

Business Indicator

 **Bank Austria**
Member of  **UniCredit**

DECEMBER 2024

OVERVIEW

Economic weakness is only slowly being overcome in Austria

- The UniCredit Bank Austria Business Indicator rose slightly to minus 2.6 points in November
- Interest rate cuts and increases in purchasing power support GDP growth in Austria of 0.9 per cent in 2025 and 1.3 per cent in 2026
- Inflation shock has been overcome, but challenges remain: Average annual inflation falls to 2.2 per cent in 2025 and 1.9 per cent in 2026
- Unemployment rate expected to rise to at least 7.2 per cent in 2025
- While the US is likely to stop cutting key interest rates in 2025, it is to be expected that the ECB will be forced to cut the deposit rate to 1.75 per cent by the end of 2025, slightly below the neutral level, in response to US policy

	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		-2.7
Nov-24		-2.6

Source: UniCredit Research

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Imprint

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Translation of the German version from December 2024

IN DETAIL

The UniCredit Bank Austria Business Indicator increased to minus 2.6 points in November

Sentiment in Austria remains tense

Rising purchasing power and lower interest rates will stimulate the Austrian economy

So far, the Austrian economic data and sentiment indicators show little sign of the expected economic improvement for 2025 and 2026. However, the current UniCredit Bank Austria Business Indicator has risen slightly to minus 2.6 points, which still reflects a clearly pessimistic mood in the Austrian economy. The economic picture in Austria continues to be characterised by major challenges in the manufacturing sector, which the service sector is trying to counter. Despite a slight improvement in the export environment, sentiment in both the construction and industrial sectors continued to decline in November. Only in the service sector did pessimism ease somewhat, although the mood among domestic consumers deteriorated for the third month in a row.

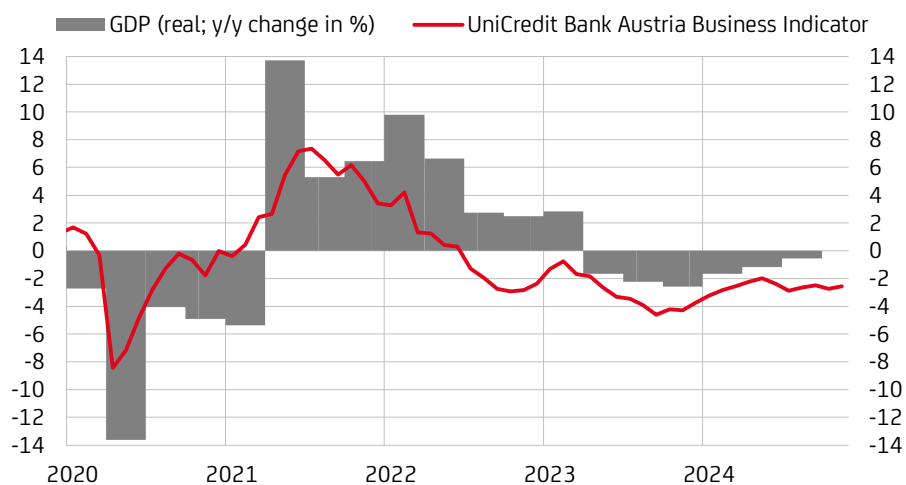
In view of the consequences of the US economic policy reorientation for global trade and the structural problems in the heavily export-oriented Austrian industrial sector, foreign trade is not expected to make a significant contribution to an economic improvement in Austria over the next two years. The recovery of the domestic economy therefore depends crucially on the development of domestic demand.

Domestic demand will do the trick. Firstly, consumption will accelerate as real wages return to pre-inflation shock levels. However, increased economic uncertainty and the weakening labour market will probably prevent a significant decline in the savings rate from its current high level and therefore only lead to a moderate revival in consumption. Secondly, the easing of monetary policy should support the construction sector and industry and thus increase investment activity.

