

The Belgian economy - where are we now?






BZB-Fedafin 16 October 2024, Geert Langenus
(based on NBB June 2024 projections + relevant updates)

A hand is shown holding a wireframe globe. The globe is composed of a network of white dots connected by thin white lines, creating a mesh-like structure. The background is a blurred cityscape at night with blue and white lights. A semi-transparent blue rectangle is overlaid on the globe, containing the text "External environment".

External environment

World growth projected to be quite steady, at just over 3%

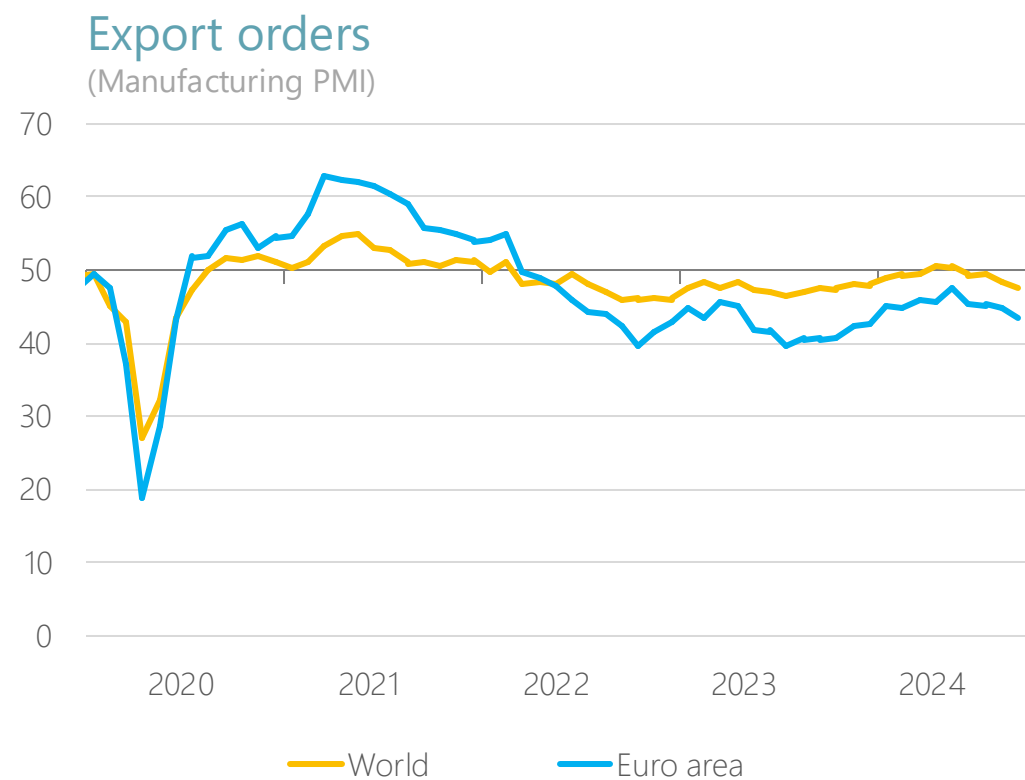
Real GDP growth (percentage change)

	2020	2021	2022	2023	2024	2025
World	-2.5	6.4	3.3	3.1	3.2	3.2
China 	2.2	8.5	3.0	5.2	4.9	4.5
India 	-5.9	9.4	6.5	8.2	6.7	6.8
US 	-2.2	5.8	1.9	2.5	2.6	1.6
UK 	-10.4	8.7	4.3	0.1	1.1	1.2
Japan 	-4.1	2.6	1.0	1.7	-0.1	1.4

Global PMI



Global trade rebounded at the turn of the year, but forward-looking indicators have weakened again (with major uncertainty ahead)



Harris and Trump Embrace Tariffs, Though Their Approaches Differ

Both Democrats and Republicans are expressing support for tariffs to protect American industry, reversing decades of trade thinking in Washington.

Source: The New York Times, 28 August 2024

Harris vs Trump, and the foreign policy shake-up ahead

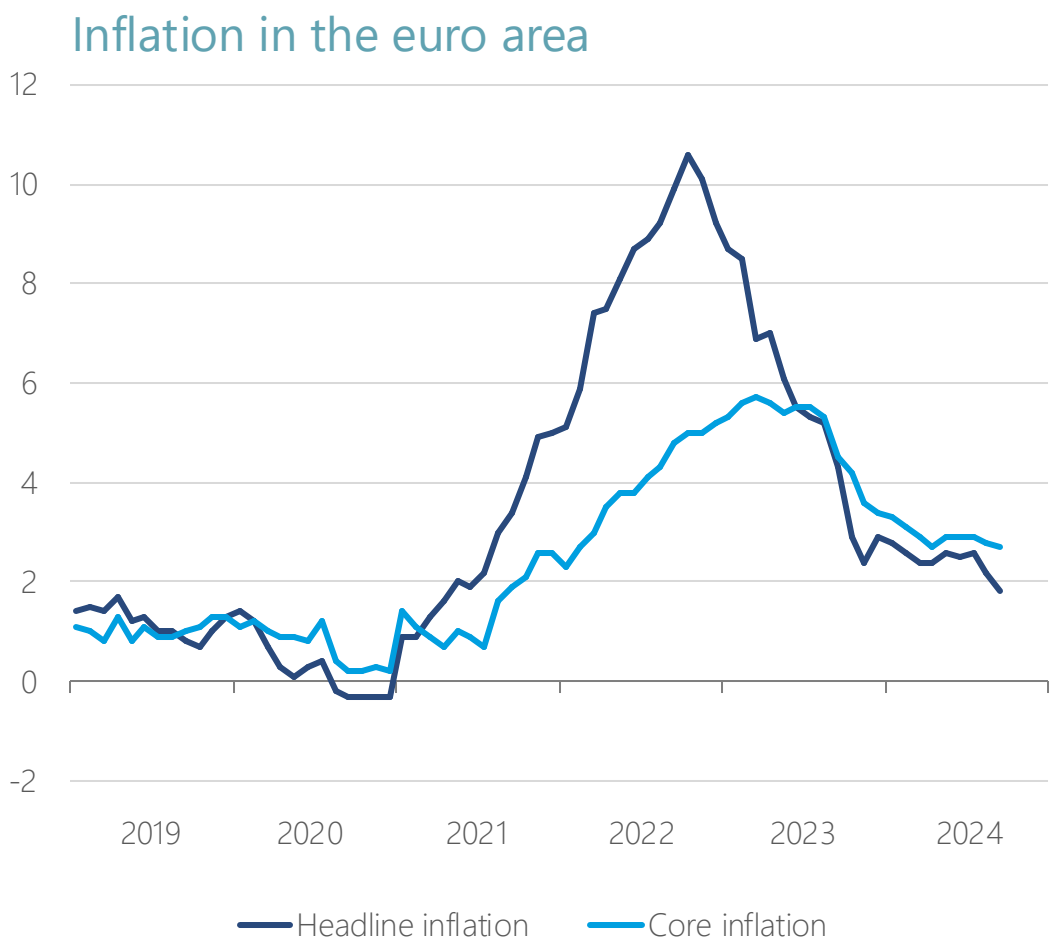
Source: The Lowy Institute, 29 August 2024

US Election a Top Global Risk But Tricky to Forecast, BofA Says

Source: Bloomberg, 5 September 2024

Sources: LSEG (the last observation is August for the world and September for the euro area).

Euro area inflation: Team (long) Temporary for the win?



“The latest developments strengthen our confidence that inflation will return to target in a timely manner. We will take that into account in our next monetary policy meeting in October.”

Percentage change, unless otherwise stated	2022	2023	2024e	2025e	2026e
Headline inflation	8.4	5.4	2.5	1.2	1.9
Core inflation	3.9	4.9	2.9	2.3	2.0

Eurosystem/ECB project a consumption-driven economic recovery ...

lower inflation +
pent-up wage growth

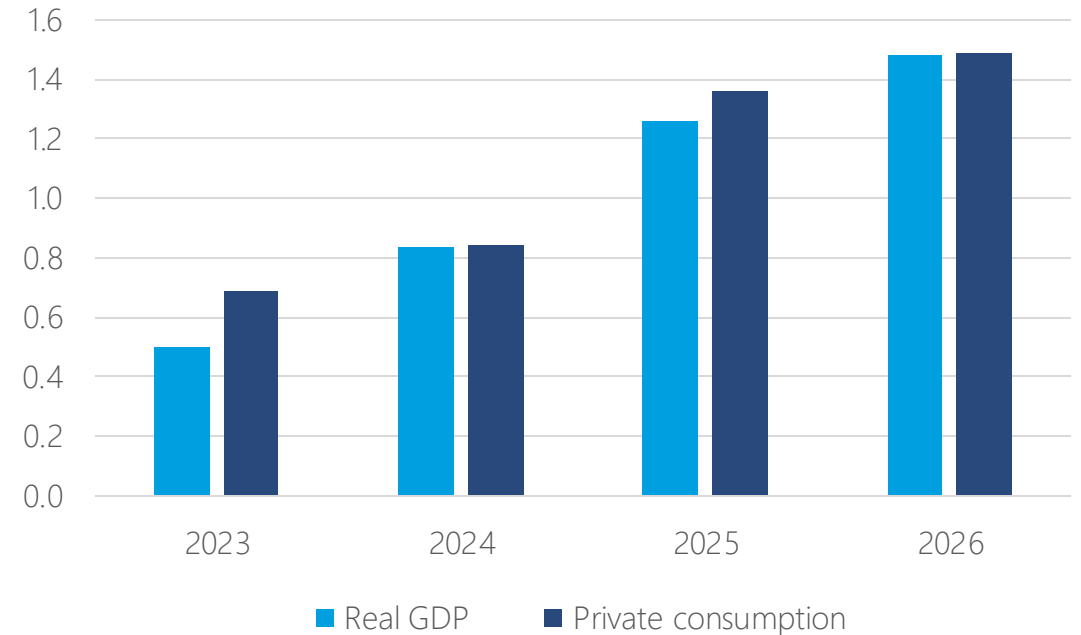


= purchasing power boost

Stronger
consumption growth

Euro area: % growth of real GDP and private consumption

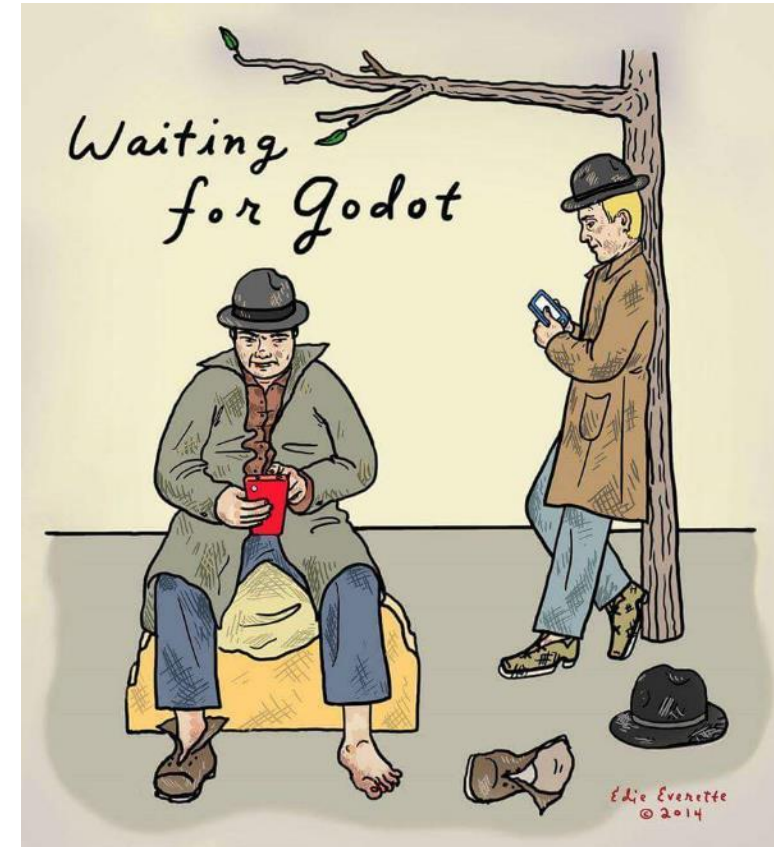
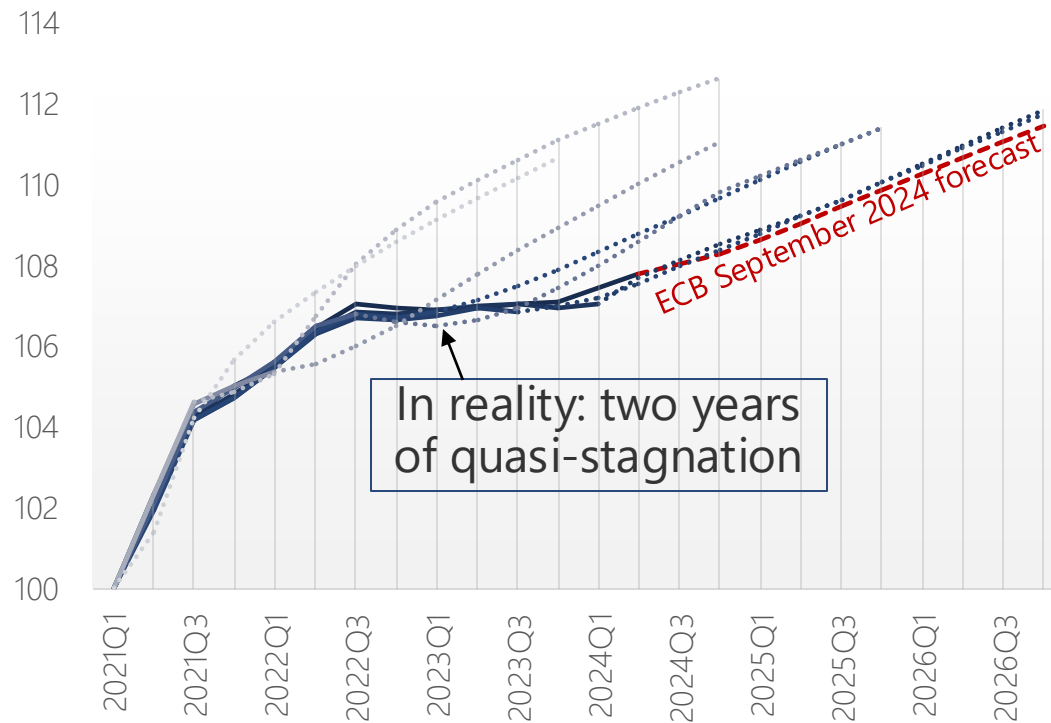
(ECB September 2024 macroeconomic projections)



