

# Rising infection rates threaten to derail economic recovery

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Economic activity in Austria has been sharply curbed by the ongoing COVID-19 pandemic. During the first-wave lockdown, the OeNB's weekly GDP indicator registered a decline of economic output by one quarter. After the exit from lockdown, the GDP gap narrowed very rapidly, amounting to  $-3\frac{1}{2}\%$  compared to previous year levels in the first half of October. Among the hardest-hit sections of the economy, tourism benefited from markedly stronger domestic demand during the summer, which limited the year-on-year decline in overnight stays to 15% in July and August. Meanwhile, the travel alerts newly issued by a number of countries for Austria since mid-September have been taking their toll, though. For October, real-time data on card payments already point to a 40% decrease in overnight stays. In contrast, export performance has been improving, mirroring the slight upward trend in the production sector. By September, the decline in goods exports had dropped to a small percentage according to the OeNB's export indicator. Looking ahead, the ongoing rapid rise in infection rates constitutes downside risks to growth, however. While the GDP forecasts for 2020 (about  $-7\%$ ) are fairly solid given strong third-quarter performance, the recovery projected for 2021 may turn out to be below the range currently expected ( $+4\frac{1}{2}\%$  to  $+5\%$ ). The recovery in the labor market has already been slowing down. Registered unemployment exceeded the year-earlier mark by 71,000 unemployed individuals by mid-October and thus a mere 30% of the peak measured in April, but unemployment has been shrinking at a decreasing pace. The early warning system for impending layoffs implemented by Public Employment Service Austria points to more layoffs coming in the weeks ahead. Inflation has been highly volatile in 2020 so far, reflecting energy price fluctuations as well as one-off effects (fashion clearance sales started later usual) and price measurement problems. In September, HICP inflation came to 1.3%. In line with the OeNB's inflation forecast of September 2020, HICP inflation is expected to run to 1.4% in 2020 and to climb to 1.7% in 2021.

## 1 The OeNB's weekly GDP indicator

### Third-quarter economic output down $4\frac{1}{2}\%$ from 2019

Economic activity in Austria has been sharply curbed by the ongoing COVID-19 pandemic. Coming up with timely estimates of how badly the economy has been hit and how soon it will recover has created new challenges for economic research. The economic indicators that have been used in the past tend to be lagging indicators and tend to be limited to providing monthly and quarterly snapshots. This is why the OeNB developed a new indicator that measures economic activity in Austria in real time using daily and weekly data. The new indicator has been published at weekly intervals since mid-May 2020 (<https://www.oenb.at/Publikationen/corona.html>).

According to the OeNB's weekly GDP indicator, the domestic economy contracted by up to one-quarter during lockdown in late March/early April. This setback was driven by all major demand components other than public consumption; even private consumption, which tends to have a stabilizing impact on economic activity, weighed in. When the lockdown measures were lifted, the economy

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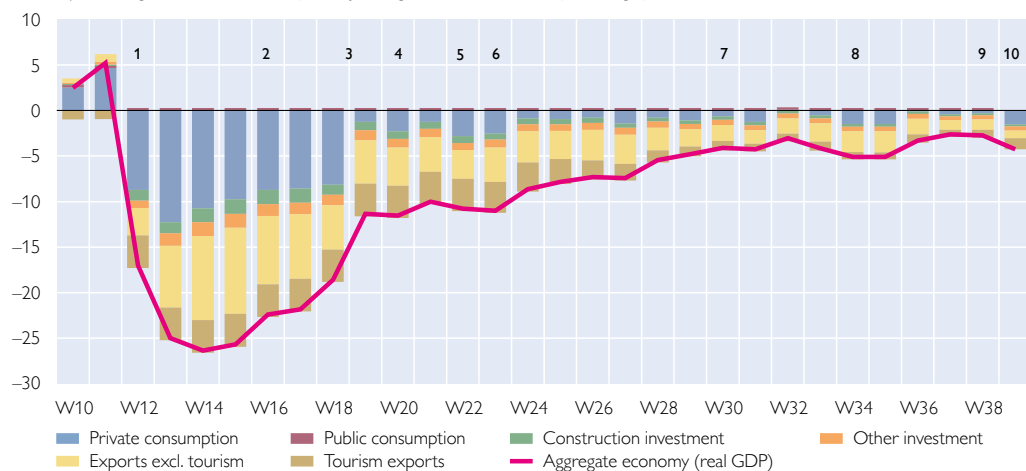
started a brisk recovery. The easing of health policy measures, rising consumer spending supported by pent-up demand and public relief measures caused economic conditions to improve significantly in the run-up to the summer months. Even so, the annual change in output still amounted to a 7% decline at the end of June. All in all, second-quarter output was 14.5% lower than a year earlier – as indeed projected most accurately by the OeNB’s weekly economic indicator for early July.

