

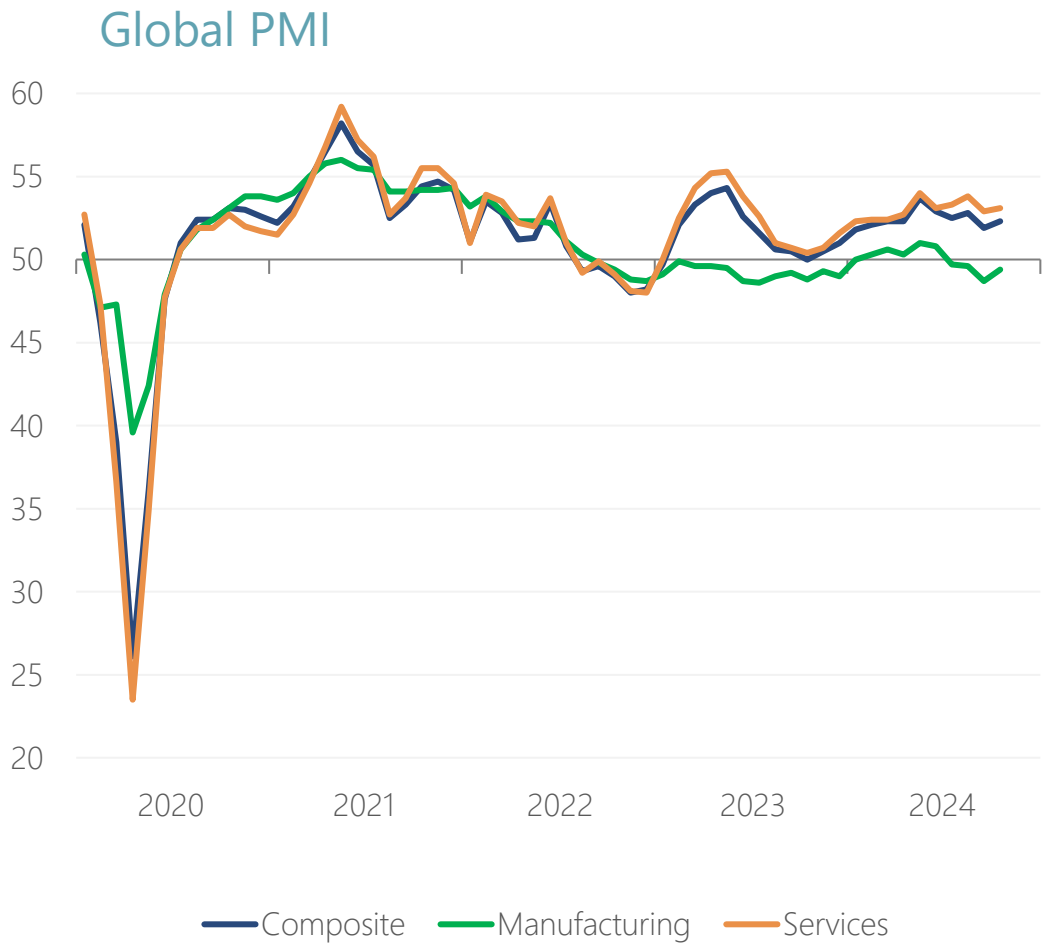
The future of the manufacturing industry in Belgium

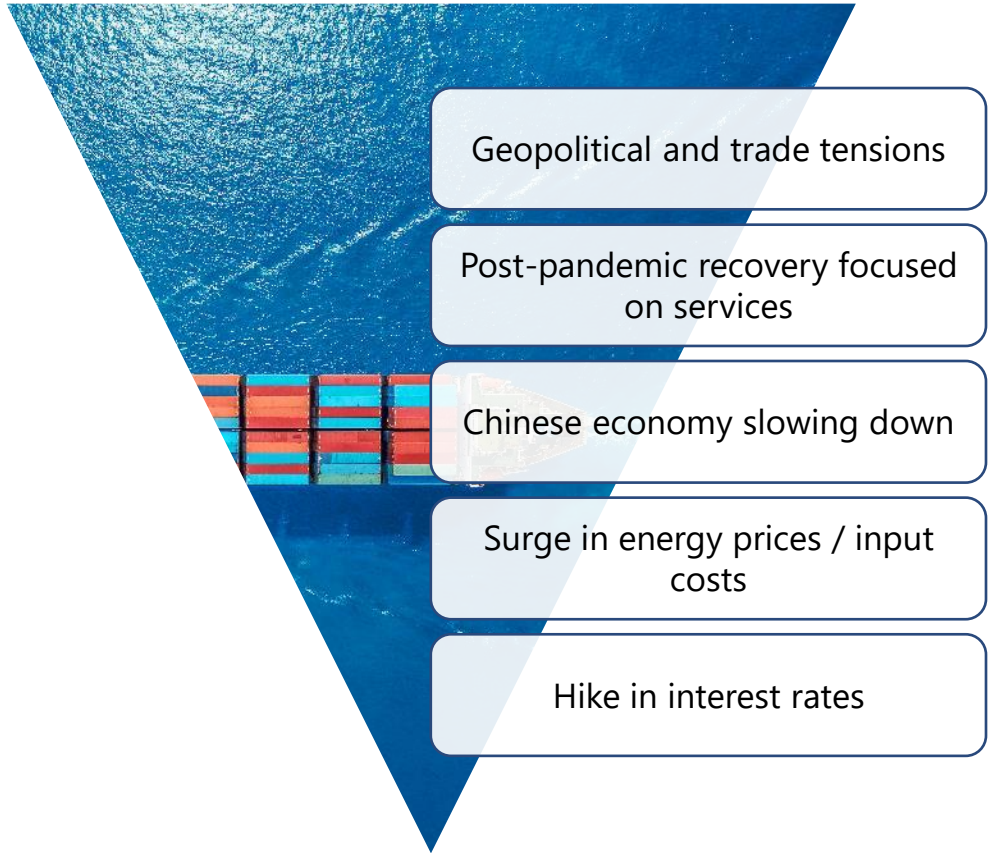
Raïsa Basselier, 27 November 2024

Thanks to G. Langenus, C. Swartenbroekx, D. Verdini

National Bank OF BELGIUM
Eurosystem

Global manufacturing activity has been stuck in low gear for two years





Source: LSEG (the last PMI observation is October).

Belgian media reports seem to purvey doom and gloom, but are things as bad as they seem?

Industrie belge, un désastre en latence?

L'Echo, 29 March 2024

Van Hool failliet verklaard, minstens 1.500 banen gaan verloren

De Tijd, 8 April 2024

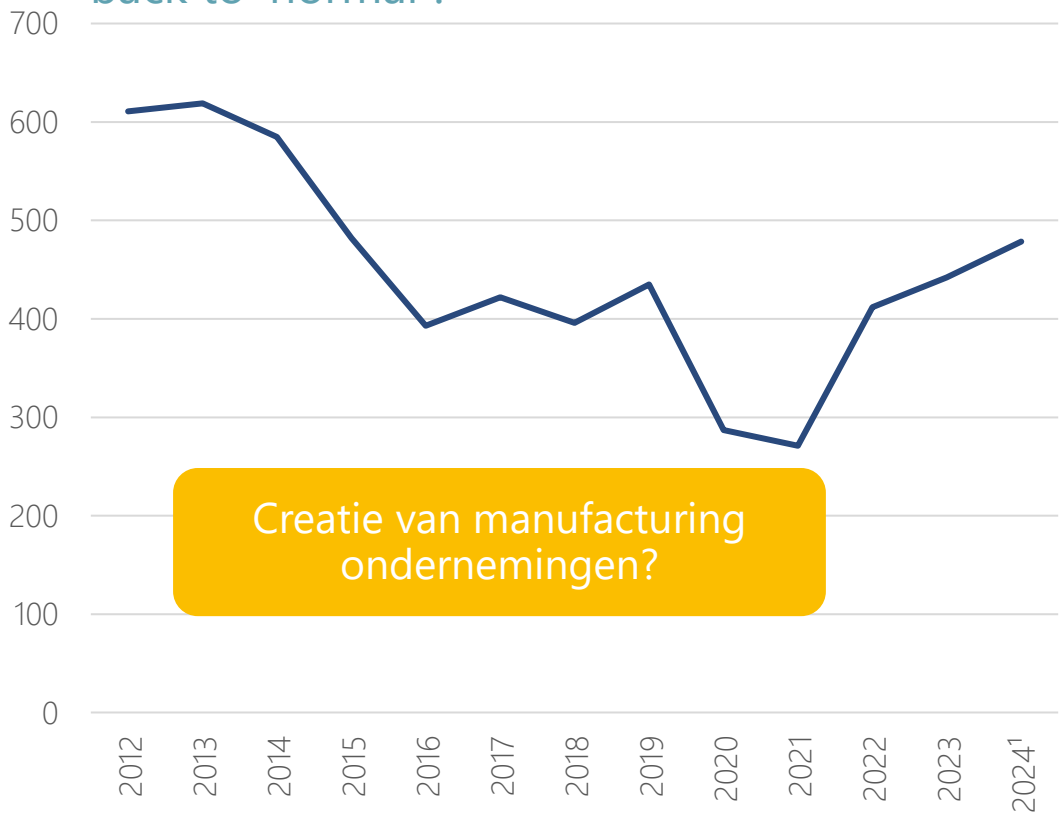
Industrie verloor dit jaar al 5.000 banen en draait op historisch laag pitje

De Tijd, 25 June 2024

Restructuration chez Audi Brussels: plus de 1.400 emplois menacés dès cette année

L'Echo, 9 July 2024

Bankruptcies in manufacturing industry: back to 'normal'?



