After the recession –
Economic outlook for 2024 and beyond

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Agenda

1. A very challenging global environment
2. Our expectations for Austria
3. Risks
4. Summary

1

A very challenging global environment, but prospects for recovery

Weakness in industry has spread to services

Industrialized countries more strongly affected, but China is also weakening

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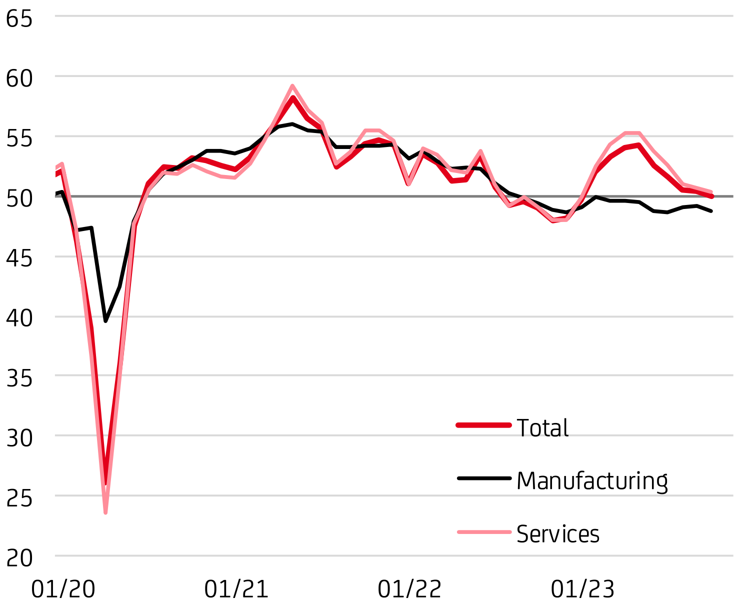
Global activities

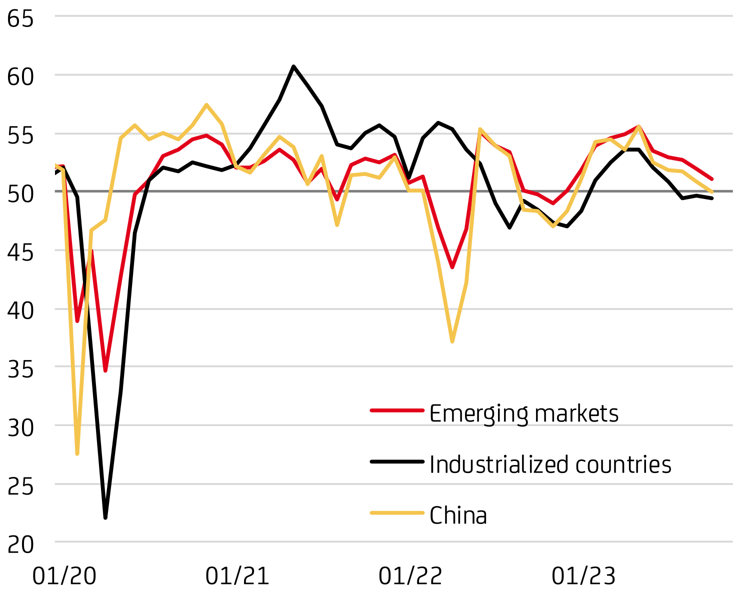
(Purchasing Managers´ Index: >50 corresponds to growth, <50 decline)



Source: S&P Global, UniCredit Research

Global activities in comparison

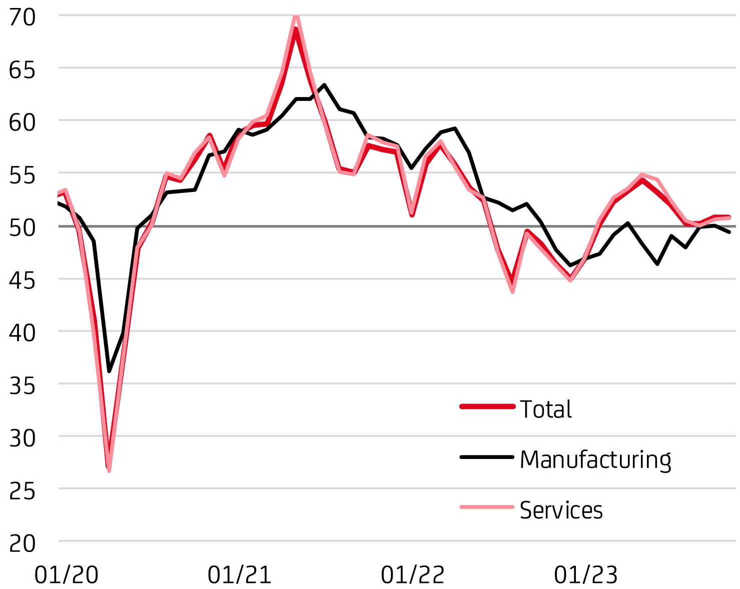
(Purchasing Managers´ Index: >50 corresponds to growth, <50 decline)



Source: S&P Global, UniCredit Research

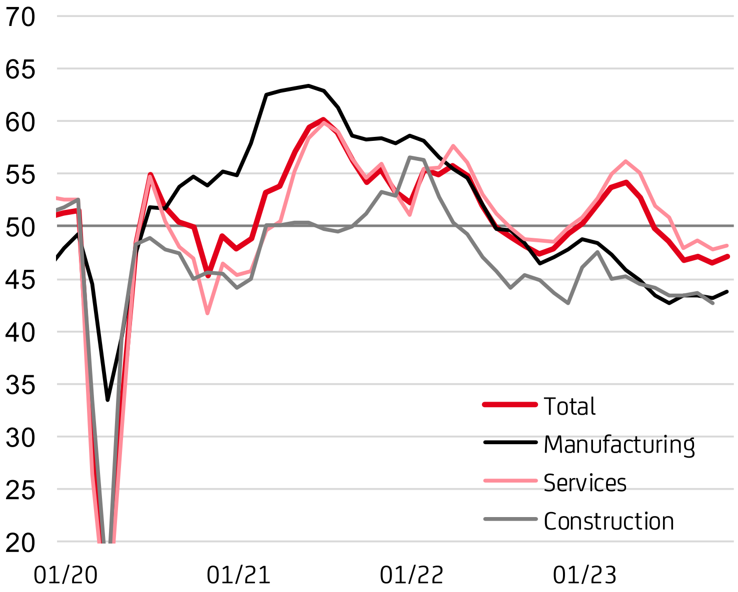
Economic situation in the USA still slightly more favorable than in the euro area
Industry in the euro area particularly weak

Activities in the US
(Purchasing Managers´ Index: >50 corresponds to growth, <50 decline)



Source: S&P Global, UniCredit Research

Activities in the Euro area
(Purchasing Managers´ Index: >50 corresponds to growth, <50 decline)

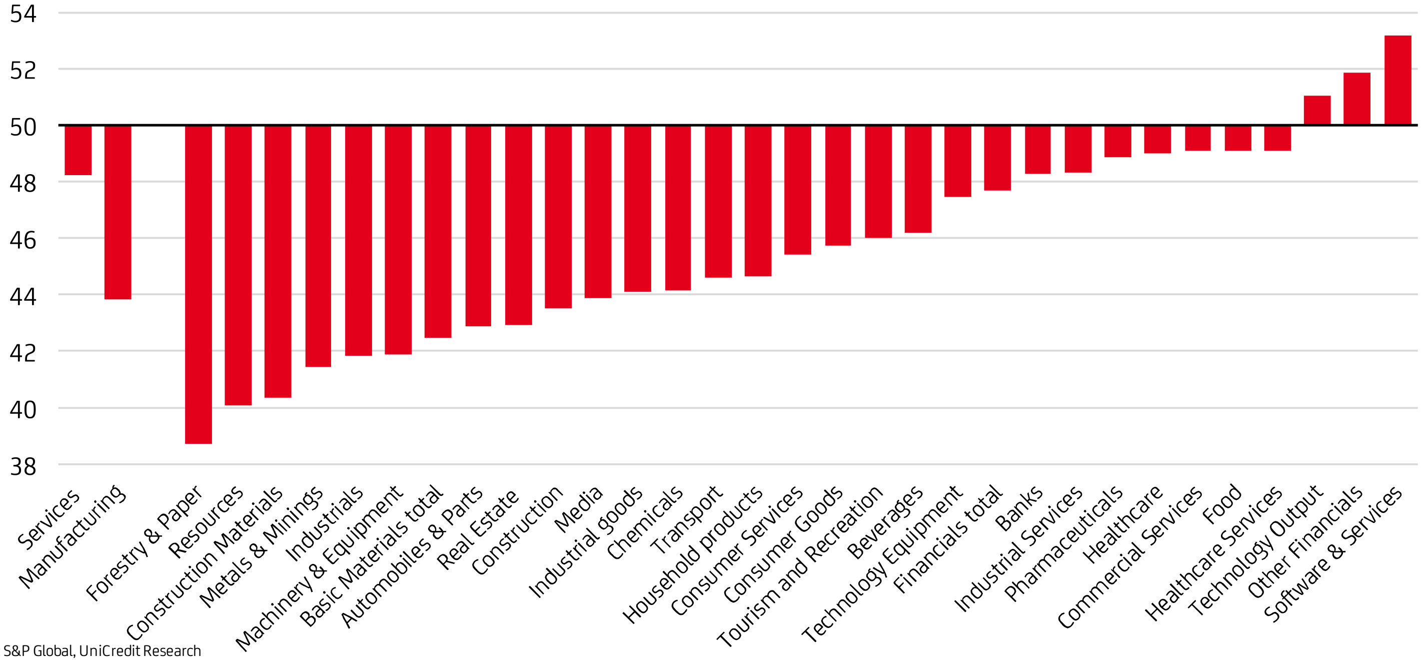


Source: S&P Global, UniCredit Research

Economic downturn affects all sectors

Sector activities in the euro area

(Purchasing Managers´ Index: >50 corresponds to growth, <50 decline)



