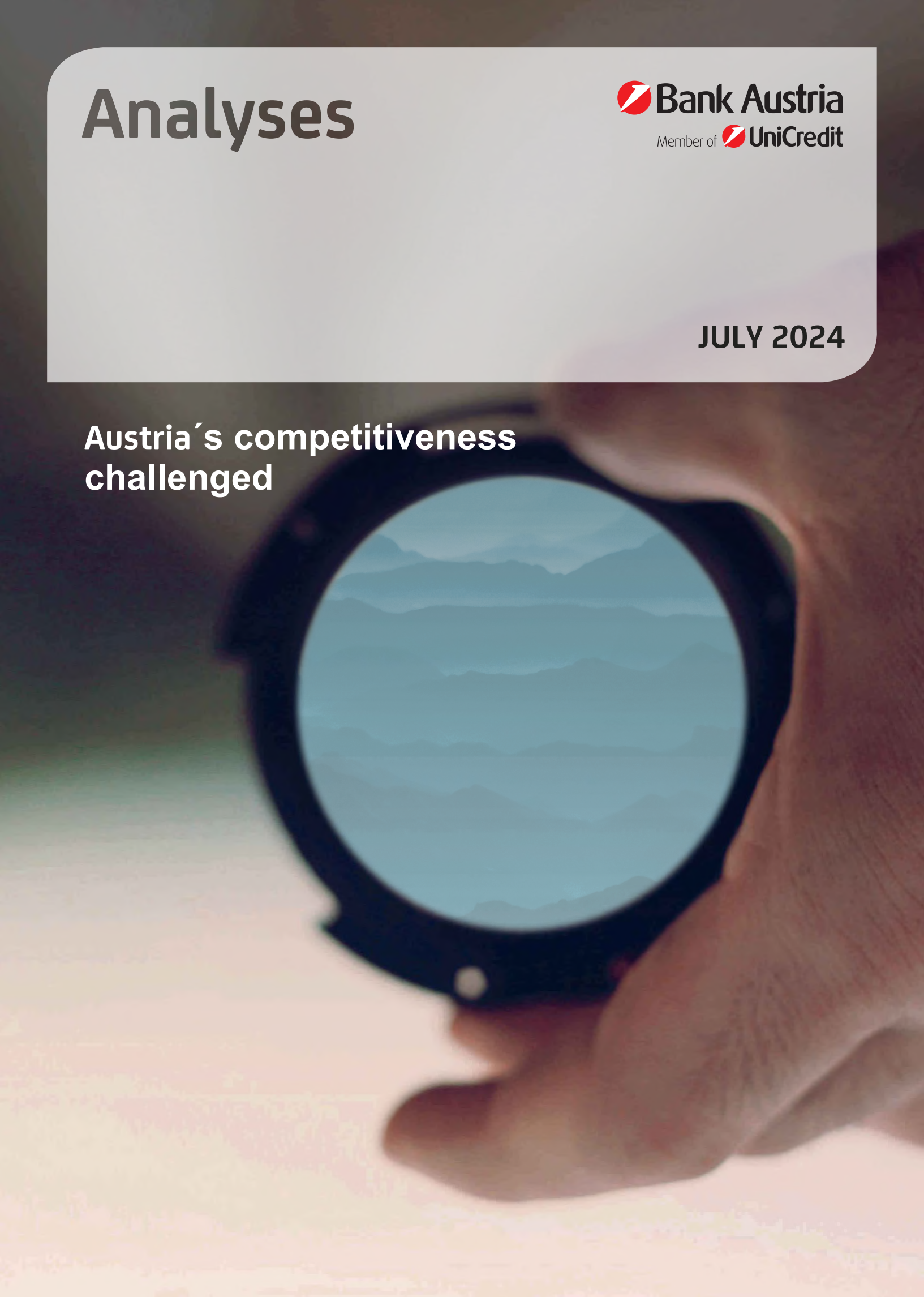


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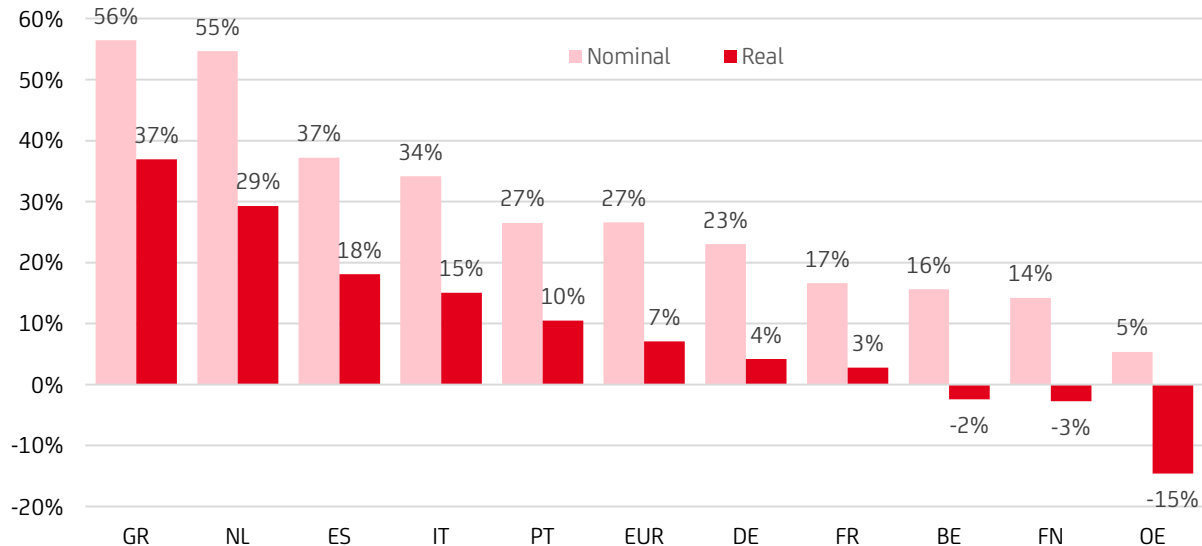
JULY 2024

Austria's competitiveness challenged



AUSTRIA'S COMPETITIVENESS CHALLENGED

Change of profit of manufacturing sector* since end of 2019 (2024**, % change, four quarters average)



S: Eurostat, UniCredit Research *Gross operating surplus plus depreciation, 2024 is Q2 2023 to Q1 2024

- The main reason for Austria's strongest increase in unit labor costs among the TOP 10 countries of the euro area since 2019 was higher inflation of 23 percent, which was five percentage points higher than in the euro area. The somewhat less pronounced decline in real wages was offset by the somewhat stronger increase in productivity but could not prevent the sharp increase in unit labor costs.
- Although this also led to an increase in sales prices for Austria's industry, this was slightly below average in Austria compared to the euro area. Abroad, the price increase was like that in other countries of the euro area, with export prices of goods and services from Austria rising less than in almost any other country of the euro area.
- As a result, Austria has been very successful in exports since 2019, but has had to accept the largest difference between the increase in export prices and the increase in unit labor costs, which has led to significant losses in earnings.
