



# Economic Update Belgium

7 June 2011

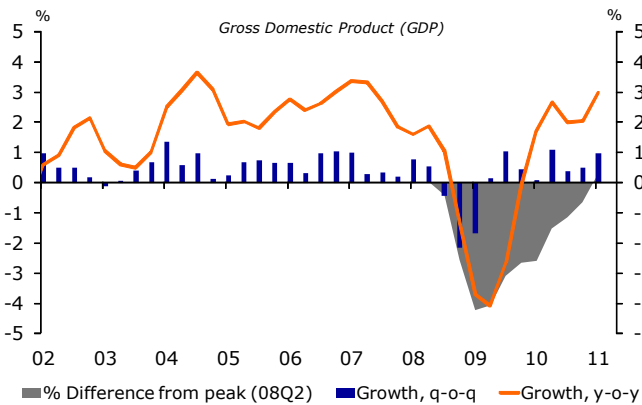
## Economy remains on track even without government

Year-on-year change (%)	'10	'11	'12
Gross Domestic Product	2.1	2¼	1¾
Private consumption	1.6	1½	1½
Government consumption	1.1	1	1
Private investment	-1.5	¾	2½
Exports	10.6	6¾	4½
Imports	8.4	6	4½
Inflation	2.3	¾	2¼
Unemployment (%)	8.3	7¾	7½
Government balance (% GDP)	-4.1	-3¾	-3½
Government debt (% GDP)	96.8	98	98½

Source: Reuters EcoWin, Rabobank

In spite of the political deadlock, the Belgian economy seems to keep up with the growth pace witnessed in 2010 (+2.1% y-o-y). For the current year we even foresee a slightly higher growth based on the very strong figure in the first quarter (1% q-o-q). Despite the expectation that export growth will slow down beyond 11Q1, we see ample space for domestic demand to contribute further to GDP growth. Helped by postponed austerity measures and high wage growth, private consumption growth is expected to remain on track this year. Besides that, we expect private investment, after contracting in 2009 and 2010, to contribute positively to growth this year.

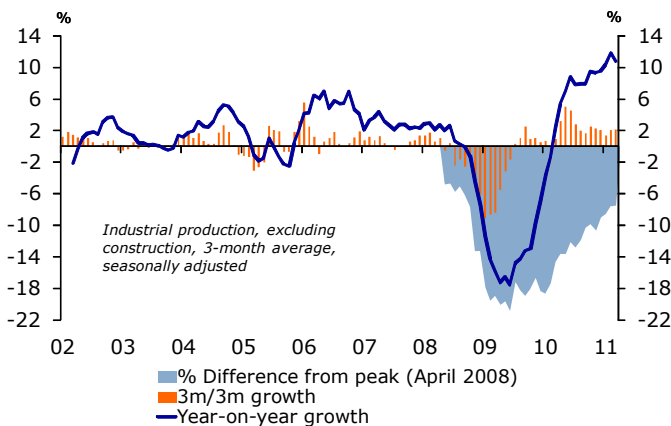
## Start of the year is encouraging



The first estimate of GDP-growth in 11Q1 shows that the Belgian economy made a strong start to the year (+1.0% q-o-q). The growth composition is yet unknown, but it is expected that both private investment as well as exports have contributed significantly to the headline figure. Meanwhile, economic activity has reached its pre-crisis level, which indicates that Belgium's economic recovery has been fairly quick compared to many other European countries. As the positive momentum of 11Q1 weakens, we see the strong start of the year as temporary. Therefore, we expect a considerable lower growth figure in 11Q2.

Source: Reuters EcoWin

## Is industrial production's growth pace sustainable?



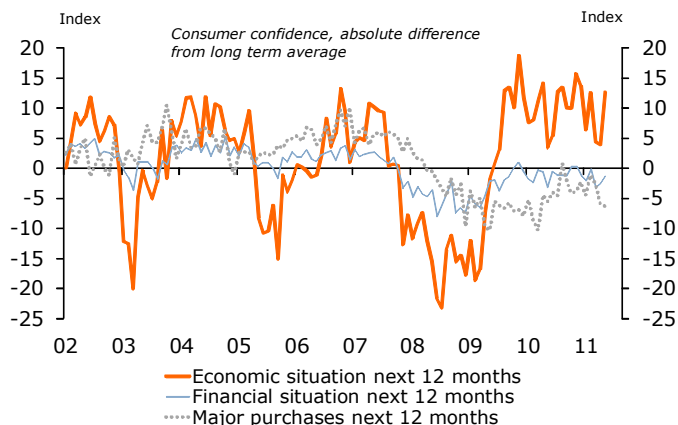
Industrial production has had a strong first quarter (+2.2% q-o-q in Q1). That said, the fall from peak (April 2008) remains considerable (over 7%). Besides that it is questionable whether the industrial sector is able to maintain the current pace of growth. This is evident from the drop in foreign order expectations in the manufacturing industry in May. Moreover, the drop in the producer confidence index (NBB) in May for the second month in a row remains concerning. Admittedly, the index still remains above its long term average. To sum up, there are plenty of reasons to expect the growth of industrial production to weaken going forward.

