Dutch Economy Chart Book

Continuing above-potential growth

ING Economics Department

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The outlook for the Dutch economy is still very positive. ING forecasts GDP-growth of 2.9% for the Netherlands in 2018 and 2.4% for 2019. The growth rate is higher than the current Eurozone average and Dutch potential growth. Domestic demand is the main driver of growth: consumption and investment are expected to increase over 2% and 6% respectively in both years. Government measures are also providing a minor boost to GDP.

Despite geopolitical uncertainty (Brexit, trade war and emerging market turmoil), export order books continue to look reasonably healthy. Despite some slowdown related to foreign developments and politically imposed gas production limits, re-exports and domestically-produced exports are both still performing solidly. Exports are forecast to continue to grow 2.9% in 2018 and 4.0% in 2019, both below the long term average.

Sentiment among non-financial businesses is still above the long-term average but a number of economic indicators have softened a little in the last few months. Nominal profits are high, but profitability as a share of the economy still has a lot of ground to cover to the 2008 level. The number of bankruptcies is lower than ever before. The investment rate of businesses has surpassed 2008 levels and is expected to stay high. Non-financial business sectors produce more than before the crisis, except for gas production and culture, sport & recreation.

Consumers are set to increase their spending further. Confidence is high. Disposable income is rising, mainly driven by the tighter labour market.

The housing market will be contributing less to the economic recovery. The number of home sales will be slightly lower in 2018 than in 2017, while prices continue to rise fast. ING forecasts house prices to rise by 9% in 2018 and almost 6% in 2019. Supply is running dry, especially in large cities. Although the price-to-income ratio is rising again, the ratio is still below pre-crisis level.

The economy has only just surpassed its potential output. Unemployment is falling more slowing, in part because (hidden) slack in the labour market is being used. The labour participation rate has still room to bounce up further. Wage growth has been moderate for long, but has started to accelerate. Firms are increasingly reporting shortages of workers as factor limiting production, especially in IT services and transportation.

In July 2018, the inflation headline consumer price inflation (CPI) exceeded 2.0% for the first time in 5 years, falling back to 1.9% in September.

Government finances are benefitting from the economic recovery. Increased economic activity is boosting tax income, which in part has been used to increase spending. Government debt is declining fast and amounted 54% of GDP mid-2018, which is below the European norm of 60% GDP.
## ING forecast table – The Netherlands

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<tbody>
<tr>
<td>Gross domestic product</td>
<td>1.5</td>
<td>-1.0</td>
<td>-0.1</td>
<td>1.4</td>
<td>2.0</td>
<td>2.2</td>
<td>2.9</td>
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<td>Government spending</td>
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<td>0.6</td>
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<td>Investment</td>
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<td>5.8</td>
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<tr>
<td>of which private</td>
<td>6.5</td>
<td>-5.9</td>
<td>-1.1</td>
<td>-2.2</td>
<td>35.3</td>
<td>-8.8</td>
<td>7.1</td>
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<td>Net exports (%-point contribution to GDP)</td>
<td>1.2</td>
<td>1.0</td>
<td>0.4</td>
<td>1.3</td>
<td>-3.9</td>
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<td>0.0</td>
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<th>Labour and housing market</th>
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<tbody>
<tr>
<td>Employment (in hours worked)</td>
<td>0.7</td>
<td>-0.6</td>
<td>-0.6</td>
<td>0.4</td>
<td>1.2</td>
<td>1.8</td>
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<td>2.0</td>
<td>1.1</td>
<td>0.8</td>
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<tr>
<td>Unemployment (% of labour force)</td>
<td>5.0</td>
<td>5.8</td>
<td>7.3</td>
<td>7.4</td>
<td>6.9</td>
<td>6.0</td>
<td>4.9</td>
<td>3.9</td>
<td>3.4</td>
<td>3.4</td>
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<tr>
<td>House prices</td>
<td>-2.4</td>
<td>-6.5</td>
<td>-6.6</td>
<td>0.9</td>
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<td>5.0</td>
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<td>9.1</td>
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<tr>
<td>Existing home sales (in 000s)</td>
<td>121</td>
<td>117</td>
<td>110</td>
<td>154</td>
<td>178</td>
<td>215</td>
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<td>226</td>
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<th>Government finances</th>
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<tr>
<td>Government budget (% of GDP)</td>
<td>-4.2</td>
<td>-3.8</td>
<td>-2.3</td>
<td>-2.2</td>
<td>-2.0</td>
<td>0.4</td>
<td>1.1</td>
<td>0.8</td>
<td>0.6</td>
<td>0.8</td>
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<tr>
<td>Government debt (% of GDP)</td>
<td>60.9</td>
<td>65.5</td>
<td>67.0</td>
<td>67.1</td>
<td>64.0</td>
<td>61.3</td>
<td>56.4</td>
<td>53.1</td>
<td>50.3</td>
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<th>Prices and rates</th>
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<tbody>
<tr>
<td>Inflation (HICP)</td>
<td>2.5</td>
<td>2.8</td>
<td>2.6</td>
<td>0.3</td>
<td>0.2</td>
<td>0.1</td>
<td>1.3</td>
<td>1.6</td>
<td>2.7</td>
<td>1.7</td>
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<tr>
<td>Euribor, 3 month (% eop)</td>
<td>1.4</td>
<td>0.2</td>
<td>0.3</td>
<td>0.1</td>
<td>-0.1</td>
<td>-0.3</td>
<td>-0.3</td>
<td>-0.3</td>
<td>0.1</td>
<td>0.3</td>
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<tr>
<td>Dutch gov't bond yield, 10yr (% eop)</td>
<td>2.2</td>
<td>1.5</td>
<td>2.2</td>
<td>0.7</td>
<td>0.8</td>
<td>0.4</td>
<td>0.5</td>
<td>0.6</td>
<td>0.9</td>
<td>0.9</td>
</tr>
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* Not adjusted for working days