- In contrast to the euro area, the maintenance of competitiveness caused profits in Austria to shrink in real terms, with the real decline in profits for industry in Austria likely to have been particularly sharp. In real terms, profits for the economy as a whole in the euro area have risen by 4 percent since 2019, while in Austria they have fallen by 4 percent. An estimate for industry shows an increase of 7 percent in real terms in the euro area and a decline of 15 percent in Austria.

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as of July 2024

Strongest increase in unit labor costs in Austria since 2019

Strongest increase in unit labor costs in Austria since 2019 among the top 10 of the euro area

The trigger for higher unit labor cost growth was higher inflation in Austria, real wages fell slightly less than in the euro area, but productivity rose somewhat more strongly

The competitiveness of a country has many aspects, ranging from the quality of institutions to infrastructure, education, efficient allocation of resources, technology, but also the ability to resolve conflicts and the quality of the workforce. Especially in recent years, however, aspects of the environment, energy security and sustainability in general have also been added. Nevertheless, price competitiveness continues to play an important role, at least in the short term. The focus is not directly on wage costs alone, but above all on their development in relation to productivity, i.e. unit labor costs. Although a more detailed analysis of competitiveness should be carried out at the level of individual sectors, the macroeconomic development of unit labor costs provides important information about the current competitive situation.

