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.

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