

Economic Outlook 2021/22

After a harsh winter, spring is sure to come

Press conference

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Banking that matters.

 **Bank Austria**

Member of  **UniCredit**

Agenda

- 1 Global economy under the sign of the pandemic**
- 2 After the lockdown is before the lockdown - but spring is definitely coming
- 3 The risks

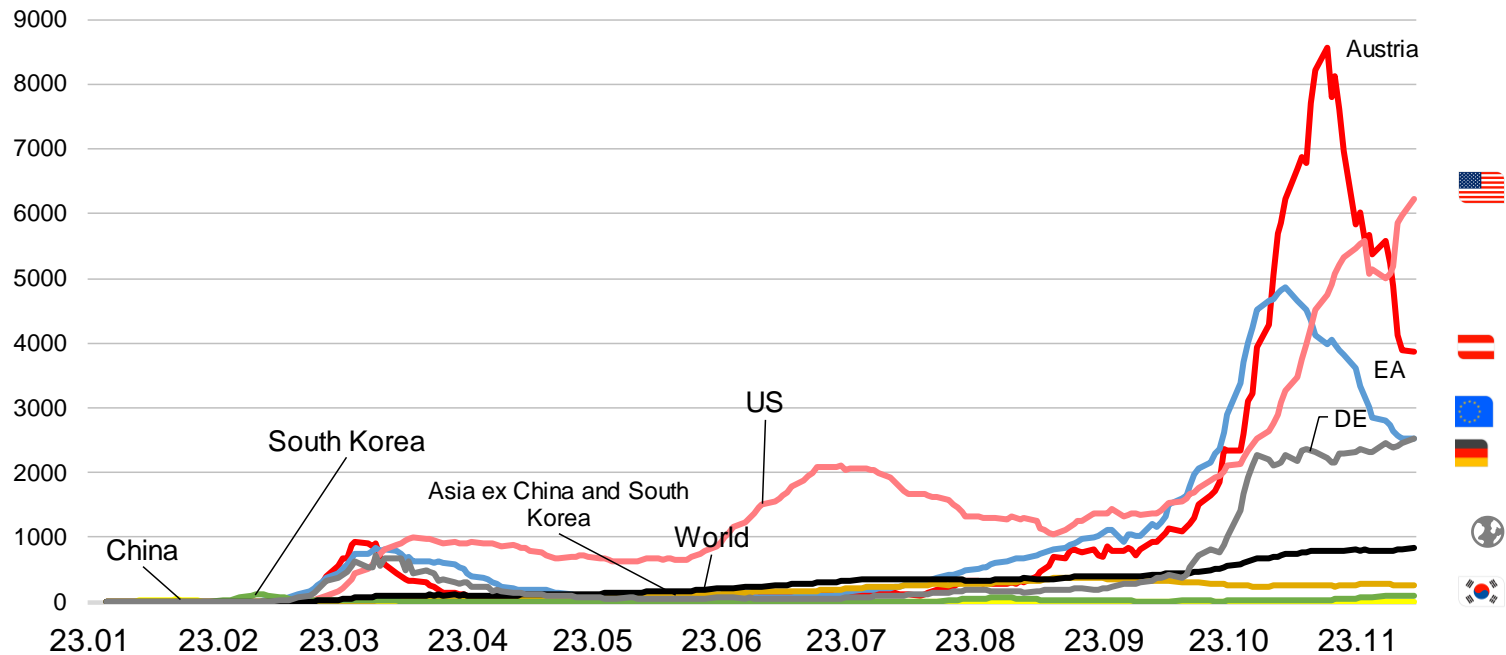


Clearly discernible 2nd wave in Europe, especially Austria, but also in the USA

Asia much less strong - decline since lockdown in Austria, stable in Germany

Daily new Covid-19 cases per 10 mio population

(Average last five days)



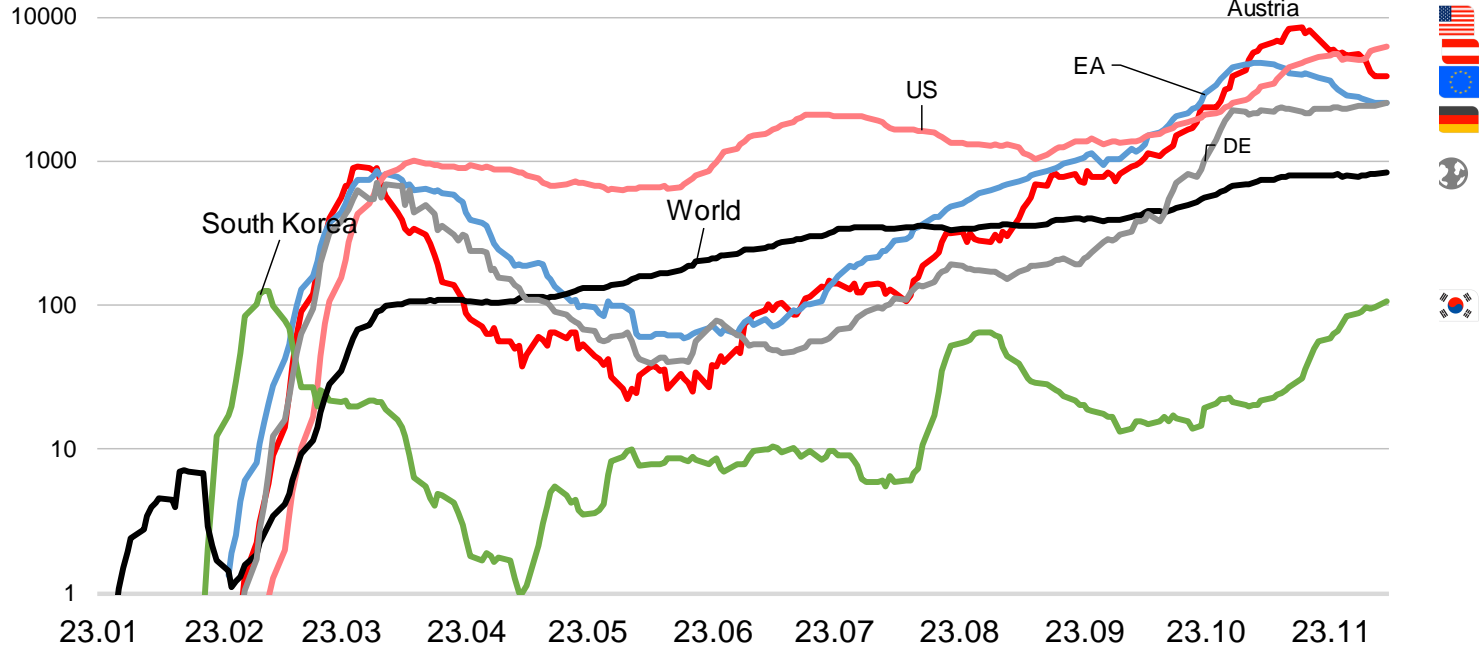
S: WHO, Refinitiv Datastream, UniCredit Research *) Especially most recent data are only preliminary data, numbers depend also on the number of tests



Exponential increase since mid-June in Austria

South Korea can break the trend again and again

Daily new Covid-19 cases per 10 mio population
(Average last five days)



S: WHO, Refinitiv Datastream, UniCredit Research *) Especially most recent data are only preliminary data, numbers depend also on the number of tests

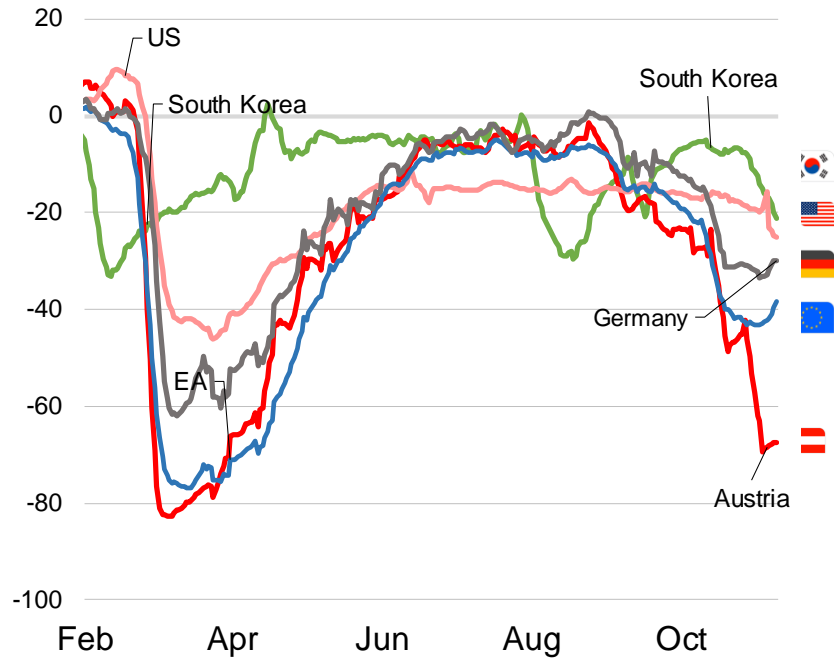


Activities significantly decreased again due to the 2nd wave

One week after the reduction of activities, the reduction of new cases followed

Recreational and retail activities compared to January* (7 days moving average)

