Ad hoc business survey
26-28 September 2022

Press conference

6 October 2022

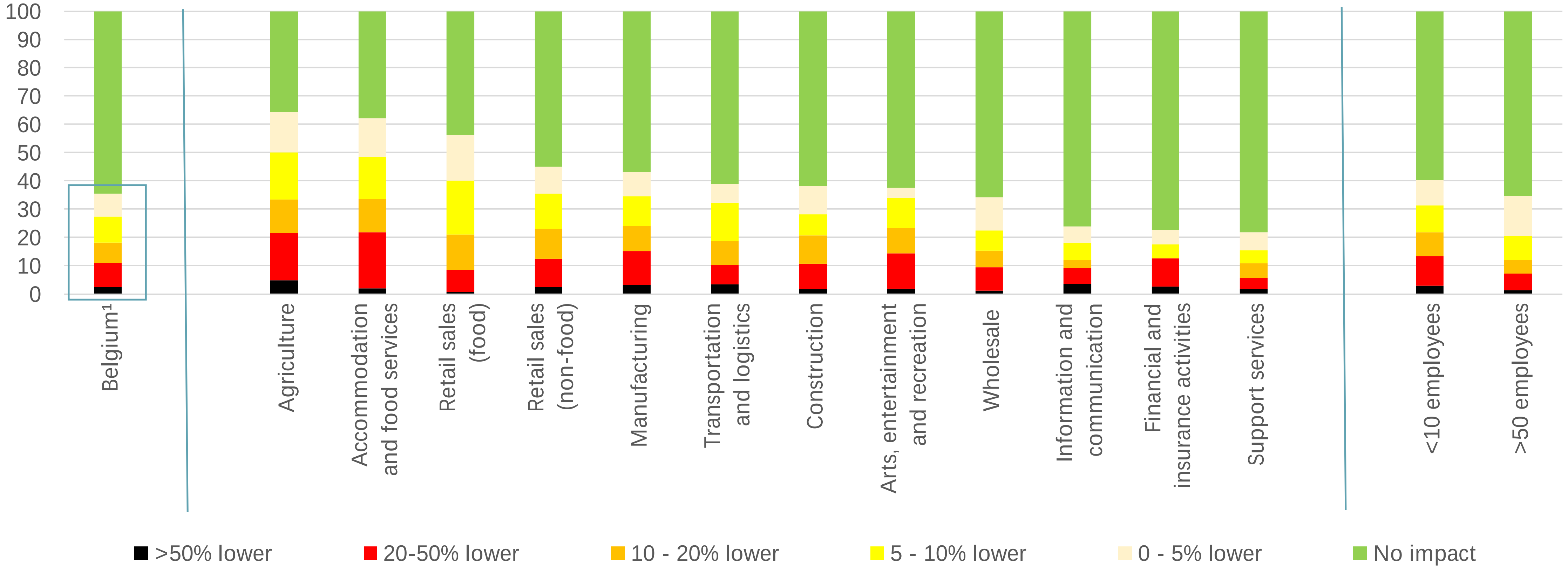
1. Economic activity

survey results consistent with a short (likely shallow) recession

One third of respondents have already scaled back their output due to profitability concerns (greater impact felt by smaller businesses)

Voluntary reduction in production or services in September 2022 due to higher costs

(% of respondents)



Key argument for our [Sep. Business Cycle Monitor](#) (-0.2 % growth in Q3 2022)

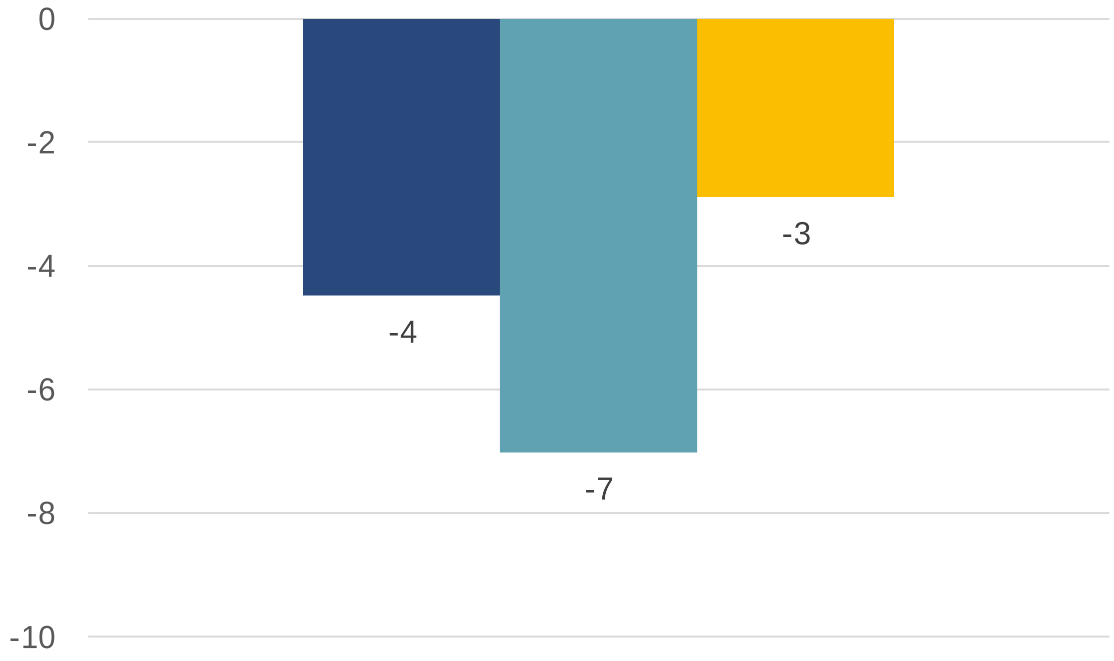
Source: Ad hoc business survey, September 2022.

¹ Stratified by industry.

The negative impact on activity is expected to worsen further in the near term, while respondents see an improvement in the course of 2023