Since the beginning of the pandemic, Austria has seen the largest increase in unit labor costs within the top 10 countries of the euro area¹, with an increase of 23.4 percent (2024Q1 compared to the end of 2019), almost ten percentage points more than the average of the euro area or Germany (15.4 per cent), almost 15 percentage points more than Italy, for example (Charts 1 and 2). The main reason for the stronger increase in unit labor costs in Austria was higher inflation, which has been five percentage points higher than in

Chart 1: Unit labor costs
(2019=100, four-quarter average)

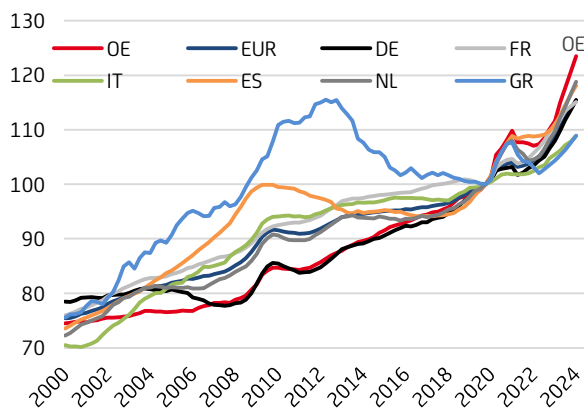


Chart 2: Change in unit labor costs since the end of 2019*
(Q1 2024, contributions to the change in unit labor costs in %-points)

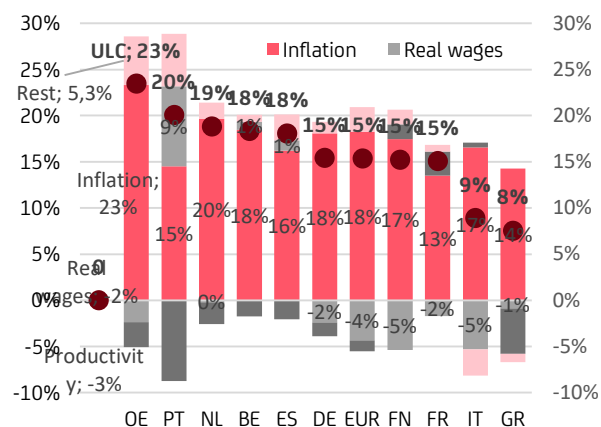


Chart 3: Producer prices since the end of 2019
(Q1 2024*, percentage change, four-quarter average)

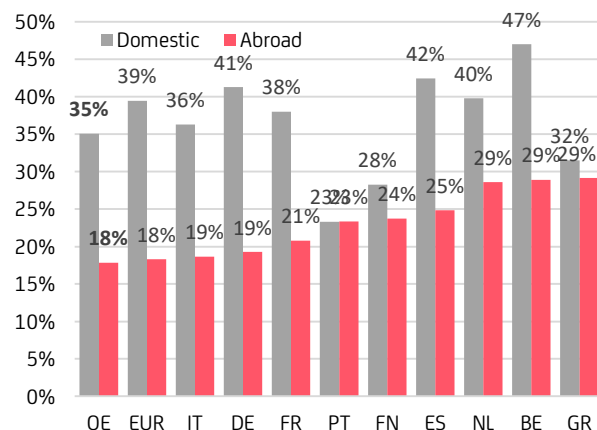
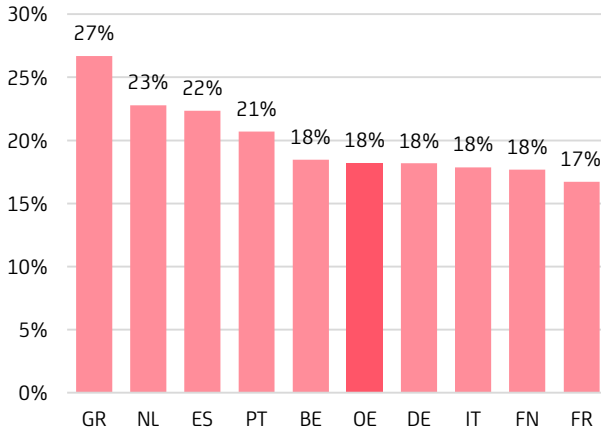


Chart 4: Export prices of goods/services since 2019
(Q1 2024*, percentage change, four-quarter average)



Source: Eurostat, UniCredit Research, 2024=1Q 2024

¹ The top 10 countries of the euro area by GDP are Germany (DE), France (FR), Italy (IT), Spain (ES), Netherlands (NL), Belgium (BE), Austria (OE), Finland (FN), Portugal (PT) and Greece (GR). These countries account for more than 90 percent of the GDP of the euro area. Ireland, No. 7, was not included in the analysis due to the high volatility of its GDP.

the euro area since the beginning of the pandemic in Austria at 23 percent (Q2 2023 to Q1 2024 compared to 2019). The smaller decline in real wages of 2 percent compared to the euro area, where it amounted to 4 percent, also makes a small contribution, with Italy in particular experiencing a significant decline, but Germany with 2 percent developing similarly to Austria. The increase in productivity, which at 3 percent in Austria was slightly stronger than in the euro area (+1 percent), could not compensate for the large difference due to inflation.