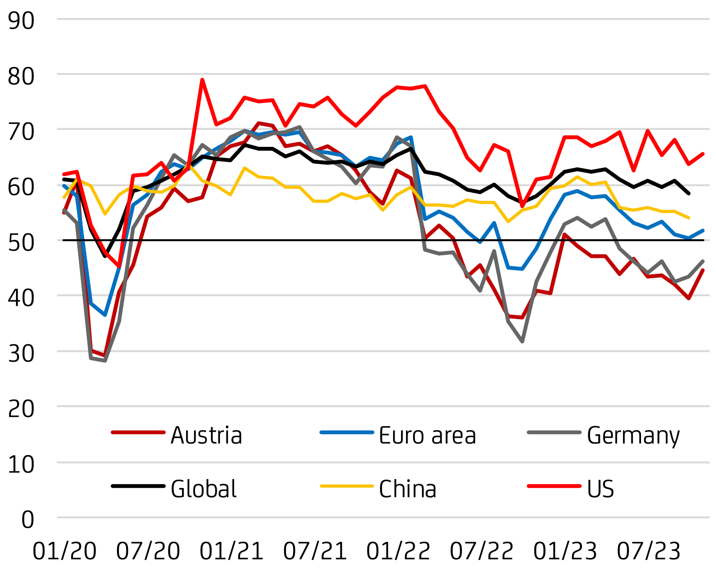
Source: S&P Global, UniCredit Research

Cautious output expectations spread to the service sector

Pessimism particularly high in Austria and Germany

Output expectations for next 12 months in manufacturing

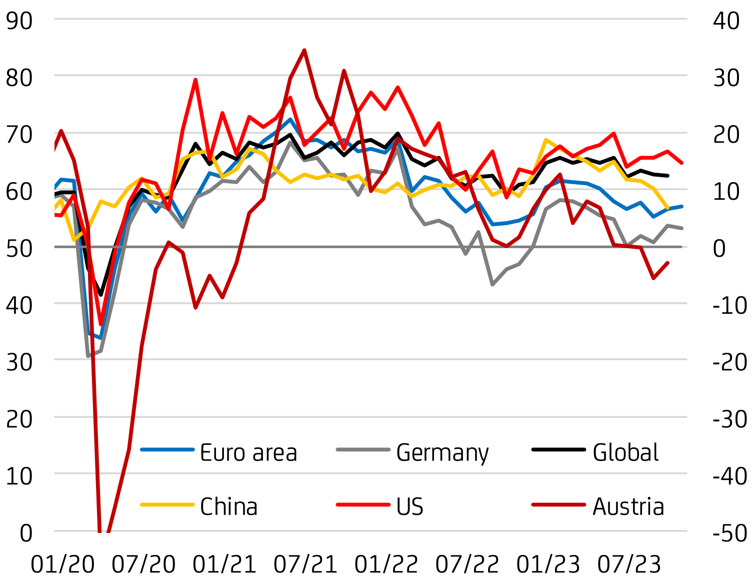
(PMI, >50 improvement, <50 deterioration)



Source: S&P Global, UniCredit Research

Future output services

(PMI, > 50 improvement, <50 deterioration)



Austria: Sentiment indicator services Dienstleistungen, Source: EU Commission, S&P Global , UniCredit Research

Slow recovery expected until summer 2024 expected

Stagnation in the US, slow recovery in the euro area

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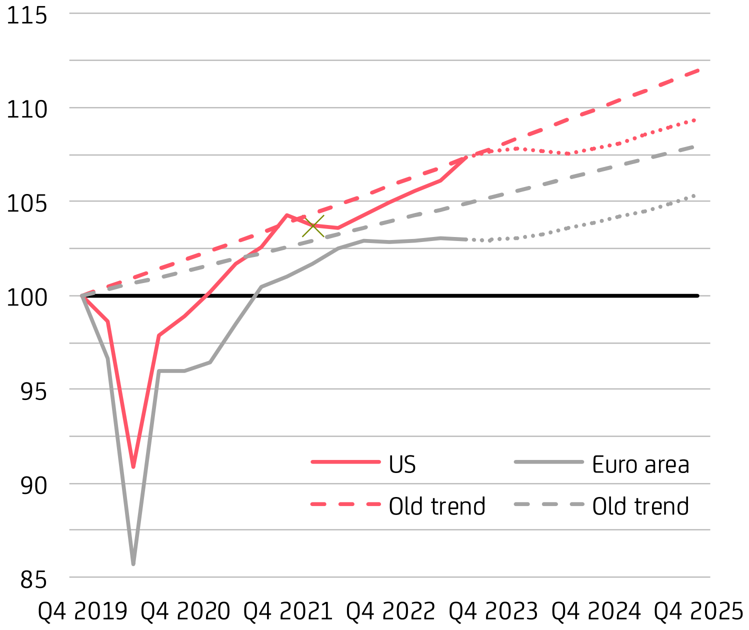
Global environment					
			Forecast		
	2021	2022	2023	2024	2025
(GDP, yoy in %)					
Eurozone	5,9	3,4	0,5	0,5	1,2
Germany	3,2	1,8	-0,4	0,4	1,3
France	6,4	2,5	0,9	0,8	1,1
Italy	8,3	3,7	0,7	0,6	1,1
Spain	6,4	5,8	2,4	1,3	1,5
Austria	4,2	4,8	-0,5	0,3	1,5
UK	8,7	4,3	0,5	-0,3	0,8
USA	5,8	1,9	2,4	1,0	1,0
Japan	1,8	1,3	1,8	0,8	1,0
China	8,4	3,0	5,2	4,5	4,3
Global	6,3	3,4	3,0	2,7	3,0

Source: UniCredit Research

GDP real

(Q4 2019=100)



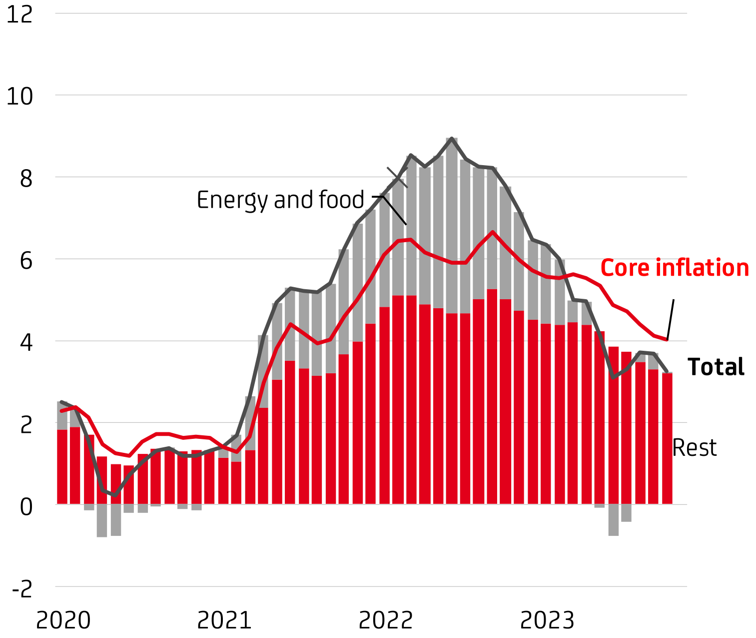
Source: Refinitiv Datastream, UniCredit Research

Inflation rise in the US and Europe with different characteristics

Stronger decline in energy inflation in the euro area, core inflation even higher

Inflation US

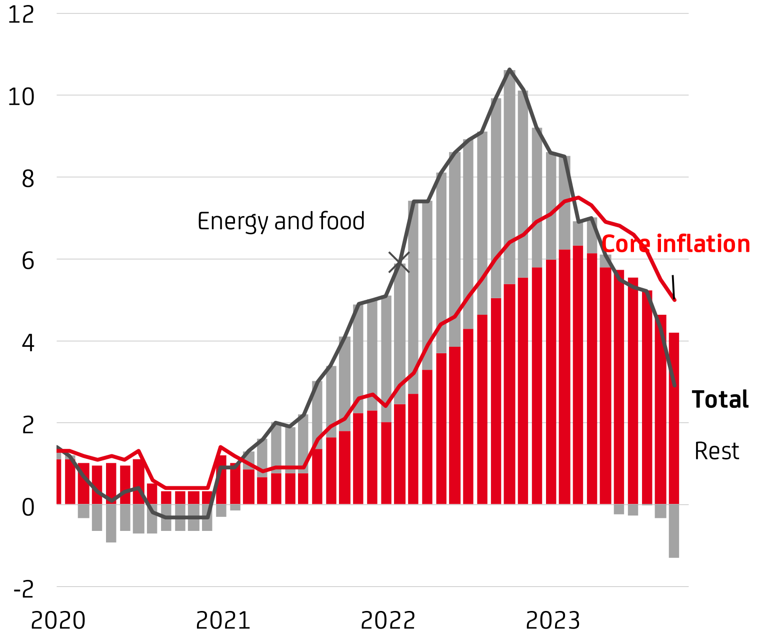
(yoy in % resp. contributions in percentage points)



