

Trump 2.0 and the consequences

Economic outlook 2025/2026

Press conference

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- Trump 2.0 and the consequences for the global economy and Europe
- Our expectations for Austria
- The world has become more insecure
- Summary





Trump 2.0 and the consequences for the global economy and Europe



Our core assumptions for 2025/26

»» **The re-election of Donald Trump sets a new course for the global economy**

- »» The already great geopolitical uncertainties will continue to increase
- »» The announced protectionist measures are likely to weigh on the development of industry worldwide, as they dampen global trade, depress sentiment and cloud the outlook for investment
- »» Against the backdrop of rising trade tensions with China, the eurozone will face headwinds due to the high importance of the heavily export-oriented industrial sector
- »» Global trade, which had a tentative recovery in 2024, will not make any further progress in 2025
- »» No major energy price shock likely: Oversupply of the world oil market due to high production in the USA keeps the crude oil price in a range of 75 to 80 US dollars per barrel
- »» Different growth patterns and inflation trends expected on both sides of the Atlantic: stronger momentum and higher inflation in the US, moderate recovery with stable inflation in Europe
- »» ECB will continue its interest rate cut cycle, even below a neutral interest rate. Fed could stop interest rate cuts in 2025
- »» Due to the interest rate differential between the US and the euro area, a further weakening of the euro against the US dollar can be expected in 2025

»» **Despite high risks: Cautious optimism for 2025/26**



Trump and the short-term consequences at a glance

More growth in the US, less in the euro area, stronger USD

Forecast change since 5th November	2024	forecast 2025		
	<i>forecast</i>	<i>today</i>	<i>before 11/5</i>	<i>delta</i>
GDP World	3.2	3.2	3.2	0.0
real change in %				
GDP US	2.7	2.1	1.3	0.8
real change in %				
Inflation US	2.9	2.3	1.8	0.5
In %				
EUR-USD	1.05	1.02	1.13	-0.11
year end				
GDP Euro area	0.8	0.9	1.1	-0.2
real change in %				
Inflation Euro area	2.4	1.9	1.8	0.1
In %				
GDP Austria	-0.5	0.9	1.0	-0.1
real change in %				
3-months euribor	2.75	1.75	2.00	-0.25
year end in %				
10-year swap-rate	2.30	2.35	2.60	-0.25
year end in %				

Source: UniCredit, Refinitiv Datastream

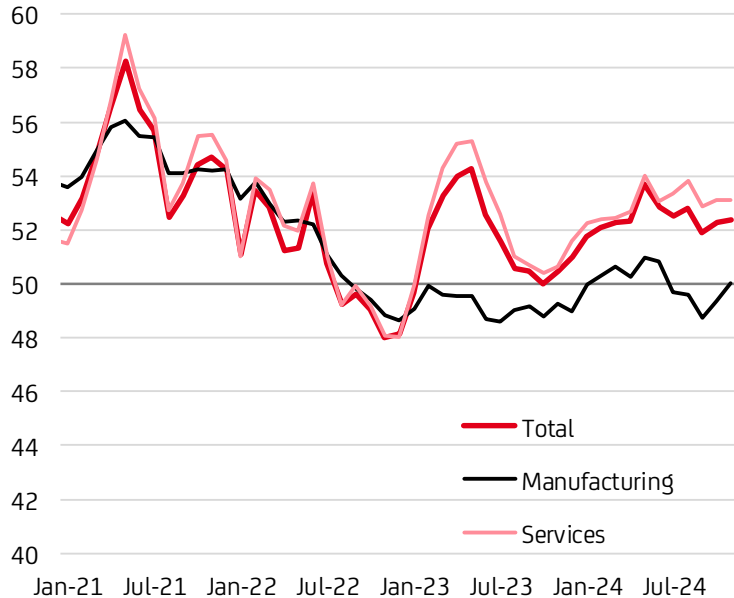


Weakness in industry has spilled over into services

China weakens, industrialized countries severely affected

Global activities

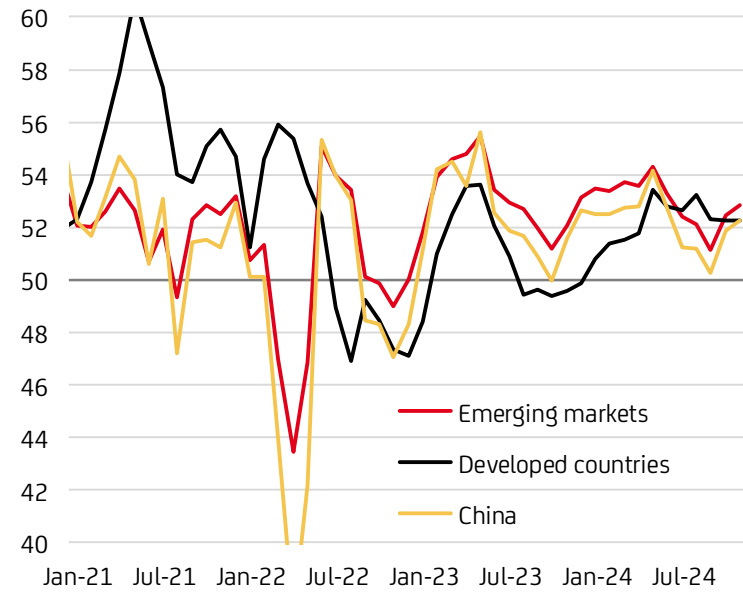
(Purchasing managers' index: >50 means growth, <50 decline)



Source: S&P Global, UniCredit

Global activities in comparison

(Purchasing managers' index: >50 means growth, <50 decline)



Source: S&P Global, UniCredit

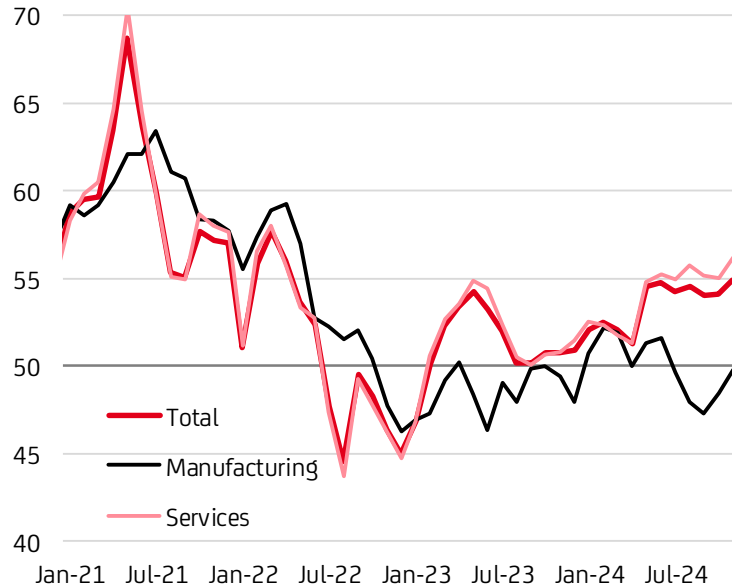


Economic situation in the USA more favourable than in the euro area

Industry in the euro area particularly weak – signs of stabilisation at a low level

Activities in the US

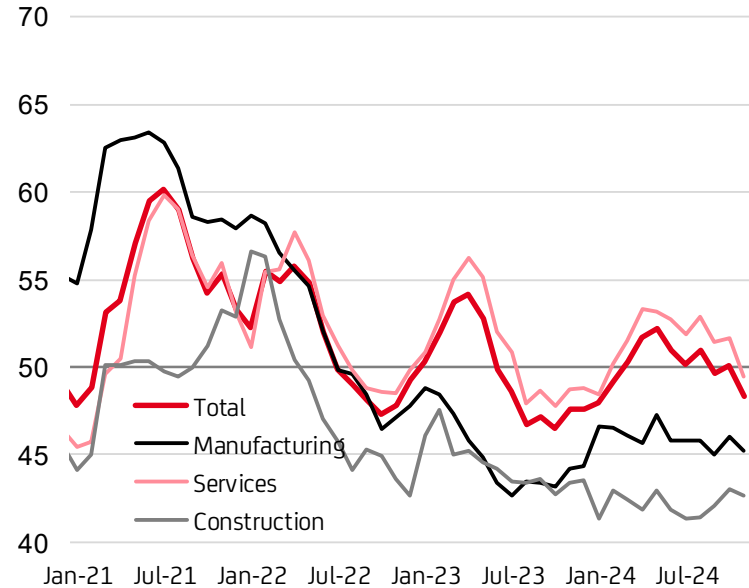
(Purchasing managers' index: >50 means growth, <50 decline)



Source: S&P Global, UniCredit

Activities in the euro area

(Purchasing managers' index: >50 means growth, <50 decline)



