



# Austrian Economic Chart Book

The golden days are coming to an end

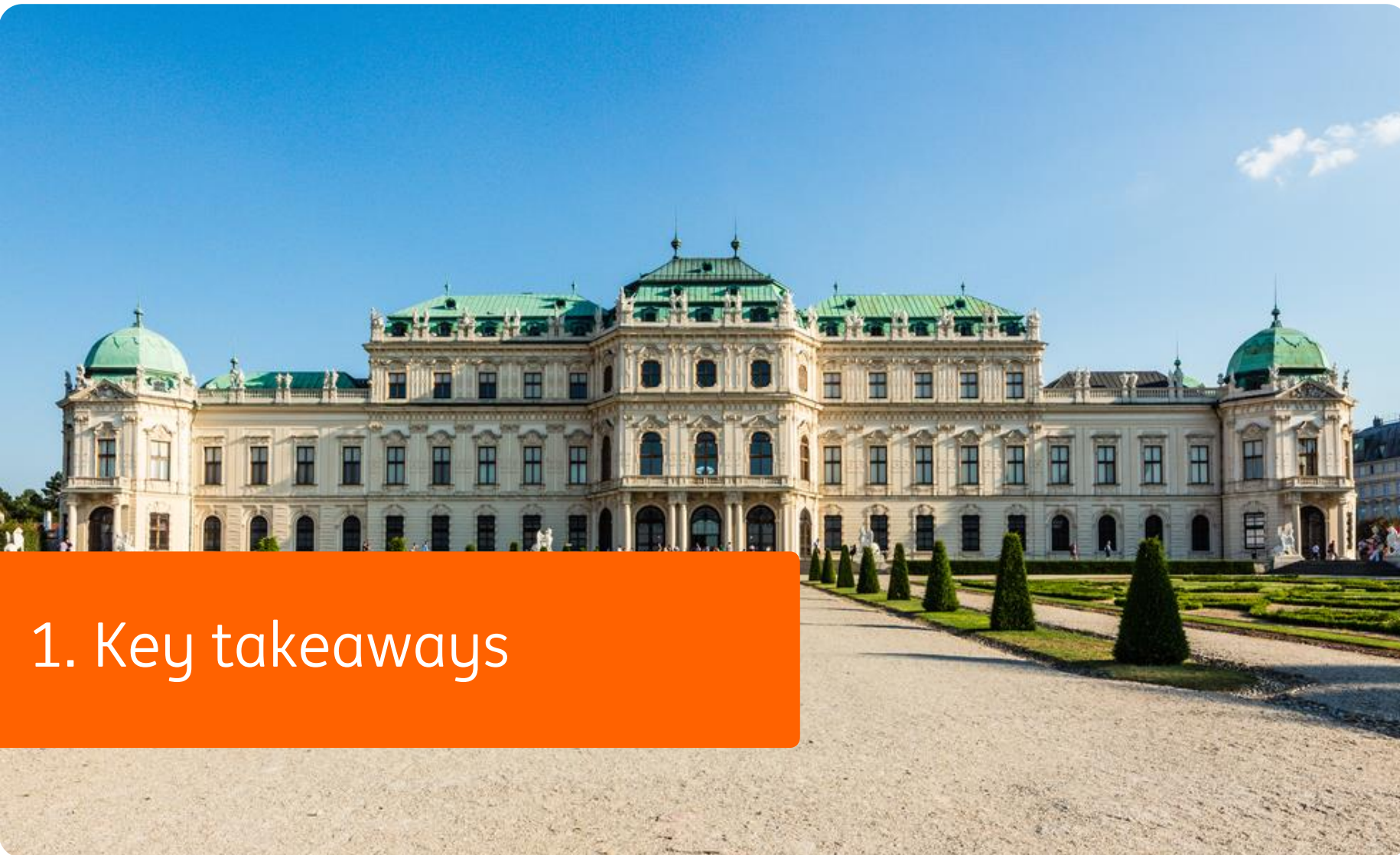
Inga Fechner and Carsten Brzeski

December 2019

# Austria's Economic Chart Book

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# 1. Key takeaways

# In a nutshell

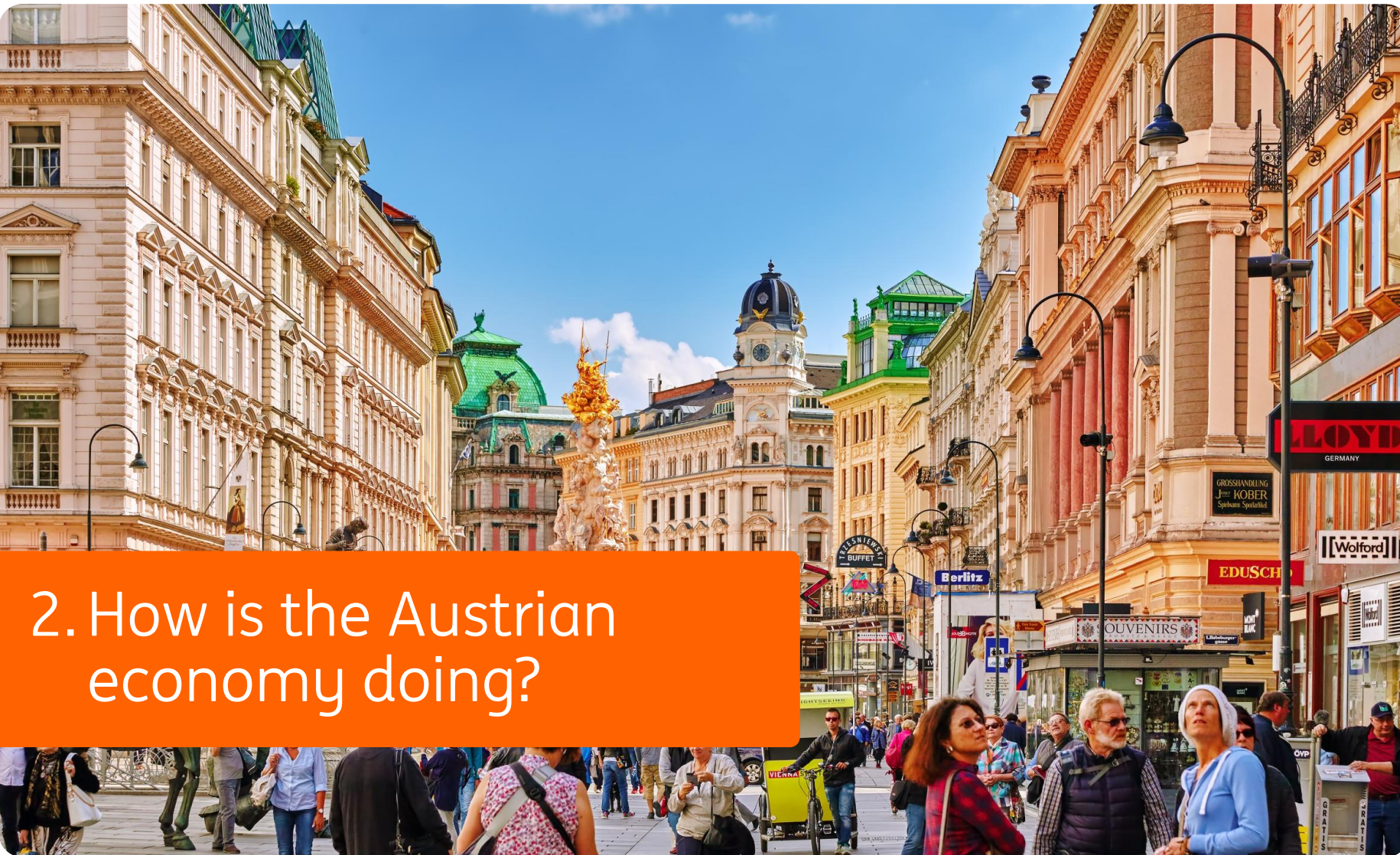
Austria's economy lost momentum during the course of 2019 given a challenging international environment. Overall however, the economy remains on a solid although slower growth path, with domestic consumption and construction serving as growth drivers

- The strong growth years which the Austrian economy experienced between 2016 and 2018 are coming to an end. Due to the international economic slowdown, the Austrian economy lost momentum during the course of 2019. However, the economy is likely to have grown by 1.6% compared to the previous year in 2019. Thanks to Austria's diversified economic sector and trade structure, global headwinds have been less severe than in other European countries.
- Especially robust domestic consumption, supported by employment and wage and salary growth, as well as the construction sector have been growth drivers. Investment has been buoyant, yet lost momentum over the course of the year.
- Although a political scandal saw the collapse of the FPÖ's (Freedom Party) coalition with the ÖVP (Austrian People's Party), several fiscal stimulus measures were undertaken by the former government and also by the transitional government, so private consumption should remain strong in the years ahead. Coalition talks between the ÖVP and the green party over a new government are still ongoing.
- Seeing that the international environment remains challenging in 2020, economic growth is expected to remain modest, but should regain momentum in 2021.

|                            | 2018 | 2019* | 2020* | 2021* |
|----------------------------|------|-------|-------|-------|
| GDP growth                 | 2.4  | 1.6   | 1.1   | 1.4   |
| Inflation                  | 2.1  | 1.6   | 1.8   | 1.8   |
| Unemployment               | 4.9  | 4.7   | 4.8   | 4.9   |
| Government debt (% of GDP) | 74.0 | 70.6  | 68.5  | 66.8  |