**Forecasts** as of 24 September 2018 (interest rates as of 21 September 2018)
Output gap positive, but no precrisis overheating levels yet

Growth is above trend and the economy only just above potential in 2018
Change year-on-year, in % (lhs), difference between actual and potential GDP level, in % of potential GDP (rhs)

Source: CBS, Macrobond

- Actual GDP growth
- Change in potential GDP
- Positive output gap
- Negative output gap

Forecast

Domestic demand is the key growth engine

Strong growth trend in GDP and GDP per capita
Index, 2008 = 100, seasonally-adjusted

Domestic demand remains growth engine
Contribution to GDP growth, in percentage points

Source: CBS, Macrobond

*Extreme deviations in private investment and net exports in 2015 and 2016 are caused by a large one-off purchase of foreign intellectual property (and divestment) by a Dutch multinational in the commercial service sector.
Dutch economy continues to outpace Euro area ‘core’

From growth laggard to leader
Gross domestic product, volume, change year-on-year, in %

No big drag from housing
In thousands

...and mildly expansionary budget plan
Net budget effect of Rutte III agreement, with respect to baseline of previous medium term plans
After years of lagging behind, the Netherlands is catching up

GDP of the Netherlands is catching up
Gross domestic product, constant prices, index 2008 = 100

Source: Eurostat, Macrobond
Exports

- For a number of years Dutch exports have outperformed world trade. Despite stagnating world trade growth in 2015-2016 due to a slowdown in emerging markets, the volume of Dutch exports continued to increase steadily. Exports from the Netherlands are mainly focused on developed markets in Europe and the US, which continued to grow steadily. In 2017, world trade growth posted its largest increase (4.5%) in six years. Dutch exports have also benefitted from this expansion in world trade and rose with more than 5%.

- Re-exports have posted the strongest growth, but exports of domestically-produced goods have expanded well too. Despite the recent appreciation of the euro, one could say that the competitiveness of the Netherlands is still very positive. In international comparison, the Dutch national savings and current account surpluses are still very high.

- In nominal terms, the export growth was subdued over the last few years. This was partly caused by low commodity prices. Upward movement in oil prices has pushed the current account balance back up. Income on Dutch FDI is (via Shell, on oil-company) tightly linked to oil revenues. Nominal exports were on the rise in 2017, while showing somewhat more moderate growth in 2018. Order positions worsened somewhat, but businesses are still moderately optimistic for further growth in the coming months.

- Due to an unusual and unexpectedly weak first quarter of 2018, Dutch exports are expected to grow at a subdued pace of 2.9% in 2018. Accordingly, we project weak import growth of 3.4%. Together, this drives the annual net contribution of foreign trade to nearly zero. During 2018 and 2019, export growth is projected to maintain its current moderate pace, which is slightly below historical averages.

- For 2019 geopolitical uncertainty such as a hard Brexit and a further escalating trade war between the US and China are still considerable risks that might affect Dutch exports. In value added terms, the UK accounts for 8% of Dutch exports and 3% of Dutch GDP. So, a slowdown of the British economy will not go unnoticed. Also a possible crisis over the government budget in Italy might affect the Dutch economy.
A very competitive economy: The Dutch are ranking highly

<table>
<thead>
<tr>
<th>Index</th>
<th>Position in 2010</th>
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<tbody>
<tr>
<td>WEF Global competitiveness Index</td>
<td>6</td>
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<tr>
<td>Global Innovation Index</td>
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<tr>
<td>Network Readiness</td>
<td>6</td>
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<tr>
<td>Global Enabling Trade Report</td>
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<tr>
<td>Logistics Performance Index</td>
<td>6</td>
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<tr>
<td>Ease of Doing Business*</td>
<td>10</td>
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<tr>
<td>Corruption Perceptions Index</td>
<td>36</td>
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<tr>
<td>Human Development Index</td>
<td>8</td>
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<tr>
<td>Prosperity Index</td>
<td>10</td>
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Current rankings from 2016, 2017 or 2018. *The somewhat lower rank in Ease of Doing Business is i.a. due to strict spatial planning, a lack of an elaborate public credit registry and high cost of litigation.

Sources: World Economic Forum, Global Innovation Index, World Bank, Transparency International, Human Development Index, The Legatum Prosperity Index.
Main goods’ trading partners: Germany first in two directions

**Imports of goods**
Share based on turnover

- 18%
- 10%
- 9%
- 8%
- 6%
- 4%
- 4%
- 2%
- 2%
- 2%

**Exports of goods**
Goods share based on turnover

- 23%
- 10%
- 8%
- 8%
- 4%
- 4%
- 3%
- 2%
- 2%
- 2%

**Total exports (2014)**
Share based on value added

- 17%
- 8%
- 8%
- 7%
- 5%
- 5%
- 4%
- 2%
- 2%
- 2%

Goods (2017): €411 billion
Goods (2017): €469 billion

Source: CBS

Source: WIOD
Almost €600 billion of Dutch exports in year

Mostly goods, but more than a quarter now consists of services

In billions of euro

Goods (73%)
78 57 79 76 135

Services (27%)
160

Agri exports are dominated by domestically produced goods, high-tech is mostly re-exports

