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81st Euroconstruct Conference: European Construction Market Outlook until 2018 – Austria's Construction Performance is Well Below Euroconstruct Average

Country Report Austria

Michael Klien, Michael Weingärtler

June 2016

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ÖSTERREICHISCHES INSTITUT FÜR WIRTSCHAFTSFORSCHUNG
AUSTRIAN INSTITUTE OF ECONOMIC RESEARCH

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Abstract

The 81st Euroconstruct conference held in Dublin on 10 June 2016 clearly pointed out the recovery path of the construction markets in the 19 participating European countries. It showed that Austria's overall economic output continues to grow less compared to the rest of the network. Also the construction performance will be less favourable than in the other European countries. While civil engineering is the growth driver in the 19 Euroconstruct countries no major impulse can be expected from this area in Austria. This construction segment is only likely to grow close to stagnation within the next three years until 2018. Austria's currently weak economy has a negative impact on non-residential construction, which will not recover significantly before 2018. Residential construction was also in the past unable to avoid the stagnating trend. A recovery of the housing market from 2016 onwards is likely. The announced housing stimulous package should further push residential construction in 2017 and 2018 mainly in urban areas – all above in Vienna – within the multi-story building segment. All in all, only minor growth is expected for 2016 with an average annual increase by only around 1.3 percent until 2018.

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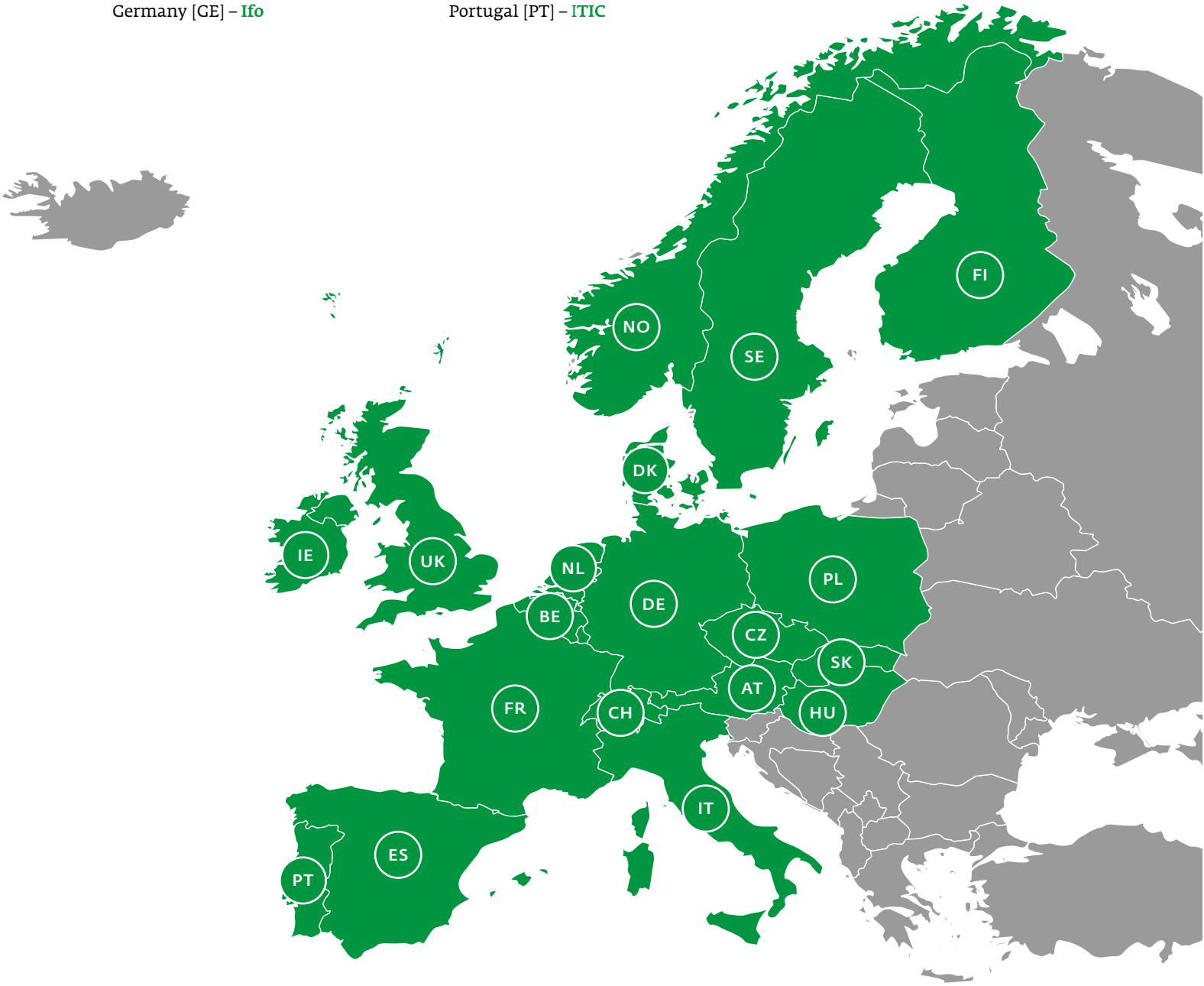

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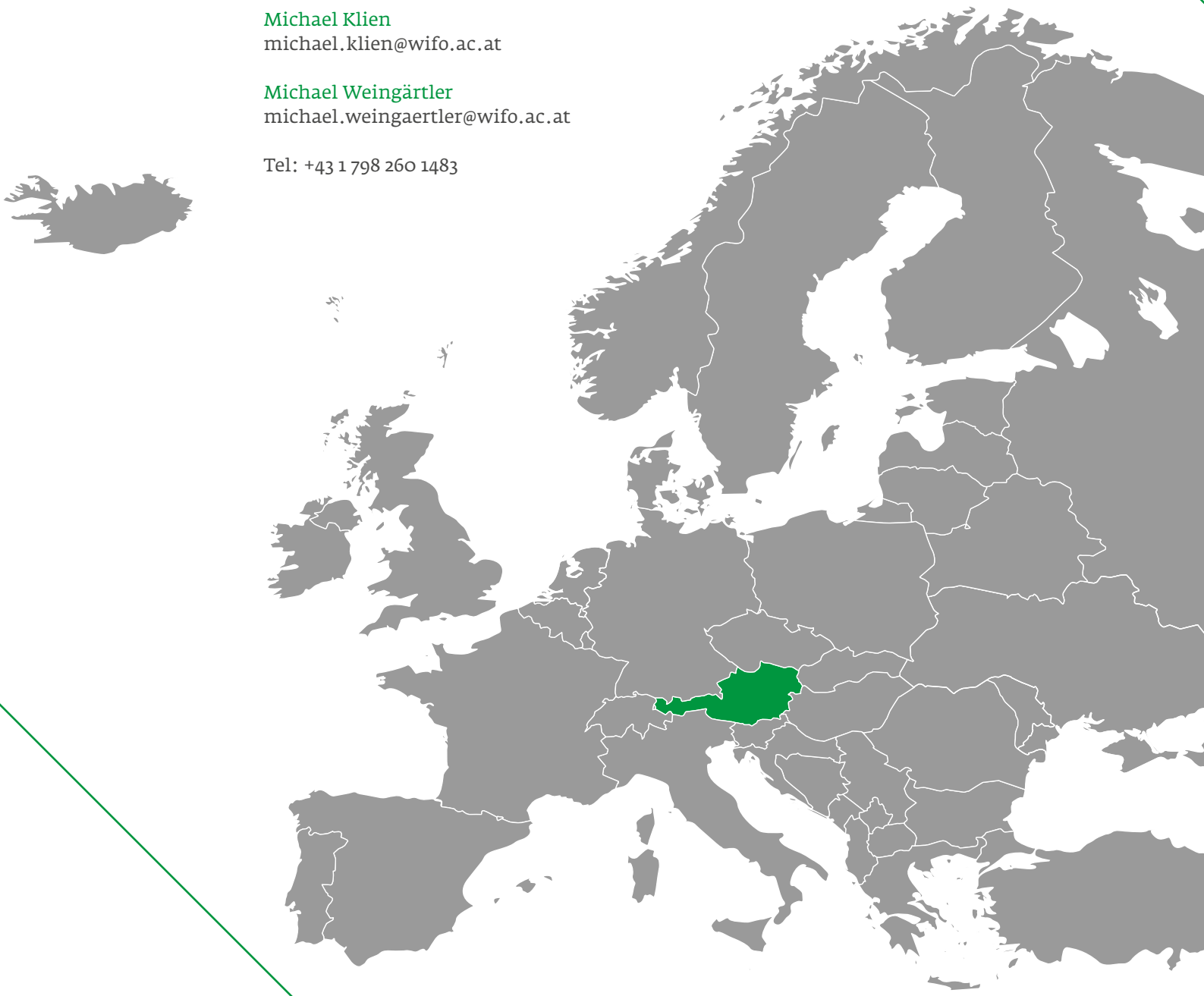
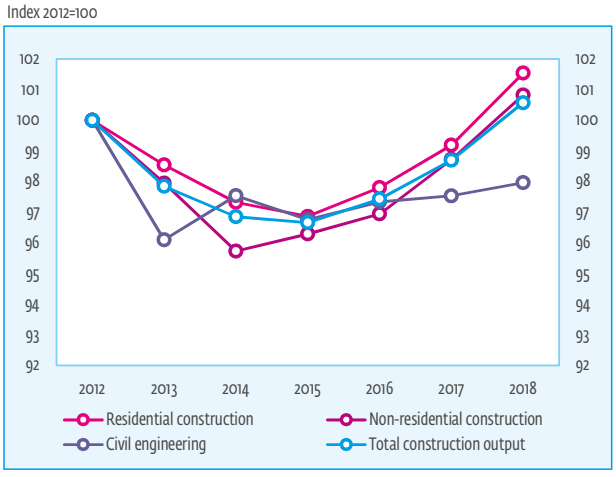


