

June 2021

Belgian economic activity is expected to increase by 1.3 % in the second quarter of 2021¹

- The Belgian recovery continued to outpace that in the euro area, as GDP increased by 1 % in the first quarter, while activity declined again in the euro area. This is better than the estimate in the previous Business Cycle Monitor (+0.5 %) but also constitutes a significant upward revision from the NAI's flash estimate of +0.6 %.
- Growth was supported by the expected rebound in domestic demand and private consumption in particular but also benefitted from a marked decline in imports.
- Private consumption should accelerate in the second quarter. Confidence is high, income growth is robust, the health situation is improving and containment measures are gradually being lifted. The first hard data for April are promising and the reopening of bars and restaurants will have positive knock-on effects on non-food retail.
- Business investment growth surprised on the upside and should remain buoyant in the second quarter. The overall business sentiment indicator is now well above its pre-crisis level. Government and housing investment should also continue to expand in the second quarter of 2021.
- The contribution of net exports to second-quarter GDP growth is expected to turn negative despite the continuing strength of foreign demand. Import growth is likely to shoot up due to accelerating domestic demand.
- The NBB nowcasting model “BREL” predicts a quarterly growth rate of about 1.7 % in the second quarter of 2021, while the “R2D2” model is clearly more pessimistic with a growth rate of just 0.1 %. The uncertainty of these nowcasting models is exceptionally large in the current circumstances: the massive shock of the COVID-19 crisis constitutes a challenge for the estimation of standard time-series models. Therefore, these model-based estimates need to be complemented with information gathered from other sources, as well as expert judgment.
- All in all, taking into account other information, we currently estimate that Belgian economic activity will increase by 1.3 % in the second quarter.

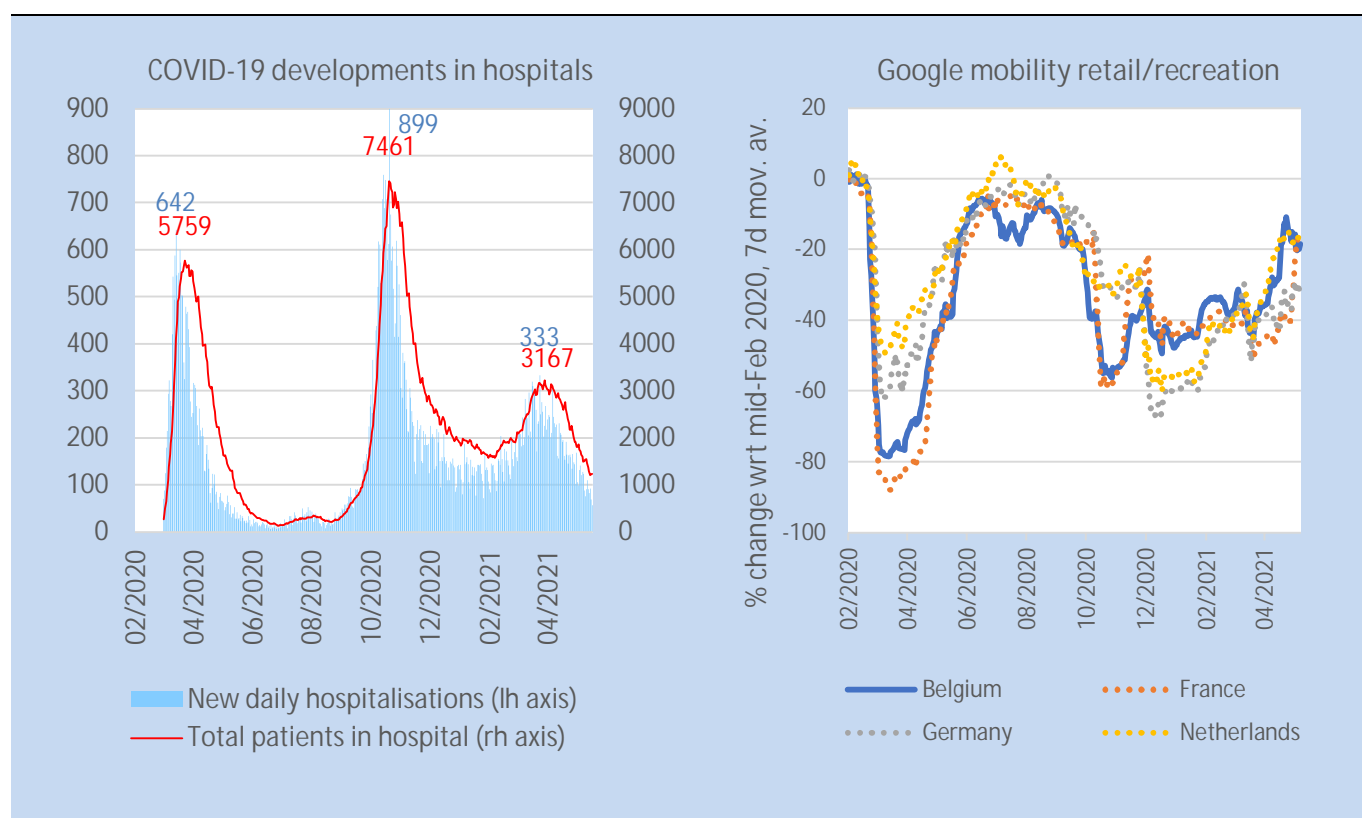
¹ This is a short-term NBB estimate and should not be confused with the official statistics published by the National Accounts Institute (such as the flash GDP estimate, which is released one month after the quarter has ended). This NBB estimate is based on nowcasting models, as well as expert judgment and incorporates information up to 3 June 2021. As all estimates and forecasts, it comes with a degree of uncertainty.