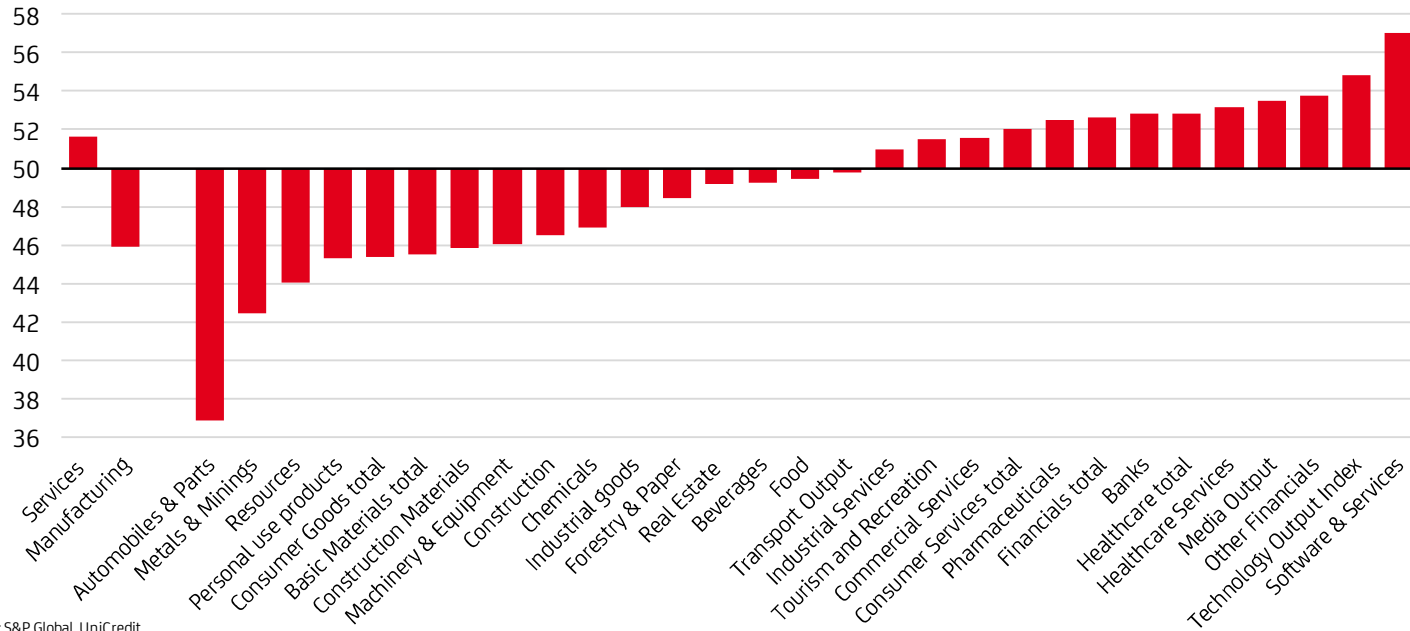
Source: S&P Global, UniCredit



Economic weakness permeates almost all sectors in Europe ... but services are still better than production

Development of branches in the Euro area

(Purchasing managers' index: >50 means growth, <50 decline)



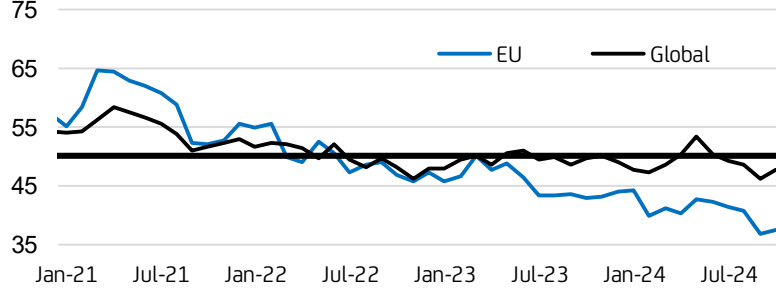
Source: S&P Global, UniCredit



Europe is lagging behind the world

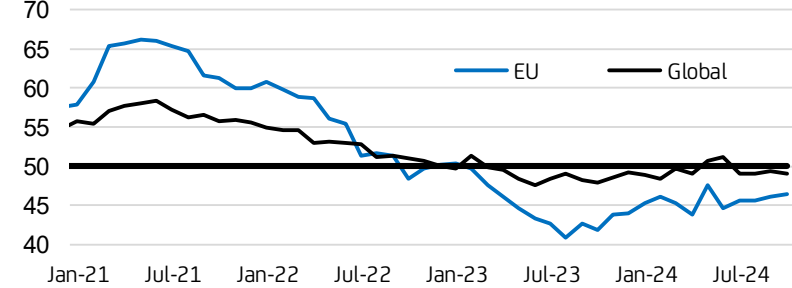
Special problems: cars, mechanical engineering and construction

PMI comparison
(Automobiles and parts)



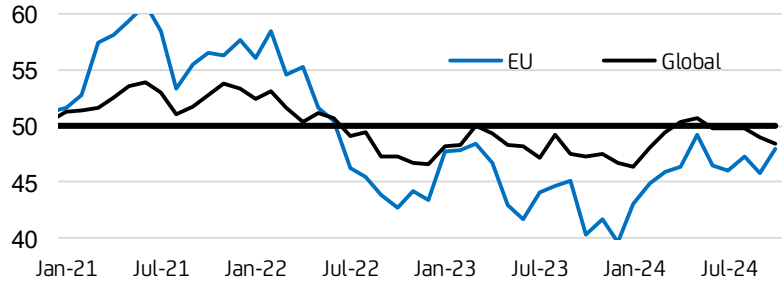
Source: S&P Global, UniCredit

PMI in comparison
(Machinery and equipment)



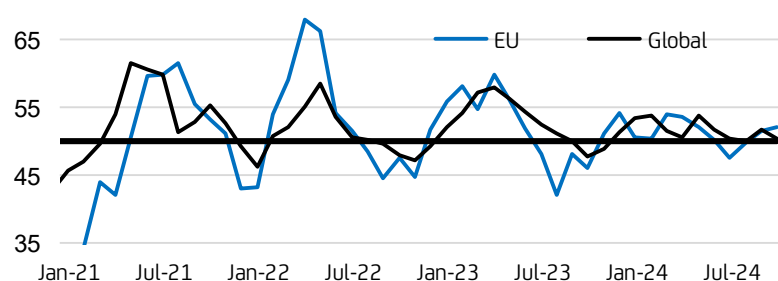
Source: S&P Global, UniCredit

PMI in comparison
(Construction materials)



Source: S&P Global, UniCredit

PMI in comparison
(Tourism and recreation)



Source: S&P Global, UniCredit

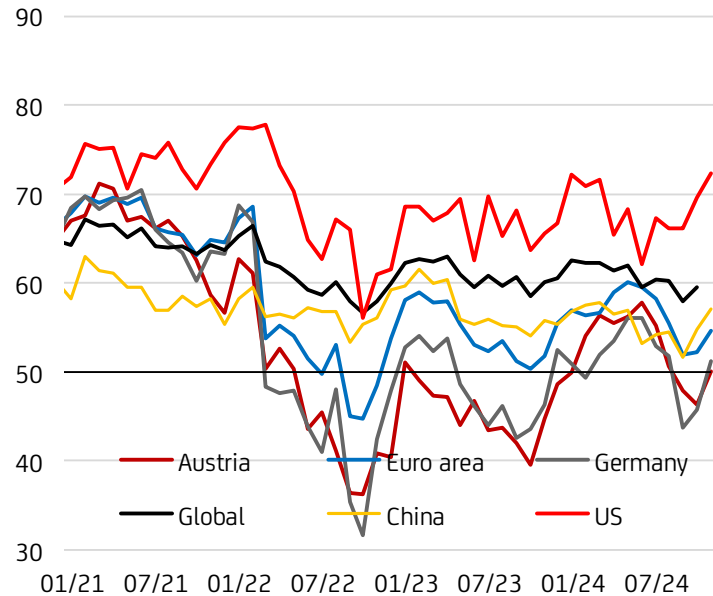


Cautious production expectations spill over into the service sector

Pessimism particularly high in Austria and Germany

Output expectations in 12 months in manufacturing

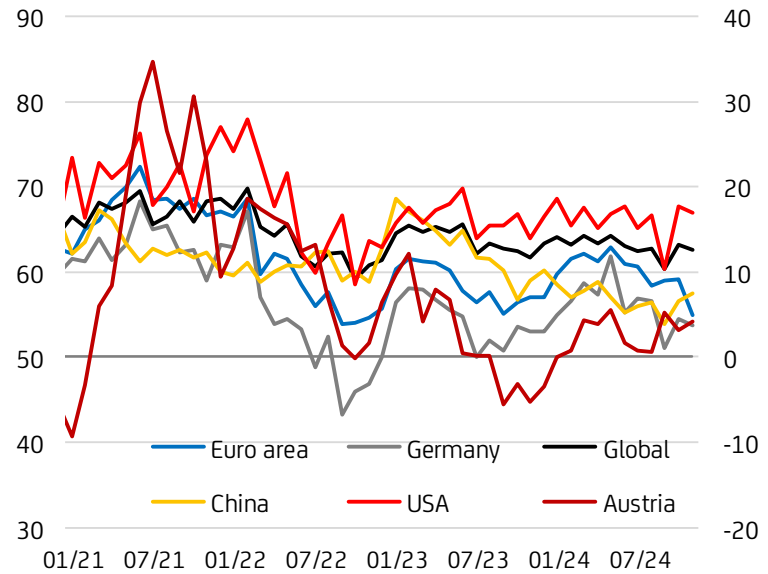
(PMI, >50 increase, <50 decrease)



Source: S&P Global, UniCredit

Future activities in services

(PMI, > 50 increase, <50 decrease)



Austria Services sentiment, Source: EU Commission, S&P Global, UniCredit



Different growth patterns in 2025

Robust growth in the US, slow recovery in the euro area

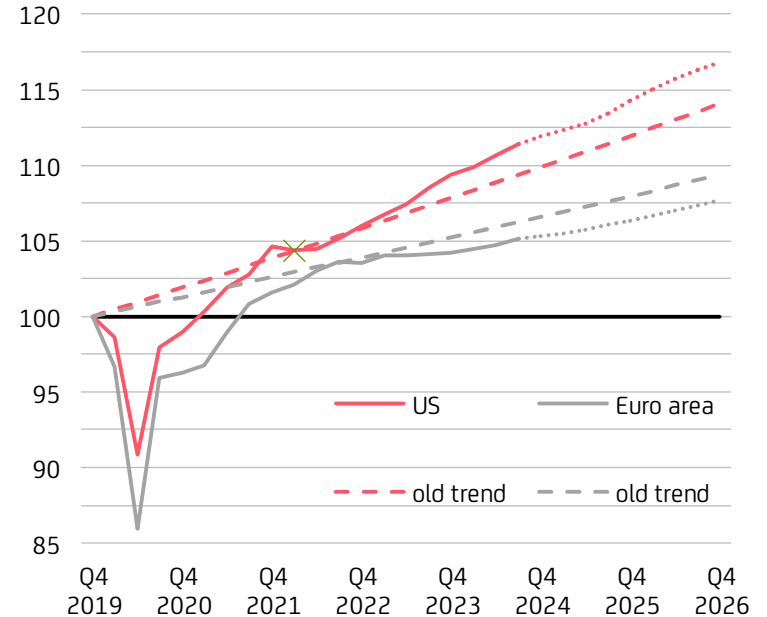
Global environment

	Forecast				
	2022	2023	2024	2025	2026
<i>(GDP, yoy in %)</i>					
Eurozone	3.3	0.7	0.8	0.9	1.2
Germany	1.8	-0.3	-0.2	0.7	1.2
France	2.5	0.7	1.1	0.7	1.2
Italy	4.0	0.9	0.5	0.8	1.0
Spain	5.8	2.5	3.0	1.8	1.9
Austria	4.8	-0.8	-0.5	0.9	1.3
UK	4.4	0.1	0.9	1.2	1.4
USA	1.9	2.5	2.7	2.1	2.3
Japan	1.0	1.9	0.1	1.0	0.9
China	3.0	5.2	4.8	4.5	4.2
Global	3.2	3.1	3.2	3.2	3.3

