

## The Netherlands: Ouch, that GDP number hurts

Dutch GDP fell by 8.5% in the second quarter of 2020, delivering the worst performance ever recorded. Although the mechanics of the lockdown promise strong growth figures for the third quarter, a complete V-shaped recovery seems unlikely



Airport traffic down during coronavirus restrictions in Netherlands, Schiphol

Source: Shutterstock

**-8.5%** GDP growth rate  
2Q20 (QoQ)

### Especially bad numbers for investment, but largest drag from households consumption

Compared to 4Q19, Dutch GDP was down 9.9% in 2Q20, dwarfing the total top-to-bottom fall during the global financial crisis of 4.3%, although it is fair to say that the recovery kicked off much quicker now.

Among expenditures, gross capital investment declined the most compared to the first quarter at (-12.4%) and investment in transportation equipment nosedived (-48%). Only investment in IT-equipment rose (3.1%).

Consumption by households (-10.4%) also fell in double digits, even though these expenditures were on the rise again in May and June. In fact, retail sales surpassed pre-Covid-19 levels for two months in a row, however, this didn't prevent household consumption from delivering the largest negative contribution of all expenditures (-4.6%-points).

Public consumption dropped 3%. Exports declined by 9.8% QoQ, while imports fell by 8.3%, leaving a net trade contribution of -2.1%.

## While service sectors felt the decline, retail sales expanded

Among the major industries, agriculture and fishery (-2.4%) and water & waste management (-3.0%) declined the least in value-added, in large part because these sectors were not restricted by the Dutch government. Gas & oil (15.1%) and utilities (6.3%) actually expanded. The large "commercial service sector" declined by 8.7% QoQ, non-commercial services by 11.4% and construction by 8.8%. As noted, the retail component of commercial services actually increased QoQ, especially online. DIY, furniture and consumer electronic shops performed well. On the contrary, sales of clothing shops and pharmacies declined.

Manufacturing/industry also took a considerable hit of -7.7%, but the Dutch numbers look quite favourable in comparison to a number of European counterparts.

Calendar adjusted production was -8.6% year-on-year in June compared to the eurozone average of -12.3%. It is notable that the composite manufacturing NEVI PMI (purchasing managers' index) never bottomed at the record lows of the global financial crisis. Coming in at 47.9 at the start of July, it is still not indicating growth, but compared to the readings of previous month's pessimism is steadily declining. In fact, the sub-indicator on future production was clearly signalling growth for the second month in a row.

The pace of recovery, however, seems more uncertain for industry than for retail and parts of the service sector, since it depends to a large extent on foreign demand picking up.

## Mild policy response to rising number of cases

Like every other European country, the number of new daily Covid-19 cases continues to rise during the summer. Even though April levels of cases have not yet been reached, members of the government came back early from their summer break to deliver new containment measures on 6 August.

The new measures by no means imply a return to the first and most strictest lockdown.

Closure of specific bars and restaurants for 14 days has been made possible if several infections took place there. This was accompanied by increased contact information requirements for people visiting bars and restaurants. Furthermore, local officials were granted the authority to impose stricter opening hours for bars, restaurants and night shops and rules for crowd control for events such as football matches.

There would also be more testing of people travelling via the national airport Schiphol. All in all, the

press conference was merely a call upon the public to show better behaviour rather than introduce major containment policies. For economic activity in the third quarter, this means that the recovery that took off in May and June can continue, barring new future measures to contain the virus of course.

## Full recovery still far away

Although a large decline was expected for 2Q20, the outcome is somewhat more favourable than we forecasted in our baseline scenario. Even though we expect considerable growth for the third quarter, unemployment and bankruptcies are set to rise as firms are still in the process of adjusting to the massive output shock.

So even in the absence of a second lockdown, which still cannot be fully ruled out, it will likely take years rather than a few quarters for the economy to fully recover.

## Author

### Marcel Klok

Senior Economist, Netherlands

[marcel.klok@ing.com](mailto:marcel.klok@ing.com)

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