1. Summary and Conclusions

WIFO's latest economic forecast from March 2016 shows a slightly improved economic outlook compared to the last EUROCONSTRUCT report. Gross domestic product increased by 0.9% in 2015 which was largely based on stronger export market (+4.0%). Also the upcoming development will continue to depend crucially on the impulses from foreign trade and its investment inducing effects. Beside external accounts, private consumption is expected to support the economy to a stronger extent than in the previous years because of a substantial tax reform which came into force January 1st 2016. However, the effects of the tax reform are partially neutralized due to simultaneous taxes increases and expenditure cuts in other areas. Public budgets continue to be tight, which is also affecting the construction industry negatively, particularly in the area of civil engineering. Nevertheless Austria's growth path is expected to accelerate as a result of the global economic recovery and will grow only slightly below the EU-28 average in 2016 (EU28: 1.9%; Austria: 1.6%). Improving world trade in combination with national programs and incentives schemes will foster the growth prospects in the coming years but growth will still remain moderate compared to previous periods of economic recovery.

Residential construction output declined by 0.5% in 2015, the third time in a row. A turnaround of this trend is expected in 2016. The key driver will be new multi-story construction in urban areas all above in Vienna, Salzburg and Innsbruck. A sharp increasing number in housing permits is suggestive of the improving situation. Total housing construction is expected to grow by 0.8% in 2016 with a continuously increasing trend towards 2018 (2.4%). Growth in 2017 and 2018 is supported by a large public housing imitative which targets to improve the supply for housing in order of the strong demographic inflow in urban areas.

Total Construction Output by Sector from 2012 to 2018



Source: EUROCONSTRUCT (81st Conference)

Non-residential construction grew by 0.6% in 2015, as forecasted in the previous report. The segment is therefore unable to benefit from the slightly better economic environment. On the one hand business confidence is improving but on the other hand capacity utilisation still shows room for improvement. Companies are especially cautious in the area of office construction. This could already be observed in 2015 when a majority of projects were only realised with a pre-letting of 100%. Therefore most of the projects were built for company's internal use only. In the current low growth environment companies tend to invest less in fixed gross capital projects, which will in general lead to low growth rates in non-residential construction. These developments are expected to continue and so only minor impulses from this sector are expected in the upcoming years. Industrial and commercial construction are expected to cope best with the difficult situation and will therefore perform above average. In total, non-residential construction is expected to grow by 0.7% in 2016 with further increase by 1.8% in 2017 and slightly over 2% in 2018.

Construction growth will show the weakest dynamics in the area of **civil engineering** in the upcoming years to 2018. Public infrastructure plans suggest only marginal improvements in 2016 (0.6%) after a decline in 2015 (-0.8%). Construction growth in the area of transport infrastructure will remain below the 1% threshold. Railway construction will be slightly in favour due to investments in the extension of the road network. The current forecasts with grow rates slightly above stagnation bear significant risks for the outlook in civil engineering since volumes are high. Minor changes in timing and scope of the projects can therefore have large impacts on the forecasts. In general there is hardly any room for significant expansion in transport infrastructure given the tight public budgets in the upcoming years. Strongest segment within civil engineering, even with minor importance due to its low volume, will be telecommunication. Investment in the broadband network will be dynamic in the upcoming years with low double digit growth rates because of heavily supported public programs. Nevertheless growth in civil engineering will be below 0.5% in the years 2017 and 2018.

All in all, **total construction** is forecasted to grow by 0.8% in 2016 and by 1.3% in 2017. Growth will stem to a large extent from building construction, particularly from the residential sector.

2. Macro-economic Outlook

In 2015 the overall Austrian economy expanded at a rate of 0.9% – slightly stronger than expected in December 2015 (+0.7%). Nevertheless growth was again below the 1% mark and the weak performance continued for the fourth year in a row. The outlook for the upcoming years is – even if improving – is only marginally more positive. The recent forecasts from March 2016 from the Austrian Institute of Economic Research (WIFO) expect an annual growth path of +1.6% in real terms until 2018.

Foreign trade. Exports grew only at a minor rate in 2015 and they slowed down towards the end of the year. World trade volumes were dampened by the weak performance of emerging markets like the BRICS countries, which were considered as one of the global growth drivers in the past but they recently experienced economic difficulties. Apart from that also intra-EU trade was rather weak, having a strong impact on the Austrian Economy due to the fact that the EU-29 countries were responsible for 70% of the Austrian export volume in 2015. Especially the weak Eurozone which accounts for half of Austria's export volume had a negative impact on the demand for machinery and equipment supplies. The moderate performance is expected to continue within the first quarters of 2016 but the overall international framework should improve over the course of the year. One of the main bearers will be the robust U.S. economy which has mainly an indirect positive impact on Austria's foreign trade. Exports are expected to increase by 2.7% in 2016 following the recovery in world trade and should be even more dynamic in 2017 (+4.0%).

Consumption. Towards the end of 2015 the demand components of Austria's GDP experienced a shift in favour of consumption. Consumption increased in the area of non-profit organisations and the public sector because of higher expenditure for ensuring basic aid for refugees. Applications for asylum increased significantly up to 90,000 by the end of 2015 (+60,000 compared to previous year). On the other hand consumption remained on a weak level in the area of private consumption. The reasons stem mainly from relatively high unemployment (at least for Austrian conditions, even if it is ranked within the top five EU countries in that area) in combination with minor income growth and a significant increase in prices for rents and services. Nevertheless consumer confidence improved according to the latest EU surveys. Private consumption could also be supported by the aforementioned tax reform. The reform is expected to increase private consumption by 0.4%, leading to a total growth of 1.8% in 2016 and 1.4% in 2017. Public consumption is also expected to grow further, but at a considerably lower rate (2016: +0.8% and 2017/18: +0.7% annually).