Source: Refinitiv Datastream, all forecasts ING estimates

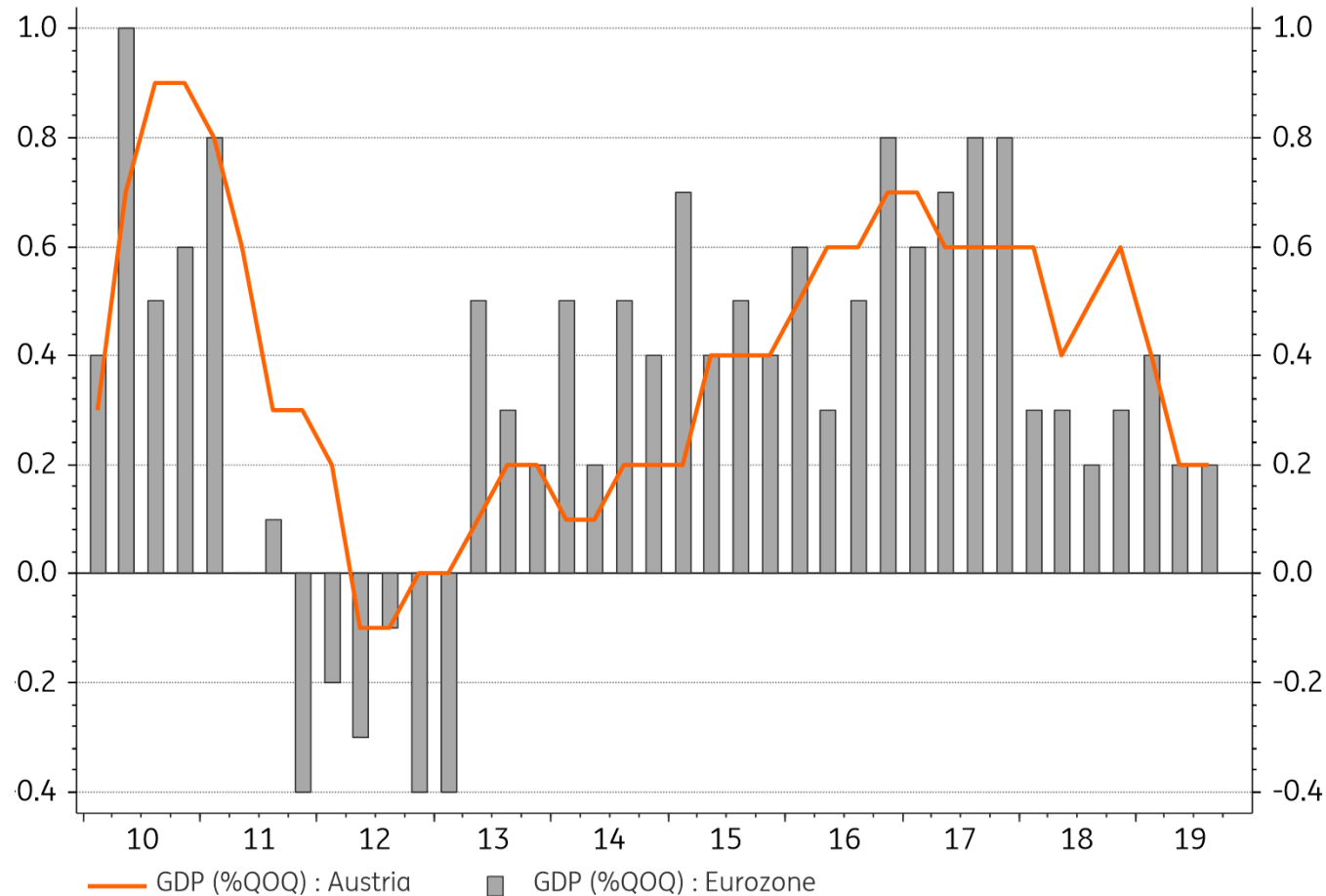




## 2. How is the Austrian economy doing?

# Austria's peak years have come to an end...

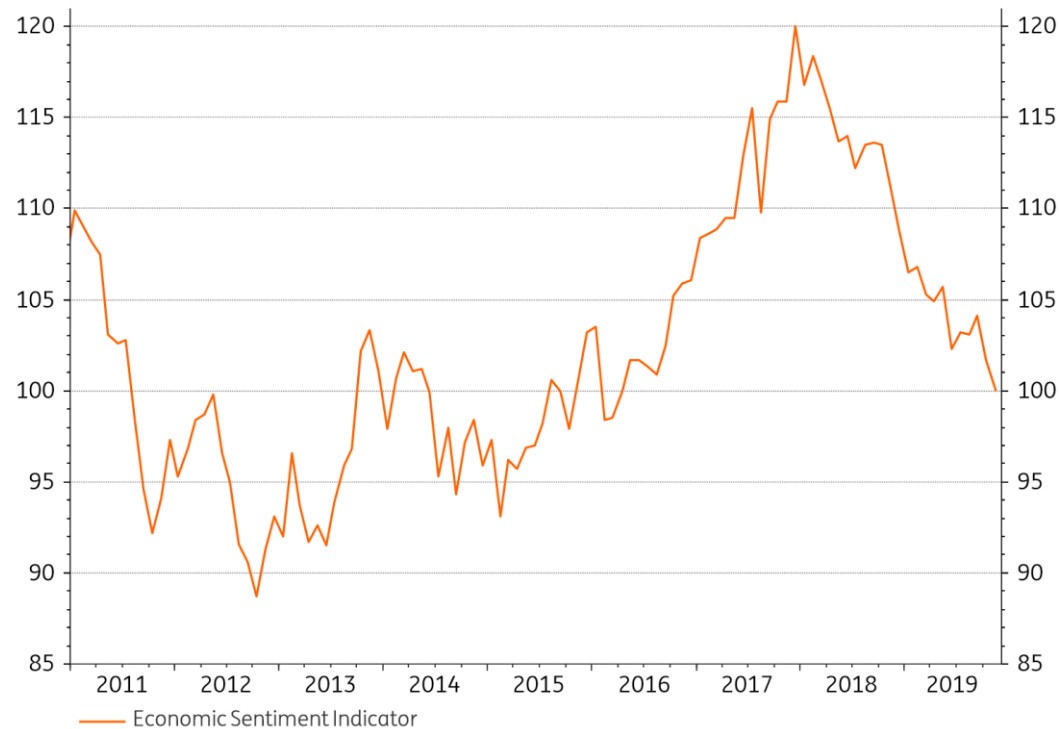
## Austrian economy loses momentum



Source: Refinitiv Datastream, ING Economic and Financial Analysis

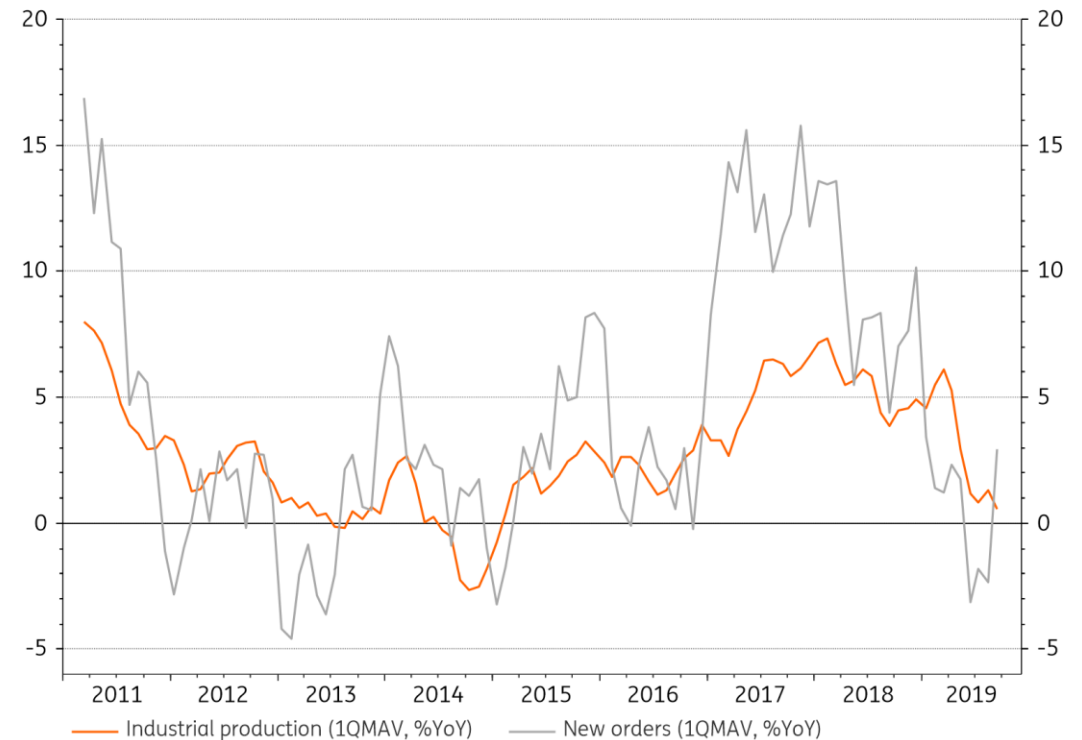
# ...as economic sentiment is deteriorating and the industry sector is stuttering

Economic sentiment has declined in recent months, edging closer to its long-term average



Source: Refinitiv Datastream, ING Economic and Financial Analysis

Export-oriented industrial economy has weakened

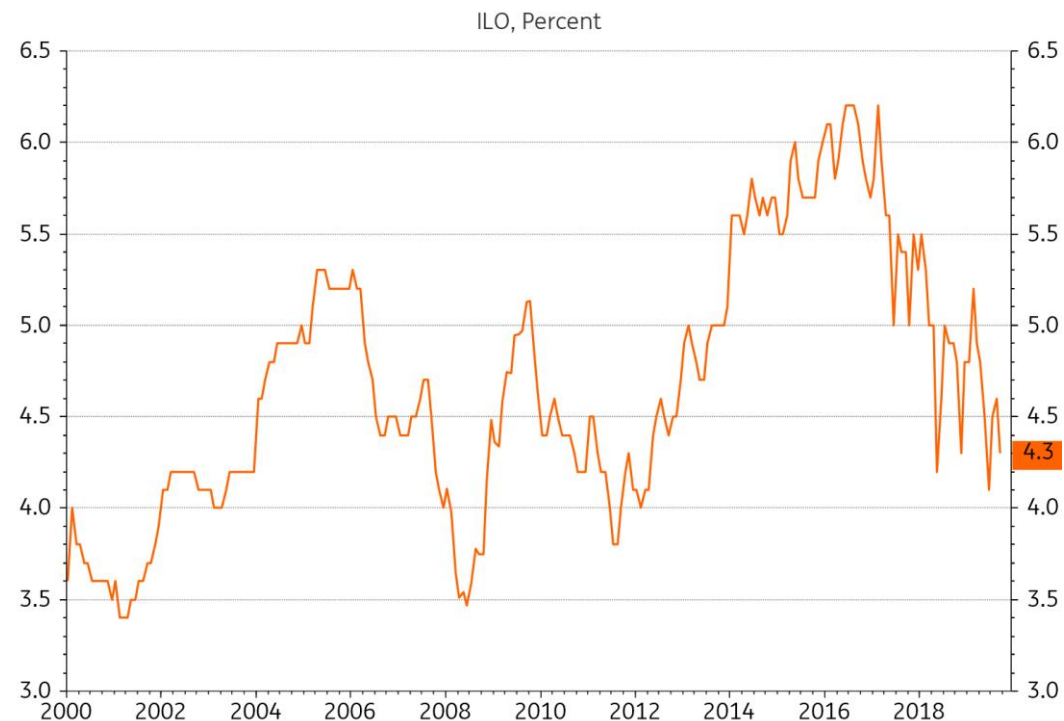


Source: Refinitiv Datastream, ING Economic and Financial Analysis

# But the labour market has improved markedly...

Austria's labour market has improved markedly compared to a peak in 2016

## Austria's unemployment rate



- Having reached an all-time high in 2016 in terms of unemployment, since joining the EU stemming from a rise in market participation of women, older people and immigration, the labour market has improved markedly thanks to the economic upswing
- Even though the economic dynamic is slowing, employment growth remains solid
- Austria's unemployment rate is one of the lowest among the Eurozone member states
- With labour supply remaining high, the unemployment rate is unlikely to drop further. From July 2020 onwards a new legislation comes into force fully opening the Austrian labour market to Croatian workers and allowing free movement of workers

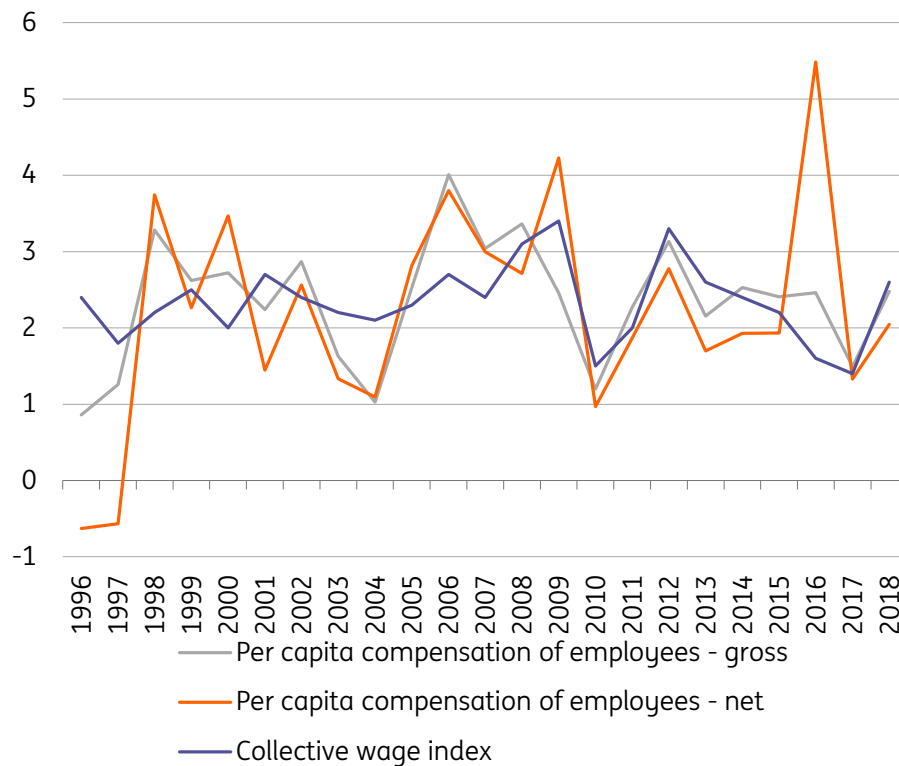
Source: Refinitiv Datastream, ING Economic and Financial Analysis



# ...with wages growing...

Wages have been on an upward trend...

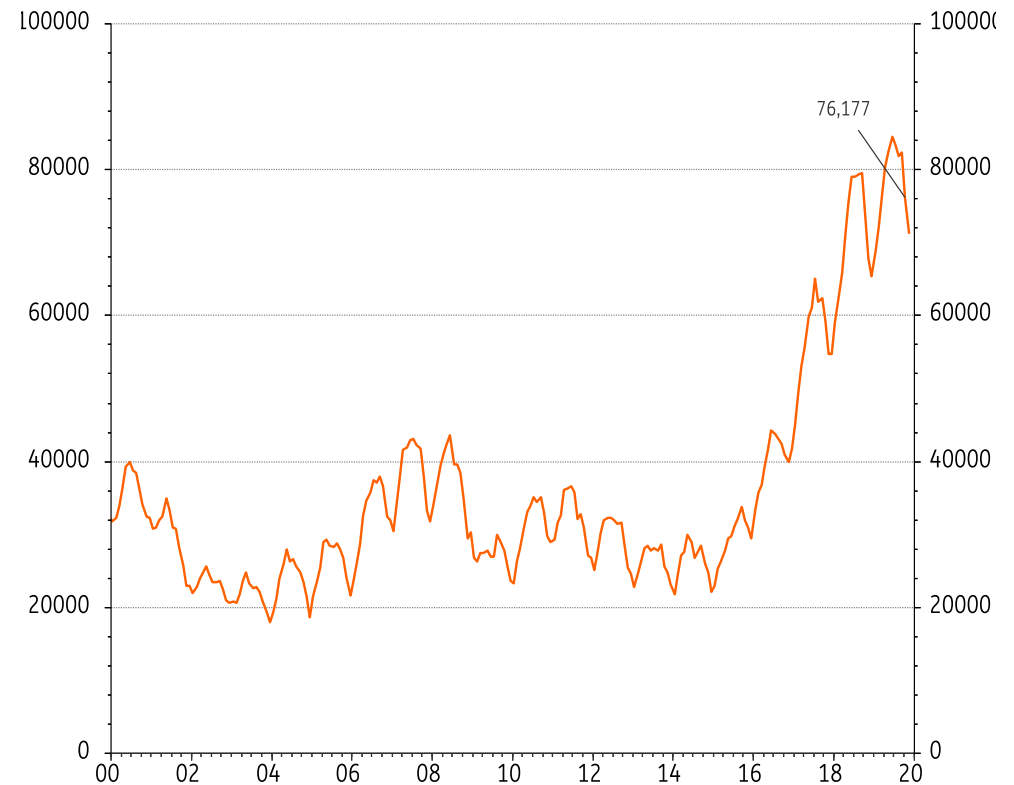
Compensation of employees (%)



Source: OeNB, Statistik Austria, WIFO

...and there are still difficulties in filling vacancies, although the jobs market might have peaked

