Rabobank

# Economic Update The Netherlands

## 5 April 2011

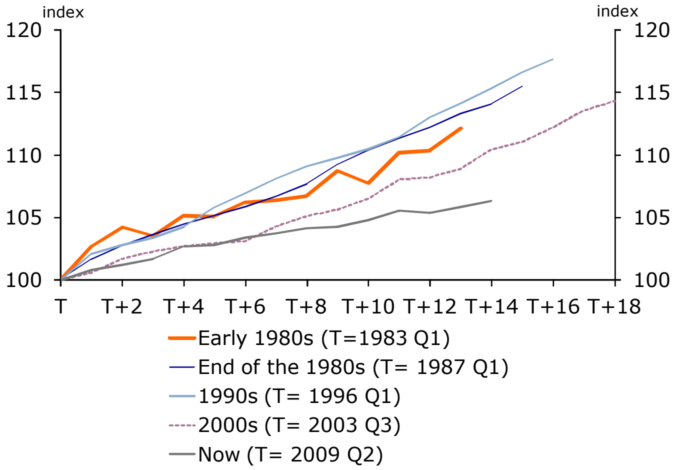
### Moderation of economic growth…

| | 2010 | 2011 | 2012 |
|---|---|---|---|
| *Year-on-year % change* | | | |
| Gross domestic product | 1.7 | 1½ | 1½ |
| Private consumption | 0.4 | ¾ | ½ |
| Government expenditures | 1.0 | 0 | -½ |
| Private investment | -4.9 | 2¾ | 2¾ |
| Exports of goods and services | 10.9 | 6¼ | 4½ |
| Imports of goods and services | 10.6 | 4¾ | 3¾ |
| | | | |
| Consumer price index | 1.3 | 1¾ | 1¾ |
| Unemployment (% labour force) | 5.4 | 5 | 5 |
| Government budget (% GDP) | -5.4 | -3½ | -2¼ |
| Government debt (% GDP) | 62.7 | 64½ | 65 |

Source: Statistics Netherlands, Rabobank

The Dutch economy ended 2010 with a year-on-year growth rate of 1.7%. This pace of growth is expected to slacken during the coming months. As a result, GDP growth for this year will amount to 1.5%. Neither the inventory cycle nor government spending will contribute much to growth. Most of the economic growth this year too will come from exports –despite the levelling off in world trade growth. At the same time, the recovery in the Netherlands will be broader based than before, because domestic spending – though modest– will contribute more to Dutch GDP growth.

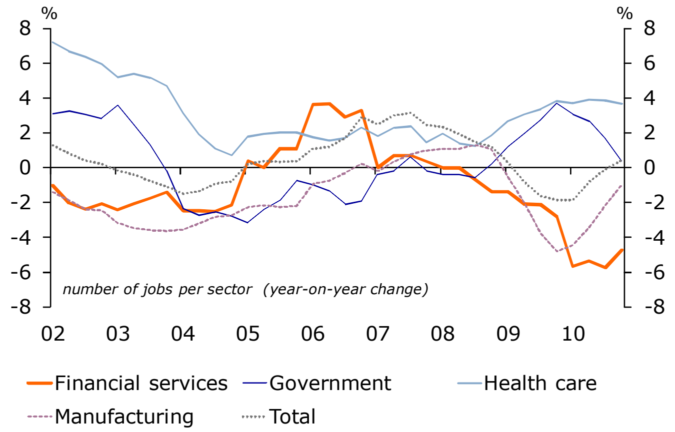
### …historically as well




Source: Statistics Netherlands, Rabobank

Despite a growth rate of 1.7% in 2010, the gap in production left by the recession has been only about half filled. Our projections for the coming two years are based on a growth rate of 1.5%, which means the current rate of the recovery will be slower than in the two most recent phases of the economic cycle. During the current phase of the recovery, growth averages 1.5% year-on-year, compared to a typical y-o-y rate of 3% in the past. This moderation of the growth rate means that production is unlikely to resume pre-crisis levels before the end of next year. Accordingly, it will have taken some three years for the economic contraction that took place in 2009 to be recouped.

### Increasing tightness on the labour market




Source: Statistics Netherlands, Rabobank

Unemployment remained remarkably low during the recession. In February, unemployment stood at 5.1%, compared to 5.8% last year. During the previous recession, unemployment peaked at almost one percentage point higher, at 6.6%. The current lower figure is largely due to the tight labour market before the credit crisis. Partly on account of declining employment in the public sector, due to cutbacks, and because it will take some time before companies start to recruit staff on a large scale, we expect unemployment to remain around the 5% mark for this year and 2012.

