

# Dutch GDP jumps to above its pre-crisis peak

Dutch GDP surpassed its pre-crisis peak in the third quarter of 2021, growing 1.9% (QoQ), notably thanks to increasing service consumption. While social distancing policies were reintroduced recently in the Netherlands, and supply-side disruptions are affecting production, strong demand suggests the economy can weather a short storm



There's been demonstrations in Amsterdam over new anti-Covid restrictions recently

1.9%

Dutch GDP growth rate

3Q21 (QoQ)

As expected

## Strong service consumption rebound drives GDP

Dutch GDP expanded by 1.9% in the third quarter of 2021 compared to the second, where we saw

a 3.8% jump. It came in 1.7% higher than the pre-pandemic peak of 4Q2019. Household consumption provided the biggest contribution (1.6%-points) to GDP growth. This was caused by a considerable (yet unfinished) rebound in service consumption, which came at the expense of falling consumption of durables, food and other goods.

Government consumption also rose in the third quarter of 2021 by 0.7% Quarter-on-Quarter. Gross investment, on the other hand, declined by -2.7% compared to the third. The decline was across many types of gross capital formation. Investment in ICT (Information, Communications Technology) equipment (-4.4%), transport equipment (-4.0%), intangibles (-3.9%) and housing (-3.5%) fell, while also expenditure on commercial buildings & infrastructure (-0.9%) decreased. A notable exception was machinery & other tangible assets; investment there rose by 2.4%. Changes in inventories had a significant positive contribution to the GDP growth figure (0.8%-point).

Exports grew by 1.3%. Both goods exports (0.5% QoQ) and services exports expanded (4.1%) in the third quarter. Also taking into account the expansion of imports of 1.6%, net trade had a negligible negative contribution to the GDP development of -0.03%-points.

## Services sectors expanded at the highest speed on rebound potential

Taking the sectoral perspective, growth was strongest in the services sector which still has a lot of rebound potential. Culture & recreation (6.5%), trade, transport & hospitality (6.1% QoQ) and IT (5.3%) were leading the pack, while agriculture (1.4%) also expanded its value-added. The construction sector (-3.5%) and manufacturing (-0.5%) went into contraction.

## Downside risks increasing due to Covid

Approaching a seven day average of 850 new daily confirmed Covid infections cases per million inhabitants and an estimated effective reproduction rate of 1.3, the current virus wave is becoming significant and breaking new records. Therefore, the caretaker government initially adopted mild social distancing measures, such as ordering wearing face masks in public areas and for contact occupations in early November and more recently announced more stringent measures as of 13 November (until 4 December), such as working from home instead of the office, a maximum of 4 guests per day per household, a 6pm closure of non-essential retail, zoos, museums, barbershops, amusement parks, casinos and events and an 8pm shutdown of essential retail, bars and restaurants.

While the initial measures seem only to have had a mildly negative effect on consumer spending so far, the latest stricter measures might put a more serious lid on growth, especially of service consumption. This is a risk to our projections, as the degree to which this will or can be compensated by public support is yet to be determined. The bulk of generic public Covid support measures for employment and income ended at the end of September 2021. The government, however, announced on 12 November that it will reintroduce support, but in what way and to what extent is still unknown.

## Political delays, EU investment and Covid

Members of the current caretaker government, VVD, D66, CDA and ChristenUnie, have been negotiating the details of a coalition agreement since early October. While it is hard to predict

when there will be an agreement, it is already certain that this process of forming a government since the March elections will set a new record as the longest process in the Netherlands ever. As a result, the Dutch government has not tapped into the European Recovery and Resilience Facility yet.

Apart from the effects of faded Covid support spending, this however does not mean that fiscal policy is frugal on all fronts in 2022. While the government already proposed to discretionarily increase spending by about €8 billion (0.9% GDP) on, for example, combatting Covid (test, vaccinations, etc.), crime-fighting, compensation for the [child care allowance affair](#) and most notably measures combatting climate change, some €2 billion (0.2% GDP) of additional spending was necessary. That, notably, went on teacher salaries and lowering taxes on social housing corporations to get the 2022 budget passed by opposition parties. Some of this spending will contribute to the 2022 GDP numbers.

## Still fairly optimistic despite possible short term setback

Despite the downward risks, we hold an optimistic view of the Dutch economy, given the strength of general demand. One of the notable strengths is the consumer, as a result of a buoyant labour market. Gross and net participation rates have reached historical record highs and the unemployment rate is at a low 3.1%. Some remaining rebound potential could still be realised by the end of the year or during 2022. Services' exports still have some ground to cover. If the pandemic allows it, this could mean that 2022 could see an actual GDP growth rate above the potential growth rate.

Today's third-quarter numbers were roughly in line with our forecast (which was 1.6% QoQ for GDP). The developments in the fourth quarter should definitely be weaker, not least because it was already under pressure from global input supply disruption. Mildly negative figures can neither be fully ruled out for the final quarter, but that much depends on the stringency and duration of social distancing measures. All in all, we believe that year-on-year GDP growth for 2021 might still be in the ballpark figure of 4.5% of our earlier forecast, but that the downward risks have clearly risen.

## 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>.