Source:: Refinitiv Datastream, UniCredit Research

Inflation Euro area

(in % yoy resp. contributions in percentage points)

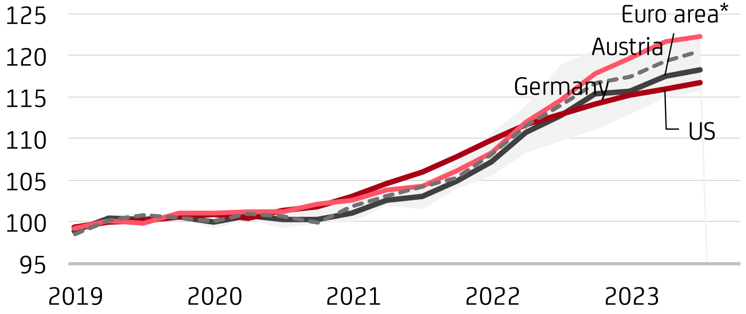


Source Refinitiv Datastream, UniCredit Research

Euro area inflation similar to US since 2019, income increased less

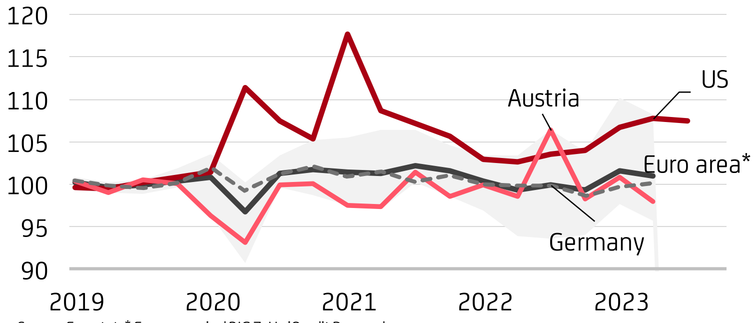
Stagnating real incomes in the Euro area explaining weak consumer growth

Inflation
(2019=100)



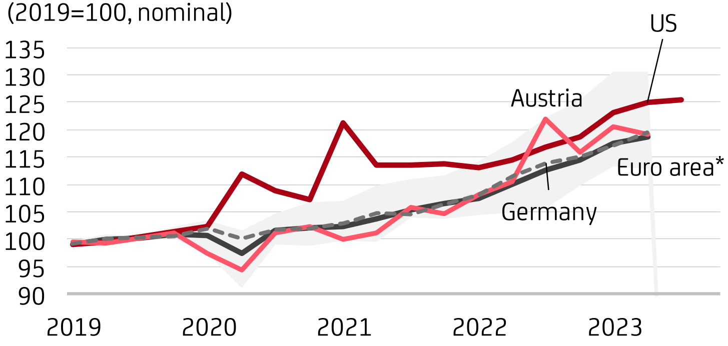
Source: Eurostat, *Euroraum sind BIG 7, UniCredit Research,

Disposable real income
(2019=100, real)



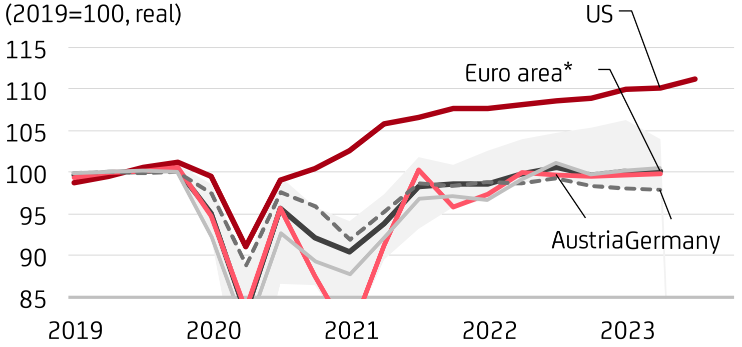
Source: Eurostat, * Euroraum sind BIG 7, UniCredit Research

Disposable income
(2019=100, nominal)



Source: Eurostat, *Euroraum sind BIG 7, UniCredit Research

Real consumption spending
(2019=100, real)



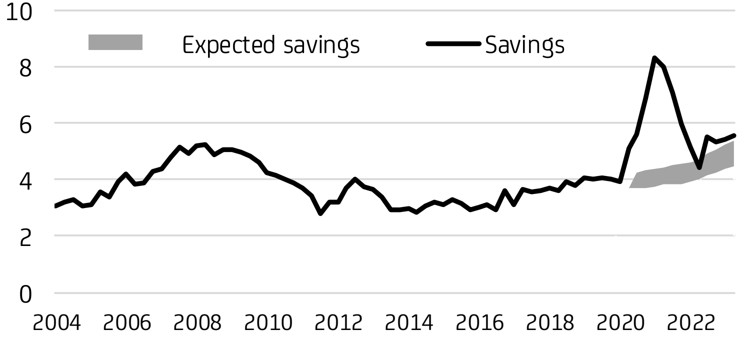
Source: Eurostat, * Euroraum sind BIG 7 UniCredit Research

No „de-saving“ in Austria – high „extra savings“

But also high real losses on financial assets due to high inflation – net negative

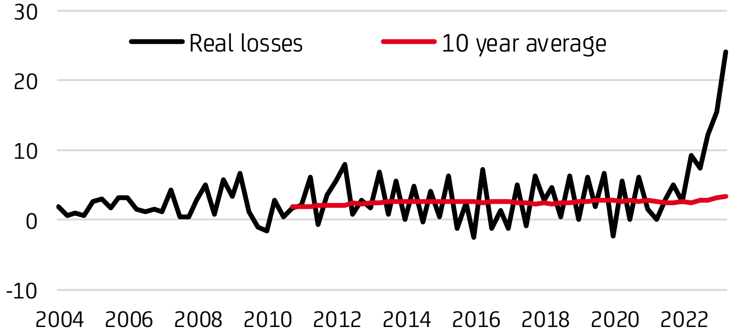
Savings per quarter in Austria

(EUR bn, 4 quarters average)



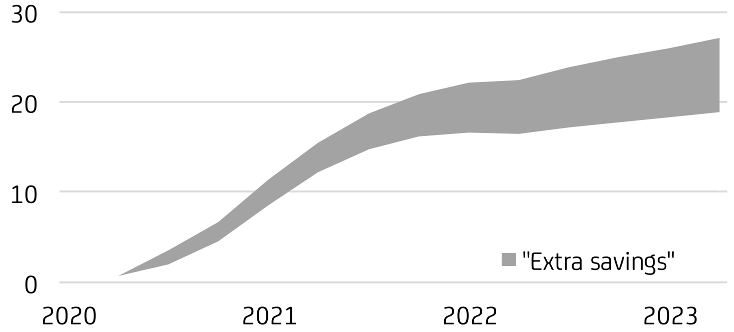
Real losses on financial assets

(Austria, EUR bn, per quarter, due to inflation)



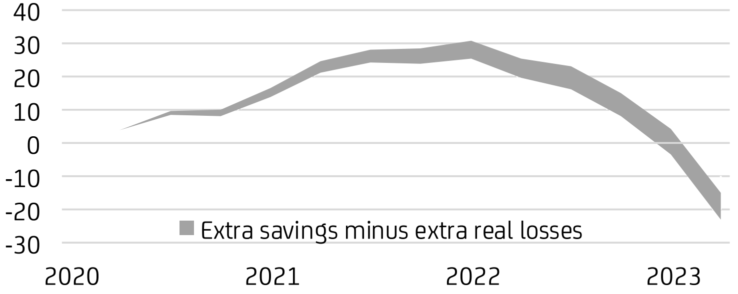
Extra savings during the pandemic

(Austria, EUR bn, cumulative)



Extra savings minus real losses

(Austria, EUR bn, cumulative, minus losses due to disproportionate inflation)

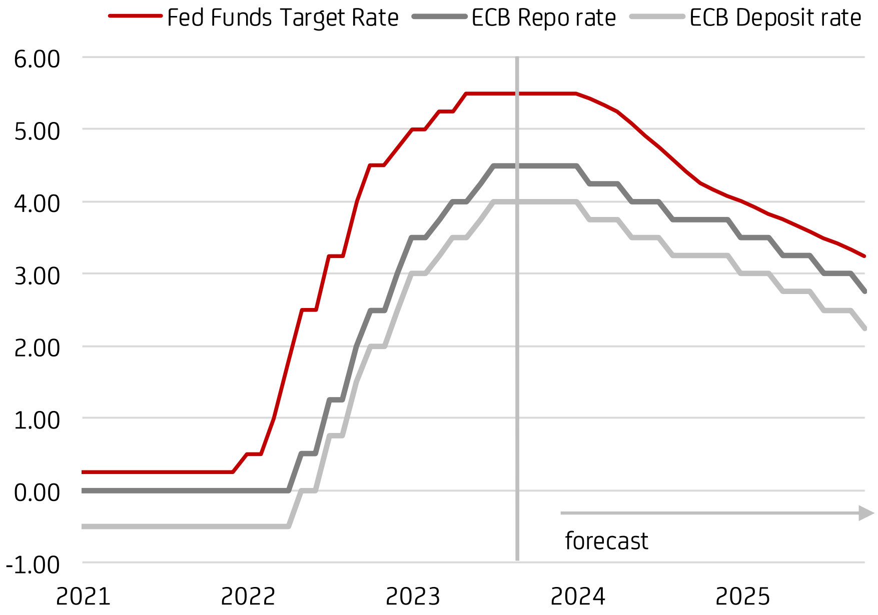


Source: OeNB, Statistik Austria UniCredit Research

Interest rates should now have peaked

Trend reversal in monetary policy towards a neutral interest rate in 2024?

