Business Indicator

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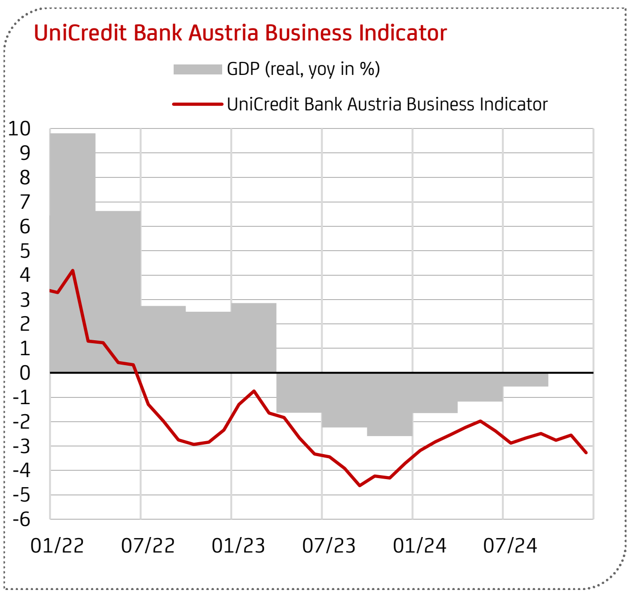
Bank Austria
Member of UniCredit

Overview

PERSISTENT ECONOMIC SLUMP BRINGS POOR SENTIMENT AT THE TURN OF THE YEAR

- The UniCredit Bank Austria Business Indicator deteriorated significantly in December 2024 to minus 3.3 points, the lowest value in the past
- Sentiment declined in all sectors of the economy, particularly in the service sector
- Improved framework conditions for domestic demand should enable a slight economic recovery over the course of 2025
- GDP is expected to increase slightly by 0.9 per cent in 2025 and by 1.3 per cent in 2026
- The tailwind for private consumption will be strengthened by real growth in purchasing power
- The further easing of monetary policy will facilitate investment
- However, increased protectionism and competitivness problems mean that hardly any support can be expected from the export industry
- Inflation could fall to an annual average of 2.2 per cent in 2025 and 1.9 per cent in 2026
- Moderate deterioration in the unemployment rate to an average of 7.2 per cent in 2025
- The ECB is likely to lower the deposit rate to 1.75 per cent by the end of 2025, slightly below the neutral level



Source: Statistik Austria, Wifo, UniCredit Bank Austria

	GDP real (yoy in %)	UniCredit Bank Austria Business Indicator
Dec-98	3.3	3.2
Dec-99	4.5	4.4
Dec-00	2.9	3.9
Dec-01	0.0	0.4
Dec-02	0.8	1.8
Dec-03	2.4	2.7
Dec-04	2.6	2.8
Dec-05	2.7	2.9
Dec-06	3.5	3.9
Dec-07	2.9	2.9
Dec-08	-1.2	-2.0
Dec-09	-0.7	0.7
Dec-10	2.6	2.2
Dec-11	1.5	0.6
Dec-12	0.0	0.6
Dec-13	0.7	1.5
Dec-14	1.0	0.8
Dec-15	1.4	1.7
Dec-16	2.0	3.1
Dec-17	3.1	5.1
Dec-18	3.1	3.2
Dec-19	0.3	1.3
Dec-20	-4.9	0.0
Mar-21	-5.4	2.4
Jun-21	13.7	7.2
Sep-21	5.3	5.5
Dec-21	6.4	3.4
Mar-22	9.8	1.3
Jun-22	6.6	0.3
Sep-22	2.7	-2.7
Dec-22	2.5	-2.4
Mar-23	2.8	-1.7
Jun-23	-1.6	-3.3
Sep-23	-2.2	-4.6
Dec-23	-2.6	-3.7
Mar-24	-1.7	-2.5
Jun-24	-1.2	-2.4
Sep-24	-0.6	-2.5
Oct-24		-2.8
Nov-24		-2.6
Dec-24		-3.3