Macroeconomic Key Indicators in Austria 2012 to 2018
annual%age change, real terms

	2012	2013	2014	2015	2016	2017	2018
GDP	0.8	0.3	0.4	0.9	1.6	1.6	1.6
Private consumption	0.6	0.1	0.0	0.4	1.8	1.4	1.4
Investment (GFCF)	1.3	-0.3	-0.2	0.4	1.7	1.8	2.3
Unemployment Rate	4.9	5.4	5.6	5.7	5.9	6.1	6.3
Inflation	2.4	2.0	1.7	0.9	1.2	1.8	1.8

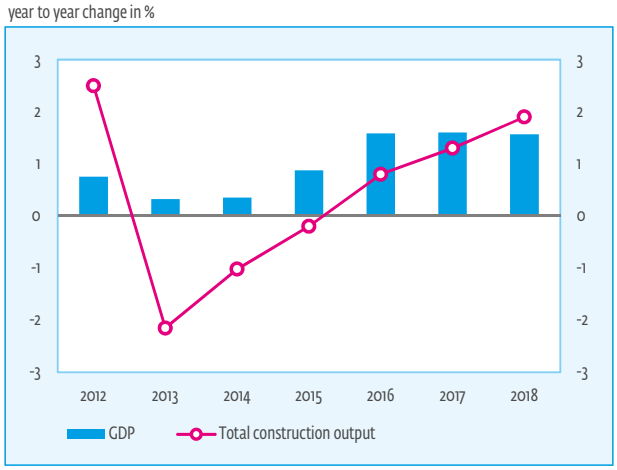
Source: EUROCONSTRUCT (81st Conference)
Statistics Austria, EUROSTAT Labor Force Survey, WIFO-forecasts.

AT

Investment in capital goods gained in dynamics in 2015 and was stable until the end of the year. Improved business expectations led to an increase in replacement and modernisation investments. Although the weakening of world economy dampened business confidence noticeably, after this temporary slowdown exports are expected to increase already in the first half of 2016 leading to robust investments in equipment and capital goods. The latest data show that previous forecasts were too positive and investments in construction will remain weak. In 2015 construction investment declined for the third time in a row. In 2016 WIFO business surveys show a significant improved picture regarding investment climate and stock of orders. Additionally the Austrian government planned the establishment of a bank for investments in housing in 2016 which will induce further dynamics in housing construction.

Labour market. Employment increased in Austria despite the stagnant overall economic performance; above all in the service sector. The number of employed grew by 1.8% in 2015 and a further increase is expected for 2016 and 2017 (+1.2% p.a.).

GDP and Total Construction Output from 2012 to 2018
year to year change in %



Source: EUROCONSTRUCT (81st Conference)

The labour market is nevertheless tight with rising unemployment. The situation will not improve within the next years because of a dynamic increase of labour supply due migration leading but also because of the increasing retirement age.

Prices and inflation. Weak international demand in combination with strong supply led to a decrease in commodity prices, resulting in a modest inflation of 0.9% in 2015. Nevertheless it was higher compared to the EU-average notably because of price increases in catering trade, rents and insurances. Recent WIFO-forecasts suggest that crude oil prices reached its low in January 2016 and an increasing trend is expected during the forecasting period 2016 and 2017. No significant pressure on prices is expected over the course of the economic upturn since the situation on the labour market is difficult and real wages are expected to stagnate. Nevertheless prices are expected to increase slightly because of the impact of the tax reform. The tax increase of indirect taxes and measures against fraud might have a negative impact on consumer prices. On the other hand a stabilizing factor is that the price adjustment of the so called reference rental price ("Richtwertmietzins") will not be implemented in 2016. WIFO forecasts expect an inflation rate of 1.2% in 2016 and 1.8% in 2017.

Public budget. Despite substantial burdens public budgets developed favourable in 2015. Financial support for refugees and the banking sector put pressure on the budget but could be outbalanced by tax revenues (from income tax, capital gains tax, land purchase tax) which grew strong while expenditures for pensions declined. The financial charges of the banking sector will remain a budgetary risk, but the public income flows will be also favourable in the upcoming years. WIFO expects an increase of Maastricht deficit in 2016 of up to 1.7% and a decline towards 1.5% in 2017. Public debt should therefore be limited to 84.3% of GDP in 2016 further reduced down to 83% in 2017.

Forecast uncertainty.

- Major budgetary risks stem from uncertainty regarding migration. The number of asylum seekers will depend on various factors – all above on the situation in Syria as well on the strategy of the Balkan countries and the agreement between EU and Turkey.
- Further risks relate to public budgets which still have to support the banking sector.
- Moreover it is uncertain if the new measures against tax and social fraud can generate the projected additional budgetary revenues of € 1.9 bn.
- On the global level risks result from the performance of the world economy. The US economy might not grow at the same pace as currently. Relatedly, the monetary policy stance of the main central banks is unclear at the moment. Insecurity also comes from China where it is also not obvious how seamless the transformation towards a demand driven economy will be. The observed stock market corrections might be an indication of uncertainty and volatility of the Chinese economy in the coming years.

3. Housing Market

Total residential construction declined in 2015 for the third time in a row. The speed of market decline slowed down and stabilized in 2015. After shrinking by 1.5% in 2013 and by 1.2% in the year 2014 the housing output declined by 0.5% in 2015 and therefore by far less than in the previous years. Already during the year 2015 a steady recovery of housing production could be observed according to quarterly national accounts data. This improving trend indicates that the Austrian housing market is on the way towards a gradual recovery, which goes along with the overall economic upswing. Continued minor growth is expected in 2016 supported additionally by public measures which will fully show their effect in 2017 and 2018 leading to a growth of total residential construction by 1.4% and 2.4% respectively.

Housing Completions from 2012 to 2018
in thousands

Source: EUROCONSTRUCT (81st Conference)

3.1 New residential construction

Interest rates and financing conditions. The weak housing performance do not seem to bear any relationship to the financing conditions which were very favourable in the recent past and which recently improved even further. In March 2016 the ECB announced a further drop of the key interest rate which was set from 0.05% to 0%. A main ECB target is to provide enough liquidity to banks which led to a new development: private banks can take out loans from ECB even with negative interest rates, meaning that they do not have to repay the full amount. The current maximum negative interest rate is set to 0.4%.

ECB policy led to a decline of the Austrian housing interest rates from 2.4% in 2013 towards 2.0% in 2015 on average. Also loans for housing with a fixed duration between 5 to 10 years declined over the past three years, down to an average rate of about 2.5% in 2015. There were indications in summer 2015 that loans for housing might rise. The latest ECB announcement stopped this trend and a financial low interest rate framework below 2.0% is likely to continue in 2016. It is expected that the new ECB measures will only have a minor (positive) impact on Austria's housing production in the current year given the already favourable financing conditions.

Building permits. Statistics in building permits suggest a very dynamic economic environment. Permits in new buildings increased steadily in the past years from 40,000 units in 2012 towards 50,000 units. In 2015 an average growth by 5% was recorded in Austria; the strongest dynamics were observed in Vienna (+19%). A strong increase in building permits in urban areas lead to a more vivid growth of permits for flats. While building permits for flats increased by 6% on average in Austria, significantly stronger increases were observed in Vienna (+22%) in 2015. Building permits in new buildings in the capital nearly doubled at that time compared to the period around 2005. In general these statistics have to be treated carefully since a new register based system was introduced at that time, with reporting issues on the side of municipalities. Nevertheless it indicates a clear trend towards multi-story residential construction.

