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# Outlook Netherlands 2020

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## Growth under pressure

- **Dutch economic growth set to slow in 2020 to 0.9%**
- **Our growth forecast for 2019 has been raised slightly to 1.7% due to the stronger-than-expected GDP figure for Q3**
- **Normally, we could have upped our 2020 forecast for the same reason. But with the nitrogen crisis weighing on growth, our forecast is actually slightly lower than previously expected**
- **The deceleration is reflected in stalling export growth and contracting investment**
- **Household consumption, by contrast, can rise more than in 2019 on the strength of tax cuts and larger real wage growth. Government consumption can also accelerate more as the coalition has not yet managed to achieve all its spending plans**
- **The meagre 0.9% conceals a probable pick-up in the economy in the course of 2020 on the back of reviving world trade**
- **Unemployment is already gradually edging higher and will continue to do so in 2020 as the economic slowdown hits jobs growth**
- **Inflation will fall again in 2020 thanks to the VAT increase at the start of 2019 dropping out of the calculation. Another factor is the reduction in energy tax for households**

### Economic growth set to slow further: from 1.7% in 2019 to just under 1% in 2020

The Dutch economy managed to continue growing at a stable pace in the first three quarters of 2019. Gross domestic product (GDP) achieved growth of 0.4% compared to the previous quarter (qoq). We, however, expect growth to move down a gear. Exports are sagging as world trade weakens, while investment responds with a time lag to business confidence which has been sinking for some time. An added problem is the nitrogen crisis, which will put an extra damper on economic growth. Investment, in particular, will suffer.

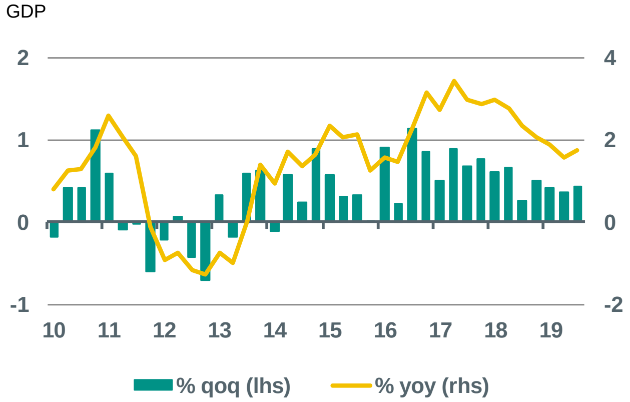
The stronger-than-expected third quarter figure will have a positive effect on growth, both in 2019 and 2020. In this light, we have upped our GDP forecast for 2019 to 1.7%. However, the forecast for 2020 was not raised as the nitrogen crisis will depress growth. GDP expansion will probably undershoot 1% in that year.

However, this meagre figure conceals an underlying improving trend, with the economy recovering from a weak start to pick up in the course of 2020 on the back of reviving world trade. That, at least, is what we expect. In 2021 economic growth can work out higher again, despite the persisting negative effects of the nitrogen crisis.

## GDP growth again 0.4% in the third quarter

GDP advanced by a provisional 0.4% qoq in the third quarter, the same figure as in the previous two quarters. That is only a little less than the average quarterly increase in 2018. Third-quarter growth came in higher than expected. We had anticipated a stronger decline in exports and investment.

**Growth 0.4% qoq, for third quarter in a row**




Source: Thomson Reuters Datastream

As noted the last time around, these stable GDP data conceal a more dynamic reality. In the third quarter, growth was driven by domestic spending, while foreign trade (exports minus imports) made no contribution to growth.

Once again, domestic spending displayed a diverse picture. On the one hand, growth in private consumption fell back sharply (qoq) and investment even shrank very slightly. This contrasts with the previous two quarters, when total investment actually increased sharply. The contraction in the third quarter was mainly due to lower investment in means of transport (which can fluctuate strongly from quarter to quarter), while residential investment stagnated. This was not unexpected as the number of building permits has been declining for some while. On the other hand, we see that both government consumption and inventories rose more strongly than in the preceding quarter.

Imports and exports both advanced further (qoq). Exports, however, grew less than in the second quarter and also less than imports. Imports, however, rose fractionally more than in the spring. As a result, net exports (exports minus imports) made no contribution to GDP growth - a very different picture from the second quarter when net exports were the biggest contributor.

## Growth in 2019 mainly driven by domestic spending …

On average, domestic spending increased slightly more in the first three quarters than in 2018, whereas exports grew less. All in all, economic growth in 2019 was mainly driven by domestic spending. The contribution from exports to growth has dipped significantly.

Full-year growth for 2019 will probably work out at 1.7% - clearly less than in 2018 when the GDP increase amounted to 2.6%, but slightly more than we thought until recently. This has to do with the stronger than expected growth in the third quarter. In this light, we have slightly raised our GDP forecast for 2019.

