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A macroeconomic look at Belgian industry

Current situation in a historical and European perspective

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For more than a century, until well after World War II, Belgium's economic development was mainly driven by industrial activity. Over the past 50 years, tertiarisation caused a change in the structure of the Belgian economy, with activity in the service sectors gaining relative importance against that in industry, an evolution that occurred in most developed countries. There was no absolute deindustrialisation, as the volume of industrial production continued to grow. Today, industry in Belgium, but also in many other European countries, is under pressure. Since the end of 2022, real activity in the sector shrank and quite a few jobs were lost. This recent development is the reason for writing this research report. The aim is to provide a broad interpretation of the current industrial landscape in Belgium, using the many data available.

Unless otherwise stated, industry in this research report corresponds to the manufacturing industry, excluding the energy and construction industries.[1] It refers to the set of companies that manufacture products. In the analysis, we use a lot of data that put Belgian industry, as much as possible, in a historical and European perspective. On top of the analysis, in an annex we also provide a series of graphs on Belgian industry, divided according to a number of themes that correspond (roughly) to the structure of the analysis text.

Section 1 looks back in time and discusses how industry in Belgium has evolved in recent decades. The focus here is on the industry as a whole. Historical data, based on old ESA account systems, are no longer readily available. For this, we draw on the database that KBC Economics has built over the years. Section 2 zooms in on the subsectors within the industry and discusses general structural characteristics of the sector. In the first two sections, we also use regional figures where possible (mainly concerning Flanders and Wallonia). In the next four sections, we discuss some relevant thematic characteristics of Belgian industry: performance and business dynamics (section 3), capital formation and innovation (section 4), labour costs and organisation (section 5), and energy and circularity (section 6). Section 7 looks at the current state of the Belgian industry. In section 8, we formulate some concluding thoughts.

1 These are NACE codes BB (mining and quarrying) and C (manufacture of products). Regarding the latter, the category CD (manufacture of coke and refined petroleum products) is excluded (as it is part of the energy sector)..

1. Longer-term evolution

Structural shift

The developments in Belgian industry in recent decades require some nuance. They are often characterised as 'deindustrialisation'. However, that term is very misleading, as no absolute decline in industrial activity took place. Viewed over a longer period, there was only a structural shift within the overall economy. In current prices, the share of industrial activity (excluding energy and construction, but including extraction of raw materials) in Belgium at the beginning of the 1970s was still about a third of total gross value added. By 2010, that share had roughly halved and in 2023 it was only 13.2%. Between 1995 and 2023 (the period for which we also have figures for the other EU countries), that relative decline in Belgium was 7 percentage points.

That is twice as much as in the EU27 as a whole and also more than in neighbouring Germany, France and the Netherlands. In 2023, the importance of manufacturing in the EU27, at 16.4 per cent of value added, was still more than 3 percentage points higher than in Belgium.

There was no absolute deindustrialisation, as the volume of industrial production continued to grow. Over the period 1995-2023, real value added growth (i.e. in fixed prices) in industry in Belgium still averaged 1.3% per year. It also averaged 1.2% in the past decade (2014-2023). In the European Union as a whole, these figures were higher (1.9% in 1995-2023 and 2.3% in 2014-2023), which in itself is not abnormal given the average lag of the EU27 compared to Belgium. Nevertheless, neighbouring countries the Netherlands and Germany also scored better than Belgium. Moreover, the increase in the volume of activity was lower in manufacturing than in market services (2.1% per year in 1995-2023) or the economy as a whole (1.8% per year). This means that also measured in fixed prices, the share of manufacturing in the total value added of the Belgian economy decreased.

Explanations

The factors underlying the structural shift are on both the demand and supply side of the economy. First of all, consumption has changed in favour of services due to the increase in prosperity, socio-demographic developments (e.g. more healthcare due to the ageing population, more childcare and cleaning services due to female participation in the labour market, etc.) and the rapid rise of ICT (e.g. software, games, etc.). In addition, manufacturing, more than services, recorded large productivity gains thanks to technological advances. The tradable nature of industrial goods also made the sector more exposed to competitive pressures, which was reinforced by globalisation. This resulted in lower price increases in manufacturing compared to services, which explains the different evolution of the activity share depending on whether it is expressed in current or fixed prices.

Productivity growth did reduce the number of industrial jobs sharply. Over the period 1970-2023, some 675,000 net jobs were lost in Belgian industry (excluding energy and construction, but including the extraction of raw materials). During that period, total employment in Belgium nevertheless rose by a rounded 1,350,000, thanks to job creation in services (private and public). At the beginning of the 1970s, just over 30% of the employed still had a job in industry. By the early 2000s, that percentage had halved and by 2023 it was only 9.9%. This is lower than the EU27 average (13.9%). It is also lower than in Germany (16.3%) but higher than in France (9.1%) and the Netherlands (7.5%).

The structural shift also partly reflects the drive for efficiency within the industry, with the sector focusing more on its core activity. This has resulted in activities and jobs of an administrative and logistics nature (consultancy and advertising, HR services, transport, cleaning, catering, etc.) being outsourced to the service sector. This strong interaction between the two sectors implies that a lot of non-industrial activity does still depend on industry. Consequently, the economic importance of industry remains greater than the 'naked' sector figures suggest. Incidentally, technological progress has also meant that what used to be an industrial product (e.g. a CD or DVD) is today consumed as a service (e.g. streaming of music and films).

Regional perspective

Until the middle of the last century, Wallonia had a thriving industry. From the second half of the 1950s, the displacement of coal by other primary energy sources caused a deep crisis of the Walloon coal industry. In the 1960s, Europe's burgeoning economic integration fuelled restructuring of heavy basic industries, which increasingly moved to lower-wage countries. This eroded the competitiveness of these industries in Wallonia. At the same time, industrial conversion there was held back by a defensive government policy, aimed at protecting existing industrial activities and subsidising ailing companies. In the 1980s, the poorly diversified production structure again played havoc with the Walloon economy. Eventually, the Walloon steel and metal-processing industry underwent major rationalisations and its share of total added value in the region fell well below that in Flanders.

From the 1990s onwards, globalisation gained momentum. Increasing international competitive pressure forced Flemish companies to increase labour productivity in response to high labour costs. Moreover, from the mid-1990s onwards, the latter rose again faster than in the main trading partners. This accelerated the erosion of employment in Flemish industrial sectors, including significant job losses in the textile, automotive and

mechanical engineering sectors. Wallonia, on the other hand, managed to slow down the breakdown of industry. The region was able to limit the decline in industrial employment to an average of 0.68% per year over the period 1995-2023, compared to 0.94% per year in Flanders. Value added (in fixed prices) in the Walloon industry grew at an average annual rate of 2.0% over the period, compared to only 1.1% in Flanders.

The decline in the weight of industry (excluding energy and construction) in total value added and in total employment has been more pronounced in Flanders than in Wallonia in recent decades. In 2023, the share in added value (in current prices) reached almost the same level in both regions (around just under 15%, Federal Planning Bureau estimate). In terms of employment, the share in Flanders was even higher that year (11.8%) than in Wallonia (9.8%). Viewed as a share of the national total, in 2023 just under 71% of added value and employment in Belgian industry was realised in Flanders, over 26% in Wallonia and only about 3% in Brussels.

2. Composition and structural characteristics

Industrial subsectors

According to NACE-A38 coding, in 2023, four of the 13 subsectors together accounted for almost two-thirds of value added in industry (in current prices). Pharmaceuticals (23.0%) had by far the largest share, followed by food (16.2%), chemicals (12.0%) and metals (10.5%). In terms of shifts over time, the steep rise of the pharmaceutical sector stands out the most. In 1995, its share was only 5.2%. At as much as 9.0% a year, the average real growth of added value (in fixed prices) there has been much stronger than in other industries since 1995. Metals, textiles and vehicle manufacturing saw their share within manufacturing decline most sharply since 1995. With an average real contraction of 2.5% a year, the textile sector performed the worst during 1995-2023.

Compared to other EU countries, Belgium also stands out for its relative presence in the pharmaceutical and chemical sectors. Their combined share of over a third in total value added in industry is more than three times that of the EU27 as a whole. As in Belgium, the food and metal sectors also still represent a fairly large share in the EU27. The subsector with the largest relative under-representation of Belgium compared to the EU27 is vehicle manufacturing. At still almost 14%, the sector's share of value added in manufacturing in the EU27 is three times higher than in Belgium. This is mainly due to Germany, Sweden, the Czech Republic and Slovakia, where the sector's share is still around 20%.

Regional perspective

The relative importance of the industrial subsectors shows remarkable differences between the three Belgian regions. In Brussels, due to the (for now) Audi assembly plant in Forest, there is a large predominance of vehicle production. In 2022, its share in total value added realised in industry in Brussels was almost 25%. It is the only subsector for which Brussels has a fairly high share (at 16%) in the country's total. Although the food sector also has a large importance within the Brussels industry at 22%, its small absolute size compared to those in the two other regions means that its share in the national total remains rather small.

The structure of the Flemish industry strongly mirrors that of Belgium as a whole, which is not surprising given that, at around 70%, Flanders has a large share of total Belgian industry. In terms of major subsectors, the chemical sector does remain slightly more important there in relative terms than pharmaceuticals. What is striking for Wallonia is the sharply increased importance of the pharmaceutical sector. In 2022, it accounted for no less than a third of the total added value in Walloon industry, more than doubling compared to 2003. It is the sector for which Wallonia has the largest share (at 45%) of the country's total. The subsector that has declined the most in terms of share in the total regional industry since 2003 is vehicle production in Flanders and mechanical engineering production in Wallonia.

Structural characteristics

Differences between EU countries in the degree of sector mix within industry can be measured by the coefficient of variation of the shares of subsectors in total industry value added. The smaller that coefficient, the less those shares differ among themselves and the industrial activity is better spread among various subsectors (i.e. greater diversification of industrial activity). The figure for Belgian industry is rather average in the European perspective and comparable to that for Germany. Neighbouring countries the Netherlands and France do have a more diversified industry than Belgium when viewed this way.

Belgian industry is still highly specialised in the production of semi-finished products. This type of production requires the integration of a large intermediate consumption of basic products, while the later stages, as well as the resulting added value, are mostly borne by the final producer. All this creates a value-added content of industrial production that is lower than average in Europe. In 2022, the ratio of added value to production turnover in Belgian industry was 21.8% compared with 28.3% in the euro area and 30.5% in Germany. The high energy dependence of the Belgian industry compared to most other EU countries (especially the chemical and metal sectors) contributes to the high intermediate consumption and to depressing the value added in manufacturing turnover.[2]

Although manufacturing still accounts for 13% of added value in the Belgian economy, companies active in the sector make up only 4.6% of the total number of companies in the market sector in Belgium. There are 337 companies operating in industry per 100,000 inhabitants in Belgium. Both figures are below the EU average (6.7% and 478 companies, respectively) and, apart from a few countries, are the lowest in the EU27. As in most other EU countries, the vast majority (more specifically 94%) of industrial firms in Belgium are small firms with fewer than 50 employees. If we also include companies with 50 to 249 employees, they even account for over 99% of all industrial companies. Together, these make up about 5% of all SMEs (0-249 employees) active in Belgium across all sectors.