... but the euro area economic recovery has been announced a couple of times already

Forecast vintages for EA real GDP

(volume index, 2021Q1 = 100; Eurosystem and ECB projections)

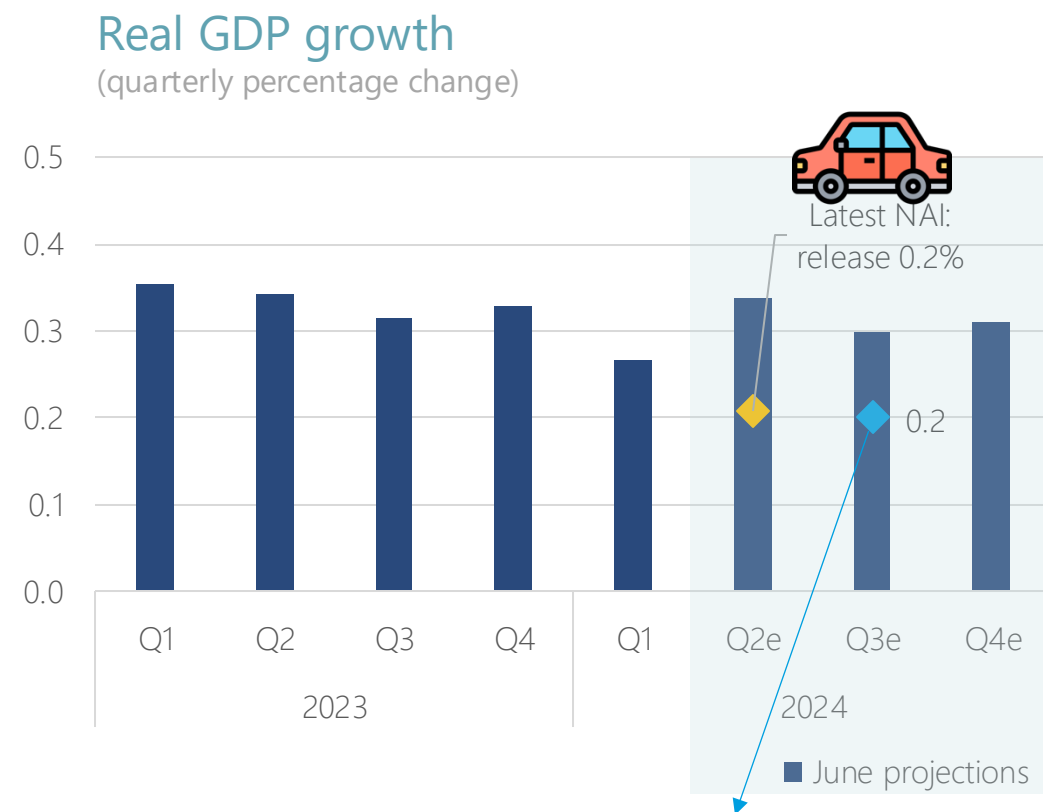
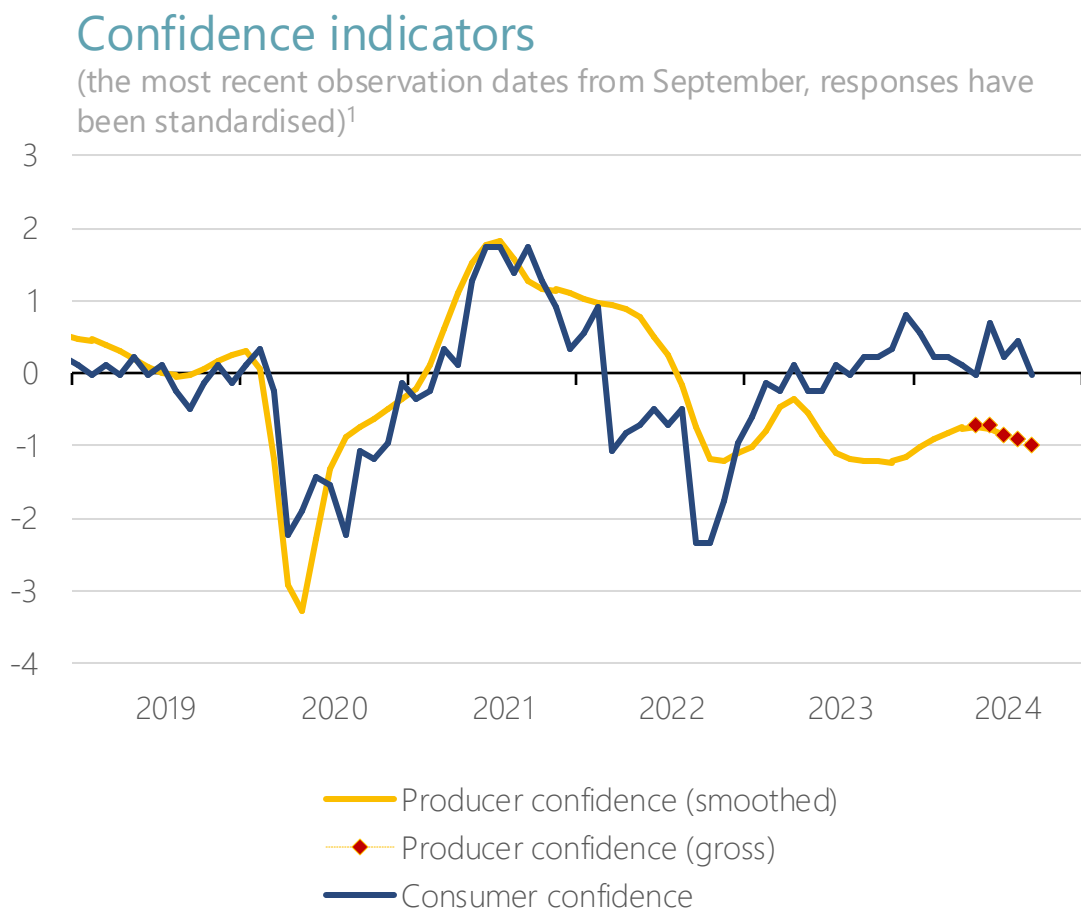


How much of the slump is cyclical and how much is structural?

A low-angle shot of the Belgian flag (black, yellow, and red vertical stripes) waving against a bright blue sky with scattered white clouds. A semi-transparent blue trapezoidal overlay is positioned in the center of the image, containing the title text.

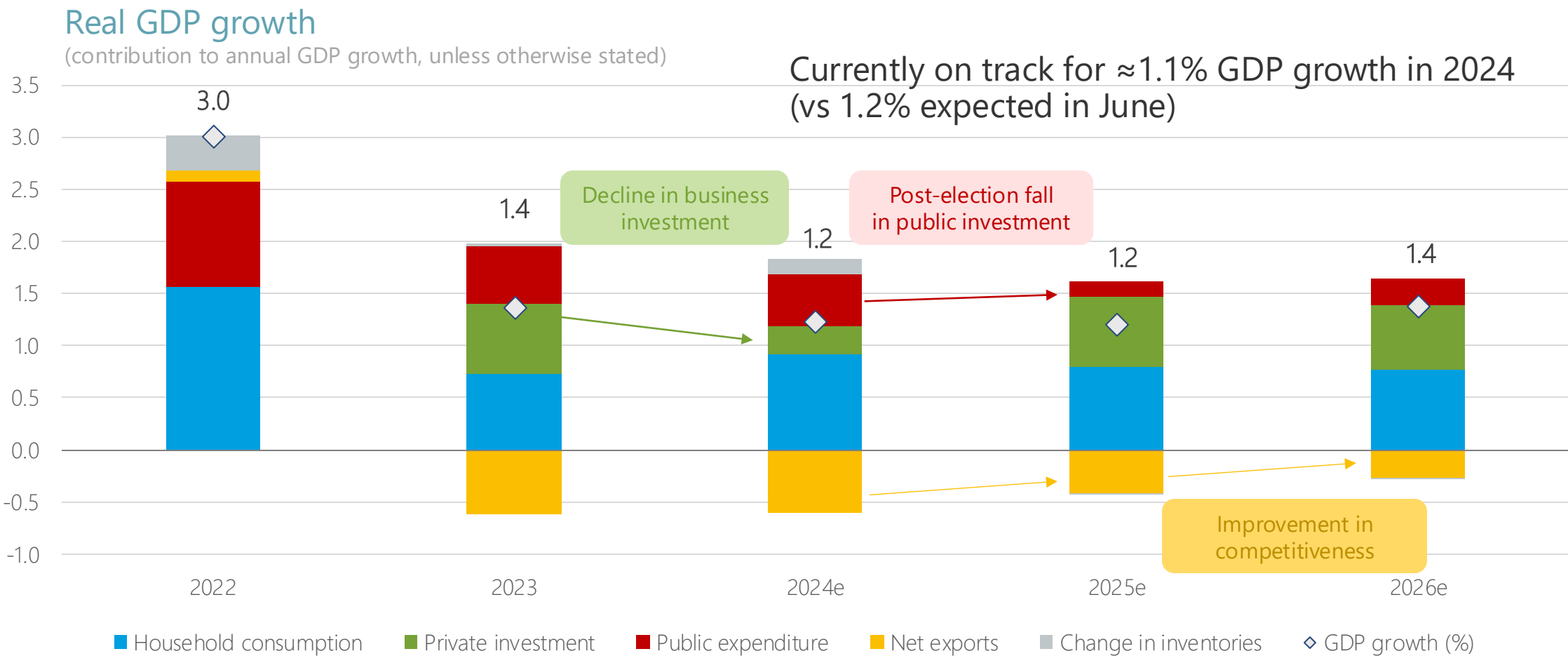
Belgian activity growth and labour market

Short-term growth projected to be subdued and came in slightly below expectations in 2024Q2; however, still no recession on the horizon

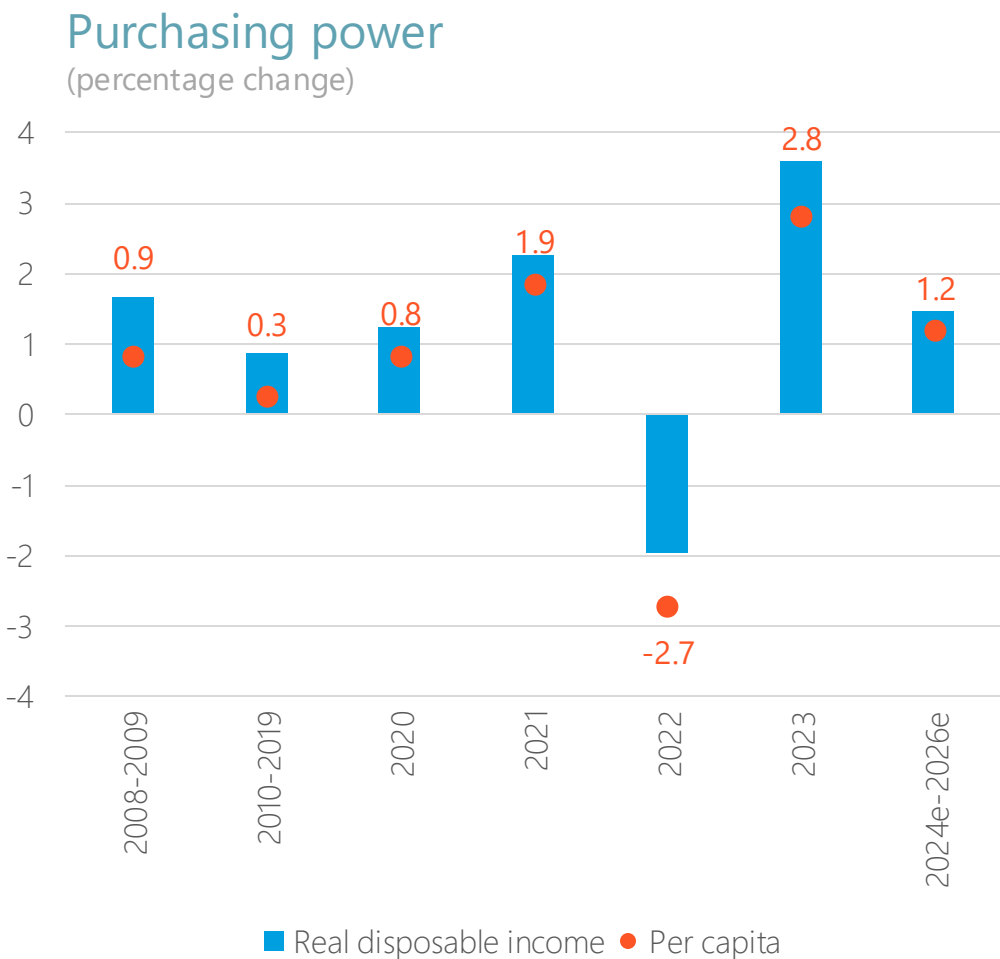
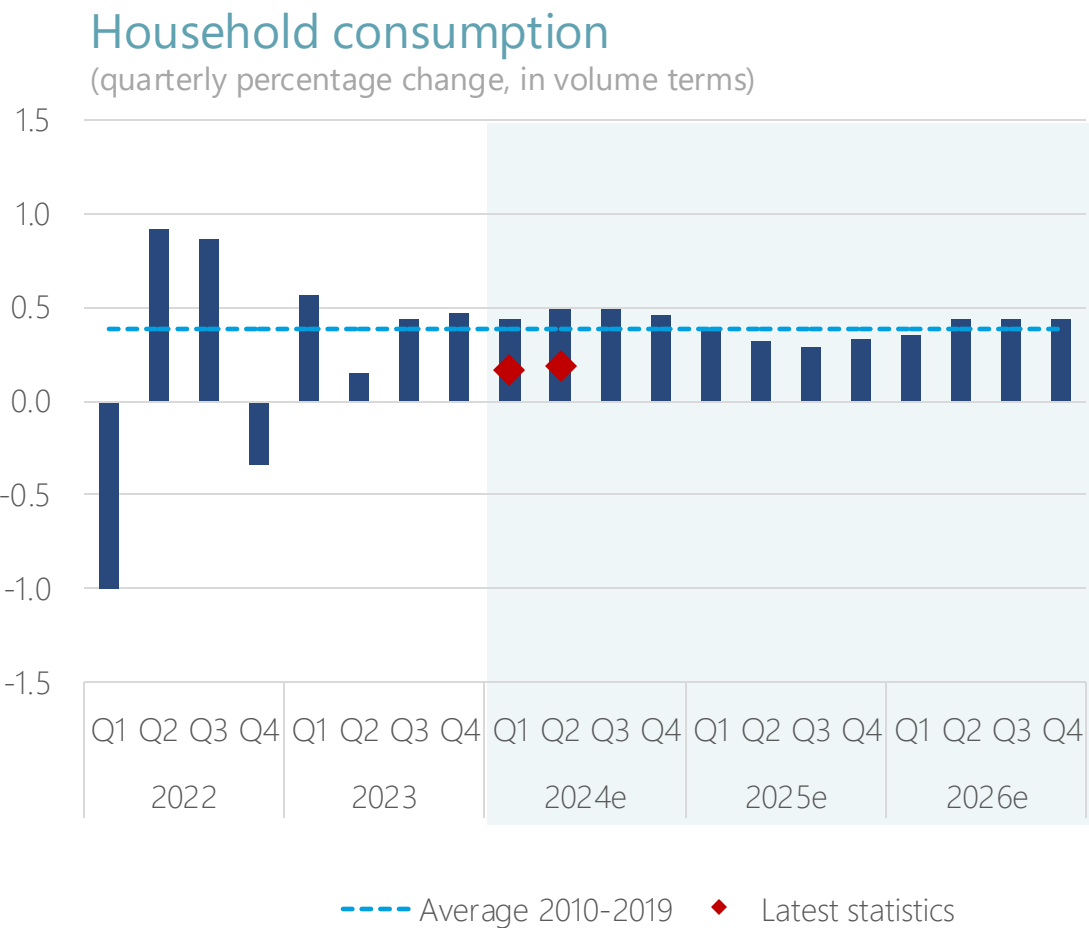


