Austria: Better than the eurozone average

In 2019, the Austrian economy grew by 1.6% year-on-year, significantly weaker than in the previous year. Yet, it still grew faster than the eurozone average, which we expect to have grown by 1.2%

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According to a flash estimate from the Austrian Institute of Economic Research, the Austrian economy grew by 0.3% quarter-on-quarter in the fourth quarter of 2019, leading to 1.6% GDP growth for the whole of 2019. This is significantly lower than in 2018, when the economy powered ahead nicely with a growth rate of 2.4%, but still above the eurozone's average growth. The seasonally- and working-day adjusted Eurostat measure for the fourth quarter came in at the same pace, posting growth of 0.3%.

1.6%

2019 GDP growth

As expected

Growth drivers and obstacles

The weakening of the international economy related to the US-China trade dispute, the weakness of the German economy and the slowdown of the manufacturing sector left its mark on the Austrian economy. The internationally-oriented sectors of the Austrian economy came under particular pressure in 2019.

In the fourth quarter, the industrial sector remained weak with value added in the production of tangible goods falling by 0.3%. Export growth remained moderate, expanding 0.3% after an average growth rate of 0.6% in the first half of the year. With imports expanding by 0.3% as well, foreign trade made a slightly negative contribution to growth.

Still, the Alpine republic performed relatively well over the course of the year compared to its eurozone peers, also benefiting from its close ties to the CESEE economies, which helped to offset the struggling German manufacturing sector.

Overall, domestic demand remained in the driving seat throughout 2019, and also contributed to growth in the fourth quarter. Household consumption expenditure rose by 0.3%, while public consumption expenditure grew by 0.4%, leading to overall consumption expanding by 0.3%. Investment contributed positively to growth with demand for equipment and construction investment rising in the fourth quarter, after having lost momentum since the beginning of the year.

Outlook for 2020

Looking ahead, we expect economic growth to remain modest this year given the still challenging international environment. Domestic demand will remain an important growth driver, while the weakness in the industrial sector is likely to drag on a little longer. However, the sector seems to have found a bottom, with the manufacturing PMI jumping to 49.2 in January, a value last seen in April 2019. Also on the political front, calm has returned. The novelty of a coalition between a conservative and Green party is an interesting test, which, however, should prove supportive to growth in the legislative period, with tax reductions for households and companies in the offing in 2021. Overall, therefore, the economy remains on a solid albeit slower growth path.

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