Dutch growth flat but outright recession unlikely

Dutch GDP remained constant in the first quarter of 2022 compared to the fourth quarter of 2021, in line with expectations. Government consumption dragged GDP down no less than one percentage point, as testing and vaccination were scaled down, while expanding investment provided a substantial positive counterweight

Consumer confidence in the Netherlands has reached a record low

0.0%

GDP growth rate

1Q22 (QoQ)

As expected

Public consumption holds back GDP

Dutch GDP stabilised with growth of 0.0% in the first quarter of 2022 compared to the fourth quarter of 2021. This was only a little worse than forecasted (+0.2%). Among expenditures, investment provided the largest contribution to growth, although some items suffered from supply bottlenecks. Gross capital formation increased by 0.8% compared to the fourth quarter. While investment in housing (8%), intangible assets (2%), infrastructure (1%) and ICT equipment (1%) expanded, expenditures volumes on transport equipment (-28%) and machinery and other equipment (-4%) fell.

Household consumption figures showed stabilisation more or less, only slightly below expectations. During the first quarter, the lockdown was terminated (some mid-January, rest end of January) while public Covid support measures for businesses and employment were still in place until the end of March. The reduced level of consumer expenditure related to shopping restrictions in January resulted in a minor contraction (-0.1% quarter on quarter) of household consumption. Public consumption contracted much more in the first quarter of 2022, with a hefty -4.0% quarter-on-quarter, as testing and vaccination facilities were scaled down. Without this massively lower level of public spending, GDP growth would have been 1.0% quarter-on-quarter.

Export showed a diverse picture behind its contraction of -0.5%. Goods export developments (-3.6%) disappointed because of the worldwide supply chain disruptions. Domestically-produced goods exports and especially re-exports both contracted. Service exports saved the day to some degree, expanding 10.1%, as these partially rebounded from the low levels that still existed in the fourth quarter of 2021, i.e. due to Covid concerns and containment measures. The overall net contribution of international trade to GDP growth was positive (0.2%) in the first quarter since the development of imports (-1.3%) was even weaker than export growth.

Construction most expansionary, while ICT disappointingly contracts

From a sectoral perspective, growth was strongest in construction (7.5% quarter on quarter growth), apart from the volatile mining and quarrying (i.e. oil and gas, 34.0%). Energy suppliers (2.4%), business services (1.4%), trade, transport and hospitality (0.7%) and financial services (0.5%) expanded, while value-added contracted for water utilities (-4.2%), ICT (-2.6%) and semi-public services (-2.3%). Also, the manufacturing industry (-0.1%) unsurprisingly declined, due to continued supply chain issues. The size of agriculture (0.0%) remained unchanged.

Still mildly optimistic despite inflation and supply chain headwinds

As the 1Q22 figure for GDP was more or less in line with our projections, substantial revisions to our 2022 forecast (2.7%) do not seem necessary for now. Surprisingly, business sentiment has been largely untouched by the Ukraine war, as shown by the survey from the European Commission. In fact, sentiment in commercial services increased significantly in April. Although future declines in business confidence and some wait-and-see behaviour in investment cannot be fully excluded, given the high uncertainty and price pressure surrounding the Ukraine war, the current levels of confidence bode well for a decent expansion of economic activity in the near future.

Consumer confidence, however, has reached a record low, in line with high (energy) inflation expectations that are expected to erode real incomes. This may be the cause of one or several quarters of declining private consumption, as we forecast in our base case. Although this and continuing worldwide supply chain issues might translate into an occasional negative quarterly GDP figure, we do not currently forecast an outright, longlasting recession for the Dutch economy. For that, demand still simply seems too strong.

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