Although large companies (250 or more employees) make up only a small 1% of all industrial companies in Belgium, they still account for some 72% of total turnover in Belgian industry. This very high concentration is also reflected in export figures: the top 5 and top 10 companies in Belgian industry in terms of exports together account for 25% and 36% of total goods exports, respectively. However, Belgium is not unique in this respect within the EU27, where such concentration is rather the norm. In quite a few countries, including Germany, the concentration in terms of industrial activity and exports in a limited number of companies is even higher than in Belgium.

3. Performance and business dynamics

Productivity and profitability

Manufacturing recorded stronger productivity gains than services in recent decades, mainly because the sector was able to integrate technological progress into its production process more quickly. The high dependence on exports combined with high labour costs (see below) also gave Belgian industry additional incentives to rationalise its processes. As a result, the level of labour productivity in the sector in Belgium is high compared to most other European countries. Expressed both per person employed and per hour worked, the Belgian industry today still ranks among the best EU countries in terms of productivity. Relative to the EU average, the level of both measures has fallen somewhat in recent decades.

It is not abnormal for Belgium to have lost some ground relative to the EU27 productivity level, partly because other countries were able to benefit from catch-up effects. It also explains why annual productivity growth in the Belgian industry over the period 1995-2023 was on average slightly below that in the EU27. Expressed per hour worked, it averaged 2.5% per year over the whole period (2.6% in the EU27). However, since 2016, it was only 0.7% per year on average, compared to 2.1% per year in the EU27. The slowdown in hourly productivity growth during the more recent years was quite general across industrial subsectors (including pharmaceuticals), with several (including chemicals and metals) even recording declining labour productivity.

While the profitability of Belgian companies generally improved, the increase in gross profit margins in manufacturing was remarkably strong over the past decade. Operating profitability in the sector, defined as gross operating surplus relative to gross value added, had risen to 52% by 2022. It thus surpassed that in construction (46%) but remained below that in market services (58%). The sharp rise is partly explained by shifts in the structure of industrial activity, with production in subsectors with high profit margins (especially pharmaceuticals) seeing its relative importance in total added value increase, while the importance of those with low margins (especially vehicle production) declined. In European perspective, the Belgian industry also scores very well in terms of profitability. On average, it was 6 percentage points above the EU average during the period 2008-2022.

Industrial renewal

The success of the industry is strongly linked to the investments made (see next section) and the business dynamics in the sector. We can evaluate the latter using the so-called renewal rate. This is the sum of business start-ups

2 See also B. Robert and L. Dresse (2005), "De industrie in België: vroegere ontwikkelingen en toekomstige uitdagingen", Economisch Tijdschrift NBB.

and closures in the industry, expressed as a percentage of the number of active firms in the sector. High dynamism allows a reallocation of inputs from underperforming firms (which disappear) to newly-established firms, which usually results in higher productivity. The approach is inspired by Joseph Schumpeter's theory of creative destruction. Nevertheless, the interpretation of the renewal rate requires some caution, as a low rate can also indicate the existence of robust and healthy firms.

With a renewal rate in industry of 11.0%, Belgium ranked only 20th within the EU27 in 2022. In the period 2009-2022, that rate even averaged only 7.9%, the lowest rate in the EU27 except for two countries (Cyprus and Greece). In neighbouring countries, it was 14% (France), 12.9% (the Netherlands) and 9.8% (Germany) during that period. In particular, the 'death rate' but also the 'birth rate' is lower in the Belgian industry than the EU27 average. In the period under review, however, the renewal rate was more strongly supported by the percentage of start-ups than by the percentage of closures. Moreover, the renewal rate in Belgian industry is also lower than in the two other major sectors, construction (13.0%) and market services (14.7%). Weak business dynamism is a possible factor in the slowdown in productivity growth experienced by Belgian industry in recent years.[3]

4. Capital formation and innovation

Investment and FDI

The pace of investment in industry is of great importance, not only to replace and expand the capital stock, but also to integrate new technologies. Compared to most other EU countries, Belgian industry is characterised by a rather low investment ratio (i.e. gross fixed capital formation in the sector as a percentage of GDP). Over the past decade, it averaged (3.2%), which is lower than in the EU27 (3.4%) and Germany (3.8%), but higher than in France (2.7%) and the Netherlands (2.1%). Also in terms of volume growth, investment in the sector was relatively weak in Belgium, as in neighbouring countries, by the way. On average, that real growth in 2023-2022 was 2.3% per year in Belgium, compared to 5.6% in the EU27. It was 2.4% in France, 2.1% in the Netherlands and only 1.3% in Germany.

Investment from abroad has played an important role in Belgium's industrial development in the past. To this day, Belgian industry attracts a lot of foreign direct investment (FDI), often greenfield projects (i.e. completely new facilities) in sectors that are strong on innovation. The exact figures do fluctuate greatly from year to year, both in terms of amounts, number of projects and associated job creation. According to Ernst & Young figures, in recent years Belgium scored better than the Netherlands in terms of FDI projects and, if adjusted for the different size of the economies, many other EU countries including Germany. The lion's share of projects over the past decade came from the US and its three neighbours the Netherlands, Germany and France. Within industry, they were mainly located in the pharmaceutical, chemical and food sectors.

Innovation and high-tech

Within the set of investments, those on research and development (R&D) are crucial because they are at the basis of new products and production processes. Industrial companies account for about half of business R&D spending in Belgium. They represented an average of 1.1% of GDP over the period 2013-2021. This is slightly above the EU average of 0.9% but less than in Germany (1.7%), the best-performing EU country in this respect. However, R&D spending alone is not enough: it must also result in concrete economic applications. According to the 2020 EC Innovation Survey, 42% and 69% of industrial companies in Belgium would have done at least one product or process innovation respectively in the three years preceding the survey. This is well above the EU27 average (31.6% and 44.3%, respectively) and also higher than in Germany (37.2% and 59.1%), the Netherlands (30.6% and 45.1%) and France (28.3% and 43.6%).

In Belgium, the share of companies engaged in medium- and high-tech activities in industry was 10.2% in 2020, slightly lower than the EU average (11.4%). This figure is significantly higher in the Netherlands (13.5%) and especially Germany (17.8%), lower in France (7.0%). In terms of employment in medium- and high-tech industry, Belgium also scores slightly below the EU average (38.5%) with 36.5% of total industry employment (this time figure for 2023). Germany again performs much better here (51.9%), while the Netherlands (34.9%) and France (35.1%) are close behind Belgium. Belgium's share of high-tech goods in total exports (15.1%) in 2022 was also below the EU average (17.3%). This time the German figure is lower (14.5%), the Dutch (19.3%) and French (17.2%) higher. For Belgium, pharmaceuticals are dominant in high-tech exports.

3 See M. Dumont (2021), "Business dynamics and productivity in Belgium", Federal Planning Bureau Working Paper, and Nationale Raad voor de Productiviteit, annual report 2023.

5. Labour costs and organisation

Labour costs

To date, wages in the Belgian industry are at a relatively high level. In 2023, the hourly wage cost in the sector averaged 36.8 euros, the second highest figure in the EU27 after Denmark and Luxembourg. In Germany, the Netherlands and France, that cost was 35.4, 33.2 and 30.6 euros respectively. Nevertheless, its trend has been rather moderate in Belgium over the past three decades. Between 1995 and 2023, they rose by an average of 2.8% a year. This is less than in most other countries and the EU average (3.2%). In Germany and France, however, the increase was somewhat smaller at 2.5%.

However, the high level of labour productivity more than compensates for the high hourly wage cost in the Belgian industry. As a result, the unit labour cost, which relates hourly wage cost to productivity per hour worked, was actually more than 10% below the EU average in 2023. In Germany and France it was slightly above that average, in the Netherlands even more than in Belgium below it. Its nominal increase between 1995 and 2023 was therefore smaller in Belgium, at an average of only 0.3% per year, than in the EU27 (0.4%).

Compared to many other EU countries, labour costs make up a slightly smaller share of total manufacturing production costs in Belgium. Its direct importance in Belgium is about 14%, compared with an average of 17% in the EU27.

Work organisation and human capital

Besides labour costs, the flexibility, quality and easy availability of the workforce are also factors that help determine the industry's success rate. In terms of labour organisation flexibility, the use of temporary interim labour (3.1%, industry including construction) and of workers with atypical working hours (29.5%, this time total economy) in Belgium was slightly lower on average than in the EU27 during the years 2013-2023 (3.4% and 36.7% respectively). Compared to neighbouring countries, the differences with the Netherlands are especially large (7.2% and 38.1%, respectively). Also the average number of working hours per week (38.9) in the Belgian industry during this period was below the EU27 average (39.3), but above that in Germany (37.8) and especially the Netherlands (36.0).

In terms of labour demand, the Belgian industry stands out because of a structurally high number of unfilled vacancies. Over the period 2013-2023, the vacancy rate (open vacancies relative to the total number of jobs) in Belgian industry averaged 2.5%, compared to 1.5% in the EU27. Only in the Czech Republic and the Netherlands was that figure even higher. A problem that typifies the labour market in Belgium more generally is the insufficient matching of labour supply and demand. Specifically for industry, there is the problem that the share of graduates in STEM fields (Science, Technology, Engineering and Mathematics), who often end up in key positions in the sector (e.g. R&D), remains relatively low compared to other EU countries. On the positive side, continuing education efforts (on and off the job) in Belgian industry are relatively high.

6. Energy costs and circularity

Energy consumption

Although there are large differences between subsectors, overall Belgian industry is quite energy-intensive. In terms of energy mix, it mainly uses natural gas (37%), electricity (33%) and petroleum products (13%). With 38.6%, the chemical sector dominates total industrial energy consumption in Belgium, followed by the metals and non-metallic mineral products sector (23.3%) and the food sector (15.7%). For all industrial sectors combined, the share of renewable energy (including biofuels) in total industrial energy consumption in Belgium remains rather low. In 2022, it was 7.4%. This is lower than in the EU27 as a whole (10.6%), but higher than in neighbouring countries (Germany 6.8%, France 5.9% and the Netherlands only 1.4%). It is also lower than the share of renewables in total final energy consumption in Belgium (around 14%).