Source: Reuters EcoWin

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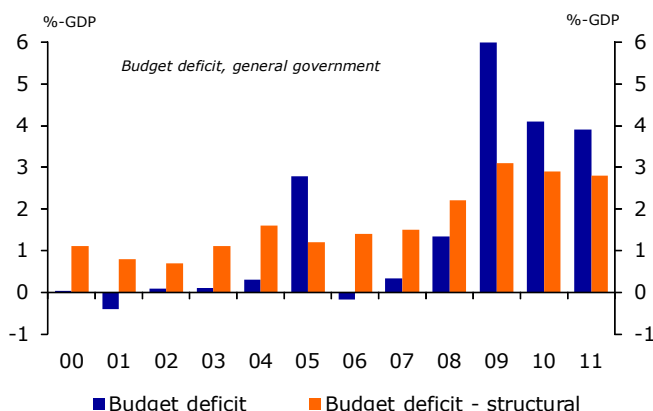
## Consumer confidence is improving again



Source: Reuters EcoWin

In contrast to producers, consumers seem to be upbeat as suggested by the NBB and EC surveys in both April and May. Note that the rise of the EC consumer confidence index was small, but it was enough to reach its highest level since mid-2007. Although consumers are optimistic about the economic outlook, they still seem to be hesitant about purchasing big-ticket items. Despite higher inflation, we expect the growth of real disposable incomes to remain solid amid wage indexation, favourable developments in the labour market and the postponement of severe austerity measures. Hence, we foresee a steady growth of private consumption in 2011.

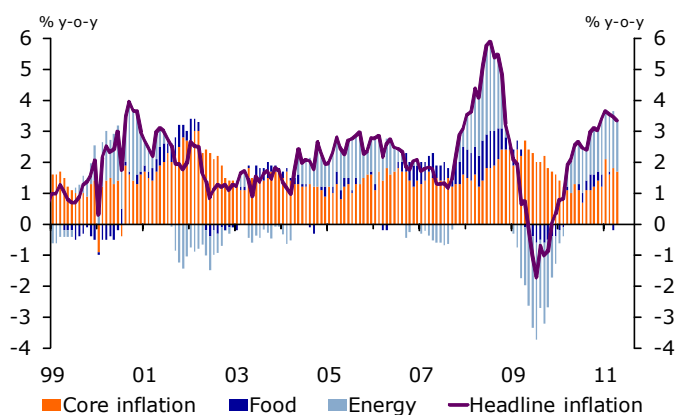
## Rating agencies increase the political pressure



Source: IMF

Fitch has also joined Standard & Poor's by placing the Belgian government debt rating on a negative outlook for a possible downgrade in the future should the structural reforms be further postponed. The budget deficit in 2010 (4.1%-GDP) turned out to be smaller than expected, but this was mainly due to relatively strong economic growth. The structural deficit barely decreased and the IMF does not envisage much improvement for the current year. Based on the economic outlook, we do expect a stronger improvement in the deficit compared to the IMF. Nevertheless, the pressure from the financial markets on formateur Elio di Rupo to form a government will remain extremely high.

## Inflation: have we reached the peak?



Source: Reuters EcoWin

Consumer price inflation decreased slightly during the past three months to 3.3% y-o-y in April. Core inflation only showed a modest increase in April (from 1.6% in March to 1.7%), while the contribution from energy prices decreased from 1.8%-point to 1.6%-point. In our view, it is far from certain that inflation has peaked by now. Despite a sharp drop in early May, oil prices remain very high. Besides that, food prices will continue to contribute positively to headline inflation this year. Finally, gradually falling unemployment and wage indexation may put further pressure on core inflation. To sum up, Belgian inflation will stay high for a while.

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