# BELGIUM



## BELGIAN MANUFACTURING: AIN'T NO SUNSHINE

**Our nowcast for the ongoing third quarter has Belgian growth at slightly below trend. Household consumption hasn't accelerated much, while typical-election year dynamics inflate government spending. Gross fixed capital formation, dominated by firm investment, remains positive but the underlying trend is worrying. Belgian manufacturers seem especially far from a return to normal, while the spectre of fiscal tightening looms.**

Q2 real GDP growth reached 0.2% QoQ, slightly below consensus expectations of 0.3%, with the underlying trend in investment especially below potential. Private consumption growth remains a bit deflated, as government consumption picks up the slack, as it usually does in an election year.

We expect stable growth close to trend, throughout the second half of the year, as declining interest rates can help kickstart household real estate investment. A small bonus could be the positive contribution from international trade, with exports recovering faster than imports.

### BELGIAN OUTPERFORMANCE

The Belgian economy has held up quite well since the start of 2022. In fact, it has outperformed the euro area as a whole by close to 1% cumulative quarterly GDP growth. The currency area's total growth was dragged down considerably by the significant economic underperformance of its largest member, Germany.

The German stagnation, with an average of zero quarterly growth since early 2022, of course also impacts the neighbouring countries, including key-trade partner Belgium. Germany accounts for 14% of Belgian imports (behind only the Netherlands) and close to 20% of exports. Recent in-house simulations suggest that a German slowdown of this magnitude shaves 0.3-0.4% pts of Belgian growth.

In absence of the German growth engine, overall business confidence remains well below its historical average. Zooming in on the manufacturing sector, the perceived rebound in sentiment at the start of the summer has given away to employment- and demand-related worries.

For the first half of the year, turnover across all manufacturers is down 5%. Sub-sectoral differences abound however, with machine, automotive, chemical, and metal plants hit especially hard. In contrast, pharmaceutical producers saw turnover increase by a sector-leading 8%. This sector was recently referenced as a key-contributor in "The future of European competitiveness" report. Pharma represents 5% of all EU-added value and more than 10% of all exports. Prominent headquarters located in Belgium are understood to be a key-driver of elevated R&D spending in the country, as it is one of only five Member States to exceed the EU's spending target of 3% of GDP.

### MANUFACTURING PROBLEMS

Across the sector as a whole, Belgian manufacturers have barely contributed to overall GDP growth since early 2020, having in fact only supported quarterly economic expansion in 4 of the last 18 quarters. Meanwhile, total bankruptcies in the sector are up. Compared to pre-COVID, over the last 12 months, 10% more firms closed up shop, well in excess of the average for the entire economy.

GROWTH AND INFLATION

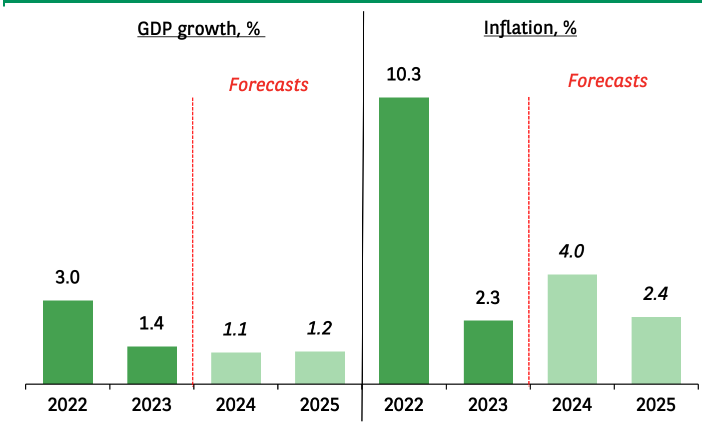


CHART 1

SOURCE: BNP PARIBAS FORTIS, BNP PARIBAS

What could help shift the tide for these less-than-optimistic businesses? Declining interest rates would be reasonably expected to provide some additional room for investment, but the number of firms citing financial factors as a constraint on production has barely budged, as "lack of demand" once again reigns supreme as a chief concern.

Actually, up until the end of last year, business investment had been accelerating. A couple of one-off transactions, including that of a large shipbuilder muddy the signal since the turn of the year. Anecdotal evidence collected by the National Bank of Belgium suggesting cost-cutting, induced by tighter profit margins, is now the talk of the town. With an average capacity utilisation rate reported at 74% - well below the long term average of 80% - expansionary investments are likely to remain on the backburner for a while longer. The manufacturing share of total investment has sunk to a 5-year low.

If the effects of monetary policy fail to lift-up business spirits, might fiscal policy perhaps do the trick? That seems highly unlikely in the current EU climate, as its fiscal watchdogs recently announced increased scrutiny for the Belgian budget. Fiscal consolidation is due but a first, limited attempt to form a government in the wake of the June elections has failed and all parties concerned are unlikely to strike an agreement before years end. In the preliminary notes that found their way into popular press, measures like an increase in energy taxes for producers will undoubtedly fail to inspire much optimism. For the time being, the outlook for manufacturers remains rather bleak as a result.

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