Regional Building Permits In Austria
number, ,000

	2011	2012	2013	2014	2015
Burgenland	2.139	1.113	1.605	1.813	2.072
Carinthia	2.785	2.677	2.381	2.550	2.619
Lower Austria	6.966	7.136	7.992	8.204	8.886
Upper Austria	7.834	7.246	7.293	8.359	7.269
Salzburg	3.528	2.825	3.720	2.578	2.908
Styria	6.602	5.790	7.299	7.481	7.298
Tyrol	5.006	3.957	3.949	4.330	4.690
Vorarlberg	2.063	2.685	2.182	2.324	2.430
Vienna	8.807	6.868	9.955	10.104	12.059
Austria	45.730	40.297	46.376	47.744	50.231

Source: Statistics Austria.

House prices. Affordable housing is still high on the current political agenda since house prices in Austria increased by 61% on average from 2005 to 2015. There is a wide spread between rural and urban areas. House prices in the capital Vienna doubled during that period (+199%) while they increased by 46% in the rest of Austria. The sharp increase in prices in the capital started around the year 2005 peaking in 2012 (+16%). Since then growth in house prices declined gradually reaching its current low in 2015 (+2.2%) according to the house price index of the Austrian Nationalbank (OenB).

House Prices
Year-on-year change, %

		2011	2012	2013	2014	2015
Austria	Total	4.2	12.4	4.7	3.5	4.1
Vienna	Total	8.5	15.7	8.7	4.2	2.2
	1+2 Family Houses	1.4	3.5	2.9	-3.3	2.6
	Flats	9.1	16.7	9.1	4.7	2.2
	New flats	9.8	7.0	3.7	1.0	4.7
	Used flats	9.0	18.2	9.8	5.2	1.9
Austria without Vienna	Total	2.3	10.8	2.7	3.1	5.1
	1+2 Family Houses	-3.4	8.7	1.1	6.4	6.8
	Flats	4.6	11.6	3.3	1.9	4.5
	New flats	-3.5	2.2	2.2	-11.2	0.4
	Used flats	5.9	12.9	3.4	3.5	5.0

Source: OeNB. Prof. Wolfgang Feilmayr. Department for spatial planning. TU Vienna.

The uncertain economic environment along with low interest rates on savings accounts and in combination with a very conservative investment behaviour of the Austrian population led to strong investments in the housing market. An overshooting of house prices, specifically in Vienna and other urban were not backed by market fundamentals such as housing shortage.

Several actions were taken to dampen the dynamic upward trend in house prices. From 2016 onwards a 10 year speculation period was introduced on the purchase of flats from non-profit companies. Within this period flats are not allowed to be sold with profit.

Additionally a new housing program called "Wohnbauoffensive" was developed with the target to reduce price increases in urban areas. The heart of the program is the establishment of a new housing investment bank ("Wohnbauinvestitionsbank") which was set up in spring 2016. The equity capital of the bank will amount to 6 mn Euro which stems to one third from the Austrian Hotel and Tourism ("ÖHT") Bank and 26% each from "s Wohnbaubank"

and "Raiffeisen Bausparkasse". Unicredit is indirectly involved since it owns half of the ÖHT bank.

The housing investment bank will be the central element for turning the planned public construction offensive into reality which target is to finance 30,000 units additionally within the next five to seven years with a financing volume of € 5.75 bn (€ 5 bn for housing and € 0.75 bn for housing infrastructure. One tenth of the housing volume will be guaranteed by the federal government (assumption of liability) which will be used for the planned take out of loans with a volume of € 700 mn from the European Investment Bank (EIB). These measures will be mainly responsible for the forecasted increase in residential construction which take place in the area of multi-story buildings, all above in the capital Vienna.

The net impact of the measure "Wohnbauoffensive" on the housing market is still difficult to evaluate. The codified package tries to avoid a crowding out of regional residential construction by co-financing requirements as well as regional demand forecasts. How much additional residential construction investment can be generated will be seen in the upcoming years.

Real estate market. Housing transactions increased in number (+16.6%) and in value (+20.4%) significantly according to the analysis of IMMOunited (calculations are based on the official land register). Around 11.500 single family houses (+14.7%) with a value of 2.8 bn Euro were entered into the land register in 2015. The price of the average one and two family house increased by 5.7% and so for the first time above the 200,000 mark according the analysis carried out by IMMOunited. It has to be noted that there is no direct link between the real estate and the construction market since drivers are different. Especially in 2015 the increased number of housing transactions did not necessarily reflect a higher demand. It can rather be explained by the anticipatory effects of the announced increase of the basis of assessment of the real property transfer tax. This was leading to a higher number of transactions within families. Since 1st January 2016 the new system with a three stage stepped tax tariff scheme is in force: 0.5% for the first € 250,000 ; 2.0% for the next € 150,000 and 3.5% for the amount above. Especially larger, more valuable properties will be more heavily taxed by the new system which could also explain the stronger increase in value of the property transaction in 2015 before the law was into force.

Demographic trends. The current public discussion on housing is determined by the strong inflow of asylum seekers. The current WIFO scenario is based on the public plan to reduce the number of asylum applications from 90,000 in 2015 to 70,000 in 2016 and towards 35,000 in 2017. This could generate a considerable amount of additional temporary demand. The final realized demand will depend on numerous factors, which sphere of influence will be outside of Austria such as the situation in Syria, the Europeans success of the refugee distribution scheme and the policy of the Eastern European countries.

3.2 Housing renovation

Housing renovation grew by 0.6% in 2015 and a slight further increase is expected for the upcoming years. A set of public measures is responsible for a more stable development in housing renovation compared to new construction. On the federal level energy efficient renovation works are supported by a so called renovation cheque which amounted in 2015 to € 80 mn for private and co-operate buildings which were older than 20 years. 17,000 applications were recorded thereof 16,600 from private households.

Since its introduction in 2009 the federal government supported thermal renovation works with a volume of € 600 mn which led to an investment volume of around € 4.2 bn since then. Nevertheless this public measure was cut in volume continuously. It started with a volume of € 100 mn and it was reduced by 10 million € in the years 2014 and 2015. In 2016 it will be nearly cut by half to € 43.5 mn. In the current year 2016 already around 3.300 applications were made in the area of private housing and 110 in the non-residential area (as constituted on 9 May 2016).

Moreover the Energy and Climate Fund supports best practise examples in climate efficient renovation as well as in the area of solar power and photovoltaic. Above that housing renovation is supported on the federal state level within the housing support framework of about € 700 mn. Housing renovation is expected to grow by around 1% in 2016 and 2017.

4. Non-residential Market

Austria's non-residential construction market suffers currently from the weak overall economic performance. Particularly the minor growth in exports is dampening industrial investment. In 2015 total non-residential construction grew only by 0.6%. This was slightly less than the previously forecasted 0.9%. As indicated by the most recent data this is due to a less favourable development of the renovation sector which also shows in the low take-up rate of the so-called "renovation offensive" for businesses. Consequently, the outlook for 2016 was revised downwards in nearly all non-residential construction sub-sectors.

Educational buildings. Investments in the Austrian educational system amounted to about € 400 mn in 2015. The Austrian government initiated a public investment program in schools within the period 2008 to 2018 with a budget volume of € 1.66 bn. By the end of this period every third school site will be expanded, renovated or newly built. The governmental program peaked temporarily in 2013 which was driven by major university projects (mainly the Vienna University for Economics and Business Administration). A public investment program in child care facilities additionally supported the construction activities in that area. After the completion of a few large-scale projects construction output in the field of educational buildings declined by 2.3% in 2014 and an even stronger downturn was observed in 2015 (-3.2%). The latest investments plans indicate that the construction volume only increases at a rate of 1.5% in 2016. The forecasts for 2017 and 2018 with an average growth of around 2.0% seem to hold from the current prospective. Nevertheless ongoing public constraints will be a limiting factor within the forecasting period.