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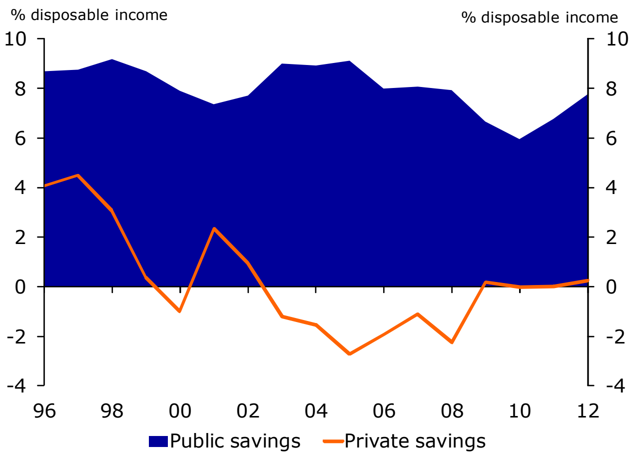
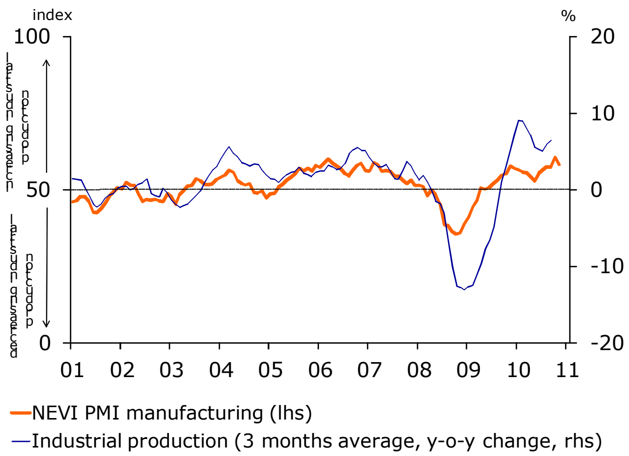
### Consumers (still) reluctant to splash out




Source: CPB

Private consumption is expected to be slightly higher this year than in 2010. At the same time, Dutch households will save a larger share of their income. Their financial standing has meanwhile been restored to the pre-crisis level. Nonetheless, households are still confronted with declining home-owner equity and rising mortgage debt. Since the start of the crisis, mortgage debt as a percentage of home equity has risen by around six percentage points to 54%. Moreover, ongoing uncertainty about pensions may induce people to beef up their savings. Recent consumer confidence surveys likewise reflect a cautious sentiment.

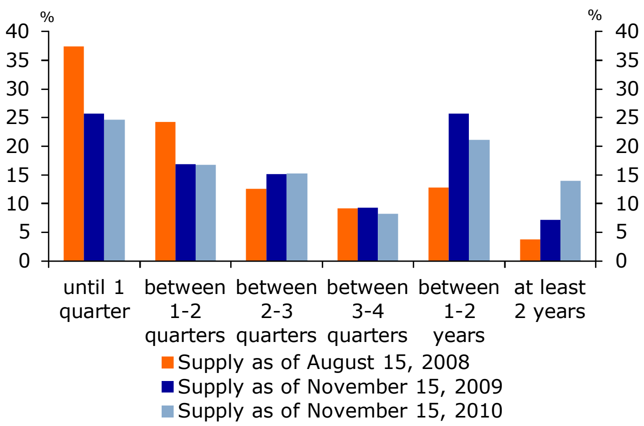
### Industry steaming ahead




Source: Statistics Netherlands, NEVI, Rabobank

By comparison with households, companies are in a more favourable financial position. Profits recovered during the past year and the upturn in world trade led to a 6.3% rise in the volume of industrial production. The purchasing managers' index (PMI) registered a score of 58.1 in March. While this is somewhat lower than the record PMI level of 60.7 in February of this year – the highest since mid 2001 - it remains indicative of considerable industrial growth in the months ahead. Thanks to rising order receipts, accompanied by higher volumes of production and declining inventories, the mood among industrial entrepreneurs is positive.

### Little movement on the housing market




Source: NVM

Potential home buyers are in a wait-and-see mode. While the average house price declined by 1.1% q-o-q in 10Q4, the number of sales dropped to an historic low during the same period, falling to 126,000 transactions. At the same time, the number of houses on the market for over two years more than tripled since the start of the crisis, reaching 14% of the total number of houses for sale. The outlook is not very bright. House prices can be expected to drop by 2% this year, owing to increasing pressure to sell – particularly for houses that have been on the market for a long time, combined with deterioration in affordability arising from additional government measures on the housing market.

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