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79th Euroconstruct Conference: European Construction Market Outlook until 2017 – Austrian Construction Dampened by Slow-down in Housing and Minor Civil Engineering

Country Report Austria

Michael Klien, Michael Weingärtler

June 2015

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ÖSTERREICHISCHES INSTITUT FÜR WIRTSCHAFTSFORSCHUNG
AUSTRIAN INSTITUTE OF ECONOMIC RESEARCH

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Abstract

In 2015 the Austrian economy will grow at a significantly lower pace than the European average. All major demand components are stagnating or are too small to generate an economic dynamic. This lack of stimulous puts pressure on the whole construction industry. Therefore the growth rate for residential construction had to be revised downwards significantly in 2014. In 2015 housing is expected to perform best within the three main construction sectors but growth will be below 1 percent. Non-residential construction performs poorly – a stagnation in 2015 is likely because of weak overall economic growth caused by minor industrial production and weaker foreign trade. Also the civil engineering sector will not be able to generate significant additional growth. Growth of the construction sector is expected to strengthen by the end of the forecasting period in 2017. The Euroconstruct Country Report for Austria gives in-depth information on the Austrian construction market until 2017. It covers in detail housing, non-residential construction and civil engineering (new and renovation, respectively).

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79th EUROCONSTRUCT Country Report

EUROCONSTRUCT

European Construction: Market Trends until 2017

79th EUROCONSTRUCT Conference 11–12 June 2015, Warsaw

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EUROCONSTRUCT

European Construction: Market Trends until 2017

This Country Report has been written and prepared by the EUROCONSTRUCT network from the country reports of the 19 EUROCONSTRUCT member institutes.

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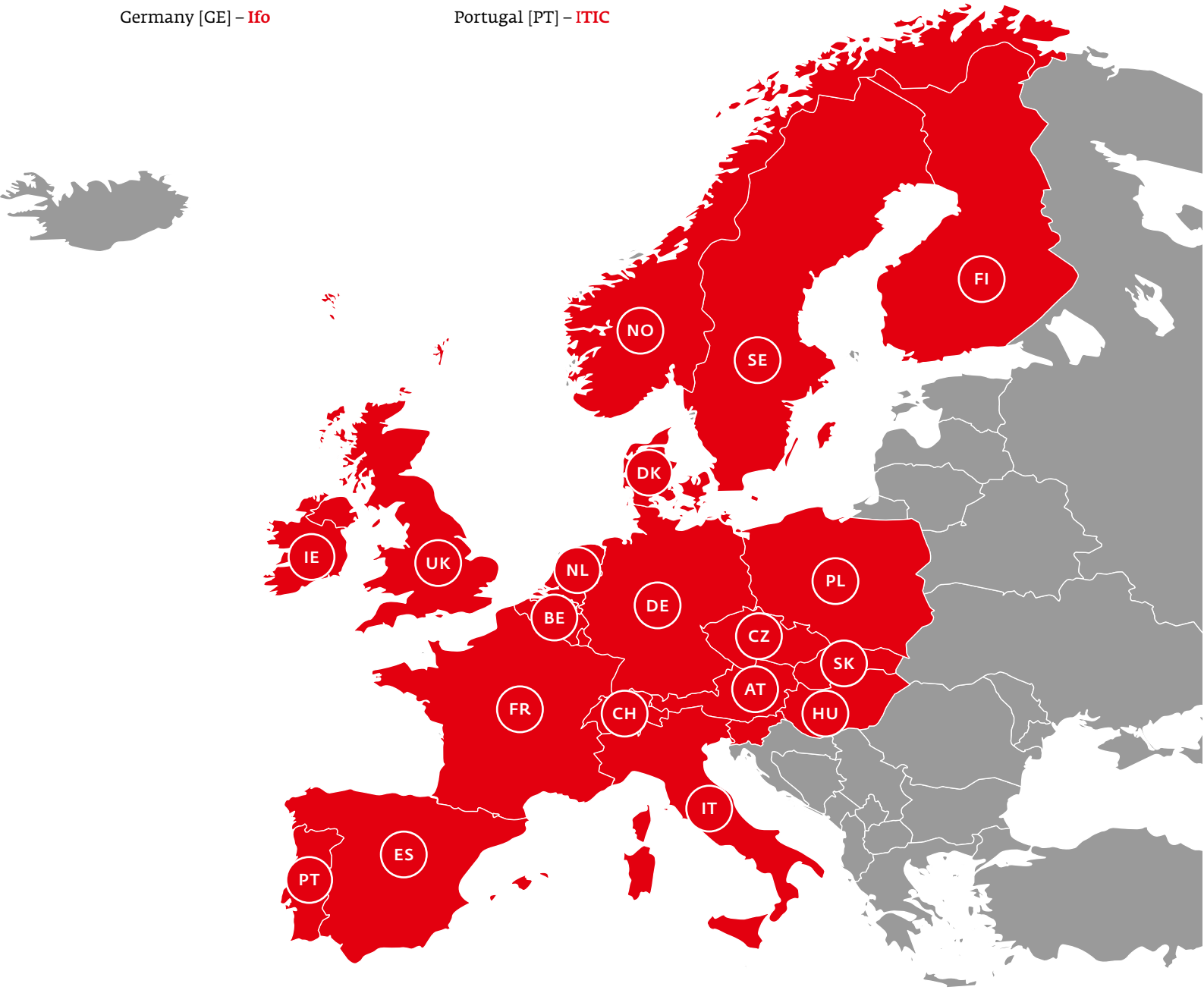

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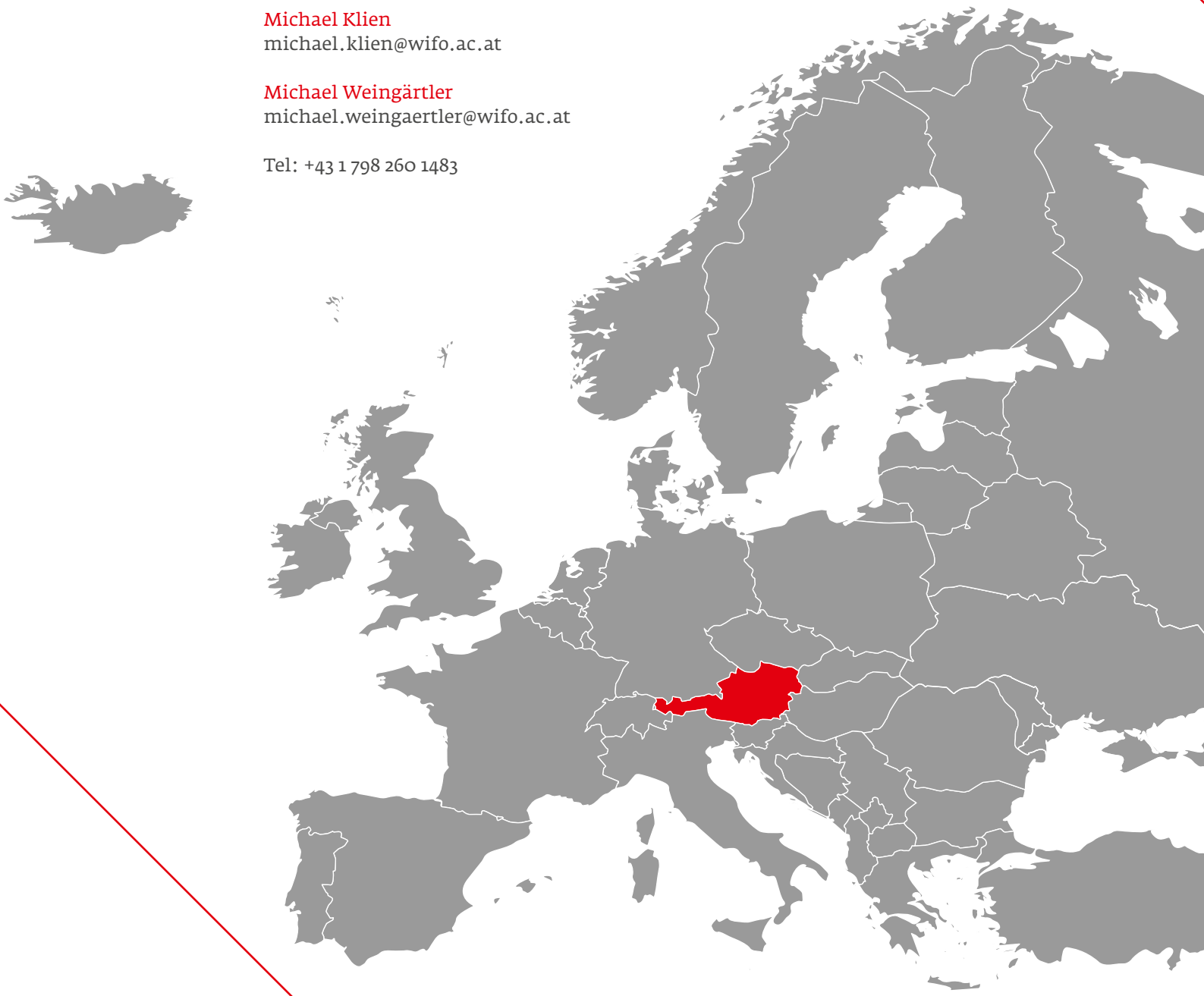