Key interest rate
(in %)



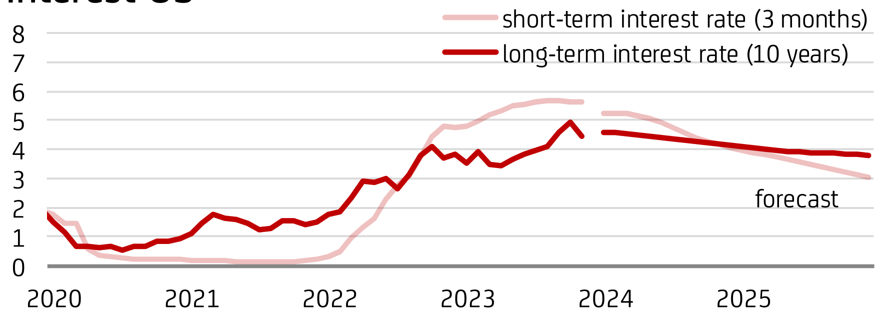
Source: Refinitiv Datastream, UniCredit Research

- Central banks have responded to high inflation with a very aggressive tightening of monetary policy.
- Both the Fed and the ECB are likely to have completed their cycle of interest rate hikes by now.
- We see little or no sign of inflation expectations easing and expect interest rate cuts from mid-2024.
- For the USA, we expect a reduction of 225 bp to 3.25% by the end of 2025.
- For the eurozone, we anticipate a reduction in key interest rates of 175 basis points to 2.25% by the end of 2025 for the deposit rate.

Interest rate outlook in detail: period with inverted yield curve will end

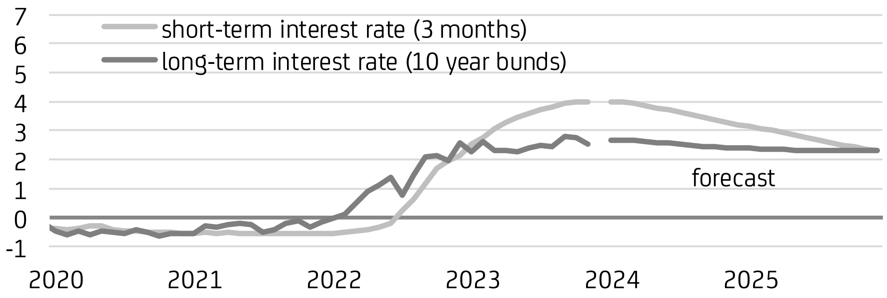
The differences between the US and Europe are narrowing again

Interest US



Source: UniCredit Research, Refinitiv Datastream

Interest Euro area



Source: UniCredit Research, Refinitiv Datastream

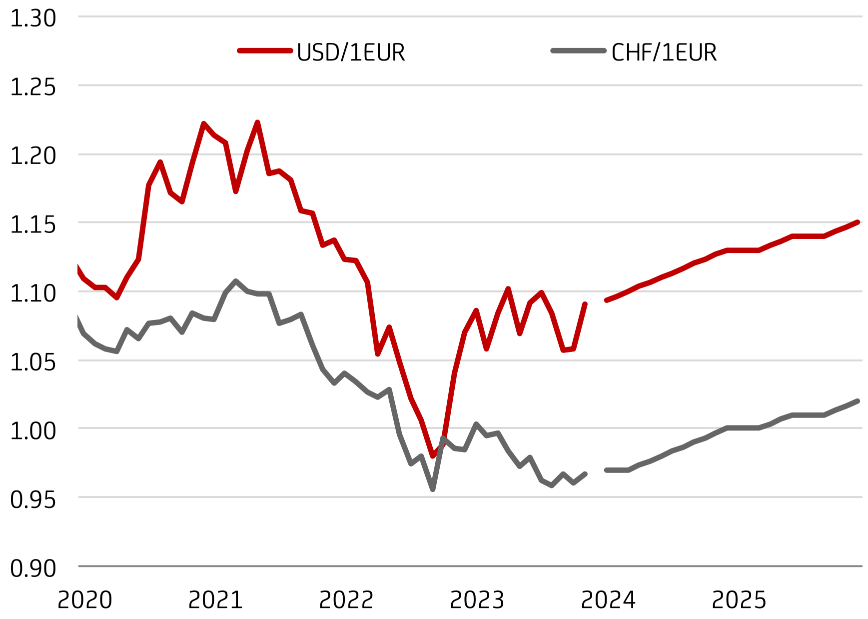
- The reduction in key interest rate hikes will lead to lower yields in the forecast period.
- **US:** We expect the yield on 10-year US government bonds to be 4.15% by the end of 2024 and 3.80% by the end of 2025.
- **Euro area:** The 10-year Bund yield (D) should fall to 2.40% by the end of 2024 and to 2.30% by the end of 2025.The second phase of the inverted yield curve should end in the US at the end of 2024 and in the eurozone at the end of 2025.
- Quantitative tightening **(QT)** is running on autopilot and should be priced in in both the eurozone and the US.
- Supply requirements are also already known and are not a cause for concern.

Please note that the figures/performance data refer to the past and that past performance is not a reliable indicator of future results.
Returns may rise or fall due to currency fluctuations.

Pace and size of interest rate cuts determine fx trends in 2024 and 2025

Moderate weakening of the US dollar towards fair value expected

Exchange rate



Source: UniCredit Research, Refinitiv Datastream

- Interest rate cuts tend to weaken the USD. In addition, volatile development to be expected due to geopolitical risks (more likely to the upside given the safe haven status of the USD) and in the run-up to the US elections in November 2024.
- EUR-USD will probably not reach the 1.15 mark until the end of 2025. The narrowing of the interest rate differential is small and the growth differential between the US and the eurozone is likely to slow down a stronger EUR-USD rally.
- The SNB is likely to cut interest rates very cautiously, which will make it more difficult for EUR-CHF to exceed parity in 2024. Stabilization just above parity is likely to be the issue in 2025.

Please note that the figures/performance data refer to the past and that past performance is not a reliable indicator of future results.
Returns may rise or fall due to currency fluctuations.

Financial market outlook

Financial forecast

	24/11/2023	03 2024	06 2024	12 2024	12 2025
€ 3-month money market*	**3.94**	**3.95**	**3.70**	**3.20**	**2.30**
forwards		*3.92*	*3.71*	*3.22*	*2.81*
€ 10-year German Bund*	**2.61**	**2.65**	**2.55**	**2.40**	**2.30**
€ 10-year Austrian Bund*	**3.22**	**3.30**	**3.20**	**3.05**	**4.69**
€ 10 Jahre Euro Swap*	**3.07**	**3.10**	**3.00**	**2.80**	**2.65**
USD 3-month money market*	**5.65**	**5.25**	**4.93**	**4.04**	**3.04**
forwards		*5.6*	*5.4*	*4.8*	*0.0*
USD 10-year UST*	**4.50**	**4.55**	**4.40**	**4.15**	**4.15**
EUR/USD*	**1.09**	**1.10**	**1.11**	**1.13**	**1.15**
forwards		*1.10*	*1.11*	*1.11*	*1.13*

* UniCredit Research forecast

Please note that the figures/performance data refer to the past and that past performance is not a reliable indicator of future results.
Returns may rise or fall due to currency fluctuations.

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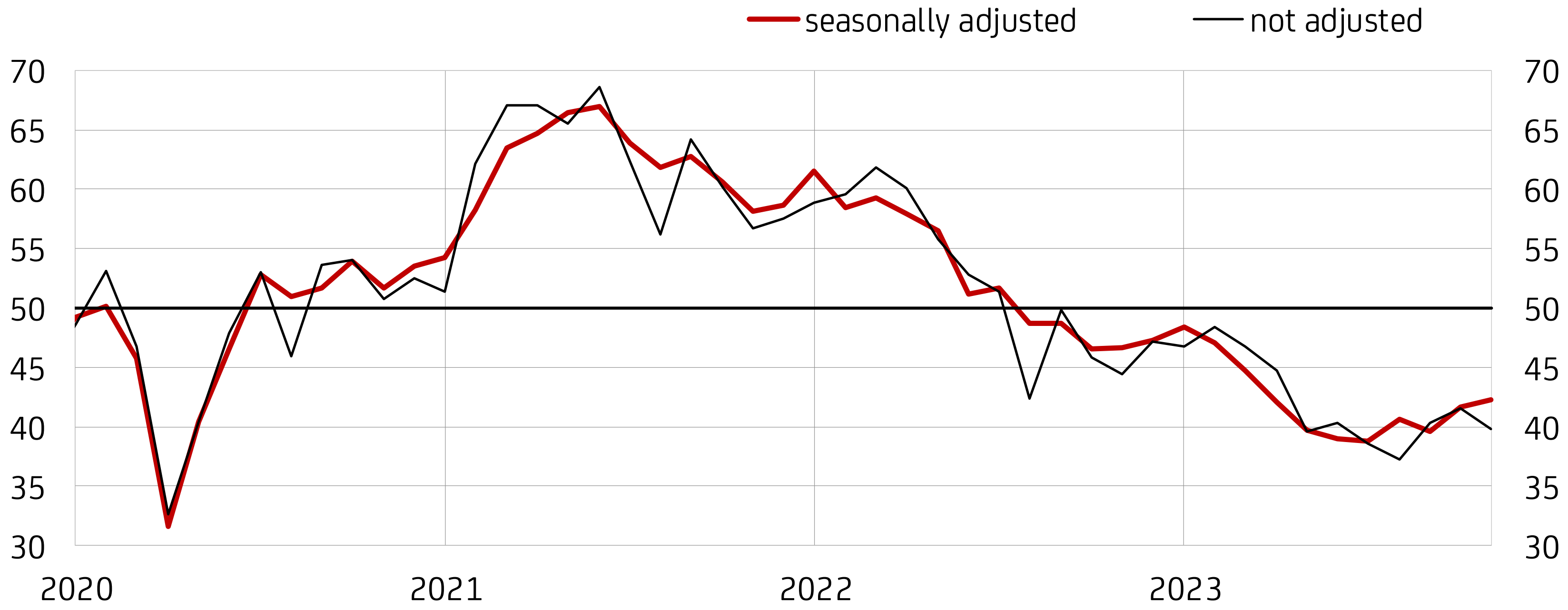
Our expectations for Austria