Source: UniCredit Research

GDP real

(Q4 2019=100)

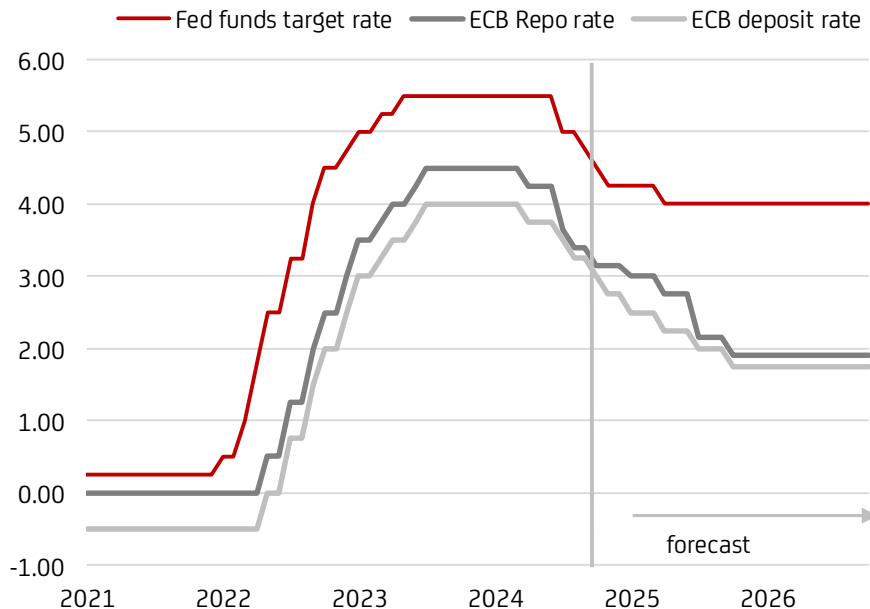


Source: Refinitiv Datastream, UniCredit



Easing of monetary policy will continue ... but divergence between the US and Europe is to be expected

Key interest rates (in %)



Source: Refinitiv Datastream, UniCredit Research

- In view of the fall in inflation, central banks will continue to cut key interest rates for the time being.
- For the US, we expect the FFTR to be reduced from the current 4.75 percent to 4.00 percent by mid-2025, after which rising inflation from the Trump administration's economic policy measures could prompt the Fed to end the easing cycle.
- For the euro area, we expect an interest rate hike at the end of 2024 and a reduction in the deposit rate from the current 3.25 percent to 1.75 percent by the end of 2025, slightly below the neutral level.

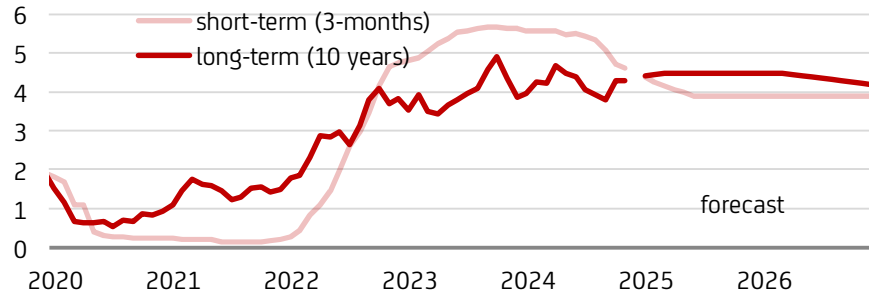
We would like to point out that the figures/performance data refer to the past and that past performance is not a reliable indicator of future results. Yields can rise or fall due to currency fluctuations.



Interest rate outlook in detail:

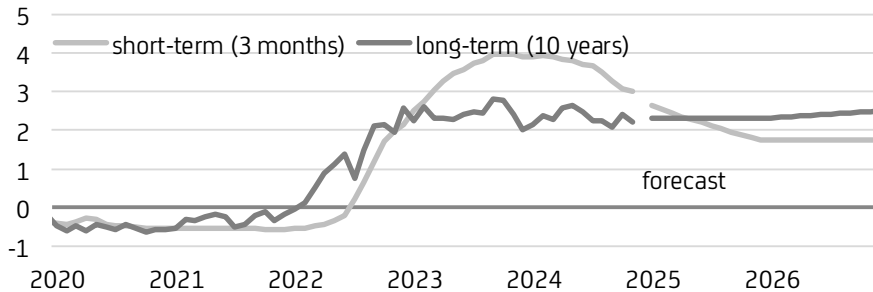
Long-term yields on eurozone and US government bonds have little room to fall

Interest US



Source: UniCredit, RefinitivDatastream

Interest Euro area



Source: UniCredit, RefinitivDatastream

- Monetary easing continues in both the eurozone and the US, but rate cuts are largely priced in.
- USA: For the 10-year US Treasury yield, we have set a range of 4.40 to 4.60 percent for the end of 2025, 40 to 60 basis points above the key interest rate level, due to a high supply.
- Eurozone: The yield on 10-year German government bonds is expected to be in a range between 2.20 and 2.40 percent by the end of 2025. Further sideways movement expected in 2026.
- The difference in the yield between ten-year US and European government bonds is therefore likely to widen further.

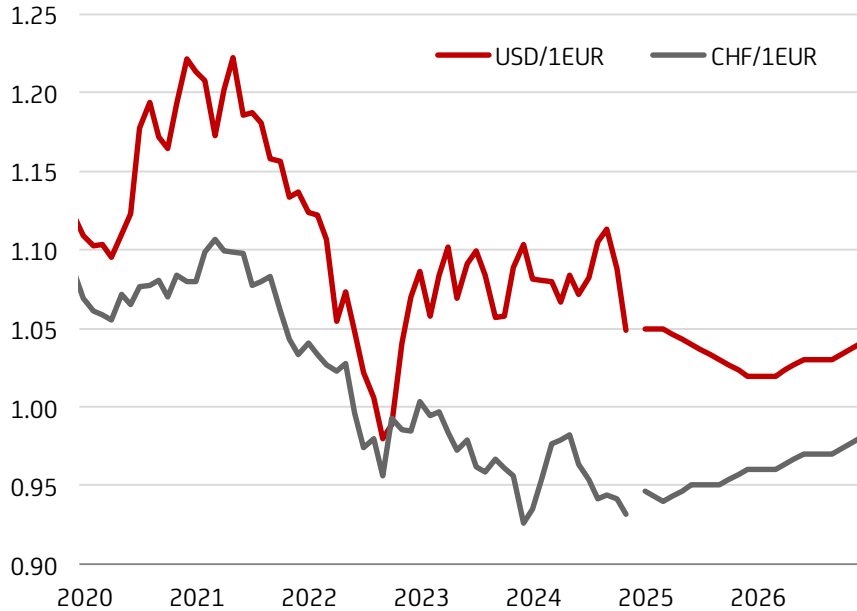
We would like to point out that the figures/performance data refer to the past and that past performance is not a reliable indicator of future results. Yields can rise or fall due to currency fluctuations.



Trump 2.0 sets the course in favor of the US dollar

Interest rate differential leads to strengthening of the US dollar

Exchange rate



Source: UniCredit Research, Refinitiv Datastream

- Inflows into the US equity market, higher domestic yields and the US dollar's role as a "safe haven" in the event of an escalation in global risk aversion are likely to support the US dollar.
- The extent to which the U.S. dollar appreciates against other currencies will depend on the extent to which and when Trump's proposals are implemented.
- The EUR-USD exchange rate is likely to weaken further, but the decline should be limited to levels above parity, as market expectations regarding the Fed and ECB's rate cut plans are not far from ours.
- We expect the USD to rise to as high as 1.02 for 1 euro by the end of 2025.

We would like to point out that the figures/performance data refer to the past and that past performance is not a reliable indicator of future results. Yields can rise or fall due to currency fluctuations.



Financial forecast

	02/12/2024	12 2024	06 2025	12 2025	12 2026
€ ECB deposit rate	3.25	3.00	2.25	1.75	1.75
€ 3-month money market*	2.93	2.75	2.20	1.75	1.75
<i>€ 3 months forwards</i>		<i>2.91</i>	<i>2.13</i>	<i>1.74</i>	<i>1.90</i>
€ 10-year German Bund*	2.04	2.30	2.30	2.30	2.50
€ 10-year Austrian Bund*	2.50	2.84	2.84	2.84	3.04
€ 10 Jahre Euro Swap*	1.98	2.30	2.30	2.35	2.55
US\$ 3-month money market*	4.58	4.50	3.90	3.90	3.90
<i>US\$ 3 months forwards</i>		<i>4.7</i>	<i>4.4</i>	<i>4.1</i>	<i>0.0</i>
USD 10-year UST*	4.20	4.40	4.50	4.50	4.20
€ EUR/\$ USD*	1.05	1.05	1.04	1.02	1.04
<i>€ EUR/\$ USD forwards</i>		<i>1.06</i>	<i>1.07</i>	<i>1.08</i>	<i>1.10</i>

* UniCredit Research forecast

Source: UniCredit Research

Please note that the figures refer to the past and that past performance is not a reliable indicator of future results. Yields can rise or fall due to currency fluctuations.