1. Summary and Conclusions

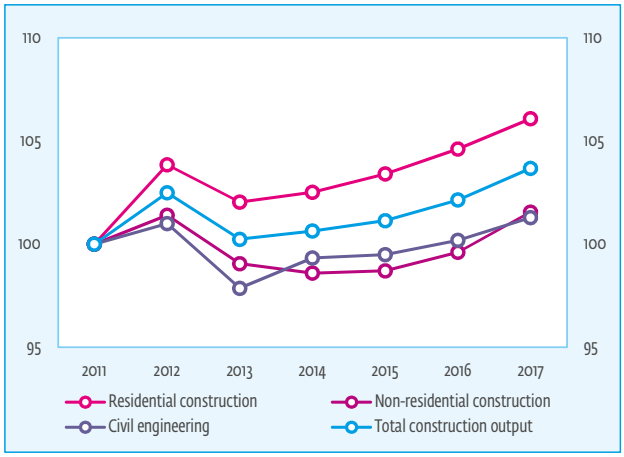
The Austrian economy is growing, but at a low rate and slower than the European average. For 2014, the preliminary figures exhibit a 0.3% increase in real gross domestic product. Responsible for the low-growth situation in Austria is a lack of stimulus. All major demand components are stagnating or are too small to generate an economic dynamic. Particularly foreign trade, which used to be a pillar of Austria's economic growth, is not fully participating in the recovery of world and European trade. But also domestic components like consumption and investment are too weak to accelerate economic growth. Whether the recently implemented income tax reform can boost economic recovery remains to be seen. The potential is, however, limited since part of the revenue loss is expected to be paid by lower public demand and higher taxes in other areas. The decision against debt financing the income tax reform is related to budgetary limits due to the stability and growth pact. The latter will be a decisive factor in determining public demand in general as well as the considerable public involvement in the construction sector – e.g. civil engineering but also public housing and construction and rent subsidies. Nevertheless, without an improvement of the general economic situation, the Austrian construction sector is unlikely to grow at a faster pace than currently.

The **housing** market was unable to avoid the trend of stagnation in the construction sector as a whole. On the contrary, with real growth of 0.5%, residential construction in 2014 was considerably weaker than expected in the previous report (2.6%). This particularly strong downward revision was due to an exceptionally strong performance of residential construction in the first half of 2014 whereas the second six months of the year were characterized by a sizeable recession. A major driver of this pattern was the favorable weather conditions in the first quarter, which signaled a strong recovery. In the course of the year, however, residential construction soured progressively indicating that some of the gains in the first two quarters were due to preponed projects. The strong setback in the second half of the year was at least partially a result of this shift. The low growth is also somewhat surprising given the high level of building permits in 2013 as well as 2014. The outlook for the current and coming years is mixed, with the outcome depending critically upon whether budgetary pressures will lead state governments to reduce construction subsidies. In this respect, the announced housing stimulus package ('Wohnbauoffensive') might be a major future growth factor. The details of the package are, however, not yet clear and its effects are unlikely visible before 2017. As a result of the associated uncertainty, this reform proposal is not yet considered in the current report.

Besides housing also **non-residential** construction output had to be revised downwards mainly because of the weak industrial production output and foreign trade in the second half of 2014 – this led to a decline in total non-residential construction output by 0.5 percent. Stagnation is expected within this market segment in 2015 even if the economic framework is improving. Nevertheless investment will remain on a low level since the demand from the main trade partners is low, industrial capacities are available and uncertainty is high. In 2016 non-residential construction is forecasted to turn to the positive with a stronger increase in 2017 (+2.0 percent). This trend is mainly driven by the industry and less by commercial construction which will continue to face a difficult market environment (because of high competition, legal regulations which should reduce green field shopping areas and also due to the weak private consumption).

Total Construction Output by Sector from 2011 to 2017

Index 2011=100



Source: EUROCONSTRUCT (79th Conference)

Civil engineering is expected to stagnate in total in 2015 despite the favourable development in transport infrastructure. One of the main reasons is a drop in the energy sector. A majority of new projects were stopped because of the current low price for electricity. This led to a decline by 1.5 percent within this sector. Additionally investments in water works shrank by -2.9 percent caused by a reduction of new freshwater pipeline projects due to lower demand. These two sectors will outweigh the increase in transport infrastructure in 2015. The outlook for 2016 and 2017 is more positive. In 2016 the railway sector will mainly contribute to the growth while in 2017 total traffic infrastructure is expected expand stronger. Investments in the telecommunication sector will also increase substantially because of a large public broadband support scheme, but the construction relevant impact will be only minor.

All in all **total construction** is facing a difficult period. Significant growth can currently only be achieved in specific niches. The overall outlook for

2015 is slightly positive (+0.5 percent) and should further increase in 2016 and 2017 mainly because of new housing construction and in non-residential construction along with the expected overall economic recovery.

