BELGIUM

WINTER IS COMING

Negative revisions to GDP figures have darkened the mood of the Belgian economy. We expect GDP to remain flat throughout the second half of this year as monetary policy does its job. Short-term volatility in inflation numbers looks likely, resulting in a temporary bout of deflation near year's end. The labour market remains in good health, suggesting a soft landing is in the cards. Successful government bond emissions could tempt some last-minute pre-election spending by the De Croo-government, but the long-term outlook for public finances remains bleak.

The Belgian economy has been on a downward trajectory since the start of the year, with quarterly growth slowing down from 0.4% q/q in Q1 to 0.2% q/q in Q2. This was further emphasised by downward revisions to the NBB's outlook, as monetary policy starts to bite. While our latest nowcast suggests +0.1% q/q growth in Q3, we expect GDP to remain more or less flat in the second half of 2023. We do not think a recession is likely. A gradual normalization should occur in 2024.

CORE INFLATION REMAINS ELEVATED

Inflation on a yearly basis, as measured by the HICP, came in at 2.4% in August, ending the trend of declining inflation that started late last year. The HICP stood at its highest level this year, but is still almost 3% below the October 2022-peak. Core inflation actually declined over summer but remains elevated (6.1%). Food prices keep on rising, however, as has been the case for the better part of the last two years with average monthly food inflation of 1.0%. Energy prices, near their lowest level in 12 months, continue to drag headline inflation down. Due to the technical treatment of household-support measures related to energy bills, Belgium could experience deflation briefly at the end of this year, followed by a temporary uptick in total inflation. By the end of 2024, inflation should be close to, but above 3.0%.

GROWTH & INFLATION

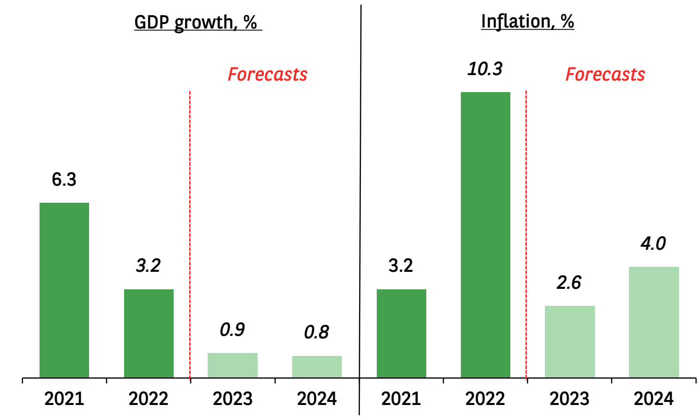

CHART 1

SOURCES: BNP PARIBAS GLOBAL MARKETS

A STABLE LABOUR MARKET

Despite the general economic slowdown, the unemployment rate has barely budged. It stood at 5.7% in the latest figures, on par with its pre-pandemic level of early 2019. Job-creation did seem to slow down early this year, as quarterly employment growth came down from 30,000 jobs at its peak to 15,000, returning to trend in the process. Vacancy rates remain elevated but did drop off somewhat, as is the case in neighbouring countries. Perhaps the current situation is best summarised by the Federgon Index, which captures demand for temporary labour. This index did experience a significant drop at the start of the pandemic but recovered equally fast. Zooming out, however, it becomes clear that temporary labour had been first cooling off and trending down since 2019 already. The current state of the labour market thus resembles a classic, cyclic slowdown.

More importantly, so far, it looks like a soft landing. Having recovered from the double hits of the COVID and energy crises, consumer confidence remains close to its long-term average. Households are moderately positive about their financial situation, likely spurred on by a significant wage indexation and the inflation cool-down.

Meanwhile, the real estate market is expected to further cool, with new mortgage applications falling by around a third compared to last year. Price levels haven't really sunk much though. In fact, they rose somewhat according to the latest BIS-numbers, with the NBB pointing out that this might be a temporary consequence of changes in composition.

Business sentiment stabilised after four consecutive months of decline, according to the NBB's latest confidence barometer. Underneath this headline number, different sectors are experiencing diverging fortunes. Firms active in the trade sectors are reporting improved outlooks for both the demand and the supply side. Constructors, however, are reportedly hit by diminished demand, no doubt a result of rising interest rates. Bankruptcies for the economy as a whole are still 10% below pre-COVID levels, on a 12-months-moving average basis. That is not the case for all types of business as especially those in manufacturing, construction, transporting and warehousing currently seem to be undergoing something of a purge.

After successful bond emissions, thisunexpectedly strong appetite from investors implies – for most observers – that the De Croo government now finds itself in an interesting position, as its financing needs for this year have been more than met. Overall public finance remains in dire straits however. The budget deficit, which came in at close to 4% last year, looks set to increase further, even as temporary COVID and energy-crisis related measures now take up a smaller share of the total budget. In the current high rate environment, the interest-rate snowball effect is re-emerging. Under conservative assumptions, the debt ratio looks set to increase by more than one percentage point per year, from an already high 105%.

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