Share of domestically produced goods in exports, per category

Source: CBS
Solid export performance led by high-tech

Nominal export growth now moderating after solid 2017
Per month, in € billion, seasonally-adjusted

Oil price driven rebound in energy exports, stagnating high tech
Per month, in € billion, seasonally-adjusted

Source: CBS

Total monthly export turnover, goods
Oil price strong driver for current account

Current account surplus remains large
% of GDP, seasonally-adjusted

- Trade, goods
- Income balance
- Balance in transfers
- Trade, services
- Current account*

Income balance dominated by “Shell-effect”
% of GDP

Oil prices have impacted Shell’s revenues, and thus income on Dutch FDI

*Extreme spike in current account in 2015 is caused by a large one-off purchase of foreign intellectual property (and divestment) by a Dutch multinational in the commercial service sector
In volume terms, Dutch exports have outpaced world trade

Dutch goods' exports rose faster than world trade volume
Index, 2010 = 100, seasonally-adjusted

Now: sharp rise in re-exports halted, Dutch product growth slows
Index, 2014 = 100, seasonally-adjusted

Source: CPB World Trade Monitor, CBS, Macrobond
Source: CBS, Macrobond

- World trade volume
- Exports of goods, constant prices, Netherlands
- World trade volume
- Re-exports volume, the Netherlands
- Domestically-produced exports volume, the Netherlands
Main service trading partners: US and Germany first

Imports of services
Share based on turnover

- Bermuda: 13%
- UK: 11%
- Germany: 11%
- France: 10%
- Switzerland: 8%
- Italy: 6%
- Spain: 5%
- Netherlands: 4%
- Ireland: 3%
- Other: 2%

Exports of services
Share based on turnover

- Germany: 12%
- Ireland: 12%
- UK: 11%
- Belgium: 9%
- Italy: 6%
- France: 5%
- Switzerland: 4%
- Singapore: 4%
- Saudi Arabia: 3%
- Other: 2%

Services (2017):
- €188 billion
- €194 billion

Source: CBS
**Service export and imports together trending upwards**

Upward trend in service exports (despite recent fall back) and high correlation with service imports

Service import and export turnover, index, 2014Q1 = 100

Composition of imports and exports quite similar: mainly commercial, transportation and intellectual property

Composition of service import and exports in 2017

*Extreme deviation in export of services in 2015 is caused by a large one-off purchase of foreign intellectual property by a Dutch multinational in the commercial service sector.*
Risk: NL could be hit relatively hard by Brexit

Sensitivity to UK: NL ranks third within EU
% of total added value dependent on demand from UK

Dutch sectors that are most exposed to the UK

- Wholesale
- Transport
- Industry
- Business services

Source: WIOD
For now, exporters are still moderately positive on outlook

Industrial export order books are continuing to fill up, but growth from foreign demand seems to be moderating.

Index, above 50 means growth

Base case: continuing growth in main export markets
Change year-on-year, constant prices, in %

Source: NEVI/PMI

Source: CBS, Macrobond, ING Monthly Update/ING Forecasts

* Proxied by Eurozone, UK, US and China. Approximate share in Dutch exports used as weights.
Non-financial businesses still confident about export position

Businesses optimistic about export orders over the next 3 months, but slightly cautious about current orders

Export orders and export orders next 3 months, net % non-financial businesses (excluding utilities) reporting increase minus decrease

Non-financial businesses indicate that their competitiveness is improving, especially compared to other EU firms

Competitiveness in EU and competitiveness outside EU, net % non-financial businesses (excluding utilities) reporting improvement minus worsening

Source: CBS
International price competitiveness recently slightly weaker

Since mid-2017, euro up against USD and slightly against GBP
Currency per euro, index, 2010 = 100

Dutch competitiveness worsened slightly recently
Index, Q1 1999 = 100, an increase means worsening of price competitiveness
Non-financial businesses

- In 2017 all major market sectors increased their production levels further. Most sectors are above pre-crisis levels again. Main exception is the mining/gas sector, which has been forced by the Dutch government to phase out gas production at one of the largest gas fields of Europe. Multiple earthquakes in the north of the Netherlands related to the gas extraction have raised political pressure to phase out gas production. By 2030 the gas extraction in the Groningen field should be reduced to zero. The maximum production for gas year 2018/2019 (1 Oct. 2018 – 30 Sept. 2019) is set for 19.4 billion cubic meters (bcm). This is already much lower than the recent maximum of 53 bcm in 2012/2013. The maximum allowed production for 2021/2022 is set for 12 bcm.

- The financial situation of companies is improving. The number of bankruptcies has dropped to the lowest level of this century. Nominal pre-tax profits of non-financial companies hit a record high at the second quarter of 2018. These numbers are, however, somewhat skewed by (capital) income from foreign affiliates. An alternative macro indicator for profitability, more related to production, is gross operating surplus as percentage of valued added. This indicator is stable in the last few months and is still far below 2006-2008 boom levels.

- Indicators show that the economic recovery is gaining a firmer foothold among SMEs. Smaller firms now report more positively about profitability, but their optimism lags that of larger companies.

- Investment levels have increased strongly in recent years. Private investment (as a percentage of GDP) excluding dwellings is, excluding exceptional large one-off investments in 2015, above trend levels. The combination of higher output levels and rising profits induces companies to continue to step up investment, but at a slightly slower pace than in previous years. Spending on vehicles and machines just surpassed 2008 levels, while ICT- and R&D-related investment is even 50% higher, mainly driven by investments in software.