UniCredit Bank Austria Purchasing Managers´ Index increased to 42.2 points in November
Bottoming out at the end fo 2023

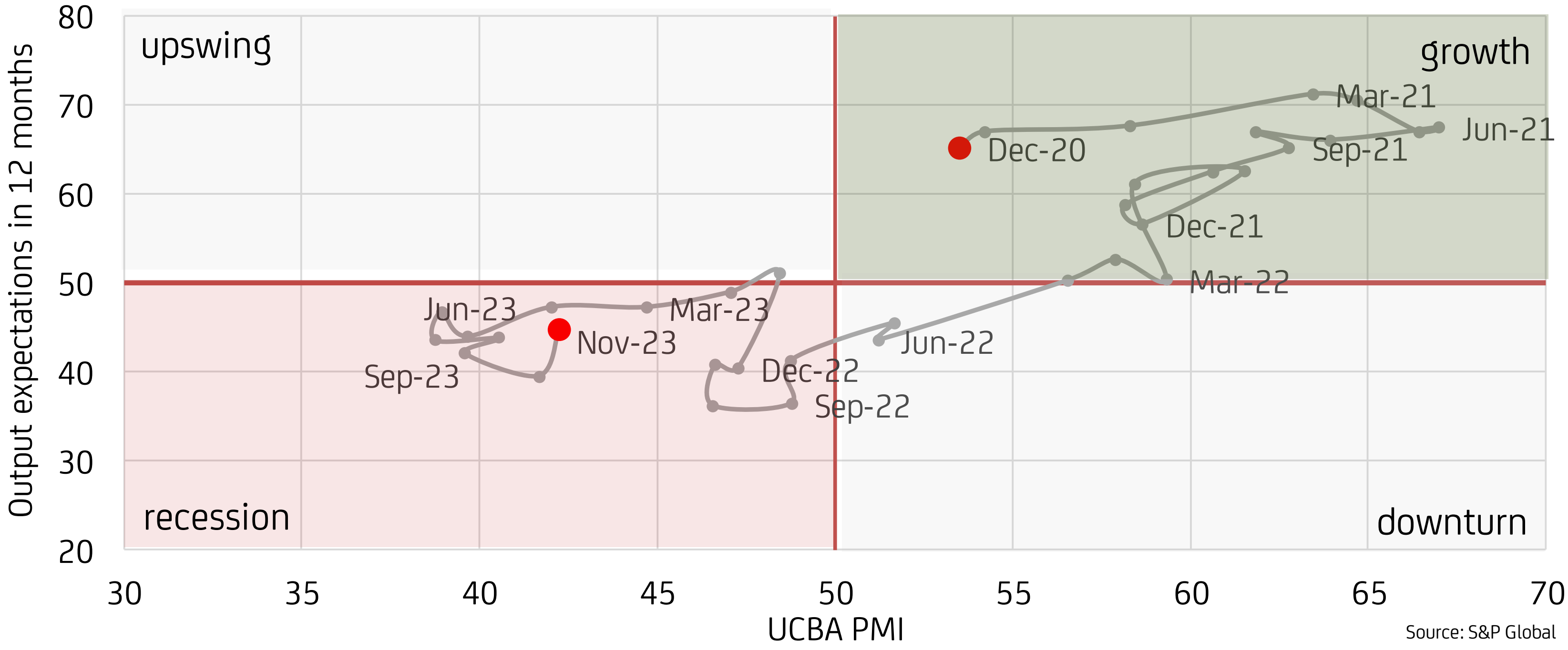
UniCredit Bank Austria Purchasing Managers' Index



Source: S&P Global, UniCredit Research

Industrial activity has bin in the red since autumn 2022

Economic clock for industry in Austria
(since 2021 - today)



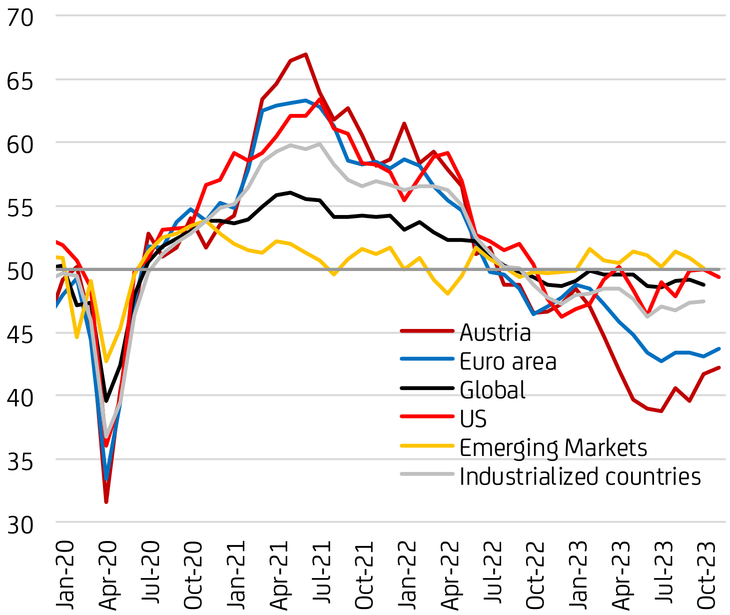
Source: S&P Global

Industry in Austria is lagging behind

Weak orders led to inventory reductions and production restrictions

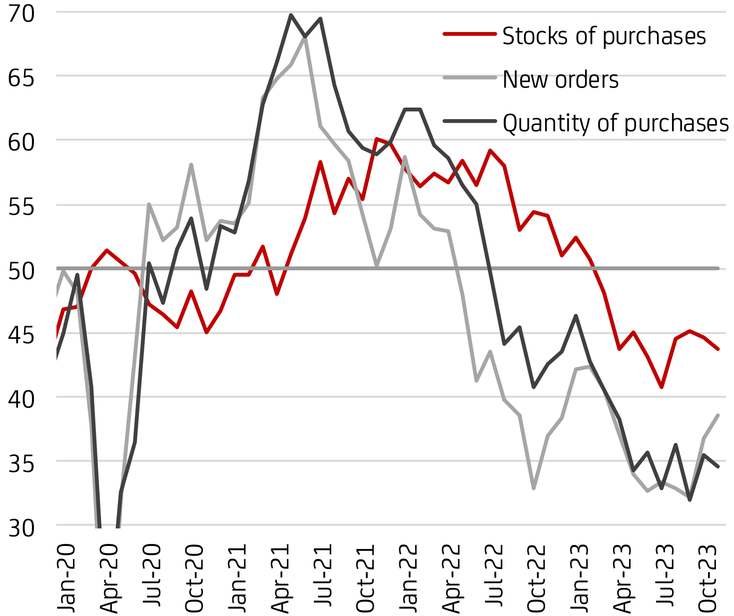
Purchasing Managers´ Index

(Manufacturing)



Source: S&P Global, UniCredit Research

Stocks of purchases, quantity of purchases and new orders in Austria

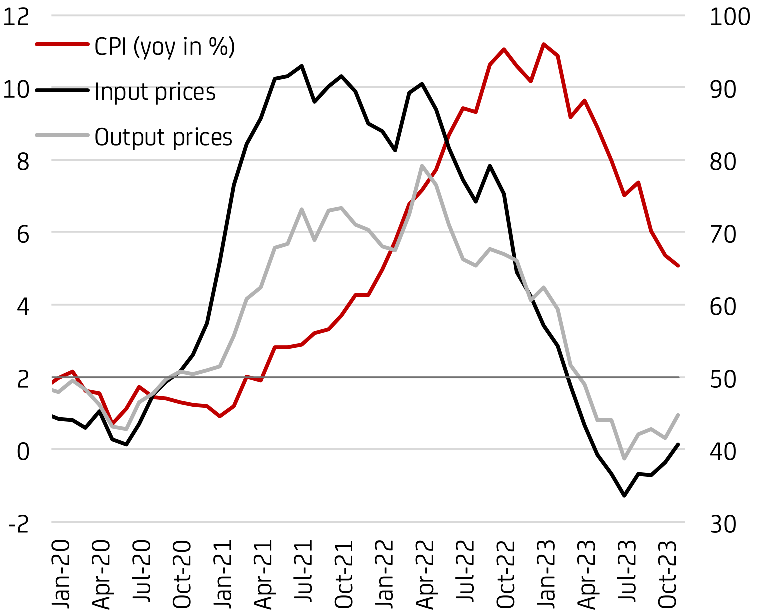


Source: S&P Global, UniCredit Research

The index can vary between 0 and 100, with a value of 50.0 indicating no change from the previous month. Values above 50.0 signal growth, below 50.0 a decline.