Containment measures are generally being loosened as the vaccination campaign powers on

Towards the end of the first quarter, the COVID-19 containment measures were tightened again in Belgium due to a new upsurge of the pandemic that led to increasing hospitalisations. Non-essential retail shopping became reservation-only and non-medical contact professions were closed again. This affected economic activity in the first few weeks of the second quarter. However, this so-called 'Easter Break' came to an end on April 26 and on May 8, measures were relaxed further as the nationwide curfew was lifted and bars and restaurants were allowed to reopen their outdoor terraces. The health situation continued to improve steadily in the past weeks (see Chart 1, left hand graph) on the back of an accelerating vaccination campaign, while the impact of new variants remains limited for the time being.

A roadmap for a full removal of the remaining containment measures has now been announced. Bars and restaurants should also reopen their indoor facilities on June 9, even though certain rules on social distancing will remain in place at first. Although the full reopening of the event industry will require more time and working from home will still remain the norm where possible, life should gradually turn back to normal. Rising private consumption should fuel activity growth in the months to come.

CHART 1 COVID-19 HOSPITALISATIONS AND BELGIAN MOBILITY DATA



Sources: Google, Sciensano.

However, in this transition phase, **any economic forecast, including our estimate for the short term, comes with particularly large margins of uncertainty**. As mentioned in earlier BCMs, a specific technical problem is that the traditional indicators and models used for forecasting are currently likely to give unreliable signals. Models have typically been estimated on the basis of past observations and correlations and are not designed to maintain their performance in this pandemic context. Hence, additional information and an increased reliance on judgment calls

are necessary to estimate economic growth. In particular, we make use of a business survey that has been carried out since March 2020 by a number of Belgian federations and organisations of self-employed (BECI, Boerenbond, NSZ/SNI, UCM, UNIZO, UWE and VOKA). This initiative was set up in the context of the Economic Risk Management Group and is coordinated by the NBB and the FEB/VBO. It has the specific aim to assess the COVID-19 impact on economic activity in Belgium.

Euro area GDP declined by 0.3 % in the first quarter of 2021, but growth should rebound in the second quarter

Hit by renewed containment measures following an upsurge of the COVID-19 pandemic in various countries, economic activity in the euro area as a whole fell for the second quarter in a row. GDP in the common currency area fell by 0.3 % in the first quarter of 2021. The year-on-year growth rate reached -1.3 % and the gap with the pre-COVID-19 GDP level widened to 5.1 %.

Real GDP growth rate

(percentages, adjusted for seasonal and calendar effects)

	Quarter-on-quarter change				Year-on-year change	Gap vs pre-COVID-19 level ¹
	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q1	2021 Q1
Euro area	-11.6	12.5	-0.7	-0.3	-1.3	-5.1
Germany	-9.7	8.7	0.5	-1.8	-3.1	-5.0
France	-13.2	18.5	-1.5	-0.1	1.2	-4.7
Italy	-12.9	15.9	-1.8	0.1	-0.8	-6.4
Spain	-17.8	17.1	0.0	-0.5	-4.3	-9.4
Netherlands	-8.4	7.7	-0.1	-0.5	-1.9	-3.4
Belgium	-11.9	11.8	-0.1	1.0	-0.6	-3.9
Austria	-10.6	11.6	-3.1	-1.1	-4.5	-6.9
EU	-11.2	11.7	-0.5	-0.1	-1.2	-4.6
UK	-7.8	5.5	2.4	-1.5	-6.1	-8.7
US	-9.0	7.5	1.1	1.6	0.4	-0.9
JP	-8.1	5.3	2.8	-1.0	-1.5	-2.0

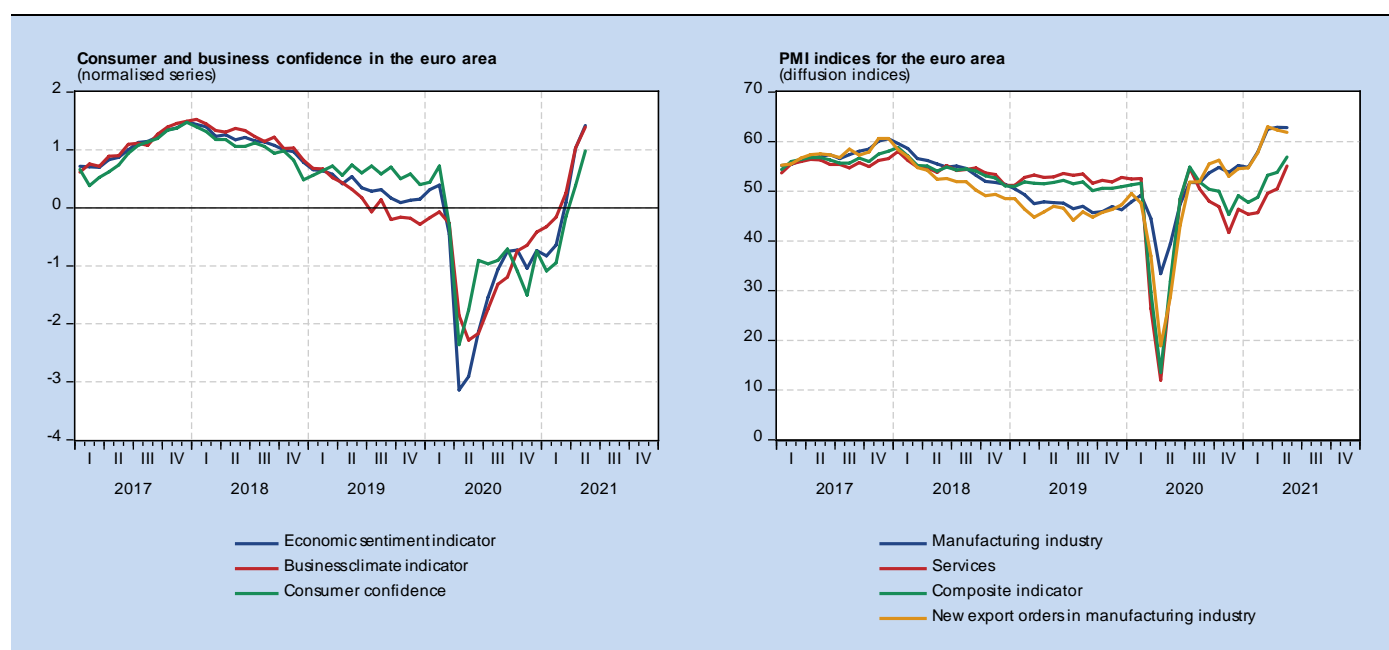
Sources: EC, U.S. Department of Commerce, Cabinet Office Japan.

