

Austria: Economic weakness sets the scene for this election year

The Austrian economy is starting this 2024 election year on a weak footing. High inflation and declining international competitiveness remain the key economic and political issues



The Austrian Chancellor Karl Nehammer with Italy's Giorgia Meloni in May last year

Austria has entered a recession and the outlook looks rather bleak

After a contraction in the second quarter, the Austrian economy shrank by a further 0.5% Quarter-on-Quarter in the third, entering a technical recession. Looking ahead, leading indicators paint a mixed picture. Consumer confidence is slowly recovering but remains well below the long-term average. Sentiment in industry worsened again in the last two months of 2023, while the services sector looked less negatively into the future at the end of the year.

There are plenty of signs that industry will continue to weigh on economic output

One reason for the improvement in sentiment in services could be the surprisingly strong demand in the tourism sector. In last year's summer season, the number of overnight stays totalled almost 81 million, an increase of some 4% on the previous year and 2.5% on the pre-pandemic level. If this trend continues in the winter season, there should be some resistance to the economic headwinds stemming from the struggling industrial sector. And there are plenty of signs that industry will continue to weigh on economic output. In December, the order book situation was as weak as we last saw in summer 2020 and there is still no sign of a trend reversal in the inventory cycle. Poor external demand will put additional weight on Austrian industry and exports.

Concerns about Austria's lack of competitiveness are growing

International competitiveness, or the lack thereof, has become a pressing problem for Austrian industry. At the end of 2023, Austrian companies rated their own competitiveness outside the EU lower than ever. Reasons for that are high inflation, labour shortages, high energy prices, and faster wage growth than in the eurozone as a whole.

In the third quarter, wages and salaries rose by almost 7% YoY in Austria and by more than 20% compared to pre-pandemic levels. In the eurozone, wages and salaries increased by 5.6% in 3Q 2023, or by 14% from pre-pandemic levels.

Concerns about Austria's competitiveness could become one of the dominant election issues. Last week, the Minister of Economic Affairs proposed a gradual reduction in non-wage labour costs (such as unemployment insurance contributions). As we head towards the national elections this autumn, that sort of talk is likely to be only one part of the larger debate about the underlying structural challenges and transitions the Austrian economy is facing, not least on environmental issues, a lack of skilled workers and changing trade flows. Far-reaching investments and incentives will be required to meet these challenges and mitigate further losses in competitiveness.

So, given the persistently high level of uncertainty and the weakness in industry, which will continue to dominate in the first half of this election year, don't expect any rapid reforms; the Austrian economy is likely to stagnate in 2024, with risks clearly tilted to the downside.

The Austrian economy in a nutshell

	2022	2023F	2024F	2025F
GDP	4.9	-0.7	0.0	1.5
Private consumption	4.4	-0.5	1.0	1.5
Investment	0.3	-1.0	0.3	2.0
Government consumption	2.9	-0.1	0.4	1.0
Net trade contribution	-0.1	-0.3	0.2	1.4
Headline CPI	8.6	7.8	2.9	2.1
Unemployment rate (%)	4.8	4.9	4.5	4.4
Budget balance as % of GDP	-3.2	-2.8	-1.3	-1.0
Government debt as % of GDP	78.4	77.0	75.0	72.0

Source: Refinitiv Datastream, all forecasts ING estimates

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