



Inflation risk in Austria?

January 2014

ANALYSES

BANK AUSTRIA
ECONOMICS &
MARKET ANALYSIS
AUSTRIA

Overview

- Austria reports 2 percent rate of inflation in December 2013, the highest of all eurozone member states for the first time (eurozone: 1.4 percent)
- Higher inflation than the eurozone partly attributable to reasons of economic activity, but also 0.5 percentage points higher than Germany in 2013
- Higher inflation than Germany cannot be explained by economic differences – inflation in Austria has been roughly one third higher than in Germany since 2007
- Homemade inflation: administered prices such as fees and duties have risen twice as fast in Austria since 2007 compared to Germany, coupled with structural features and to some extent lower competition
- Austrian inflation also expected to be higher than in Germany in 2014: Tax and duty increases in March will lift inflation by roughly one quarter of a percentage point
- Higher inflation could become a boomerang for competitiveness in the long term: unit labour costs are growing faster than in Germany

**Authors: Stefan Bruckbauer
Walter Pudschedl**

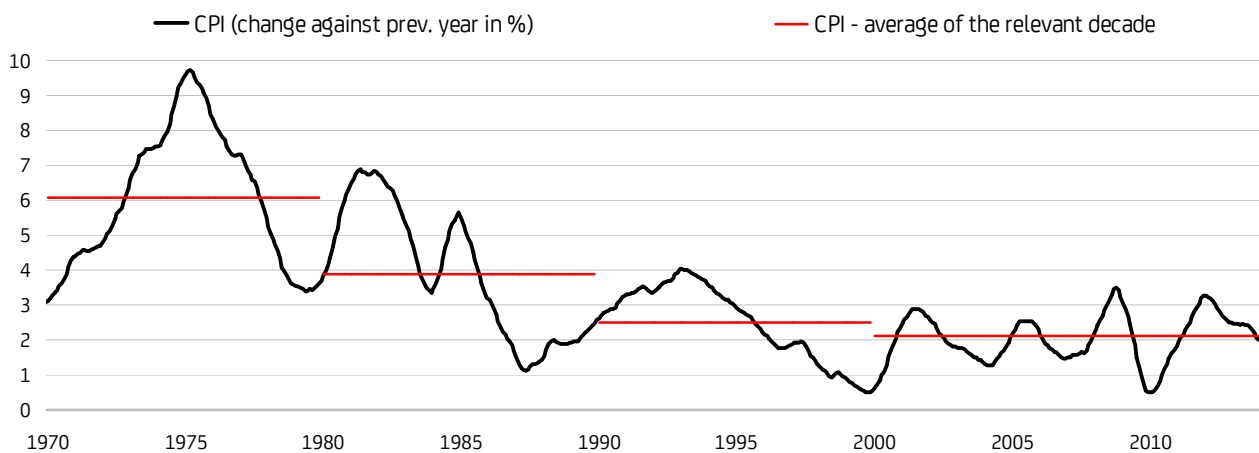
Imprint
Published by UniCredit Bank Austria AG
Economics & Market Analysis Austria
Schottengasse 6-8
1010 Vienna
Telephone +43 (0)50505-41951
Fax +43 (0)50505-41050
E-Mail: econresearch.austria@unicreditgroup.at

January 2014

Homemade factors behind highest inflation rate in eurozone

In December 2013 inflation rose to 2 percent year-on-year based on the harmonised index of consumer prices. This means Austria has the highest inflation of all eurozone member states for the first time since the start of the price index calculation in the middle of the 1990s. Posting an annual average inflation rate of 2.1 percent, 2013 was still one of the most stable years for Austria in terms of prices.