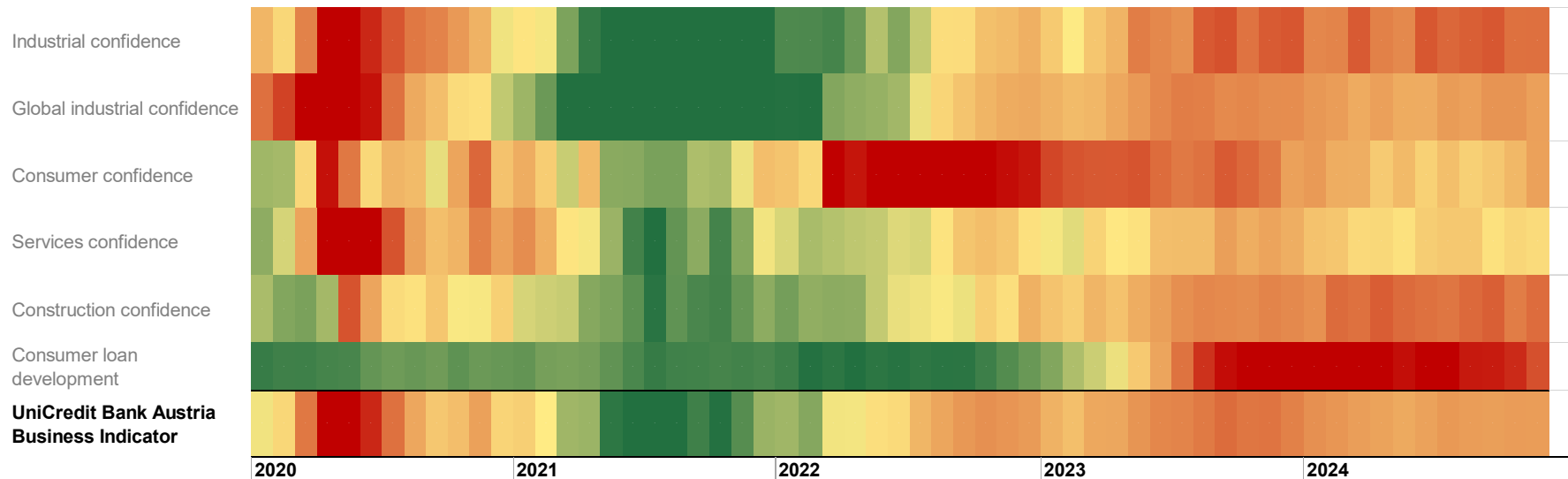


Our expectations for Austria
„Domestic demand has to fix it “



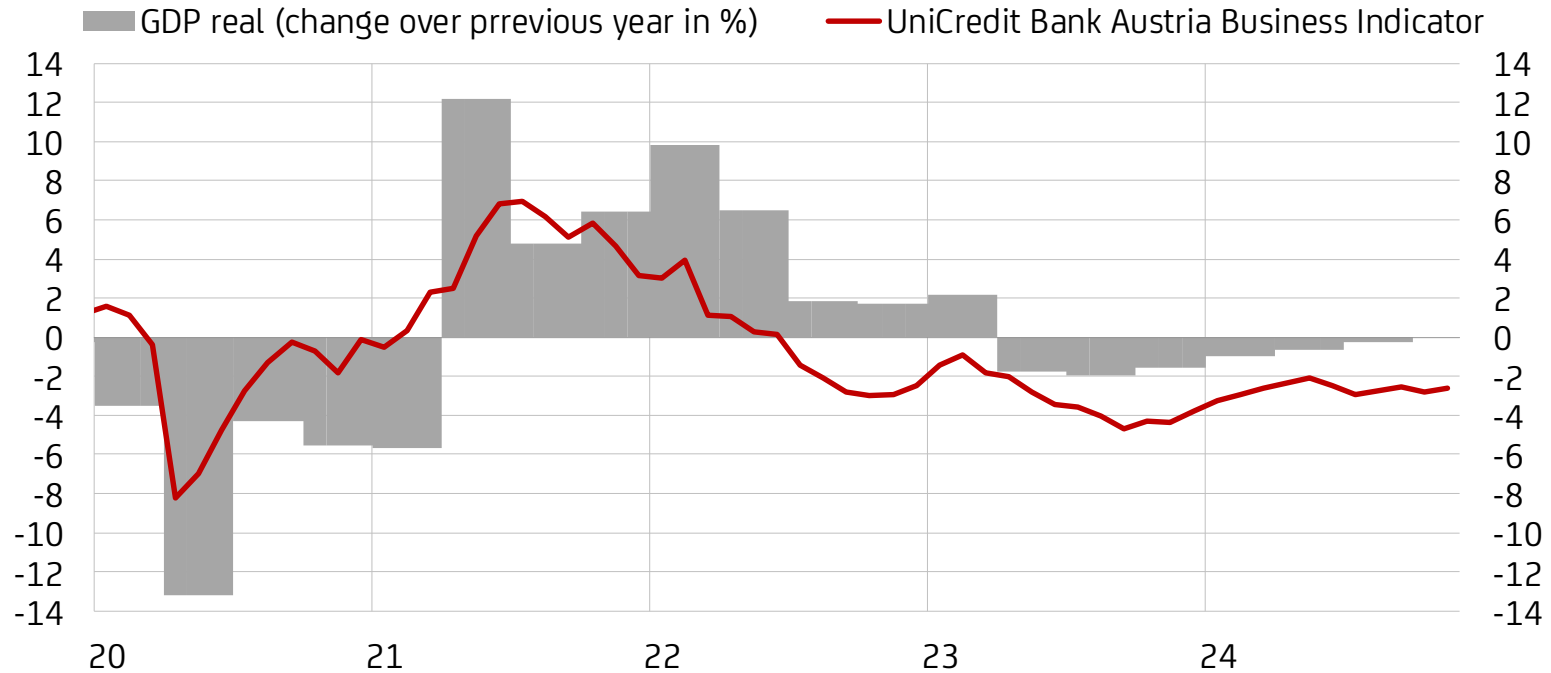
In Austria, the economic traffic light is RED ...

UniCredit Bank Austria Business Indicator



... But it's slowly getting brighter

UniCredit Bank Austria Business Indicator Austria



Source: Statistik Austria, Wifo, UniCredit Research

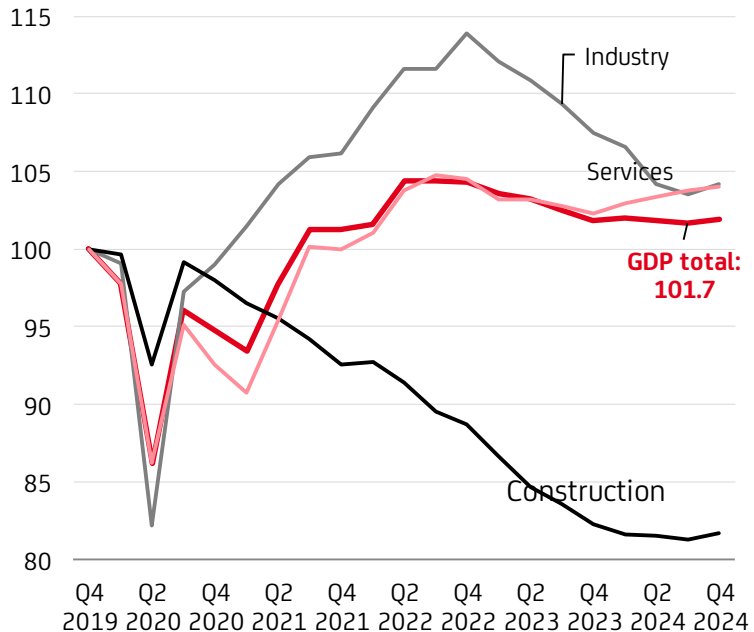


Weak economy since mid-2022 mainly due to industry and construction

Cautious signs of stabilisation of the downturn since the autumn

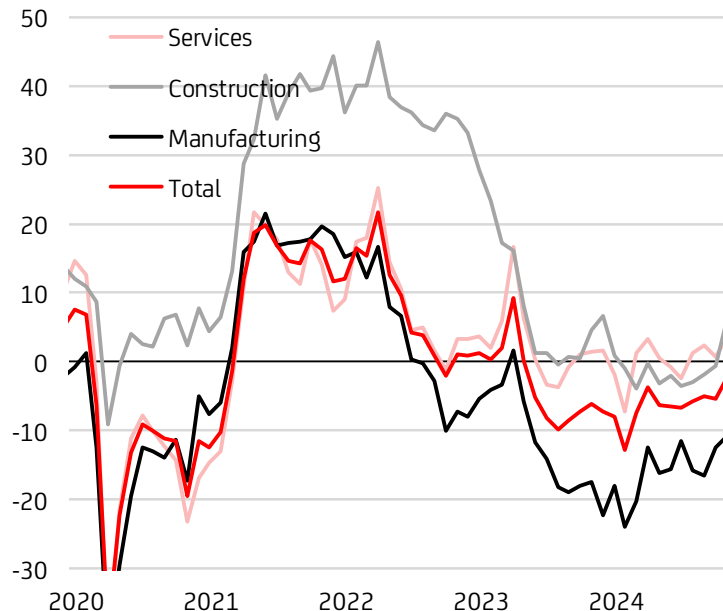
GDP trend by sectors

(Q4 2019=100, real)



Source: Statistik Austria, UniCredit

Business expectations (seasonal adjusted)



