

Austrian economy growing strongly in mid-2021

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The Austrian economy continued to recover in mid-2021. In the second quarter, real GDP grew by 3.6% compared with the previous quarter as the easing of containment measures led to significant growth. At the same time, the construction and industry sectors experienced a slowdown. According to leading short-term indicators, strong growth is expected to continue in the third quarter. One of the reasons is that summer tourism might reach its pre-crisis levels much faster than anticipated due to the sharp increase in overnight stays of Austrian, German and Dutch guests. On the other hand, industry climate indicators as well as current export trends show first signs of cooling. Owing to supply bottlenecks and shortages in materials, manufacturing businesses are increasingly struggling to handle large amounts of orders. Compared to Austria, Germany is being hit significantly harder by these bottlenecks because of its position in the supply chain and the fact that the automotive industry plays a more important role in Germany's economy. Current economic projections point to growth between 3½% and 4% in 2021 and a growth rate of 4% to 5% in 2022. The fourth wave of the COVID-19 pandemic, however, poses a downside risk to the outlook. Following a marked increase of HICP inflation in Austria in the first five months of the year, the inflation rate remained at 2.8% in June and July 2021 and then climbed to 3.2% in August. The rise in inflation measured in 2021 to date was mainly driven by rising energy prices, which accounted for three-fourths of the increase. Close to one-fourth of the rise is attributable to nonenergy industrial goods and food, whereas the latest inflation rate for services was somewhat below the level measured in early 2021. By August, core inflation climbed to 2.5%, 0.5 percentage points beyond the January 2021 value.

1 Revision of national accounts: domestic economy recovered at a somewhat slower pace in the second quarter

The easing of pandemic restrictions in early 2021 led to a speedy recovery of the Austrian economy. In the second quarter of 2021, real GDP grew by 3.6% (quarter on quarter; real, seasonally and working-day adjusted). Growth was mostly driven by

Table 1

National accounts data for Austria (Q2 data published on September 2, 2021)

	GDP	Private consumption	Government consumption	Gross fixed capital formation	Exports	Imports	Domestic demand (without inventories)	Net exports	Changes in inventories	Statistical discrepancy
	Change on previous period in %						Contribution to GDP growth in percentage points			
Q1 20	-2.2	-3.4	+0.6	-0.3	-5.0	+0.2	-1.7	-3.0	2.0	0.5
Q2 20	-10.9	-12.4	+1.3	-8.4	-18.6	-16.8	-8.1	-1.4	-0.6	-0.9
Q3 20	+11.0	+14.8	+1.1	+7.7	+17.5	+11.8	9.5	3.0	-2.0	0.4
Q4 20	-2.5	-6.0	+1.7	-1.2	+1.2	+5.4	-3.0	-2.1	2.2	0.4
Q1 21	-0.2	-1.6	+1.2	+4.7	-2.9	+2.3	0.6	-2.9	1.9	0.2
Q2 21	+3.6	+3.2	+2.9	+1.8	+7.1	-2.1	2.6	5.0	-2.4	-1.7
2017	+2.5	+1.9	+0.9	+4.0	+5.7	+5.8	2.1	0.2	0.1	0.1
2018	+2.5	+1.1	+1.2	+4.0	+4.9	+4.6	1.7	0.3	0.4	0.1
2019	+1.4	+0.8	+1.4	+3.9	+2.9	+2.5	1.6	0.3	-0.7	0.2
2020	-6.3	-8.1	+2.4	-5.3	-11.5	-9.0	-5.0	-1.8	0.1	0.4

Source: Statistics Austria.

