BELGIUM

PRIVATE CONSUMPTION 2.0: MAIN ENGINE OF GROWTH NONETHELESS

Our first quarter nowcast confirms the outlook for the Belgian economy: it keeps cruising at close to trend-growth rates (0.3% q/q), despite the challenging external environment. One-off factors temporarily sped up normalisation in both firm investment and international trade, but private consumption once again carries the brunt of economic growth. Consumption patterns are changing however, with more e-commerce and share of total outlays spent on services. Belgian firms continue to demonstrate resilience, while the labour market cools down.

Fourth quarter GDP growth came in at 0.3% q/q resulting in full year growth of 1.5%. The main contributors were private consumption and firm investment. More precisely, in the first 3 quarters, firm capex contributed close to all economic growth, with net trade firmly negative. That changed in Q4 as one-off transactions (ships sold to foreign counterparts) pushed down corporate investment and increased export. Even after cutting through these specific developments, we expect investment growth to have slowed down nonetheless, while the downward trend in international trade seems to have at least bottomed out in recent months.

SHIFTS IN PRIVATE CONSUMPTION

After a short bout of deflation at the end of 2023, related to the technical treatment of energy bill support measures at the time when energy prices were well past their peak, harmonized inflation came in at 3.6% y/y in February. In doing so, the HICP-index surpassed its Oct'22 peak for the first time in 16 months. Further boosted by strong wage indexation at the beginning of 2023, this significantly limited real-wage losses for the Belgian economy, in stark contrast to the neighboring countries and the Eurozone as a whole.

Private consumption held up well, contributing about half of the 1.5% GDP growth that took place across 2023. We expect it to continue in this vein, carrying more than half of GDP growth in 2024, as consumer confidence looks to have stabilized around its long-term average.

Underneath this apparent return to "business as usual", important behavioral changes are lurking. One is the increased share of e-commerce. Using inhouse data, we noticed that online shopping, as a share of total expenditure by our retail clients, increased from 10% right before the onset of the pandemic to 22% and more early this year. Next to that, retail spending is up a healthy 17% since the start of the pandemic, in nominal terms at least. Adjusted for inflation however, volumes are down 4%, reaching a 10-year low point. This could be related to a shift of consumer spending away from goods, towards services. Eurostat-data seems to indicate that both the current share and the increase over the last couple of years is well in excess of the neighboring countries and the rest of the Eurozone.

FIRMS' FORTUNE

Much has been made of the significant government support doled out to Belgian firms over the last couple of years. Bankruptcy rates for the economy as a whole are only now just rising towards their pre-covid levels, and still then only gradually. Despite a high-profile impending bankruptcy case in the transport sectors, long-held fears of impeding bankruptcy-waves are now receding.

The onus has shifted to the opposite side of the medal: were otherwise unhealthy firms artificially kept alive by government support? In its latest publication, the National Bank offers a resounding "no" in answer to that question. The share of firms labeled "zombies" – those whose financing charges exceed their profit for at least three subsequent years and active since at least 10 years – has continued

GROWTH & INFLATION

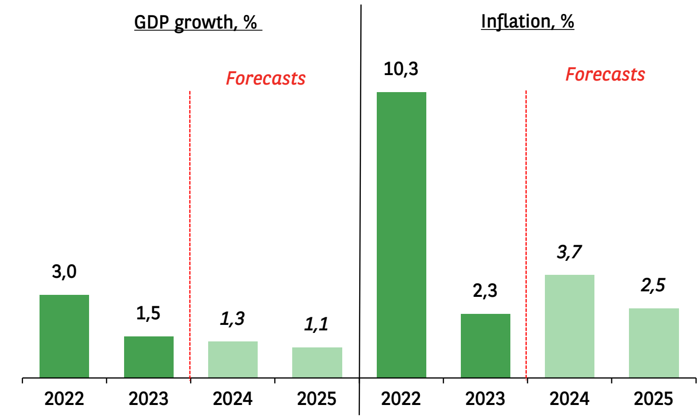

CHART 1

SOURCES: BNP PARIBAS GLOBAL MARKETS

its downward trend during the subsequent covid- and energy-crises. It declined from about 15% in 2010 to 11% in 2021. Next to that, non-performing-loans for domestic exposure across all categories is now lower than pre-covid.

Anecdotal evidence also suggests that Belgian firms are becoming more dynamic. Recently, and for the first time, the country registered a top 10 finish, as part of the FT1000-ranking of Europe's fastest growing companies. Eurostat data however suggest there is still room for improvement, with the share of fast-growing firms in Belgium (7%) below the EU average (9%).

More generally, confidence is picking up across the economy, even if fortunes diverge. Construction and especially manufacturing firms are regaining their optimism. Those active in trade are more negative, especially as vehicle-trade was hit by lower demand in March.

The labor market is slowly cooling of, as the share of industrial firms reporting it as a limiting factor further declined. The Federgon index of temporary labor, a leading indicator, has been trending down for a couple of quarters and job creation is slowing down, following suit.

International trade looks to have bottomed out at the beginning of the year. After increased activity (related to chemical and pharmaceuticals), it posted negative growth since the end of 2022. In year-on-year terms, that dynamic reversed around the turn of this year. Our outlook is one of gradual improvement, subject to significant uncertainty in the external environment.

Arne Maes
arne.maes@bnpparibasfortis.com