



Rabobank

Economic Update Belgium

3 September 2012

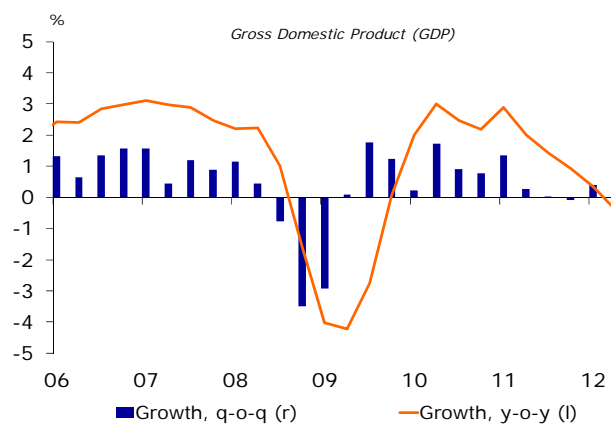
Belgium heading towards a recession?

Year-on-year change (%)	'11	'12	'13
Gross Domestic Product	1.8	-¼	¾
Private consumption	0.2	-¼	¼
Government consumption	0.8	¼	½
Private investment	4.1	-¼	2
Exports	5.5	-1	2¼
Imports	5.7	-½	1¾
Inflation	3.5	2½	2
Unemployment (%)	7.2	7¼	7¼
Government balance (% GDP)	-3.7	-3	-2¼
Government debt (% GDP)	97.8	98½	98

Source: Reuters EcoWin, Rabobank

Several indicators pointed to a mild GDP contraction in the second quarter, but the actual shrinkage (-0.6% q-o-q) was larger than expected. The underlying picture is very bleak and there are hardly any signs that economic performance will improve in the short term. The investment climate seems to have deteriorated in the third quarter while sentiment levels of both consumers and producers remain depressed. In contrast to other countries, Belgium will benefit only marginally from the recent drop in inflation as a result of their automatic wage indexation. Given the persistent weakness, we anticipate a mild GDP contraction in the third quarter as well.

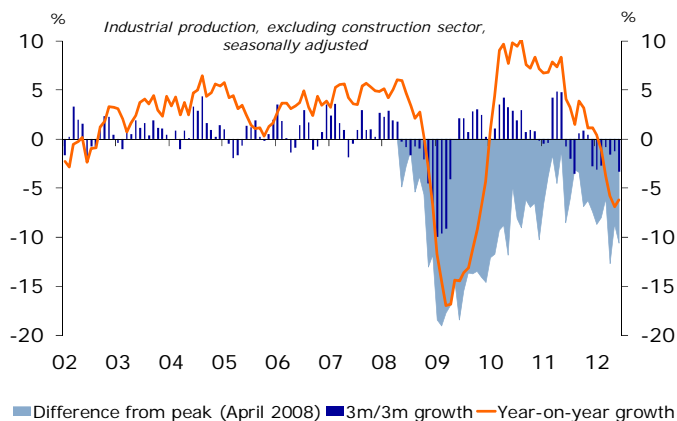
Belgium is the odd man out



Source: Reuters EcoWin

The first estimate of the GDP figure for 12Q2 shows a significant contraction (-0.6% q-o-q). The breakdown is not published yet. As described in our previous Economic Update we anticipated a contraction, but its size caught us by surprise. The figure is remarkable as Belgium's neighbours –Germany, France and the Netherlands– grew or at least stagnated. It was only for the third time since 1995 that, out of these four countries, Belgium dipped into the red while the rest did not. Mind you that several underlying indicators did not point to such a harsh contraction. Therefore, we do not exclude an upward revision to the GDP data later this year.

Severe contraction can only be partly explained



Source: Reuters EcoWin

Since mid-2011 industrial production (IP) has entered a new dip, which accelerated in the second quarter. IP, excluding the construction sector, contracted firmly by 3.3% q-o-q in 12Q2. It should be noted that IP also contracted by almost 3% q-o-q in 11Q4, but back then GDP shrank only 0.1% q-o-q. Moreover, compared to 11Q4, the sentiment of consumers and producers hardly deteriorated any further. Just as in end 2011, the Belgian economy is expected to be hindered by a slower growth of world trade. The growth weakened from 0.5% q-o-q in 11Q4 to 0.3% q-o-q in 12Q2. To sum up, the GDP contraction did not come out of the blue, but we are not able to fully explain the large drop.