The summer did not bring any significant improvement in economic conditions, with economic measures moving steadfastly sideways. The GDP gap hovered around close to –5% for weeks, improving only slightly over time. The gradual recovery in individual sections of the economy, such as tourism or construction, was offset by dwindling pent-up demand for consumer spending in particular and ongoing challenges faced by a range of service providers. At the end of September, the GDP gap measured –4%. Preliminary estimates based on the weekly GDP indicator imply that third-quarter GDP was down 4½% in 2020 compared with 2019. In other words, we see an improvement by 10 percentage points compared with second-quarter growth, yet a downturn echoing the maximum contraction during the 2008/2009 economic and financial crisis (second quarter of 2009: –5¼%). While the GDP growth pattern clearly followed a V-shape in the initial months of the COVID-19 pandemic, the right-hand recovery curve has been flattening in recent months.

Chart 1

### Weekly GDP indicator for Austria

Year-on-year change of real GDP in %; import-adjusted growth contributions in percentage points



Source: OeNB.

<sup>1</sup> Lockdown (March 16).

<sup>2</sup> Opening of small shops (April 14).

<sup>3</sup> Opening of all shops (May 2).

<sup>4</sup> Opening of restaurants (May 15).

<sup>5</sup> Opening of hotels (May 29).

<sup>6</sup> Gradual reopening of borders (June 4).

<sup>7</sup> Reintroduction of mandatory face masks (July 24).

<sup>8</sup> Travel warning (Croatia, Balearics – gradually from August 8).

<sup>9</sup> Travel warnings for Austria (September 16).

<sup>10</sup> Tightening of protection measures (September 21).

Note: W = week.

### **Growth risks until end-2020 and for 2021 increasingly on the downside**

Late in the third quarter and early in the fourth quarter of 2020, economic growth was moderate and characterized by divergent developments. Rising infection rates, travel alerts issued by numerous countries for Austria or for individual regions in Austria, and the re-tightening of coronavirus containment measures negatively impacted the service industry, while manufacturing and exports remained largely unaffected for the time being. The tourist industry is faced with a second drop-off of overnight stays, as implied by real-time data on card payments (see section 2). The export-oriented manufacturing industry, meanwhile, experiences a continuation of the positive trend seen in recent weeks. Judging from estimates of export volumes (excluding tourism) derived from truck mileage data, week 41 was the first week during the pandemic period to finally see a slight increase on the corresponding week of 2019 (see section 3).

Overall, the weekly GDP indicator result for week 40 was 3.5% below the level of economic output measured for the same week of 2019, and 3.7% below the result for week 41 in 2019. Given the high infection rates and the containment measures required in Austria and worldwide, and given increasing concerns about job losses, the risks to growth will remain on the downside during the weeks ahead.

As the recovery was stronger than expected until early summer, there was no actual need to revise the OeNB's June 2020 economic outlook for 2020 (−7.2%). The downside risks to the projections for 2021 (+4.9%) have increased, though, as of late. Thus, the OeNB's projections are very close to the forecasts published by WIFO in the first half of October (2020: −6.8%, 2021: +4.4%), IHS (2020: −6.7%, 2021: +4.7%) and IMF (2020: −6.7%, 2021: +4.6%).

