

5 October 2010

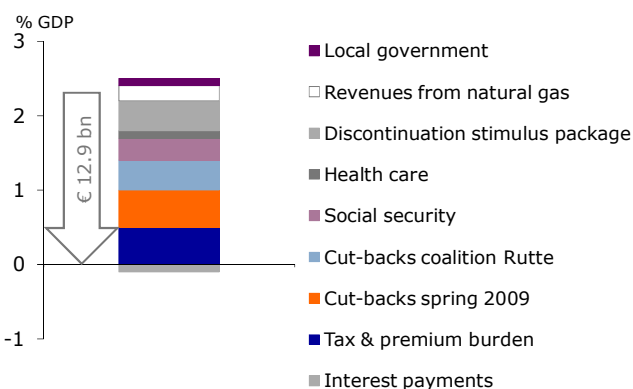
Recovery levelling off

year-on-year volume change (%)	'09	'10	'11
Gross Domestic Product	-3.9	1¾	1½
Private consumption	-2.5	½	½
Government spending	3.7	½	¾
Private investment	-16.5	-5	2¾
Exports of goods and services	-7.9	9½	4¾
Imports of goods and services	-8.5	10	3¾
Consumer price index	1.2	1¼	1
Unemployment (% labour force)	4.9	5½	5½
Government budget balance (% GDP)	-5.4	-6	-4½

Despite the surprisingly strong growth of 1% in the second quarter (q-o-q), we expect economic growth in the Netherlands to level off somewhat in the second half of this year, in the wake of the slowdown in the other economic regions. The main reasons for this are the end of the global inventory cycle and the discontinuation of government stimulus measures. Moreover, the recovery in developed countries is jeopardised by the one-sided dependence on international trade flows, particularly vis à vis Asia. If the recovery is to be sustained, it needs to be supported by global growth in domestic spending during the coming period.

Source: Statistics Netherlands, Rabobank

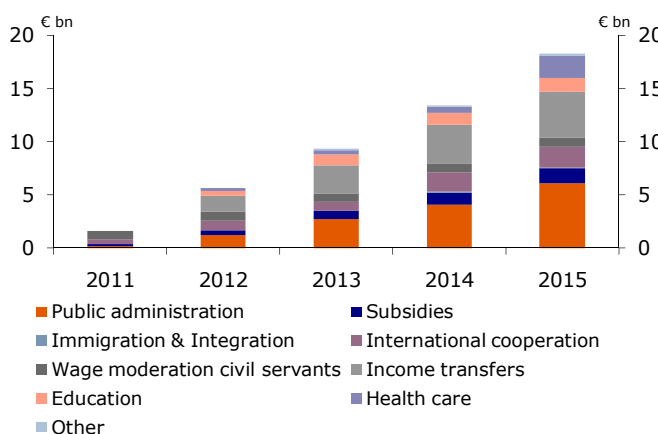
Budget deficit smaller in 2011



The Dutch budget deficit is expected to shrink from 5.8% of GDP this year to 3.5% of GDP in 2011. This reduction of 2.3%-point of GDP (€12.9 billion) is the largest reduction since 1991 and can be attributed to a combination of the following factors: the discontinuation of the stimulus package, cut-backs of some €1.8 billion as provided for in the Supplementary Policy Agreement in spring 2009, the recovery in the business cycle, and savings implemented by the new Rutte-Verhagen coalition government. Nonetheless, the deficit remains historically high, and above the 3% ceiling of the Stability Pact. Moreover, prior to the crisis, a surplus of 1% of GDP was projected for 2011. The improvement is not sufficient to prevent a further increase in the government debt to over 66% of GDP in 2011.

Source: CPB, Rabobank

What does Rutte have in store?



Last week, the new Rutte-Verhagen minority government announced its intention to cut spending by €18 billion by 2015, in order to reduce the budget deficit. Savings of €7 billion are planned by reducing the size of government and through wage moderation among government employees. Although the new proposals improve the prospects of the sustainability of government finances in 2015, there will be no fundamental reform of the Dutch economy during the coming years. Only lasting reform of the health care and social security systems as well as the labour market institutions will ensure control of government spending in the long term as well as strengthen growth potential.

