Austria: Crisis ...what crisis?

While the Eurozone's economic figures continue to disappoint, the Austrian economy should remain a pillar of strength in 2019

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Private consumption remains an important growth driver

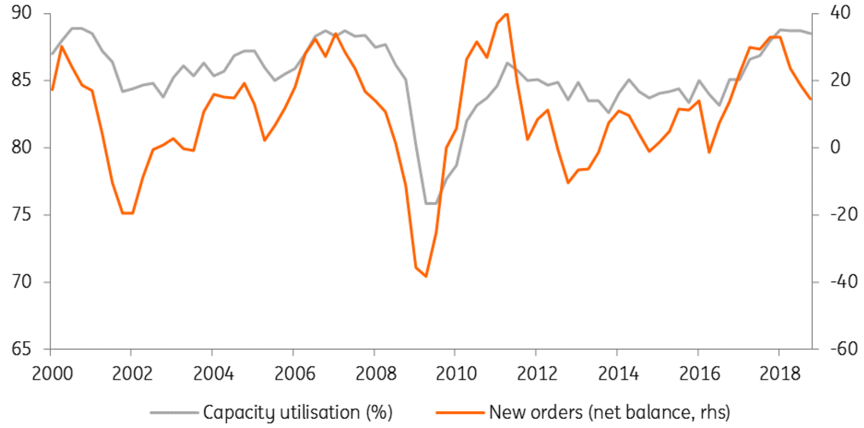
When looking at fundamentals, we see hardly any reason for concern for the Austrian economy. After two boom years, growth rates will simply return to solid levels in the Alpine republic. Up to now, the macro disappointments of the Eurozone have not affected Austria. Admittedly, risks are skewed to the downside, with ongoing trade tensions, Brexit uncertainty and a volatile geopolitical atmosphere. However, we still see Austrian GDP growth of 2.2% in 2019 and 1.8% 2020.

The labour market remains healthy, resulting in strong job growth and rising wages, which will continue to boost household disposable income. In addition, households with children benefit from the government's tax deduction programme 'Family Bonus Plus' as of January 2019, giving an extra boost to purchasing power. As in the previous two years, private consumption therefore remains an important growth driver for the domestic economy. We expect a real private consumption growth rate of 1.7%.

Investment activity is going to abate

While investment growth is expected to abate after expanding strongly in 2018, Austria's capacity utilisation rate, which is still close to its all-time high, does not suggest a sudden stop. However, a drop in the level of new orders in recent months, as well as export expectations for the months ahead, do suggest a slowing of industrial activity in the coming months.

Drop in new orders in recent months suggests a slowing of industrial activity



Source: Thomson Reuters

Main risk lies in the further deterioration of the European economy

To date, the external sector has remained largely unmoved by global trade tensions due to a heavy focus on Europe; around 80% of Austria's exports go to Europe. The sputtering of the German economy, Austria's most important trading partner where more than 30% of Austria's exports go, however, might impact its export market more heavily, especially if the expected rebound (see Germany: Maybe it's time (to let the old ways die)) of the German economy were to take longer. Also, a significant proportion of Austrian exports to Germany are industrial products, which are often further processed and exported onward to a third country. Therefore, an escalation of the trade dispute could hurt the economy via second round effects. In general, however, the main risk for Austria's external sector lies in a further deterioration of the European economy, rather than in an immediate escalation of trade tensions with the US, even if roughly 7% of its exports go there.

Solid growth path ahead

Despite these downside risks, we see the Austrian economy on a solid growth path for the year ahead. The robust labour market, persistent strong consumption and the slow phasing out of investments justify a stable growth path expectation.

The Austrian economy in a nutshell (% YoY)

	2017	2018F	2019F	2020F
GDP	2.6	2.8	2.2	1.8
Private consumption	1.4	1.8	1.7	1.4
Investment	3.9	3.5	2.9	1.6
Government consumption	1.5	1.2	1.1	0.8
Net trade contribution	0.4	0.7	0.4	0.3
Headline CPI	2.2	2.1	2.0	2.1

Source: Thomson Reuters Datastream, all forecasts ING estimates

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