## **2 The pandemic's impact on tourism-related services continues to be high**

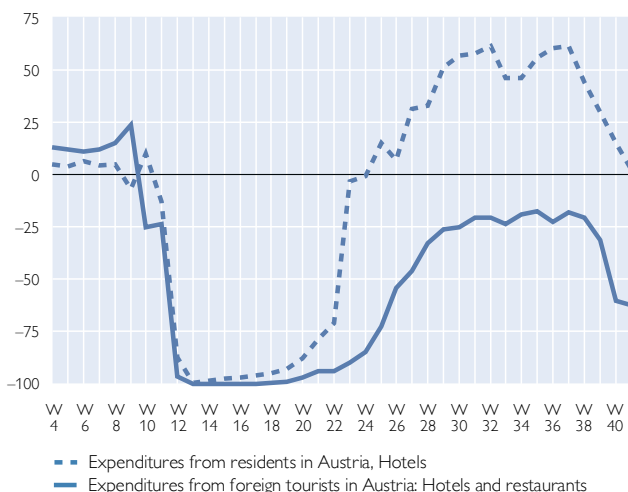
Tourism is among the economic sectors that have been hit hardest by the COVID-19 pandemic. In Austria, the tourist industry contributes as much as 7.3% to economic value added, which is more than in many other countries. With the restrictions on travel, overnight stays dropped by close to 100% during the April lockdown. This was followed by a gradual recovery in the following months and a summer respite for the tourist industry. In July and August, the tourist industry made up all but 15% of the year-on-year gap in overnight stays, as Austrian destinations attracted 20% more domestic guests than in 2019 and the same numbers of German tourists as in 2019.

So far, overnight statistics have only become available up to August. However, real-time data on card payments made by tourists visiting Austria allow us to produce estimates for September and October as well as a first review for the summer season of 2020 (May to October). September is expected to have seen the smallest decline in overnight stays (−10%) compared with pre-pandemic levels. The travel alerts for Austria issued by a number of countries since mid-September have, however, started to take their toll already in the first two weeks of October. The value of card payments made by foreign tourists dropped by as much as 60% – which is twice as much as the decline registered in September. The amounts spent by domestic tourists exceeded the 2019 levels just by a small margin. If we extrapolate this trend for the second half of October, we arrive at a decline in overnight stays by close to 40%. Regarding the projections for domestic tourists, the newly harmonized fall school break (for the first time, all schools in Austria closed from

## Weekly travel-related card payments

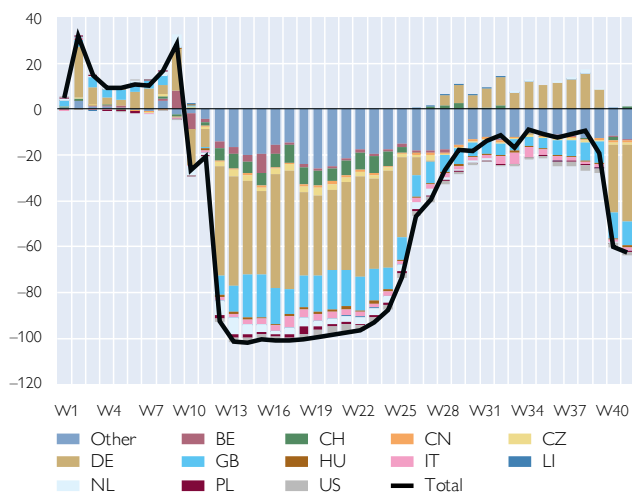
### Travel-related payment card transactions

Difference to previous year in %



### Expenditures from foreign tourists in hotels via payment cards in 2020, countries of origin

Growth contributions of countries in percentage points; difference to previous year in %



Source: Payment service providers, authors' calculations.

October 26 to October 30) constitute some upward risks. In a risk scenario, which assumes higher levels of vulnerability even for provinces not directly affected by the travel alerts, the dropoff is projected to be as high as 60%.

Based on these assumptions, the baseline scenario yields a drop in overnight stays of 30.2% for the summer season of 2020 (May to October) against the summer season of 2019. The current travel alerts for October account for 2.3 percentage points of the decline. The risk scenario yields a decrease by 32.3%. At any rate, the setback in October does not bode well for the upcoming winter season.