Source: UniCredit Bank Austria

In details

UNICREDIT BANK AUSTRIA BUSINESS INDICATOR FELL TO MINUS 3.3 POINTS IN DECEMBER

Economic sentiment in Austria deteriorated significantly at the turn of the year. The UniCredit Bank Austria Business Indicator fell to minus 3.3 points in December. This means that the indicator fell to its lowest value of the entire year at the end of 2024. Even if the deterioration in sentiment may have negatively exaggerated the actual situation, a clear end to the economic weakness seems to be a long way off. The average value of our business indicator of minus 2.9 points shows that the fourth quarter of 2024 has joined the series of weak quarterly results since mid-2022. However, the services sector is likely to have benefited from stronger private consumption and enabled at least a slight increase in GDP. Overall, Austria's GDP nevertheless fell by at least 0.5 per cent in 2024.

STRAINED INTO THE YEAR

The decline in the UniCredit Bank Austria Business Indicator in December was largely due to the deterioration in the export environment. The indicator for global industrial sentiment, which is weighted with Austrian trade shares, fell to its lowest value in almost one and a half years, burdened by a particularly unfavourable development in the European markets. Due to the decline in orders from abroad, sentiment in domestic industrial companies also deteriorated again towards the end of the year. In metal processing, automotive manufacturing and mechanical engineering in particular, economic concerns continued to grow due to the slump in orders combined with losses in price competitiveness as a result of comparatively high labour and energy costs. After cautious signs of stabilisation, sentiment in the construction industry fell again in December, which also had a negative impact on construction-related industries.

All three economic sectors contributed to the significant decline in the UniCredit Bank Austria Business Indicator at the turn of the year. As in the industrial and construction sectors, economic sentiment also deteriorated among service providers. Increases in purchasing power due to the continuing decline in inflation have now given consumption a slight tailwind, as the current trend in retail sales shows. However, the high level of uncertainty caused by the previous inflation shock and increasing worries about jobs have dampened domestic consumers' propensity to spend, which severely impaired business assessments in the service sector in December.

At the end of the year, the sentiment in all sectors of the domestic economy was pessimistic, in some cases even significantly below the long-term average. Moreover, sentiment in all economic sectors in Austria was worse than in the eurozone. Pessimism in Austria is much more pronounced than the European average, particularly in industry, but recently also in the service sector.

IMPROVED FRAMEWORK CONDITIONS SHOULD THE ECONOMIC SLUMP IN 2025

The deterioration in economic sentiment in Austria at the turn of the year contrasts with the gradual improvement in economic conditions in recent months due to the easing of inflation and monetary policy.

We expect economic sentiment to brighten in the coming months. On the one hand, low inflation combined with relatively high nominal wage increases will rise consumer purchasing power. Secondly, the ECB is expected to cut key interest rates further, which should have a positive impact on willingness to invest. However, the great uncertainty among domestic consumers and companies, which has been reflected in a high savings rate and the postponement or cancellation of investments, is likely to dissipate only slowly, especially as consolidation efforts in the public budget could counteract this.

Economic development in 2025 will depend crucially on domestic demand. "We expect that the economic slump can be overcome over the course of the year through a revival in consumption and, with a slight delay, in investment. However, the recovery will probably only get off the ground very slowly and only gain a little momentum. However, after two years of declining GDP growth, there should at least be slight economic growth of just under 1 per cent in 2025, which could increase to 1.3 per cent in 2026. We do not expect exports to provide any significant support for the economic recovery, as global trade is unlikely to pick up much momentum due to the economic problems in China and the protectionist trade policy starting in the US. In addition, it is likely to be more difficult for the domestic export industry to benefit from any global upturn due to reduced price competitiveness.