Source: WIFO, UniCredit

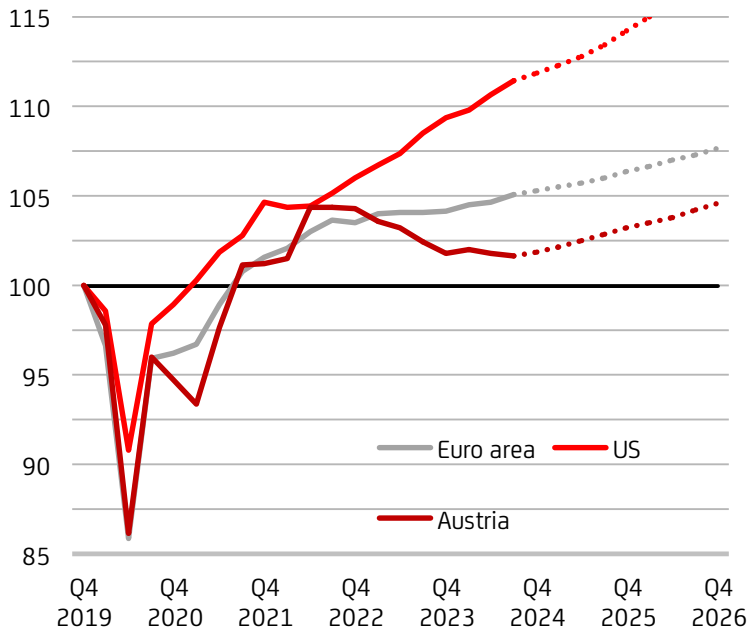


Little global economic support for Austria

Domestic demand will matter

GDP real

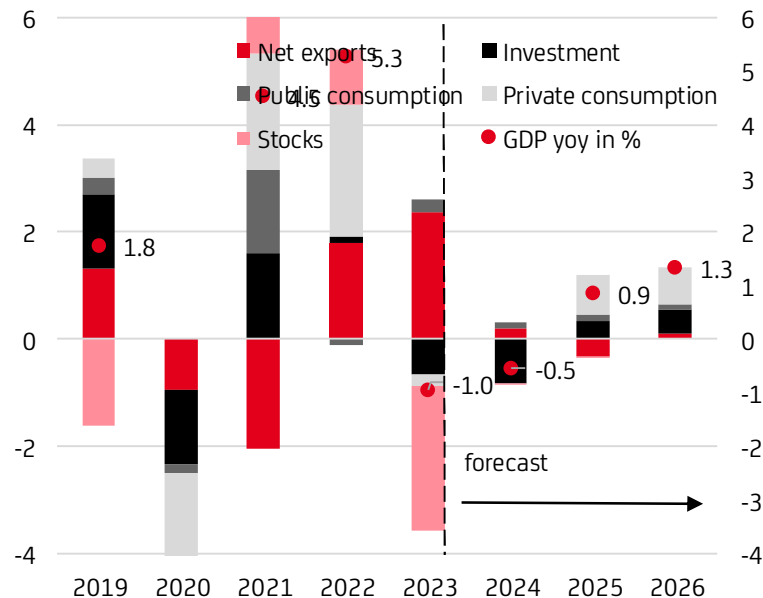
(Q4 2019=100)



Source: Eurostat, Statistik Austria, UniCredit

Economic development in Austria

(Contributions of the individual components in percentage points)

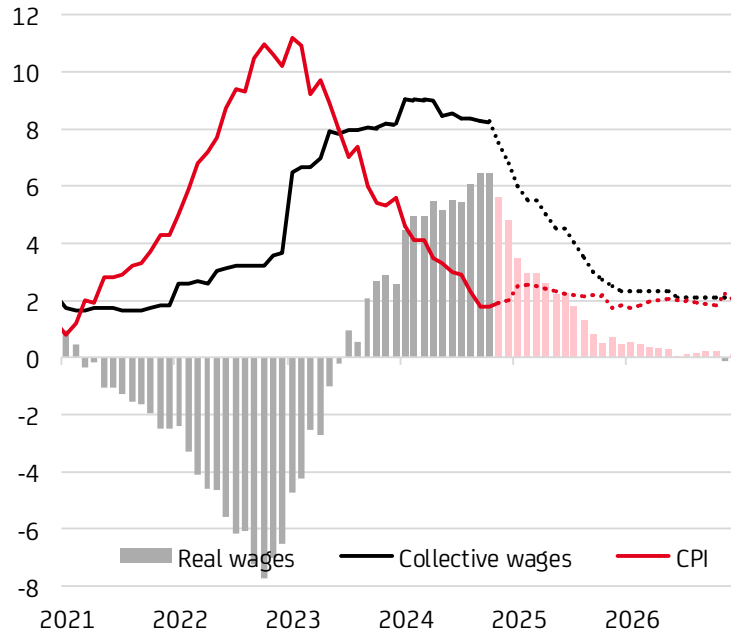


Real purchasing power continues to rise

However, compensation for the losses overall is not expected until spring 2025

Wages and inflation

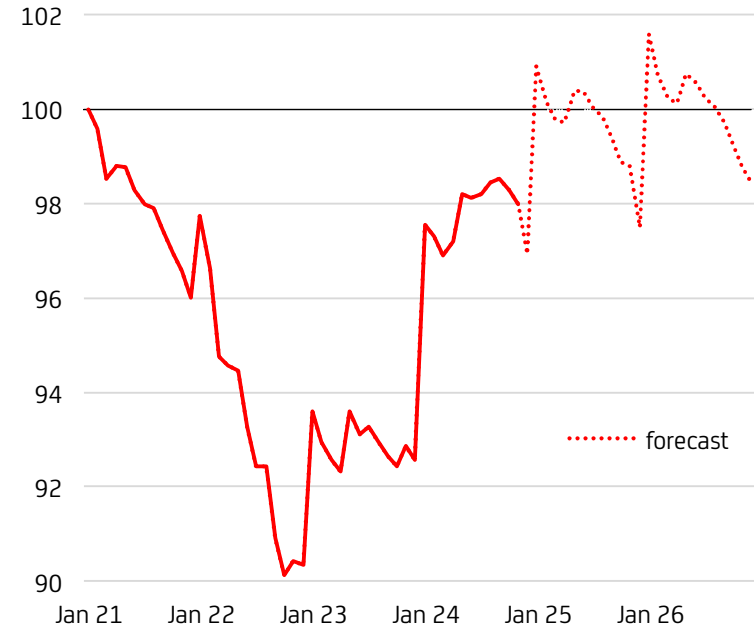
(change against previous year in %)



Source: Statistik Austria, UniCredit

Purchasing power real

(Collective wages vs. CPI, January 2021=100)

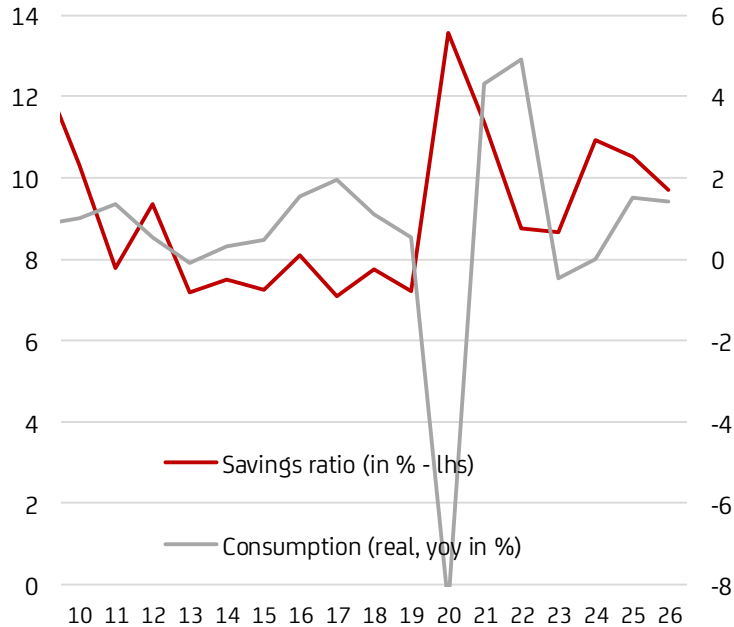


Source: Statistik Austria, UniCredit



Consumption suffers from “panic saving” but consumer restraint should slowly begin to dissipate in 2025

Consumption and saving



Source: UniCredit, Statistik Austria

- » High uncertainties, restrictive monetary policy and concerns about developments in the labour market led Austrians to consume less and save more in 2024
- » Real consumption by private households is expected to stagnate in 2024 – after falling by 0.5 percent in 2023
- » Increase in the savings rate to an estimated 10.9 percent thanks to high real wage increases.
- » If the savings rate had remained unchanged (2023: 8.7 percent), more than 6 billion euros more would have flowed into consumption in 2024, which would have led to real consumption growth of 2.5 percent.
- » This would mean that GDP would increase by 0.8 percent in 2024 (ceteris paribus) and not by 0.5 percent.
- » The savings rate is expected to decline only slowly, dampening consumption growth in 2025 and 2026, but consumption will become the main pillar of growth, up by around 1.5 percent.

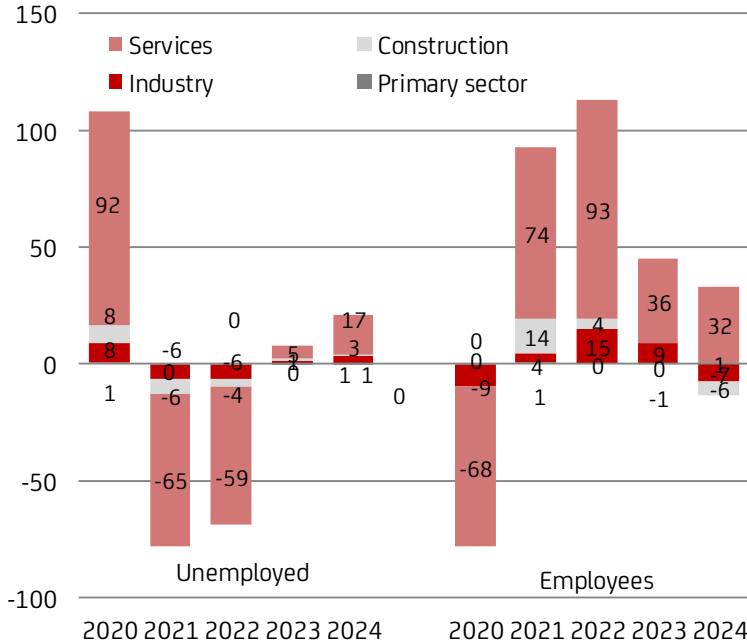


Despite weak economy, slight increase in employment in 2024, but more unemployed

Labour shortage significantly alleviated

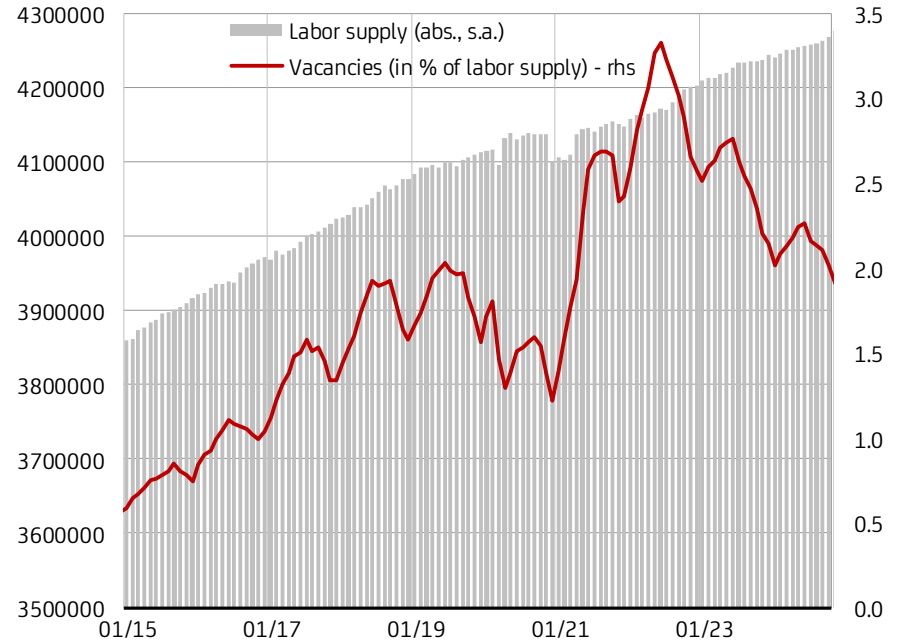
Labor market in Austria

(change against previous year in tsd.)