Table 1

### Summer season overnight stays in Austria

|   | Total | Domestic tourists | Foreign tourists | German tourists |
|---|-------|-------------------|------------------|-----------------|
| Annual change in %                                  |       |                   |                  |                 |
| May – August 2020                                   | -33.1 | -7.4              | -43.5            | -24.4           |
| July – August 2020                                  | -14.0 | 19.4              | -25.9            | -0.4            |
| September 2020 forecast                             | -10.5 | 12.9              | -20.7            | 5.1             |
| <b>October 2020 forecast</b>                        |       |                   |                  |                 |
| Baseline scenario                                   | -37.2 | 6.4               | -58.7            | -53.2           |
| Risk scenario                                       | -56.1 | 6.4               | -86.9            | -89.7           |
| <b>2020 summer season forecast (May to October)</b> |       |                   |                  |                 |
| Baseline scenario                                   | -30.2 | -2.7              | -41.8            | -21.6           |
| Risk scenario                                       | -32.3 | -2.7              | -44.7            | -25.4           |

Source: Statistics Austria, payment card providers, OeNB.

Note: Data for May to August provided by Statistics Austria; September and October forecasts derived from data collected by payment card providers.

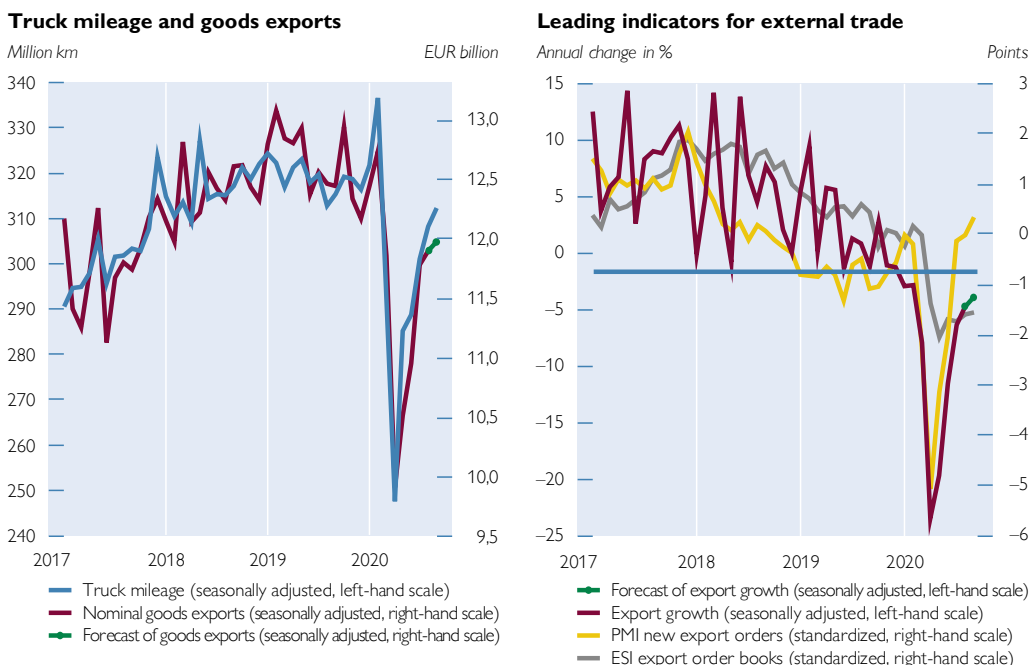
### 3 Exports reflect slight upward trend in manufacturing

According to Statistics Austria, nominal goods exports shrank by 10.4% in the first seven months of 2020, with April and May witnessing declines by about one-quarter and exports to regions beyond Europe taking visibly larger hits (Asia: -13%, the Americas: -16.7%). Exports to other European countries shrank by 9.4%. Within Europe, exports to countries hardest hit by the pandemic (Spain: -28.6%, United Kingdom: -19.5%) topped the list of export contractions, while exports to Germany, Austria's number-one trading partner, saw a below-average dent in exports (-7.9%). In terms of product groups, the loss leaders (-17%) were machinery, transport equipment and manufactured goods, which together account for more than 60% of goods exports. The only product groups to show export gains were food (+2.7%) and chemical products (+6.5%, including pharmaceutical products (+23.8%)).

As implied by the OeNB's truck mileage-based export indicator, manufacturing trade continued to recover in late summer/early fall, with the year-on-year decline narrowing to 4.7% in August and 1.7% in September. The September result is, however, upward-biased because the number of working days was one day higher in 2020 than in 2019. When adjusted for this bias, the projections yield a decline by 3.9% for September. In other words, exports have continued to rebound, but at a lessening pace.

