Why has Belgian private consumption growth been so moderate in recent years ?

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Introduction [1]

While Belgium had weathered the great recession relatively well compared to the euro area as a whole and most of the neighbouring countries, its growth performance has been more moderate since. Over the past five years, the Belgian economy has shown a steady expansion of, on average, 1.5 % in annual terms, which is nearly half a percentage point below the euro area's annual average.

As regards the demand components, private consumption – that accounts for the largest part of final demand in most advanced economies – has been particularly lacklustre in Belgium in recent years, with the exception of 2016. Remarkably, the annual average growth rate of private consumption during the past five years did not even exceed that recorded during the 2008-2013 period, which includes the crisis years. This contrasts with the situation in many other euro area countries where household spending has often been a key driver of the post-crisis recovery.

In this article, we look at the reasons behind the slow growth of Belgian households' consumption spending in recent years. The first chapter reviews the long-term trends and provides a comparison with household consumption growth in the euro area and in the largest neighbouring countries. In the second chapter, we take a look at the product categories that account for the overall slow consumption growth. The third chapter focuses on the role of disposable income growth and, more specifically, income from labour, which is considered to be the main determinant of private consumption. The last chapter looks into other possible explanations for the path of private consumption, such as wealth and composition effects, as well as the rising level of indebtedness of Belgian households.

1. Belgian private consumption in a longer-term and international perspective

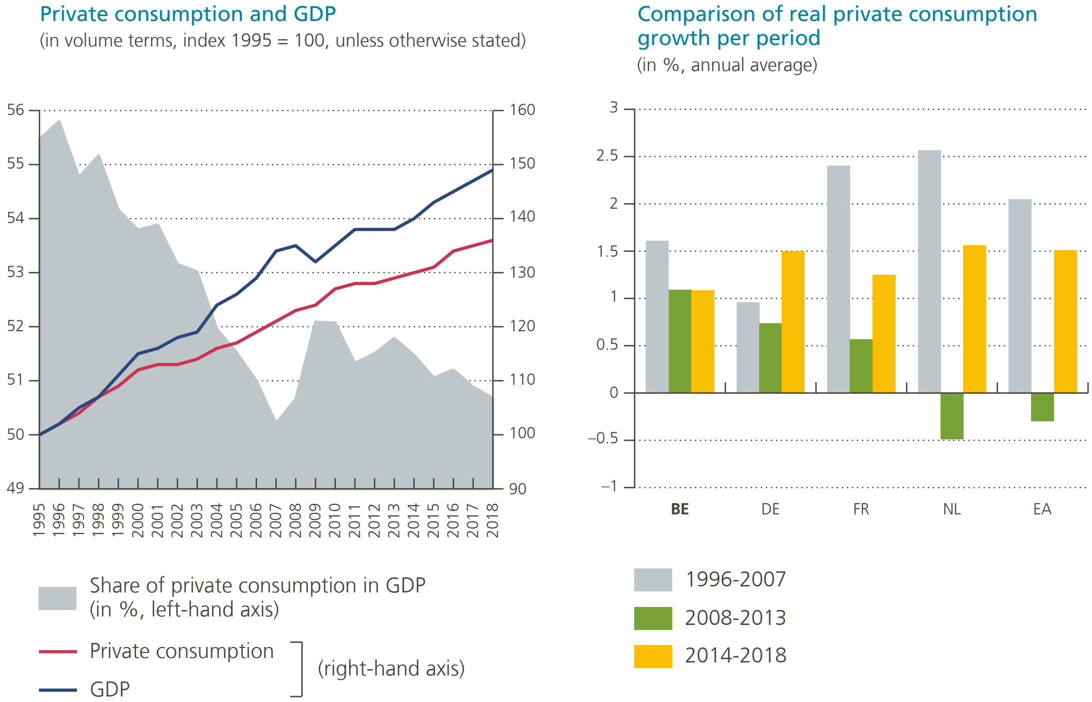
An analysis of the data for Belgium since 1995 indicates that the cumulative growth rate of private consumption has failed to keep up with that of economic activity. The share of private consumption in GDP has been on a long-term declining path : between 1995 and 2018, activity has grown by a cumulative 50 %, whereas private consumption has only expanded by some 36 %.

1 This article is based on national accounts dating from mid-May 2019. The next set of annual national accounts will be published in October 2019 and will be subject to a five-yearly occasional methodological revision. The latter may also affect the series for private consumption.

The share of private consumption in GDP reached a trough in 2007, at just over 50 %, but the downward trend was temporarily interrupted as of 2008 as private consumption held up relatively well compared to GDP during the crisis years, despite heavy macroeconomic uncertainty and tighter financial conditions. This was due to a number of idiosyncratic factors that helped to cushion the blow of the great recession. First of all, the Belgian labour market is relatively rigid, which led to important labour hoarding during the early crisis years. This was reinforced by an extension of the system of temporary unemployment, that keeps workers in the firm even when there is insufficient demand (De Mulder and Druant, 2011). Moreover, in 2009, at the height of the financial crisis, households' purchasing power was shored up by the usual lags in the indexation mechanisms. Due to the surge of inflation in 2008, price indexation of wages and social benefits was substantial in 2009. As inflation had actually moderated considerably by that time and was close to zero, the indexation was well in excess of the then rise in consumer prices and provided temporary support for real disposable income growth. All in all, these elements have helped Belgian households to protect their labour income, which is an important determinant of private consumption, as will be discussed in chapter 3.

Chart 1

Private consumption in a historical and international perspective



Sources: Eurostat, NAI, NBB.

From 2008 to 2013, Belgian private consumption still recorded an average annual growth rate of about 1 %, well above the average pace that was observed in the three main neighbouring countries. In the euro area as a whole, the average growth rate even turned slightly negative during this period, on account of severe drops in consumer spending in certain countries such as Italy and Spain. All in all, Belgian consumers have on average felt the crisis less than those in other euro area countries.