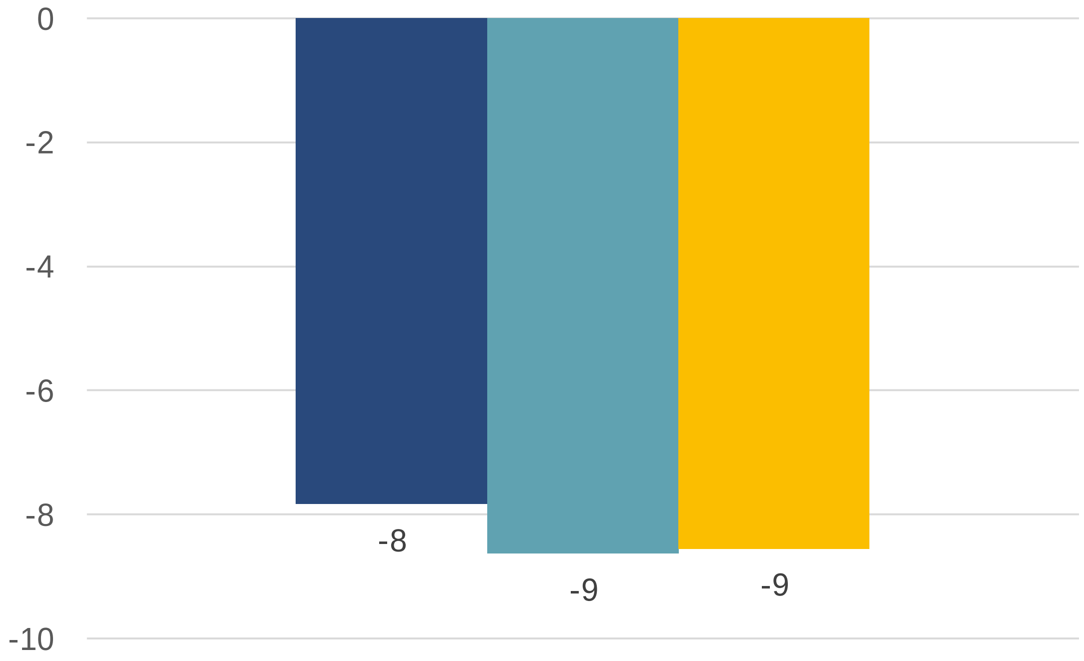
Belgium

(in %, average weighted by firm size and sector)



Self-employed and smallest firms

(in %, unweighted average of firms with fewer than 10 employees)



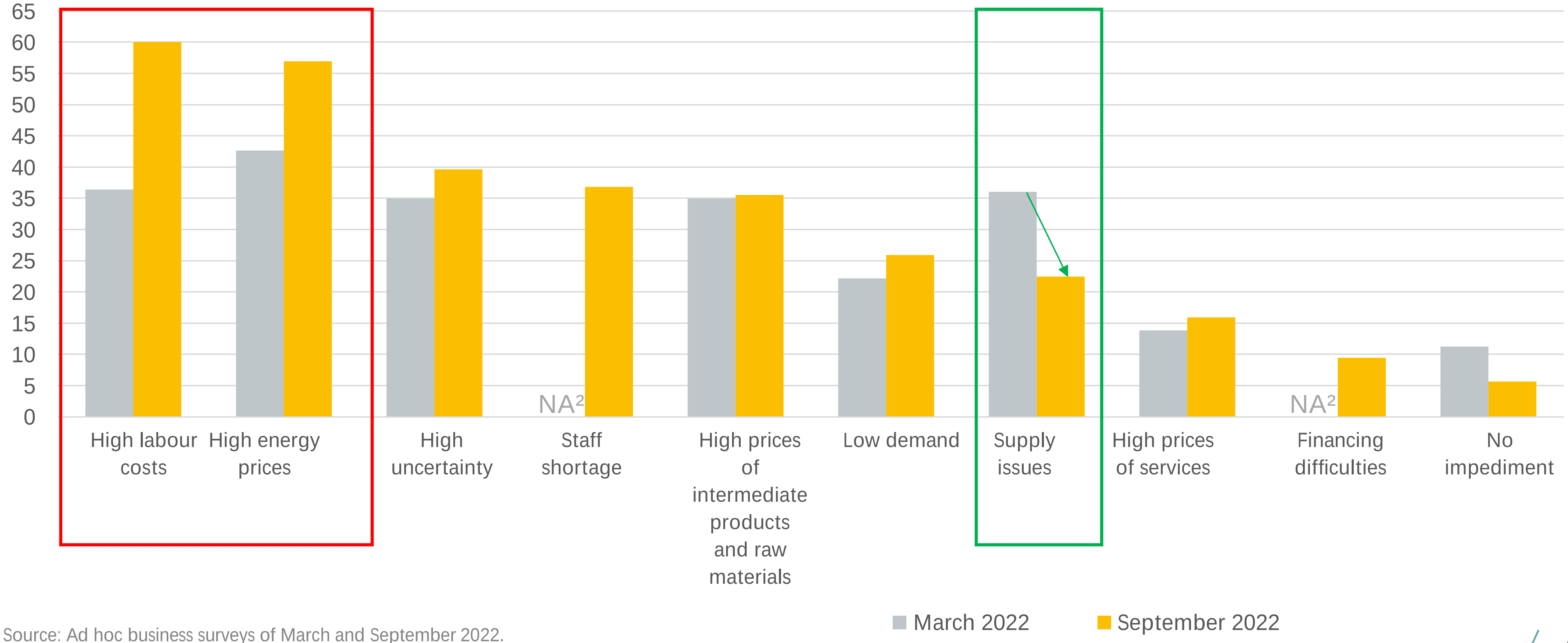
Voluntary reduction in September 2022 due to higher total costs | 2022Q4 compared to September 2022 | 2023 compared to 2022

Source: Ad hoc business survey, September 2022.

High (labour and energy) costs are now more clearly the main impediments to output, along with staff shortages, while supply constraints improved …

What are currently the main impediments to your production or supply of services?[1]

(% of respondents, excluding self-employed, multiple impediments are possible)