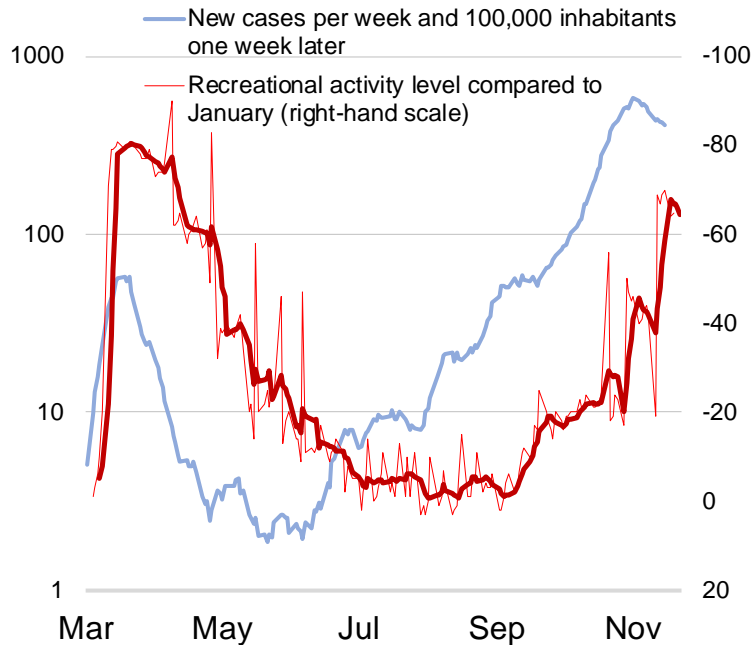
(7 days moving average)



S:Google, UniCredit Research

New cases of COVID-19 and recreational activities in Austria

(per week and 100,000 inhabitants or in comparison to January)



S: Official data collected from "Our World in Data", Google Mobility Data
UniCredit Research

* Source: Google maps: <https://www.google.com/covid19/mobility/> - Reference period is from 3 January to 6 February

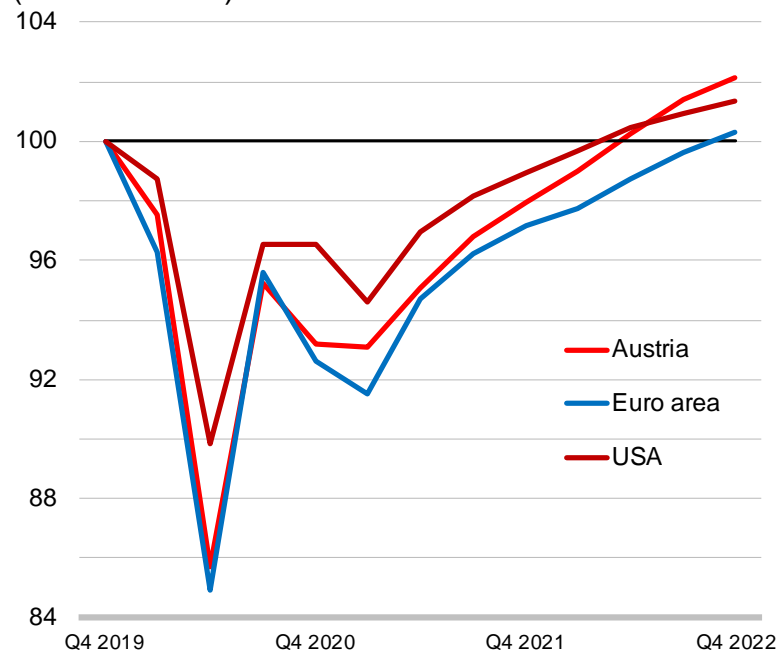


Falling activity level indicates renewed recession in Q4

Our expectation: measures will not be eased until the end of Q1 2021

GDP real

(Q4 2019=100)



Source: Revinitiv Datastream, UniCredit Research

- In large parts of Europe (including Austria), the lockdown (with a few loosening in between) will remain more or less until the end of the winter.
- This lockdown will push the economy less strongly into the red because many areas remain open (especially manufacturing).
- Warmer weather and especially the start of the rollout of a vaccination will lift sentiment and activity levels starting in spring, but especially in the second half of 2021.



Major economic effects of the pandemic

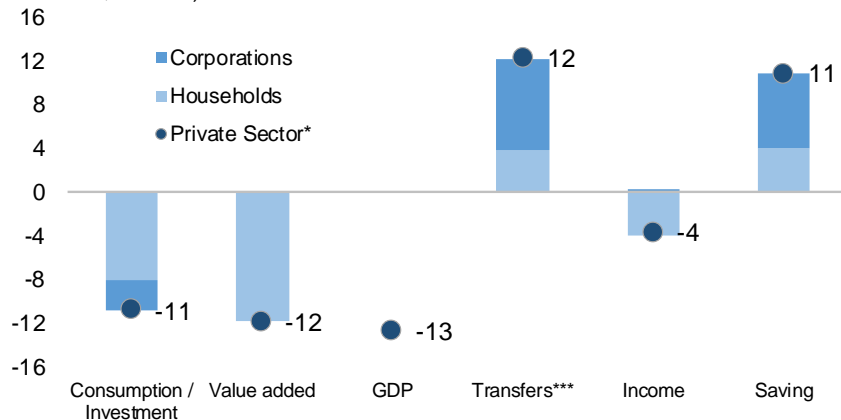
Further development of the pandemic decisive, less the length of lockdowns

- Consumption and investments collapse (largely caused by lockdown)
- Turnover decreases and thus the value added (GDP)
- Income falls less sharply, since supported by the state

- Savings ratio rises sharply, as income falls less than consumption
- Despite declining investments and state subsidies, corporate debt is increasing
- Public debt increases

GDP in Q2 2020 in comparison to previous year

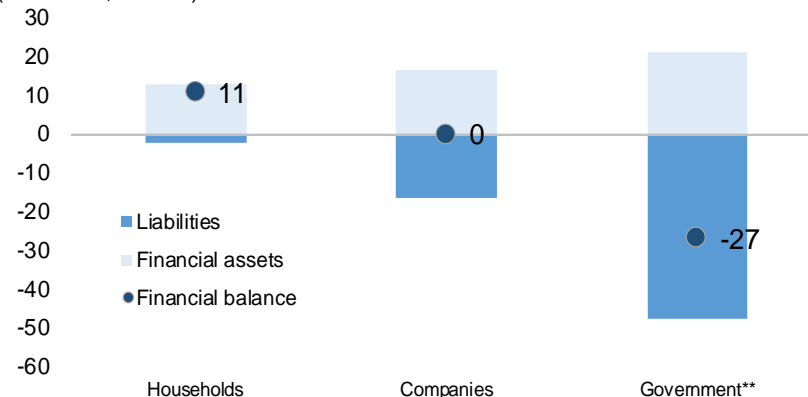
(in EUR bn, Austria)



Source: Revintiv Datastream, UniCredit Research *excl. financial sector ** Household disposable income, net operating surplus
*** Subsidies, transfers to households, less taxes and duties

Change to H1 2020 in comparison to end-2019

(in EUR bn, Austria)



Source: Revintiv Datastream, UniCredit Research * Monetary capital formation minus the assumption of liabilities
** Government sector assets / liabilities



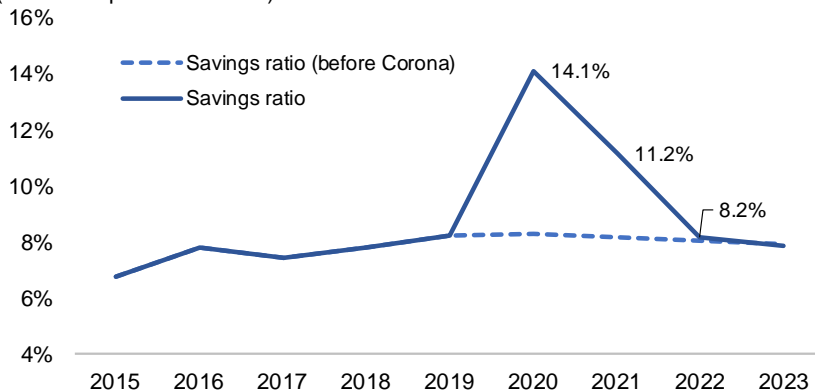
Key aspects of the "post-pandemic" period