¹ the pre-COVID-19 reference is 2019 Q4

Activity stayed broadly flat in France and Italy, but Spain and the Netherlands posted mild contractions of around 0.5 %. The Austrian and especially the German economy suffered larger declines of 1.1 % and 1.8 % respectively. All in all, the euro area economy is still some 5.1 % below its 2019 level. All countries have yet to recover to their pre-crisis level, but the cross-country variation is significant. The gap is smallest for the Netherlands while Spain is at the other end of the spectrum at more than 9 % below the pre-pandemic level. France and Germany still have a gap of about 5 %. Looking at major non-euro area developed economies, the recovery of the euro area is lagging most, but not all. In particular, UK first-quarter economic activity fell by 1.5 %, leaving a gap of 8.7 % compared to its pre-COVID-19 level. Japan's GDP also shrank by 1.0 % in the first quarter but dropped less in 2020, leaving a smaller remaining gap. The US economy continued its rebound, posting 1.6 % quarterly growth and has almost fully recovered from the COVID-19 crisis.

Despite the overall negative GDP growth outcomes in the first quarter, the relevant euro area survey indicators show that sentiment recovered rapidly and already exceeds pre-COVID-19 levels. The EC's overall economic sentiment indicator, reflecting both the business climate and consumer sentiment, improved further in May, reaching its highest level since early 2018 (see Chart 2, left-hand graph). Up until recently, lagging consumer confidence had held back the overall indicator, but the improving health situation and rapidly increasing vaccination rates seem to have restored confidence, resulting in a remarkable improvement in sentiment. Business confidence, as shown by the business climate indicator, had already recovered after the spring 2020 lockdowns but the rebound accelerated in 2021 to a level comparable to the recent peak in 2018. The easing of restrictions is also reflected in the stronger increase of confidence in the services industries, as shown by the PMIs (see Chart 1, right-hand graph). The PMI composite indicator rose further into positive territory (i.e. above a diffusion index of 50) despite the stagnation of the PMI for the manufacturing industry. The new export orders indicator for the manufacturing industry even decreased slightly but is still close to its recent all-time high. This suggests that the expansion in manufacturing is at its peak and will not be gaining further traction. On the other hand, the services industries will mostly benefit from the gradual reopening of the euro area economies, which may fuel a further improvement in confidence, thereby narrowing the remaining gap with the manufacturing industry. All in all, the current level of the PMI composite indicator is consistent with a strong rebound of the euro area economy in the second quarter and, on the basis of past correlations, robust growth of about 0.7 %.

CHART 2 SENTIMENT INDICATORS FOR THE EURO AREA



Sources: Markit, EC.

Note: the original series in the left graph are normalised around their historical averages and divided by their standard deviation.

Belgium clearly outpaced the euro area again in the first quarter

The surge in the pandemic after the summer of 2020 and the ensuing new containment measures pushed euro area growth back into negative territory in the final quarter of the year, but Belgian activity was just flat. While the pandemic took a further toll on the euro area economy with a new decline in the first quarter of 2021, the Belgian economy even expanded by 1 %. This is clearly higher than the 0.5 % estimate in the previous Business Cycle Monitor but also constitutes an upward revision from the NAI's earlier flash estimate of 0.6 %.

Growth was broad-based and benefitted from a rebound in domestic demand. Private consumption in particular expanded again after the containment measures in the fall had included restrictions on purchases in non-essential shops that were lifted at the end of November. The measures were tightened again later with a new forced closure of non-contact professions but this only came towards the end of the quarter. In addition, public spending also remained buoyant and both private and public investment posted robust growth again in the first quarter. However, the expected contraction of net exports following increased domestic demand and the reversal of the UK stockpiling effect in the fourth quarter did not materialise. On the contrary, a marked fall in real imports seems to have pushed GDP growth further up. Changes in inventories were the only demand component reducing growth.

Complementing the demand components, the production approach to GDP also shows first-quarter growth to be broad based. Following increasing domestic consumer demand, services grew by 0.7 %, which still leaves it about 5 % below its pre-crisis level. The construction industry expanded by 0.6 % and more or less closed the gap with its pre-pandemic level, while growth was very robust again in the industrial branches (2.1 %), where output is now already close to 3 % above the 2019 Q4-level.

