

The Austrian economy is on thin ice

The Austrian economy grew by 0.3% quarter-on-quarter in the third quarter of 2024, after stagnating in the second quarter. Given the ongoing economic weakness, however, the Austrian economy is on thin ice as it heads towards its second consecutive year of recession



Ice skating in front of Vienna City Hall

A rebound from low levels is not yet a turning point

According to the first flash estimates from the Austrian Institute of Economic Research, the economy grew by 0.3% quarter-on-quarter in the third quarter of 2024, from an upwardly revised 0.0% QoQ in the second quarter of the year.

Judging by the preliminary estimate and the available hard data for the first two months of the quarter, weakness in industry and the construction sector continued to be a drag on the economy in the third quarter, while a slight recovery in private consumption had a positive effect. After contracting by 0.6% QoQ in the second quarter, private consumption rose by 0.5% QoQ in the third quarter. However, this is only a recovery from low levels and does not yet mark a clear turning point.

Don't expect a swift recovery

Looking ahead, there is little to suggest an imminent trend reversal for the Austrian economy. With the US economy gradually losing steam and the eurozone's economic recovery slowing, both

Austrian industry and trade are likely to remain under pressure. This is also reflected in survey-based leading indicators. The European Commission's most recent industry survey revealed that order books are still thinning out, while inventories remain at high levels.

However, sentiment has not only been muted in industry lately, but also among consumers. Political uncertainty at home, resulting from the ongoing process of forming a new government, geopolitical risks and the fear of a weakening labour market do not provide a fertile breeding ground for major spending.

As a result, Austrians' propensity to save has stood at its highest level since the Financial Crisis in September. At the same time, willingness to spend remains at levels that are significantly below the long-term average. However, strong wage growth of almost 8% year-on-year in 2023 and a further increase of 8% YoY in the first nine months of 2024 suggest at least a certain improvement in consumers' spending mood, especially as inflation has continued to slow further. The sharp rise in nominal wages is therefore increasingly translating into real wage growth, thereby gradually restoring consumers' purchasing power.

Stagnation-like growth

The start of the skiing season might provide a further tailwind to the Austrian economy in the fourth quarter, although this does not mean that cyclical weaknesses will disappear overnight. Over the longer term, however, structural challenges such as demographic changes, the green transition of the economy and changing trade patterns will continue to weigh on economic growth.

Targeted investments and reforms are needed to break out of this extraordinary economic cycle, in which stagnation-like growth and not an upswing follow on the heels of a downturn.

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