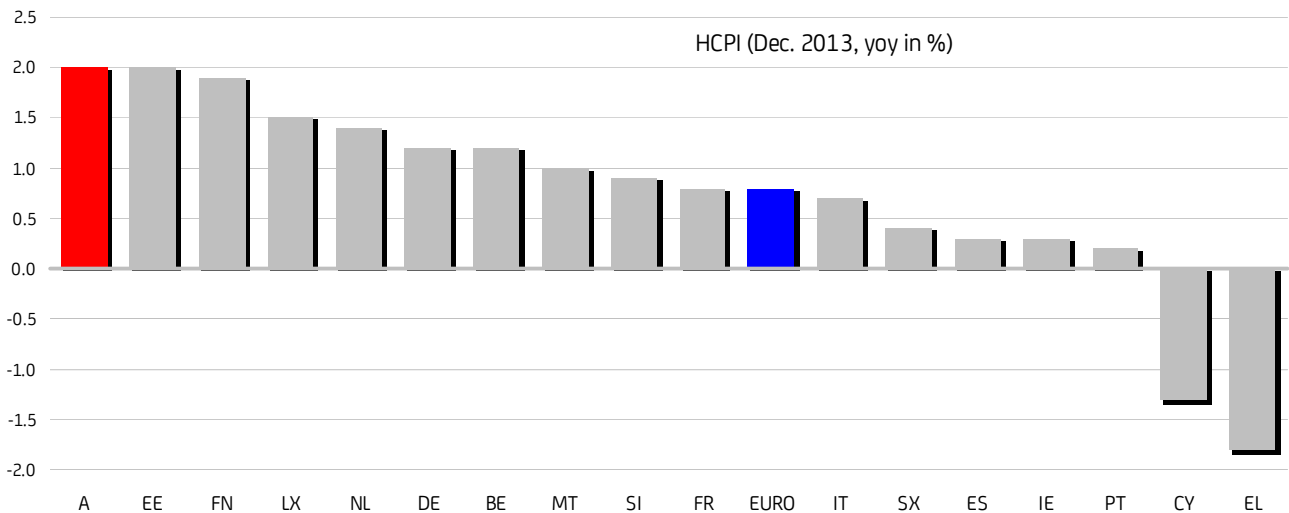
VERY HIGH PRICE STABILITY IN AUSTRIA SINCE THE INTRODUCTION OF THE EURO



Source: Statistik Austria, Bank Austria Economics & Market Analysis Austria

Compared to the average figure recorded for the eurozone in 2013 of 1.4 percent, the higher inflation rate in Austria can only partially be explained by different economic developments. This is because the eurozone inflation rate also comprises price trends in countries such as Greece, Slovenia or Italy, which were still in recession in 2013 and therefore confronted with different demand conditions than Austria. Yet Austria also has a much higher inflation rate in comparison to countries experiencing similar economic developments. Average inflation in Austria in 2013 was 0.5 percentage points higher than in Germany for example. This cannot be attributed to economic differences. What is more, this stronger inflationary pressure in 2013 is not a one-off phenomenon. For some years now, Austrian inflation has been higher than in Germany.