Belgian industry is also unique in terms of CO2 emissions in the sense that it produces, to a significant extent, emissions that do not depend on the combustion of fossil fuels but are inherent to the production process (so-called process emissions). These are particularly significant in the chemical, metal and cement production sectors. In recent years, industry as a whole accounted for just under a third of total CO2 emissions in Belgium, more than half of which were process emissions.

Circularity

Corporate sustainability in industry implies, among other

things, that products and raw materials are reused to the maximum extent possible and value destruction is minimised. In the past decade, this so-called circular economy also gained importance in Belgium, although the linear economy remains by far the dominant model. KBC Economics published an extensive research report on the topic earlier this year (see The transition to a more circular economy). Due to a lack of macro figures on the multitude of initiatives spread across all sectors, it remains difficult to get a good, let alone complete, picture of the extent to which the Belgian economy as a whole, and industry in particular, is moving towards more circularity.

The available figures relate mainly to traditional waste and materials management activities and much less to other circular activities. The Belgian industry boasts a lot of circular expertise and is already among the top European companies, especially in terms of recycling and circular materials consumption. However, this is offset by a still considerable material footprint and even high material import dependence. Furthermore, there are many promising, spontaneous initiatives towards a circular industry. Often these are small niche projects and there is still a long way to go to scale them up to mainstream practice. On the positive side, more and more efforts are being made by the business community to chart progress towards circularity. The now second 'Circular Economy Progress Report' of the Federation of Belgian Enterprises deserves attention in this respect.

7. Current situation and expectation

Real activity in the industry

Belgian industry has been under pressure since the end of 2022. Activity in manufacturing (excluding energy and construction) was 3.7% lower in real terms in the second quarter of 2024 than during the peak in the fourth quarter of 2022. During the same period, real activity in construction and services in Belgium grew by 3.0% and 3.2%, respectively. The industrial downturn occurred in quite a few European countries. In the EU27 as a whole (-3.3%), it was somewhat smaller than in Belgium during the period mentioned, though. The EU countries with the largest contraction (more than 5%) were Ireland, Austria, Hungary and Sweden. In quite a few other countries, the industry did continue to perform well between Q4 2022 and Q2 2024 (positive growth of more than 5%): Cyprus, Greece, Poland, Romania, Slovakia and Denmark. Among neighbouring countries, the real change in industrial activity during that period was -3.3% in the Netherlands, -1.2% in Germany and +2.3% in France.

Not only between EU countries but also between the different subsectors of Belgian industry, there is a lot of variation in the extent to which activity took recent hits. For the subsectors (NACE-A38), we only have annual figures, so we have to compare real activity in the whole of 2023 with that in 2022. The manufacturing industry as a whole shrank by about 1% in 2023 compared to a year earlier, the same as in the EU27 as a whole. In the subsectors, the correction was by far the strongest in mineral extraction (-11.3%), plastics processing (-10.1%) and chemicals (-9.8%). But the metal sector (-6.3%), wood (-5.3%) and textiles (-3.6%) were also hit hard. Yet there are also subsectors in Belgian industry that did grow remarkably strongly in 2023. These are vehicle production (+9.1%), the manufacture of computer, electronic and optical products (+7.7%) and pharmaceuticals (+3.9%).

To estimate recent industrial activity, one can also look at the extent to which production capacity is actually utilised. Figures on capacity utilisation rates rely on a survey of industrial companies and are thus more readily available than hard activity figures. For the manufacturing industry as a whole, capacity utilisation during 2024 was at levels previously recorded only during periods of severe crises (the Great Recession of 2009, the sovereign debt crisis of 2012-2013 and the pandemic of 2020). Specifically, from the third quarter of 2023 to the fourth of 2024, the Belgian industry operated at only about 75% of its capacity. In the EU27, that figure reached 77.2% in Q4 2024. Among neighbouring countries, it was 77.0% in the Netherlands, 76.3% in Germany and 80.2% in France. In Belgium, capacity utilisation fell sharply to (near) historic lows especially in the chemicals, textiles, plastics processing and paper processing sectors.

Labour market

Looking ahead, the low utilisation of existing production capacity points to a low need for expansion investment in the industry. Linked to this, companies in the sector will be cautious about new hiring and, on the contrary, may continue to cut jobs. Frequently available indicators related to the labour market point in this direction. For instance, the number of companies in the industry facing production problems due to labour shortages has been past its peak for some time. The vacancy rate in the sector is also declining, although (as elsewhere in the economy)

it remains relatively high partly due to structural tightness caused by an ageing population. Sentiment indicators on future employment in the industry also remain at a low level below the historical average.

According to the NBB's effective employment figures, some 10,000 net jobs were lost in the Belgian industry (excluding construction but including energy) between Q2 2023 and Q2 2024, a decrease of 1.8%. A significant part of this came from a wave of bankruptcies and restructurings, with the closure of bus manufacturer Van Hool in spring 2024 being the most notable. The number of workers involved in collective redundancies (all sectors) in Belgium rose to almost 8,900 in the first three quarters of 2024, higher than the annual average in 2010-2023. According to figure from the National Social Security Office (NSSO) on employment in the industrial subsectors, recent job losses (between Q2 2023 and Q2 2024) were highest in vehicle manufacturing (-12%), textiles (-6.6%) and wood and paper (-5%). The pharmaceuticals sector and manufacture of IT products did see limited job growth of 1%.

Goods exports

Sentiment indicators also suggest that the malaise in manufacturing is likely to continue in the coming quarters and continue to constrain the overall growth of the Belgian economy. According to the NBB Business Cycle Barometer, business confidence in industry dropped for the fifth consecutive month in October. The ongoing concerns of industrial entrepreneurs are largely linked to the heightened uncertainty about the growth prospects for the European economy. As a small open economy, Belgium, and within it especially Flanders, is very dependent on goods exports to other European countries. In this context, it is noteworthy that the assessment of export orders by Belgian industrial companies took new hits during the summer months of 2024, completely reversing the earlier upward trend that started in March.

Hard figures on Belgian exports, stretching to August 2024, indicate that exports of diamonds, textiles, machinery and electronic equipment, as well as vehicles, have been doing very badly recently. In that list, what is currently going on in the vehicle sector is most striking. In 2023, vehicle production was still a stronghold of the Belgian industry with a real growth rate of over 9% (see above). This was due to the then still strong growth in trade in electric cars. However, in the June-August 2024 period, Belgian vehicle exports were 16.7% lower than the corresponding period in 2023. That is, apart from precious metals (-18.3%, mainly diamonds), the product category with the steepest decline in exports in that period. With the recently announced closure of the Audi factory in Forest at the end of February 2025, the outlook for the sector has become even less rosy.

Scenario change

In the November scenario for the Belgian economy, we have revised our forecast for real GDP growth in 2025 downwards from 1.0% to 0.6%. The adjustment reflects Belgium's relatively high exposure to the trade shock that is likely to follow Trump's re-election as US president. Trump's second presidency and the associated protectionist turn by the US could seriously hurt the Belgian economy, as Belgium is a very open, export-oriented economy and trade with the US is important. In our updated scenario, Belgian industry continues to experience difficult times.

In 2023, Belgium exported 31 billion euro of goods to the US, accounting for 6.4% of total goods exports or almost a fifth of exports outside the EU. This makes the US Belgium's largest trading partner outside the EU and the fourth largest trading partner overall. Several EU countries have a higher share of US exports than Belgium. However, the direct impact on Belgian GDP of a potential 10% tariff on goods exported to the US is relatively large, given the high ratio of total Belgian exports to GDP. As a percentage of GDP, exports to the US in Belgium are around 5%, the second highest figure in the EU27 after Ireland). Indirect effects may also be large, given the high exposure of Belgium's main EU trading partners to the US and Belgium's sensitivity to increasing negative sentiment about global trade.

8. Some final thoughts

Despite its sharply reduced weight in value added, manufacturing remains an important sector for the Belgian economy. In theory, the remaining industry could be taken over by other activities that contribute to prosperity. Value creation in an economy occurs because companies produce products for which consumers are willing to pay a price that generates profits for the companies. A priori, it does not matter whether production and related employment are created through industrial activities or services. That industry nevertheless remains crucial has to do with the fact that it is at the forefront of innovation and productivity, which are the real drivers of wealth creation.

Apart from its direct economic impact, industry is also linked to a fabric of service providers and suppliers. This intertwining creates a multiplier effect. Finally, maintaining some industry of its own (think of sectors such as food and energy supply) is also a matter of economic and social security.

In a globalised economy with intense international competition, it is difficult for Belgian companies to compete on price. Shifting the centre of gravity in the production structure to products that can compete on quality allows them to exploit a comparative advantage despite higher costs. The future of Belgian industry therefore lies in sectors that make use of high technological knowledge. Important here is not only the extent of investment in new technology and human capital, but also the extent to which the investments find their way to the market, either in the form of an innovative product or in the guise of an innovative production process. This necessary step is still too often hampered in Belgium by an excess of administrative procedures and regulation. This does not alter the fact that cost control also remains important, especially in order to compete with our neighbouring countries, which must implement the same focus on a qualitative competitive strategy.

All this calls for a clear, strategic vision on the part of government policy on our country's industrial future. At the European level, the Draghi Report, published in early September, has meanwhile outlined such a vision with concrete proposals for radical changes regarding innovation, greening and self-reliance within European industry. A strength of the report is its outspoken call for swift action. Such an ambitious direction of march is also needed in Belgium. It requires a comprehensive policy framework that provides perspective for Belgian industry. This should ensure that the sector can make even better use of its strengths (e.g. strong innovation) economically, turn major challenges (e.g. climate transition) into opportunities, and eliminate the handicaps it faces (e.g. regulatory drift) as much as possible.

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Visit our website www.kbceconomics.com to find more analyses and projections of the KBC economists.

