



Economic Update Belgium

3 July 2012

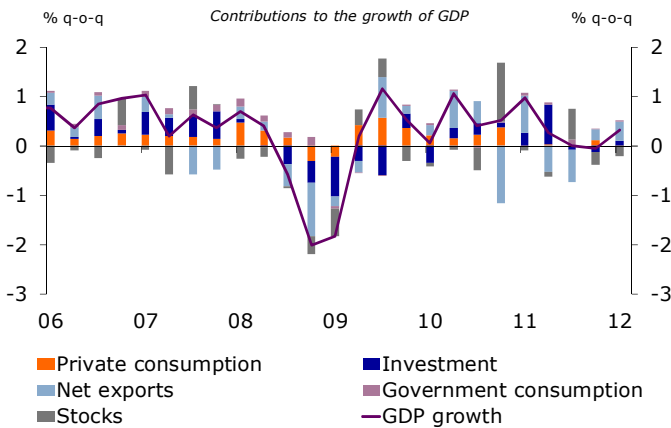
Pick up in first quarter seems temporary

Year-on-year change (%)	'11	'12	'13
Gross Domestic Product	2.0	¼	1
Private consumption	0.9	¼	½
Government consumption	0.6	½	½
Private investment	5.2	¼	1¾
Exports	4.4	-¼	3¾
Imports	5.1	-½	3½
Inflation	3.5	3	1½
Unemployment (%)	7.2	7½	7½
Government balance (% GDP)	-3.7	-3	-2½
Government debt (% GDP)	97.7	98	98

Source: Reuters EcoWin, Rabobank

After the better than expected GDP figure in 12Q1 a new slow down seems unavoidable. Similar to many other eurozone countries, economic sentiment deteriorated strongly in recent months. Based on this, in combination with disappointing figures of world trade and industrial production in April, we anticipate a contraction of GDP in 12Q2. Despite weaker economic growth in recent quarters, the labour market has remained out of harm's way. However, if the economic weakness lasts, this will surely weigh on job creation. Therefore, also a rise of the unemployment rate should be taken into account over the next couple of months.

Net exports prevented a GDP contraction...



Source: Reuters EcoWin

After a small contraction (-0.1% q-o-q) in 11Q4, GDP grew by 0.3% q-o-q in 12Q1. Economic growth could be attributed almost completely to net exports since domestic demand remained particularly weak. The consumption of both households and the government has hardly increased during the last five quarters. Only business investments provided a bright spot, they grew by 0.9% q-o-q in 12Q1 after two quarters of contraction. During the first quarter, weak domestic demand was compensated by export growth (+0.6% q-o-q). This came after three quarters of export contraction. As imports rose by only 0.2% q-o-q, net exports contributed 0.4%-point to the headline figure.

...but can this trick be repeated?



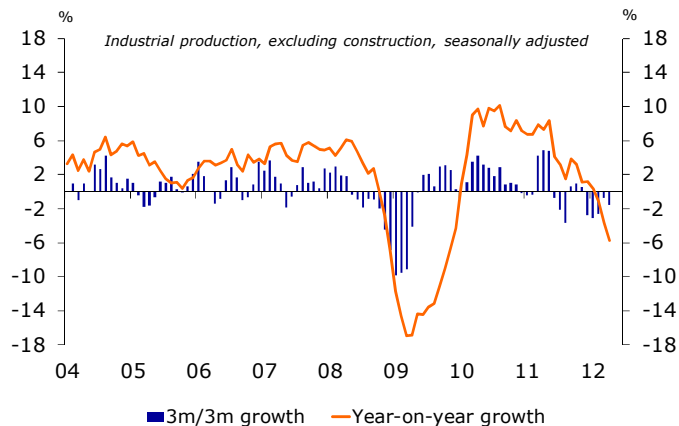
Source: Reuters EcoWin, CPB World trade monitor

To be sure, it is questionable whether foreign demand will once again be able to mask the weakness seen in domestic demand in 12Q2. The development of world trade might provide an indication in this light. World trade grew by 1.6% q-o-q in 12Q1, but contracted in April (-0.8% m-o-m) for the second month in a row. The deterioration of global economic indicators, especially in the eurozone, suggests that external demand will be weaker than in the previous quarter. What's more, a business survey in the trade sector in June shows a deterioration of sentiment for the third month in a row. Against this backdrop, we expect a weakening of Belgian export performance in 12Q2.