- Credit standards remained constant recently, while credit demand is increasing again.
Almost all sectors back to 2008 levels, including construction

Goods-producing sectors: construction finally recovered, gas production halved
Output, index, 2008 = 100

Commercial services: all trending up

Public services: rising after years of stagnation, only cultural services lag

Gov't has lowered maximum allowed gas production

Source: CBS, Macrobond

Agriculture
Mining/gas
Manufacturing
Construction
Real estate
Wholesale*
ICT
Transport
Other
Retail*

Real estate
Wholesale*
ICT
Transport
Other
Retail*

Government*
Education*
Culture, sport & recreation*
Health care*

* No quarterly data available
Profitability for non-financial companies stagnates

Total nominal profits are at record height, but...

In billion euros, seasonally adjusted

...profit ratio still moderate

Gross operating surplus as percentage of gross value added at basic prices, seasonally adjusted*

Source: CBS
Recovery is gradually filtering through to smaller firms

Positive trend in profitability, also among SMEs...
Net % of firms reporting higher (+) or lower (-) profitability in last 3 months

Investment growth is driven by medium sized companies
Investments in tangible fixed assets; company size

Source: CBS, Macrobond

- 5 to 20 employees
- 20 to 50 employees
- 50 to 100 employees
- 100 or more employees
- 0-49 employees
- 50-249 employees
- 250 or more employees

Source: CBS
Number of bankruptcies bottomed out

Number of bankruptcies at multi-year lows
Per month, seasonally-adjusted and adjusted for number of court days

Declines in all sectors, strongest in com. services and trade
Bankruptcies per month, six month moving average seasonally-adjusted and adjusted for number of court days

Source: CBS, Macrobond
Business investment rate has recovered, but not yet construction

Total investment and private investment rate near structural peaks...
As % of GDP, seasonally adjusted volumes

...helped by trend in ICT investments and recovered equipment
Seasonally adjusted volume-index, 2008 = 100

*Extreme spikes in investments in 2015 and 2016 are caused by a large one-off purchase of foreign intellectual property (and divestment) by a Dutch multinational in the commercial service sector.
Further investment growth expected

Manufacturing expects to invest more... ...since need for extra capacity went up

% change in fixed investment  % of firms, seasonally adjusted

Comm. service investment continues

Conf. indicator as dev. from LT-average and % change year on year, both seasonally adjusted

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*Expected increase in investment manufacturers  Actual investment manufacturers

Industrial firms reporting shortage of materials and/or equipment as main factor limiting production

Business confidence com. services  Investment volume com. services excluding retail and wholesale

*Extreme deviation in export of services in 2015 is caused by a large one-off purchase of foreign intellectual property by a Dutch multinational in the commercial service sector
Demand for bank credit is increasing

Credit standards have eased
Net percentage of banks reporting tighter (+) or eased (-) standards

Credit demand for both large firms and SMEs picking up
Net percentage of banks reporting stronger (+) or weaker (-) demand

Source: DNB, Macrobond
Consumers

- Spending power has risen in the past few years, helped by more jobs, higher wages and low inflation. Not all households reacted by boosting their spending at an equal rate. Part of the income increase was put aside or used to pay down on mortgages. Spending power will continue to rise especially in 2019 due to the economic momentum and fiscal stimulus.

- Confidence is high among consumers. High confidence is most prevalent among younger people. Consumers are above-average optimistic about the general economic climate and willingness-to-buy is also high now. Consumers currently perceive this a good time to make large purchases, although optimism has declined a bit in recent months.

- Compared to other West-European countries, consumption growth is lagging behind other countries. At the same time, consumption as a share of GDP is decreasing in the Netherlands.

- Debt take-up is rising again, but at a much lower rate than before the crisis. Total net wealth of households hit the highest level ever recorded in 2016. However, most of the increase is in non-liquid assets, such as pension assets and housing wealth. On average the lost housing wealth has recovered. Accumulated pension wealth continued to increase during the crisis and has never been higher. This has been mainly the result of pension policies ensuring the continuation of contributions and the increase in the statutory pension age. Yet, also pension liabilities increased, hence some funds are still struggling with their coverage ratios.

- As a result of the above-average confidence in combination with increasing income, households are stepping up their spending pace. Spending on both goods and services is rising. Within the goods category, electronics are standing out in volumes increase. The long lagging housing-related spending just recently passed the pre-crisis level, while the recovery in home sales took off much earlier. While all durables are clearly on the rise, the recovery in car sales has remained muted compared to prior to the crisis. Consumption of hospitality & recreation services as well as food rose above pre-crisis levels.
Consumption lagging, but catching up

Consumption growth since 2008 is lagging behind other countries, but slowly catching up

Actual individual consumption, seasonally adjusted volume index, 2008=100

Total consumption as share of GDP still falling

Consumption as share of GDP, seasonally adjusted volumes

Source: CBS, Eurostat, Macrobond

Source: CBS, Macrobond
Consumers still optimistic, despite recent falls

Consumer confidence declined but still at high levels
Standardised index with 0 = long term average, net % of positive and negative answers, seasonally adjusted

Younger people confident, improvement among elderly
Consumer confidence index, net % of positive and negative answers, seasonally adjusted*

*Time series contains a structural break in 2017 Q1
More spending power on the back of recovery and public spending

Purchasing power is rising due to economic growth and policy
Change year on year, in %

Share of households with an increase in static purchasing power expected to approach 100%
Share of households in %

Source: CPB, CEP
Hourly income of self-employed is outpacing employee income

Hourly income of self-employed more volatile than income of employees and rising faster recently

Average gross remuneration per hour worked (mixed income for self-employed, seasonally adjusted index, 2008 = 100)

Source: CBS, ING
Deposits on checking accounts at record high

Increase in overnight deposits points to higher spending by households

CPI inflation-adjusted index overnight deposit balance of households and volume index for retail, both 2010 = 100 and seasonally adjusted.

