Austria: Industry Driving Growth
... currently under pressures but well positioned for the future

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The successful restructuring of industry and the opening of new export markets has made industry a mainstay of economic growth in Austria. The sector is now much more competitive, and on this basis it will soon have overcome the current period of weak economic growth.

Austria’s industry has made significant progress over the last twenty years. Since Austria’s accession to the European Union, GDP has grown by an average 2.1% per annum, much faster than the average 1.6% of other euro area countries and faster than the EU average of less than 1.9%. Austria’s disproportionately strong economic growth is attributed to the way in which the country made use of the new conditions following its accession to the EU and the opening of the East. It was in particular Austria’s industry which seized the opportunities offered by the new developments. And contrary to the global trend towards a service-based society, it is primarily manufacturing which has driven growth over the last twenty years. In this period it accounted for over one-quarter of economic growth in average terms, and with a share of just over 20%, for significantly less of the gross value added (see chart 1). While economic growth in Austria before EU membership and during the difficult transition phase experienced by Austria’s neighbouring countries in Eastern Europe was driven mainly by the service sector, the upturn of the industrial sector got under way in the middle of the 1990’s. Austria’s industry has accounted for almost one-half of economic growth from 2006 to the present day. The disproportionately strong performance of the industrial sector is attributed mainly to easier access to new export markets and production locations, and to the growing competitiveness of Austria’s industry in pricing terms. Based on disproportionately high labour costs in an EU comparison resulting from a focus on mid and high tech production segments, unit labour costs (labour costs per unit of output) have fallen by an average 0.1% in manufacturing in the last ten years according to data from the Austrian Institute of Economic Research (WIFO), while productivity rose strongly (source: WIFO, 2012). The trend in unit labour costs in manufacturing in Austria was therefore more favourable than the EU average, which, while rising slightly in the last ten years, was significantly limited by the downturn in economic growth in Germany. Besides Germany, the only other euro area countries to outperform Austria’s industrial competitiveness in terms of pricing were Ireland, the Netherlands and Finland.

The competitiveness of Austria’s industry helped it to put in an impressive performance after the economic crisis ended in 2009, boosting the country’s economic growth. Negative output of over 12% in 2009 was followed by output growth of about 7% in 2010 and 2011, respectively. At the end of 2011, however, the weaker growth of the global economy started to have a palpable impact on Austria’s industry and 2012 saw only very moderate output growth – no more than an average 0.2% in the first seven months of the year.

Orders in short supply

The downturn in industry accelerated a little at the beginning of autumn, and it is likely that output has declined. The Bank Austria Purchasing Managers’ Index, which reflects the results of regular surveys among Austrian purchasing managers of industrial companies, fell to 45.1 points in September, the lowest level since the middle of 2009. The indicator has moved below the 50 point growth threshold since July, reflecting the marked deterioration in orders, especially from other countries.

However, the recent rise in prices supports our view that the slowdown experienced by the industrial sector and the current decline of the Bank Austria Purchasing Managers’ Index are likely to have reached their lowest point. While output will probably remain weak in the next few months, a sharp decline such as that seen in 2008/2009 is not expected.

Some industries are enjoying strong growth

A closer look reveals a very diverse trend within the lacklustre industrial sector. Segments such as vehicle construction, the electrical industry and the steel industry, which are very dependent on exports and prone to economic pressures, recorded average declines in output of 3% to 4% in the first seven months of 2012. Although the economic downturn has affected all areas of the industrial sector, some of the more domestic-oriented segments are actually doing very
well. Manufacturers of metal goods, the chemical and pharmaceutical industries, and the plastic goods and paper industries recorded growth of between 2% and 5% until July, and food manufacturers and manufacturers of beverages and tobacco growth of almost 1%. As a particularly strong export-oriented industry, mechanical engineering has been defying the general trend with output growth of 6% until July 2012, thereby outperforming all other industries.

The outlook is bright

Despite weak economic impetus, Austria’s industry will grow by about 1% in 2012 as a whole. In average terms for 2012 and 2013, we expect the larger industries such as metal-working, mechanical engineering and the chemical industries, to grow more strongly than the industrial average. On the one hand, the business of capital goods companies will pick up quickly as businesses show a greater readiness to make investments. This will brighten the short-term prospects for mechanical engineering companies and some segments of the electrical industry and their suppliers, in particular the steel and metal goods industries. On the other hand, growth will be curbed by the anticipated cuts in public-sector infrastructure investment, an area where the electrical and steel industries will be impacted by the decline in orders. Austria’s steel industry and vehicle manufacturers moreover will likely experience weaker demand from Europe’s automotive sector in the shorter term.

Over the longer term, all capital goods manufacturers and major suppliers in Austria will benefit from their strong competitive position, which in turn is reinforced by the companies’ high innovative performance: mechanical engineering companies are very good at compensating for the disadvantages of a largely small to medium-sized business structure. This is explained by the sector’s high research ratio of 3.4% of turnover, which is above Austria’s industry average of 2.4% of turnover and among the highest in Europe’s mechanical engineering sector overall. The successful performance of Austria’s mechanical engineering industry is reflected in the export trend of Austrian machinery. This suggests that Austrian companies in this sector will probably also in the future succeed, at a European level, in decoupling from the business cycle experienced by the industrial sector.

Based on high value added intensity, dynamic research activity, and innovation capabilities, Austria’s electrical industry has held up to pressure from imports and stagnating demand in core segments, and has grown much faster than the industry average. The automotive industry, comprising mostly small and medium-sized manufacturers of components, is meanwhile a key supplier to Germany’s premium car segment, not least on account of its strong innovative momentum. And with its focus on high-end products, Austria’s metal goods manufacturers such as the steel industry have secured a stable position within Europe’s industrial landscape over the longer term.

As we are on the way to finding a promising solution to the euro crisis, and the economies of major export markets are likely to stabilise in 2013, we believe the outlook for Austria’s industry to be more favourable in 2013 than in the current year. Industrial output is expected to grow by about 3%, making the sector a mainstay of overall economic growth of 1.2%.