AUSTRIA REPORTS THE HIGHEST INFLATION RATE OF ALL EUROZONE COUNTRIES FOR THE FIRST TIME IN DECEMBER 2013

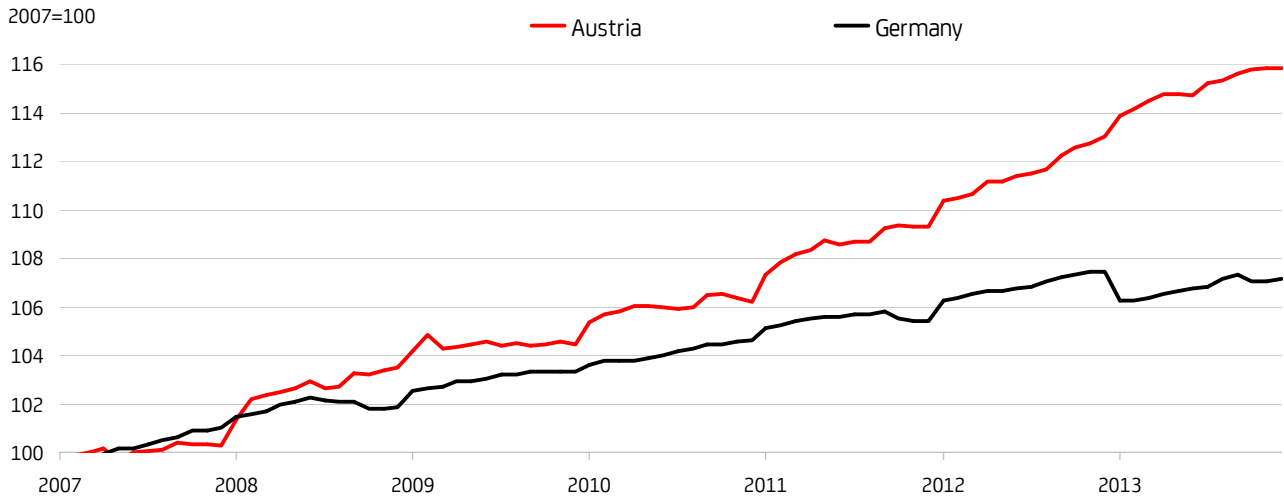


Source: Eurostat, Bank Austria Economics & Market Analysis Austria

Fees and duties have risen twice as fast than in Germany since 2007

A significant part of the higher inflation in Austria compared to Germany can be attributed to the faster increase in “administered” prices”. The prices for goods and services that are influenced either completely or to a significant extent by the public sector have risen by 15.8 percent in Austria over the last six years, including more than 3 percent in 2013. In Germany, by contrast, the increase in administered prices over the same period was just 7 percent, not even half as high. The harmonised index of consumer prices at constant tax rates has risen by 15.2 percent in Austria since 2007, which is thus lower than the overall index (15.8 percent) and shows that part of the inflation is caused by tax hikes. The increase in administered prices, such as various duties and fees, as well as tax hikes have generated upwards pressure on prices in the last six years. Structural features in Austria, such as demographic trends as well as lower competition in some sectors, have spread this pressure across all economic sectors. The comparatively high inflation in Austria is therefore not imported, but a homemade issue.

INCREASE OF ADMINISTERED PRICES IN AUSTRIA TWICE AS HIGH AS IN GERMANY SINCE 2007

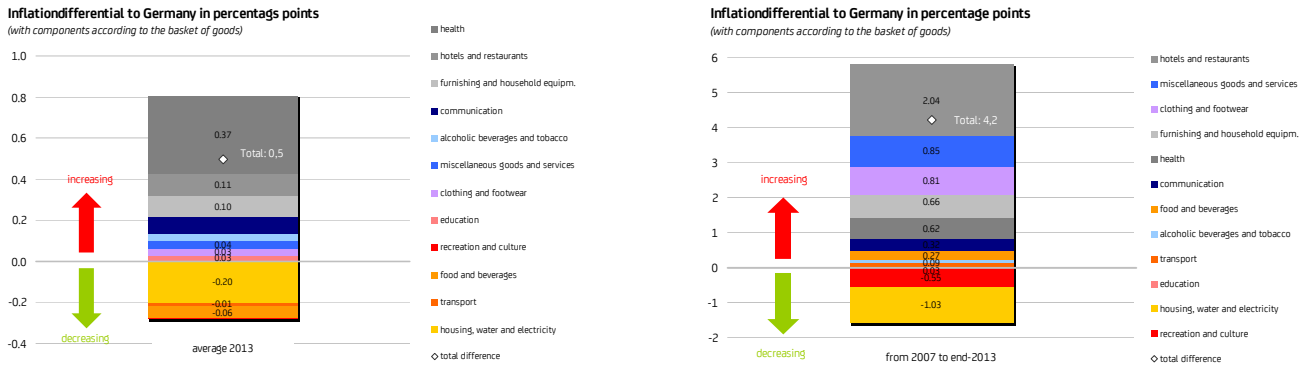


Source: Eurostat, Bank Austria Economics & Market Analysis Austria

Prices of food, living and fuel were not inflation-drivers in 2013

Taking a look at the price trends of individual product categories shows that in comparison to Germany it is not the much-discussed prices of foods, nor overall living costs or fuel costs that are responsible for the higher inflation. While food prices rose by 3.8 percent in Austria in 2013, they jumped by 4.2 percent in Germany. Living became tangibly more expensive in Austria in 2013. Prices for living, water and household energy rose at an above-average rate of 2.7 percent, but in Germany this growth still amounted to 2.5 percent. In this context, the strong increase in rentals in Austria was offset by the below-average price pressure caused by household energy. In terms of fuel prices, the falling global market prices in 2013 even had a restraining impact on inflation, resulting in a decline of 3.7 percent yoy in Austria, beating the figure for Germany (-3.5 percent).

