

Austria: Crisis ...what crisis?

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



Source: Shutterstock

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.

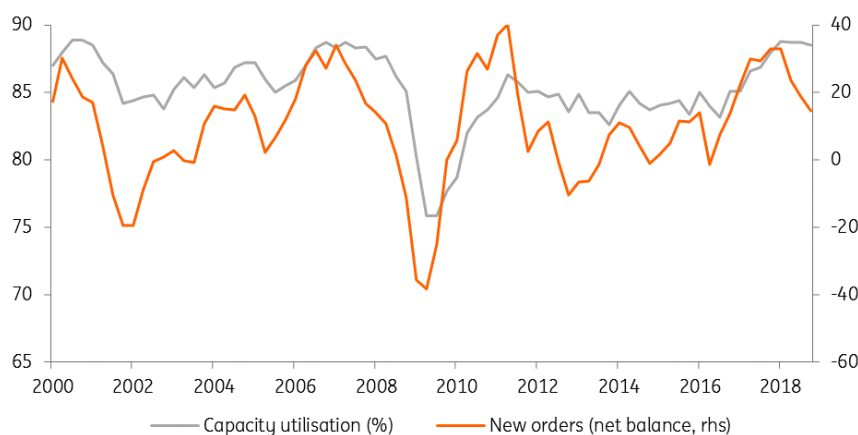
The labour market remains healthy, resulting in strong job growth and rising wages, which will continue to boost household disposable income. In addition, households with children benefit from the government's tax deduction programme 'Family Bonus Plus' as of January 2019, giving an extra boost to purchasing 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

Author

Inga Fechner

Senior Economist, Germany, Global Trade

inga.fechner@ing.de

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.