Dutch GDP growth contracts, but underlying developments seem positive

The Dutch economy contracted by 0.1 % in the first quarter of 2024 thanks to an acceleration in the reduction of inventories, contracting exports and a negative statistical discrepancy. While this seems worse than expected, most expenditures performed better than we'd thought, and that indicates solid underlying demand growth

Dam Square in Amsterdam

-0.1% Dutch 1Q GDP

Quarter-on-quarter

Worse than expected

Demand more solid than the headline figure suggests

Although the GDP figures came in weaker than expected, underlying developments seem better than we'd first thought. A statistical discrepancy is the main cause of the contraction. Without that effect of -0.4% being knocked off GDP, the growth development would have been positive.

There was also a temporary negative development of a 0.7% GDP reduction in inventories, dragging down the GDP rate by 0.1 percentage points; it was an acceleration of a substation development in the final quarter of last year. Household consumption, investments, and exports outperformed our forecasts, meaning demand was stronger than expected.

Public and private consumption were significant growth engines

Yes, exports declined (by -0.1%, adjusted for seasonal effects) and that is a real demand factor that held back the economy. But the expected contraction was, indeed, mild. The net contribution of the trade balance (exports minus imports) to GDP was mildly negative (-0.1% GDP), as imports stagnated (0.0% QoQ) while exports contracted.

Household consumption made the biggest positive contribution to growth, growing 0.7% QoQ. Consumer confidence and purchasing power are on the rise, and the early timing of Easter also contributed positively to household developments. However, unusually high temperatures held back household developments a little, suppressing energy consumption.

Government consumption expanded by a solid 0.6% QoQ, similar to the previous quarter and very much as expected. The number of hours worked particularly increased in public administration and health care.

Investment expanded mildly (0.4% QoQ), to our surprise. This was mainly caused by an upswing in the purchase of transportation equipment and, to a lesser extent, machinery, software & databases as well as higher real estate transaction costs. All other types of capital expenditure fell, the most notably in computer equipment and the construction of all types of real estate.

A contraction in manufacturing and construction

Among Dutch industries, culture, recreation & sports, agriculture & fishery, construction and, notably, manufacturing contracted. Manufacturing had its largest contraction (-3.8% QoQ) in value-added since the second quarter of 2020. And within manufacturing subsectors, Looking at production figures for subsectors within manufacturing, transport equipment, pharma and basic metals fell back. This big industrial contraction is not expected to last, as forward-looking manufacturing indicators have lately been improving.

Mining and quarrying saw the biggest decline in value-added, due to lower gas demand caused by higher temperatures and the closure of the Groningen gas field. The energy supply sector, water & waste, trade, transport & storage, real estate, business services and the semi-public sector (government, education & health) showed an expansion of value-added. Financial services and ICT stagnated.

Growth still expected for 2024

The outcome for the first quarter of this year was worse than our forecast of +0.2% QoQ, but that forecast would have been almost spot on without the large statistical discrepancy. The direction of underlying expenditure developments was as expected, except for the positive investment surprise. Barring any further surprises and with the possibility of future revisions of statistical discrepancies, our most recent annual GDP growth forecasts for 2024, which stand at 0.7%, will not need many tweaks in next month's forecasting round. This means an outlook of growth but somewhat below the potential rate.

While we still expect private investment to remain a drag on growth in the future, we forecast trade developments to improve. This should cause the return of Dutch export growth in the current quarter. At the same time, household consumption is expected to continue to be one of the main drivers for GDP, as nominal income developments are expected to outpace inflation by a few percentage points. Also, public consumption is likely to remain one of the main contributions to the expansion.

An important domestic uncertainty in the near term is political. No new government has been formed since the November 2023 parliamentary elections, even though talks might be in the final stages. In fact, political leaders of the four parties involved in the negotiations signalled much optimism yesterday, so an agreement might be presented later today. Should policy uncertainty drag on for much longer, it may cause more hesitance in investment behaviour, as the policy path on some pressing issues, such as nitrogen emissions and the future of agriculture, may remain opaque.

That being said, based on the manifestos of the negotiating parties, it seems likely that public expenditure will continue to rise in the coming years, albeit possibly by a bit less than set out by the previous government. As such, public expenditure may be one of the driving forces for Dutch GDP growth this year and beyond.

Author

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