

## 2 August 2011

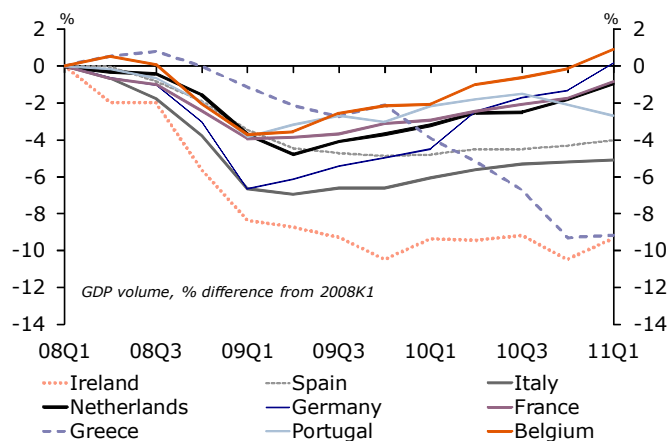
### Slowdown of growth seems inevitable

| 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 | 3¼  | 2½  |
| Exports                    | 10.6 | 6¾  | 4½  |
| Imports                    | 8.4  | 6   | 4¼  |
| Inflation                  | 2.3  | 3½  | 2¼  |
| Unemployment (%)           | 8.3  | 7¾  | 7¼  |
| Government balance (% GDP) | -4.1 | -3¾ | -3½ |
| Government debt (% GDP)    | 96.8 | 98  | 98¼ |

Source: Reuters EcoWin, Rabobank

After a strong first half of the year we expect growth to slow down in the coming quarters. The moderate economic recovery since the financial crisis has been supported by a strong growth of world trade. As the growth of world trade is expected to weaken going forward, Belgium's GDP growth in 11H2 will be weaker than in recent quarters. We deem it unlikely that domestic demand will be able to compensate for waning global demand. On a positive note, private consumption growth will remain relatively strong, partly due to healthy household balance sheets. Besides that, we place our hopes on business investment amid the rise in the manufacturing sector's capacity utilisation rate.

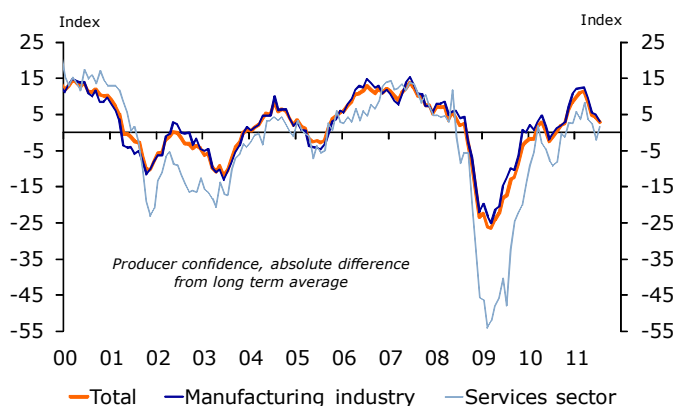
### A frontrunner since the recession...



Source: Reuters EcoWin

Belgium is a frontrunner regarding the economic recovery since the recession compared to the other eurozone countries. The first estimate of GDP-growth in 11Q2 shows that output rose by 0.7% q-o-q. This figure is very strong given the drop back expected after the buoyant growth figure in 11Q1 (+1.0%). The contribution of the demand components is not released yet. We do not expect the Belgian economy to be able to maintain this growth pace in 11H2. The slowdown of global growth will weigh on exports and unfortunately, domestic demand is not strong enough to completely compensate for it. Therefore, a slowdown of GDP-growth will be inevitable.