Determining the long-term consequences

- Of course the development of the virus or the success in fighting it
- What happens to the increased savings, what happens to the savings ratio - return to "old" level only in 2023
- How much will the companies want to reduce their debts, i.e. the consequences for investments - Expectation of a slow convergence, in total "missing" 16 percent of investments due to the pandemic
- How soon will the state start saving?
- Long-term damage, depending on short-term success

Savings ratio of private households in Austria

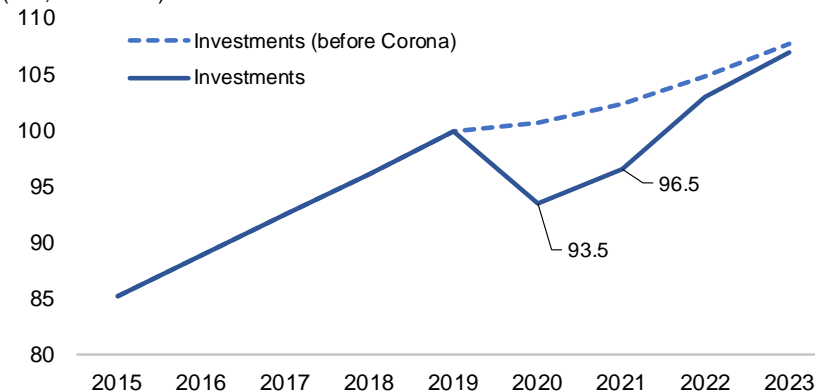
(in % of disposable income)



Source: Revintiv Datastream, UniCredit Research

Investments in Austria

(real, 2019=100)



Source: Revintiv Datastream, UniCredit Research

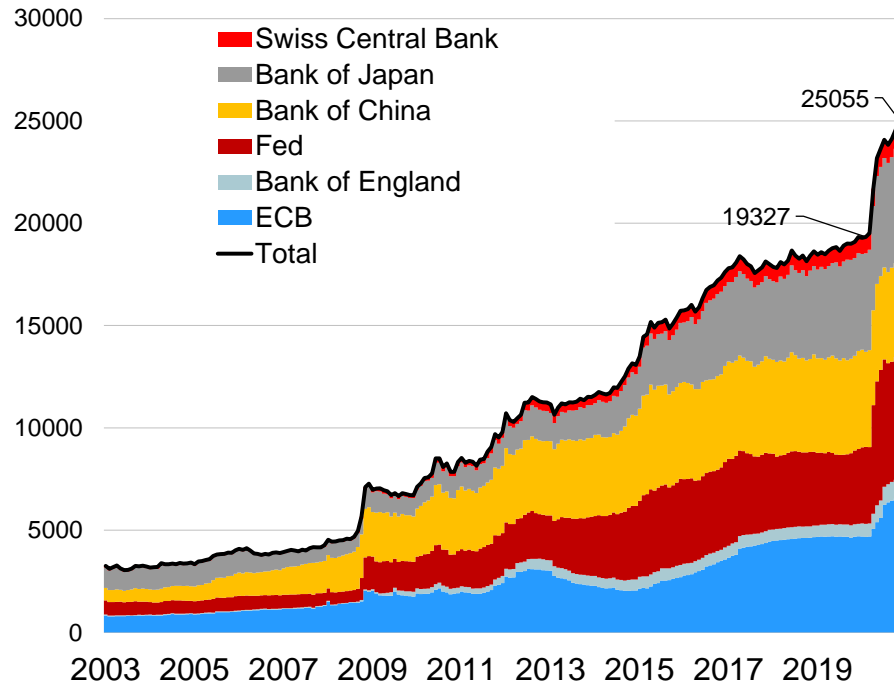


Consumption and investments collapse (largely caused by lockdown)

Monetary policy - continuation of low interest rate policy, ECB will expand PEPP even further

Assets of the 6 largest central banks in the world

(bn euros)



- ECB will continue its current policy in 2021
 - In December, announcement of an increase in the PEPP by around EUR 500 billion
 - Expansion of the TLTRO III program
 - No interest increase/cut until the end of 2022
 - No abrupt end to the purchase program even after PEPP expires (when 2019 GDP level is reached, mid 2022)
- Fed with purchase program also 2021
 - Fed continues to buy net bonds in 2021
 - End only when inflation exceeds 2 percent and employment reaches the level of 2019
- Euro remains strong, rising above 1.30 against the USD

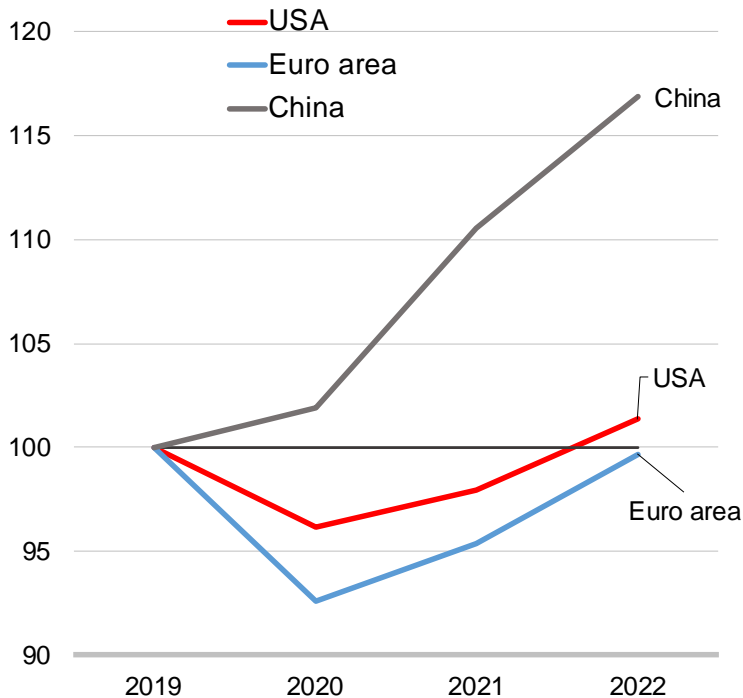


Two decisive trends in the coming quarters

Asia will grow more, goods have an advantage over services

GDP development

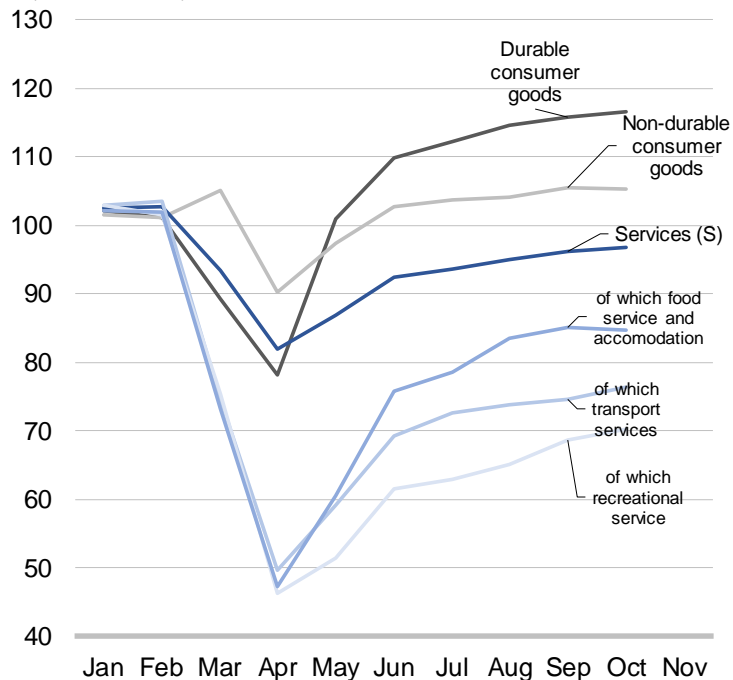
(2019=100)



Source: UniCredit Research

Development of private consumption expenditure in the USA

(2020, 2019=100)



