The Netherlands: third-quarter GDP signals the start of a mild recession

Dutch GDP declined in the third quarter of 2022 by a mild -0.2% compared to the second quarter, in line with expectations. The contraction was driven by a decline in investment and is expected to develop into a mild recession

The third-quarter GDP figure for the Netherlands signals the start of a mild technical recession

-0.2%

GDP growth rate

3Q22 (QoQ)

As expected

GDP decline mainly caused by a fall in investment

The decline in Dutch GDP was in the ballpark of ING forecasts. Investment was the biggest drag on growth, with gross capital formation falling by -1.7% compared to the second quarter. Expenditure volumes fell due to fewer purchases of transport equipment (-11.3%). Investment in housing (-2.7%), non-residential buildings (-1.7%), infrastructure (-1.7%) and intangible assets (-0.4%) also fell. While demand for (the construction of) housing is generally strong in the Netherlands and the government is ambitious with investing in several types of infrastructure, environmental regulations and insufficient administrative capacity limit the number of building permits. Investment in ICT equipment (3.8%) and machinery and other equipment (2.6%) still expanded.

Government consumption dropped by a minor 0.1%, while the consumption of households stagnated – rising by just 0.1%, somewhat better than expected. While the consumption of services, durable and other non-food goods fell in an environment of higher prices and record low consumer confidence, the consumption volumes of food and tourism abroad rose. Accelerating wages, a tight labour market with low unemployment, high amounts of deposit savings among wealthy households (mostly built-up during Covid-induced lockdowns), the certainty provided by the announcement of fiscal support for households in light of the energy crisis, and an eagerness to go on holiday abroad with few Covid-restrictions may explain why consumption volumes of households have not yet collapsed.

Dutch exports continue to perform surprisingly well given the worsening international trade environment, with growth of 0.9%. Goods exports expanded by 0.5%, with both domestically-produced goods exports and re-exports showing a positive development. Service exports expanded by 2.3%, at least partially driven by increases in incoming foreign tourism. Imports (1.0%) showed similar growth as exports. Imports of services increased by 1.9%, while goods imports expanded by 0.8%. The overall net contribution of international trade to GDP growth was close to zero (0.05%-point) in the third quarter.

Decline in the financial sector, retail and construction are the main reasons for the economic contraction

From a sectoral perspective, value-added fell in the financial sector (-2.6% quarter-on-quarter growth), water utilities (-2.2%), energy supply sector (-1.9%), construction (-1.1%) and trade, transport & hospitality (-0.8%). The latter includes retail, of which sales volumes declined by more than 1% in line with low consumer sentiment. Taking into account the size of sectors as well, it was the financial sector, retail and construction that provided the largest drag on total value-added.

Semi-public services (-0.2%) and manufacturing (0.0%) stagnated, while value-added still expanded in mining & quarrying (i.e. oil & gas, 3.9%), agriculture & fishery (1.9%), ICT (1.1%), business services (1.1%) and real estate (0.9%). The stagnation of manufacturing stands out positively, as this is despite the fact it has reduced the use of gas strongly (-39% in 3Q22 compared to 3Q19) and some firms were shut down partially or completely, such as those in aluminium, zinc and fertilisers. Manufacturers of pharmaceuticals, cars and trailers, clothing and electrical equipment performed particularly well in terms of production growth in the third quarter.

Momentum worsens, but indicators and fiscal plans suggest only a mild recession

The third-quarter figure for GDP is the start of a mild technical recession that we projected for the Dutch economy. We see sentiment indicators based on surveys declining further, in line with a weakening global business cycle. Today's quarterly business sentiment indicator as released by Statistics Netherlands also points in the direction of further worsening of momentum in the market sector, as it dropped across all main sectors. The overall economy-wide indicator fell into negative territory for the first time since 1Q21. Investment expectations for the current year and next year fell but remained net positive. Business expectations for foreign turnover over the next three months also came down but remained positive on balance. So, there is less optimism, but not total gloom about the economy.

Still, the situation is one of high capacity utilisation. Staff shortages are still the key factor limiting production and sales for the majority of businesses (34%). The share of firms reporting it as the main issue is, however, falling. Although the share of businesses seeing a lack of demand as their main issue has started to rise along with the share of firms claiming financial constraints (at 5%) as the main issue, it is still quite low at 11%. This is a confirmation that the economy is at a turning point of worsening momentum from a high level, and there is no reason for us to project a long and deep recession.

What's also important going forward is the fact that the Dutch government has announced huge support for households in the form of an energy price cap in 2023 and a €190 tax cut on the energy bill of households and some small firms for November and December 2022. It is also providing financial support to energy-intensive small and medium-sized enterprises (although less so than for households) of up to €160,000 per firm.

Dutch budget for 2023: a big bazooka firing at high energy inflation

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