Price increase of exports of goods and services on average, despite higher wage cost increases

Despite sharp increase in costs, below-average increase in export prices

Despite the highest increase in unit labor costs in Austria compared to the large member countries of the euro area, producer prices (sales prices of industry) rose less for Austria than in most other countries of the euro area, both at home and above all abroad (Chart 3). For example, domestic producer prices in Austria have risen by 35 percent since 2019, an increase that was four percentage points below the euro area average and even six percentage points below the increase in Germany. At 18 percent, producer prices of Austrian goods even showed the smallest price increase abroad, but overall the price increase abroad was significantly lower than at home. If the total price development of exports, i.e. goods and services, is taken together, prices rose by an average of 18 percent in business with foreign countries in Austria, the lowest than in almost any other of the larger euro countries, similar to exports from Germany or Italy, less strongly than exports from Spain or the Netherlands (Chart 4).

Austria's export success at the expense of earnings

Big export success of Austria, but the only country in the euro area with higher wage cost increases than sales price increases

Accordingly, Austria has also been able to maintain or even expand its position in exports, at least compared to other countries of the euro area, since the end of 2019.² Exports of goods and services in Austria have risen by 8.2 percent in real terms since 2019 than from Germany (1.4 percent) or France (3.7 percent), only Italy and Portugal had a stronger increase in exports of goods and services among the larger countries of the euro area (Chart 5).

Since the increase in unit labor costs for Austria's export industry (goods and services) was one of the strongest, and at the same time both producer prices abroad and total export prices for goods and services rose by around 18 percent, similar to those in other euro countries, the margin is likely to have fallen significantly. The difference between the increase in unit labor costs and export prices was -5.3 percentage points in this period. All other countries in the euro area were able to increase their export prices more strongly than unit labor costs, with an average increase of 8.3 percentage points more in the euro area, 2.7

Chart 5: Exports (goods & services) since end of 2019
(Q1 2024*, percentage change, in real terms, four-quarter average)

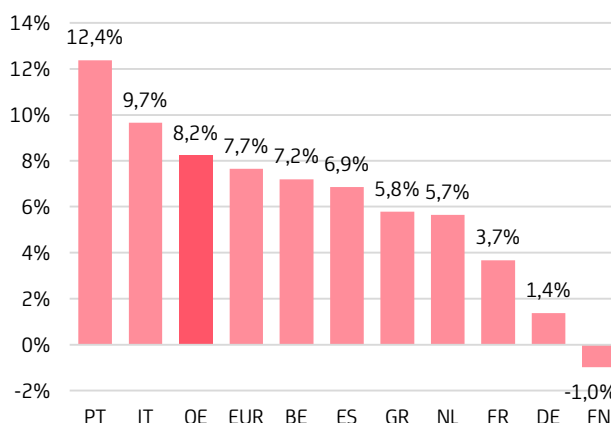
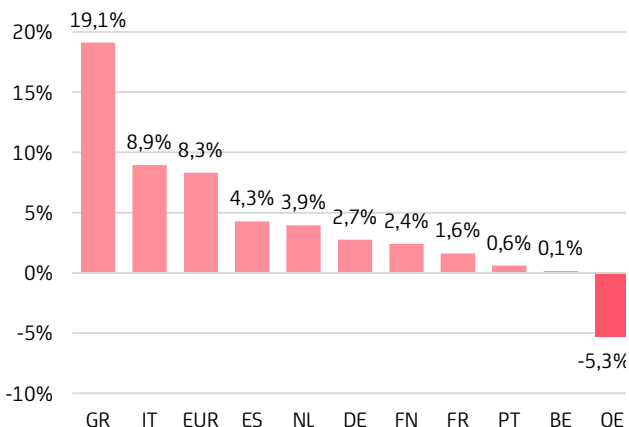


Chart 6: Difference between export prices and unit labor costs**
(Q1 2024* to 2019, percentage change, four-quarter average)



Source: Eurostat, UniCredit Research, *2024=1Q2024, **of goods and services

² See also: Pudschedl, Walter: "Fighting windmills", UniCredit Bank Austria Analysis, July 2024

Industrial profits in Austria up only 5 percent in nominal terms since 2019, minus 15 percent in real terms

percentage points in Germany and 8.9 percentage points in Italy (Chart 6). Export success and the maintenance of competitiveness are therefore likely to have been significantly at the expense of profitability.