Source: BEA, Refinitiv Datastream, UniCredit Research

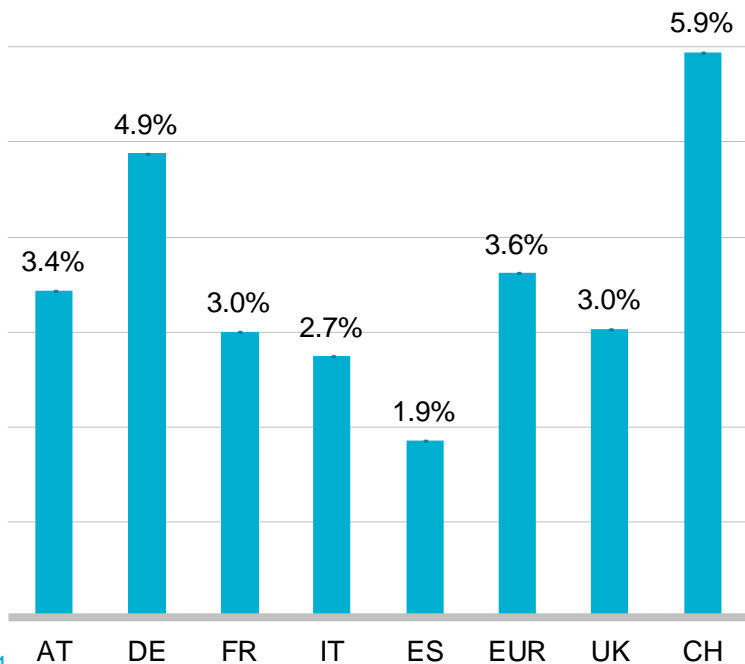


Austria benefits on average from strong demand from Asia

Austria more negatively affected due to high share of tourism

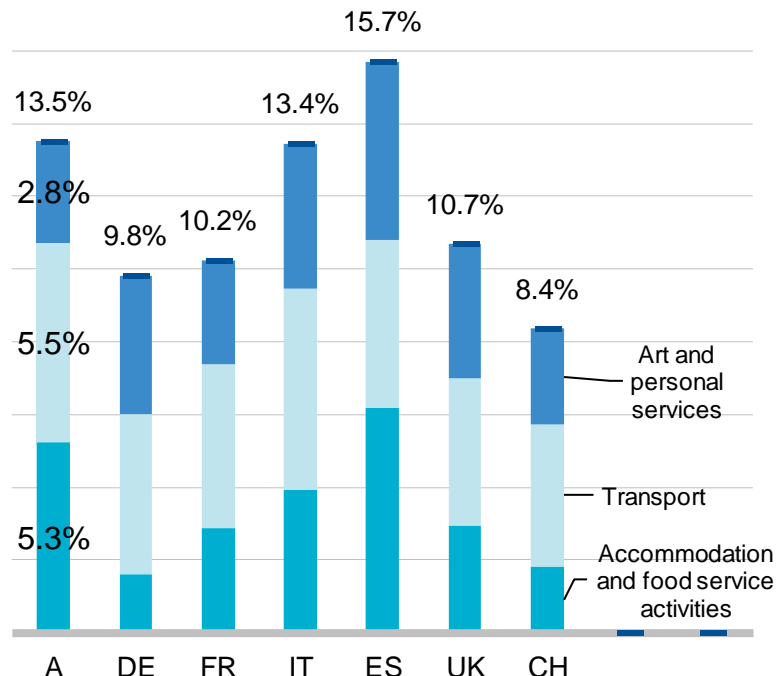
Final demand from East and South East Asia

(share in GDP)



Share of particularly affected industries

(share in GVA in 2019)

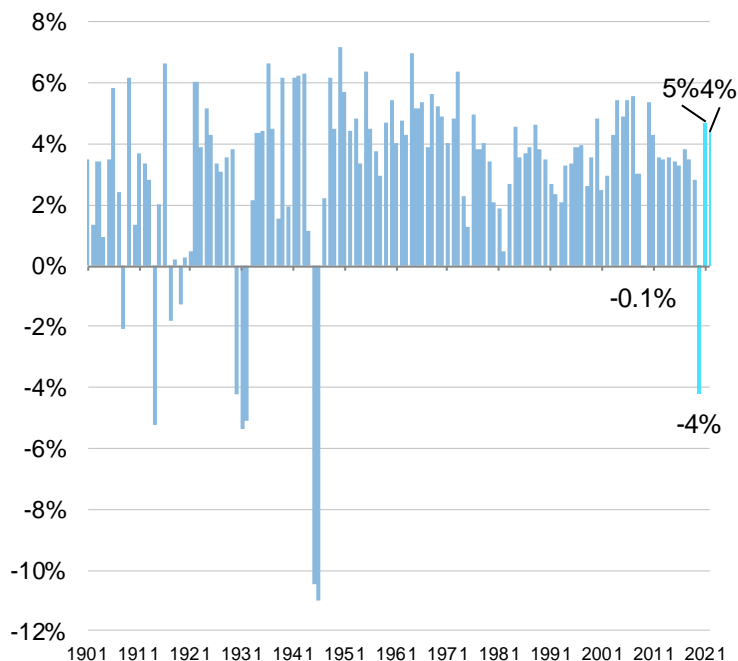


Our expectations for 2021 and 2022

2021 and 2022 growth above long-term trend expected

World economic growth

(change yoy in %, real)



Economic growth (real)

Forecast

	2008	2009	2020	2021	2022
USA	-0.1	-2.5	-3.8	1.8	3.5
Euror area	0.4	-4.4	-7.4	3.0	4.5
Germany	0.8	-5.1	-5.2	3.3	4.2
Austria	1.5	-3.8	-7.5	3.1	5.2
CEE (EU)	4.6	-5.9	-6.3	6.0	5.6
China	10.2	11.4	1.9	8.5	5.7
World economy	3.0	-0.1	-4.2	4.7	4.4
3-month Euro interest rates eoy in %	3.3	0.7	-0.5	-0.5	-0.5
10-year interest rates Austria eoy in %	3.7	3.6	-0.4	-0.2	0.0
Budget balance Euro area in % of GDP	-2.2	-6.2	-9.3	-6.1	-3.1

Source: UniCredit Research, Refinitiv Datastream



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Industry continues to recover from the initial lockdown

