

## The Netherlands' economy is still stuck in recession

A technical recession in the Netherlands has dragged into the third quarter. GDP growth shrank by 0.2% QoQ, in line with forecasts. A reduction in inventories and investment is the contraction's main driver; exports weren't great either



People in Dam Square, Amsterdam

# -0.2%

As expected

## The Netherlands' GDP

3Q23 (QonQ)

The contraction in the third quarter means the recession still hasn't officially ended for the Netherlands. GDP was -0.6% lower compared with the third quarter of 2022. The current slowdown is shallow; we haven't seen any big turnarounds in the labour market. While employment contracted very mildly in the number of hours worked, it still expanded in terms of the number of jobs and persons employed.

## Reductions in inventories, investment and exports, while public consumptions continued expansion

The third quarter's largest drag on GDP growth was the reduction in inventories (-0.4%-point). That was expected since firms still had signalled that they considered their levels of inventories as too large. Investments were down too, contracting by -1.8%, and that was another significant reason for the continuation of the technical recession. This was especially due to fewer transport equipment purchases, but investment in machinery, infrastructure, ICT equipment, housing and commercial buildings suffered. Only investment in intangibles such as R&D and software rose.

Trade contracted, but the net contribution of the trade balance (exports minus imports) to the GDP was positive due to a reduction in imports. Notably, goods exports (-1.7%) and imports (-2.8%) fell, while services exports (-0.8%) and imports (-0.2%) contracted more mildly. While domestically produced exports suffered, re-exports were rising.

Household consumption flatlined as inflation continues to bite; nominal consumption rose (1.3%) again after a fall last quarter. While foreign consumption in the Netherlands rose (contributing to exports) and Dutch households purchased more abroad (contributing to imports), domestic consumption fell. There were fewer purchases of services and durable goods within the Netherlands, but there was growth in domestic consumption of food and beverages.

Government consumption was the only expenditure that rose significantly, expanding by 0.6% quarter-on-quarter. Employment increased in public administration and education.

## Energy supply sector and recreation and culture mains cause of overall contraction

Among Dutch industries, the energy supply sector (-7.4% quarter-on-quarter) and recreation & culture (-2.5%) notably showed a decline in value added. Also, ICT (-0.4%), construction (-0.4%) and trade, transport & hospitality sector (-0.1%, which includes retail, of which sales volumes dropped by -1.2% QonQ) and business services (-0.1%) contracted.

Manufacturing contracted for the third quarter in a row (-0.1% QonQ), and this is beginning to look more like stagnation. Tobacco, leather & footwear, machinery, and pharmaceuticals were hit most by industrial production declines.

Sectoral growth was strongest in mining & quarrying (i.e. oil & gas, 11.5%), financial services (0.7%), real estate (0.7%) and water & waste (0.7%), while agriculture and fishery (0.3%) and government, education & health (0.3%) expanded mildly.

## Mild growth expected to return

These third quarter figures don't call for a big revision of our outlook. Despite the negative number for 3Q23, we do expect a bit of growth to return in the fourth quarter. While this certainly is not a done deal, we're already seeing some more positive news here. [Survey data by the European Commission](#) suggests that expectations of businesses are improving, notably in construction and retail. The latter is in line with price increases and housing market transactions. We expect inflation to slow further and, with higher wage increases (up 6.5% YoY in October), consumers have more

spending power.

The commercial service sector is also more optimistic about demand in the near future. That said, GDP growth is expected to remain below potential. We particularly expect the negative trend in investment to continue, given the weakness in the global business cycle and higher financing costs.

## Author

### Marcel Klok

Senior Economist, Netherlands

[marcel.klok@ing.com](mailto: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>.