HIGHER INFLATION THAN IN GERMANY ON A BROAD BASE

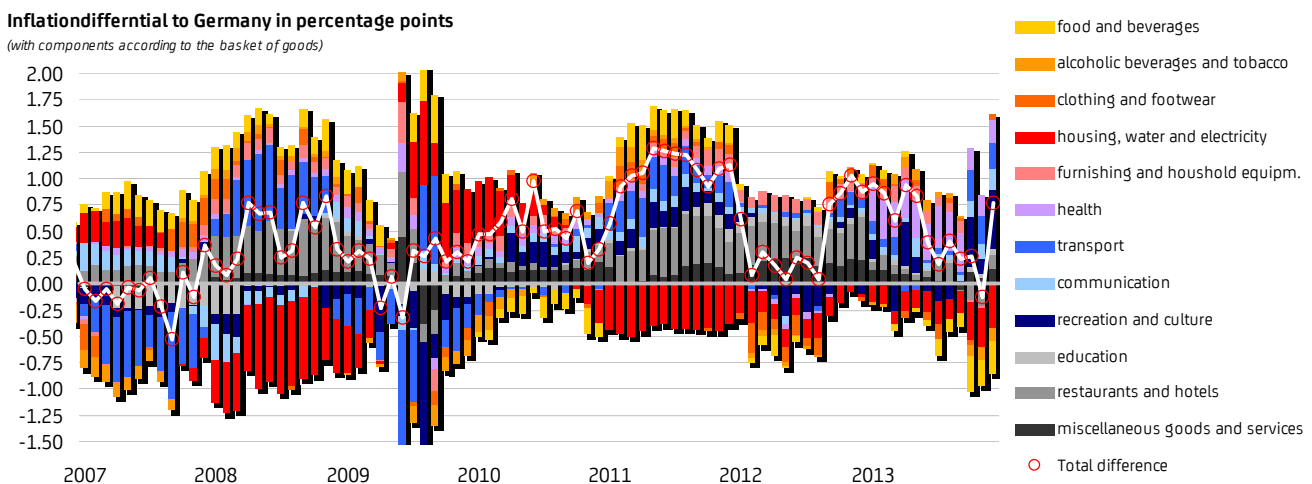


Source: Eurostat, Bank Austria Economics & Market Analysis Austria

Price growth in Austria roughly one-third higher than in Germany since 2007

Prices in Austria rose by a total of 15.8 percent from 2007 to 2013. In Germany this increase over the same period totalled just 11.6 percent. Price growth in Austria was thus roughly one-third higher than in Germany. The difference of 4.2 percentage points over six years can be attributed to faster price growth on a broad scale. A significant part of this inflation increase is due to the robust growth in the goods categories of Hotels and Restaurants (accounting for 4.2 percentage points of inflation differential: 48 percent), Clothing and Shoes (19 percent), Household Goods and Household Maintenance (roughly 16 percent) as well as Health-Care (15 percent).

STEADILY HIGHER INFLATION THAN IN GERMANY SINCE 2007



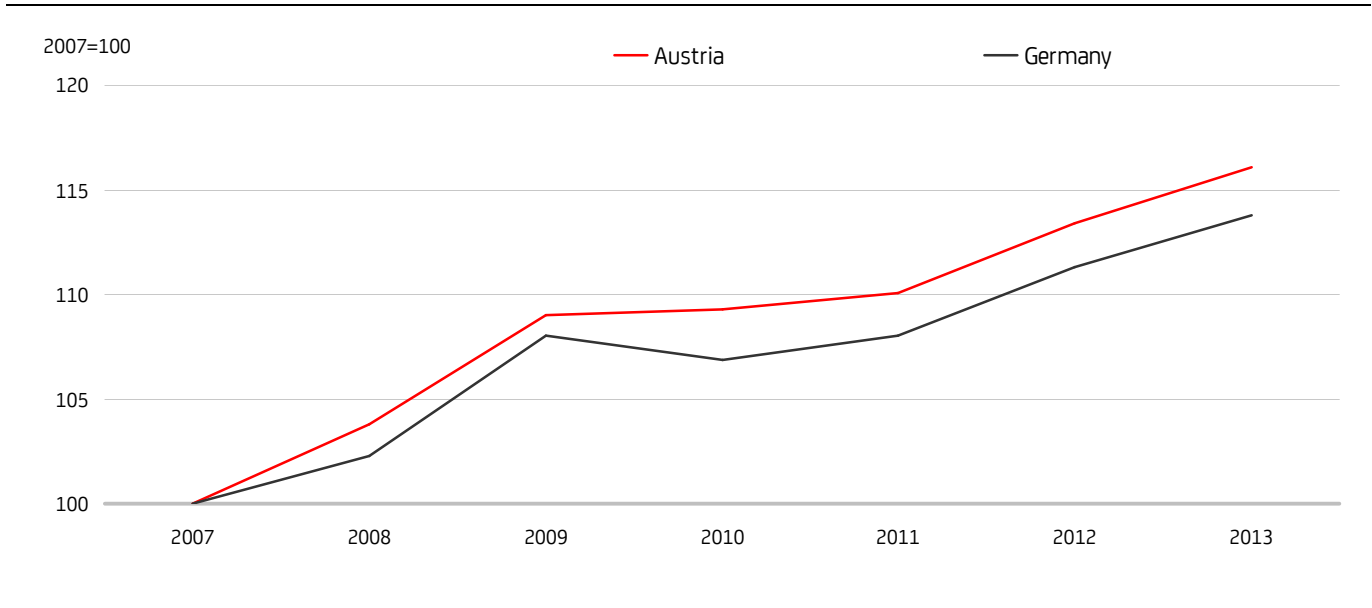
Source: Eurostat, Bank Austria Economics & Market Analysis Austria

Austrian inflation to remain noticeably higher than in Germany in 2014

Although Austria is still expecting low inflation in the coming months, an average figure below the 2-percent mark is still possible for 2014. We assume that inflation in Austria will be noticeably higher than in Germany in 2014. The recently announced increase in taxes and duties that will take effect from March could boost the inflation increase even further, which is currently estimated at 0.3 percentage points. These measures will push price inflation up in 2014 by roughly another quarter of a percentage point.