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Table 2

National accounts data for Austria (production-side data published on September 2, 2021)

	Q2 21	Q1 21	Q4 20	Q3 20	Q2 20	Q1 20	2020	2019	2018	2017
	Change on previous period in %									
GDP	+3.6	-0.2	-2.5	+11.0	-10.9	-2.2	-6.3	+1.4	+2.5	+2.5
Gross value added	+4.0	0.0	-2.8	+10.6	-10.5	-2.2	-6.3	+1.4	+2.7	+2.6
Agriculture (NACE A)	+5.1	+2.9	-3.8	-2.3	-0.8	+0.7	-3.0	-1.0	+3.6	+5.6
Industry (NACE B–E)	-0.1	+4.3	+1.8	+11.9	-12.1	-1.1	-6.4	+1.2	+4.6	+4.1
Manufacturing (NACE B–E)	-0.4	+4.5	+1.6	+12.7	-12.9	-1.8	-7.2	+0.8	+5.2	+3.9
Construction (NACE F)	+0.3	+5.1	-0.1	+5.4	-6.9	-2.5	-4.1	+2.8	+1.8	+3.3
Services, total (NACE G–U)	+5.8	-2.0	-4.5	+11.1	-10.7	-2.6	-6.6	+1.4	+2.2	+2.0
Services, private (NACE G–N)	+7.9	-2.9	-5.8	+14.0	-13.3	-2.8	-8.0	+1.7	+2.8	+2.3
Trade, transport/storage, hospitality (NACE G–I)	+20.4	-7.4	-16.3	+29.2	-21.7	-6.9	-15.4	+1.1	+2.0	+1.5
Information and communication (NACE J)	-0.4	+2.9	+1.2	+0.5	-3.4	-1.4	-1.6	+3.8	+9.8	+2.1
Financial and insurance services (NACE K)	+0.8	-2.2	+1.9	+2.3	0.0	+2.6	+4.1	+3.1	+2.9	+5.3
Real estate activities (NACE L)	+1.0	+0.1	-0.2	-0.5	-0.7	+0.9	+1.0	+1.2	+1.1	+1.4
Scientific and technical activities (NACE M–N)	+0.6	+0.0	+5.9	+13.5	-18.4	-0.1	-7.9	+2.1	+3.6	+3.7
Public services (NACE O–U)	+0.9	+0.0	-1.3	+4.4	-3.9	-2.0	-2.9	+0.7	+0.7	+1.4
Public administration (NACE O–Q)	+0.7	+0.8	+0.4	+0.7	-0.6	-0.5	-0.4	+0.7	+0.9	+1.3
Other services (NACE R–U)	+2.6	-6.3	-12.9	+39.3	-26.8	-10.9	-18.3	+0.6	-0.4	+2.1

Source: OeNB.

exports, which rose by 7.1%, followed by private (+3.2%) and government consumption (+2.9%). Gross fixed capital formation lost its momentum and only grew by 1.8%, after its steep increase (+4.7%) in the first quarter. Imports fell by 2.1%, strengthening the growth of GDP.

On the output side, there are major differences between individual sectors. In the *service sector*, which was severely hit by the lockdown, the loosening of restrictions triggered a strong rebound in the second quarter. In the *wholesale and retail trade, transportation and storage and accommodation and food service activities* (NACE G–I), value added increased by 20.4% in real terms (quarter on quarter, seasonally and working-day adjusted). Although a breakdown by sectors is not available, employment data² suggest that growth was almost exclusively powered by *accommodation and food service activities* (NACE I), which had been hit particularly hard by the lockdown. *Construction* (NACE F) only increased marginally (+0.3%) in the second quarter following rapid growth in the first quarter (+5.1%), while *industry* (B–E) even recorded a slight decline in value added (-0.1%). This points to a significant shift in growth drivers in the second quarter.

