The Netherlands: Mild second dip confirmed

Dutch GDP in the first quarter of 2021 declined by -0.5% (quarter-on-quarter), confirming that the second Covid-induced dip was much less dramatic than the first. Hampered by social distancing policies of the lockdown, which started in mid-December, economic activity fell back but was only 3.4% below the peak of 4Q19

-0.5%

GDP growth rate

1Q21 (QoQ)

As expected

Consumption drives GDP down in first quarter

Dutch GDP fell -0.5% in the first quarter of 2021 compared to the preceding quarter, as the economy faced a high number of new Covid cases and another lockdown, in place since mid-December, with the closure of schools and retail. This mostly affected household consumption, which fell by -3.5% QoQ. The fall in brick and mortar retail sales was only partially mitigated by a surge in online sales. That said, the consumption-driven GDP decline turned out to be much less severe than in the second quarter of 2020, when GDP was at 90.1% of it pre-crisis peak of the fourth quarter of 2019.

Government consumption also came down in the first quarter of 2021, by -1.5% quarter-on-quarter. Gross investment, however, expanded by 3.7% compared to the fourth quarter, bringing it to 0.6% above the level of the fourth quarter of 2019. Investment in telecom equipment and housing increased, both by 10%, while gross capital formation only fell in transport equipment (-19%).

Exports continued to grow, despite the negative effects from Brexit. The monthly figure on the turnover of goods exports for January and February shows that imports from the UK were more affected than exports to the UK. While goods exports expanded by 0.5% QoQ, services exports grew no less than 5.8% QoQ to 87.4% of the pre-crisis peak of the fourth quarter of 2019. Despite the negative Brexit effect, imports expanded 1.3%. All in all, net trade contributed +0.4 percentage points to the GDP rate.

As social distancing measures fade, consumption should drive a quick rebound

The number of new Covid cases peaked close to 10,000 per day on 22 April 2021. Since then, it has been coming down to more than 4,000 by mid-May. This reduction and the falling hospitalisation numbers have induced the government to gradually reduce social distancing measures, with the first steps having been taken in mid-February. Among these significant steps was the reintroduction of shopping in non-essential retail and the opening of terraces. Today, we expect the government to officially announce further steps for later this week: public places in which crowds flow through, such as zoos and amusement parks, as well as gyms and indoor swimming pools could open again, while opening hours of terraces are likely to be extended to 07.00-20.00. This still leaves ample room for the future lifting of restrictions, such as indoor drinking and dining, and events, which we assume will continue in the months ahead. This should boost household consumption, which was 10.3% below its pre-crisis peak in the first quarter of this year.

On the back of the loosening of the lockdown which has already happened, we project a substantial quarter-on-quarter jump in GDP in the second quarter. Such a jump in consumer spending is already visible in ING transaction data. Even though today's first quarter numbers will lead to some tweaks in our projections, it was very much in line with our forecasts (which was -0.4%). This means that we expect GDP on the order of 3% for the year 2021.

GDP could already be back to its pre-cisis peak by the end of this year, as economic life normalises further in the second half of the year. As such, the GDP recovery out of the Covid crisis will be a fast one, setting aside possible surprises that can never be excluded in this virus-dependent economic rebound. That said, temporary increases in unemployment and bankruptcies are still included in our base case, as temporary public support measures will fade eventually.

Author

Marcel Klok
Senior Economist, Netherlands
marcel.klok@ing.com

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