

The Netherlands avoids recession for now with positive fourth quarter

Dutch GDP expanded in the fourth quarter of 2022 by a decent 0.6% compared to the third quarter. While this followed a minor contraction of 0.2% in the third quarter, a recession has been avoided for now. This was in line with recent expectations. The expansion was particularly driven by growth in consumption of households and net trade



Source: Shutterstock

0.6% GDP growth rate
4Q22 (QoQ)

As expected

Broad-based growth while inventories declined

Up until quite recently, ING Research had forecast a slightly negative GDP growth rate for the fourth quarter of 2022 on expectations that strong price increases would weigh on consumer budgets. However, the most recent forecast in our [February monthly economic update](#) was

positive at 0.5% quarter-on-quarter. The outturn was even more positive than that, with GDP rising 0.6% compared to the previous quarter and 3.0% compared to the fourth quarter of 2021.

Dutch exports continued to perform well and in line with expectations, with growth of 2.4%. Goods export expanded by 3.6%, while service exports contracted by 1.4%. Imports expanded similarly to exports, at 2.2%. Imports of services decreased by 3.5%, while goods imports expanded by 3.8%. The overall net contribution of international trade to GDP growth in the fourth quarter was a decent 0.4 percentage points. As such, the expansion of net trade was more important in the fourth quarter than the growth of any of the other expenditures.

Household consumption expanded too, rising by 0.9%, better than expected. Monthly figures for domestic consumption suggest that growth in the fourth quarter came from service spending (1.8%). Other non-food goods, a category that includes energy, declined the most (-2.7%). Durables were stable, while domestic food consumption declined markedly (-0.9%). Government consumption increased by a moderate 0.4%. As this was mostly in individual final government consumption, it seems that healthcare spending rose. Dutch consumers consumed less abroad, possibly related to the timing of school holidays, but foreign-based consumers bought more in the Netherlands.

Gross capital formation expanded by 0.5% compared to the third quarter. The growth in investment was broad-based with a rise seen in non-residential buildings (3.1%), intangible assets (2.4%), infrastructure (1.9%), transport equipment (1.8%), ICT equipment (1.5%), machinery & other equipment (1.3%) and housing (0.6%). Inventories provided a substantial drag on growth, with a net reduction worth 0.7% of GDP which is historically quite large.

Many sectors expanded

From a sector perspective, value-added expanded the most in construction (2.3%) and mining & quarrying (i.e. oil & gas, 2.3%). There was also growth in recreation & culture (2.0%), real estate (1.3%), ICT (1.1%), business services (0.9%), semi-public services (0.5%), manufacturing (0.5%) and trade, transport & hospitality (0.3%). The last sector includes retail, of which sales volumes declined by more than 4% month-on-month in December, casting doubt on the most recent direction of consumer developments heading into 2023. While consumer sentiment increased in recent months, it is still at a very low level. This is one of the reasons why we still project negative growth for the first quarter.

Some sectors contracted in terms of value added, but these were mostly small sectors: water utilities (-3.2% quarter-on-quarter), the financial sector (-1.7% QoQ growth), agriculture & fishery (-0.6%), energy supply sector (-0.1%).

Remarkable in the sector figures is the growth in value added of manufacturing, while production volumes dropped by almost 1% and gas consumption was down substantially. This suggests that profit margins in this sector are improving. The sectoral average however also hides the fact that industrial subsectors fare very differently: while production increased by more than 4% quarter-on-quarter in e.g. pharmaceuticals and electrical equipment, it for example dropped by 9% in basic metals and almost 7% in the chemical industry excluding pharma.

Much uncertainty in consumption going forward, up and down

The fourth quarter figure for GDP was much in line with our forecasts and therefore does not

instantly call for a wild revision of forecasts for early 2023 (although tweaks will always happen with our monthly updates). Since core inflation is still on the rise, we continue to expect expenditures to weaken in the first quarter of 2023.

There are upward and downward risks. Household consumption is interesting, with low but rising consumer confidence. December 2022 data shows large amounts of additional accumulated savings in consumer bank deposits and January 2023 data shows strongly accelerating contractual wage increases. If this money is widely spent and mainly spent domestically, this might provide an upward surprise at the start of 2023. But if this is spent on -later than usual- vacations abroad, higher imports might also drag down GDP in line with the current negative forecast. In any case, an official recession of two consecutive quarters of negative growth has been avoided for now.

Author

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.