Dutch GDP slowing, but still growing

Dutch GDP decreased to 0.2% in the third quarter of 2018, falling short of already lowered expectations. But compared to other eurozone economies, growth is likely to remain above average in 2019

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0.2%

Lower than expected

GDP growth rate

3Q18 (QoQ)

Weakened domestic momentum combined with limited but positive export performance is keeping the Dutch economy continuing in its upward direction in 3Q but at a much slower pace.

GDP-growth in the Netherlands was mainly driven by private consumption but depressed by falling investment and a small negative contribution of net trade resulting in stronger imports.

While exports increased by 0.5% quarter on quarter, imports rose by 0.6% QoQ - where merchandise exports contributed positively with a growth of 1.0%; service exports fell by -0.9%

QoQ. The negative contribution of trade was expected, given the increasing protectionist sentiment in the global economy. The significant trade rebound in 2Q as well as a continued slowdown in the eurozone growth in 3Q (to 0.2%).

Investment came out surprisingly weak, with a decline of -0.5% QoQ. The booming housing market failed to continue to contribute to growth. Increasing capacity constraints (such as difficulties to find sufficient capable workers) and prices in the construction sector caused a fall in residential investment growth to -1.1% QoQ in 3Q.

Also, investment in intangible assets such as research and development fell by -1.9% QoQ, while less ICT-equipment was bought. Businesses maintained growth in investment in machinery and other equipment, with growth falling to 1.5% QoQ. On the upside, transport equipment investment jumped 2.2% QoQ in 3Q, after a decrease in 2Q.

Household consumption disappointed again with 0.4% QoQ, after already a weak 2Q. Consumer confidence fell to the lowest point in two years but still clearly above historical averages. While employment growth peaked in 4Q18, the number of jobs still rose by 61 thousand QoQ in 3Q18. Government consumption stayed flat (0.0% QoQ), falling short with respect to the medium-term fiscal plans.

Sector-wise, the industry was surprisingly the main engine of growth, growing by 1.3% QoQ even though machinery, electronics and transport equipment sectors seem to have put a drag on growth. Commercial services grew but at the surprisingly slow pace of 0.2% QoQ. Construction (1.2% QoQ) and agriculture (2.1% QoQ) declined.

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The third-quarter figure shows that although domestic momentum has been strong for a while, the Dutch economy isn't entirely immune to the slowdown seen elsewhere. While DGECFIN's Economic Sentiment Indicator points at lower but still positive growth for the Netherlands in 4Q and the start of 2019, the NEVI PMI suggests industry became somewhat more upbeat about production as well as export orders.

How external risks, such as the tit-for-tat trade war, Brexit, and emerging market turmoil play out will determine to what extent our GDP growth forecast for 2018 of 2.9% needs to be revised downwards. Compared to other eurozone economies, growth is likely to remain above average in 2019, on the back of expected wage acceleration, labour tax cuts and solid export competitiveness.

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