

Austria: 1Q GDP figure gives a taste of what's to come

While the first two months of the year were not bad, the pandemic and subsequent economic and social standstill dragged the first quarter GDP numbers into negative territory. And it'll get worse



Source: istock

The first numbers are out and they do not look pretty. According to a flash estimate from the Austrian Institute of Economic Research, the seasonally and working-day adjusted Eurostat measure came in at -2.5% quarter-on-quarter in the first quarter of 2020 while GDP fell by 2.7% compared to the previous year. And that is despite the fact that the first two months of the year were fairly robust. A decline of this magnitude was last observed during the financial market crisis of 2008/09.

GDP growth in the first quarter was mainly constrained by private consumption, with private consumer spending falling by 3.1% QoQ as supply restrictions in the trade and services sector immediately led to a drop in demand. Also, foreign trade was strongly impacted by the far-reaching impact of Covid-19, leading to a decline in exports by -1.8% and imports by -2.3% compared to the previous quarter. Investment activity was also curtailed, but the decline was more moderate with a drop of -0.9% QoQ.

When looking at GDP by economic sectors, the areas of trade, maintenance and repair of motor vehicles, traffic, accommodation and restaurants were particularly affected. Here, the added value fell by 7.5% compared to the previous quarter and was responsible for more than half of the decline in GDP in the first quarter. The areas of sport, culture and entertainment facilities, as well as personal services, were also badly affected, dropping by 8.6% QoQ.

Keep in mind that for measuring economic activity in March only a limited set of indicators were available making additional estimates necessary and leaving greater room for revisions in the months ahead.

-2.5% First quarter GDP contraction (qoq)

Tourism was particularly hard hit

The winter season 2019/2020, up to and including February, saw a 7.2% rise in overnight stays in accommodation facilities. But due to the closures in March, the overall number for the entire season dropped by 8.1%. Overnight stays fell by 58.9% in March, while the number of guests decreased by 67.8%. As tourism is a vital part of the Austrian economy, contributing roughly 8.5% to Austria's GDP, the battle for tourists among eurozone countries might restart fairly soon. By far the most arrivals and overnight stays are attributable to German tourists (share of overnight stays in 2019: 37.1%), followed by the Netherlands (6.7%), Switzerland and Liechtenstein (3.2%), the United Kingdom (2.4%), the Czech Republic (2.2%) and Italy (1.9%). But since accommodation facilities will only reopen at the end of April, the slump in the tourism sector will stretch well into the summer season (May to October), and we expect restrictions on freedom to travel for some time to come. The German government, for example, has extended the worldwide travel warning for tourists due to the coronavirus pandemic this week until at least 14 June while the Czech Republic might open its border to Austria on 1 July. Also, the Austrian government is already thinking of ways to restart the tourism season by facilitating freedom of travel with neighbouring countries that have been as successful in fighting Covid-19 as Austria, such as the Czech Republic and Germany, but this will still be a lengthy process, spanning well into the summer.

At home, the lockdown measures are increasingly relaxed...

Austria was not only one of the first eurozone countries to implement strict lockdown measures, but is now also on the forefront to reverse these. As of tomorrow, 1 May, exit restrictions will end, while events with up to 10 people are allowed again. However, major events may not take place until 31 August. From 15 May onwards, restaurants with a minimum distance, opening time restriction and a limited number of guests, and from 29 May onwards, accommodation facilities will be allowed to reopen. Schools will reopen in stages from 4 May.

...but the economic numbers will get worse before they get better

Nevertheless, the economic picture will not be pretty this year despite the easing of the lockdown measures. As of 24 April, 88,604 short-time applications (company requests to temporarily reduce

hours and pay) were approved affecting 1.1 million jobs, which corresponds to almost every third job being subject to social security contributions. While short-time work is securing 80% to 90% of the income in Austria and cushioning the loss of purchasing power, consumption will nevertheless take a major hit this year. Add to that the slump in the tourism and leisure industry, as well as the downturn in the manufacturing and trade sector, and the outlook for the Austrian economy this year does not look good. While the first quarter was bad, the second quarter will be worse, as economic and social life came to a standstill for almost four weeks and will only restart slowly.

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