

AUSTRIA

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THE ECONOMY WILL ONLY RECOVER SLOWLY

After being in recession in 2023 (-0.8% on an annual average), due to falling investment, high inflation and the decline in real wages, Austrian growth is expected to remain weak this year (+0.3% according to the European Commission). In Q1, real GDP grew by just 0.2% q/q, still dragged down by the decline in investment (-4.7% q/q, contributing -1.1 pp to growth), but nevertheless pulled up by the rebound in private consumption (+0.8% q/q, contributing +0.4 pp), itself supported by the return of real wage increases and the resilience of the labour market.

Austria, which is heavily dependent on its industrial activity, was negatively impacted in 2023 by the rise in energy prices, the slowdown in global merchandise trade, and weak economic activity in Europe - particularly in Germany¹. The economy finally managed to post slight growth² in the first quarter of 2024, and the main economic indicators suggest that activity should remain weak but positive in the second quarter.

PERSISTENT WEAKNESS IN INDUSTRY AND CONSTRUCTION

Activity in the industry and construction sectors remained weak in the first part of the year. The environment of persistently high interest rates and energy prices, combined with significant rises in unit labour costs in Austria (7.4% y/y in Q4 2023 compared with 3.4% y/y for the Eurozone), continued to weigh on both these sectors.

In April, the industrial production index (IPI) was still showing a negative trend (-1.3% y/y), which was also the case for the industry sector including construction (-0.4% y/y). Nevertheless, the situation is expected to gradually improve over the course of the year, as disinflation takes hold and the activity of Austria's main trading partners picks up. Although still far from their long-term³ trends, both these production indices have already recovered significantly compared with March (+2.2 pp and +3.2 pp respectively).

New orders in both sectors also rose sharply in April (+7.9% and +14.4% y/y respectively), suggesting that activity should pick up again in the months ahead. This is also suggested by the encouraging results of the PMI survey conducted by UniCredit Bank Austria in May. Although the overall index remains below the threshold of 50 (at 46.3), it has nevertheless climbed to its best level in nearly fifteen months, due in particular to the slowdown in the decline in new orders (47.1; +3.6 points over one month) and an improvement in expectations for production over the coming year (56.3; +0.8 points).

PRIVATE CONSUMPTION SHOULD CONTINUE TO ACT AS A COUNTERWEIGHT

After contributing negatively to real GDP growth in 2023 (-0.3 pp), private consumption was the main driver of Austrian growth in Q1 2024. It should remain buoyant throughout the year due to the reduction in inflation (3.3% y/y in May compared with 5.7% in December 2023), which, combined with strong growth in negotiated wages (+8.8% y/y in April), is supporting household purchasing power.

For its part, the labour market has proved rather resilient despite the poor economic climate. The unemployment rate remained moderate (6.4% in May) and below its long-term average (7.2% over the 1999-2019 period), while the employment rate remained high at 73.3% in Q1 2024, not far off its all-time high recorded in Q3 2023 (74.9%). The outlook is positive, with the vacancy rate still more than

¹ Germany is Austria's main trading partner. It is the country to which 30% of Austria's exports are directed.

² Quarterly change.

³ Long-term trends for both these sectors are around +3.4% y/y over the period 1997-2019.

⁴ Lower house of the bicameral parliament.

GROWTH AND INFLATION

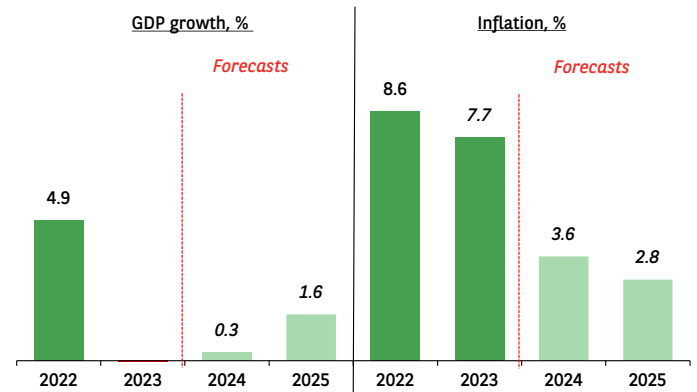


CHART 1

SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

1 percentage point above its pre-pandemic level (4.4% in Q1 2024) - particularly so in the health, services and transport sectors.

Tourism activity was also strong during the 2023/2024 winter season, which boosted export growth (+2.6% q/q). Indeed, although still below the pre-Covid level of the 2018/2019 season, the number of tourist arrivals was 19.9 million, which still represents an increase of 5.5% compared to the 2022/2023 season.

2024: AN ELECTORAL "SUPER YEAR"

2024 is an electoral "super year" for Austria, with European elections, National Council elections⁴, two regional elections and a large number of local consultations. As predicted by the polls, the Freedom Party of Austria (FPÖ) came out on top in the European elections (with 25.5% of the vote and 6 MEPs). This is the first time that this right-wing populist party has won a national election, overtaking the People's Party (ÖVP) (24.7%) and the Social Democratic Party (SPÖ) (23.2%). The results of the European elections in Austria, coupled with the recent fragmentation of the national political landscape, make it uncertain whether the current coalition (comprising the ÖVP and the Greens) will remain in power. The latest polls confirm that the FPÖ is the favourite for the National Council elections on 29 September. Although it could achieve its best score in these elections (around 30% of the vote), the FPÖ will have to form an alliance with another party in order to govern. However, a coalition appears complicated, as the leaders of the other five parties have ruled out any alliance with the FPÖ.

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