Buildings for health. Growth in health building construction will be only slightly above 1% on average in until 2018 which is less than expected but related to the efforts to balance public budgets as well as ongoing problems concerning the currently largest national health project 'Hospital North' in Vienna. The opening of the latter was originally scheduled for 2016 with a budget of € 605 mn. Current estimations suggest a total project volume of about € 1.1 bn and the end of 2017 as earliest operation date. Experts even estimated total costs of € 1.5 bn and 2020 as date for full operation of the hospital. This reduced the room for further investment. It has to be considered additionally that growth in health construction is limited in Austria since there is a very high coverage in the area of hospitals. The recent OECD Report 'Health at a Glance 2015' shows that Austria has the largest number of hospital discharges within the 34 member states (which is 60% above the OECD average). Austria ranks also within the top five nations regarding the number of hospital beds per 1000 inhabitants (7.7) and the average length l stays in hospitals (70% above OECD average). Even with the currently given optimistic outlook in that sector it shows clearly the limited growth of this sector from 2018 onwards. Nevertheless health care investments are still growing year by year from public and private bodies, but the importance of private investments got stronger over the past decades. While in 1990 the private sector represented roughly 25% it increased up to 40% in 2013 and is also responsible for the relatively positive outlook until 2018. All in all, growth in health construction will be only minor in 2016 at a rate of 0.8% with slight temporary increase by 1.7% in 2017.

Industrial construction. As stated at the beginning, a lack of stimulus from foreign trade (because of the poor performance of BRICS countries and trade barriers towards Russia) as well as weak domestic consumption lead to minor growth in industrial construction output. Forecasts indicate minor growth by 1.4% in 2016 and over the course of the global recovery stronger dynamics in 2017 (+2.6%). The sentiment of entrepreneurs about the future development in the industrial business has improved constantly in 2015 and also exports and GDP are forecasted to grow stronger compared to previous years. The currently low levels support the forecasts additionally.

Office construction. After several years of decline Austrian office construction improved in 2015 with a growth rate of about 2%. Office completions reached a level of about 200,000 square meters according to Columbus Collier Real Estate by the end of 2015. This was the highest level in the recent past. It has to be

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Non-residential: breakdown by subsectors

(v) = volume 2015, million €, left scale;
(line graph) = index at constant prices, 2012=100, right scale

Source: EUROCONSTRUCT (81st Conference)

considered that the growth in office construction was based to a lesser extent on the more favourable economic performance – it is much more driven by large projects around the new main railway station like the 'Erste Bank Campus' (117,000 square meter) and the new service centre of the company 'Wiener Wohnen' (34,000 square meter) in the East of Vienna. These two projects alone amount to around 150,000 square meters (75% of total yearly production). So office construction in 2015 was to a large extent driven by single projects. Additionally from the real estate point of view, hardly no new office space was put on the market since most of the built space was made for the company's internal use. This explains why 100% of the completions were pre-letted. As a result the vacancy rate on the office market is expected to decline from 6.5% in 2015 towards 5.7% in 2016 according to the analysis of CBRE. The main real estate companies state independently that prime rents are also stable at around € 26.0 per square meter in Vienna with average rents of € 15.0 per square meter (CBRE, Columbus Collier, EHL).

Even if the investment market is rather vivid, no major impulses are expected in 2016. Several office buildings mainly in the area of the new main railway station are in the pipeline and therefore it is expected that the office construction volume can be held with a minor increasing trend until 2018.

Commercial construction. Weak private consumption along with stagnating real wages, tight labour markets and strong competition explain the minor growth of commercial construction (2015: +0.5%). Previous forecasts suggested a peak in unemployment in 2016 but current calculations show a further increase until the end of 2018. This is mainly a result of the significant increase in labour supply. Additionally legal regulations should hinder the broad construction of green field shopping centres in some federal states which is an additional limiting factor. New commercial construction will increase only little in 2016 and at a rate of 1.2%. It will, however, gradually improve towards 2018 (+2.9%).

There are also several downside risks in commercial construction. The positive effects of the 2015 tax reform which will increase the purchasing capability of private households are expected to be marginal. Further pressure stems from online trade. The volume of online traded goods increased by over 10% annually in the past five years. This additionally dampens the outlook in new commercial construction.

All in all total non-residential construction will increase only minor by 0.7% in 2016 which will gradually increase towards 2.1% in 2018. Growth drivers will be mainly industrial and commercial construction.

5. Civil Engineering Market

Austria's civil engineering market declined slightly, by 0.8% in 2015. One of the main reasons was weaker investment in transport infrastructure. Road transport infrastructure increased by only 1.2% and investment in railway infrastructure even stagnated. The outlook for the upcoming years is (marginally) better because of various factors:

- Investments in the highway network will be stable in 2016 and 2017 and are supported by the sound financial basis of ASFINAG (Austria's highway financing company).
- The new framework plan for railway infrastructure 2016 to 2025 is budgeted with a higher volume than in previous years, emphasizing the priority of railway networks.
- Investments in broadband are highly supported by various public programs which generate stronger growth in telecommunication.
- The 'Arbeitsmarkt- und Konjunkturgipfel'-meeting in autumn 2015 decided to invest and speed up the extension of the electricity network within the next three years. Additionally an economic upswing along with higher energy prices could push investments in the energy sector more than currently forecasted.

Civil engineering is also limited by several factors:

- Financial pressure results from the 2015 tax reform which should relieve especially the tax burden of lower income employees to stimulate private consumption. Therefore the government had to cut € 1.1 bn in the area of administration and financial supports. Postponed and reduced projects, also on the municipal level, are the main reasons why the current forecasts are slightly lower than compared to the ones published in the 80 EC report.
- Maastricht relevant deficit as percentage of GDP is expected to increase to -1.7% in 2016. This is slightly less favourable than previously assumed. It will be one of the main limiting factors and indirectly responsible for a low transport infrastructure volume in the upcoming period even if it will decrease towards – 1.5% in 2017.
- The financial framework 2016 to 2019 – which was announced mid-April 2015 – is designed to achieve a general government deficit of 0.5% by the end of 2019. This can only be achieved by further cuts in public expenditure and will therefore also limit the expenditures.
- Road and rail tunnel projects take a significant share within the Austrian civil engineering sector. Budgetary constraints could cause further delays of big traffic infrastructure projects which would significantly reduce or shift the output in civil engineering towards 2020.

Road infrastructure. Investments in road infrastructure increased dynamic in 2015 by 2.5%. The construction volume amounted to about € 2 bn which were led to a large extent in the expansion and renovation of the Austrian road infrastructure network. ASFINAG (Austria's highway financing company) spent around € 900 mn in the extension of the highway network in 2015. ASFINAG' solid financial basis along with increasing toll revenues (€ 1.9 bn in 2015) due to higher heave truck mileage enables a slightly higher investment volume of € 1 bn in 2016 (2015: € 909 mn). This increase is not fully entered into total road construction growth. In fact in 2016 growth had to be revised slightly downwards because of lower investment in the state and municipal road network leading to an overall expected increase in the area of road construction by only 0.5% and by 0.2% in 2017. The current investment plans even suggest a slight decline on volume by 0.3% in 2018.

Railway infrastructure. The lower financial leeway also led to a change of the forecasts in railway construction. In 2016 construction growth in this field was revised slightly downwards to +0.8% and +1.0% in 2017. Nevertheless the railway infrastructure framework plan 2016 to 2025, which was agreed on 14 October 2015, is still into force. Within that period an investment volume of € 14.6 bn is budgeted – this is 10% higher in nominal terms compared to the previous plan 2014-2019 with a volume of € 13.2 bn. This can be interpreted as a commitment to the expansion and further modernization of the railway network. One of the main goals is also to shift freight transport from road to railways. Therefore additional subsidies with a volume of € 100 mn are granted with the aim to shift 100.000 heavy load truck runs additionally to the railways. This support program will be redesigned in 2018 and should improve the current weak rail freight transport.