See the Business Cycle Monitor (9 September)

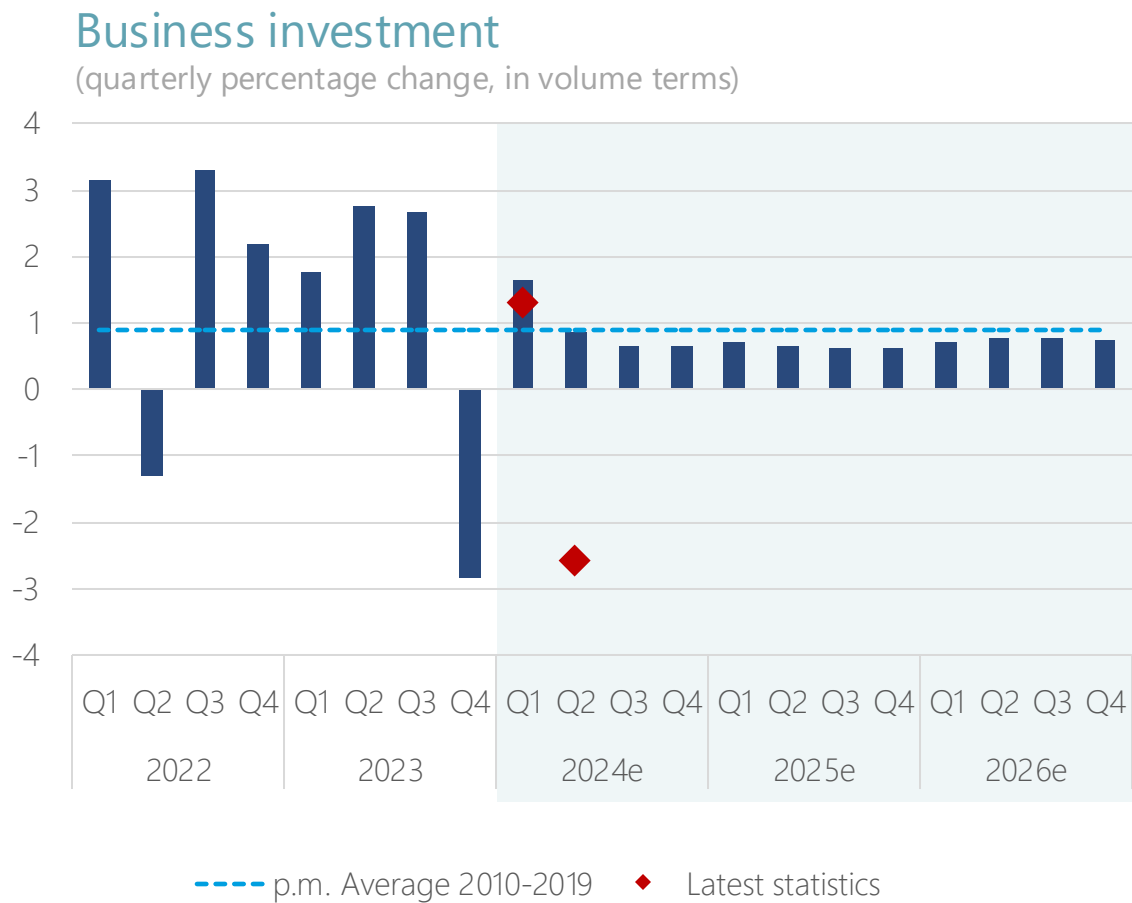
June 2024 projections: GDP growth projected to decrease slightly given the moderation in domestic demand, with net exports recovering only gradually



Private consumption has decelerated and growth is expected to remain moderate, broadly in line with income growth



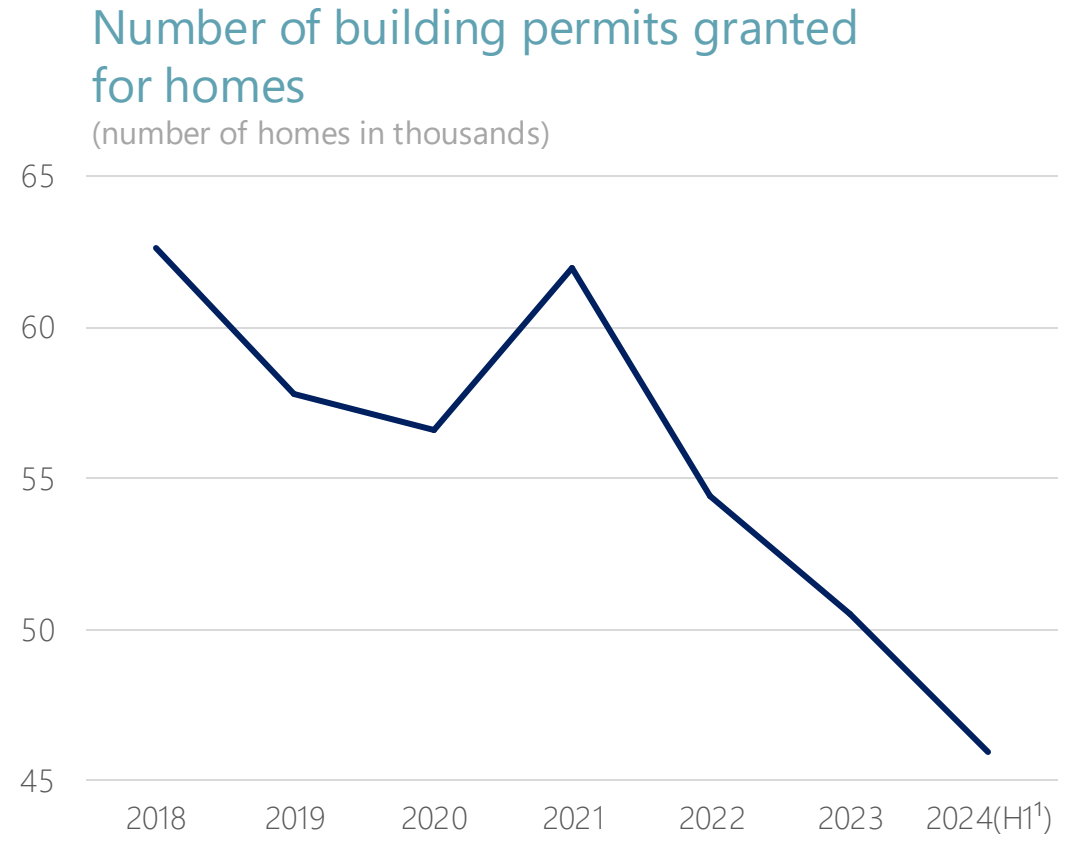
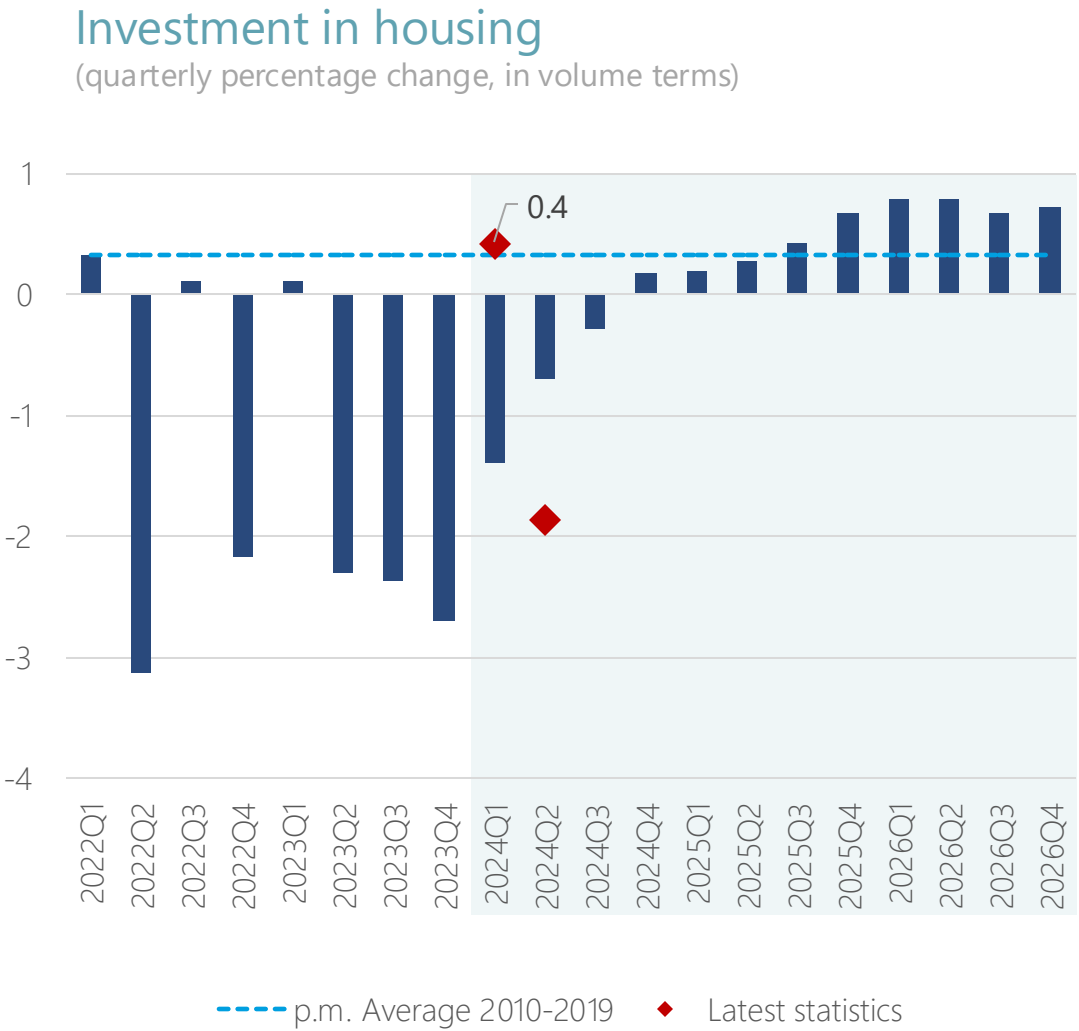
Business investment growth has moderated and should remain muted



NBB Business Echo  (29 May)

- + : Modernisation of existing production infrastructure
- : Worsening of competitiveness and tighter margins are weighing on new investment projects

