast for headline inflation was revised down throughout the forecast horizon, by 0.4 percentage points for each year from 2024 to 2026 (see table 3). The forecast for services was not revised compared to the previous outlook. All other main components of the HICP were revised down throughout the forecast horizon, reflecting an unexpectedly sharp drop in the inflation rate in recent months and a significantly weaker economy.

[7] This calculation only incorporates direct effects.

Table 3

OeNB September 2024 inflation forecast

	Forecast				Revisions compared to June 2023		
	2023	2024	2025	2026	2024	2025	2026
	Annual change in %				*Percentage points*		
HICP inflation	7.7	2.9	2.3	2.2	−0.4	−0.4	−0.4
Food, total	10.0	2.9	2.5	2.0	−1.1	−0.9	−0.3
of which: unprocessed food	*7.6*	*0.2*	*1.2*	*x*	−2.1	*−1.5*	*x*
of which: processed food	*10.6*	*3.4*	*2.8*	*x*	−0.9	*−0.8*	*x*
Industrial goods excluding energy	6.4	*1.0*	*0.5*	*x*	−0.6	*−0.9*	*x*
Energy	6.9	−5.7	−1.1	1.7	−0.9	−0.6	−1.0
Services	7.8	*5.7*	*3.8*	*x*	−0.0	*0.0*	*x*
HICP excluding energy	7.8	3.8	2.6	2.2	−0.4	−0.4	−0.3
HICP excluding energy and food	7.3	4.0	2.6	2.3	−0.2	−0.3	−0.3

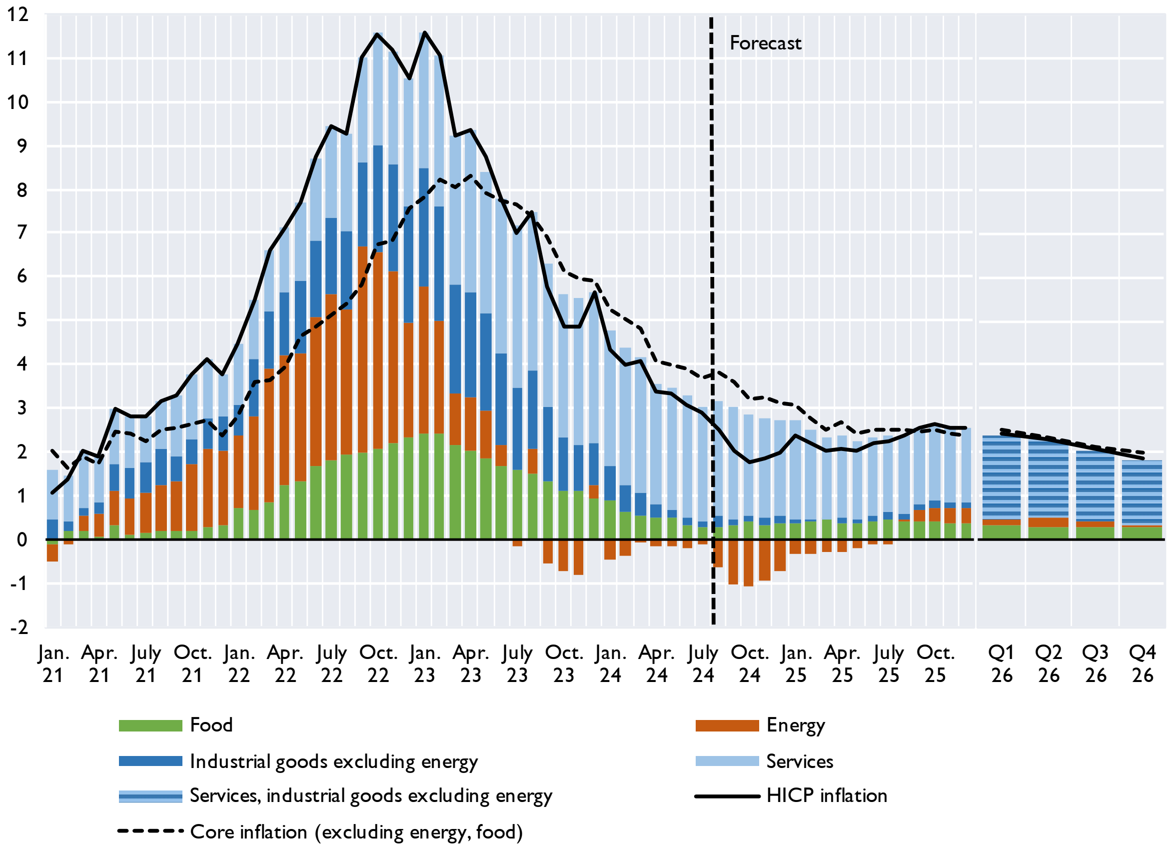
Source: OeNB, Statistics Austria.

Risks to the inflation forecast are in balance. Geopolitical tensions and Austria's reliance on Russian gas could lead to higher price pressures than forecast. On the other hand, risks to the economic outlook for 2024 and 2025 are tilted to the downside.