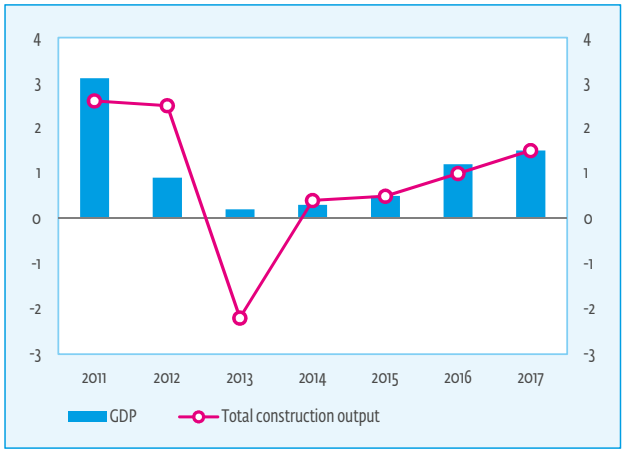
2. Macro-economic Outlook

The Austrian economy markedly lost pace in the second half of 2014 and entered a technical recession in the third and fourth quarter of the year. Both internal and external factors turned out less favourable than expected: Austria's foreign trade participated less from the international upswing than other countries and domestic industries continue to suffer from low demand and deferred investment. Compared to the report in autumn 2014, growth figures were revised downward repeatedly, with the second half of the year's slump balancing the gains from the first two quarters. Over the whole year, Austria's gross domestic product grew very modestly with 0.3 percent only.

A significant event in the last months was the long discussed income tax reform. While the relief of income tax payers, targeted to reduce the burden on labour, was relatively consensual, the financing of the reform was much debated. Eventually, as announced in March 2015, the reform is financed through a mix of self-financing, expenditure cuts (e.g. public administration), and higher revenues through tax increases and improved enforcement.

Foreign Trade. To some extent disappointing are the growth contributions from foreign trade. This traditional asset of Austria as a small open economy was unable to provide significant stimulus for the economy as a whole. Given the advantageous exchange rate to other major currencies coupled with low oil prices an export led-recovery was expected by most commentators. However, export dynamics remain flat with a continued growth of 1.5 percent in 2014 and only a modest expected improvement in 2015 (+2,0 percent). Particularly compared to the uptake in global and European trade, the limited participation of the Austrian export industry is a novel experience. In the previous report, exports were expected to grow by 3.3 percent in 2015. Now export growth is foreseen to improve not before 2016.

GDP and Total Construction Output from 2011 to 2017
year to year change in %



Source: EUROCONSTRUCT (79th Conference)

Investment. Investments by firms are largely under pressure by the still bleak general economic outlook. In the absence of improving demand side prospects, industrial production remains weak. Accordingly, investment climate is weak and firms tend to defer large investments and instead concentrate on replacement investment, if any. In addition to weak demand, uncertainty also weighs heavily on firm investment decisions. While the political situation itself remains stable, the unclear financing of the tax reform might have adversely affected investment climate. Particularly, the discussed re-introduction of property and/or inheritance taxes was poised to affect investment decisions by firms. Eventually, no substantial property taxes except a broadened tax base for the real-estate-transfer tax and an increase in the real-estate tax were included in the tax reform. Low interest rates and the decision of the European Central Bank to support the equity market by buying bonds do not seem to add to investment.

Labour, wages and private demand. The unfavourable economic situation also affects the labour market. The repeatedly increasing unemployment rate is testimony to this weakness, and while still low compared to other European countries, it significantly clouds consumer confidence and strains public budgets. But the gloomy outlook also affects workers in the job market, reducing hours worked and limiting wage increases per capita. Gross nominal wages per capita increased by 1.7 percent in 2014 and are expected to grow by 1.5 percent and 1.7 percent in 2015 and 2016. Given the relatively high inflation rate in Austria, gross real wages are virtually stagnating: 2014 +0.0 percent, 2015 +0.2 percent, 2016 +0.2 percent. As in the past, unemployment and employment figures are increasing simultaneously due to more part-time jobbers and an expanding labour supply. The increase in labour supply is still largely driven by the inflow of immigrant workers from neighbouring countries, but the growth rates are declining, indicating that labour supply expansion has reached its peak.

The weak evolution of purchasing power is also a drag on private consumption. Despite the forecast that inflation will be lower in 2015, the contribution of private consumption to growth will remain low. Current projections predict that private

consumption will improve only marginally over the coming years with a pace well below 1% in real terms. Although private consumption has traditionally been less important in Austria compared to other countries as a driver of recovery, the stagnating consumption adds to the overall picture of weak economic dynamics.

Public demand. Public expenditure increased by 4.8% and budget deficit by 2.4% in 2014. The expansionary fiscal path is, however, mostly driven by financing requirements for the banking sector. Particularly the bad bank Hypo Alpe Adria/ HETA weighed heavily on the public budget, accounting for 1.4% of the deficit. As a result, public debt increased by 17 billion Euro, representing 278 billion Euro or 84.5% of GDP at the end of 2014. Apart from banks being a major driver of public expenditure, also investment increased in 2014. Most of the investment is undertaken at the sub-national government level, and as their fiscal situation has been slightly improving over time, investment is picking up too. From 2013 to 2014 investment grew strongly from 7.6 to 9.3 billion Euro.

Macroeconomic Key Indicators in Austria 2011 to 2017
annual percentage change, real terms

	2011	2012	2013	2014	2015	2016	2017
GDP	3.1	0.9	0.2	0.3	0.5	1.2	1.5
Private consumption	0.7	0.6	-0.1	0.2	0.4	1.3	1.4
Investment (GFCF)	6.8	0.5	-1.5	0.5	1.0	1.8	1.8
Unemployment Rate	4.2	4.3	4.9	5.0	5.3	5.3	5.3
Inflation	3.3	2.4	2.0	1.7	1.3	1.9	1.8

Source: EUROCONSTRUCT (79th Conference)
Statistics Austria, EUROSTAT Labor Force Survey, WIFO-forecasts.

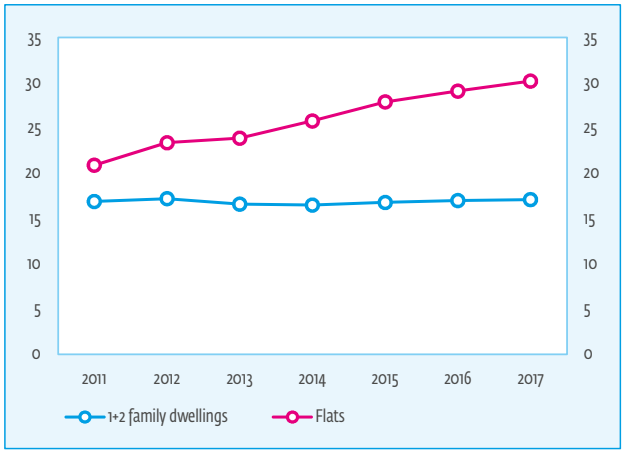
Downside risks. The current (macro-)economic situation in Austria faces a number of risk factors. Firstly, ripple effects from the banking crisis are still possible and may weaken the budgetary position of the Austrian government. Moreover, the presence of a few high-value law-suits from creditors of insolvent Austrian banks against the effected hair-cuts increases uncertainty regarding the final cost. Secondly, the conflict in Ukraine but also in the Middle-East and North Africa pose a constant threat to international trade. Austria's exposure with respect to a trade-dispute with Russia is far from negligible and shocks to oil and energy supply may easily curb the weak economic growth. Thirdly, even if Austria profits less than in the past from foreign trade, it remains a main pillar for economic recovery. Changing macroeconomic conditions of Austria's main trading partners, particularly Germany or the EU as a whole, may cripple the envisaged recovery. Fourth, the stance of the European commission with respect to member-state deficits and debt, also including Austria, will determine the potential for public demand. It is unclear, yet, how lenient the new Commission is in applying the stability of growth pact under the current economic conditions. In a similar vein, the success or failure of the Juncker-Plan to stimulate the European economy will have a direct impact in Austria if it is able to spur investment but will also affect the economy indirectly through trade-linkages. To summarize, the main downward risks relate to the fact that the slowly improving European economy is vulnerable to a number of shocks, internal to Europe but also external through the world economy.

