

"Early information on investment is crucial"



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ABSTRACT

This article is based on the introductory speech given by Pierre Wunsch, Governor of the National Bank of Belgium, at the EIB – National Bank of Belgium Webinar “Investment for a sustainable recovery in Belgium” on 30 April 2021.

Like all other economies, the Belgian economy has gone or is going through a crisis that is unprecedented in post-war times. Unprecedented in size – we are talking about three times the Global Financial Crisis, that we used to call the ‘Great’ Recession. But unprecedented as well in terms of nature and origin: it is a combination of supply and a demand shock that is in addition asymmetric; in fact, we estimate that roughly 7 out of 10 Belgians hardly suffer any financial consequences from the largest economic crisis in their lifetime, which is quite remarkable.

The reason is of course that the government support has also been unprecedented. Companies that were closed or saw their sales decline drastically have received significant subsidies and transfers and the government actively avoided bankruptcies, even formally at some point via moratoria on bankruptcies. This has also cushioned much of the blow on the labour market and unemployment went up only slightly – for now. At the same time, there are still many workers that are in temporary unemployment (our short-term working scheme): the latest data suggest that about 11 % of the salaried workers are still in temporary unemployment for about half of their working time. This is already huge but at the height of the crisis in the spring the share of temporary unemployment was more than one third and more than 40 % of the self-employed received bridging rights as they were forced to cease their activity.

Allow me by the way to remark here that the swift and decisive action of the monetary authorities, and the ECB in particular, obviously also helped to keep the economy afloat.



Also, our monetary support measures were unprecedented in a way and shielded the euro area economy from financial disruptions that could have been fatal.

Still, for a long period and to some extent still now, the economy has been in some kind of twilight zone. It is still on life support via the different government measures and we don't really know how the recovery phase will continue. We expect that, to the extent that a larger share of the population will be vaccinated and the remaining restriction will be gradually or rapidly lifted, private consumption will first drive the recovery via some pent-up demand or even 'revenge' consumption in certain cases.

However, investment growth should clearly be the second engine of growth in the quarters and the years to come. Hence, the importance of surveys such as the EIB survey on investment: they help us understand where we are, refine our GPS so to speak, and where we are heading.

What we know so far is that even though we took a big economic hit in the spring of 2020, overall, our societies and our economies have proven surprisingly resilient in 2020 as large segments continued to function, to create and to produce in exceptional circumstances with limited direct, physical interaction. The first signals were dramatically bad. Sentiment among businesses that were surveyed in the spring of 2020 was very negative, with sales estimates down by more than 35 percent for the year, financial buffers eroding quickly, reports of massive postponements and cancellations of investment plans etc. We have apparently learned to live with the virus, even when the initial optimism after the Spring lockdown gave way to a second and a third Covid-19 wave.

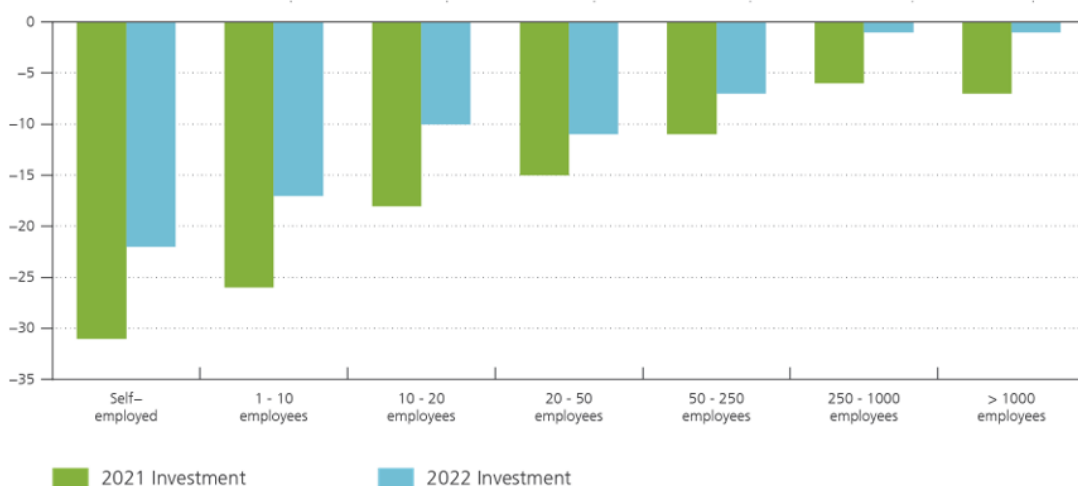
The rebound in the third quarter was more impressive than most forecasters had thought or hoped for. The resurgence of the pandemic slowed us down somewhat but definitely did not do the same damage as in the spring. The current statistics suggest that by end-2020 we were already back at some 5 percent below the pre-crisis level. Some observers feared the 90 %-economy; well, actually, by New Year we already had 95 % of the economy back!