Chart 3

#### OeNB export indicator and leading indicators for external trade

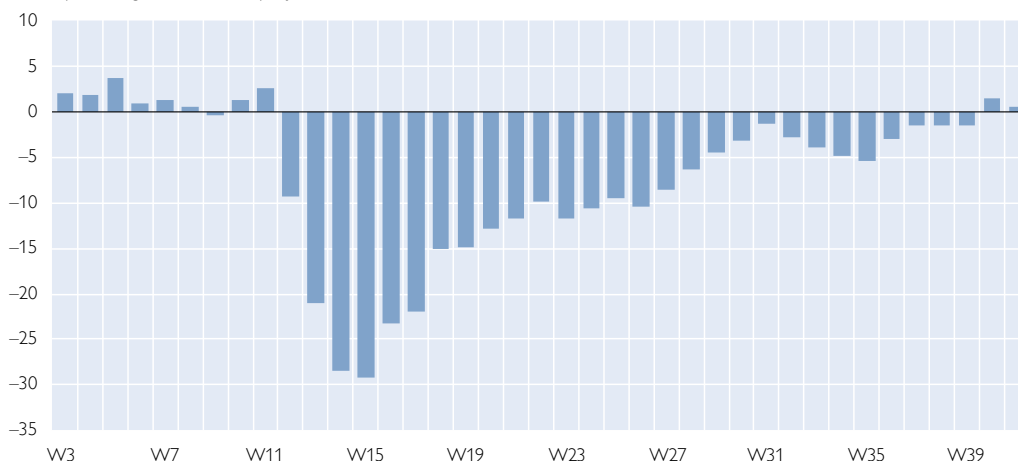


Source: Austrian highway authority (ASFINAG), OeNB.

Source: Eurostat, Statistics Austria, Bank Austria, OeNB.

### Weekly truck mileage growth during the COVID-19 pandemic

Year on year changes in %, seasonally adjusted



Source: ASFINAG, OeNB.

Looking ahead, most of the available economic indicators suggest that the recovery process will continue. In the Bank Austria's Purchasing Managers Index, the subindex measuring expectations of export orders registered 52.7 in September. This is clearly above the expansion threshold of 50 and more closely aligned with the overall new order index than in previous months. This contrasts with a significantly more pessimistic view of export order books evident from the European Commission's latest survey. While the September reading did improve slightly, to  $-46.4$ , it remains well below the long-term average ( $-25$ ). The positive view is bolstered by weekly truck mileage data as collected by Austria's highway operator, ASFINAG. In early October (weeks 40 and 41), ASFINAG truck mileage figures for Austria's highways slightly exceeded 2019 levels for the first time since the COVID-19 pandemic reached Austria. Regarding truck traffic in the sections near Austria's borders, which is a particularly good gauge for export growth, the figures reverted to positive territory for the first time in week 41. Thus, while large parts of the service industry continue to suffer rather heavily from the COVID-19 fallout, the slight recovery of Austria's export-oriented industry is evidently ongoing.

#### 4 Mixed impact on different sectors of the economy

While the lockdown had affected business activity across the board, the current crisis is characterized by the heterogeneity of vulnerability across the economy.

Travel agencies and tour operators recorded the heaviest lockdown toll by far as they saw 89% of the sales generated in the second quarter of 2019 evaporate in the second quarter of 2020. Hotels and other tourist accommodation and the restaurant/catering industry also suffered a drastic blow, seeing their sales contract by 73% and 54%, respectively. Likewise, the lockdown severely affected sports and entertainment activities as well as other personal service activities. In the transport sector, air transport was the loss leader ( $-84\%$ ).

