Strong economic growth for the Netherlands now, but some slowdown expected

Dutch GDP expanded in the third quarter by a strong 0.8% quarter-on-quarter, better than expected due to surprisingly positive export developments. While public consumption and investment also expanded, it was consumption by households that provided the largest contribution. Despite strong growth, the outlook is sluggish

0.8%

GDP growth rate

3Q24 (QonQ)

Higher than expected

Broad based growth, with consumers leading the way

Consumption by households provided the largest contribution to growth by expanding 0.8% quarter-on-quarter adjusted for seasonal effects, a bit better than ING transaction data had suggested. The drivers of consumption went in different directions, however.

The main positive is the rise in purchasing power, with contractual wages increasing by 6.7% year-on-year, while HICP consumer prices rose by 'only' 3.4% year-on-year. Although the number of employed people increased, the number of hours worked fell, and the unemployment rate rose. Consumer confidence remained relatively unchanged from the second quarter and stayed somewhat low.

Government consumption continued to expand as expected, rising by a solid 0.8% quarter-on-quarter. The number of hours worked in public administration also increased, reflecting the ongoing expansionary fiscal policy that the current government plans to maintain into 2025.

Investment expanded quite solidly (0.7%). This was mainly caused by an upswing in the purchases of machinery and intangibles. Capital expenditures on software & databases and R&D rose. Investment in most other items fell, with the most notable contraction in ICT equipment.

Within real estate investment, spending on housing, infrastructure, and commercial buildings all declined, while only real estate transaction costs increased, driven by a surge in home sales.

Businesses continued to reduce inventories, albeit at a slower pace than in the previous quarter (-0.1% GDP in Q3 2024), which resulted in a positive contribution to growth.

Exports unexpectedly expanded (0.4%), while imports also rose (0.6%). This was due in particular to an expansion in service exports (0.6%), but to our surprise, good exports also managed to expand mildly (0.2%). The net contribution of the trade balance (exports minus imports) to the GDP was mildly negative (-0.1% GDP), due in part to a considerable increase in service imports.

Growth in almost all sectors

Among Dutch industries, the oil & gas sector was the only industry that really contracted (-1.7%). While ICT, agriculture & fishery, recreation & culture and real estate stagnated, others expanded. While small sectors such as energy and water & waste showed the largest expansion, also the manufacturing sector (1.6%) and financial service sector (1.9%) were among the top performers.

Sluggishness in the quarters ahead

Optimism about the third quarter has grown over the past few months, as monthly data has shown some positive signs. In fact, actual growth exceeded our most recent expectations. However, this does not imply that the outlook for the next few quarters is very bright.

Most recently, there have been new negative signals, especially from the manufacturing sector. For instance, monthly industrial production fell back considerably in September (-2.8%MoM). The European Commission's monthly survey also showed that industry became more pessimistic in October about expected sales prices and production in the coming months. Such noticeably more negative sentiment in industry does not bode well for exports and investment. And the threat of US trade tariffs does not help either.

So, growth in the nearest quarters is expected to be sluggish. It will mainly depend on consumers and the (semi)public sector. As the inventory and semiconductor cycle may improve somewhat next year, international trade may pick up its pace again, but still, it looks like growth in the Netherlands will be below potential for a while.

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