Belgium GDP shrinks 12.2% in second quarter

Belgian GDP shrank 12.2% in the second quarter. While the third quarter has started on a strong footing, the flaring up of the pandemic remains a risk to the outlook

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Unprecedented contraction

The Belgian economy contracted by 12.2% quarter-on-quarter in the second quarter and 14.5% year-on-year - the biggest contraction since the quarterly GDP series has begun after the 3.5% contraction in the first quarter.

With a large part of the quarter in full or partial lockdown, the big negative figure was not a surprise, with the consensus forecasting a 12% decline. However, the figure is still prone to revision, as there was more uncertainty than usual in estimating quite a lot of data.

Owing to the lack of administrative data for the month of June, the flash estimate was based on a wide range of information taken from news releases, websites and contacts with companies, surveys conducted by the central bank or sector federations. But this of course still has to be corroborated by real data.

That said, even after revision, we believe that the final figure is likely to be between -11% and -13%.

Strong start of the third quarter

Since May the economy has begun to recover, with the third quarter starting on a strong footing. At -13.9 July, the business sentiment indicator from the NBB is now way above the average for the second quarter (-31.1). The fact that in the construction sector a number of companies are now using the traditional holiday period to catch up the delays caused by the confinement period is likely to contribute to 3Q GDP.

More Belgians are also likely to spend their holidays at home this year, which could also be a small positive for growth. In that regard, third-quarter growth could be close to 10%.

But Covid-19 is still there

The main risk to this scenario is the evolution of the pandemic itself. In the last few weeks, the number of new Covid-19 infections has been rising again and the province of Antwerp has decided to tighten the confinement measures. A recent consumer survey from the NBB showed that 42% of consumers were planning to spend more in the coming weeks, while only 11% pencilled in a further decline.

But at the same time, more than 40% of respondents attributed the health risk as one of the defining factors to spend less. So a further increase in the number of infections could potentially temper the consumption revival in the third quarter.

If the pandemic remains contained, we believe that the Belgian economy is likely to see a GDP contraction around 7% this year, followed by a 4.5% expansion in 2021.

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