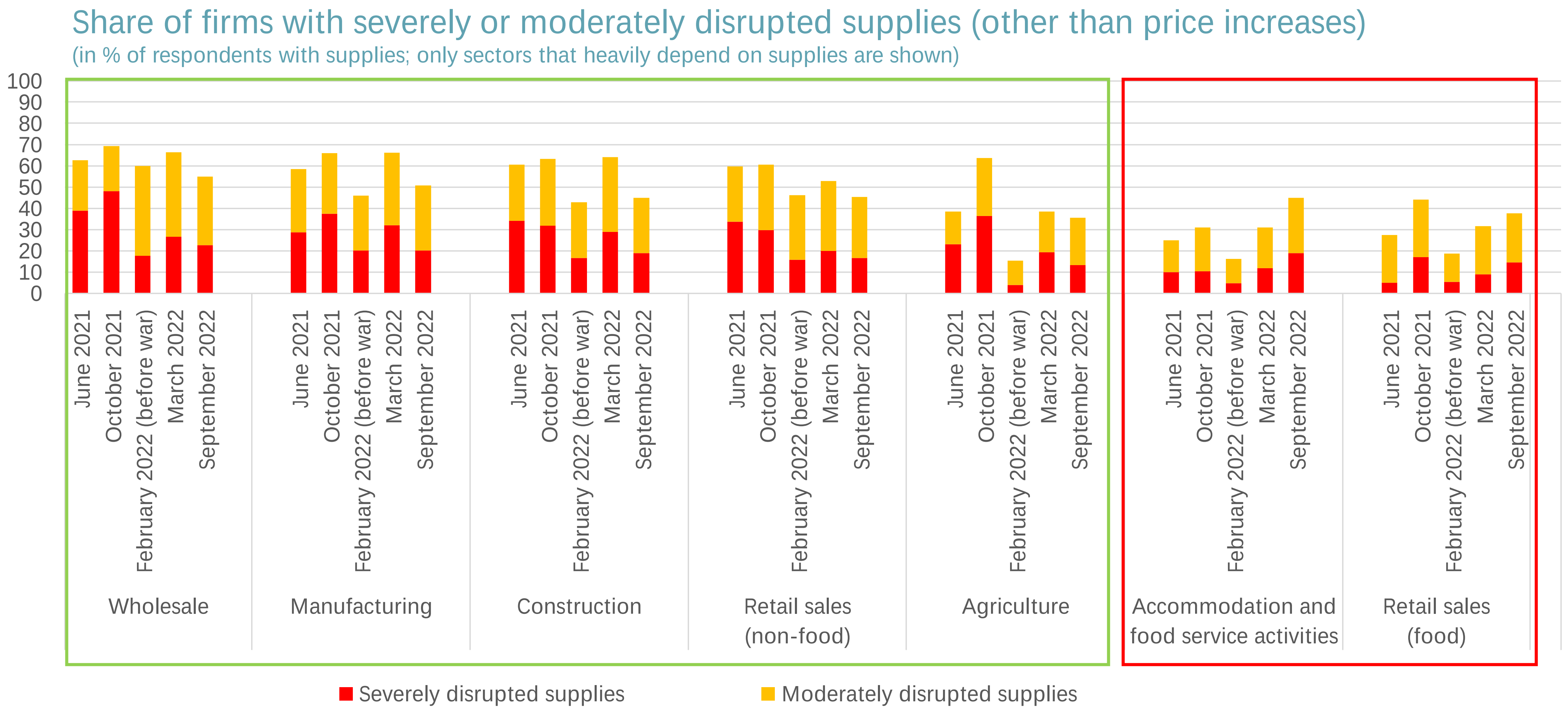


Source: Ad hoc business surveys of March and September 2022.

[1] Stratified by industry.

[2] The impediment categories "Staff shortage" and "Financing difficulties" were not included in the March survey.

... in all industries (except for food-related industries and activities)

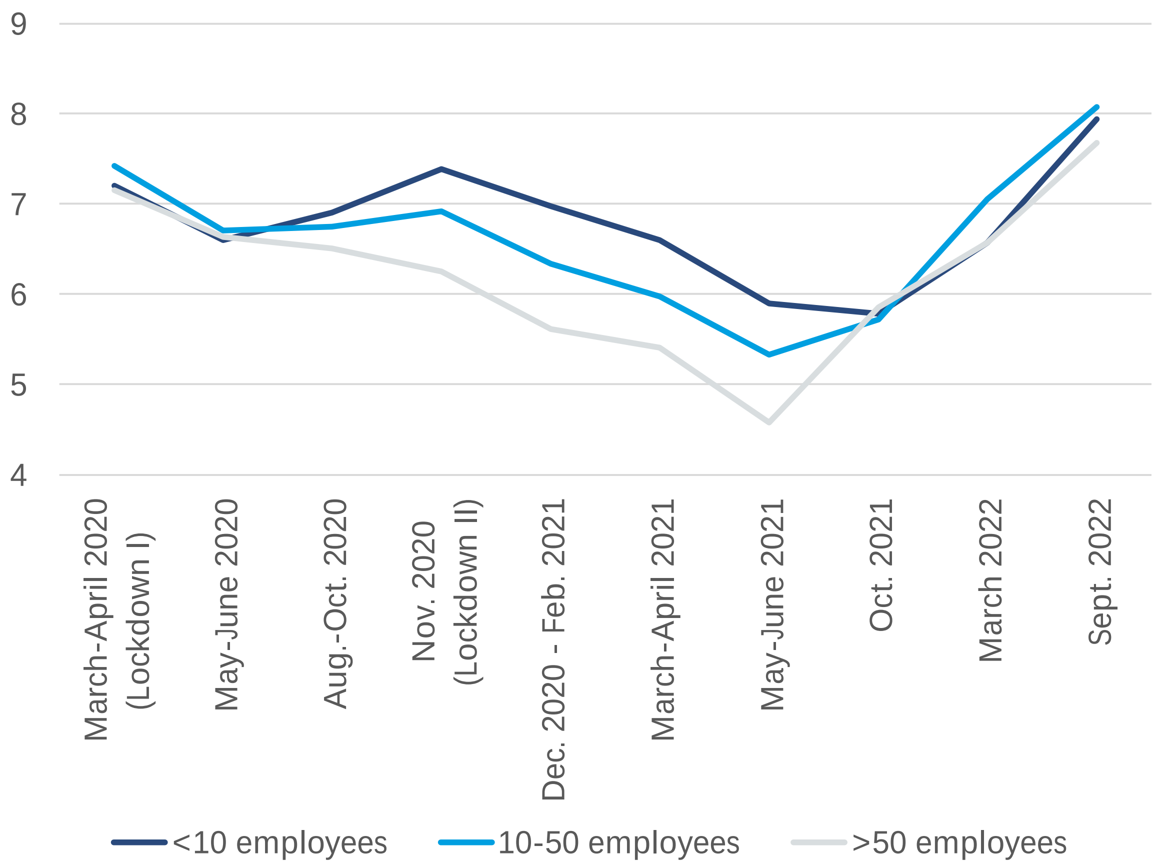


Source: Ad hoc business surveys of September 2022 and earlier ERMG surveys.

Sentiment indicators have worsened significantly (and more than other benchmark indicators?) with a strong increase in bankruptcy fears in food retail