Labor supply and vacancy ratio

(absolute resp. in %)



Source: Statistik Austria, UniCredit

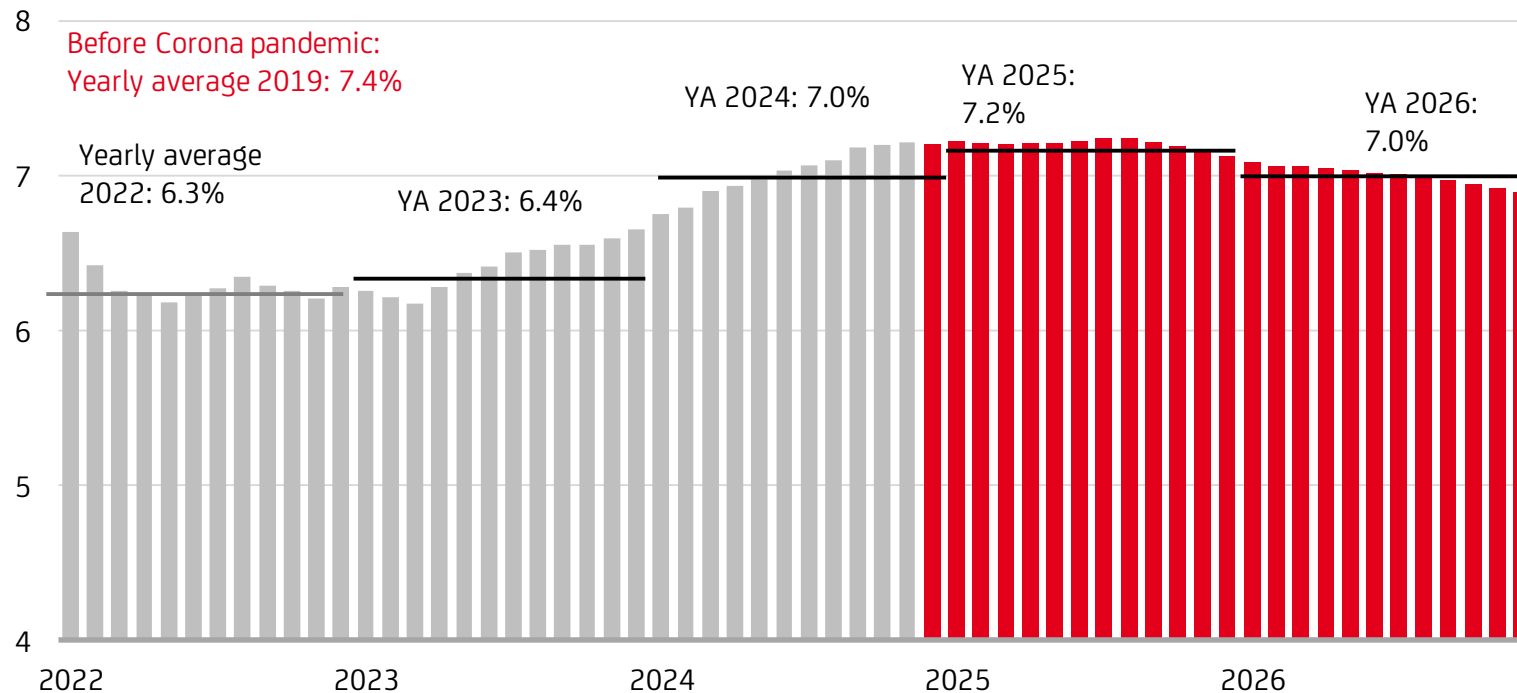


Despite recession: Only slight deterioration in the labour market

After the unemployment rate rises to 7.2 percent, decline in 2025 due to higher growth

Labour market in Austria

(Unemployment rate in %, s.a.)



Source: Statistik Austria, UniCredit Research

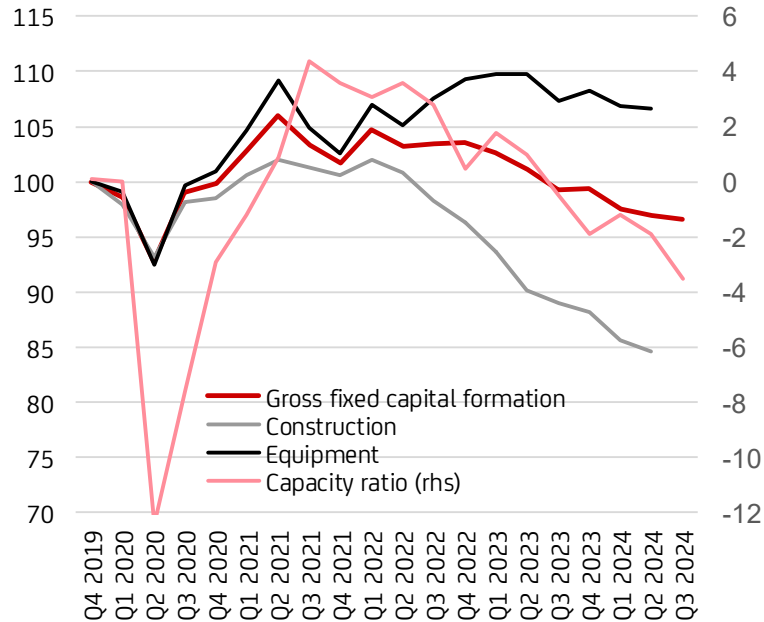


Investment activity weighed down by restrictive monetary policy

Falling interest rates will support investment turnaround in 2025

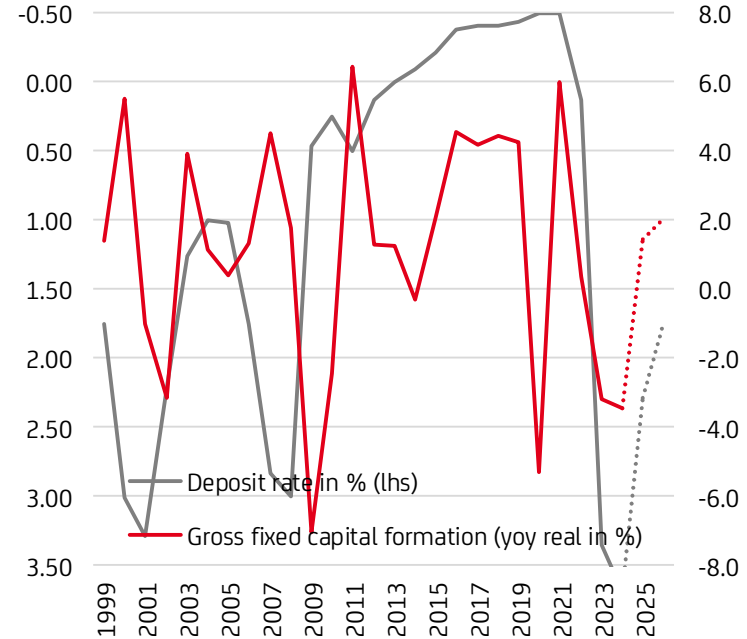
Investment in Austria

(real, 4Q 2019=100)



Source: Statistik Austria, UniCredit

Key interest rate and investment



Source: Macrobond, UniCredit

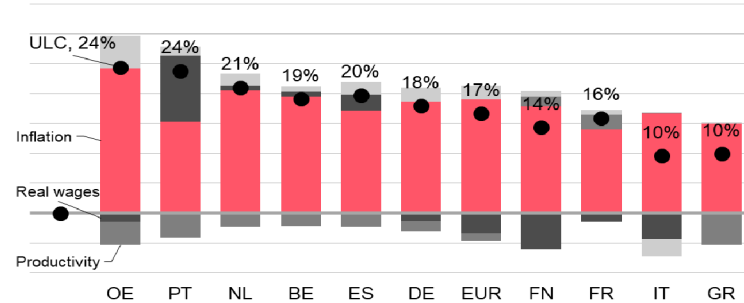


Largest increase in unit labour costs in the euro area due to inflation

However, Austria's export prices rose below average → Earnings deterioration

Labor costs development

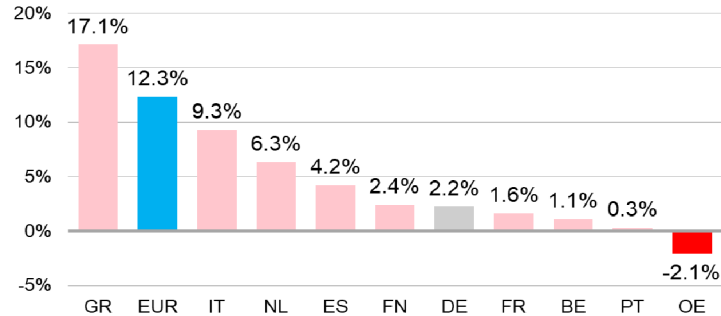
(2024* compared to 2019 and contributions to change)



Source: MacroBond, Eurostat UniCredit * 2024 Average Q3 23 - Q2 24;