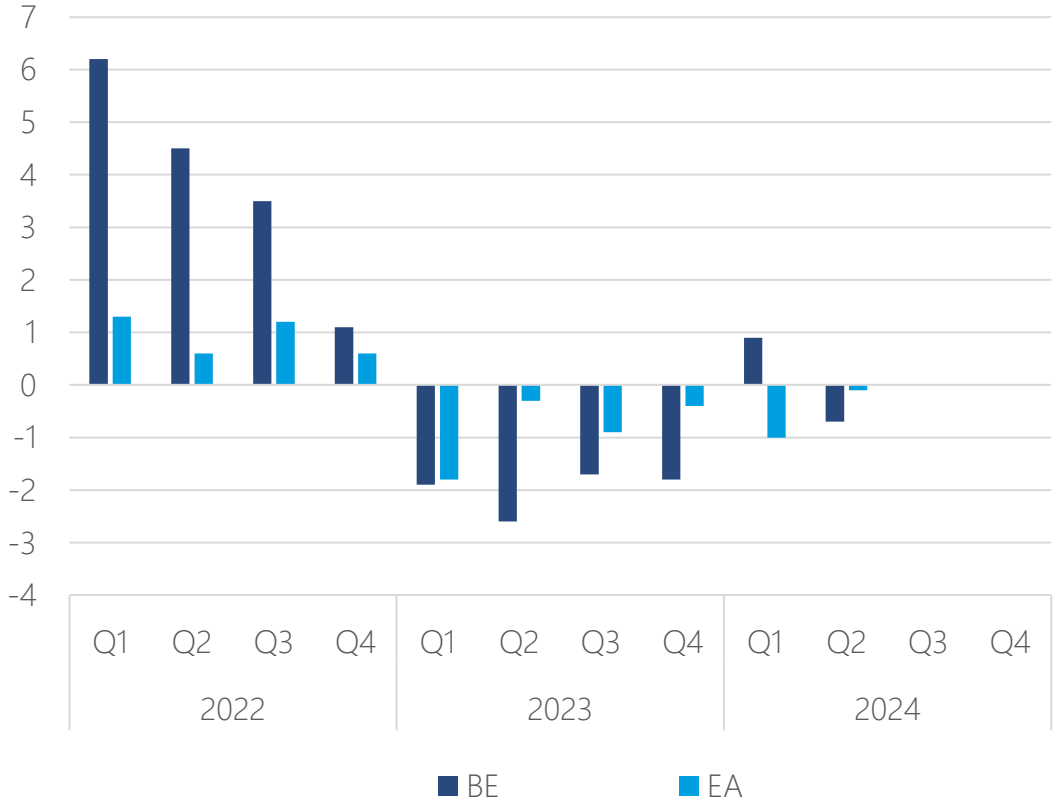
Source: Statbel.

[1] Sum from January until September, divided by 9 multiplied by 12.

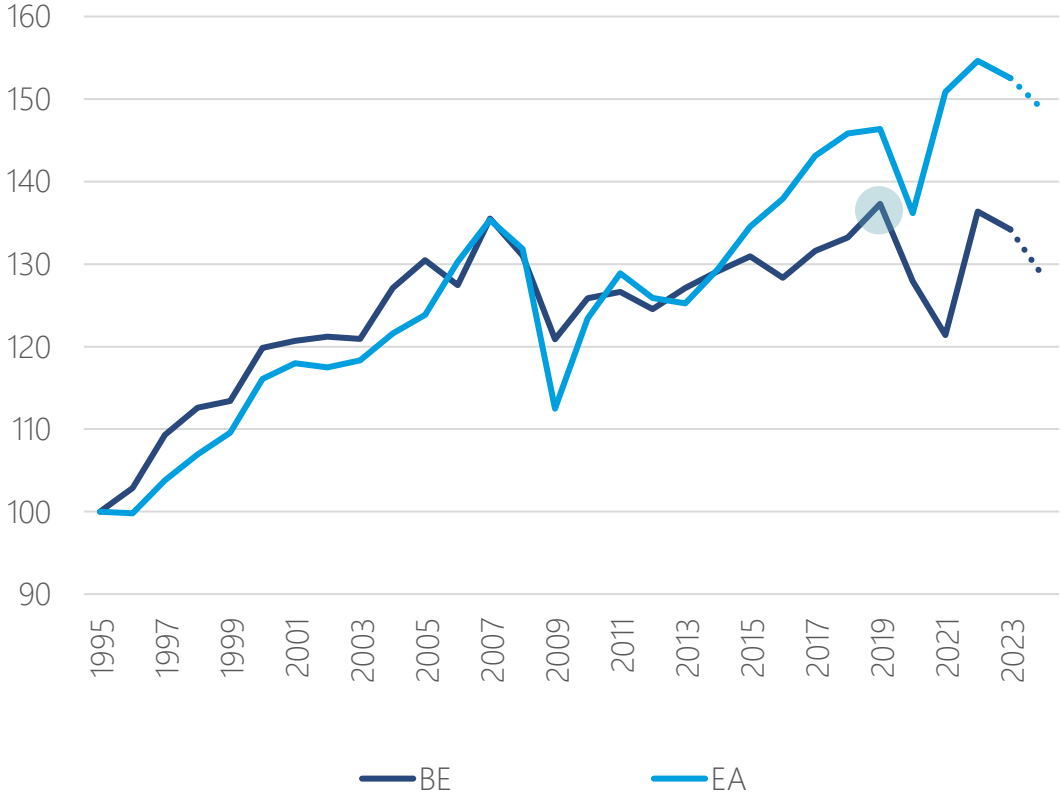
Belgian manufacturing industry performed poorly recently and its real value added is back down to (or even below) pre-pandemic level

Real value added in manufacturing

(quarter-on-quarter percentage change)



(index 1995 = 100)



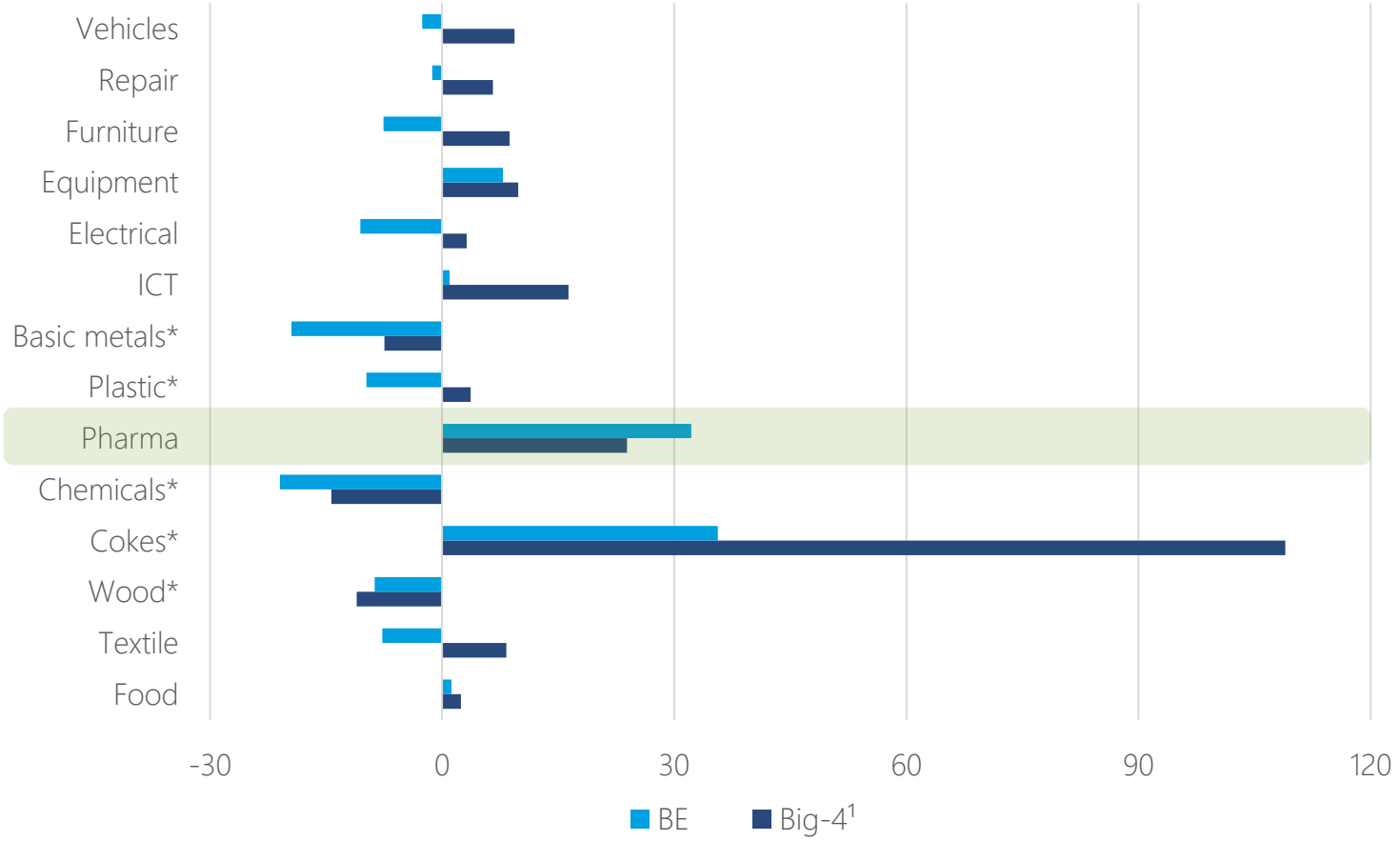
Source: Eurostat.

Note: on the right-hand side, the index has been prolonged for the EA for 2023 based on the sum of the quarterly value added figures. For BE and EA, the index was prolonged for the first half of 2024 with dotted lines, based on the percentage change between 2024H1 and 2023H1.