In view of the unfavourable outlook for foreign demand, the economists at UniCredit Bank Austria expect only a moderate improvement in the Austrian economy and, following the 0.5 percent decline in GDP this year, expect economic growth of 0.9 percent for 2025 and 1.3 percent for 2026.

The economic outlook of UniCredit Bank Austria's economists for the next two years is characterised by unusually high risks. However, for Austria's economy as a whole, two thirds of demand comes from within the country, and this will be decisive for economic development in 2025. For industry, however, two thirds of demand comes from abroad. Austria's competitive position has deteriorated significantly since 2020 and has suffered a 10 per cent revaluation in

UniCredit Bank Austria Business Indicator for Austria



Source: Statistik Austria, Wifo, UniCredit

relation to its most important trading partners. Even if the Austrian economy in 2025 will be largely determined by the domestic market, Austria is currently at a disadvantage in the intensifying trade conflict due to an increase in its real effective exchange rate of around ten per cent since 2020.

Challenges on the labour market are still increasing

In view of the generally weak growth prospects, the labor market is expected to deteriorate further in 2025, primarily due to the industrial sector. However, given the tightness of the domestic labor market, the deterioration trend will remain relatively subdued. The average unemployment rate is likely to rise to 7.2 per cent in 2025, after 7.0 per cent in 2024. Despite the slow pace of recovery, the unemployment rate is likely to fall slightly to 7.0 per cent in 2026, dampened by the slight increase in labor supply.

Inflation largely on target

Despite the upward trend at the beginning of the year to around 2.5 per cent, inflation will fall to an annual average of 2.2 per cent in 2025 due to the expiry of government measures to curb energy prices, especially as the second-round effects in the services sector continue to fade and energy prices should remain largely stable. Provided there are no sharp spikes in commodity prices, the stable inflation trend should continue in 2026, allowing for an inflation rate of just 1.9 per cent. This means that inflation in 2026 is likely to reach the ECB's annual average target for the first time in six years.

Further interest rate cuts expected in Europe

The consequence of a different inflation dynamics will be a divergence in monetary policy between the US and Europe. The US Federal Reserve is expected to stop cutting interest rates at 3.75 to 4 per cent for the Fed funds target rate from the current 4.50 to 4.75 per cent, while the European Central Bank ECB will be forced to cut interest rates slightly below a neutral level. From the current 3.25 per cent, the deposit rate could be as low as 1.75 per cent by the end of 2025, as a counterweight to the burdens on the European economy caused by US tariffs.

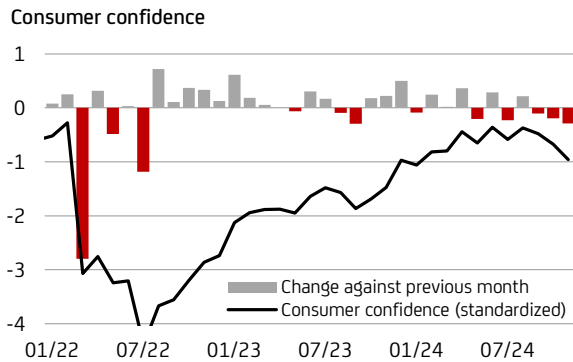
Economic Forecast Austria

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
									forecast UCBA	
<i>Real change in %</i>										
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

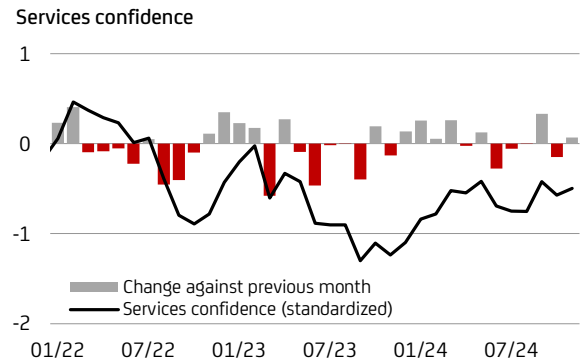
Source: Statistik Austria, OeNB, UniCredit

