

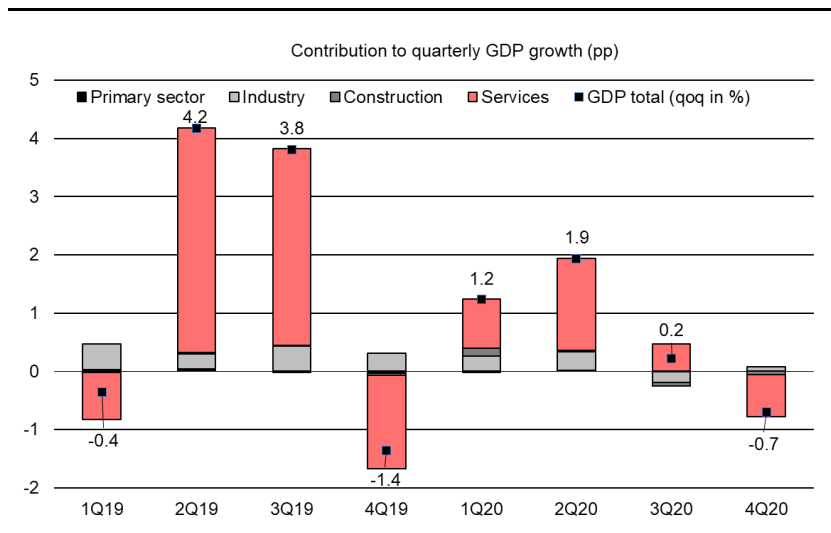
## GDP contraction in Austria at year-end 2022

- Following the slowdown in economic growth to 0.2% qoq in 3Q22, the Austrian economy contracted at the end of last year. GDP fell by 0.7% qoq in 4Q22. The main factor was the negative development in the services sector, in particular the significant decline in the trade, transport, accommodation and catering sector. Higher energy costs and their pass-through to goods and services prices led to spending cuts by consumers in real terms. As in the previous quarter, the construction sector experienced a decline again, while industry expanded slightly.
- Despite the global economic slowdown and a sharp drop in new orders, Austrian companies were able to increase their exports by 2.9% qoq, thanks in part to the completion and delivery of old orders supported by the easing of supply-chain problems. This resulted in a small positive contribution of net exports to GDP at year-end, as import growth was somewhat lower. On the one hand, the relatively significant increase in investment ensured high import demand, while, on the other hand, import growth was dampened by the sharp decline in consumer demand. Private consumption contracted by 2.4% qoq, the third quarter in a row.
- The Austrian economy contracted somewhat more sharply at the end of last year than we originally expected. High inflation, which climbed to an average of 10.6% year-on-year in the fourth quarter, was particularly harmful to developments in retail trade and tourism. In view of the multiple crises, however, the Austrian economy proved very resilient overall. In particular, the labor market showed positive signs at the turn of the year with the lowest unemployment rate in 15 years. Sentiment indicators also improved slightly toward the end of the year, but the Austrian economy is starting 2023 on a weak footing. Following the decline in GDP in 4Q22, we continue to expect a technical recession over the winter, but there are signs that this is already easing.

In detail:

With a negative contribution to GDP growth of 0.7 percentage points in 4Q22, the services sector had by far the strongest impact on economic development. The positive contribution from industry of 0.1 percentage points was offset by a similarly high negative contribution from construction.

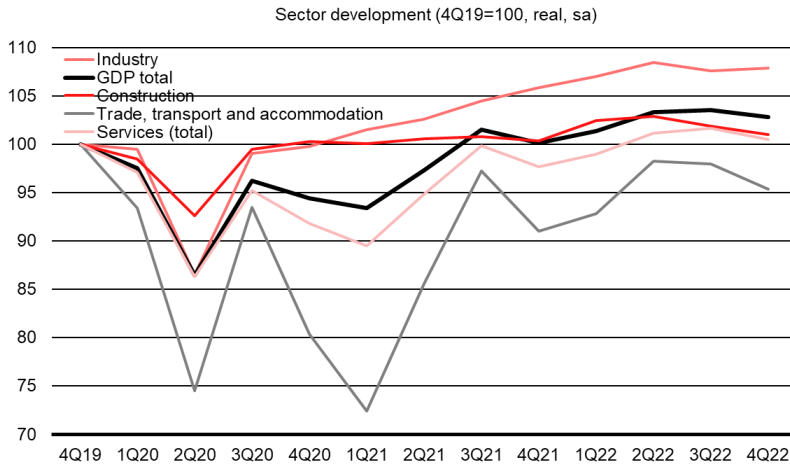
**CHART 1: SERVICES DAMPEN ECONOMIC DEVELOPMENT AT YEAR-END**



Source: Statistik Austria, WIFO, UniCredit Research

Despite the decline in GDP at the end of last year, Austrian GDP exceeded its pre-pandemic level by almost 3% in 4Q22. The strong recovery in industry contributed to this in particular. However, the services sector is just above its pre-pandemic level, while the trade, transport and accommodation sub-sector lags significantly behind.

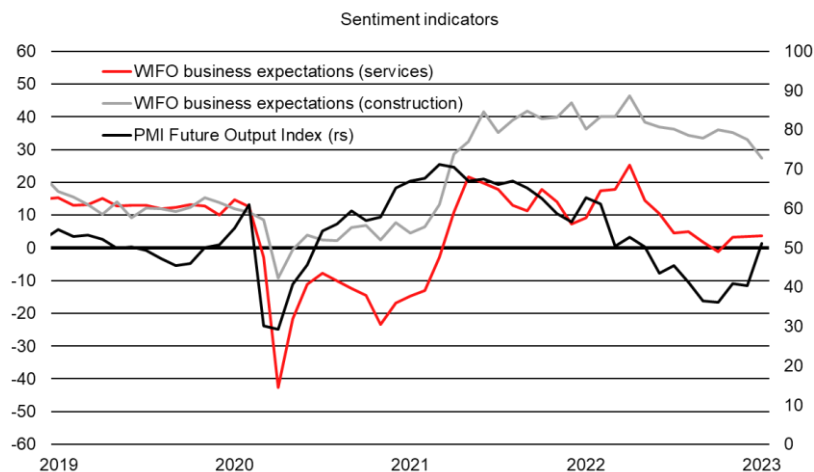
**CHART 2: AUSTRIA'S ECONOMY EXCEEDS PRE-PANDEMIC LEVEL BY 2.8%**



Source: Statistik Austria, WIFO, UniCredit Research

Sentiment in the Austrian economy improved significantly in industry at the beginning of this year, as shown by the rise of the PMI Future Output Index into growth territory, to 51.5 points. Consumer sentiment has recovered somewhat, giving rise to hopes of an improvement in the development of private consumption. Nevertheless, optimism in the construction sector is slowly receding.

**CHART 3: SLIGHT UPTURN IN SENTIMENT, PARTICULARLY IN INDUSTRY**



Source: WIFO, S&P Global, UniCredit Research

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