COVID-19 related restrictions are easing, paving the way for strong second-quarter growth in private consumption

As was expected in the last BCM **private consumption increased moderately in the first quarter** of 2021, coming in at 0.9 %. Even though certain restrictions had been eased in the first quarter, many measures remained in place and consumer demand was still weighed down by concerns over infection risks and the initial uncertainty about the vaccination campaign. Consumption of both durable and non-durable goods recovered to roughly the same extent. At any rate, first-quarter consumption growth only amounts to a very partial recovery after the fall in the fourth quarter and left private consumption about 10 % below its pre-crisis level.

Rising hospitalisations led to renewed measures being implemented in the final week of the first quarter (the so-called 'Easter Break'), lasting throughout most of April. In principle, this should then mostly affect second-quarter growth. However, we expect the impact of this Easter break to be small. The context is now improving rapidly as the vaccination campaign is ramped up and infections and hospitalisations have been falling since mid-April. Containment measures are eased further with the two-stage opening of bars and restaurants on 8 May and 9 June in particular. The latter is likely to have a positive knock-on effect for non-food retail sales as this brings more potential clients to city centres and both activities (retail and bars/restaurants) are often combined. Moreover, mobility data related to retail and recreation have moved up in the past weeks (see Chart 1, right-hand graph) and are gradually approaching the pre-COVID-19 baseline.

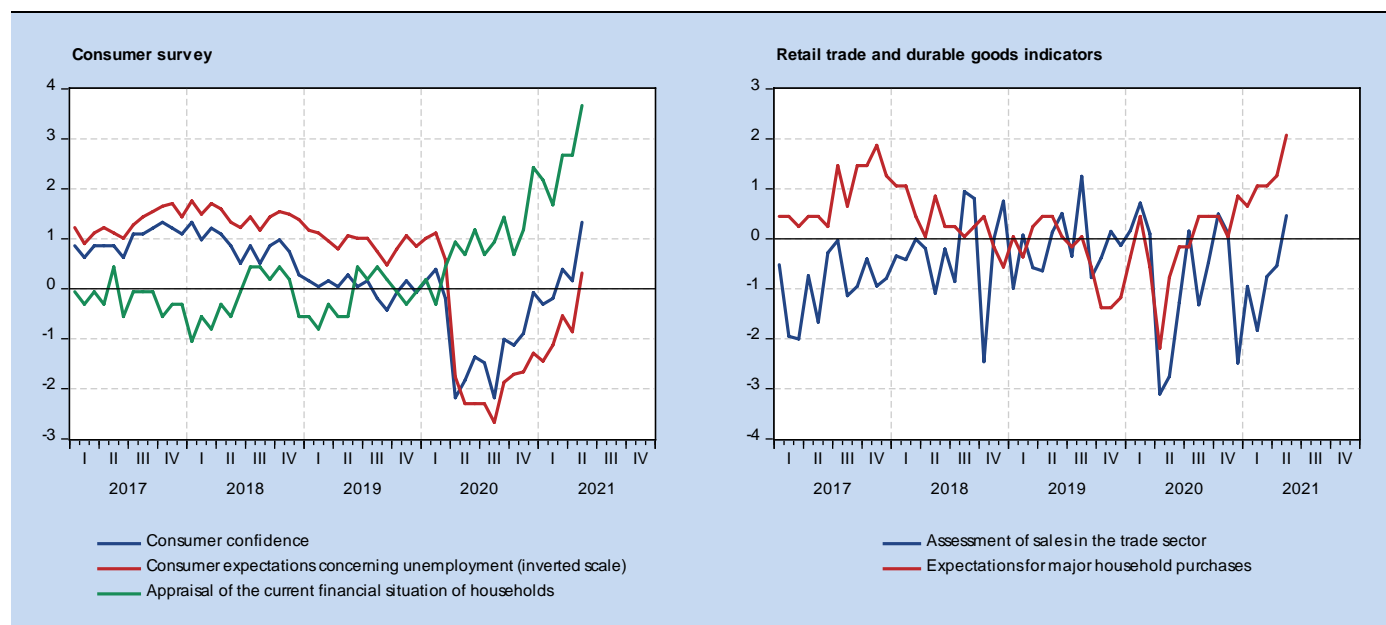
As regards the soft indicators, consumer confidence is now clearly above pre-crisis levels (see Chart 3, left-hand graph), mostly due to households' appraisal of their current financial situation, which is skyrocketing and which clearly contributes to the positive outlook for private consumption. The leading indicator regarding the expectations for major household purchases in the next twelve months has reached its highest level in over a decade in May (see Chart 3, right-hand graph). Unemployment expectations have also been improving, but remain slightly worse than before the crisis, despite unprecedented government measures resulting in only a limited impact of the crisis on the labour market so far. Improved consumer confidence should help to normalise the saving ratio and boost private consumption.

Other indicators remain somewhat more conservative. Sales in the trade sector as reported by company managers have recovered but are not exceptionally high. Current levels were last seen in the autumn of 2020, before the autumn lockdown. As regards durable goods, seasonally-adjusted car registrations as reported by Febiac have by no means regained their pre-crisis levels. In this connection, it should be kept in mind that the car industry has experienced supply chain troubles in recent months, leading to delivery delays.

The fundamentals for private consumption and the outlook for personal income in particular remain solid.