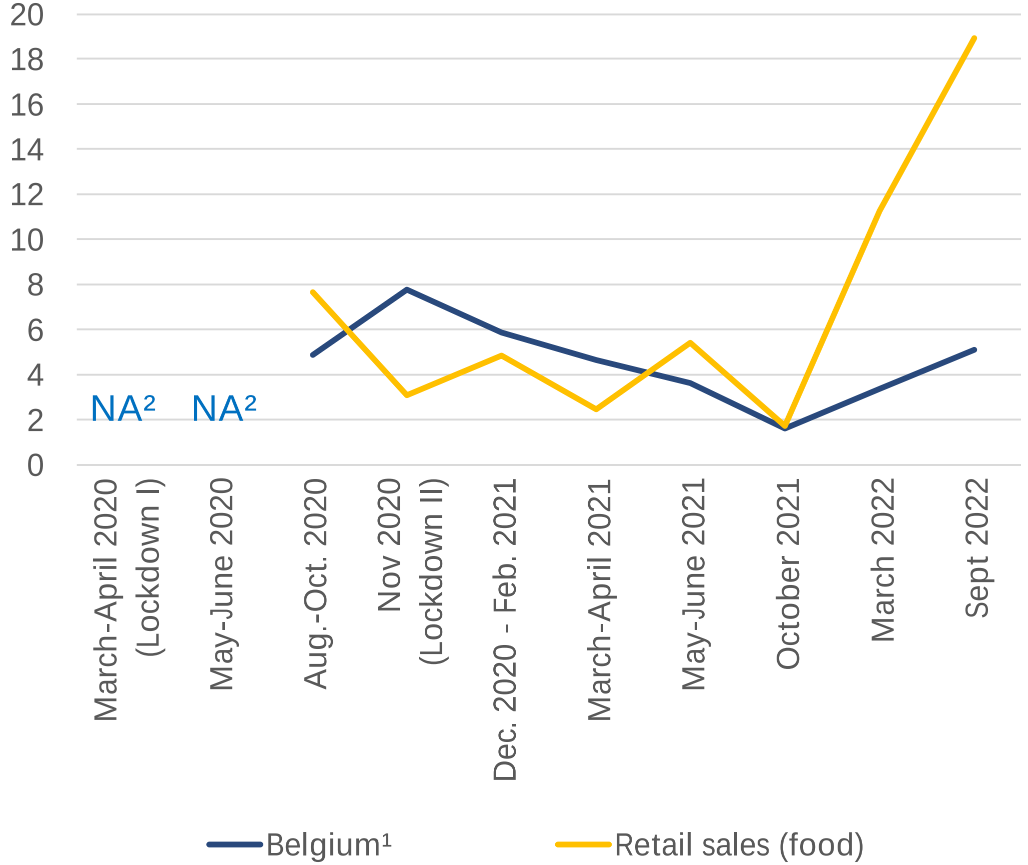
Degree of concern, by firm size

(index on a scale of 1 (low concern) to 10 (high concern); unweighted average)



Perceived bankruptcy risk

(share of firms expecting to file for bankruptcy in the next 6 months, % of respondents)



Source: Ad hoc business surveys of September 2022 and earlier ERMG surveys.

[1] Stratified by industry.

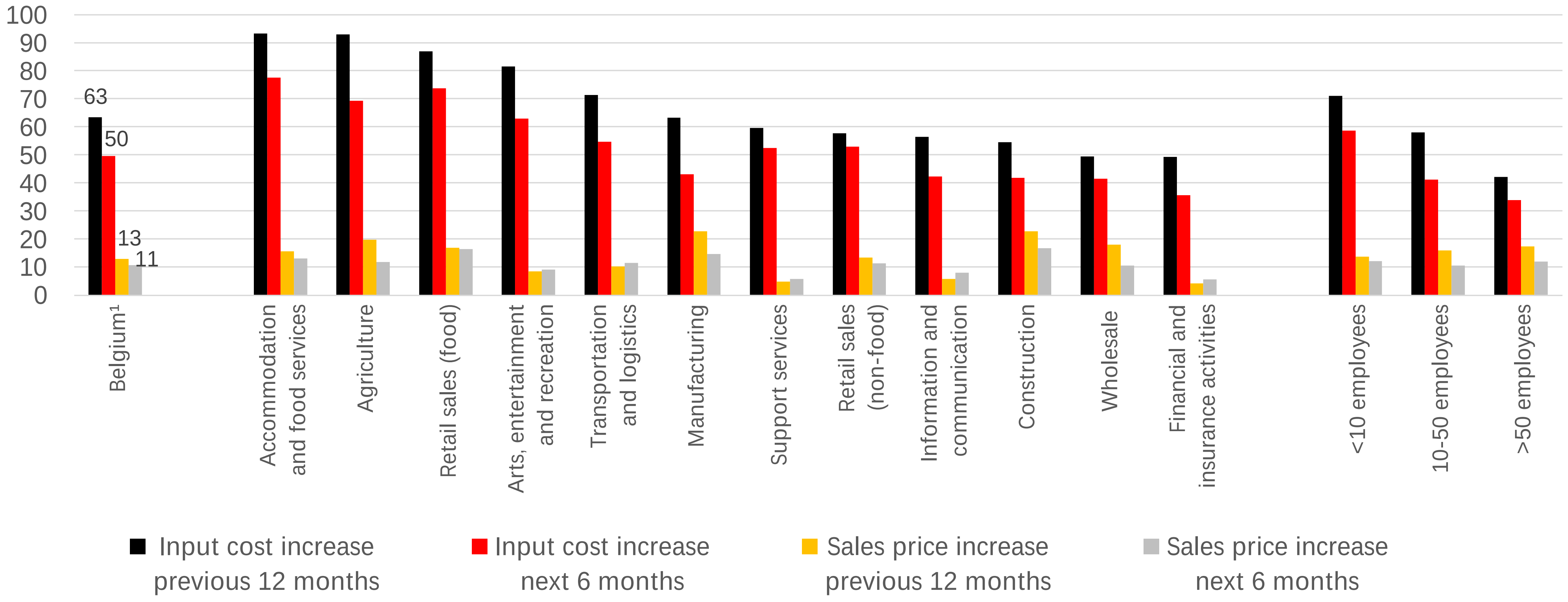
[2] This question on bankruptcy risk was not included in the Spring 2020 surveys.

2. Costs and inflation

survey results consistent with partial pass-through / any wage-price spiral should lose traction gradually

Respondents expect both pipeline cost pressures and price increases to remain high in the next 6 months (contrary to some declining macro indicators)

Average increase in input costs and sales price over the previous 12 months and next 6 months
(in %)

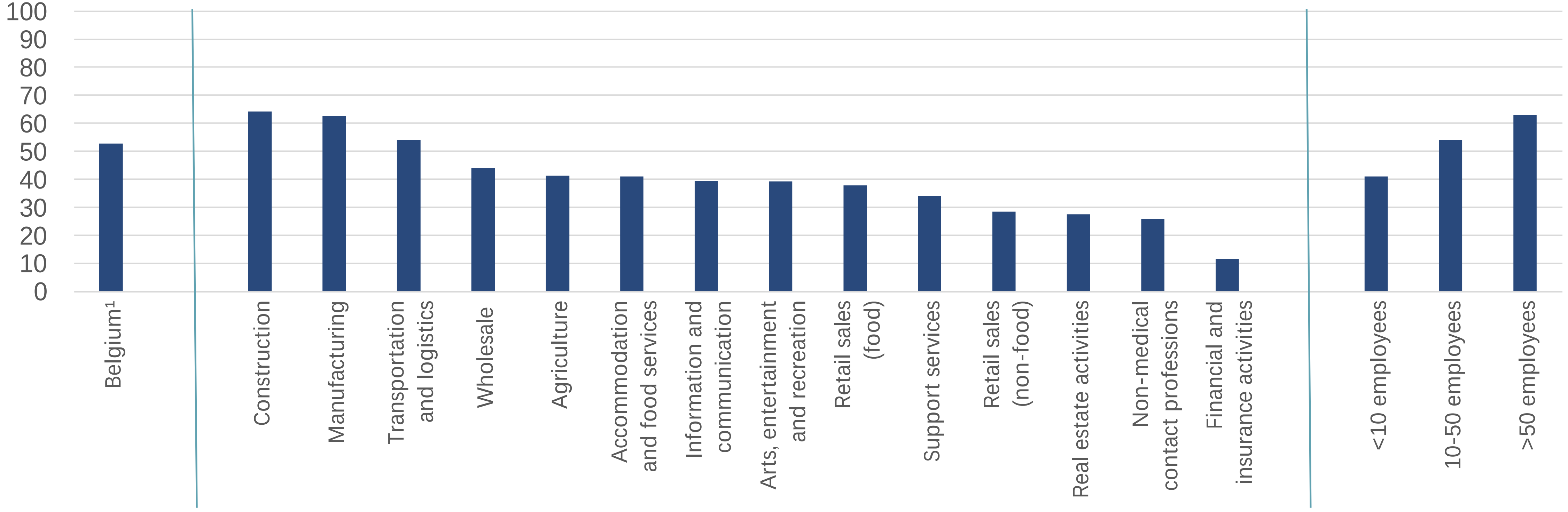


Source: Ad hoc business survey, September 2022.
[1] Stratified by industry.

