Disappointing quarter for Dutch GDP but sunny outlook ahead for 2018

Despite the decline, growth this quarter remains above the average pace in the Eurozone, which is why we revise our annual GDP forecast to 2.8%. Since growth is really home-made, the Dutch economy will certainly feel sunny in the year ahead

Source: Flickr

0.5%

1Q18 GDP growth rate

(QoQ)

Lower than expected

Netherlands GDP growth declined to 0.5% QoQ in the first quarter of 2018, in line with the disappointing 0.4% figure in Eurozone. While this was short of our earlier expectations (0.7% to 0.8% QoQ), growth remained above the average pace in the Eurozone.

Leading indicators had already signalled some risks to the downside. In line with leading European indicators, a couple of Dutch survey indicators softened in recent months. While confidence of consumers and commercial services hardly changed, indicators for industry and retail fell, especially purchasing managers in the industry were less optimistic about export orders.

The export performance of both goods and services was considerably worse than in the fourth quarter of 2017. In contrast to the previous quarter, the net foreign trade contribution was negative. While exports fell 0.1% QoQ, imports surged by 0.9% QoQ fuelled by strong domestic demand.

We revised our GDP growth forecast for 2018 to 2.8% and compared to other European countries this is above the average

Nevertheless, GDP-growth remained solid and domestic demand drove the Dutch economy ahead. Households seem to have overcome their 'buyer's strike' finally as consumption growth (1.7% QoQ) recovered from the decline in the last quarter of 2017, showing the highest growth rate since the third quarter of 1998. This is not so much due to retail sales, where numbers were soft in the first two months but instead, consumption of services, cars and weather-related gas consumption (temperatures were slightly lower than the long-term average) drove growth in private consumption. Government consumption increased by 0.1% QoQ.

Investment growth also recovered from two weak quarters, rising to 2.3% QoQ. Both investments in transport equipment (41%), as well as computers (11%), jumped with up double figures.

Sector-wise, the main engine of growth in the first quarter was commercial services (0.7% QoQ), adding 0,3%-points to GDP-growth. The real estate sector and the combined trade, transportation & hospitality sector performed particularly well. The continuing recovery of the housing market still leads to fast increases in house prices (9% YoY in Q1) and decent growth in construction (1,.4% QoQ). The industry suffered from the weak export performance, showing a mediocre increase in production of 0.2% QonQ. Mining and quarrying (gas) production fell 7.9% due to a recent shutdown of a minor production facility in the earthquake-stricken town of Loppersum. Also, agriculture & fishing production decreased, by 3,5%.

Employment is still rising at a high pace: 76K extra jobs were created (+0.7% QoQ) in the first quarter. Also, wage growth at the margin finally started to show signs of acceleration (with recently agreed collective wage agreement showing an average annualised wage growth of 2.6% in April, after 1.7% at the end of 2017), both supporting private consumption going forward.

Overall, also given a revised Q4 number, we have revised our GDP growth forecast for 2018 to 2.8%. This is below the 3.2% forecast of the Netherlands Bureau of Economic Policy and may have some consequences for the forecasted budget surplus for the year.

However, compared to other European countries this is above the average. Since growth is really home-made, the Dutch economy will certainly feel sunny for the Dutch this year.

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