All in all traffic infrastructure investments will only grow at a slow pace in the upcoming years with rates of around 0.5% in the period 2016 to 2018.

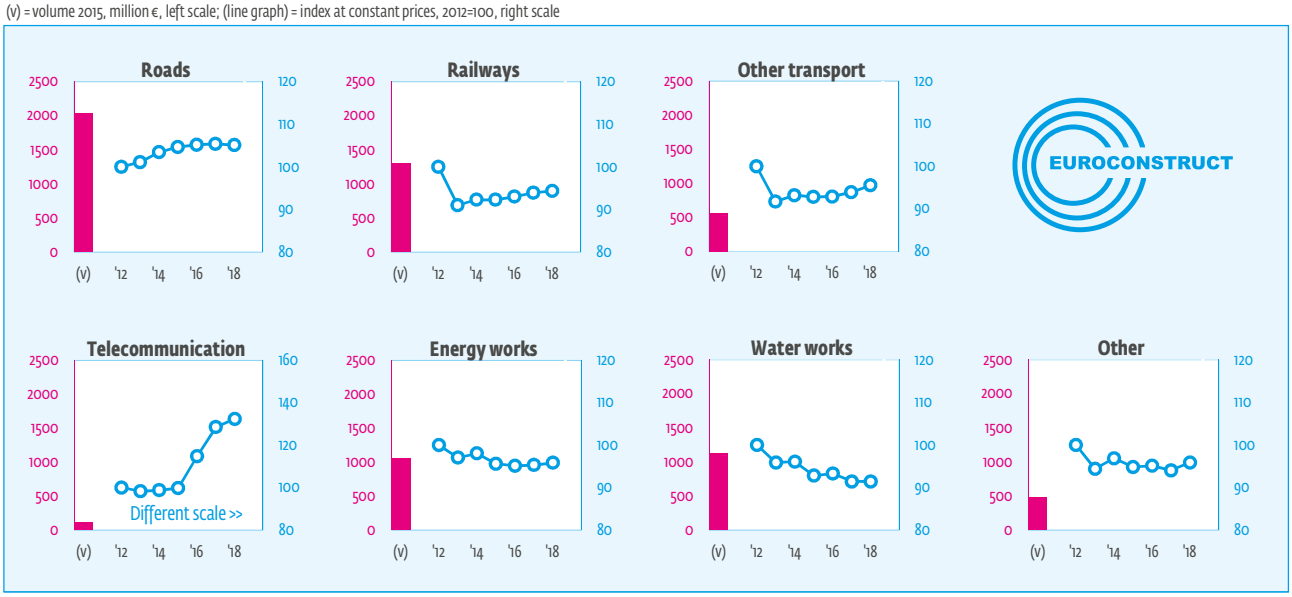
Telecommunication. Construction relevant investments in telecommunication amounted to around € 114 mn in 2015 and significant growth is expected for the upcoming years because of a public support program, called 'broadband billion' ("Breitbandmilliarde") with the target to spread fast internet connections (100 Mbit/sec and more) until 2020. A measure within this program is called "Access" which supports the extension of the needed infrastructure to expand the broadband internet networks. Statistics about this measure confirm the strong participation of telecom companies according the latest data published by the Ministry for Traffic, Innovation and Technology (BMVIT) on 29 April 2016. The demand for this support was in Lower and Upper Austria twice as high than the amount subsidised. Public aid with a volume of € 96 mn for projects in 764 municipalities were applied for.

Additionally the deadline of the broadband support program called Backhaul ended on 31 March 2016 which should support the connection of mobile radio transmitting cells to the broadband network to increase the speed of regional networks. 16 companies applied for a € 85 mn support – meaning that nearly the full support scheme with volume of € 96 mn was applied for. The amount not taken will be used for the upcoming support programs.

The forecasted increase in investments in telecommunication – mainly into the LTE network and fibre

Civil engineering: breakdown by subsectors

(v) = volume 2015, million €, left scale; (line graph) = index at constant prices, 2012=100, right scale



Source: EUROCONSTRUCT (81st Conference)

glass network extension – is therefore likely to hold with growth rates of about 15% annually in 2016 and 2017 while it will level off towards 2018.

Energy. The forecasts in the area of energy works held in 2015 but had to be revised marginally downwards for 2016 where a further slight decline by 0.5% is expected. Ongoing low energy prices are a serious hindering issue for new investments. Since 2011 energy prices (without taxes and levies) declined by 3.3% annually in Austria while they rose by 2.3% within the EU 28. Average costs for electrical energy amounted to € 0.13 per kilowatt hour (without taxes and levies) in the first semester 2015 and further declined to € 0.12 according to EUROSTAT. Many projects, mainly in thermal power plants, are currently not economic profitable because of the low energy price. Additionally Austria's power production is currently sufficient according to the energy regulator E-Control.

Nevertheless the expansion of hydro-power plants and further investments in renewable is necessary fulfill the climate targets. Additionally prioritized measures with a volume of € 700 mn over the next three years will be realized in the area of the electricity network extension. This was decided recently at the labour and economic stimulus measures meeting ('Arbeitsmarkt- und Konjunkturgipfel') of the Austrian government on 30 October 2015. Key element is an unbureaucratic streamlining of procedures to simplify the upgrade of the 220kV network to 380kV. These measures are 60% cheaper than new construction and they also speed the progress of new planned investments. These upgrades should be exempted from the environmental impact assessment if no negative impacts for the neighbouring residents can be expected. This will be regulated in an amendment of the environmental impact assessment if necessary until mid-2016. It is expected that the volume invested can be kept stable in 2017 (0.2%) and in 2018 (0.5%).

Water Works. Investments in water works are limited in Austria since nearly 95% of the households were connected to municipal sewage plants. New freshwater pipeline projects are also declining. The length of new water pipelines shrank by around one quarter in the period 2010 to 2015. This shows clearly that the need for new investments declined in the area of freshwater water works over the past years. The largest volume take projects in waste water management which have a share of 64% on total water works. Additionally there is a significant increase of repair and modernization volume in water works which are expected to continuously rise towards the 70% mark by 2020 starting from 52% in 2015.

Public subsidization guidelines for urban water management were set on 1 October 2015 and are entered into force with 1 January 2016. The subsidizations on the federal level have a volume of € 100 mn in 2016 and are expected to lead into investments of € 400 mn. Drinking water supply will be subsidized between 10% and 25%, waste water projects between 10% and 40% of the eligible costs. The funding rate depends on the level of existing investments and the income situation of the municipality.

Forecasts in this area remain the same since the framework in the area of water works did not change. The construction volume in water works is therefore expected to grow slightly in 2016 (+0.5%), with a downward trend in 2017 (-2.0%).

Total civil engineering is expected to keep its volume in the forecasting period with minor growth of less than 0.5% annually. Impulses will stem from investments in traffic infrastructure where investments in the railway sector will take the largest part. The telecommunication market is expected to grow dynamically until 2017 but its overall amount and therefore its impact on total civil engineering will be only minor. Investments in the energy sector will stagnate on average over the forecasting period while investments in water works are expected to decline until 2018.

APPENDIX – DEFINITIONS

Table 1

- **Population:** Statistics Austria, main scenario, on 1st January.
- **Households:** Statistics Austria, on 1st January.
- **Unemployed:** Austrian Public Employment Service (AMS), WIFO forecasts.
- **Unemployment rate:** Labor Force Survey, EUROSTAT, WIFO forecasts.
- Economic forecasts are based on the March 2016 WIFO forecasts (2016 to 2017) and on the April 2016 WIFO mid-term forecasts (2018). All national account data (historic and forecasts) are based on ESA 2010 system.