On the other hand, when euro area private consumption started to rebound in 2014, it clearly outpaced that of Belgium. Similarly, Germany, France and the Netherlands have seen a clear recovery in the growth rate of private consumption in the past five years. Belgium has recorded only a moderate rise in consumer spending, no higher than the average observed during the crisis years. The share of private consumption in economic activity continued its downward trend and was back to just over 50 % in 2018. Both from a historical perspective as compared to the euro area as a whole, the expansion in Belgian private consumption has been relatively weak in the last few years.

Before looking into the drivers of weak household consumption growth, the next chapter assesses which product categories have been consumed relatively less in recent years.

2. Which products have been consumed relatively less recently ?

Following the work by Matute and Urtasun (2017), household consumption can be broken down into four main categories taken from the two-digit COICOP classification [1], as listed in table 1.

Table 1

Four main types of household consumption

Categories of goods and services	COICOP code	COICOP class
Basic goods and services	1	Food and non-alcoholic beverages
	6.1	Medical products, appliances and equipment
	7.2	Operation of personal transport equipment
	7.3	Transport services
	10	Education
Non-essentials	2	Alcoholic beverages, tobacco and narcotics
	6.2	Outpatient services
	6.3	Hospital services
	8.1	Postal services
	8.3	Telephone and telefax services
	9.4	Recreational and cultural services
	9.5	Newspapers, books and stationery
	9.6	Package holidays
	11	Restaurants and hotels
	12	Miscellaneous goods and services
Durables and semi-durables	3	Clothing and footwear
	5	Furnishings, household equipment and routine household maintenance
	7.1	Purchase of vehicles
	8.2	Telephone and telefax equipment
	9.1	Audiovisual, photographic and information processing equipment
	9.2	Other major durables for recreation and culture
	9.3	Other recreational items and equipment, gardens and pets
Quasi-fixed expenditure	4	Housing, water, electricity, gas and other fuels

Source : NBB.

1 The Classification of Individual Consumption by Purpose, abbreviated as COICOP, is a classification developed by the United Nations Statistics Division to classify and analyse individual consumption expenditure incurred by households. It should be noted that this concept of household consumption is slightly different from that used in other parts of this article. More particularly, the concept of private consumption as defined by the National Accounts Institute refers to the consumption expenditure by households, as well as (individual) expenditure by non-profit institutions serving households that directly benefit households. Household consumption according to the COICOP classification, however, only includes spending by households. Moreover, it measures expenditure for different goods that were bought in Belgium. It therefore includes consumption expenditure from non-residents within Belgian territory, but excludes Belgian consumption expenditure abroad (also known as the domestic concept). The opposite goes for private consumption, which the NAI bases on the national concept. In terms of year-on-year growth rates, both aggregate concepts are actually very similar, but a detailed decomposition per product type only exists for the domestic concept (currently until 2017).

The economic rationale behind such a decomposition is that consumption of the various types of products is likely to change in different ways during different points of the business cycle.

Spending on durable goods, for example, can reasonably be assumed to be most sensitive to changes in economic conditions. First of all, the purchase of durable goods tends to require a larger part of the household budget and cannot easily be reversed. During a crisis period, job and income prospects become more uncertain and postponing the purchase of such goods until more information can be obtained is a reasonable thing to do (Gudmundsson and Natvik, 2012). Second, durables are also more likely to be purchased via a loan (Pistaferri, 2016). Financial conditions had been tightened up during the initial phase of the great recession and this may have prevented certain households from going ahead with their desired purchase. Third, taking into account the longer lifetime of durable goods, Dossche *et al.* (2018) state that households derive utility from the flow of services provided by the good during its lifespan, but not from the purchase itself. Hence, when households decide to postpone the purchase of durable goods, they would lose only little utility at that specific time. From a practical point of view, it makes sense that the purchase of vehicles or furniture can more easily be postponed than that of indispensable items like food or medicine.

Items such as food, medicine, public transport and education are considered basic products and take up almost one-quarter of consumer spending. Typically, these items have a low income elasticity, which implies that even when households are faced with a negative income shock, they will nonetheless continue to buy them. The category of quasi-fixed expenditure on housing and related energy expenses can also be considered as a necessity and represents about another quarter of consumer spending.

The largest category of Belgian consumer spending consists of non-essentials and non-durables and includes a broad range of items, which are typically bought for leisure. Given the non-essential nature of these goods and

Chart 2

Consumer spending by category of expenditure

(in % of total, volume data for 2017, data for 1995 between brackets)

Source: Eurostat.

services, these purchases are also considered to be quite sensitive to swings in the business cycle as they can be easily cut back.

