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Growth slowing sharply

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- **Dutch economic growth continues to slow - to 0.9% in 2020, slightly lower than we previously thought**
- **The recent escalation of the US-China trade war prompted a further, slight reduction in our global growth outlook**
- **The trade conflict is mainly hitting exports and investment**
- **This year, however, growth will decelerate less than we thought - mainly because GDP grew more than foreseen in the second quarter. Despite the expected meagre growth in the second half, GDP can increase 1.6% this year (old estimate was 1.3%)**
- **Private consumption will rise much less than in 2018, mainly because of flatter growth in disposable income, but also due to flagging consumer confidence**
- **Unemployment initially fell a bit more this year, but is creeping up again. Meanwhile, jobs growth has decreased slightly. The slowing economy will further dampen jobs growth and push unemployment higher – notably next year**
- **Due to the strong growth deceleration and extra public spending, the government surplus will contract sharply - to ¼% of GDP in 2020**

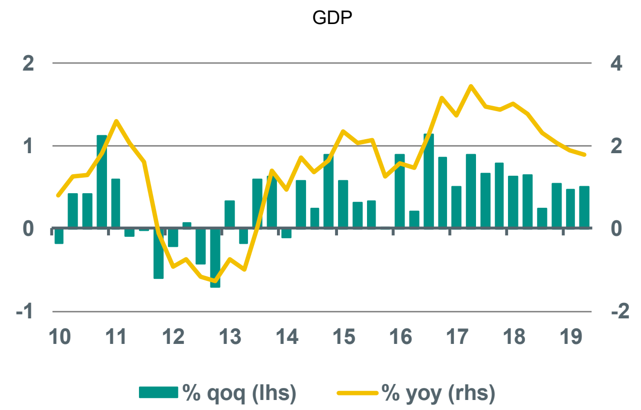
Dutch economic growth set to fall below 1% next year
Dutch economic growth held up well in the first two quarters of this year, but we foresee a drop-off in the second half. The decline can be blamed on slackening growth in exports, private consumption and investment. Exports are being hit by the meagre expansion of global trade, while consumers are contending with a smaller increase in disposable income. Added to this, the further escalation of the US-China trade conflict is undermining the world economy, compelling us to once again reduce our estimates

for global growth. As a corollary, the 2020 growth forecast for the Netherlands has been cut from 1.1% to 0.9% - mainly due to slowing export growth and business investment.

Stable GDP growth in Q1 and Q2 2019 …

Gross domestic product (GDP) expanded in the second quarter by 0.5% compared to the previous quarter (qoq) - the same growth rate as in the previous two quarters. This stable growth pattern is further emphasised by the fact that GDP grew at the same pace in the first two quarters of this year as the *average* in the four quarters of 2018.

Growth steady at 0.5% qoq in Q2



Source: Thomson Reuters Datastream

But behind these stable GDP data lies a more dynamic reality. Total domestic spending, for instance, stalled in the second quarter after a strong first quarter. On the other hand, foreign trade (exports minus imports) gave growth a substantial boost, after putting a damper on expansion earlier in the year.

The domestic spending picture is mixed. Private consumption advanced vigorously (qoq) after a rather frugal first quarter. Investment of companies and in housing remained buoyant. Against this, government spending decreased slightly. Evidently, the government is still struggling to deliver on its plans for increased spending as set out in the Coalition Agreement. Also negative was the contraction of inventories, which significantly depressed growth (after the positive number in the first quarter).

The export sector put in a fairly good showing, bettering its first-quarter performance and also outpacing imports. Imports displayed the opposite pattern. As a result, net exports (exports minus imports) made a strong contribution to GDP growth.

… but we expect a drop-off for the second half

We assume that economic growth will work out lower in the second half. Dutch exports will be hit by the deceleration in world trade growth. That was already visible in the course of 2018, but in the first half of this year Dutch goods exports - surprisingly - outperformed global trade. This despite a statistical effect[1] depressing Dutch trade figures since October.

[1] Overall growth in both imports and exports is affected negatively by a large company which relocated part of its business activities to another country as of October 2018 (source: Statistics Netherlands).

