

The Netherlands falls into a technical recession

Dutch GDP contracted in the second quarter of 2023, declining by -0.3% compared to the first quarter. This follows a contraction in the first three months of the year, meaning the Netherlands is in a 'technical recession'. The contraction was mostly driven by declining international trade and household consumption



-0.3 GDP growth rate
2Q23 (QoQ)
Lower than expected

Dutch GDP contracted in the second quarter of 2023 by -0.3% quarter-on-quarter, following a contraction of -0.4% between January and March.

GDP in the second quarter was also -0.3% smaller compared to the same quarter in 2022. The

main reasons for the quarter-on-quarter contraction were falling goods exports, falling consumption of households and an increase in imports.

The performance of Dutch exports was as weak as during the first months of the year, with a contraction of -0.7% in the second quarter. This was solely due to a decline in goods exports of -1.4%, as service exports expanded by 2.5%. The net trade contribution to GDP growth (-1.0% point) was even worse than these numbers suggest, as imports rose (0.5%) both in goods (0.7%) and in services (0.1%).

After net trade, it was the falling consumption of households that provided the largest drag on GDP growth (-0.7% point), as the contraction was a very considerable -1.6% quarter on quarter. This was much worse than anticipated based on preliminary monthly figures. Dutch consumers bought less abroad and, against expectations, also reduced their consumption of domestic services. At the same time, the consumption of domestic food, beverages and tobacco also fell, in line with forecasts. Consumers living abroad purchased more in the Netherlands, however.

Investment excluding changes in inventories expanded as expected, by 1.3%. The quarter-on-quarter growth of gross capital formation was especially strong in transport equipment (9.9%), machinery and other equipment (2.6%) and non-residential buildings (1.2%). Investment in intangible assets (0.2%), such as software and databases and R&D, stagnated, while there was less investment in ICT equipment (-0.5%), infrastructure (-1.0%), and housing (-2.2%).

The change in inventories was positive, providing a large contribution (0.9% point) to the GDP development. This increase came as a surprise, as a large share of firms in retail and manufacturing have considered inventories as “too large” for quite some time now (according to [recent surveys by the European Commission](#)) and therefore was expected to reduce further.

Government consumption expanded by 0.7%. This direction was anticipated, in line with the ambitious coalition agreement of the government ([that fell recently](#)). Growth was particularly strong in collective government consumption (1.3%) but also visible in individual final government consumption (0.4%). Employment figures suggest that the latter could be driven by both healthcare and education consumption.

[Political uncertainty in the Netherlands to slow greening of the economy](#)

Contraction due to the trade, transport and hospitality and agricultural sectors

Among Dutch industries, agriculture and fishery (-4.1% quarter-on-quarter) contracted the most. The trade, transport and hospitality sector (which includes retail, of which sales volumes dropped by -0.4% QoQ) declined by -2.0%, and given its large size provided the largest negative contribution to the GDP development (-0.4% point). Water utilities (-1.5%), construction (-0.5%) and manufacturing (-0.3% QoQ) also contributed to the recession. The contraction of industrial production was most pronounced in tobacco, beverages, machinery, basic metal, clothing and construction materials.

There was growth in value added of mining and quarrying (i.e. oil and gas, at 10.9%), the energy supply sector (8.5%), recreation and culture (6.1%), semi-public services (1.2%), business services (0.8%), ICT (0.4%), the financial sector (0.2%), and real estate (0.1%).

Flat line ahead

Looking ahead, we see a very flat GDP, with quarterly growth figures remaining close to zero. The second quarter figures at first glance do not seem to call for a substantial change to the [view that there will be growth of a few tenths of a percentage point for all of 2023](#).

One positive is that wage growth surpassed inflation, but the repercussions of higher interest rates and weak international developments continue to weigh on the Dutch outlook. We see that sentiment figures are worsening and the fall of the government may also slow government expenditure growth a little bit. With a still-tight labour market and firms expected to hoard labour, we're not anticipating a deep recession with high levels of unemployment.

Author

Marcel Klok

Senior Economist

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>.