2 GDP slightly surpassed its pre-crisis levels for the first time in late July

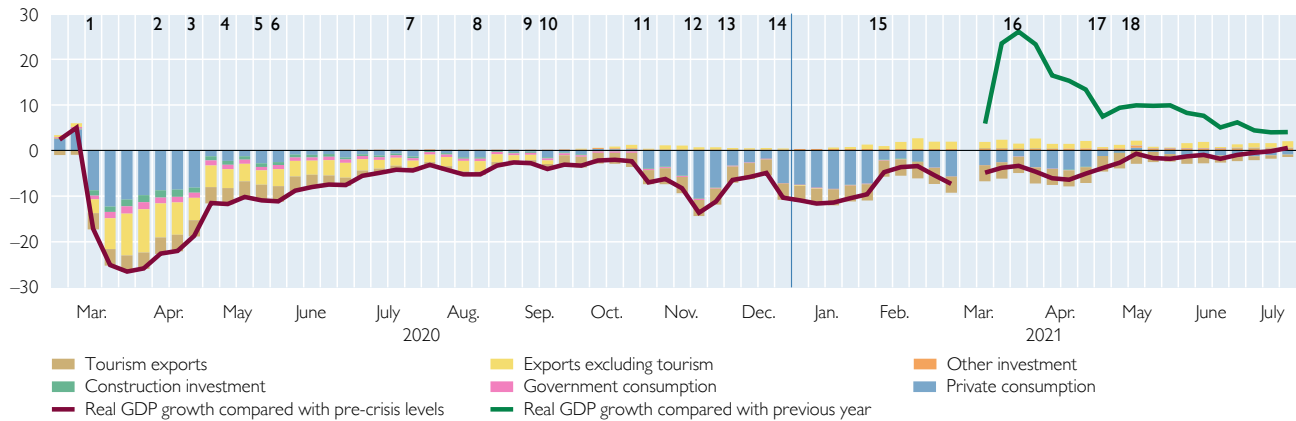
The Austrian economy continued to grow at a moderate pace at the beginning of the third quarter, as suggested by current results of the weekly OeNB GDP indicator.³ In week 29 (July 19–25, 2021), Austrian output marginally surpassed its pre-crisis levels for the first time since the pandemic took hold. At +0.6%, it exceeded the rate recorded in the corresponding week of 2019. Still, average GDP in weeks 25–29 (June 21 to July 25, 2021) remained 0.6% below its pre-crisis level.

² In “accommodation and food service activities”, employment rose by 31.9% quarter on quarter (seasonally and working-day adjusted). In wholesale and retail trade as well as in the transportation and storage services sector, employment grew by 1.1% and 2.8%, respectively.

³ See also weekly OeNB GDP indicator at <https://www.oenb.at/Publikationen/corona/bip-indikator-der-oenb.html>.

Weekly GDP indicator for Austria

Change of real GDP against the corresponding week of the pre-crisis period or of the previous year (%)



Source: OeNB.

Note: 1: lockdown (March 16), 2: small shops reopen (April 14), 3: all shops reopen (May 2), 4: restaurants reopen (May 15), 5: hotels reopen (May 29), 6: borders reopened gradually (June 4), 7: face masks mandatory again (July 24), 8: Austria issues travel warnings for Croatia, the Balearic Islands, etc. (from Aug. 17), 9: travel warnings issued for Austria (from Sep. 16), 10: containment measures tightened (Sep. 21, Oct. 25), 11: partial lockdown (Nov. 3), 12: lockdown (Nov. 17), 13: partial lockdown (Dec. 7), 14: lockdown (Dec. 26), 15: partial lockdown (Feb. 8), 16: partial lockdown in eastern Austria (April 1), 17: partial lockdown ends in eastern Austria (May 3), 18: restaurants, tourism and leisure services reopen (May 19).

Compared with the same weeks of the previous year, growth rates currently show a strong positive trend (see chart 1, green line) as a result of a pronounced base effect. In week 29, output surpassed the rate recorded in the corresponding week the year before by 4.5%.

3 August 2021 results of the OeNB's export indicator: export growth remained high in the summer

In May 2021, Austrian goods exports exceeded their level of May 2020 by 31.5% in nominal terms, as Statistics Austria's latest data show. Hence, exports increased a little faster than expected based on the recent OeNB's export indicator (+27.2%).

According to current results of the OeNB's export indicator⁴ based on truck mileage data, export growth remained high in June and July at -0.9% and +0.0%, respectively (monthly change, seasonally and working-day adjusted). This translates into annual growth rates of 25.8% or 12.6% (not adjusted). But the meaningfulness of these growth rates is limited due to the deep plunges in the previous year. When compared with the corresponding months of 2019, nominal exports of goods in June and July 2021 grew by 9.4% and 7.9%, respectively (working-day adjusted).