UniCredit Bank Austria Purchasing Managers' Index at 51.7 points in November

New orders

Output

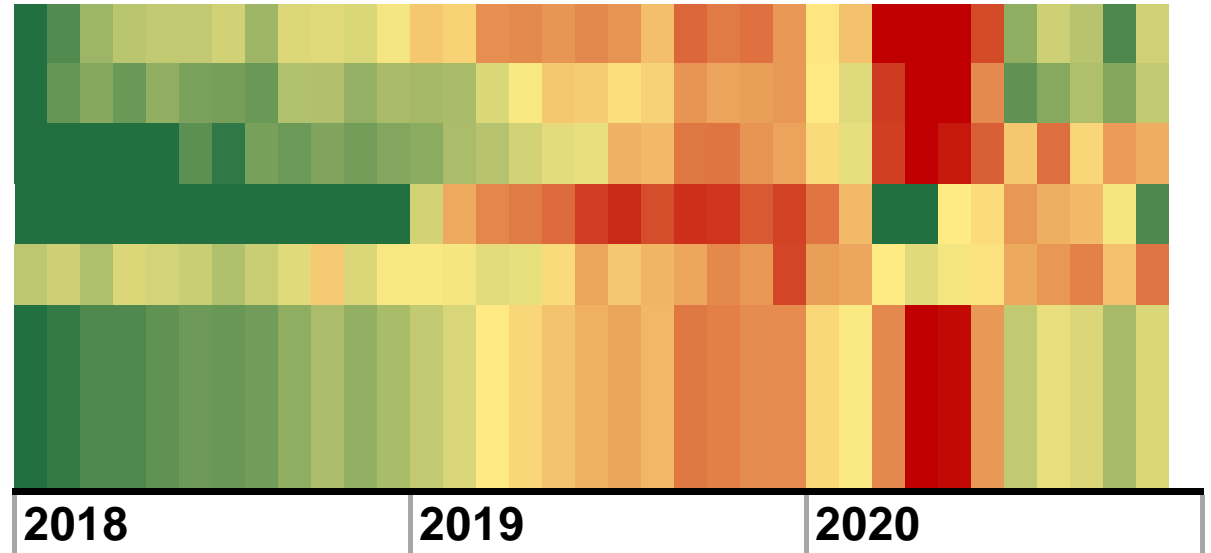
Employment

Suppliers' delivery times

Stocks of purchases

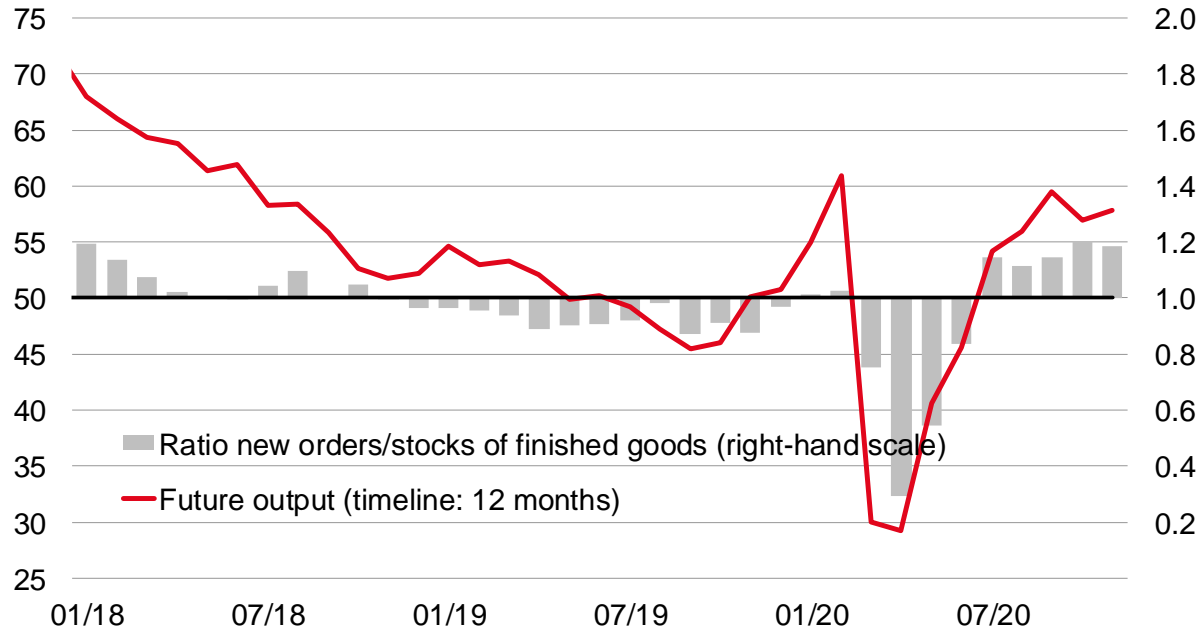
**UniCredit Bank Austria
Purchasing Managers'
Index**

S: IHS Markit, UniCredit Research



... and the outlook is positive in the short and medium term

UniCredit Bank Austria PMI



- A positive index ratio of new orders to inventory suggests an immediate increase in output.
- Expectations index indicates rising production expectations in the medium term. In November a slightly improved value of 57.9 points is even reached.

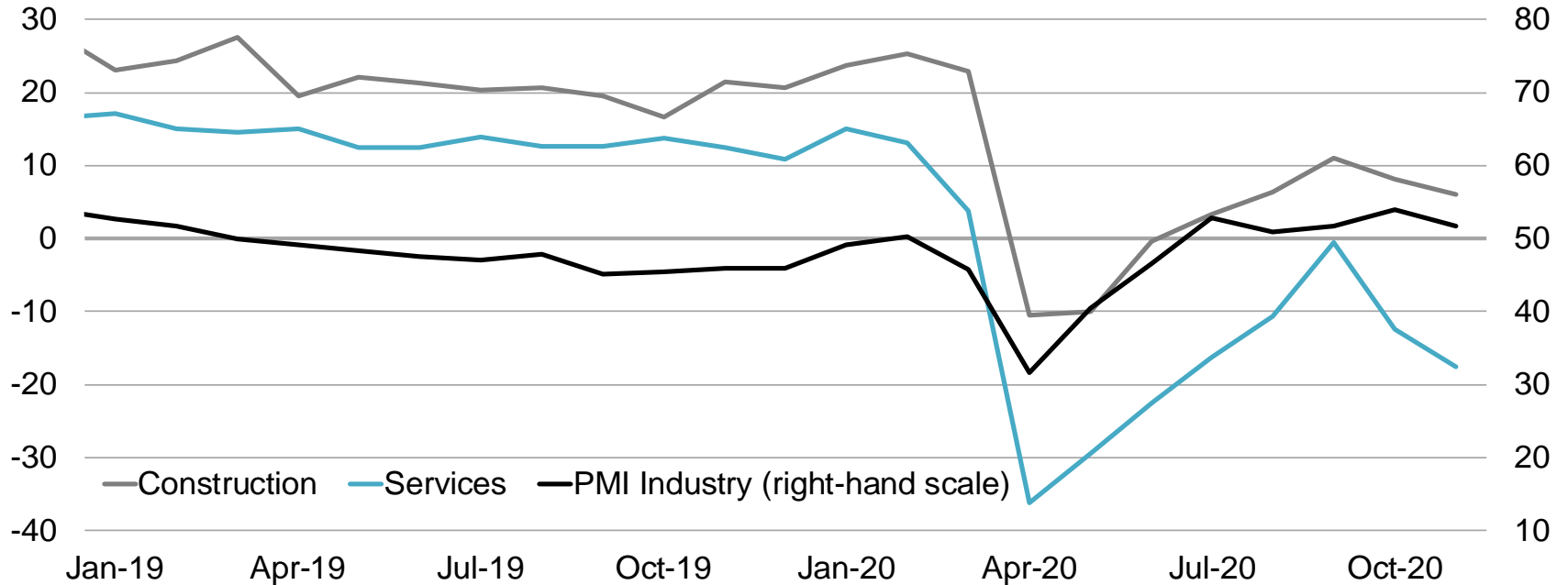
Quelle: IHS Markit, UniCredit Research



Optimism in construction and stable mood in industry

... but pessimism in the service sector is increasing

Economic sentiment in Austria



Source: EU Commission, WIFO, IHS Markit, UniCredit Research

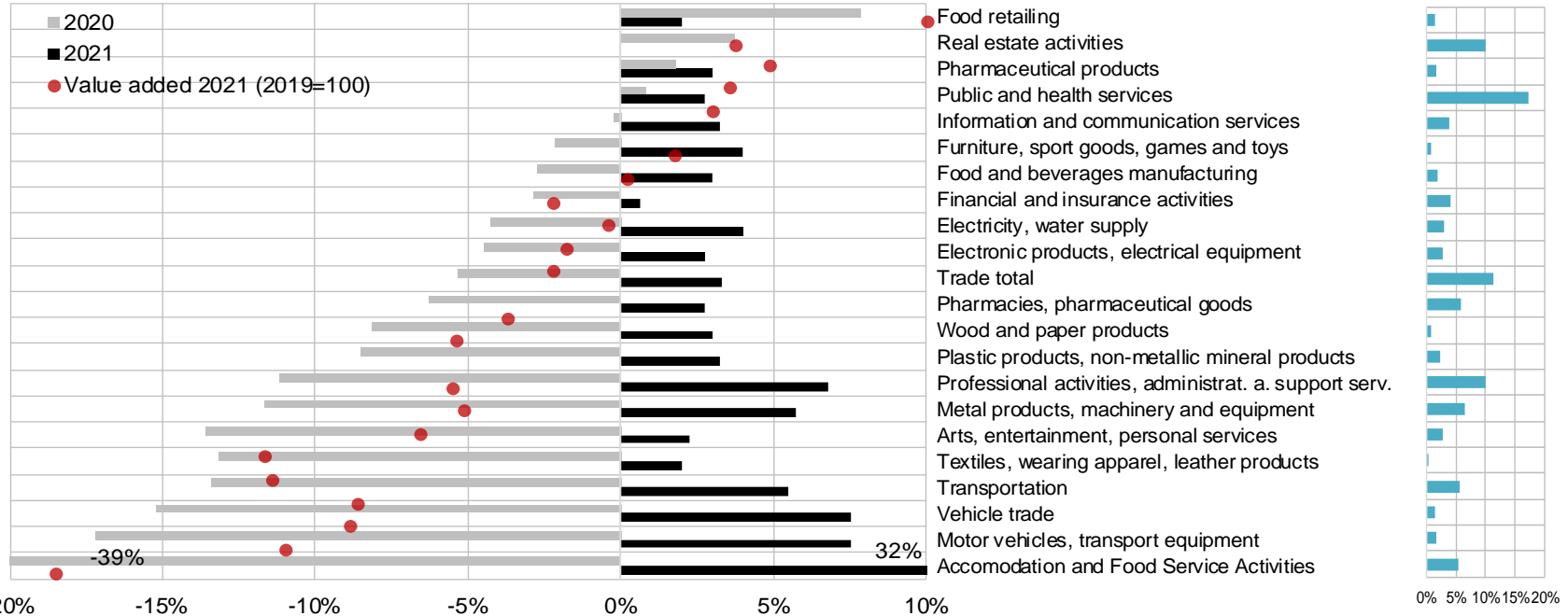


Pandemic causes uneven development in industry sectors

Accommodation and food service activities the big losers, food retailing in the plus