When looking at the different industries, manufacturing – the biggest contributor to investment – is in fact flourishing now, for lack of a better word. Global trade recovered faster than everybody expected: while everybody was looking at the Ever Given that blocked the Suez Canal for a few days, I was mostly noticing the massive traffic jam behind that ship! Manufacturing PMIs are surging to record highs. In fact, global demand is recovering so quickly that new problems have come to the fore: supply of raw materials and intermediate goods can not keep up with demand, which together with skyrocketing shipping freight prices, lead to pipeline inflationary pressures. So, just a year after we have narrowly escaped a 1930s-style depression, the focus of many observers has shifted to a potential inflation splurge. Remarkable, to say the least.

Let me zoom in on investment now. In fact, we have conducted many surveys of our own throughout the past twelve months, as you can imagine. And as mentioned already, the first indications coming from those survey were a bit scary to be honest. Also, and particularly so for investment. Survey respondents told us that they would postpone or simply cut planned investments: the average firm reported a 20 % decline in investment for 2020 and a flat profile for 2021. Using reasonable weights to measure the importance of the companies, this made us think that firm investment could drop by as much as 15 % in 2020 and not start recovering before 2022. This was obviously not such good news for the outlook for GDP.

Now we have the first full set of quarterly statistics for the year 2020, even if they should be interpreted with caution as they can be revised and also our statisticians have to work in very difficult circumstances. Still, the image that transpires is that corporate investment has been super-resilient. In the second quarter, private consumption was down by about 20 % from pre-COVID levels. Corporate investment even by 25 %. However, both posted an impressive recovery in the third quarter, which brought private consumption to within 5 percent of pre-crisis levels and corporate investment to about 7 %. But the lockdown in the fourth quarter caused a divergence: private consumption declined again, whereas investment continued to grow by 4,5 %. This means that corporate investment has recovered more and faster than private consumption and has almost reached its pre-crisis level.

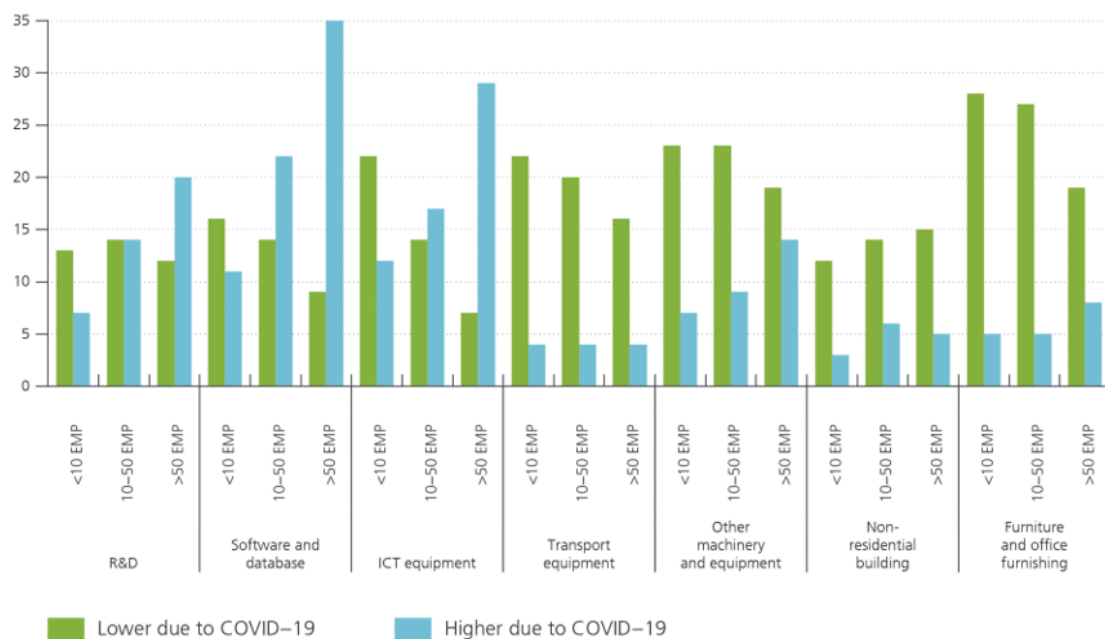
Graph 1 – COVID-19 impact on planned investment in 2021 and 2022, by number of employees
(survey of 20 april, unweighted, unstratified average)



Source: ERMG survey.

If you take that as a given, the outlook for investment becomes much rosier, in particular for larger firms. According to the findings of our latest survey that was published on Tuesday, smaller firms of no more than 50 employees still expect their investment spending to be about 25 % below normal in 2021, with the gap narrowing to 17 % in 2022. However, the corresponding percentages in the sample are much smaller for larger corporations, that typically have a bigger impact on the macro aggregates: they expect that their investment spending is 9 % below normal this year and just 5 % below normal in 2022. This may still be a bit more pessimistic than the current national accounts data but bodes well for the future. These differences among different types of corporations may be related to relatively smaller turnover losses or easier access to financing for larger firms. Looking at the different investment categories, planned firm investment seems to reflect changes in the work process and the trend towards more homework in particular. Office-related and transportation investments are expected to be down in 2021, according to this week’s survey, whereas spending on R&D, software and ICT equipment is actually rising. Again, much more so for larger firms.

Graph 2 – Investment categories that are lower/higher in 2021 due to COVID-19, by number of employees (EMP)
(survey of 20 April, unweighted, unstratified average)



Source: ERMG survey.

From a policy perspective, early information about current or upcoming investment is crucial.