Table 2

- **Construction output** includes own production (do-it-yourself), black economy and exports. Non-intensive private repair and maintenance measures were estimated by WIFO. The forecasts of growth rates reflect the WIFO March 2016 forecasts based on ESA 2010 (correspondently also Tables 4a and 4b).
- In general the main input stems from data on the quarterly nation accounts and the latest ÖPRODCOM production figures as well as short term statistics in industries and construction provided by Statistics Austria.
- The growth figures for 2014 changed in the previous 80th report significantly due to the publication of the previously preliminary national accounts figures. Statistics Austria publishes updated national accounts data for year t in the third quarter of year t+1. It mainly led to a downward revision of residential and non-residential construction.
- The previous downward revisions for 2014 also had an effect on the forecasted figures for 2015, which would typically increase due to the lower levels of the previous year. This was the case for non-residential construction, where the revision leads to higher 2015 growth rates. In case of residential construction, the downward revision of 2014 was not enough to outweigh the deterioration of business activity over the course of the year. New data from short term industry and construction statistics are below the initial forecasts.
- Apart from the standard national accounts revisions, the production figures now follow the ESA 2010 standard. Both absolute values and rate of changes are affected by the switch to ESA 2010.
- The ESA revision also had an impact on non-residential construction because railway infrastructure has been reclassified to building construction. Not only levels but also past growth rates are affected.
- Data for cement consumption is provided by the cement industry which level is remarkably stable over time.

Table 3

- Permits, starts and completions refer to new dwellings in new residential buildings.
- Permitted dwellings until 2015 are based on the official figures (April 2016) from Statistics Austria.
- **1+2 family houses**: Buildings with one or two dwellings (in previous reports buildings with one dwelling only).
- Flats: Buildings with three and more dwellings (in previous reports they referred to buildings with two and more dwellings).
- Building starts: No official statistics are available for Austria. The provided number is based on estimates considering a delay and drop out between permits and housing starts.
- Building completions: The results reported in this publication differ from official statistics from Statistics Austria. The reason for this deviation lies in the incomplete and delayed reporting to and from municipalities, which severely affects data quality. Data included in this report are based on housing permits and historical rates of completions.
- **Housing stock:** Annual average. The housing stock is a forward projection of the register based census 2011. Significant methodological changes in the 2011 census resulted in a higher housing stock.
- **Second homes. Vacancies:** WIFO forecasts based on Statistics Austria.
- **Home ownership rate:** WIFO forecasts based on Statistics Austria; share of dwellings owned by the occupier/relatives of the occupier.

Table 4a

- **Offices**: They include also other buildings for administration.
- **Miscellaneous:** e.g. buildings for sports and leisure time.

Table 4b

- **Other transport** includes mostly airport infrastructure as well as public transport (mainly underground transportation).
- **Energy works** includes construction of distribution lines for electricity as well as integral parts (e.g. related buildings such as power plants).
- **Water works** includes the construction of distribution lines for transportation of fluids (e.g. water utility lines. sewage) and related buildings (pumping stations), water well drilling and also the construction of river works, dams, etc.

Table 5

- Information is based on the March 2016 WIFO forecasts (2016 to 2017) and the April 2016 WIFO mid-term forecasts (2018). Data stems from the national accounts based on ESA 2010 system.
- Volumes of each GDP component are at market prices. VAT included.

- The sum of the individual GDP components is not exactly equivalent to total GDP because of the so-called statistical difference. It represents a residual component which can be attributed to current account imbalances due to international trade and capital flows.

Country/Pays/Land: Austria — Table 1

MAIN DEMOGRAPHIC AND ECONOMIC INDICATORS
PRINCIPAUX INDICATEURS DÉMOGRAPHIQUES ET ÉCONOMIQUES
WICHTIGE DEMOGRAPHISCHE UND ÖKONOMISCHE INDIKATOREN

					Forecast		Outlook
	2012	2013	2014	2015	2016	2017	2018
Population ('0000s) **Population** **Bevölkerung**	8 408	8 452	8 508	8 585	8 657	8 726	8 792
Households ('0000s) **Ménages** **Haushalte**	3 660	3 690	3 731	3 776	3 819	3 860	3 899
Unemployed ('000s) **Chômeurs** **Arbeitslose**	261	287	319	354	377	391	403
Unemployment rate (%) **Taux de chômage** **Arbeitslosenquote**	4.9	5.4	5.6	5.7	5.9	6.1	6.3
Change of GDP **Variation du PIB** **Veränderung des BIP** **(% change in real terms)**	0.8	0.3	0.4	0.9	1.6	1.6	1.6
Consumer prices (% change) **Prix à la consommation** **Verbraucherpreise**	2.4	2.0	1.7	0.9	1.2	1.8	1.8
Construction prices (% change) [1] **Prix de la construction** **Baupreise**	2.6	1.3	1.5	0.6	0.9	1.1	1.2
Short term interest rate [2] **Taux d' intérêt à court terme** **Kurzfristiger Zinssatz**	0.6	0.2	0.2	0.0	-0.2	0.0	0.2
Long term interest rate [3] **Taux d' intérêt à long terme** **Langfristiger Zinssatz**	2.4	2.0	1.5	0.7	0.8	1.1	1.5

1) Refers to new construction only.
2) 3-month interbank rate (or equivalent).
3) 10-year government bonds (or equivalent).

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Country/Pays/Land: Austria — Table 2

CONSTRUCTION BY TYPE
PAR TYPE D'OUVRAGE
BAUPRODUKTION NACH BAUARTEN

		Volume mill. euro[1]	% change in real terms (volume)						
							Forecast		Outlook
		2015	2012	2013	2014	2015	2016	2017	2018
Residential construction Logement Wohnungsbau	New	10 544	4.5	-1.7	-1.3	-0.9	1.0	1.6	2.7
	Renovation	4 736	2.5	-0.9	-1.1	0.6	0.9	1.0	1.5
	Total	**15 281**	**3.9**	**-1.5**	**-1.2**	**-0.5**	**1.0**	**1.4**	**2.4**
Non-residential construction Bâtiments non résidentiels übriger Hochbau	New	7 768	1.4	-2.1	-2.5	1.0	0.8	2.0	2.0
	Renovation	2 634	1.6	-1.9	-1.6	-0.6	0.3	1.3	2.5
	Total	**10 402**	**1.5**	**-2.0**	**-2.3**	**0.6**	**0.7**	**1.8**	**2.1**
Building Bâtiment Hochbau	New	18 312	3.2	-1.9	-1.8	-0.1	0.9	1.8	2.4
	Renovation	7 371	2.2	-1.3	-1.3	0.2	0.7	1.1	1.9
	Total	**25 683**	**2.9**	**-1.7**	**-1.7**	**-0.0**	**0.9**	**1.6**	**2.3**
Civil engineering Génie civil Tiefbau	New	5 316	0.9	-4.2	1.7	-0.9	0.9	0.6	0.2
	Renovation	1 336	1.4	-2.7	0.7	-0.4	-0.4	-1.4	1.4
	Total	**6 652**	**1.0**	**-3.9**	**1.5**	**-0.8**	**0.6**	**0.2**	**0.4**
TOTAL CONSTRUCTION OUTPUT		**32 335**	**2.5**	**-2.1**	**-1.0**	**-0.2**	**0.8**	**1.3**	**1.9**

	2015					Forecasts		Outlook
	Volume mill. tons	2012	2013	2014	2015	2016	2017	2018
Domestic cement consumption Consommation intérieure de ciment Inländischer Zementverbrauch	4.40	0.7	-0.5	-2.0	0.0	0.5	0.7	1.6

Renovation covers repair and maintenance, refurbishment and reconstruction.
1) At 2015 prices, excluding taxes.

