Belgium: a first (rough) indication of the economic shock

Belgium's GDP probably contracted by 3.9% (non-annualised) in the first quarter compared to the last three months of 2019. This is not so far from our expectations, but this figure should be taken with caution

Scary surveys

Like most economies, Belgium has been hit hard by the coronavirus crisis. But it remains difficult to put a figure on the damage caused to the economy. For the time being, only very partial data are available, mostly from business and consumers surveys. Unsurprisingly, as in most European countries, consumer and business confidence is at an all-time low. To better understand the shock, the National Bank of Belgium, which is responsible for the surveys, asked additional questions about household income and business activity. During the lockdown, for example, one third of households experienced a reduction in income. Bear in mind that among the households surveyed there are pensioners and recipients of social benefits, who by definition have not experienced a fall in their income. At the company level, two-thirds of companies intend to postpone their investments until later in 2020, 2021 or without a specified deadline. Only 10% of companies intend to maintain their investment plans (the rest did not intend to make any). Both declining revenues and revised investment plans are weighing on economic activity during the lockdown, but more importantly could impact activity in the coming quarters.

Big contraction

The first estimate of the national accounts for the first quarter gives a more precise idea of the loss of activity linked to the coronavirus. Economic activity is estimated to have fallen by 3.9% in Belgium in the first quarter compared to the previous quarter. The National Bank reports a decline of 3.5% in activity in the manufacturing sector, 6.6% in the construction sector and 3.6% in the service sector. It should not be forgotten that the containment started in Belgium in the middle of March. The shock on activity in the first quarter is therefore linked to a period of lockdown of barely two and a half weeks. This suggests that the figure for the second quarter will be much worse, since it will count five and a half weeks of complete lockdown and the rest of the quarter will be marked by a very gradual recovery of activity.

We have to be careful, however. By the National Bank's own admission, the first-quarter figure had to be calculated according to an unusual methodology, since no official data (such as VAT returns from companies) are yet available for March. However, this is where the huge shock of the pandemic came in. In the absence of such data, the first estimate is based on sectoral information or the surveys referred to above. But this figure could be significantly revised in the coming months. The same reservations will probably apply to the figures published in other European countries in the coming days.

This being the case, this first estimate provides a reference point that confirms the magnitude of the shock. For the year as a whole, it could lead to a contraction in GDP at least three times greater than that recorded during the financial crisis.

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