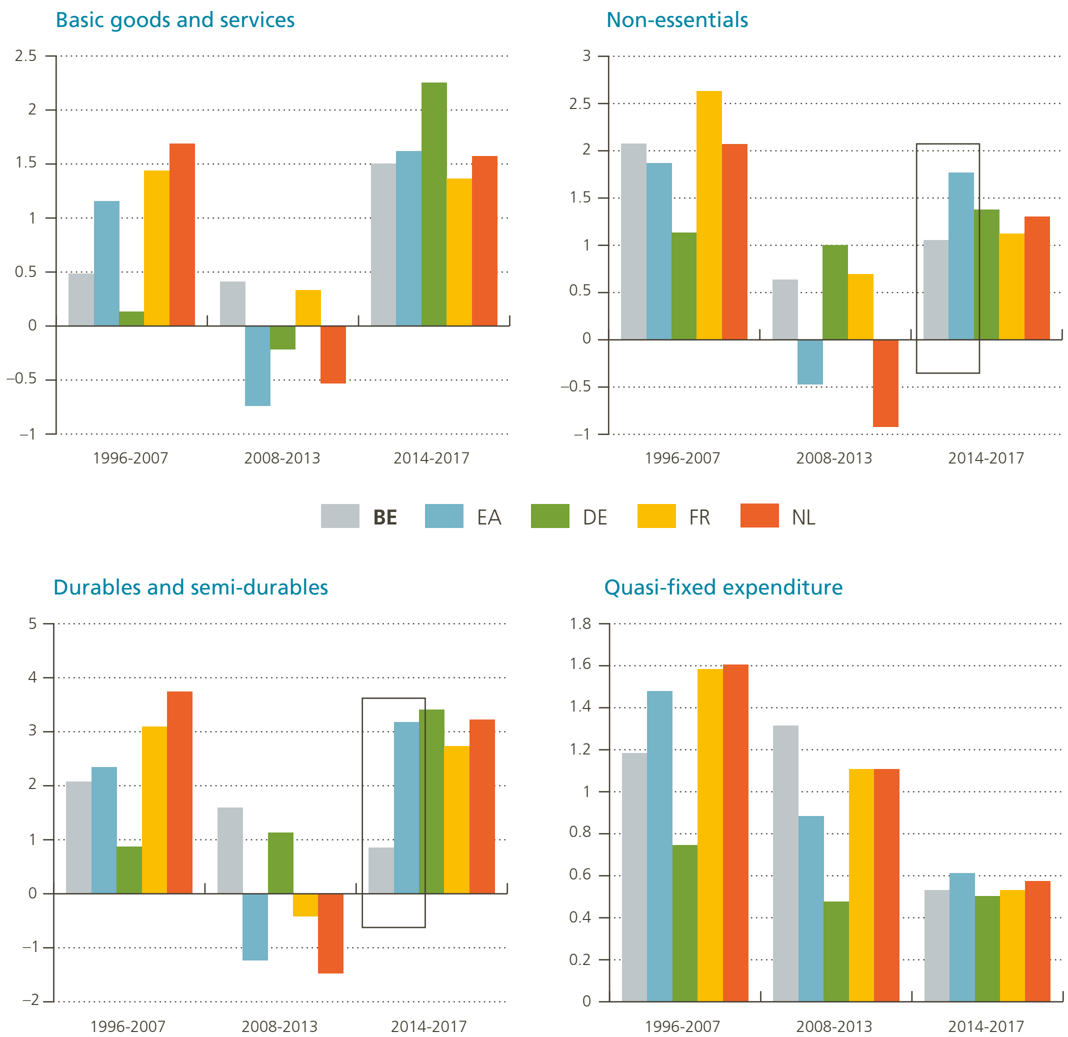
Generally speaking, purchases of durable goods and non-essential products are more likely to be postponed during economic downturns (Mínguez and Urtasun, 2015). During upturns, on the other hand, pent-up demand for these products could then boost consumer spending.

The phenomenon of pent-up demand following the crisis years cannot be observed from the data for Belgium. In fact, the average growth rate of the category of (semi-)durable goods has been lower since 2014 than the average recorded from 2008 to 2013. Moreover, it was clearly below the average rate observed in the euro area as a whole and the main neighbouring countries during the recent period. A likely explanation is that pent-up demand for durables may simply have been weaker or even absent in Belgium, because these purchases had previously not been postponed to the same extent as in other countries. In fact, when comparing the average

Chart 3

Consumer spending on different categories of goods and services

(average annual percentage changes, volume data)



Source: Eurostat.

growth rates across countries during the years between 2008 and 2013, Belgian purchases of durable and semi-durable goods continued to expand at a pace comparable to the pre-crisis period, whereas those purchases had been clearly cut back in the euro area and the neighbouring countries.

The category of non-essentials and non-durables, which is also expected to be quite sensitive to the business cycle, exhibited the expected pattern during the crisis period. Purchases of these goods and services by Belgian households grew considerably slower than before 2007. However, this category did not rebound after 2013, as it did in the euro area. As these non-essentials account for an important part of consumers' purchases, their sluggish expansion compared to that of the euro area and the neighbouring countries is an important explanation for the relatively weaker growth of overall private consumption.

For the other two categories, basic goods and quasi-fixed expenditure, the pace of growth recorded in Belgium during the past five years is very similar to that in the euro area.

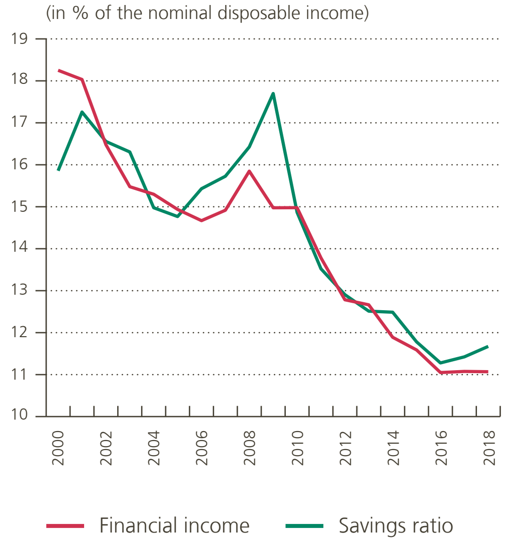
3. Slow labour income growth is the key driver of moderate household consumption growth

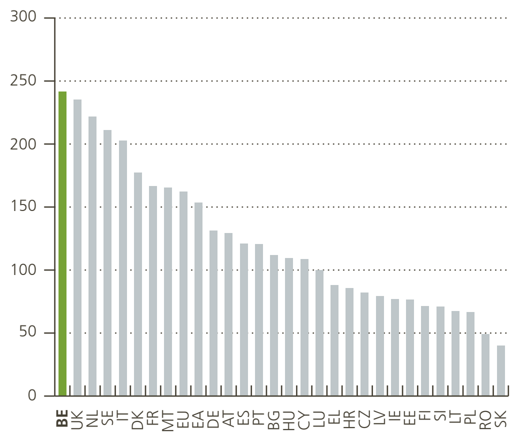
3.1 The declining savings ratio reflects the slowdown of net financial income, not strong consumption growth

At the start of the century, Belgian households were still saving about 16 % to 17 % of their disposable income. This was considerably more than the euro area average. Since then, their savings ratio has gradually declined. This trend was only temporarily interrupted around the great recession, when the heightened uncertainty led to more precautionary saving and households mostly saved their extra real income.

Chart 4

Household savings, net financial assets and property income





Sources: Eurostat, NAI, NBB.

While a declining savings ratio mechanically implies that private consumption rises more than households' purchasing power, the observed decline in average savings as a proportion of income mostly reflects a composition effect. Belgian households have large net financial assets, but mainly as a result of the declining return on capital and historically low interest rates, the share of financial income in total household income has dropped considerably, coming down from 17.5 % of disposable income in 2008 to only 10.6 % in 2018. As financial income [1] is typically saved more (Basselier and Langenus, 2014), this puts downward pressure on the overall savings ratio (Baugnet *et al.,* 2017).

