Belgium

Household spending stabilises growth

Over the next quarters economic growth will remain stable. Rising labour market capacity constraints and a lower contribution by net international trade are weighing on the overall outlook. With also uncertainties in the international (trade war, Brexit) and national (government formation talks) context unlikely to dissolve anytime soon, our base case is one of below potential growth up until 2020.

GDP growth just reached 0.3% in the first quarter of the year, in line with our outlook of 1.0% for 2019. The continued low unemployment pushed up private consumption. The resulting growth in domestic demand could only partially offset the lower contribution of net trade.

All eyes on the labor market

The unemployment rate has been on a downward trend since many years now. The Michel-I government, currently still a minority coalition after its largest party jumped ship at the end of last year, proclaimed job creation to be its key priority at the start of the legislation. Since then the unemployment rate came down from 8.5% and has been hovering around 5.5% during the last half year.

Tensions are rising however as businesses struggle to fill out positions. The vacancy rates, measured as open positions as a percentage of the total number of positions, has been above 4% since early 2017. That is well in excess of the EU28-average of 2.5%. In a recent study, the National Bank of Belgium (NBB) identified as the main contributing factors a growing skill gap and weak geographical mobility, especially from the southern, French-speaking part of the country towards Flanders, in the north.

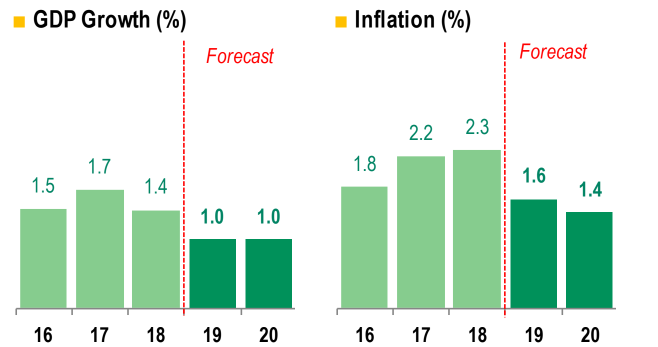
The NBB expects hourly wage costs in the private sector to increase on average with 2.3% per year in the next 3 years. This marks the end of a period during which the Michel-I-government reaped the benefits of an active cost management policy. The one-off indexation jump (a temporary freeze in the indexation mechanism, foregoing the automatic hike of some wages to match an increased cost of living) contributed greatly to closing the unit labour cost gap with the rest of the European Union.

According to the NBB, it is unlikely that the higher labour costs will feed through directly to prices and it expects profitability to decline somewhat. In any case, the current labour cost dynamics are expected to deteriorate Belgium's international competitiveness at a moment when international trade as a whole faces significant uncertainty.

Overall net trade will contribute less to growth than in 2018, as next to slower export growth we expect private consumption to drive an increase in import. As a result the current account should remain in negative territory, but no too far away from zero.

We see investment decelerate, as utilisation rates are coming down again, but we expect government expenditures to rise faster than last year. A big contributing factor here is the infrastructure project around the city of Antwerp.

1- Growth and inflation



Source: National Accounts, BNP Paribas

Private consumption growth will make the largest contribution. A record low unemployment rate and positive effects of the income tax shift are fuelling household purchases. The temporary dip in the third quarter of last year was mainly explained by lower expenditures on durables, related to stricter emission testing procedures for cars amongst other causes.

Next to that, the NBB expects that the threshold for wage indexation will be reached in January. This will lead to a wage rise for many government officials and other employees. Real household disposable income is expected to grow by 5% over the next 3 years. Taking into account the (limited) population growth, this would translate into purchase power growth per capita of 3.5% over the same period.

In the wake of the May federal elections, a key risk factor is lengthy government formation talks. On average the last 5 formation periods took about 6 months, which would suggest a new federal government could be ready to go no earlier than the end of this year.

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