EASING ON THE LABOUR MARKET NOT EXPECTED UNTIL 2026 AT THE EARLIEST

Developments on the labour market continue to be affected by the weakening economy. The upward trend in the unemployment rate, which began in spring 2023, continued at a relatively modest pace over the course of 2024. After a seasonally adjusted 6.7 per cent at the beginning of the year, the unemployment rate climbed to 7.2 per cent at the end of the year. This resulted in an annual average of 7.0 per cent. Apart from the two previous years 2022 and 2023, the last time the unemployment rate was this low was twelve years ago. The slower increase in the labour supply due to the baby boomer generation leaving the workforce, lower immigration and the high popularity of part-time work dampened the upward trend in unemployment.

In view of the weak economy, the situation on the labour market will continue to deteriorate in the coming months, burdened above all by lower staffing requirements in industry. Momentum in the service sectors will remain too low to compensate for this, at least in the first half of the year. As a result, we do not expect the labour market to stabilise until the end of 2025 and a slight easing in the course of 2026. After an increase in the unemployment rate to an average of 7.2 per cent in 2025, there could be a slight decline to 7.0 per cent in 2026.

RISE IN INFLATION AT THE START OF THE YEAR NO CAUSE FOR CONERN

Due to the weak economy and falling energy prices, inflation in Austria fell much faster than originally expected towards the end of 2024. At an expected 2.0 per cent year-on-year, inflation in December was already within the European Central Bank's target range for the fourth month in a row. Average inflation is expected to fall to 2.9 per cent in 2024.

At the beginning of 2025, inflation in Austria is likely to jump slightly to around 2.5 per cent due to the expiry of the electricity price brake, the increase in CO2 pricing and inflation-related price adjustments. However, weakening second-round effects in the services sector and the decreasing pricing power of producers in the weak demand environment should subsequently lead to a stabilisation. We expect an average inflation rate of 2.2 per cent for 2025. Due to the further easing of price pressure from the services sector and assuming that there are no distortions on the commodities markets, inflation should fall further to 1.9 per cent in 2026.

NEXT KEY INTEREST RATE CUT EXPECTED AT THE NEXT ECB MEETING

The decline in inflation enabled the European Central Bank (ECB) to cut its key interest rates four times in 2024. In small steps of 25 basis points each time, the deposit rate fell from 4 per cent in the middle of the year to 3 per cent at the end of the year.

For the next meeting at the end of January, we expect the ECB to cut interest rates by further 25 basis points. By the end of 2025, we expect key interest rates to fall by a further 100 basis points, meaning that the deposit rate should reach its final level in the current interest rate cycle at 1.75 per cent. Due to the cautious economic outlook and as a counterbalance to the burdens on the European economy from US tariffs, key interest rates in Europe could fall slightly below the neutral level of around two per cent. The ECB is therefore likely to embark on a slightly expansionary monetary policy course and maintain this course unchanged until the end of 2026.

