The Netherlands: Past the growth peak

Amidst a weak trade environment, Dutch domestic demand normalises but remains solid. A cooling housing market and lower employment growth cause a slowdown to a more normal GDP-growth rate of 1.7% in 2019. Wages accelerate, but not vibrant enough for inflationary pressure in 2019. Prices rise mainly due to higher VAT and energy taxes

Dutch Prime Minister, Mark Rutte

Growth normalising from high level

After twenty quarters of positive economic growth in a row, the Dutch economy continues to expand. But growth is normalising to a more moderate speed. We forecast it to decline from 2.6% in 2018 to 1.7% in 2019 and 1.6% 2020. In 2021 it may gradually slow down in line with the potential growth rate.

See here for our assessment of the GDP-figures of 1Q 2019.

1.7%

Netherlands GDP growth

ING forecast for 2019

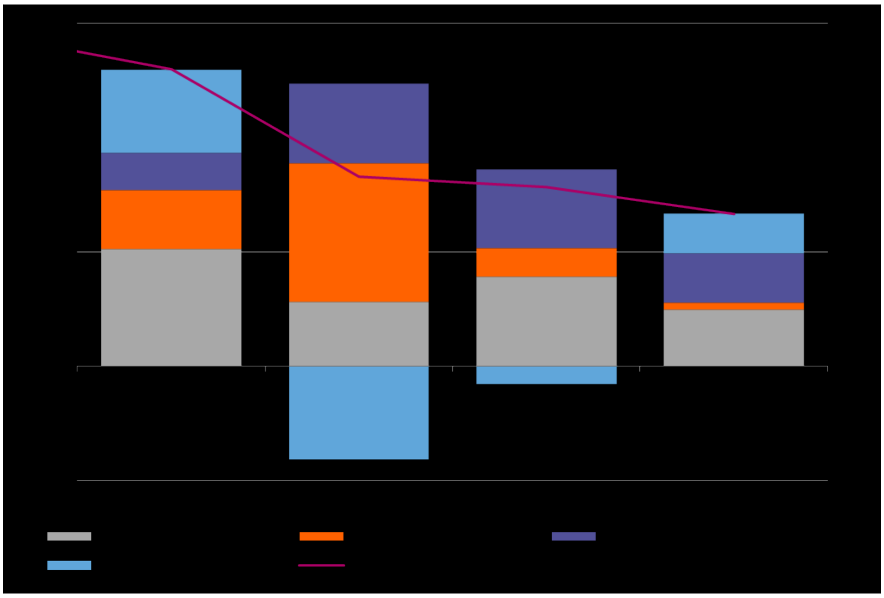
Downward revisions with meagre export outlook

2019 started in line with earlier expectations. Growth in 1Q19 was still very solid, with 0.5% QoQ. Early monthly but volatile figures for 2Q19 for Dutch exports, imports and retail are supportive of growth. Nevertheless, we revised the 2019 GDP figure downwards since January 2019 (from 2.0%), because of the international outlook and disappointing government spending. Indeed, the export-sensitive manufacturing sector started 2Q19 with an outright decline. Also, major risks for even less growth remain external, most notably Brexit and the US potentially raising taxes on European imports.

We revised 2019 GDP growth downwards

For 2019, export growth is forecast far below historical averages, in line with a slowly growing European export market, trade war escalation and growth moderation in China. While imports are likely to outpace exports and the fact that the Netherlands recently turned from a net exporter of natural gas into a net gas importer, the current account surplus is still expected to remain around 10% of GDP. All in all, we project the net contribution of foreign trade to be substantially negative (using the simple method of subtracting the contribution of imports from the export contribution).