Belgian industrial performance is weaker than in the big-4 across subindustries (except pharma)

Change in real value added since 2019

(percentage change between the value added in 2022 and 2019)



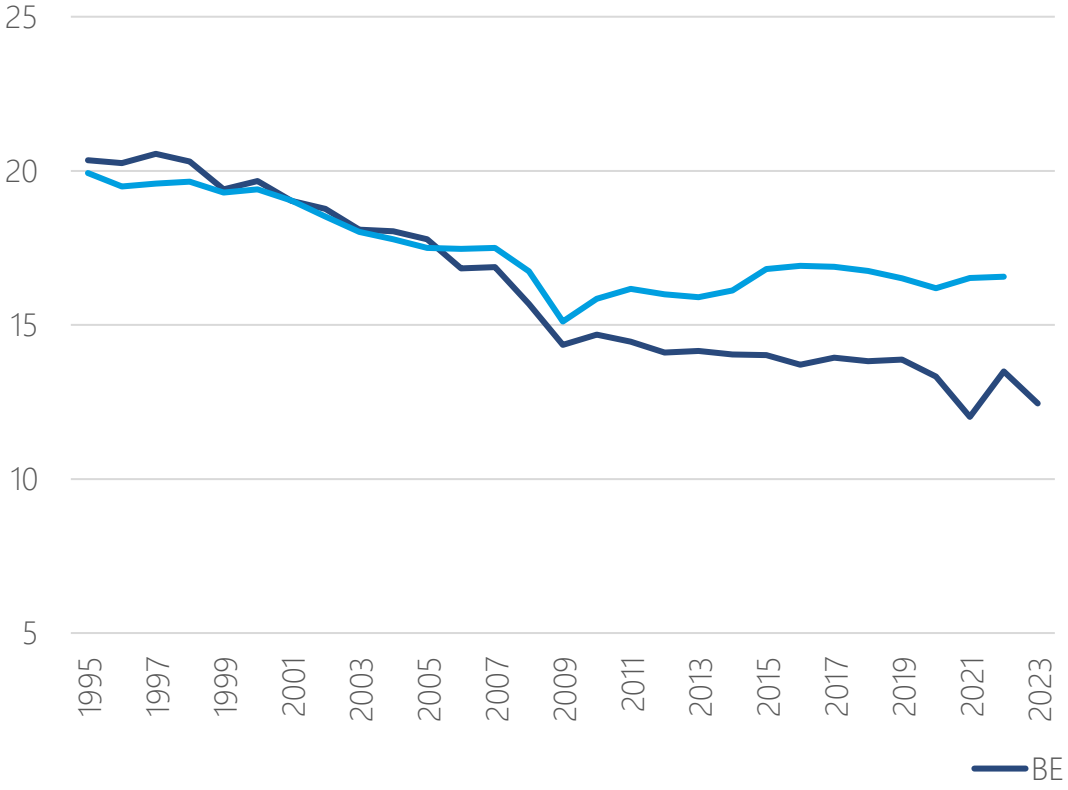
Source: Eurostat.

Note: subindustries followed by an asterisk * are (partly) considered energy-intensive industries.

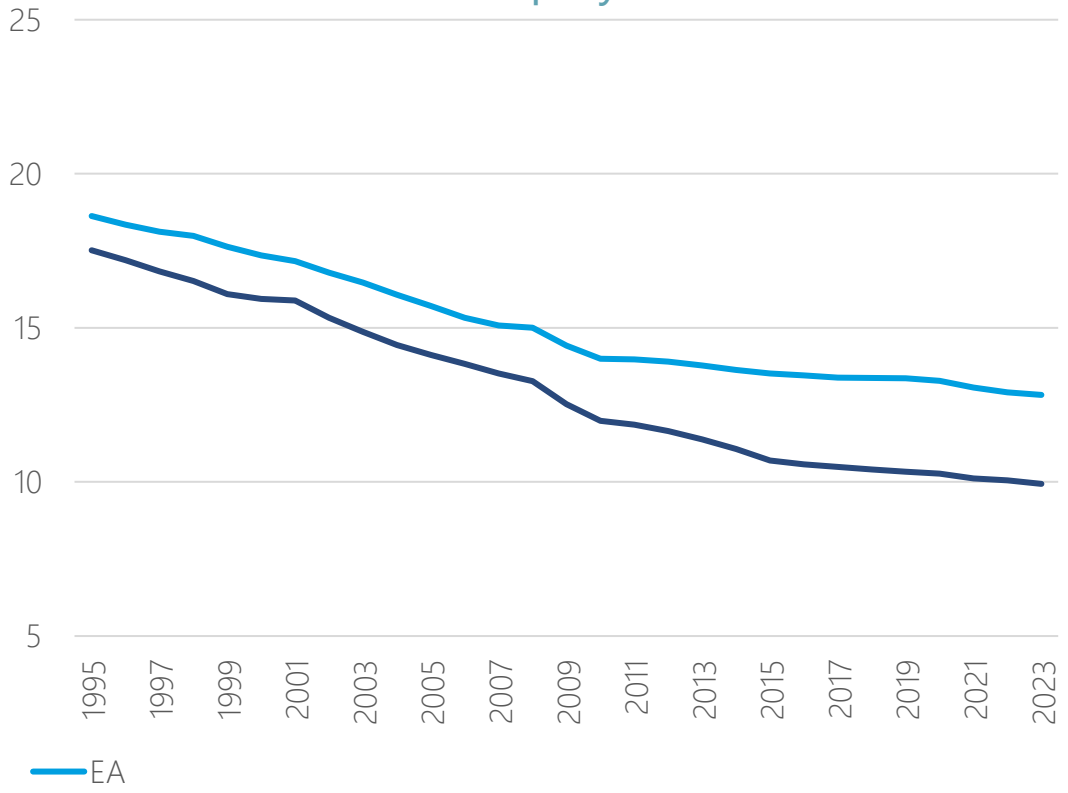
[1] The Big-4 refers to an unweighted average percentage change in real value added in Spain, Germany, France and the Netherlands.

The importance of the manufacturing industry has been declining for years …

Share in total value added

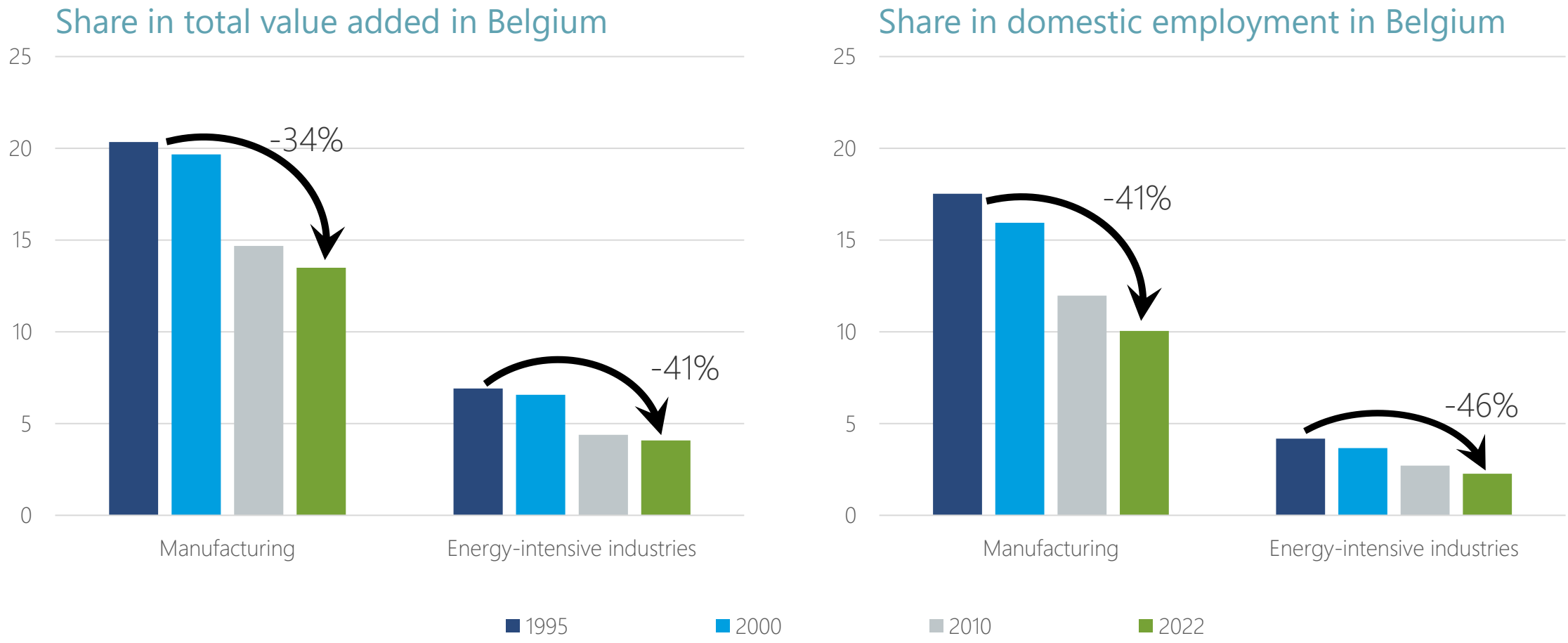


Share in domestic employment



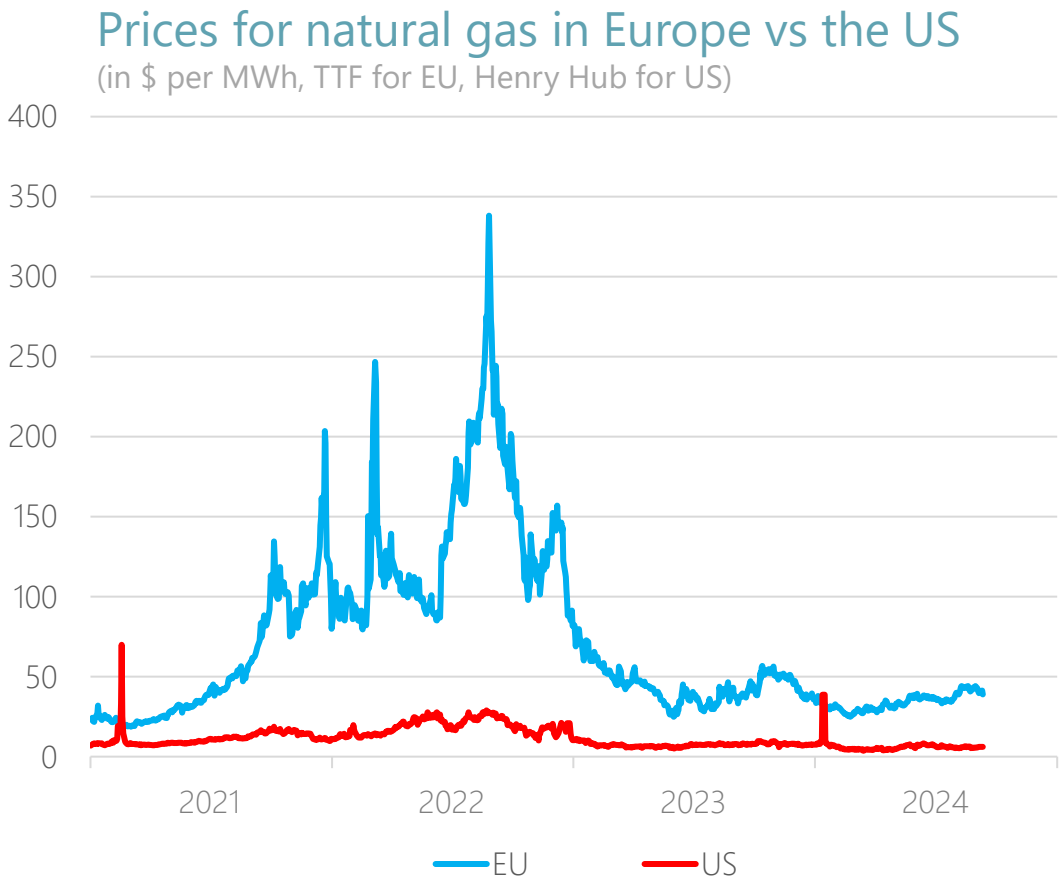
Source: Eurostat.