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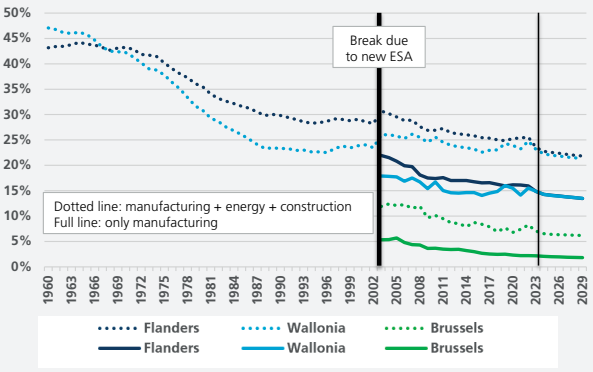
E-mail:kbc. economic.research@kbc.be,

Longer-term evolution (1)

Value added in industry in current prices

% share in total regional value added



Source: KBC Economics based on NBB (INR); 2023-2029 = forecast Federal Planning Bureau

Share Belgian regions in total value added

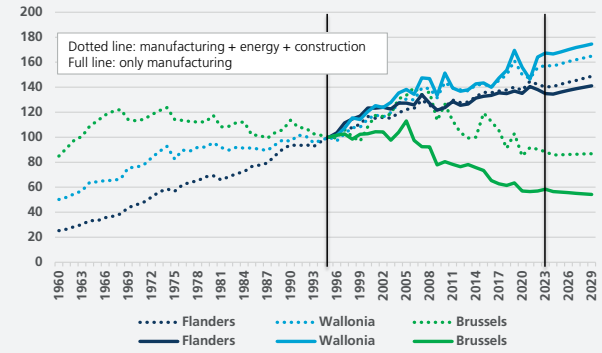
in %

	Flanders		Wallonia		Brussels	
	2003	2022	2003	2022	2003	2022
	% in total value added of respective region					
Agriculture	1.4%	0.9%	1.5%	0.8%	0.0%	0.0%
Energy	3.1%	3.6%	3.0%	3.6%	4.2%	3.8%
Manufacturing	21.9%	16.0%	17.9%	15.5%	5.3%	2.2%
Construction	5.7%	6.0%	5.1%	5.6%	2.4%	2.2%
Market services	56.2%	62.3%	53.8%	55.7%	71.7%	71.8%
Non-tradeble services	11.6%	11.3%	18.7%	18.7%	16.4%	19.9%
	% share region in Belgium's total value added of respective sector					
Agriculture	69.9%	73.8%	30.1%	25.9%	0.0%	0.3%
Energy	53.8%	58.7%	21.5%	23.0%	24.7%	18.3%
Manufacturing	70.7%	70.8%	23.4%	26.4%	5.8%	2.8%
Construction	66.3%	68.2%	24.2%	24.4%	9.5%	7.4%
Market services	54.9%	59.5%	21.3%	20.4%	23.8%	20.0%
Non-tradeble services	46.9%	46.5%	30.6%	29.5%	22.5%	24.0%

Source: KBC Economics based on NBB (INR)

Value added in industry in fixed prices

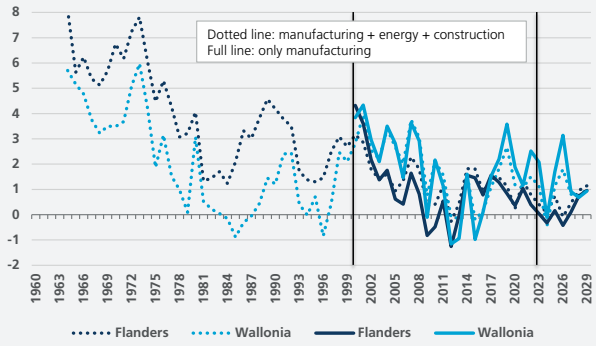
index 1995 = 100



Source: KBC Economics based on NBB (INR); 2023-2029 = forecast Federal Planning Bureau

Value added in industry in fixed prices

growth per year in %, 5 year moving average



Source: KBC Economics based on NBB (INR); 2023-2029 = forecast Federal Planning Bureau

Share Belgian regions in total value added

% share of subsector in total value added manufacturing in the respective region

	Flanders		Wallonia		Brussels	
	2003	2022	2003	2022	2003	2022
	% in value added manufacturing of respective region					
Mining & Quarrying	0.3%	0.2%	2.0%	1.2%	0.4%	0.5%
Manufacture of Food Products; Beverages & Tobacco Products	13.6%	15.2%	12.0%	12.3%	16.5%	22.1%
Manufacture of Textiles, Wearing Apparel, Leather & Related Products	6.0%	2.3%	1.8%	0.9%	2.5%	0.9%
Manufacture of Wood, Paper, Printing & Reproduction	6.9%	5.1%	7.6%	4.9%	9.2%	4.7%
Manufacture of Chemicals & Chemical Products	17.3%	18.4%	12.7%	9.3%	10.1%	13.1%
Manufacture of Basic Pharmaceutical Products & Pharmaceutical Preparations	6.0%	15.2%	14.7%	34.0%	10.8%	11.9%
Manufacture of Rubber & Plastic Products & Other Non-Metallic Mineral Products	8.1%	7.7%	13.7%	11.7%	5.2%	1.9%
Manufacture of Basic Metals & Fabricated Metal Products, Except Machinery & Equipment	14.1%	14.1%	17.7%	11.6%	9.2%	6.8%
Manufacture of Computer, Electronic & Optical Products	4.7%	2.4%	1.6%	2.1%	2.9%	1.0%
Manufacture of Electrical Equipment	3.7%	1.7%	3.2%	2.2%	2.1%	0.6%
Manufacture of Machinery & Equipment	5.4%	7.5%	6.6%	2.8%	6.9%	3.3%
Manufacture of Motor Vehicles, Trailers, Semi-Trailers & of Other Transport Equipment	10.1%	4.1%	4.1%	3.3%	17.8%	24.8%
Manufacture of Furniture; Repair & Installation of Machinery & Equipment	3.8%	6.0%	2.4%	3.7%	6.5%	8.3%

Source: KBC Economics based on NBB (INR)

Share Belgian regions in total value added

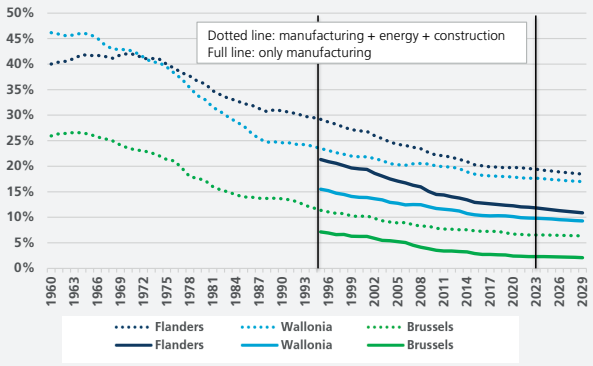
% share of respective region in Belgium's total value added subsector

	Flanders		Wallonia		Brussels	
	2003	2022	2003	2022	2003	2022
	% share region in Belgium's total value added of respective sector					
Mining & Quarrying	32.6%	31.2%	64.0%	66.0%	3.3%	2.8%
Manufacture of Food Products; Beverages & Tobacco Products	71.8%	73.5%	21.0%	22.2%	7.2%	4.3%
Manufacture of Textiles, Wearing Apparel, Leather & Related Products	88.3%	86.3%	8.7%	12.3%	3.0%	1.4%
Manufacture of Wood, Paper, Printing & Reproduction	67.8%	71.5%	24.7%	25.8%	7.5%	2.7%
Manufacture of Chemicals & Chemical Products	77.3%	82.1%	18.9%	15.5%	3.7%	2.4%
Manufacture of Basic Pharmaceutical Products & Pharmaceutical Preparations	51.0%	53.7%	41.4%	44.6%	7.6%	1.7%
Manufacture of Rubber & Plastic Products & Other Non-Metallic Mineral Products	62.1%	63.4%	34.6%	36.0%	3.3%	0.6%
Manufacture of Basic Metals & Fabricated Metal Products, Except Machinery & Equipment	68.1%	75.5%	28.3%	23.1%	3.6%	1.5%
Manufacture of Computer, Electronic & Optical Products	85.7%	74.9%	9.9%	23.8%	4.4%	1.2%
Manufacture of Electrical Equipment	74.8%	66.7%	21.7%	32.4%	3.5%	0.9%
Manufacture of Machinery & Equipment	66.1%	86.6%	26.9%	11.9%	7.0%	1.5%
Manufacture of Motor Vehicles, Trailers, Semi-Trailers & of Other Transport Equipment	78.2%	65.1%	10.5%	19.2%	11.4%	15.7%
Manufacture of Furniture; Repair & Installation of Machinery & Equipment	74.2%	77.7%	15.5%	17.9%	10.3%	4.3%

Source: KBC Economics based on NBB (INR)

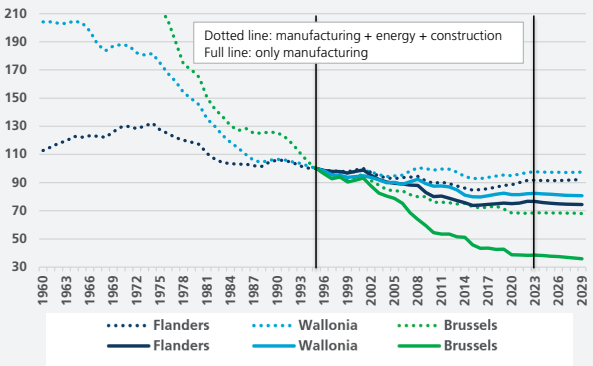
Longer-term evolution (2)

Employment in industry
in % total regional employment



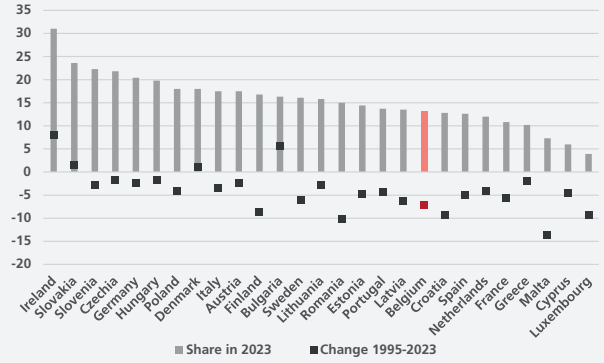
Source: KBC Economics based on NBB (INR); 2023-2029 = forecast Federal Planning Bureau

Employment in industry
index 1995 = 100



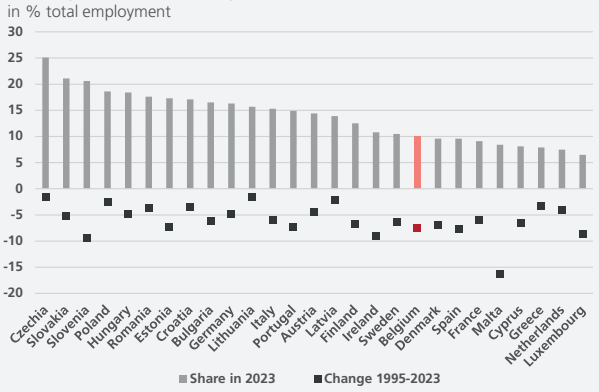
Source: KBC Economics based on NBB (INR); 2023-2029 = forecast Federal Planning Bureau