Austria job vacancies

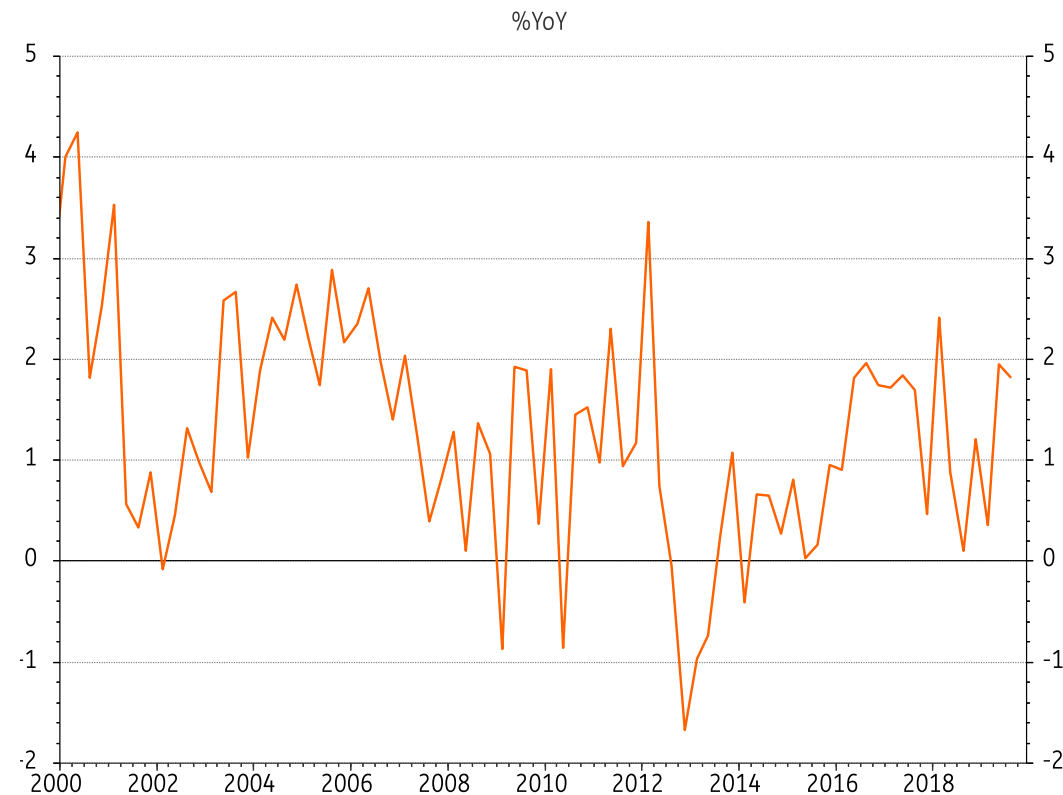


Source: Refinitiv Datastream, ING Economic and Financial Analysis

# ...fuelling robust domestic consumption

Private consumption has a stabilizing effect on the economy

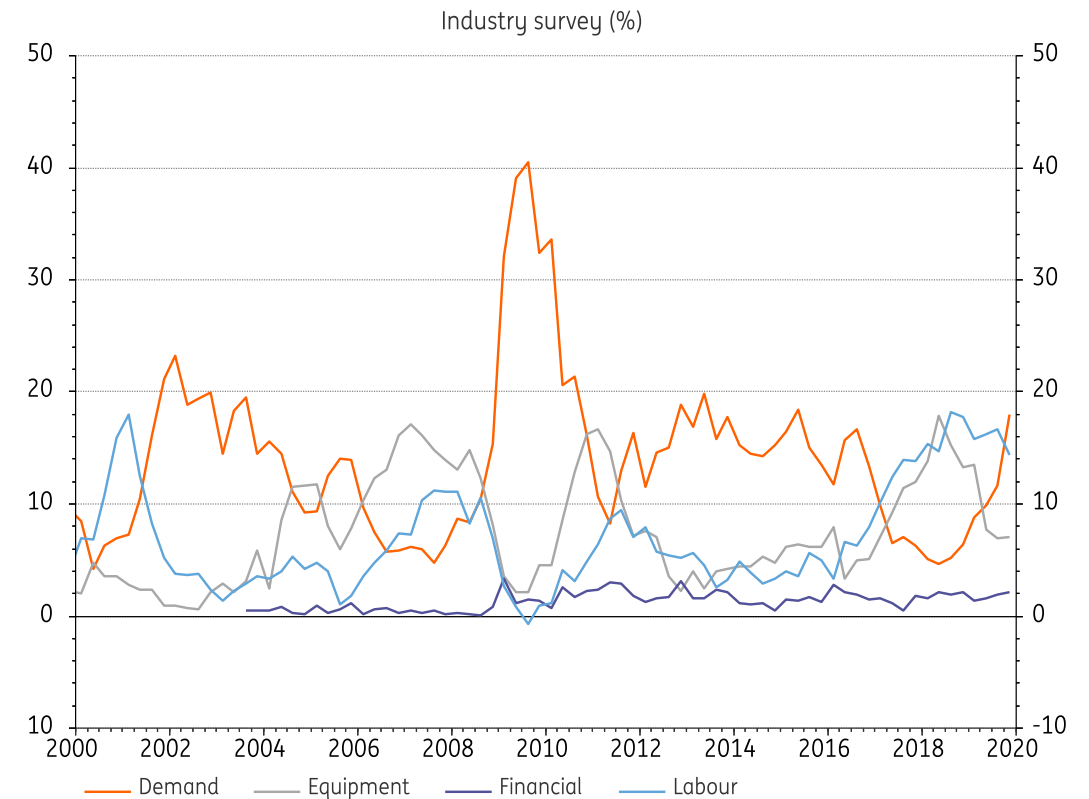
## Austria – private consumption expenditure



Source: Refinitiv Datastream, ING Economic and Financial Analysis

Although demand remains an important growth driver, it has emerged as the main limiting factor to production

## Limits to production

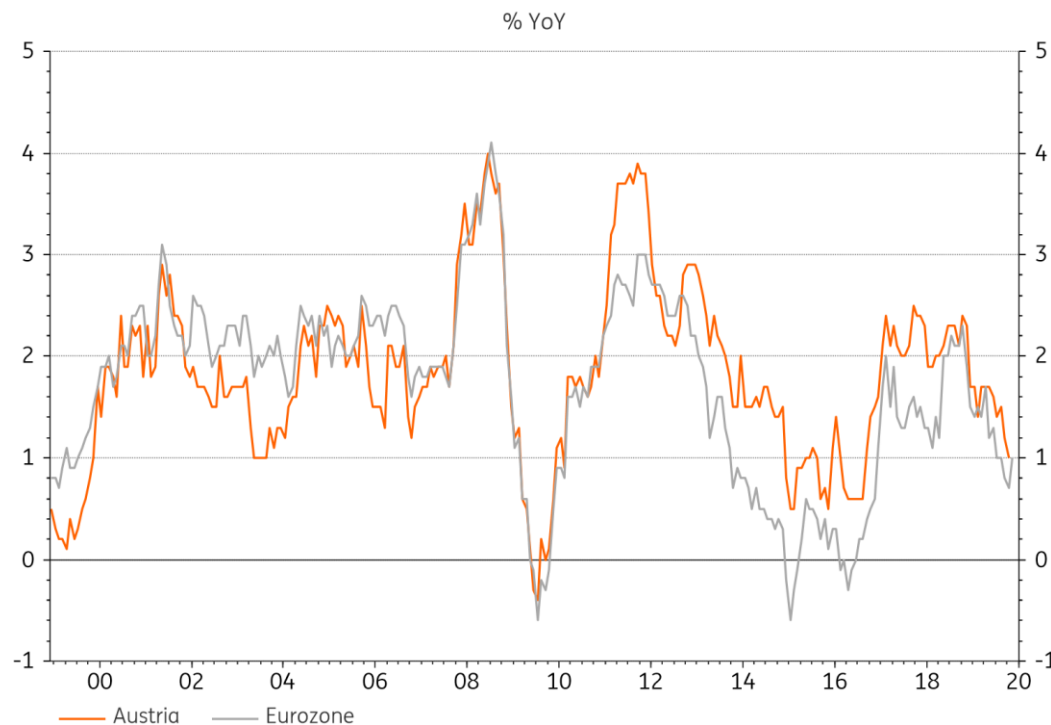


Source: Refinitiv Datastream, ING Economic and Financial Analysis

# Austria's inflation rally has subsided...

Austria's inflation rate is still above the Eurozone's but the difference is diminishing

## Austria's inflation rate compared to the Eurozone



- Over the last couple of years, inflation in Austria has been a lot closer to the ECB's preferred measure of inflation of "below, but close to 2%"
- The reasons for Austria's higher inflation rate were unit labour costs, administered prices and accelerating inflation in the service sector. Real compensation of employees has risen faster than productivity, apparently leading to a pass through into consumer prices. This pattern can clearly be observed in the service sector (mainly in tourism)
- Compared to last year, however, we expect inflation to recede to 1.6% compared to 2.1% in 2018 mainly due to lower fuel prices and lower costs for communication

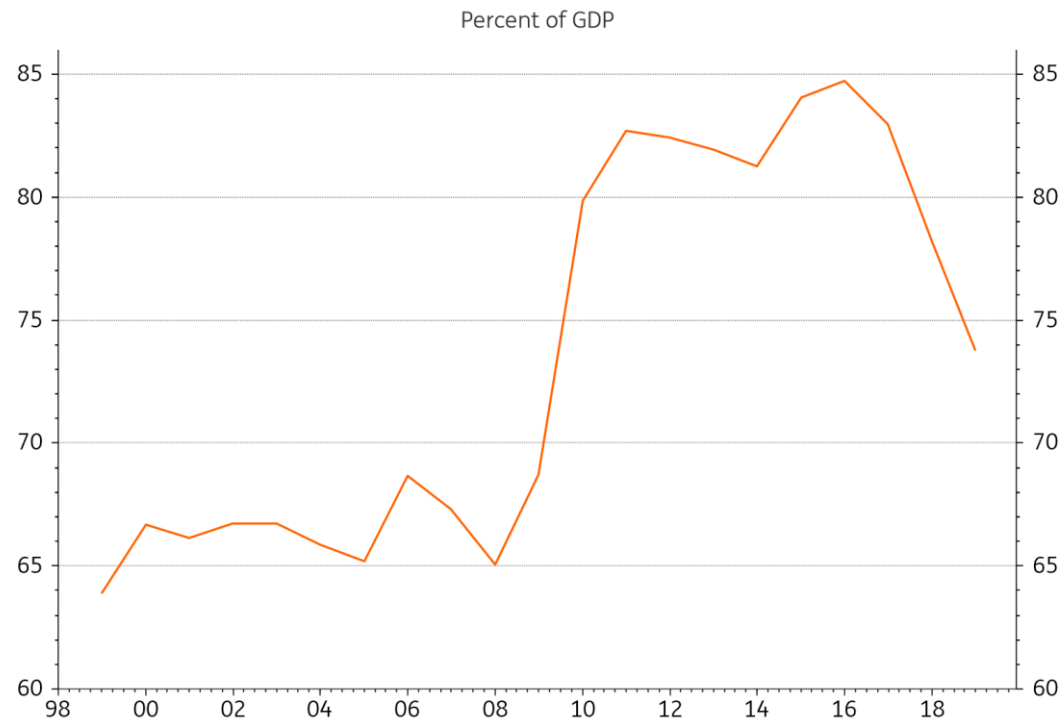
Source: Refinitiv Datastream, ING Economic and Financial Analysis



# ...the fiscal situation has improved...

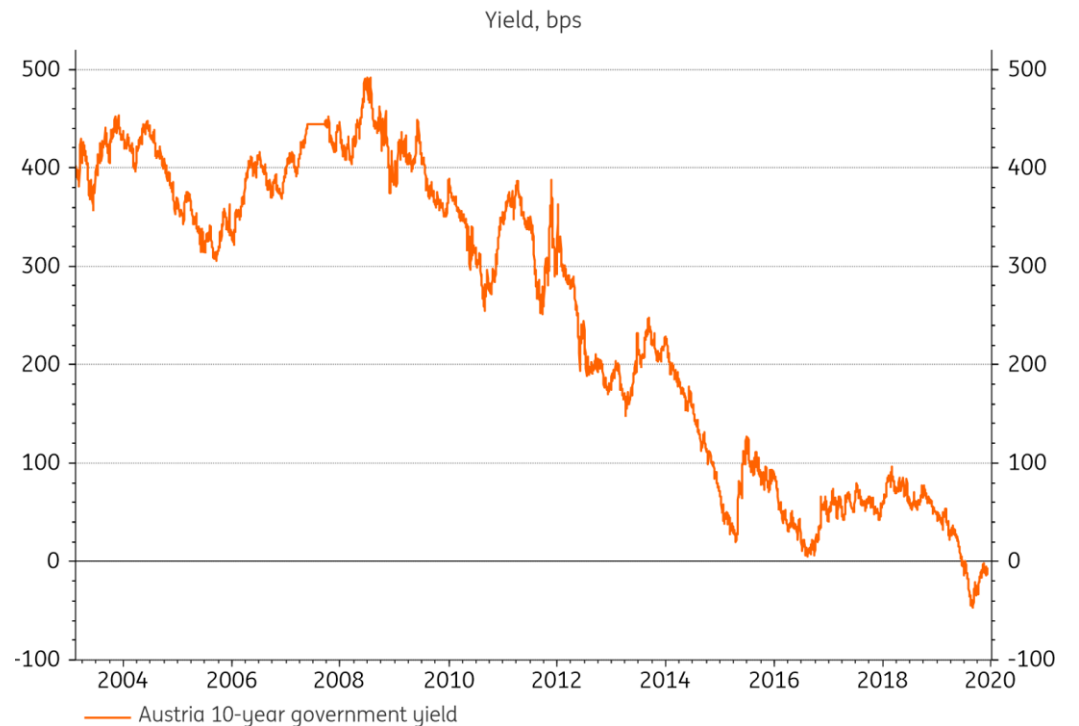
Government debt is expected to decrease further, although the Austrian fiscal stance is expansionary

Austria government debt



Source: Refinitiv Datastream, ING Economic and Financial Analysis

Austria government yield



Source: Refinitiv Datastream, ING Economic and Financial Analysis

## ...and overall lending conditions remain favourable

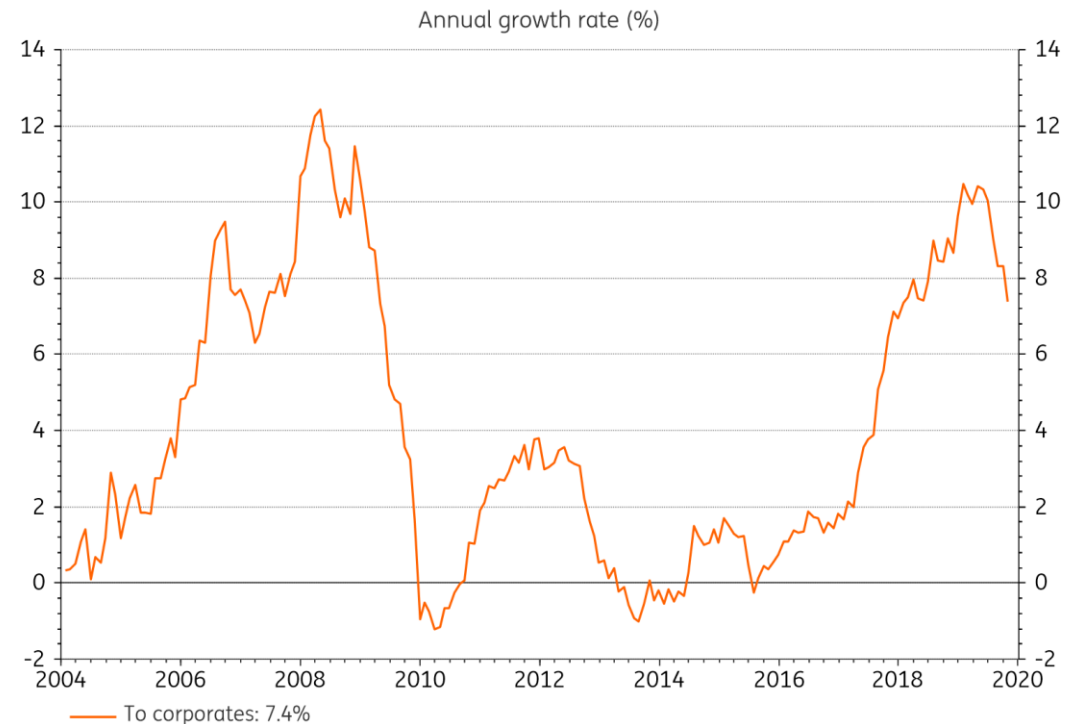
Corporate demand for credit has eased after being exceptionally strong until 2018, yet remaining at a high level, while private customer demand for loans remains favourable, reflecting the current macroeconomic environment