… which is even more pronounced for energy-intensive branches



Source: NAI.
Note: energy-intensive industries correspond to manufacturers of 'paper and paper products' (C17), of 'coke and refined petroleum products' (C19), of 'chemicals and chemical products' (C20), of 'other non-metallic mineral products' (C23) and of 'basic metals' (C24).

Relative energy costs (continue to) weigh on cost competitiveness



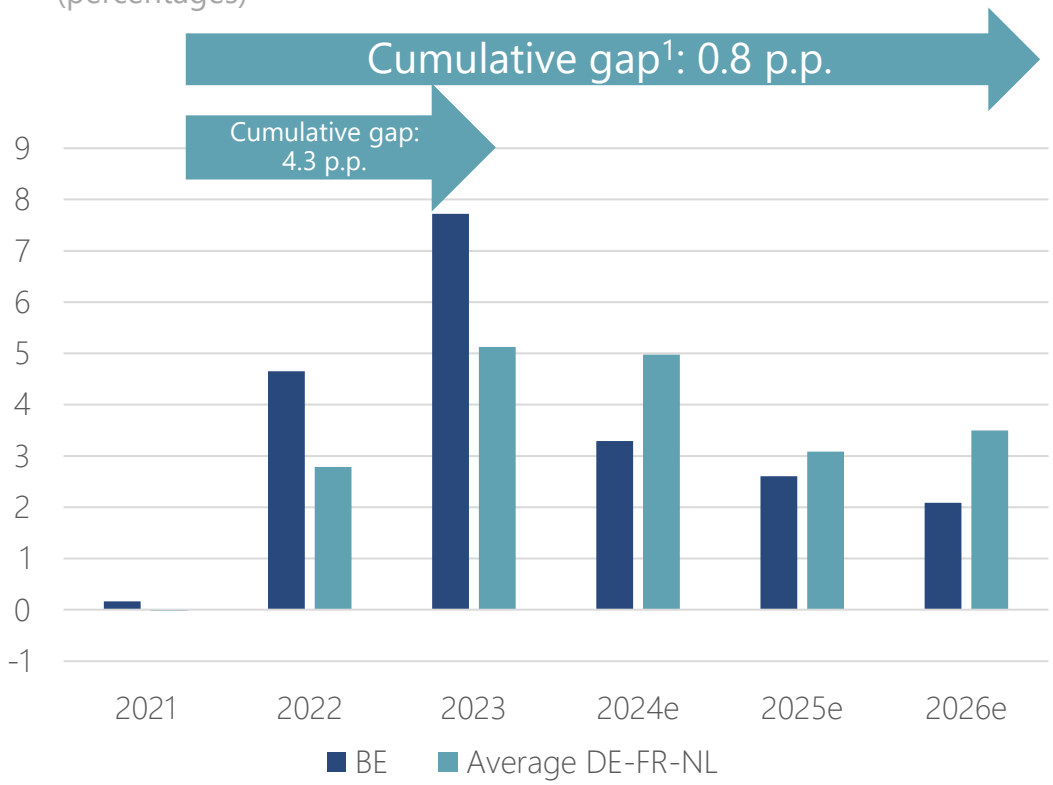
- General European issue: existing divergence between base energy costs between EU and US is at risk of being **amplified** by the difference in climate policy
- Differences between BE and neighbouring countries as well, due to other countries benefiting from:
  - capping mechanisms for energy costs
  - exemptions on surcharges and network costs for electricity-intensive firms

Source: LSEG.

Automatic wage indexation has further derailed Belgian cost competitiveness (temporarily?)

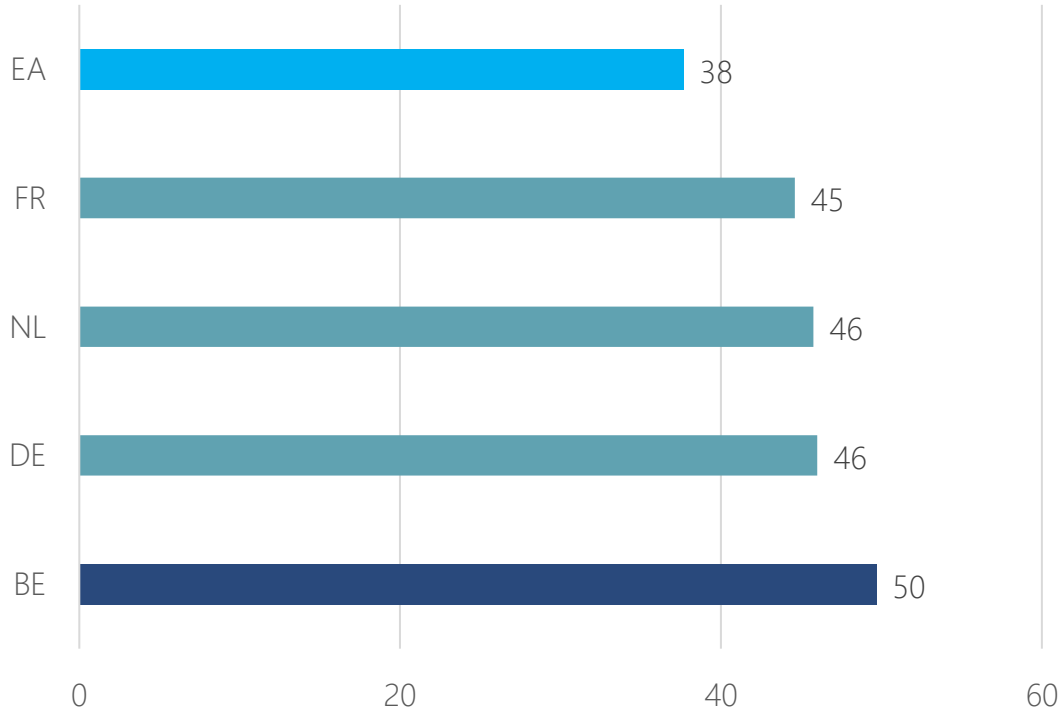
Growth in hourly labour costs in the private sector[1]

(percentages)



Hourly labour cost[2] in the manufacturing industry in 2023

(euro)



Sources: Eurosystem, Eurostat, NAI, NBB.

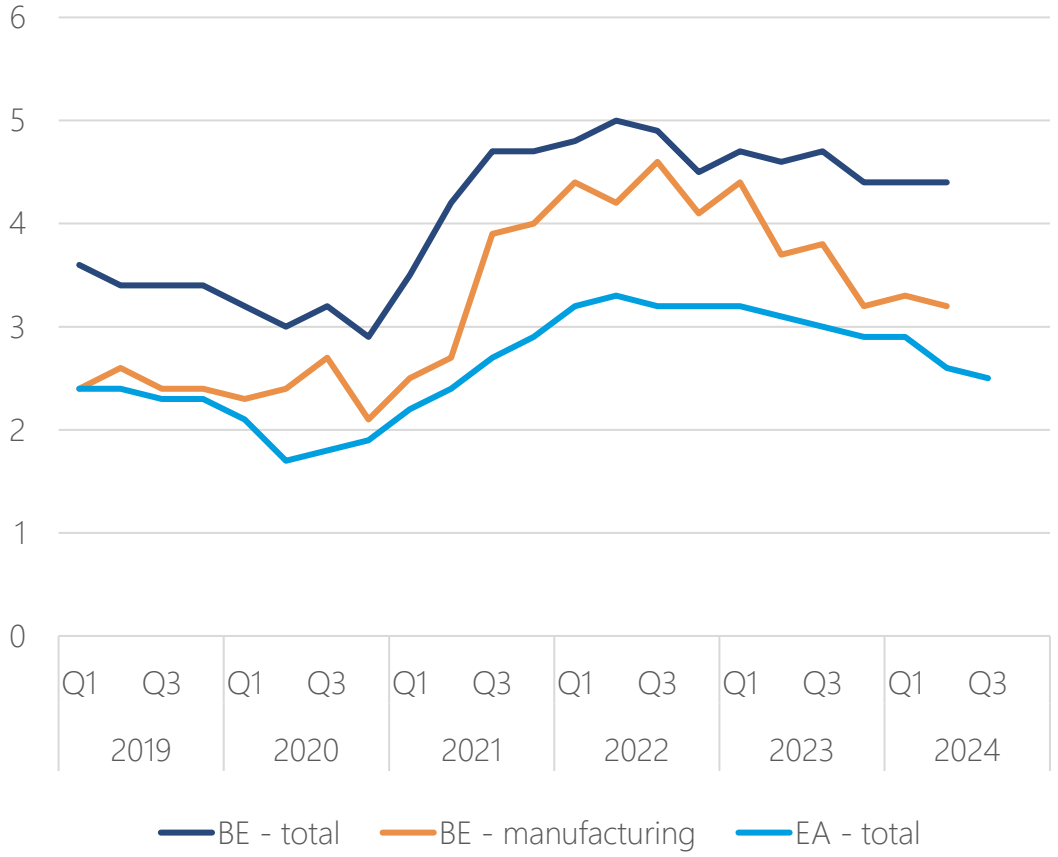
[1] Cumulative difference between the growth in BE hourly labour costs and the average for neighbouring countries, as foreseen in the June 2024 projection exercises across national central banks. This does not necessarily correspond to the official calculation of the wage gap by the CEC.