3.2 Private consumption mostly tracks current labour income

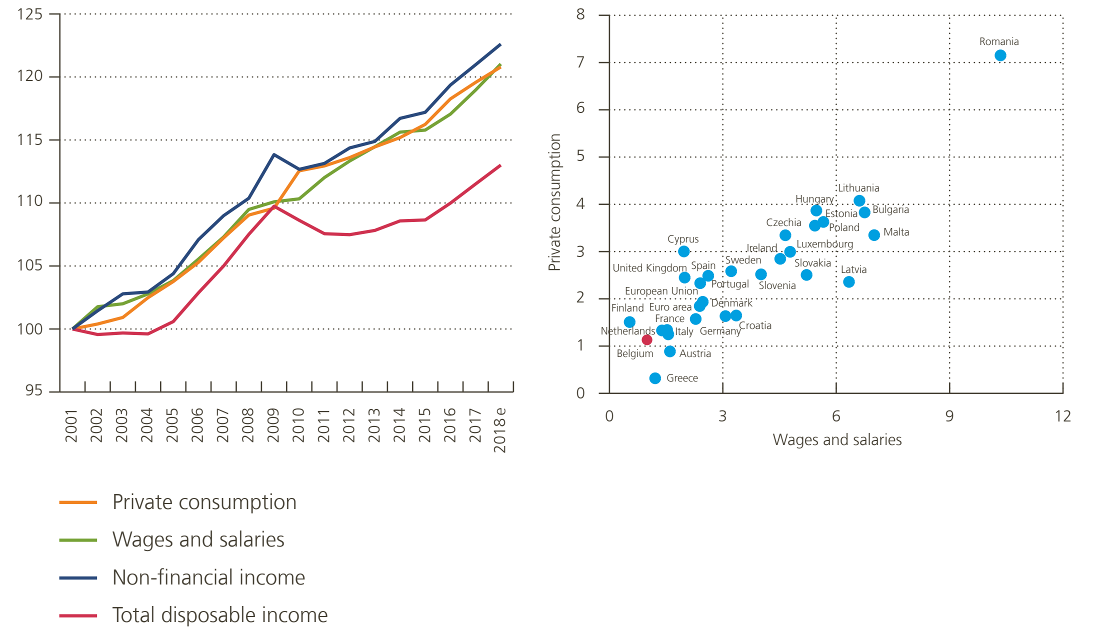
While the changing composition of household income, with a larger share of non-financial income, explains why household consumption has risen more than disposable income in recent years, consumption growth has remained very close to changes in non-financial income and its largest component, wages and salaries. Between 2001 and 2018, private consumption in volume terms increased by 20.8 % while real wages and salaries rose by 21 % in Belgium. Remarkably, private consumption seems to have moved in line with labour income in that period. The two indicators are not systematically moving at the same pace every year, but their respective paths do not diverge greatly over time. Also, in other countries, growth in private consumption shows a strong positive correlation with current labour income.

Chart 5

Strong correlation between private consumption and labour income

Belgium: income and private consumption
(index 2001 = 100, volume data)

EU: wages and salaries and private consumption
(annual growth rate in %, volume data, average 2014-2017)



Sources: Eurostat, NAI, NBB.

1 Financial income (also named "property incomes") includes interest, dividends, and benefits related to insurance assets and other financial investment as well as rent on natural assets (mostly fields rented out to farming companies). The latter category does not include the rental of a real estate asset and constitutes a small share of the financial income.

According to the "permanent income hypothesis" (Friedman, 1957, Hall, 1978, Hall and Mishkin, 1982), the average household would have a certain preference for keeping its consumption expenditure stable irrespective of the business cycle and the life-cycle.[1] A rational household then uses its capacity to save and borrow to keep a broadly stable consumption pattern and makes its expenditure decisions not only on the basis of current disposable income but rather on some permanent income or total wealth concept. The latter may be defined as the present value of lifetime wealth, current income and the present discounted value of the income that households expect to receive in the future. However, in reality, household consumption often seems to track current income quite closely.

The reasons why private consumption could be more reactive to changes in current labour income and not as smoothed as predicted by the permanent income hypothesis are well-documented in the literature (e.g. Jappelli and Pistaferri, 2010). In general, the marginal propensity to consume out of an income shock depends on the sign of the shock and whether the shock is anticipated or not. However, credit constraints and the presence of myopic consumers could generally increase the correlation between consumption and current income.

First, households may find themselves constrained to tailor their consumption expenditure to their current income and spend the entire income at their disposal in every period. Among the so-called "hand-to-mouth consumers", two categories can be distinguished: the poor and the wealthy ones. The poor hand-to-mouth consumers hold little or no liquid assets and no illiquid assets such that they are unable to smooth their consumption intertemporally. The wealthy hand-to-mouth consumers have a lot of illiquid assets such as housing or retirement accounts but only little or no liquid assets. Because illiquid assets cannot be instantly converted into consumption goods at reasonable cost, households may opt for spending their entire income every period (Kaplan *et al.,* 2014). In advanced countries, wealthy hand-to-mouth consumers are generally a much larger fraction of the population than poor ones. The sensitivity of household consumption to labour income changes may also be specifically related to more difficult access to the credit market (Deaton, 1991) or the existence of precautionary savings (Carroll and Kimball, 2001). The assumption that households can smooth consumption by saving and borrowing under similar conditions does not always hold: while they can always save, borrowing may be limited or could involve high transaction costs. Credit constraints typically affect households whose future incomes are perceived as being uncertain and are more prevalent in a recessionary period when the default risk rises.

Second, a household intending to smooth out its consumption over time needs to estimate its income growth and getting a reliable estimate of the path of future income may be relatively difficult and time-consuming. In that case, households may decide to opt for a less sophisticated consumption pattern and act as myopic consumers, tailoring their consumption expenditure to their current income (Weil, 1992, Campbell and Mankiw, 1989).