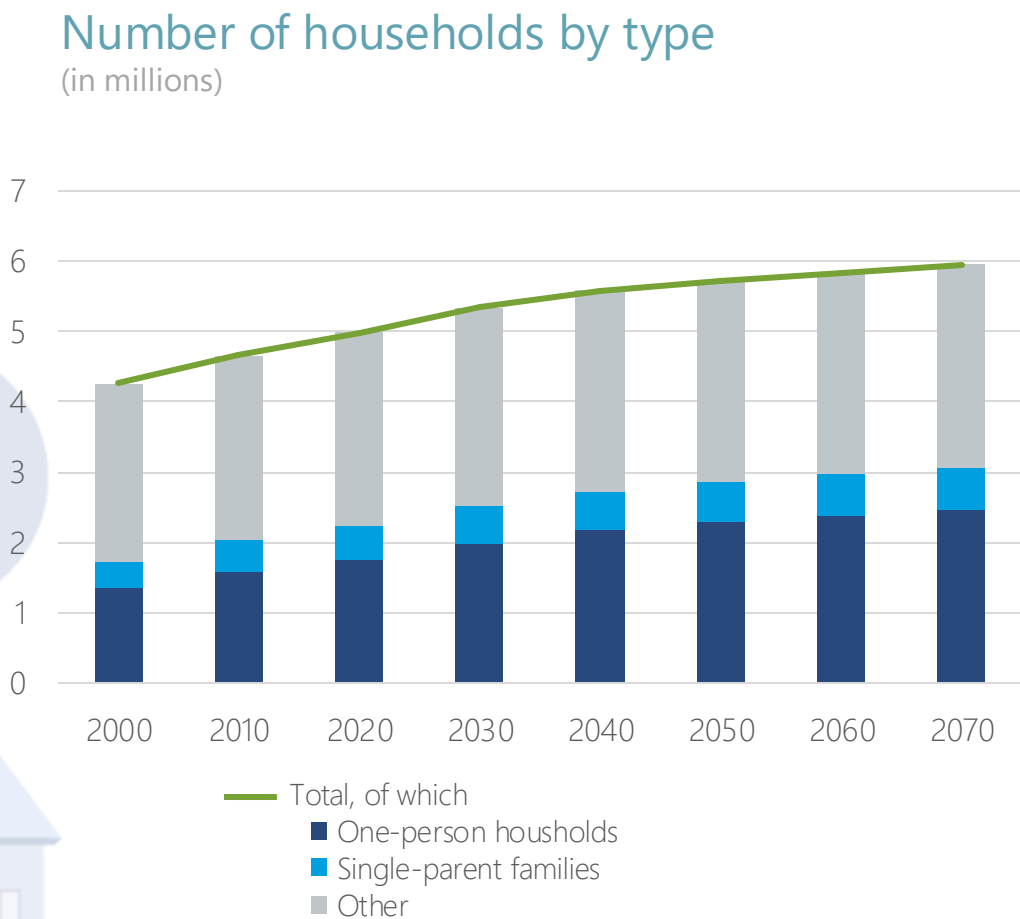
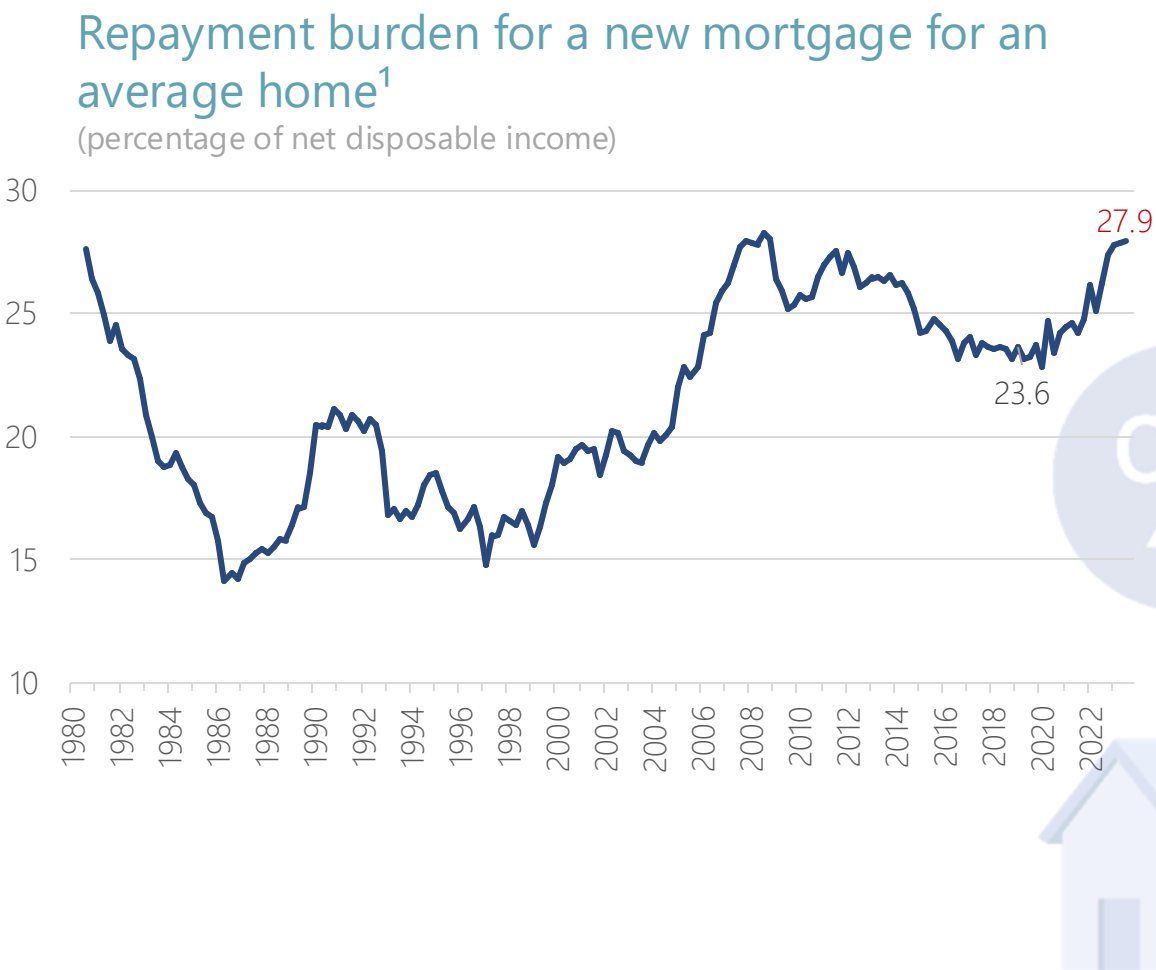
Residential investment has declined and should recover only gradually



Nieuwbouwwoningen op laagste peil in 25 jaar

Sources: De Tijd (2 October), Statbel, NAI, NBB.
¹ Data are available for the first half of 2024. We have multiplied the number of permits by two on this graph, to get an approximate guess of the annual figure.

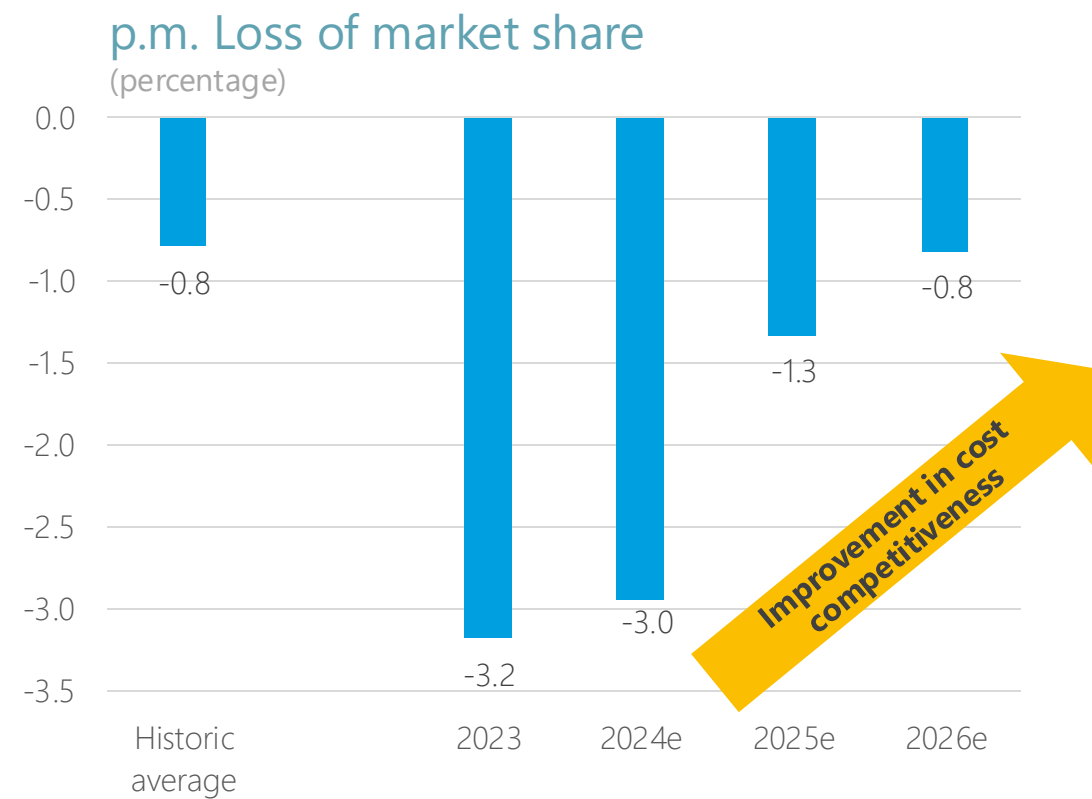
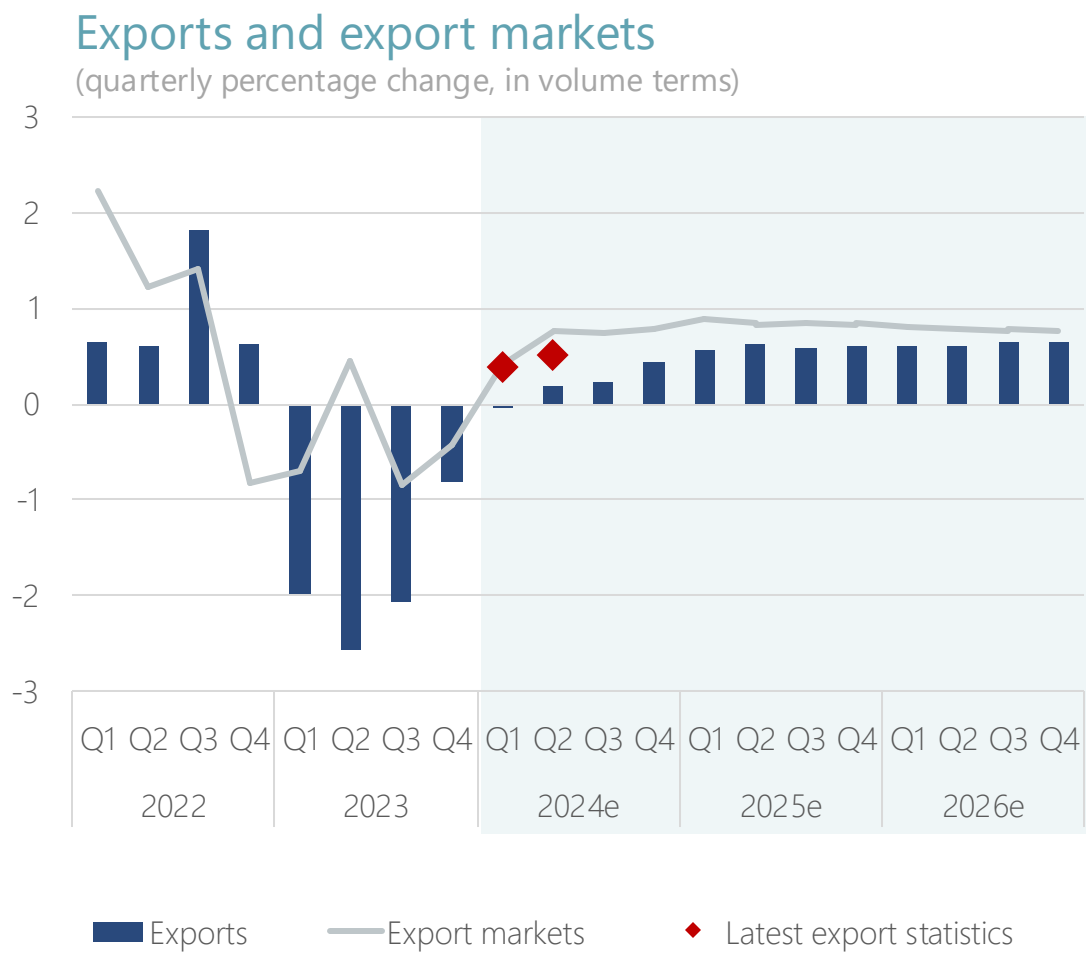
Aside from the need for climate-related renovation investments, the number of homes should be increased to improve affordability