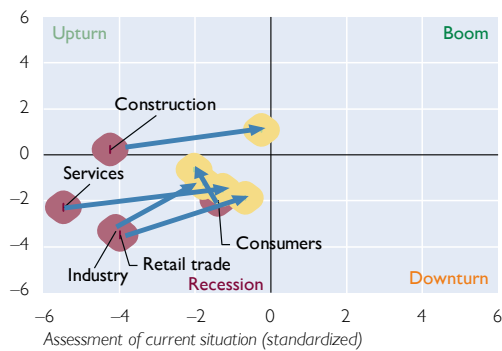
Meanwhile, conditions have been improving in many sections of the economy. Chart 5 shows business sentiment as measured in May and September by European

Chart 5

### Mixed impact on different economic sectors

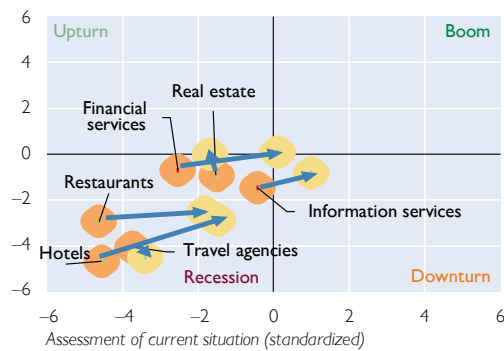
#### All sectors: May and September 2020

Expectations (standardized)



#### Services: May and September 2020

Expectations (standardized)



Source: Eurostat.

Commission surveys, looking three months back and looking three months ahead. In this comparison, we see the current-conditions component of business sentiment to have improved significantly in manufacturing, construction, retail and services. Consumer sentiment was the only outlier with a more negative assessment in September than back in May. At the same time, the future-expectations component remains below long-term averages outside the construction industry.

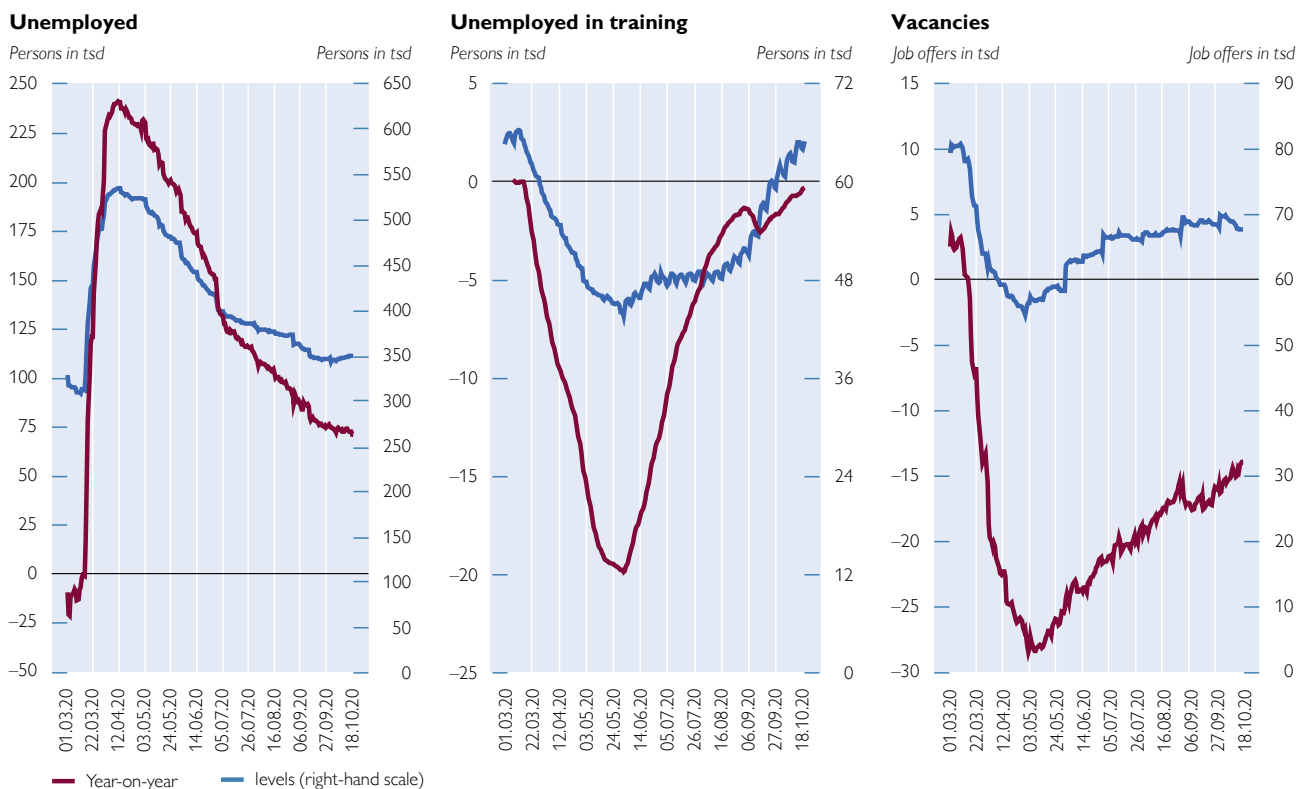
### 5 Labor market: decline in unemployment leveling off

