The Netherlands posts surprisingly strong GDP growth but it's not going to last

Dutch GDP rose significantly in the second quarter of this year, up by 2.6% from the previous quarter; it's much stronger than expected. The service sector rebounded particularly well but there was growth in all the main expenditure items. However, the outlook for the second half of the year is negative

'Staff wanted' says this sign at a restaurant in Maastricht, but the economic outlook for the Netherlands is negative

2.6% Dutch GDP growth rate

2Q22 (QoQ)

Better than expected

Growth supported by expansion of all main expenditure items

These are good growth figures for the Netherlands; all expenditures, except inventories, rose. Investment provided a large contribution to growth; gross capital formation expanded by 5.2% compared with the first quarter. Expenditure volumes rose thanks to a massive increase in transport equipment (37.2%), which had a lot of rebound potential due to earlier supply chain issues. Investment in non-residential buildings (3.7%), ICT equipment (3.2%), machinery & other equipment (2.6%), intangible assets (2.1%) and housing (1.5%) increased. Investment in infrastructure fell (-1.3%) and stock-building also contributed negatively (-0.2% GDP contribution).

Household consumption rose 0.9%, particularly because of high spending at the beginning of the quarter. While consumption of services and durable were still expanding, food consumption volumes fell due to higher prices and increased visits to restaurants and bars. It was the first quarter without significant lockdown measures, which mostly ended in January 2022. Government consumption expanded by 0.1%.

Despite still elevated worldwide supply chain disruptions, Dutch exports grew by a decent 2.7%. Goods exports expanded by 2.7%, with both domestically produced goods exports and re-exports showing a positive development. Service exports, such as those driven by incoming foreign tourism, expanded by 2.8%, but remember that this is a rebound from the previous low levels we saw due to the pandemic.

The overall net contribution of international trade to GDP growth was positive (1.2%-point) in the second quarter, because of a long-standing trade surplus and the fact that imports (1.6%) showed weaker growth than exports. The import of services fell by -2.5%.

Strong sectorial performance

From a sectoral perspective, the value-added growth figure was strongest in the small energy supply sector (8.8% quarter-on-quarter growth). ICT (6.2%), specialised business services (4.5%), semi-public services (3.6%), trade, transport & hospitality (3.6%), water utilities (2.0%), manufacturing (1,2%) also expanded, while output was rather stable in financial services (-0.1%) and agriculture (-0.2%) and value-added contracted in mining & quarrying (i.e. oil & gas, -3.5%).

While detailed seasonally adjusted data for subsectors is not available, it seems reasonable to assume that bars & restaurants, travel and recreation, and culture had even more substantial growth than the energy supply sector, given the rebound potential these sectors still had.

Outlook less positive

The fact that the second-quarter GDP figures were very strong does not mean that the outlook is bright. We maintain that growth will be negative in the coming quarters. Consumers will increasingly be affected by higher prices for energy and food, resulting in cuts to the consumption of other items. Last month we observed the first signs of weakening demand in the value of transactions by ING consumers and the latest figures only seem to confirm that. On top of that, gas prices have risen even further in the past few weeks.

Consumer confidence figures have been at record lows for some time, while business sentiment indicators only started to drop recently. While composite indicators are still holding up reasonably well, the balance of business expectations of the economic climate in the next three months has reached its lowest level since the third quarter of 2013, bar the Covid period, according to a survey for the third quarter (mostly executed in July). On a positive note, investment expectations for the current year only fell a little and remained net positive in the third quarter.

So we are currently forecasting a mild technical recession for the Dutch economy as our base case.

A still very tight labour market, high amounts of Covid-related savings and expansionary fiscal policy in the medium term may somewhat limit the dip in the real economy caused by higher prices. That said, further cuts in energy supplies from Russia are a downward risk scenario that could push energy prices higher still further and put even more pressure on spending and GDP.

We're seeing the first signs of weaker demand

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