[2] Compensation of employees plus taxes minus subsidies.

Increasing labour shortages weigh on manufacturing output

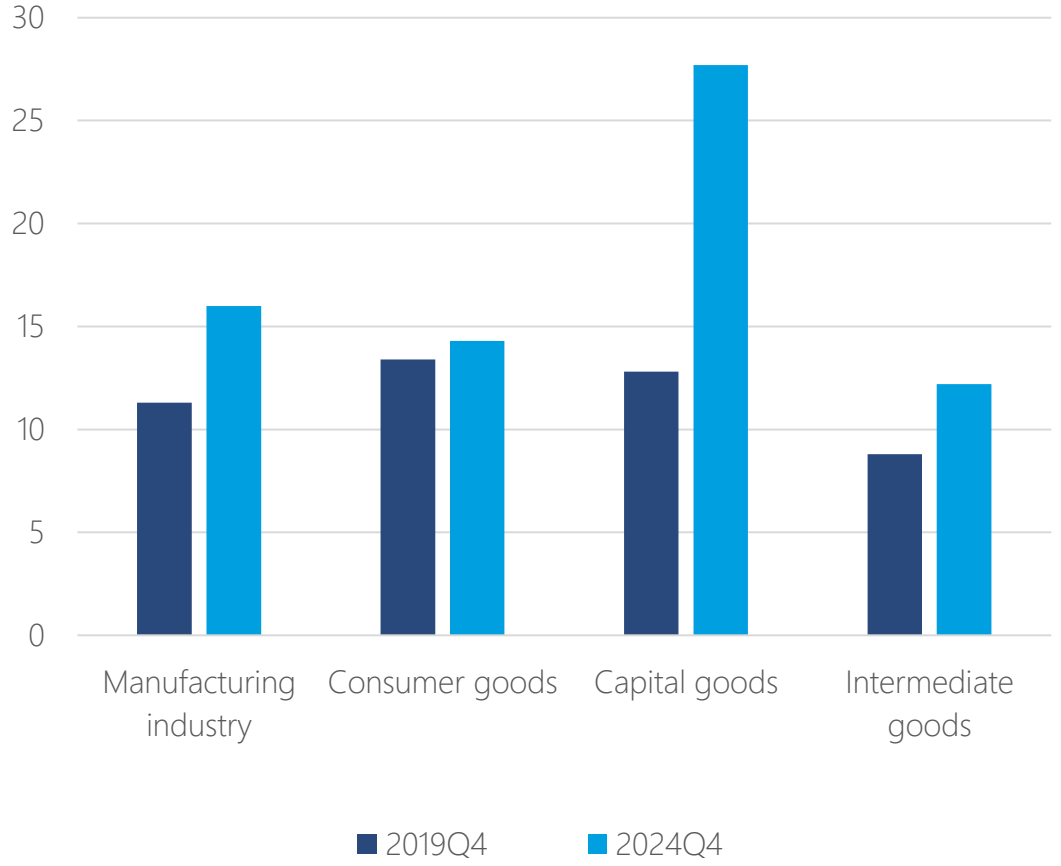
Job vacancy rate[1]

(seasonally adjusted data)



Obstacles to Belgian production: insufficient skilled labour

(in % of replies in quarterly producer survey, gross result)



Sources: Eurostat, NBB.

[1] The job vacancy rate is the number of job vacancies expresses as a percentage of the sum of the number of occupied posts and the number of job vacancies.

Non-cost factors are also important: regulation, permits, traffic, …

Ease of doing business (non-exhaustive) ranking

1	New Zealand
4	Denmark
6	United States
8	United Kingdom
9	Norway
20	Finland
22	Germany
30	Spain
32	France
42	Netherlands
46	Belgium
79	Greece

Brussels on No. 10 in most congested cities worldwide

Twenty-seven minutes! That's how long it takes you on average to cover a distance of 10 kilometres by car in Brussels. The figure comes from Dutch navigation company TomTom and their annual traffic report. This makes Brussels the tenth most congested city worldwide.

VRT, 15 January 2024

Municipalities and environmental groups appeal against Brussels Airport permit

The bulletin, 30 May 2024

GDPR is nog niet verteerd, en daar is CSRD al (en we zijn er niet klaar voor)

Het Belang van Limburg, 23 August 2024

The Compliance Doom Loop

Why the rules keep growing



LUIS GARICANO
NOV 13, 2024

"Absurde toestanden" bij verplichting zonnepanelen voor grote verbruikers

Het Laatste Nieuws, 13 November 2024

Flemish council annuls permit for Ineos ethane cracker in port of Antwerp

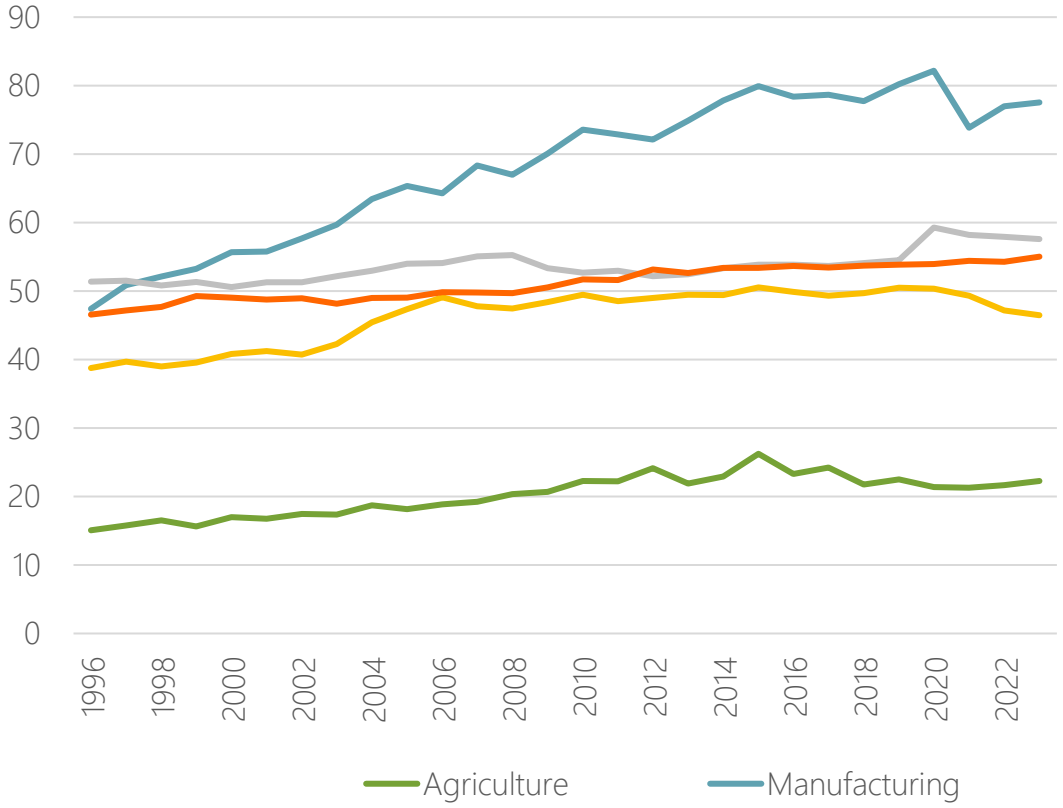
Belga News Agency, 20 July 2023

Source: World Bank Group.

Should we be worried? The manufacturing industry is the most productive one

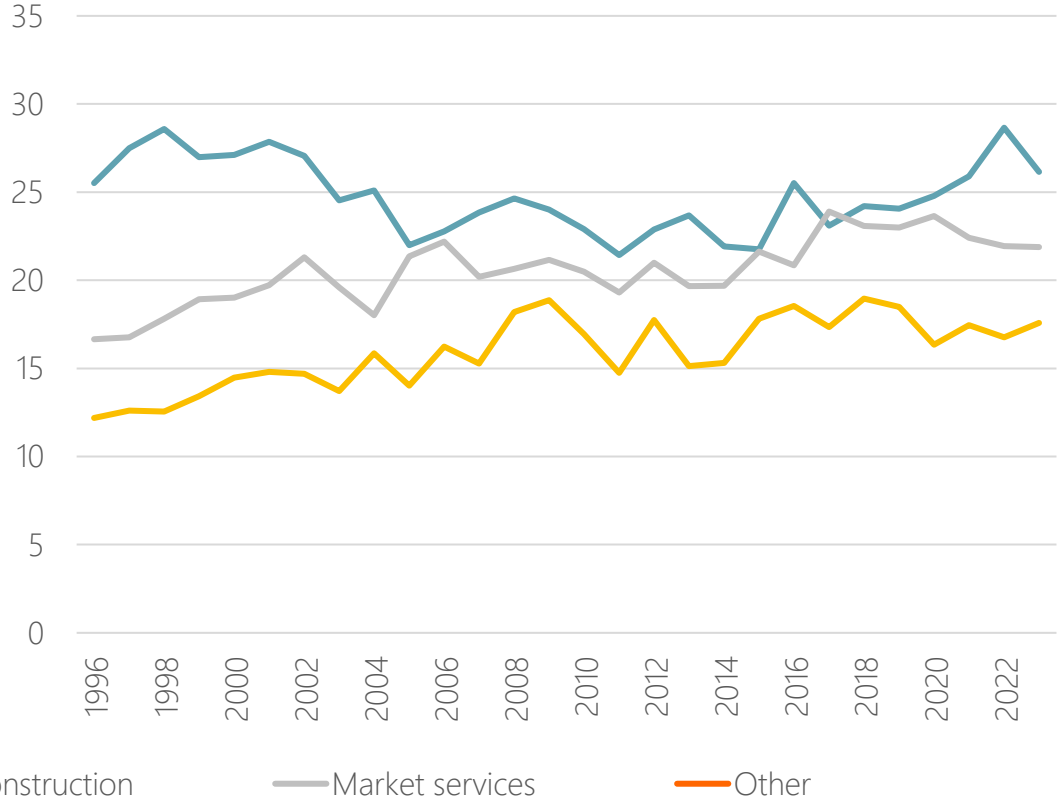
Hourly labour productivity per industry

(real value added per hour worked in the private sector)



