Netherlands: Nothing holding the economy back?

The Dutch economy still shows robust momentum with quarterly growth of 0.4% in the third quarter. At the same time, investment and business sentiment fell, which does not bode well for the quarters ahead

0.4% GDP growth rate

3Q19 (QoQ)

The big divide

There is a large divide between consumers and the government on the one hand and businesses on the other. While consumers stepped up their spending by 0.2% QoQ and government consumption rose by 0.5% QoQ, total investment (excluding stock building) fell -0.2% QoQ. Consumers are benefiting from the late-cycle increase in wage growth and ongoing employment growth, while it seems that businesses have started to worry more about growth prospects. Investment in transport equipment dropped (6.3%).

Today's release of the business sentiment indicator by Statistics Netherlands and partners shows that non-financial businesses have become less optimistic. The fall in confidence was the largest since the final quarter of 2011. The drop in sentiment was particularly marked in the gas & oil industry and ICT, while the transport equipment industry and car dealers were among the most pessimistic industries. The recent performance in Dutch trade does not seem to be part of the story, however. Sentiment about turnover abroad in the next three months improved. Despite weak world trade and sluggishness in global industrial production, Dutch exports performed well, with 1.1% QoQ growth in the third quarter. The net trade contribution was solidly positive, with imports increasing only 1.2% QoQ.

What the future holds

Looking ahead, there are obviously still substantial external political risks to the Dutch economy. The trade conflict is ongoing and the Brexit drama has not yet come to an end. This might have begun to take a toll on the willingness of enterprises to expand production capacity. But in fact, we've had reasons to be more optimistic in the last few weeks. While nothing is a done deal yet, President Trump said that a mini deal between the US and China was something that "could happen soon" and the risk of a 'no deal' Brexit has come down quite a bit. For Europe, including Dutch suppliers to the German car industry, it's encouraging to hear the US Commerce Secretary say that tariff hikes on European car imports can be avoided.

Over the last year, investment held up well in the Netherlands despite the general economic slowdown and worsened global prospects. Given that domestic spending is still ongoing and the fact that some political risks have increasingly become probable upside risks, one could ask businesses, what's holding you back? Today's business sentiment indicator shows that the majority of businesses still expect investment to increase both in 2019 and 2020, but the trend clearly is one of fading momentum. For now, at least, a solid GDP figure is in the bag, confirming our outlook of 1.7% GDP growth for 2019.

Author

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