

Austria Watch: Renewed lockdown & renewed GDP slump? Rather not!

From an economic perspective, the lockdown that comes into effect today brings back bad memories of last year, when the November lockdown was the prelude to a remarkable underperformance of the Austrian economy in the European context. However, the starting position is different this year and the economic damage should be less severe.



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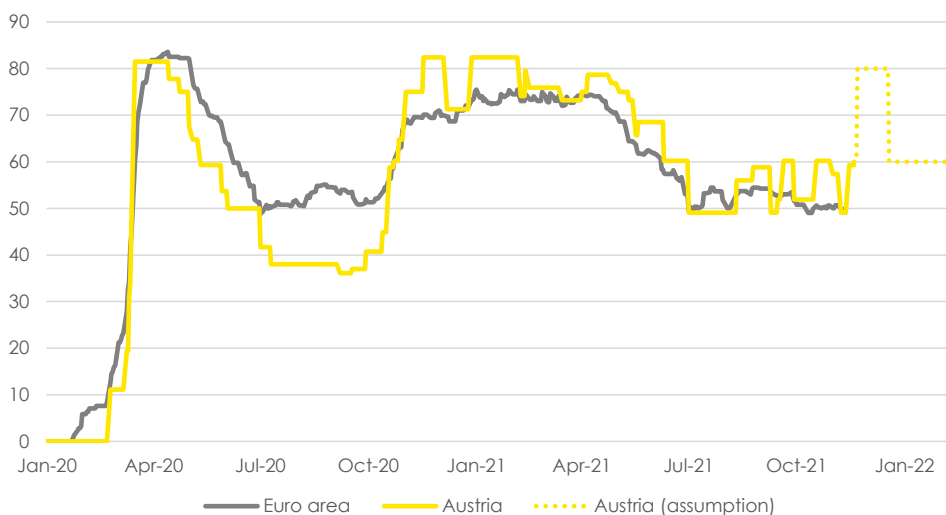
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Austria in Lockdown 4.0

Is history repeating itself after all? The **fourth lockdown, which comes into force today, brings back (bad) memories** of autumn 2020, as a complete lockdown was also announced in November last year. A lockdown that not only lasted much longer than initially envisaged (hotels/restaurants did not open until mid-May), but also attracted a certain amount of attention beyond Austria's borders. This is because the economic slump in the winter half-year 2020/21 (especially in Q4 20) was significantly stronger than in the entire euro area - despite a similar lockdown intensity. A circumstance that has often been attributed to the indisputable tourism exposure of the Austrian economy and has been garnished with pictures of empty ski resorts in foreign media.

Lockdown 4.0: Lower "height of fall" this time around*



* Oxford Stringency Index; Source: Refinitiv, Raiffeisen Research

Renewed winter lockdown: This time is different

Of course, the parallels cannot be dismissed out of hand. However, there is much to suggest that the **Austrian economy will survive the current lockdown with less**

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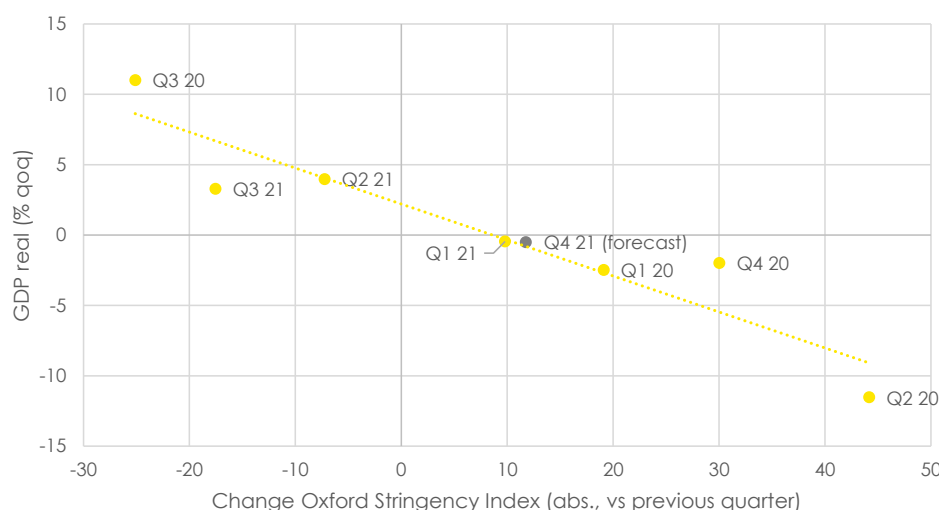
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damage, although the measures are not particularly different from those of the previous year. For example, the main reason for the more noticeable "cold snap" of the Austrian economy in the **fourth quarter of 2020 as GDP declined by 2.0% qoq (euro area: -0.4% qoq)**, was not so much the above-average value-added share of the hotel and restaurant industry. Admittedly, the fact that Austria is the only country in the euro area without a beach that has a notable tourism exposure is not a competitive advantage in times of the pandemic. However, we already argued earlier this year (in German language) that this should not be seen as the main reason for **Austria's glaring underperformance in the final quarter of 2020**. Rather, the **"height of fall" of the Austrian economy was more decisive**. Thus, in the summer of 2020, Austria was significantly freer than most other euro countries in terms of the level of restrictions and has **transitioned from this relative freedom to an "ordinary" lockdown** (see chart). Or to put it another way: While the rest of the euro area was applying the economic brakes at walking speed in Q4 20, in Austria it was at least speed 30 (whereas in spring 2020 all euro area countries pulled the handbrake at speed 130). The **situation will be different in autumn 2021**, because the **restrictions in Austria in recent months were even somewhat stricter than in the average euro area country**, so Austria's "height of fall" this time around is not higher than in the rest of the monetary union.