## … but Dutch exports did relatively well

Despite contributing less to economic growth in 2019, exports definitely accelerated further. In the past quarters Dutch goods exports outperformed world trade, which was hit by the US-China trade conflict. The better Dutch export performance may have to do with the fact that over half of the exported goods go to the eurozone, where domestic spending growth held up well in the first three quarters of 2019. Evidently Dutch exports benefited from this.

**Dutch exports outperforming world trade**


Source: Thomson Reuters Datastream

Nominal figures indicate that exports to the eurozone until the end of September accounted for about half of export growth. Note: this concerns value data (hence including price rises). In addition, goods exports to the US, China, Switzerland and Russia underwent vigorous growth. Goods flows to the US were responsible for almost a quarter of the export growth. (In 2018, by the way, exports to the US grew even faster.) So, exports to the US and China have increased, despite – or thanks to – the trade conflict between those countries.

## Less growth in the short term due to exports and investment …

Though the growth figures have given us several (pleasant) surprises in recent times, we still think that the Dutch economy will be unable to maintain the current growth rate. We see eurozone and US growth slowing (further) in the near future.[1] Dutch exports will not be able to escape the global weakness. The sentiment indicators bear this out. In November, for instance, the manufacturing purchasing managers index (PMI) sank below 50 - the value that separates contraction from expansion. Since mid-2013 the PMI had been consistently above 50. The new export orders subindex, which had been hovering around 50 for several months, dived back under this level in November. This points to less export growth.

The CBS manufacturing producer confidence index declined further in November, as did the Economic Sentiment Indicator. These two barometers, incidentally, are still above their long-term average. All in all, we think that growth in the last quarter of 2019 and the first quarter of 2020 will work out lower than in the previous quarters.

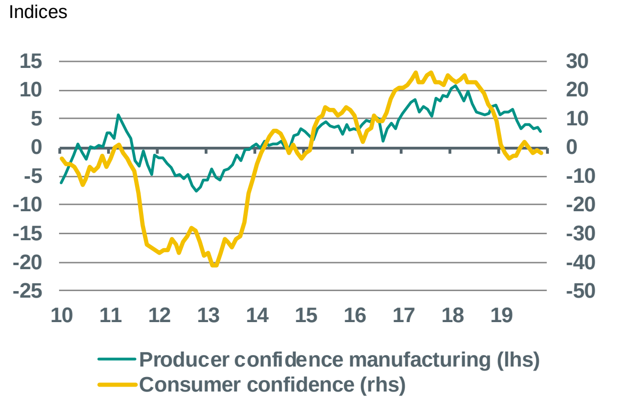
This decline is also becoming visible in investment. Weakening confidence among entrepreneurs will undoubtedly depress business investment. We already saw this in the third quarter of 2019, when investment stopped growing (qoq).

[1] For our global outlook, see: //insights.abnamro.nl/en/2019/12/global-outlook-initially-weak-then-better/

**Dutch economic barometers …**


Source: Thomson Reuters Datastream

**… sink further**




Long-term consumer confidence average is about -3.

Source: Thomson Reuters Datastream

## … and the nitrogen crisis will also depress growth …

Moreover, a new domestic problem will cast a cloud over economic growth both this and next year: the nitrogen crisis. The measures to be taken are shrouded in uncertainty, so the effects are still hard to quantify. But we do expect construction output to shrink next year - a far cry from the further expansion we assumed until recently (estimated difference: about 4½% points). GDP growth in 2020 would thus work out about a quarter per cent lower than previously expected. But other sectors (e.g. transport, industry, agriculture) will also be hit. For now, we have lowered our GDP forecast by a quarter per cent. But this is a cautious adjustment. The more modest GDP growth will be mainly visible in the investment.

## … but consumption will do better in 2020

In 2020 household consumption can grow a bit more than in 2019, reflecting a stronger improvement in real disposable income. Though fewer jobs will be added in 2019, real wages will increase faster thanks to the significantly lower inflation. What's more, tax cuts will give a further impulse. However, now that consumers have become less confident, we think that consumer spending will rise less than disposable income.

Government consumption can also increase more than in 2019. According to the Coalition Agreement and the *Spring Statement 2019* the government is looking to step up its spending. The government has not been able to realise its plans entirely so far, but we assume that they will largely be put into action next year.

## GDP growth to decelerate in 2020 to less than 1%

GDP growth will slow further in 2020, something that has been expected for a while now. The extent of the deceleration depends on various factors. In the third quarter, for instance, GDP grew more strongly than expected. This not only has consequences for the 2019 growth figure (our GDP forecast was raised to 1.7%), but also for average growth in 2020. Nevertheless, we have not increased our forecast for 2020. This has to do with the dampening effects of the nitrogen crisis. On balance, we expect GDP growth to fall to 0.9% on average (previous forecast was 1.0%).