Austria – loans to households



Source: Refinitiv Datastream, ING Economic and Financial Analysis

Austria – loans to non financial corporations



Source: Refinitiv Datastream, ING Economic and Financial Analysis

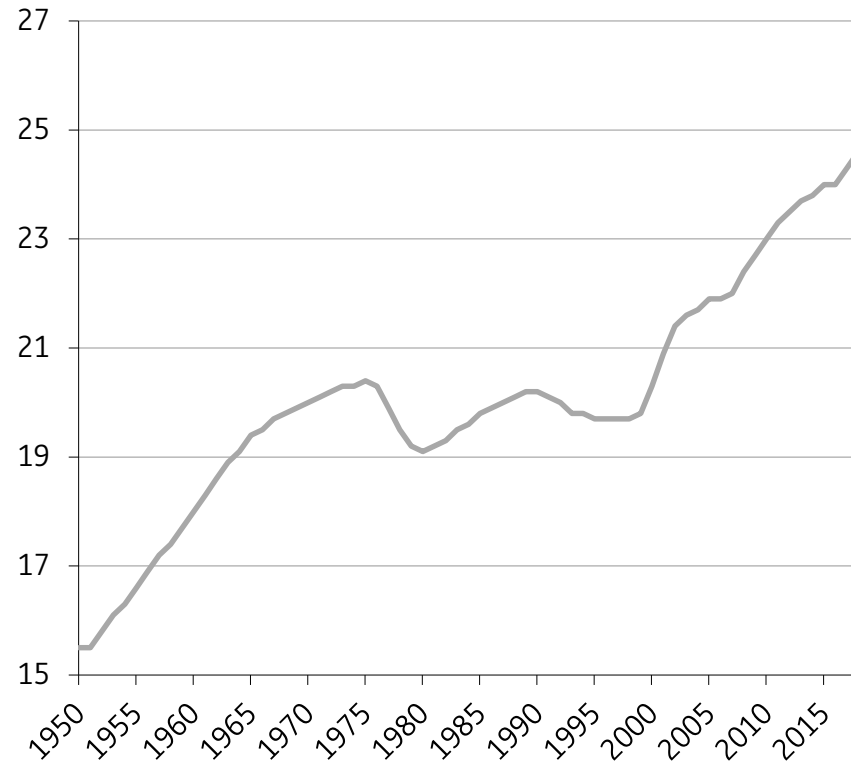


### 3. Austria's weak spots

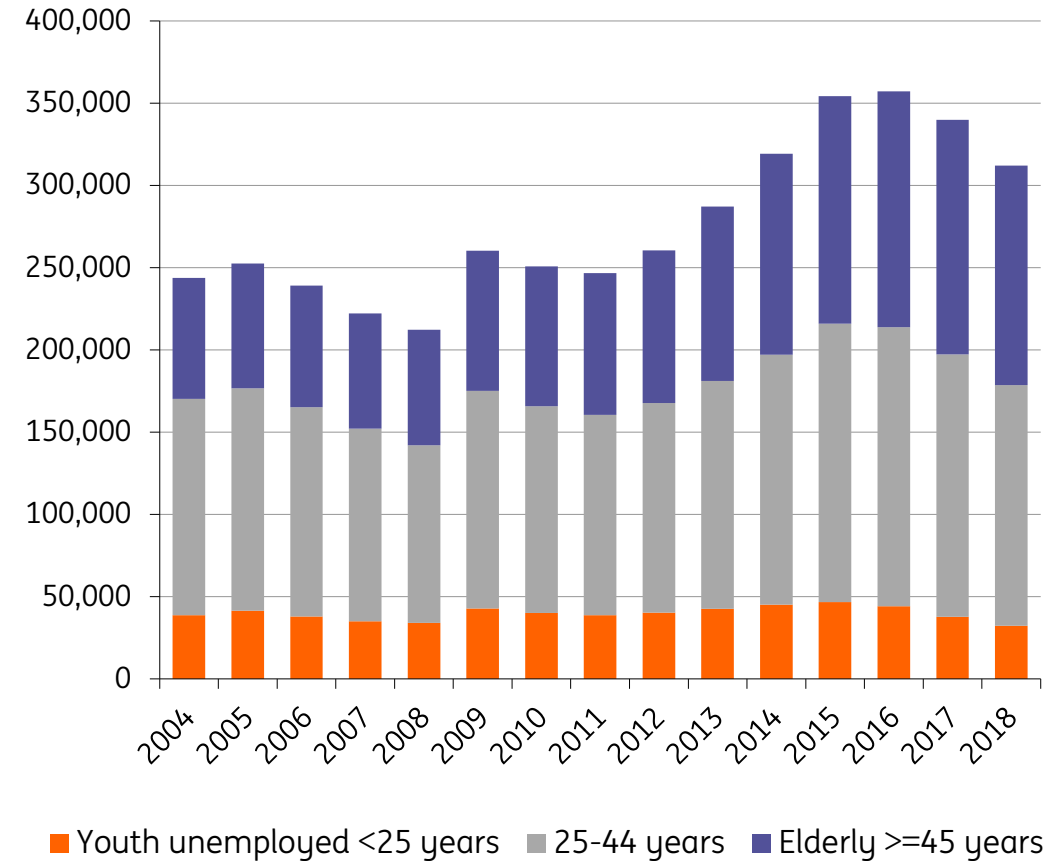


# Structural problems might become a problem for the future...

Proportion of Austria's population aged 60 years and more (%)



Unemployment rate of elderly declined, but less so than for younger employees

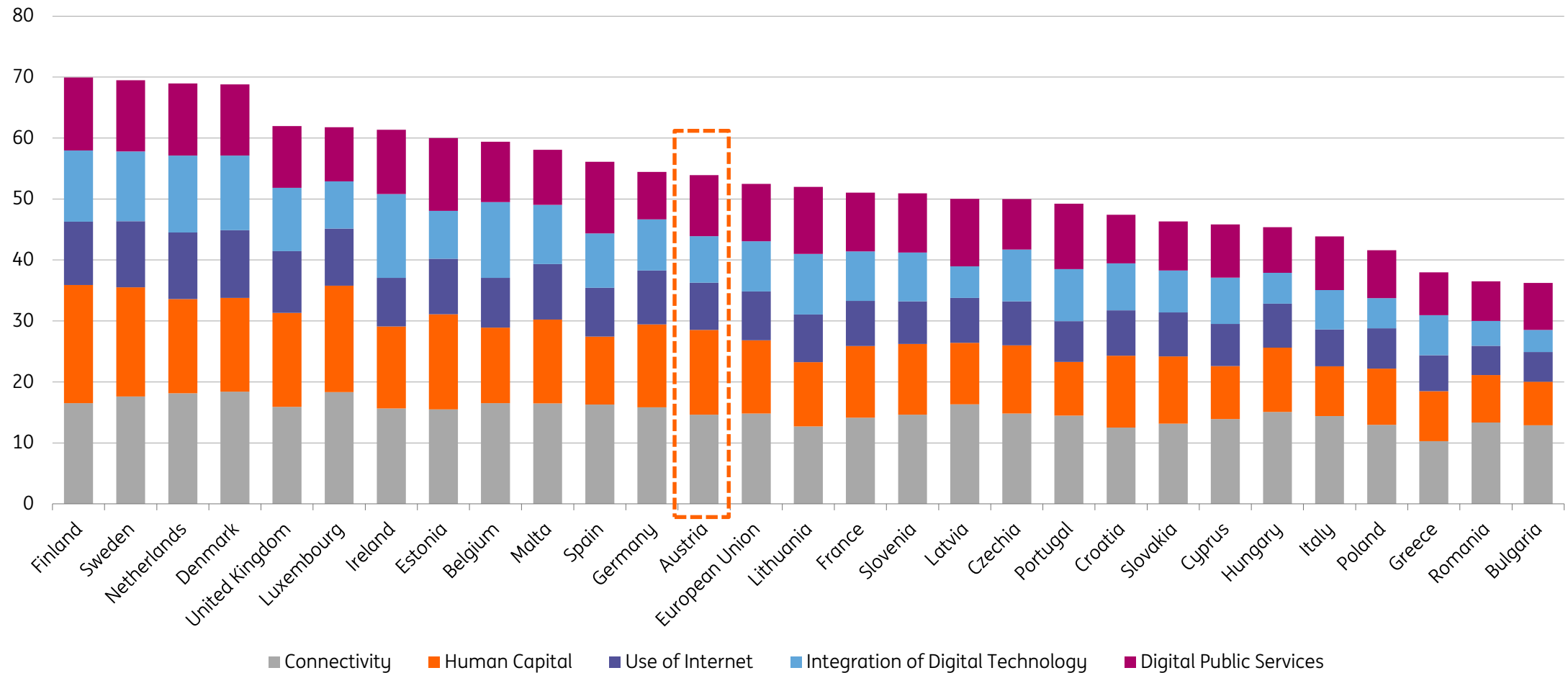


Source: Refinitiv Datastream, AMS, ING Economic and Financial Analysis

# ...and digitisation could be expanded

## The Digital Economy and Society Index

2019 ranking

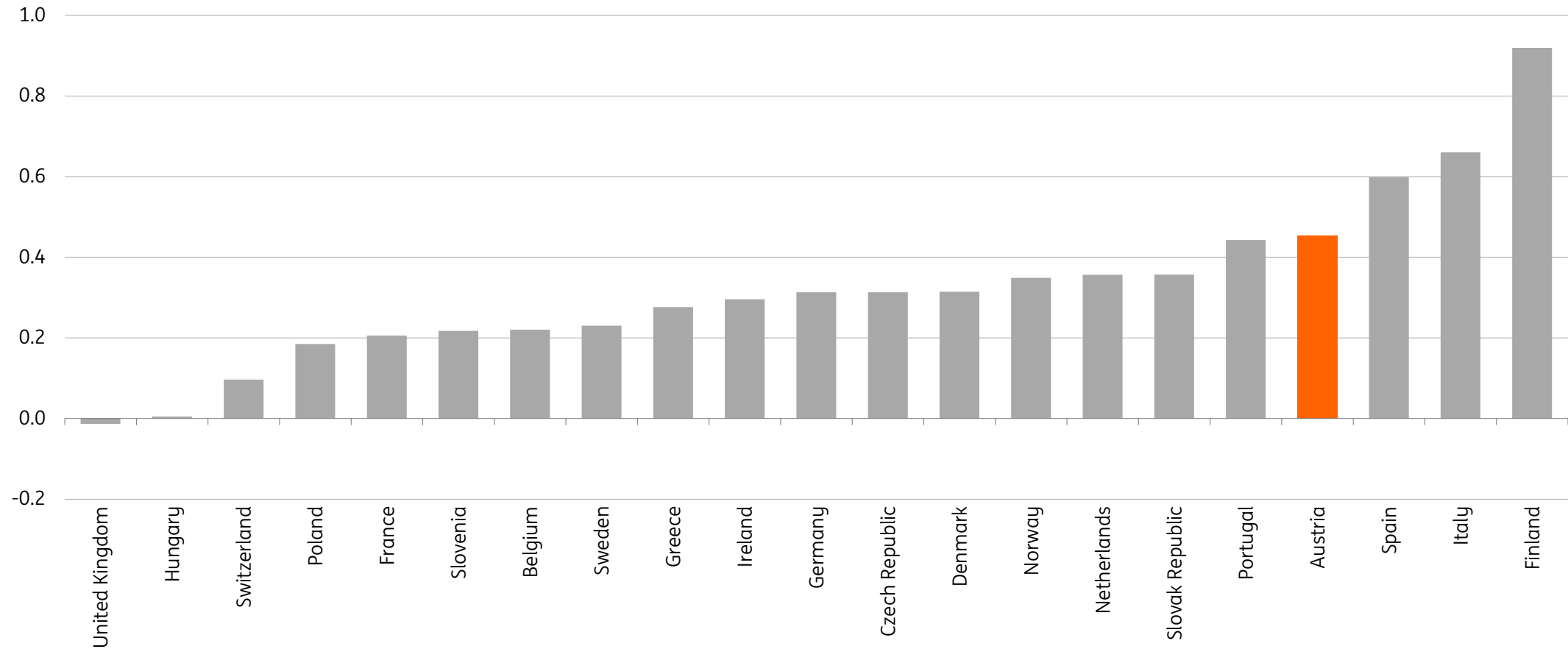


Source: European Commission

# Digital skill shortages in Austria are high

Shortage of knowledge of computers and electronics, skills scale between -1 and 1 (strongest)