3.3 Despite strong job creation, labour income growth was fairly moderate between 2014 and 2018

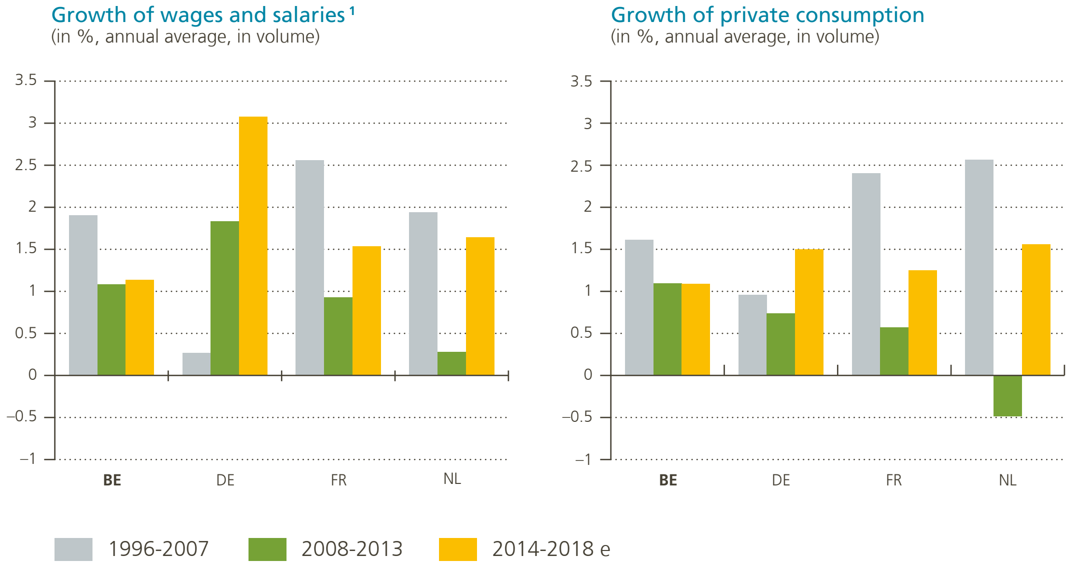
As private consumption seems to be mostly determined by non-financial or labour income, we now focus on trends in this income. Labour income growth has been relatively weak in recent years. On average, between 2014 and 2018, real wages and salaries grew less in Belgium than in the major neighbouring countries, contrary to previous periods. Average annual growth of this income component was close to 1 % in Belgium against 3.1 % in Germany, 1.5 % in France and 1.6 % in the Netherlands. While labour income growth strongly rebounded in the recovery phase from 2014 onwards in the neighbouring countries, it remained broadly stable in Belgium. This different pattern is mostly visible in average private consumption growth too (except for Germany[2]).

1 Households may find it more advantageous to pay an extra premium to cover the risk of a sudden and large fall in their income and expenditure, as is the case for supplementary pensions and health insurance.

2 Germany's major labour market reforms in the first half of the 2000s have radically changed labour market conditions and affected wage growth negatively. Between 2002 and 2005, growth of total real wages and salaries was negative every year.

Chart 6

Private consumption and labour income: comparison with the neighbouring countries



Sources: Eurostat, NAI, NBB.
1 Excluding employers' social security contributions. Due to the unavailability of sufficiently detailed figures for 2018, the growth rate of wages and salaries received by households is approximated by using the growth rate already observed for wages and salaries received by the total economy in that year.

The comparatively slow growth of labour income is not specifically caused by weak employment growth. Even though economic activity growth has recently been weaker in Belgium than in the euro area and in the major neighbouring countries, it has been more labour-intensive. All in all, Belgian employment growth is broadly in line with figures from the neighbouring countries, reaching an average annual growth rate of 1.1 % against 0.7 % in France, 1.2 % in Germany and 1.3 % in the Netherlands between 2014 and 2018.