CONSUMER SENTIMENT CLOUDS OVER AGAIN



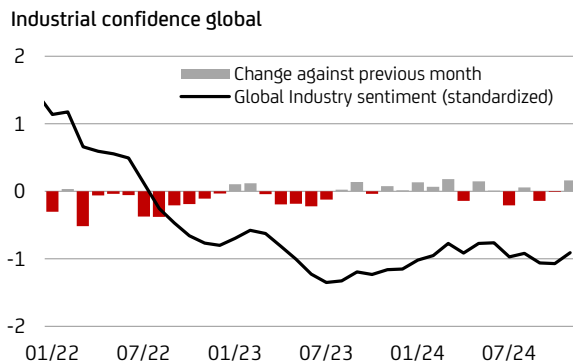
Domestic consumer sentiment deteriorated somewhat again in November despite the sharp decline in inflation

BRIGHTENING OF SENTIMENT IN THE SERVICE SECTOR.

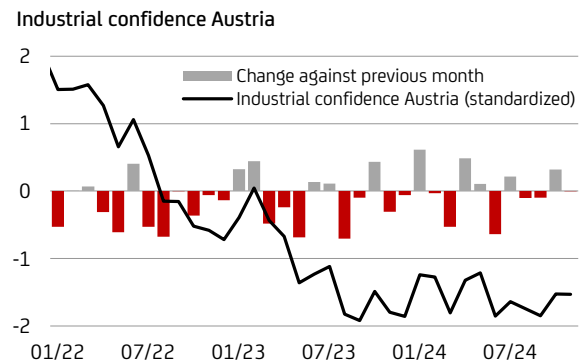


Sentiment in the service sector increased in November but is still well below the long-term average. There is a high level of pessimism, especially in production-related areas.

DESPITE IMPROVEMENT IN THE GLOBAL ENVIRONMENT, INDUSTRIAL SENTIMENT IN AUSTRIA FALLS SLIGHTLY IN NOVEMBER

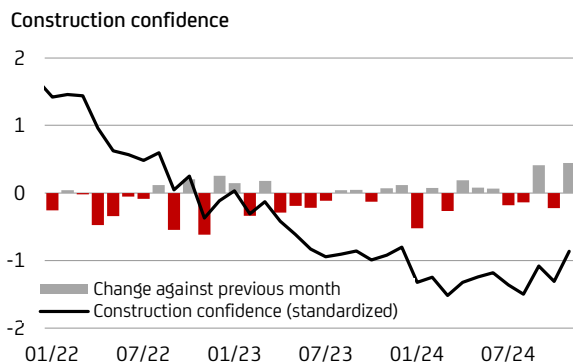


The export environment for Austrian industry improved somewhat in November.



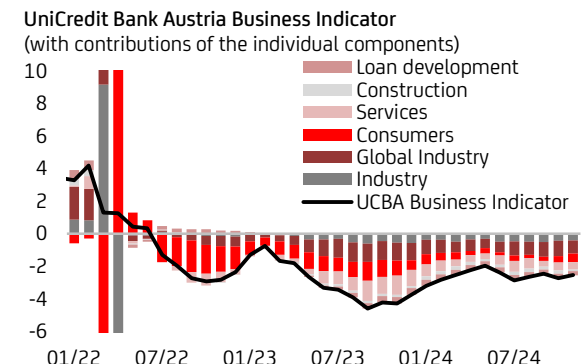
Sentiment in domestic industry deteriorated somewhat in November and remains well below the long-term average.

SENTIMENT IN CONSTRUCTION INDUSTRY IMPROVED IN NOVEMBER



The mood in the construction sector improved somewhat in November. However, the situation remains very tense, especially in building construction.

UCBA BUSINESS INDICATOR INCREASED TO MINUS 2.6 POINTS



All sub-components of the UniCredit Bank Austria Business Indicator contribute to the negative overall value. The reduced pessimism in the service sector led to a slight increase in the overall indicator.

Source: EU Commission, Statistik Austria, UniCredit Research

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