2015 or latest year



Source: OECD Economic Surveys: Austria 2019, OECD Skills for Jobs Database

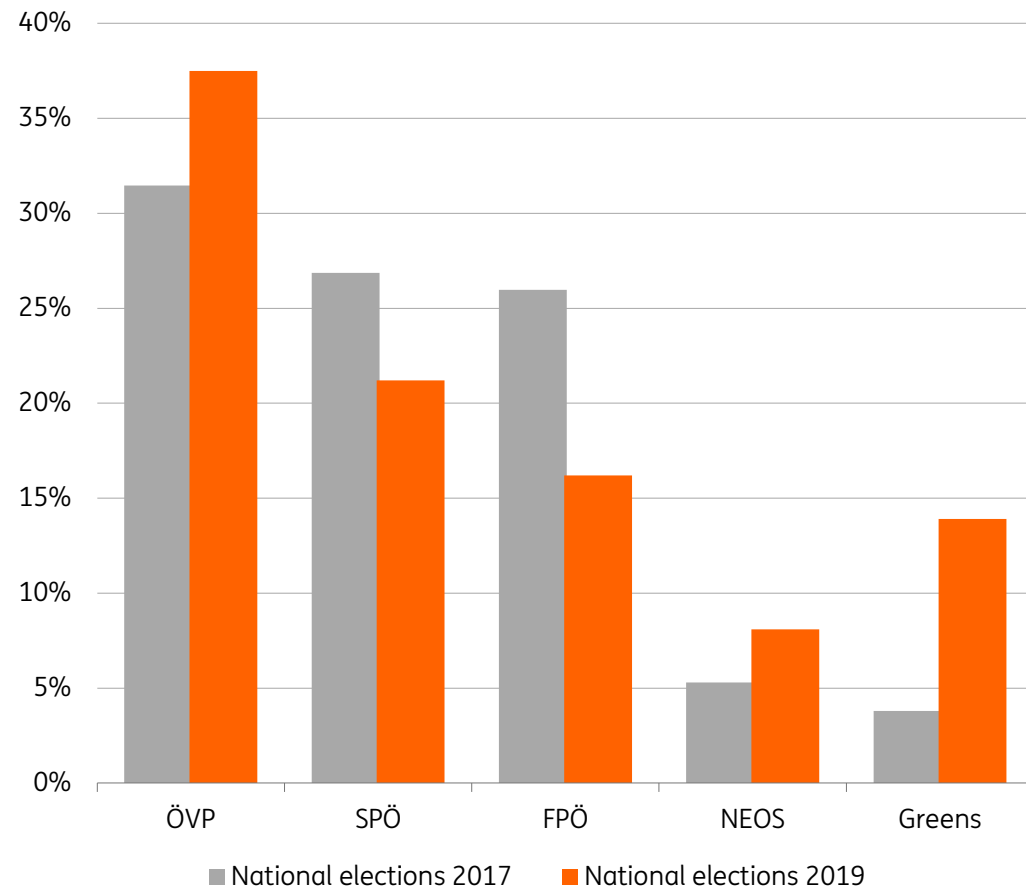




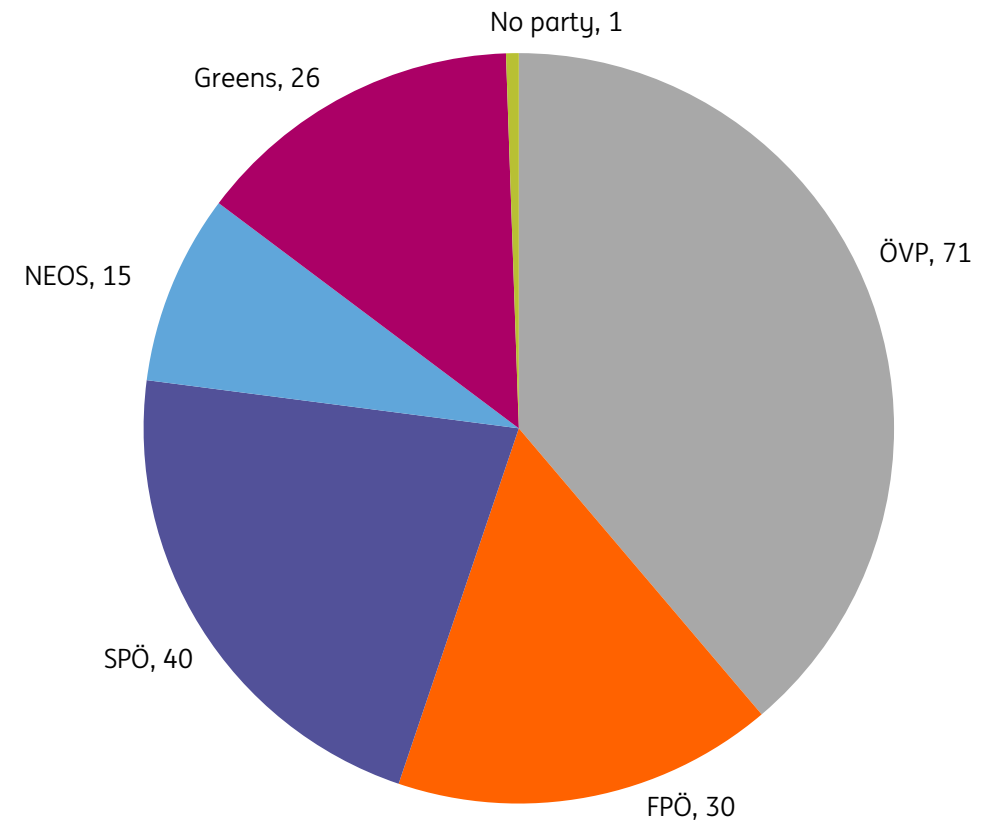
4. Austria's current political landscape

# The Austrian People's Party scored even better than in the 2017 election...

Election results in 2017 and 2019



Current seating plan of the National Council – 92 votes are needed for a majority



Source: Republic of Austria Parliament, Federal Ministry of the Interior

# ..but the choice of coalition partners is fairly limited

The Austrian People's Party (ÖVP) is currently in talks with the Green Party to form a new government

## Environmental and climate protection

- Introduction of a CO2 minimum price, revenues are used to relieve business and citizens → estimated turnover volume of 8 billion euros, equalling 500 euros per person per year
- 100% of Austria's electricity demand from domestic renewable sources by 2030, at least 60% of the total energy consumption with renewable energy sources
- Green Change in Agriculture: farmers' incomes should be increasingly secured by the price of the products while small farms will receive basic financial security
- European agricultural subsidies destroy smallholder structures in the global South
- ✓ Minimum tariffs for CO2 intensive products should be introduced at the EU's external border

- ✓ In coordination with the WTO, CO2 tariffs should be introduced for imports into the European internal market from third countries that do not meet the necessary standards in climate and environmental protection
- ✓ Ecologization of the commuter rate
- Agriculture: focus on food quality, environmental and climate protection, securing farmers' incomes and revitalising rural areas
- No cuts in funding on European level, particularly for rural development

## Europe

- EU should develop into a fully-fledged supra-national democracy in which all public decisions are taken transparently
- The European Parliament should be able to take decisions on all matters on an equal footing with the Council, possibility for Parliament to introduce its own legislative proposals
- All Member States' positions in the Council should be made public.
- ✓ Common foreign and peace policy
- ✓ Offer a credible accession prospect to the Western Balkans region

- Strengthening subsidiarity in the EU and reducing the size of the EU Commission in the medium term
- Break-off accession negotiations with Turkey
- EU-budget: lean budget, Austria should not pay more into the EU budget than it has to date in relation to its economic strength
- Direct election of the President of the EU Commission
- ✓ Common foreign policy
- ✓ Offer a credible accession prospect to the Western Balkans region

## Migration and asylum

- Common European strategy with a fair division of responsibilities between the EU member states, distribution key among member states
- Common asylum authority, with all member states being obliged to tackle migration and asylum together or have to reckon with consequences if they refuse to do so
- Border controls at Europe's external border
- For those who apply for asylum in Austria, a final decision should be taken in the second instance after a fair and constitutional procedure of no more than six months

- Protection of the EU's external border has become a priority, rapid strengthening of the EU border management agency Frontex is necessary
- Minimise incentives for people to come to Europe only for the prospect of a better life
- Sanction mechanism on European level for states that wave through illegal migrants
- Ensure that asylum seekers only receive the full minimum level of protection if certain criteria are met, including a certain level of language proficiency



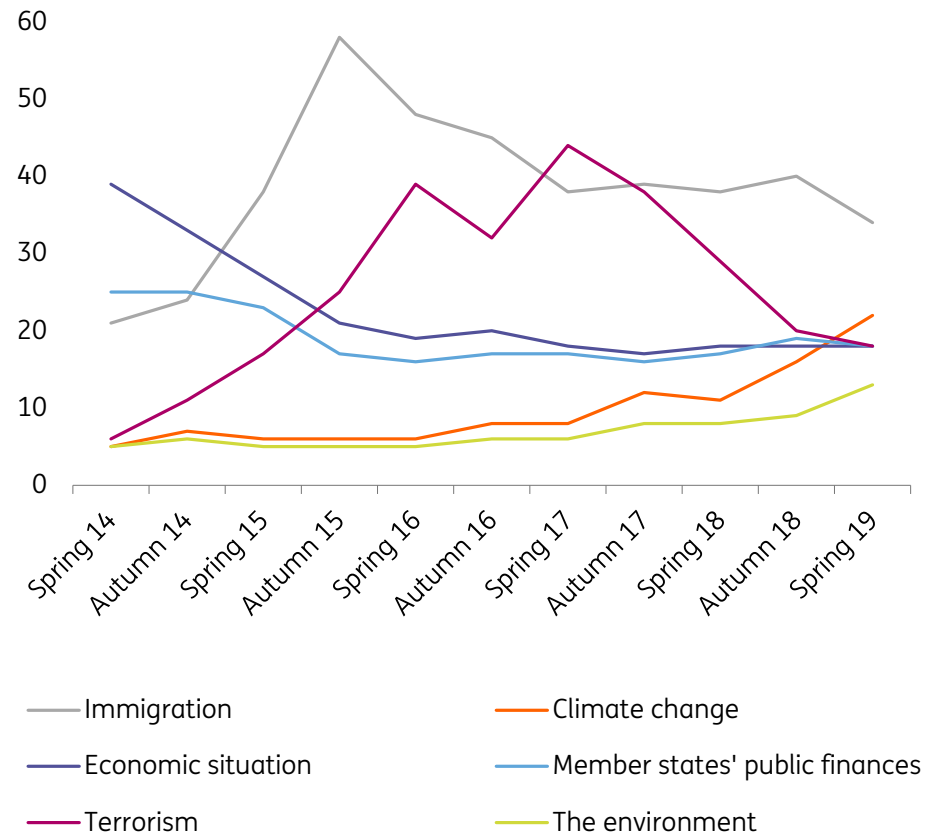
Die neue  
Volkspartei

Source: Party programmes

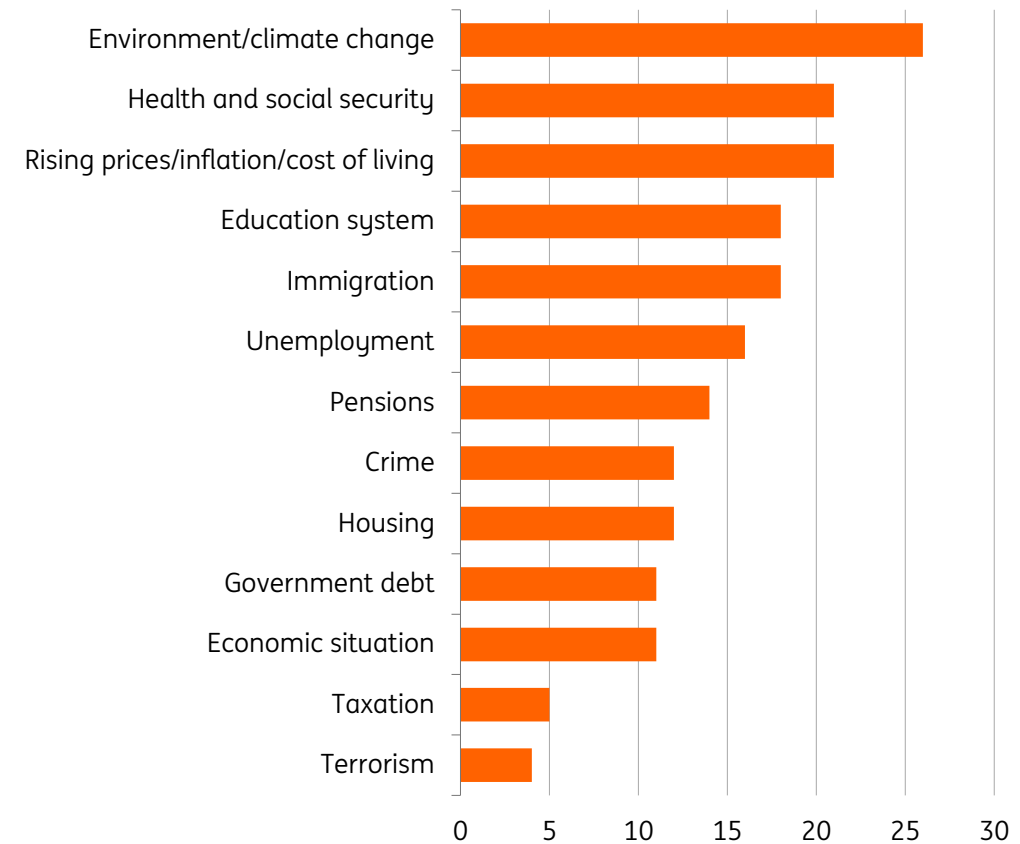


# Climate change is becoming more important, throughout the EU...

Most important issues facing the EU (%)