Value added in industry in current prices
% share in total value added



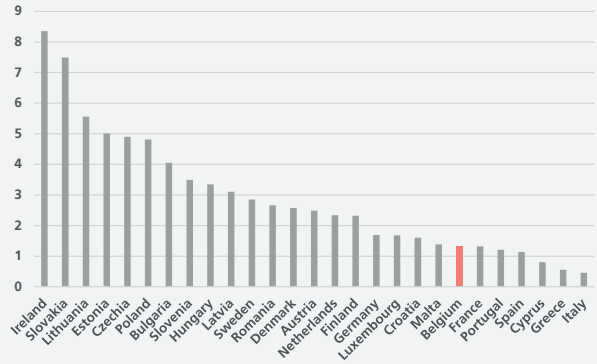
Source: KBC Economics based on Eurostat

Employment in industry
in % total employment



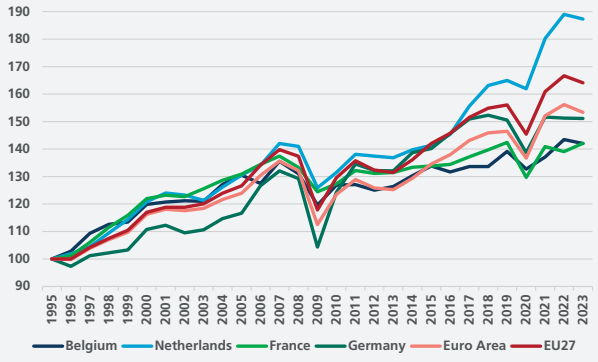
Source: KBC Economics based on Eurostat

Value added in industry in fixed prices
average annual growth, 1995-2023



Source: KBC Economics based on Eurostat

Valued added in industry in fixed prices
index 1995 = 100

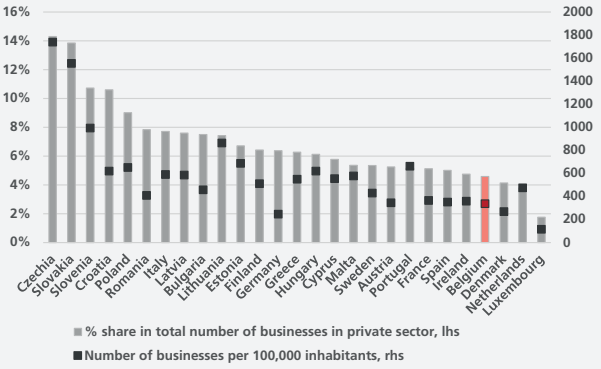


Source: KBC Economics based on Eurostat

Structural characteristics

Businesses in industry

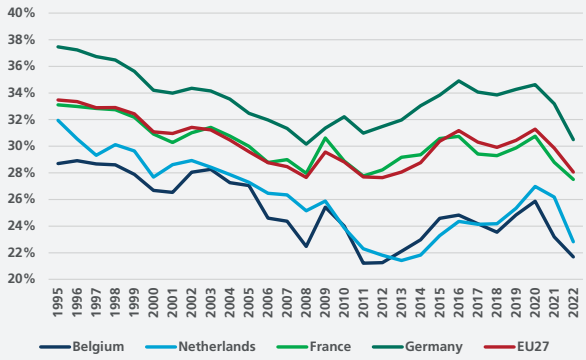
2022



Source: KBC Economics based on Eurostat

Value added content of industrial production

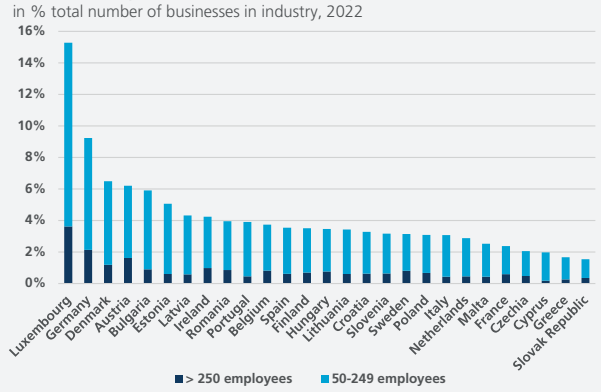
in %



Source: KBC Economics based on Eurostat

Share of 'big' businesses in industry

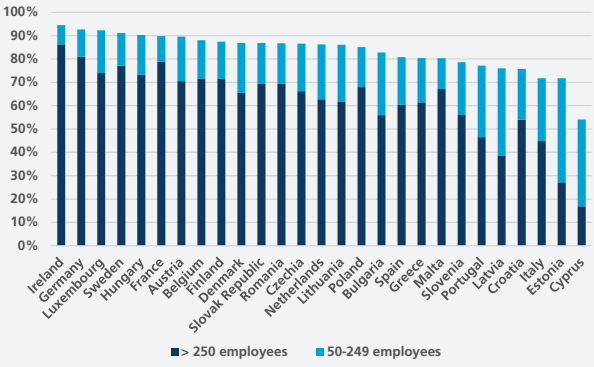
in % total number of businesses in industry, 2022



Source: KBC Economics based on Eurostat

Share of 'big' businesses in industry

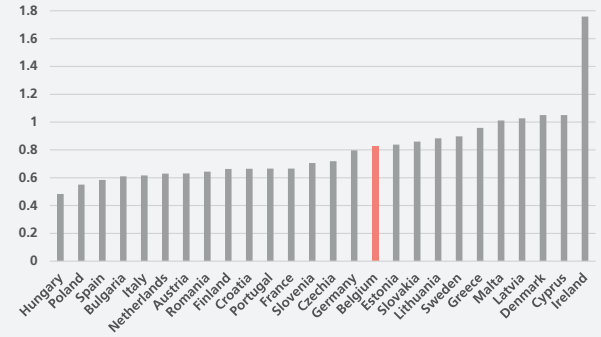
in % total turnover in industry, 2022



Source: KBC Economics based on Eurostat

Degree of diversification in industry

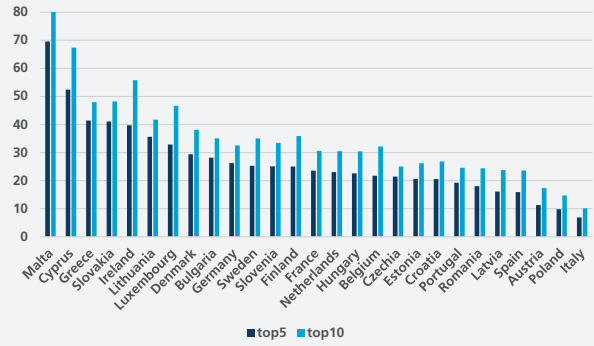
variation coefficient of the shares of the subsectors in the total value added in industry, 2022 (low = strong diversification and vice versa)



Source: KBC Economics based on Eurostat

Concentration of goods exports

share of top 5 and top10 businesses in total exports (industry excl. construction), average 2012-2022

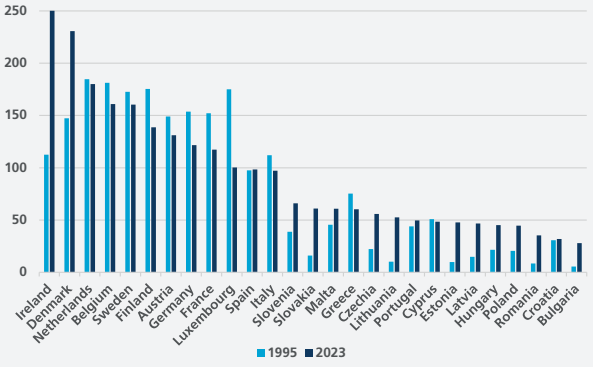


Source: KBC Economics based on Eurostat

Productivity and profitability

Level of productivity in industry

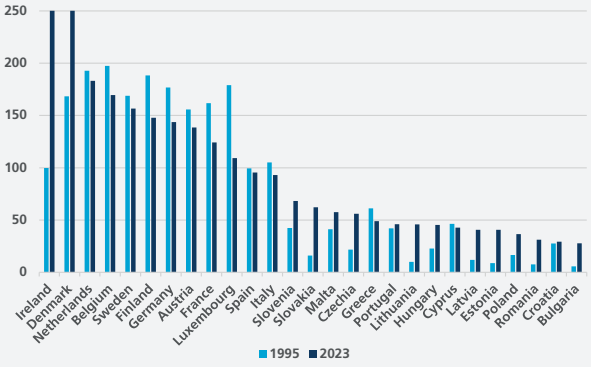
per person employed, EU27 = 100



Source: KBC Economics based on Eurostat

Level of productivity in industry

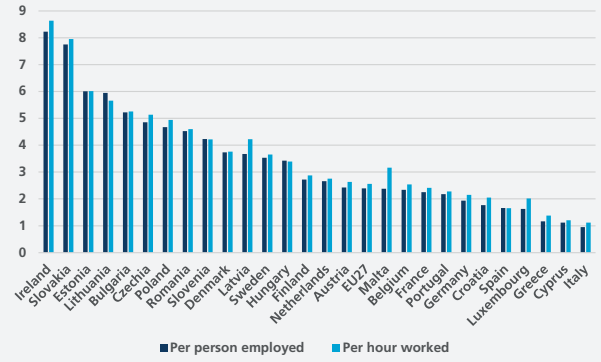
per hour worked, EU27 = 100



Source: KBC Economics based on Eurostat

Productivity growth in industry

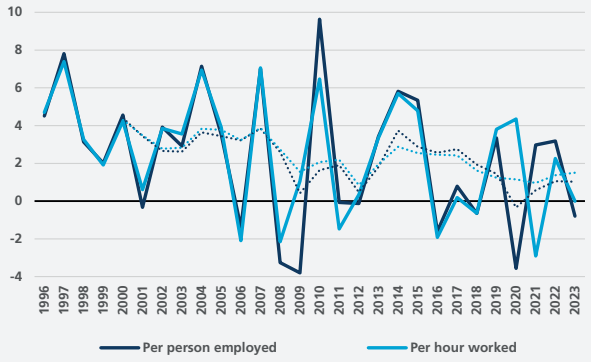
average annual growth in %, 1995-2023, in fixed prices



Source: KBC Economics based on Eurostat

Productivity growth in Belgian industry

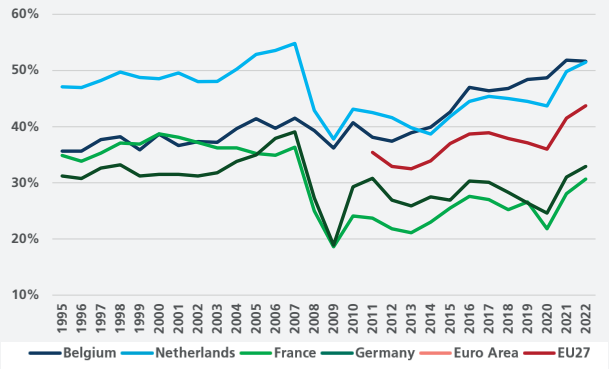
annual growth in %, in fixed prices, dotted line = 5 year moving average