Investment rate per industry

(real gross capital formation divided by real value added)



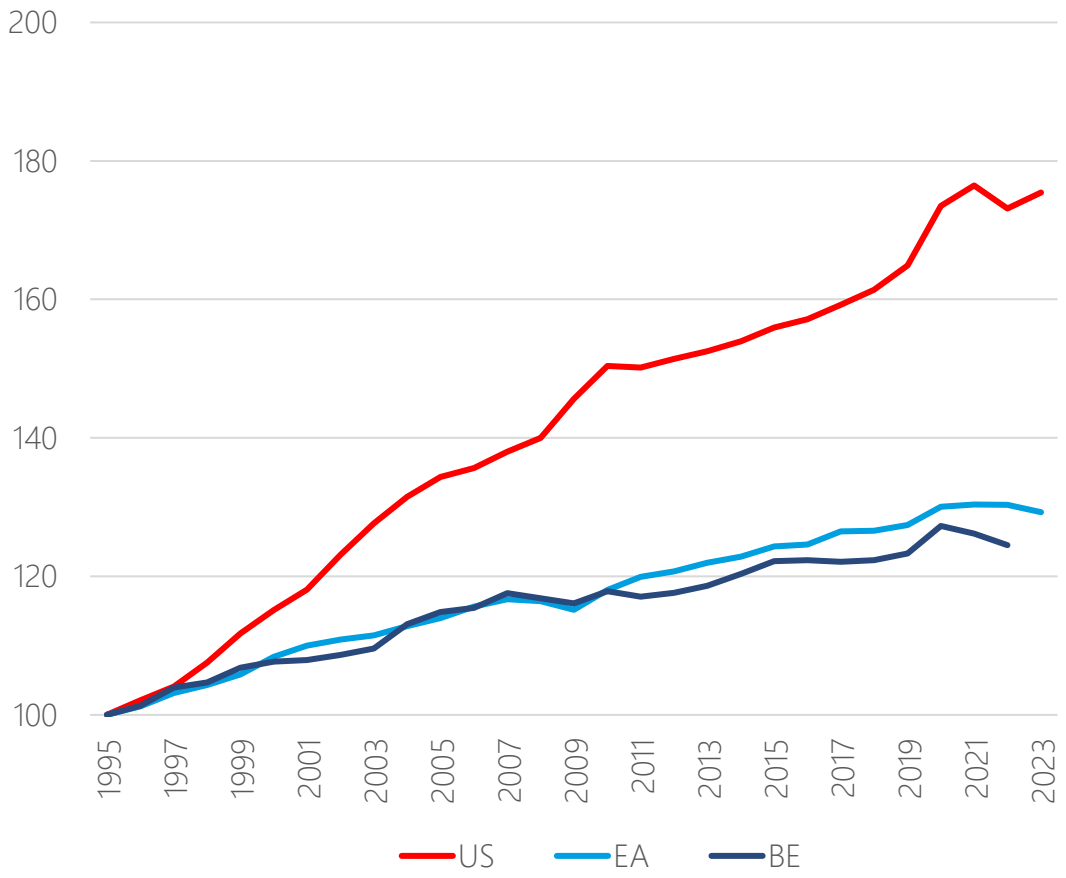


Source: NAI.

The gap with the US is growing

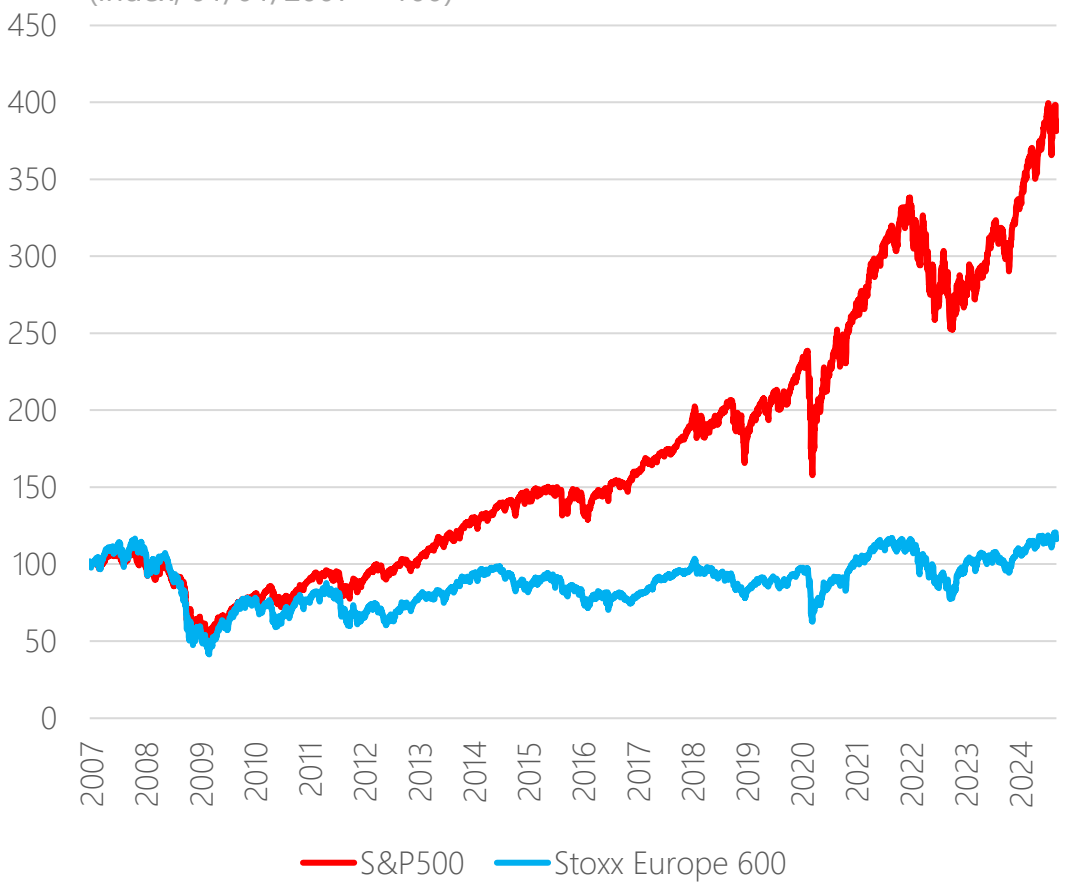
Real labour productivity per hour worked

(index, 1995=100; nonfarm business sector for the US)



Stoxx Europe 600 vs S&P500 market capitalisation

(index, 01/01/2007 = 100)



Sources: Bureau of Labor Statistics, Eurostat, LSEG.