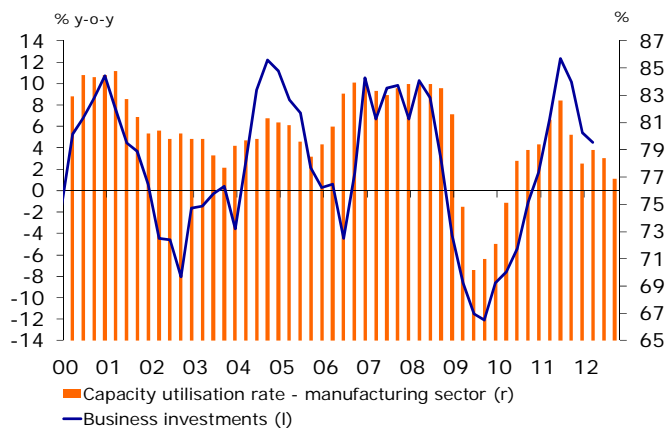
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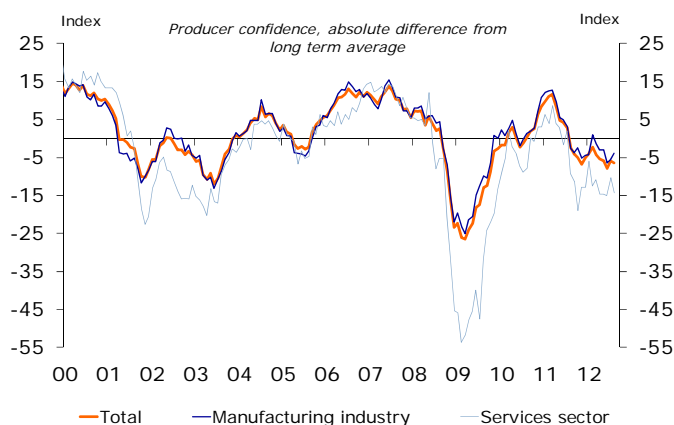
Investment climate under pressure



Source: Reuters EcoWin

Nevertheless, it should be clear that Belgian's recovery remains very weak. In the first quarter, business investment was able to surprise on the upside, but the abovementioned dip in the (manufacturing) industry makes further positive surprises less likely. Surveys from the manufacturing industry show that, as a consequence of this dip, the capacity utilisation rate dropped in both 12Q2 and 12Q3. In addition to the remaining uncertainty regarding the European debt crisis, this does not bode well for investment growth going forward. Especially, investment aimed at expanding the current production capacity are likely to be postponed amid an unfavourable macroeconomic environment.

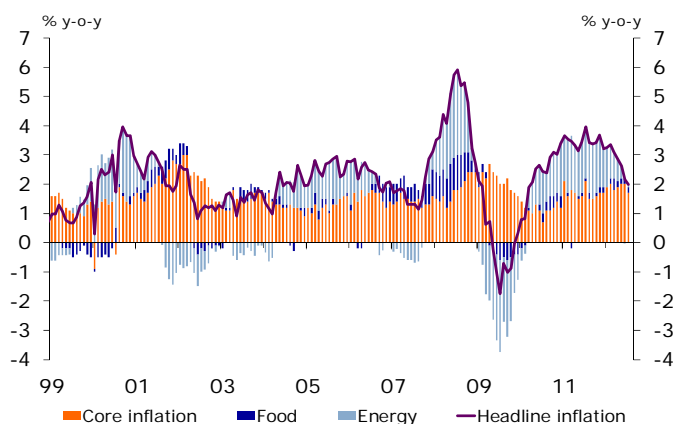
Sentiment does not lay out the red carpet



Source: Reuters EcoWin

Sentiment indicators do not point to an improvement in the economic momentum going forward. After the deterioration of producer confidence in the second quarter, the NBB-index has stabilised, but the current level remains relatively low by historical standards. However, the consumer confidence index showed a further deterioration in August. The sub indices 'economic outlook' and 'unemployment expectations' weakened significantly. As signals of improvement fail to appear, we anticipate another GDP contraction in the current quarter. This is most likely to occur if the GDP figure of the previous quarter is revised upwards, as a possible rebound effect is then kept to a minimum.

Drop in inflation! A silver lining?



Source: Reuters EcoWin

The recent fall in inflation (2.0% in July) might serve as a bright spot for households, who are facing harsh tax hikes and a weak labour market. However, there is no reason for too much optimism. In Belgium, the effect of the drop in inflation is hampered due to the automatic wage indexation, as a result of which wages respond quickly to developments in the average price level. Besides that, the recent rise in commodity prices might push up consumer prices in the coming months. Still, core inflation might come down slightly due to weak domestic demand. On balance, we expect a significantly lower inflation in 2012 (2.5%) than reported last year (3.25%).

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