The Netherlands in 2021: More positive about recovery despite second-dip

The Dutch economy is forecast to grow by 2.6% in 2021 in our base case scenario, reaching 99% of its pre-covid size by the end of next year. A second GDP dip by the end of 2020 due to a flare-up of Covid-19 and reinstated social distancing measures will weigh on the recovery early into 2021, but fiscal support remains and prospects for virus containment improve

Second wave holds back recovery, but it's less severe

While the Dutch GDP was -9.9% lower in the second quarter of 2020 than in 4Q19, it jumped back to -3.0% in the third quarter. This better-than-expected recovery was halted by the second Covid-19-outbreak that started in September. Gradually, the Dutch government reinstated social distancing measures, but less strict than the lockdowns seen in the spring but bars, restaurants, theatres, cinemas and museums are closed again, while schools, gyms, hair salons are now open.

Since businesses are better prepared and policies are less strict, we project the fall in GDP in 4Q120 (-2.0% QoQ) to be much less severe than in 2Q20. For the full year, we forecast GDP to be 4.3% lower than in 2019. While this is an unprecedented hit to the economy, it is not as bad as we had foreseen initially, despite a second partial lockdown. The most important reason is that the third quarter has shown a surprisingly strong rebound, probably on the back of a generous government support package. Breaking with austerity has helped to soften the impact of covid-19 on the Dutch economy.

Government continues to support the economy

In mid-October, the Dutch government announced additional stimulus and the extension of some existing support measures, notably some guarantees. This amounts to €0.5 billion (0.1% GDP), which is minor from a macro-economic perspective. This comes on top of the third package, which kicked off on 1 October and roughly mirrors the extension of the main support instruments, such as wage subsidies, benefits for self-employed and compensation for fixed costs, until mid-2021.

The government recently stressed that these support instruments automatically fluctuate with firms' turnover and that it stands ready to spend these higher amounts when such turnovers go down in 4Q20. We estimate total spending on support measures in 4Q20 to amount to about 1% of annual GDP.

Weak start for 2021 as social distancing measures are lessened only gradually

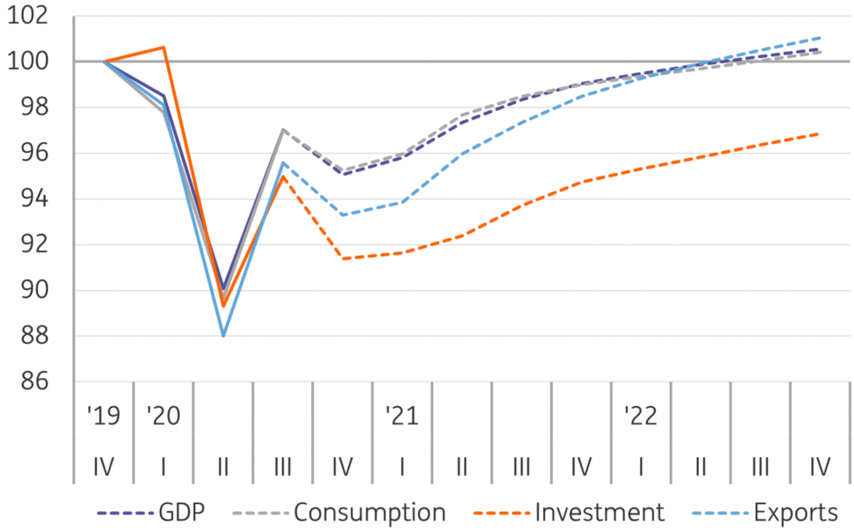
It's assumed that European governments will be more careful with a gradual unwinding of anti-coronavirus measures during the second wave so we expect subdued growth in the first quarter of 2021, which should accelerate in the second quarter. We should see more testing in the Netherlands, while the start of the vaccination programme will be made available in the first half of the year.

Since achieving broad immunity takes time, 2021 will be a year in which the economic recovery will still be held back. Investment, in particular, is forecast to suffer from the uncertain outlook that hinges so much on the development of the virus, being only back at 95% of pre-Coved levels by the end of 2021. Merchandise exports are forecast to have fully recovered by then, while consumption is expected to still lag by 1%. GDP could be 2.6% higher in 2021 than in 2020, reaching 99% of the pre-covid size by the end of the year. The uncertainty remains high, and growth may also be slower.

But for once, risks seem tilted to the upside: vaccination, mass testing and better treatment options may all come together and allow for a surprisingly rapid full opening of the economy.