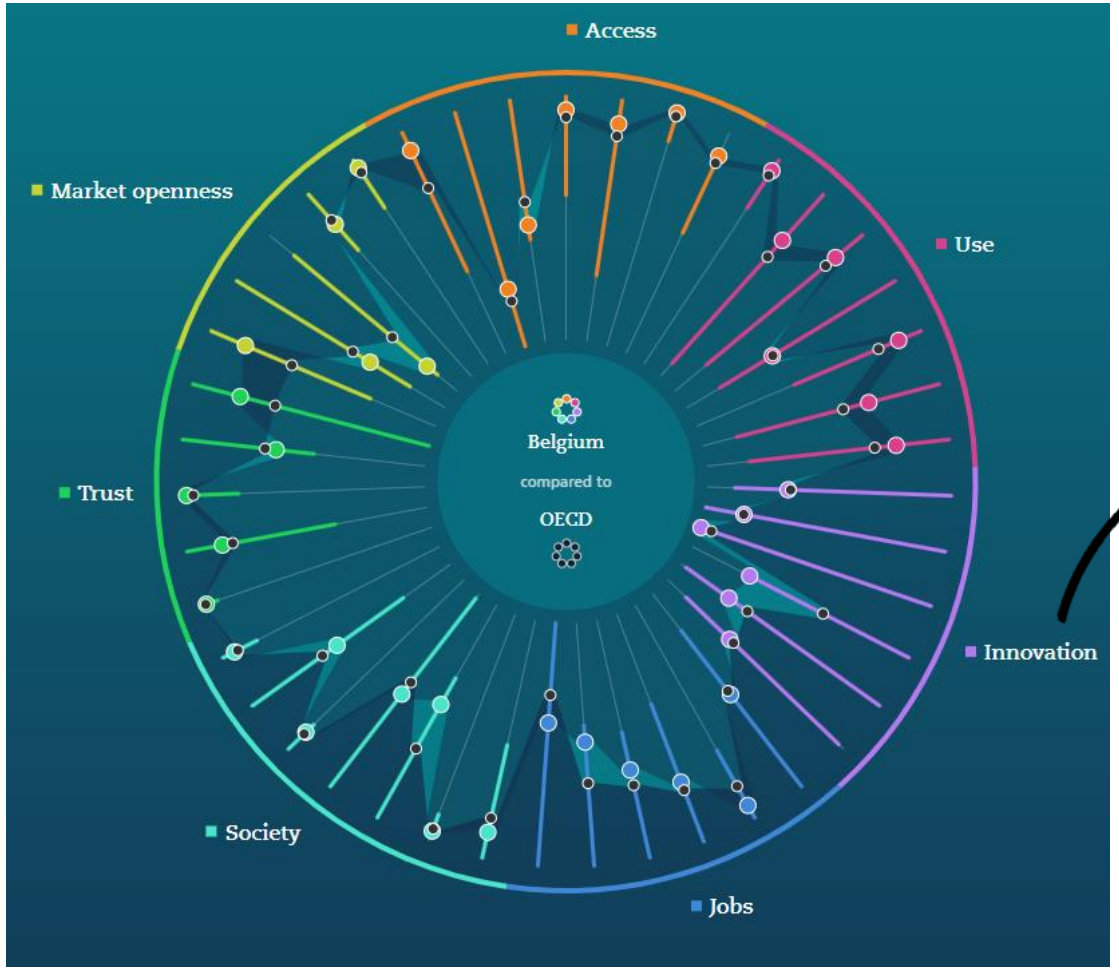


Key challenges ahead

National Bank OF BELGIUM
Eurosystem

Industry 4.0 – Belgium lagging behind in digital innovation

OECD Going Digital indicator overview for Belgium



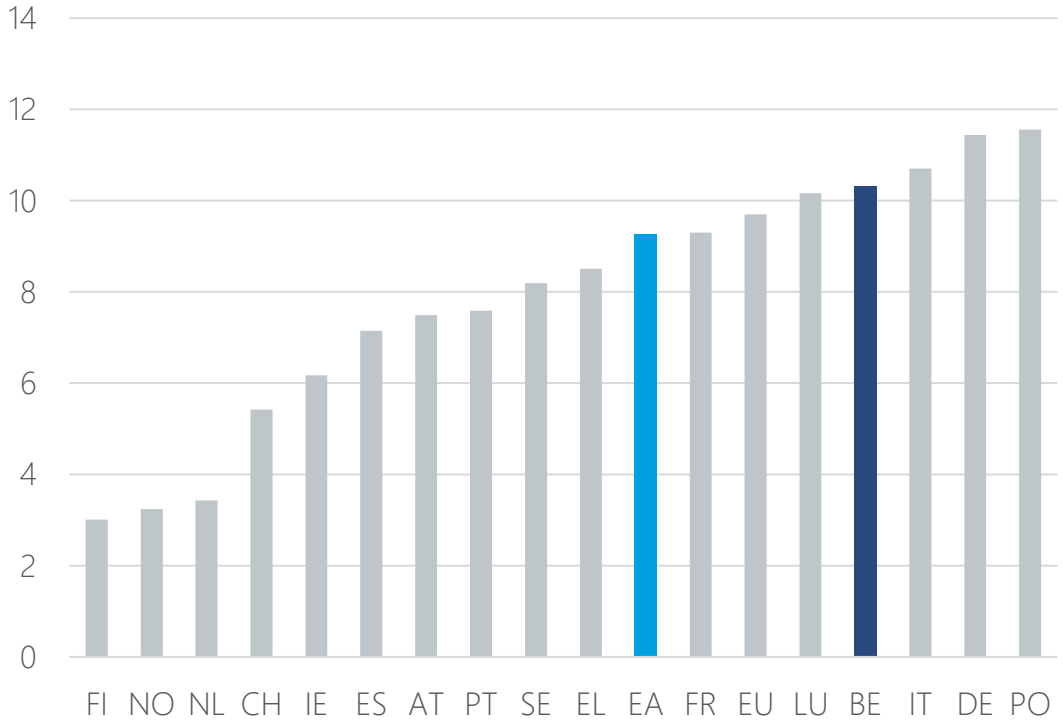
Lagging in:

- ICT investment as a share of GDP
- Start-ups in information industries
- Patents in ICT technologies

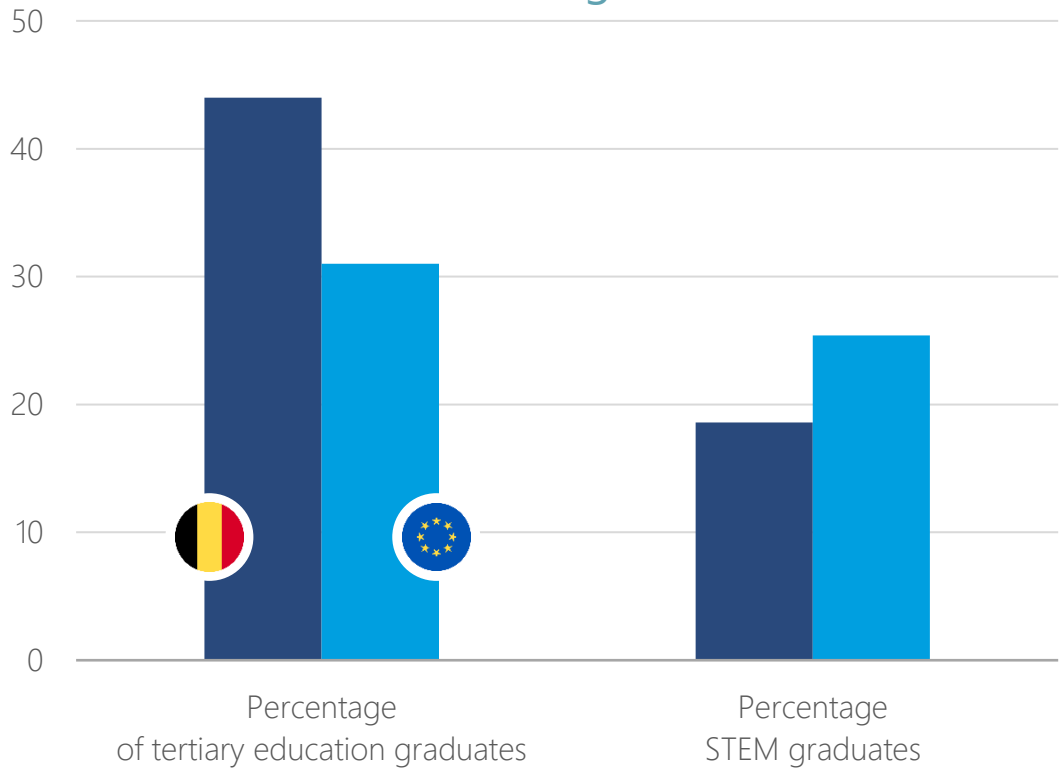
Apart from the general decline in education quality, we need more digital skills and STEM graduates

Share of individuals with narrow[1] digital skills

(2023 data)



Percentage of students in tertiary education and of STEM graduates



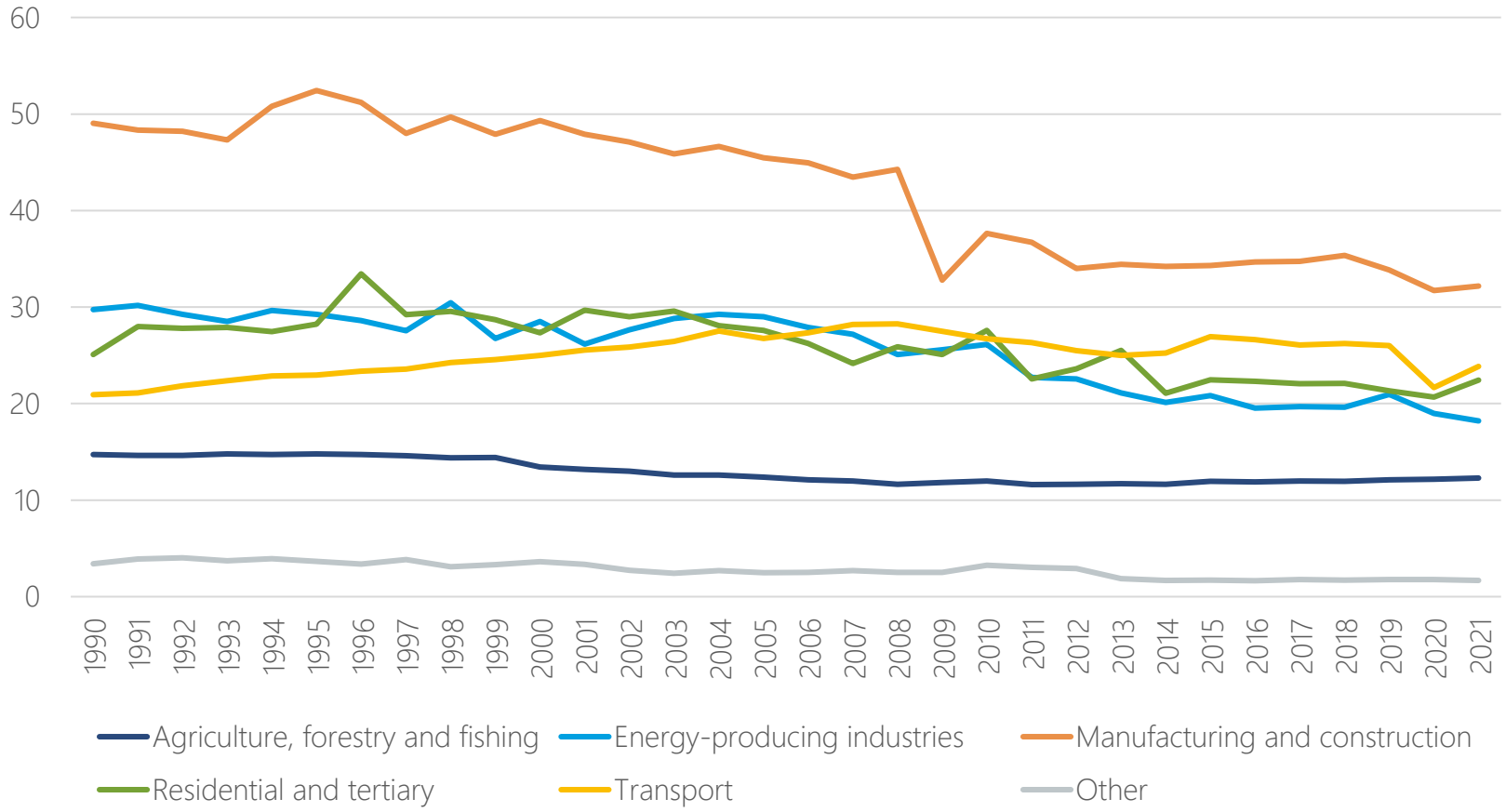
Source: Eurostat.