Source: KBC Economics based on Eurostat

Operational profitability in industry

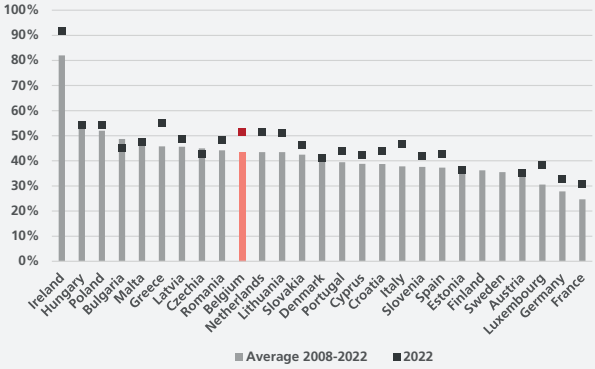
gross operating surplus, in % of value added



Source: KBC Economics based on Eurostat

Operational profitability in industry

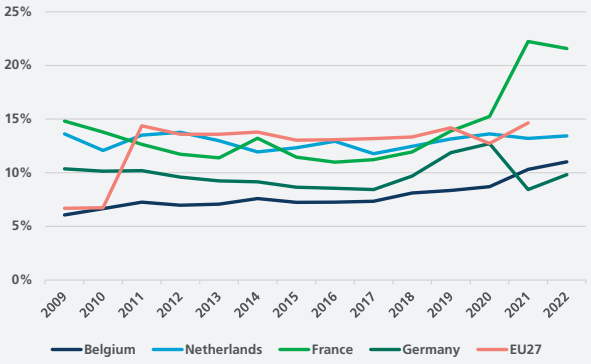
gross operating surplus, in % of value added



Source: KBC Economics based on Eurostat

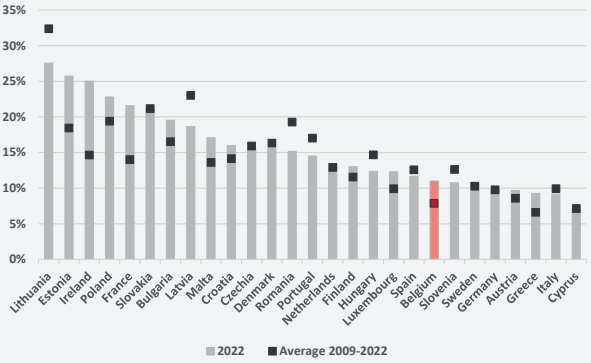
Industrial renewal and bankruptcies

Renewal rate in industry
closures and start-ups in % number of active businesses



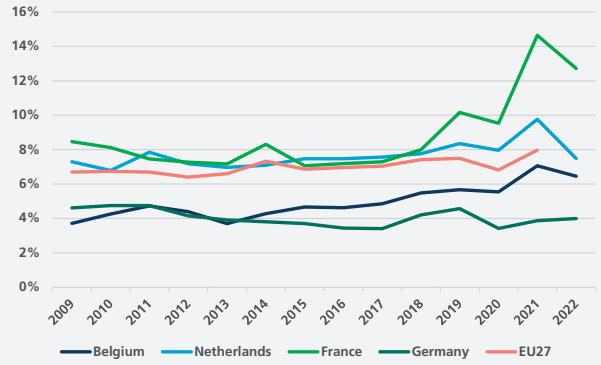
Source: KBC Economics based on Eurostat

Renewal rate in industry
closures and start-ups in % number of active businesses



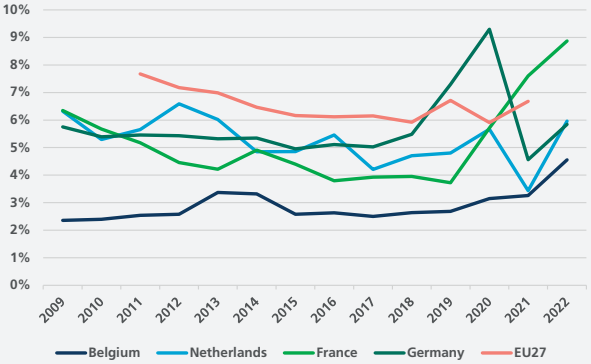
Source: KBC Economics based on Eurostat

'Birth rate' in industry
start-ups in % number of active businesses in year t



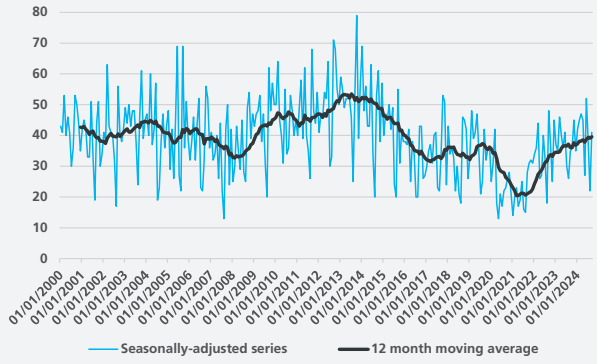
Source: KBC Economics based on Eurostat

'Death rate' in industry
closures in % number of active businesses in year t-1



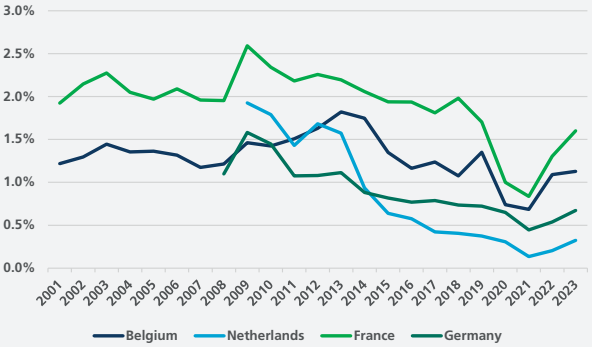
Source: KBC Economics based on Eurostat

Number of bankruptcies in Belgian industry
monthly data, manufacturing



Source: KBC Economics based on Statbel

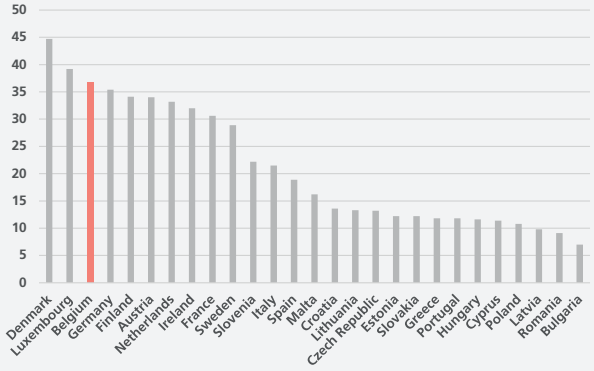
Bankruptcy rate in industry
number of bankruptcies in manufacturing in % of total number of active businesses in the sector in year t-1



Source: KBC Economics based op Eurostat, national statistical institutes

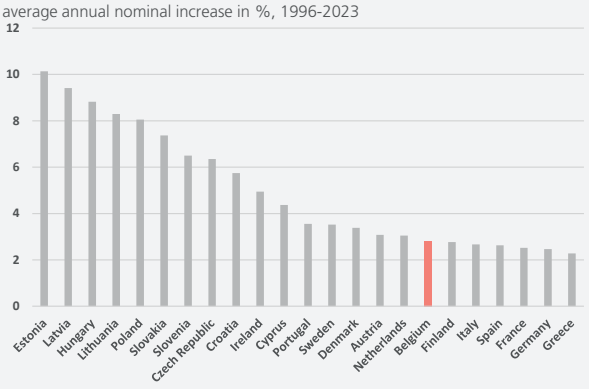
Labour costs

Hourly wage cost in industry
nominal amount in EUR, 2023



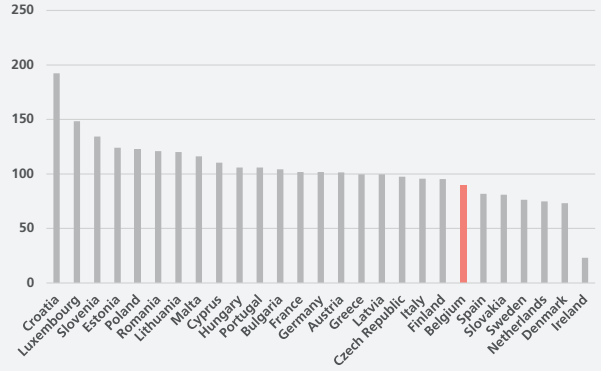
Source: KBC Economics based on Eurostat

Hourly wage cost in industry
average annual nominal increase in %, 1996-2023



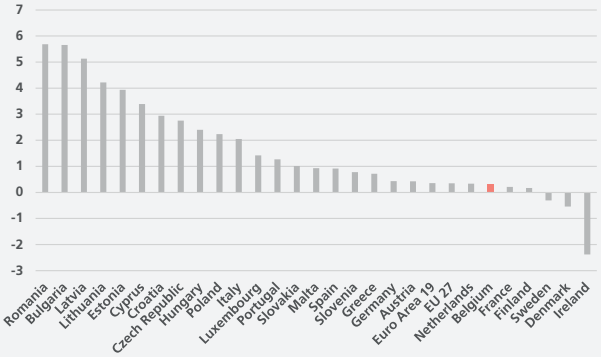
Source: KBC Economics based on Eurostat

Unit labour cost in industry
in EUR, EU27 = 100, 2023



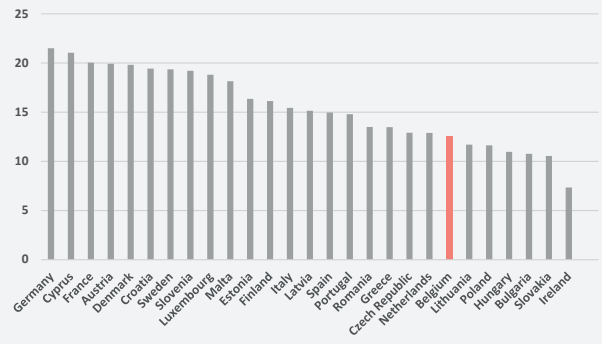
Source: KBC Economics based on Eurostat

Unit labour cost in industry
average annual nominal increase in %, 1996-2023



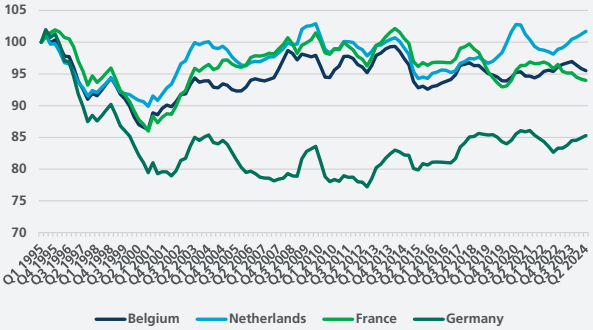
Source: KBC Economics based on Eurostat

Share labour cost in total production costs in industry
in % EUR, average 2008-2020