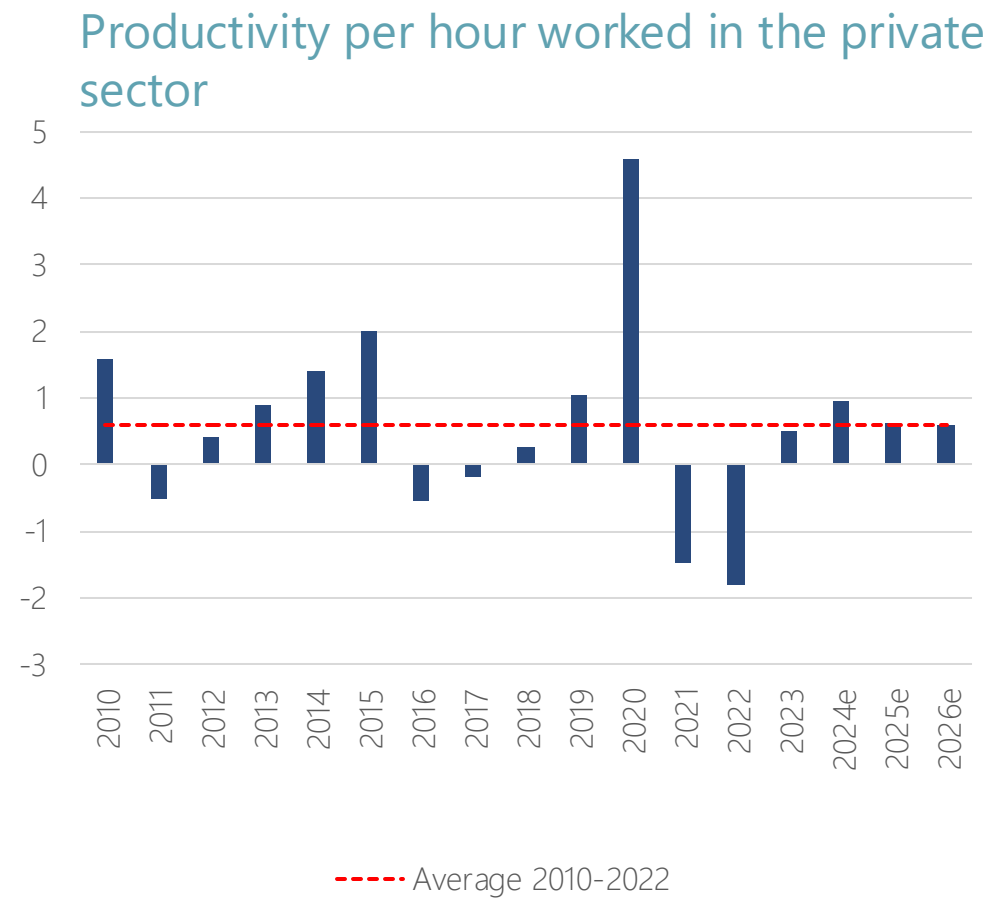
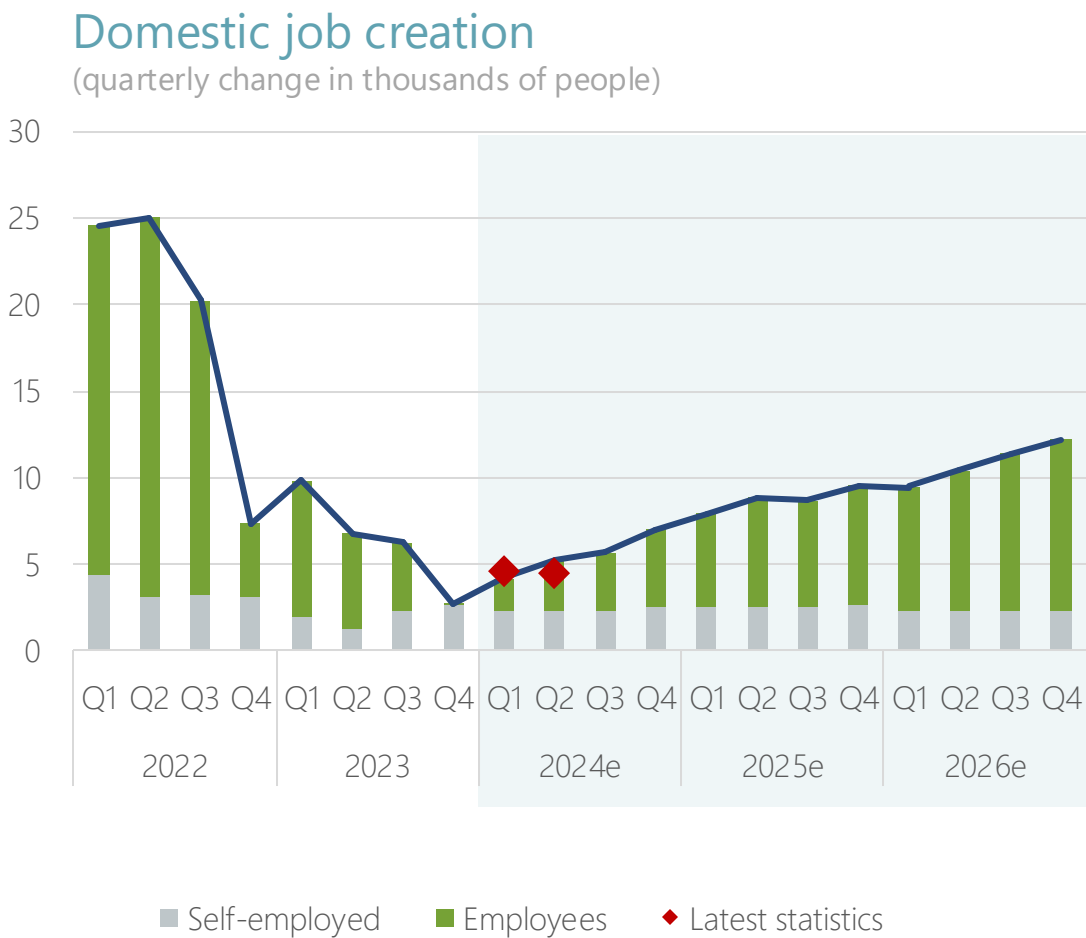
Sources: FPB, Statbel, NBB.

¹ This indicator is based on the assumption that a household with average disposable income purchases an average home and finances 80% of the purchase price with a 20-year fixed-rate mortgage. The tax deductibility of the mortgage, transaction costs and future changes in income are not taken into account.

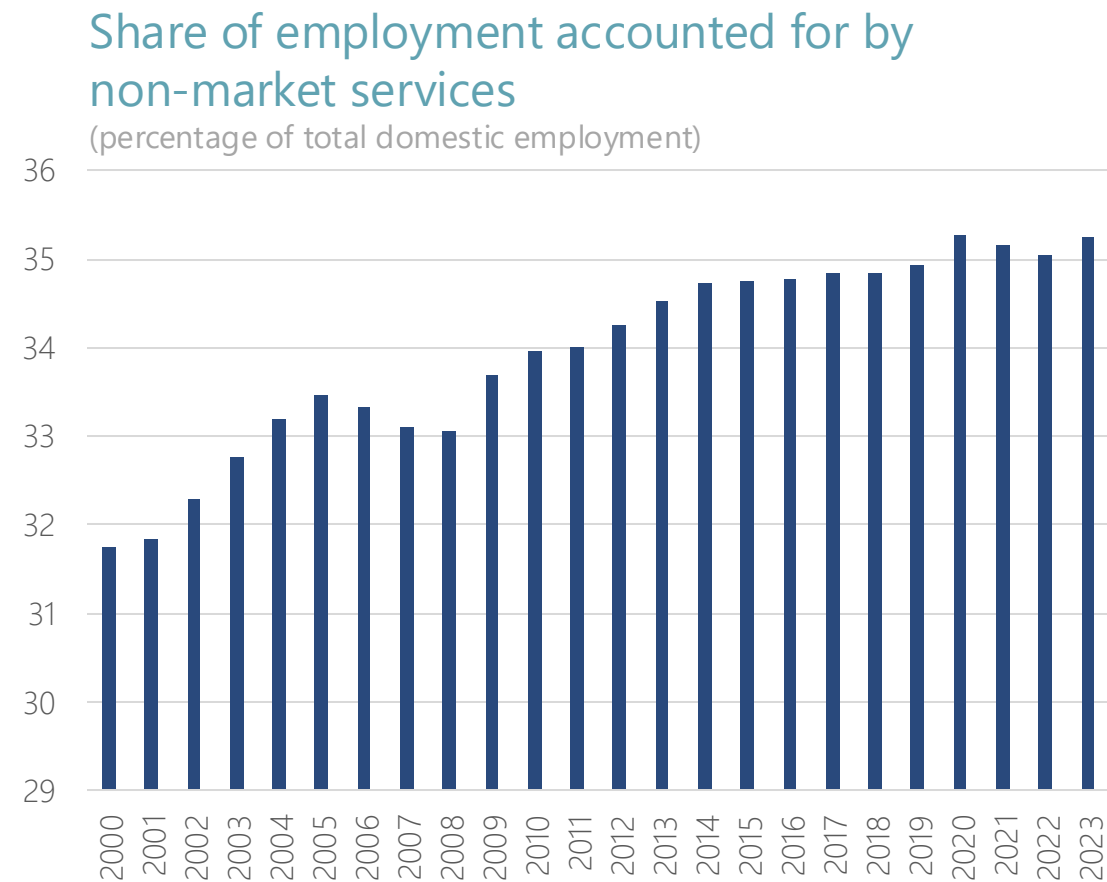
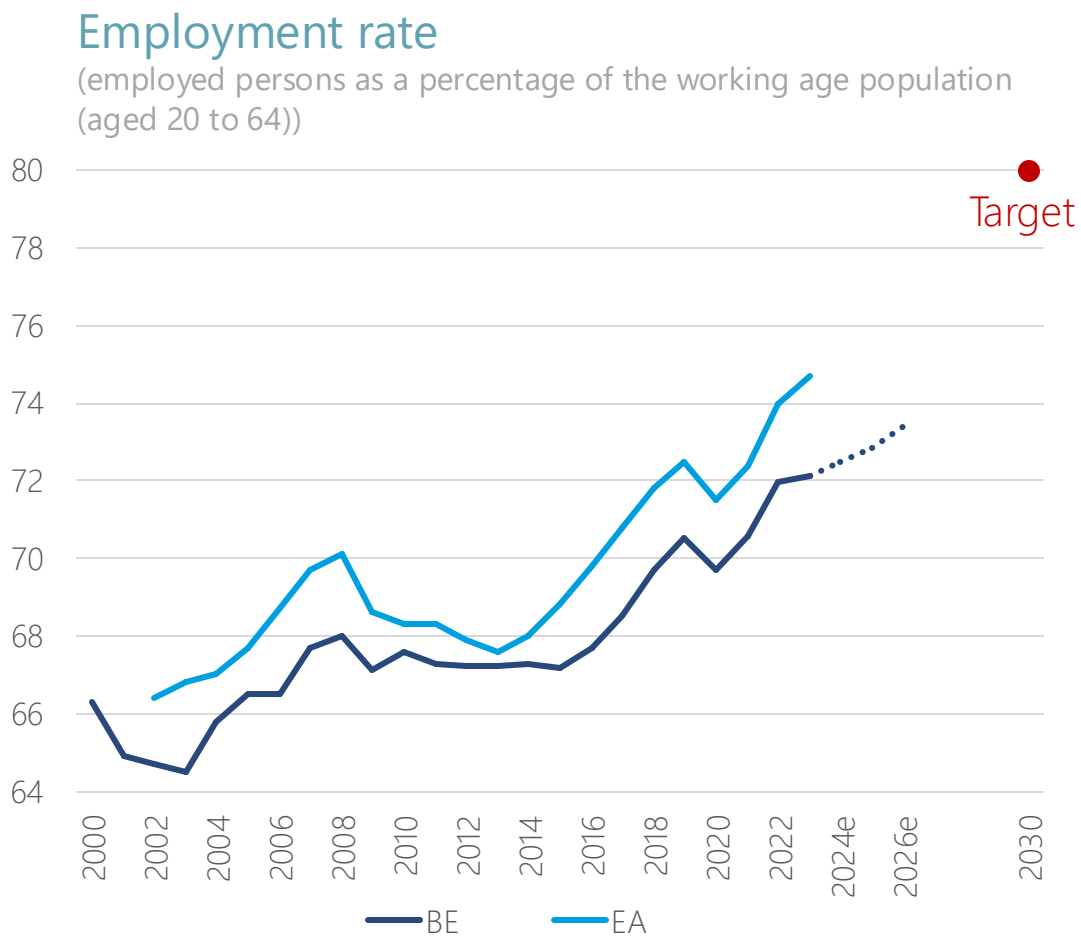
Recovery of global trade and improved cost competitiveness: growth in Belgian exports set to accelerate gradually



Job creation mostly in line with (weak!) expectations and should pick up again as productivity growth normalises



More people are working, but the share of non-market services in total employment has increased and the gap with the EA has not narrowed