Profits in Austria decline in real terms, especially in the industrial sector

This is confirmed by the development of gross operating surpluses. While these in the euro area increased by an average of 23 percent in nominal terms and by 3.8 percent in real terms from 2019 to 2023, growth in Austria was nominally lower at 19 percent, and in real terms there was even a decline of 3.7 percent (chart 7). Looking at industry alone, it is quite clear that price competitiveness was achieved through a significant decline in profits and margins in view of the stronger increase in unit labor costs.³ An estimate of the gross operating surplus⁴ for industry shows an increase of only 5 percent in nominal terms compared to 2019, but in real terms this means a minus of 15 percent (chart on page 2). This was by far the weakest development within the larger euro countries. For example, the gross operating surplus (including depreciation) of industrial companies in Greece rose by 56 percent (37 percent in real terms) from 2019 to the 4th quarter of 2023, still by 29 percent in real terms in the Netherlands, by 7 percent in real terms on average in the euro area, and by 4 percent in real terms in Germany.

Economic policy calls for improving framework conditions for cost efficiency

Even though both price competitiveness and profit development depend on various factors, not least the mix of products and markets, and Austria's industry has been very successful in the past⁵ and has been able to achieve a higher "margin" (share of gross operating surplus in value added), the situation is likely to have deteriorated significantly (Chart 8). A look at the development up to 2022 (only for this there is data at the industry level) shows that the earnings development was particularly challenging in the machinery, automotive and furniture industries. The earnings situation in the energy sector and in construction was significantly better until 2022. The retail trade and the transport industry are also likely to have been under strong pressure on earnings, while the gastronomy and accommodation sector is likely to have maintained its margin, at least until 2022. Shifts in shares of value added between wages and profits were not unusual in the past, but the strong difference in inflation recently and the Austrian tradition of setting wages based on the inflation rate have now led to a major challenge for the location. While industry will be able to absorb this in part through productivity increases, not least by relocating parts of production abroad, it represents a greater challenge for parts of the service sector, such as tourism. Increasing efficiency and other measures to reduce the cost burden, especially the labor factor, are therefore particularly important and represent an important task for the next government in Austria.

Machinery, automotive and furniture industries particularly affected

Chart 7: Change in corporate profits***

(2019 - Q1 2024*, percentage change, four-quarter average)

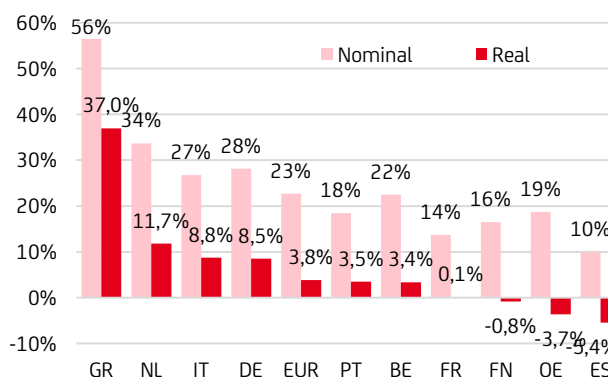
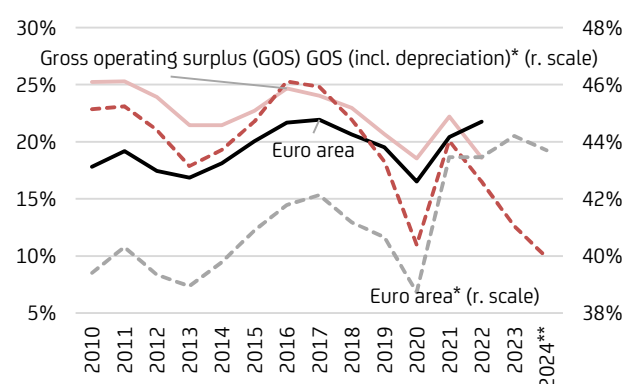


Chart 8: Industrial profits in Austria

(Gross operating surplus as % of value added, industry)



Source: Eurostat, UniCredit Research. ***Gross operating surplus *estimate **2024 is average 2Q2023 to 1Q 2024

³ See also: Oberhofer, H., Astrov, V., Stehrer, R., Wolfmayr, Y. (2024). FIW Annual Report on Austrian Foreign Trade 2024, FIW – Research Focus on International Economics.

⁴ No data for 2023 are yet available for operating surpluses at the level of the individual sectors, so the difference between value added and compensation of employees is used here as an estimate for the development of the operating surplus, i.e. depreciation is still included here.

⁵ See also: Bruckbauer, Stefan (2021). "Austria's industry in the last 20 years – a success story", UniCredit Bank Austria Analysis, September 2021

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