Source: DNB, Eurostat, Macrobond
Private consumption of services is steaming ahead

Increased spending on both goods and services
Private consumption by type, seasonally adjusted volume index, 2008 = 100*

Breakdown of consumer spending, 2016
% of total

- €311 billion (100%)
- housing
- hospitality & recreation
- transport & comm.
- health
- financial
- other services
- other goods
- energy & water
- fuel
- electronics
- furniture
- clothing
- beverages & tobacco
- food
- durable goods
- energy & fuel
- other goods

Source: CBS, Macrobond

*The total deviates from the sum of goods and services due to the seasonal adjustment
Consumer spending trends: pickup in durables

Services: all above precrises peak
Index, seasonally adjusted volumes, 2008 = 100

Electronics surge, food accelerating while energy and fuel fell again

Durables: vehicles still 20% below previous peak while housing related consumption recovered

Source: CBS, Macrobond
More and more online

Double-digit rise in online sales volumes
Retail sales volume, change year-on-year, in %

High growth in the number of web shops
Number of shops in thousands, at 1st of January

Consumers
Savings positive again, but not by as much

Household income higher than consumption
In billions of euros

Income > spending = positive free savings

...but especially the ‘free' savings rate' falls while remaining positive
% of net disposable income (including pension premiums less pay-outs)

Consumers
Households are taking up more debt again

Debt of households increased significantly faster than liquid assets again, but not yet at pre-crisis rates

Changes in billions of euros

![Chart showing changes in financial assets, excluding pensions (i.e. bank accounts, stocks, bonds, etc.), change in net financial wealth (excluding pensions), and change in debt (mostly mortgages). Source: CBS.]

Line shows changes in wealth due to financial transactions (price/valuation change are excluded).
Total net wealth increased further during crisis

Total net wealth at record high
In billions of euros

Increase in pension assets has offset temporary decline in housing wealth
In billions of euros

Source: CBS
Labour market

- Employment growth has maintained its high pace in recent quarters. The number of people employed is now much higher than at the start of the crisis. In terms of total hours worked, the labour market has bounced up even stronger.

- The unemployment rate has fallen rapidly and has dropped below its long-term average. All age groups show a decline, although youth unemployment picked up a bit recently. Over the last six months the unemployment rate has been more stable around 3.9% (3.7% in September), because a lot of job seekers, who were perhaps discouraged during the crisis, are re-entering the job market.

- Sector-wise, temporary job agencies have been the largest contributor to the increase in jobs. Nevertheless, over the last 12 months the number of fixed contracts increased significantly and is currently the biggest contributors to new jobs. After many years of low or negative employment growth in the (semi)public sector (incl. health), this sector is hiring again. The same holds for construction sector, which appears to be booming.

- Despite the strong improvement in the labour market, there is no sign of serious overheating yet while accelerating, wage growth has been moderate so far. Also, there is more unused potential in the labour market than only unemployment data suggests. In addition to the near 350K unemployed, there appears to be potential labour supply of at least about 210K people if participation rates for men were to return to pre-crisis levels and women would show a similar increase. The gross labour market participation rate has almost recovered from the crisis, mainly because females continued their upward trend. Participation amongst males still has a lot of ground to recover, especially among 25 to 45 years old.

- The number of unemployed persons per unfilled vacancy went from 7 in 2013 to 1.4 mid-2018. This signals that the labour market is getting tighter. Leading indicators point to further but somewhat lower employment growth. The number of unfilled vacancies reached 251,000 in the second quarter of 2018. This was the highest number ever registered. The share of businesses reporting a shortage of workers as factor limiting activity has started to increase. Already 24% of the Dutch companies indicate that it is difficult to find sufficient suitable employees. The shortages are particularly high in transportation, construction and in IT.
Employment continues to rise

Number of jobs and hours worked are strongly increasing
Millions, seasonally adjusted

<table>
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<th>Year</th>
<th>Total Employment (lhs)</th>
<th>Employment in Total Hours Worked (rhs)</th>
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<tr>
<td>2006</td>
<td>9.2</td>
<td>10.6</td>
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<td>2008</td>
<td>9.4</td>
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<tr>
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<tr>
<td>2016</td>
<td>10.2</td>
<td>10.4</td>
</tr>
<tr>
<td>2018</td>
<td>10.4</td>
<td>10.6</td>
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1995 vs 2017: more jobs in services
Share in total employment, in %

<table>
<thead>
<tr>
<th>Sector</th>
<th>1995</th>
<th>2017</th>
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<tr>
<td>Financial, IT, advice (legal/mgt./tech), temp job agencies</td>
<td>14%</td>
<td>30%</td>
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<tr>
<td>Industry (incl. energy)</td>
<td>25%</td>
<td>24%</td>
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<tr>
<td>Agriculture</td>
<td>1%</td>
<td>2%</td>
</tr>
<tr>
<td>Construction</td>
<td>8%</td>
<td>6%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>8%</td>
<td>6%</td>
</tr>
<tr>
<td>Public</td>
<td>11%</td>
<td>10%</td>
</tr>
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</table>