3. Housing Market

The staggered economic recovery also made an impression upon the Austrian housing market. With a meagre real growth of 0.5%, residential construction in 2014 was considerably weaker than expected. In the previous report, the preliminary forecast for 2014 was at 2.6%. This particularly strong downward revision was due to an exceptionally strong performance of residential construction in the first half of 2014 whereas the second six months of the year were characterized by a sizeable recession. A major driver of this pattern was the favourable weather conditions in the first quarter, which signalled a strong recovery. In the course of the year, however, residential construction soured progressively, indicating that some of the gains in the first two quarters were due to preponed projects. The strong setback in the second half of the year was at least partially a result of this shift.

Judging from growth rates in 2013 and 2014, it appears that housing construction is no longer the stabilizing force of the Austria's construction

Housing Completions from 2011 to 2017
in thousands



Source: EUROCONSTRUCT (79th Conference)

market it was in the past, particularly during the crisis. While the sources of this development are manifold, the expiring anti-cyclical policies implemented during the economic crisis add to this process. Nevertheless, the current plans of the government to increase housing production to counter increasing prices and satisfy growing demand in cities ('Wohnbauoffensive') might revive residential construction in the coming years. The plans are, however, too preliminary in their design and as implementation will hardly start before 2017, they are not yet considered in the forecasts.

Regarding the outlook for the coming years, we deem the following positive as well as negative factors important for the development of residential construction:

Positive influencing factors
- Interest rates
- Increasing housing prices
- Demographic change
- Climate and energy targets
- Government policies (Wohnbauoffensive)

Negative influencing factors
- Fiscal consolidation
- Low energy prices
- Economic outlook

3.1 New Housing

Interest rates. The situation on the financing side remains largely unchanged since the 78th EUROCONSTRUCT conference help in November 2014 in Milan, Italy. Monetary policy set by the European Central Bank (ECB) has pushed interest rates for mortgage loans to historic lows. Although the interest rates were already below 3% at the end of 2014, the current private housing loan with a duration of 5 to 10 years is available at an interest rate of 2,4%. This further decrease is closely related to the ECB policy to buy bonds on the secondary market, driving interest rates down below the statutory rates, which are already at 0.05%. The outlook for interest rates remains very low and will strongly depend on the recovery process of the European economy. In any case, it is highly unlikely that interest rates will rise before 2016.

Housing permits. The previously predicted reversal in housing permits has not yet materialized. On the contrary, 2014 saw another increase in the number of building permits, also for new buildings. The high level of building permits since 2010, leaving the drop in 2012 aside, now appears to be permanent and not only transitory. Although the last years were heavily influenced by a few large scale projects in major urban areas, there are currently no signs that housing permits will return to their pre-2010 level. It should be noted, however, that the composition of housing permits shows that much of the past increase was driven by multi-storey-housing projects. In contrast, one or two family houses have increased at a more moderate pace. The former type is, however, much more volatile as it strongly depends on government policies. Sudden changes in public housing policy may therefore quickly translate into lower, or higher, housing permits. The envisaged public housing program 'Wohnbauoffensive' may therefore push housing permits well over 50,000 units.

Demographic trends. As already indicated in the 78th EUROCONSTRUCT report, Austria is a growing country in terms of population and households. Forecasts from Statistics Austria predict that Austria will cross the threshold of 9 Million by 2025, largely driven by immigration from new EU member states. The inflows are, however, very heterogeneous and concentrated on metropolitan areas. Vienna alone is expected to grow by 230,000 inhabitants until 2030. The growing demand from population growth is compounded by a continuously decreasing household size, which does not appear to have bottomed out yet. Moreover, although smaller households seek smaller housing units, square meters per capita are higher for smaller household types.

Housing prices. Amongst the most intensely debated political issues in Austria are housing prices. According to the Austrian Chamber of Commerce prices for used flats have increased by 24 percent between 2010 and 2013. Also 2014 is expected to exhibit increasing prices, even if at somewhat lower pace. As for the population forecasts, and related to it, the question of affordability of housing has led to a number of government initiatives that affect also the housing market in terms of new construction. Parts of the initiatives are legal in nature and concern rent regulations. Although the associated laws are still in the making, a consolidation of the fragmented rent regulations is envisaged. Depending on the outcome of the negotiations, the legal framework might have important incentive effects on private residential construction. In general, the steep rent and real-estate price increases since 2010 have sparked more private housing construction but private investors (more than home-owners) tend to react to rent regulations that limit potential profits. As a consequence, it is not yet foreseeable if the surging housing prices will materialize in significantly higher housing construction from private investors. On the other hand, the increasing prices create political pressure for the government to increase housing supply and assume its traditional role of a major housing supplier in Austria.

Fiscal consolidation. Given the important role of the public sector in housing construction in Austria, particularly for multi-storey housing, the

budgetary situations of central and sub-national governments are an important factor. The housing construction subsidy scheme (Wohnbauförderung) is the main instrument to support construction of new buildings and focuses both on direct rent subsidies for poor households as well as financing assistance for own-home and non-profit housing. The programs are operated by state governments and financed through the general fiscal equalization scheme. In contrast to before 2008 when some of the state funds were earmarked, states decide autonomously on the amount spent on housing. As a result, state governments had a tendency to reduce housing finance in the face of budgetary pressure or if other expenditure categories were deemed more important.

The Austrian debt brake, which also covers sub-national governments is poised to limit government expenditure to reduce the debt burden accumulated during the crisis and the following stimulus packages. For this reason, it is not unlikely that the housing construction subsidy scheme will also be subjected to some budgetary cuts in the coming years. The degree of cuts will depend on several factors: Firstly, the leeway the European Commission and Fiscal council give to member states with respect to budgetary targets. Austria has recently received notification that it is projected to exceed the targets of the stability and growth pact, and hence has to seize remedial measures. The negotiations with Austria but also with other countries like France and Italy will be indicative of how strict the Commission applies the rules in times of lagging recovery. Secondly, state governments will cut spending depending on its priorities. If the public debate about affordability of housing continues it is likely that governments are unable to reduce this expenditure category by much or might even increase spending. Thirdly, the private sector might fill part of the gap from public financing. Interestingly, the need to comply with the stability and growth pact has led to innovative ways of financing infrastructure and housing. The announced 'Wohnbauoffensive' is also expected to be almost neutral from a debt and deficit perspective. Instead private financing from capital markets is sought as an alternative to public finance.

3.2 Housing renovation

The housing renovation market in Austria is largely stagnating. Despite the ambitious climate and energy targets, renovation activity is not picking up significantly. This is not very surprising since fiscal incentives for renovation have remained the same over the last years. One of the main financing schemes is the so-called 'Sanierungsscheck' for private households with a size of 70 Mio. Euro. There is, however, a plethora of funding facilities for climate and energy efficiency related renovation from local and state governments. A relevant impediment for higher renovation rates in Austria is the fact that for rented apartments, owners and landlords have reduced incentive to renovate because potential energy cost savings benefit the tenant whereas the investment cost cannot easily be added to the rent. A clearer legal framework in this respect might change the current situation. Overall, residential renovation grew slightly faster than new residential construction in 2014.