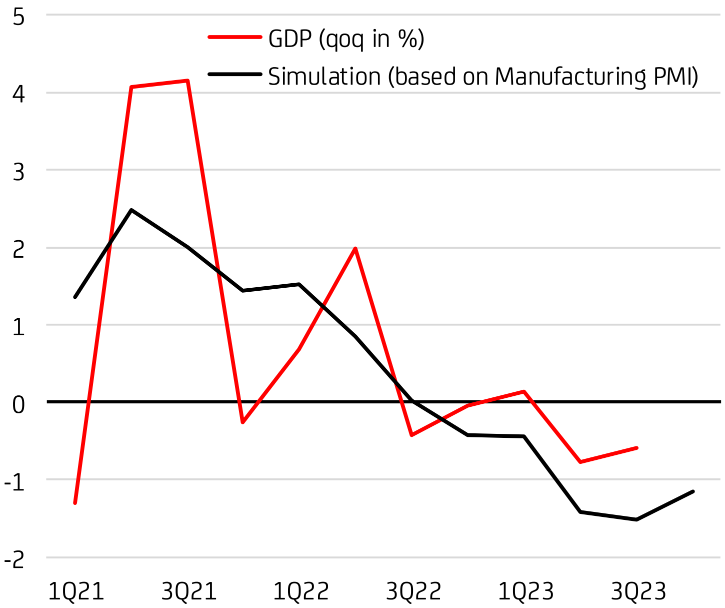
Greater pricing power for producers, but prices fall and dampen inflation
Bottoming out in the industry stabilizes the overal economy

Input-, output- and consumer prices in Austria



Source: S&P Global, Statistik Austria, UniCredit Research

GDP forecast based on UniCredit Bank Austria PMI



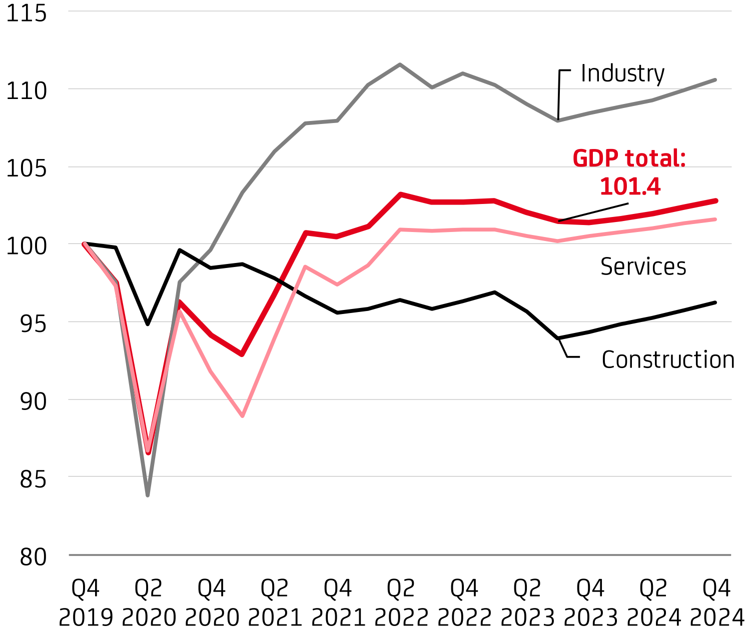
Quelle: S&P Global, Statistik Austria, UniCredit Research

Weak economy since mid-2022, mainly due to industry and construction

First cautious sings of stabilization of the downturn

GDP by sectors

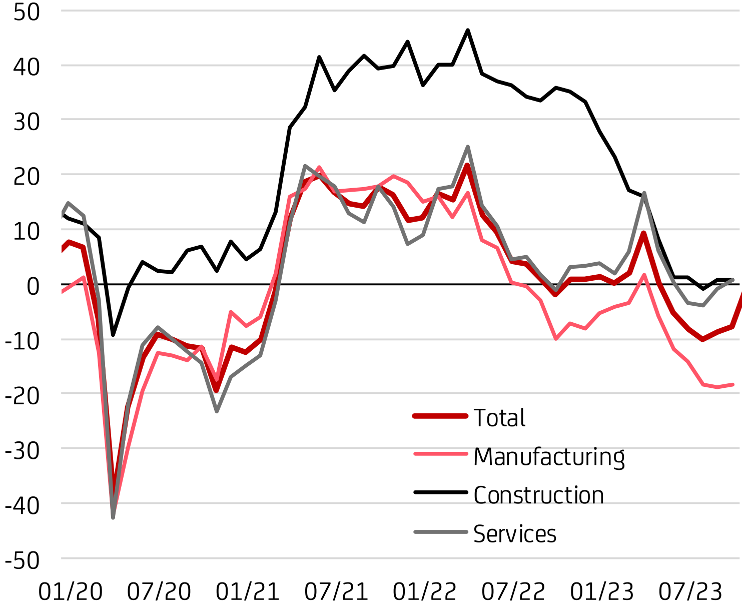
(Q4 2019=100, real)



Source: Statistik Austria, UniCredit Research

Entrepreneurial expectations

(seasonal adjusted)



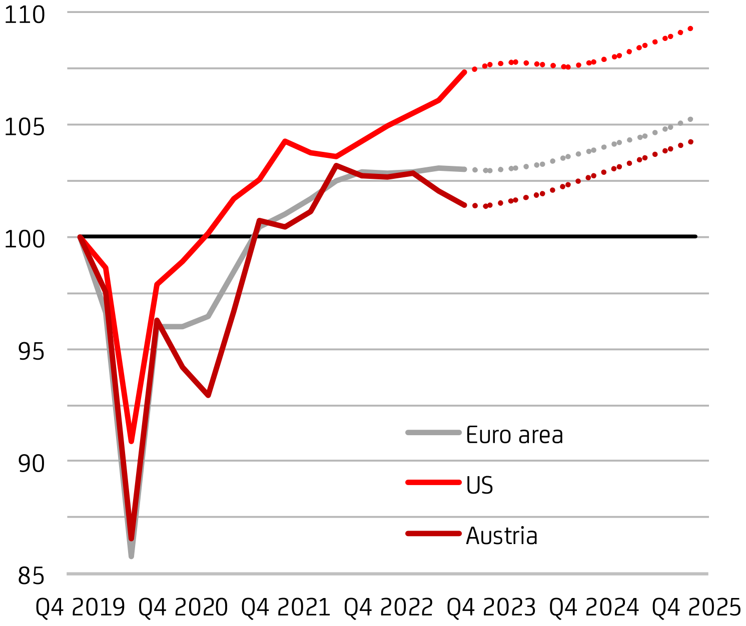
Sourche: WIFO, UniCredit Research

Little global support for Austria

Turnaround in the inventory cycle and consumption will drive moderate recovery

GDP real

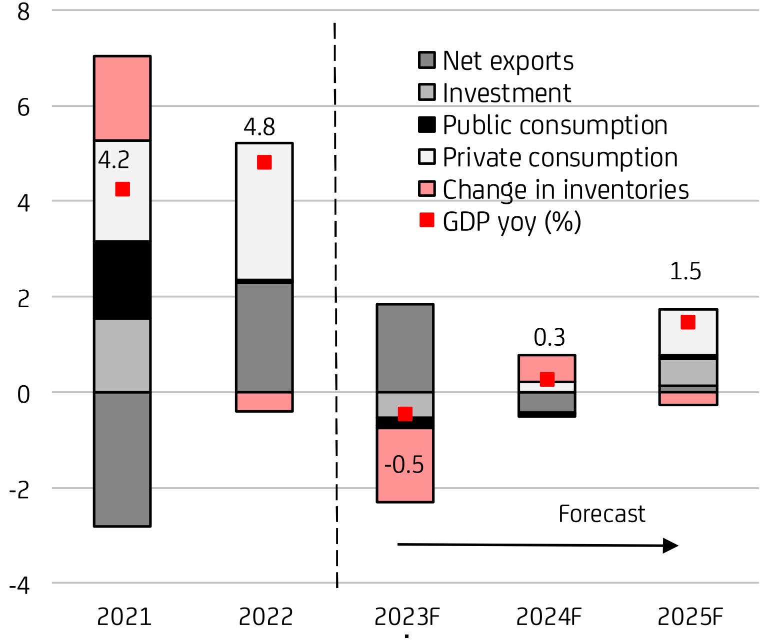
(Q4 2019=100)