### ...but sentiment deteriorates going into 11H2...



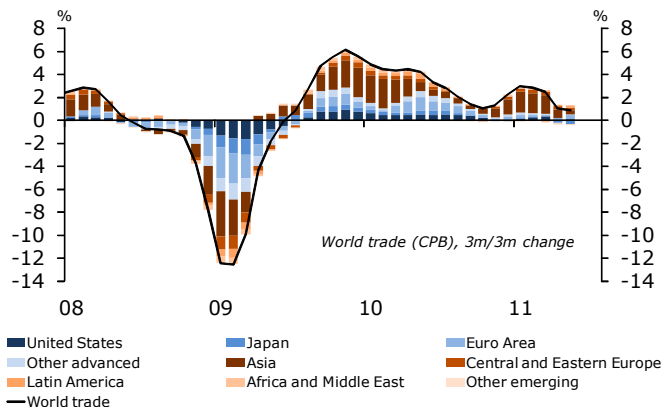
Source: Reuters EcoWin

Confidence indicators confirm our expectation of economic slowdown. The positive sentiment among producers is waning over the recent months. The confidence indicator of producers in the manufacturing industry (NBB index) dropped in June for the fourth month in a row. Producers are particularly worried about a fall in orders. Mind you that the deterioration of producer confidence is not unique to Belgium. This pattern is observed in most other advanced countries. The good news is that sentiment in the services sector has improved after declining four months in a row. Note that the composite index is still slightly above its long term average.

# Economic Update Belgium

## 2 August 2011

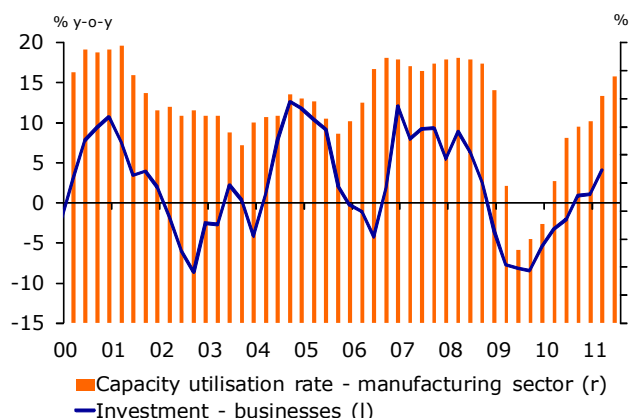
### ...amid weaker global demand



An important explanation for the drop in sentiment is the slowdown in the growth of world trade. This trend is expected to continue in the coming months. For one, Asia is approaching its borders of production capacity and is therefore importing less. What's more, exports to the European periphery will remain under pressure as the painful deleveraging process continues. It is well-known fact that Belgium, with its open economy, is sensitive to developments in world trade. Since the recovery in 2009 they managed to exploit the boom in world trade well. However, the contribution of net exports to GDP growth is expected to weaken in 11H2 as global demand falls.

Source: Reuters EcoWin

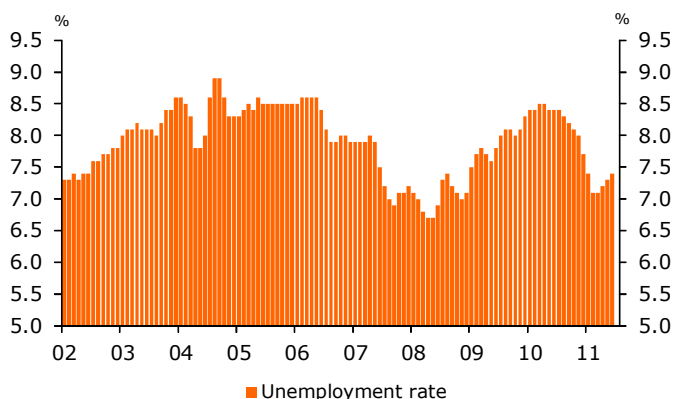
### What is the effect on investments?



After shrinking in 2009 and early 2010, business investments started growing strongly. However, the volume of investments is still more than 7.5% below their pre-crisis level. The current drop in producer confidence composes a risk to the future recovery. Nevertheless, we expect business investments to be able to contribute robustly to GDP growth this year. An important reason for this is that the capacity utilisation rate of the manufacturing sector has increased during the past year and currently stands above its long term average (of 79.7%). This is enough to entice companies to make investments in order to increase production capacity.

Source: Reuters EcoWin

### The fall of unemployment comes to an end



After a strong decline during 2010, the unemployment rate has rebounded this year. Unfortunately, slower economic growth will result in less job creation going forward. Moreover, to fight the high structural unemployment rate in the long term, radical labour market reforms are necessary. Despite the negative developments in the labour market, we expect the implications for private consumption to remain modest. Due to limited austerity measures and inflation-wage indexation, real disposable incomes are expected to remain unharmed. Besides that Belgian households possess relatively large financial buffers.

Source: Reuters EcoWin

[www.rabobank.com/kennisbank](http://www.rabobank.com/kennisbank)

Michiel Verduijn  
Tel. +31 (0)30 - 2130522  
M.P.Verduijn@rn.rabobank.nl