Source: Coalition Agreement

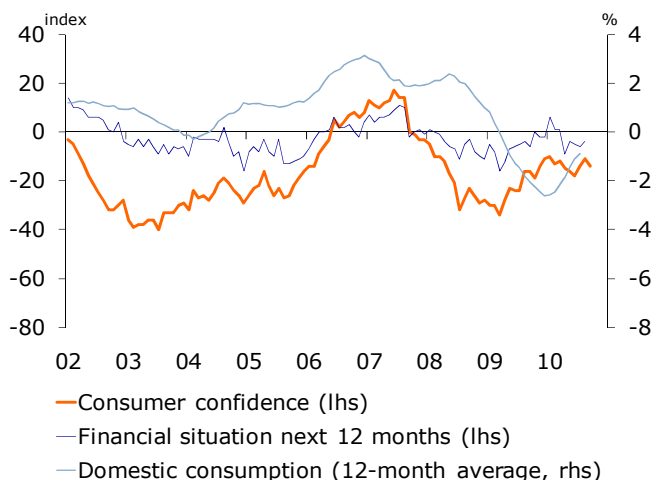
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Monthly update The Netherlands

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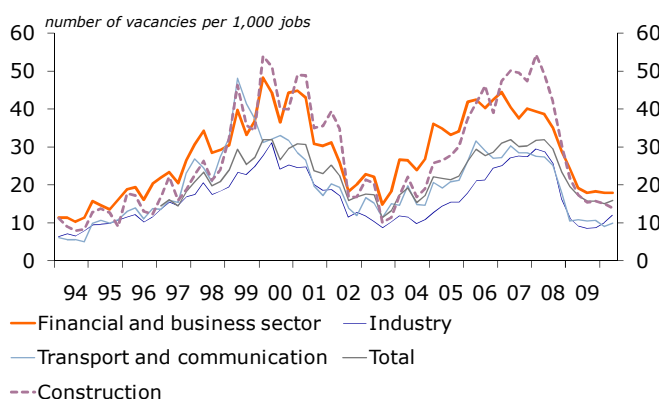
Consumers opening their purses?



Source: Statistics Netherlands, Rabobank

Boosted by temporary factors, such as gas consumption and 'subsidised' auto sales, private consumption grew on a quarterly basis by 0.5% and 0.2% respectively in the first two quarters of this year. Although Dutch households remained comparatively unscathed during the crisis, they will have to manage this year and next on a lower work income resulting from limited contractual wage increases, higher taxes and reduced employment opportunities. At the same time, welfare payments will not keep pace with inflation next year. And the released savings scheme funds will have little effect on consumption, which means any rise in consumer spending this year and next will be piecemeal.

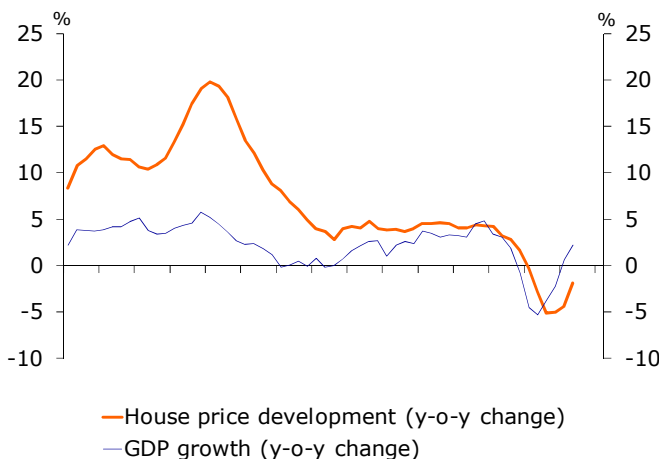
Labour market miracle?



Source: Statistics Netherlands

In August, unemployment fell for the sixth successive month, declining by 12,000 persons to a total of 414,000 people out of work. During the past half year, unemployment has declined by an average of 6,000 people per month. Thanks to their sound financial position before the crisis, and fearing labour market tightness in the future, many companies have opted to keep on their staff. Besides, job prospects have improved in the early cyclical sectors. In the first eight months of this year, there was a 32% and 15% increase in vacancies in the industrial and transport sectors respectively, compared to a year earlier.

Housing market gradually stabilising



Source: Statistics Netherlands, Kadaster

During the first half of the year, the average house price was some 3% below that of a year earlier and nearly 6% lower than the peak in the third quarter of 2008. The year-on-year price drop is gradually declining from an average of 5% in the second half of last year to 0.4% in August of this year. However, current price developments are based on a historically low number of house sales. Currently, the number of transactions is stabilising at around 130,000 (12-month average), which is 40% below the peak of mid-2006. Since there is now greater certainty about government plans for the housing market, we expect that (pent-up) demand for houses will pick up next year.

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