4. Non-residential Market

Austrian non-residential construction performed poor in the recent past. In 2013 it declined by 2.3 percent and in 2014 a further downturn by 0.5 percent could be observed. It turned out that the performance of non-residential construction was significantly weaker than stated in the previous EUROCONSTRUCT report. The main reason was the strong downward revision of the national accounts by Statistics Austria, which affected mainly the year 2013 but also the economic performance in 2014 was weaker than expected.

In general, long-term data for Austria shows that investment in non-residential construction responds pro-cyclical to changes in the overall economy. Additionally they are highly sensitive to economic changes compared to the other construction sectors. This implies that a minor decline or even a weakness in growth can significantly influence the output of non-residential construction to the negative. This is what happened in 2013. The Austrian economy and so total construction performed in 2013 weaker (-2.2 percent) than originally published according to the latest figures based on the European System of National Accounts (ESA 2010). This decline largely stemmed from a stronger contraction of non-residential construction.

The downward trend in non-residential construction continued in 2014. The performance of the industry looked promising until summer 2014. Output grew especially in the first quarter of 2014 – positively influenced by the mild winter. However the economic development changed rapidly. First signs of a weaker development in non-residential construction could already be observed in the second quarter 2014. The degree of the downturn increased significantly in the second half of 2014 leading to a minor decline over the whole year. New construction was affected by this downturn more than renovation. Nearly all sub-sectors in non-residential construction had to face a decline in 2014.

Educational buildings. The Austrian government initiated a public investment program in schools

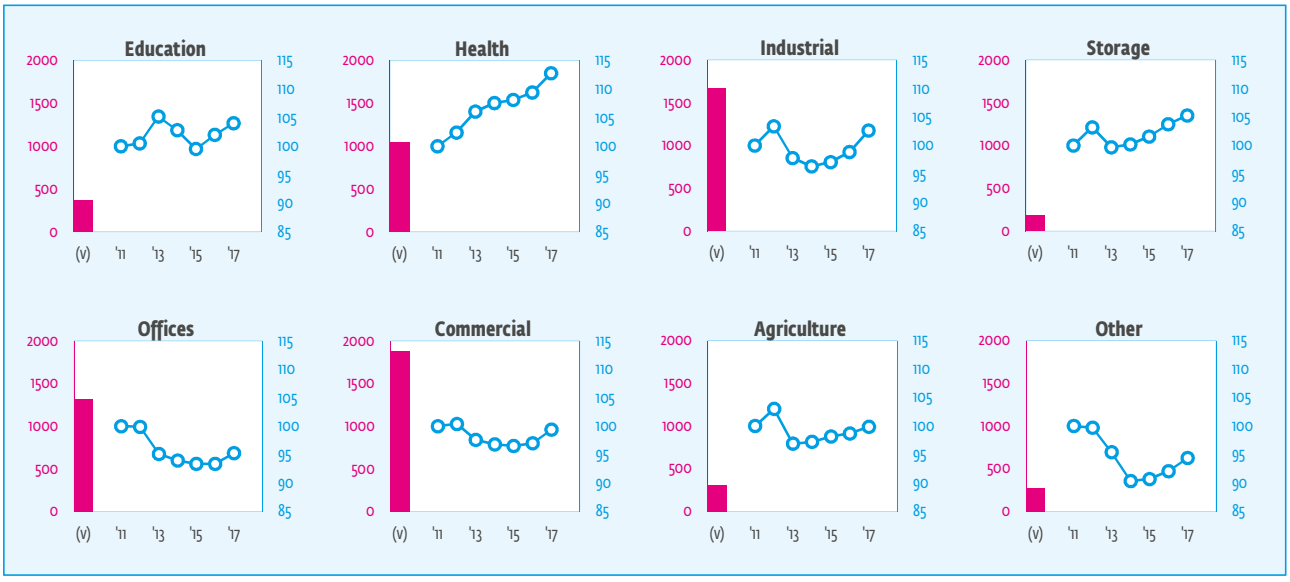
within the period 2008 to 2018 with a budget volume of 1.66 bn Euro. By the end of this period every third school site will be expanded, renovated or newly built. The governmental program led to a constant construction volume in the years 2011 and 2012. The significant increase in 2013 was related to an investment program in child care facilities along with major university projects which were additionally publicly funded. This was a one-time affect. Educational construction of new buildings is not expected to increase until 2016 due to budgetary constraints. In general, the federal real estate agency (BIG Bundesimmobiliengesellschaft) is the main developer in the area of educational buildings. Schools amount to 40% and universities to about 23% of their company portfolio. In 2014 BIG planned a special building program for universities with a volume of 200 million Euro but this is will not affect new educational construction since the program is solely designated for renovation of existing university buildings.

Buildings for health. In the area of health care around 2.3 bn. Euro were invested in 2013 according to the System of Health Accounts (Statistics Austria). This amount contains construction related investments as well as investments in medical devices. Even if the demand for health care is significantly increasing due to the aging population it can be also observed that financial constraints are significant. Health care expenditures increased only by 1.7 percent in 2013 and amounted to 34.9 bn. Euro. This is well below the long term average rate of 5% (1990-2013). Growth stems mainly from the private sector which raised its engagement over the past 15 years. While in 1990 the private sector took a share of about 25% it increased up to 40% in 2013. Health construction seems to have reached its peak and new health construction is forecasted to grow only slightly 0.5% in 2015. One of the biggest projects, the so called 'Hospital North' in Vienna, with a project volume of about 1 bn. Euro is now scheduled to be in full operation in 2017. In general it is expected that public constraints get less in the years 2016 enabling higher investments. Therefore new construction in the health sector are likely to grow by 1.2 percent in 2016 and by around 3.1 percent in 2017.

Industrial buildings. New industrial construction output (2014: 1.7 bn. €, 24 percent share on new non-residential construction) declined by -1.5 percent in 2014. The unfavorable industrial business climate was largely responsible for this trend which deteriorated in the from the second half of 2014 until the end of the year. Industrial production growth continuously shrank since 2011, reaching stagnation in 2014. Stimuli from foreign trade which are most relevant for industrial production in a small open economy like Austria were also missing. The nominal value of exports to Austria's major trade partner Germany only increased by 0.5 percent and exports to the whole Euro area (EU-19) could be only expanded by 0.3 percent in 2014. Especially the weak demand from the Euro area – which accounts to about 50% of Austria's export volume – is a main hindering factor. This together in combination with weak domestic demand and low outstanding orders led to shrinking investments in industrial construction in 2014. The business climate is expected to improve but it will be still difficult in 2015. Production of goods will increase in 2015 by 1.0 percent and in 2016 a growth by 2.5 percent in real terms according to the latest WIFO forecasts from March. This goes in line with an expansion of foreign trade (export growth 2015: 2.5 percent and

Non-residential: breakdown by subsectors

(v) = volume 2014, million €, left scale; (line graph) = index at constant prices, 2011=100, right scale



Source: EUROCONSTRUCT (79th Conference)

2016: 4.0 percent). New industrial construction is therefore likely to recover in 2015 with a real growth by 0.8 percent and by further 1.8 percent in 2017.

Office buildings. New office construction declined by -1.2 percent in 2014 and a recovery in 2015 is unlikely (-0.6%). This sector suffers from the low overall economic performance. Austria's unemployment rate belonged to one of the lowest within EU-29 in the recent past but it is continuously rising at the moment, reaching 5.3% in 2015. Austria lost its top-ranking within the European Union. Nevertheless the level is expected to be stable until the end of the forecasting period 2017. Vienna is the most important office market in Austria. But the latest 2011 census showed that the capital lost market shares within Austria. While in 2001 every third office square meter was finished in Vienna (33%) the rate declined to 28%. On the other hand Lower and Upper Austria as well as Styria could expand their office stock stronger in relative terms.