The outlook for purchasing power remains positive, even if government support measures will now be gradually withdrawn. Employment has increased again in the first quarter of 2021 and after stagnating since the turn of the year, temporary work was up again in April and rose to only about 5 % below pre-crisis levels. In addition, data on hiring expectations, vacancy rates and the ERMG surveys suggest that bottlenecks on the labour market are already reappearing. In certain parts of the country, unemployment rates are back to historic lows. Overall, the negative impact on the labour market should remain remarkably limited given the size of the economic shock.

CHART 3 INDICATORS FOR PRIVATE CONSUMPTION GROWTH
(normalised series)



Source: NBB.

Note: the original series are normalised around their historical averages and divided by their standard deviation.

Against this backdrop, private consumption should clearly accelerate in the second quarter of 2021. It should become the main growth engine beyond the very near term as well. This is not conditional on the use of the 2020 savings surplus. For various reasons we expect that the temporary boost to consumption from these past savings will be rather limited. However, the mere normalisation of the saving ratio, coupled with rising incomes should provide enough impetus to consumption growth going forward.

Government consumption growth should come in positive due to additional COVID-19 related spending in the second quarter

Government consumption increased by 1.3 % in the first quarter. The increase was driven by additional health care spending related to the vaccination campaign and the normalisation in non-COVID-19 medical treatments that had been postponed in 2020. **This spending pattern can be expected to be maintained in the second quarter.** It should be stressed that uncertainty is particularly large for this demand component as the early statistics for government consumption are sometimes difficult to interpret and prone to quite large revisions.

Business, housing and government investment will continue to expand, but growth should moderate gradually

Volume growth in total investment amounted to 2.5 % in the first quarter of 2021, following the recovery in investment that started over the summer of 2020. **Total investment has now already reached its pre-crisis level.** Government investment posted the largest increase, with 4.4 %. Housing and business investment shot up by 2.7 % and 2.2 % respectively.

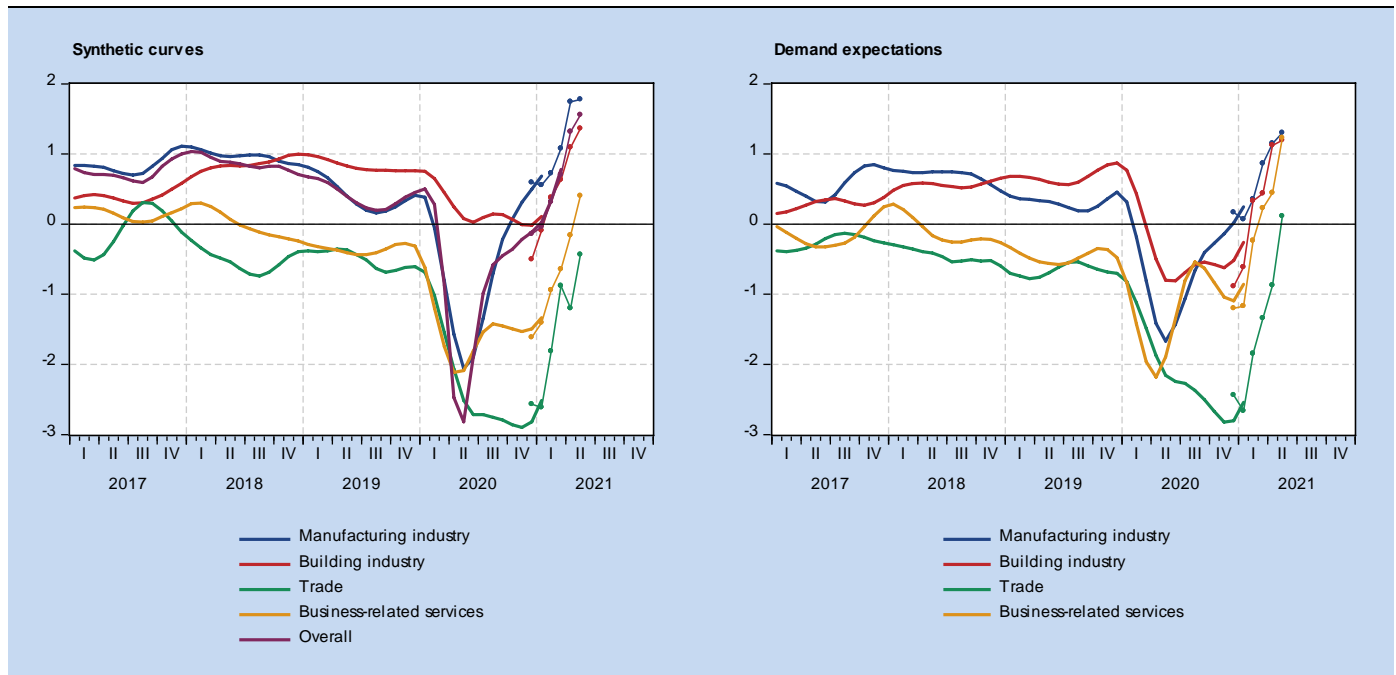
Business investment has shown a remarkably strong recovery and has come within 1 % of its pre-pandemic level by the first quarter of 2021. This is in line with developments in the headline business confidence indicator, which quickly rebounded from the historically low levels in April and May; confidence showed a gradual upward trend over the second half of 2020 (see Chart 4, left-hand graph) but accelerated in 2021 as the outlook for an exit to the crisis brightened. **The improvement in the overall business sentiment indicator was broad-based.**

The main engine behind the recovery of the overall indicator throughout 2020 was sentiment in the (capital-intensive) manufacturing industry, which remained unaffected by the restrictions in the second half of the year and was supported by the recovery in world demand and some catching-up from the effect of the first lockdown. These elements appear to have been enough to offset the impact of certain negative factors, such as the Brexit. Confidence levels in the manufacturing industry, currently far above their pre-crisis level, continued to improve in May, although the growth rate dropped off somewhat. Demand expectations are up, but the assessment of total orders and stock levels both deteriorated slightly, which may be (partly) related to reports of recent supply chain disruptions in certain industries. The latest quarterly survey on production capacity indicates that the degree of capacity utilisation in the manufacturing industry increased further in 2021, to 79.6 %, and is now at pre-crisis levels and in line with the historical average.