Differences export prices and ULC

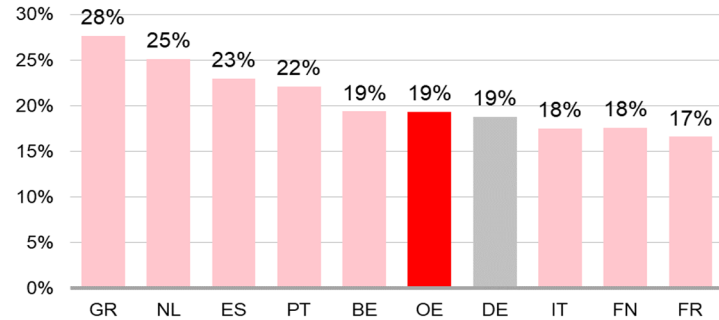
(2024* compared to 2019, ULC minus price development of exported goods and services)



S: MacroBaond, Eurostat UniCredit * 2024 average Q3 23 - Q2 24

Export prices goods and services

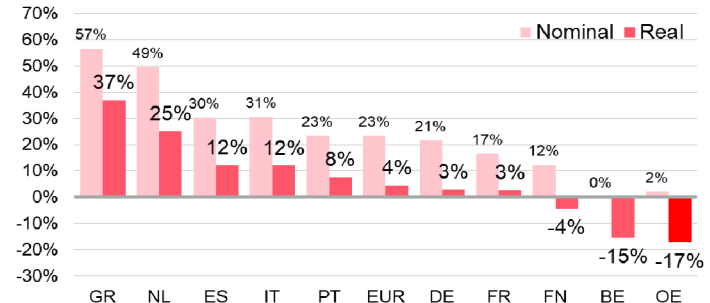
(2024* compared to 2019)



S: MacroBond, Eurostat UniCredit * 2024 average Q2 23 - Q1 24

Change of profits for industry

(2024* compared to 2019 in %, 4 quarter average)



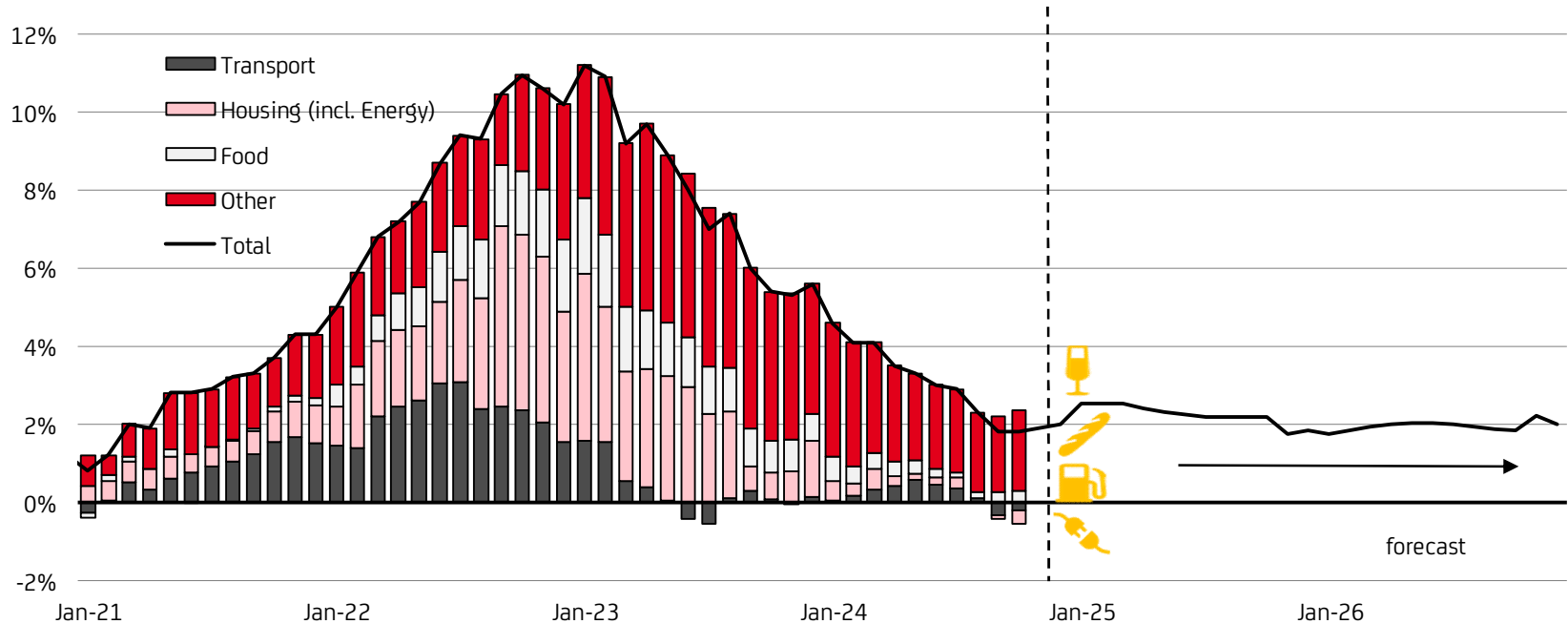
S: MacroBond, Eurostat UniCredit * 2024 average Q2 23 - Q1 24



Inflation will fall to 2.2 percent on average in 2025 and to 1.9 percent in 2026

Inflation in Austria

(in % with shares of components)



At a glance: Sluggish recovery with falling inflation

Moderate deterioration in the labour market and slight increase in debt

				forecast	
	2022	2023	2024*	2025	2026
<i>(Real change in%)</i>					
GDP	5.3	-1.0	-0.5	0.9	1.3
Private consumption	5.0	-0.5	0.0	1.5	1.4
Gross fixed capital formation	0.4	-3.2	-3.4	1.4	2.0
Exports	10.0	-0.4	-2.2	2.0	2.7
Imports	7.1	-4.6	-2.8	2.8	2,8
CPI (change against previous year)	8.6	7.8	2.9	2.2	1.9
Unemployment rate (national methodology)	6.3	6.4	7.0	7.2	7.0
Current account balance (in % of GDP)	-0.9	1.3	2.6	2.4	2.3
Budget balance (in % of GDP)	-3.3	-2.6	-3.5	-3.5	-2.9
Total public debt (in % of GDP)	78.4	78.6	80.6	82.5	83.4

* estimate

Source: OeNB, Statistik Austria, UniCredit Bank Austria





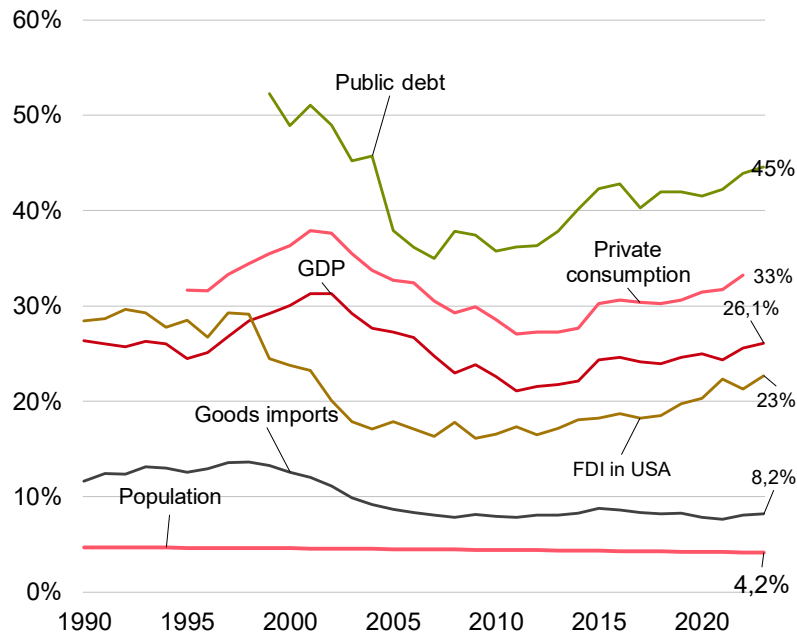
The world has become more
insecure



USA: 4 percent of the world's population, 8 percent of imports, 23 percent of investment
 A quarter of world GDP, a third of world consumption and almost half of the national debt

Significance of the USA for the global economy

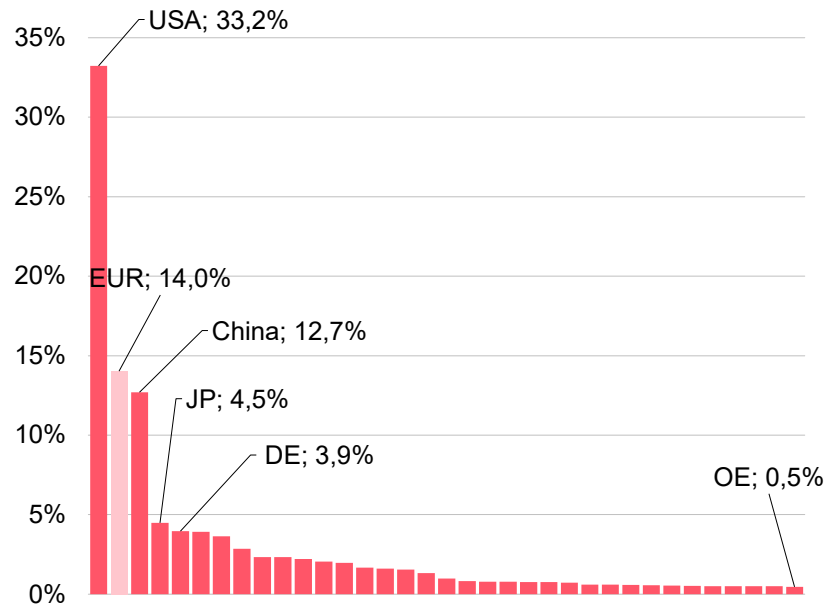
(share of the world in %)



S: IWF, UniCredit Research

Share in global private consumption

(share of the world in %)