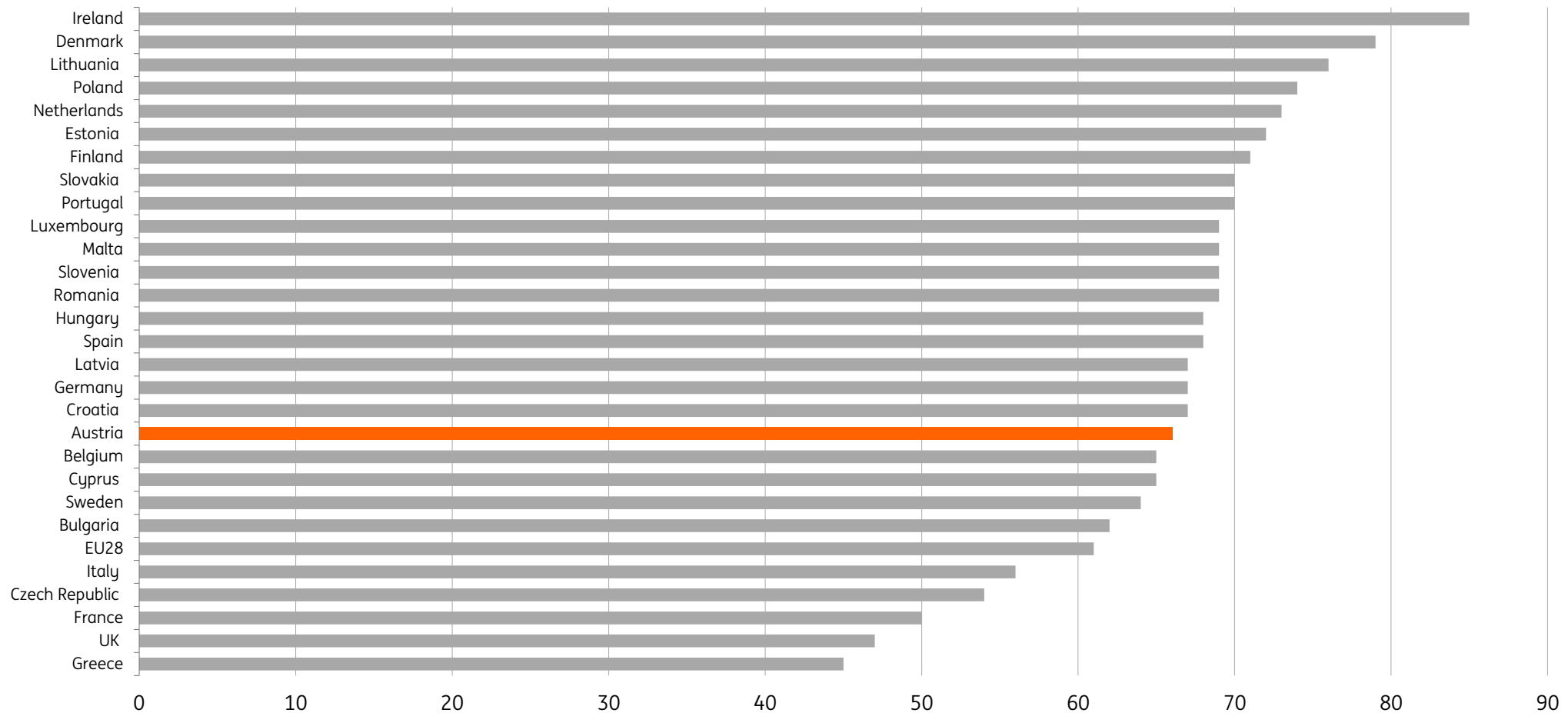
Most important issues facing Austria at the moment (%)



Source: Eurobarometer Spring 2019

# ...while a majority of Austrians is still optimistic about the future of the EU

Optimism for the future of the EU (%)



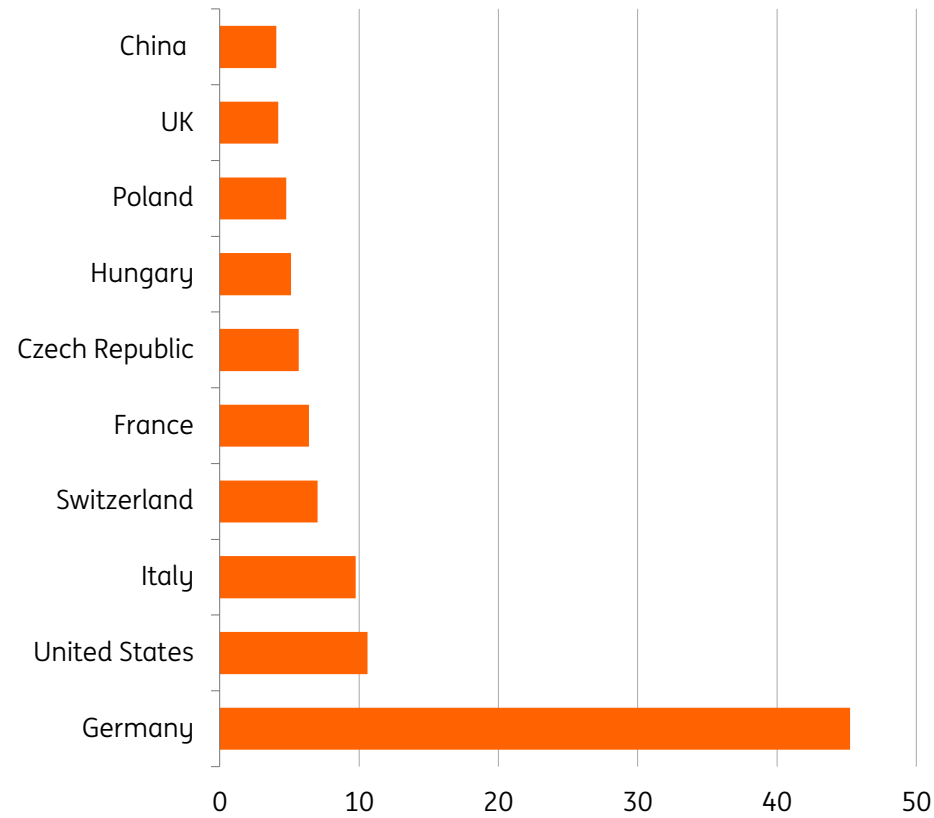
Source: Eurobarometer Spring 2019

## 5. External trade

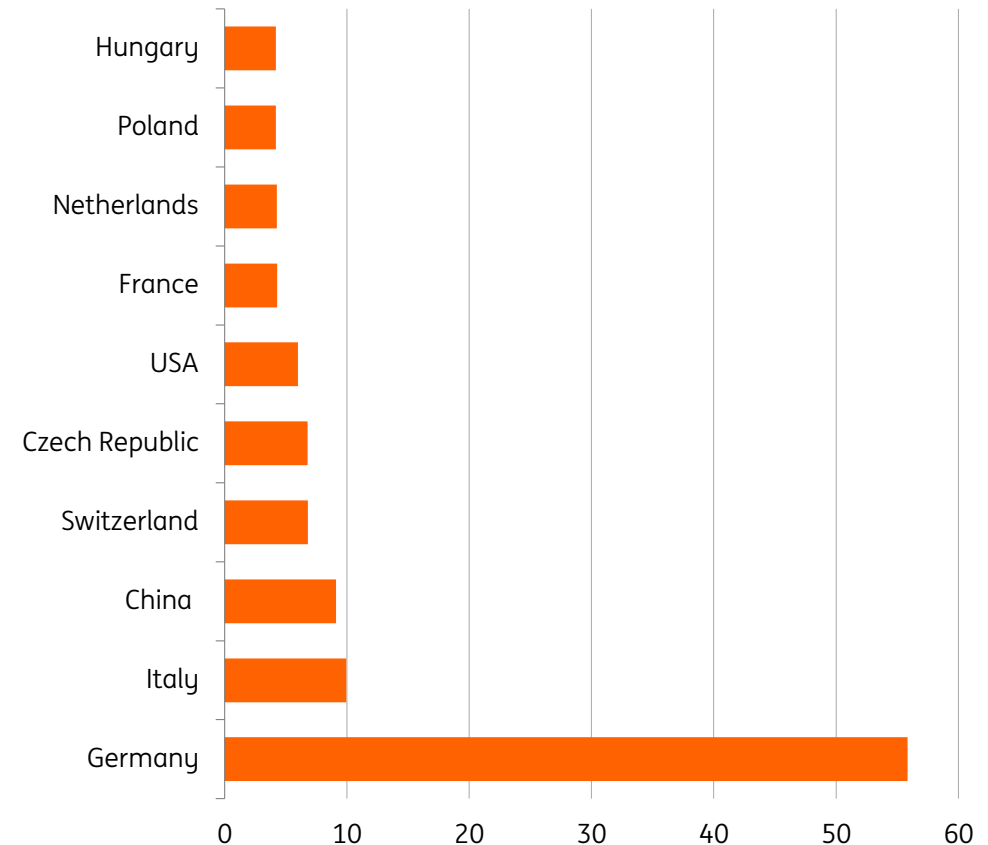
# Austria's main trading partners...

Germany is Austria's most important trading partner, making up for more than 30% of Austria's exports and imports

Top 10 export countries (€bn)



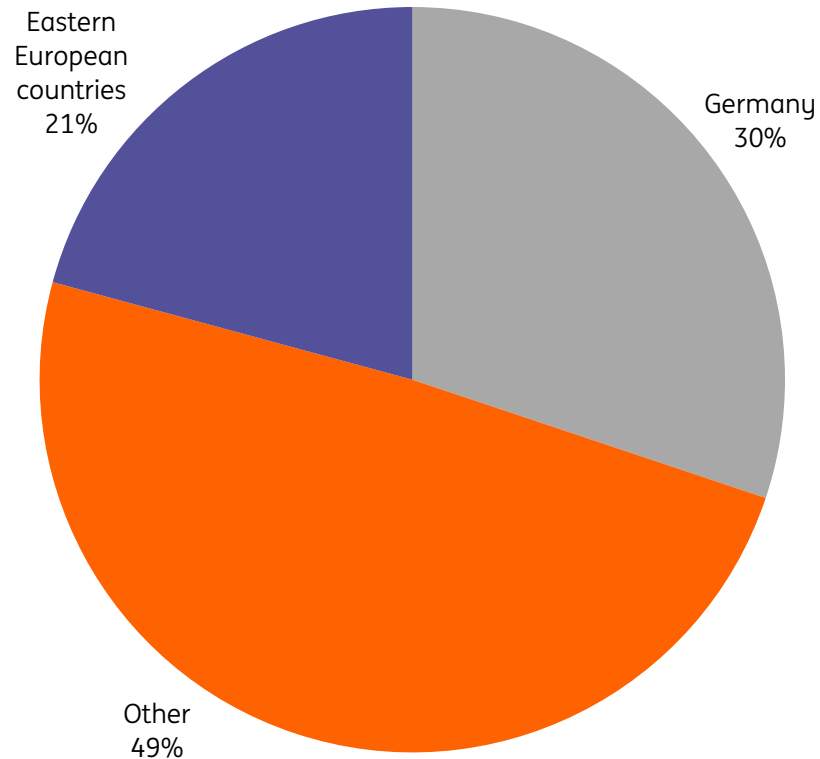
Top 10 import countries (€bn)



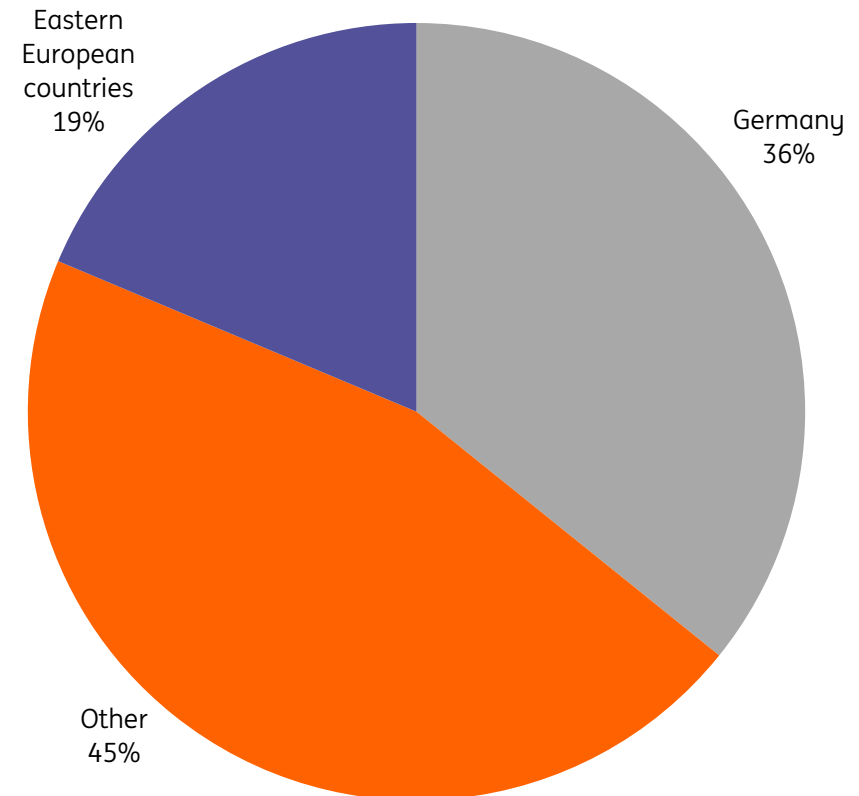
Source: Refinitiv Datastream, ING Economic & Financial Analysis

# ...with Eastern European countries making up 1/5 of Austria's import and export share

Export share (%)



Import share (%)