After lagging behind in 2020, confidence also gradually improved in business-related services and the trade industry in 2021. Sentiment in the building industry did not fall as deep in 2020, but improved in parallel to the other branches in 2021. The underlying driver of the recent upturn has clearly been the improvement of the general outlook, which is captured in demand expectations (see Chart 4, right-hand graph).

Nevertheless, the ERMG surveys, including the most recent edition, consistently show that the level of firms' planned investments in 2021 is still negatively affected by the crisis. Though the survey may overstate the crisis impact on investment, it adds an element of caution to the equation. **Still, business investment should definitely continue to increase in the second quarter, albeit possibly at a slower pace.**

CHART 4 BUSINESS SENTIMENT AND DEMAND EXPECTATIONS (normalised series)



Source: NBB.

Note: the original series are normalised around their historical averages and divided by their standard deviation.

Residential investment accelerated again in the first quarter of 2021 and has now even exceeded pre-crisis levels. **The upward trend can be expected to continue in the second quarter of 2021.** Fundamentals for housing investment and their outlook remain strong: mortgage rates are still historically low (despite the recent uptick in sovereign yields) and income prospects are robust. As was already mentioned, business confidence and demand expectations in the building industry improved.

Finally, taking into account the roll-out of recovery plans, **government investment should continue to expand in the coming quarters.**

Net exports should reduce GDP growth in the second quarter

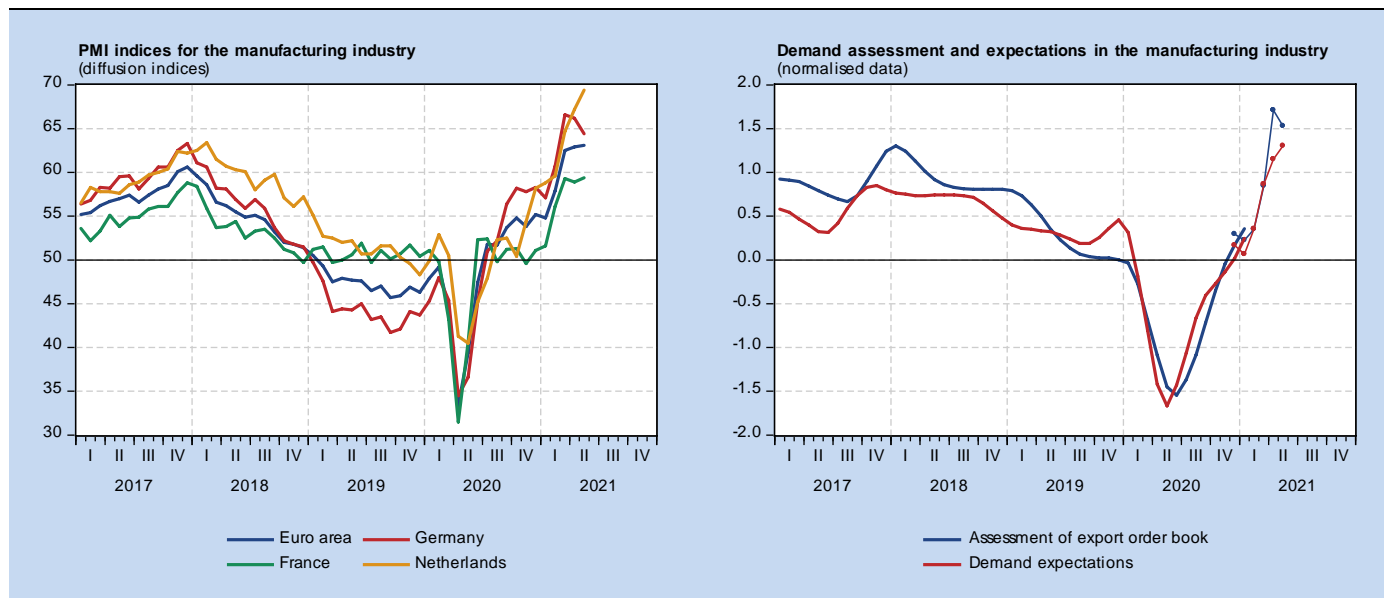
First-quarter exports decreased by 0.5 %, while imports declined by 1.3 %, resulting in an unexpected 0.7 percentage point positive contribution of net exports to GDP growth. The strong decline in imports is somewhat difficult to explain, even if it could be related to post-Brexit effects.

Foreign demand has continued to recover in recent months, driving up exports of goods and services. Although the outlook remains positive, potential demand for Belgian exports could be nearing a peak. Purchasing managers in the manufacturing industry in Belgium's neighbouring countries remain very upbeat, but the degree of optimism did not increase further. **The PMI manufacturing index for the euro area levelled off at a high (expansory) level in May** (see Chart 5, left-hand graph). Purchasing managers in the Netherlands and France continued to report an improvement in activity, while the index for Germany, which has long driven the euro area average, has deteriorated somewhat since reaching a peak in March.