Extent of cost pass-through to prices is in line with our models and higher in certain industries and for larger firms (due to greater price-setting power?)

Average cost pass-through to sales prices

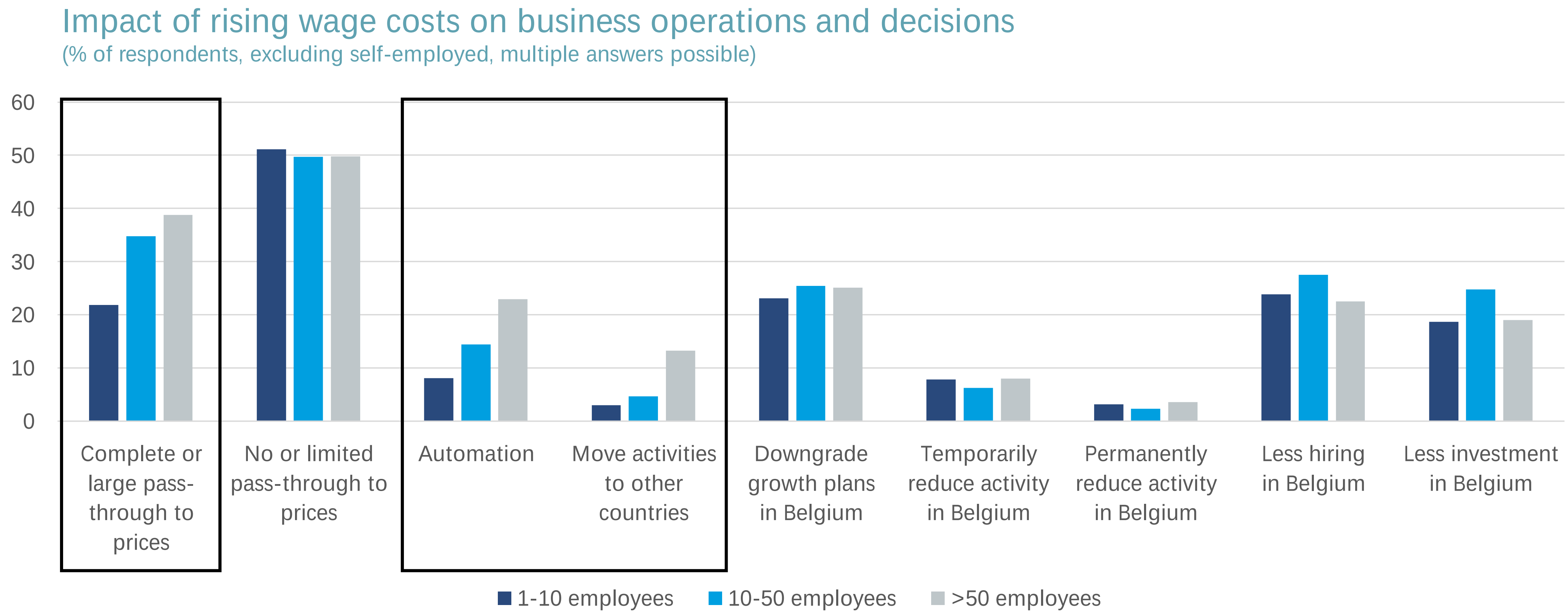
(in %)



Source: Ad hoc business survey, September 2022.

[1] Weighted average based on turnover and stratified by industry.

Passing higher costs through to prices is clearly the most important coping strategy (although larger companies also consider automating/offshoring more)



Source: Ad hoc business survey, September 2022.

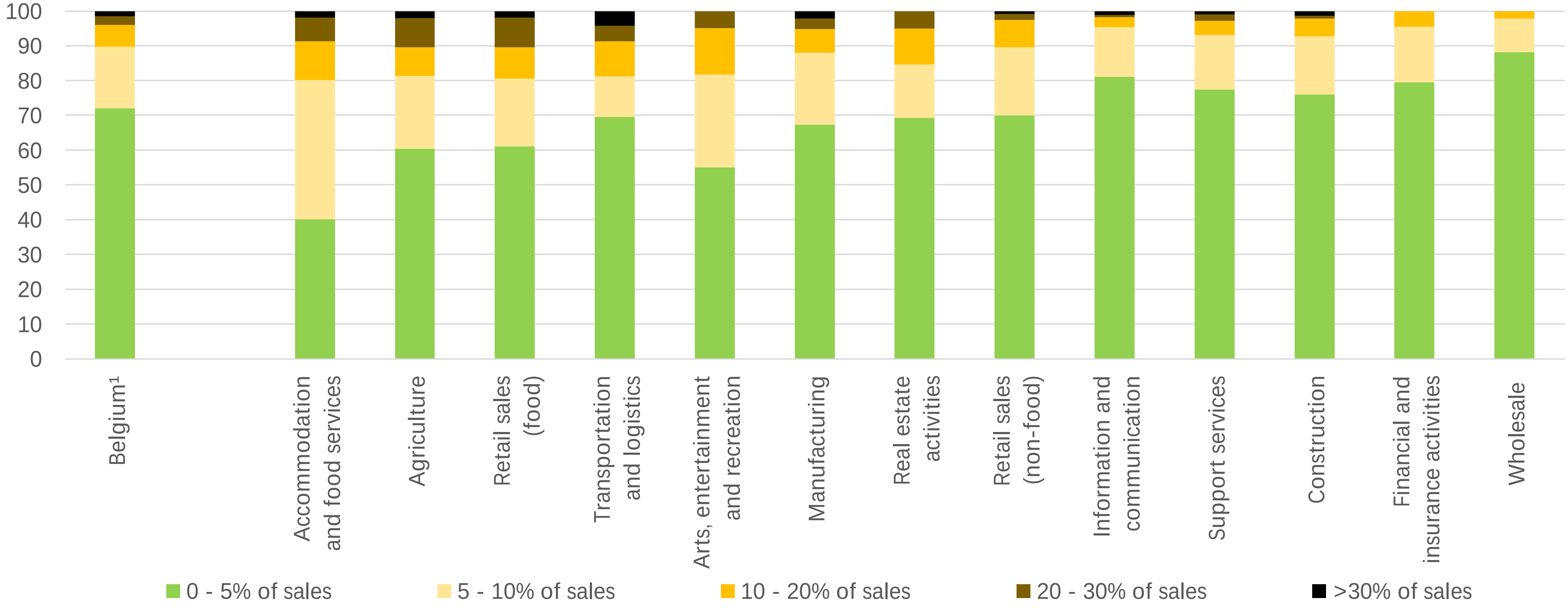
3. Energy intensity (gas + electricity):

not all firms are in the same boat; energy-intensive firms are clearly being squeezed more

