

# Economic Update The Netherlands

## 5 February 2013

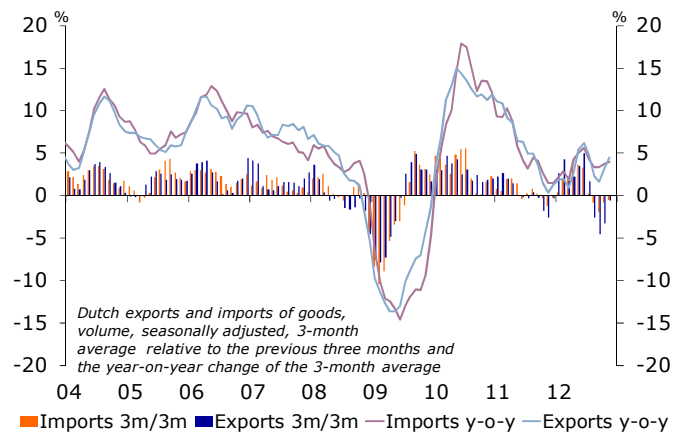
### Exports are up but domestic demand keeps falling

|                                 | 2011 | 2012 | 2013 |
|---------------------------------|------|------|------|
| <i>Year-on-year change in %</i> |      |      |      |
| Gross Domestic Product          | 1.1  | -1   | -¼   |
| Private consumption             | -1.0 | -1½  | -¾   |
| Government expenditures         | 0.1  | ¼    | -½   |
| Private investment              | 8.9  | -4½  | -2½  |
| Exports of goods and services   | 3.9  | 2¾   | 2    |
| Imports of goods and services   | 3.6  | 2½   | 2    |
| Consumer price index            | 2.4  | 2½   | 2½   |
| Unemployment (% labour force)   | 4.4  | 5¼   | 5¾   |
| Government budget (% GDP)       | -5.1 | -3.7 | -3.3 |
| Government debt (% GDP)         | 65.5 | 71.4 | 74.5 |
| Current account balance (% GDP) | 6¾   | 7¼   | 7    |

The growth of the Dutch economy probably remained weak in 12Q4. We expect exports to have resumed growing, after the sharp contraction in the third quarter of the year. But household consumption seems to have fallen at a faster pace than in the quarter before. On top of that, the drop in the capacity utilisation rate of industry points to a further contraction in business investment. The renewed growth in exports will most likely ensure that the sharp GDP contraction of 12Q3 will not be repeated. But a further fall in economic activity is a distinct possibility. Sentiment indicators point to stabilisation in the manufacturing sector at the start of 2013.

Source: Statistics Netherlands (CBS), Rabobank

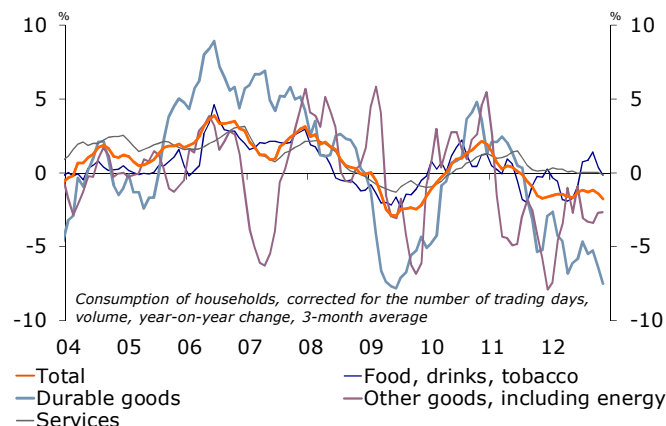
### Exports find their way back up...



In November, the volume of goods exports rose for the second month in a row, by 1.6% m-o-m after 0.4% in October. Imports also grew, but by less than exports. If trade volumes remain unchanged in December, exports will have grown faster than imports in the fourth quarter as a whole. In that case, net trade will be able to post a positive contribution to GDP growth. This is a very welcome development compared to 12Q3, when net trade was one of the main factors behind the sharp drop in economic activity. We expect export growth to modestly pick up in the course of 2013, due to somewhat stronger external demand from outside of Europe.