Sector development 2020 and 2021*

(Sector ranking by result 2020)



* Estimated deviation of the nominal gross value added in 2020 and 2021 from the previous year in %
 Source: Statistik Austria; UniCredit Research

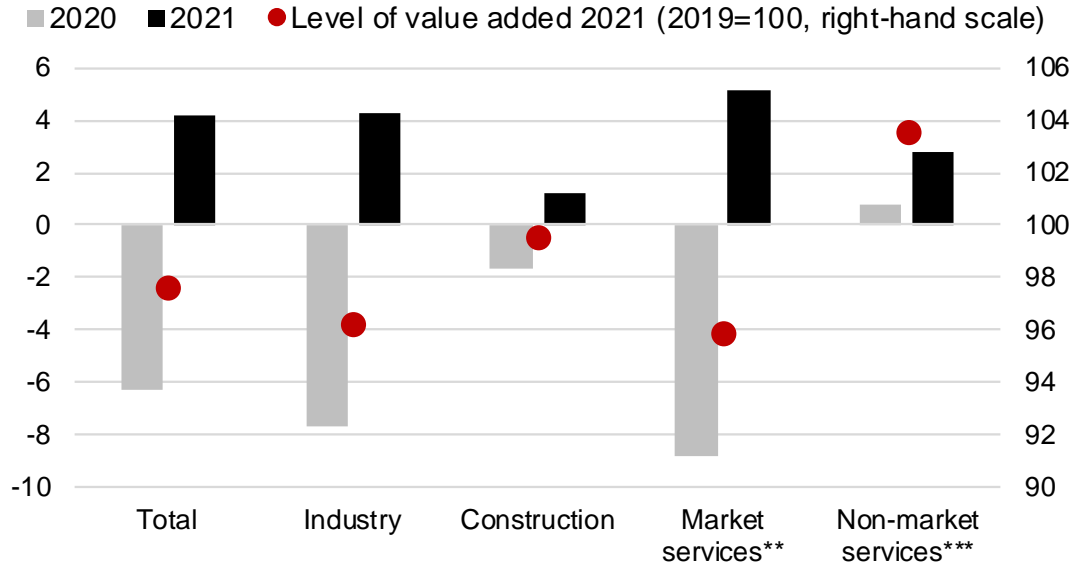
0% 5% 10% 15% 20%
 Shares in gross value added 2019



Pandemic exacerbates uneven sectoral development

Accommodation and food service activities most affected ...

Sector development 2020 and 2021*



* Estimated deviation of the nominal gross value added from the previous year in %

** Trade, transport, accommodation and food services, ICT, finance, real estate, other business services and other services

*** Public administration, health, social affairs, education

Source: Statistik Austria, UniCredit Research

- 4.2 percent increase in gross value added in 2021 cannot compensate for 6.3 percent decrease in 2020
- Industry copes better with the crisis in 2020 than in 2009, but the industrial economy remains subdued in 2021.
- In 2020, the construction industry will still benefit from a good order situation. The construction sector is cooling off, however.
- Market services particularly hard hit (closures, travel restrictions, etc.)

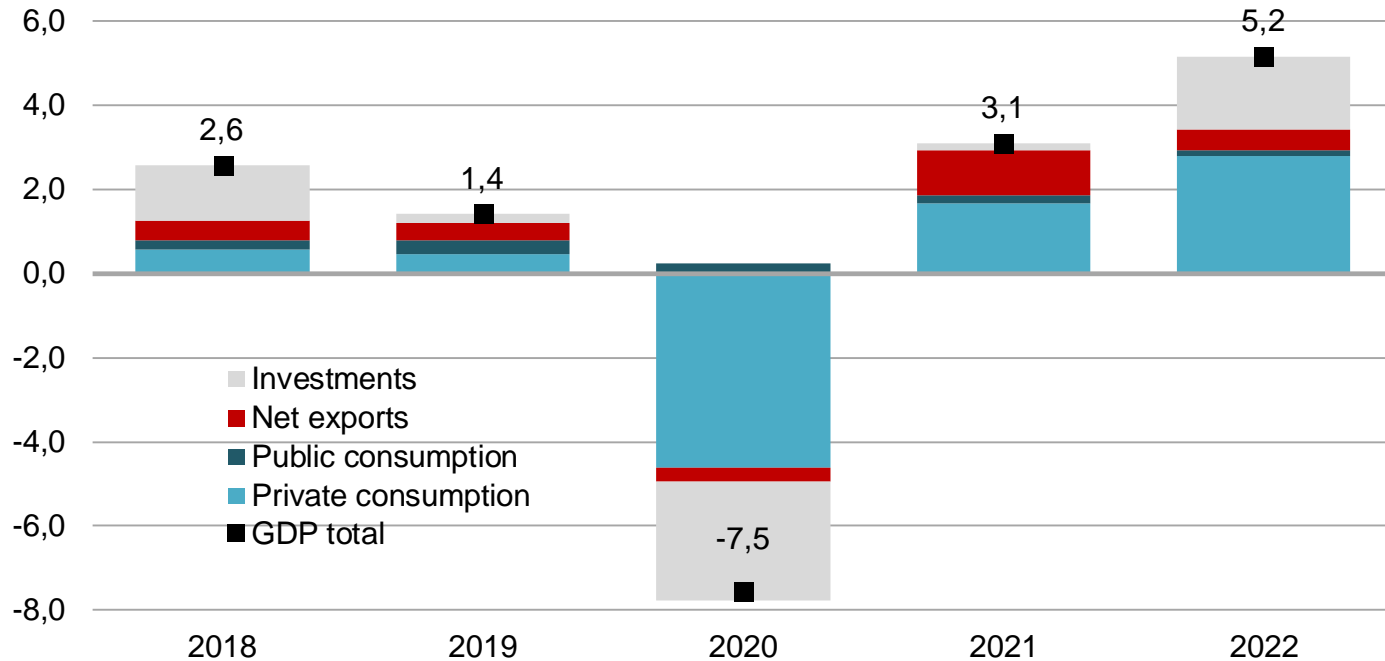


Global support for growth

Rebound of consumption and in further consequence investments carry recovery

Economic development in Austria

(Contributions of the individual components in percentage points)



Source: Statistik Austria, UniCredit Research



Economic recovery gains momentum from 2nd half of 2021

Normalization through vaccination and therapy improvement

				Forecast	
	2018	2019	2020*	2021	2022
<i>(Real change in %)</i>					
GDP	2.6	1.4	-7.5	3.1	5.2
Private consumption	1.1	0.8	-8.6	3.3	5.5
Gross fixed capital formation	3.9	4.0	-6.5	3.2	6.8
Exports	5.5	2.9	-10.3	3.6	4.7
Imports	5.0	2.3	-10.5	1.8	4.2
CPI (change yoy)	2.0	1.5	1.5	1.5	1.9
Unemployment rate (national definition)	7.7	7.4	10.0	9.6	8.7
Current account (in % of GDP)	2.3	2.6	2.3	2.5	2.7
Budget balance (in % of GDP)	0.2	0.7	-10.5	-6.9	-3.5
Public-sector debt (in % of GDP)	74.0	70.5	84.9	87.9	85.5

