Trade performance boosts Dutch GDP despite trade conflicts

Dutch GDP growth increased to 0.7% QoQ, in contrast with stagnant growth in the Eurozone. While the realised figure for the Netherlands slightly beats expectations, our forecast remains unchanged for the year at 2.8%

Source: Shutterstock

0.7%

Netherlands GDP growth rate

2Q18 (QoQ)

Higher than expected

Netherlands GDP growth in the second quarter was mainly driven by trade, a small positive contribution of investment and minor positive growth in government consumption.

Trade war talk affected sentiment in industry, as shown by purchasing manager indices, causing new export orders to fall. Positive export growth figures in April and May however compensated for weak export figures in June. In fact, trade rebounded in the second quarter from an unusual and unexpected weak 1Q. While exports increased by 0.9% QoQ, imports fell by 0.1% quarter on quarter especially in 2Q. Especially merchandise exports contributed positively, with a growth of 1.1% QoQ. Services drove the decrease in imports, showing an import decline of 1.1% QoQ.

> *Given the 2Q number, we maintain our GDP growth forecast of 2.8% for 2018. Compared to other European countries this remains above average*

Investment growth decreased, but with 0.7% QoQ remained positive. The booming housing market keeps continuing to contribute to growth. Residential investment growth slowed down to 1.1% in 2Q (1.8% QoQ in 1Q), reflecting increasing capacity constraints and prices in the construction sector. Transport equipment investment fell almost 9% QoQ in 2Q, after strong growth in 1Q. Businesses, however, accelerated investment in machinery & other equipment, with growth increasing to 2.8% QoQ. Also, investment in intangible assets such as R&D was increasingly popular, growing with a strong 2.0% QoQ.

Household consumption disappointed after a strong 1Q, showing hardly any growth in 2Q. Food, as well as non-food retail consumption, went up, but car sales fell after a strong increase in 1Q. Consumer confidence remains far above historical averages. Government consumption increased by 0.2% QoQ, in line with medium-term fiscal plans.

Sector-wise, the main engine of growth in the first quarter was commercial services again (0.9 % growth QoQ), adding 0.4%-points to GDP-growth. Construction,came second with 4.2% QoQ. Industry continued to grow, by 0.6% QoQ, despite softening of survey indicators. Also, agriculture and fishing production grew, by 0.5%, and thereby recovered from a decline in 1Q. Mining and quarrying (i.e. gas) production fell 7.9% due to a recent shutdown of a minor production facility in the earthquake-stricken Province of Groningen.

While the labour market is tightening further, employment is still rising at a considerable pace: 52K extra jobs were created (+0.5% QoQ) in 2Q18. The number of unemployed persons per open vacancy keeps dropping - and fell to 1.4 in 2Q18. This is close to the 2008 record low of 1.3.

In fact, the number of vacancies has never been higher than the 251 thousand reported at the end of June 2018. Also, wage growth started to show signs of acceleration (with collective wage agreement showing an average hourly wage growth of 2.2% year-on-year in July 2018, compared to 1.3% in July 2017), supporting private consumption going forward.

Given the 2Q number, we maintain our GDP growth forecast of 2.8% for 2018. Compared to other European countries this remains above average.

Author

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

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