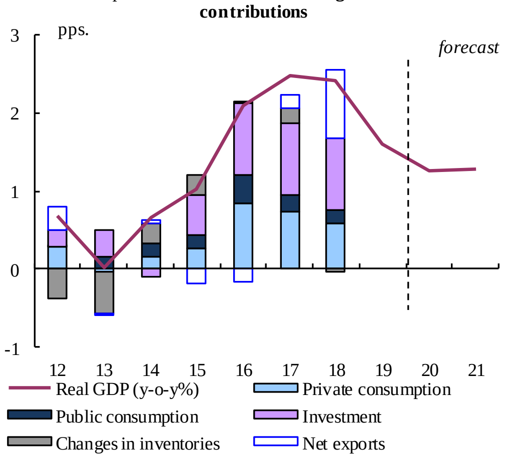
2.15. AUSTRIA

After a strong and broad-based performance in the first quarter of 2019, GDP growth in Austria slowed significantly in the second and third quarters. This is due to the fall in goods and services exports, as well as in equipment investment. The decrease in goods exports concerned various sectors, in particular chemicals and related products, but also machinery and transport equipment and manufactured goods, which were affected by weaknesses in the automotive sector. This, together with weakening industrial production and high uncertainty, affected equipment investment. GDP growth picked up again in the fourth quarter, however, and the annual rate for 2019 as a whole is expected to come in at 1.6%, underpinned by solid private consumption and construction investment.

Looking ahead, persistent headwinds from the external environment and weak readings from business and sentiment indicators point to lower growth of 1.3% in 2020 and 2021. Growth is expected to come mainly from domestic demand. Although there were signs of stabilisation at the end of 2019, sentiment across industry remains low. Hence, equipment investment is set to remain weak in 2020-2021, while investment in the construction sector is set to gradually slow down. Supported by fiscal measures and increasing wages, private consumption is expected to remain the main contributor to growth. Foreign trade recovered somewhat at the end of 2019 (except for manufactured goods and machinery and transport equipment exports) and is expected to grow modestly over the next two years.

Graph 2.15: **Austria - Real GDP growth and contributions**



In 2019, the decrease in oil prices and food inflation led to a fall in headline inflation to 1.5%, while core inflation decreased to 1.6%. Base effects related to energy inflation are expected to push inflation to 1.6% in 2020, before falling again to 1.5% in 2021. Inflation is set to remain above the euro area average as increasing wages and services prices add to domestic price pressures.