The Netherlands' economy rebounds to 3% below pre-crisis peak

Dutch GDP in the third quarter of 2020 turned out better than expected, growing by 7.7% (QoQ) given temporarily looser social distancing measures. It got to 3.0% below the peak of 4Q19, better than many European peers, perhaps due to effective fiscal policy, a loose lockdown earlier in the year and a favourable sector composition

7.7%

The Netherlands GDP

3Q20 (QoQ)

Better than expected

Level of GDP rebound stands out favourably compared with others

The Dutch economy became 7.7% larger compared to the second quarter of 2020 but was still

3.0% below the peak in GDP of 4Q19. While this performance is better than that of many other eurozone economies, it still means that the Dutch economy was operating only at 97% of its output of 4Q19; it hasn't yet managed to recover fully. This relatively favourable GDP performance, which might speculatively be related to a combination of the comparatively looser “intelligent lockdown” during the first wave of the virus, to the size and effectiveness of the fiscal support policies and to a favourable sector composition (tourism is relatively small), has not translated into a superior labour market outcome. The unemployment rate actually rose more than in many other eurozone economies.

Better than expected rebound due to favourable consumption and exports

As in other countries, the high growth rate quarter-on-quarter was mostly a mechanical rebound that resulted from the unwinding of the lockdown in March-May. It turned out more favourable than anticipated. Consumption and exports particularly contributed most to growth compared to the second quarter, with respectively 9.4% and 8.6% growth quarter-on-quarter. Gross investment was up as well, although more modestly (6.3%). Government consumption expanded by 6.3%, shooting 1.6% above the level of 4Q

Rebound in goods much better than in services

Household consumption did particularly well in terms of growth. Recent monthly figures for households' domestic consumption show that service consumption rebounded until September to a level of 8% below the pre-Covid peak, while goods' consumption reached levels even higher than before the crisis. Since consumer confidence is low, substitution must be part of the explanation: households used part of their foregone spending on holidays and recreation to buy more goods such as electronics and supplies from the hardware store. A similar pattern emerges from the export figures: while service exports increased modestly by 3.4% compared to 2Q20 to 11% below the level of 4Q19, Dutch goods exports rebounded by 10.4% to only 2.1% below the level of 4Q19.

Despite good figures, an upward revision for 2020 is unlikely

While service production still seemed largely subdued in 3Q20, recently reinstated social distancing measures will push down services again in 4Q20. All in all, a general decline in GDP in 4Q20 seems unavoidable, as both domestic and foreign demand will take a step back. Given the better-than-expected rebound in 3Q20 and the expected decline in 4Q20, our GDP forecast for 2020 may not change that much. We'll have much more on that in our Global Outlook 2021 next week.

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