Dutch GDP sees a sharp drop in the first quarter

Dutch GDP contracted at the start of 2023 by a substantial -0.7% compared to the previous quarter, which was much weaker than our most recent forecasts. The sharp drop was especially driven by a considerable rise in service imports and almost a doubling of the reduction in inventories

Source: Shutterstock

-0.7%

GDP growth rate

1Q23 (QoQ)

Worse than expected

Lower goods exports, higher service imports and doubling of inventory wind down

Previously, we concluded that a small contraction could not be fully excluded, our most recent base case forecast based on the latest monthly data in the May Monthly economic update of 0.4% quarter-on-quarter was still positive. The outturn was much worse, with GDP falling -0.7% compared to the previous quarter. Still, GDP was 1.9% larger compared to the first quarter of 2022.

Dutch export performances were weak, with a contraction of -1.8% and a negative contribution to GDP growth of -0.5%. The latter mainly resulted from services. Service exports expanded by 0.9%, while service imports rose by a substantial 4.5% and thereby provided a large negative contribution to GDP growth. Goods exports contracted by -2.7%, in line with global developments. World goods trade was also weaker in January and February 2023 than in the fourth quarter of 2022. As goods imports fell to a similar level as good exports, the net contribution of goods trade to GDP growth was close to 0%.

As a considerable share of firms in retail and manufacturing still considered stock as being “too large” according to recent surveys by the European Commission, inventories were yet again reduced substantially. The reduction of -1.1% GDP was almost twice as in the fourth quarter of 2022, larger than expected. It contributed a considerable -0.5%-point to the negative GDP development. As expected, investment excluding stock building did decently well, with gross capital formation increasing by 1.1% compared to the fourth quarter. The expansion of investment was especially strong in transport equipment (6.5%), housing (3.7%) and infrastructure (3.6%). Growth was also present among intangible assets (0.9%) such as software & databases and R&D. There was less investment in ICT equipment (-6.2%), non-residential buildings (-1.0%) and machinery & other equipment (-0.6%).

Consumption of households stagnated, growing only by 0.05%, supported by ongoing employment growth and accelerated income growth but held back by high inflation. This was only a little bit weaker than forecast. Dutch consumers bought more abroad, while consumers living abroad also purchased more in the Netherlands. Government consumption expanded by 0.5%. Growth was limited to individual final government consumption, which includes health care and education consumption.

Contraction in service sectors as well as in energy-intensive industries

Among Dutch industries, recreation & culture (-4.5%), ICT (-1.9%), and especially mining & quarrying (i.e. oil & gas, -28.5%) contracted sharply in terms of value added. Manufacturing also shrank by -1.1% QoQ, adjusting the increased energy costs. The contraction of industrial production was most pronounced in footwear & leather goods, construction materials, beverages and furniture. Manufacturers of machinery, chemicals (excluding pharmaceuticals), textiles, basic metals, paper and printing produced less.

There was also a decline in value added of trade, transport & hospitality (-1.1%), water utilities (-0.8%), business services (-0.7%), the financial sector (-0.5%), and semi-public services (-0.2%). The trade, transport & hospitality sector includes retail, of which sales volumes increased by 0.5% QoQ, but contracted more recently by -1% MoM in March. Construction (2.4% QoQ growth), the energy supply sector (1.6%), agriculture and fishery (1.0%) and real estate (1.0%) expanded.

Subdued growth ahead

First quarter GDP this year was considerably lower than our forecasts and will most likely lead to a substantial downward revision of our forecast for annual growth in 2023. We expect growth to resume in the following quarters, as inventory adjustment has a smaller effect on overall GDP. Neverthless, we maintain our view that growth in the course of 2023 will be at a positive but subdued rate, as higher financing costs weigh increasingly on investment and real estate-related spending.

Dutch goods trade growth is expected to resume growth in line with a recovery of world goods trade as the degree of global supply chain issues normalises, the bullwhip effect of the inventory reduction process reduces, and China's post-covid reopening all coincide with more benign trade developments. Still, we'll see moderate export growth as demand from the eurozone expands at a weak rate and the US falls into recession.

Despite accelerating wage growth, Dutch household consumption is set to expand at a slow pace as inflation remains high for a while longer and the housing market moment continues to fade. A normalisation of the household savings rate and improving consumer confidence, however, constitute upward risks to the forecasts.

Public consumption is quite likely to become one of the main drivers of growth in 2023, with very high spending ambitions set by the coalition agreement. Recently proposed austerity measures (in the Spring Budget, in response to higher than projected interest rate costs) were so limited that this expectation has hardly changed. All in all, subdued but positive growth seems like the most plausible scenario for Dutch GDP this year.

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