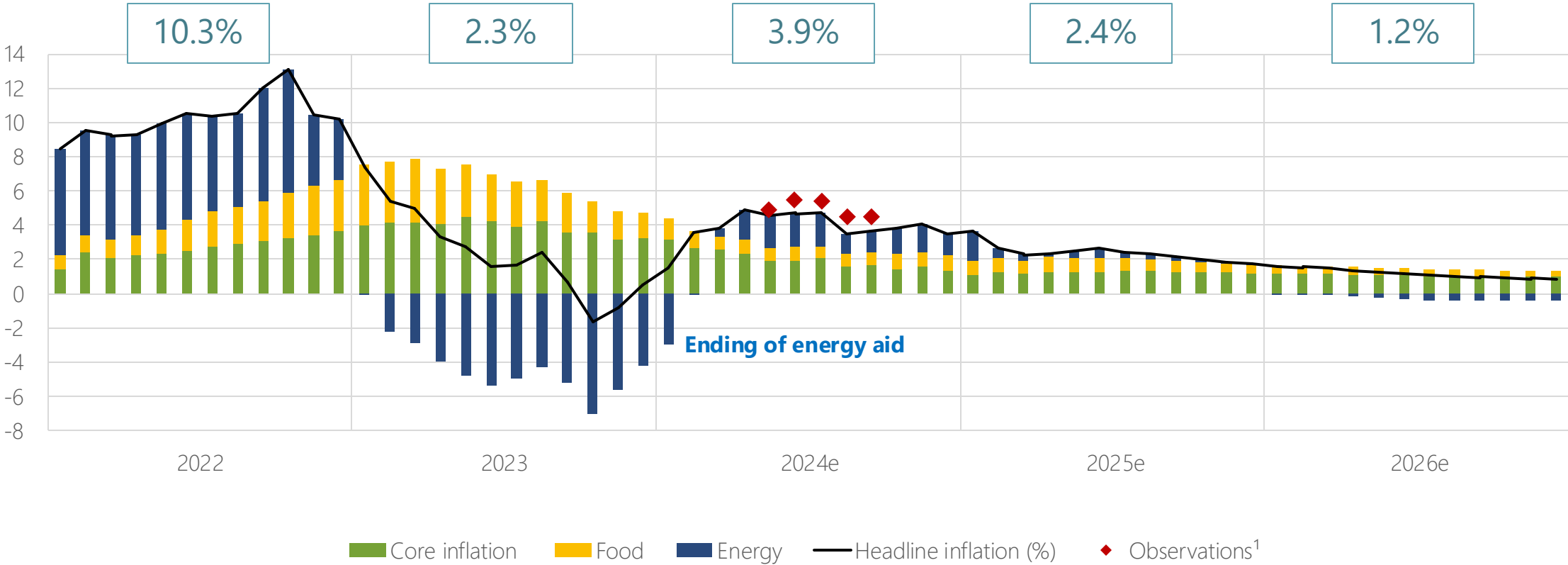


Prices and wages

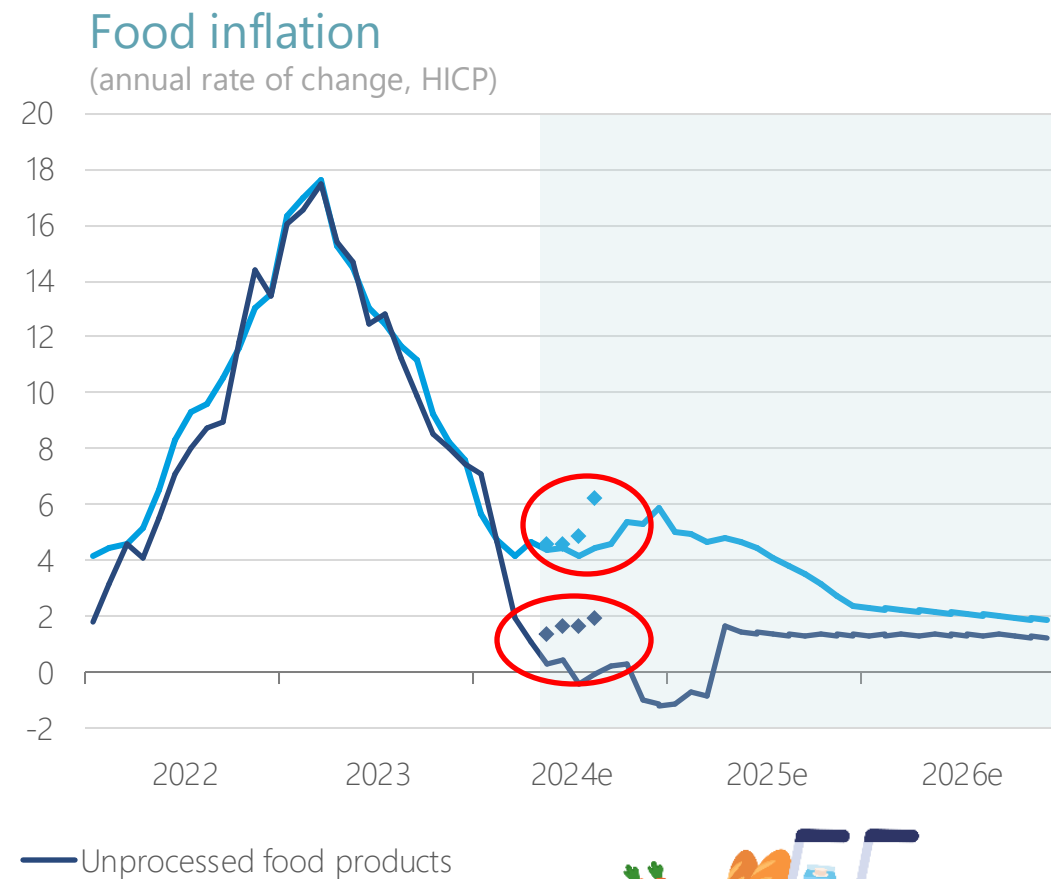
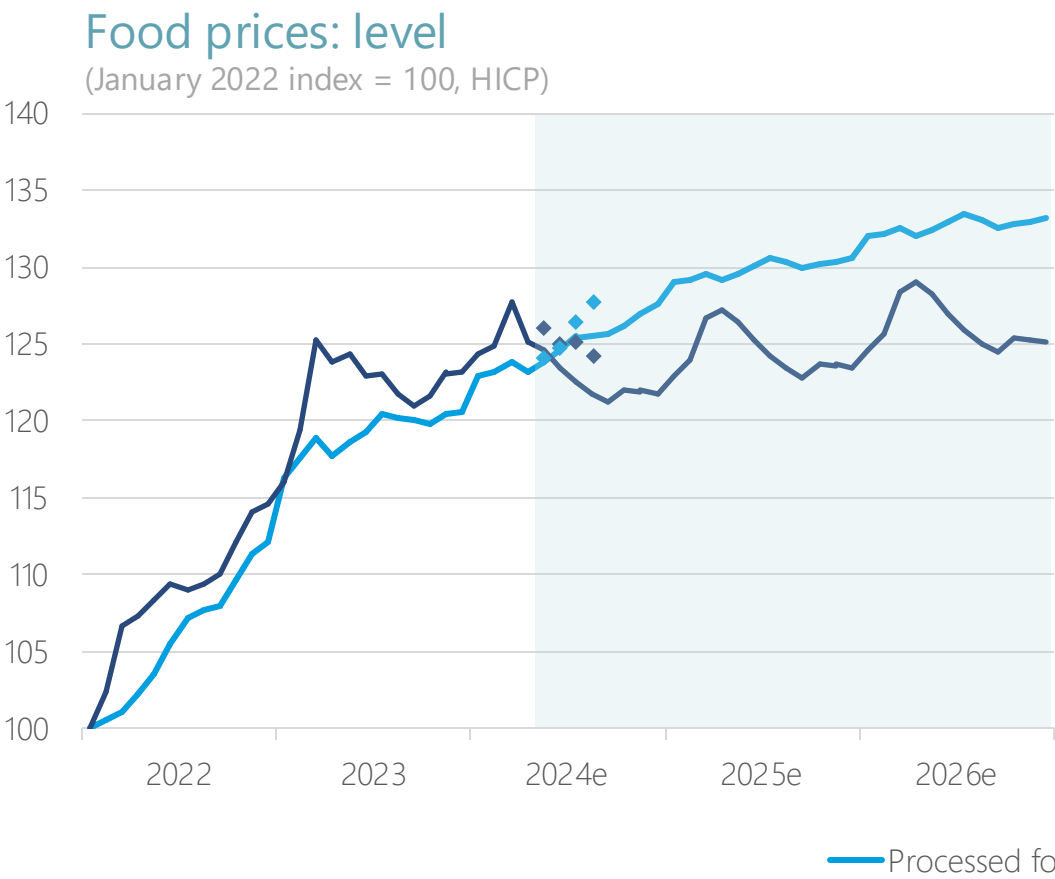
The rise in headline inflation in 2024 is attributable to energy prices (+ technical factor: ending of government support measures)

Headline inflation

(contribution to headline inflation in percentage points, unless otherwise stated)

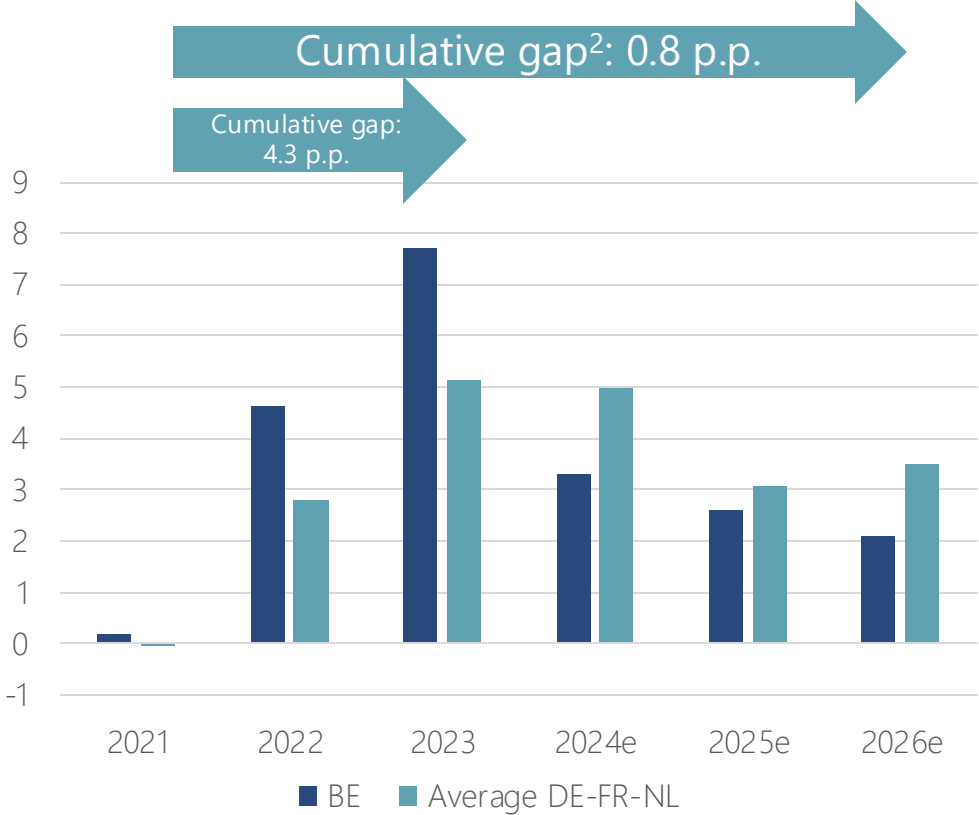
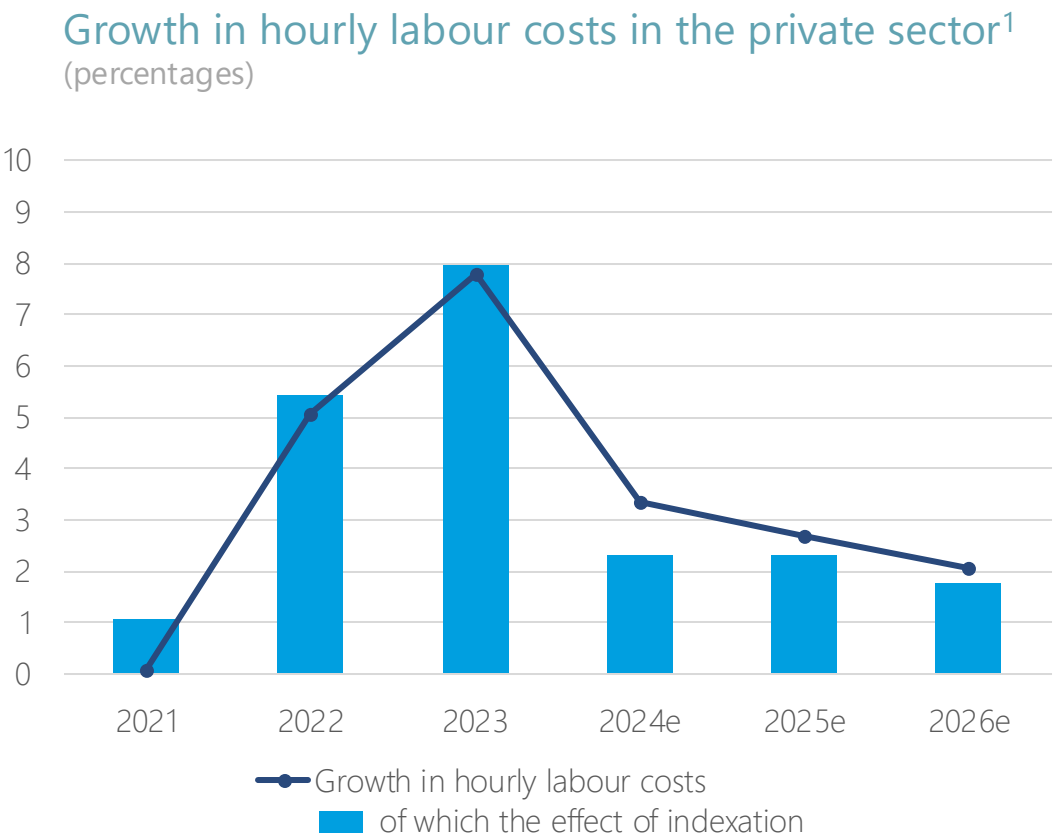


(Processed) food prices have not fallen sharply (↔ energy), which could explain the high “perceived inflation” (shopping basket effect)



Sources: Statbel, NBB.
Note: observations from May up to August 2024 are indicated on the graphs via diamonds in light blue for processed food and dark blue for unprocessed food.