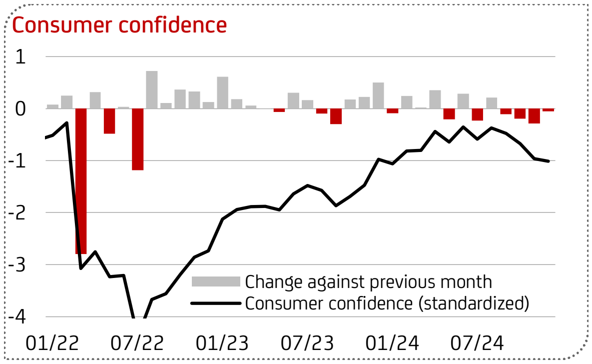
Economic Forecast

	2017	2018	2019	2020	2021	2022	2023	2024 (forecast UCBA)	2025 (forecast UCBA)	2026 (forecast UCBA)
Real change in %										
GDP	**2.3**	**2.5**	**1.8**	**-6.3**	**4.8**	**5.3**	**-1.0**	**-0.5**	**0.9**	**1.3**
Private consumption	2.0	1.1	0.5	-8.5	4.3	4.9	-0.5	0.0	1.5	1.4
Public consumption	0.6	1.0	1.3	-0.8	7.6	-0.6	1.2	0.5	0.6	0.4
Gross fixed capital formation*)	4.2	4.4	4.3	-5.3	6.0	0.4	-3.2	-3.4	1.4	2.0
Investments in plant and machinery	7.4	1.2	1.7	-8.5	9.0	-0.2	4.4	-3.0	2.0	3.0
Investments in construction	2.7	5.6	3.6	-3.6	4.8	-1.4	-9.2	-3.8	0.5	1.2
Exports	4.9	5.2	4.0	-10.5	9.5	10.0	-0.4	-2.2	2.0	2.7
Imports	5.3	5.1	2.4	-9.6	14.1	7.1	-4.6	-2.8	2.8	2.8
CPI (change in %)	**2.1**	**2.0**	**1.5**	**1.4**	**2.8**	**8.6**	**7.8**	**2.9**	**2.2**	**1.9**
HCPI (change in %)	2.2	2.1	1.5	1.4	2.8	8.6	7.7	2.9	2.2	1.9
Saving ratio (in %)	**7.1**	**7.7**	**7.2**	**13.6**	**11.4**	**8.8**	**8.7**	**10.9**	**10.5**	**9.7**
Current account (in euro bn)	4.6	3.2	9.4	12.8	7.0	-3.9	6.3	12.5	12.0	12.0
Current account (in % of GDP)	1.3	0.8	2.4	3.4	1.7	-0.9	1.3	2.6	2.4	2.3
Employment (in 1,000)**)	3,573	3,661	3,720	3,644	3,734	3,845	3,889	3,891	3,900	3,926
Employment (change in %) **)	2.0	2.5	1.6	-2.0	2.5	3.0	1.2	0.1	0.2	0.7
Unemployment rate (nat. def.)	**8.5**	**7.7**	**7.4**	**9.9**	**8.0**	**6.3**	**6.4**	**7.0**	**7.2**	**7.0**
Unemployment rate (EU def.)	5.9	5.2	4.8	6.0	6.2	4.8	5.1	5.2	5.4	5.2
Unemployed (annual average in 1,000)	340	312	301	410	332	263	271	297	306	300
General gov. balance (in % of GDP)	**-0.8**	**0.2**	**0.5**	**-8.2**	**-5.7**	**-3.3**	**-2.6**	**-3.5**	**-3.5**	**-2.9**
Public-sector debt (in % of GDP)	79.1	74.6	71.0	83.2	82.4	78.4	78.6	80.6	82.5	83.3
Nominal GDP (in euro bn)	367	383	396	380	406.2	448.0	473.2	485.8	500.7	517.1

*) excluding changes in inventory **) excluding persons drawing maternity benefits, military service and training