Country/Pays/Land: Austria — Table 3

RESIDENTIAL CONSTRUCTION
CONSTRUCTION DE LOGEMENTS
WOHNUNGSBAU

Thousands dwellings

		2012	2013	2014	2015	Forecast 2016	Forecast 2017	Outlook 2018
Building permits **Logements autorisés** **Baugenehmigungen**	1+2 family dwellings Individuels 1+2-Familienhäuser	15.5	15.8	16.8	17.5	17.6	17.4	17.4
	Flats Collectifs Mehrfamilienhäuser	24.8	30.5	30.9	32.8	34.0	35.4	34.8
	Total	**40.3**	**46.4**	**47.7**	**50.2**	**51.6**	**52.7**	**52.2**
Housing starts **Logements commencés** **Baubeginne**	1+2 family dwellings Individuels 1+2-Familienhäuser	15.8	14.9	15.5	16.3	16.7	16.6	16.5
	Flats Collectifs Mehrfamilienhäuser	25.1	26.3	29.2	30.3	31.7	32.9	33.3
	Total	**40.9**	**41.2**	**44.7**	**46.5**	**48.4**	**49.5**	**49.8**
Housing completions **Logements terminés** **Baufertigstellungen**	1+2 family dwellings Individuels 1+2-Familienhäuser	16.6	16.1	16.0	16.5	16.9	17.2	17.2
	Flats Collectifs Mehrfamilienhäuser	23.3	24.3	26.5	28.7	30.4	31.8	33.3
	Total	**39.9**	**40.4**	**42.5**	**45.2**	**47.3**	**49.0**	**50.5**
Housing stock **Logements existants** **Wohnungsbestand**	**Total**	**4 481**	**4 522**	**4 564**	**4 609**	**4 657**	**4 706**	**4 756**
	thereof second homes dont résid. secondaires davon Zweitwohnungen	257	259	262	264	267	270	273
	thereof vacancies dont inoccupés davon leerstehend	224	226	228	230	233	235	238
	share of family dwellings (%) part des maisons individuelles Anteil 1+2-Familienhäuser	48.5	47.7	47.6	47.5	47.4	47.3	47.1
Home ownership rate [1] **Taux de propriétaires occupants** **Wohneigentumsquote**		55.8	56.3	56.5	56.3	56.1	55.9	55.9

1) Cf. Appendix to the individual country report.

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Country/Pays/Land: Austria — Table 4a

NEW NON-RESIDENTIAL CONSTRUCTION (PUBLIC AND PRIVATE)
CONSTRUCTION NEUVE NON RÉSIDENTIELLE (PUBLIQUE ET PRIVÉE)
NEUER NICHTWOHNHOCHBAU (ÖFFENTLICH UND PRIVAT)

	Volume mill. euro[1]	m2 x 1000	% change in real terms (volume)						
							Forecast		Outlook
	2015	2015	2012	2013	2014	2015	2016	2017	2018
Buildings for education **Bâtiments de l'éducation et de la recherche** **Gebäude des Bildungswesens**	391		0.5	4.7	-2.3	-3.2	1.5	2.0	2.0
Buildings for health **Bâtiments de santé** **Gebäude des Gesundheitswesens**	1 173		2.4	1.9	0.8	1.5	0.8	1.7	1.0
Industrial buildings **Bâtiments industriels** **Industriegebäude**	1 824		3.4	-4.2	-3.9	1.3	1.4	2.6	2.2
Storage buildings **Bâtiments de stockage** **Lagergebäude**	195		3.2	-3.4	-2.3	1.4	0.8	1.5	1.5
Office buildings **Bureaux** **Bürogebäude**	1 465		-0.1	-4.1	-3.7	2.0	0.3	1.0	1.4
Commercial buildings **Commerces** **Geschäftsgebäude**	2 070		0.4	-1.4	-1.8	0.5	1.2	2.5	2.9
Agricultural buildings **Bâtiments agricoles** **Landwirtschaftsgebäude**	334		3.0	-5.9	-5.7	1.0	-0.6	1.5	1.2
Miscellaneous **Autres** **Sonstiges**	316		-0.4	-1.4	-1.9	1.3	-1.7	1.8	2.3
TOTAL	**7 768**		**1.4**	**-2.1**	**-2.5**	**1.0**	**0.8**	**2.0**	**2.0**

1) At 2015 prices, excluding taxes.

Country/Pays/Land: Austria — Table 4b

TOTAL CIVIL ENGINEERING
ENSEMBLE DU GÉNIE CIVIL
TIEFBAU INSGESAMT

		Volume mill. euro[1]	% change in real terms (volume)						
							Forecast		Outlook
		2015	2012	2013	2014	2015	2016	2017	2018
Transport infrastructure **Infrastructures de transport** **Verkehrsinfrastruktur**	Roads Réseau routier Straßen	2 031	6.5	1.1	2.3	1.2	0.5	0.2	-0.3
	Railways Voies ferrées Bahnanlagen	1 304	-2.5	-9.0	1.4	0.0	0.8	1.0	0.4
	Other transport Autres réseaux Übrige Verkehrsinfrastruktur	560	3.7	-8.3	1.6	-0.4	0.1	1.1	1.7
	Total	**3 895**	**2.7**	**-3.9**	**1.9**	**0.6**	**0.5**	**0.6**	**0.3**
Telecommunications **Télécommunications** **Telekommunikation**		114	-2.1	-1.7	0.5	1.0	15.0	12.0	3.0
Energy works **Réseaux d'énergie** **Energieversorgung**		1 050	-2.4	-2.9	1.0	-2.5	-0.5	0.2	0.5
Water works **Réseaux d'eau** **Wasserversorgung**		1 119	0.0	-4.1	0.2	-3.4	0.5	-2.0	0.0
Other **Autres** **Sonstiges**		475	-1.3	-5.6	2.6	-2.1	0.3	-1.1	2.0
TOTAL		**6 652**	**1.0**	**-3.9**	**1.5**	**-0.8**	**0.6**	**0.2**	**0.4**

1) At 2015 prices, excluding taxes.

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Country/Pays/Land: Austria — Table 5

GROSS DOMESTIC PRODUCT
PRODUIT INTÉRIEUR BRUT
BRUTTOINLANDSPRODUKT

	Volume bill. euro[1]	% change in real terms (volume)						
						Forecast		Outlook
	2015	2012	2013	2014	2015	2016	2017	2018
Private consumption [2] **Consommation privée** **Privater Verbrauch**	179.8	0.6	0.1	0.0	0.4	1.8	1.4	1.4
Public consumption **Consommation publique** **Staatsverbrauch**	67.4	0.2	0.6	0.8	1.0	0.8	0.7	0.7
Gross fixed capital formation **Formation brute de capital fixe** **Bruttoanlageinvestitionen**								
Total	74.6	1.3	-0.3	-0.2	0.4	1.7	1.8	2.3
of which construction	34.6	2.2	-2.2	-1.0	-1.2	0.8	1.3	1.9
Stocks (contribution as % of GDP) [3] **Variations de stocks** **Vorratsveränderungen**	0.6	-0.4	-0.5	-0.3	-0.3	0.0	0.0	0.0
Exports **Exportations** **Exporte**	180.1	1.7	0.8	2.1	1.7	2.7	4.0	4.3
Imports **Importations** **Importe**	165.0	1.1	0.0	1.3	1.7	2.9	3.8	4.3
GDP **PIB** **BIP**	**337.2**	**0.8**	**0.3**	**0.4**	**0.9**	**1.6**	**1.6**	**1.6**

Standard National Accounts, gross figures.

1) At 2015 prices.

2) Including final consumption expenditure of NPISH's, ISBLM inclus, einschließlich POoE.

3) Including net aquisitions of valuables, net aquisitions d'objets de valeur inclus, inkl. Nettozugang an Wertsachen.

Notes

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