Dutch inflation drops in July

Inflation in the Netherlands continued its downward trajectory in July, dropping to 2.5% year-on-year from 2.8% in June. A sustained return to the 2% target is not in sight yet, however, as service inflation remains quite stubborn

The Dutch service sector is keeping the inflation rate elevated

The good news is that core inflation fell too, to 2.2% YoY, according to figures published by Statistics Netherlands today. Still, with the HICP headline rate at 2.5%, inflation is not yet where policymakers want it to be. Markets in the Netherlands, in particular, need to find a new balance: July was the 19th consecutive month in which headline inflation exceeded the eurozone average, which stood at 2.0% in July.

For a while now, the Netherlands has been grappling with a tighter labour market and more acute supply-side constraints than the broader eurozone economy, ranging from housing and land shortages to limited emission space. This still appears to be the case.

Four products responsible for the bulk of the deceleration

Demand and supply forces, as well as the (lagged) effects of policy changes, contributed to the deceleration of headline inflation in the Netherlands last month. This was particularly due to a moderation in price dynamics for clothing, accommodation services, and rental housing. Additionally, the impact of last year's sharp tobacco tax hike has now faded from the monthly inflation figures.

(Housing) services are particularly important

Services, in particular, are currently keeping the inflation rate elevated, with a 3.1% YoY rise in July, while non-energy industrial goods increased only 1.3% in price. Legal, financial, (car and health) insurance, vehicle repair, housing, education, and childcare services, as well as package holidays, all still rose by 4% YoY or more in July, in part due to the recent strong (albeit decelerating) wage cost rises. The effect of housing was particularly important, contributing no less than 0.4 percentage points to the overall HICP inflation rate in July. This is likely to remain one of the factors keeping inflation above the 2% target, as housing remains in short supply compared to population growth.

Food inflation accelerates

Among goods, food remains a key contributor to above-average inflation, adding 0.5 percentage points to the headline rate in July. Notably, food inflation accelerated to 3.9% YoY in July, reflecting elevated price pressures in global commodity markets over recent months. Increases were seen in coffee, cocoa, beef, and veal. These upward pressures are expected to persist for at least the coming months.

Expect inflation to remain above 2% for a while longer

Looking ahead, we expect headline inflation to continue to decelerate, but only for a short while. With substantial contributions from food, housing, hospitality, and other services, we continue to forecast considerable inflation of 2.8% for all of 2025. The decrease in price pressures should be more apparent in the figures for 2026, but still not be enough to bring the inflation rate below 2%.

Author

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