The electricity and natural gas use strongly differs between industries and also between firms within each industry

Share of electricity and gas costs as a percentage of sales at the beginning of 2021

(in % of respondents)



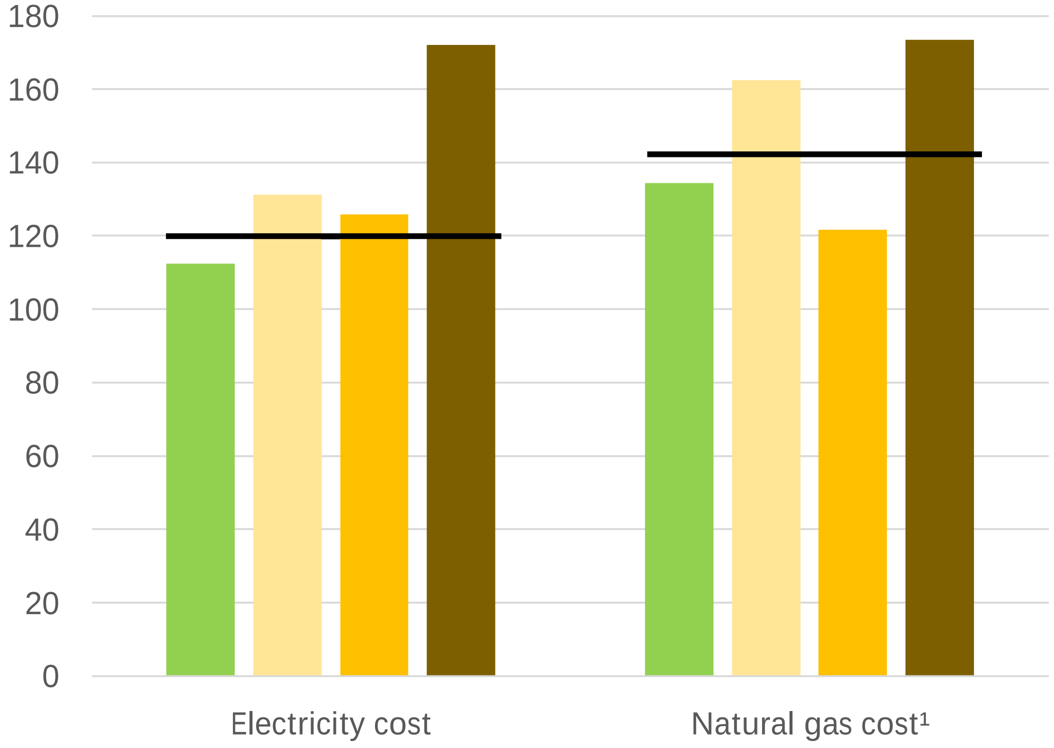
Source: Ad hoc business survey, September 2022.

[1] Stratified by industry.

Energy-intensive firms have (obviously!) experienced greater cost pressures with more expected to come

Average input cost increase[1]
(in %, over the previous 12 months and the next 6 months)

Average energy cost increase since early 2021[1]
(in %)



0 - 5% | 5 - 10% | 10 - 20% | >20% | p.m. Belgium[2]

Share of electricity and gas cost early 2021
(in %, as a percentage of sales)

Source: Ad hoc business survey, September 2022.

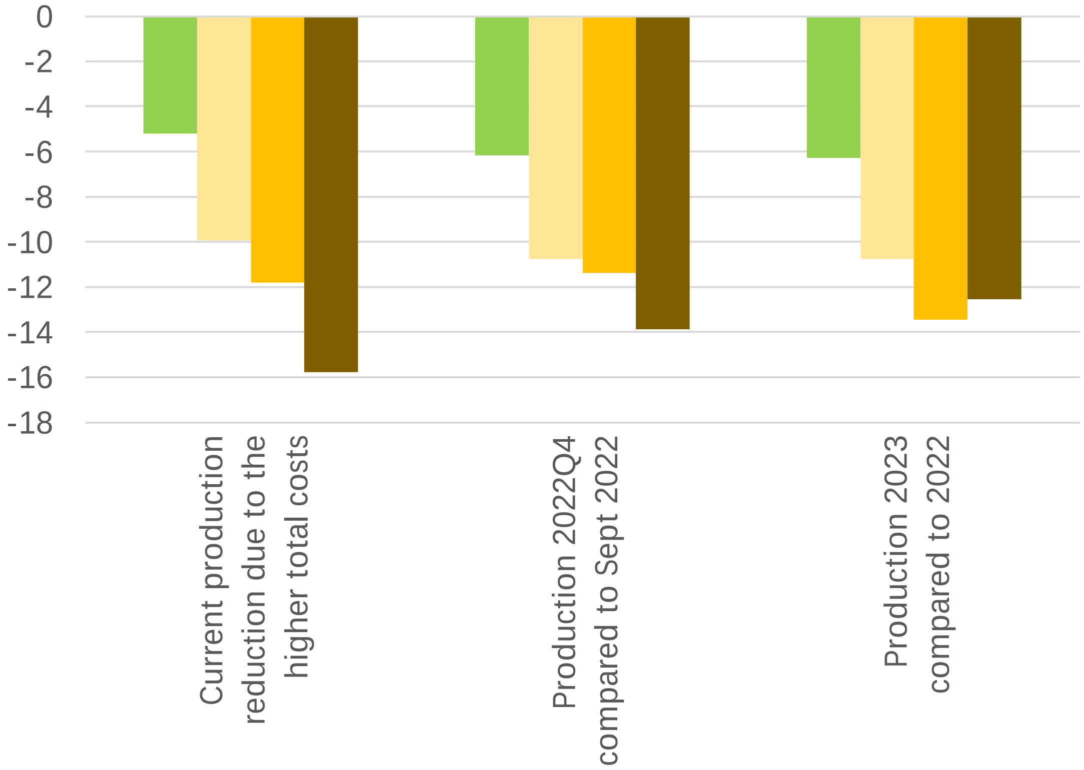
[1] Firms without input costs or energy costs are not taken into account when calculating the average cost increase.

[2] Stratified by industry.