4 Leading indicators at high levels in spite of declining foreign trade

The beginning of September saw almost unchanged positive sentiment in the Austrian economy. In July, the short-term indicator of UniCredit Bank Austria reached an all-time high at 6.0 points and stayed there in August as well. Bank Austria's purchasing managers' index as well as the economic sentiment indicator of the European Commission maintained their high levels, although both declined slightly in July and August.

⁴ See also the OeNB's export indicator at <https://www.oenb.at/Geldpolitik/Konjunktur/oenb-exportindikator.html>.

On the other hand, leading indicators for foreign trade show first signs of a possible future downturn. The European Commission's monthly estimate of order book levels continued to increase in July. Quarterly available estimates of exports dropped in the third quarter, having reached a historical high at 20.7 points in the second quarter, but at 8.7 points, they still remain marginally above the long-term average. By contrast, the export order index declined steeply in July (to 57.4 points after 66.4 points in June), according to Bank Austria, reflecting existing capacity issues in international trade, such as logistic problems, lack of containers and closing of container ports and cargo airports in China, as a result of strict local containment measures due to the ongoing pandemic situation.

Box 1

The impact of materials shortages in Austria and Germany

Transport route blockages, production losses, misallocated containers and ports shut down due to the COVID-19 pandemic or overshooting demand for industrial metals, construction materials and semiconductors: Reports about supply chain disruptions, shortages of materials and rising commodity and transport prices have been figuring prominently in the business news in recent weeks and months. Supply-side restrictions have been an issue in Austria, too, as illustrated by anecdotal evidence from individual firms (e.g. staff working short time at the MAN Truck & Bus plant in Steyr, Upper Austria⁵) and numerous current analytical reports (e.g. by Raiffeisen Research, Erste Bank or Bank Austria).⁶ While such limitations have been debated a lot, no estimates have been available so far regarding the impact they may have had on manufacturing output in Austria. For Germany, a number of analyses were published in recent weeks. In the following, we estimate the repercussions of supply bottlenecks and disruptions on manufacturing output in Austria, using two different frameworks, and compare the results with the outcomes for Germany.

Our first analysis (building on the analysis by Beckmann and Jannsen (2021) for Germany⁷) is based on the assumption of a long-run equilibrium between industrial production and new orders. Chart B1 compares actual output figures (blue line), output figures projected assuming an equilibrium relationship with new order levels (red line) and the percentage deviation between the two curves (green line) for Austria and Germany. When estimating the impact of supply disruptions, we factored in the production gaps observed in 2020, which were quite large above all for Germany (−10%). This is why we interpret only the gap for the fourth quarter of 2020 as being caused by the supply disruptions. According to our estimates for the second quarter of 2021, Germany's industrial production is likely to have been 5.1% below the level that would be aligned with an equilibrium relationship with orders. This output gap translates into a 1% drop in GDP. The corresponding figures for Austria are an estimated gap of 2.2% in the second quarter of 2020 and a GDP effect of −0.4%.

Our second analysis provides for a direct comparison of gross value added in the manufacturing industry as well as manufacturing output bottlenecks resulting from materials shortages and capacity constraints (as per the WIFO indicator). We estimate the underlying relationship with a sign-restricted VAR model, building on work by Vogt (2021) for Germany. This method

⁵ <https://ooe.orf.at/stories/3119503/>.

⁶ <https://www.raiffeisenresearch.com/servlet/NoAuthLibraryServlet?action=viewDocument&encrypt=49953909-11ca-4f7b-ac18-4b24dbe0b0af&mime=HTML&id=replaceme@bluematrix.com>, https://produkte.erstegroup.com/Retail/de/ResearchCenter/Overview/Research_Detail/index.phtml?ID_ENTRY=230563, <https://www.bankaustria.at/files/EMI%200821.pdf>.