* estimate

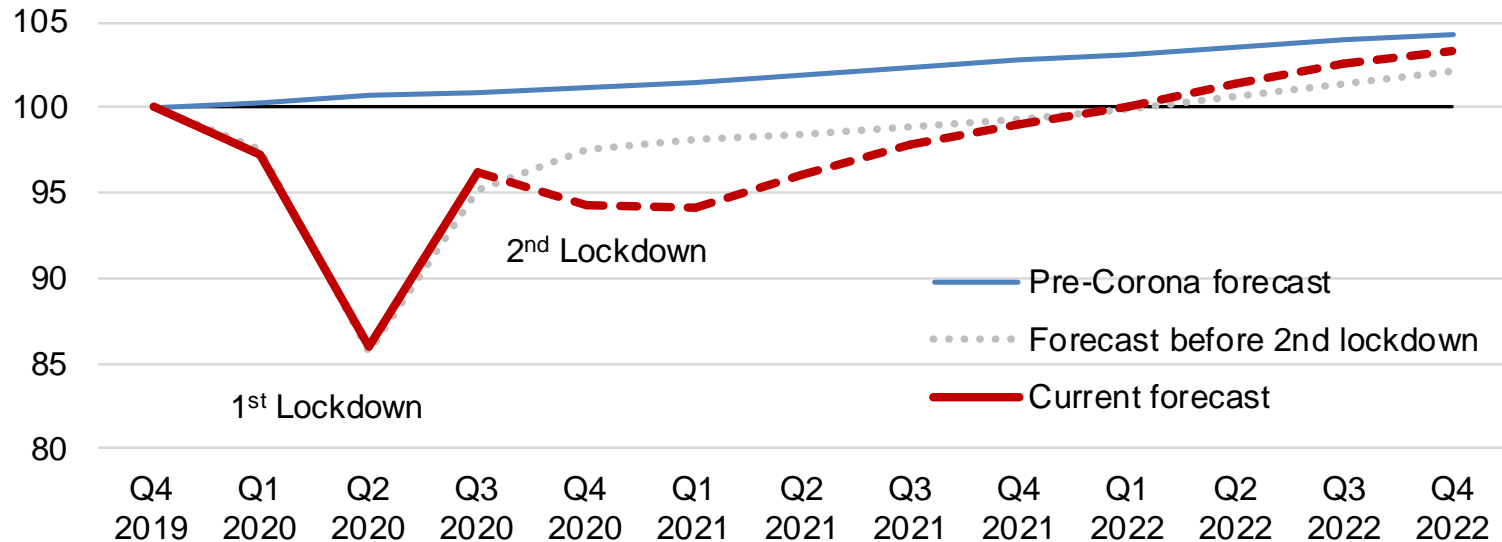
Source: Statistik Austria, UniCredit Research



... but not back at pre-crisis level until mid-2022

GDP level

(real change in GDP, Q4 2019=100)



Source: Statistik Austria, UniCredit Research

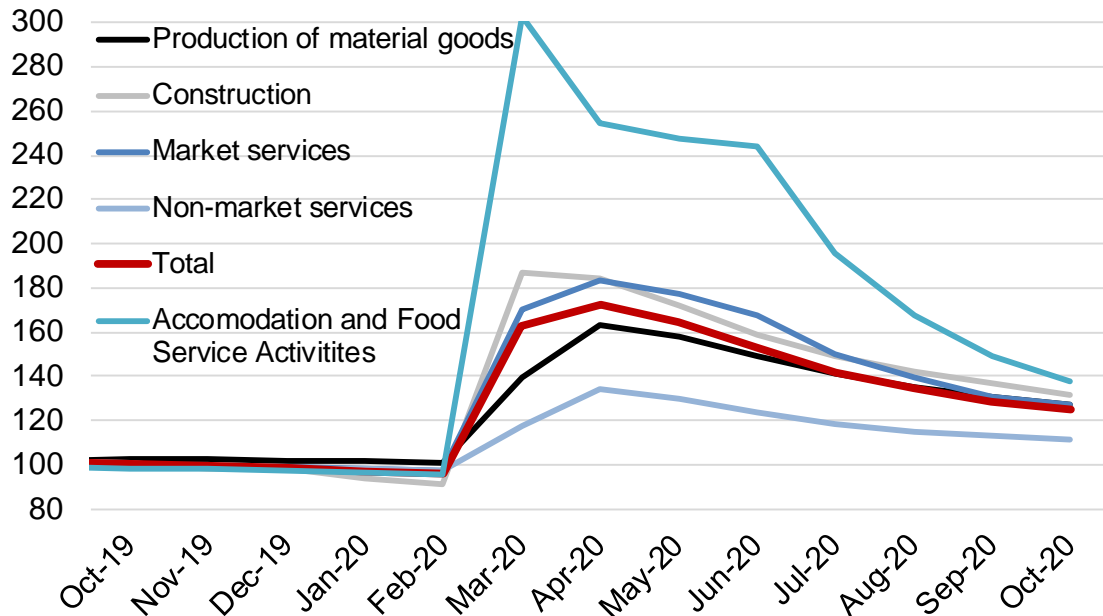


Uneven sector development reflected in labor market

Market services particularly heavily affected

Unemployment by sectors

Unemployment rate, s.a., 2019=100



Source: Bali web, UniCredit Research

- The unemployment rate rose from 7.4 percent in 2019 to up to 12.6 percent in seasonally adjusted terms and stood at 9.3 percent at the end of October.
- The construction sector was hit harder than average, rising to up to 17.3 percent (March). Despite a rapid decline, unemployment remains above the overall figure.
- Production of material goods with below-average increase at the beginning, but weaker decline despite extensive use of short-time working.
- Market services with rapid increase in 1st lockdown, but flattening out after opening. Accommodation and Food Service Activities most affected.

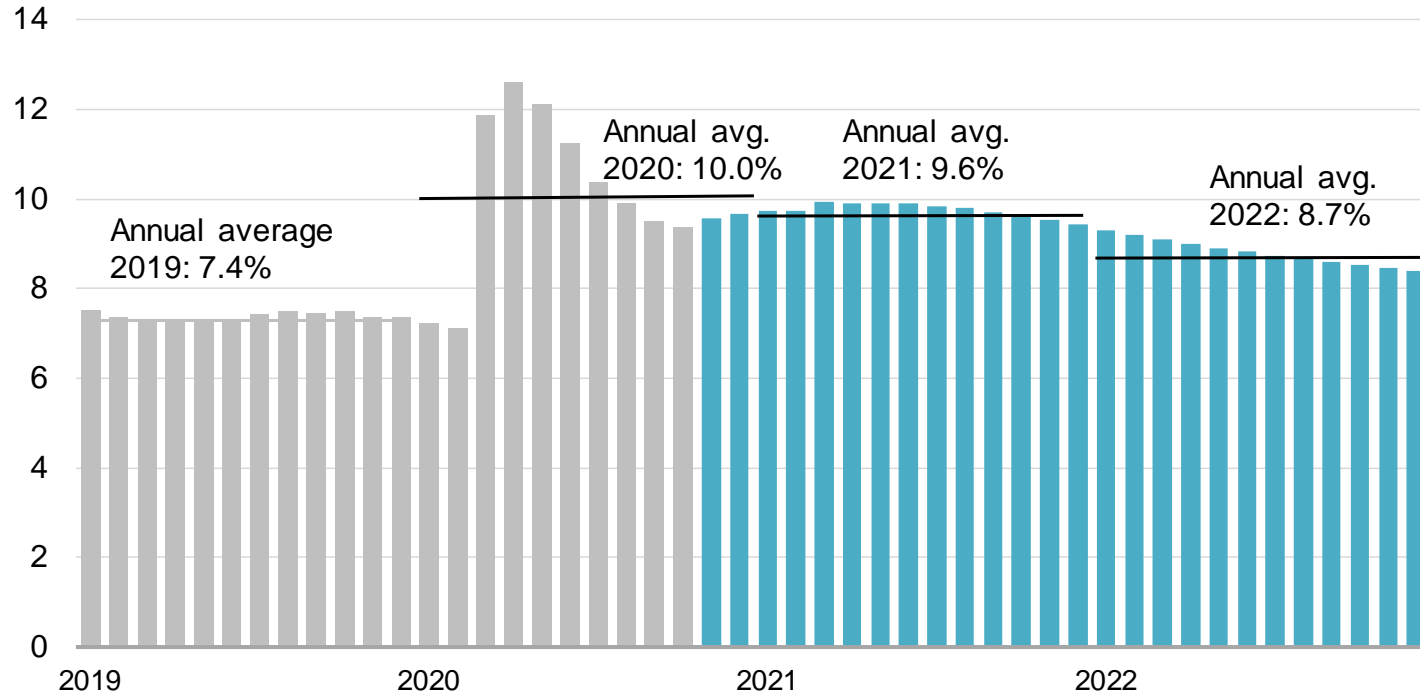


Unemployment declines only slowly

Pre-crisis level only in sight in around 4 years

Labor market in Austria

(Unemployment rate in %, seasonally adjusted)