Slower investment hampers the recovery

Expenditures* as index where fourth quarter of 2019 = 100



Source: Macrobond, forecasts ING Research from 4Q20. *seasonally adjusted and in constant prices

Big yet only partial rebound for hospitality and transportation

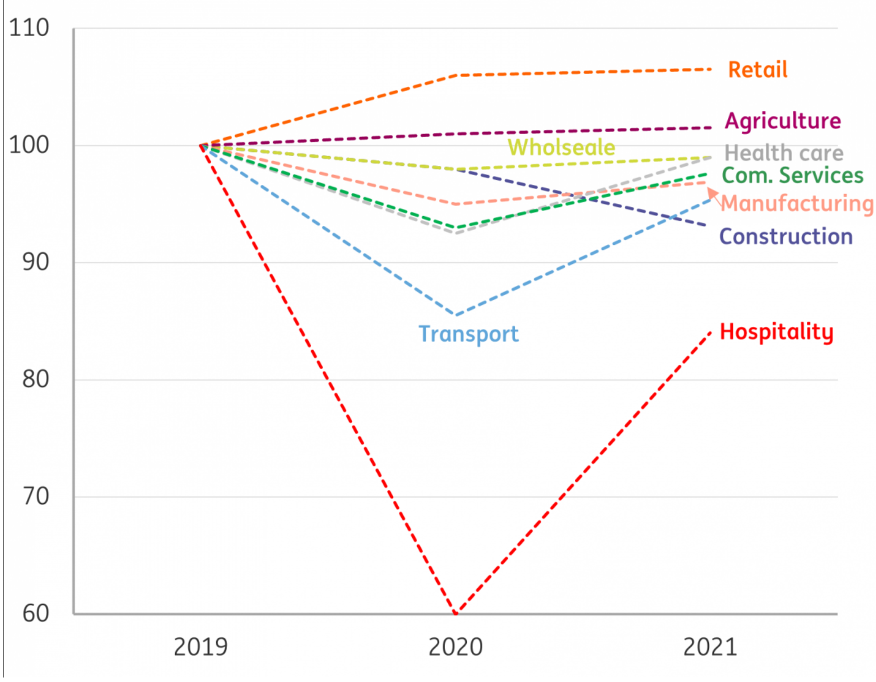
Hospitality, transport (notably aviation and public transport) and services (mostly the travel industry and staffing) faced the biggest decline in 2020. These sectors will also show the highest growth in 2021, although they will not fully recover. For the hospitality sector, we expect growth of 40% in 2021, after a 40% decline in 2020. Higher unemployment will dampen consumer spending in hotels, restaurants and bars, while the return of foreign tourists will be uncertain and dependent on virus developments.

In contrast to other industries, retail expanded in 2020, when mainly DIY-stores and online shops benefitted from the coronavirus crisis. Here we expect only limited growth for 2021. Online shopping increased the demand for parcel delivery. Other business service providers, such as civil-law notaries, accountants and consultants, were only mildly affected. While demand for some services is lower, working from home will continue in 2021.

The demand for temporary workers is expected to pick up again in the course of next year. Companies will often hire temporary workers first when they start growing again. Industrial production should show a modest recovery of 2% in 2021 since exports will go up and supply chains (from Asia) remain intact in contrast to early 2020. The construction industry is the only sector for which we project a decrease in production in 2021. It is often hit late in the economic cycle due to long project lead times.

High growth in many sectors in 2021 but 2019 levels not reached

Value added* as index where 2019 = 100



Source: ING Sector Research, *At constant basic prices

The Dutch economy in a nutshell

	2019	2020F	2021F	2022F
GDP	1.7	-4.3	2.6	2.5
Private consumption	1.5	-6.7	2.6	2.6
Investment	4.6	-5.0	-1.0	3.2
Government consumption	1.6	-0.4	3.8	1.4
Net trade contribution (%-point)	-0.1	-0.2	0.8	0.4
Headline CPI	2.6	1.3	1.4	1.1
Unemployment rate (%)	3.4	4.1	5.6	4.9
Budget balance (% of GDP)*	1.7	-8.4	-5.5	-4.1
Government debt (% of GDP)*	48.7	59.9	62.6	64.8

Source: Macrobond, all forecasts ING estimates. *Fiscal projection deviate from official forecasts by the Netherlands Bureau of Economic Policy Analysis (CPB) i.a. due to differing views on the output gap.

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