Nevertheless Vienna is by far the most important office market. About 15,000 square meter office space were completed in 2014 which was a major drop compared to 2013. Also the rental volume declined significantly according to real estate companies (CBRE). The vacancy rate is expected to be stable at a level of 6.6 percent despite the weak performance because also new construction is at a low level. Prime rents per month as well as average rents are also stable at around 25 Euro (yield: 3.8 percent) and 15 Euro (yield: 6.1 percent) in 2014 according to Columbus Collier.

Despite this stable picture from the real estate side new non-residential construction is facing a difficult period. The output is expected to decline slightly in 2015 by -0.6% and significant growth is not likely before 2017.

Commercial buildings. New commercial construction performed also weak in the past years with declining output and additional pressure by strong competition in a market which shows saturation in some areas. Relatively high unemployment in combination with low private consumption (2014: +0.2 percent) are further hindering elements for construction growth. Legal regulations which should hinder the broad construction of green field shopping centers in some federal states are another limiting factor. Collectively, new commercial construction declined by 0.8 percent in 2014 and is further expected to shrink by -0.3% in 2015. The 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 and is expected to be around 6 bn. Euro in 2014 (KMU Research Austria). This additionally dampens the outlook in new commercial construction.

All in all **total residential construction** is expected to stagnate in 2015 and will increase only slightly in 2016 (+0.9 percent). A stronger increase, which will be mainly pushed by industrial construction, is forecasted for 2017 (+2.0 percent) but this will take place only under the condition of an improving business climate and a strengthened export sector.

5. Civil Engineering Market

Austria's civil engineering market grew by 1.5% in 2014 and it is expected to stagnate in 2015 because of the ongoing pressure of the public households.

The outlook for civil engineering is influenced/limited by several factors:

- Maastricht relevant deficit will slightly improve (- 2.2 percent of GDP in 2015 compared to -2.8 percent in 2014) nevertheless the budgetary margins are small. The financial framework 2016 to 2019 – which was announced mid-April 2015 – is designed to achieve a general government deficit of 0.5 percent by the end of 2019. This can only be achieved by further cuts in public expenditure.
- Additional 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 Euro in the area of administration and financial supports. At the moment it is not clear how this will affect public investments in infrastructure but the goal to reduce the Maastricht deficit might also lead to a revision of the national infrastructure plan in the near future.
- Uncertainty on the public budget arises also from the insolvent "Hype Alpe Adria Bank". Debt repayment was stopped until May 2016 (Heta moratorium). This could cause further law suits and above that the total amount of losses is currently not clear. The public financial involvement could therefore be higher in future than currently budgeted.
- Tunnel projects take the largest share within the Austrian civil engineering sector. Budgetary constraints could cause delays of big traffic infrastructure projects which would significantly reduce the output in civil engineering.

On the other hand factors which could influence civil engineering to the positive are:

- Investments in broadband which are highly supported by the public could generate stronger growth in telecommunication in 2015. This mainly depends on the decision of the EU if the public grants will be allowed.
- An economic upswing along with higher energy prices could push the energy sector more than currently forecasted.

- Transport infrastructure could profit from investments in renovation, mainly in the railway sector.

Road construction. Investments in road construction take place on three different levels in Austria (federal, state and municipal level). Largest investments are made on the federal level by ASFINAG, Austria's highway financing company. They are responsible for planning, financing, building and maintenance.

More than 900 mn Euro were invested in the highway network in 2014. According to the ASFINAG building program 2013 to 2018 a further increase in investment is planned in 2015 which will be the main driver in road construction. Therefore a total increase in the area will be by around 2.5 percent in 2015. Around 500 mn. Euro are invested into road safety. The main focus is put on tunnel safety within this area. About 1.5 bn Euro are budgeted for tunnel safety until 2019. At that time more than 80 tunnels will be renovated and put on a higher security level. ASFINAG could generate a revenue of 520 mn Euro and could therefore increase its equity ratio to 24 percent according to the annual report.

The outlook for 2016 is currently uncertain. The investments on municipal level increased strong in 2012 and 2013 where they reached nearly a ten-year high. Facing the tight budgetary situation it is not expected that this level can be kept. Additionally the ASFINAG building program (2013-18) suggests a decline in investments in 2016. This will in total lead to a temporary reduction of road investment by 1.5 percent in 2016. According to the existing investment plans an expansion is already likely in 2017 with a growth rate over 1 percent.

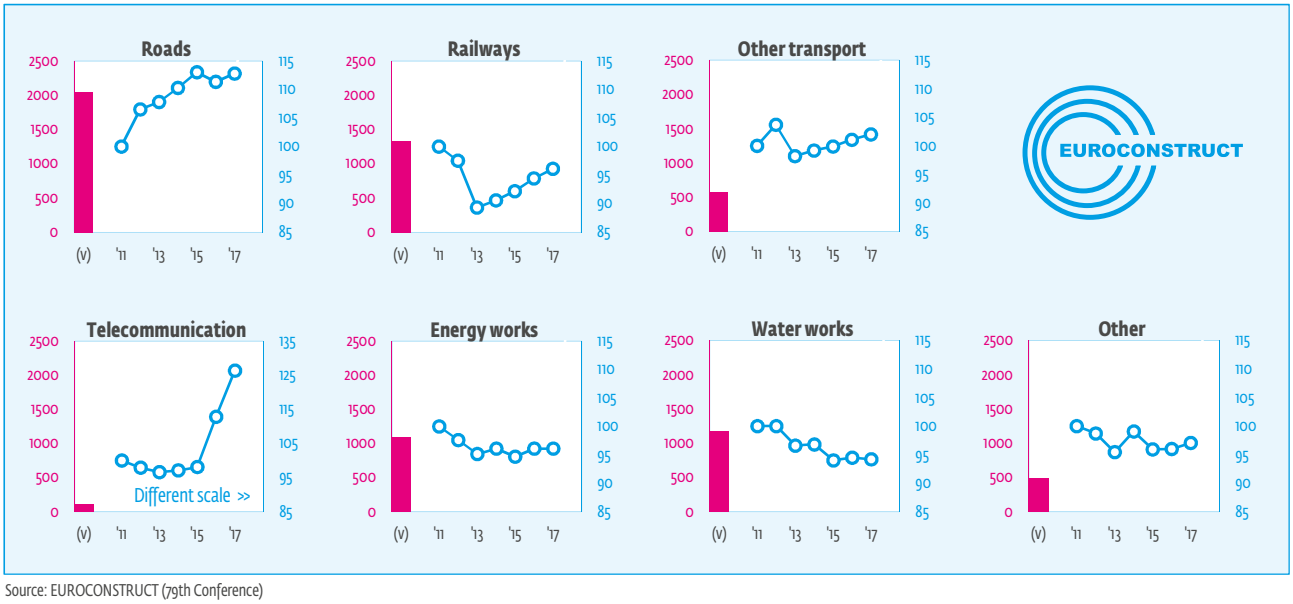
Railway. Investments in railway infrastructure should increase by 1.8% in 2015 and so slightly less than forecasted in the previous report. Main reason is the downturn in overall economic growth in the second half of 2014 and the current weak performance in 2015. This also hits the railway sector since it does not only depend on the state of the public finances but also from the overall economic performance. Especially Rail Cargo revenues go along with the industrial production output and the foreign trade which were below the expectations.