Source: Statistik Austria, UniCredit Research

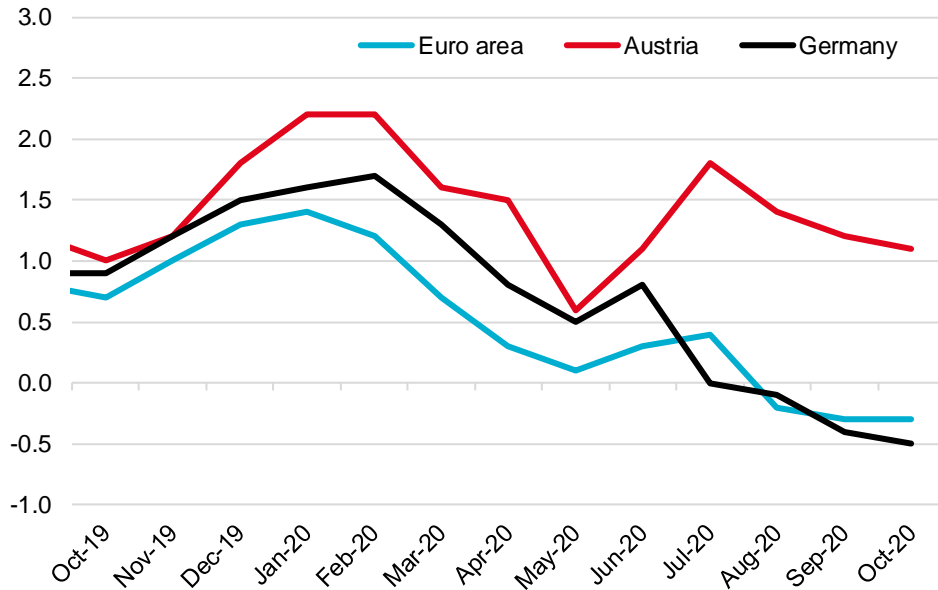


Inflation in Austria

Significant increase in inflation surcharge against euro area since summer

Inflation in comparison

(HVPI, yoy, in %)



Source: Eurostat, UniCredit Research

- Inflation averaging 1.5 percent in the first ten months of 2020, 1.1 percentage points higher than in the euro zone.
- The main price drivers: accommodation and food service activities (approx. 40 %), housing, especially the price of electricity (40 %), and leisure and culture (almost 20 %).
- Reductions in value-added tax lead to price declines in other countries, but hardly at all in Austria.
- If Austria had had the same strong price reaction to the VAT reduction as Germany, inflation since July would have been only about 0.6% instead of 1.4% on average.

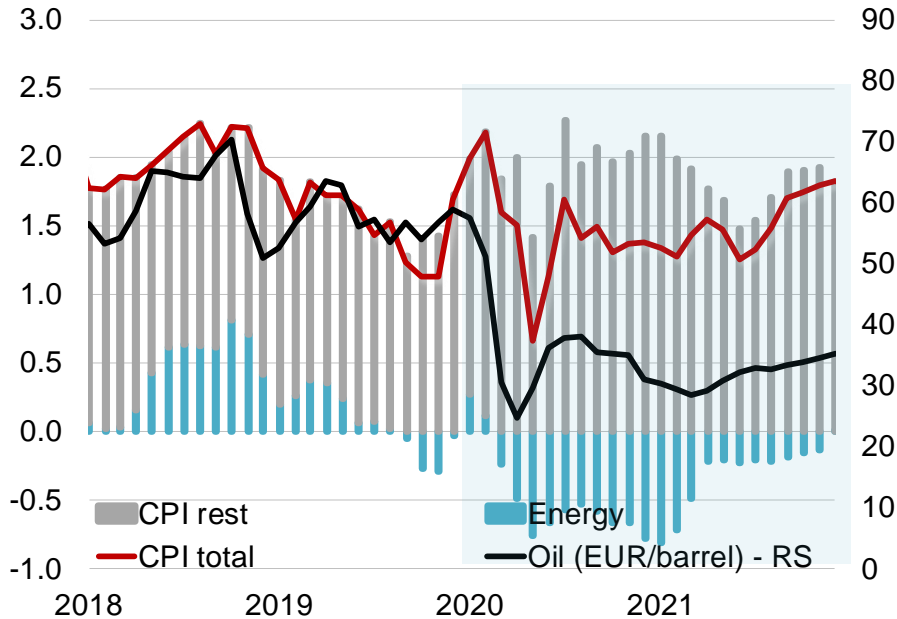


Inflation remains moderate, but higher than in the euro zone

Oil price will dampen inflation in 2021

Consumer prices in Austria

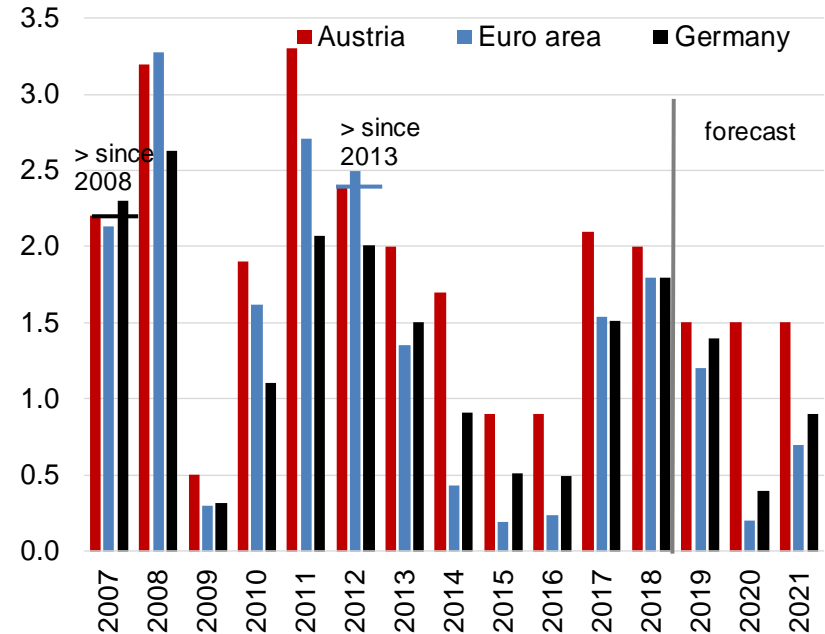
(yoy change, including contribution of energy)



Source: Refinitiv Datastream, UniCredit Research

Inflation in comparison

(yearly average in %)



Source: Refinitiv Datastream, UniCredit Research



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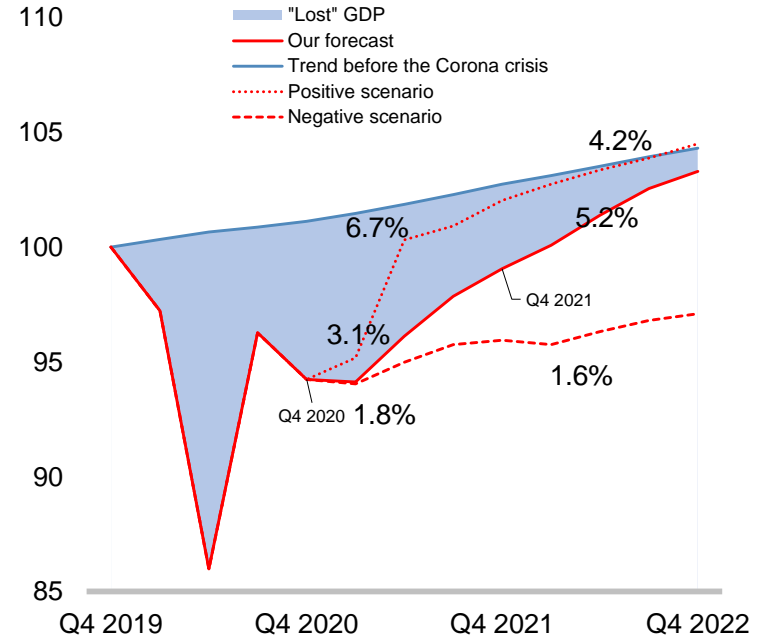
With greater success in medicine, faster recovery would be possible

Long-term negative consequences regarding vaccination /success

- Positive scenario:
 - Vaccination roll-out is faster or more success with treatment
 - Thus more significant increase in GDP already in H1 2021 and more optimism
 - Monetary policy nevertheless remains supportive
 - Austria reaches 2019 GDP already in mid-2021 (one year earlier) and the old growth path at the end of 2022
 - Long-term negative consequences are low
- Negative scenario:
 - The effectiveness of the vaccination is lower than currently expected, difficulties in rolling out, immunity not so long, mutation of the virus or low participation in vaccination
 - Lockdowns occur again, although “lighter“ ones
 - Sentiment rises little/hardly, economic policy has less effect (because programs cannot run forever)
 - Long-term negative consequences increase, especially on the labor market
 - Austria’s GDP will not even reach the level of 2019 by 2022

Real GDP Austria

(Q4 2019=100)



S: Revinitiv Datastream, UniCredit Research



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