Source: KBC Economics based on Eurostat

International cost competitiveness
real effective exchange rate based on unit labour costs, index Q1 1995 = 100,
total economy, vis-à-vis 27 trading partners,
increase = real appreciation = worsening (and vice versa)

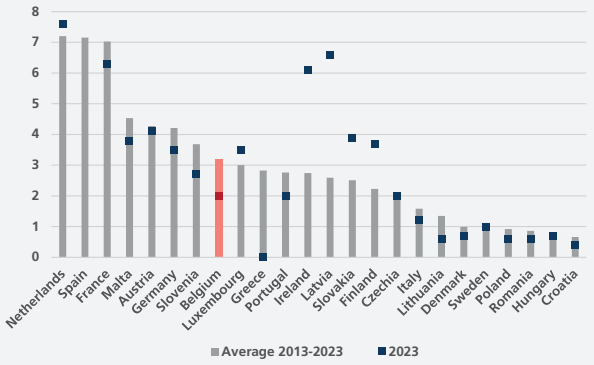


Source: KBC Economics based on Eurostat

Labour organisation and human capital

Temporary interim labour in industry

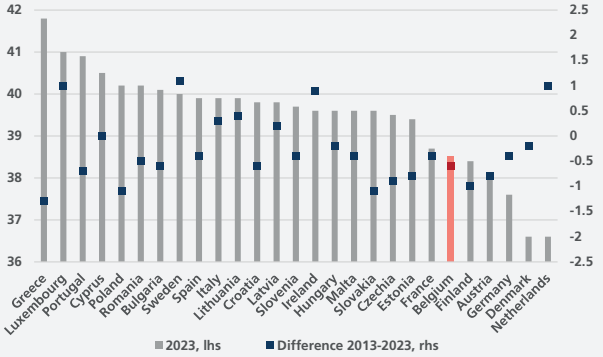
in % total number of employees in industry (incl. construction), average 2013-2023



Source: KBC Economics based on Eurostat

Average working hours in industry

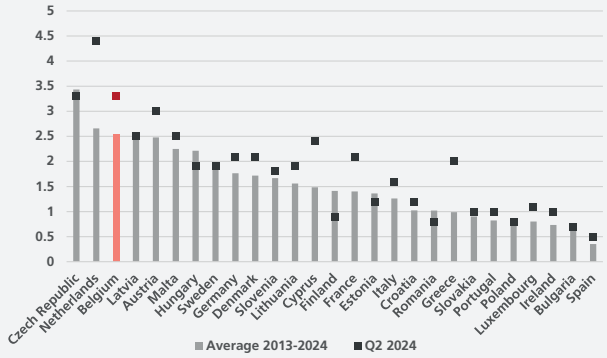
number of working hours per week



Source: KBC Economics based on Eurostat

Vacancy rate in industry

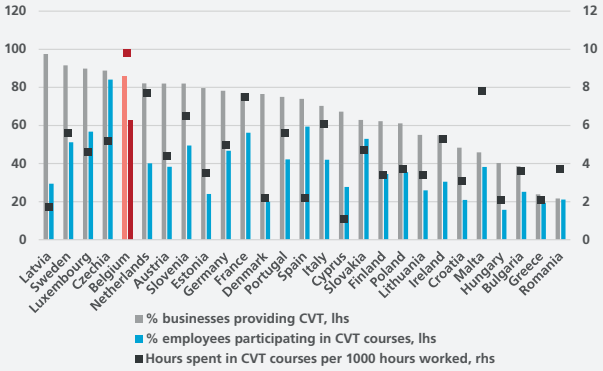
number of unfilled vacancies in % of total number of jobs



Source: KBC Economics based on Eurostat

Participation in training in industry

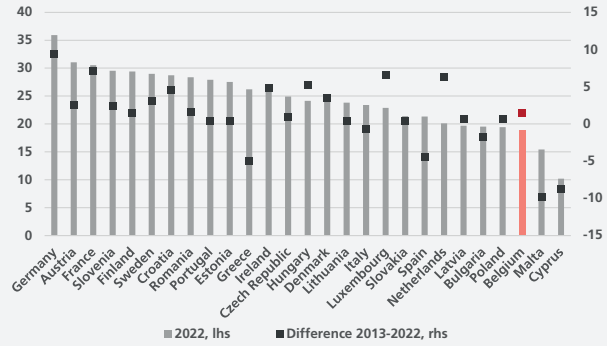
Continuing Vocational Training (CVT), 2020



Source: KBC Economics based on Eurostat

Graduates in STEM

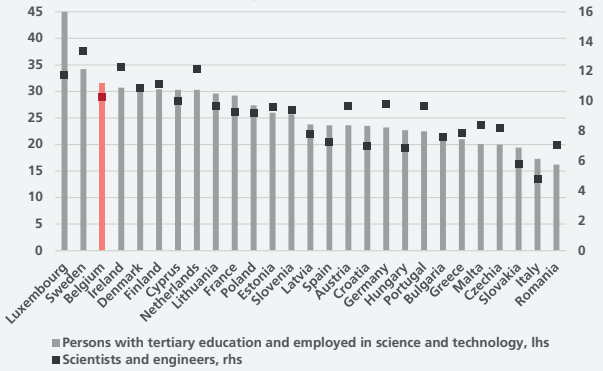
in % of total number of graduates, STEM = Science, Technology, Engineering & Mathematics



Source: KBC Economics based on Eurostat

Persons in science and technology

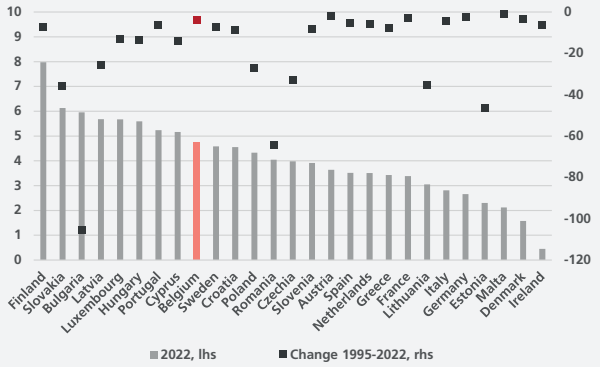
number in % of labour force 15-74, 2023



Source: KBC Economics based on Eurostat

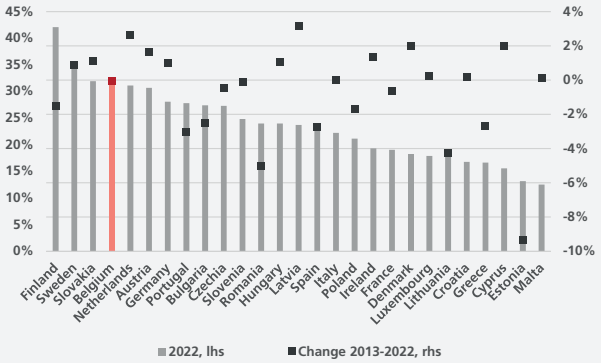
Energy, sustainability and circularity

Energy consumption in industry
terajoule per unit of value added in the sector



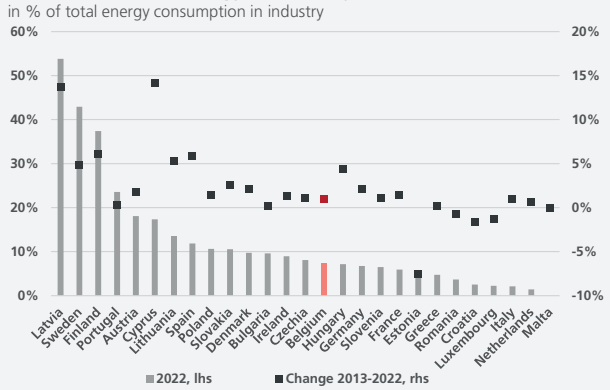
Source: KBC Economics based on Eurostat

Share industry in energy consumption
in % of total energy consumption



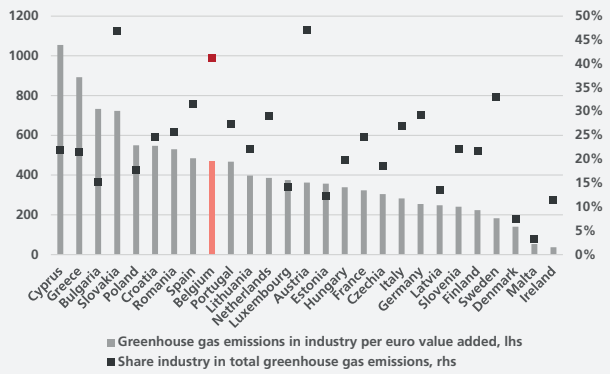
Source: KBC Economics based on Eurostat

Share renewable energy in industry
in % of total energy consumption in industry



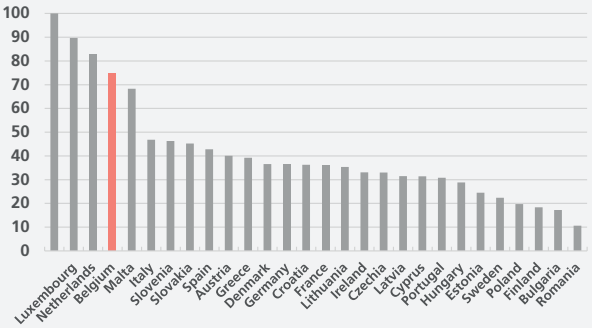
Source: KBC Economics based on Eurostat

Greenhouse gas emissions
2022



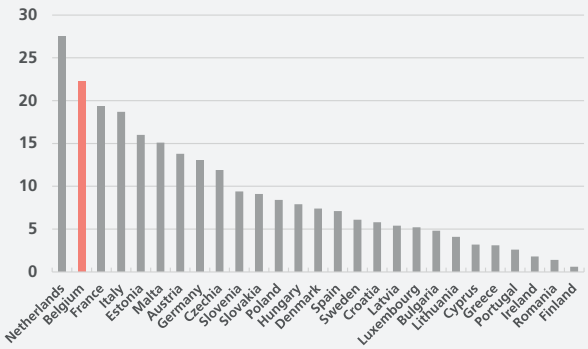
Source: KBC Economics based on Eurostat

Material import dependency
ratio of material imports over direct material inputs (*), in %, 2022



Source: KBC Economics based on Circular Economy Indicators Eurostat
(*) The indicator shows the extent to which an economy relies upon imports in order to meet its material needs.

