Dutch economic growth returns amid solid export growth

The Dutch economy returned to positive growth in the second quarter of 2024 after seven quarters of weakness. GDP expanded by a strong 1.0% quarter-on-quarter thanks, in particular, to growing exports. The rebound in consumption however suffered a setback, despite rising purchasing power, as consumers perceive higher inflation

1.0%

Better than expected

GDP growth rate

2Q24 (QoQ)

End of stagnant recession

The second quarter GDP growth rate that Statistics Netherlands (CBS) reported today was even better than expected in our recent monthly forecasts (0.6%). This strong 1.0% rate follows a quarter-on-quarter contraction of 0.3% in the first quarter amid a weak trade environment. It also brings an end to a period of seven quarters of stagnation with mild contraction.

GDP growth translated into an expansion of employment in the second quarter, albeit at a slower pace than in previous quarters, as weak GDP did not prevent more people from obtaining a job. Although the strain on the labour market is decreasing somewhat now that labour costs are increasing, the number of vacancies is still higher than the number of unemployed people. A lack of personnel remains the most often reported main factor limiting non-financial businesses.

Trade and government consumption main engines of growth

The Dutch economy particularly benefited from an improvement in foreign demand in the second quarter. Total exports expanded by 1.3% QoQ, much in line with our forecasts. This improvement was thanks to the considerable growth of goods exports, which expanded by 1.7% QoQ. The industrial production figure suggests that this solid goods export performance was to some extent driven by the pharmaceutical industry, chemical industry, basic metals, and mining & quarrying. Service exports continued to grow, up 0.5% QoQ in 2Q24. The trade balance also increased, as imports rose at a much more subdued (0.5%) pace than exports. This was in part due to the fact that Dutch consumers bought less abroad.

Government consumption expanded by a very solid 1.0% quarter-on-quarter, in line with expectations on the intended expansionary fiscal policy. The number of hours worked, in particular, increased in public administration and the health sector.

Investment expanded moderately (0.4% QoQ), helped by purchases of transportation equipment and ICT equipment. Still, the lagged effects of subdued demand, elevated interest rates and the low number of construction permits seemed to have further hit capital expenditures in non-residential real estate.

Inventories were reduced further in 2Q24. Retail was particularly downbeat on purchasing orders. But because the pace of the reduction of inventories was lower than at the start of the year, this development provided a positive contribution to GDP growth in the second quarter (0.3 percentage points).

Consumer takes a break as perceived inflation is on the rise

The only big substantial drag on GDP in the second quarter came from household consumption, which contracted by 1.0% quarter-on-quarter. While this was in line with the weakness that we observed among consumers (becoming more pessimistic and purchasing less) and in the retail sector in recent months (falling sales and sentiment), this is somewhat at odds with our view for the rest of the year. Purchasing power is rising considerably as high contractual wage growth (around 6.5% year-on-year) is outpacing inflation (around 3% year-on-year) considerably. Also, the overall consumer confidence indicator was still higher in 2Q24 than in 1Q24. Concerns about unemployment and inflation, however, rose in the second quarter. It is quite likely that this is related to very visible elements of (expected) inflation, such as hikes in the tax on tobacco (in April) and housing rents (in July). Furthermore, compared to last year, the improvement in purchasing power is now less concentrated among low-income households (which usually have a high propensity to consume), which has led to a higher savings rate at the macro level.

Manufacturing expanding most among industries

Among Dutch industries, manufacturing was among the best performers in value added growth in the second quarter, expanding by a strong 3.3% QoQ. Culture, recreation & sports, business services, and construction were also growing well while trade, hospitality, transport & storage, the semi-public sector (government, education & health), and ICT also showed an expansion at a slower pace. Financial services, the energy supply sector, agriculture & fishery and real estate contracted.

Hesitating consumers make growth forecast less of a done deal

The statistical history for the Dutch economy has been rewritten considerably recently, as Statistics Netherlands revised its GDP time series as part of its five-yearly exercise of incorporating new data sources and Eurostat recommendations. This has caused us to revise our annual GDP growth forecast for 2024 from positive to negative, even though the underlying story hasn't changed much. Today's outturn for 2Q24 is likely to keep the 2024 growth rate negative in our next monthly forecasting round. For now, we consider the weakness among consumers as largely temporary and expect consumption to gain traction, especially in the final quarter of the year.

Combined with a further expanding public sector, continuing (but subdued) demand growth from foreign markets and a later turn in the inventory cycle, this should mean a return to close-to-potential growth in the second half of the year. Investment is expected to remain weak for a little longer, despite the recent growth figure. But as investment picks up pace in the course of 2025 on the back of lower financing costs and leveraging a higher number of construction permits, we expect our forecast for 2025 (of around 2%) to look considerably better than the negative figure that we have for 2024. 2025 will be supported by purchasing power-boosting policy measures set out by the recently installed government. But given the recent disappointment in consumer spending and some recent fiscal setbacks (i.e. related to compensation for victims of the allowance affair and legal rules on the proposal for a new wealth tax), it is clear that a considerable degree of uncertainty surrounds the projections.

Author

Marcel Klok
Senior Economist, Netherlands
marcel.klok@ing.com

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