The recovery of foreign demand is well reflected in the business survey results for the Belgian manufacturing industry. The results show a steady improvement since the spring of 2020 (see Chart 5, right-hand graph). Interestingly, and

contrary to what had been expected, Brexit does not seem to have had a noticeable negative impact on demand and order assessments for the manufacturing industry in the first months of 2021. However, the assessment of export orders now seems to be reaching a peak and has fallen back a little in May. **All in all, export growth should still be strong in the second quarter of 2021.**

CHART 5 PMI INDICATORS IN NEIGHBOURING COUNTRIES AND EXPORT ORDERS IN MANUFACTURING



Sources: Markit, NBB.

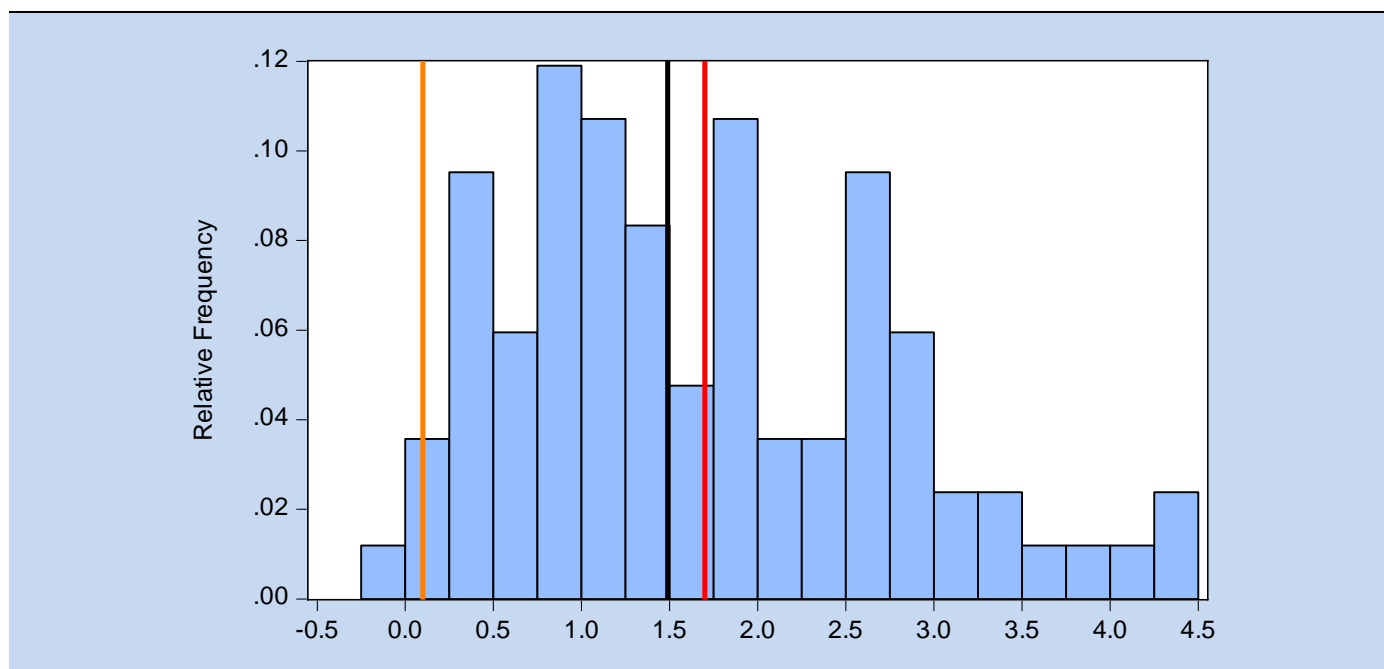
Note: the series in the right graph are normalised around their historical averages and divided by their standard deviation.

In the second quarter, a strong rebound in domestic demand should lead to a substantial increase in imports. This is likely to be sufficient to **push the contribution of net exports to GDP growth into negative territory in the second quarter, despite the resilience of foreign demand.**

Mechanical nowcasts indicate a positive GDP growth in the second quarter of 2021 ...

The informational content in the most recent survey and financial data can be summarised by looking at the range of mechanical GDP predictions using one-indicator bridge models. **The different predictions point to a moderately positive growth in the second quarter of 2021** (see Chart 6). The distribution is quite even and most frequently lies in the very wide [0; 3.5] % range, with a median estimate equal to 1.5 %. Note that the past forecast performance of these simple models suggests that these individual predictions should be interpreted with caution, even in normal times.

CHART 6 HISTOGRAM OF ONE-INDICATOR BRIDGE MODEL PREDICTIONS USING A BROAD SET OF SURVEY AND FINANCIAL DATA AND NBB NOWCASTING MODEL PREDICTIONS FOR REAL GDP GROWTH IN THE FIRST QUARTER OF 2021



Source: NBB.

Note: The black line corresponds to the median of the one-indicator bridge model predictions for the current quarter GDP growth, while the red and the orange lines respectively correspond to the predictions from the bridge model “BREL” and the dynamic factor model “R2D2”, respectively.