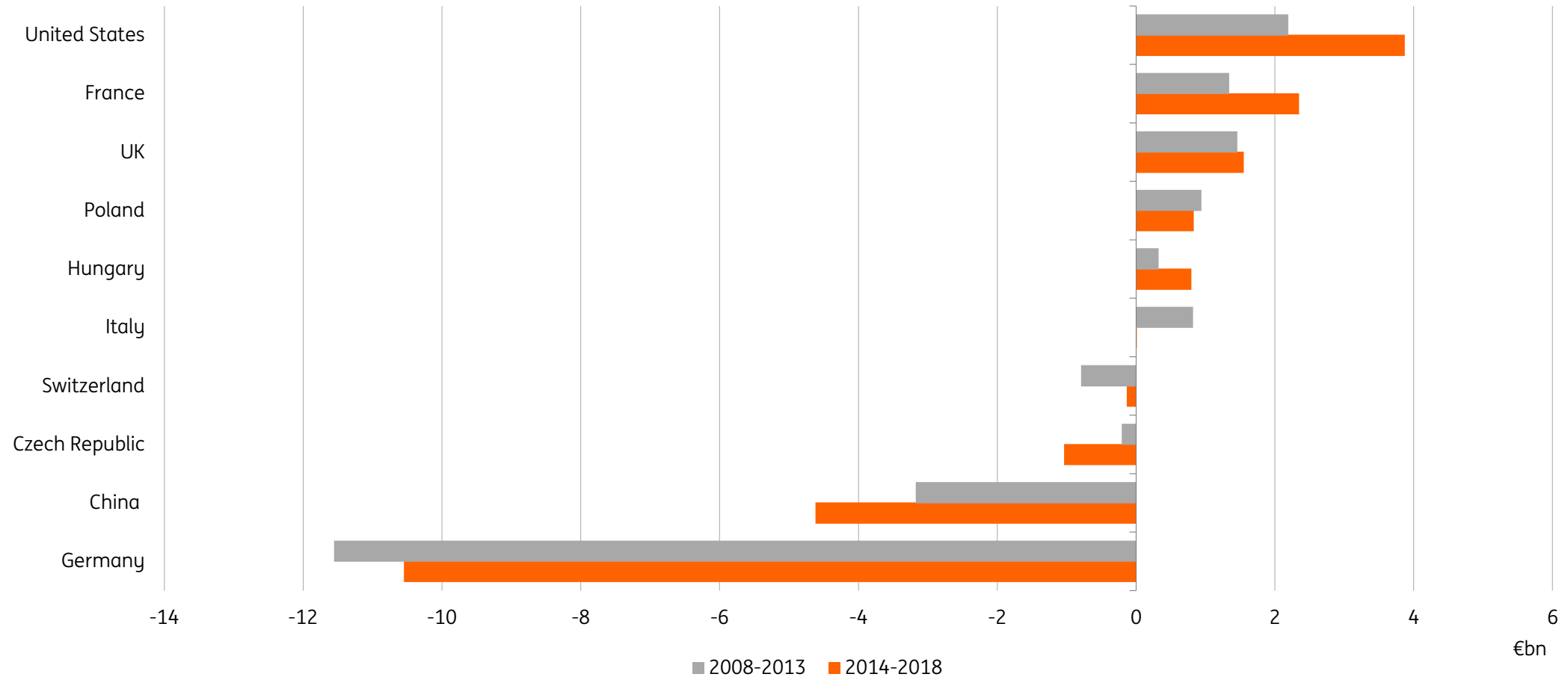


Source: Statistik Austria, ING Economic & Financial Analysis. Eastern European countries: Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Hungary, Romania, Bulgaria, Albania, Slovenia, Croatia, Bosnia-Herzegovina, Kosovo, Macedonia, Montenegro, Serbia, Ukraine, Belarus, Moldova Rep., Russian Federation



# Germany and China fuel Austria's negative trade balance

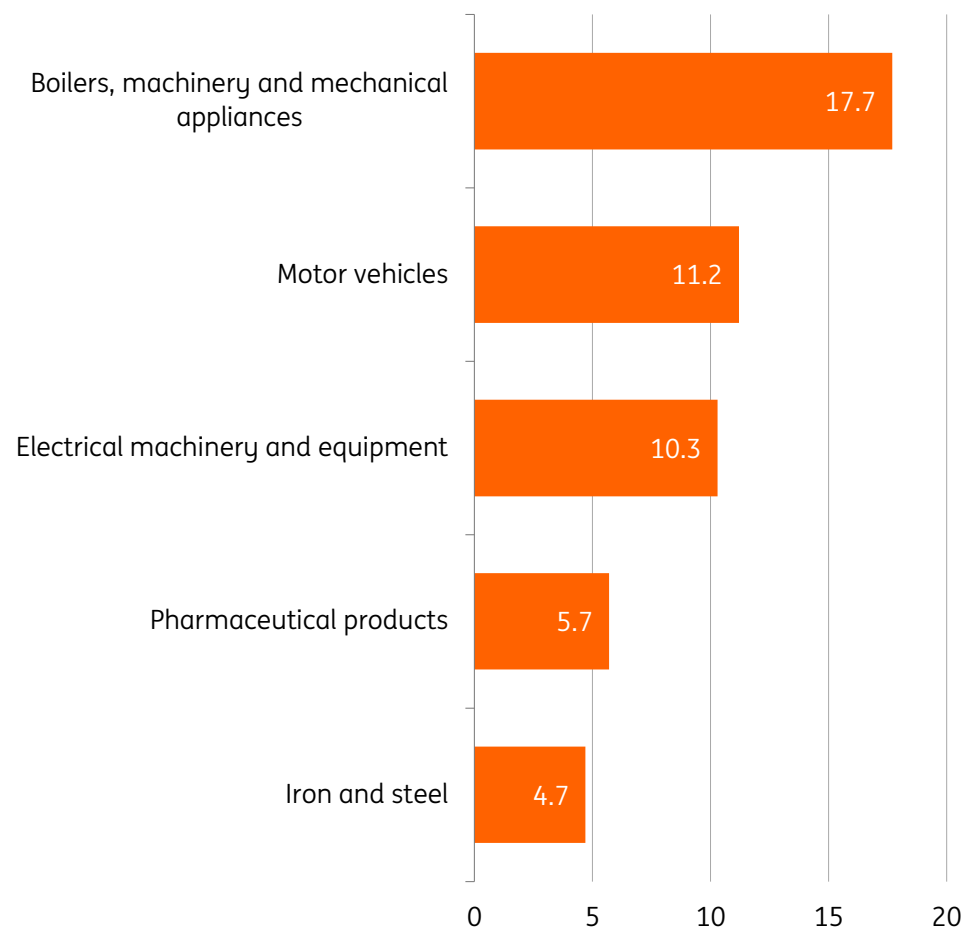
Foreign trade balance with top 10 export countries



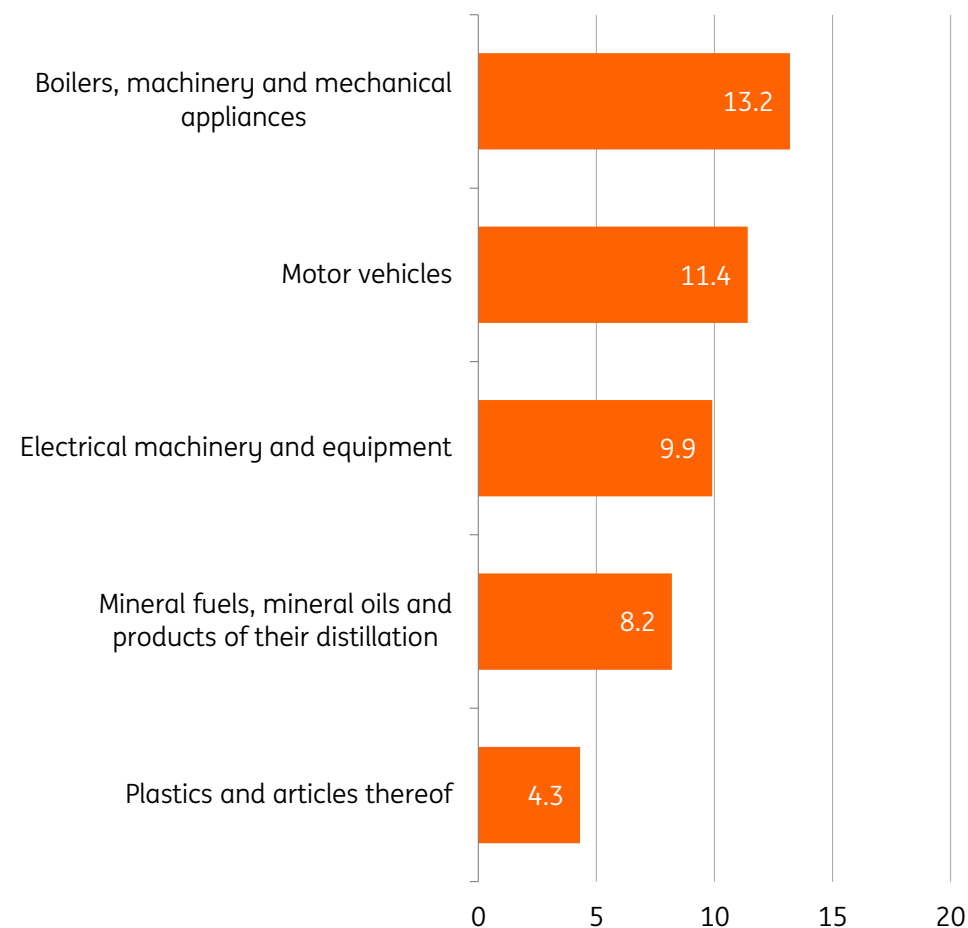
Source: Refinitiv Datastream, ING Economic & Financial Analysis

# Machinery and vehicles are Austria's most important export and import goods

Top 5 export goods (% share)



Top 5 import goods (% share)



Source: WKO, Statistik Austria, as of 2018

A photograph of a white street sign for Downing Street SW1, City of Westminster. The sign is mounted on a light-colored stone wall. To the left of the sign is a black metal lamp post with a glass lantern. To the right is a blurred view of a black metal fence. The sign has 'DOWNING STREET' in black, 'SW1' in red, and 'CITY OF WESTMINSTER' in red below a horizontal line.

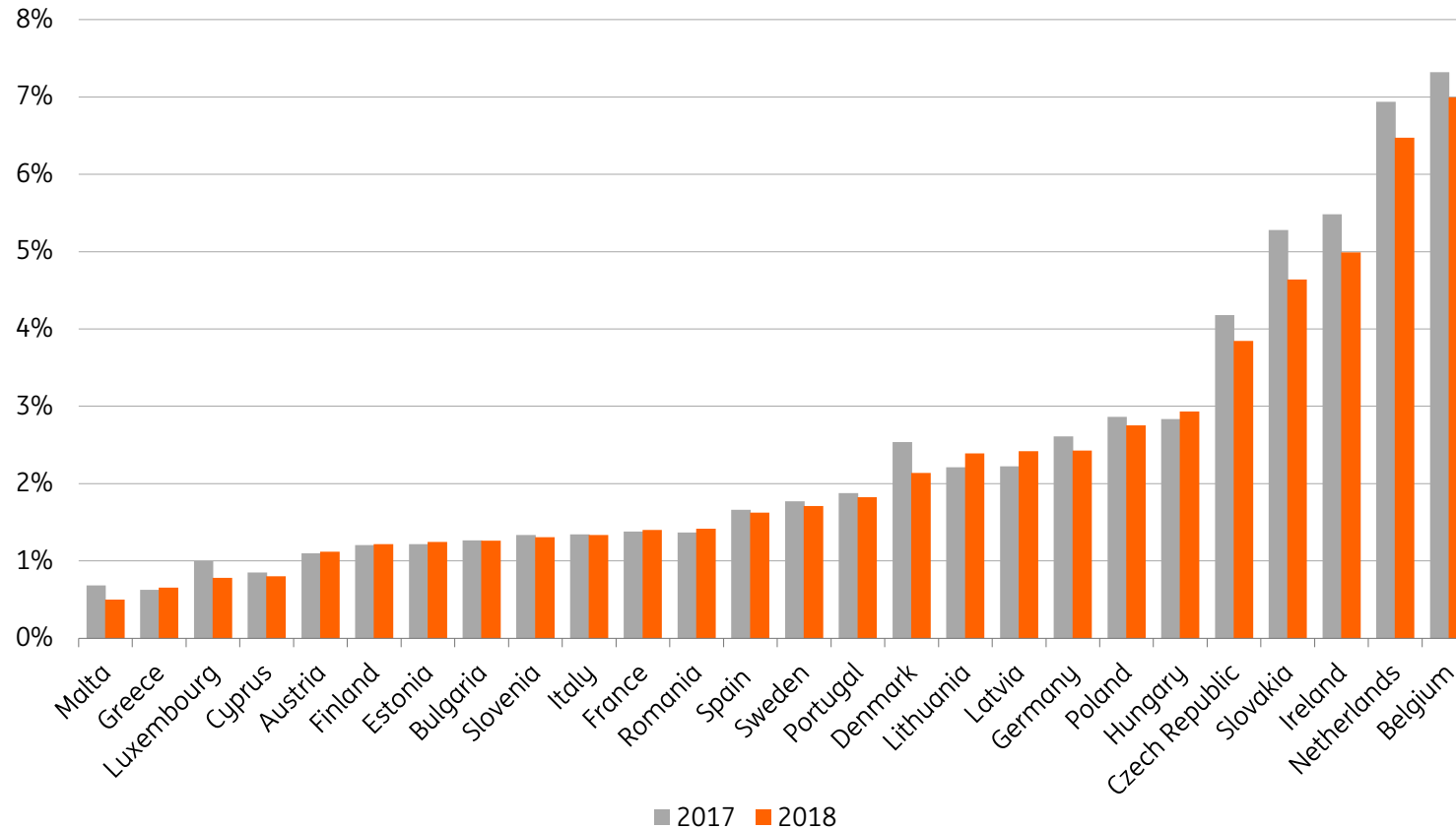
**DOWNING  
STREET SW1**

**CITY OF WESTMINSTER**

6. What about Brexit?

# No deal – Impact on Europe and Austria

Goods exports to UK (as % of country's GDP)



- **Belgium, the Netherlands and Ireland** are particularly exposed to a 'no deal' Brexit given their importance in British supply chains
- Around 60% of UK's marine trade with Europe\* goes to either Netherlands, Belgium or France.
- Although UK is among Austria's top 20 trading partners with 9th place for exports and 13th place for imports, the impact of Brexit on the Austrian economy as a whole is likely to remain limited in terms of its overall share (exports 2.8% and imports 1.8%).
- According to ING calculations, GDP could be 0.1-0.3 percentage points lower. In particular, trade in machinery and vehicles is likely to suffer. With a share of more than 50% each, these are both the most important import and export goods between Austria and the UK.

\*Gross tonnage  
Source: Refinitiv Datastream, ING Economic & Financial Analysis.