Source: Refinitiv Datastream, UniCredit Research

Economic development in Austria

Contribution to GDP change in %-points

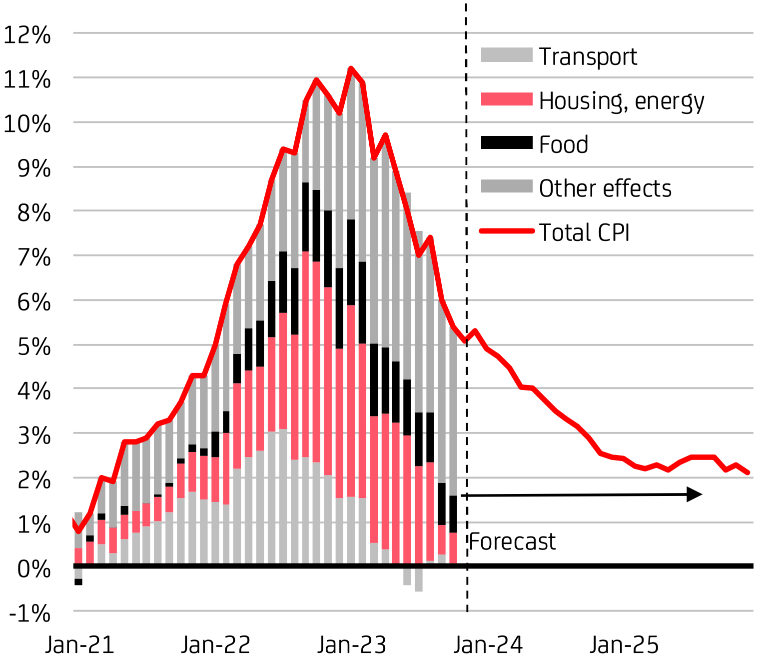


Fall in inflation will continue

Oil price effect has expired, but energy and food prices are dampening

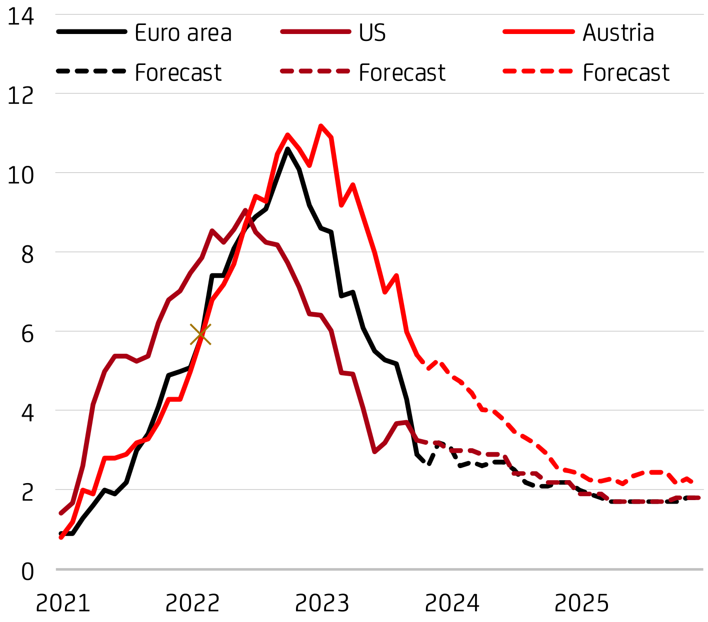
Inflation in Austria

(in %)



Inflation in comparison

(Change against previous year)



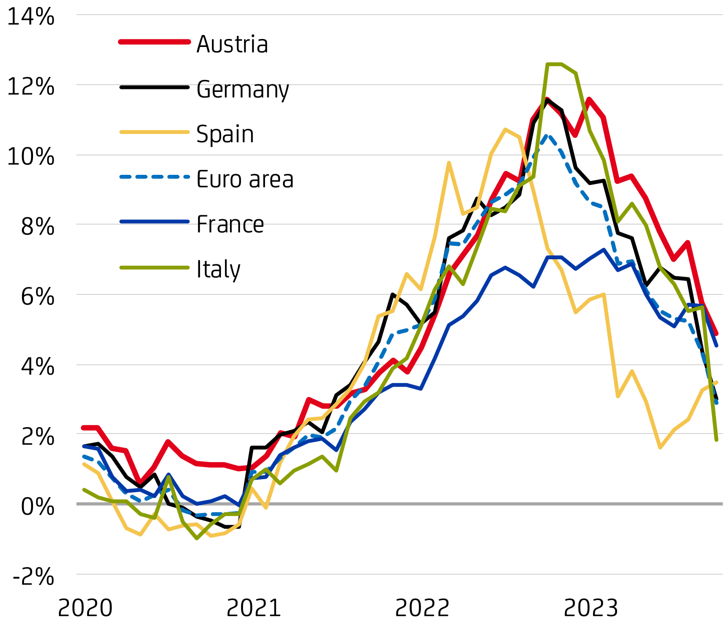
Source: Eurostat, UniCredit Research

Austria recently with above-average inflation

Since the start of the pandemic, price increases have been stronger than the euro area average, almost 3% more than in Germany

Inflation*

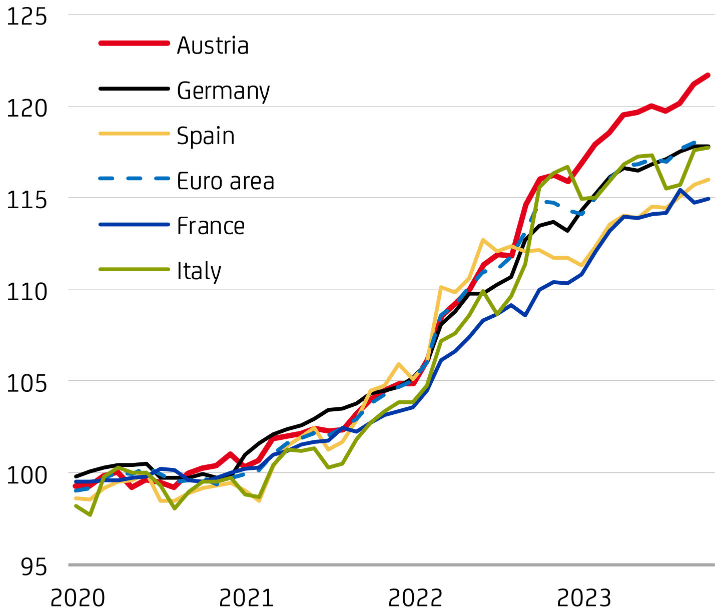
(Change against previous year in %)



Source: Eurostat, UniCredit Research
*HCPI

Price trends*

(December 2019 = 100)



Source: Eurostat, UniCredit Research
*HCPI

Price increases in many areas

Inflation in Austria higher than in Germany, especially for energy, restaurants, but no food

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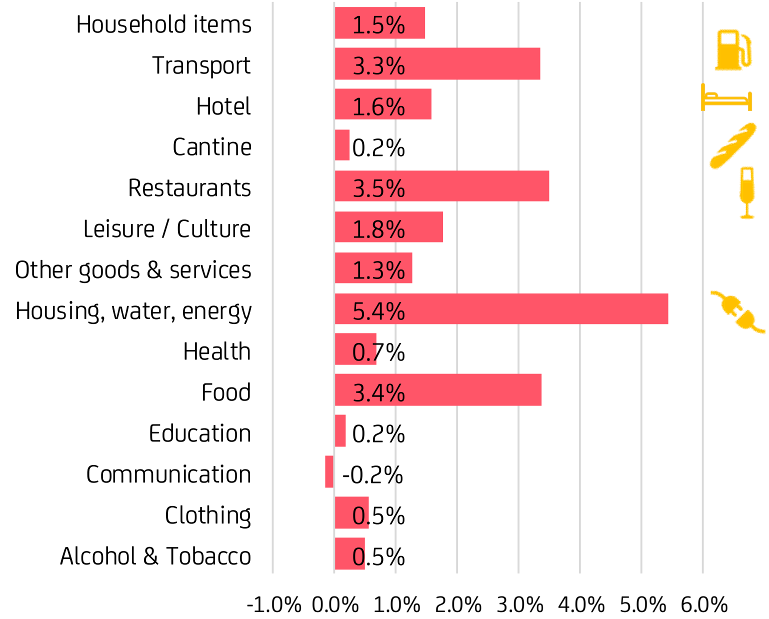
Inflation in Austria since 2019

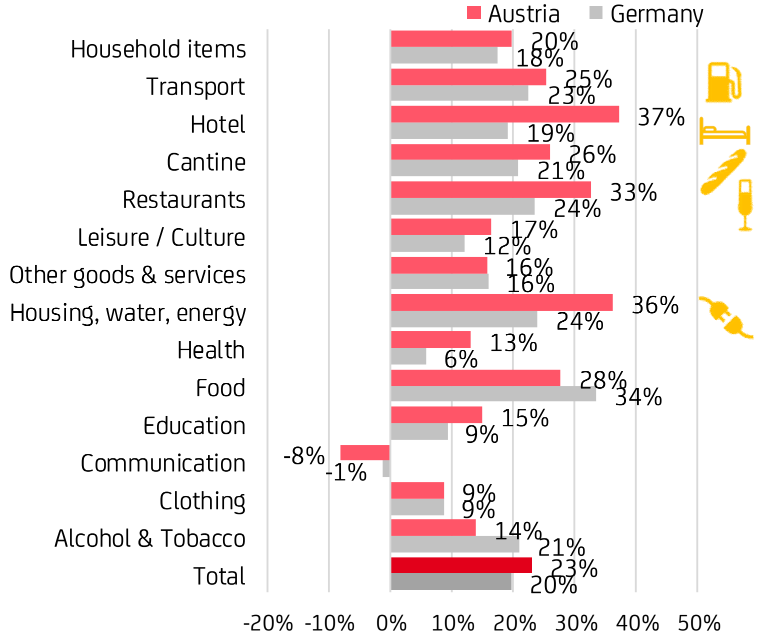
(October 2023, Contribution to price change in percentage points)



Source: Eurostat, UniCredit Research *HVPI

Inflation Germany/AT since 2019

(October 2023, change in prices in %)