Of the more elaborate standard NBB nowcasting models, “BREL”² predicts a quarterly growth rate of close to 1.7 % in the first quarter, while “R2D2”³ is significantly less positive and estimates growth around 0.1 %. However, as indicated above, the uncertainty of these nowcasting models is exceptionally large as the massive shocks since the start of the COVID-19 crisis constitute a challenge for the estimation of standard time-series models. Therefore, these model-based estimates need to be complemented with information gathered from other sources, as well as expert judgment.

■ ■ ■ While the most recent ERMG survey show some improvement for certain industries

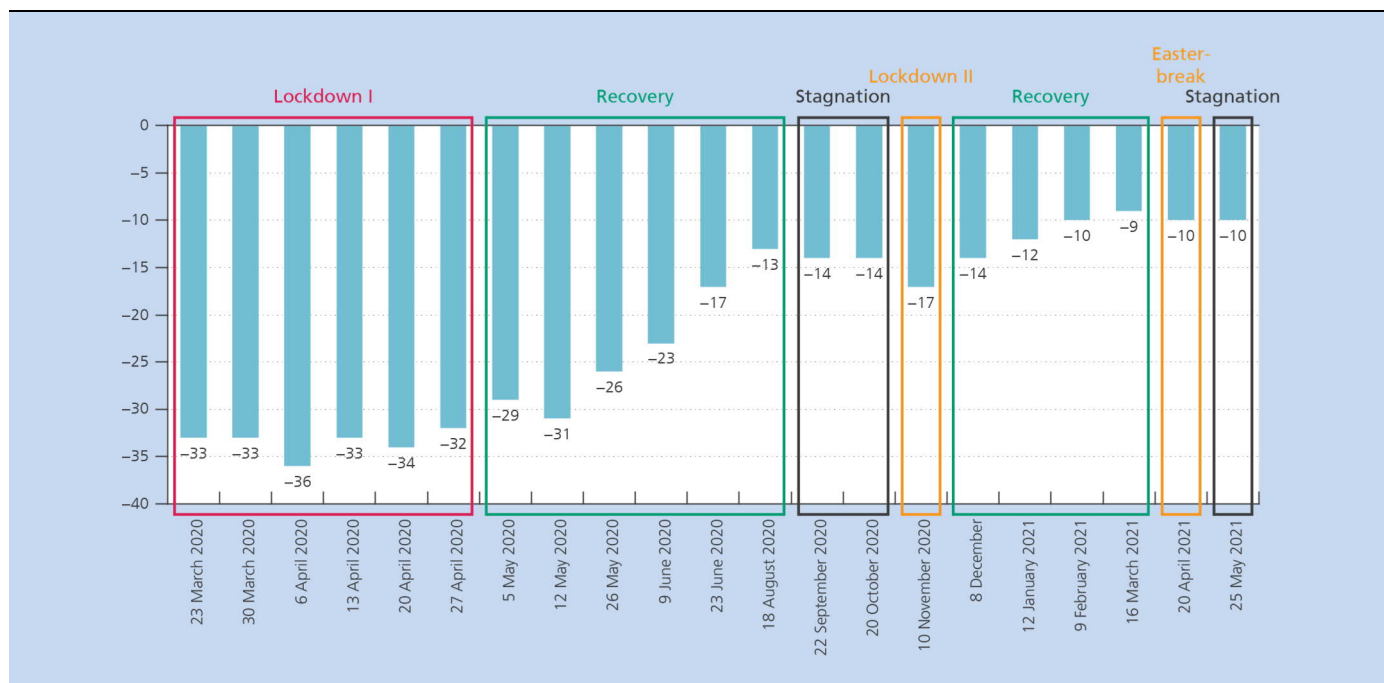
Taking company size and the weight of the different industries in value added into account, **an average loss in weekly turnover of about 10 % was still reported in the May ERMG survey, unchanged from the last survey** (see Chart 7). However, the stabilisation of the overall result was to some extent caused by a difference in the composition of the samples across the different surveys: some of the most hard-hit industries, which stood to benefit most from the recent easing of restrictions, reported clear improvements in turnover. This was not yet the case for bars and restaurants, which could be due to the weather conditions in May. The full opening of these activities in

² Piette, C. (2016), Predicting Belgium’s GDP using targeted bridge models, NBB Working Paper 290.

³ Basselier, R., De Antonio Liedo, D. and Langenus, G. (2018) Nowcasting real economic activity in the euro area: assessing the impact of qualitative surveys, NBB Working Paper 331. The R2D2 model is estimated using the JDemetra+ software, which is publicly available at www.nbb.be/jdemetra. A version of the R2D2 dynamic factor model that includes additional Belgian-specific variables is used in the Business Cycle Monitor.

June is likely to provide a further boost to activity in those branches. **Non-market output, too, is expected to increase, in line with government consumption and investment.**

CHART 7 ERMG SURVEY REPORTED COVID-19 IMPACT ON WEEKLY TURNOVER
(in %, weighted average based on revenues and industry value added)



Sources: ERMG surveys, NBB.

In addition, monthly indicators on government revenue seem to be very upbeat. This confirms the view that the economy is recovering quite strongly, leading to high growth in tax bases, such as earned income, consumption and corporate profits.

All in all, we estimate that Belgian economic activity will increase by 1.3 % in the second quarter. This is in the upper half of the range given by the two model nowcasts but close to the median estimate of the one-indicator bridge models. It should again be stressed that the uncertainty of this nowcast is much higher than usual. The biggest risk to the outlook is a sudden worsening of the epidemiological situation coming from vaccine-resistant variants of the virus or logistical setbacks regarding the vaccination campaign that could lead to additional or longer containment measures.