S: IWF, MacroBond, UniCredit

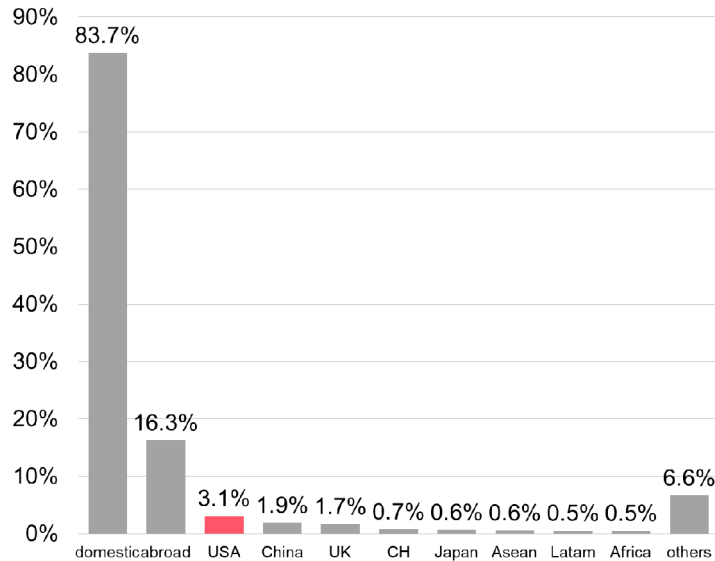


Domestic demand, but decisive for the EU economy

EU industry also supplies "only" one third abroad, two thirds are internal demand

Relevance of demand for EU economy

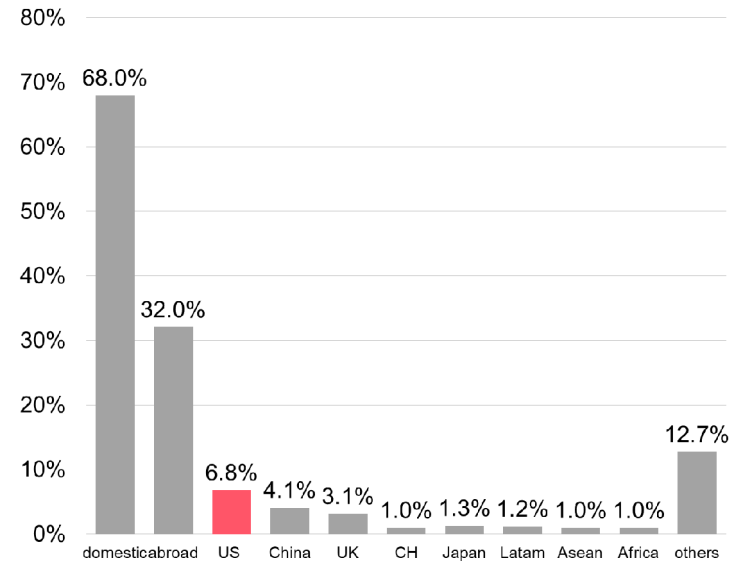
(as % of domestic value added of manufacturing, 2020)



Source: OECD, TIVA, UniCredit

Relevance of demand for the industry in the EU

(in % of total domestic value added, 2020)



Source: OECD, TIVA, UniCredit

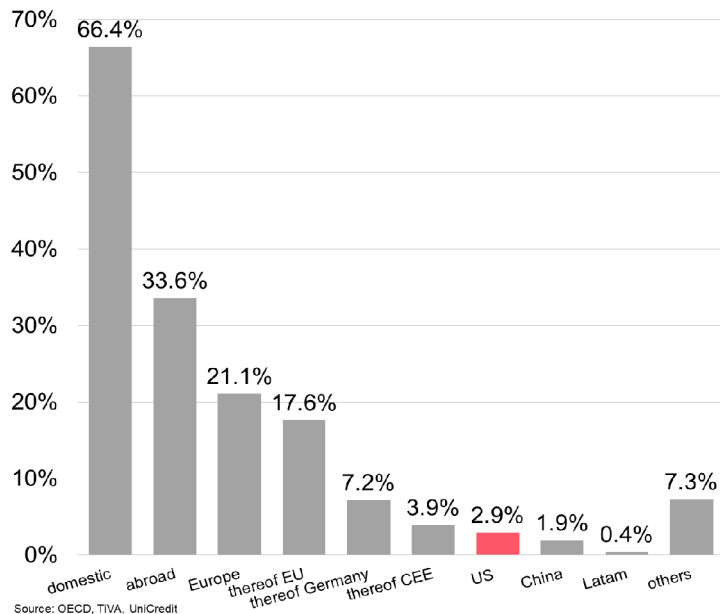


Foreign demand plays a greater role for Austria, especially for industry

However, more than half of them come from Europe, especially the EU

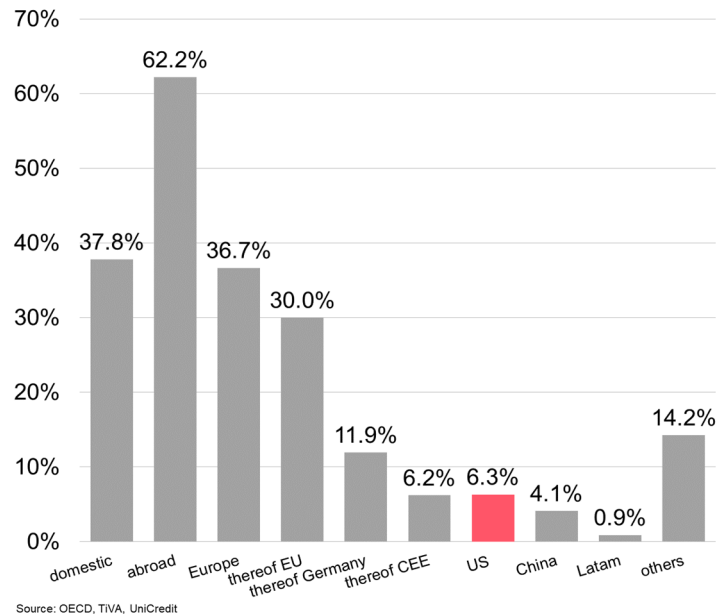
Relevance of demand for Austrian economy

(as % of domestic value added, 2020)



Relevance of demand for the industry in Austria

(as % of domestic value added of the industry, 2020)

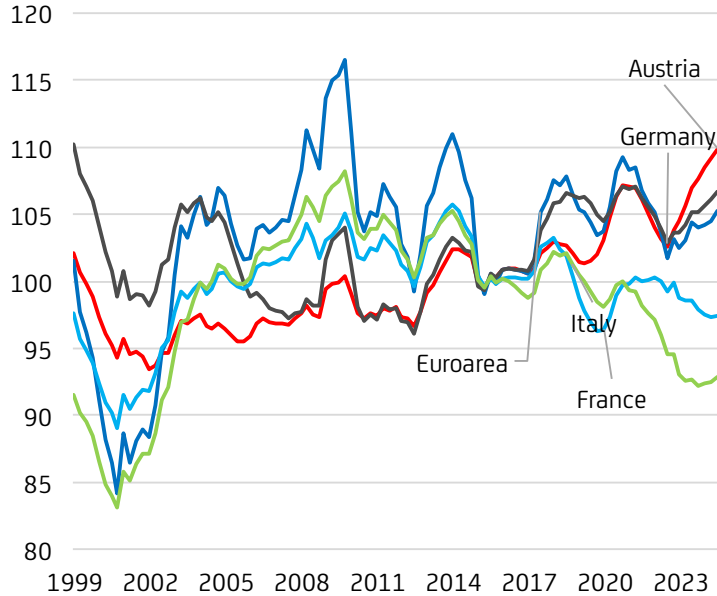


Austria has lost significant competitiveness – also in the EU

And the EU has lost competitiveness worldwide

Effective exchange rate

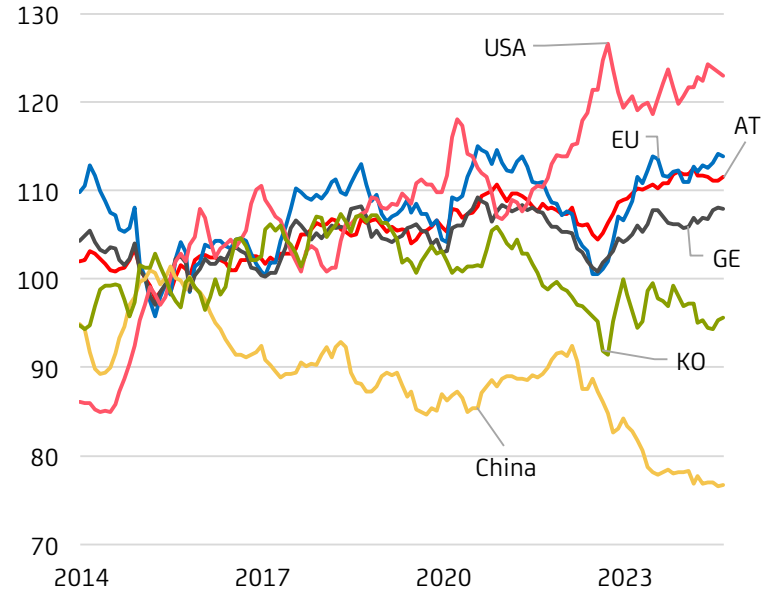
(Compared to the main 37 countries = 100, based on unit labour costs)



Source: EU, UniCredit

Effective exchange rate

(Compared to the top 42 countries based on inflation)



Source: EU, UniCredit





Summary

“In a nutshell”



- » Economic recovery stalled over the summer, especially industrial activity
 - » Real income shock and destocking have a less strong effect
 - » Restrictive monetary policy with negative effects on investment, consumption (real estate) is only slowly easing
 - » Restrictive fiscal policy continues to have an effect
 - » General uncertainty about politics and structural change remains high, especially in the euro area
- » The USA continues to show strong growth, China stabilises with strong exports, euro area with some growth thanks to services
- » Decline in inflation will allow further real wage growth, which will support a recovery, mainly through consumption
- » Central banks should ease monetary policy because the economy is weak and inflation is falling
- » ECB will continue to cut in 2025, further Fed policy not so clear
- » Risks and uncertainties remain high due to geopolitics, household response to real income losses, geopolitical upheavals and further monetary policy
- » High uncertainty due to politics in the USA

→ **Cautious optimism for early 2025, but recovery remains very subdued**



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