Domestic demand main growth engine



Source: Statistics Netherlands via Macrobond, ING estimates for 2019-2021

Cooling housing and labour markets limit solid domestic demand

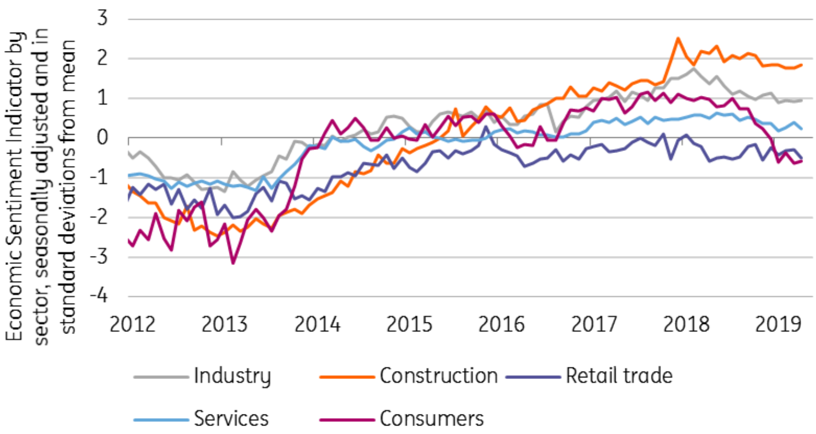
Domestic momentum currently remains solid, solid enough to prevent a recession in case of minor external shocks. Consumption of households again provides a substantial contribution to GDP growth, but slightly less so than last year as a result of lower confidence and notably slower employment growth. Most important factors normalising domestic demand growth, which were already expected, are the fall in home sales and increasing labour market tightness. Growth in investment remains significantly positive, and commercial buildings and infrastructure particularly still show strong growth.

Unemployment is forecast to come in at 3.4% in 2019 and stay around this low rate in 2020 and 2021. Some vacancies can still be filled by people currently outside the labour force, but this reservoir is drying up. A shortage of workers has become one of the main factors limiting business production. The number of unemployed people per open vacancy has never been lower. As a result, hourly collective wage (including bonuses) growth was increasing from 1.4% in 2017 to 2.1% in 2018 and will increase further this year.

Falling sentiment now stabilising

Sentiment among consumers is slightly below historical averages and stabilised, after half a year of increasing pessimism. The drop was widespread among different consumer groups, but could nevertheless hardly be explained by fundamentals, leaving the impression that general international uncertainty and the very visible increase in VAT and energy taxes might have had an impact. Industry initially turned more pessimistic about exports but sentiment is stabilising with respect to export orders. Commercial services are still steady in their moderately positive judgement of the economic situation, while construction is historically still very optimistic.

Survey indicators stabilising after declines



Source: DG ECFIN via Macrobond

Inflation, wages and construction

Inflation jumped, as the result of an increase of the reduced VAT rate (from 6% to 9%) and higher energy taxes, from a moderate 1.6% in 2018 to a significant 3.0% year-on-year in April 2019. Wage growth has been on the rise but is still rather moderate for the maturity of the business cycle. CPI-inflation is forecast at 2.5% for 2019, and we expect it to fall back to 1.7% in 2020.

Construction will grow around 5.5%, remaining the sector with the largest expansion. Health care, thanks to policy and demographics, commercial services and IT services and job agencies follow with 3% to 3.5%. Almost all sectors are experiencing a slowdown, with health care and agriculture being the exceptions.

Expansionary intentions are not yet delivered in full

Public finances are largely in check, with continuing fiscal surpluses and falling government debt. Government debt stood at 51% of GDP in 1Q19, clearly below the European norm of 60% GDP, and will continue to drop with the government budget balances hovering around 1% GDP. The government is using cyclical tax revenues for additional spending, as well as tax cuts.

In 2018 the government failed to execute its spending intentions, in part because of difficulties in finding personnel and delays with infrastructure projects. That is a risk for spending for 2019 too, both to the down and upside. Labour taxes were lowered at the start of 2019, while energy taxes and healthcare premiums rose, with a net positive effect for the bulk of households. Also, 2020 brings tax relief for households. Taxes for business are raised in 2019 and will be followed by partial relief in 2020. The increase in 2019 mainly results from higher unemployment premiums and energy taxes and the broadening of the corporate income tax base.

This article is taken from the Eurozone Quarterly, which you can find here

The Dutch economy in a nutshell (%YoY)

	2018	2019F	2020F	2021F
GDP (%)	2.6	1.7	1.6	1.3
Private consumption (%)	2.3	1.3	1.8	1.1
Investment (%)	3.2	6.0	2.7	0.7
Government consumption (%)	1.6	2.0	2.7	1.7
Net trade contribution (%-point)	0.7	-0.7	-0.2	0.3
Headline CPI (%)	1.7	2.5	1.7	1.8
Unemployment rate (%)	3.8	3.4	3.4	3.4
Budget balance (% of GDP)	1.5	1.7	1.1	1.0
Government debt (% of GDP)	52.4	50.5	48.8	47.7

Source: Macrobond, all forecasts ING estimates

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