Austria: Warm weather a double-edged sword for growth

There are two main drivers of Austria's economic activity: industry and tourism. While the current mild temperatures are benefiting industry, they are damaging ski tourism

Skiers in the Austrian state of Salzburgerland this month. Due to higher temperatures, there is less snow this year and the quality of the snow is worse

Austria's economy is struggling

In the third quarter of 2022, the Austrian economy recorded meagre growth of 0.2% quarter-on-quarter. The industrial sector in particular supported growth, while the hospitality and other services sectors had a negative impact on growth. Flash estimates for economic growth in the fourth quarter of 2022 will only be released at the end of January, but we do not expect that the Austrian economy managed to grow again – high inflation, uncertainty, and a strong dependence on exports in an environment where the global economy is slowing argue against this.

Like almost every European country, Austria is feeling the economic impact of the war in Ukraine. High energy costs, high food prices and high uncertainty among companies and households are weighing on consumer and business sentiment in Austria, although leading indicators improved from low levels recently. However, the PMI for manufacturing stood at 47.3 most recently, which not only indicates a contraction of the sector but is also lower than the eurozone number. Weak business sentiment doesn’t come as a surprise, given the high dependence on Russian gas. Austria imports around 90% of its gas consumption. Prior to the war, 80% of gas imports came from

Russia. In November 2022, however, the share of gas imported from Russia had dropped to roughly 40%.

Inflation high; consumer confidence low

Highly filled gas reserves and mild temperatures have avoided a gas supply crisis and seem to have boosted economic sentiment. Most recently, the gas storage facilities were filled at 88% capacity a year ago, the level was about 40%. Even if the current winter seems to proceed without economic accidents, a requirement for more energy independence is a further acceleration of the green transition. The Austrian government is providing some €3bn and an additional €2.7bn will be made available for environmental funding, to promote Austria as a research and business location and for support with additional energy efficiency measures. In total, these measures correspond to 1.4% of 2021's GDP.

Consumer confidence, as measured by the European Commission's consumer survey, was also lower in Austria than in many other eurozone countries in all three months of the fourth quarter of 2022. Inflation averaged 8.6% in Austria in 2022, and for the next 12 months, Austrians expect prices to continue to rise. We also assume that inflation will remain high in 2023, even if double-digit inflation rates should no longer appear in the statistics. Persistently high inflation is also affecting Austrian households' propensity to save, which has increased recently, according to the OeNB's consumer survey. But it's not just Austrians who are saving more and spending less – the cost of living has also risen in neighbouring countries. As a result, many people are skipping ski vacations. According to a YouGov survey from October 2022, only 25% of Germans want to spend their skiing vacation as planned – the rest are shortening their travel time, cancelling their vacation altogether, or avoiding local gastronomy services. And what makes matters worse is that due to the mild weather and associated lack of snow, only around half of the slopes in Austria are open. After suffering from the pandemic in recent years, ski tourism is being hit by two factors this season: lower private consumption at home and abroad and the warm weather.

On a more positive note, despite the difficult economic environment, we expect the Austrian labour market to remain relatively stable in 2023. Although unemployment rose to 5.6% in December 2022, we do not expect widespread waves of layoffs. This is mainly due to labour shortages, which are particularly prevalent in Austrian handcraft and hospitality companies and affect a total of 73% of Austrian businesses. Furthermore, companies and households are being supported by various government support measures. The latest example of such measures is the electricity price brake, which came into effect in December 2022. Due to those support measures, however, Austrian government debt increased recently. In the third quarter of 2022, government debt rose to €355.6bn from €333.1bn in the previous quarter. However, the debt ratio fell to 81.3%, driven by economic growth. In 2023, we expect the debt ratio to fall further, but government support coupled with only low growth from the second quarter of 2023 onwards comes at the price of a slower-than-expected decline in the debt ratio.

In contrast to other eurozone countries, the warm temperatures of recent weeks do not only bring relief for Austria. They are a double-edged sword, also threatening the overly important tourism sector. In any case, 2023 will be another economically challenging year in which we expect the Austrian economy to contract slightly.

The Austrian economy in a nutshell (%YoY)

	2021	2022F	2023F	2024F
GDP	4.5	4.8	-0.4	1.1
Private consumption	3.3	5.0	-0.9	1.8
Investment	4.0	3.5	2.0	4.0
Government consumption	6.7	0.2	0.8	0.5
Net trade contribution	0.1	-1.0	-0.3	0.5
Headline CPI	2.8	8.6	5.8	2.1
Unemployment rate (%))	6.2	4.8	4.9	4.4
Budget balance as % of GDP	-5.9	-6.3	-3.0	-1.3
Government debt as % of GDP	82.8	82	79.0	75.0

Source: Thomson Reuters, all forecasts ING estimates

Author

Franziska Biehl
Economist, Germany
Franziska.Marie.Biehl@ing.de

Disclaimer