Nevertheless the outlook remains unchanged. A growth of railway investments in 2016 is expected to be about 2.5 percent and of about 1.8% percent in 2017. There is still a downside risk because of the public budget situation. On the other hand the financing conditions are likely to stay favorable. The interest level of government bonds strongly influences the conditions for rising outside capital. The secondary market yield of 10 year governmental bonds was continuously declining from 3.3 percent in 2011 to 0.5% in 2015 which is expected to hold on. The low interest rate in combination with the high degree of solvency of Austria guarantees favorable financing conditions for rail infrastructure projects. As already discussed at the beginning the outlook will mainly depend on the progress of the large tunnel projects.

Telecommunication. Investments in telecommunication were weak in the recent past. The market consolidated with the 2012 fusion of Orange Austria and Hutchison 3 Austria lead to lower investments and higher prices. This trend intensified in 2013 due to the auction of the LTE frequencies which surprisingly generated record auction proceeds of 2 bn Euro. This limited investment possibilities of

Civil engineering: breakdown by subsectors

(v) = volume 2014, million €, left scale; (line graph) = index at constant prices, 2011=100, right scale



Source: EUROCONSTRUCT (79th Conference)

the market players further. A new telecom provider entered the market in 2015 successfully and additional companies will follow during the year which will increase competition again. Investments in telecommunication – mainly into the LTE network and fibre glass network extention – are expected to increase only slightly by 0.5 percent 2015. A significant increase can be seen from 2016 onwards. The infrastructure ministry will invest 1 bn Euro into the expansion of the fast broadband internet (100 Mbit/sec) until 2020. The existing infrastructure must be used (and should not be overbuilt), additionally the federal government has the pre-emptive rights which should hinder municipalities to sell the public financed network to private companies. The public funding is currently proved by the EU and it is expected that financial support will be granted by the second half of 2015 leading to stronger telecommunication investments in 2016 (+15 percent) as well in 2017.

Energy. Investments in new power plants will be lower in the forecasting period mainly because of two reasons:
(1) The low price for electricity is the main hindering factor for construction new hydro-power plants and especially thermal power stations. Investment plans within this sector changed therefore significantly within the past two years. Most of the hydropower projects which were planned for 2015 and 2016 were postponed according to Energy Austria. Thermal energy power projects were even more affected by the low electricity price – those projects were completely stopped and no project is planned until 2020. On the other hand renewable energy from wind power and photovoltaic energy are currently the fastest growing sector within Austria's energy production. This also because of strong private engagement.
(2) Additionally Austria's power production is currently sufficient according to the energy regulator E-Control.

These two points are mainly responsible for the decline in construction output within the energy sector by 1.5 percent in 2015. Nevertheless the expansion of hydro-power plants is necessary to satisfy the future demand and also to fulfill the climate targets. Further investments into hydro-power plants is one of the elements which are a condition to achieve the climate goals. Therefore investments in the whole energy sector are expected to increase slightly in 2016 by 1.5 percent.

Water Works. Construction works in the area of fresh- and wastewater stagnated in 2014 and a decline by 2.9 percent is expected for 2015. As stated in the previous report a survey of Kommunalkredit public consulting showed that one of four municipalities plan to cut new investments. About 95 percent of the households were connected to municipal sewage plants. But also new freshwater pipeline projects are decline a recent paper showed (Federal Ministry of Agriculture, Forestry, Environment and Water Management) that the length of new water pipelines declined from 439 km in 2010 to 320 km in 2012. Projects in waste water management have therefore a much larger volume (64 percent on total water works). The need for new investments declined in the area of water works over the past years clearly. Thus renovation works will account in 2015 for more than half of the water works output (52 percent) and this share will continuously increase up to 70 percent by 2020.

Total civil engineering is expected to stagnate in 2015 (+0.2 percent) and a significant increase until the end of the forecasting period 2017 cannot be achieved. Especially the energy and water sector will dampen the output in 2015 while the road infrastructure sector could worsen the outlook in 2016. Based on the current budgetary situation only minor growth of about 0.7 percent in 2016 and by 1.1 percent in 2017 are likely in total civil engineering.

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 2015 WIFO forecasts (preliminary data for 2014, forecasts for 2015 and 2017). 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 2015 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 2013 changed substantially due to a revision of the previously preliminary national accounts figures. Statistics Austria publishes updated national accounts data for year t at the end of year t+1.
- 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 the level but also past growth rates are affected.

Table 3

- Permits, starts and completions refer to new dwellings in new residential buildings.
- Permitted dwellings until 2014 are based on the official figures (April 2015) 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: No official statistics are available for Austria. Data included in the report is 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 WIFO March 2015 forecast (preliminary for 2014, forecasts for 2015 to 2017). Data stems from the national accounts based on ESA 2010 system.
- Volumes of each GDP component are at market prices, VAT included.

Country/Pays/Land: Austria — Table 1

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

					Forecast		Outlook
	2011	2012	2013	2014	2015	2016	2017
Population ('0000s) **Population** **Bevölkerung**	8 375	8 408	8 452	8 508	8 566	8 621	8 673
Households ('0000s) **Ménages** **Haushalte**	3 631	3 660	3 690	3 729	3 768	3 804	3 838
Unemployed ('0000s) **Chômeurs** **Arbeitslose**	247	261	287	319	350	369	375
Unemployment rate (%) **Taux de chômage** **Arbeitslosenquote**	4.2	4.3	4.9	5.0	5.3	5.3	5.3
Change of GDP **Variation du PIB** **Veränderung des BIP** **(% change in real terms)**	3.1	0.9	0.2	0.3	0.5	1.2	1.5
Consumer prices (% change) **Prix à la consommation** **Verbraucherpreise**	3.3	2.4	2.0	1.7	1.3	1.9	1.8
Construction prices (% change) [1] **Prix de la construction** **Baupreise**	3.2	2.6	1.3	1.5	1.5	2.1	2.3
Short term interest rate [2] **Taux d' intérêt à court terme** **Kurzfristiger Zinssatz**	1.4	0.6	0.2	0.2	0.1	0.1	0.1
Long term interest rate [3] **Taux d' intérêt à long terme** **Langfristiger Zinssatz**	3.3	2.4	2.0	1.5	0.5	0.5	0.5

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
		2014	2011	2012	2013	2014	2015	2016	2017
Residential construction Logement Wohnungsbau	New	10 779	3.4	4.5	-2.0	0.3	1.0	1.3	1.5
	Renovation	5 181	1.8	2.5	-1.2	0.8	0.6	0.9	1.2
	Total	**15 960**	**2.9**	**3.8**	**-1.7**	**0.5**	**0.9**	**1.2**	**1.4**
Non-residential construction Bâtiments non résidentiels übriger Hochbau	New	7 042	4.3	1.4	-2.8	-0.9	0.0	1.0	2.7
	Renovation	2 704	2.3	1.4	-1.0	0.7	0.4	0.7	0.0
	Total	**9 747**	**3.8**	**1.4**	**-2.3**	**-0.5**	**0.1**	**0.9**	**2.0**
Building Bâtiment Hochbau	New	17 821	3.8	3.2	-2.3	-0.2	0.6	1.2	2.0
	Renovation	7 885	2.0	2.1	-1.1	0.8	0.5	0.8	0.8
	Total	**25 706**	**3.2**	**2.9**	**-2.0**	**0.1**	**0.6**	**1.1**	**1.6**
Civil engineering Génie civil Tiefbau	New	5 476	0.3	0.9	-3.4	1.7	0.1	0.5	1.3
	Renovation	1 356	0.8	1.4	-1.9	0.7	0.4	1.5	0.3
	Total	**6 832**	**0.4**	**1.0**	**-3.1**	**1.5**	**0.2**	**0.7**	**1.1**
TOTAL CONSTRUCTION OUTPUT		**32 539**	**2.6**	**2.5**	**-2.2**	**0.4**	**0.5**	**1.0**	**1.5**

	2014					Forecasts		Outlook
	Volume mill. tons	2011	2012	2013	2014	2015	2016	2017
Domestic cement consumption Consommation intérieure de ciment Inländischer Zementverbrauch	4.43	4.5	4.6	4.5	0.7	0.7	1.3	2.0

Renovation covers repair and maintenance, refurbishment and reconstruction.
1) At 2014 prices, excluding taxes.