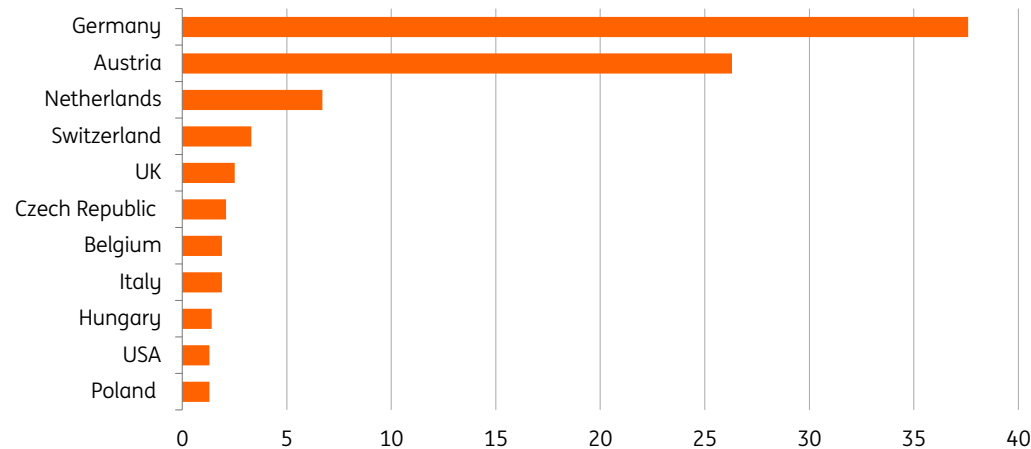


## 7. Vivid tourism sector

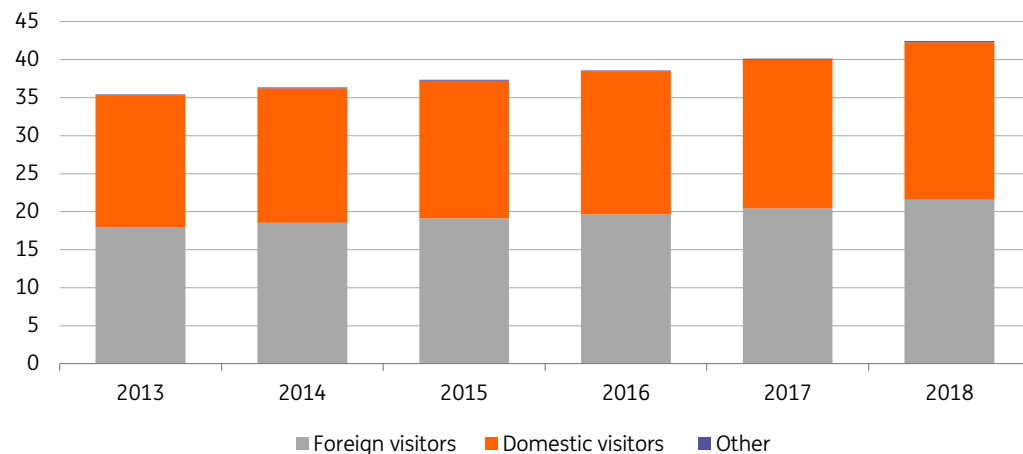


# Austria's tourism sector is vital for the economy

Top 10 overnight stays by country (% share)



Tourist expenditure in Austria (€bn)



Source: Statistik Austria, WIFO, Federal Ministry Republic of Austria Sustainability and Tourism, WKO

- The tourism sector generates up to 8.4% of Austria's GDP and accounts for 15.3% of GDP together with the leisure industry, manifesting the importance of these sectors for the Austrian economy
- In 2018, an estimated number of 674,500 full-time jobs were directly or indirectly connected to the tourism and leisure industry
- The length of stay is decreasing: tourists spent on average 4.9 nights in 1990, compared to 3.3 nights in 2018
- The 2019 summer tourist season (May to October) in Austria recorded an increase of 2.8% year-on-year, with 78.93 million overnight stays, overtaking the record of 78.12 million overnight stays in the 1991 summer season

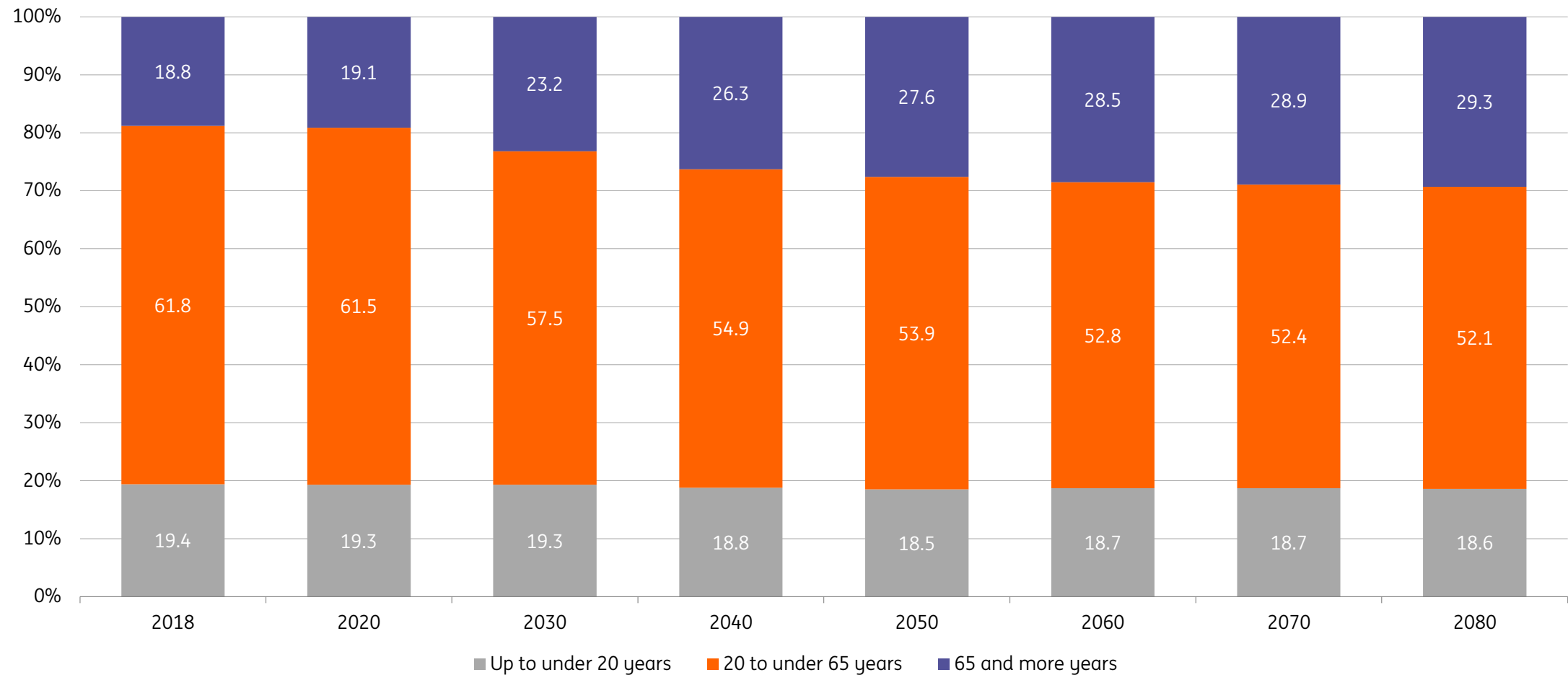


## 8. Migration and population

# Austria's population continues to age

Population forecast for Austria

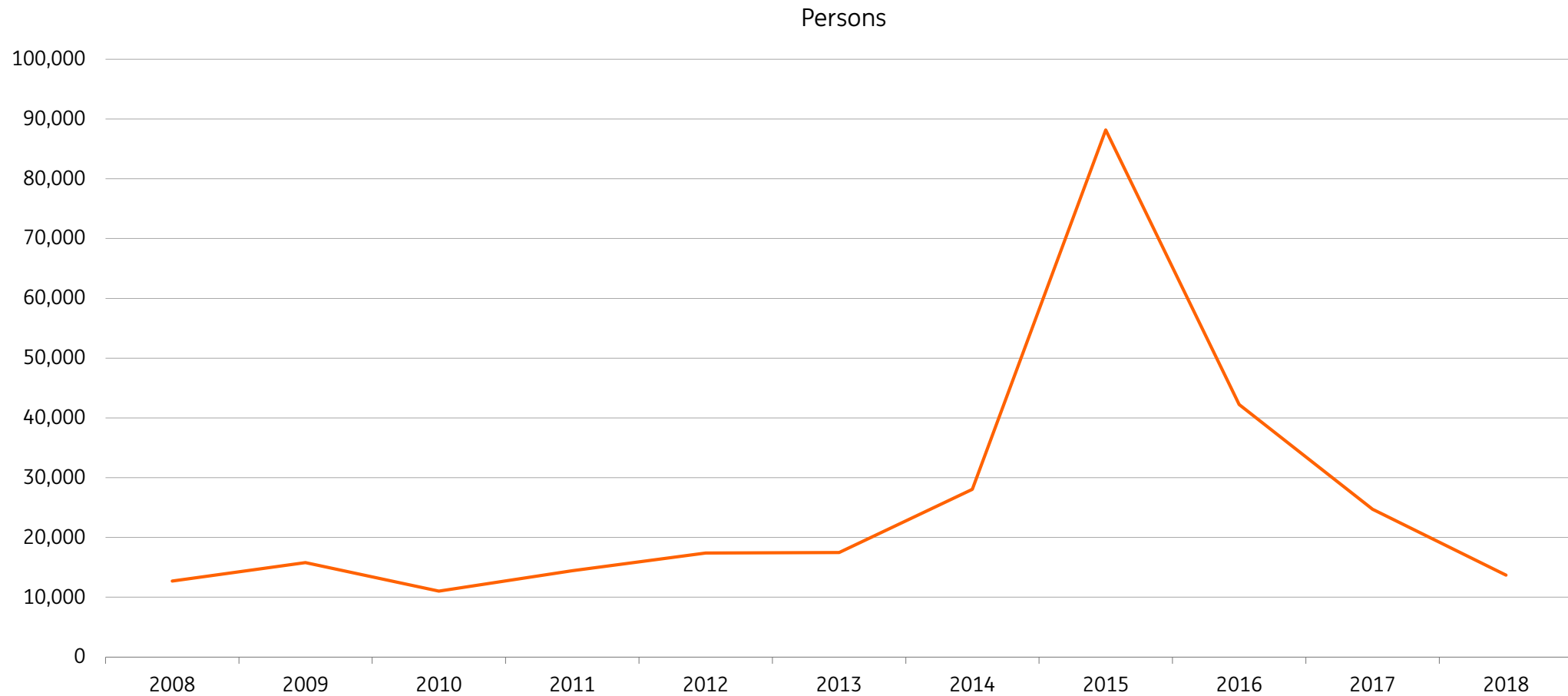
Total population, %



Source: Statistik Austria, population forecast 2019

# The number of asylum applications has declined...

Asylum applicants extra-EU28

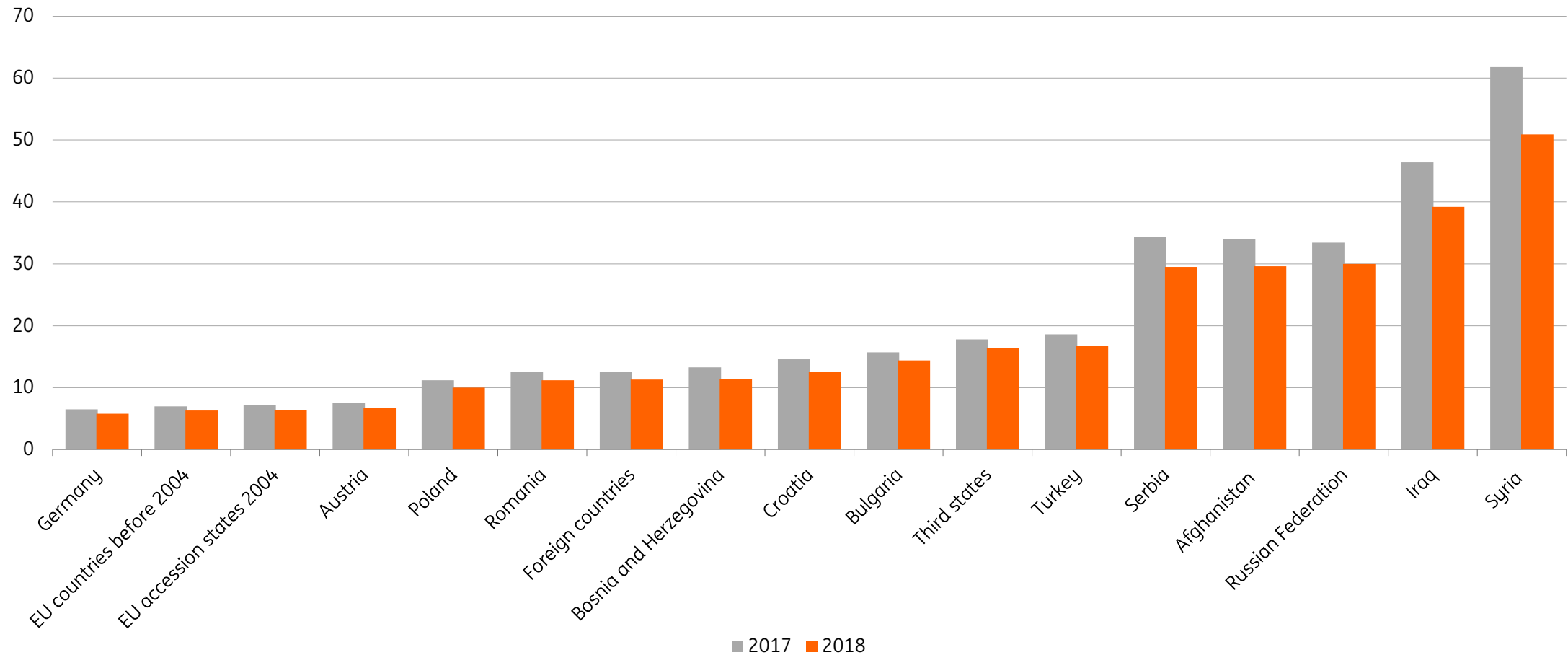


Source: Eurostat, ING Economic & Financial Analysis

# ...but integration remains a challenge

Unemployment rate by nationality

Annual average (%)



Source: Federal Ministry Republic of Austria Europe, Integration and Foreign Affairs, integration report 2019



## 9. Disclaimer

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