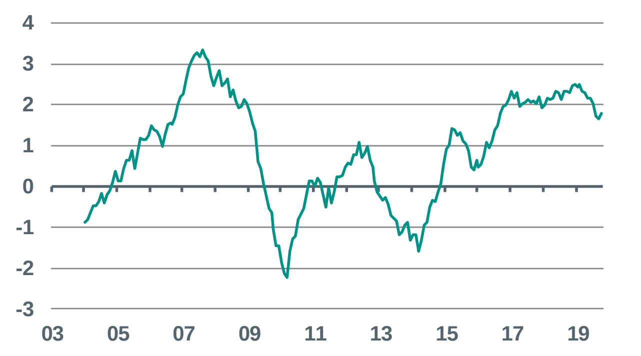
This 0.9%, however, conceals a slight underlying improvement of the economy in the course of 2020, courtesy of the (expected) moderate upturn of the global economy. As a result, average growth can turn out higher in 2021 than in 2020 - despite the nitrogen crisis continuing to depress growth in that year.

## Unemployment slightly up since April

After falling steadily until the end of April, the jobless number has started to rise again. The overheating in the labour market also seems to have peaked. This is evident from the ratio between the number of vacancies on the one hand and the number of unemployed or jobs on the other. Both figures show that the tightness decreased very slightly in the third quarter. That said, many companies are still struggling to find suitable staff.

**Employment growth slowing slightly**

Working labour force; % yoy




Source: Thomson Reuters Datastream

**Unemployment marginally higher**

% labour force


Source: Thomson Reuters Datastream

But the number of permanent jobs has increased further - and more - compared to four quarters earlier, while the number of flexible jobs has decreased more strongly. Evidently, employers must offer flexible workers a permanent job to keep them on board.

We also see that the rate of contractual wage growth has accelerated: from 2% y-o-y at the start of the year to 2.7% in November. And the wage indicator of the AWVN employers' association, which only shows the most recent collective wage agreements, averaged 2.8% (provisional figure) in the past three months.

## Unemployment on the rise

Employment growth slackened in the course of the year. At year-end 2018 the number of people in work grew by 2.5% yoy versus 1.8% in November. Still a strong increase, incidentally.

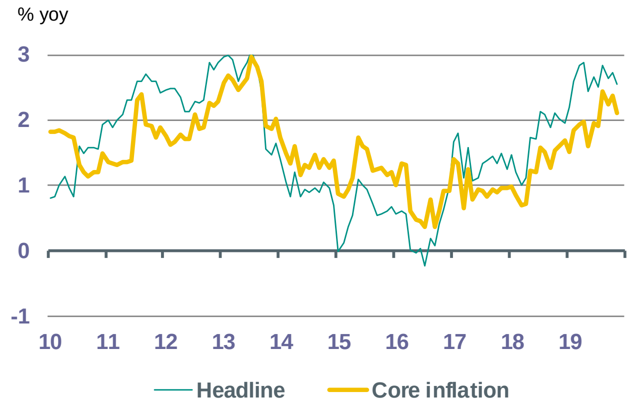
The flagging economy will dampen employment growth further, gradually pushing up unemployment in 2020.

## Inflation significantly higher – but clearly lower next year

Inflation will probably average 2.6% in 2019, clearly higher than the 1.7% in 2018. The main reasons are the hike in the low VAT rate and the extra increase in the energy taxes at the start of 2019. Core inflation (which excludes the prices of energy, food, alcohol and tobacco) has also gone up, but by less than the headline inflation number. Services, in particular, have seen accelerating price increases. Evidently, the (until recently) strong economy has fuelled prices. The inflation figures, incidentally, fell back slightly in November.

Next year inflation will be lower (see table next page) when the impact of the VAT hike drops out of the figure. Another dampening factor is the reduction in energy tax.

## Higher inflation due to indirect taxes




Source: Thomson Reuters Datastream

## Key figures Dutch economy

| | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|
| | | *% changes* | | |
| GDP | 2.6 | *1.7* | *0.9* | 1.2 |
| Private consumption | 2.3 | 1.4 | *1.6* | 1.4 |
| Government consumption | 1.6 | 1.5 | 3.0 | 1.4 |
| Investment fixed assets | 3.2 | 4.9 | *-1.3* | -0.5 |
| Exports g&s | 3.7 | *2.3* | *1.9* | 3.0 |
| Imports g&s | 3.3 | *3.0* | *2.2* | 3.1 |
| Consumer prices (CPI) | 1.7 | *2.6* | 1.6 | 1.6 |
| Harmonized consumer prices (HICP) | 1.6 | *2.7* | 1.5 | 1.6 |
| Wages private sector | 2.0 | 2.4 | 2.5 | 2.1 |
| | | *levels* | | |
| Unemployment (% labour force) | 3.8 | 3.4 | 3.7 | 4.0 |
| Current account (% GDP) | 10.9 | *9.8* | *9.0* | 8.9 |
| Budget balance (% GDP) | 1.5 | *1.5* | *0.2* | -0.4 |

Revised figures in italics

Forecasts: ABN AMRO Group Economics

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