Source: CBS
More work in fixed contracts

Fixed contracts largest contributor again to growth in employed labour force

Contribution to quarterly change in employed labour force, in percentage (points), seasonally adjusted

Job growth driven by commercial but also public services again

Contribution to yearly change in employment, in percentage points, seasonally adjusted

Source: CBS
Leading indicators point to slightly weaker job growth

Consumers and firms have positive employment expectations, but peak might just have been passed

Index, standardized with long term average=0

Unfilled vacancies at new record

Growth rate quarter on quarter in % and level in thousands, both seasonally adjusted

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**Consumers’ unemployment expectations** (rhs, inverted)

**Businesses’ employment expectations** (lhs)

* Weighted average of manufacturing, construction, retail and services

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Source: DG ECFIN, Macrobond

Source: CBS
Unemployment drop slows down; level below long term average

Unemployment is nearing previous lows, but drop is stalling due to high number of new entrants to the labour market

Share of unemployed in labour force, in percentage, seasonally adjusted

Lower unemployment in most age groups, youth unemployment slightly rising but still on very low levels

Share of unemployed in labour force, in percentage, seasonally adjusted

**Source:** CBS, Macrobond
Labour market continues to get tighter

Number of unemployed persons per open vacancy has fallen significantly, but not yet as low as in 2008

Ratio of number of unemployed persons and number of unfilled vacancies

Source: CBS, Macrobond
A quarter of companies struggle to find suitable employees

An quickly increasing share of Dutch companies struggles to find sufficient suitable employees

% of non-financial companies in the market sector indicating labour shortages as a factor limiting production, seasonally adjusted

Source: CBS, EIB, KvK, MKB Nederland and VNO-NCW, (COEN enquête)
Labour shortages more and more prevalent

Percentage of firms reporting shortage of workers, seasonally adjusted (note: charts do not have same axes)

Source: CBS and European Commission DG ECFIN, Macrobond
More labour market potential than official unemployment rates suggest

Potentially 39K extra people at work if broad unemployment (U-5) drops to precrisis levels

Percentage of the total population between 15-74 years old, seasonally adjusted

Unemployed (available and searched)  
Available, not searched  
Searched, not immediately available  
U-5 unemployment rate – unemployed, discouraged workers and all other marginally attached workers

+39K potential extra (cyclical) people employed assuming historically low U-5

+22K potential extra (cyclical) people employed assuming historically low unemployment

Source: CBS
Potential to work more hours not fully-utilised

While the number of hours worked per employed person recovered and stabilised...
Average number of hours worked per worker per quarter, seasonally-adjusted

...there is still potential for more hours to be worked among more than 150K workers
Number of workers who want to work more hours as share of the total population of 15-74 years old and seasonally-adjusted

Source: CBS

+157 potential extra (cyclical) people with more hours worked assuming historically low rate (= 0.8%-point)

4.2% = 547K workers
5.4% = 704K workers

Average number of hours worked
Workers who want to work more hours
Participation incorrectly suggests limited cyclical potential in labour supply

**Actual labour force is catching up potential labour force**
Index, 2009 Q1 = 100

Source: CBS, Macrobond

**Potential** labour force (i.e. total population aged 15-74)

**Actual** labour force (aged 15-74)

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**Participation rate is getting close to precrisis record**
Actual labour force as percentage of potential labour force aged 15-74

Source: CBS, Macrobond

+26K potential extra (cyclical) labour supply based on historical participation rate
Getting back to upward trend in participation unlocks 210k people

**Male participation rate rising but still far from peak**

Actual labour force as percentage of potential labour force aged 15-74

111K extra men if participation returned to high level of 77%

Number of males active (and potential) on the labour market, in millions

**Upward trend in female participation rate resumed**

Actual labour force as percentage of potential labour force aged 15-74

99K extra females if participation also rises 1.5%-points

Number of females active (and potential) on the labour market, in millions

Source: CBS, Macrobond
Downward trend in labour productivity growth, but important growth driver going forward

Growth in labour productivity per hour on declining trend in recent decades in line with development in other advanced economies, but slightly better years ahead

Change in GDP-volume per hour year-on-year, in %

Source: CPB
In July 2018, consumer price inflation (CPI) exceeded 2% for the first time in 5 years. Higher rents and increased energy prices are particularly causing prices to rise. The higher rents are also reflected in the core inflation (inflation excluding volatile energy and food prices). Core inflation nevertheless fell back to 1.0% in September of 2018, while headline inflation stood at 1.9%.

The European harmonised inflation measure (HICP), which excludes the cost of owning a home, moved in line with CPI but remained somewhat lower than CPI in recent months. The September figure came in at 1.6%.

Last year wages grew at a modest pace. Under-utilisation of the economy, such as hidden unemployment, kept a lid on the increase in core inflation. Inflation excluding food and energy remained at 0.8% on average in 2017. The hourly wage rate is expected to accelerate from 1.2% in 2017 to 2.8% and 4.0% in 2018 and 2019 respectively. Higher wage growth is likely to lead to higher inflation expectations in 2019, which is already shown by consumers.

Among businesses inflation expectations for the next three months are only slightly increasing. In contrast, consumers expect hefty increases in the twelve months ahead, most likely anticipating the intended increase in the low-VAT rate from 6% to 9% in January 2019.