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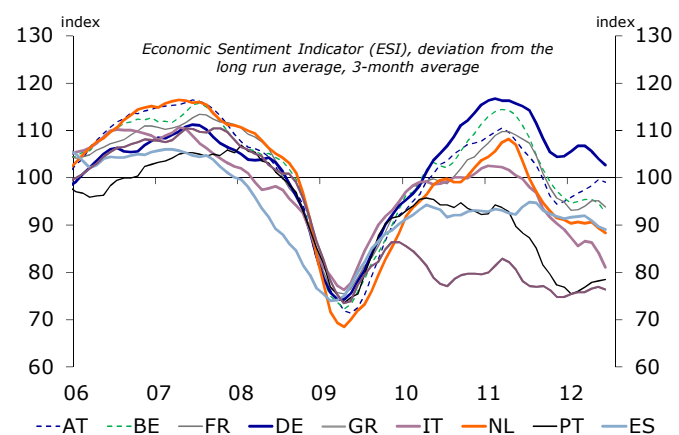
Industrial production on a downward track



Source: Reuters EcoWin

Also industrial production (IP) shows a clear deterioration since the start of 12Q2. After a fragile 12Q1 (-0.7% q-o-q), IP, excluding the construction sector, dropped severely in April (-7% m-o-m). Even abstaining from the monthly volatility, we can see that the 3m/3m growth was -1.6% in April. In level terms, IP is still almost 13% below its pre-crisis peak. Moreover, the outlook for the coming months is not particularly bright. We expect that neither domestic nor foreign demand will be able to provide the much-needed growth impulse in the short term. Our view is confirmed by a further drop of sentiment in the manufacturing industry in June, which is clearly below its long term average.

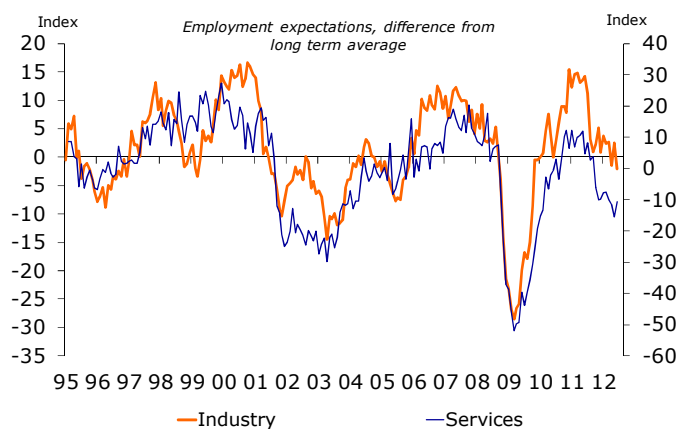
Economic sentiment gives rise to anxiety



Source: Reuters EcoWin

The Economic Sentiment Indicator (ESI) dropped in June (90.5) for the third month in a row. This deterioration corresponds to the development seen in many other eurozone member states, which is no surprise given the resurfacing of the European debt crisis in recent months. Based on this, we anticipate a contraction of GDP in 12Q2. Recovery in the second half of the year strongly depends on developments on the European crisis front. The outcome of the Euro Summit in Brussels was a step in the right direction, but does not offer a final solution to this crisis. Therefore, the outlook for the European and Belgian economy in 12H2 remains highly uncertain.

How long will the labour market escape the malaise?



Source: Reuters EcoWin

The labour market currently still performs above expectation. Employment grew continuously since the autumn of 2009, albeit marginally in 12Q1 (+0.04% q-o-q). Helped by an only moderate increase of labour supply, the unemployment rate managed to stay constant in recent months (7.2% in May). However, we do not expect the labour market to defy economic gravity forever. Based on the expected economic slow down and weak employment surveys – mainly in the services sector – we believe a contraction of employment is realistic. To this end, also a slight increase in unemployment rate seems unavoidable.

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