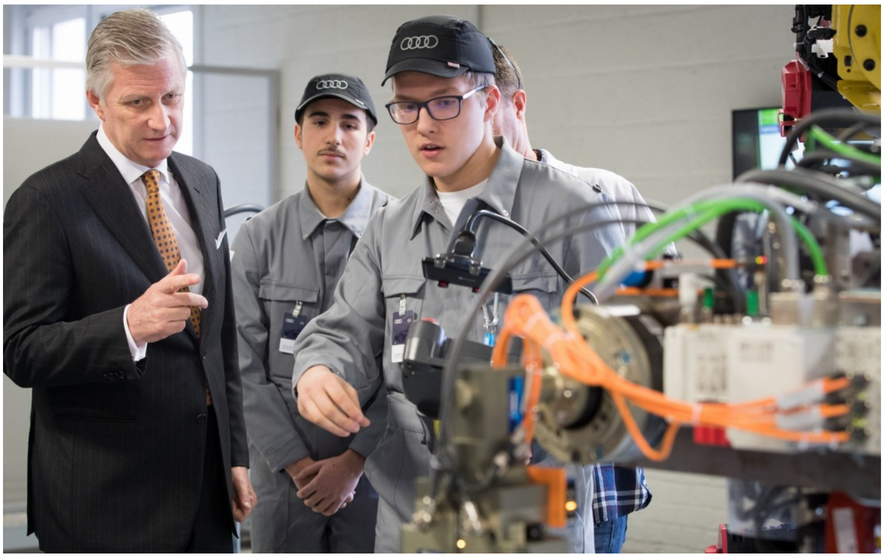
Manufacturing sector leads Belgium's recovery

The Belgian economy grew better than expected in the first quarter of this year, driven by impressive growth in the industrial sector. Vaccinations should now provide a real breakthrough, allowing all sectors to recover



Belgium's King visiting an Audi production plant in 2019

Positive surprise

According to the first estimate of the national accounts, which should be taken with caution due to greater than usual uncertainty around the economic data, the Belgian economy grew by 0.6% in the first quarter of 2021 compared to the previous one. This is a real surprise, as most forecasts were for zero growth. Nevertheless, Belgium's GDP is still 4.5% below its pre-crisis level and even 1% below the level of the first quarter of 2020, which was marked by the start of the pandemic.

Sectoral divergence

But what is most interesting is the first estimate of sectoral growth in activity. According to the National Bank, activity in the construction and services sectors grew by only 0.1% and 0.2% respectively compared with the previous quarter. In fact, this is not far from the sluggish growth pace that had been forecast for the whole of the economy. Therefore, the largest share of GDP growth in the first quarter is attributable to the industrial sector (growth of 1.3% QoQ).

It was known that the industrial sector, more involved in world trade, was already benefiting from the better performance of many Asian economies along with the recovery in the US. But it seems that this phenomenon was stronger than expected. There were also fears that the implementation of the new trade agreement between the United Kingdom and Europe at the beginning of the year would have a temporary negative effect on Belgium's foreign trade, with the new procedures only gradually adopted by companies. But it seems that this was not the case, or at least that any negative effect was offset by other elements (such as weaker imports from the UK).

Looking ahead

With vaccination programmes progressing faster and the re-opening process of the economy starting, the second quarter should once again see positive growth. But this time, activity should be driven by all sectors of the economy. If everything goes according to plan in terms of health, it is, therefore, reasonable to expect that the Belgian economy is emerging from the pandemic tunnel. Given the better than expected economic growth in the first quarter, we will also have to raise our growth forecast for this year. It could now even exceed 4% in 2021.

Author

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com