Following steep increases until mid-April, unemployment levels dropped somewhat in the following months. On October 19, 2020, the number of individuals registered as either unemployed or receiving training stood at 348,000. This corresponds to an increase by 71,000 people compared with the same month of 2019 (see left panel and middle panel). Thus, the unemployment figures have continued to go down, but the improvement has been weakening since July. In parallel, the number of registered vacancies has been going up since mid-April, but the increase has been stagnating in recent weeks.

With regard to the outlook for unemployment in the months ahead, two factors are playing a role: First, seasonal unemployment is bound to increase. We know from past experience that the unemployment figures for late January typically exceed the unemployment figures for late August by 80,000. Second, there are signs that the ebb and flow of unemployment with the business cycle may be about to stagnate. Apart from media reports about layoffs in manufacturing – a sector which has so far added very little to unemployment given support through the coronavirus short-time work scheme – incoming data from the early warning system for impending layoffs installed by Austria's Public Employment Service imply that more people may be losing their jobs in the weeks ahead. In September 2020, the number of employees who had been given early warning of layoffs was close to 16,500 higher than in September 2019, having risen substantially from the corresponding figures for July (+6,000) and August (+8,200). The stagnation of registered vacancies referred to above would also point in this direction.



## Labor market developments since March 2020



Source: AMS (Public Employment Service Austria). Number of unemployed in training (7-day averages, year-on-year, smoothed).

## 6 Inflation projected to reach 1.4% in 2020 and 1.7% in 2021 despite recession<sup>2</sup>

Having stood at 2.2% at the start of 2020, HICP inflation in Austria dropped to 0.6% in May. Thereafter, July marked the high point for inflation (1.8%), and by September inflation had declined to 1.3%. To some extent, the temporary peak in July reflects one-off effects (with fashion clearance sales starting later than usual) as well as price measurement problems concerning the service industry. Moreover, the inflation spurt until July was also driven by the moderate rise in oil prices since June (starting from very low levels). Core inflation (excluding energy and food) surged to 2.7% from May to July before dropping back to 2.0% by September amid the normalization of fashion sales. The large gap between core inflation and headline inflation can be explained by the fact that headline inflation was diminished by the energy inflation component, while core inflation was not.

In line with the OeNB's inflation forecast of September 2020, HICP inflation is expected to run to 1.4% in 2020 and to climb to 1.7% in 2021 (chart 7). Monthly inflation rates will be going down visibly until the end of 2020 before starting to rebound in January 2021. The energy component of inflation is expected to retain

<sup>2</sup> These figures were obtained by mechanically updating the September 2020 inflation forecast, i.e. by incorporating the HICP data published for September.



its dampening impact until early 2021. Moreover, the COVID-19 pandemic and the ensuing fall in aggregate demand are expected to have a moderating impact on the components of core inflation (industrial goods excluding energy and services). The energy price effects of this year's slump in crude oil prices will peter out in the second quarter of 2021. As the diminishing impact of the COVID-19 pandemic on inflation weakens gradually in 2021, HICP inflation is projected to rise to 1.7% in 2021. With the oil price effect dropping out, core inflation excluding energy and food prices is set to mirror headline inflation thereafter and drop from 2.0% in 2020 to 1.6% in 2021.