Wage growth ceiling: no collectively negotiated wage increases; the hourly wage-cost gap will largely disappear by 2026



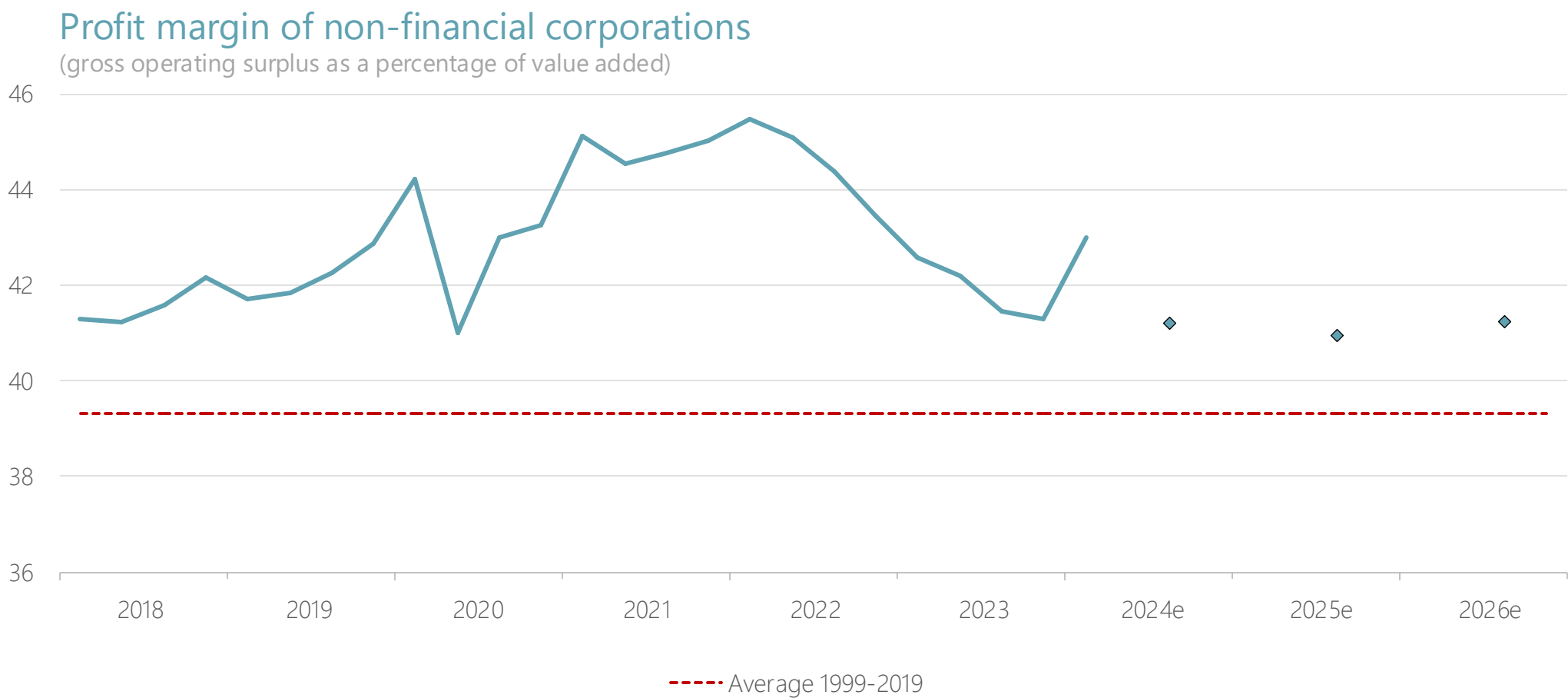
p.m. If the comparison starts in 2019 (pay gap \approx 0), the cumulative gap will still be 0.9% in 2026

Sources: Eurosystem, NAI, NBB.

¹ On the left-hand graph, hourly labour costs are presented in accordance with a broader definition than that used to compile the national accounts, one that includes wage subsidies and targeted reductions in social security contributions. On the right-hand graph, the national accounts concept is used to ensure comparability with the three neighbouring countries.

² Cumulative difference between the growth in BE hourly labour costs and the average for neighbouring countries over the years in question. This does not necessarily correspond to the official calculation of the wage gap by the CEC.

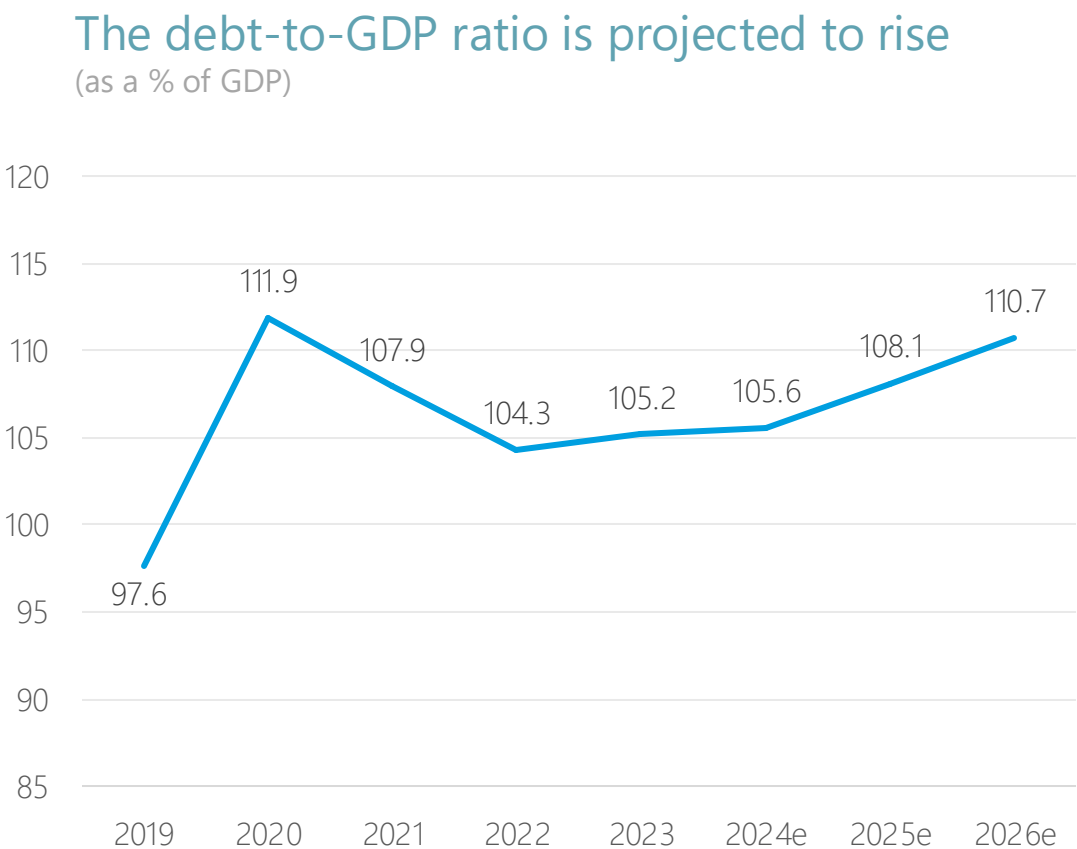
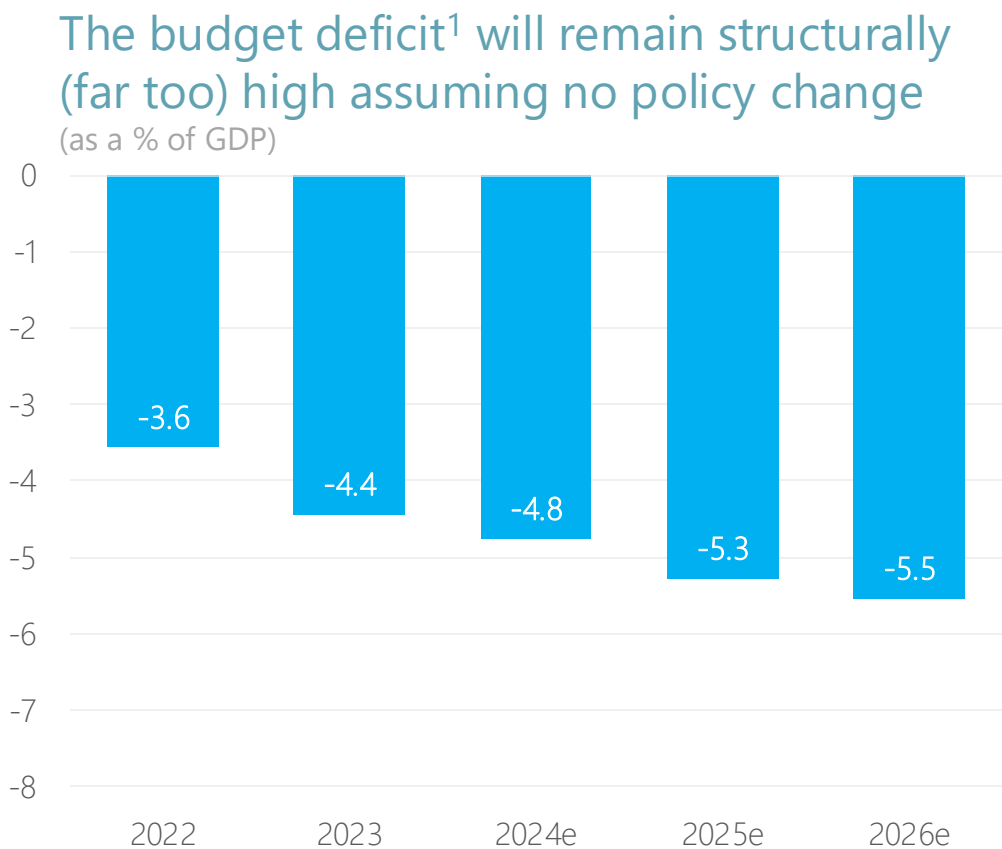
Corporate profit margins remain above their long-term average





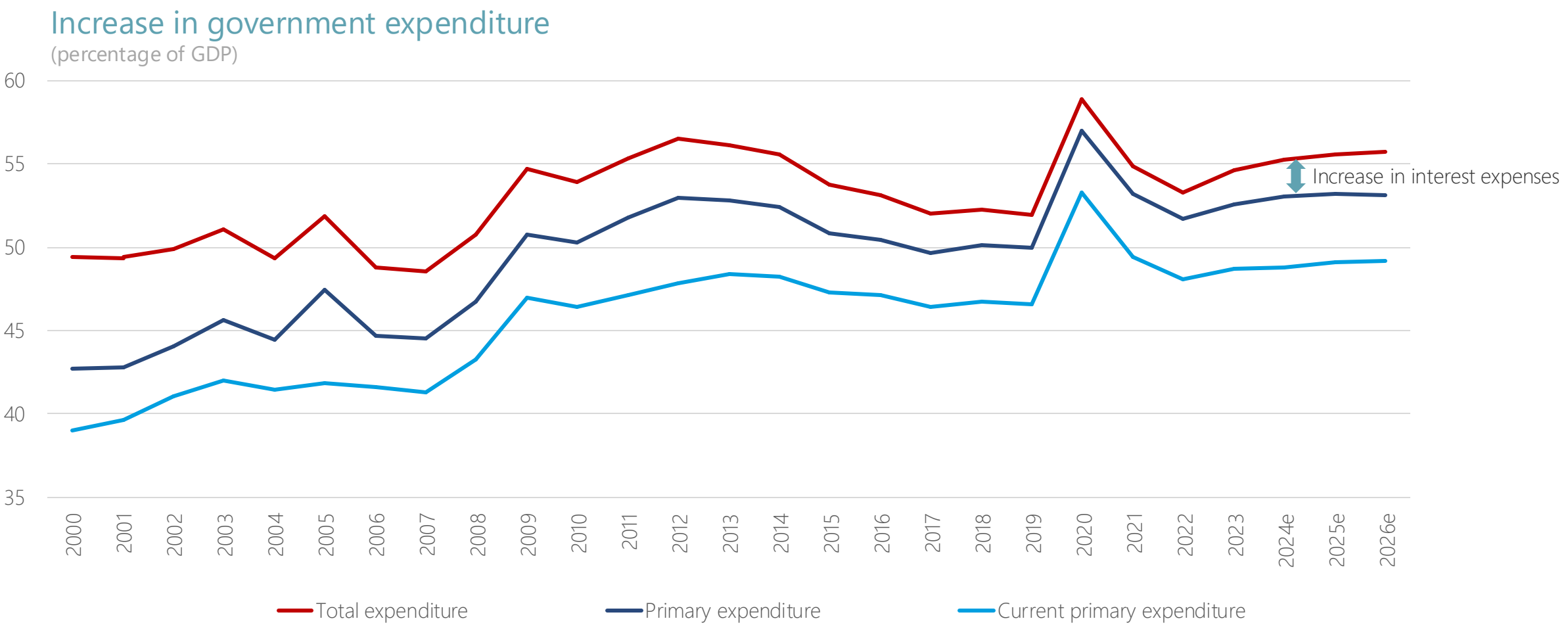
Public finances


URGENT: measures needed to reduce budget deficit and bring government debt back on a declining path



Sources: Federal Planning Bureau, NAI, NBB.
¹ These figures do not take into account the implicit deficit of 0.4% of GDP on average per year over 2021-2026 in order to finance debt in respect of subsidies granted to EU Member States under the NGEU programme.

Structural increase in current primary expenditure needs to be addressed

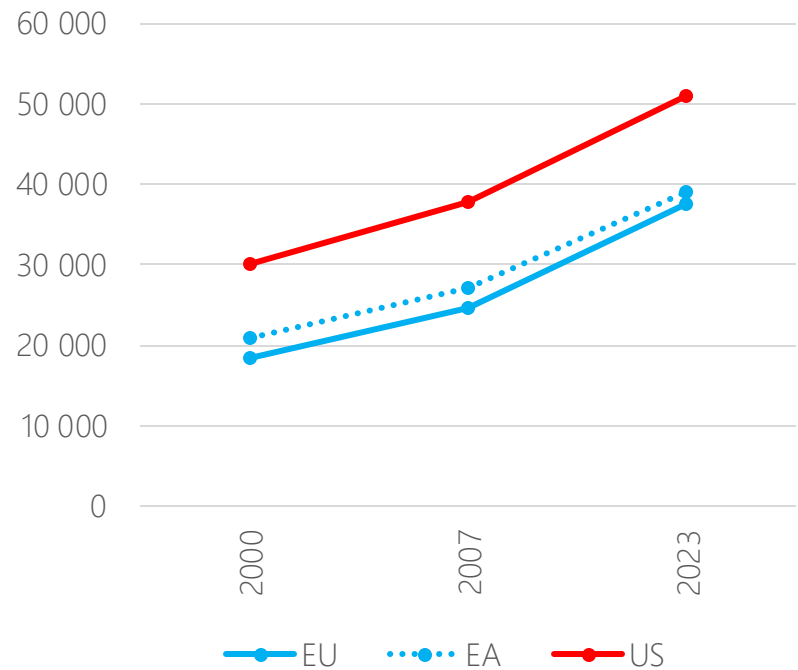




Epilogue: Europe, quo vadis?

