NETHERLANDS

DUTCH ECONOMY REBOUNDS IN THE SECOND QUARTER

The Dutch economy avoided falling back into recession in the second quarter, thanks to a much smaller annual drop in exports and solid public spending, which was a promise from the new government. However, inflation is stronger than expected and will need to be monitored, as it could become a drag on private consumption. The outlook remains fine, nevertheless, but investments need to recover further in order to compensate for persisting labour shortages.

Dutch growth was revised sharply down in the first quarter, at -0.3% qoq and -0.7% yoy, as a result of a significant downward adjustment in export volumes of goods, reflecting notably the weakness of Germany. This Q1 GDP growth revision led to a lowering of expectations for the whole year 2024, from +0.8% to 0.6%, even though the overall economic view has not deteriorated. Growth is still expected to be close to 1.3% in 2025.

The second quarter turned out much better than the first thanks to stronger exports and dynamic government spending, as the new government had promised. On a qoq basis, GDP grew by 1%, which translates into a 0.6% growth on a yoy basis, back in line with growth in the euro area. While private consumption had been a supporting factor in the past quarters, essentially because wage growth was strong and the labour market very tight, things may worsen in the future if inflation does not calm down more in the near future.

BAD SURPRISE ON INFLATION

A stubbornly high inflation could indeed spoil the game, while the concern in several European countries is, on the contrary, the lack of impetus of falling inflation on consumption. Since May, inflation has indeed been picking up again, to reach 3.3% in August (up 0.7 pp). Core inflation performed even worse, reaching 3.5% in August (up 1 pp). Higher rents and high food prices explain this negative evolution. This unexpected increase in inflation led the Central Planning Bureau to revise its inflation forecasts upward, to 3.6% and 3.2% for this year and next.

GROWTH OUTLOOK STILL POSITIVE

Nobody seems to expect a severe deterioration in the economic outlook, as the labour market remains favourable, with an unemployment rate at 3.5% in July, and with plenty of vacancies (see chart). An in-depth study by Statistics Netherlands reveals that roughly half of all unemployed individuals are still in education, with many of them seeking part-time jobs. Not surprisingly, over one-third of employers cite labour shortages as the main impediment to growth.

This positive situation on the job market certainly explains the good standing of consumer confidence indicators, which, combined to the low unemployment rate, continue to paint the picture of a robust economy.

One point should catch our attention though: over past quarters, annual export growth has almost always been negative, reflecting the poor international context. Imports of goods and services declined by far less on a yoy basis in the second quarter, which led to a sharp drop in the still largely positive trade balance surplus (close to EUR11 bn in July). The persisting weak yoy evolution of exports is a cause for concern that will need close monitoring since a potential decrease in foreign demand for Dutch goods could ultimately weaken domestic economic activity.

GROWTH AND INFLATION

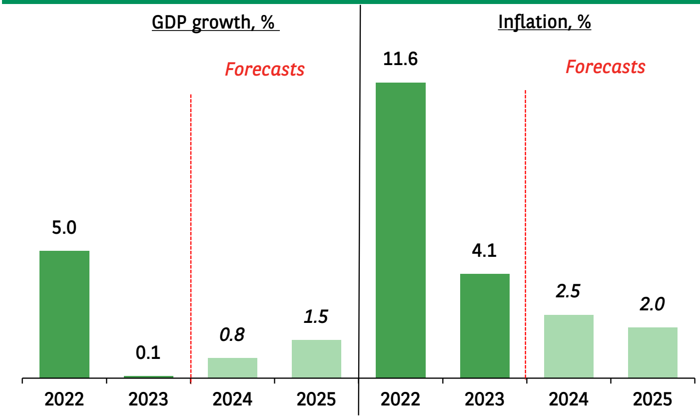

CHART 1

SOURCE: EUROPEAN COMMISSION, BNP PARIBAS

INVESTMENT MUST GET STRONGER

Industrial production declined again in July, making it a complete year with dropping volumes. This poor performance is most likely due to the lagged impact of higher energy prices, the poor international context, but also to still ongoing labour shortages, as many businesses report. In light of this, it will be extremely important that investment remains solid enough to make up for labour shortages if the country wants to maintain a strong economic base. Business investments were clearly hit by the high interest rates in 2023. A prolonged decline in business investment would make it harder to face these challenges and could be a drag on future growth.

STRONG RECOVERY IN THE RESIDENTIAL SECTOR

Finally, the housing market continued to recover at a speed that few had anticipated. Prices, which had dropped by more than 5% in 2023, when the ECB was tightening monetary conditions to fight inflation, have since turned positive again. In July, the yoy increase reached 10.7%, making it one of the strongest recoveries in the world. This sharp increase in prices illustrates once again the high-density issue that the Netherlands have always been confronted with in terms of housing market.

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