

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.

Author

Philippe Ledent

Senior Economist, Belgium, Luxembourg

philippe.ledent@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the

Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.