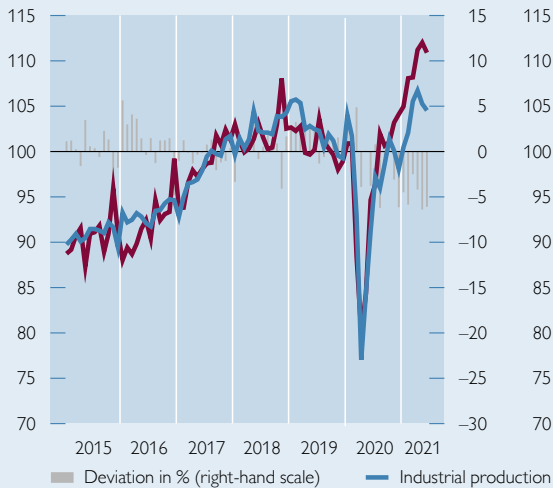
⁷ Beckmann, J. and N. Jannsen. 2021. Bedeutung von Lieferengpässen für die laufende Produktion in Deutschland. IfW-Box 2021.09. In: Ademmer et al. 2021. Kieler Konjunkturberichte. Deutsche Wirtschaft im Sommer 2021, no. 80 (2021/Q2).

Chart B1

Industrial production

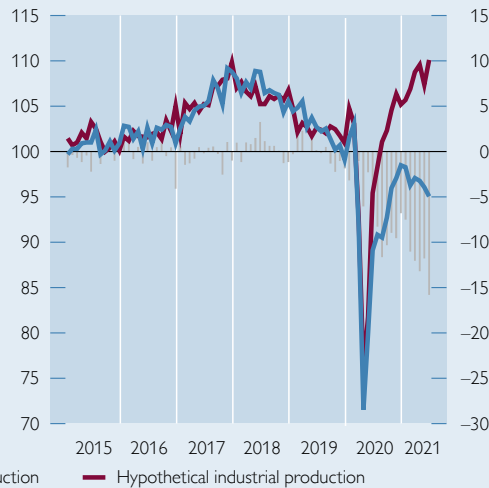
Austria

Index (Q4/19 = 100)



Germany

Index (Q4/19 = 100)



Source: Statistics Austria, WIFO, OeNB calculations.

allows us to simulate the direct repercussions from the recent strong increase in commodity shortages on gross value added (and hence on GDP).

Table B1 quantifies the manufacturing output bottlenecks resulting from worsening materials shortages and capacity constraints for Austria for the second and third quarters of 2021. We find that these bottlenecks accounted for a GDP decline of 0.3% in the second quarter and 0.5% in the third quarter of 2021. For Germany, Vogt (2021)⁸ arrived at corresponding effects: 1.5% in the second quarter and of 0.5% in the third quarter. Considering that Vogt (2021) simulates the bottleneck shock only for the second quarter and that the share of German firms suffering from supply disruptions continued to mount in the third quarter, these effects are likely to constitute a lower bound.

These two analyses imply that the impact of materials shortages on manufacturing output has been markedly stronger in Germany than in Austria. One possible explanation is that the automotive industry accounts for a higher share of the manufacturing sector in Germany than in Austria, and that car production has been hit particularly by the global scarcity of semiconductors, which is likely to persist until 2022.

What may also matter is the relative position of manufacturing firms in the supply chain networks of the two countries. Germany's automotive industry is closer to the downstream side of production, i.e. closer to the finished products, whereas Austrian manufacturers tend to be clustered around upstream supply chain activities. Yet, supply interruptions and disruptions in early stages of the supply chain tend to cause strong effects downstream in the chain – a phenomenon known as whip-lash or bullwhip effect in supply chain management.

Table B1

Impact of materials shortages on Austrian GDP

Deviation of real GDP from scenario without shortages	Increase in supply shortages in		
	Q2 21	Q3 21	Total
%			
Deviation in Q2 21	-0.3	x	-0.3
Deviation in Q3 21	-0.4	-0.1	-0.5

Source: OeNB calculations.

⁸ Vogt, G. 2021. *Materialknappheiten bremsen Aufschwung*. BVR Research Volkswirtschaft Kompakt. July 6. Berlin.