Headline consumer price inflation (CPI) is set to rise from 1.4% in 2017 to 1.7% on average in 2018. For 2019 ING forecasts inflation to rise to 2.4%.
Inflation expectations increasing among consumers

Headline inflation above 2% for the first time in 5 year, also due to higher core inflation...

...while consumers expect a further increase anticipating a VAT-hike

Source: CBS

Source: DG ECFIN, Macrobond

Consumer price expectations for next 12 months

Companies’ selling price expectations for next 3 months
(weighed average of industry, retail and services sector)
Inflationary pressures are increasing

Commodity price increases could feed through to a lesser extent...
Change year-on-year, in %

...and hourly wage costs rising at increasing pace
Change year-on-year, in %

Source: World Bank, Macrobond
Source: CBS, Macrobond

Catch-up after period of wage freeze

Energy
Raw materials
Agricultural
Metals & minerals
Manufacturing
Construction
Commercial services
Non-commercial services

Inflation
For the first time in 5 years inflation has risen above 2%

Rising core inflation pushes headline inflation above 2%, while energy and fuel also contributes positively

Source: CBS, Macrobond
Housing market

- The housing market has been an important driver of economic growth. Since the trough of 2013, the economy has expanded by 10%, with the housing market catch-up explaining over a quarter of the GDP growth (up to 2017 Q3). Investment in dwellings has surged 74%, benefitting builders, industry and DIY stores. Increasing home sales have favoured e.g. estate agents, surveyors and lenders.

- Home buying volumes are decreasing, after record high sales of 242k in 2017. ING expects sales to fall down to 225k (-7%) in 2018. Since 2013 households with postponed moving plans have pushed up home sales. Five years later, we expect this catching-up effect to be marginal. With supply of homes for sale being very tight, we expect sales will continue to decline in 2019, to 205k.

- Overall, we expect house prices to increase with on average 9% in 2018 (7.6% in 2017). House prices rises are persisting in response to tight supply of homes. Growth of the housing stock is expected to fall short of household growth, so that price increases will continue to exist in the next period. With omitting catching-up demand, we expect price increases to flatten somewhat.

- Price pressure will continue for the next few years, until the easing of housing market supply. During the crisis the production of homes stagnated and the supply of new homes is expected to lag behind household growth until 2020.

- Despite the commonality of steep price increases, today’s housing market differs from that of 2008. Housing affordability is still relatively good, partly explained by low interest rates. Although prices in the last 5 years have increased significantly (>20%), mortgage debt has grown at a much lower pace (3%). The house price to income ratio is still below 2008 level.

- Regional differences are large. Nationwide, house prices have passed pre-crisis level (5% currently). In the four major cities prices have increased much faster. In Amsterdam, the average price is already 45% above the previous peak, but here the foundation for further significant price increases is eroding. Eight of the twelve provinces are still below the 2008 price peak.

- Individual investors are increasing the difference between major cities and the rest of the Netherlands. In the top three cities, the share of individual investors is above 20% of transactions (11% nationwide). Tighter credit measures introduced in 2013 are putting home movers and investors ahead of first-time buyers.
House prices are increasing, pushing down home sales in 2018

Price increase expected to flatten in 2019
Average house price, change year-on-year (%)

Sales are declining, after record high home sales in 2017
Monthly sales, seasonally-adjusted

Source: Kadaster, NVB-Bouw

Source: CBS, ING
Supply is becoming tighter

Unsold existing supply at pre-crisis lows...
Available housing supply divided by monthly number of sales

...while new supply picked up slowly from record lows

Source: Kadaster
Source: CBS
Housing market is progressively tightening

Growth in number of households will exceed housing stock growth until 2020...
Estimated growth of the number of households wanting an own home* and housing stock growth, both in thousands

...causing the housing strain to rise in the short term
Housing market strain** defined as the difference between the estimated number of households* and forecasted housing stock, in thousands

* Estimated growth of the number of households wishing to have an independent home. Estimates based on, among other things, trend analysis over the years 2009 – 2016 and population projections by CBS.
**This takes into account that a share of the stock is not suitable for living and that a particular vacancy rate is needed for a well-functioning housing market.

Source: ABF Research, Primos prognosis 2017
Historically low interest rates cause home buyers to choose long-term fixed rate mortgages

Mortgage rates still at historic low levels
In %, by fixed interest duration

Home buyers choose long-term fixed interest rate periods
Share of production, per fixed interest rate period (banks only)
Affordability has started to weaken, but is still better than in 2008

Housing affordability has deteriorated slightly
After-tax mortgage cost as % of income, directly after purchase*

Source: CBS, Macrobond, DNB, ING

* Using average house price and average household income. Since 2013, interest on new mortgages is only tax deductible for amortising mortgages.

Housing market sentiment is over its peak...
Index, 2008 = 100

Source: VEH, Google

Housing Market Indicator VEH (homeowners’ association)
Google searches for ‘hypotheek’ (= mortgage)
Measures have been taken to curtail mortgage debt growth

Households are only allowed to deduct interest payments on the mortgage up to a maximum period of 30 years.

Interest payments resulting from mortgage equity withdrawal cannot be included in the tax deduction.