Europe is losing more ground on the US

GDP per capita
(levels, in purchasing power standard)

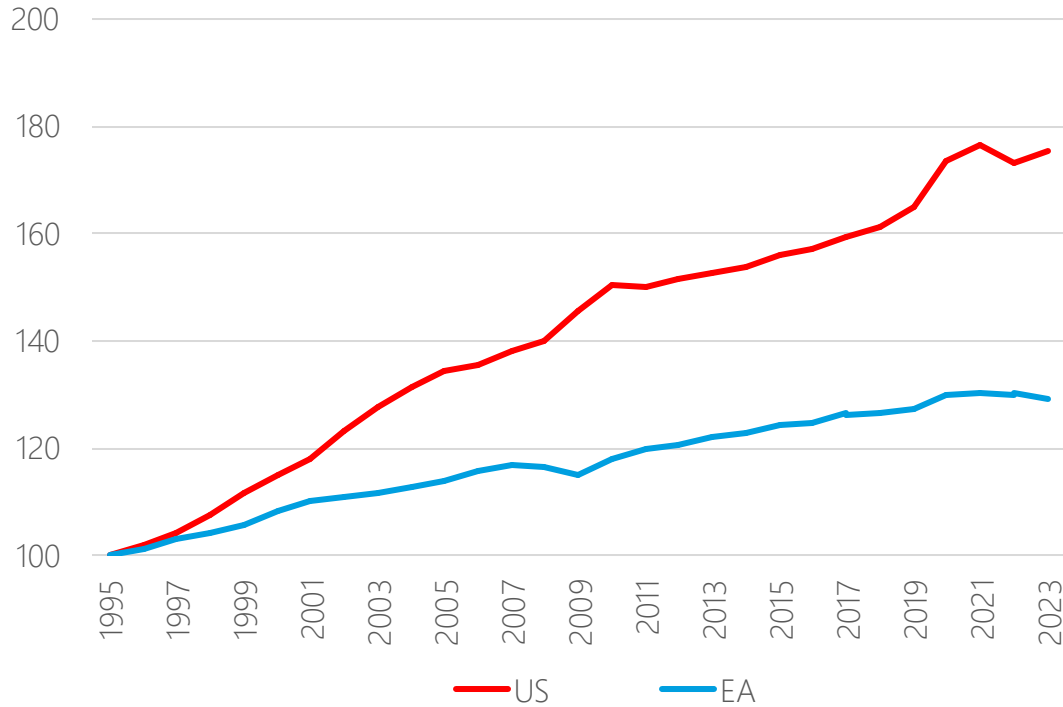


QoQ real GDP growth
(chain linked volumes, percentage change on previous period, seasonally and calendar adjusted data)

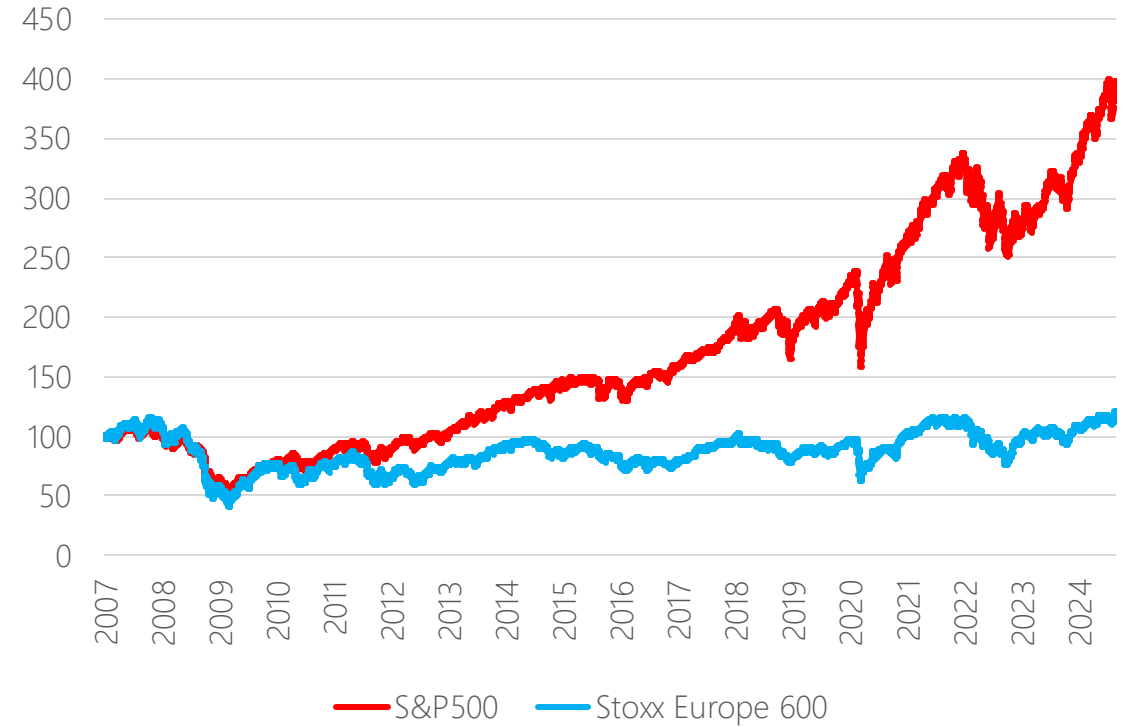
	EA		US
2023Q1	0.0		0.7
2023Q2	0.1		0.6
2023Q3	0.0		1.1
2023Q4	0.1		0.8
2024Q1	0.3		0.4
2024Q2	0.2	≈	0.7

Lower productivity growth, less dynamic corporate sector

Real labour productivity per hour worked
(index, 1995=100; nonfarm business sector for the US)



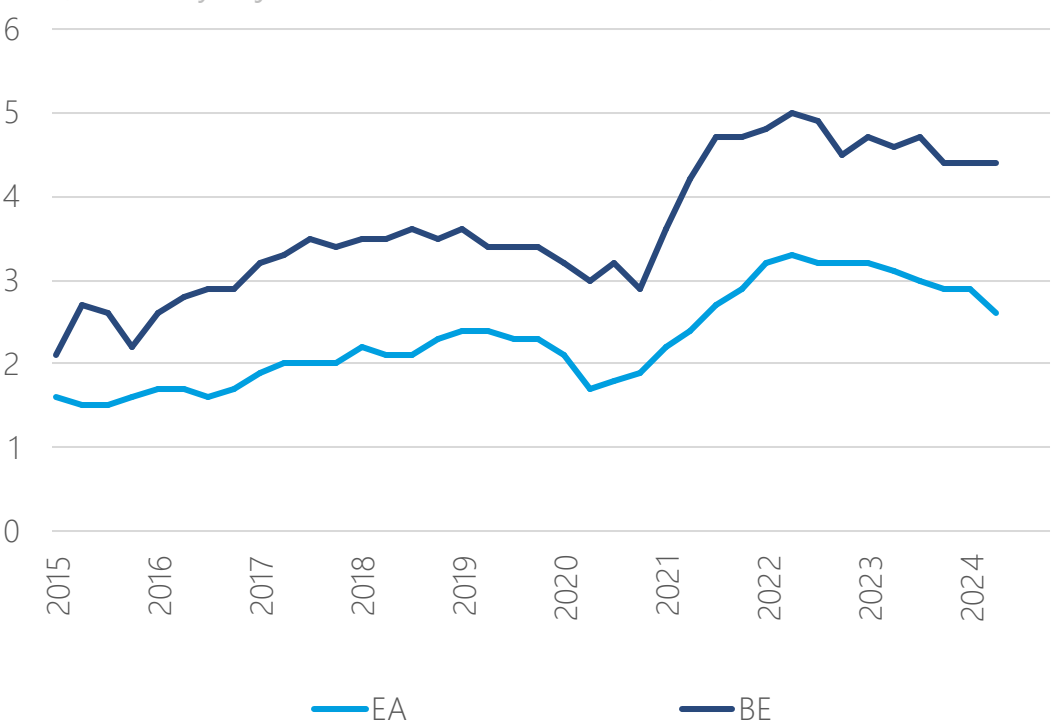
Stoxx Europe 600 vs S&P500 market capitalisation
(index, 01/01/2007 = 100)



Europe's/Belgium's problems increasingly come from the supply side

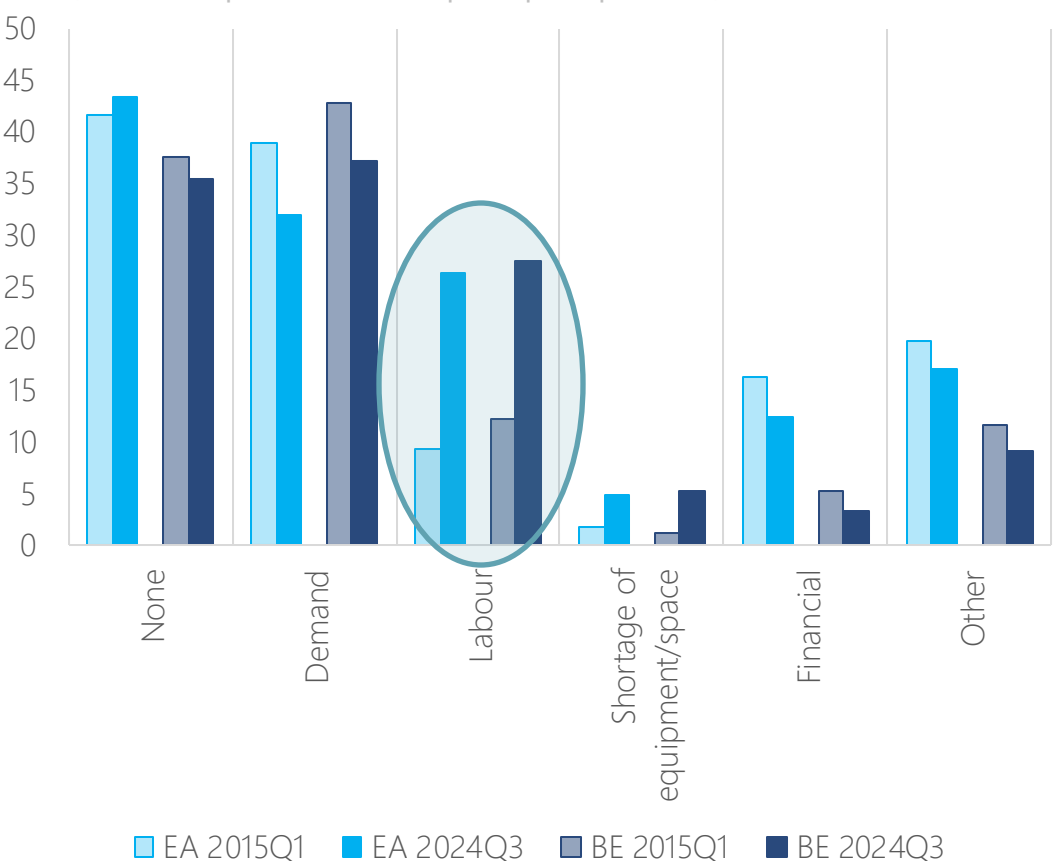
Job vacancy rate

(seasonally adjusted, last observation: 2024Q2)



Factors limiting the business in services

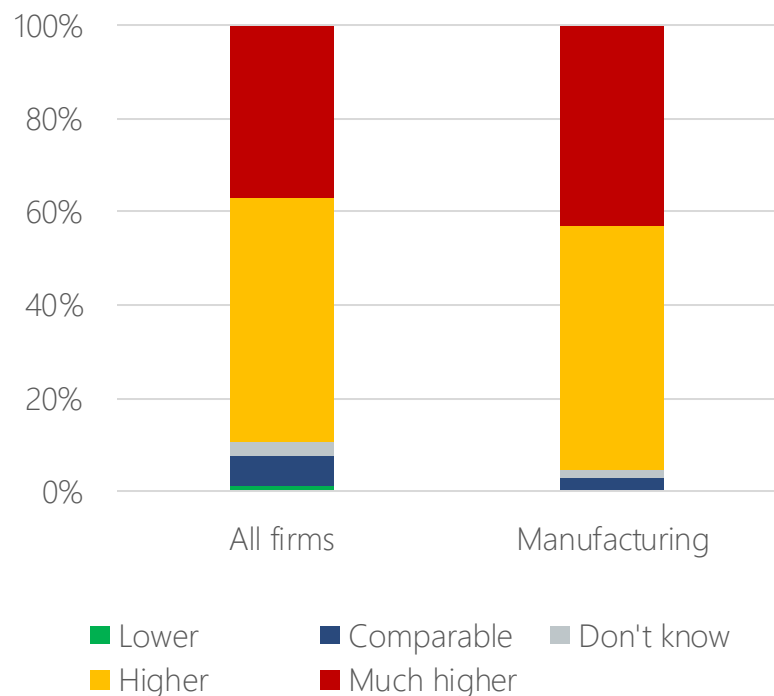
(in % of respondents, multiple replies possible)



2024 survey among Belgian firms confirms risk of delocalisation for manufacturing firms (in response to climate transition)

Expected relative energy prices in Belgium compared to the rest of the world in 2030

(% of respondents)



Manufacturing firms report on expectations by 2030 due to climate transition:

- Higher costs and sales prices
- Margin squeeze
- Negative impact on demand
- In net terms, less investment in Belgium ...
- ... but a clear tendency to increase investment outside the EU



Draghi report: problem acknowledged but solution multi-pronged?



- **Reform governance:**

- improve the decision-making process (faster, simpler)
- reduce policy fragmentation (between countries, between levels of governance)
- reduce regulatory burden



Hanno Lustig  @HannoLu... · 24/09/2024 ...

The best EU industrial policy would be for Brussels to get out the way.



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175



15K





Thank you
for listening!

 @geertlangenus

 Geert Langenus