Chart 5

Contributions to HICP inflation

Inflation rates in %; contributions to inflation in percentage points



Source: OeNB, Statistics Austria.

Table 4

Assumptions underlying the OeNB September 2024 inflation forecast

		September 2024 assumptions			Revisions compared to June 2024		
	2023	2024	2025	2026	2024	2025	2026
Energy and exchange rates					%		
Oil price (EUR/barrel Brent)	77.5	76.5	69.5	66.9	−1.5	−4.1	−3.3
Wholesale price of gas (EUR/MWh)	40.6	34.2	41.1	35.4	11.0	16.0	18.1
Wholesale price of electricity (EUR/MWh)	103.5	77.4	93.3	82.2	6.0	6.4	13.0
EUR/USD exchange rate	1.08	1.09	1.10	1.10	0.8	1.7	1.7
Nonenergy commodity prices	*Index 2005 = 100*				%		
Total	184.7	198.2	200.8	205.8	−3.7	−6.1	−4.6
of which: world market prices for food	214.1	243.6	235.0	232.1	−5.3	−9.0	−8.3
of which: world market prices for metals	170.4	170.1	172.5	177.6	−3.8	−6.8	−4.8
EU producer prices for food	173.7	167.7	163.4	163.7	−2.3	−5.5	−5.0
Interest rates					*Percentage points*		
Three-month interest rate	3.4	3.6	2.5	2.2	−0.0	−0.4	−0.3
Yield on ten-year government bonds	3.1	2.9	2.8	2.9	−0.0	−0.1	−0.0

Source: Eurosystem.

The table above shows the most important external assumptions that the Eurosystem made in its inflation forecast. Downward revisions were made to crude oil and nonenergy commodity prices. Wholesale prices for gas and electricity were revised up throughout the forecast horizon – by an average of 15% for gas and by an average of 9% for electricity.

Goods inflation is falling, but core inflation decline is slow

Industrial goods excluding energy

The inflation rate for industrial goods excluding energy fell to 0.5% in July 2024. The decline observed in recent months is partly due to weak demand, which is reflected in moderate retail sales. Short-term consumer confidence indicators for the retail sector (excluding food) point to conditions well below average for now and the next three months. Companies' price expectations have also returned to their long-term averages from their historical highs in 2022 and 2023. Despite the high growth in wage costs in 2024, the economic slowdown is likely to reduce the inflation rate in this sector. In addition, producer prices have been trending down for several months. We expect an inflation rate of 1.0% in this sector for 2024, down from 6.4% in 2023, and a further decline to 0.5% in 2025, below its long-term average of 0.9% between 2001 and 2019.

Energy

The inflation forecast assumes that the decline in wholesale household energy prices observed since mid-2022 will be increasingly passed through to Austrian consumers in the second half of 2024, as high-priced existing contracts are likely to be replaced by lower-priced new contracts. The decision to halve the electricity price subsidy from 30 to 15 cent per kilowatt hour from July 2024 is unlikely to have an impact on the electricity price. That is because the electricity price will be around 15 cent per kilowatt hour in the second half of 2024. Even a reduction of the subsidy to 5 cent per kilowatt hour would not drive up prices for consumers. Overall, we expect a 2024 energy inflation rate of –5.7%. However, inflation in this sector will pick up at the beginning of 2025, as fiscal policy measures will be phased out and the carbon price will be raised. This will likely push up energy inflation by about +7.1 percentage points and HICP inflation by about +0.6 percentage points. However, as household prices for gas and district heating are well below the levels seen last year, overall energy price inflation will remain negative at –1.1% despite the fiscal policy measures. In 2026, energy inflation will rise to 1.7%.

Services

The persistently high inflation rates in the services sector are primarily attributable to tourism-related services, such as hotels, restaurants, sports and leisure services, and rents. These sectors recently recorded inflation rates that were significantly higher than average services inflation. Short-term leading indicators in these sectors indicate stable demand. Price expectations for hotel services have moved from an above-average level in recent months back toward the long-term average. Companies' short-term price expectations for restaurant services have settled at a slightly above-average level. 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 come down only slowly and remain at 5.7% in 2024, well above the long-term average of 2.4% between 2001 and 2019. 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 services inflation in 2024 and 2025 (by 0.2 percentage points in 2024 and 0.1 percentage point in 2025).[8] As wage cost growth will be moderating from 2025, services inflation is likely to decline to 3.8%.

Food (including alcohol and tobacco)

Food inflation has come down significantly in recent months, dropping from 10% in 2023 to 1.6% in July 2024. The main driver was an unusually sharp decline in the unprocessed foods category (especially fruit and vegetables). Food inflation is expected to remain largely stable over the remainder of the year and average 2.9% in 2024. One factor likely to contribute to this development is that the recent unusually low inflation for unprocessed food will normalize quickly, partly driven by recent frost damage. In addition, high wage cost growth will not come down more significantly before 2025. Food inflation will fall steadily, to reach 2.5% in 2025 and 2.0% in 2026. The normalization of inflation in this category is also due to lower energy costs.

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

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