Source: CBS, Rabobank

### ...but household spending continues to fall...



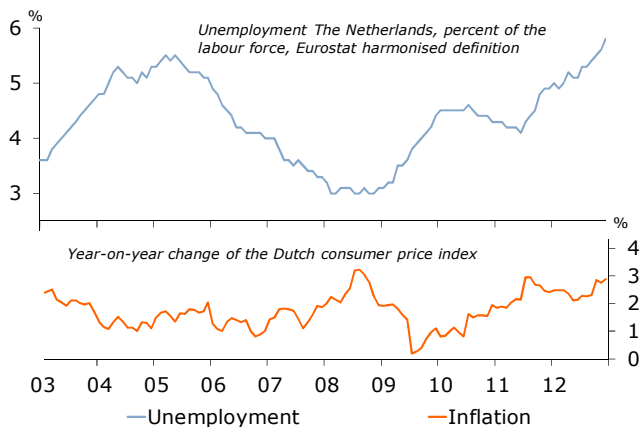
While exports found their way back up, the contraction of household consumption accelerated to 3% y-o-y in November from 2.2% in October. This points to a bigger quarter-on-quarter contraction of private consumption in 12Q4 than in the third quarter of the year. November was the month in which consumer confidence fell sharply in the wake of the new austerity measures introduced by the new government. In January, the initial shock of the consolidation measures subsided somewhat and consumer confidence ticked upwards, although not by enough to compensate for the drop in November. As such, the level of confidence remains very depressed and near its record low level.

Source: CBS

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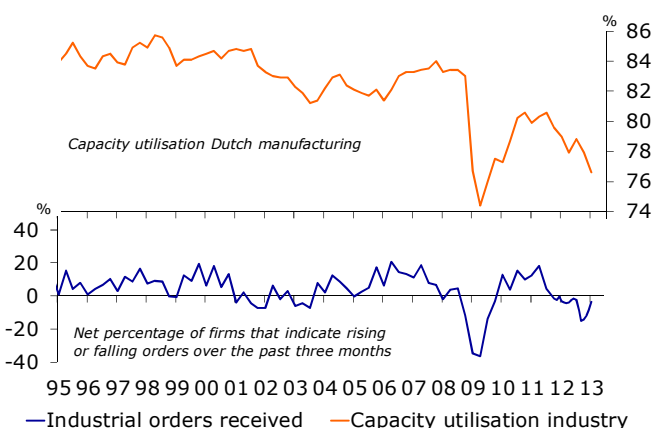
### ...and the outlook for consumption remains negative



Source: Reuters EcoWin

Even though Dutch consumers have become a little less pessimistic in January, the strong headwinds in the form of budget cuts and tax hikes remain. The October 2012 VAT-hike will keep inflation at a relatively high level for most of this year. High and rising unemployment keeps wage growth below inflation, leading to a fall of real compensation even before higher taxes and lower transfers eat into disposable incomes. The unemployment rate rose at an accelerated pace in 12Q4, to 5.8% in December. Given the weakness of the economy, a further rise in the first half of the year seems likely. All this combined leads us to forecast a further decline in private consumption this year.

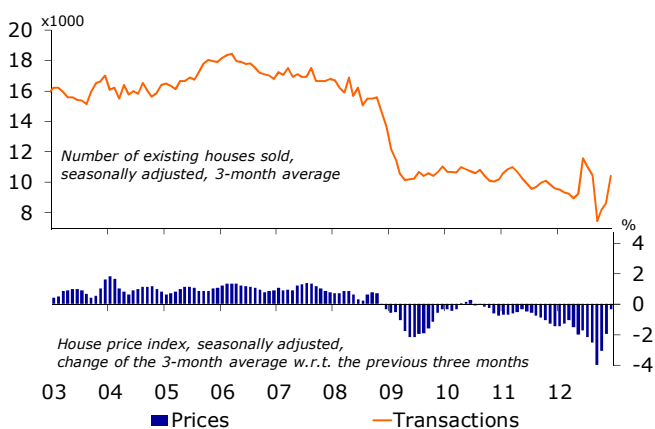
### Capacity utilisation in manufacturing continues to fall



Source: CBS

Producer confidence in the manufacturing industry remained unchanged in January, compared with December. The capacity utilisation rate fell to a very low level. This supports our expectation of a further decline in investment this year. A glimmer of hope in the CBS confidence survey is given by the judgement on new orders received. Here, the number of respondents seeing orders rise is getting close to those seeing them fall. In another survey, the PMI-manufacturing for January rose above the expansion/ contraction cut-off point of 50. So after a period of contraction the manufacturing sector seems to have found some stability at the start of this year.

### Housing market impacted by policy change yet again



Source: CBS, Rabobank

The number of existing homes sold was much higher in the fourth quarter of 2012 than in the previous quarter and the pace of fall in house prices moderated substantially. As in 12Q2, when households wanted to frontload the purchase of a house in light of the expectation that the stamp duty would be hiked on July 1<sup>st</sup>, the relatively high number of transactions in the fourth quarter was influenced by government policy. A number of households decided to buy a house before the end of the year in the anticipation of new mortgage rules that took effect on January 1<sup>st</sup>. Thus, a renewed drop in both the number of transactions and house prices in the first quarter of the year is probable.

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