Negative Dutch GDP growth in 4Q means record decline in 2020

4Q20 Dutch GDP came in better than expected. Given that social distancing measures were tightened further leading to the second lockdown in mid-December, FY20 GDP was 3.8% lower YoY, worse than what we saw in 2009

Dutch prime minister Mark Rutte

Source: Shutterstock

-0.1%

GDP growth rate

4Q20 (QoQ)

Better than expected

Weak quarter for consumption while exports held up well

Dutch GDP was 0.1% lower in 4Q20 than in the preceding quarter.

In autumn, social distancing policies were tightened as the number of new Covid-19 cases rose and the Netherlands returned to a lockdown in mid-December, with school and retail closures and a curfew since 23 January 2021.

What particularly contributed to the decline in GDP was household consumption

What particularly contributed to the decline in GDP was household consumption at -1.4% quarter-on-quarter. This decline was much less profound than what we saw in 2Q20 (-11.3%), in part because online sales went through the roof. Government consumption came down by only 0.1%, staying 2% above the level seen in 4Q19.

Helped by continuing manufacturing production, exports held up well, with 1.0% growth QoQ, while goods exports expanded by 3.1% QoQ and services exports fell by 5.3% QoQ to 83% of the pre-crisis peak of 4Q19. Also, gross investment expanded, 1.8% compared to the third quarter. Especially investment in transport equipment rose (25%), while gross capital formation in ICT-equipment, housing and other real estate declined.

Unprecedented GDP decline in 2020

With a -3.8% change in GDP, 2020 will go down in history as the year with the largest post-WWII decline, after the -3.7% of 2009.

While almost all main expenditure categories declined for the year, household consumption stood out as the worst performer (-6.6%). This is largely a story of declining services, which is also visible in the falls of service exports (-10.6%) and service imports (-11.6%). Merchandise exports (-1.9%) and investment (-3.2%) were also down compared to 2019. Government spending (public consumption +0.2%, public investment figures not available yet) did not decline despite supply restrictions (such as hospitals not being able to run at full capacity).

Official figures suggest that the government delivered no less than net spending of €34billion (4.2% GDP) of support in 2020, while it also provided tax deferral, guarantees and let its automatic stabilisers operate freely.

GDP would most likely have fallen by much more if it weren't for the unprecedented public spending on support measures.

A rough start to 2021 expected

The number of new Covid-19 cases peaked around Christmas but since then have been coming down gradually. Nevertheless, with more than three thousand cases per day as of mid-February 2021, the virus is far from contained. The lockdown continues until 2 March, which implies that first-quarter GDP is likely to worse than the 4Q figure.

We maintain our base-case scenario that the recovery out of this crisis will be substantially faster than the global *financial crisis*

With such a rough start to the year, GDP won't be able to recover to its 2019 level in 2021, despite a strong rebound in the remainder of 2021 once life returns to some semblance of normality and social distancing measures are eased.

However, we maintain our base case scenario that the recovery out of this crisis will be substantially faster than the global financial crisis. It is helpful that a public support package with projected net spending of €28billion (3.4% GDP) has been announced for 2021.

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