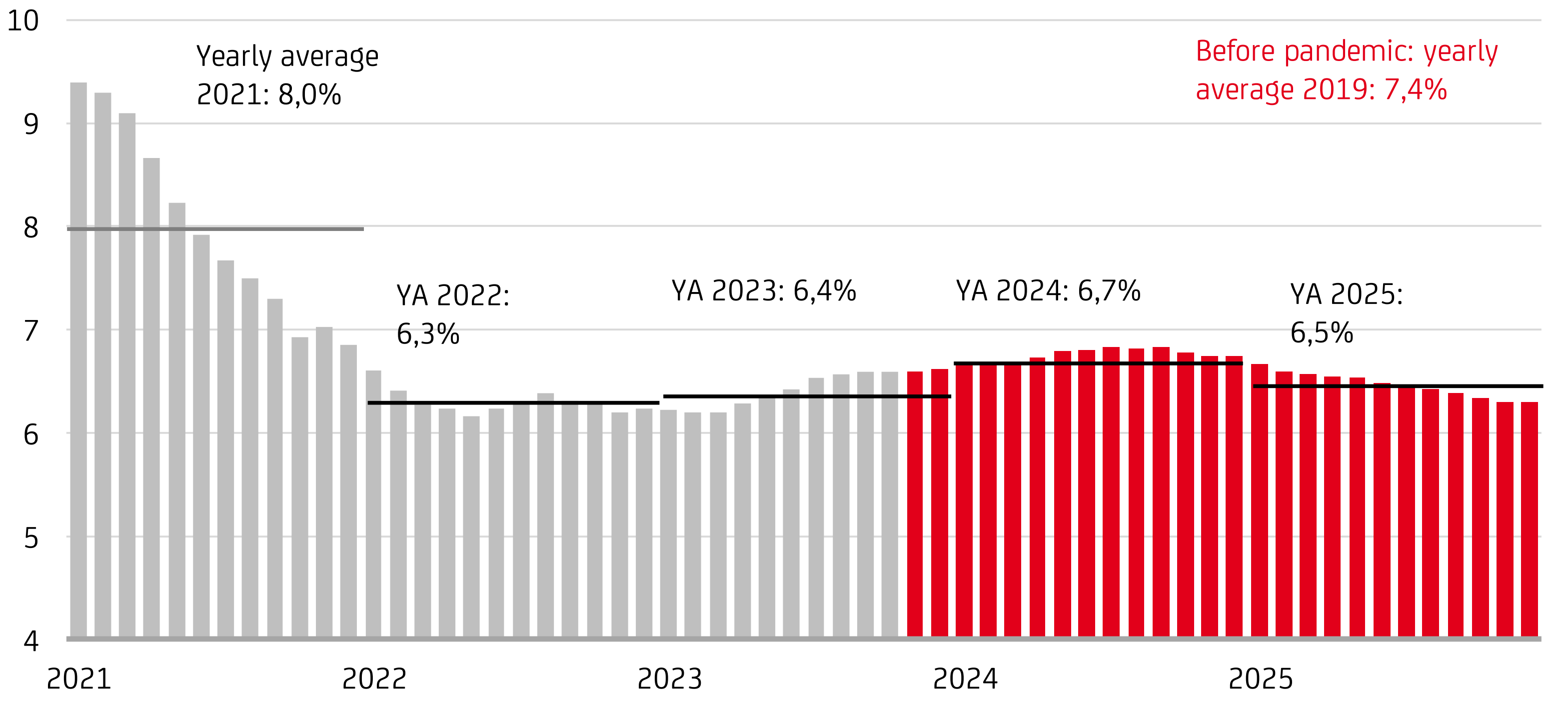
Source: Eurostat, UniCredit Research *HVPI

Despite recession: largely stable labor market

Following an unemployment rate of 6.7% in 2024, higher growth will bring decline again

Labor market in Austria

(Unemployment rate in %, s.a.)



Quelle: Statistik Austria, UniCredit Research

At a glance: Sluggish recovery with falling inflation with a relatively stable labor market and stagnating (new) debt

				forecast	
	2021	**2022**	**2023***	**2024**	**2025**
(Real change in %)					
GDP	**4.2**	**4.8**	**-0.5**	**0.3**	**1.5**
Private consumption	4.2	5.7	-0.1	0.4	1.9
Gross fixed capital formation	6.1	0.1	-2.2	-0.1	2.4
Exports i.w.s.	9.1	11.2	2.0	2.1	2.6
Imports i.w.s.	14.3	7.9	-1.0	3.0	2.6
CPI (change against previous year)	**2.8**	**8.6**	**7.8**	**3.6**	**2.3**
Unemployment rate (national definition)	**8,0**	**6.3**	**6.4**	**6.7**	**6.5**
Current account balance (in % of GDP)	1.6	-0.3	1.7	1.6	2.0
Budget balance (in % of GDP)	**-5.8**	**-3.5**	**-2.8**	**-2.5**	**-2.5**
Public debt (in % of GDP)	82.5	78.4	76.7	76.6	76.3

* estimate

Source: OeNB, Statistik Austria, UniCredit Research

3

Risks

Unusually high risks

- Geopolitics, from Ukraine to China to the Middle East
- Development of energy prices, energy supply
- Consumer behavior after real income shock
- China's recovery?
- Elections 2024, especially the election in the US
- Too restrictive policies, especially monetary policy and its consequences

Strong rise in interest rates globally: US as in 2007, Euro area as in 2011

Real long-term interest rates are backt in positive territory for the first time in years, except Japan

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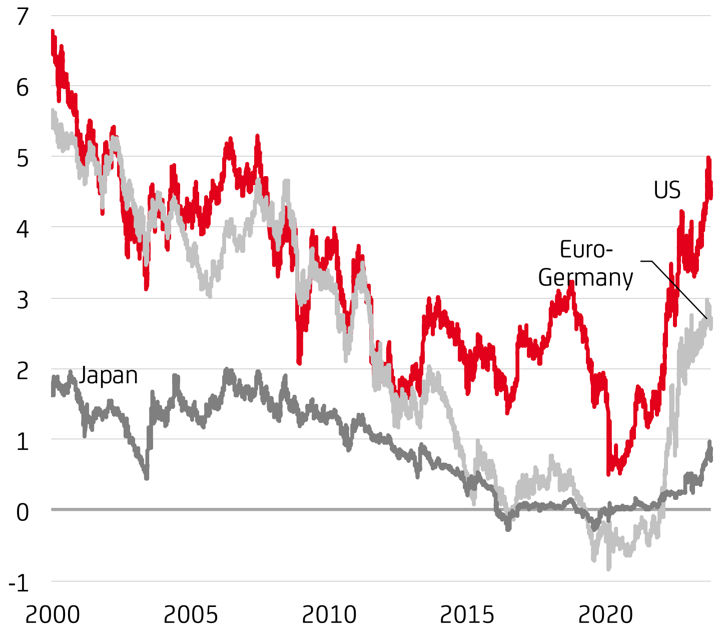
Interest rates (10 years)

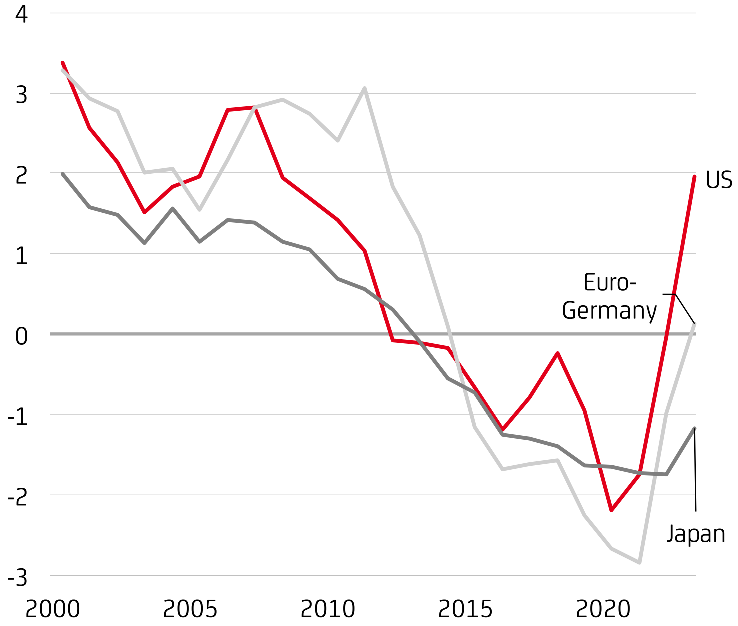
(Government bonds, in %)



Quelle: Refinitiv Datastream, UniCredit Research

Real interest rates (10 years)

(Government bonds, in %)



Quelle: OECD, UniCredit Research

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Summary

Summary

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- The weak economy continued to cool down in autumn 2023
- Signs of bottoming out at the turn of the year 2023/24
- Despite stagnation in the US, the euro area could overcome its stagnation
- Decline in inflation enables real wage increases, which support a recovery primarily through consumption, but the full effect of the tightened monetary policy will dampen the pace of growth in 2024
- Central banks are expected not to tighten monetary policy further because the economy is weak and inflation is falling
- From summer 2024, central banks should begin a cycle of interest rate cuts
- Risks and uncertainties due to geopolitics, households' reaction to real income losses and monetary policy, which is still restrictive for the time being, are extremely high
- → **Cautious optimism for the second half of 2024 and 2025, but recovery will be slow**

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