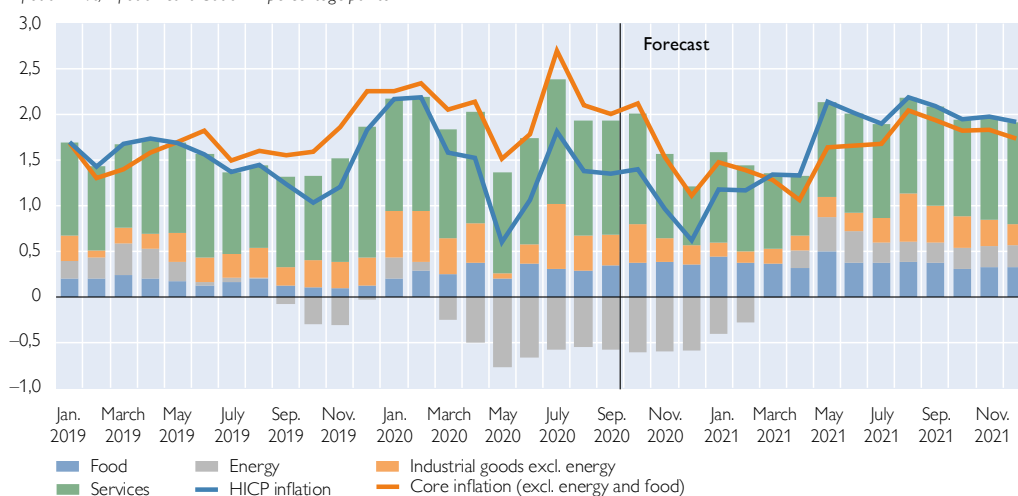
To provide financial support to the hospitality industry, the VAT rate for food and accommodation services was temporarily cut to 5% in July 2020. This rate will probably apply until December 2021. In line with government intentions, the lower VAT rate is unlikely to be passed on to consumers, as the hospitality industry faces higher costs and lower incomes resulting from capacity constraints imposed with a view to containing the COVID-19 pandemic (hygiene rules, social distancing) and as numerous businesses are struggling with liquidity problems.

The current inflation projections well exceed the forecast published in June 2020 (+0.6 percentage points for 2020, +0.9 percentage points for 2021). Underlying reasons include the sharp increase in HICP inflation in recent months (above all in July 2020), which had not been anticipated, and the upward revision of commodity price assumptions for both crude oil and nonenergy commodities (table 2). In addition, price measurement problems in the area of food and accommodation services are likely to prevail for the time being, which means that the inflation rate for services is going to respond more slowly than expected in the latest projections. Last but not least, services prices tend to be downward rigid, which makes a rapid adjustment to changing demand patterns unlikely.

Chart 7

### The OeNB's inflation forecast of September 2020

Inflation in %; inflation contribution in percentage points



Source: OeNB, Statistics Austria.

Table 2

**Assumptions underlying the OeNB's September 2020 inflation forecast**

|   | September 2020 assumptions |       |       | Revisions to June 2020 assumptions |      |       |       |
|---|----------------------------|-------|-------|------------------------------------|------|-------|-------|
|   | 2020                       | 2021  | 2022  | 2020                               | 2021 | 2022  |       |
| <b>Energy and exchange rates</b>                          |                            |       |       |                                    |      |       | %     |
| Oil price (EUR/barrel Brent)                              | 57.2                       | 37.6  | 40.2  | 41.6                               | 13.4 | 17.0  | 10.6  |
| USD/EUR exchange rate                                     | 1.1                        | 1.1   | 1.2   | 1.2                                | 4.8  | 9.2   | 9.2   |
| <b>Nonenergy commodity prices</b>                         | <i>Index 2005=100</i>      |       |       | %                                  |      |       |       |
| Total   | 129.1                      | 131.0 | 138.6 | 142.4                              | 4.1  | 6.4   | 6.0   |
| <i>of which world market prices for food</i>              | 138.8                      | 143.9 | 154.1 | 158.8                              | 0.1  | 3.7   | 4.9   |
| <i>of which world market prices for metal commodities</i> | 116.8                      | 116.4 | 128.8 | 131.9                              | 12.1 | 22.0  | 20.7  |
| <b>EU food production prices</b>                          | 110.7                      | 109.1 | 104.4 | 104.8                              | -6.2 | -11.8 | -11.8 |
| <b>Interest rates</b>                                     |                            |       |       | % <i>Percentage points</i>         |      |       |       |
| Three-month interest rates                                | -0.4                       | -0.4  | -0.5  | -0.5                               | -0.1 | -0.1  | -0.1  |
| 10-year government bond yields                            | 0.1                        | -0.2  | -0.2  | -0.1                               | -0.1 | -0.2  | -0.2  |

Source: Eurosystem.