Intro. code of conduct (cost of living ratios, reference rate for mortgage with interest rate <10yr)

Max. interest deductibility will be reduced in steps of 3%-points from 49.0% in 2019 to 37.05% in 2023


Tightening code of conduct (max 50% interest-only)

For new contracts, interest is tax deductible for amortizing mortgage loans only (annuity/linear)
Max loan-to-value gradually lowered from 106% to 100% in 2018

For the higher income tax bracket, tax deduction will be gradually reduced from 52% to 38% in 2041.
Current price increase not credit driven, unlike 2003 - 2008

Previous sharp increase in house prices strongly credit-driven, but in the last five years mortgage debt barely increased

Mortgage debt stock and house prices, index, 1999 = 100

...while in major cities private investors are pushing up house prices

Estimated buy to let transactions, share in total house sales

Source: CBS, Kadaster, Dynamis, ING Economic Research
Housing market characterised by major regional differences

House prices rise fast in ‘Randstad’ area, where four biggest cities are located
Median transaction price, difference between 2017Q2 – 2018Q2

- More than 15% growth
- 10% growth - 15% growth
- 5% growth - 10% growth
- 0% - 5% growth
- 5% - 0% decline

Average house price when excluding four major cities, still below previous peak in 2008
House price difference w.r.t. quarter peak quarter in 2008, %

- The Netherlands (excluding four major cities) +4% -1%
- The Netherlands +42%
- Amsterdam +30%
- Rotterdam +27%
- Utrecht +19%
- Den Haag

Source: NVM, ING calculations
Source: CBS
Large cities lead house price recovery

North & East: except for Flevoland, prices still below 2008 levels
House price index for existing properties, 2008 = 100, Dutch provinces

West & South: vast price increases in highly urbanized Randstad area...

... mainly driven by substantial price increases in major cities

Prices in Randstad area fully recovered

Source: CBS
Drying up of supply is pushing down home sales

North & East: Upward trend is has turned
Number of home sales per province, index, 2013 = 100

South & West: Utrecht and Noord-Holland (Amsterdam) far below peak, others are likely to follow
Number of home sales per province, index, 2013 = 100

Source: CBS
Average age of homebuyer is increasing

Share of homes bought by young people is declining, since first-time buyers (who are often young) find it harder to buy due to stricter LTV-policies

% of total home sales, per age category

Source: Kadaster
House price-to-income ratio increasing again

Price-to-income in Sweden and the UK far above long-term average, NL and Denmark somewhat

House price-to-income, deviation from long-term average, 1980-2016 = 100

Source: OECD, Macrobond
Government

- Government finances are improving. Increased economic activity is boosting tax income. The government budget balance remains in surplus. Government debt was 54% of GDP in Q2 2018, below the European norm of 60% GDP. ING forecasts the drop of the debt ratio to continue. It is likely to fall below 50% by 2020, as a result of cumulating surpluses and the continuation of the sale of the ABN AMRO bank.

- In the past few years, revenues increased while expenditures were merely stable. This hides a pattern of an increasing ageing cost (health and pension). On the other hand, the share of expenditures on interest payment is low. Both interest rates and the interest differential with Germany faced by the Dutch government are low.

- Now, the Rutte-III government uses cyclical tax revenues to offset falling gas revenues as well as to spend more and cut taxes. The output gap appears to be closed, meaning that the expansionary fiscal policy is slightly pro-cyclical. There is pro-cyclical spending on defence, education, R&D, civil service and infrastructure in 2018, which will continue in 2019. In 2019, labour taxes will be lowered, while at the same time energy taxes and VAT-rate will rise.

- Despite additional public spending and tax cuts, budget surpluses are expected to remain during the entire term of the third government with Mark Rutte at the helm.

- The structural EMU balance will decrease to -0.4% in 2019. Due to the loser fiscal stance of the government, public finances are no longer sustainable, according to strict definitions of the sustainability gap as calculated by CPB (Netherlands Bureau of Economic Policy Analysis). Nevertheless, they still appear favourable in international comparisons.
Dutch government bond yield still at historically low levels

Yield on Dutch ten year government bonds is still very low... …with a stagnating pick-up

Yearly average, %

Source: Macrobond

Yield on Dutch 10yr government bond

‘Long-term’ rate

Gov’t
Low spread versus Germany

Yield spread with Germany on ten year government bonds back at low levels

% points

Source: Macrobond
Small budget surplus

Income has exceeded expenditures again...
In euro billions, per quarter, seasonally-adjusted

...pushing the fiscal balance back into positive territory
As % of GDP, seasonally-adjusted

Source: CBS, Macrobond
Compliant with the rules of the Stability and Growth Pact

Structural balance above but close to Medium Term Objective...

As % of GDP

...and government debt back clearly below 60%

As % of GDP

Source: CBS, Macrobond, ING Economic Research

Forecast
Long-term government finances nearly sustainable

Long-term fiscal surplus turned into a mildly negative

As % of GDP

*The sustainability balance shows how much policy measures need to be taken (in % of GDP) to ensure that future generations can benefit to a similar degree from public services at a constant tax burden (as a percentage of GDP) as is faced by present generations. This balance shows whether future tax revenues are sufficient to cover future government expenditures. The current modest sustainability surplus means that the debt level will stabilise under the assumption of consistent arrangements.

Source: CPB
Data sources

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77  CPB
Contact details

Marcel Klok
Senior Economist
ING Netherlands
Economics Department

ACT A.11.054
Bijlmerdreef 24
Amsterdam

P.O. Box 1800
1000 BV
Amsterdam

marcel.klok@ing.com
+31 (0) 20 57 60 465
www.ing.nl/economie

Tim Hendriks
Economist
ING Netherlands
Economics Department

tim.hendriks@ing.com
+31 (0) 6 236 976 42

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@INGNL_economie
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@tjhendrikss
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