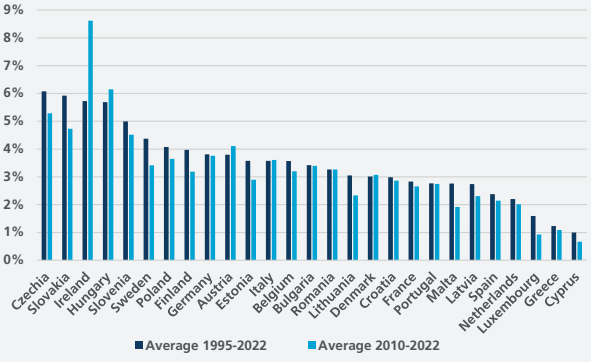
Circular material use rate
material recycled and fed back into the economy in % of overall material use, 2022



Source: KBC Economics based on Circular Economy Indicators Eurostat

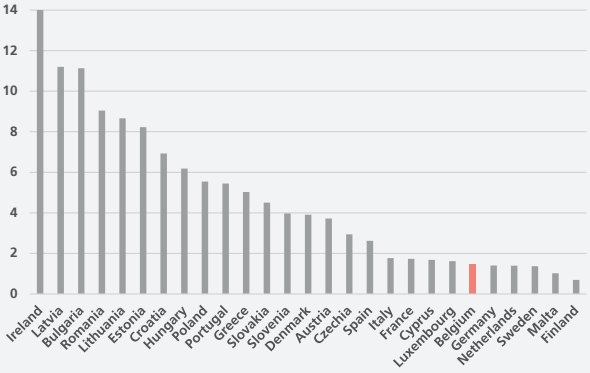
Capital formation and innovation

Gross fixed capital formation in industry
in % of GDP



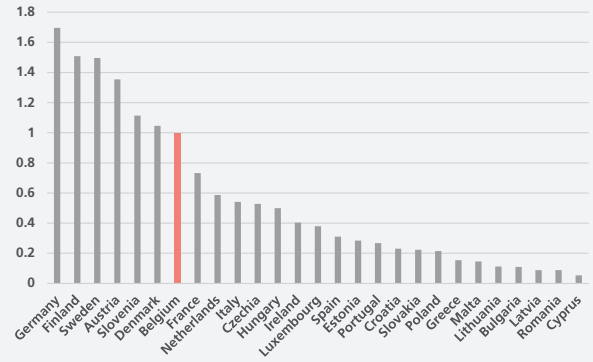
Source: KBC Economics based on Eurostat

Gross fixed capital formation in industry
average annual growth in %, in volume, 1996-2022



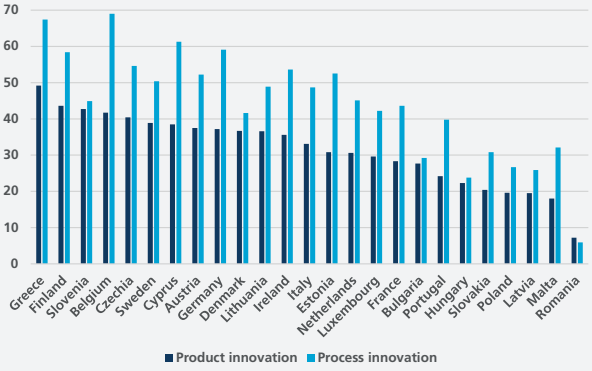
Source: KBC Economics based on Eurostat

R&D expenditures in industry
in % of GDP, average 2008-2021



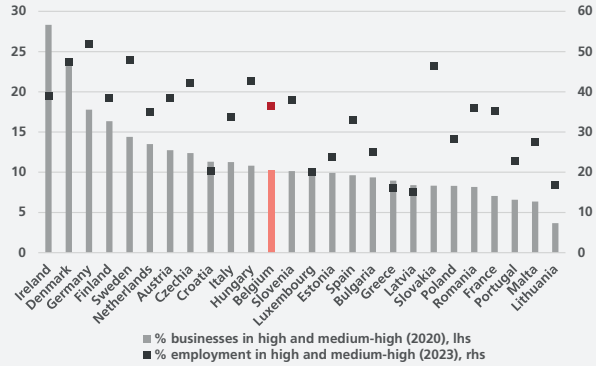
Source: KBC Economics based on Eurostat

Businesses in industry having introduced at least one innovation
in % of businesses in industry, in the 3 years preceding the survey, 2020



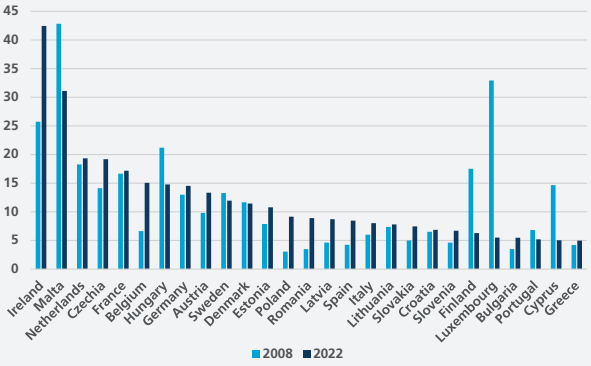
Source: KBC Economics based on Eurostat

High- and medium-high manufacturing
in % of total number of businesses and employment in industry, respectively



Source: KBC Economics based on Eurostat

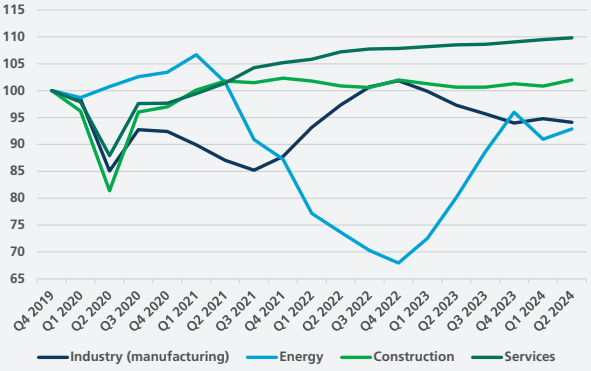
Share high-tech products in exports
in % of total goods exports



Source: KBC Economics based on Eurostat

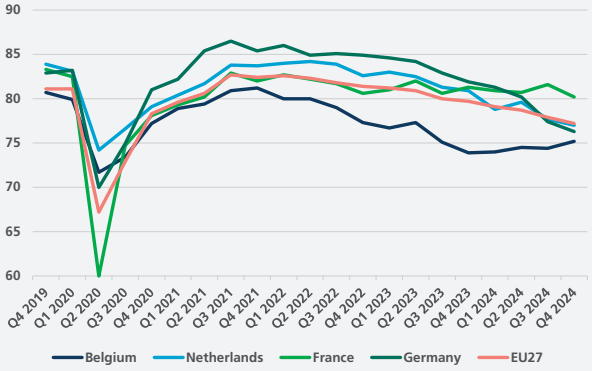
Current business cycle indicators

Value added in the main Belgian sectors
index Q4 2019 = 100, in fixed prices, seasonally-adjusted



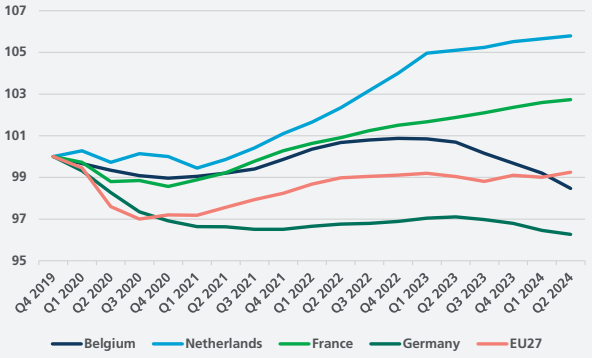
Source: KBC Economics based on NBB, Eurostat

Capacity utilisation in industry
in %, manufacturing



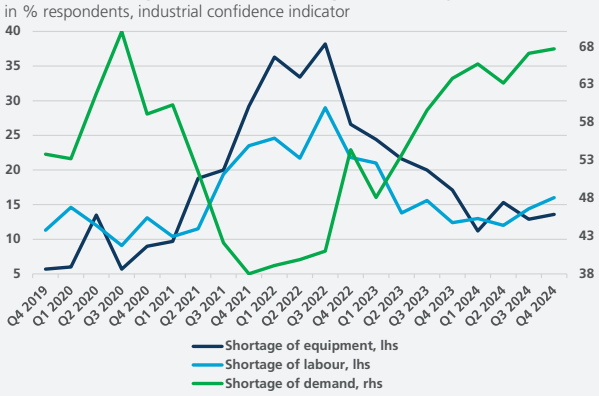
Source: KBC Economics based on Eurostat

Employment in industry
index Q4 2019 = 100, number of persons in manufacturing, seasonally-adjusted



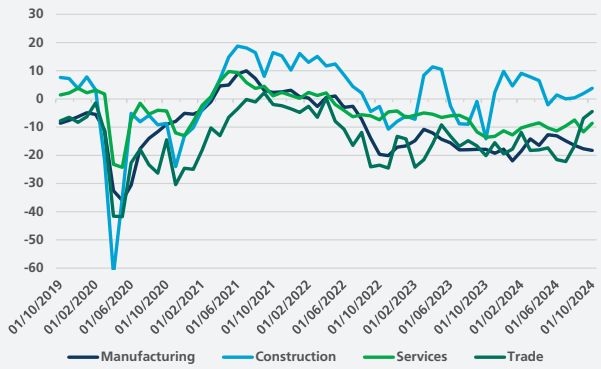
Source: KBC Economics based on Eurostat

Factors limiting production in Belgian industry
in % respondents, industrial confidence indicator



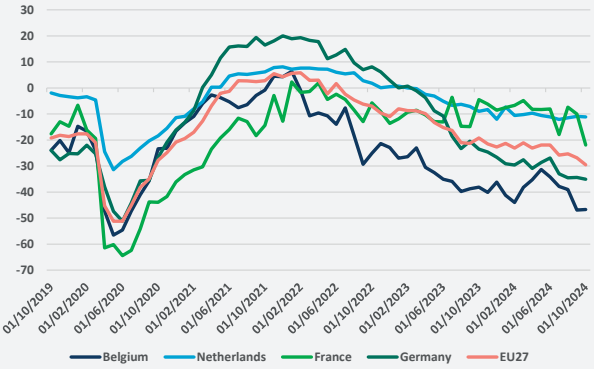
Source: KBC Economics based on Eurostat

Producer confidence in Belgium
NBB business cycle indicator



Source: KBC Economics based on NBB

Assessment of export orders
seasonally-adjusted



Source: KBC Economics based on NBB