Energy-intensive firms also mention larger (current/expected) production cuts, while the difference in price increase is more limited

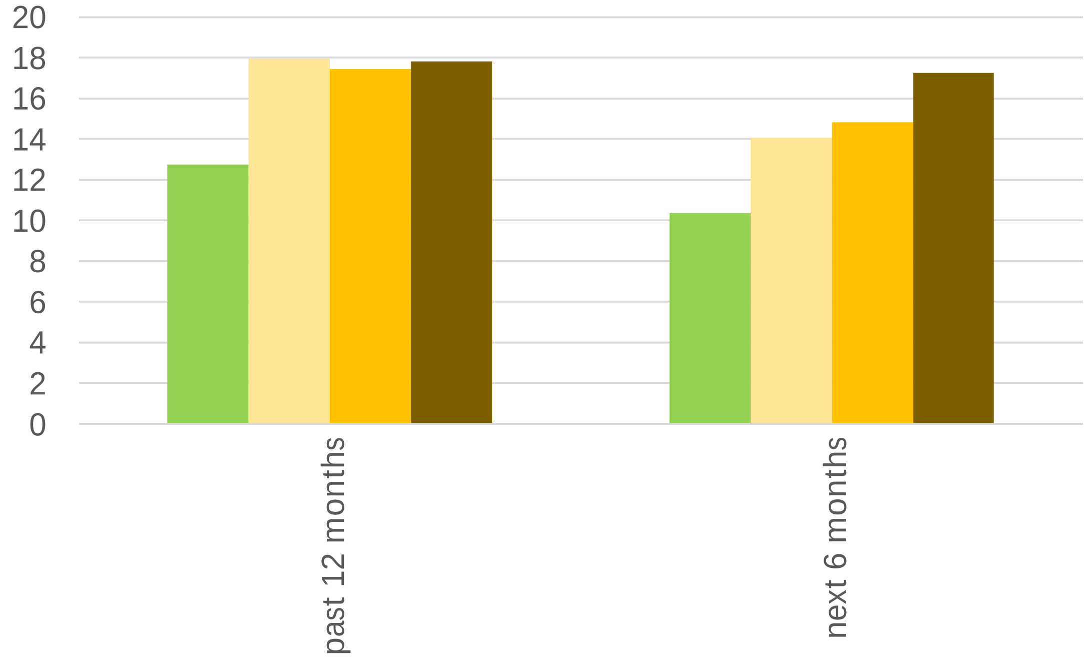
Production outlook

(in %)



Average sales price increase

(in %)



0 - 5% of sales 5 - 10% of sales 10 - 20% of sales >20% of sales

Share of electricity and gas cost early 2021

(in %, as a percentage of sales)

Source: Ad hoc business survey, September 2022.

4. Employment and investment:

temporary unemployment will once again serve as a shock absorber;

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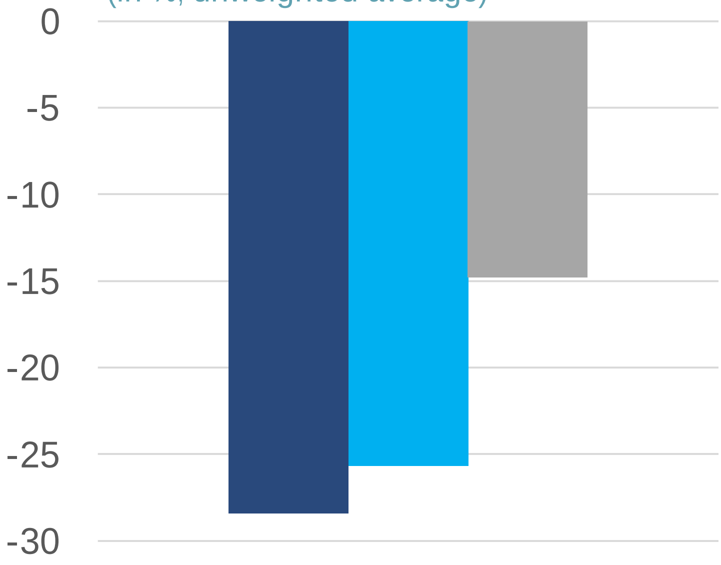
is the announced drop in investment for real this time?

Respondents announce a big negative impact on investment, while the labour market should remain more resilient (partly due to temporary unemployment)

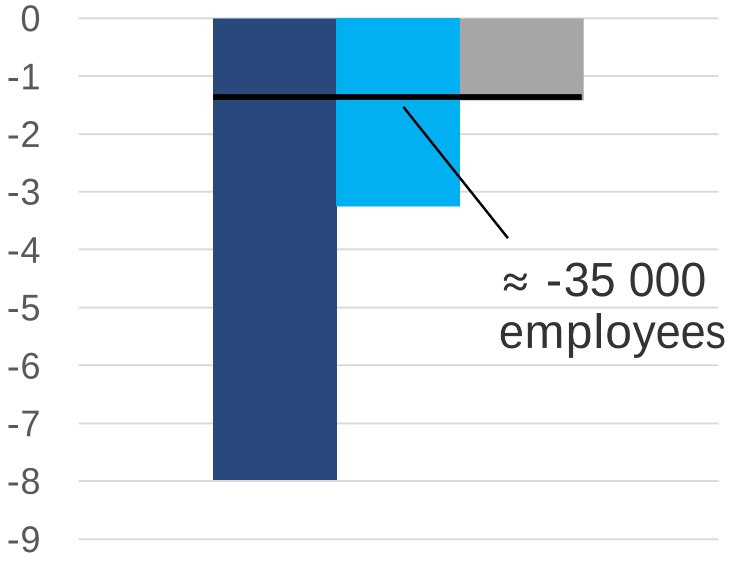
Impact of supply issues and high input and wage costs on investment plans for the next two years

(in %, unweighted average)



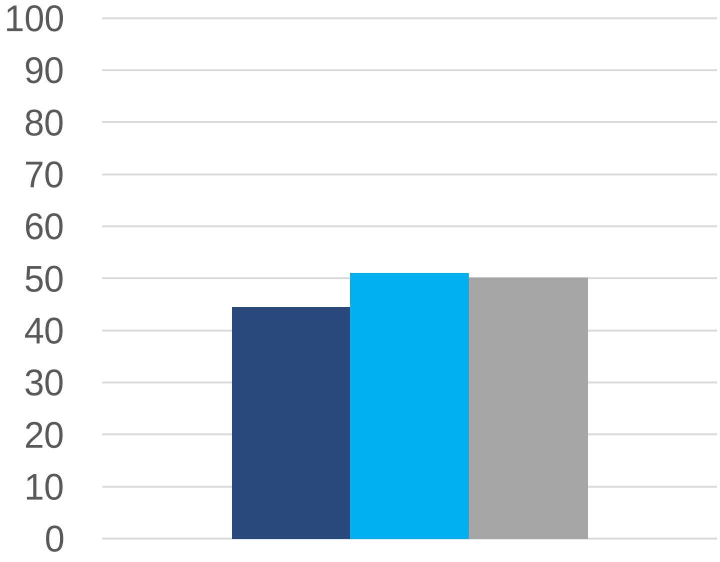
Expected net change in employees in the next six months

(in %, unweighted average excluding self-employed)



Share of firms expecting to use temporary unemployment in the next six months

(in % of respondents, excluding self-employed)



< 10 employees | 10-50 employees | > 50 employees | p.m. Belgium[1]

Source: Ad hoc business survey, September 2022.

