Belgium: It could be better

Belgian GDP growth disappoints again, while underlying inflation dynamics remain muted

Higher growth was expected

Economic growth remains somewhat disappointing in the first quarter of this year. Belgian economic activity grew by 0.4% compared to the previous quarter, or 1.6% year-on-year. For sure, this is not bad, but there are three reasons why these numbers disappoint.

Firstly, economic growth in the first quarter slowed down from the last quarter of 2017 (0.5% QoQ, 1.9% YoY). One has to say that such a deceleration comes quite early. Some quarters of very strong growth would have been more in line with a "normal" development of the business cycle, and the recovery is still quite young.

Secondly, this number isn't really in line with the first indications we had about the Belgian economy in 2018. Confidence indicators were improving, contrary to what happened in Germany, weather conditions were not particularly bad, and there was no negative shock hitting the Belgian economy.

Thirdly, even if the first data released tends to show that GDP growth in the Eurozone has not been as strong as we expected, Belgium is likely, once again, to remain around or even below the Eurozone average. In this recovery process, Belgium is certainly not the best pupil in the class.

Without any details of the GDP components in the first quarter of 2018, it is difficult to explain why growth was so moderate. Having said that, private consumption has shown some signs of weakness in 2017, despite an improving labour market. The Q1 GDP number maybe reflects some further weakness from that side of the economy. Moreover, as other Eurozone countries have shown some slowdown in Q1, Belgian exports could also have been hit by this evolution.

On the back of these figures, we fear that 2.0% GDP growth for Belgium this year is now out of reach unless an unexpected acceleration kicks in very soon.

Inflation driven by oil

In addition to this, there was a slight increase in inflation in Belgium to 1.5% in April from 1.4% in March, but this movement is mainly due to higher oil prices. Indeed, the components having contributed the most to this increase are the cost of transport and the energy cost of housing. On top of that, there was also higher food price inflation, but this can be temporary as it depends on weather conditions.

Contrary to what headline inflation suggests, the underlying dynamics of prices is probably slowing down. As an example, the inflation of services has decreased from 1.9% in March to 1.3% in April.

All in all, the April inflation number doesn't give any indication of a positive trend in inflation in the near future. The moderate growth will probably not be of any help in this regard.

One could say the Belgian economy is doing well, but compared to what it was able to deliver in the past in terms of growth and inflation, it could be doing much better.

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