Dutch exports hold off contraction

Source: Thomson Reuters Datastream

But the US-China trade conflict will inevitably take its toll. The recent further escalation of this conflict comes at a time when the industrial sector is already in trouble in many countries and, in some cases, is even in recession. The risk of disappointing developments has thus increased further. Growing uncertainty will weigh on business confidence, with business investment suffering as a result. Against this backdrop, our global growth expectations have been lowered even further.[2] Eurozone growth is likely to be extremely weak in the second half of the year. And the Netherlands too will not escape economic cooling as a result of less export and investment growth. Business investment is under pressure due to weaker business confidence and diminished sales prospects.

Private consumption will also rise less this year than last, as households must make do with a smaller improvement in real disposable income. The number of people in work continues to rise, but not as strongly as last year. This is hampering the increase in disposable income. In addition, gross wage growth may be higher this year, but so will inflation. Another drag factor is consumer confidence, which has slumped since summer last year (see right-hand chart, p.4).

Barometers point to less growth, but not to a recession

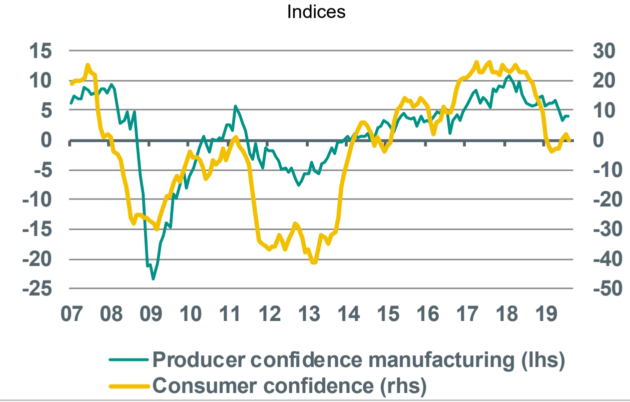
All sorts of sentiment indicators are also pointing to less growth. In the first half of the year these economic barometers sank further (see charts, p. 4). Though the indicators are still above their long-term average, these levels are consistent with a moderate growth rate. However, it is interesting to note that, instead of falling further, these indicators stabilised or even turned higher in July and August. This suggests that a recession is not probable in the near future. Despite the slight improvement, the indicators in July and August were still lower than the average level of the second quarter.

[2] insights.abnamro.nl/2019/08/macro-focus-we-have-adjusted-some-growth-forecasts. See also: insights.abnamro.nl/en/2019/08/macro-weekly-trump-slump-drags-the-world-along.

Dutch economic barometers …

Source: Thomson Reuters Datastream

… recently stabilised



Long-term consumer confidence average is about -3.

Source: Thomson Reuters Datastream

Though we expect a deceleration in the second half of the year, we have raised our average growth forecast for full-year 2019. This has to do with the past, notably the stronger-than-expected GDP acceleration in the second quarter, but also with a very slight upward growth adjustment in earlier quarters. Even a marginal GDP uplift in the second half could easily bring the annual average to 1.6%. Our old forecast was 1.3%.

2020 growth forecast lowered to 0.9%

The growth deceleration will mainly become visible in the 2020 data. Because the weaker numbers for the second half of this year will feed through in the year average for 2020 (known as the 'statistical carry-over effect'). Moreover, the national (and global) economy will not improve much in 2020. As yet, we see very few pointers to recovery. The average GDP increase in the Netherlands looks set to work out at 0.9% (previous forecast was 1.1%). Exports and investment, in particular, will lose momentum. Business investment may even contract slightly on account of the deteriorated sales outlook.

Private consumption growth, by contrast, may remain at the same level next year. Against the further weakening in jobs growth, the sharp decline in inflation[3] means that real wages will rise more strongly than in 2019.

Brexit remains a risk to our forecasts. It's a guess how this will turn out.

… but government spending may accelerate

Public spending may act as a counterweight next year, given the plans set out in the Coalition Agreement. In addition, the cabinet decided to implement extra expenditures in the *Spring Statement 2019*. So far, the government has failed to deliver on these spending plans. Tightness in the labour market and investment delays are the main stumbling blocks. The increase in spending again looks likely to undershoot the forecasts this year, but we are keeping our fingers crossed for 2020.

[3] The upward impact of the VAT increase of 1 January 2019 will drop out of the inflation figure after twelve months.