5 August 2021: surge in overnight stays by foreign visitors

In July 2021, the number of overnight stays stagnated compared with 2020 among both domestic visitors (−1.9%) and foreign visitors (−0.3%) (−0.9% in total). Compared with the record summer of 2019, tourist overnight stays even dropped by 17.7%. This setback was driven by the sharp decline of overnight stays by foreign tourists (−28.6%), whereas the number of overnight stays by domestic tourists (+13.7%) exceeded the numbers recorded for July 2019. The numbers of overnight stays were closely aligned with the OeNB's projections made in late July.

For August 2021, data on tourist spending based on card payments point to a marked rise of overnight stays by foreign visitors; the OeNB expects a 27% increase compared with August 2020. This would imply that the number of overnight stays in August remained only 2% below the record levels measured in 2019. This increase is attributable above all to the much higher number of German tourists (about +15%) and Dutch tourists (about +50%) compared with the previous year, which compensated for the losses caused by overseas visitors continuing to stay away.

In contrast, the number of overnight stays by domestic tourists declined slightly compared with 2020 (−6%, July: −2%). At the same time, the figures were 16% higher in August 2021 than in 2019, when Austria's tourism industry reported the highest number of overnight stays on record. In sum, the OeNB expects the number of overnight stays to have been 15% higher in August 2021 than in August 2020 and 2% higher than in the record summer of 2019. The combined result for July and August is a year-on-year increase by 8% compared with the summer of 2020, which corresponds to a decline of 7% against 2019.

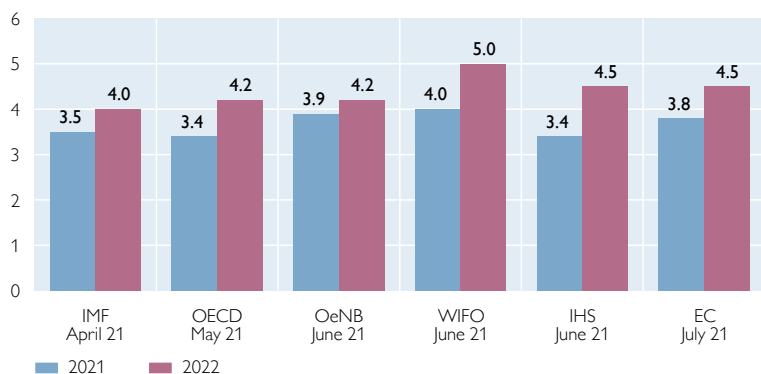
6 Economic projections see 4% to 5% output growth in 2022

Following the pandemic-related setback in 2020, the Austrian economy has been recovering briskly in 2021. Currently, real GDP growth in Austria is expected to reach between 3½% and 4% in 2021, and even slightly higher rates in 2022 (between 4% and 5%). Compared with the OeNB's June 2021 economic outlook, current

Chart 2

Real GDP growth projections for Austria

Annual change in %



Source: OeNB, Austrian Institute of Economic Research (WIFO), Institute for Advanced Studies (IHS), OECD, IMF, European Commission (EC).

economic indicators like the OeNB's weekly GDP indicator signal an upward risk to growth for the third quarter of 2021, whereas downside risks to growth emanate from the fourth pandemic wave in the fourth quarter of 2021.