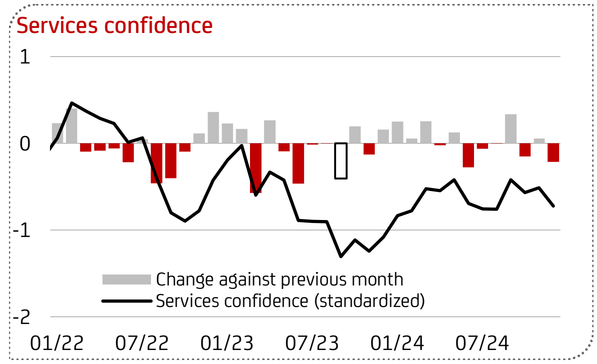
Source: UniCredit Bank Austria

Consumer sentiment deteriorated



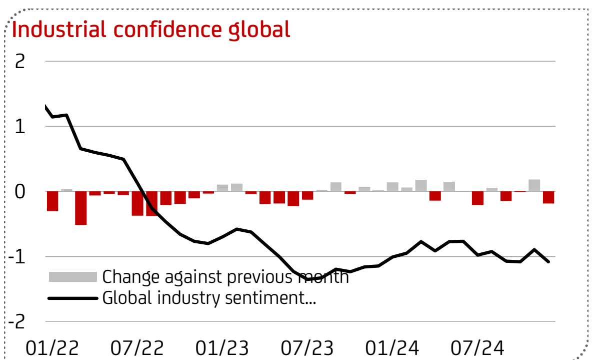
Despite low inflation and the improvement in real purchasing power, domestic consumer sentiment deteriorated again in December.

Sentiment in services deteriorated

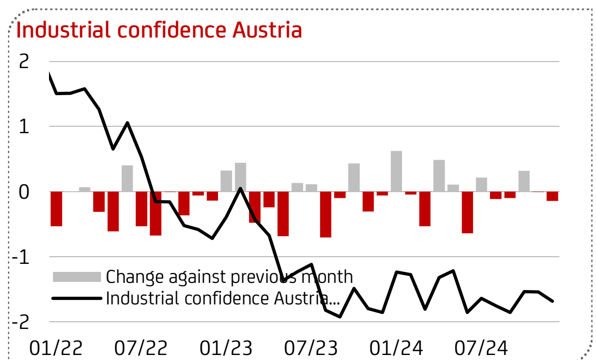


Sentiment in the service sector fell in December despite a good development in trade and a good booking situation in tourism, thus contributing most to the decline in the economic indicator.

The deterioration in the global export environment dampened sentiment in domestic industry

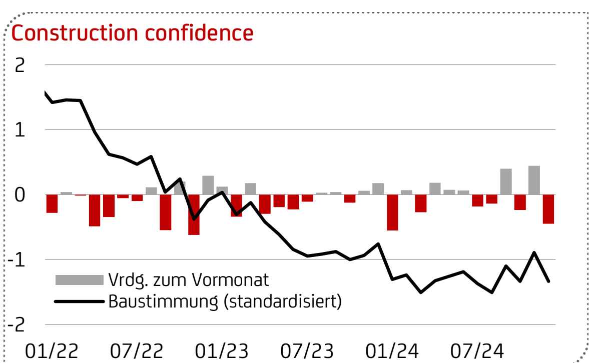


The export environment for Austrian industry deteriorated somewhat in December. In addition to the ongoing economic problems in China, the decline was mainly due to the slump in orders from Europe.



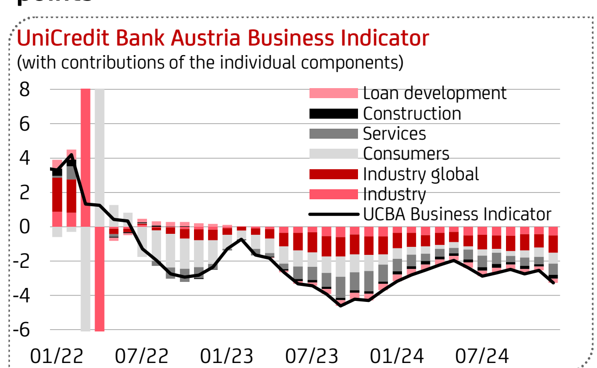
Sentiment in domestic industry deteriorated in December and is well below the long-term average. The automotive industry, metal processors and mechanical engineering are under particular pressure.

Sentiment in construction industry cooled down



The mood in the construction sector deteriorated again in December. The situation remains very tense, especially in building construction, especially in residential construction.

UCBA Business Indicator fell to minus 3.3 points



All sub-components of the UniCredit Bank Austria Business Indicator deteriorated in December. In particular, sentiment in industry and the service sector contributed strongly to this.

Quelle: EU Kommission, Statistik Austria, UniCredit

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