Tighter labour market - unemployment fell a little more …

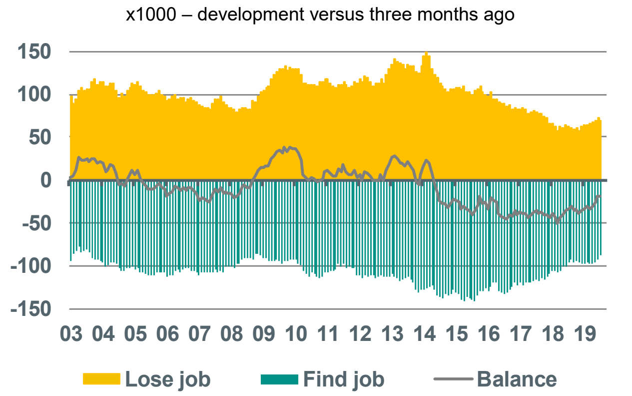
The number of unemployed[4] fell further in the first four months of the year to 3.25% of the labour force. That is lower than in 2008 at the end of the previous economic boom, but not as low as the level of 3.1% in 2001. Tightness in the labour market increased further in the spring. This is evident from the ratio between the number of vacancies on the one hand and the number of unemployed or jobs on the other. Moreover, the number of permanent jobs rose further compared to four quarters earlier, while the number of flexible jobs has decreased for the second successive quarter. This may signal that employers must offer flexible workers a permanent job to keep them on board.

At the same time, contract wages are gathering upward momentum. Around the turn of the year, the increase in these wages amounted to some 2% yoy in the private sector. By July-August that wage increase had quickened to 2.6%. However, the wage indicator of the AWVN employers' association, which only measures the most recent collective wage increases, rose to almost 2.9% (provisional figure) in July-August. And in the first week of September, this figure was even well above 3%.

… but unemployment set to rise again

Even so, some signs suggest that the labour market is about to become less tight. In the months of May-July, unemployment did not fall further, but actually rose slightly. This is partly because of the slight decrease in the number of unemployed people finding a job in the past months (see chart). On the other hand, the number of working people losing their jobs grew a little. The 'job finders' still outnumber the 'job losers', but the favourable gap is narrowing (see the rising line in the left chart).[5] This development seems to fit in with the recent slight decline in jobs growth.

Less 'job finders' - more 'job losers'



Source: Statistics Netherlands

Job growth slowing slightly

Source: Thomson Reuters Datastream

The deceleration in economic growth will put a brake on jobs growth. The weakening trend, as noted, is already becoming visible and will gain traction. As a result, unemployment is expected to be higher next year than this year.

[4] According to the international ILO definition, the unemployed are people without work who are looking for work *and* are immediately available for work. If you do not meet these three criteria, you do not (or no longer) count as unemployed in the statistics. This includes people without work who have *either* looked for work *or* are immediately available for work.

[5] There was another unfavourable effect on unemployment. The number of people that recently started looking for a job but have not yet found one increased in the past months. The number of unemployed people that stopped seeking a job has decreased. These two developments both led to an increase in the 'formally' unemployed number (see footnote 3 for the definition of 'unemployed').

Inflation significantly higher – but clearly lower next year

Inflation is a lot higher than last year. The main reasons are the hike in the low VAT rate and the extra increase in the energy taxes at the start of the year. However, core inflation (which excludes the prices of energy, food, alcohol and tobacco) has also gone up, but by less than the 'ordinary' inflation number. The increase in core inflation suggests that the - until recently - strong economy has pushed prices higher. This stronger price increase is also evident in services.

Next year, however, inflation will fall again (see table) when the impact of the VAT hike drops out of the figure. Moreover, weakening economic growth will gradually alleviate the inflationary pressure. That said, we expect oil prices to creep up slightly .

Government surplus is falling sharply

The government's EMU surplus rose further to 1.5% of GDP last year. The surplus, however, will shrink both this and next year. One reason is the slowdown in economic growth. At the same time, the government wants to step up its spending, as is evident from the Coalition Agreement and *Spring Statement 2019*. Though the government is struggling to put its spending plans into practice, we still assume that it will succeed in this endeavour next year (at least to some extent). In our estimation, the surplus will fall back to about ¼% of GDP in 2020.

The surpluses will lead to a further reduction in the public debt - to about 47.5% of GDP in 2020 (from 52.4% of GDP in 2018).