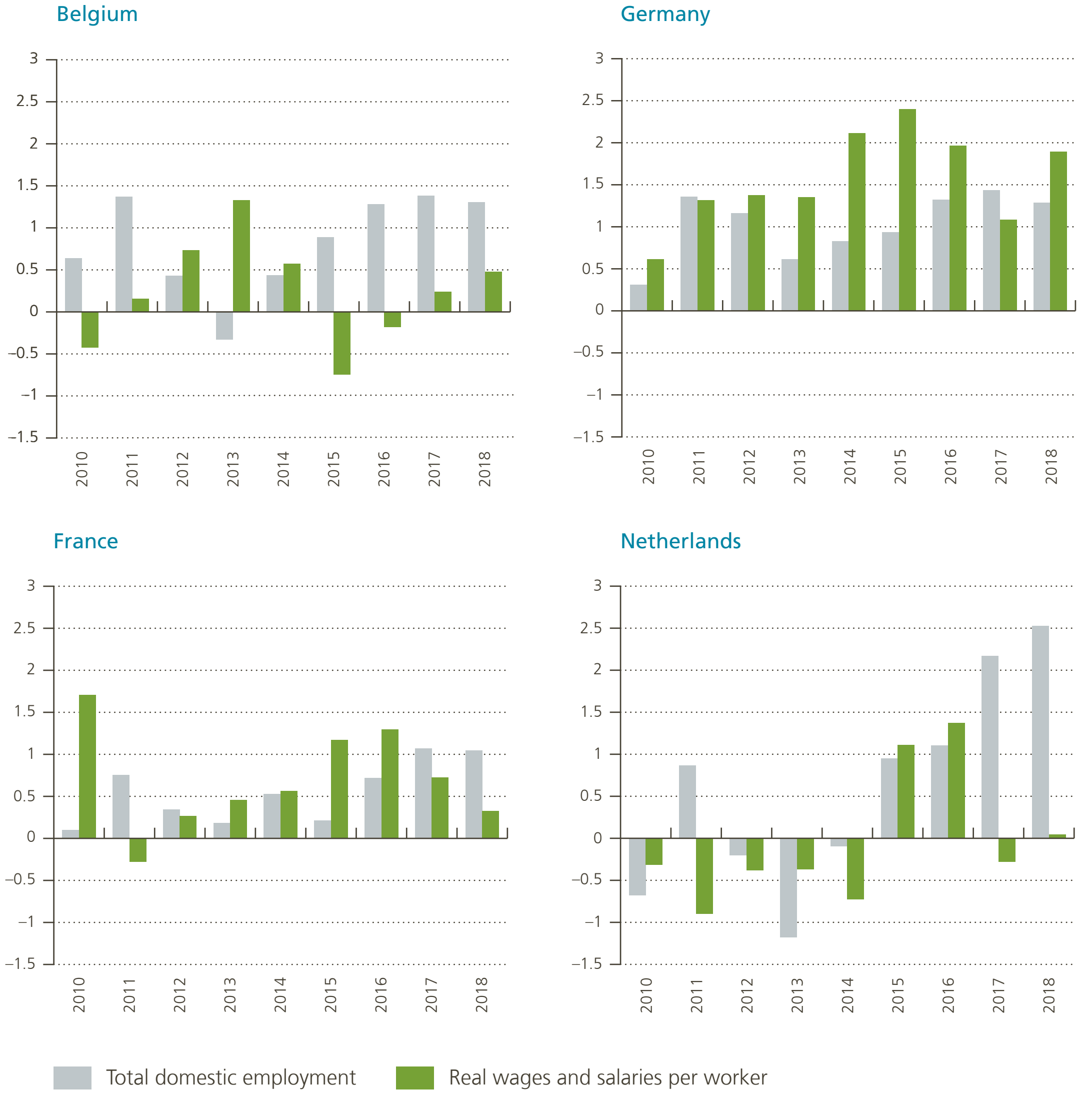
However, real unit wage growth was significantly lower than in other countries. Real wages per worker actually remained more or less flat in Belgium from 2014 to 2018 (and even declined in 2015 and 2016), compared with an average increase of 1.9 % in Germany, 0.8 % in France and 0.3 % in the Netherlands. This is mostly a policy choice as wages were curbed by the various measures to restore cost competitiveness. While the cuts in employer-paid social security contributions obviously did not weigh on households' purchasing power, wages were reduced by the temporary suspension of the indexation mechanisms in 2015 and the different constraints on the conventional wage settlements (for which zero growth was imposed in some recent years).[1] In addition, the temporary suspension of the indexation mechanisms affected pensions, unemployment benefits and other replacement incomes as well, which also weighed on purchasing power and, hence, household consumption.

1 The macroeconomic effects that were likely to result from the temporary suspension of the indexation mechanism in the course of 2015 were discussed in Box 1 in the article on the economic projections for Belgium that was published by the NBB in December 2014. This simulation already mentioned, among other effects, a negative household income shock with a dampening impact on private consumption growth.

Chart 7

Labour income growth was weak due to low real wage growth

(annual % changes)



Sources: Eurostat, NAI, NBB.

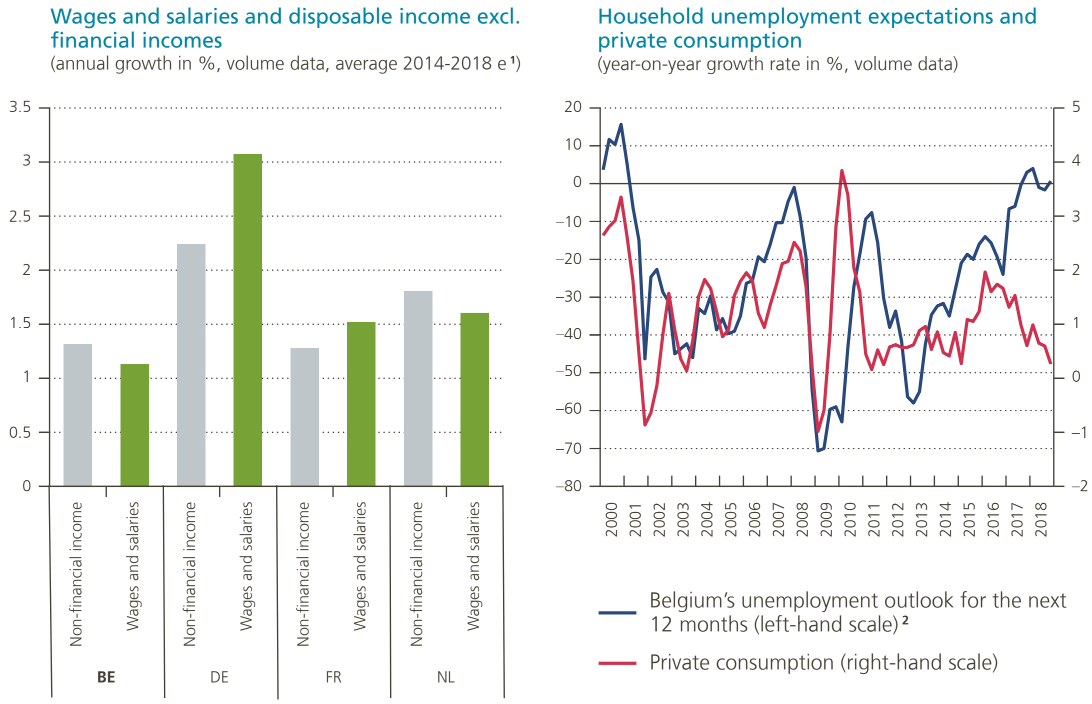
3.4 Measures to curb wage growth were not fully offset by tax reductions

In parallel with the aforementioned measures aimed at curbing wage growth, there have been offsetting measures intended to support household purchasing power, notably the tax shift package. The tax shift is a multi-year policy adopted in 2015 that was gradually implemented from January 2016 to January 2019 to lower the tax pressure on labour income. Those measures have limited growth of net transfers from the households to the government and therefore have supported their disposable income (particularly for low-income households). Concurrently, a number of financing measures were included in the tax shift package to reduce the increase in the budget deficit, such as an increase in value added tax on several categories of consumption (electricity, tobacco, or alcohol) or a hike in the withholding tax on dividends and interest on bonds. Overall, when looking at non-financial income growth rather than growth in wages and salaries, the negative gap between Belgium and its neighbours turns out smaller, but does not entirely disappear in the period under review (2014-2018).[1] More specifically, Belgian non-financial income grew by an annual average of 1.3 % over the last five years, which was about half a percentage point below the growth rate observed for that category of income in the neighbouring countries, on average.