[1] Narrow digital skills relate to having "basic" or "above basic" level in 3 areas and "no skills" in 2 areas (out of 5 areas related to Information and data literacy, Communication and collaboration, Digital content creation, Safety, and Problem solving)

Climate transition: the major challenge for the future

Greenhouse gas emissions in Belgium

(million tonnes CO_2 equivalent)



New technologies

Reallocation of production

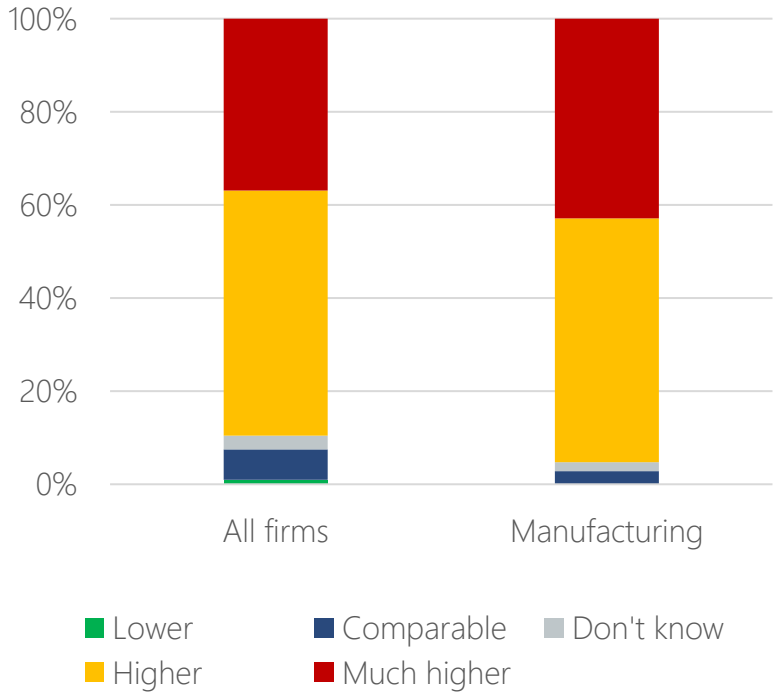
i.e. shifting production from the least emission-efficient firms ("brown zombies") to the most efficient ones

Sources: Federal Planning Bureau, Bijnens & Swartenbroekx (2024), NBB Working Paper No 454: *Hunting "brown zombies" to reduce industry's carbon footprint.*

2024 survey among Belgian firms confirms risk of delocalisation for manufacturing firms (in response to climate transition)

Expected relative energy prices in Belgium compared to the rest of the world in 2030

(% of respondents)



Manufacturing firms report on expectations by 2030 due to climate transition:

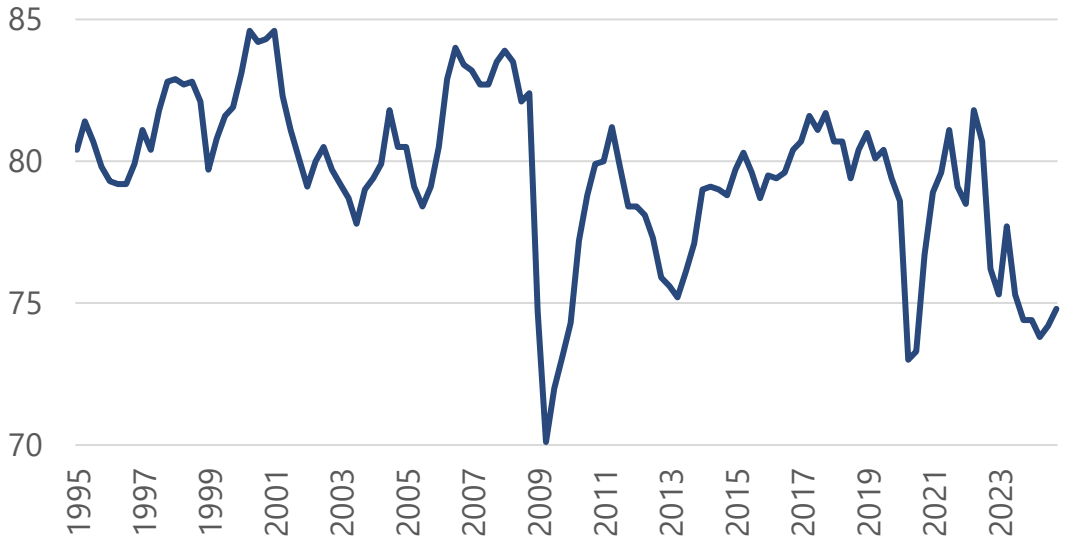
- Higher costs and sales prices
- Margin squeeze
- Negative impact on demand
- In net terms, less investment in Belgium ...
- ... but a clear tendency to increase investment outside the EU



Source: The impact of climate transition policies on Belgian firms – what can we learn from a survey?, NBB Working Paper 468.

The outlook for (expansion) investment (in manufacturing) is already weak at the current juncture

Degree of capacity utilisation in manufacturing



Vlaamse bedrijven zoeken groeikansen in Noord-Frankrijk

Trends, 17 October 2024

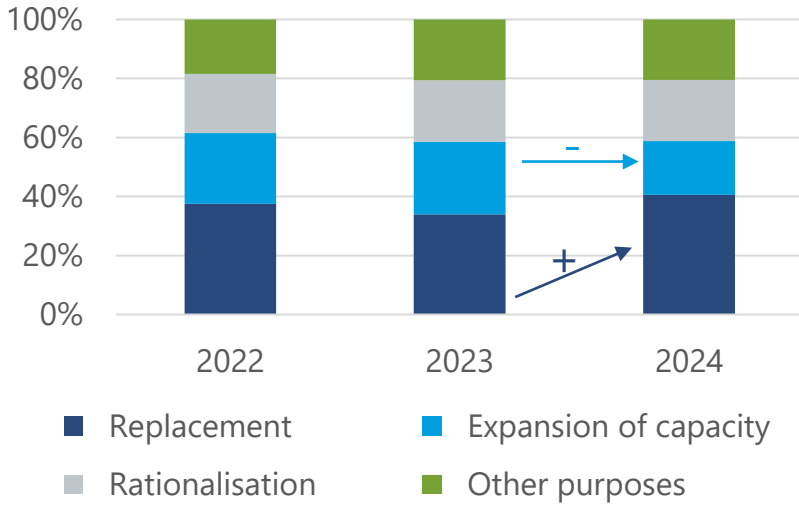
Onrust bij ArcelorMittal over miljardeninvestering in groen staal in Gent

De Tijd, 18 November 2024

NBB Business Echo (upcoming)

Most companies continue to invest in process efficiency through automation and digitalisation but only very few reported having plans to increase production capacity

Investment purpose in NBB survey[1]



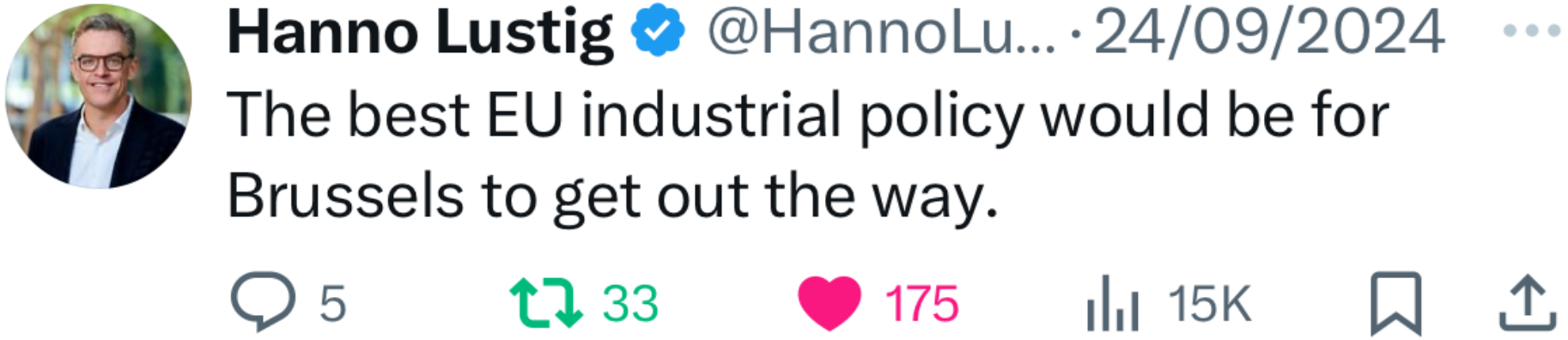
Sources: NAI, NBB.

[1] Based on the biannual survey on investments, results from the survey in the autumn of the preceding year.

Draghi report: EU's economic weaknesses acknowledged but solution multi-pronged?



- **Reform governance:**
  - improve the decision-making process (faster, simpler)
  - reduce policy fragmentation (between countries, between levels of governance)
  - reduce regulatory burden



Draghi report: EU's economic weaknesses acknowledged but solution multi-pronged?



- **Reform governance:**
  - improve the decision-making process (faster, simpler)
  - reduce policy fragmentation (between countries, between levels of governance)
  - reduce regulatory burden

- **Strengthen and deepen the single market**

- **€800bln** (5% of EU GDP!!!) **annual investment boost from a combination of private and public sources**. Draghi called for the reform of existing EU budgets and for the issuance of new common debt to finance the public side of the boost. But ...
  - what about EU fiscal rules?
  - what about rising interest rates?

To conclude

- Belgian manufacturing industry **in dire straits** according to real value added (↔ different message from industrial production)
  - Pharma industry is the exception
- Specific European/Belgian issues come on top of global manufacturing & trade weakness
  - **Cost competitiveness** issues resulting from higher energy costs and wage costs (at least temporarily)
  - Non-cost disadvantages: lack of space and workers, regulation (+ compliance costs), **administrative burdens,** lengthy permit procedures and uncertain political landscape,...
  - Productivity growth lagging the US
- Industrial activity is **expected to pick up some pace** as global trade/manufacturing recovers and as the wage gap very gradually disappears, but some of the competitiveness issues are expected to remain valid
- Key challenges ahead: further digitalisation (in need of STEM skills) and climate transition (lack of level playing field?)
- Low (expansion) investment does not bode well for future potential growth/productivity

Stay tuned for our Business Echo coming soon!



Thank you!

National Bank OF BELGIUM
Eurosystem