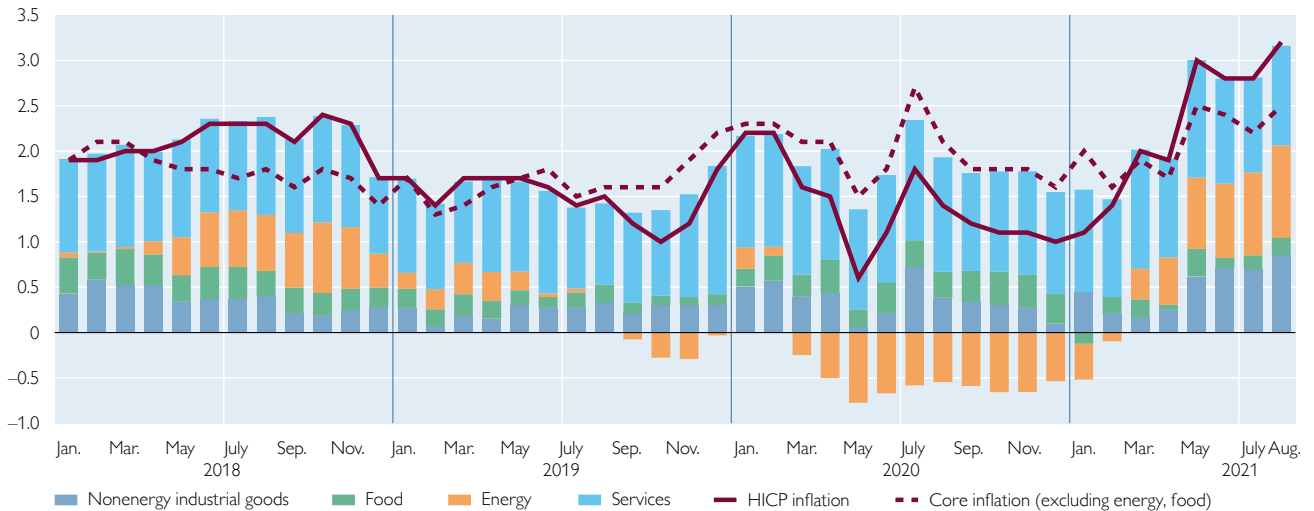
7 Inflation significantly on the rise since early 2021

Following a marked increase of HICP inflation in Austria in the first five months of the year, the inflation rate remained at 2.8% in June and July 2021 and then climbed to 3.2% in August. The rise in inflation measured in 2021 to date was mainly driven by rising energy

Chart 3

Contributions to Austrian HICP inflation

Annual inflation rates in %; contribution to inflation in percentage points



Source: Statistics Austria.

Note: The latest observations are for August 2021.

prices, which accounted for two-thirds of the increase. Close to one-third was attributable to nonenergy industrial goods and food, whereas the latest inflation rate for services did not change compared to the level measured in early 2021. Core inflation, which excludes services and nonenergy industrial goods, climbed to 2.5%, 0.5 percentage points beyond the January 2021 measure.

Following the lifting of pandemic-related containment measures, Statistics Austria was able to resume the collection of prices for all goods contained in the Austrian HICP basket in July 2021. In early 2021, Statistics Austria had still carried forward 20% of the relevant prices from the previous months, as the corresponding market prices were not available due to shutdowns.

Energy price inflation had climbed to 13.5% by August 2021, well above the rate observed for January 2021 (-5.3%). This increase reflects the surge in crude oil prices in recent months as well as the base effect of the decline in crude oil prices in the corresponding period of 2020. Within the energy price component, transport fuels and heating oil registered a significant uptick in prices, whereas the prices for other energy resources (gas, solid fuels, electricity, thermal energy) increased comparatively moderately. The annual rate of services inflation stood at 2.3% in August 2021 (January 2021: 2.3%). Since January 2021, the annual inflation rate has been accelerating above all for hospitality services, air tickets, sports and recreation services as well as cultural services. At the same time, rental price inflation rate went down markedly (August 2021: 0.4%; January 2021: 5.5%).

The annual rate of inflation for nonenergy industrial goods climbed to 3.0% in August 2021 (January 2021: 1.5%). This increase was driven above all by prices for clothing and footwear, furniture and furnishings as well as other durable consumer goods, such as vehicles, glassware and electrical household appliances. More recently, inflation pressures also arose from shifts in the pattern of clothing and footwear clearance sales. In 2020, shops had started to sell off excess inventory in May. Since seasonal clearance sales have been much weaker in 2021 than in 2020, base effects caused inflation to rise in this product segment. With regard to durable consumer goods, the uptick in inflation may reflect the pass-through of high commodity prices to end-user prices.

Food price inflation (including alcohol and tobacco) dropped considerably in early 2021 (January 2021: -0.5%) and amounted to 1.1% in August 2021. In recent months, above all the prices of meat and beverages have been going up markedly, possibly reflecting the reopening of hotels and restaurants in May 2021.