In this context, employment growth in itself seems to have become a less important driver of private consumption. The low growth of labour income per worker has weighed on wages paid for existing jobs but also, by extension, for the jobs being created, meaning that the extra consumption associated with new jobs tends to be lower than previously. The indicator from the NBB consumer survey for the unemployment outlook over the next 12 months, which has turned out to be a leading indicator of private consumption in Belgium, has recently displayed a considerably lower correlation with the latter variable.[2]

Chart 8

Tax reductions reduced the negative gap with neighbouring countries while the link between employment and consumption has become weaker recently



Sources: Eurostat, NAI, NBB.
1 Due to the unavailability of sufficiently detailed figures for 2018, the growth rate of wages and salaries received by households is approximated by using the growth rate already observed for wages and salaries received by the total economy in that year.
2 Balance of replies to monthly survey, aggregate quarterly data. Calendar adjusted data. Reverse of the indicator released by the NBB.

More generally, the fiscal stance can also have an impact on private consumption (also beyond the secondary income distribution). In this connection, it should be noted that in the 2014-2018 period considered, the Belgian government has, overall, slightly tightened the fiscal stance: according to the most recent EC estimates,

1 Please note that the most recent phase of the Belgian tax shift package (that came into force at the start of 2019) could not yet be included in this analysis. However, the same is true for the additional fiscal measures in the other countries considered, including tax cuts that have supported purchasing power there as well.
2 A similar trend has been observed between private consumption growth and the growth of the number of worked hours by employee.

the structural primary surplus has been increased by about 0.5 % of GDP. This is slightly more restrictive than in Germany and France but less so than in the Netherlands. However, given the uncertainty about the fiscal multipliers and e.g. the large differences in the public finance situation between those countries, it seems unlikely that the slight divergences in the fiscal stances can account for the relatively lower private consumption growth in Belgium.

4. Other factors do not seem to explain slow household consumption growth

In this section, we consider a number of other factors that could explain why Belgian household consumption has been so moderate in recent years. We generally find, however, that the actual impact of these factors is likely to be very limited.

4.1 Wealth effects and impact of household indebtedness ?

One potential determinant of private consumption is household net wealth. Increases in wealth, originating for instance from stock or real estate prices, could lead households to adjust their consumption expenditure upwards. Looking at the empirical literature on the wealth effect on private consumption, most authors identify a positive but limited aggregate wealth effect at the macro level (Davis and Palumbo, 2001, Sousa, 2009, Carroll *et al.,* 2011). Regarding Belgium, while the estimated effect of net financial wealth is relatively high compared to the other countries, the estimated effect of house prices is particularly low according to Reusens and Warisse (2018).

In terms of net wealth, Belgian households rank among the richest in the euro area. Their net wealth rose from 571 % to 573 % of nominal GDP between 2014 and 2017. As a matter of comparison, in 2017, households' net wealth reached 378 % of nominal GDP in Germany, 492 % in France and 451 % in the Netherlands. At the aggregate level, Belgian households have notably benefited from the growing value of land held by private individuals.

Using Reusens and Warisse's (2018) estimates, we find that changes in net wealth cannot explain a large part of the difference in consumption growth between Belgium and Germany or France between 2014 and 2018 (despite the relatively high sensitivity of consumption to financial net wealth). Only in the Netherlands has the wealth effect on private consumption been somewhat larger in recent years, as household consumption has been buoyed up by a surge in house prices. However, all in all, total wealth effects do not seem to be the main explanation for the relatively slower private consumption growth in Belgium compared to the three main neighbouring countries.

One striking feature regarding the developments in net wealth is that Belgian household debts has grown significantly in recent years and more than in other countries. In fact, whereas a certain deleveraging has been observed for households on average in the euro area, Belgian households have continued to increase their indebtedness, as expressed in percentage of GDP. The Belgian households' debt to GDP ratio even outstripped recently the euro area average. This mainly represents a strong increase in mortgage debt. While overall net wealth has increased, rising debt levels could still weigh on consumption to the extent that they may increase the monthly debt service and, hence, reduce the part of income that can actually be consumed. Highly leveraged households may find themselves compelled to reduce their spending (Dynan, 2012) while a high debt service puts direct constraints on their consumption spending and makes them more reactive to income changes than average households (Mian *et al.,* 2013, Nakajima, 2018).

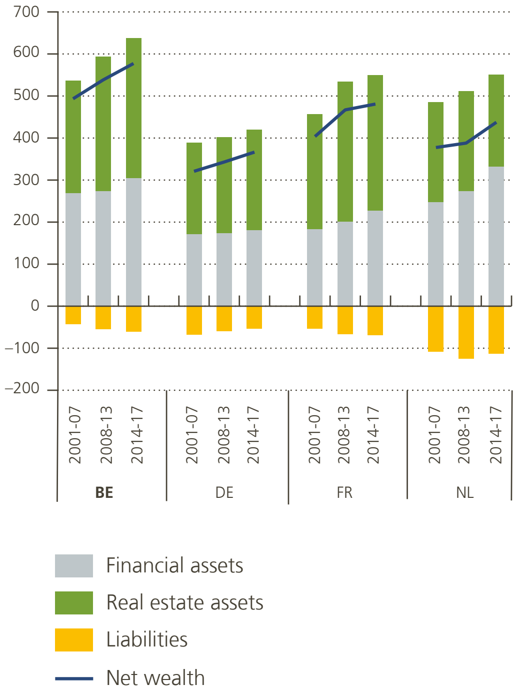
In that connection and based on microdata on households' debt and food consumption in Belgium between 2010 and 2014 (HFCS), Perilleux *et al.* (2019) argue that the debt service is influencing the spending of a household whereas its outstanding amount is less relevant. They found that households with a debt service to income larger than 30 % tend to reduce their consumption more than the average household. However, the impact of the debt increase on the monthly debt service was largely offset by a strong decline in mortgage rates. According to Bank for International Settlements (BIS) data, between the end of 2013 and the latest available data (Q3 2018), the debt service ratio of households rose from 7.4 % to 7.6 % of gross disposable income and this trend appears quite low in relation to previous episodes (in particular the period running from 2006 to 2013). This relatively small increase in the debt service ratio is unlikely to have exerted any strong pressure on private consumption in the recent period.