Not least against this background, the GDP decline in the current fourth quarter is likely to be much smaller than in Q4 20 (-2.0% qoq). If the **current easing schedule** holds, we expect a **decline of about half a per cent compared to the previous quarter**. But even if the **lockdown measures** for vaccinated persons do not expire on 13 December or, in the case of Upper Austria, on 18 December, but **remain in force until the end of the year**, the **GDP decline of about one per cent in Q4 would still be much smaller than in the final quarter of the previous year**. This is true despite the fact that, in contrast to the fourth quarter of 2020, no tailwind is currently expected from the industrial sector due to supply bottlenecks and the like.

Lockdowns & loosening driving business cycle dynamics since Q1 20



Source: Refinitiv, Raiffeisen Research

Lockdown prompting no acute revision need, but risks also lurk beyond the borders

Contrary to what has been said occasionally in recent days, the current **lockdown hardly poses any downside risks to the growth forecast for 2021**. On the one hand, the final quarter of each year has a comparatively small impact on GDP growth in the respective year as a whole. And on the other hand, the stronger-than-expected economic momentum in the second and third quarters of 2021 results in upside risks for our and other forecasts (Wifo/IHS), which are all around 4.5%. It should also not be forgotten that final data on GDP in Q3 and any revisions to the previous quarters will be published on 2 December, which will probably have a greater impact on GDP in 2021 as a whole than

the lockdown in Q4. After all, past experience has shown that in corona times, quarterly GDP figures are subject to more significant revisions than is normally the case.

More important, however, is the outlook for 2022, where the foreseeable GDP decline in Q4 does indeed pose a certain burden as the economy starts 2022 from a lower level. **Assuming that the lockdown measures do not extend into next year** (at least for those vaccinated), **a relaxation-induced increase in GDP can already be expected in Q1**, which should be somewhat larger than the decline in Q4. **For GDP in 2022** as a whole, this means that **our forecast of 4.5%**, which is rather at the lower end of the forecast spectrum anyway, **is associated with slight but not excessive downside risks**. This also applies in the event that the first easing date does not hold. Either way, **the 4% level should be a floor**. Consequently, we do not see a large and imminent need for revision due to the renewed lockdowns.

But of course there are **risk factors**. Experience has shown that prospective easing dates are not set in stone. A **continuation of the full lockdown measures in Q1 or parts of it** would of course reduce the assumed "easing countermovement" of GDP in Q1 or cause it to fail (and shift into Q2). As is well known, the easing stands and falls with the incidence of infections, which in turn is closely linked to the vaccination rate. In addition to the planned compulsory vaccination from February, economic incentives that increase the willingness to vaccinate beforehand would also be beneficial. For example, a "vaccination premium" of 500 euros per person (only if vaccinated before February), which would also go to those who have already been immunised (vaccinated and recovered) as a kind of "compensation" for the lockdown, would be quite justifiable given a total cost of just under EUR 4 billion (resident population 12 years and older) in relation to fiscal emergency measures paid out/earmarked so far (EUR 41 billion). The probability that the lockdown will continue in 2022 would thus be reduced. With a view to the **winter tourist season**, a loss of business at Christmas and New Year's Eve (if the measures were extended beyond 12 and 17 December) would certainly be painful. However, the **winter season is only decided in January and especially in February and March**. The second and third month of the year alone usually (in pre-Corona times) account for almost 25 percent of total overnight stays by foreign guests and 17 percent of overnight stays by domestic guests. However, this also makes clear that in addition to the infection events in Austria, the **Corona situation beyond the borders, especially in the important source markets of Germany, the Netherlands and the UK, is also of decisive importance**.

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