Inflation being higher than in Germany for several years could prove to be a boomerang for competitiveness in the Austrian economy in the long run. Nominal unit labour costs have risen by approximately 16 percent in Austria since 2007, while growth of only 13.8 percent was calculated for Germany. The consistently stronger increase in prices compared to Germany harbours the risk that Austria could lose competitiveness because of the higher inflationary pressure on producer prices and wage growth, and therefore also lose ground as a key supplier for the German economy.

FASTER INCREASE OF UNIT LABOUR COSTS IN AUSTRIA THAN IN GERMANY FOR YEARS



Source: Eurostat, Bank Austria Economics & Market Analysis Austria

We invite you to visit the economic analyses on Bank Austria's website: www.bankaustria.at under "Markets & Research" in the section "Economic Research Austria" or directly at <http://www.bankaustria.at/en/about-us-publications-economic-research-austria.jsp>

If you would like to receive information on our most recent publications by e-mail, please subscribe to the newsletter Bank Austria EconomicNews on the website.

If you have further questions, please send us an e-mail to econresearch.austria@unicreditgroup.at

Disclaimer of liability:

This publication is neither a marketing communication nor a financial analysis. It contains information on general economic data. Despite careful research and the use of reliable sources, we cannot assume any responsibility for the completeness, correctness, up-to-dateness and accuracy of information contained in this publication.

The opinions of the authors do not necessarily reflect those of Bank Austria and those of the companies which have engaged the services of the authors. The information contained in this publication is not to be interpreted as an offer or invitation for the sale or purchase of securities of any kind. We reserve the right to modify the views expressed in this publication at any time without prior notification. This information should not be interpreted as a recommendation to buy or sell financial instruments, or as a solicitation of an offer to buy or sell financial instruments. This publication serves information purposes only and does not replace specific advice taking into account the investor's individual personal circumstances (e.g. risk tolerance, knowledge and experience, investment objectives and financial circumstances). Past performance is not a guide to future performance

The information in this publication contains assessments of short-term market developments. We have obtained value data and other information from sources which we deem reliable. Our information and assessments may change without notice."

Imprint.

Disclosure according to Sections 24 and 25 of the Austrian Media Act (Mediengesetz - MedienG):

Published by:

UniCredit Bank Austria AG
1010 Vienna, Schottengasse 6 – 8,
which is also the media owner.

Business objective: credit institution pursuant to Section 1 (1) of the Austrian Banking Act (Bankwesengesetz)

Persons authorised to act on behalf of the media owner (Management Board):

Willibald Cernko (Chairman of the Management Board), Gianni Franco Papa (Deputy Chairman of the Management Board), Helmut Bernkopf, Francesco Giordano, Dieter Hengl, Jürgen Kullnigg, Doris Tomanek, Robert Zadrazil.

Supervisory Board of the media owner:

Erich Hampel (Vorsitzender des Aufsichtsrates), Paolo Fiorentino (stellvertretender Vorsitzender des Aufsichtsrates), Alessandro Decio, Wolfgang Heinzl, Olivier Nessime Khayat, Johannes Koller, Adolf Lehner, Alfredo Meocci, Roberto Nicastro, Vittorio Ogliengo, Emmerich Perl, Franz Rauch, Karl Samstag, Wolfgang Sprißler, Ernst Theimer, Robert Traunwieser, Barbara Wiedernig.

Interests held in the media owner pursuant to Section 25 of the Austrian Media Act:

UniCredit S.p.A. holds 99.995% of the shares in the media owner (key details of the shareholder structure of UniCredit S.p.A. are available at <https://www.unicreditgroup.eu/en/governance/shareholder-structure.html>).

"Betriebsratsfonds des Betriebsrats der Angestellten der UniCredit Bank Austria AG, Region Wien" (the Employees' Council Fund of the Employees' Council of employees of UniCredit Bank Austria AG in the Vienna area) and "Privatstiftung zur Verwaltung von Anteilsrechten" (a private foundation under Austrian law; founder: Anteilsverwaltung-Zentralsparkasse; beneficiary: WWTF – Wiener Wissenschafts-, Forschungs- und Technologiefonds) have a combined interest of 0.005% in the media owner.