Key Figures Dutch economy

	2017	2018	2019	2020
		% changes		
GDP	3.0	2.5	*1.6*	*0.9*
Private consumption	*2.2*	*2.3*	*1.4*	*1.3*
Government consumption	*0.9*	*1.6*	*1.5*	*3.0*
Investment in fixed assets	*4.2*	*3.2*	*4.9*	*-0.2*
Exports	*6.7*	*3.7*	*1.8*	*1.3*
Imports	*6.4*	*3.2*	*2.3*	*1.9*
Consumer prices (CPI)	1.4	1.7	*2.5*	1.6
Harmonised consumer prices (HICP)	1.3	1.6	*2.6*	1.5
Wages private sector	1.6	2.0	*2.4*	*2.5*
		Levels		
Unemployment (% labour force)	4.9	3.8	3.4	3.7
Current account (% GDP)	*10.8*	*10.9*	*10.0*	*9.1*
Budget balance (% GDP)	1.2	1.5	*1.2*	0.3

Revised figures in italics.

Forecasts: ABN AMRO Group Economics

APPENDIX. MACRO-INDICATOREN

Key figures Dutch economy

	2016	2017	2018	2018	2019			2019r	2020r
		% changes		Q4	Q1	Q2	Q3		
				qoq	*qoq*	*qoq*			
GDP	2.1	3.0	*2.6*	0.5	0.5	0.5		*1.6*	*0.9*
Private consumption	1.1	*2.2*	*2.3*	*0.4*	*0.2*	0.8		*1.4*	*1.3*
Government consumption	1.3	*0.9*	*1.6*	*0.4*	*0.4*	-0.1		*1.5*	*3.0*
Investment in fixed assets	-7.3	*4.2*	*3.2*	*3.9*	*2.7*	1.3		*4.9*	*-0.2*
Exports goods & services	1.5	*6.7*	*3.7*	*-1.2*	*0.6*	1.3		*1.8*	*1.3*
Imports goods & services	-2.1	*6.4*	*3.2*	-1.1	1.6	0.7		*2.3*	*1.9*
Consumer prices (CPI - % yoy)	0.3	1.4	1.7	2.0	2.5	2.7	2.7 (Jul-Aug)	*2.5*	*1.6*
Harmonised consumer prices (HICP - % yoy)	0.1	1.3	1.6	1.8	2.5	2.7	2.9 (ul-Aug)	*2.6*	*1.5*
Hourly wages private sector (% yoy)	1.6	1.6	1.9	2.0	2.1	2.2	2.6 (Jul-Aug)	2.4	2.5
		Levels							
Unemployment (% labour force)	6.0	4.9	3.8	3.6	3.4	3.3	3.4 (Jul)	3.4	3.7
Economic Sentiment Indicator (eop)	106.5	111.9	107.6	107.6	105.2	102.8	104.7 (Aug)		
Consumer confidence (eop)	21	25	9	9	-4	2	0 (Aug)		

Revised figures in italics.

Forecasts: ABN AMRO Group Economics

Key figures international economy

	2016	2017	2018	2018	2019			2019r	2020r
				Q4	Q1	Q2	Q3		
		% changes							
				qoq	*qoq*	*qoq*			
GDP eurozone	1.9	*2.6*	*1.9*	0.2	0.4	0.2		*0.8*	*0.6*
GDP Germany	*2.1*	*2.8*	*1.5*	*0.2*	0.4	-0.1		*0.4*	*0.7*
GDP United States	1.6	*2.4*	2.9	*0.3*	0.8	0.5		2.2	*1.3*
		Levels							
USD per EUR (eop)	1.05	1.20	1.14	1.14	1.12	1.14	1.10 (Aug)	1.12	*1.15*
3m Euribor (%, eop)	-0.3	-0.33	-0.31	-0.31	-0.31	-0.39	-0.43 (Aug)	*-0.55*	*-0.55*
10y Bund Germany (%, eop)	0.21	0.42	0.25	0.25	-0.07		-0.71 (Aug)	*-0.80*	*-0.80*
10y State, Netherlands (%, eop)	0.35	0.53	0.39	0.39	0.03	-0.15	-0.55 (Aug)	*-0.75*	*-0.75*
Oil price Brent (USD/barrel, average)	43.8	54.3	71.0	67.7	62.9	69.0	61.5 (Jul-Aug)	*62*	*65*

Revised figures in italics.

Forecasts: ABN AMRO Group Economics

Find out more about Group Economics at: https://insights.abnamro.nl/en/category/economy/

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