Country/Pays/Land: Austria — Table 3

RESIDENTIAL CONSTRUCTION
CONSTRUCTION DE LOGEMENTS
WOHNUNGSBAU

		Thousands dwellings						
						Forecast		Outlook
		2011	2012	2013	2014	2015	2016	2017
Building permits **Logements autorisés** **Baugenehmigungen**	1+2 family dwellings Individuels 1+2-Familienhäuser	17.7	15.8	16.4	17.1	17.2	17.4	17.7
	Flats Collectifs Mehrfamilienhäuser	27.8	24.9	29.5	30.8	30.8	32.0	34.3
	Total	**45.4**	**40.7**	**45.9**	**47.8**	**47.9**	**49.5**	**51.9**
Housing starts **Logements commencés** **Baubeginne**	1+2 family dwellings Individuels 1+2-Familienhäuser	16.6	15.9	15.3	15.9	16.3	16.4	16.7
	Flats Collectifs Mehrfamilienhäuser	23.2	25.0	25.8	28.6	29.2	29.8	31.5
	Total	**39.8**	**40.9**	**41.1**	**44.5**	**45.5**	**46.3**	**48.2**
Housing completions **Logements terminés** **Baufertigstellungen**	1+2 family dwellings Individuels 1+2-Familienhäuser	16.9	17.2	16.6	16.5	16.8	17.0	17.1
	Flats Collectifs Mehrfamilienhäuser	21.2	23.6	24.6	26.3	28.3	29.4	30.4
	Total	**38.0**	**40.8**	**41.2**	**42.9**	**45.1**	**46.4**	**47.5**
Housing stock **Logements existants** **Wohnungsbestand**	**Total**	**4 441**	**4 480**	**4 520**	**4 561**	**4 604**	**4 649**	**4 695**
	thereof second homes dont résid. secondaires davon Zweitwohnungen	322	257	259	262	264	267	269
	thereof vacancies dont inoccupés davon leerstehend	222	224	226	228	230	232	235
	share of family dwellings (%) part des maisons individuelles Anteil 1+2-Familienhäuser	48.5	48.5	47.7	47.5	47.3	47.1	46.9
Home ownership rate [1] **Taux de propriétaires occupants** **Wohneigentumsquote**		55.8	55.8	56.3	56.5	56.3	56.1	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
	2014	2014	2011	2012	2013	2014	2015	2016	2017
Buildings for education **Bâtiments de l'éducation et de la recherche** **Gebäude des Bildungswesens**	364		0.0	0.5	4.7	-2.3	-3.2	2.5	2.0
Buildings for health **Bâtiments de santé** **Gebäude des Gesundheitswesens**	1 048		2.8	2.4	3.6	1.4	0.5	1.2	3.1
Industrial buildings **Bâtiments industriels** **Industriegebäude**	1 663		7.8	3.4	-5.4	-1.5	0.8	1.8	3.8
Storage buildings **Bâtiments de stockage** **Lagergebäude**	178		5.1	3.2	-3.4	0.5	1.4	2.1	1.5
Office buildings **Bureaux** **Bürogebäude**	1 325		5.9	-0.1	-4.8	-1.2	-0.6	0.0	2.0
Commercial buildings **Commerces** **Geschäftsgebäude**	1 875		3.2	0.4	-2.8	-0.8	-0.3	0.5	2.5
Agricultural buildings **Bâtiments agricoles** **Landwirtschaftsgebäude**	317		-3.0	3.0	-5.9	0.3	1.0	0.5	1.2
Miscellaneous **Autres** **Sonstiges**	274		2.9	-0.3	-4.3	-5.3	0.4	1.5	2.5
TOTAL	**7 042**		**4.3**	**1.4**	**-2.8**	**-0.9**	**0.0**	**1.0**	**2.7**

1) At 2014 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
		2014	2011	2012	2013	2014	2015	2016	2017
Transport infrastructure **Infrastructures de transport** **Verkehrsinfrastruktur**	Roads Réseau routier Straßen	2 045	0.3	6.5	1.2	2.3	2.5	-1.5	1.3
	Railways Voies ferrées Bahnanlagen	1 328	1.2	-2.5	-8.4	1.4	1.8	2.4	1.8
	Other transport Autres réseaux Übrige Verkehrsinfrastruktur	573	0.7	3.7	-5.3	1.0	0.7	1.2	0.9
	Total	**3 946**	**0.7**	**2.7**	**-3.2**	**1.8**	**2.0**	**0.2**	**1.4**
Telecommunications **Télécommunications** **Telekommunikation**		115	1.1	-2.1	-1.3	0.5	1.0	15.0	12.0
Energy works **Réseaux d'énergie** **Energieversorgung**		1 097	-2.9	-2.4	-2.5	1.0	-1.5	1.5	0.0
Water works **Réseaux d'eau** **Wasserversorgung**		1 180	1.4	0.0	-3.4	0.2	-2.9	0.5	-0.3
Other **Autres** **Sonstiges**		495	3.4	-1.3	-3.3	3.8	-3.2	0.1	1.1
TOTAL		**6 832**	**0.4**	**1.0**	**-3.1**	**1.5**	**0.2**	**0.7**	**1.1**

1) At 2014 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
	2014	2011	2012	2013	2014	2015	2016	2017
Private consumption [2] **Consommation privée** **Privater Verbrauch**	177.2	0.7	0.6	-0.1	0.2	0.4	1.3	1.4
Public consumption **Consommation publique** **Staatsverbrauch**	65.1	0.1	0.4	0.7	0.5	1.1	-0.1	1.3
Gross fixed capital formation **Formation brute de capital fixe** **Bruttoanlageinvestitionen**								
Total	72.8	6.8	0.5	-1.5	0.5	1.0	1.8	1.8
of which construction	34.8	2.6	1.2	-2.2	0.4	0.5	1.3	1.5
Stocks (contribution as % of GDP) [3] **Variations de stocks** **Vorratsveränderungen**	1.7	1.7	1.5	0.7	0.5	0.6	0.8	0.8
Exports **Exportations** **Exporte**	175.8	6.6	1.3	1.4	1.5	2.0	3.2	3.4
Imports **Importations** **Importe**	164.1	6.4	0.7	-0.3	2.4	2.3	3.5	3.4
GDP **PIB** **BIP**	**329.0**	**3.1**	**0.9**	**0.2**	**0.3**	**0.5**	**1.2**	**1.5**

Standard National Accounts, gross figures.
1) At 2014 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.