Chart 9

The wealth effect is unlikely to have had a strong impact on consumption

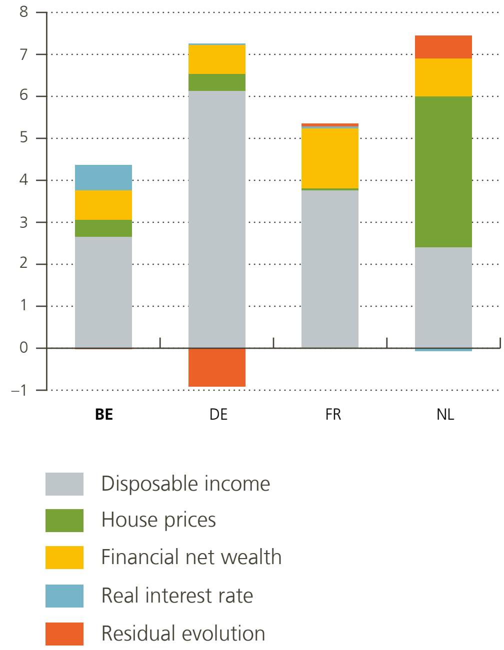
Households' total assets and liabilities [1]

(% of nominal GDP, consolidated data)



Private consumption: decomposition of the cumulated growth between 2014 and 2018

(in %, volume data)



Sources: Eurostat, NBB, Reusens and Warisse (2018).

1 Liabilities are shown with negative values.

4.2 Role of inequality?

Rising inequality could be another explanation for slow consumption growth. As propensities to consume are typically higher for lower-income households, all things being equal, a less equal income distribution could be associated with lower consumption.

While societal questions regarding purchasing power and income distribution have come to the fore recently, macro indicators tend to suggest that income inequality has actually declined. The Gini coefficient (published by Eurostat) assesses the extent to which the distribution of income among households deviates from an equal distribution, with low levels indicating a more equal distribution of income. In the recent period, the coefficient has remained stable in Belgium, at a lower level than the neighbouring countries and the euro area average. Lower income categories enjoyed a stronger increase in their net earnings than the higher income categories on average between 2014 and 2018. From a wider perspective, the Gini coefficient has seemed to follow a downward trend since the beginning of the century.

All in all, declining inequality should in principle have supported private consumption growth, rather than dented it.

4.3 Impact of population ageing ?

As in other countries, population ageing is a key demographic trend in Belgium. Elderly people account for a growing share of the population in Belgium : the share of the population above 65-years-old went from 17.9 % at the start of 2014 to 18.7 % by January 2018. Empirical studies generally show that households tend to decrease their spending upon retirement (see for example Aguiar and Hurst, 2005). Older consumers are also less forward-looking and are investing less in durable consumption goods. Hence, population ageing would in principle reduce private consumption growth.

At the same time, labour market participation and employment rates have clearly increased for older age groups in recent years, partly as a result of a long-term trend and cohort effects in female participation, but also due to the measures to curb early retirement. This is likely to have boosted their current income and, therefore, their consumption. In addition, population is also ageing in other countries, where private consumption has been more buoyant in recent years. Against this background, it does not seem plausible that population ageing has significantly contributed to the relatively lower consumption growth in Belgium.

Conclusion

According to the current national accounts data, consumption of Belgian households has grown only moderately in recent years. This is quite remarkable as consumer confidence had reached a 17-year high by the end of 2017 and a surge in private consumption has been a key driver of the post-crisis recovery in many other euro area countries. In this article, we try to explain why Belgian households have not raised their consumption as much.

First, we note that during the crisis years and the aftermath of the great recession, private consumption had held up much better than in other countries. This is due to a number of idiosyncratic factors that helped to cushion the blow of the recession for Belgian households. The fall in employment was moderated by more labour hoarding and specific government measures to extend the temporary unemployment system. In addition, the lags in the existing indexation mechanisms initially boosted household income as wages and benefits were index-linked on the basis of the relatively high pre-crisis inflation. A detailed breakdown of private consumption shows that purchases of income-elastic goods, which are typically prone to business cycle swings, such as durables and non-essentials, slowed down less during the crisis years in Belgium than in neighbouring countries. While in other countries, the phenomenon of pent-up demand led to strong increases in purchases of those goods in the recovery phase, this was much less the case in Belgium.

Second, we show that slow private consumption growth can essentially be traced back to the moderate growth in purchasing power. Especially over a longer period, private consumption clearly tracks income growth. Even if the sharp deceleration in disposable income of Belgian households was partly due to net financial incomes that are mostly saved, growth in non-property income has also been quite weak in recent years. This is primarily due to the main component, labour income. While activity growth has been particularly employment-intensive, government measures to restore cost competitiveness, including the legal constraints on real wage settlements and the temporary suspension of the indexation mechanisms in 2015, have significantly reduced real income growth. Up to now, this has not been fully offset by the tax shift measures : real disposable income excluding financial income also grew less for Belgian households than for those in the neighbouring countries. However, the last phase of the tax shift package could not yet be included in this analysis, considering that it has only been implemented early 2019.

We also look at other potential explanations for the lacklustre consumption growth in recent years. These include the impact of household wealth and indebtedness as well as population ageing and changes in inequality. However, we find that none of these elements are likely to have been a key driver of the moderate increase in household consumption.

All in all, our analysis suggests that the policies to curb household income growth, with a view to restoring cost competitiveness, have come at a cost in terms of household consumption between 2014 and 2018, even if the relatively slow private consumption growth should also be seen against a backdrop of greater resilience during and after the crisis years. Finally, we should recall that this analysis is based on the current series of national accounts statistics. In October 2019, the NAI will undertake an occasional revision of those statistics that may also affect household consumption data.

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