[1] Stratified by industry and weighted by firm size.

CONCLUSION

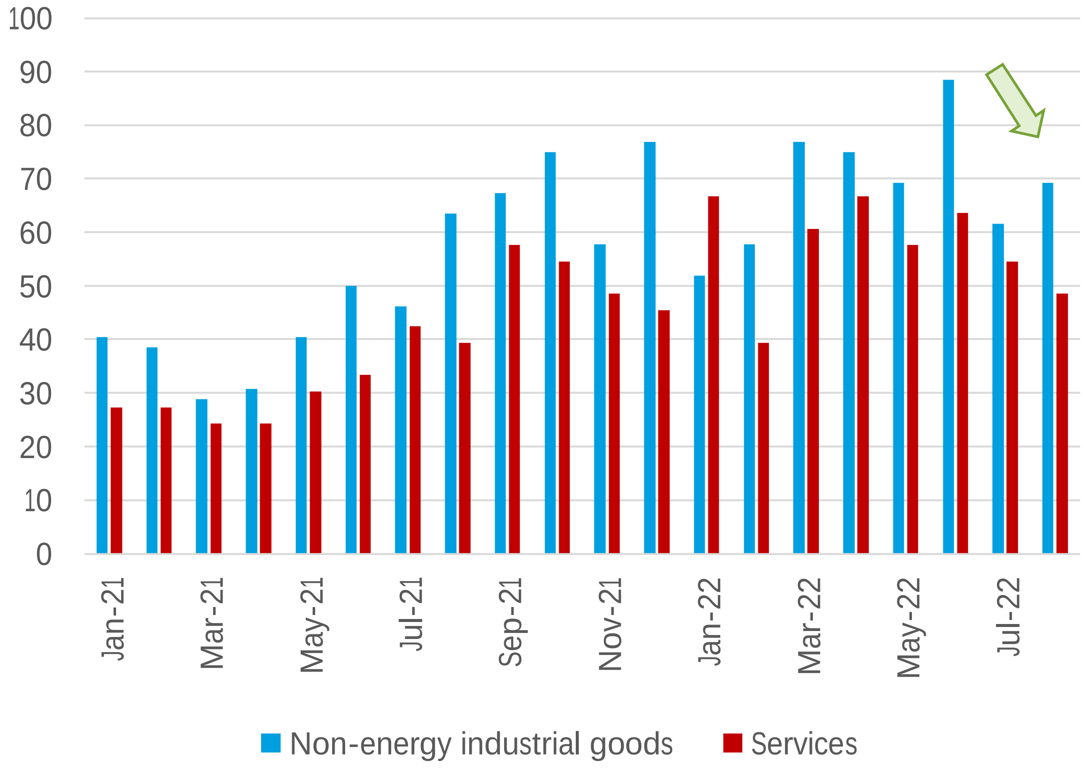
Conclusions

- Survey results lend more credence to the scenario of -at least- a short and shallow recession
  - aggregation of survey replies may overestimate macro impact somewhat
- Companies/self-employed typically pass on cost increases only partly to sales prices
  - higher pass-through (pricing power) for larger firms
  - any wage-price spiral should gradually lose traction, once external price pressures (energy!) recede
- Impact of cost crisis varies depending on the industry and the size of the firm
  - impact on profitability worse for smaller firms + self-employed (less pricing power)
  - energy-intensive firms are being squeezed more
- Yet respondents expect extremely high inflation to be persistent in the near term
  - declining input (and gas) prices insufficiently taken into account?
  - or due to pipeline pressures still to come (wage indexation, full impact of higher gas and electricity prices has not materialised yet)
- Sentiment indicators quite alarming (+gloomy outlook for investment and, to a lesser extent, employment) but COVID surveys have shown that these are not always easy to interpret …

PS. Other sources show first signs of inflation weakening ahead

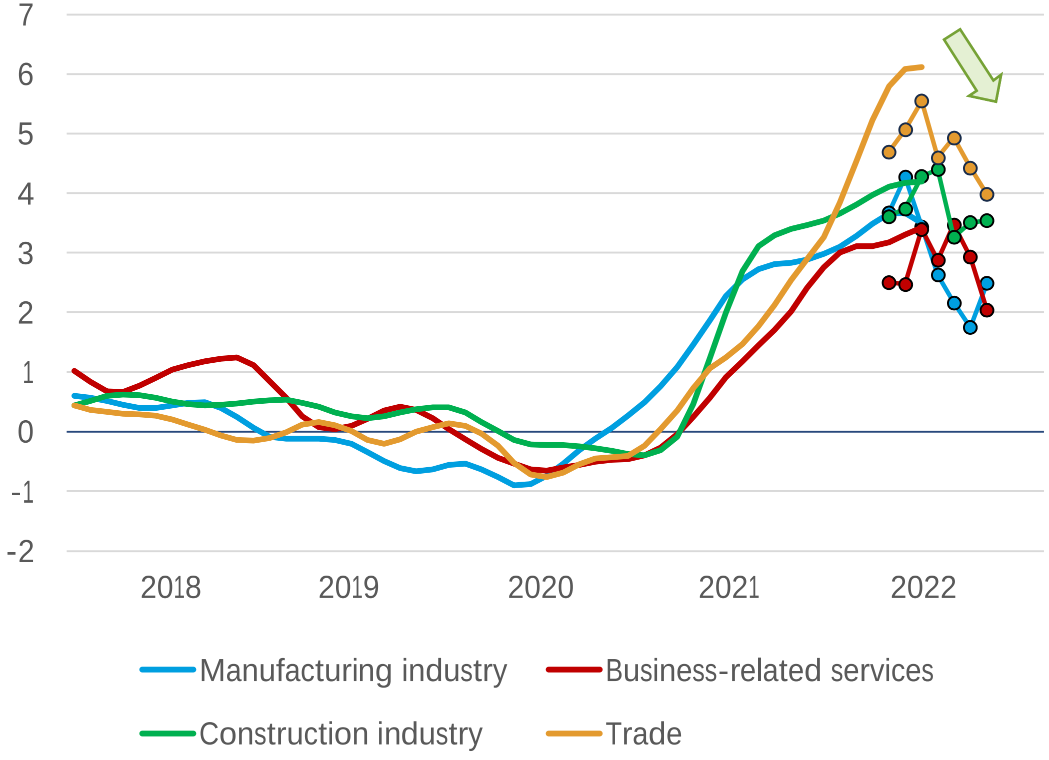
Share of product categories for which inflation exceeds the long-term average[1]

(%, based on seasonally adjusted monthly HICP inflation)



NBB business survey – Price expectations

(seasonally adjusted and normalised[2])



Sources: Statbel, NBB.

1 The long-term average refers to the average made over 2005-2019.

2 Data were normalised by deducting their long-term average (1995-2022) and dividing by the standard deviation.